Tax Committee
March 18, 2015

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2015 Tax Committee Calendar
Meetings will begin at 10:00 a.m.

Wednesday, March 18, 2015
Thursday, May 28, 2015
Thursday, October 15, 2015

OMA Tax Committee Meeting Sponsor:

McGladrey

OMA Tax Policy Committee
March 18, 2015

AGENDA

Welcome & Self-Introductions:	Michele Kuhrt, Chairman Lincoln Electric
House Bill 64 State Budget Discussion	OMA Tax Committee Members
Guest Speakers	State Representative Jeff McClain Chairman, Ways and Means Committee State Representative Ryan Smith Chairman, Finance Committee
OMA Counsel's Report	Mark Engel, Bricker &Eckler
OMA Public Policy Report	Rob Brundrett OMA Staff

Please RSVP to attend this meeting (indicate if you are attending in-person or by teleconference) by contacting Denise: dlocke@ohiomfg.com or (614) 224-5111 or toll free at (800) 662-4463.

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

Thanks to Today's Meeting Sponsor:

McGladrey

Representative Jeff McClain

87th House District

State Representative Jeff McClain is serving his third term in the Ohio House of Representatives for all the citizens of Wyandot, Crawford and Morrow counties and parts of Marion and Seneca counties.

Prior to his time in the House, Jeff was the Wyandot County Auditor for more than 26 years. He has served on many professional, community and faith-based boards over the years.

Jeff has a Bachelor of Business Administration in higher accounting from Tiffin University. While in school, he was a scholarship athlete competing in baseball and basketball for the Dragons.

In his tenure as a representative, McClain has been named a "Friend of Agriculture" by the Ohio Farm Bureau, awarded the "Watchdog of the Treasury" award in 2010 and 2012 by the United Conservatives of Ohio, and was named the "Elected Official of the Year" by the Ohio District 5 Area Agency on Aging, as well as the Ohio Association of Area Agencies on Aging.

The McClain family that Jeff and Barb are blessed with are Riordan and Sarah McClain, Chad and Mallory Guined, and Mackenzie McClain. There are also three lovely little granddaughters named Norah, Makaria, and Fiona.

The Ohio Statehouse Columbus, Ohio 43215 (614) 644-6265 rep87@ohiohouse.gov

Representative Ryan Smith

93rd House District

State Representative Ryan Smith was appointed to the Ohio House of Representatives during the 129th General Assembly. He represents the 93rd House District, which includes Jackson and Gallia counties, as well as portions of Lawrence and Vinton counties.

Upon obtaining his B.S. in Finance from The Ohio State University in 1995, Representative Smith worked for 10 years as a financial advisor with Advest, Inc. In 2005, he began working for Smith Financial Advisors of Hilliard Lyons, where he still serves as financial consultant, vice president and partner.

Representative Smith maintains an active role in his community through civic involvement. In the past, he has functioned as president of the Gallia County Chamber of Commerce and the Gallia County Community Improvement Corporation. Representative Smith is a former member of the Gallipolis City School Board of Education. In addition, he holds membership in the Gallia County Renewable Energy Committee and is active in his local church.

Representative Smith and his wife, Vicki, have been married for 15 years and are the proud parents of Grant, Blake, Kennedy and Camryn.

The Ohio Statehouse Columbus, Ohio 43215 (614) 466-1366 rep93@ohiohouse.gov

Representative Gary Scherer

92nd House District

State Representative Gary Scherer is currently serving his second term in the Ohio House of Representatives after being appointed to the 129th General Assembly. He represents the 92nd House District, which includes Fayette County, as well as portions of Pickaway and Ross counties.

Representative Scherer is a lifelong resident of Ohio. He attended Miami University and The Ohio State University, where he obtained a B.S. in accounting. Throughout most of his career, he has worked as a CPA. In addition to his career in public accounting, Representative Scherer has worked for a time as the president of Circleville Oil Company. He has also held majority ownership of Buckeye Tax Professionals since 1997.

Representative Scherer has always strived to remain active within his community. Prior to joining the Ohio House, Representative Scherer had served as president of the Circleville Rotary Club and the Circleville-Pickaway Chamber of Commerce. He also served as a trustee of the Berger Health System. Among other involvement, he continues to maintain his membership in the Ohio Farm Bureau, as well as his position as a finance committee member of his local church.

Representative Scherer and his wife of 38 years reside in Circleville. They have been blessed with three children and eight grandchildren.

OBM

March 10, 2015

MEMORANDUM TO: The Honorable John R. Kasich, Governor
The Honorable Mary Taylor, Lt. Governor

FROM: Timothy S. Keen, Director TK

SUBJECT: Monthly Financial Report

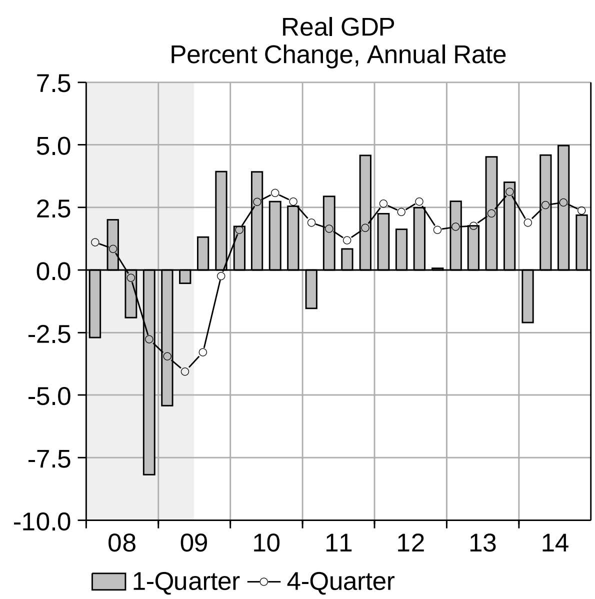
ECONOMIC SUMMARY

Economic Performance Overview

- Economic growth slowed to a 2.2% pace in the fourth quarter from approximately 4.8% during the middle two quarters. The economy expanded by 2.4% for the year.
- U.S. employment increased by a strong 295,000 jobs in February, although the gain in January was revised down slightly. The unemployment rate decreased to 5.5% – a new low for the expansion.
- Ohio employment increased by 25,100 jobs in January. Employment growth in 2014 was revised upward to 72,000 jobs. As of January, Ohio employment is higher by 396,100 jobs since the cycle low in February 2010. The unemployment rate held steady in January at a revised 5.1% – 0.6 percentage points below the national unemployment rate that month.
- Despite a softening recently in some measures of national economic activity, leading indicators remain consistent with uninterrupted growth at a moderate pace across the country and in Ohio.

Economic Growth

Real GDP growth in the fourth quarter was revised down from 2.6% to 2.2%. The economy expanded by 4.6% and 5.0% in the middle two quarters of the year, respectively, and contracted by 2.1% in the first quarter. For all of 2014, real GDP grew 2.4%, measured both from the fourth quarter of 2013 to the fourth quarter of 2014 and for the entire year.



Even after the revision, growth during the fourth quarter came almost entirely from personal consumption expenditures, which contributed 2.8 percentage points to overall growth. Nonresidential fixed investment contributed 0.6 percentage points, followed by exports, which contributed 0.4 percentage points, and inventory accumulation and investment in residential structures, each of which added 0.1 percentage points.

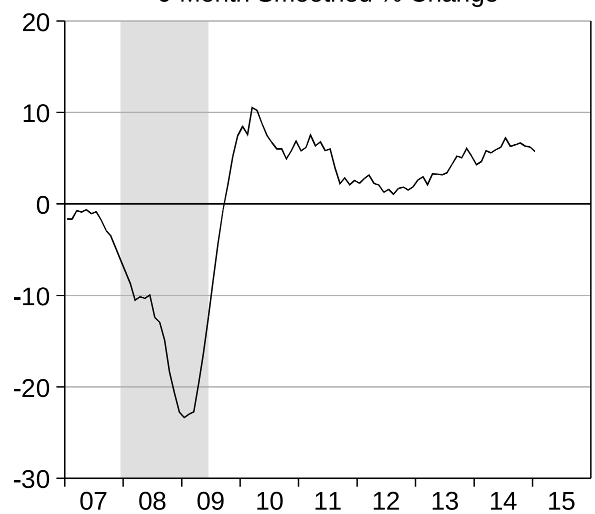
Growth was constrained by an increase in imports, which subtracted 1.6 percentage points, and by federal defense expenditures, which subtracted 0.6 percentage points following an unsustainably large increase in the third quarter. The greater penetration of imports likely reflects the effects of the recent strengthening in the foreign exchange value of the dollar, which has made foreign goods and services less expensive to domestic purchasers and will be an ongoing factor.

The deceleration in real GDP in the fourth quarter resulted from the increase in imports, the decrease in federal defense spending, and slower growth in nonresidential fixed investment and exports. Working against these factors were the increases in personal consumption expenditures, private inventory investment, and an acceleration in state and local government spending.

The downward revision from the initial estimate of fourth quarter growth primarily reflected a downward revision to private inventory investment and an upward revision to imports. Upward revisions to nonresidential fixed investment and to state and local government spending partially offset the downward adjustments from other sectors.

Leading economic indicators remain generally consistent with the continuation of the economic expansion. The composite **Leading Economic Index** from the Conference Board increased 0.2% in January, with six of the ten components making positive contributions during the month. The 6-month smoothed annual rate of change was 5.7% – the slowest in approximately a year but still well ahead of the trend since mid-2011 and comfortably above zero. The Leading Economic Index does not point to either acceleration or deceleration in economic activity in the near-term.

Leading Economic Index
6-Month Smoothed % Change



Source: The Conference Board

The diffusion indexes of state-level coincident and leading economic indexes compiled by the Federal Reserve Bank of Philadelphia continued to point toward economic expansion in December. The values for January will not be released until late March.

The consensus among economic forecasters is that growth will remain moderate in the near-term, with a chance that the sharply lower price of oil will result in somewhat faster growth this year. The **price of oil** is widely expected to remain in its new lower range for much or all of 2015. The effects are likely to vary greatly in nature and magnitude across regions of the country and across companies and industries.

In general, however, the consensus is that the lower price for oil will boost overall economic activity, principally because the country uses more oil than it produces. Consumer spending is widely anticipated to be higher than otherwise, while capital spending in energy-related areas is anticipated to be lower.

Another potential change that could affect the macro economy would be a major shift in **Federal Reserve monetary policy**. The Fed ended its monthly bond purchases last fall and in recent policy meetings indicated that it is drawing closer to raising its target for the overnight federal funds rate. The change is not expected before mid-year and might even be delayed by developments in the economy or financial markets, but shifts in monetary policy have in the past had strong effects on the economy.

Employment

Labor markets across the country continued to strengthen into the first quarter. **Nonfarm payrolls** increased by 295,000 jobs in February. The January gain was revised lower by 18,000 jobs and the December gain was not revised. Monthly job gains averaged 293,000 during the six months ending in February and 275,000 during the past twelve months.

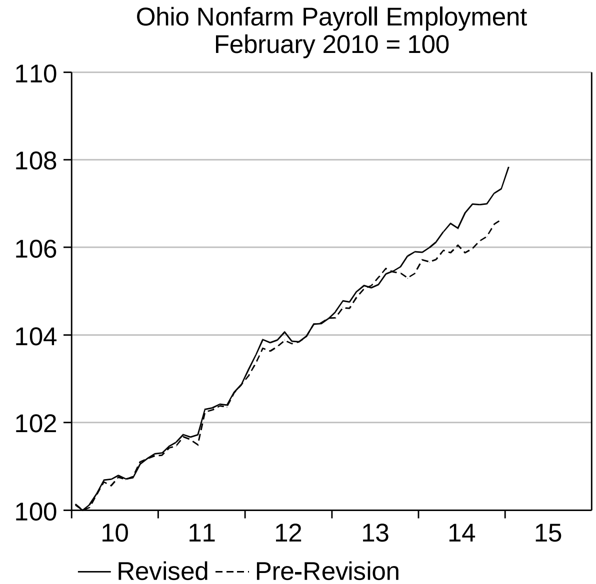
The recent pattern in **initial claims** for unemployment compensation is also consistent with sound labor market fundamentals. The 4-week average at the end of February ticked up to its highest level since early last July, but has been stable near the 300,000 level for the past fifteen weeks – consistent with ongoing economic expansion and the improvement that is increasingly evident in the recent acceleration in employment.

The **unemployment rate** decreased by 0.2 percentage points to 5.5% in February. In addition, the broadest measure of unemployment – the so-called U-6 rate – which includes people who want to work but have stopped looking because of poor perceived prospects, decreased 0.3 percentage points to 11.0% – down 1.6 percentage points from a year earlier and the lowest mark since August 2008.

The gain in jobs was once again solid across major sectors, led by leisure and hospitality (+66,000), trade, transportation, and utilities (+62,000), and professional and business services (+51,000). Construction added 29,000 jobs, and manufacturing added 8,000 jobs. All major sectors registered employment gains for the month. Retail trade accounted for more than one half of the rise in trade, transportation and utilities employment. One of the few negatives was that employment at temporary help agencies, which is often viewed as a leading indicator of hiring trends, declined 7,800 jobs during February.

Ohio nonfarm payroll employment increased by 25,100 jobs in January. Most months dating back to January 2007 were adjusted higher as part of the annual benchmark revision. Year-end employment was revised higher by 29,000 for 2013 and by 39,500 for 2014, lifting job growth during 2014 from 61,500 (+1.2%) before the revision to 72,000 (+1.4%) after revision.

Ohio employment increased by 392,200 jobs from the cycle low in February 2010 through January 2015, led by professional and business services (+106,900), leisure and hospitality (+78,300), and manufacturing (+68,700). Among the major sectors, the level of employment is lower only in government (-32,700) and information (-6,300).



