OMA Tax Committee

November 10, 2010

Agenda

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2011 Committee Schedule
- **Thursday, March 17**
- **Wednesday, June 15**
- **Thursday, November 3**

Committee Meetings begin at 10:00 a.m. and conclude by 1:00 p.m. Lunch will be served.

Please RSVP to attend meetings by contacting Judy: jthompson@ohiomfg.com or (614) 224-5111 or toll free at (800) 662-4463. Please indicate if you will participate in-person or by phone.

Additional committee meetings or teleconferences, if needed, will be scheduled at the call of the Chair.

Thanks to Today's Meeting Sponsor: Taft

OMA Calendar of Events

- BWC Safety & Hygiene Training Courses -10/2010 to 12/2010
- Plante & Moran, PLL - Complimentary Tax Update Seminar - Cincinnati - 11/11/2010, Cleveland - 11/15/2010
- AEP Ohio Workshop: System Savings Opportunities: The Bigger Picture, Piketon - 11/11/2010, Steubenville - 11/12/2010
- Jones Day Webinars: Beyond Cap and Trade: Climate Change Regulation Under the Clean Air Act Arrives - 11/17/2010
- OMA Environmental Committee Meeting - 11/11/2010
- The Northwest Ohio Manufacturing Forum & Expo - Financing & New Business Opportunities - Bowling Green State University - 11/12/2010
- OMA/Jackson Lewis - What Every Employer Should Know About Social Networking in the Workplace - 11/16/2010
- McGladrey Summit: 2010 Manufacturing and Wholesale Distribution Executive Summit: Power Up - The Resurgence of Manufacturing - 11/16/2010
- McGladrey Summit: 2010 Manufacturing and Wholesale Distribution Executive Summit: Power Up - The Resurgence of Manufacturing 11/17/2010
- PNC/Smart Business Webinar: Exploring New Territories: Why Diversification is More Important than Ever for US Manufacturers - 11/17/2010
- Six Disciplines - Execution: The Key to Getting Where You Want to Go - 11/17/2010
- OMA Safety & Workers Comp Committee Meeting - 11/18/2010
- GJ&M Seminar: 2010 Year-end tax update - Toledo, OH - 11/18/2010
- Plante & Moran, PLLC Tax Webinar: Tax Planning to Prepare for Today and Tomorrow - 12/02/2010
- Schneider Downs Update on 2010 Federal Tax Developments Seminar - Columbus, OH or Pittsburgh, PA - 12/07/2010
- OMA Government Affairs Committee Meeting - 12/08/2010
- Safex Training Assessments Workshop: Who has to do what training when? - 12/14/2010
- BWC Training Courses - 01/2011 - 03/2011

Ohio.gov | Department of Taxation

Ohio Tax Commissioner Richard A. Levin

Richard A. Levin was appointed Ohio Tax Commissioner by Governor Ted Strickland in January 2007. He is the 17th tax commissioner to lead the Ohio Department of Taxation.

Levin leads an agency of close to 1,400 employees dedicated to the administration and enforcement of state and local taxes, including the state income tax, state and local sales taxes and several excise and business taxes. All told, these taxes provide more than $25 billion in annual state and local revenue to fund Ohio's schools and colleges, Medicaid, law enforcement, transportation, and other public services.

Levin oversees the department as it implements one of the most comprehensive packages of tax reforms in state history. Ohio's two largest business taxes have gradually been phased out in favor of a new commercial activity tax with a low rate and a broad base, and state income rates are gradually falling by 21 percent. Levin has also overseen a dramatic expansion of the homestead exemption property tax relief program to virtually all senior citizen homeowners.

Levin has nearly four decades of experience in tax policy encompassing both the public and private sectors. He got his start in 1971 as a researcher with Department of Taxation. In 1975, he was promoted to research director and in 1983 he was promoted again to deputy tax commissioner for policy, a position he held until 1991. From 1991 until he re-joined the department in 2007, Levin was a partner in a Columbus consulting firm specializing in state and local fiscal policy and research.

Levin was elected city auditor of Bexley, Ohio, and served in that position from 1998 through 2001. He has also taught graduate seminars in budget policy and fiscal administration at Ohio State University, introductory economics at Franklin University and a seminar in state and local tax policy at Capital University School of Law.

Levin earned a Masters of Arts degree in Economics from The Ohio State University in 1970. He also holds a Bachelor of Science from the university's College of Business. In 2009, the Ohio State University Alumni Association presented Levin with its distinguished public service award.

Dorothy Coleman

VICE PRESIDENT

Email Me (202) 637-3077

Dorothy Coleman is vice president of tax and domestic economic policy at the National Association of Manufacturers (NAM), headquartered in Washington, D.C. Ms. Coleman is responsible for providing NAM members with important information related to tax issues and representing the NAM's position to Congress, the Administration and the media. An NAM spokesperson for tax policy issues, she coordinates membership coalitions; prepares testimony, reports and analyses; and responds to media inquiries. Before taking over as vice president of the Tax Policy Department, she served as director of tax policy from April 1998 to April 2000.

Ms. Coleman came to the NAM from Arthur Andersen, where she worked as a manager in the Office of Federal Tax Services. Prior to her work at Arthur Andersen, she was chief legislative reporter for the Bureau of National Affairs' Daily Tax Report. She also was a legal editor for BNA's tax management series.

Ms. Coleman received her law degree from Georgetown University Law Center and her bachelor of arts in economics from Manhattanville College in Purchase, N.Y.

http://namissvr.nam.org/minisites/SecureSignup/Extenders/letter.aspx

Action Request: Show Your Support for Extending the Expired Tax Provisions

January 1, 2010, marked the expiration date of a number of temporary tax provisions that benefited a wide range of individuals, organizations and businesses. These key incentives and other provisions that expire at the end of this year cover a wide range of activities and will help spur badly needed economic growth and job creation. Despite broad-based, bicameral, bipartisan support for these provisions, Congress has been unsuccessful to date in its efforts to extend these important tax provisions. Time is running out and legislators have one last chance to extend expiring provisions when they return to Washington in mid-November for a "lame duck" session before the 111th Congress ends. In order to jumpstart efforts to move on the tax extenders it is important to show as much support as possible. If any of these "extenders" are important to your organization, we urge you to add your organization's name to this broad-based letter. We plan to send the letter to every member of Congress when they return to Washington on November 15th. Thanks in advance for your help. For further information, contact dcoleman@nam or mmcguire@nam.org

To add your company or association name to the letter, please complete the form below **EXACTLY** as it should appear on the letter. Your name and your e-mail will **NOT** appear on the letter.

Fields marked with a red asterisk (*) are required.

	* First	* Last	Suffix
* Name:			
* E-mail:			
* Company/Association:			
* City:		* State:	

TO THE MEMBERS OF THE U.S. CONGRESS:

The undersigned represent millions of individuals and businesses. We urge Congress to pass legislation in the lame duck session to extend critical tax provisions that, while temporary in nature, are critical to our economy. It is of the utmost importance to all of us, and to the health of the U.S. economy, that this extension be enacted before the end of the year and apply seamlessly through 2011.

Expiration of many of these provisions has already caused job losses, and the uncertainty around their extension will lead to further dislocations just as the fragile economic recovery is beginning. We all look forward to working with you on this issue in the coming weeks.

Sincerely,
[Companies and associations in alphabetical order]

Tax Issues - Impact on Manufacturers

U.S. manufacturers face higher tax costs than almost all of our competitors in other countries. The corporate tax rate in America is the second highest among developed nations, and it puts the manufacturing industry at a significant competitive disadvantage in the global marketplace. Tax cuts are proven ways to improve competitiveness and generate growth. Following the tax cuts of 2003, the U.S. economy grew at double the pace of the previous three years – and faster than the average pace during the previous three decades. Lowering the tax rate would create more money to manufacturing to expand operations and create jobs. Predictability and consistency in the United States tax code allow for the long-term planning and investments that enable us to stay competitive.

The NAM is the leading advocate for a pro manufacturing tax policy that helps create jobs in the United States and makes U.S. manufacturers more competitive in the global economy. We have led the battle against costly and crippling international tax changes. We are a driving force in the extension of the R&D tax credit and in advocating for a strengthened permanent credit. We successfully led the business community effort to enact expanded net operating loss relief to provide cash infusion for struggling companies to make needed investments and save jobs. We also promote the use of financial tools, such as over-the-counter (OTC) derivatives, that help manufacturers manage the risks of day-to-day business operations. We worked with Congress to make critical corrections to pension rules, saving companies millions of dollars. We successfully blocked a variety of damaging tax increases on small businesses. And we play an active role in the development of policy on a wide range of other important pro manufacturing tax issues.

The NAM provides information on tax rate legislation, federal tax regulations and NAM comments and testimony, NAM and multi-industry letters to the Administration and Congress, coalition information, press releases, and relevant studies and reports

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National Association of Manufacturers
Tax policy plays a critical role of the ability of the manufacturers to thrive in the United States and effectively compete in our global economy.

The Uncertain Tax Legislative Outlook

November 2010

NATIONAL ASSOCIATION OF Manufacturers

Leading Innovation. Creating Opportunity. Pursuing Progress.

NATIONAL ASSOCIATION OF Manufacturers

Manufacturing Means JOBS!

NATIONAL ASSOCIATION OF Manufacturers

Leading Innovation. Creating Opportunity. Pursuing Progress.

NAM's Manufacturing Strategy

The United States will be the best country to...

- Headquarter a company
- Perform the bulk of a company's global R&D
- Manufacture and export

Leading Innovation. Creating Opportunity. Pursuing Progress.

NAM's Manufacturing Strategy

Recommended Tax Policy:

- Lower Corporate Tax Rate
- Permanent, Strengthened R&D Credit
- Fair rules for taxing active foreign income
- Permanent lower rates for individuals, businesses

Leading Innovation. Creating Opportunity. Pursuing Progress.

Setting the Stage

- State of the Economy
- Federal Fiscal Crisis
- Pay-Go Rules
- Hyper Partisanship

Lame Duck Session

- Congress returns on Monday, November 15th
  - Procedural votes
  - Leadership Elections
  - Freshman Orientation
- In recess the week of Thanksgiving
- Back on November 29th through??

NAM's Short Term Tax Agenda

- Business Extenders
- Individual Tax Rates
- Estate Tax
- Taxes on Investment Income

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Lame Duck Session

What Will/Could Happen?

- 2001/2003 Tax Cuts
  - Full Extension
  - Partial Extension (Two Years)
  - No Action
- Tax Extenders
  - Payfors
  - Part of the 2001/2003 discussion?
- Continuing Resolution/Omnibus
  - Now?
  - January?

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Longer Term

Tax Reform

Volcker Panel

- Released options August 27
- "It's like the electrician came in and said, 'These are the ways you can re-wire the house.' "

Longer Term

The Deficit and National Debt

Bipartisan Debt Commission

- Goal: reduce deficit to 3% of GDP by 2015
- Deadline: Dec 1, 2010
- Recommendations need support of 14 of 18 members

Longer Term

Possible Options / Recommendations

- Lower corporate tax rate
- Base-broadening
- R&D incentive
- Territorial System

Longer Term

Key to Commission's Success:

- Bipartisan Support
- Broad-based Business / Union Support
- Package to send to Congress

What's Next?

- 112th Congress
  - GOP House, New Tax-writing, Budget Committee Chairs
  - Democratic Senate with Narrower Margin
- 2012 Election

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Bricker & Eckler
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Ohio Manufacturers' Association

Tax Policy Committee Tax Counsel Report
November 10, 2010

By Mark A. Engel
Bricker & Eckler LLP

Administrative Actions:

The Department of Taxation has issued two new information releases of interest.

In CFT *2010-01 – Franchise Tax Filing or Payment Obligations for Corporations Subject to the Phase-Out*, Issued October 2010, the Department reminded taxpayers that the phase-out is complete and that most corporations no longer have to file returns. However, those corporations that remain subject to the tax (primarily financial institutions) must still file form FT-1120 as prescribed by law.

In CFT 2010-02 – *Waiver of Corporation Franchise Tax Filing Requirements for 2011 for S Corporations*, Issued October 2010, the Department advised S Corporations that the tax commissioner had issued a final determination waiving the filing requirements for such corporations.

Legislative Actions:

See Mr. Augsburger's report.

Judicial Actions:

Ohio Supreme Court

In *AERC Saw Mill Village, Inc. v. Franklin Cty. Bd. of Revision*, Slip Opinion No. 2010-Ohio-4468, the Supreme Court held that the carry-over provisions of R.C. 5715.19(D), with respect to real estate valuation complaints, did not apply to years where the county auditor had a statutory duty to determine the value of real property. Thus, the complaint does not carry over to reappraisal or update years. However, the complaint does continue the jurisdiction of the BOR to consider additional evidence submitted by the parties regarding valuation.

In *Global Knowledge Training, L.L.C. v. Levin*, Slip Opinion No. 2010-Ohio-4411, the Supreme Court held that training provided with respect to applications software was not a taxable computer service, but that training provided with respect to (i) systems software; (ii) the use and repair of switches and routers; and (iii) services provided to computer support personnel all qualified as computer services that were subject to the sales tax

under R.C. 5739.01(Y)(1). The Court declined to address various constitutional claims raised by the taxpayer because they had not been preserved by being raised at the earliest opportunity before the Tax Commissioner.

Ohio Court of Appeals

No cases to report

Ohio Board of Tax Appeals

In *M/I Homes of Cincinnati, LLC v. Warren Cty. Bd. of Revision,* BTA No. 2009-V-3796 (Sept. 21, 2010), the BTA held that the value of a block of 29 vacant parcels of land held by an integrated home builder should be based upon the separate value of each parcel using the market approach to value. It rejected the taxpayers argument that the parcels would only be sold, if vacant, as a block and that the discounted cash flow analysis best reflected the value of the all the parcels. It did, however, order a modest reduction in value based upon the initial steps of the appraiser, which indicated the market value of the individual lots was lower than the value placed upon them by the auditor.

In *HealthSouth Corporation v. Wilkins*, BTA No. 2005-A-1386 (Oct. 6, 2010), on remand from the Supreme Court the BTA held that the taxpayer succeeded in proving the refund to which it was entitled when the evidence it submitted included forensic accounting reports that were also submitted to the SEC, and testimony from the vice president of tax regarding documents and processes used during the tax years in question, even though the vice president was not with the taxpayer during that year. Chair Margulies dissented, it being her opinion that the taxpayer had failed to satisfy its burden of proof.

In *Abedeljaber v. Levin*, BTA No. 2008-V-483 (Oct. 26, 2010), the BTA held that where counsel for a taxpayer expressly waived the only issue presented in a petition for reassessment, it had no jurisdiction to consider an appeal on the merits from a final determination of the tax commissioner making the finding of abandonment. In this case, the taxpayer was assessed as a responsible party for the sales tax owed by his corporation. Since counsel allegedly waived the issue of responsibility, there was no other issue for the BTA to consider.

Tax Commissioner Opinion

No opinions to report.

Ohio | Department of Development

Bipartisan Working Group on Local Tax Incentives

Wednesday, October 13, 2010 - 3:00pm-5:00pm
South A Conference Room
Riffe Center, 31st Floor

AGENDA

I. *Status of Activities to Date*

a. Distribution of Meeting Minutes and Materials
b. Overview of Working Group Meetings
   - Meeting 1: Organizational Meeting
   - Meeting 2: Background Presentations
     - Existing Local Tax Incentives Presentation
     - State of Ohio Incentives Study Presentation
   - Meeting 3: Ohio's Primary Incentive Programs and Discussion
     - Discussion on practical experiences with CRA, EZ and TIF programs, identification of challenges and opportunities, suggestions for changes
   - Meeting 4: Tax Increment Financing Discussion

II. *Purpose of the Bipartisan Working Group*

a. Pathway for Future Working Group Meetings
b. Principles of the Discussion
   - Streamline the Incentives System
   - Foster Partnerships and Collaboration
   - Target Incentives
   - Create Accountability and Transparency

III. *Discussion – Streamline the Incentives System*

a. Key Issues to Address
   - Is there consensus on the concept of streamlining the incentives system?
   - What could a streamlined incentives system look like?

- Who should participate?
- What could be the criteria and parameters for a streamlined incentives system?

III. *Next Meeting*

a. Future of the Working Group
b. Date for Next Meeting
c. Agenda: Continue facilitated discussion on the specific recommendations of the Ohio Incentive Study.

IV. *Adjourn*

Bipartisan Working Group on Local Tax Incentives
Report to OMA Tax Policy Committee
10 November 2010

The group is intended to study the myriad of local property tax incentive programs and make recommendations for improvements.

The group includes state development and tax officials and representatives of various interest groups such as schools, townships, counties, municipalities, and business.

There have been four meetings to discuss various incentive programs. Through the meetings it appears that jurisdictions wish to have a say in the process; they don't like it when other jurisdictions give away their money; and they don't like the competition between jurisdictions. With respect to business, there is a desire for certainty, simplicity, and timeliness. Based on the discussions, four principles have been distilled:

1. Streamline the system: suggestions to make the incentives easier to use and faster to process
2. Foster Partnerships and Collaboration: how to share revenue and to engage school districts, adjacent communities, and other tax agencies in the discussions
3. Target Incentives: Possible tiered approach to incentives and entities qualifying for them
4. Foster Accountability and Transparency: suggestions on reporting

The major programs beings discussed are the impacted cities program, the community reinvestment area (CRA) program, the enterprise zone program, joint economic development districts and zones, and tax increment financing. Primary focus has been on the first three programs. These programs reflect a great deal of overlap, bureaucracy, and questioned usefulness or relevance.

The proposal is to combine all real property tax exemptions into a single program similar to the CRA program. Areas would be designated. The level of exemption and type of business to qualify for exemption might vary depending on the location of the area (i.e., urban core, suburban location, brownfield or greenfield site, depressed area of the state). Discussion seems to be coalescing around some minimal level of exemption that can be granted by cities, townships, or counties without the approval of other jurisdictions, while allowing the negotiation of a greater incentive with the consent of other jurisdictions. This concept is similar to the existing practice involving community reinvestment areas and enterprise zones.

There remain discussions about the level of incentives that may be offered; the manner in which jurisdictions opt in or out of incentive discussions; and the types of property eligible for exemption. There has also been discussion about periodic review and renewal of designated areas or levels of incentives. TIFs have not really entered into the discussion, although that program may end up on a parallel type of program.

Public Policy Report

PUBLIC POLICY REPORT – Tax Policy

TO: OMA Tax Committee
FROM: Ryan Augsburger, OMA Staff
DATE: November 10,2010
SUBJ: TAX POLICY HIGHLIGHTS

Overview
Over the past several months revenue collection continues to track slightly ahead of estimates. Further corrections to the state budget do not appear to be needed at this time. Serious budget questions are looming and will need to be dealt with beginning early 2011 when work on the two-year state budget must commence.

2010 was a gubernatorial election year. The election of John Kasich as Governor, coupled with the need to act to address significant structural deficit will alter the direction of state spending policy over the next four years or more. State and local tax policy are closely related to budget policy. Don't lose sight of the fact that Ohio like other states will be facing large debts for unemployment that will need to be paid down.

Should We Expect Tax Increases?
With state revenue collection exceeding projections so far, the threat of tax increases in the short term has lessened. Don't forget the budget was already corrected once, temporarily freezing the personal income tax rates.

Traditional thinking suggests that everything including tax hikes will need to be on the table as the state faces a structural deficit as high as $8 billion. Groups that depend on state revenue are likely to continue advocating for tax hikes. Taxpayer groups like the OMA are advocating for less costly and more efficient government services. Governor-elect John Kasich campaigned on lower taxes. Given the election of Republican General Assembly, traditional thinking may be obsolete. See "Campaigns and Elections" below.

During the budget deliberations last year, social services advocates were buoyed by several newspaper editorials favoring tax increases before service cuts. Most tax hike talk has been focused on income tax and sales tax but some have eyed the Commercial Activity Tax paid exclusively by business. The OMA will continue to oppose tax hikes that deter manufacturing competitiveness.

Campaigns and Elections
Tax competitiveness emerged as a favorite topic in the gubernatorial campaigns of Democrat incumbent Ted Strickland and Republican challenger John Kasich. Governor Strickland has trumpeted his defense of and support for the tax reform package originally enacted by Republican lawmakers. While not commenting specifically on the tax reform package, the Kasich campaign contends Ohio's tax code is punitive to business and driving business to other states. The Kasich campaign is calling for an end of personal income tax and the state estate tax. Similar messages were commonplace in races for state General Assembly. In the end, Kasich was elected and the Ohio General Assembly was restored to Republican rule. Now, Republicans will need to fashion budget and tax solutions.

Attacks on Tax Reform
The tax reform package has been under attack by other business taxpayers, as well as social groups or spenders. Most frequently targeted is the Commercial Activity Tax (CAT). The OMA has been a steadfast opponent of any legislation or other action that would undermine the broad-base, low-rate principles of the CAT which allowed for the elimination of tangible personal property tax, corporate franchise tax, reduction of personal income tax, and reduced state revenue collection. Given some of the campaign rhetoric, there may be renewed concern to keep and expand broad tax bases. Manufacturers are encouraged to talk up the attributes of Ohio's tax reforms frequently.

Renewable Energy
Just before the summer legislative recess, wind and solar farm developers successfully advocated to carve wind and solar farms from the tangible personal property tax (TPP). Investment on the generation of electricity (regardless of the fuel source) remains one of a few classifications still subjected to TPP. Renewable energy developers contended the rate is uncompetitive with other states. The legislation provides exemption from TPP but subjects them to CAT. The OMA has offered some support for the measure, but called on lawmakers to ensure such incentives are designed reasonably in reference to the relatively high cost of renewable energy. Additionally the OMA won support for inclusion of an amendment to free co-generation (from waste heat or steam) from the TPP.

Unemployment Compensation
Like many states, Ohio's fund to pay unemployment compensation claims was depleted early last year and the state has had to borrow federal funds ($3 billion) that will need to be paid back. State law expansions of coverage were included in HB 1 and HB 2. The OMA has been focused against permanent expansions when only temporary federal relief is available. Eventually Ohio employers will be made to repay the federal loans and restore the state fund. Look for a premium increase in time. States are required to begin paying interest by September 2011 (nearly $300 in interest alone in the 2012/13 biennial budget).

Third Frontier
Voters approved renewal and expansion of the Third Frontier by wide margin in May. Third Frontier is a targeted economic development program financed with state debt. $750M was approved by voters after lawmakers haggled about the amount. Manufacturing has been a target for much of the investment. Now that the measure has been approved for another five years, manufacturers may want to learn about eligibility by working with economic development representatives.

Estate Tax Repeal
A group calling themselves *Citizens to End Ohio's Death Tax* has emerged to advance and lead a ballot repeal of the state estate tax in 2011. Past repeal efforts undertaken by the General Assembly have been unsuccessful due to fierce opposition from local governments (that benefit from the estate tax). The OMA Board of Directors is supportive of repeal.

Legislation
The General Assembly has been in recess since June. Minimal activity is anticipated before January. Following voter approval of casino gambling in Ohio (November 2009),

the General Assembly acted in the Spring to enact “implementing legislation.” Among the mostly focused legislation to create regulatory safeguards was an amendment to allow taxpayers to deduct gambling losses against personal income tax.

The Department is used House Bill 75 to make a few minor customer service revisions to the CAT. Look for a capital bill to authorize public works later this year or early in 2011.

Outlook
It is critical to extol the improvements to the tax code made over the past six years. Use *Retooling Ohio* to help inform candidates for office.

While Ohio’s problems are daunting, I believe they are fixable – but only by creating a business environment that rewards investment and increases wages. With forward-thinking, solutions- oriented leadership, we can transform Ohio into a model of job creation and economic vitality that other states will want to follow. To succeed we must:

- **lower taxes** – *Create a tax climate that allows Ohio to compete with other states to attract new businesses, foster job creation, and keep our precious, existing jobs here*
- **make government more efficient and effective** – *Skinny-down state bureaucracy to ensure taxpayers are getting their money’s worth, and reform state government into a 21st century partner with Ohio's job creators – not one that punishes business with outdated or unnecessary regulation;*
- **transform our education system –** *Help our kids achieve, compete and succeed to meet the workforce demands of tomorrow’s economy*
- **end the influence of special interests** – *Build common-sense solutions to our problems and kick out those who, for too long, have kept us from fixing all that is wrong in our state*

POST-ELECTION REPORT
November 3, 2010

Unofficial voting results are in. Numbers will change somewhat as outstanding absentee ballots are tabulated. Ohioans have been voting since October 28 when early voting began. See highlighted results below. Join the manufacturing community for a post-election review / discussion on Wed, Nov 3 at 3PM for more insights

The Stakes

- Redistricting - Apportionment Board will redraw legislative boundaries. Majority of 3 statewide offices (Governor, Secretary of State, and Auditor of State).
- All Statewide Executives including Governor
- U.S. Senate – Will Republicans maintain?
- U.S. House – 6 Democrat seats targeted
- Presidential election advantages for 2012
- Presidential candidate possibility for 2012
- Executive Branch / Administrative Agencies
- Majority Control of State Legislature.
- Supreme Court – 3 races including Chief Justice.

The Results
Visit Ohio Secretary of State Website for full Unofficial Results

STATEWIDE RACES

U.S. SENATOR Open Seat - Incumbent Republican George Voinovich Retiring
D: Lee Fisher (Lt. Governor)
R: Rob Portman (Former Congressman / OMB Dir)
OUTCOME: Rob Portman powers through by a wide margin 57% - 39%

***GOVERNOR** Incumbent Ted Strickland seeking re-election
D: Ted Strickland, Incumbent Governor
R: John Kasich, Former Congressman, Media Figure, Financial Industry
OUTCOME: John Kasich elected as Ohio's next Governor with 49% to 47% margin. Republicans will control the redistricting process.

ATTORNEY GENERAL Incumbent Richard Cordray seeking re-election
D: Richard Cordray, Incumbent Attorney General
R: Mike DeWine, Former US Senator, Former Lt. Governor, Congressman
OUTCOME: Mike DeWine upsets Cordray with 48% to 46% margin.

***AUDITOR OF STATE** Open Seat – Incumbent Auditor Mary Taylor (R) Running Lt. Gov
D: David Pepper, Hamilton County Commissioner
R: David Yost, Delaware County Prosecutor
OUTCOME: David Yost's 51% - 45% victory over David Pepper means Republicans will control redistricting in Ohio.

***SECRETARY OF STATE** Open Seat – Incumbent J.Brunner (D) vacating
D: Maryellen O'Shaughnessy, Franklin County Clerk
R: Jon Husted, State Senator from Suburban Dayton, Former House Speaker
OUTCOME: Jon Husted elected by 54% - 41% margin. Assuring Republican control of redistricting.

TREASURER OF STATE Appointed Incumbent Kevin Boyce (D) Running to Retain
D: Kevin Boyce, Incumbent, first-time on statewide ticket (former city councilman)
R: Josh Mandel, State Representative (Cleveland)
OUTCOME: Josh Mandel trounces Kevin Boyce 55% to 40%

SUPREME COURT CHIEF JUSTICE Following the untimely death of Chief Justice Thomas Moyer (R), Governor Strickland appointed Franklin County Probate Judge Eric Brown, the declared Democrat.
D: Eric Brown, Incumbent (RUNNING TO RETAIN)
R: Maureen O'Connor, Current Associate Justice
OUTCOME: O'Connor defeats Brown 68% to 32%. Ironically, her current associate justice seat must be vacated paving the way for the current Governor to select a Democrat of his choice, *possibly* Eric Brown.

SUPREME COURT ASSOCIATE JUSTICE
Incumbent Lanzinger seeking re-election
D: Mary Jane Trap, Court of Appeals (Geauga)
R: Judith Ann Lanzinger, Current Associate Justice
OUTCOME: Judge Judy retained for a second term scoring a solid 57% to 43% victory.

SUPREME COURT ASSOCIATE JUSTICE
Incumbent Pfeifer is seeking re-election
D: No candidate filed
R: Paul Pfeifer, Current Associate Justice
OUTCOME: Unopposed, Pfeifer returns for his final term.

OHIO GENERAL ASSEMBLY

OHIO HOUSE Current Makeup 53Ds – 46Rs
OUTCOME: Republicans Win Majority 59 – 40
Highlights:

- HD1 Republican Newbold KOs Democrat Bolon 53% - 47%
- HD 17 Republican Anielski holds Mandel seat against Democrat Perk with 55%
- HD 18 Republican Challenger Dovilla knocks out incumbent Democrat Patten 52%
- HD 19 Republican Challenger Gonzales KOs incumbent Democrat Harris 53% - 42%
- HD 20 Democrat incumbent Garland survives against Republican Carle 49% – 46%
- HD 21 Duffey holds the seat for Republicans against Democrat Robinson. 51% - 49%
- HD 28 Republican challenger Wilson losing to Democrat Pillich by 5 votes = Recount.
- HD 41 Republican challenger Slaby defeats Democrat incumbent Williams 50% - 45%
- HD 42 Republican challenger Roegner takes out Democrat incumbent Moran 52% - 48%
- HD 43 Republican challenger McKenney KOs Democrat incumbent Dyer 55% - 45%
- HD 50 Republican Snitchler handily wins in district targeted by Democrats 61% - 39%
- HD 62 Democrat incumbent Fende survives against Republican Fiebig 51% - 49%
- HD 63 Republican challenger Young KOs Democrat incumbent Schneider 53% - 47%
- HD 85 Incumbent Democrat Pryor defeated to Republican Peterson 55% - 45%
- HD 89 Republican Johnson wins “Verne Riffe Seat” for the first time since 1958 with 58%
- HD 91 Democrat Incumbent Dodd defeated by Republican Hayes 47% - 43%
- HD 93 Thompson wins seat back for Republicans with 54% against Democrat Secrest
- HD 99 Incumbent Democrat Newcomb loses to Republican Kozlowski 40.90% - 40.74%

OHIO SENATE Current Makeup 21Rs – 12Ds
OUTCOME: Republicans Pick Up 2 seats increasing majority 23Rs – 10Ds Highlights:

- SD 5 Republican Bill Beagle defeats incumbent Fred Strahorn 52% - 48%
- SD 13 Republican Gayle Manning defeats incumbent Sue Morano 53% - 47%

U.S. CONGRESS

1st Congressional District REMATCH of 2008
Incumbent one-term Steve Driehaus (D) was again challenged by former Republican Congressman Steve Chabot. The 2010 historical Republican index is 51.20% which includes two bad Republican years (2008 and 2006). In 2006 the District had a 58.1% Republican index.
OUTCOME: As recent polls predicted, Steve Chabot goes back to Washington winning 52% 45%.

6th Congressional District
Incumbent two-term congressman Charlie Wilson (D – St. Clairsville) faces a tough challenge by Bill Johnson (R – Poland), a business owner. The OMA scored the district as 45.6% Republican in 2010 down from 56.4% in 2006.
OUTCOME: In perhaps the biggest surprise, Charlie Wilson is defeated 50% - 45% by Bill Johnson.

13th Congressional District
Incumbent Betty Sutton (D – Copley) is defending against auto dealer, Tom Ganley (R – Brecksville). 2010 Republican index: 41.91% down from 2006 Republican index: 50.20%. With generic tickets favoring Republicans in double digits, Ganley, a well-known and well-funded candidate, has the best chance ever of defeating Sutton in 2010.
OUTCOME: Sutton retains her seat by 55% to 45% margin

15th Congressional District REMATCH of 2008
Incumbent one-term Mary Jo Kilroy (D) challenged by former state senator Steve Stivers (R). R index in 2010 is 47.80% down from 57.75% in 2006.
OUTCOME: Kilroy was there. Stivers strides to victory in this central Ohio district 55% - 41%. Stivers, the sponsor of Ohio tort reform finally goes to Washington

16th Congressional District
Incumbent one-term John Boccieri (D – Alliance) is challenged by Republican Jim Renacci (R – Wadsworth). 50.60% Republican index in 2010 even with two bad election cycles in 2008 and 2006.
OUTCOME: Bye Bye Boccieri. Renacci won with 52% - 41%

18th Congressional District
Incumbent two-term Zack Space (D) is challenged by Republican State Senator Bob Gibbs. 51.2% Republican district in 2010, 61.99% in 2006. This coal country district is especially sensitive over Space's vote for cap and trade. Lots of money was spent in the last month by both sides making the race a referendum on free trade agreements.
OUTCOME: Space sent back to Earth. Gibbs wins big 54% - 40%. Gibbs has been a friend to manufacturing over his state legislator career.

BALLOT ISSUES

There were no statewide ballot issues.

FOR MORE INFORMATION on districts, candidates, and contests visit the OMA 2010 Ohio Election Guide

- OMA Government Affairs Committee Post-Election Conference Call, Nov 3, 3PM
- OMA Government Affairs Committee Meeting Columbus, December 8, 10AM – 1PM
- Visit Ohio Secretary of State Website for full Unofficial Results

Top Issues Facing Newly Elected State Leaders

- Budget and Revenue – with an $8 billion structural deficit watch for draconian service cuts and / or revenue enhancers (taxes and fees). An examination on the role of government is expected.
- Unemployment Compensation – State of Ohio owes $3 billion to the federal government. State must begin making payments by September 2011. This is historically paid exclusively by employers, further tightening the need to be vigilant on revenue enhancers.
- Tort Reforms – Pending threats such as mandatory cy pres should be gone. Continued progress may now be more likely
- Health care mandates – Less likely for new mandates under Republican legislature
- Workers' Comp – Ohio's state run system has been making measurable, actuarially sound performance improvements. Workers' comp became a political issue over the campaign.
- Federal health care reform implementation may pose choices for Ohio leaders
- Federally imposed GHG regulation may pose choices for Ohio leaders
- More stringent federal environmental regulations mean states like Ohio will need to consider regulatory programs to meet air quality attainment. Industrial sources have historically been targeted over less popular mobile and consumer sources, etc.
- Electricity rate cases pending and expected. Increased rates possible due to policies to reduce greenhouse gas, obsolete coal plants, cost of renewable and migration to other "advanced" fuel sources.

Manufacturing Issues *For Your Use* in Communicating with Elected State Leaders

- Energy Policy
- Environmental Policy
- Tax Policy
- Tort Reform Policy
- Workers' Compensation Policy

Recent Tax News and Analysis

Sponsors of Nonqualified Deferred Compensation Plans: Check Your Plan Documents
November 05, 2010

OMA Connections Partner, Plante Moran, advises employers that sponsor nonqualified deferred compensation plans (including certain severance agreements, employment agreements, and other arrangements that defer the receipt of compensation) to review their plan documents. The IRS is giving until December 31, 2010 for plan document failures to be corrected with reduced, and in some cases, no penalties.

Measurable Improvement Ohio's Business Climate
November 05, 2010

Site Selection Magazine recently released its rankings of most favorable state business climates. Ohio tied Georgia for 6th place. Regionally southern states scored highest.

Earlier in the year, Site Selection awarded Ohio the Governor's Cup for new and expanded facilities. The ranking methodology includes executives' perceptions about the states. Surveyed executives identified the top 10 factors that matter most in site locations; work force skills, state and local tax schemes, transportation infrastructure, incentives, and utility infrastructure top among them.

Unemployment Insurance Fund in Arrears $2 Billion – Employers to Pay?
September 07, 2010

For nearly a decade, Ohio's unemployment compensation program has been taking in less premium than the fund has been paying out in benefits. This week the state official in charge of the program described the effect of inaction – the state fund is depleted and in the hole $2 billion and debt is expected to grow to $3 billion by the end of the 2010.

Many states have had to borrow from the federal program beginning in 2009, but in addition to the repayment of federal funds, is the need to replenish and shore up the state program so that it is sustainable. The OMA Tax Policy Committee will discuss the growing unemployment comp issue in detail at its May 13 meeting.

This week in Washington, Congress rushed through a short term extension of the UI related provisions of the American Recovery and Reinvestment Act, providing yet another short term extention. Here is the text of the bill. See cost estimates here. The Senate may act on the measure today.

Tax Collectors Rank Ohio's Tax Burden
September 07, 2010

The Federation of Tax Administrators (FTA) released a report that ranks state tax burdens. The study uses recent data and factors Ohio's sweeping tax reforms, enacted in 2005. According to the FTA analysis, Ohio's state tax burden during fiscal year 2009 was 35th highest on a per capita basis. In other words, only 15 other states collected less in taxes per person than Ohio

did last year. The study rated Ohio's tax burden as 33rd highest when measured as a percentage of Ohioans' personal income. By this measure, only 17 other states collected a lower percentage of taxes than Ohio. Click to learn more.

State Budget Panel - Lots of Talk, Little Signs of Action
July 16, 2010

Even though the formal state budget process does not begin until January, a legislative panel is trying to get a head start, given an estimated $8 billion forecasted revenue gap. At the committee's second meeting on July 7, the state budget director reminded lawmakers that 85% of the state budget is passed through to local government entities.

In her presentation, budget director Pari Sabety, said "We really need to focus on the fact that significant budget savings can only come from reform in major state-local systems." Those include: Medicaid and human services; rehabilitation and corrections; education; and local government services.

Despite the dire predictions, the state budget office yesterday began instructing state agencies to develop two different budget plans (one at 100% current funding level and one at 90% of current funding levels) for the 2012-2013 budget recommendations due later this year.

Separately, and compounding the budgeting difficulties, earlier in the week the state board of education called for an increase of nearly $1 billion for the next budget for primary and secondary education.

Also recently, the Columbus-based conservative think-tank, the Buckeye Institute, released a study on the level of compensation of public employees. The study looks at government and teacher wages, benefits, and retirement and quantifies total compensation levels compared with the private sector. The study offers solutions for paring back.