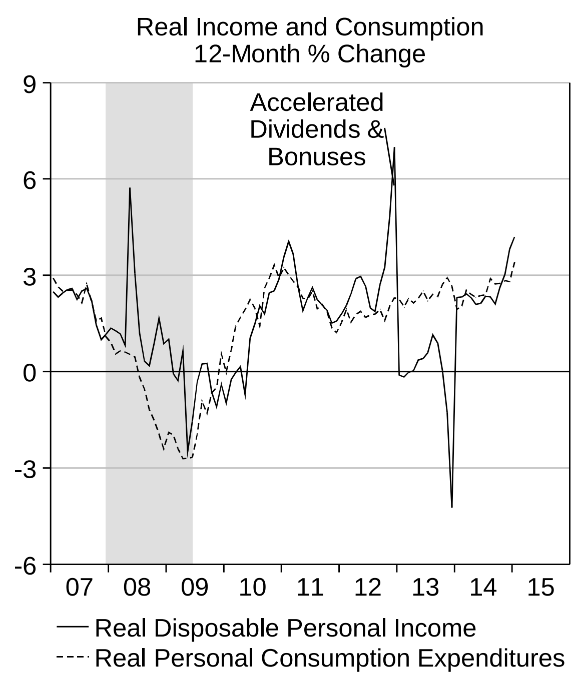
The **Ohio unemployment rate** held steady at 5.1% in January. According to the household survey, the labor force grew by about 21,000 people, while the number of employed grew by about 22,000 and the number of unemployed grew by 1,000. The unemployment rate has declined by more than half since the peak of 10.6% reached in February 2010.

Consumer Income and Consumption

Personal income increased 0.3% in January for the second month in a row. **Wage and salary disbursements** accelerated from 0.1% in December to 0.6% in January, and **personal current transfer receipts** accelerated from 0.5% in December to 1.0% in January. The acceleration in current transfer receipts primarily reflected a 1.7% cost-of-living increase in social security benefits and other federal transfer payment programs. Health insurance premium subsidies also contributed to the acceleration.

Compared with a year earlier, personal income was up 4.6% and wage and salary disbursements were up 4.9%. In comparison, consumer prices were down 0.2% year-over-year in January.

Personal consumption expenditures fell for the second month in a row – down 0.3% in December and down 0.2% in January. Spending on durable goods fell 0.1% after a 1.4% decline in December. **Sales of light motor vehicles** fell 1.5% in January to an annual rate of 16.5 million units. Vehicle sales fell to 16.2 million units in February – the third straight monthly decline. Spending on non-durable goods fell 2.2% in January, also after a 1.4% decline in December. Spending on services increased 0.5%.



The incidence of back-to-back drops in nominal consumer spending is rare, having occurred in only about 3% of the months since 1959. During the most recent fifteen years, it has occurred only in conjunction with broad-based declines in the consumer price level, as is the case in the current episode. The Consumer Price Index (CPI) declined 0.3% in November and December and another 0.7% in January. Declines were led by energy prices, but have included declines in prices of durable goods, such as new and used cars.

The recent weakness in consumer spending despite continued growth in incomes reflects the sharply lower price of gasoline, the likely temporary pullback in spending on motor vehicles, and possibly a natural ebbing from the burst in spending last fall (note that in the GDP analysis consumer spending growth actually exceeded GDP growth for the fourth quarter of 2014). Moderately strong employment growth and high levels of **consumer confidence** – which remain high despite deterioration in February – suggest that consumer spending will begin rising again soon.

Manufacturing

Industrial production increased 0.2% in January, but the December change that was originally reported as a 0.1% decline was revised down to a 0.3% decline. Similarly, manufacturing production increased 0.2% in January, but the December change was revised from a gain of 0.3% to no change. Compared with a year earlier, industrial production was higher by 4.8% and manufacturing production was higher by 5.6%.

The recent slower growth in manufacturing has been evident in surveys of activity, including the monthly purchasing managers report. The **Purchasing Managers Index** from the Institute for Supply Management declined for the fourth straight month in January to 52.9. The index remains above the neutral level of 50, and the number of consecutive declines and size of the total decline are well within the historical range of normal fluctuations during economic expansions since 1948.

The sub-indexes for new orders and production both declined in February, but also remained above neutral. The most notable area of weakness is new export orders, which fell to 48.5 for the second consecutive reading below neutral. The export index was as high as 55.0 last November. The recent declines illustrate that the increase in the foreign exchange value of the dollar and slower growth abroad have begun to affect manufacturing activity in the U.S.

In contrast to stable industrial production reports, **factory orders and shipments** have weakened in recent months. Shipments declined in the four months ending in January and in five of the most recent six months. New orders declined in all six months following a very large increase seven months ago.

Growth in manufacturing employment slowed in February to 8,000 jobs, down from an average of 27,000 jobs per month during the previous four months. Jobs numbers are particularly difficult to interpret at this time of year, because the adjustments for regular seasonal factors can be so large; however, the continued growth in seasonally adjusted manufacturing employment suggests that activity in the sector continues to expand.

Production in industries of particular importance to Ohio improved during January. Production of **primary metal, fabricated metal,** and **machinery** increased 1.7%, 0.4%, and 0.7%, respectively. Together with the motor vehicle industry, these three industries account for almost one-half of manufacturing jobs in Ohio and approximately one out of every thirteen private sector jobs in the state. The large decline in the price of oil is expected to boost industrial production overall during 2015. Cheaper energy should add more to demand for consumer-related goods than it subtracts from production of investment and energy-related goods.

Construction

Construction put-in-place decreased 1.1% in January for the second decline in three months. The December change was revised higher from 0.4% to 0.8%; however, construction activity in January was 0.9% below the level of last October. Private construction fell 0.5%, reflecting a 1.6% decline in nonresidential construction that was not fully offset by a 0.6% rise in residential construction. Both single family (+0.6%) and multi-family (+1.9%) contributed to the increase in residential construction. Public construction declined by 2.6% for the fourth decline in six months. Both public residential (-1.7%) and nonresidential (-2.6%) decreased during the month.

Housing starts slipped 0.8% in January on a 3-month moving average basis, as a 1.0% rise in multi-family starts was insufficient to overcome a 1.8% decline in single-family starts. In the Midwest, starts fell 4.8% on a 3-month moving average basis, as both single-family (-3.4%) and multi-family (-7.6%) starts declined.

The more-forward-looking **housing permits** fell 1.3% in January on a 3-month moving average basis after an upwardly revised 0.7% rise in December. A decline in multi-family permits more than offset increases in permits for single-family structures. Weakness continued in the Midwest, where permits fell for the fifth consecutive month on a 3-month moving average basis.

Sales of existing houses fell across the country and in the Midwest during January on a 3-month moving average basis – the third consecutive decline. **Sales of newly built homes** rose 0.9% across the country in January after a 1.9% rise in December, but fell in the Midwest by 1.7% on top of a 4.3% decline in December – all on a 3-month moving average basis. Inventories of both existing and new homes remained balanced in January.

Home prices continued their recent rebound in December, rising 0.7% across the country for the sixth straight monthly increase, according to the Case-Shiller national home price index. Home prices in Cleveland also increased for the sixth straight month in December. Prior to the recent six month streak of increases, prices had declined across the country for the 4-month stretch ending in June after rising continuously for 27 months. Home prices increased 4.6% across the country from December 2013 to December 2014 to stand 23.7% above the cycle low reached in May 2009, but 5.6% below the all-time high set in March 2006.

REVENUES

NOTE: Estimates in the revenue tables are based on July 2014 OBM revisions and do not include or reflect updated fiscal year 2015 annual estimates contained in the Executive Budget for fiscal years 2016-2017.

February **GRF receipts totaled $2,126.7 million** and were $12.1 million (0.6%) above the estimate. Monthly tax receipts totaled $1,377.3 million and were $10.7 million (0.8%) below estimate, while non-tax receipts totaled $755.4 million and were $28.9 million (4.0%) above estimate. Variances for the fiscal year-to-date by category are provided in the following table ($ in millions).

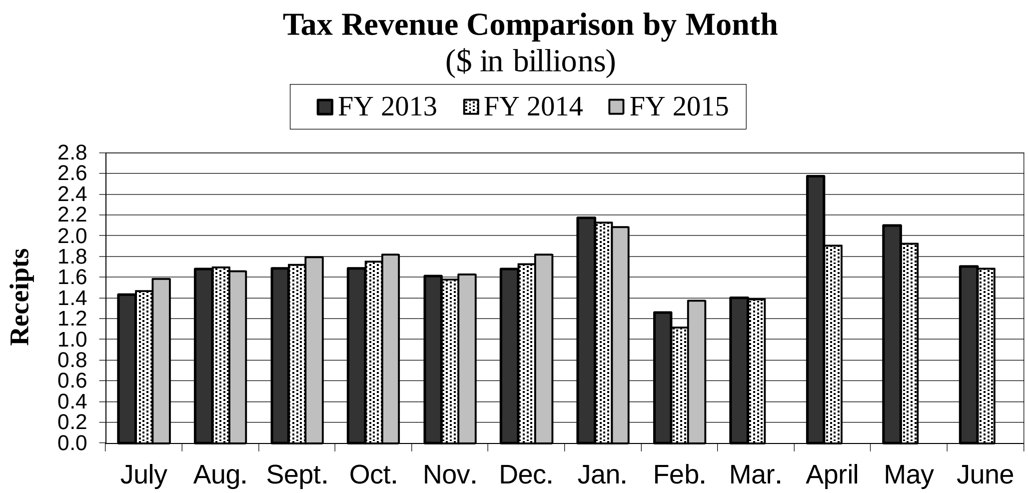
Category	Includes:	YTD Variance	% Variance
Tax receipts	Sales & use, personal income, corporate franchise, financial institutions, commercial activity, MCF, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, alcoholic beverage, liquor gallonage, & estate	$203.6 million	1.5%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($225.1 million)	-3.4%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$11.2 million	169.3%
TOTAL REVENUE VARIANCE:		**($10.3 million)**	**-0.1%**

On a year-over-year basis, monthly receipts were $355.2 million (20.0%) higher than in February of the previous fiscal year, mainly due to better performance in the sales and use tax ($105.7 million, 17.5%), the personal income tax ($140.3 million, 94.9%), and federal grants ($103.8 million, 16.1%).

GRF Revenue Sources Relative to Monthly Estimates – February 2015
($ in millions)

Individual Revenue Sources Above Estimate		**Individual Revenue Sources Below Estimate**	
Non-Auto Sales Tax	$6.1	Personal Income Tax	($5.4)
Corporate Franchise Tax	$2.7	Financial Institutions Tax	($18.9)
Commercial Activity Tax	$17.2	Petroleum Activity Tax	($6.0)
Natural Gas Distribution Tax	$5.0	Kilowatt Hour Tax	($1.0)
Federal Grants	$31.6	Foreign Insurance Tax	($12.2)
		License and Fees	($2.0)
		Transfers In - Other	($6.1)
Other Sources Above Estimate	$2.4	Other Sources Below Estimate	($1.3)
Total above	**$65.0**	**Total below**	**($52.9)**

(Note: Due to rounding of individual sources, the combined sum of sources above and below estimate may differ slightly from the total variance.)



Non-Auto Sales and Use Tax

February non-auto sales and use tax collections totaled $628.2 million and were $6.1 million (1.0%) above estimate following two months of underperformance for this tax source. Despite improving economic conditions and consumer confidence in the nation and in Ohio, the growth trend for the non-auto sales tax has not accelerated from its pace earlier in the year. This month's performance signals a possible uptick in the growth trend, yet OBM will continue to monitor this tax source closely and analyze the underlying fundamentals. The year-to-date overage increased to $18.6 million (0.3%) above the estimate. Total year-to-date tax collections for the sales and use tax (including the auto sales tax) are above the estimate by $56.5 million (0.9%).

On a year-over-year basis, February 2015 receipts were $95.4 million (17.9%) above collections in the same month of the previous fiscal year. February 2014 receipts were abnormally low due to a $32.0 million refund against prior years' collections, as well as depressed retail sales connected to the persistent bitterly cold winter. Also, this February's higher collections are due in part to strong increases in tax revenue from Medicaid health insuring corporations (MHICs) managed care premium growth.

February comparisons should be unaffected by the tax rate increase that took effect last fiscal year, although year-to-date comparisons are still influenced by the rate increase because of its impact on July through October results. Year-to-date collections are above the same point of the previous fiscal year by $545.9 million (10.4%).

Auto Sales Tax

February auto sales tax collections totaled $81.5 million and were $0.6 million (0.8%) above estimate. National demand for light-vehicles declined somewhat in February to a seasonally adjusted annual rate (SAAR) of 16.2 million units, the lowest monthly SAAR level since April 2014, which could affect auto sales tax collections in coming months (particularly March). Regardless, analysts remain confident in the industry's performance and attribute this month's lower demand to weather conditions. Year-to-date receipts are currently above the estimate by $37.9 million (4.8%). On a year-over-year basis, monthly receipts were $10.2 million (14.3%) above the amount collected in February of last year.

Personal Income Tax

February personal income tax receipts totaled $288.2 million and were $5.4 million (1.8%) below the estimate. Small dollar variances in the withholding, quarterly estimated payments, trust payments, and miscellaneous categories combined to offset lower than estimated refunds.

Withholding collections in February totaled $649.8 million and were $4.1 million (0.6%) below estimate. As a result, withholding collections for the year-to-date are now $4.5 million (0.1%) short of the estimate. February refunds meanwhile totaled $353.8 million and were $6.2 million (1.7%) lower than the estimate of $360.0 million. Quarterly estimated payments, trust payments and the miscellaneous category were also below estimate by $2.5 million, $0.1 million, and $5.3 million respectively.

For the year to date, GRF income tax collections are $135.9 million (2.6%) above the estimate. Quarterly estimated payments and refunds combine to account for $156.9 million worth of the overage, while all the other components show small shortfalls and are collectively $21.0 million below the estimate.

On a year-over-year basis, February personal income tax receipts were $140.3 million (94.9%) above the February 2014 amount. Higher withholding payments and lower refunds accounted for more than the entirety of the increase. Withholding increased by $19.0 million (3.0%), while refunds were $126.1 million (25.0%) lower than for the same month in fiscal year 2014. Partially offsetting these increases were lower collections in quarterly estimated payments ($2.5 million, 0.1%) and the miscellaneous categories ($2.7 million, 2.5%).

FY2015 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	ESTIMATE FEB	ACTUAL FEB	$ VAR FEB	ESTIMATE Y-T-D	ACTUAL Y-T-D	$ VAR Y-T-D
Withholding	$653.9	$649.8	($4.1)	$5,383.1	$5,378.6	($4.5)
Quarterly Est.	$9.1	$6.6	($2.5)	$648.8	$735.6	$86.8
Trust Payments	$1.4	$1.3	($0.1)	$27.7	$25.0	($2.7)
Annual Returns & 40 P	$8.6	$8.9	$0.3	$136.1	$136.1	$0.0
Other	$16.3	$11.0	($5.3)	$73.9	$62.1	($11.8)
Less: Refunds	($360.0)	($353.8)	$6.2	($727.3)	($657.2)	$70.1
Local Distr.	($35.7)	($35.6)	$0.1	($239.5)	($241.6)	($2.1)
Net to GRF	**$293.6**	**$288.2**	**($5.4)**	**$5,302.8**	**$5,438.7**	**$135.9**

Corporate Franchise Tax

As noted in previous months' reports, although the corporate franchise tax has been eliminated, prior year settlement activity continues. This results in some amount of monthly activity for this tax, whether settlement payments or refunds, which by definition create variances, since the estimate for this tax is now zero. Although these monthly variances have generally been small, readers of this report will recall that November was an exception due to considerable refund activity. February saw more moderate activity as receipts totaled $2.7 million. For the year-to-date receipts now total -$24.7 million compared to the estimate of zero.

Financial Institutions Tax

February receipts for the financial institutions tax totaled $39.8 million and were $18.9 million (32.2%) below the $58.7 million estimate. The monthly variance was largely due to the timing of the due date for the tax (January 31st) and a larger portion of payments being received and processed in January as opposed to February. As readers of the monthly report may recall, due to this timing issue, this tax was $17.2 million above the estimate in January and to assess the performance of the tax it is necessary to look at the two months in total. The combined two-month shortfall is only $1.7 million.

For the year, revenues are $24.6 million below estimate, but that is almost all due to after-the-fact adjustments to payments received in FY 2014. Credits and deductions claimed on returns, after estimated payments had been made led to revenues being $22.8 million below estimate for the July-December period.

Commercial Activity Tax

February commercial activity tax (CAT) receipts continued their fiscal year 2015 rebound as the GRF share of the tax totaled $189.7 million and was $17.2 million (10.0%) above the estimate. Year-to-date, GRF CAT receipts totaled $644.1 million and were $68.9 million (12.0%) above estimate. Year-over-year growth in GRF CAT receipts through the first eight months of the fiscal year was $51.7 million (8.7%).

All-funds February CAT receipts (net of refunds, attorney general fees, and deposits to the motor fuel fund), meanwhile totaled $382.7 million and were $37.7 million (10.9%) above the estimate. Year-to-date, all funds receipts total $1299.7 million and are $148.7 million (12.9%) above estimate. Year-over-year growth in all funds CAT receipts through the first eight months of the fiscal year were $43.9 million (3.5%) above the same period in the previous fiscal year. Once one adjusts fiscal year 2014 collections to remove $52.2 million in motor fuel deposit amounts (which are now subject to the petroleum activity tax) an apples-to-apples comparison of year-over-year performance reveals an increase of $96.2 million (8.0%).

Petroleum Activity Tax

February petroleum activity tax receipts deposited in the GRF were $0 compared to an estimate of $6.0 million. This variance is in part due to estimates that assumed deposits to the GRF in February as opposed to March. As a result, OBM expects this tax to be above estimate in March, but not enough to offset the February shortfall.

Kilowatt-Hour Tax

February kilowatt hour tax receipts totaled $27.7 million and were $1.0 million (3.4%) below the estimate. The year-to-date shortfall increased to $7.5 million (3.7%) below estimate. Year-over-year collections were $0.4 million (1.4%) below collections in February of the previous fiscal year. Given the ease of access to natural gas and its declining cost, it is possible there is some consumer substitution reflected in tax collections for this source compared to other energy taxes, such as the natural gas distribution tax, which is ahead of the year-to-date estimate by $8.0 million (28.2%).

Natural Gas Distribution Tax (MCF Tax)

February natural gas distribution tax receipts totaled $15.9 million and were $4.9 million (45.0%) above the estimate. Year-to-date receipts were above estimate by $8.0 million (28.2%). Receipts for February 2015 were almost the same as collections for the same month of the previous fiscal year. Year-to-date collections are $0.3 million (0.7%) below the same point last year; however, this tax source is performing better than the forecast, as mentioned above.

Foreign Insurance Tax

February foreign insurance tax receipts totaled $19.0 million and were $12.2 million (39.2%) below the estimate. The monthly variance was primarily due to the due date of the foreign insurance tax payment being March 1st and a smaller than expected portion of receipts being deposited in late February. To evaluate this tax, it is necessary to look at February and March receipts in total in order to determine performance relative to estimate. Due to the timing issues, it is expected that March receipts will be above estimate by an amount similar to the February shortfall.

Cigarette and Other Tobacco Tax

The cigarette and other tobacco tax receipts for February were slightly lower than estimated as receipts totaled $53.3 million and were $0.6 million (1.2%) below the estimate of $53.9 million. February 2015 cigarette tax receipts were $0.9 million (1.6%) above the level for the same month of the previous fiscal year. Year-to-date receipts are now $8.3 million (1.7%) above the estimate, but $8.9 million (1.8%) below the collections in the first eight months of fiscal year 2014.

GRF non-tax receipts totaled $755.4 million in February and were $28.9 million (4.0%) above the estimate. As usual, federal grants dominated this category as federal receipts were $31.6 million (4.4%) above estimate. On the other side, License and Fees and Other Income revenues were $2.0 million and $0.7 million below their respective estimates. Transfers in totaled -$5.9 million and were $6.1 million below estimate. The negative transfer amount was due to the correction of a duplicate transfer that occurred in January but was not corrected until early February.

Table 1
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2015 VS ESTIMATE FY 2015
($ in thousands)

REVENUE SOURCE	MONTH ACTUAL FEBRUARY	MONTH ESTIMATE FEBRUARY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL Y-T-D	YEAR-TO-DATE ESTIMATE Y-T-D	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	628,191	622,100	6,091	1.0%	5,789,787	5,771,200	18,587	0.3%
Auto Sales & Use	81,522	80,900	622	0.8%	829,330	791,400	37,930	4.8%
Subtotal Sales & Use	709,714	703,000	6,714	1.0%	6,619,117	6,562,600	56,517	0.9%
Personal Income	288,232	293,600	(5,368)	-1.8%	5,438,672	5,302,800	135,872	2.6%
Corporate Franchise	2,680	0	2,680	N/A	(24,685)	0	(24,685)	N/A
Financial Institutions Tax	39,791	58,700	(18,909)	-32.2%	61,922	86,500	(24,578)	-28.4%
Commercial Activity Tax	189,732	172,500	17,232	10.0%	644,061	575,200	68,861	12.0%
Petroleum Activity Tax	0	6,000	(6,000)	N/A	1,944	13,300	(11,356)	-85.4%
Public Utility	23,796	23,100	696	3.0%	60,634	71,700	(11,066)	-15.4%
Kilowatt Hour	27,723	28,700	(977)	-3.4%	198,180	205,700	(7,520)	-3.7%
Natural Gas Distribution	15,948	11,000	4,948	45.0%	36,409	28,400	8,009	28.2%
Foreign Insurance	18,961	31,200	(12,239)	-39.2%	172,780	179,300	(6,520)	-3.6%
Domestic Insurance	52	0	52	N/A	7,415	1,800	5,615	311.9%
Other Business & Property	27	0	27	N/A	47	0	47	N/A
Cigarette and Other Tobacco	53,278	53,900	(622)	-1.2%	481,958	473,700	8,258	1.7%
Alcoholic Beverage	4,057	3,300	757	22.9%	37,350	35,300	2,050	5.8%
Liquor Gallonage	3,275	3,000	275	9.2%	29,387	27,600	1,787	6.5%
Estate	0	0	0	N/A	2,357	0	2,357	N/A
Total Tax Receipts	1,377,265	1,388,000	(10,735)	-0.8%	13,767,546	13,563,900	203,646	1.5%
NON-TAX RECEIPTS								
Federal Grants	749,061	717,447	31,614	4.4%	6,398,496	6,616,809	(218,313)	-3.3%
Earnings on Investments	0	0	0	N/A	11,393	9,500	1,893	19.9%
License & Fees	5,637	7,656	(2,019)	-26.4%	17,579	24,374	(6,795)	-27.9%
Other Income	692	1,341	(650)	-48.4%	23,065	15,620	7,445	47.7%
ISTV'S	2	0	2	1661.6%	263	9,619	(9,355)	-97.3%
Total Non-Tax Receipts	755,392	726,444	28,948	4.0%	6,450,796	6,675,922	(225,125)	-3.4%
TOTAL REVENUES	**2,132,657**	**2,114,444**	**18,213**	**0.9%**	**20,218,343**	**20,239,822**	**(21,479)**	**-0.1%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	(5,925)	200	(6,125)	-3062.7%	17,774	6,600	11,174	169.3%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	(5,925)	200	(6,125)	-3062.7%	17,774	6,600	11,174	169.3%
TOTAL SOURCES	**2,126,732**	**2,114,644**	**12,087**	**0.6%**	**20,236,117**	**20,246,422**	**(10,305)**	**-0.1%**

Table 2
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2015 VS ACTUAL FY 2014
($ in thousands)

REVENUE SOURCE	MONTH				YEAR-TO-DATE			
	FEBRUARY FY 2015	FEBRUARY FY 2014	$ VAR	% VAR	ACTUAL FY 2015	ACTUAL FY 2014	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	628,191	532,746	95,446	17.9%	5,789,787	5,243,850	545,937	10.4%
Auto Sales & Use	81,522	71,303	10,219	14.3%	829,330	750,588	78,741	10.5%
Subtotal Sales & Use	709,714	604,049	105,665	17.5%	6,619,117	5,994,439	624,678	10.4%
Personal Income	288,232	147,915	140,317	94.9%	5,438,672	5,484,450	(45,777)	-0.8%
Corporate Franchise	2,680	(4,864)	7,544	155.1%	(24,685)	(10,099)	(14,586)	-144.4%
Financial Institutions Tax	39,791	42,220	(2,429)	-5.8%	61,922	83,513	(21,591)	-25.9%
Commercial Activity Tax	189,732	174,237	15,495	8.9%	644,061	592,359	51,702	8.7%
Petroleum Activity Tax	0	0	0	N/A	1,944	0	1,944	N/A
Public Utility	23,796	22,072	1,724	7.8%	60,634	70,168	(9,534)	-13.6%
Kilowatt Hour	27,723	28,112	(389)	-1.4%	198,180	202,054	(3,873)	-1.9%
Natural Gas Distribution	15,948	16,004	(57)	-0.4%	36,409	36,680	(271)	-0.7%
Foreign Insurance	18,961	29,194	(10,232)	-35.1%	172,780	175,835	(3,055)	-1.7%
Domestic Insurance	52	51	1	2.1%	7,415	149	7,265	N/A
Other Business & Property	27	21	6	28.3%	47	476	(429)	-90.2%
Cigarette and Other Tobacco	53,278	52,418	860	1.6%	481,958	490,891	(8,933)	-1.8%
Alcoholic Beverage	4,057	4,052	5	0.1%	37,350	36,721	629	1.7%
Liquor Gallonage	3,275	3,055	220	7.2%	29,387	28,242	1,145	4.1%
Estate	0	85	(85)	-100.0%	2,357	30,129	(27,773)	-92.2%
Total Tax Receipts	1,377,265	1,118,622	258,644	23.1%	13,767,546	13,216,006	551,540	4.2%
NON-TAX RECEIPTS								
Federal Grants	749,061	645,258	103,803	16.1%	6,398,496	6,200,391	198,105	3.2%
Earnings on Investments	0	0	0	N/A	11,393	8,420	2,973	35.3%
License & Fee	5,637	6,490	(853)	-13.1%	17,579	20,542	(2,963)	-14.4%
Other Income	692	1,208	(517)	-42.8%	23,065	13,031	10,034	77.0%
ISTV'S	2	0	2	1543.7%	263	7,741	(7,477)	-96.6%
Total Non-Tax Receipts	755,392	652,956	102,436	15.7%	6,450,796	6,250,125	200,671	3.2%
TOTAL REVENUES	**2,132,657**	**1,771,578**	**361,079**	**20.4%**	**20,218,343**	**19,466,131**	**752,211**	**3.9%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	(5,925)	0	(5,925)	N/A	17,774	47,215	(29,441)	-62.4%
Temporary Transfers In	0	0	0	N/A	0	5,516	(5,516)	N/A
Total Transfers	(5,925)	0	(5,925)	N/A	17,774	52,730	(34,956)	-66.3%
TOTAL SOURCES	**2,126,732**	**1,771,578**	**355,154**	**20.0%**	**20,236,117**	**19,518,862**	**717,255**	**3.7%**

DISBURSEMENTS

February GRF disbursements, across all uses, totaled $2,349.7 million and were $80.2 million (3.3%) below estimate. This was primarily attributable to lower than estimated disbursements in the Justice and Public Protection and Primary and Secondary Education categories. On a year-over-year basis, February total uses were $15.6 million (0.7%) higher than those of the same month in the previous fiscal year, with the Primary and Secondary Education category largely responsible for the increase. Year-to-date variances by category are provided in the table below.