The study pegs average public employee total compensation at more than $66,000 or $17,000 more than a private sector counter-part. The liberal leaning think tank, Policy Matters Ohio, offered a contrasting perspective that argues the compensation disparity is due generally to a higher level of education by public employees.

Legislators Consider State Budget Imbalance
July 01, 2010

Six state legislators on the Budget Planning and Management Commission began an initial meeting this week calling for bi-partisanship, but differing perspectives on the severity of Ohio's structural budget deficit quickly became apparent.

Republicans consider the variance to be over $8 billion while Democrats consider the gap to be about $5 billion. "It's an important disparity because it is the bogey that lawmakers will need to hit with either tax increases or service cuts for the next state budget that will fund government and public programs from July 2011 until June 2012," said OMA's Ryan Augsburger. Adjustments to business taxes and fees could be recommended by the panel.

A presentation by the non-partisan Legislative Service Commission this week apprised commission members of the most recent revenue and spending trends. The Commission will

meet again on July 7 and hear a presentation from the state department of budget and management.

Think Tank Calls for Ohio Tax Hikes and Service Cuts
June 25, 2010

One thing campaigning politicians are not talking about is how to solve Ohio's looming state government budget deficit. The two-year budget to fund fiscal years 2012 and 2013 is forecast to be short by $8 billion, meaning 20% cuts would be needed in public expenditures to avoid adding new tax revenue.

The Cleveland-based Center for Community Solutions yesterday unveiled a proposal to address the structural deficit. The executive summary describes the need for an approach that makes cuts and increases revenue. The report urges lawmakers to begin by revisiting the 2005 tax reforms under the premise that business should be paying a greater proportion of taxes.

Specifically the report calls for the following:

• Increase the personal income tax by boosting the top marginal rate to 7.5%
• Increase the commercial activity tax (CAT) rate by at least .08% to better fund schools and local governments
• Increase temporarily sales tax by half a penny
• Reinstate corporate franchise tax on business income
• Sunset tax credits available to businesses

A few weeks ago the OMA distributed Retooling Ohio on tax policy to inform policymakers of the need for a competitive state tax code to protect and grow manufacturing and other job-creating businesses.

Ohio's Statutory Lien for Users of a Customer's Tools, Dies, Molds and Patterns May Help in Collections
June 23, 2010

Michael D. Zaverton, attorney with OMA Connections Partner, Walter & Haverfield LLP, has prepared an extensive article about a little-known, often ignored, and frequently overlooked provision in Ohio law intended to protect Ohio businesses that manufacture goods for their customers by utilizing the customer's tools, dies, molds and/or patterns.

The Ohio's Molder's Lien statute grants mold-users a "possessory" lien on a customer's molds to secure payment of all amounts due for making the mold or for products produced on the mold. An Ohio Molder's Lien even primes the blanket liens of the customer's senior secured lenders. This lien right can play a significant role in ensuring that Ohio businesses that produce products using a customer's molds are paid by their customers. Such businesses, however, must be diligent in preserving and protecting their rights; read the brief to find out more.

Better Alignment of Tax Abatements Considered
June 18, 2010

The OMA attended a second meeting called by the Ohio Department of Development to consider revision to the Community Reinvestment Area (CRA), Enterprise Zone (EZ) and Tax Increment Financing (TIF) programs. A study of incentives conducted by the Department last

year recommends allowing the EZ program to expire and consolidating some of the programs under a reformed CRA that would also allow funding for educational expenditures. Member input is invited. Please contact Ryan Augsburger.

U.S. Supreme Court Protects Federalism
June 10, 2010

The U.S. Supreme Court recently decided that a federal challenge to Ohio's taxation of natural gas independent marketers could not be brought because there is an adequate state-court forum.

A more complete summary of the case has been prepared by OMA Tax Counsel Mark Engel of Bricker & Eckler.

OMA on Working Capital
June 03, 2010

The House acted to create a lending assistance program for smaller businesses. H.B. 521 is sponsored by Representative Jay Goyal (D - Mansfield), whose family operates the manufacturing company, Goyal Industries. The bill leverages some funds on deposit with the state treasurer to guarantee loans made by partnering banks. A state panel would determine eligibility guidelines.

The OMA signaled support for the proposal which cleared the full House on Thursday.

Qualified Employers Benefit from New Tax IncentivesMay 28, 2010

The Internal Revenue Service recently announced details about how qualified employers can benefit from the new HIRE Act (Hiring Incentives to Restore Employment Act). The new law provides both a partial payroll tax holiday for employers who hire unemployed workers and a tax credit for retaining those same workers for at least fifty-two weeks.

Read more in a tax alert from OMA Connections Partner Plante & Moran.

The Coming $8 Billion Shortfall
May 21, 2010

State Senator Bill Seitz (R – Cincinnati) http://www.ohiosenate.gov/bill-seitz.html this week penned a thoughtful column widely published in Ohio newspapers, framing the approaching state budget tsunami and challenging Ohioans to press politicians to address the problem. The Senator, is a lawyer with the Taft law firm, an OMA member. His column is well worth a read.

From Bad to Worse – Employer Share of Unemployment Costs
May 14, 2010

Bruce Madson of the Ohio Department of Jobs and Family Services this week told members of the OMA Tax Policy Committee that Ohio is expected to borrow $3 billion from the federal government by year's end in order to cover a growing shortfall in the state trust fund. Already the state's interest on that loan equates to more than $75 million annually. And, there are penalties that will begin to be imposed on Ohio and similarly situated. states.

Madson pointed out that 40 states are expected to borrow $90 billion by 2012 giving rise to hope that the federal government may need to provide some form of relief. But don't expect a forgiveness. Bottom line – employers should anticipate increased UC tax payments after this year. What's worse: Bruce's presentation described that the repayment liability will be largely spread evenly over employers without regard to experience unless laws are altered. The OMA will work with the Department to monitor the developing situation and engage manufacturers.

OMA Communicates on Tax Policy
May 14, 2010

The OMA is set to distribute its latest edition of Retooling Ohio to lawmakers. ReTooling Ohio is the OMA publication that advances manufacturers' policy goals. This issue delves into state tax policy and is intended to provide relevant context, preserve institutional knowledge and offer thoughtful concepts for change. The document is the product of OMA tax community leaders.

Manufacturers are encouraged to use this document as a tool in their communications with lawmakers and candidates. The OMA has recently delivered editions about manufacturers' aims on Workers' Compensation and Civil Justice.

OMA Tax Committee – Bill Tracker

Taxation Legislation
Prepared by: The Ohio Manufacturers' Association
Report created on November 5, 2010

HB1 **BIENNIAL BUDGET** (SYKES, V) To make appropriations for the biennium beginning July 1, 2009, and ending June 30, 2011 for the operation of state programs.

Current Status: 7/17/2009 - **SIGNED BY GOVERNOR**, eff. 7/17/09 appropriations; other sections subject to referendum 10/16/09

Comments: None

HB6 **MOTION PICTURE PRODUCTION** (PATTEN, M) To authorize refundable nontransferable credits against the corporation franchise tax or income tax for production of motion pictures in Ohio.

Current Status: 3/10/2009 - Referred to Committee Senate Ways and Means and Economic Development

Comments: None

HB46 **UNEMPLOYMENT COMPENSATION** (UJVAGI, P) To permit persons who quit work to accompany the person's spouse on a military transfer to be eligible for unemployment compensation benefits.

Current Status: 5/18/2010 - Senate Insurance, Commerce and Labor, (Second Hearing)

Comments: None

HB66 **STATE GOVERNMENT EFFICIENCY COMMISSION** (JORDAN, K) To create the State Government Efficiency Commission.

Current Status: 11/10/2009 - House State Government, (First Hearing)

Comments: None

HB117 **COMMERCIAL ACTIVITY TAX** (JONES, S) To require 30% of commercial activity tax revenue to be used indefinitely for local government purposes.

Current Status: 4/14/2009 - Referred to Committee House Ways and Means

Comments: None

HB123 **TAX CREDIT-SCIENCE DEGREE** (GOYAL, J) To grant an income tax credit to individuals who earn degrees in science, technology, engineering, or math-based fields of study and to authorize municipal corporations to grant a credit to individuals qualifying for the state credit.

Current Status: 5/6/2009 - House Ways and Means, (Second Hearing)

Comments: None

HB140 **ENTREPRENEURIAL PROJECTS** (GOYAL, J) To permit institutions of higher education to facilitate and assist with entrepreneurial projects for economic development and to authorize the institutions to enter into agreements to induce development of, acquire ownership in, and make or guarantee loans and incur debt to fund the entrepreneurial projects.

Current Status: 6/24/2009 - House Ways and Means, (Third Hearing)

Comments: None

HB144 **TAX CREDIT-BACCALAUREATE DEGREE** (GROSSMAN, C) To grant an income tax credit eliminating tax liability for five years for individuals who obtain a baccalaureate degree and who reside in Ohio.

Current Status: 6/24/2009 - House Ways and Means, (First Hearing)

Comments: None

HB166 **TRANSPORTATION INNOVATION AUTHORITIES** (CARNEY, J) To authorize the creation of transportation innovation authorities by specified governmental entities and to establish the powers and duties of such authorities.

Current Status: 2/3/2010 - Referred to Committee Senate Highways and Transportation

Comments: None

HB218 **PUBLIC UTILITY TANGIBLE TAX VALUATION** (WINBURN, R) To modify the tax valuation of public utility tangible personal property used to generate electricity from renewable resources.

Current Status: 6/24/2009 - **BILL AMENDED**, House Ways and Means, (Second Hearing)

Comments: None

HB277 INCOME TAX WITHHOLDING CREDIT (SNITCHLER, T) To authorize a $2,400 income tax withholding credit for an employer that hires and employs a previously unemployed individual.

Current Status: 10/28/2009 - House Ways and Means, (First Hearing)

Comments: None

HB284 INCOME TAX RATES (HAGAN, R) To increase the marginal income tax rate applicable to income in excess of $200,000 to its pre-2005 rate.

Current Status: 10/6/2009 - Referred to Committee House Ways and Means

Comments: None

HB285 SALES TAX EXEMPTIONS (BACON, K) To provide a three-day period in August and in December each year during which sales of clothing, footwear, school supplies, personal computers and computer-related items, and sporting equipment are exempt from sales and use taxes.

Current Status: 1/19/2010 - House Ways and Means, (First Hearing)

Comments: None

HB286 HOME IMPROVEMENTS-TAX EXEMPTION (FENDE, L) To exempt from real property taxation home improvements greater than $5,000 for five years.

Current Status: 10/28/2009 - House Ways and Means, (First Hearing)

Comments: None

HB308 MARGINAL INCOME TAX RATE (FOLEY, M) To increase the marginal income tax rate applicable to individuals, estates, and trusts with taxable income greater than $200,000.

Current Status: 10/28/2009 - House Ways and Means, (First Hearing)

Comments: None

HB318 INCOME TAX FREEZE (SYKES, V) To postpone for two years the last of five scheduled income tax rate reductions, to create the Construction Reform Demonstration Project, to provide for the granting of a delay in implementing all-day kindergarten, and to make an appropriation.

Current Status: 12/22/2009 - **SIGNED BY GOVERNOR**, Some sections eff. 12/22/09; others 3/23/10

Comments: None

HB326 ESTATE TAX (HOTTINGER, J) To reduce the estate tax, to authorize townships and municipal corporations, or electors thereof by initiative, to exempt from the estate tax any estate property located in the township or municipal corporation, and to distribute all estate tax revenue originating in a township or municipal corporation that does not exempt property from the tax to the township or municipal corporation.

Current Status: 11/4/2009 - House Ways and Means, (First Hearing)

Comments: None

HB328 SMALL BUSINESS PROFITS (WILLIAMS, S) To authorize an income tax deduction for small business owners' reinvestment of undistributed profits to business property, employee training, or research and development.

Current Status: 3/24/2010 - House Economic Development, (Sixth Hearing)

Comments: None

HB329 JOB CREATION/RETENTION CREDITS (WILLIAMS, S) To include employees working from home as employees employed in the project for purposes of the job creation and retention credits.

Current Status: 5/26/2010 - Senate Ways and Means and Economic Development, (First Hearing)

Comments: None

HB378 MUNICIPAL INCOME TAXATION (YATES, T) To eliminate the authority of municipal corporations to exempt stock options and nonqualified deferred compensation from municipal income taxation.

Current Status: 11/30/2009 - Referred to Committee House Ways and Means

Comments: None

HB396 STATE BUDGET (BLAIR, T) To prohibit the Governor from proposing and the General Assembly from enacting a state budget with aggregate general revenue fund appropriations that exceed ninety-seven per cent of the total money received in aggregate revenue for the two most recent fiscal years, to prohibit the proposal and enactment of a state budget containing transfers from the Budget Stabilization Fund in excess of twenty-five per cent of the amount of the Fund, and to eliminate the state appropriation limitation.

Current Status: 1/12/2010 - Referred to Committee House Finance and Appropriations
Comments: None

HB400 PERSONAL INCOME TAX (ADAMS, J) To phase out the personal income tax over ten years.
Current Status: 5/26/2010 - House Ways and Means, (Third Hearing)
Comments: None

HB401 PROPERTY TAX EXEMPTION (LUNDY, M) To authorize property tax exemption for municipally owned facilities housing independent professional minor league baseball teams.
Current Status: 3/10/2010 - House Ways and Means, (Third Hearing)
Comments: None

HB432 SHARED WORK UNEMPLOYMENT COMPENSATION (PRYOR, R) To create the shared work unemployment compensation program.
Current Status: 3/9/2010 - House Commerce and Labor, (Second Hearing)
Comments: None

HB436 COUNCIL ON EFFICIENT GOVERNMENT (BALDERSON, T) To contract out is provision of a good or service to a private contractor under specific contractual provisions; to require the state agency to prepare a business case before executing such a contract; to create the Council of Efficient Government to review business cases, issue advisory reports, and undertake other duties regarding contracting out the provision of a good or service; to require the Council to prepare an annual report; and to require the Governor to select goods or services that could be provided by a private contractor and submit the selections for Council review.
Current Status: 3/16/2010 - House State Government, (First Hearing)
Comments: None

HB437 TAX CREDIT FOR BUSINESS-INCREASED PAYROLL (BAKER, N) To authorize a nonrefundable tax credit for a business that increases payroll and expands into a vacant facility.
Current Status: 3/3/2010 - House Ways and Means, (First Hearing)
Comments: None

HB439 TAX EXEMPTION-RENEWABLE ENERGY (PHILLIPS, D) To exempt from property taxation the cost of energy-conservation or renewable energy improvements to business property and to authorize an additional income tax deduction for the costs of such improvements if the property is sold for a gain.
Current Status: 5/11/2010 - House Alternative Energy, (First Hearing)
Comments: None

HB454 TAX DATABASE (ADAMS, R) To require the creation of a tax database and calculator to allow individuals and business to determine their current tax rates and potential tax liabilities.
Current Status: 3/3/2010 - House Ways and Means, (First Hearing)
Comments: None

HB456 ESTATE TAX (OKEY, M) To repeal the estate tax effective January 1, 2011.
Current Status: 2/24/2010 - Referred to Committee House Ways and Means
Comments: None

HB491 PROPERTY TAX COMPLAINTS (COLEY, W) To permit property tax complaints to be initiated only by the property owner.
Current Status: 5/11/2010 - Referred to Committee House Ways and Means
Comments: None

HB516 SCHOOL DISTRICT REIMBURSEMENT (PILLICH, C) To modify the school district reimbursement schedule for the loss of revenue from the tangible personal property tax phase out.
Current Status: 5/18/2010 - Referred to Committee House Finance and Appropriations
Comments: None

HB521 SMALL BUSINESS WORKING CAPITAL (GOYAL, J) To create the Small Business Capital Loan Program, and to declare an emergency.
Current Status: 6/3/2010 - **PASSED BY HOUSE**, Vote 87-11
Comments: None

HB569 REMEDIATION OF CONTAMINATED SITE

(SEARS, B) To authorize refundable tax credits through 2015 for the completion of a voluntary action to remediate a contaminated site and for the return of such sites to productive use, and to exempt persons through 2015 who have been issued covenants not to sue under the Voluntary Action Program from certain fees and penalties for one year after the issuance of such a covenant.

Current Status: 8/23/2010 - Introduced

Comments: This bill creates a refundable credit against either (but not both) the personal income tax, or the CAT, for costs to remediate a property after the director of the EPA issues a covenant not to sue. The credit is equal to 25% of the costs to remediate; however, there is language that seems to allow for an additional 25% credit as well. Is another effort to narrow the base of the CAT. Regardless of the wisdom of a credit for this type of activity, the General Assembly needs to consider whether it wants to chip away at the CAT base.

Note: there is already a property tax exemption for remediated property. If this bill passes, the owners will get a refundable tax credit for their expenses, and an on-going exemption from real property taxes associated with the increased value caused by the remediation. Is that what we really want to do?

Why 25%? What thought has gone into picking this level?

There are actually two credits under each tax that appear to be cumulative; essentially, credits equal to 50% of the remediation costs could be granted. Does anybody really have an idea of the hit this will create for the GRF?

A refundable credit means that there could be an expenditure of state revenue to the extent the credit exceeds the taxpayer's tax liability. Given the costs associated with remediating real property, this could be a sizeable figure.

On the other hand, if you have the chance to buy into a limited partnership that plans to remediate a Super Fund site, go for it!!

HB598 TAX CREDIT ON OHIO-MADE GOODS (DYER, S) To authorize a rebate or a refundable income tax credit for payment of the state tax on the sale or use of Ohio-made goods, up to $317.50 per good.

Current Status: 10/25/2010 - Introduced

Comments: None

HCR22 INCOME TAX WITHHOLDING SCHEDULES (MANDEL, J) To memorialize the Congress of the United States, the Secretary of the Treasury, and the Internal Revenue Service to withdraw application of the new federal income tax withholding schedules to prisoners.

Current Status: 5/6/2009 - Referred to Committee House Aging and Disability Services

Comments: None

HJR1 COMPENSATION FOR VETERANS (PRYOR, R) To provide compensation to veterans of the Persian Gulf, Afghanistan, and Iraq conflicts.

Current Status: 2/19/2009 - House Veterans Affairs, (First Hearing)

Comments: None

SB1 BUILDING OHIO JOBS PART II (HUGHES, J) To implement the additional debt authority for conservation and revitalization programs provided by Section 2q of Article VIII of the Ohio Constitution, to authorize the issuance of that debt, to make new appropriations for the purpose of continuing programs established by Am. Sub. H.B. 554 of the 127th General Assembly, the Bipartisan Job Stimulus Act, and to declare an emergency.

Current Status: 3/5/2009 - Referred to Committee House Finance and Appropriations

Comments: None

SB9 **FILM TAX CREDIT** (PATTON, T) To authorize income tax credits for investments in motion pictures produced in Ohio.

Current Status: 3/11/2009 - House Ways and Means, (First Hearing)

Comments: None

SB32 **HYBRID VEHICLE PURCHASE** (TURNER, N) To create a nonrefundable tax credit for individuals who purchase a new hybrid vehicle.