Category	Description	YTD Variance	% Variance
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	($375.3 million)	-1.7%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$1.6 million	0.3%
TOTAL DISBURSEMENTS VARIANCE:		**($373.7 million)**	**-1.7%**

GRF disbursements are reported according to functional categories. This section contains information describing spending and variances within each of these categories.

Primary and Secondary Education

This category contains GRF spending for the Ohio Department of Education, minus property tax reimbursements. February disbursements for this category totaled $673.0 million and were $23.5 million (3.4%) below estimate. Expenditures for the school foundation program totaled $569.7 million and were $24.3 million (4.1%) below estimate. This variance was primarily attributable to the timing of the school choice payments, which disbursed in January rather than in February, as estimated. Additional variation was due to the use of prior fiscal year average daily membership (ADM), as well as the use of prior fiscal year actuals in the calculation of community school deductions for traditional districts as part of the school foundation program. The Department of Education plans to begin using updated fiscal year data as it becomes available in the coming months.

Year-to-date disbursements were $4,982.9 million, which was $71.5 million (1.5%) above estimate. On a year-over-year basis, disbursements in this category were $96.4 million (16.7%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $16.1 million (0.3%) higher than at the same point in fiscal year 2014.

Higher Education

February disbursements for the Higher Education category, which includes non-debt service GRF spending by the Board of Regents, totaled $196.5 million and were $1.6 million (0.8%) below estimate for the month. The majority of the monthly variance was due to spending in the Choose Ohio First, Ohio College Opportunity Grant Scholarship and the Ohio National Guard Scholarship Programs being below estimate by $2.6 million as a result of lower than expected requests for reimbursement from higher education institutions, which was partially offset by spending in the eStudent Services and Ohio Technical Center programs being above estimate by a combined total $1.5 million.

Year-to-date disbursements were $1,439.6 million, which was $7.4 million (0.5%) below estimate. On a year-over-year basis, disbursements in this category were $3.1 million (1.6%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $35.7 million (2.5%) higher than at the same point in fiscal year 2014.

Other Education

This category includes non-debt service expenditures made by the Broadcast Education Media Commission, the Ohio Facilities Construction Commission, the Ohio State School for the Blind, the Ohio School for the Deaf, as well as disbursements made to libraries, cultural, and arts organizations.

February disbursements in this category totaled $2.6 million and were at estimate. Year-to-date disbursements were $40.9 million, which was $1.8 million (4.3%) below estimate. On a year-over-year basis, disbursements in this category were $0.5 million (26.6%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $6.2 million (17.7%) higher than at the same point in fiscal year 2014.

Medicaid

This category includes all Medicaid disbursements from the H.B. 59-created "650 series" Medicaid line items. Therefore, this category includes all Medicaid spending on services and program support by the following six agencies: the Department of Medicaid (651 prefix), the Department of Mental Health and Addiction Services (652), the Department of Developmental Disabilities (653), the Department of Health (654), the Department of Job and Family Services (655), and the Department of Aging (656).

Please note that the total GRF disbursement estimates in fiscal year 2015, which were established in July 2014, are lower than the original appropriations by $845.6 million. Budgeted transfers and other projected lapses account for $148.7 million. The remaining $697.0 million is due to an adjustment for lower than expected caseload. While enrollment steadily increased each month in fiscal year 2014, the rate of growth was lower than initially expected and was a key driver of the lower than expected spending. This spending trend is expected to continue in fiscal year 2015, and the disbursement estimates have been adjusted accordingly.

Expenditures

February GRF disbursements for the Medicaid Program totaled $1,197.7 million and were $6.7 million (0.6%) below the estimate, and $4.7 million (0.4%) above the same point in the previous fiscal year. Year-to-date GRF disbursements for the Medicaid Program totaled $10,457.5 million and were $357.5 million (3.3%) below the estimate, and $781.7 million (8.1%) above the same point in the previous fiscal year.

February all-funds disbursements totaled $1,868.8 million and were $1.3 million (0.1%) above the estimate, and $53.3 million (2.8%) below disbursements in the same point of the previous fiscal year. Year-to-date all-funds disbursements totaled $15,260.8 million and were $190.2 million (1.2%) below the estimate, and $2,181.4 million (16.7%) above disbursements at the same point of the previous fiscal year.

The February variance was due to greater than anticipated enrollment in the Covered Families and Children (CFC) eligibility category, which resulted in over-estimated spending in the Managed Care-CFC spending category. Fee-for-service costs for Nursing Facilities were also greater than anticipated in February due to lower costs for the MyCare managed care program as claims for this population have not yet shifted to managed care plans. These greater than anticipated costs were offset, in part, by lower-than-anticipated costs in the other fee-for-service categories, which include hospitals, physicians and prescription drugs.

Year-to-date disbursements are below the estimate. This is due to lower-than-anticipated costs in the fee-for-service categories, along with lower-than-anticipated costs for the Health Homes program, and a managed care payment reconciliation that occurred in July.

The chart below shows the current month's disbursement variance by funding source.

(in millions, totals may not add due to rounding)

	Feb. Projection		Feb. Actual		Variance		Variance %
GRF	$	1,204.3	$	1,197.7	$	(6.7)	-0.6%
Non-GRF	$	663.2	$	671.1	$	7.9	1.2%
All Funds	$	1,867.5	$	1,868.8	$	1.3	0.1%

Enrollment

Total February enrollment across all categories was 2.99 million. The most significant components are the Covered Families and Children (CFC) category, which increased by 27,231 persons to a February total of 2.36 million persons, and the Aged, Blind and Disabled (ABD) category, which decreased by 3,198 people to a February total of 418,125 covered lives. Individuals covered under Medicaid extension (eligibility group VIII) are included as part of the larger CFC category.

Total enrollment across all categories for the same period last year was 2.55 million covered persons, including 1.87 million persons in the CFC category and 435,608 people in the ABD category.

Please note that these data are subject to revision.

Health and Human Services

This category includes non-debt service GRF expenditures for the following state agencies: Job and Family Services, Health, Aging, Developmental Disabilities, Mental Health and Addiction Services, and others. Examples of expenditures in this category include: child care, TANF, administration of the state's psychiatric hospitals, operating subsidies to county boards of developmental disabilities, various immunization programs, and Ohio's long term care ombudsman program. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in the previous category.

February disbursements in this category totaled $95.8 million and were $2.3 million (2.5%) above estimate for the month. Year-to-date disbursements were $936.9 million, which was $25.0 million (2.6%) below estimate. On a year-over-year basis, disbursements in this category were $20.7 million (17.8%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $65.7 million (7.5%) higher than at the same point in fiscal year 2014.

Department of Job and Family Services
February disbursements for the Department of Job and Family Services totaled $57.1 million and were $1.4 million (2.6%) above estimate. This variance was primarily attributable to several lines. First, Information Technology Projects disbursements were $1.7 million (40.9%) above estimate due to the timing of receipt of invoices. Second, Child, Family, and Adult Community and Protective Services disbursements were $1.1 million (389.6%) above estimate due to the timing of county draws. Third, TANF State/Maintenance of Effort disbursements were $2.0 million (15.4%) below estimate due to cash assistance caseloads being lower than estimated. Finally, Disability Financial Assistance disbursements were $1.0 million (79.1%) below estimate due to refunds reported by counties.

Department of Health
February disbursements for the Department of Health totaled $5.5 million and were $2.0 million (26.7%) below estimate. This variance was primarily attributable to Immunization disbursements being $2.3 million (76.6%) below estimate due to vaccine purchases estimated for February being moved to future months instead.

Opportunity for Ohioans with Disabilities
February disbursements for Opportunities for Ohioans with Disabilities totaled $3.5 million and were $1.6 million (80.0%) above estimate. This was primarily attributable to Services for People with Disabilities disbursements being $1.6 million (82.7%) above estimate due to subsidy payments originally planned for January being moved to February instead.

Department of Mental Health and Addiction Services
February disbursements for the Department of Mental Health and Addiction Services totaled $26.1 million and were $1.3 million (5.4%) above estimate. This variance was attributable to two lines. First, Hospital Services disbursements were $1.7 million (9.0%) below estimate due primarily to the purchase of a three-month pharmaceutical supply at the beginning of January rather than as monthly purchases as originally estimated. Second, Community Behavioral Health disbursements were $3.2 million (66.5%) above estimate due to spending in the Residential State Supplement program occurring in February instead of January as estimated.

Justice and Public Protection

This category includes non-debt service GRF expenditures by the Department of Rehabilitation & Correction, the Department of Youth Services, the Attorney General, judicial agencies, and other justice-related entities.

February disbursements in this category totaled $125.5 million and were $39.1 million (23.8%) below estimate for the month. Year-to-date disbursements were $1,298.8 million, which was $21.9 million (1.7%) below estimate. On a year-over-year basis, disbursements in this category were $2.8 million (2.2%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $67.7 million (5.5%) higher than at the same point in fiscal year 2014.

Department of Rehabilitation and Correction
February disbursements for the Department of Rehabilitation and Correction totaled $98.9 million and were $33.3 million (25.2%) below estimate. This variance was primarily attributable to the disbursement of a payroll payment at the end of January rather than in February as estimated. Year-to-date disbursements were $1,000.5 million, which was $4.0 million (0.4%) below estimate.

General Government

This category includes non-debt service GRF expenditures by the Department of Natural Resources, Development Services Agency, Department of Agriculture, Department of Taxation, Office of Budget and Management, non-judicial statewide elected officials, legislative agencies, and others.

February disbursements in this category totaled $24.5 million and were $1.8 million (6.9%) below estimate. Year-to-date disbursements were $240.8 million, which was $11.8 million (4.7%) below estimate. On a year-over-year basis, disbursements in this category were $0.4 million (1.6%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $0.3 million (0.1%) higher than at the same point in fiscal year 2014.

Department of Taxation
February disbursements for the Department of Taxation totaled $4.4 million and were $1.6 million (26.4%) below estimate. This variance was primarily attributable to the timing of postage payments and rent charges, in which disbursements planned for February were made in January instead. Year-to-date, disbursements totaled $40.6 million and were $4.3 million (9.7%) below estimate. The yearly under spending reflects payroll savings resulting from attrition and planned efficiencies.

Department of Administrative Services
February disbursements for the Department of Administrative Services (DAS) totaled $5.3 million and were $1.6 million (42.2%) above estimate. This variance was primarily due to the timing of payments for Ohio Business Gateway support and rent for GRF-supported state agencies and vacant space in state buildings managed by DAS.

Property Tax Reimbursements

Payments from the property tax reimbursement category are made to local governments and school districts to reimburse these entities for revenues foregone as a result of the 10.0 percent and 2.5 percent rollback, as well as the homestead exemption. February disbursements of property tax reimbursements were essentially $0 (-$0.001 million) and were $0.3 million (100.2%) below the marginal estimate of $0.3 million for the month. Year-to-date disbursements totaled $908.1 million and were $5.2 million (0.6%) below estimate.

Debt Service

February payments for debt service totaled $40.0 million and were $3.6 million (8.2%) below the estimate of $43.5 million. The majority of the monthly variance ($3.1 million) was the result of payments on certificates of participation for the OAKS, STARS, and MARCS systems that were estimated for February, but that occurred in January. Year-to-date, debt service payments totaled $993.4 million and were $16.0 million (1.6%) below estimate.

Transfers Out

February transfers out totaled -$6.0 million and were below the estimate of $0 by that amount. The negative transfer was the result of the correction of an erroneous transfer that occurred during the month of January but that was not corrected until early February.

Table 3
GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2015 VS ESTIMATE FY 2015
($ in thousands)

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	**ACTUAL FEBRUARY**	**ESTIMATED FEBRUARY**	**$ VAR**	**% VAR**	**YTD ACTUAL**	**YTD ESTIMATE**	**$ VAR**	**% VAR**
Primary and Secondary Education	673,014	696,549	(23,536)	-3.4%	4,982,901	4,911,432	71,468	1.5%
Higher Education	196,549	198,174	(1,625)	-0.8%	1,439,608	1,446,982	(7,373)	-0.5%
Other Education	2,592	2,592	(1)	0.0%	40,896	42,714	(1,818)	-4.3%
Medicaid	1,197,690	1,204,343	(6,654)	-0.6%	10,457,542	10,815,054	(357,512)	-3.3%
Health and Human Services	95,847	93,535	2,312	2.5%	936,874	961,900	(25,027)	-2.6%
Justice and Public Protection	125,475	164,563	(39,088)	-23.8%	1,298,795	1,320,745	(21,949)	-1.7%
General Government	24,547	26,365	(1,818)	-6.9%	240,832	252,656	(11,825)	-4.7%
Property Tax Reimbursements	(1)	300	(301)	-100.2%	908,134	913,352	(5,218)	-0.6%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	39,968	43,519	(3,551)	-8.2%	993,355	1,009,385	(16,030)	-1.6%
Total Expenditures & ISTV's	**2,355,680**	**2,429,941**	**(74,260)**	**-3.1%**	**21,298,937**	**21,674,220**	**(375,284)**	**-1.7%**
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	0	0	0	N/A
Operating Transfer Out	(5,952)	0	(5,952)	N/A	582,835	581,234	1,601	0.3%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**(5,952)**	**0**	**(5,952)**	**N/A**	**582,835**	**581,234**	**1,601**	**0.3%**
Total Fund Uses	**2,349,728**	**2,429,941**	**(80,213)**	**-3.3%**	**21,881,772**	**22,255,454**	**(373,682)**	**-1.7%**

Table 4
GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2015 VS ACTUAL FY 2014
($ in thousands)

Functional Reporting Categories Description	MONTH FEBRUARY FY 2015	MONTH FEBRUARY FY 2014	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL FY 2015	YEAR-TO-DATE ACTUAL FY 2014	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
Primary and Secondary Education	673,014	576,574	96,440	16.7%	4,982,901	4,966,846	16,055	0.3%
Higher Education	196,549	193,437	3,112	1.6%	1,439,608	1,403,943	35,665	2.5%
Other Education	2,592	2,047	544	26.6%	40,896	34,745	6,151	17.7%
Medicaid	1,197,690	1,193,017	4,672	0.4%	10,457,542	9,675,802	781,740	8.1%
Health and Human Services	95,847	116,558	(20,711)	-17.8%	936,874	871,223	65,650	7.5%
Justice and Public Protection	125,475	122,723	2,753	2.2%	1,298,795	1,231,058	67,737	5.5%
General Government	24,547	24,949	(403)	-1.6%	240,832	240,537	295	0.1%
Property Tax Reimbursements	(1)	(2)	1	66.6%	908,134	893,054	15,080	1.7%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	39,968	104,810	(64,842)	-61.9%	993,355	994,374	(1,019)	-0.1%
Total Expenditures & ISTV's	**2,355,680**	**2,334,114**	**21,567**	**0.9%**	**21,298,937**	**20,311,583**	**987,354**	**4.9%**
Transfers Out:								
BSF Transfer	0	0	0	N/A	0	995,930	(995,930)	N/A
Operating Transfer Out	(5,952)	0	(5,952)	N/A	582,835	210,513	372,322	176.9%
Temporary Transfer Out	0	0	0	N/A	0	5,516	(5,516)	N/A
Total Transfers Out	**(5,952)**	**0**	**(5,952)**	**N/A**	**582,835**	**1,211,959**	**(629,124)**	**-51.9%**
Total Fund Uses	**2,349,728**	**2,334,114**	**15,614**	**0.7%**	**21,881,772**	**21,523,542**	**358,230**	**1.7%**

FUND BALANCE

Table 5 describes the estimated General Revenue Fund (GRF) unencumbered ending fund balance for FY 2015. Based on the estimated revenue sources for FY 2015 and the estimated FY 2015 disbursements, transfers, and encumbrances, the GRF unencumbered ending fund balance for FY 2015 is an estimated $631.6 million.

The GRF unencumbered ending fund balance should not be considered as a balance available for expenditure in FY 2015 nor should it be considered as equivalent to the FY 2015 surplus calculation as defined in Section 131.44 of the Ohio Revised Code.

It is important to note that the GRF unencumbered ending fund balance will be impacted by any GRF expenditures or transfers that may be authorized by the General Assembly or by the Controlling Board during the course of the fiscal year.

Table 5
FUND BALANCE
GENERAL REVENUE FUND
FISCAL YEAR 2015
($ in thousands)

July 1, 2014 Beginning Cash Balance	**$ 1,700,065**
Plus FY 2015 Estimated Revenues	21,139,610
Plus FY 2015 Estimated Federal Revenues	8,990,764
Plus FY 2015 Estimated Transfers to GRF	648,386
Total Sources Available for Expenditure & Transfer	**32,478,825**
Less FY 2015 Estimated Disbursements	30,912,416
Less FY 2015 Estimated Total Encumbrances as of June 30, 2015	328,448
Less FY 2015 Estimated Transfers Out	606,390
Total Estimated Uses	**31,847,253**
FY 2015 UNENCUMBERED ENDING FUND BALANCE	**631,572**

OBM staff that contributed to the development of this report are:

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Ohio Manufacturers' Association
Tax Counsel Report
March 18, 2015

By Mark A. Engel
Bricker & Eckler LLP

Administrative Actions:

Nothing to report.

Legislative Actions:

House Bill 5, providing or revisions to Ohio's municipal income tax law, was signed by Governor Kasich on December 19, 2014, with an effective date for the legislation of March 23, 2015. Most of the substantive provisions are effective with tax years beginning on or after January 1, 2016. A summary of the bill's major provisions is attached.

House Bill 64, the budget bill for the upcoming biennium, was introduced. The tax provisions contained in the bill have received a great deal of coverage in the media. A summary of the bill's tax provisions is attached.

On March 11, 2015, OMA provided testimony as an interested party before the House Ways & Means Committee regarding the provisions.

Also on March 11, 2015, OMA provided testimony to the Senate Ways & Means Committee regarding the manufacturing exemption from the sales tax.

Please see the legislative report from OMA staff for more details regarding pending bills.

Judicial Actions:

Ohio Supreme Court

Nothing to report.

Ohio Court of Appeals

Nothing to report.

Ohio Board of Tax Appeals

Nothing to report.

Tax Commissioner Opinion

No opinions to report.

Other

Navistar Amicus Brief

The OMA filed an amicus brief in support of the taxpayer in *Navistar, Inc. v. Levin,* Sup. Ct. No. 2014-0140. The case involves the credit against the CAT for net operating loss carryforwards contained in R.C. 5751.53. The statute provides a credit for deferred franchise tax assets net of any associated valuation reserve recorded on its books and records as of the last day of the taxpayer's taxable year ending in 2004 (the "amortizable amount"). Any taxpayer wishing to claim the credit had to file a report notifying the tax commissioner of its amortizable amount by June 30, 2006. The Tax Commissioner had until June 30, 2010, to audit the report any make any correction to it.

Navistar timely filed its report and claimed an amortizable amount based upon its books and records. However, in December 2007 it restated its financial statements for the years ending in 2003-2005. This restatement caused its valuation reserve to increase, causing its amortizable amount to be reduced to $0. Upon audit, the Tax Commissioner reduced Navistar's credit accordingly. The BTA upheld the action and Navistar appealed to the Supreme Court.

On appeal, Navistar and OMA argued there is no authority for the Tax Commissioner to alter an otherwise correct amortizable amount due to events occurring after the date the report was due in 2006. Rather, that official's authority is limited to correcting mistakes existing as of the date of the report was filed. At the BTA hearing, the Tax Commissioner admitted that it would not have adjusted the credit upward had a subsequent restatement increased the amortizable amount. In fact, in 2011 Navistar once again restated is financial statements, eliminating its valuation reserve and establishing a deferred tax asset even larger than previously claimed.

Oral argument is scheduled for May 6. The Court has granted OMA's motion to participate in oral argument; Navistar has agreed to share its time with us. A decision may be expected in early fall 2015.

Bill to Amend Ohio Municipal Income Tax Law Passed by House and Senate

Mark A. Engel
Bricker & Eckler LLP

A bill to revise Ohio law regarding municipal income taxation, House Bill 5, has passed the Senate with amendments and obtained House concurrence. The bill proposes several changes to existing Revised Code Chapter 718, which governs the imposition of income taxes by municipalities. The bill is an effort to reach additional consistency and uniformity among communities that impose an income tax. The bill, the culmination of several months of discussions between business and municipal stakeholders, proposes some significant changes in existing law. Many of these changes are modeled on existing state law relating to the state personal income tax. This bulletin summarizes some of the more significant changes made by the bill.

<u>Net Operating Loss</u>: Under current law, each municipality decides whether to recognize net operating losses (NOLs), and how long to permit them to carry forward. Under the bill, net operating losses incurred in years beginning after December 31, 2016, may be carried forward up to five years. However, during the five years from 2018-2022, only 50% of the eligible NOL may be claimed and there is no additional time beyond the five year limitation to use the remaining portion of the NOL. NOLs recognized under existing laws may continue to be used as under existing law and are not subject to the 50% reduction. Losses associated with basis, at-risk and passive activity limitations are not permitted to be carried forward. NOLs may not be used to offset qualifying wages.

<u>Income apportionment</u>: Current law provides for the apportionment of business income according to a three-factor formula that considers property, payroll, and sales, and provides rules for determining when those items are within or without the municipality in question. Language does permit variation from this formula, but it is vague and its application varies from city to city. Under the bill, an alternative apportionment formula may be claimed on an original return, or by the filing of an amended return or a petition to contest an assessment. The request is subject to rejection by the tax administrator; the administrator may also require the use of an alternative method. In both cases, the applicable standard is that the alternative method is necessary to accurately reflect the taxpayer's business activity within the municipality. The bill revises the payroll factor slightly and retains the existing rule for sourcing sales of tangible personal property shipped from inside, but delivered outside the municipality.

<u>Pass-Through Entities</u>: Under current law, municipalities may elect to tax pass-through entities ("PTEs") and their owners either at the entity level, or at the individual level. Under the bill, income from PTEs (except for subchapter S corporations) must be taxed at the entity level. In addition, a municipality may also tax the distributive share of the resident owner of a PTE. If the municipality provides a credit to taxpayers for tax paid to another community, the credit must extend to the tax paid by the PTE.

Regarding subchapter S corporations, the existing treatment is retained. That is, in most cases, the income of a subchapter S corporation must be taxed at the entity level. The existing election of about 119 municipal corporations to tax such income in the hands of the shareholders is retained.

A disregarded entity for federal income tax purposes is generally disregarded for municipal income tax purposes; the items of income and loss and apportionment factors of the disregarded entity are included in the like items for the members. A single-member LLC that is a disregarded entity may be taxed as an entity separate from its single member under certain limited circumstances.

Consolidated Returns: Under current law, each municipality may determine whether to permit taxpayers to file consolidated returns and the terms under which such election may be made. Under the bill, a taxpayer that is a member of an affiliated group of corporations may elect to file a consolidated return if at least one member of the affiliated group is subject to municipal taxation and the group filed a consolidated return for federal income tax purposes for that taxable year. All members of the consolidated group must be included in the return, and all members are jointly and severally liable for any tax that is owed. Furthermore, once consolidated status is elected, the taxpayer must continue to file in that manner until written permission to file individually is obtained from the municipality.

A combined group may elect to include, or to exclude, PTEs that are at least 80% owned by the members of the group. Items of income and expense and apportionment factors are included or excluded in the group's calculations as the case may be.

Combined groups that made an election or entered into an agreement to file on a combined basis before January 1, 2016, may continue to file according to that election or agreement.

The tax administrator may require a combined filing if the administrator finds that transactions between related members are not at arm's-length *and* shift items of income and expense.

Domicile: Under current law, each municipality is free to determine whether a taxpayer is domiciled within the city, regardless of whether the individual is domiciled in Ohio for Ohio personal income tax purposes. Under the bill, only the 25 different factors specifically listed in the statute may be used, by either taxpayers or tax administrators, to establish domicile or residency.

Transient Taxpayers: Under existing law, other than a professional athlete or entertainer, an individual may perform services within a municipality for up to 12 days before the individual's employer is required to withhold tax for that municipality. There is no guidance as to what constitutes a day for these purposes. The bill extends that threshold to 20 days. Moreover, an employee is considered to have spent a day providing services within a municipality only if the individual spends more time during the day in that municipality than in any other; there are special rules relating to how travel time during the day is considered. If an employee is based in a municipality that imposes a tax, the 20-day safe harbor applies only if tax is withheld on behalf of the municipality in which the employee is based. If an employee files a claim for refund with the municipality in which the employer is based for the reason that the employee worked outside the municipality, then the 20-day safe harbor does not apply and tax is owed to any other municipality in which work was performed. An employer must begin to withhold tax on the 21st day that an employee spends in a municipality that imposes a tax, but there is no requirement to go back to withhold for the prior 20 days.

As is the case under existing law, this provision does not apply to professional athletes or entertainers; under the bill, public figures are also excluded from this provision.

<u>Minimum Payments:</u> Under the bill, no tax will have to be paid, and no refund will be granted, for amounts less than $10. In addition, quarterly estimated payments cannot be required unless the amount of tax that is owed is $200 or more for the year.

<u>Winnings from Casinos and Video Lottery Terminals:</u> New R.C. 718.031 provides that a casino operator or video lottery terminal agent shall withhold tax on the winnings for the municipality in which the facility is located. All amounts withheld must be reported and paid to the municipality by the 10th day of the following month. Annual reports to both the municipality and winners from whom amounts are withheld are also required.

<u>Audit and Assessment Provisions</u>: Under current law, there is no consistent period for assessment or refund purposes. The bill provides for a 3-year statute of limitations for assessments and refund claims. Uniform penalty and interest provisions are provided in the bill.

Under current law, assessment appeal procedures are largely undefined. The bill provides for the issuance of written assessments; appeals to the local board of review within 60 days of receipt of an assessment; a hearing before the local board of review within 45 days and representation by an attorney or other representative; and a written decision that must be issued within 90 days of the hearing and can be appealed to the state board of tax appeals.

Modeled on existing state law, the bill contains provisions regarding a taxpayer bill of rights; for a problem resolution officer for larger cities; for formal tax opinions; for offers in compromise; and for taxpayer suits for violation of various provisions. There is also a provision for adjustments associated with federal or state income tax audits that result in changes to items of income or expense, with the requirement of an amended return to reflect the changes.

<u>Powers & Duties</u>: Under current law, the authority and duties of tax administrators are virtually undefined. Under the bill, R.C. 718.30 provides express authority to promulgate rules of procedure; authority to inspect records; authority to issue subpoenas; provides a laundry list of powers and duties similar to those found in existing law for the state tax commissioner.

<u>Study Committees</u>: Uncodified provisions of the bill call for two separate committees. The Municipal Income Tax Net Operating Loss Review Committee is created to evaluate and quantify the potential fiscal impact to municipal corporations required to permit NOL carryforwards. By May 1, 2017, the committee is required to issue a report to the General Assembly regarding its findings and recommendations to address any revenue shortfalls.

The second committee is the Municipal Income Tax Revenue Reporting Study Committee. The committee is charged with studying the feasibility of requiring municipalities to report separately the portions of their income tax revenues derived from resident and nonresident individuals by May 1, 2015.

Implementation: Except as otherwise provided, these provisions are effective for tax yeas beginning after December 31, 2015. Effective January 1, 2016, no municipality may enforce any ordinance or regulation that is inconsistent with the provisions of the bill.

Summary: The bill is lengthy. Some of the provisions that are summarized here are quite involved and express provisions should be reviewed to determine their applicability to a particular taxpayer or situation. In addition, a number of other changes were made that are not included in this summary. If you have any questions or would like additional information, please contact Mark Engel at 513.870.6565 or mengel@bricker.com.