Current Status: 2/12/2009 - Referred to Committee Senate Ways and Means and Economic Development

Comments: None

SB37 **TOBACCO TAX** (MILLER, D) To increase the tobacco products excise tax rate and to credit some of the additional revenue to the Tobacco Use Prevention Fund.

Current Status: 2/12/2009 - Referred to Committee Senate Ways and Means and Economic Development

Comments: None

SB80 **ACCOUNTANT-CLIENT PRIVILEGE** (SEITZ, B) To create an accountant-client testimonial privilege.

Current Status: 5/6/2009 - **REPORTED OUT**, Senate Judiciary - Civil Justice, (Fourth Hearing)

Comments: None

SB109 **REAL PROPERTY TAXATION** (GIBBS, B) To exempt from real property taxation the value of single-family residential property owned by a developer or builder until the developer or builder transfers possession or title.

Current Status: 6/17/2009 - Senate Ways and Means and Economic Development, (Third Hearing)

Comments: None

SB111 **PERSONAL PROPERTY TAX LOSSES** (STEWART, J) To make permanent the temporary reimbursements for local government and school district tangible personal property tax losses.

Current Status: 5/6/2009 - Senate Ways and Means and Economic Development, (First Hearing)

Comments: None

SB145 **EMPLOYER TAX CREDIT FOR FELONS** (MILLER, R) To create a tax credit for wages paid by employers to employees who have been convicted of felonies.

Current Status: 6/17/2009 - Referred to Committee Senate Ways and Means and Economic Development

Comments: None

SB177 **TAX LAW CHANGES** (SEITZ, B) To partially decouple Ohio law from recent tax law changes, and to amend the version of section 5747.01 of the Revised Code that is scheduled to take effect January 1, 2010, to continue the provisions of this act on and after that effective date and to make appropriations.

Current Status: 11/5/2009 - Senate Finance and Financial Institutions, (Second Hearing)

Comments: None

SB193 **TAX CREDIT FOR HIRING UNEMPLOYED** (GIBBS, B) To authorize a $2,400 income tax withholding credit for an employer that hires and employs a previously unemployed individual.

Current Status: 1/20/2010 - Senate Finance and Financial Institutions, (Second Hearing)

Comments: None

SB198 **TAX CREDIT FOR CERTAIN DEGREES** (SCHIAVONI, J) To grant an income tax credit to individuals who earn degrees in science, technology, engineering, or math-based fields of study and to authorize municipal corporations to grant a credit to individuals qualifying for the state credit.

Current Status: 12/2/2009 - Senate Ways and Means and Economic Development, (First Hearing)

Comments: None

SB221 **PROPERTY TAX EXEMPTION** (MORANO, S) To authorize property tax exemption for municipally owned facilities housing independent professional minor league baseball teams.

Current Status: 2/24/2010 - Senate Ways and Means and Economic Development, (Second Hearing)

Comments: None

SB232 RENEWABLE ENERGY FACILITIES
(WIDENER, C) To exempt from taxation renewable energy facilities that are not financed through the Ohio Air Quality Development Authority and require a payment in lieu of taxes on the basis of each megawatt of production capacity in such facilities.

Current Status: 6/17/2010 - **SIGNED BY GOVERNOR**, eff. immediately

Comments: None

SB266 INCOME TAX RATE-CAPITAL GAINS
(SCHURING, K) To reduce the income tax rate on capital gains reinvested in Ohio-based investments.

Current Status: 5/25/2010 - Referred to Committee Senate Ways and Means and Economic Development

Comments: None

SB288 COMMERCIAL ACTIVITY TAX CREDIT
(KEARNEY, E) To authorize a commercial activity tax credit for underserved community grocery stores.

Current Status: 8/9/2010 - Introduced

Comments: None

SJR1 VETERANS' COMPENSATION (GRENDELL, T) To provide compensation to veterans of the Persian Gulf, Afghanistan, and Iraq conflicts.

Current Status: 3/3/2009 - **PASSED BY HOUSE**, Vote 92-3

Comments: None

OBM

Ted Strickland
Governor

J. Pari Sabety
Director

October 12, 2010

MEMORANDUM TO: The Honorable Ted Strickland, Governor
The Honorable Lee Fisher, Lt. Governor

FROM: J. Pari Sabety, Director

SUBJECT: Monthly Financial Report

This report contains information regarding Ohio's financial position through September 30, 2010 as well as highlights of regional and national economic indicators that are important to understanding the current state and direction of Ohio's economy.

Ohio's economy showed mixed signals during the month of September. Taxes performed better than estimated, and there was good year-over-year growth. Ohio's unemployment rate declined to 10.1%, the fifth monthly decline in a row. However, Ohio employment declined by 15,400 jobs, cutting the year-to-date gain to 32,800 jobs. Nationwide, private sector employment increased by 64,000 jobs, but government employment fell by 159,000 jobs, reflecting a loss of 77,000 temporary census positions and 76,000 state and local government positions. Leading economic indicators remain consistent with recovery, but illustrate a notable slowdown.

The U.S. economy maintains a pattern of slow, consistent recovery. Real GDP increased by 1.7% in the second quarter of the calendar year, the third consecutive quarterly increase. Many of the August numbers shed a hopeful light on the recovery. Personal income, wage and salary disbursements, and retail sales also saw increases during the month of August. However non-farm payrolls decreased by 95,000 jobs in September, and the unemployment rate increased from 9.5% to 9.6 percent.

During the month of September, Ohio's General Revenue Fund (GRF) tax receipts totaled $1,494.4 million, $56.2 million (3.9%) above the monthly estimate. General Revenue Fund tax receipts for the year-to-date total $3,997.7 million and are $248.2 million (6.6%) greater than the same point a year ago. For the second month in a row, Ohio has seen better-than-expected performance across most tax sources, and as a result, tax receipts for the first quarter of the fiscal year are $107.0 million (2.7%) above estimate.

September fiscal year 2011 GRF spending totaled $2,182.3 million and is $173.2 million (7.4%) below estimate for the month. On a year-to-date basis, total GRF disbursements are $33.8 million (0.4%) under estimate. This variance is attributable to under-spending in nearly every category of GRF disbursements.

ARRA Revenue and Disbursement Update. Attached to this report is an appendix detailing Ohio's monthly and cumulative receipts and expenditures of American Recovery and Reinvestment Act funds, including additional detail on State Fiscal Stabilization Funds (SFSF). Of the $8.2 billion that the state is expected to receive during this three-year program, approximately $5.2 billion has been received and $5.1 billion has been expended.

MONTHLY FINANCIAL REPORT
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ECONOMIC SUMMARY

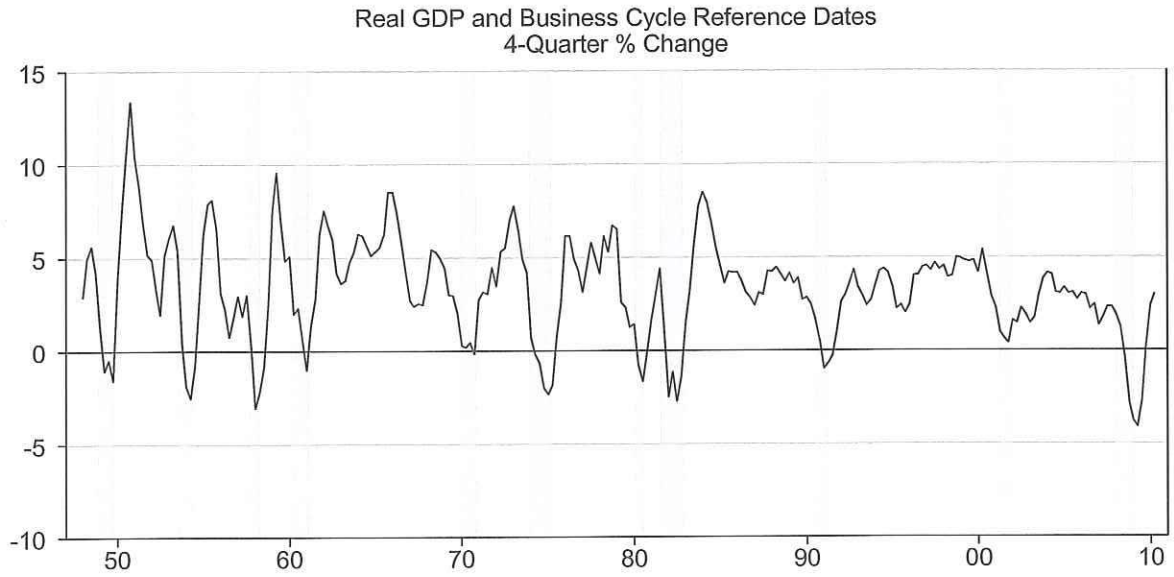
Economic Performance Overview

- Real GDP increased by a revised 1.7% in the second quarter after a 3.7% increase in the first quarter and 5.0% in the fourth quarter of 2009. The consensus for second-half growth is approximately 2%.
- Total employment decreased again in August due to the termination of temporary Census jobs. Private sector firms added modestly to payrolls. The unemployment rate increased from 9.5% to 9.6%, reflecting an influx of job seekers.
- Ohio employment decreased by 15,400 jobs in August, cutting the year-to-date gain to 32,800 jobs. Private sector payrolls decreased by 10,400 jobs, up 36,200 jobs year-to-date. The unemployment rate decreased for the fifth month in a row to 10.1%.
- Leading economic indicators remain consistent with continuing economic recovery both nationally and in Ohio, but point to a notable slowdown in the rate of growth nationally.

Economic Growth

The recession that started in December 2007 ended in June 2009, according to the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER). At 18 months, the 2007-09 recession was the longest since World War II, exceeding the 16-month recessions in 1973-75 and 1981-82 by two months. It was also the most severe, as measured by gross domestic product (GDP), which declined 4.1% from peak to trough. The next most severe contraction was the 1957-58 episode, during which GDP shrank by 3.7%.

The Committee bases decisions about the timing of turning points in the business cycle on the degree, duration and diffusion of increases and decreases in economic activity. In particular, the committee looks closely at personal income less transfer payments, real manufacturing and trade sales, nonfarm payroll employment and aggregate hours worked and industrial production.



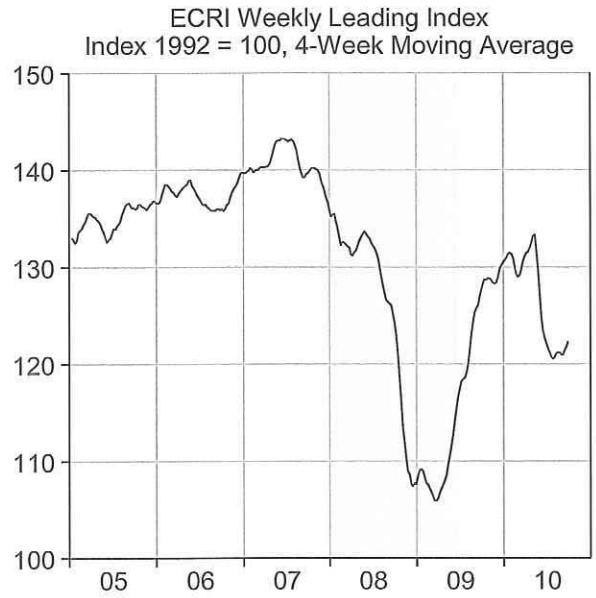
In a break from the past, the Committee also relied heavily on monthly estimates of gross domestic product (GDP) and gross domestic income (GDI) – the broadest measures of economic activity. Official data for both indicators are reported only on a quarterly basis, but credible monthly estimates are now available separately from an economic consulting firm and two committee members.

The Committee selected June as the trough for the cycle, because most of the indicators that it examines – especially the monthly estimates of GDP and GDI – reached their low points in that month. GDP and GDI are two sides of the same coin, because income exactly matches production. In practice, the two measures differ due to data availability.

By announcing the end of the recession, the Committee is saying that the economy has expanded by enough for long enough so that any new downturn would be considered a separate recession. The shortest expansion on record was the 12-month July 1980 to July 1981 episode, which occurred between the brief 6-month January 1980 to July 1980 recession and the long 16-month July 1981 to November 1982 recession. Expansions have lasted for an average of approximately five years during the post-war period.

A key point is that the Committee uses a specific definition of recession that refers to the direction and nature of economic activity, not its level. Many view the economy as still being in recession because of the low level of activity relative to potential, ignoring the fact that activity has been increasing for more than a year. The Committee's assessment is by necessity an historical exercise, which is useful to economists conducting business cycle analysis, but provides little, if any, information about the future path of economic activity.

The consensus among forecasters is that the economy will continue to muddle along at a sub-par pace, as measured by the *Blue Chip Economic Indicators* at the beginning of September. Real GDP is estimated to have increased at a rate near 2% in the third quarter, reflecting in part a surge in inventory accumulation that appears to have been involuntary. Growth is projected to continue at that pace in the fourth quarter and in 2011, rising to just above the higher end of the range by the end of the year.



The **Ohio Coincident Economic Index**, compiled by the Federal Reserve Bank of Philadelphia, decreased 0.1% in August – the first decline since August 2009. The 6-month rate of change slipped to 2.7% from the peak for this cycle of 3.1% reached in July. The year-over-year increase in August of 3.3% matched the best since June 2000.

The ECRI **Weekly Leading Index** (WLI) has turned up modestly in recent weeks, lifting the 26-week smoothed rate of change to -7.8% for the week ending September 24 from a low of

-11.0% on July 23. The growth rate of index has been negative for twelve weeks in a row on average in advance of the last seven recessions. Every time the growth rate has been this low in the past (dating back to 1968), the economy has been in recession.

The **Leading Economic Index** increased 0.3% in August after a 0.1% increase in July and a 0.2% decrease in July. The 6-month smoothed percent change decreased to 4.8% – the slowest since June 2009 – down from the peak for the cycle of 10.9% in March 2010. The index has traced out similar patterns following the initial burst of growth in the early years of past recoveries and is consistent with continuing growth at a slower pace.

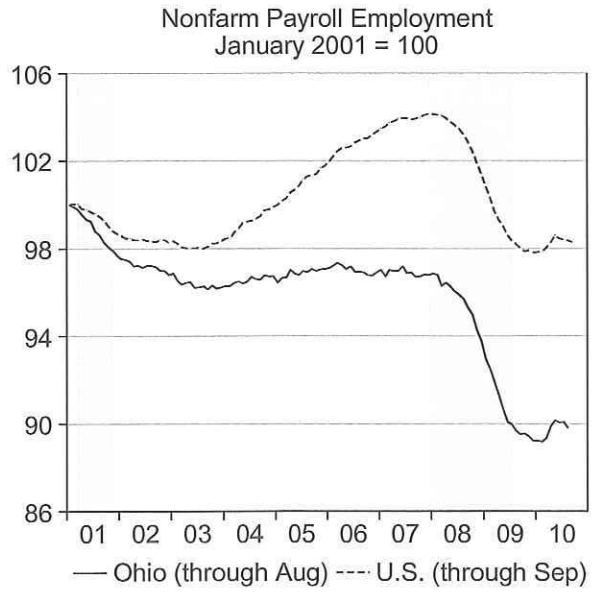
The **Ratio of the Coincident to Lagging Economic Index** – itself a leading economic indicator – decreased 0.2% in August for the third consecutive monthly decline. The 6-month smoothed rate of change fell to 2.0% from the peak for the cycle of 6.0% reached in December 2009 – the slowest rate of change since August 2009. The recent pattern of the ratio is consistent with a slowing in the rate of overall economic growth during the balance of the year.

The **Ohio Leading Indicator** also continued to trace out a pattern consistent with slow but continued growth. The index managed a tenth straight monthly gain in August, due to positive contributions from all of its components. Compared with a year earlier, the index was up by 2.1% – the fourth year-over-year increase in a row and the best since September 1999.

Employment

Private sector employment continued to grow slowly in September, rising by 64,000 jobs. Government employment fell by 159,000 jobs, largely reflecting the elimination of 77,000 temporary census jobs and 76,000 state and local government jobs, mostly in education.

In September, **total employment** decreased by 95,000 jobs, with gains and losses mixed across industries. The change in total employment was revised down by a total of 15,000 jobs in July and August. The share of industries reporting higher employment than a month ago fell to 50% – the lowest since January. The **unemployment rate** stayed at 9.6% in September.



Excluding the change in government jobs, employment increased by 64,000 jobs after increases of 93,000 jobs in July and 117,000 jobs in July. Private sector payrolls have increased by an average of only 96,000 jobs per month during the first nine months of the year. Manufacturing employment fell by 6,000 jobs. Construction employment increase by 21,000 jobs. Employment increased in professional and business services (+28,000), leisure and hospitality (+34,000) and mining (6,000).

The current recovery in labor markets is the weakest in many respects compared with other recoveries since World War II. Private sector employment, for example, has increased 0.8% since reaching its low for this cycle nine months ago, a bit less than following the 1990-91 and 2001 recessions and approximately one-fourth of the average increase during the previous recoveries.

Ohio employment decreased by 15,400 jobs in August, reducing the year-to-date total gain to 32,800 jobs. Private sector payrolls decreased by 10,400 jobs in August, cutting the year-to-date gain to 36,200. Ohio employment losses were concentrated during August in professional and business services (-8,800), manufacturing (-5,100), government (-5,000) and finance (-3,200). Employment increased in trade, transportation and utilities (+5,900), leisure and hospitality (+1,500) and other services (+1,300).

The unemployment rate edged down again in August to 10.1% from the high for the cycle of 11.0% in March – the seventeenth consecutive month at or above 10.0%. The unemployment rate had reached a cyclical low of 5.3% in April 2006.

Employment increased during the twelve months ending in August in Ohio and each of the **contiguous states**, except for Michigan, where employment fell marginally. The year-over-year comparisons have improved markedly from the lows reached in 2009. Employment increased 1.4% in Indiana, 0,7% in Kentucky, 0.4% in Pennsylvania, 0.3% in West Virginia and 0.1% in Ohio.

For the Ohio and contiguous state region, employment increased 0.4% during the same period, compared with a 0.1% increase for all states outside the region combined. August was the fifth month since November 2002 in which year-over-year growth in Ohio and contiguous state employment was greater than growth in the rest of the country.

Consumer Income and Consumption

Personal income increased 0.5% in August to 3.3% above the year earlier level. The gain followed a 0.2% rise in July and no change in June. Wage and salary disbursements increased 0.3% to 1.3% above the year earlier level. After adjustment for inflation, personal income increased 0.2% in August to 1.8% above a year ago and wage and salary disbursements increased 0.1% to 0.4% above a year ago.

The gap between growth in wage and salary disbursements and personal income reflects strong growth in federal transfer payments. Personal transfers increased 1.6% in August, largely due to emergency jobless insurance payments, and are up 7.9% from August 2009. Federal government support accounted for a record-high 20% of disposable personal income in August, compared with a previous peak in the mid-teens following the 1990-91 economic downturn.