Ohio House Bill 64: Budget for Fiscal Years 2016-2017 Featuring Significant Tax Changes

Mark A. Engel
Bricker & Eckler LLP

Just before Valentine's Day, House Bill 64 containing the provisions of Ohio Governor John Kasich's budget bill for the 2016-2017 fiscal years was introduced. Continuing a trend from prior budgets, the plan calls for further reductions in the personal income tax rate, expansion of the small business deduction, revisions to the minimum commercial activity tax for business with less than $2 million in annual receipts, and increased personal exemptions for lower and middle income taxpayers. The reductions would be paid for in part by increases in the rates of the sales, cigarette and commercial activity taxes, expanding the sales tax to a number of new services, as well as a revamping of Ohio's severance tax on oil and natural gas. Over-all, the proposal claims a tax reduction of over $500 million over the two years of the budget.

<u>Personal Income Tax</u>

Current law contains a deduction for one-half of the first $250,000 for an individual's net business income; this deduction applies to sole proprietors as well as to the owners of pass-through entities such as partnerships, S corporations, and limited liability companies. The budget retains this provision for businesses with income in excess of $2 million. In addition, the bill proposes to exclude small business income from any business with gross receipts up to $2 million.

Personal income tax rates will be reduced 15 percent during the first year of the budget, with an additional 8 percent reduction for the second year. The top personal income tax rate would be reduced from the current 5.33 percent to 4.1 percent over the two years.

The personal exemption for taxpayers earning less than $40,000 annually would be increased from $2,200 to $4,000 for taxable years beginning in 2015 or later. For those earning between $40,000 and $80,000 annually, the exemption would increase from $1,950 to $2,850.

The plan also proposes to means-test some deductions and credits. This provision applies to the deduction for social security and railroad retirement benefits; the $50 senior credit; and the lump sum retirement credit. Taxpayers with annual income in excess of $100,000 would no longer be able to claim these deductions and credits.

<u>Commercial Activity Tax</u>

Under current law, the tax on the first $1 million in annual taxable gross receipts is not determined by multiplying the taxable gross receipts by the statutory rate; instead, taxpayers pay a graduated minimum tax based on their total taxable gross receipts from the prior year. Under the bill, the minimum tax for taxpayers with less than $2 million in annual taxable gross receipts would be reduced from $800 to $150. For taxpayers with annual taxable gross receipts between $2 million and $4 million, the minimum tax would be $2,100. The minimum tax for taxpayers with annual taxable gross receipts in excess of $4 million remains at $2,600.

The rate of the tax will increase from 0.26 percent of annual taxable gross receipts in excess of $1 million to 0.32 percent of such receipts, an increase of roughly 23 percent.

There is a new exclusion for receipts from the sale of vapor products by a dealer equal to the amount of the new state excise tax on such products (see Tobacco Tax discussion). This exclusion mirrors a number of other exclusions for various taxes collected by taxpayers to be remitted to the state.

The bill also changes the distribution of receipts from the CAT. Small amounts would be allocated for administrative purposes, be earmarked for highway infrastructure purposes, or be used for purposes of the school district and local government tangible property tax replacement funds. The majority of the tax, up to 75 percent for tax years beginning in 2016, would be distributed to the general revenue fund.

Sales Tax

The state sales tax rate will be increased by one-half cent, from 5.75 percent to 6.25 percent.

The tax will also be expanded to a number of services, including cable TV subscription services and parking. In addition, the tax is expanded to the following services, regardless of the profession of the provider unless the provider is an employee of the recipient of the service:

- Transactions by which bad debt is or is to be transferred;
- Travel service, which means acting as an agent in selling travel, tour, or accommodation services to the general public and commercial clients;
- Research and public opinion polling service, which means systematically gathering, recording, tabulating and presenting marketing and public opinion data;
- Public relations service, which means designing and implementing public relations campaigns designed to promote the interests and image of one or more clients;
- Lobbying service, which means any activity that serves to influence the behavior or opinion of an individual, an industry, or an organization;
- Management consulting service, which means any activity that provides advice and assistance to businesses and other organization on business issues; and
- Debt collection service, which means collecting payments for claims and remitting payments collected to their clients; and
- Repossession service, which means repossessing tangible assets for the creditor as a result of delinquent debts.

The current exclusion for sales of services transacted by the state or its political subdivisions is repealed.

Ohio currently reduces the price paid for a new car or boat by the value of any car or boat traded in, the value of which is applied against the purchase price. This reduction will be cut in half.

Finally, the vendor discount, intended to reimburse vendors for the cost of collecting, reporting, and remitting the sales tax, will be capped at $1,000 monthly.

Severance Tax

The severance tax is a volume-based tax imposed on oil and natural gas at a rate, including a regulatory fee, of $.20 per barrel and $.03 per MCF, respectively. These rates apply to oil and natural gas produced by both conventional vertical wells and horizontal wells using hydraulic fracking technology. Condensate and natural gas liquids are not separately taxed.

In the case of oil or natural gas produced by vertical wells, the tax would be imposed at rates of 20¢ per barrel of oil, and 3¢ per MCF of natural gas; the existing assessment fees would be repealed. In the case of oil, natural gas, condensate, or natural gas liquids produced by horizontal wells, the tax would be based on the volume of product produced during a calendar quarter multiplied by the average quarterly spot price of the commodity in question. For each product, the "average quarterly spot price" means, for the quarter that begins six months prior to the existing quarter, the average daily spot price of a specified quantity of product, as publicly available from a source determined by the tax commissioner. Before the first day of each quarter, the tax commissioner is required to certify and post on the Department's web site, the average quarterly spot price for each product for the ensuing quarter.

The tax is imposed at the following rates:

- For oil, the tax is imposed at a rate of 6.5 percent
- For natural gas that enters the natural gas distribution system without processing, 6.5 percent;
- For all other natural gas, 4.5 percent;
- For condensate collected at a point other than the wellhead, 6.5 percent; and
- For natural gas liquids collected other than at the wellhead, 4.5 percent.

Funds generated by the tax are deposited into the severance tax receipts fund. After any transfer of funds into the tax refund fund, the remaining funds are credited as follows:

- Monthly, an amount to the oil and gas well fund and geological mapping fund, based on amounts appropriated for regulation, geological mapping, and plugging idle and orphaned wells.
- Quarterly, of the remaining amount,
    - 10 percent to the county severance tax fund;
    - 5 percent to the severance tax infrastructure fund
    - 5 percent to the severance tax endowment fund
    - 80 percent to the general revenue fund.

Tobacco Tax

The tax rate on cigarettes is increased from 62.5 mills per cigarette to 112.5 mills, or $1.00 per package of 20 cigarettes. The bill also eliminates the discount for wholesalers or retailers for adding tax stamps to the cigarettes that are sold.

a. Minimum Cigarette Pricing

The bill imposes a scheme to regulate the price at which cigarettes may be sold. The "retail cigarette price" is the wholesale cigarette price multiplied by 1.08. If a county cigarette tax has been imposed, that tax is deducted from the wholesale price before the calculation is made, and then is added to the calculated price. The "wholesale cigarette price" means 1.03 multiplied by the sum of the manufacturer's list price, the state tax paid, and any county tax.

The Department of Taxation is required to post on its website a list of each manufacturer licensed to sell cigarettes in Ohio; the brands the manufacturer is licensed to sell in Ohio; and the manufacturer's list price for each brand family of cigarettes. A manufacturer may not sell cigarettes in Ohio that are not on the list, and must notify the tax commissioner of any price change before implementing the change.

Wholesale and retail sellers may not sell cigarettes below the wholesale price or retail price, respectively, and generally may not offer promotions that would result in prices below the posted prices. The license of a seller who violates these requirements may be revoked. However, this provision does not apply to brand close-outs; the sale of damaged or imperfect products; sales during the liquidation of a business; or sales made pursuant to court order.

b. Rate Increase on Other Tobacco Products

With respect to other tobacco products, the tax is increased to 60 percent of the wholesale or retail price, as appropriate. Any sellers' discount is repealed.

c. New Tax on Vapor Products, i.e., e-cigarettes

A new tax scheme for "vapor products" is included in the bill in new Chapter 5744. A "vapor product" means a noncombustible product made of, or derived from, nicotine and that is intended for human consumption., and that includes any mechanical heating element to deliver the product. A tax is imposed on the "cigarette equivalent" of the vapor product. The cigarette equivalent of a liquid product is one-tenth of one milliliter, while the cigarette equivalent of a solid product is 1 gram, including the weight of any delivery device. The tax is imposed at the same rate as the tax on cigarettes; that is, the tax rate is 122.5 mills per cigarette equivalent.

The bill establishes licensing, filing, and assessment procedures that closely mirror those relating to regular tobacco products. Wholesale and retail sellers will have to obtain a license from the department of taxation in order to sell vapor products in the state. Sellers will also have to file monthly tax returns and remit payment of the tax by the 15th day of the month following the month covered by the return. The tax commissioner may require that all filings and payments are to be made through the Ohio Business Gateway or by other electronic means, and may also excuse persons from electronic filing and payment requirements.

Provision is made for responsible party liability where tax has not been paid, and for successor liability in the case of businesses that are sold or transferred to another.

There would be a four-year statute of limitations for both assessments and refunds. This period can be extended by agreement of the taxpayer and the tax commissioner.

Receipts from the tax are to be credited to the general revenue fund. The tax and licensing requirements would be effective January 1, 2016.

Overall Reduction in Taxes

The proposal is expected to result in a net reduction in taxes of $246 million in fiscal year 2016, and an additional $277 million in fiscal year 2017.

Tax Expenditure Review Committee

The bill also authorizes the establishment of a Tax Expenditure Review Committee. The function of the Committee is to review a number of exemptions, exclusions, and credits from various taxes according to a prescribed schedule. By the last day of 2016, 2017, 2018 and 2019 the Committee is to complete its review the expenditures scheduled for that year and issue a report containing its recommendations with respect to each expenditures.

The Committee is to consider a number of factors, including fiscal effects, the number and classes that are benefitted from each exclusion, and the success of each expenditure in meeting its objectives.

Of interest to manufacturers, the sales tax exemptions for manufacturing equipment, packages and packaging equipment, and research and development equipment are slated for review in 2017. The CAT credits for qualified research and development expenses and net operating loss carry-forwards are scheduled for review in 2018.

Summary

In the broadest sense, the tax proposals contained in H.B. 64 are similar to those included in the last budget proposal: lower income taxes on individuals and small-business owners, paid for in part by increased sales, commercial activity, tobacco and severance taxes, especially on large business entities. Opposition to the prior proposal resulted in a somewhat scaled back reduction in income taxes and more modest increases in the sales tax rate, as well as increases in the taxes applicable to tobacco and alcohol. A budget bill must be in place by June 30, 2015. It will contain provisions to reduce the personal income tax. It remains to be seen what other tax provisions will be included in the final bill.

TO: OMA Tax and Finance Committee
FROM: Rob Brundrett
SUBJECT: Tax Public Policy Report
DATE: March 18, 2015

Overview

The 131st General Assembly was seated in January. The dominate tax issue will be the state budget which was introduced in February. The bill proposed sweeping new tax changes centered on a small business tax cut and personal income tax cut. In order to finance the cut several other tax rates were increased. The budget must be signed prior to July 1, 2015.

State Financial Condition

Economic growth slowed to a 2.2% pace in the fourth quarter from approximately 4.8% during the middle two quarters. The economy expanded by 2.4% for the year.

U.S. employment increased by a strong 295,000 jobs in February, although the gain in January was revised down slightly. The unemployment rate decreased to 5.5% – a new low for the expansion.

Ohio employment increased by 25,100 jobs in January. Employment growth in 2014 was revised upward to 72,000 jobs. As of January, Ohio employment is higher by 396,100 jobs since the cycle low in February 2010. The unemployment rate held steady in January at a revised 5.1% – 0.6 percentage points below the national unemployment rate that month.

Despite a softening recently in some measures of national economic activity, leading indicators remain consistent with uninterrupted growth at a moderate pace across the country and in Ohio.

Special Committees

Senate Tax Expenditure Review Committee

President Faber announced that the Senate Ways and Means Committee would be reviewing existing Ohio tax expenditures prior to the state budget bill moving to the House. The OMA testified on March 11, on the manufacturing inputs sales tax exemption. The Governor has also included a review of tax expenditures in his budget proposal.

Tax Legislation

House Bill 9 – Tax expenditure review committee

One of the House priority bills is to create a Tax Expenditure Review Committee for the purpose of periodically reviewing existing and proposed tax expenditures. The Governor included this in his budget proposal and the Senate is reviewing expenditures currently.

House Bill 64 – state budget bill

House Bill 64 the state budget bill was introduced in February. The House removed the tax portions of the bill for separate hearings in the Ways and Means Committee. The bill raises the CAT rate from .26% to .32%, increases the state sales tax by one-half cent, from 5.75 percent to 6.25 percent. It also expands sales tax to a number of services, including cable TV subscription services and parking. There is also a possibility the new language might pick up legal, accounting, and intercompany transactions.

The severance tax and the tobacco tax are also proposed for rate changes.

The plan uses the new revenues generated to finance a small business and personal income tax deduction. Current law contains a deduction for one-half of the first $250,000 for an individual's net business income; this deduction applies to sole proprietors as well as to the owners of pass-through entities such as partnerships, S corporations, and limited liability companies. The budget retains this provision for businesses with income in excess of $2 million. In addition, the bill proposes to exclude small business income from any business with gross receipts up to $2 million.

Personal income tax rates will be reduced 15 percent during the first year of the budget, with an additional 8 percent reduction for the second year. The top personal income tax rate would be reduced from the current 5.33 percent to 4.1 percent over the two years.

In a memo prepared for OMA members, OMA tax counsel Mark Engle of Bricker & Eckler LLP notes: "In the broadest sense, the tax proposals contained in H.B. 64 are similar to those included in the last budget proposal: lower income taxes on individuals and small-business owners, paid for in part by increased sales, commercial activity, tobacco and severance taxes, especially on large business entities. Opposition to the prior proposal resulted in a somewhat scaled back reduction in income taxes and more modest increases in the sales tax rate, as well as increases in the taxes applicable to tobacco and alcohol."