Ohio personal income increased 4.0% at an annual rate in the second quarter, following gains of 2.9% in the first quarter and 1.6% in the fourth quarter of 2009. Compared with a year earlier Ohio personal income was up 2.0%. Wage and salary disbursements advanced 3.6% at an annual rate in the second quarter – the strongest quarterly pace since the first quarter of 2008.

Compared with a year earlier, Ohio wage and salary disbursements were higher by 0.6%.

Personal consumption expenditures increased by 0.4%, or 0.2% after inflation, for the second month in a row. **Retail sales** also increased 0.4% in August and were up 0.5% excluding sales at automotive dealers and at gasoline stations. Compared with a year earlier, consumption was up 2.7%, or 1.2% in real terms. **Chain store sales** increased 2.1% from July to August, according to the International Council of Shopping Centers. Compared with a year earlier, sales were higher by 3.2%.

The **saving rate**, which has been above 5% since November 2008, was little changed at 5.8%, reflecting concern about the outlook for the economy and efforts by households to strengthen their balance sheets. Despite the ongoing recovery in the economy, household net worth fell 2.8% in the second quarter, largely due to declines in stock prices as federal tax credits for first-time home purchases temporarily supported residential real estate values. Households pared back liabilities for the seventh consecutive quarter.

Consumer confidence remained stuck in low gear in September. The Conference Board index of consumer confidence fell to its lowest level since February, reflecting deterioration in expectations. Even after a substantial recovery from the extreme low in February 2009, the index of consumer expectations remains 30% below the level observed on average in recessions since the late 1960s. Consumer sentiment, as measured by the Reuters\University of Michigan survey, was little changed in September, but also remained below the average level observed in past recessions.

Manufacturing

Industrial production increased by 0.2% in August – the sixth increase in a row. The July increase was revised down by 0.4 percentage points to 0.6%. Revisions to May and June offset each other. Manufacturing output also grew 0.2% in August after a 0.7% increase in July. Total industrial production was higher by 6.2% from a year earlier – the eighth positive year-over-year comparison in a row, although down from the 8.2% year-over-year gain in July.

Gains in production were fairly broad-based. Two-thirds of industries reported higher production than a year earlier, with 58% reporting higher production than in July. The slower expansion of industrial production during August in part reflected the 5.0% decrease in motor vehicles and parts production that followed a 9.5% increase in July.

Production of high-technology goods increased 1.0% on the month following a 0.8% gain in July. Three industries of particular importance for Ohio – primary metals, fabricated metals and machinery – increased 1.0%, 1.2% and 0.4% in August.

Capacity utilization increased to 74.7% in August, up from the record low of 68.2% in June 2009. Even after the substantial recovery during the last fourteen months, however, capacity utilization is only 1.2 percentage points above the low reached in the 2001 recession and 4.0 percentage points below the low reached in the 1990-91 recession.

Information about where manufacturing is heading during the remainder of the summer and in the fall remains mixed. **Purchasing managers** at manufacturing firms reported less-widespread improvement in activity for the second month in a row in September. The overall index fell to its lowest mark since November 2009 – although remained consistent with growth – as reports of new orders, production, employment and other key components weakened.

Midwest manufacturing output fell 1.4% in August, due to a 6.9% drop in motor vehicle production, according to the Chicago Federal Reserve Bank. Production in the other three sectors – steel, machinery and resource – increased. Compared with a year earlier, Midwest manufacturing production was up by 8.6%, compared with a peak so far for this cycle of 13.8% in May.

Construction

Total **construction put-in-place** increased 0.4% in August, but the July decline was revised lower to -1.4% from the originally-reported -1.0%. Residential construction put-in-place was flat, following three large monthly declines, but declined excluding the poorly-estimated improvements category. Nonresidential construction put-in-place increased 0.6%. Compared with a year earlier, total construction was down by 10.0%.

Nonresidential construction put-in-place was boosted by gains in infrastructure categories and health care. Construction put-in-place declined in power (-2.6%), commercial (-2.2%) and communications (-1.8%). The **Architecture Billings Index** from the American Institute of Architects improved for the third month in a row in August, extending the uneven but substantial string of increases that began in February 2009. The Inquiries for New Work index also increased, as did the Billings Index for the Midwest.

Residential real estate activity continues to exhibit the aftereffects of federal incentives for home purchase and the housing bubble. **Housing starts** rebounded 10.5% in August, due to a 4.3% increase in single-family starts and a 32.2% increase in multi-family starts. On a 3-month moving average basis, single-family starts were down 1.6% and multi-family starts were up 9.1%. Even after the August gains, total housing starts were still lower than in 97% of all months since January 1959.

Ohio housing permits jumped 53.7% in July as activity rebounded from the swoon following the expiration of the tax credit program. Both single-family and multi-family permits increased. Total Ohio housing permits were 17.7% higher than a year earlier, but the 12-month moving

average of permits was still 6.8% below the year earlier level and the August level was still lower than the pace of permits in all but twenty of the 247 other months in the data set stretching back to January 1990.

Home sales rebounded in August after falling sharply in July, due to the expiration of tax credits for home purchase. Sales of existing homes increased 7.6%, but the level was the second lowest in the last dozen years, despite historically low fixed 30-year mortgage rates. Sales of new homes were flat in August, remaining at the all-time low. The forward-looking **pending home sales** index increased 4.3% in August on top of the 4.5% increase in July after falling a total of 31.9% in the two previous months to an all-time low in June.

Home prices decreased 0.1% in July, according to the S&P/Case-Shiller index for twenty large metro areas. Prices had declined modestly in February and March and more than recouped those declines in April, May and June. Home prices could be weaker than indicated, in part because the most recent data point precedes the expiration of the tax credit program.

Combined with still-high inventories of homes on the market, weak sales will maintain downward pressure on prices and construction. The number of both existing and new homes for sale decreased during August, but the number of months of homes offered for sale at the August sales paces remained very elevated.

REVENUES

During the month of September, **GRF receipts totaled $2,365.2 million** which was $85.7 million (3.8%) above the estimate. This positive variance was the result of better than estimated performance across the board as tax receipts, non-tax receipts, and transfers were above estimate. For the month, tax receipts totaled $1,494.5 million, which was $56.2 million (3.9%) above estimate, while non-tax receipts and transfers totaled $843.0 million and $27.8 million and were $13.6 million (1.6%) and $15.8 million (131.9%) above estimates respectively.

Category	Includes:	YTD Variance	% Variance
Tax receipts	Sales & use, personal income, corporate franchise, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, soft drink, alcoholic beverage, liquor gallonage, estate & horse racing	$106.9 million	2.7%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($101.5 million)	(3.9%)
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$9.4 million	21.7%
TOTAL REVENUE VARIANCE:		$14.7 million	0.2%

A second consecutive month of better-than-expected receipts across most tax sources resulted in a September performance that exceeded estimates by $56.2 million (3.9%). Combined with the positive August variance, tax receipts through the first quarter of the fiscal year are now $107.0 million (2.7%) above estimate. On a year-over-year basis, total tax receipts for September were $77.9 million (5.5%) greater than they were during the same month a year ago. For the year-to-date, tax collections in FY 2011 are $248.2 million (6.6%) higher than for the same period a year ago. The largest contributors to this year-over-year growth were the non-auto sales and personal income tax receipts which were 9.8% and 5.7% above those for the same month in 2009.

Individual Sources Above Estimate		Individual Sources Below Estimate	
Non-Auto Sales Tax	$18.9	Auto Sales Tax	($2.5)
Personal Income Tax	$22.2	Other Income	($3.9)
Corporate Franchise Tax	$5.9	Other Sources Below Estimate	($0.6)
Kilowatt Hour Tax	$3.5		
Foreign Insurance Tax	$1.5		
Cigarette Tax	$4.0		
Estate Tax	$2.6		
Federal Grants	$16.5		
Liquor Profits Transfer	$15.0		
Other Sources Above Estimate	$2.6		
Total above	**$92.7**	**Total below**	**($7.0)**

Non-Auto Sales and Use Tax

Following the positive performance in August, non-auto sales receipts totaled $510.5 million in September, exceeding the estimate by $18.9 million (3.8%) and exceeding last September's collections by $45.6 million (9.8%). For the first quarter of the fiscal year, receipts have exceeded last year by 10.7 percent.

Auto Sales Tax

September auto sales tax receipts totaled $82.6 million, which was $2.5 million (2.9%) below the estimate. On a year-over-year basis, this tax source experienced a decrease as September receipts were $10.0 million (10.8%) below those for the same month a year ago. OBM and the Department of Taxation believe that the negative performance of this tax versus estimate was the result of the impact the "Cash for Clunkers" program had on last September's revenues. The shortfall should be balanced out over the next couple months.

Personal Income Tax

Personal income tax receipts totaled $781.1 million in September, exceeding the estimate by $22.2 million (2.9%). Withholding continued to be the major contributor with a variance of $19.3 million (3.4%) above estimate. However, some of the overage in withholding may be due to timing at the end of the month accelerating some income into September from October. Thus, there may be a corresponding shortfall in October. Refunds also contributed to the monthly variance and were $2.5 million (9.9%) below estimate.

On a year-over-year basis, personal income tax collections during this first quarter of fiscal year 2011 were $86.9 million (5.0%) above the corresponding level in fiscal year 2010. Again, employer withholding was the main contributor as it accounted for $83.0 million (5.0%) of this growth during the quarter. The first quarterly estimated payments of this fiscal year also

experienced growth of $11.1 million (4.6%) over the previous year, thus indicating the possibility of sustained positive trends in the coming months.

FY2011 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	ESTIMATE SEP	ACTUAL SEP	$ VAR SEP	ESTIMATE Y-T-D	ACTUAL Y-T-D	$ VAR Y-T-D
Withholding	$573.6	$592.9	$19.3	$1,698.4	$1,737.8	$39.4
Quarterly Est.	$227.9	$228.2	$0.3	$249.7	$253.1	$3.4
Trust Payments	$4.3	$4.9	$0.6	$5.6	$5.8	$0.2
Annual Returns & 40 P	$21.1	$21.1	$0.0	$38.0	$36.2	($1.8)
Other	$5.9	$7.3	$1.4	$20.4	$21.1	$0.7
Less: Refunds	($25.3)	($22.8)	$2.5	($83.3)	($83.9)	($0.6)
Local Distr.	($48.6)	($50.5)	($1.9)	($156.6)	($159.6)	($3.0)
Net to GRF	**$758.9**	**$781.1**	**$22.2**	**$1,772.2**	**$1,810.5**	**$38.3**

Corporate Franchise Tax

Corporate franchise tax receipts for the month of September were $5.9 million. The expectation was that the refunds would equal the collections leaving the net receipts as zero. This is the first quarter following the complete phase-out of this tax, except for financial institutions.

Commercial Activity Tax

In FY 2011, receipts from the commercial activity tax (CAT) will continue to be distributed to non-GRF funds to reimburse school districts and local governments for the phase-out of the tangible personal property tax. During the month of September, CAT receipts totaled $7.2 million (1.4%) above the monthly estimate. Through the first three months of the fiscal year, total CAT receipts year are $354.1 million (5.9%) above the year-to-date estimate.

Kilowatt Hour Tax

Kilowatt-hour tax receipts during the month of September totaled $20.7 million, which was $3.5 (20.3%) above the monthly estimate. This variance indicates a rebound in the demand for electricity driven perhaps by a combination of hotter-than-normal weather during the summer of 2010 and growth in demand from an increase in overall economic activity.

Cigarette Tax

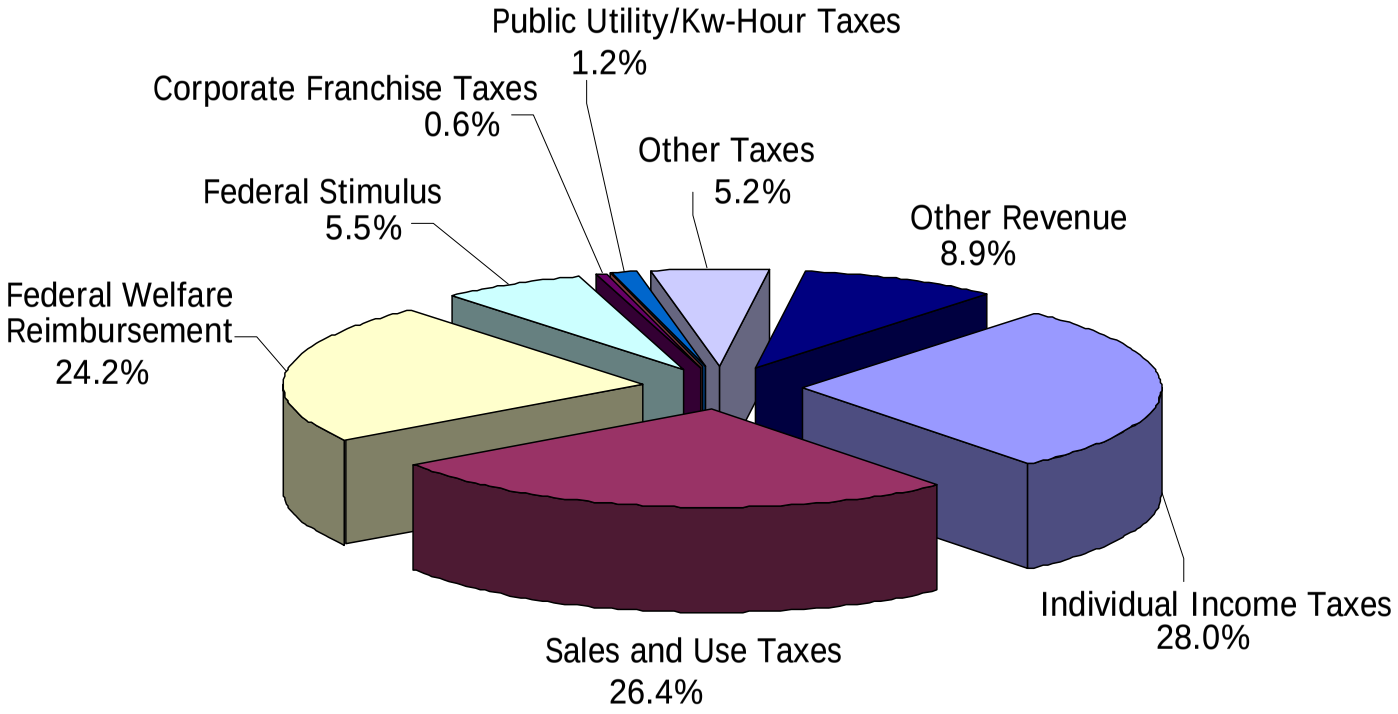
Cigarette tax receipts during the month of September totaled $76.2 million, which was $4.0 million (5.5%) above the monthly estimate. As a result of this month's positive variance, the cigarette tax is now $9.6 million (6.0%) above estimate through the first quarter of the fiscal year. On a year-over-year basis, cigarette tax receipts were $4.5 million (5.6%) lower this month than the same month a year ago, while year-to-date collections have decreased by $10.3 million (5.7%).

GRF non-tax receipts totaled $842.9 million in September, with the performance coming in $13.6 million (1.6%) above estimate. Most of that variance is due to federal grants exceeding estimates by $16.5 million, or 2.0 percent. **GRF transfers** during the month of September totaled $27.8 million and were $15.8 million (131.9%) above the estimate. As discussed in the September 10th monthly report, the variance in transfers is due primarily to the delay in the processing of a liquor profits transfer from August of $12.0 million which posted to September.

Estimated GRF Revenue, FY 10/11

includes federal reimbursement & federal stimulus deposited to GRF

Total Revenue = $56,181.2 million



Estimated GRF Revenue, FY 10/11

includes federal reimbursement & federal stimulus deposited to GRF

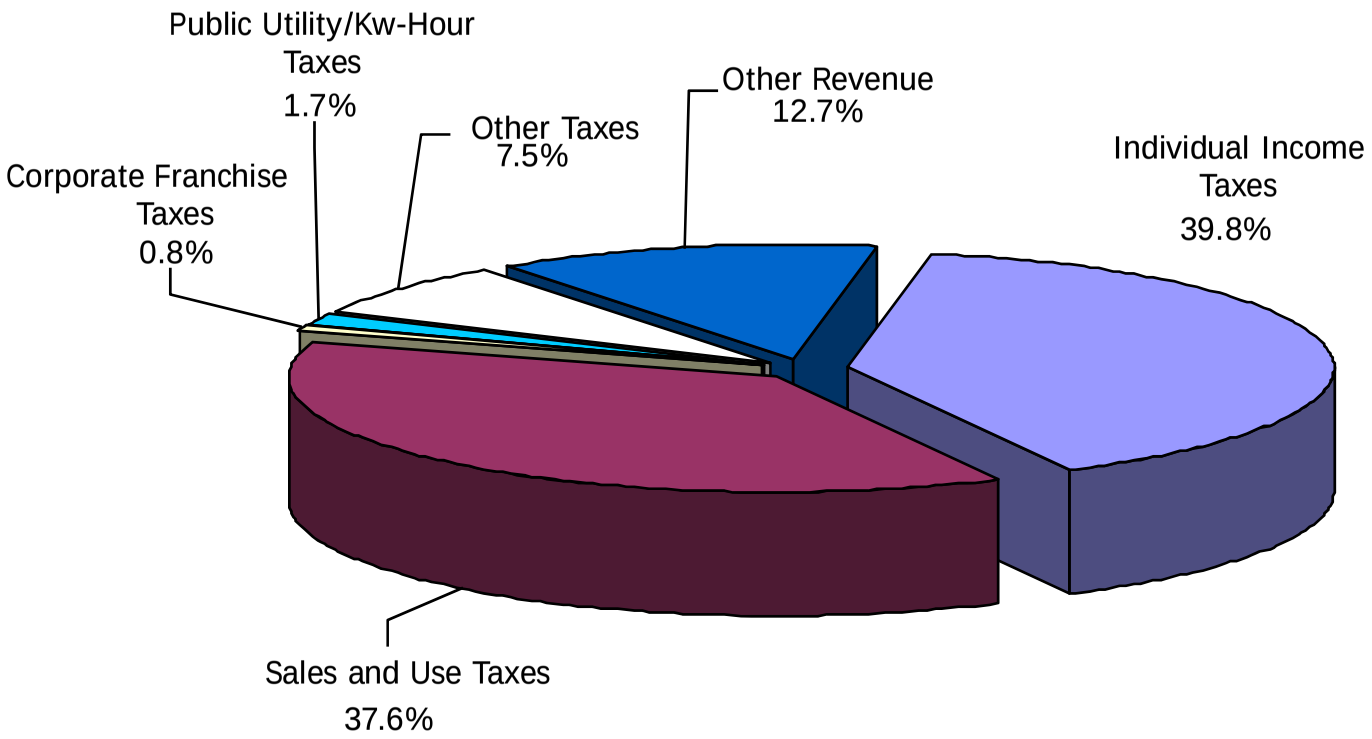
Revenue Source	FY 2010	FY 2011	Total
Individual Income Taxes	$ 7,979.1	$ 7,730.8	$ 15,709.9
Sales and Use Taxes	$ 7,263.8	$ 7,581.5	$ 14,845.3
Federal Grants & Reimbursement	$ 6,386.4	$ 7,187.5	$ 13,573.9
Federal Stimulus	$ 1,387.1	$ 1,707.3	$ 3,094.4
Corporate Franchise Taxes	$ 163.0	$ 169.7	$ 332.7
Commercial Activity Taxes	$ -	$ -	$ -
Public Utility/Kw-Hour Taxes	$ 333.5	$ 330.2	$ 663.7
Other Taxes	$ 1,479.3	$ 1,465.7	$ 2,945.0
Other Revenue	$ 1,890.6	$ 3,125.7	$ 5,016.3
Total	**$ 26,882.8**	**$ 29,298.4**	**$ 56,181.2**

Note: In millions
Numbers may not add to total due to rounding

Estimated GRF Revenue, FY 10/11

excludes all federal resources deposited to GRF

Total Revenue = $39,512.9 million



Estimated GRF Revenue, FY 10/11

excludes all federal resources deposited to GRF

Revenue Source	FY 2010	FY 2011	Total
Individual Income Taxes	$ 7,979.1	$ 7,730.8	$ 15,709.9
Sales and Use Taxes	$ 7,263.8	$ 7,581.5	$ 14,845.3
Corporate Franchise Taxes	$ 163.0	$ 169.7	$ 332.7
Commercial Activity Taxes	$ -	$ -	$ -
Public Utility/Kw-Hour Taxes	$ 333.5	$ 330.2	$ 663.7
Other Taxes	$ 1,479.3	$ 1,465.7	$ 2,945.0
Other Revenue	$ 1,890.6	$ 3,125.7	$ 5,016.3
Total	**$ 19,109.3**	**$ 20,403.6**	**$ 39,512.9**

Notes: In millions
Numbers may not add to total due to rounding

The Ohio Commission on Local Government Reform and Collaboration Committee Recommendations
by
Larry Wolpert

Case for Recommendations:

Ohio's forms of local governments were established over a hundred years ago when the United States was in the height of the manufacturing age. At that time Ohio was one of the wealthiest states in the country. In the new Globalization age where goods can be manufactured anywhere in the world where costs are lower, Ohio has become a poor state and does not have the resources to support duplicate local government services.

Recommendation:

Many states have faced this issue of duplicate government services and have implemented legislation to find ways to reduce duplication and costs. The one that I found the most interesting was the **Georgia Service Delivery Strategy Act of 1995.** The act forced all local governments within a county to come up with a plan to reduce duplication of services and therefore costs. The Georgia Act would not exactly fit Ohio, but I would like to propose variation of it for Ohio.

I proposed the Ohio General Assembly pass a bill that would establish in each county a **Local Government Services and Collaboration Commission**. The commission members would be the County, each City, Village and township. It would also include any governmental organization, excluding schools, that receive revenue through property tax or a county sales tax. The commission would be required to:

1. Identify all local government services provided by the local governments and entities within the county.

2. Develop a strategy to eliminate the duplicate services provided.

3. Develop a strategy to consolidate similar services provided by local governments.

4. Develop a binding implementation plan for the strategies with a timetable.

5. Complete a plan within two years of the passage of the bill and reinstitute the commission every 10 years for review and modification.

6. If a Service and Collaboration plan was not generated by the deadline, State Government Funds and would be withheld from all entities in the county.

7. All local government entities must vote on the plan by there elected officials or boards. In order for the county plan to pass, 95% of the local governments and governmental organizations must vote for the plan. The entities that did not vote for the plan would not be eligible for any form of state funding.

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A Time for Pragmatism

The magnitude of the structural deficit presents elected officials with their worst nightmare: the "unthinkable" prospect of having to ***both increase taxes and cut spending*** on public services. Enormously challenging in itself, this will be all the more difficult in the ideologically charged political climate of recent years. The rancor and ill feeling accompanying the "culture wars," stoked throughout each day by a 24/7/365 news cycle, present the prospect of gridlock in addressing the uncertain, lingering, and evolving effects of a fundamental shift in the economy, and a crisis of the first order in state finance.

We simply cannot afford for such gridlock to set-in, and so our discussion of alternatives begins with an affirmation of more dominant, if less dramatic, tendencies in our political tradition: moderation of spirit and tone, and pragmatism in solving complex problems. It is not enough that we arrive at these by default, only after acrimonious political strife leaves those still standing tired, bruised, and ready to find any expedient way out. The resulting susceptibility to cynical deal-making is to be equally feared.

Rather, this is a time when affirmatively embracing pragmatism in its highest sense – the pragmatism that brought the nation and state through wars and economic turmoil in earlier generations – has the potential to coalesce around the political center the will and capacity to align initiatives in the public and private sectors, from the halls of power to the communities in which we live. Essential to such pragmatism are toleration of alternative points of view, and moderation in pressing agendas. Clearly, nobody yet has a satisfactory, comprehensive understanding of the changed state of our economy; just as surely, nobody could possibly have the definitive solution to how state government should address it. In the words of William James, "…success in solving this problem is eminently a matter of approximation."[18] And in the equally apt words of former Ohio Lieutenant Governor, and Ohio House Finance Chair Myrl Shoemaker, "sometimes we have to rise above our principles."

The Center for Community Solutions

Our political institutions, separating functions and powers vertically in the federal system and horizontally among the three branches, are uniquely suited to force deliberation in response to rising popular tides, whether from the political left or right. They are also well suited to incrementalism – arriving at proximate solutions amidst uncertain or conflicting economic and social changes. Deliberations addressing the economic shift will – must – continue for years to come, and incremental approaches will be necessary expedients, in Ohio's Statehouse as elsewhere. The opportunity immediately before us is one of building consensus from the creative chaos of a free society. It is toward such a consensus that the framework suggested below is offered.

The Center on Budget and Policy Priorities (CBPP) has suggested such a pragmatic paradigm for addressing state fiscal crises across the nation. As presented by Senior Advisor Iris J. Lav, it includes multiple strategies, from improving tax collections and judiciously using "rainy day" funds, to improved efficiencies, reducing tax expenditures, and carefully considering the long-term implications of short-term decisions.

> "When states face a deficit, an across-the-board reduction in spending is often the first response that comes to the minds of policymakers. But…states in fact have a far wider range of policy choices they can employ to close deficits and maintain important services — the need for which grows even as revenues falter. Many of these budget-balancing policies do far less damage than budget cuts do to state economies. Some have the added advantage of strengthening the long-term fiscal situation of the state — beyond the immediate need to achieve a balanced budget this year or next. The key is to construct a balanced approach to state budget balancing, instead of overly relying on spending cuts. The enormity of deficits in many states suggests that no one strategy can be sufficient on its own to fully close deficits. By using a balanced approach, states can minimize harm to the individuals, families, and businesses that depend on state services, and can also avoid further damaging economies already made fragile by the pressures of a recession."[19]

In light of the extensive use of one-time revenues and savings during the current budget, exhaustion of the state's Budget Stabilization Fund, and the evolution of tax and spending policy over the past three decades, this "***balanced approach***" in Ohio might be reduced to a three-part strategy, utilizing a combination of:

- **tax increases,**
- **reductions in tax expenditures, and**
- **reductions in programmatic expenditures**.

While the term "tax expenditures" may be unfamiliar, their existence and significance are quite familiar indeed. More generally, and pejoratively, described as "loopholes" or "tax breaks," they may be defined as a loss of tax revenue attributable to an exemption, deduction, preference, or other exclusion from tax law. By treating some taxpayers differently than others – for example, by treating the same type of income of some kinds of businesses differently than others – they provide publicly financed benefits, or expenditures, similar to those provided by education subsidies, public parks, fisheries, or agricultural research, to name but a few.[20]

The discussion that follows summarizes the fiscal impact of specific options within this three-part framework, with the aim of identifying measures that in various combinations would yield ***about one-third of the projected $6 to $7 billion biennial deficit in each category***. Throughout, consideration has been given to both the short-term impact on people and businesses, and implications for the future prosperity of the state.

Because of the importance of aligning tactical, or short-term, decisions with longer-range strategic considerations, this is followed by:

- a discussion of several areas where state-supported programs are in a *critical* state, or where investments of new dollars have the potential of reducing long-term costs, that in our estimation deserve consideration during the next biennium; and

- several initiatives that would not significantly affect revenue or expenses during the next biennium, but would contribute to aligning tactical decisions about state finances during the 2012 – 2013 period with long-term strategic considerations.

Tax Increases

There are reasonable approaches to increasing revenue that in various combinations would close about one-third of the structural deficit, beginning with revisiting the 2005 tax changes which lowered overall income tax rates from levels put in place with bipartisan support in the early 1990s. While restoring earlier income tax rates would alone erase about half of the structural deficit, doing so would increase taxes for the majority of Ohioans whose middle-class incomes have been compromised by decades of downward pressure on their incomes. However, returning to the former upper bracket rate of 7.5 percent for those whose incomes have outpaced the vast majority of Ohioans, would affect just over 2 percent of taxpayers, while raising $448 million annually.

Concurrently, consideration might be given to mitigating the regressive effects of Ohio state and local taxes by increasing the amount that households can make before owing state income tax. Ohio's threshold now is $10,000. Raising the threshold to $15,000, which would benefit about 430,000 Ohioans, would result in an offsetting revenue loss of about $38 million per year. This might be complemented by adopting a refundable state Earned Income Tax Credit, struc¬tured like the federal EITC. As proposed by the nonprofit Policy Matters Ohio, setting a refundable EITC at 5 percent of the federal program would be an effective way to help working families rise out of poverty. The annual cost would be about $75 million. Twenty-four states plus the District of Columbia already have such a credit in place.[21]

The imbalance between business and individual taxes also might be addressed in a revenue package. Currently, the rate on the CAT is set too low to reimburse schools and local governments for the full amount of lost tangible property tax revenue. The resulting drain on the General Revenue Fund during the next biennium is estimated to be $322 to $438 million, far short of even beginning to replace lost revenue from the former corporate franchise tax. Each 1/100 of 1 percent increase in the CAT would annually raise approximately $50 million. An increase of 0.08 percent would yield about $400 million *annually*, enough to cover the estimated cost of GRF subsidies to schools and local governments for loss of tangible personal property tax revenue, ***and*** return approximately $200 million per year to the GRF. Table 5 outlines some options for increasing tax revenue.

Table 5. Options for Increasing Tax Revenue (in $ millions)

Option	Annual Revenue Increase
Restore top 7.5 percent income tax rate for households with income over $200,000	$448

Option	Annual Revenue Increase
Reverse balance of the 21% cut to income tax rates	1,784
Raise CAT to 0.34 percent	400
Restore 1/5 of corporate income tax liability for nonfinancial corporations	250
Raise sales tax by ½ of 1 percent	675
Extend sales tax to live entertainment admissions	55
Offset for Raising Low-Income Credit for Income Tax from $10,000 to $15,000	(38)
Offset for Refundable EITC at 5 percent of Federal Level	(73)
ANNUAL NET REVENUE—**WITHOUT** LOW-INCOME CREDIT AND EITC OFFSETS	$ 3,612
ANNUAL NET REVENUE—**WITH** LOW-INCOME CREDIT AND EITC OFFSETS[22]	$ 3,501

Policy makers could also consider at least temporarily retain¬ing part of the income component of the corporate franchise tax. Forecasting revenue from the corporate franchise tax is difficult, because the amount of revenue depends on profits, and many corporations practice shifting their income among jurisdictions in order to receive the most favorable tax treatment. Nonetheless, it would be reasonable to expect that retaining one-fifth of the former rate would yield about $250 million per year through a temporary tax during the next biennium; depending on the performance of the CAT in an expanding economy, rates could be subsequently rolled back or eliminated in future biennia.

The sales tax also offers an alternative for raising revenue during the next biennium. Temporary sales tax increases have been adopted under governors and General Assemblies of both parties during recessionary periods. An increase of 1 percent would raise about $ 1.3 billion per year.

Reductions in Tax Expenditures

Ending various unproductive tax expenditures is anoth¬er essential tool for straightening out Ohio's finances. Estimated as part of each Governor's Executive Budget "Blue Book," state government loses over $7 billion per year to deliberately created deductions, credits, and exemptions for an enormous variety of special purposes. The "Blue Book" offers a definitive list of options for reducing tax expenditures sufficiently to cover about one-third of the structural deficit.

Closing any loophole is difficult because each has a particular rationale and specific interest group that will rise to its defense. Often, supporters of these exemptions justify them on the grounds of economic development and job creation. Equally often, the rationales are long on theory and short on measurable evidence. Usually embedded in the statutes of the Ohio Revised Code (ORC), they receive nothing like the routine periodic scrutiny given to programmatic expenditures in the biennial budget process. There is nothing in the realm of policy governing tax expenditures that is akin to the movement toward measurable outcomes in primary and secondary education, health care, or social services.

Long-term, the state would benefit by developing tools to evaluate and monitor these claims. One approach, suggested by the Ohio Society of CPAs regarding periodic review and "sunsetting" of state agencies and pro-

grammatic expenditures, could be applied to tax expenditures as well.[23] Such policies and procedures would assure a periodic demonstration of their benefits to the public and efficacy, while also evaluating their benefit relative to those of other tax and programmatic expenditures for which public revenue must be raised. Short of such measures, tax breaks will continue to stay on the books indefinitely without any proof of an enduring public benefit.

Considering specific options that might contribute to about one-third of the structural deficit, the sales tax alone has 54 exemptions that cumulatively reduce state revenues by approximately $5 billion annually. The largest of these is for machinery and other items used in manufacturing ($1.7 billion per year). Packaging equipment is also exempt from the sales tax, costing the state $230 million in foregone revenue each year. Telecommunications services provided by certain large call centers are also exempt, creating a loss of $21 million, as are sales of items to non-profit organizations, costing $347 million per year. Table 6 provides examples of lost revenue from a few tax exemptions.

Table 6. Selected Sales Tax Exemptions (in $ millions)[24]

Exemption	GRF Revenue Foregone FY 2011
Building and construction materials used in certain structures	$435.5
Tangible personal property sold to electricity providers	331.8
Tangible personal property used in research and development	32.6
Tangible personal property sold to providers of telecommunications services	88.6
Qualified tangible personal property used in making retail sales	35.3
Tangible personal property used in agriculture or mining	153.0
Discount for vendors for administering the sales tax	50.9

One of the fastest growing exemptions from the sales tax is for prescription medicines. The Tax Department estimates that the foregone revenue from this exemption will grow from $489 million in FY 2008 to nearly $700 million in FY 2011. The obvious rationale for this exemption is to avoid driving up medical costs for consumers who already face spiraling premiums and out-of-pocket expenses. This is an exemption that is common to most states. Yet as health care transactions become a larger portion of the economy, it is more difficult to justify exempting such transactions from taxation.

One way to balance these concerns—one that might equally pertain to other sales tax exemptions—would be to replace full exemptions with partial exemptions in the 60 to 80 percent range (i.e., reducing the exemption from the current rate of 5.5 percent to the 4 to 4.5 percent range). Illinois takes this approach to prescription medicines,[25] and a similar approach uniformly applied to Ohio's sales tax exemptions would yield a sufficient reduction in tax expenditures to itself erase one-third of the structural deficit. Doing so for prescriptions alone would raise over $120 million per year,[26] an amount that could help cover soaring Medicaid drug costs.

There are also many smaller exemptions that benefit a specific industry or group. For example, businesses or wealthy individuals that share ownership rights in jet aircraft do not have to pay more than $800 in sales tax, costing the state $1 million in foregone revenue annually. Equipment that is used in distribution centers that ship goods out-of-state is also exempt, costing another $4.2 million.[27]

Over time, as a growing economy increases tax returns, a wider base to the sales tax could allow reduction in the overall rate from its current level to 5 percent, or possibly even lower.

Table 7 provides a list of major taxes and the estimated annual cost of exemptions to state government for each. A more detailed listing is available in the 2010-2011 Executive Budget, Book 2, compiled by the Ohio Department of Taxation.

Table 7. Exemptions and Credits for Major Taxes, FY 2010-2011 (in $ millions)[28]

Tax	FY 2010	FY 2011	Number of Exemptions
Sales	$4,855.0	$5,010.9	54
Income	$1,744.6	$1,841.6	30
Corporate Franchise	182.6	191.5	3
CAT	456.7	481.6	17
Public Utility Excise	71.4	71.4	4
Kilowatt Hour	4.6	4.6	1
Insurance	13.7	13.8	3
Cigarettes & Tobacco	15	14.7	2
Alcoholic Beverages	1.5	1.5	4
Estate	99.1	99.1	4
	$7,444.2	$7,730.7	122

In addition to identifying tax expenditure reductions for the next biennium, the governor and General Assembly might consider including line items for tax expenditures in biennial budget legislation, and adopting a schedule for sunsetting the tax code provisions governing them on a rotating basis over two or three biennia. This would assure that they receive the routine legislative scrutiny that is applied to programmatic expenditures every two years, and that the burden of demonstrating their efficacy is placed on equal footing with education, public safety, civil defense, human services, parks, natural resources, and other programmatic spending.

Reductions in Programmatic Expenditures

If one-third of the biennial structural deficit, or $1 billion to $1.3 billion per year, is to be closed by reductions in programmatic expenditures, funding for human services will bear a significant share of reductions. In part, this is due to their share of total spending, representing as they do 46.3 percent of GRF outlays, and 44.1 percent of total state spending.[29] Not so simple is the implicit impact on federal financial support, and its implications: reductions in spending state matching dollars usually result in greater losses in federal matching revenue, particularly in Medicaid, the largest program in state government. More difficult still, reductions in spending on some health and social services, such as primary health care or protective services for children and older adults, often result in subsequently greater costs for treatment or remediation.

It is helpful to consider possible reductions in human service spending in the larger context of how basic human needs are addressed in the federal system. Notwithstanding the significant role that state government,

as well as Ohio's county governments and special purpose political subdivisions, plays in financing health and social services, the vast majority of health and social investments would be unaffected by reductions in state spending through the next biennium because of the dominant role of federal programs. Generally under the auspices of the Social Security Act, state-administered federal programs include:

- Unemployment Compensation (Titles III, IX and XII);
- Temporary Assistance to Needy Families (TANF - Title IV);
- Subsidies for child foster care (Title IV-E);
- Medicaid (Title XIX);
- Social Service Block Grant (Title XX); and
- State Child Health Insurance Program (SCHIP – Title XXI).