Senate Bill 88 – CAT credit
Sponsored by Sen. Charleta Tavares (D-Columbus) would create tax credits, including CAT credits, for the employment of individuals who have been convicted of criminal offenses.

House Bill 102 – CAT credit
House Bill 102 sponsored by Reps. Niraj Antani (R-Miamisburg) and Hearcel Craig (D-Columbus), would provide a bid preference for state contracts to a veteran-owned business and would authorize a personal income and CAT credit for a business that hires and employs a veteran for at least one year.

Tax News
Ohio 2nd in 2014 Site Selection Ranking
For the second year in a row, Ohio finished second in Site Selection magazine's "Governor's Cup," awarded for the number of new plant projects in the year. Ohio finished second both in the aggregate number of projects and in the per capita category.

Texas led the nation in total projects. Kentucky took the per capita crown.

Ohio Manufacturers' Position on House Bill 64

March 9, 2015

Introduction

The Ohio Manufacturers' Association appreciates the opportunity to comment on tax policy considerations and the specific provisions contained in House Bill 64. This document reflects tax policy guiding principles and recommendations to increase the competitiveness of Ohio's manufacturing economy, and therefore, the Ohio economy. The concepts in this document were developed by OMA members in conjunction with OMA tax counsel.

Guiding Principles

For Ohio to be successful in a global economy, the state's tax structure must encourage investment and growth and be competitive nationally and internationally. A globally competitive tax system is characterized by (a) certainty, (b) equity, (c) simplicity and (d) transparency. Economy of collections and convenience of payment also are important considerations.

Generally, manufacturers support efforts to broaden the business 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. The objects of taxation must be clearly defined. Where needed, government incentives are best structured as grants rather than as tax credits. And, in general, earmarking and dedicating general tax revenues to specific purposes should be discouraged.

It is poor tax policy to single out any one segment of the economy or group of taxpayers to bear the cost of tax relief for the general population. Similarly, except to resolve existing inequality, or in cases of other policy imperatives, Ohio tax policy should not create a windfall for any group of taxpayers at the expense of other groups of taxpayers.

Compliance and administration of any tax should be as simple and inexpensive as possible for taxpayers and tax administrators alike.

Good tax policy also generates necessary revenues to support the essential functions of government. To ensure transparency regarding the true cost of government and the rate of its growth, however, funding government programs with fee revenue instead of general fund revenue should be discouraged. Good budgeting and spending restraint at all levels of government are vital to ensure a competitive tax environment.

Major tax reforms approved by the Ohio General Assembly in 2005 have led to significant improvements to a tax system that was for many years widely regarded as outdated. Reforms included reducing overall tax rates, eliminating tax on investment, broadening the tax base, providing more stable and predictable revenues, and simplifying compliance. While we applaud the stated effort to reduce over-all taxes, there are significant problems with the current proposal.

Comment on House Bill 64

Commercial Activity Tax (CAT)

House Bill 64 proposes to increase the CAT rate 23 percent, from 0.26 percent to 0.32 percent. While the nominal rate appears small, as a gross receipts tax the pyramiding impact of the tax is significant. In addition, because the tax applies to each stage of the economy, the cost of the tax becomes hidden in each subsequent transaction and increases the cost of doing business.

We note that many of the small businesses targeted for income tax reductions will also pay the CAT.

Rather than increase the rate on business in general, we suggest that a better approach is to reduce the number of exclusions and exemptions to the tax, specifically the exclusions from the tax that have been enacted since 2005.

Sales Tax

As noted previously, OMA favors broad-based, low-rate taxes that are transparent, easy to administer, certain, and treat all taxpayers similarly. Unfortunately, the sales tax changes proposed in House Bill 64 fail all four of these tests.

It has been suggested that in order to spur economic growth, consumption, rather than income, should be taxed. That is one of the reasons the CAT, which taxes *commercial* consumption, was enacted. Similarly, a sales tax acts to tax *personal* consumption. It is not intended to tax business inputs such as raw materials, machinery and equipment that are used to produce other outputs that are ultimately taxed. Since commercial consumption is already subject to taxation under the CAT, expansion of the sales tax base should not be directed at commercial consumption.

Increasing the tax rate by 8.7 percent is contrary to the principal of a broad-based, low rate tax. The goal in broadening the sales tax base should be to reduce rates, not to increase them.

Additionally, manufacturers are highly concerned about the provisions in House Bill 64 that would extend the sales tax to certain currently exempt services such as legal and accounting services. Among the concerns are (1) extension of the tax to transactions between members of an affiliated group of entities, (2) uncertainty surrounding sourcing rules, (3) failure to afford to services the benefit of existing exemptions for tangible property for purposes of resale or for business inputs, and (4) uncertainty of the breadth of taxable services under the plain language of the statute.

Affiliated Entities

Under existing law there is an exclusion from the tax for certain taxable services, such as electronic information services and employment services that are provided to other members within a related group of businesses. However, with respect to the extension of the tax to services in House Bill 64, the bill provides that the services are taxable "regardless of the identity of the service provider." Thus, the members of affiliated businesses that use a common services center to provide accounting, credit and collections, legal, management, or other centralized services, will all have to pay sales tax on those transactions within the group if there is any sort of cost allocation or charge-back.

Taxing services provided to affiliated entities causes concern for a number of reasons. Such business structures are typically used to reduce costs or for liability reasons, but do not represent any meaningful economic activity of the business. Indeed, it is the recognition of this fact that leads to the exclusion of transactions between affiliated entities for income or commercial activity tax purposes. There is no “consumption” to be taxed and any economies from the choice of business structure can be lost through the taxation of those services. In addition, businesses employing this structure often allocate costs as simply as possible in order to minimize the administrative costs of doing so. If those transactions are taxed, businesses will need to track those allocations more closely in order to tax them properly. They are not currently set up to do so and the costs (in time, money, and human capital) to implement those changes are enormous. Requiring C-level executives and other high-level managers to track their time may give companies pause about locating such individuals in Ohio, if at all. This situation is made worse by the uncertainty of determining the location as to where the benefit of these services is received, which is discussed below.

Business inputs simply should not be taxed.

<u>Location of the Sale</u>

In addition to statewide sales tax, counties and transit authorities may also impose local sales tax at various rates. Therefore, it becomes critical to determine where a sale takes place for both state and local tax purposes so that the correct tax can be collected and paid.

Under existing law, there are some general guidelines as to where a sale takes place. As a general rule, the sale is taxed at the location where the tangible property is located, or where the benefit of the service is received under current law. Given the nature of the limited number of services that are currently taxed, this rule, although inexact, generally works. However, with the inclusion of nearly all business services within the tax base, it will become more and more difficult to determine where a sale takes place and the correct tax, if any, to apply to the transaction. This uncertainty causes grave concern to manufacturers.

Previously the Department of Taxation proposed to allow taxpayers to use any reasonable method to apportion their sales or purchases, and intends to promulgate rules that will provide guidance in this area. Unfortunately, such vagueness only increases the uncertainty and speculation associated with the proposal. This is especially distasteful upon audit, where the Department of Taxation may second-guess the decision and leave a taxpayer in the unenviable position of having the burden of proof to establish that the department is wrong. The government needs to create a level of guidance that is clear and is unambiguous. Any sourcing rule or statute must clearly explain how this will be enforced, otherwise it will significantly complicate compliance and auditing.

<u>Exemptions for Resale and Business Inputs</u>

Under current law, transfers of tangible personal property and the selected services that are subject to tax are not taxed if they are acquired for the purpose of being resold. For example, a wholesaler does not pay sales tax on tangible products that it is going to sell to a retailer. The reason for that is simple: The sales tax is intended to be a tax on final consumption. However, under the bill, there is no exclusion for services that may be acquired for purposes of resale. Purchases for resale are not for consumption; they represent investment in the business. A *realistic* resale provision must be retained in the sales tax law for transactions involving services.

In addition, a number of tangible business inputs are presently excluded from the tax for a person creating tangible items that are ultimately sold and subject to the tax. For example, manufacturers may acquire various tangible items used in the manufacturing activity without the payment of sales tax. However, this provision is limited to the acquisition of "things" or property. Under House Bill 64, there is no parallel exclusion for services that may be used in the manufacturing process. Yet these items, such as temporary labor on the assembly line, are just as critical and as intimately involved in producing a product for sale as any machine.

The tax policy reason that transactions involving tangible property are excluded from the tax is because the sales tax is a tax on ultimate consumption. The product being produced will ultimately be taxed, but inputs into the production of those goods should not be taxed. This basic premise of sales tax policy has existed since the inception of the tax in 1934 and applies to a number of activities where multiple steps may be taken that result in a tangible good that is sold for ultimate consumption and that is subject to sales tax. The proposed legislation fails to extend this basic policy to the services to which sales tax is to be extended. This not only is poor tax policy, it creates a divergence in the treatment of one sort of purchase (tangible personal property) from another sort of purchase (service or intangible) for no good reason. Transparency is lost as the tax pyramids on *intermediate* transactions.

Income Tax

Ohio's manufacturers understand the importance of lowering the state's income tax rates and broadening its base. Lowering the tax rate and broadening its base increase the state's overall competitiveness with other states when attempting to attract new or retain expanding businesses in Ohio. However, there are a number of credits and exclusions from the tax; taxes should not be raised on other taxpayers in order to broaden the base, to reduce the rate, to render the tax more transparent, and to render compliance simpler.

Many of the businesses targeted to receive the benefit of the income tax changes will also pay additional CAT and sales tax due to the other provisions of the bill. We question whether this tax shifting will really work to improve Ohio's economy.

Moreover, selecting a single form of business for tax relief at the expense of other forms of business picks winners and losers. The experiment in Kansas indicates that a number of businesses are changing their form of business simply to take advantage of this favorable treatment with no real economic impact.

Summary

The success of Ohio manufacturing – though its vast network of in-state customers and suppliers – large global firms and their local supply chains – enhances the economic vitality of other Ohio industries and Ohioans' quality of life.

Since the enactment of 2005 tax reform, OMA has maintained a principled, consistent approach to tax policy in Ohio. That approach insists on certainty, equity, simplicity, and transparency. The erosion of the many gains achieved through the tax reform legislation, in the form of carve-outs, exclusions, and ear-marks, reduces certainty, creates disparity by selecting winners and losers, renders the tax code more complicated, and reduces transparency as taxes become hidden in product costs and it becomes more difficult to determine who is entitled to which exclusions.

If the current proposal is to promote the business climate in Ohio, it should reduce ambiguity to the greatest extent possible. It must also be done in a manner that is consistent with sound tax policy. Merely extending the tax base is not enough.

The issues specifically addressed in this document are critical to business in general and manufacturing in particular. They are inter-related, in many ways they spill over into each other. If they are not addressed, the proposed legislation will disincentive manufacturing in Ohio. Low income tax rates won't override the anti-competitive and burdensome nature of the itemized shortcomings.

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Ohio Manufacturers' Concerns about House Bill 64

For Ohio to be successful in a global economy, the state's tax structure must encourage investment and growth and be competitive nationally and internationally. A globally competitive tax system is characterized by (a) certainty, (b) equity, (c) simplicity and (d) transparency. Economy of collections and convenience of payment also are important considerations. And, generally, manufacturers support efforts to broaden the business tax base, which enables lower rates.

The current proposal – House Bill 64 – is designed to shift taxes away from income and towards consumption. However, if the proposed changes are to enhance the business climate in Ohio, they must be consistent with sound tax policy. Merely extending the tax base is not enough.

The specific issues identified in this document are critical to business in general and to manufacturing in particular. They are interrelated and in many ways spill over into each other. If they are not addressed, the proposed legislation will create incentives to not do business in Ohio or with Ohio businesses. Lower income tax rates won't override the burdensome, anti-competitive nature of the itemized shortcomings.

House Bill 64: Major Components and Concerns

Commercial Activity Tax (CAT)

- Ohio's Commercial Activity Tax (CAT) is a broad-based, low-rate tax that applies to gross receipts from virtually all business activities conducted in Ohio.
- HB 64 proposes to increase the CAT rate 23 percent, from 0.26 percent to 0.32 percent. While the nominal rate may appear small, as a gross receipts tax the pyramiding impact of the tax is significant.
- Additionally, because the tax applies to each stage of the economy, the cost of the tax becomes hidden in each subsequent transaction and increases the cost of doing business.

Sales Tax

- HB 64 proposes to increase the state sales tax rate by 8.7 percent.
- This runs contrary to the principal of a broad-based, low-rate tax, where the goal should be to *lower* rates, not to *increase* them.
- The rationale offered for increasing the sales tax rate is the belief that in order to spur economic growth, consumption, rather than income, should be taxed. That is one of the reasons the CAT, which taxes *commercial* consumption, was enacted. Similarly, a sales tax acts to tax *personal* consumption. It is not intended to tax business inputs such as raw materials, machinery and equipment that are used to produce other outputs that are ultimately taxed. Commercial consumption is *already* subject to taxation under the CAT, so any expansion of the sales tax base should not be directed at *commercial* consumption.

- Additionally, manufacturers are highly concerned about several provisions in HB 64 that would extend the sales tax to certain currently exempt services such as legal and accounting services. Among the concerns are (1) extension of the tax to transactions between members of an affiliated group of entities, (2) uncertainty surrounding sourcing rules, (3) failure to afford to services the benefit of existing exemptions for tangible property for purposes of resale or for business inputs, and (4) uncertainty of the breadth of taxable services under the plain language of the statute.