Other federally administered Social Security Act programs, together with other major federal programs, round-out the federal safety net, including the following:

- Old Age, Survivors, and Disability Insurance benefits (OASDI – the program we generally call "Social Security" but which is Title II of a much larger set of programs);
- Supplemental Security Income (SSI – Title XVI);
- Medicare (Title XVIII);
- Financial, educational, and health care benefits to veterans and their families;
- Earned Income Tax Credit (EITC);
- Food Stamps;
- Women, Infants and Children Nutrition Program (WIC);
- Child Care Block Grant, currently available in Ohio up to 150 percent of the poverty level;
- A variety of housing subsidies (public housing units, Section 8, Section 202, and Section 515 among others);
- Social service subsidies for older adults and people with developmental disabilities under the Older Americans Act and Developmental Disabilities Act;
- Subsidies for community health centers, vastly expanded by recently enacted health reform legislation; and
- Beginning in 2014, subsidies for private health insurance for working families.

However one views the adequacy, efficacy, or future prospects of the federal safety net, and however one views the fragile and complex weave of Ohio's human services network, the impact of including human services in state budget cuts would leave the vast majority of the safety net intact. While the impact on the status and prospects of individuals could be devastating, depending on what decisions are made (please note in this regard the discussion of mental health, alcohol, and drug addiction services below), an opportunity exists to strategically sort through Ohio's health and social service finances in the context of the larger federal system, targeting state (and local) dollars to where they are needed most. The long-term benefits of federal health reform alone might open significant opportunities to reduce state and local subsidies that currently cover gaps in the acute health care system.

Table 8. Ohioans Covered by Select Major Federal Safety Net Programs[30]

Federal Safety Net Programs	Number of Recipients
Population of Ohio - 2009	11,543,000
Medicaid	1,972,590 (17.1%)
Food Stamps	1,580,704 (13.7%)

Federal Safety Net Programs	Number of Recipients
TANF Cash Assistance	227,046 (1.9%)
WIC	303,679 (2.6%)
OASDI	2,021,874 (17.5%)
Medicare	1,830,807 (15.9%)

Looking beyond human services, it also would appear to be obvious that primary and secondary, and higher education would bear a significant portion of budget cuts, representing 35.8 percent of GRF and 23.15 percent of total state expenditures.[31] Yet, notwithstanding its relative decline as a share of state spending over the past 20 years, education remains the top priority of state government. Long established in the constitution as a fundamental purpose of state government, education remains the foundation of state policies promoting self-reliance, reducing dependence, building a strong and sustainable economy, and generally improving the quality of lives. Leaving aside the court orders, blue ribbon commissions, and the furious interest group politics of education finance, no stronger case can be made for shelter from budget cutting. Indeed, strong cases will be made for increasing spending in this sector, the weak and uncertain economy itself cited as a reason for doing so.

Several alternative approaches to achieving spending cuts of $1 billion-plus per year might be combined in various ways to cover one-third of the structural deficit.

- **Reductions in Medicaid.** The state has no option but to take an aggressive approach to containing Medicaid costs. The largest single program in state government, its rate of spending growth surpasses any other major program in state government, going from $6.6 billion in SFY 1999 to a projected $16.6 billion in SFY 2011, an increase of 152 percent. Its 14.65 percent average annual rate of growth from SFY 1999 to SFY 2005 declined dramatically to 3.8 percent per year in the three years immediately following the 2005 report of the Ohio Commission to Reform Medicaid. But since SFY 2007, the average annual rate or increase has crept back up to over 7 percent, and non-GRF Medicaid spending will have nearly doubled in the four years ending June 30, 2011.

  In all of the program's 45-year history, its costs have never declined from one biennium to the next, and there is little chance of that happening in the SFY 2012-2013 budget. However, establishing a firm target for limiting growth in Medicaid costs to levels experienced from SFYs 2005 through 2007 would reduce the structural deficit baseline estimate by $400 million over the biennium. This would leave reasonable room for the possibility of caseload growth, as well as federally mandated increases in primary care payments in the lead-up to full implementation of national health reform.

  Holding a firm line on inappropriate utilization and escalating reimbursement rates is essential, especially for hospitals and nursing homes under the fee-for-service portion of Medicaid. On the utilization side, arresting the silent but steady growth in admissions to nursing homes of non-elderly people with mental illness will significantly reduce costs and provide more appropriate service venues for thousands of patients. On the reimbursement side, any adjustments in the nursing home payment formula over the next biennium should be limited to improvements in the direct patient care component and held to strict budget neutrality across the system.

  In addition to the $400 million that could be culled from the biennial baseline deficit estimate through such systemic approaches, the following actions would yield about $380 million in additional reductions over two years:

- **Place a cap on hospital payments** by HMOs at Medicaid fee-for-service rates, and reduce capitation payments to HMOs by the current cost of excess payments. Estimated state share savings would be about $40 million per year.

- **Adopt a reduction in the 12.5 percent administrative allowance for Medicaid HMOs.** If this were set at the mid-point between the current HMO administration rate and the state government's long-standing administrative overhead of about 3 percent, or 8.25 percent, the state-share savings would be about $108 million per year.

- **Eliminate payments for Indirect Medical Education (IME) to teaching hospitals.** Driven by an old and arcane federal formula, but non-mandatory under federal regulations, the mechanics of and rationale for IME are inexplicable, in contrast with payments for Direct Medical Education (DME), which are specifically identified in provider cost reports, and may be documented. State-share annual savings in the fee-for-service component of Medicaid would yield about $21 million per year. A like amount could be deducted from the capitation rates paid to Medicaid HMOs, which include a factor for historical IME costs; in combination, annual state savings of $42 million could be achieved.

Even this aggressive approach to containing Medicaid spending, or another that pares $700 million to $800 million from the program's projected baseline 2012-2013 costs, leaves another $1.2 billion to $1.5 billion to be cut from other state spending in order to cover one-third of the overall structural deficit. In various combinations, the budget-cutting options discussed below could contribute the additional amount needed by balancing the burden between other major categories of state programmatic spending.

The first four sets of options are arrayed around groups of line items in the areas of human services; primary and secondary education; higher education; and general government (the line items included in each category are listed in the Appendix). Aggregate spending reduction targets in the range of 10 percent to 20 percent are estimated for each category. The difficult task of suggesting specific reductions in (or outright elimination of) line items is beyond the scope of this analysis, which has the more limited, if critically important, aim of conveying the scale of spending reductions that will be required. Useful recommendations for such detailed review may be found in the November, 2009 *Report to the Honorable Ted Strickland* of the Ohio Society of CPAs' Ohio Budget Advisory Task Force.[32] Following this general approach to setting programmatic spending targets, options for addressing several other major categories of state spending are discussed.

Recognizing and affirming the priorities of primary and secondary education, higher education, early childhood development, and state spending that draws federal matching funds, these options *exclude* (1) reductions in formula-based support to primary and secondary education (for instruction and transportation), state support of early childhood education and development,[33] and state support of local libraries; (2) reductions in formula-based support to colleges and universities and student financial assistance from the Ohio Board of Regents; and (3) line items primarily used to meet federal maintenance of effort requirements associated with federal funds. Additional exclusions and their rationale are noted where applicable.

- **Reduce Most State-Fund-Only Human Service Line-Items by 10 to 20 percent.** Selective or across-the-board reductions from SFY 2011 human service spending levels totaling 10 to 20 percent per year would produce savings of $112 to $224 million over the 2012-2013 biennium.

Table 9. Effects of Reductions to Selected Human Service Line Items – Biennium (in $millions)[34]

Percent Reduction to Selected Human Service Line Items	Projected Reduction from SFY 2011 Appropriations for 2012-2013 Biennium
10 percent	$ (112)
15 percent	(168)
20 percent	(224)

With some exceptions (see endnote for Table 9 and Appendix), Table 9 includes line items in the departments of Aging, Health, Job and Family Services, and Developmental Disabilities, but excludes the departments of Mental Health and Alcohol and Drug Assistance Services because of the critical condition of behavioral health services, discussed below.

- **Reduce Non-Formula and Non-Federal Match Subsidies for Primary and Secondary Education.** Selective or across-the-board reductions from SFY 2011 primary and secondary education spending levels totaling 10 to 20 percent per year would produce savings of $62 million to $125 million over the 2012-2013 biennium (see endnote for Table 10 and Appendix for description of estimate).

Table 10. Effects of Reductions to Selected Primary and Secondary Education Line Items – Biennium (in $ millions)[35]

Percent Reduction to Selected Primary and Secondary Education Line Items	Projected Reduction from SFY 2011 Appropriations for 2012-2013 Biennium
10 percent	$ (62)
15 percent	(94)
20 percent	(125)

- **Reduce Non-Formula, Non-Student Aid, and Non-Federal Match Subsidies for Higher Education.** Selective or across-the-board reductions from SFY 2011 higher education spending levels totaling 10 to 20 percent per year would produce savings of $41million to $82 million over the 2012-2013 biennium (see endnote for Table 11 and Appendix for description of estimate).

Table 11. Effects of Reductions to Selected Higher Education Line Items—Biennium (in $ millions)[36]

Percent Reduction to Board of Regents Line Items	Projected Reduction from SFY 2011 Appropriations for 2012-2013 Biennium
10 percent	$ (41)
15 percent	(61)
20 percent	(82)

- **Reduce General Government GRF Appropriations, Excluding Debt Service and Property Tax Relief.** As illustrated in Table 12, selective or across-the-board reductions from SFY 2011 appropriations for other state agencies, excluding spending for debt service, property tax relief (discussed separately below) and adult prisons (also discussed separately) totaling 10 to 20 percent per year would produce savings of $179 million to $359 million over the 2012-2013 biennium (see Appendix for detail on 2011 line items included in this estimate).

Table 12. Effects of Reductions to Selected General Government Line Items—Biennium (in $ millions)

Percent Reduction to General Government Line Items	Projected Reduction from SFY 2011 Appropriations for 2012-2013 Biennium
10 percent	$ (179)
15 percent	(269)
20 percent	(359)

- **Means Testing Subsidies for Property Tax Relief.** The State of Ohio spends about $1.6 billion each year to provide financial support to schools and other local taxing districts to offset the effects of three types of property tax relief for homeowners. These include:

    - 10 percent rollback for all residential property;
    - 2.5 percent rollback for owner-occupied property; and
    - Homestead exemption for senior citizens and disabled homeowners.

  While providing popular relief from regressive property taxes to millions of Ohio homeowners, these measures are themselves regressive, yielding generally greater benefits to those with greater wealth: the more expensive one's home (and in the case of the 10 percent rollback, multiple residential properties), the greater the tax relief. Recalibrating these programs on a progressive basis, for example by maintaining their full value for the first $150,000 (for the full appraised value), but reducing the rate of tax relief for more expensive properties, could be done in a manner designed to reduce spending in the same ranges modeled for human service and other state programs above. Reductions of 10 to 20 percent would yield from $320 million to $640 million over the biennium with no adverse impact on most homeowners.

- **Reductions in and Restructuring of Local Government Fund.** Ohio offers generous support from the GRF to county and municipal governments. Reducing these subsidies from the Local Government Fund (LGF) was cited in a 2009 Ohio Society of CPAs analysis of possible ways of addressing the structural deficit, and is expected to be included in forthcoming recommendations of the Ohio Local Government Commission.[37] A 10 to 20 percent reduction in the combined municipal and county shares of the LGF would produce savings of about $132 million to $264 million over the 2012-2013 biennium. An alternative that would produce biennial savings of about $103 million would be to eliminate the municipal government distribution from the LGF, the rationale being that Ohio is one of only a handful of states authorizing widespread use of the income tax by municipalities; of the 940 Ohio cities and villages receiving distributions from the LGF, 540 have municipal income taxes. (Ohio is unique in authorizing widespread sharing of its income tax base with both municipalities and school districts.)

  Yet another alternative would be to eliminate the LGF in its current form, replacing it with new, targeted Local Government Collaboration Grants (LGCGs) that reward voluntary consolidation, collaboration, and other efficiencies in local services among the 88 counties, 940 cities and villages, 1,308 townships, 613 school districts, and numerous special purpose political subdivisions, such as local boards of Health, boards of Alcohol, Drug Addiction and Mental Health Services, Children's Services boards, and Developmental Disabilities boards. Targeted first on helping local governments offset the loss of LGF funding, and designed to encourage local governments to develop efficiencies that fit the circumstances of their own communities, planning and start-up grants for collaborative initiatives could be structured to reward documented local savings. If funded at an annual level of $300 million (less than half of current LGF spending),

between 1,000 and 2,000 multi-year grant initiatives in the range of $250,000 could be active at any given time. Assuming state administrative costs of about 5 percent, a new grant program funded at this level and phased-in during the first year of the biennium as the LGF is phased-out, would cost about $470 million over the SFY 2012-2013 biennium, and produce GRF savings of about $517 million. Table 13 outlines several options for reducing distributions from the LGF.

Table 13. Effects of Alternative Reductions in Distributions from the Local Government Fund (in $ millions)[38]

Reduction to LGF	Projected Reduction from CY 2010 LGF Distribution for 2012-2013 Biennium (~$658 million)
Eliminate Municipal Government Distribution from LGF	$ (103)
Reduce LGF Distributions by 10 percent	(132)
Reduce LGF Distributions by 15 percent	(198)
Reduce LGF Distributions by 20 percent	(264)
Phase-out LGF Over 2 Years (SFY 2012 by 50 percent, SFY 2013 by 100 percent)	(987)
Create New Competitive LGF Supporting Efficiencies, Collaboration (@$250 million/yr. starting mid-SFY 2012)	470

- **Phase-in 10 Percent Reduction in Prison Population over Biennium.** While the number of Ohioans has grown by about 8 percent over the past 40 years, the prison population under the supervision of the Ohio Department of Rehabilitation and Correction (DRC) has grown from under 9,000 to more than 51,200, an increase well over 500 percent. Of this number, about 16,000 are held in minimum security. Leaving aside the present and future human costs, at an annual taxpayer cost of $25,300 per inmate, the cost-benefit ratio to society cannot possibly justify spending of this magnitude. In 2009 there were 25,031 admissions to DRC facilities and 26,211 releases.[39] Assuming (1) annualized savings of 75 percent of per prisoner costs, and (2) a 10 percent, or 5,000 prisoner, net reduction in the total prison population evenly phased between January, 2012, and June, 2013, the savings over the next biennium would be over $75 million. If the prison population were to stabilize at about 45,000, annual savings thereafter would be over $120 million.

A Balanced Approach—Two Scenarios

The revenue, tax expenditure, and programmatic expenditure options outlined above, while by no means exhaustive, are illustrative of the scope of policy changes required to erase the structural deficit during the next biennium. They may be combined in many ways to produce deficit reductions in the $6 billion to $7 billion range. Two examples are presented below, each of which:

- distributes the deficit reduction burden about evenly across the three categories (more tax revenue, reduced tax expenditures, and reduced programmatic expenditures);

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- **Drives jobs, capital and retirees out of Ohio**
- **Imposes a burden on your family**
- **Hits the middle class, homeowners, & farmers**

He Just Did It!

Lebron James Leaves Ohio
and saves $6-8 Million in Taxes

Dear Ryan,

States like Florida are cleaning our clock and taking away our talented high income residents with their low taxes and limited government. Ohio has to change its punishing tax policies that are driving people away and destroying our economy. To read more about the Economics of Lebron's decision--his $6-$8 million Tax Savings by moving out of Ohio--CLICK HERE for WSJ article.

According to Census Department figures on net domestic migration, a NET of 500,000 Ohioans have moved out of Ohio over the past 12 years! These include young college graduates seeking work, some of most productive and innovative business people and retirees.

By repealing Ohio's Estate Tax--*the worst estate tax in the USA*-- we start to reform Ohio and return it to a place of opportunity. Will you help us save Ohio by supporting our grass roots initiative?

1. Print our petition and gather signatures from friends, family and neighbors or make cash donations to us to make this bad tax go away.
2. Join our Elite 1000 and collect 100 signatures.
3. Forward this email to others.

Donate now to help end Ohio's estate tax
Donate

BEA TAX FIGHTER

Become one of the ELITE 1000

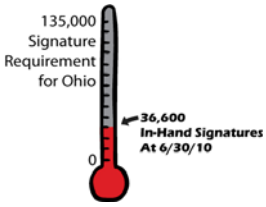
We are looking for 1000 people in Ohio to collect 100 Signatures.
Will you help us?
Click Here

Download Petitions

To Print Petitions and an Instructional Sheet Click Here

Learn More about this Harmful Tax

To Learn More About this Harmful Tax in Ohio. Click Here



For Talking Points about Ending Ohio's Estate Tax Click Here

For more information go to: www.endohioestatetax.com
For supplies or questions contact: gbell@endohioestatetax.com
Paid for by Citizens United to End Ohio's Estate Tax, William Curlis, Treasurer, 865 Macon Alley, Columbus, OH 43206

The Ohio Manufacturers' Association
Economic Competitiveness
2010 Volume 8
68 of 74
Retooling OHIO
A bulletin for leaders on policy issues critical to Ohio manufacturers

THE POLICY POINT: *A Competitive Ohio Tax System*

Few people would dispute that tax policy has a major impact on a state's business climate and ability to stimulate investment, growth and job creation. But, it can be difficult to reach consensus on exactly how favorable or unfavorable a given state's tax policies are. There is no shortage of reports, statistics and rankings on the subject – however, they do not always yield the same conclusions.

The purpose of this edition of Retooling Ohio is to help inform tax policy discussions among leaders in Ohio. To develop informed views on appropriate tax policy strategy, it is useful to study history and context. To that end, this document provides three things: (1) a brief history of key Ohio tax reforms implemented over the last several years, (2) an overview of recent analyses of Ohio's tax policies compared to other states, and (3) a discussion of major tax policy concerns and priorities.

A Snapshot of Recent Major Tax Reforms in Ohio

In June 2005, the Ohio General Assembly approved a landmark tax reform package (HB 66) that represented a major overhaul of state tax policy. Prior to HB 66, Ohio's tax code was widely regarded to be outdated – and in particular, a disincentive to new investment and unfair in favoring some industries over others.

The reforms approved in 2005 were designed to achieve the following objectives:

- **Reduce overall tax rates** (for businesses and individuals) to make Ohio more competitive for investment and talent
- **Eliminate tax on investment** to spur innovation, growth and job creation
- **Broaden the tax base** to treat similar businesses in a similar fashion and spread the tax burden more equitably among all sectors of the economy
- **Provide more stable, predictable revenues** for essential state programs and services
- **Simplify compliance** with state tax requirements

The underlying economic strategy for the HB 66 reforms was to stimulate robust economic growth by eliminating obstacles to investment and capital formation. Reform advocates sought a system that would increase capital investment, gross state product, personal income and job creation – and that the resulting economic growth would generate increased tax revenues.
To realize this vision, HB 66 authorized the following structural changes to the state's tax system, which have been implemented over a five-year period:

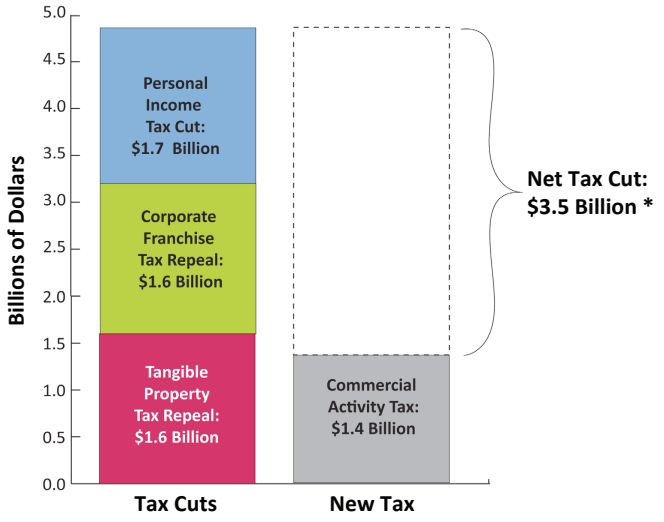
- **Phased out the tangible personal property tax** on most business inventory, manufacturing machinery and equipment, furniture and fixtures, long considered the most anti-competitive element of Ohio's tax system
- **Phased out the high-rate, narrow-based, loophole-ridden corporation franchise tax** on profits and net worth for most companies
- **Phased in a new Commercial Activities Tax (CAT)**, a broad-based, low-rate tax on gross receipts for virtually all types of businesses with annual gross receipts of $150,000 or more
- **Phased in a reduction in personal income tax rates** for all taxpayers, including owners of S-corporations, typically small businesses, who essentially pay their business tax through their personal income tax

continued inside

The only component of the 2005 reforms that has not been fully implemented is the final installment of the 21 percent personal income tax reduction that was being phased in over five years. The final 4.2 percent cut, scheduled to be implemented in tax year 2009, has been temporarily delayed by the Ohio General Assembly until tax year 2011 to help balance the state budget.

According to Ohio Tax Commissioner Richard Levin, HB 66's phased-in reforms resulted in a tax cut of $3.5 billion for FY 2010. When other HB 66 changes that took immediate effect are factored in (i.e., increases in sales and cigarette taxes, repeal of the business real estate tax rollback), annual tax savings for FY 2010 still total $2.1 billion.

HB 66's Phased-In Business Tax Reform Savings
$3.5 Billion (FY 2010)



Source: Ohio Tax Commissioner Richard Levin, presentation to Ohio Tax Conference, Jan. 28, 2010

Note: This chart shows the impact of phased-in business and personal income tax reforms provided under HB 66. When additional HB 66 changes that took immediate effect are also considered (increased sales tax and cigarette tax, repealed business real estate tax rollback), annual savings from HB 66 savings are $2.1 billion in FY2010.

Delaying Final Phase of Income Tax Best of Limited Options Available

As fallout from the nation's economic recession took its toll on state tax revenues, the already challenging job of balancing Ohio's state budget became even more difficult. From 2007 well into 2009, spending cuts helped keep the budget in balance. In September 2009, however, an Ohio Supreme Court ruling effectively prevented the state from using video lottery revenue in the FY 2010-11 biennial state budget – a ruling that created an $850 million hole.

That hole was plugged, and the budget was balanced, by policymakers' decision to temporarily delay implementation of the final 4.2 percent of the 21 percent reduction in personal income tax that HB 66 had been phasing in over five years. In the absence of any serious or viable alternative, the OMA – together with many other major statewide business organizations and most major daily newspaper editorial writers who had joined us in supporting HB 66 back in 2005 – reluctantly supported HB 318, the budget corrections bill, which delayed the final installment of the income tax reduction.

The OMA's position was simple: Balancing the state budget – as Ohio law requires – by temporarily postponing the last scheduled part of the of HB 66's phased-in income tax reduction was the best of the limited and difficult policy options available. Our support for HB 318 was qualified, however, and contained a clear directive to Ohio's elected leaders to turn their focus going forward to cost-down activities that improve efficiency without compromising value.

Clearing the Air Surrounding Ohio's Tax Policy Climate

So, where does Ohio stack up compared to other states in the region and nationally?

A frequent source of criticism of Ohio's tax code is the Washington D.C.-based tax research group called the **Tax Foundation**, which attracts much attention each year with the release of its annual State Business Tax Climate Index (SBTCI). The SBTCI includes five component indices for corporate tax, individual income tax, sales tax, unemployment tax and property tax.

The group's 2010 report contends that Ohio's "high tax burden" and "unfriendly tax environment for business" are driving away investment, stunting growth and hampering job creation. According to the Tax Foundation, Ohio has the 7th-highest state and local tax burden in the country and one of the worst business tax climates in the nation, ranking 47th out of 50 states on the 2010 Index.

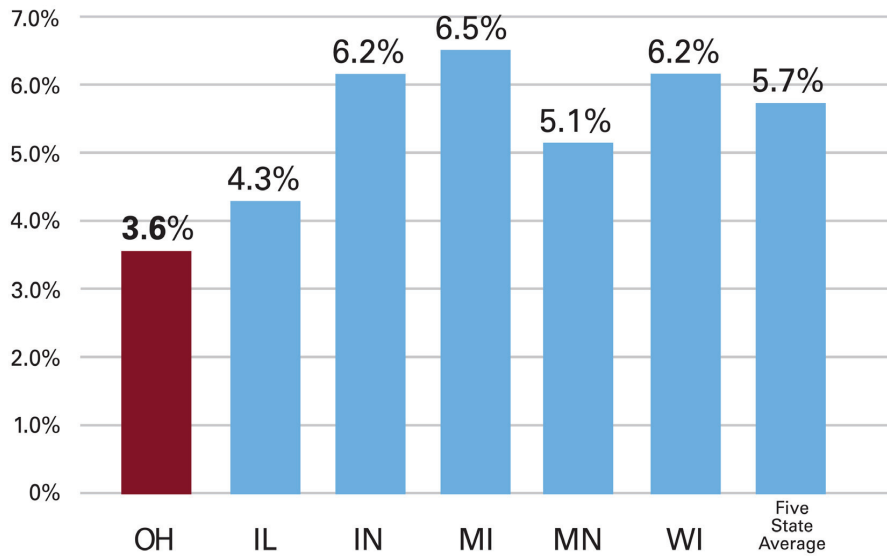
Other parties have taken issue with the Tax Foundation findings. **The Education Tax Policy Institute (ETPI),** for example, has concluded that the Tax Foundation's business tax climate index "provides a poor indication of Ohio's true tax situation." ETPI cites a number of shortcomings in the Tax Foundation methodology. For example, it focuses on tax structure rather than on measuring actual tax levels – so a state with a more attractive tax structure (in the Tax Foundation's eyes) but higher actual taxes may rank more favorably than a state with a less attractive structure but lower actual taxes.

Such is the case with Ohio. While Ohio's state tax burden on business is quite low after tax reform, the Tax Foundation's generally unfavorable ranking is due largely to its dislike of a gross-receipts-based tax structure such as Ohio implemented with the Commercial Activity Tax. Also, according to ETPI, the Tax Foundation index is "based wholly on subjective judgments" about the relative role of different tax factors.

The fact is, many other reports and data paint a considerably more favorable view of Ohio's business tax climate than the view advanced by the Tax Foundation. Consider the following examples:

- A January 2009 **Ernst & Young study of total state and local business taxes** found that Ohio ranked:
  - **20th best nationally** for business taxes as a share of total state and local taxes (FY 2008),
  - **18th best nationally** for business taxes as a share of private sector Gross State Product (FY 2008), and
  - **23rd most favorably nationally** for ratio of business taxes to government expenditures benefitting businesses (FY 2006).
- According to analysis conducted by Ernst & Young for the Ohio Business Development Coalition, Ohio has the **lowest effective tax rates on new capital investments in the Midwest.**

Effective Tax Rates on New Capital Investments



Ernst & Young analysis. The effective state and local tax rates (taxes divided by before-tax income) on new capital investments are calculated for four selected manufacturing industries (food processing, pharmaceuticals, electronic components, and motor vehicles) and three service industries (information services, computer services and research and development). The representative firms are multi-state companies selling primarily in regional national and international markets. The included state and local taxes are those imposed directly on a company's new capital investments (machinery, plant and equipment): corporate income and net worth taxes, property taxes, the sales tax imposed on the purchases of capital equipment and structures and the Commercial Activity Tax. The tax parameters for each state are based on the tax features scheduled to be in effect by 2010, the year that Ohio's tax changes are fully effective.

Is Tax Reform Working in Ohio?

It's reasonable to ask, "Are the HB 66 tax reforms working as intended?" The economic recession of the past two to three years makes it difficult – if not impossible – to assess the true impact of the reforms on Ohio's economy. The recession has almost certainly stunted some of the growth reform advocates expected to see. On the job creation side, for example, Ohio has seen a net loss of jobs since HB 66 was approved.

On the investment side, however, the picture is much more positive. In 2009, Ohio won *Site Selection* magazine's "Governor's Cup" for an unprecedented fourth consecutive year. The Governor's Cup is awarded annually to the state having the most major business expansions in the nation. Qualifying projects, which include new developments and expansions of existing companies, must involve at least $1 million in investment, 20,000 square feet of new work space and 50 new jobs. In 2009, Ohio led the nation with 381 projects meeting these criteria.

Considering that HB 66 has been phased in over five years, and keeping in mind the impact of the lingering national and state recession, Ohio manufacturers believe it's too early to draw definitive conclusions about the impact of the HB 66 reforms. They need to be allowed to come fully into force before we can accurately measure their true impact on the state's economy.

- The **Small Business & Entrepreneurship (SBE) Council's Business Tax Index** ranks states from best to worst regarding the cost of their tax systems on entrepreneurship and small business. In SBE's 2008 index, Ohio's state tax system ranked as the **14th best nationally.**

- In the **Anderson Economic Group's third annual State Business Tax Burden Rankings** (2008), Ohio tied for the **third-lowest business tax burden** as measured by business taxes as a share of profits.

- In March 2010, the **Federation of Tax Administrators** released an analysis of new data from the U.S. Census Bureau showing that **Ohio's state tax burden in FY 2009 was 16th lowest in the nation on a per capita basis** and **18th lowest when measured as a percentage of Ohioans' personal income.**

- According to the Ohio Department of Taxation, Ohio is **one of just 6 states** that do not tax corporate profits and **one of just 10 states** that do not tax business personal property.

This composite of data, which provides multiple perspectives on Ohio's overall tax climate, provides a more thorough view of the competitiveness of Ohio's revamped tax system than any single study can offer.

Notable Progress Made – And More Improvements to Consider

From manufacturers' perspective, the business tax climate in Ohio today is certainly more conducive to investment, growth and job creation than it was five years ago.

The tax cuts and reforms launched in 2005 have helped Ohio businesses boost productivity, reduce operating costs and maximize profits, while also rewarding entrepreneurialism. And the broad-based, low-rate Commercial Activities Tax has created an equitable and level playing field.

While Ohio's tax system has improved in recent years, there is plenty of room for additional improvement as well as a continuing need for vigilance to protect recent gains.

Tax policy priorities for the short term begin with **preserving the integrity of the 2005 reforms**. Ohio must adopt a zero-tolerance response to any efforts to (a) carve out exemptions or credits to avoid paying the CAT or (b) earmark any portion of CAT revenues for specific government services.

Efforts to avoid paying the CAT, whether via exemptions or credits, undermine the broad-base, low-rate philosophy that is key to the CAT's success. The more exemptions there are, the narrower the tax base will become. Increased stress on tax revenues will create pressure on policymakers to increase the tax rate to recover the lost dollars. As with exemptions and credits, earmarking any category of CAT receipts unfairly creates winners and losers and ties the hands of the General Assembly to engage in the normal give and take of the state budgeting process where competing interests are evaluated and spending priorities are established.

To date, efforts to weaken the CAT have been largely unsuccessful. Exemptions have been sought by the motor fuel industry and grocery industry, with the grocers' challenge being rejected by the Ohio Supreme Court. Such efforts will certainly continue in both legislative and judicial arenas. Thwarting these efforts must be a priority.

Additional tax policy priorities include the following:

- **Improve Ohio's tax appeals process** that, due to budget cuts and severe staffing cutbacks, has helped create such a backlog of cases at the Ohio Board of Tax Appeals that it now routinely takes two years to advance from the date of filing an appeal to the date of the first hearing. As the backlog of cases grows, collection of tax revenues slows because a taxpayer filing an appeal often is not required to submit payment until the case is resolved. Furthermore, this situation

Unemployment Compensation Amplifies Impact of Tax Burden

State policymakers evaluating the overall impact of Ohio's business tax burden should not overlook the impact of Ohio's mandatory employer-paid unemployment "tax." While technically an insurance premium, this is a government-imposed cost that all businesses are required to incur – and it increasingly is subject to rate increases.

For nearly a decade Ohio's unemployment compensation fund has paid out more than it has collected; by the end of 2010, it will be $3 billion in debt to the federal government. While the federal government has funded significant extensions in unemployment benefits, **the underlying structure of the state fund eventually will need to be addressed.**

The OMA has been working with state lawmakers in recent months to prevent unfunded new expansions of the unemployment premium. Without action by state leaders, the federal government will effectively force additional tax increases on employers, further illustrating the critical need to hold state business taxes in line.

has resulted in a downgrade in the Council on State Taxation rating of Ohio's appeals process and could lead to further downgrades in the future if the situation is not remedied.

- **Improve energy cost competitiveness** by (a) enabling multi-site industrial consumers to pool electricity consumption levels in order to qualify for self assessment of kWh tax and (b) lowering the self-assessment threshold to allow a broader group of industrial and commercial consumers to qualify.

- **Promote heightened public scrutiny of the trend of funding government programs with fee revenue** instead of general fund revenue to ensure transparency regarding the true cost of government and the rate of its growth. Protection of our environment and natural resources is of value to all Ohioans, but those state functions are now funded largely by fees or taxes paid by businesses. Additionally, the growing popularity of so called "public-private partnerships" frequently comes with new hidden taxes on businesses, shrouding the true cost of necessary public projects.

- **Improve efficiency and certainty in Ohio's business tax incentive process.** For Ohio to strengthen its ability to attract new investments and business expansions, the state's economic development process needs to be streamlined and assurances provided that incentives granted in writing will be delivered and not withdrawn due to state budget challenges. Additionally, Ohio should consider repealing the state's duplicative "look-back" audit and "accountability" program approved in 2009, which requires the Ohio Attorney General to pursue recovery from companies awarded government incentives but that have not achieved their growth targets – regardless of prevailing economic conditions. A "look-back" audit function already exists under the authority of the Ohio Department of Development, so a secondary audit for this purpose is redundant and unnecessary.

- **Eliminate Ohio's estate tax.** The estate tax serves as a disincentive to invest in existing businesses and as an impediment to the capital formation that is so vital to Ohio's economy. It has a potentially onerous impact on thousands of small- and medium-size family businesses; it burdens those individuals who create economic opportunities for their communities and want to be able to continue to do so; and it encourages tax avoidance strategies, diverting capital that could be used to acquire new technology or to create new jobs. The estate tax should be repealed.

- **Guard against trends to wholly exempt certain forms of energy generation from taxation.** Bipartisan legislation is pending in the Ohio General Assembly that would exempt wind and solar generation from Ohio's tangible personal property tax. Energy production is one of the few industries that remain subject to the tangible personal property tax. If policymakers choose to exempt any form of renewable energy generation from the tangible personal property tax, they also should insist that these industries be subject to the Commercial Activity Tax, like virtually all other business activity in our state, or to some other comparable business tax. Additionally, to the extent that the tax code is used to address energy policy, it is important to ensure that the state's tax policy priorities align with its energy policy priorities.

- **Streamline and simplify the sales tax.** Over time Ohio's state sales tax, much like the former corporate franchise tax, has become riddled with exemptions, carve-outs and credits. While some carve-outs have more merit than others (because Ohio needs to be competitive with other states' sales tax schemes), the resulting diminished sales tax base puts pressure on the remaining taxpayers – in other words, the tax rate must rise to make up for the exempted taxpayers. The time is right for a comprehensive examination of the state sales tax by lawmakers.

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An Imperative to Address Ohio's Structural Budget Deficit

Any discussion of the effectiveness of state tax policy must also acknowledge the critical need to take a close, hard look at state government spending practices. While the sluggish economy certainly has contributed to a decline in state tax revenues, compounding already limited budget-balancing options available to policymakers, the fact is Ohio faces a huge structural budget deficit in which state spending is dramatically out of balance with state revenue collection.

Ohio's most recent biennial state budget process was particularly sobering as a constitutionally required balanced budget was achieved only through a combination of painful cuts, depletion of the state's Rainy Day Fund, one-time federal stimulus dollars, delay of income tax rate reductions and the deferral of certain expenses to the next biennium. Most projections for the FY 2012-13 state biennial budget point to an expected deficit of $6 billion to $8 billion – a situation that will create enormous pressure to raise taxes, perhaps by rolling back some of the cuts achieved through HB 66.

A structural deficit of such magnitude will not be closed easily. Confronting this reality without derailing the progress brought about by the HB 66 reforms will require an honest, hard look at the spending side and – just as importantly – united, bipartisan support to reign

in unwarranted expansion of local government entities and services. Or, as a March 2010 editorial in the *Akron Beacon Journal* observed, "Such budget realities underscore the need for state and local governments to think more creatively about how they provide services."

Tackling the state budget's structural deficit problem will require a commitment from state leaders to seriously explore opportunities for consolidation of school districts, taxing districts, libraries and other local government entities. The 2010 Restoring Prosperity Report from the Brookings Institution and the Greater Ohio Policy Center noted that Ohio has more than 600 school districts and 3,800 cities, villages and townships, resulting in enormous – and costly – duplication of infrastructure, staffing and services. According to the report, Ohio has the ninth-highest local tax burden in the nation (compared to the 34th-highest state tax burden).

Manufacturers urge Ohio's elected leaders to commit to cost-down activities that increase efficiency without compromising value, while also protecting the state's most vulnerable citizens and maintaining the necessary investment in job creation. While there are many areas on the spending side that are important to manufacturers – e.g., education, infrastructure, workforce development – state leaders should strive to resolve Ohio's continuing budget challenges without sacrificing an economically competitive tax structure.

General Principles for Effective Tax Policy

For Ohio to be successful in a global economy, the state's tax structure must encourage investment and growth, and it must be competitive nationally and internationally. A globally competitive tax structure embodies the following characteristics:

- Certainty
- Equity/fairness
- Simplicity
- Transparency

Economy of collection and convenience of payment also are important considerations.

As a general rule, manufacturers support efforts to broaden the tax base, which enables lower rates. To preserve the integrity of the broad tax base and ensure fairness, credits and exemptions should be reduced and discouraged. Where needed, government incentives are better structured as grants than as tax credits. And, in general, earmarking and dedicating tax revenue should be discouraged.

Finally, good tax policy generates necessary revenues to support the essential functions of government. Good budgeting and spending restraint, at all levels of government, are vital to ensure a competitive tax environment.

The mission of The Ohio Manufacturers' Association is to protect and grow Ohio manufacturing. Through the OMA, manufacturers and manufacturing stakeholders work directly with the members of the Ohio General Assembly, state regulatory agencies, the judiciary community and statewide media with the sole focus of improving business conditions for manufacturers in Ohio.

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