Affiliated Entities

- Existing law excludes from the state sales tax certain taxable services (e.g., electronic information services and employment services) that are provided to other members within a related group of businesses.
- Under HB 64, transactions among affiliated entities are taxable "regardless of the identity of the service provider." Thus, the members of affiliated businesses that use a common service center to provide accounting, credit and collections, legal, management or other centralized services, will all have to pay sales tax on those transactions within the group if there is any sort of cost allocation or charge-back. This provision in HB 64 concerns manufacturers for several reasons:
    - Such business structures are typically used to reduce costs or for liability reasons; they do not represent any meaningful economic activity of the business. Recognition of this fact has led to the exclusion of transactions between affiliated entities for income or commercial activity tax purposes.
    - Any economies a company might realize from an affiliated entities business structure can be lost through the taxation of those services. Businesses employing this structure often allocate costs as simply as possible to minimize their administrative costs. If all transactions are taxed, businesses will need to track those allocations more closely in order to tax them properly. The cost of such changes for businesses not currently set up to do so (in time, money and human capital) could be enormous.
    - This situation is made worse by the uncertainty of determining the location where the benefit of services provided to affiliated entities is received (see below).

Location of the Sale

- In addition to the statewide sales tax, counties and transit authorities also may impose local sales tax at various rates. It is critical, therefore, to determine where a sale takes place for both state and local tax purposes so that the correct tax can be collected and paid.
- Existing law provides some general guidelines regarding where a sale takes place. Generally, a sale is taxed at the location where the tangible property is located, or where the benefit of the service is received. Given the nature of the limited number of services that currently are taxed, this rule, although inexact, generally works.
- However, HB 64's inclusion of nearly all business services in the sales tax base will make it increasingly more difficult to determine where a sale takes place and the correct tax, if any, to apply to the transaction.

- Previously the Department of Taxation proposed to allow taxpayers to use any reasonable method to apportion their sales or purchases, and has indicated it intends to promulgate rules that will provide guidance in this area. Unfortunately, such vagueness only increases the uncertainty and speculation associated with HB 64's proposed extension of the sales tax.
- Without clear, unambiguous guidance and enforcement policies from state government, this provision of HB 64 could become a compliance and audit nightmare.

Exemptions for Resale and Business Inputs

- A number of tangible business inputs are presently excluded from the sales tax for a person creating tangible items that are ultimately sold and subject to the tax. (For example, manufacturers may acquire various tangible items used in the manufacturing activity without paying sales tax.) However, this provision is limited to the acquisition of "things" or property.
- House Bill 64 contains no parallel exclusion for *services* that may be used in the manufacturing process even though services such as temporary labor on the assembly line are just as critical in producing a product for sale as any machine.
- Transactions involving tangible property are excluded from the sales tax because it is a tax on ultimate consumption. The product being produced ultimately will be taxed, but *inputs* into the production of those goods should *not* be taxed. This basic premise of sales tax policy has existed since the inception of the tax in 1934 and applies to a number of activities where multiple steps may be taken that result in a tangible good that is sold for ultimate consumption and that is subject to sales tax.
- HB 64 fails to extend this basic policy to services to which the sales tax would be extended under the bill. There is no good reason to create a divergence in the treatment of one sort of purchase (tangible personal property) from another sort of purchase (service or intangible).
- Transparency also is lost as the sales tax pyramids on *intermediate* transactions.

Income Tax

- HB 64 calls for cutting the state income tax by 23 percent and eliminating it entirely for small businesses with less than $2 million in annual gross receipts.

- Ohio manufacturers understand that lowering the state's income tax rates and broadening its base is intended to increase the state's overall competitiveness with other states when attempting to attract new businesses and/or retain expanding businesses. We are troubled, however, by the number of credits and exclusions from the tax. Selecting a single form of business for tax relief at the expense of other forms of business amounts to government picking winners and losers.

- Additionally, many of the businesses targeted to benefit from the income tax changes included in HB 64 also will pay additional CAT and sales tax due to the other provisions of the bill. We question whether this tax shifting will really work to improve Ohio's economy.

BEFORE THE WAYS AND MEANS COMMITTEE
OF THE OHIO HOUSE OF REPRESENTATIVES
REPRESENTATIVE JEFF MCCLAIN, CHAIRMAN

TESTIMONY
OF
MARK ENGEL
BRICKER & ECKLER LLP
OMA TAX COUNSEL

MARCH 11, 2015

Mr. Chairman and members of the Committee, my name is Mark Engel. I'm a Partner in charge of Bricker & Eckler's Cincinnati-Dayton office; my practice is taxation, with concentrated experience in all aspects of state and local taxation, including tax planning, compliance, and litigation in sales and use, income, commercial activity, public utility, and property taxation as well as economic development. I also serve as tax counsel for The Ohio Manufacturers' Association (OMA). I'm testifying today on behalf of OMA regarding the governor's business tax proposals incorporated in House Bill 64. The OMA was created in 1910 to advocate for Ohio's manufacturers; today, it has 1400 members. Its mission is to protect and grow Ohio manufacturing.

For Ohio to be successful in a global economy, the state's tax structure must encourage investment and growth and be competitive nationally and internationally. A globally competitive tax system is characterized by (a) certainty, (b) equity, (c) simplicity and (d) transparency. Economy of collections and convenience of payment are also important considerations. And, generally, manufacturers support efforts to broaden the business tax base, which enables lower rates.

The OMA has identified specific issues of concern in House Bill 64's tax proposal that are critical to business in general and to manufacturing in particular. They are interrelated and in many ways spill over into each other. My testimony will address the greatest concerns.

Commercial Activity Tax

Major tax reforms approved by the Ohio General Assembly in 2005 led to significant improvements to a tax system that was for many years widely regarded as obsolete. These reforms reduced overall tax rates, eliminated tax on investment, and broadened the tax base, all of which have provided more stable and predictable revenues, and simplified compliance.

The elimination of the tangible personal property tax, the corporate franchise tax, and the estate tax has strengthened the competitiveness of Ohio's tax system. So has the reduction of the personal income tax rate as well as the creation of the broad-based, low-rate commercial activity tax (CAT).

The most competitive aspects of the CAT are its broad base, its low rate, and its broad application to business entities. House Bill 64 proposes that the rate at which the CAT is imposed be raised by 23% from 0.26 percent to 0.32 percent in order to help finance a personal income tax deduction. As a gross receipts tax, the CAT applies to every transaction in the chain of commerce. Thus, the tax is paid multiple times and is included in the price that the final consumer pays for a good or service. The distortive effect of taxing intermediate transactions is minimized when the tax rate is kept low. By raising the rate, this distortive effect is magnified. It renders Ohio tax structure less transparent and its businesses less competitive. The rate must remain low for the CAT to work effectively.

CAT Facts

According to Ohio Department of Taxation Fiscal Year 2014 Commercial Activity Tax Returns data, manufacturers made up the second-largest group of CAT taxpayers, representing 10.2% of all taxpayers (retail trade is the largest).

In terms of CAT revenues based only on the 0.26% CAT rate for gross receipts in excess of $1 million, manufacturers pay 26.8% of the state's total – far more than any other group. If the CAT rate is increased from 0.26% to 0.32%, as proposed in House Bill 64, manufacturers as a group will be required to pay roughly $111M in additional CAT per year, a 23% tax increase.

In addition, CAT filers with taxable gross receipts of $1 million or less accounted for 66.7% of all filers in fiscal year 2014, but only 0.7% of the total liability for that period. Clearly, small business benefits from the CAT, as well as the 21% reduction in personal income tax rates that was also part of the 2005 tax reform, the 10% reduction enacted in the last budget, and the additional proposed reductions included as part of the state's current budget bill.

Sales Tax

House Bill 64 proposes to increase the state sales tax rate by 8.7%. The rationale offered for increasing the sales tax rate is the belief that in order to spur economic growth, consumption, rather than income, should be taxed. That is one of the reasons the CAT, which taxes commercial consumption, was enacted. Similarly, a sales tax acts to tax personal consumption. It is not intended to tax business inputs such as raw materials, machinery and equipment that are used to produce other outputs that are ultimately taxed. Commercial consumption is already subject to taxation under the CAT so any expansion of the sales tax base should not be directed at commercial consumption.

Additionally, manufacturers are highly concerned about the provisions in House Bill 64 that would extend the sales tax to certain currently exempt services such as legal and accounting services. Among the concerns are (1) extension of the tax to transactions between members of an affiliated group of entities, (2) uncertainty surrounding sourcing rules, (3) failure to afford to services the benefit of existing exemptions for tangible property for purposes of resale or for business inputs, and (4) uncertainty of the breadth of taxable services under the plain language of the statute.

Affiliated Entities

Existing law excludes from the state sales tax certain taxable services (e.g., electronic information services and employment services) that are provided to other members within a related group of businesses.

Under House Bill 64, transactions among affiliated entities are taxable "regardless of the identity of the service provider." Thus, the members of affiliated businesses that use a common service center to provide accounting, credit and collections, legal, management or other centralized services, will all have to pay sales tax on those transactions within the group if there is any sort of cost allocation or charge-back. This provision in House Bill 64 concerns manufacturers for several reasons:

1. Such business structures are typically used to reduce costs or for liability reasons; they do not represent any meaningful economic activity of the business. Recognition of this fact has led to the exclusion of transactions between affiliated entities for income or commercial activity tax purposes.

2. Any economies a company might realize from an affiliated entities business structure can be lost through the taxation of those services. Businesses employing this structure often allocate costs as simply as possible to minimize their administrative costs. If all transactions are taxed, businesses will need to track those allocations more closely in order to tax them properly. The cost of such changes for businesses not currently set up to do so (in time, money and human capital) could be enormous.

It has become a best practice among large, global companies (and many smaller ones, as well) to consolidate shared business services as a corporate headquarter function. These functions employ highly compensated managers. If the transactions of these global business service centers were to become taxed, such companies would be discouraged from locating these shared services business centers in Ohio, as the Ohio tax cost under the bill would be high.

3. This situation is made worse by the uncertainty of determining the location where the benefit of services provided to affiliated entities is received.

Location of the Sale

In addition to the statewide sales tax, counties and transit authorities also may impose local sales tax at various rates. It is critical, therefore, to determine where a sale takes place for both state and local tax purposes so that the correct tax can be collected and paid.

Existing law provides some general guidelines regarding where a sale takes place. Generally, a sale is taxed at the location where the tangible property is located, or where the benefit of the service is received. Given the nature of the limited number of services that currently are taxed, this rule, although inexact, generally works.

However, House Bill 64's ambiguous definitions which appear to include nearly all business services in the sales tax base will make it increasingly more difficult to determine where a sale takes place and the correct tax, if any, to apply to the transaction.

Previously the Department of Taxation proposed to allow taxpayers to use any reasonable method to apportion their sales or purchases, and has indicated it intends to promulgate rules that will provide guidance in this area. Unfortunately, such vagueness only increases the uncertainty and speculation associated with House Bill 64's proposed extension of the sales tax.

This provision of HB 64 could become extremely complex with respect to compliance and auditing.

Exemptions for Resale and Business Inputs

Additionally, a number of tangible business inputs are presently excluded from the sales tax for a person creating tangible items that are ultimately sold and subject to the tax. (For example, manufacturers may acquire various tangible items used in the manufacturing activity without paying sales tax.) However, this provision is limited to the acquisition of "things" or property.

House Bill 64 contains no parallel exclusion for services that may be used in the manufacturing process even though services such as temporary labor on the assembly line are just as critical in producing a product for sale as any machine.

Transactions involving tangible property are excluded from the sales tax because it is a tax on ultimate consumption. The product being produced ultimately will be taxed, but inputs into the production of those goods should not be taxed. This basic premise of sales tax policy has existed since the inception of the tax in 1934 and applies to a number of activities where multiple steps may be taken that result in a tangible good that is sold for ultimate consumption and that is subject to sales tax.

House Bill 64 fails to extend this basic policy to services to which the sales tax would be extended under the bill. There is no good reason to create a divergence in the treatment of one sort of purchase (tangible personal property) from another sort of purchase (service or intangible).

Transparency also is lost as the sales tax pyramids on *intermediate* transactions.

Income Tax

House Bill 64 calls for cutting the state income tax by 23 percent and eliminating it entirely for small businesses with less than $2 million in annual gross receipts.

Ohio manufacturers understand that lowering the state's income tax rates and broadening its base is intended to increase the state's overall competitiveness with other states when attempting to attract new businesses and/or retain expanding businesses. We are troubled, however, by the number of credits and exclusions from the tax. Selecting a single form of business for tax relief at the expense of other forms of business amounts to government picking winners and losers.

Additionally, many of the businesses targeted to benefit from the income tax changes included in House Bill 64 also will pay additional CAT and sales tax due to the other provisions of the bill. We question whether this tax shifting will really work to improve Ohio's economy.

Conclusion

The OMA supports tax policy that supplies sufficient revenue for the execution of necessary state services in a manner that stimulates economic growth, investment and job creation. Tax policy should encourage growth of capital, growth in intellectual property, and growth in jobs in Ohio. Unfortunately, as currently drafted, House Bill 64's tax provisions will have the opposite effect: They will increase costs, and discourage growth of capital and job creation.

Manufacturing is the largest contributor to the state's GDP, contributing fully 17 percent. The success of Ohio manufacturing – through its vast network of in-state customers and suppliers - large global firms and their local supply chains - enhances the economic vitality of all other Ohio industries and Ohioans' quality of life.

Thank you very much for the opportunity to comment and provide input into this proposed legislation. Ohio's manufacturers are prepared to help improve the business climate in the state. We look forward to continuing our partnership with the administration and the General Assembly.

I'll be pleased to answer any questions you may have.

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Blueprint for A New Ohio

Gov. John R. Kasich's Fiscal Years 2016-2017 Budget

Budget Highlights

The State of Ohio Executive Budget
Fiscal Years 2016-2017

Governor John R. Kasich

Office of Budget and Management
Director Timothy S. Keen

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JOHN R. KASICH
GOVERNOR
STATE OF OHIO

February 2, 2015

Fellow Ohioans and Members of the General Assembly:

At a time when many states are struggling to maintain healthy, balanced budgets, Ohio's fiscal position is strong. This is due, in great part, to our state's improving economy, continued focus on efficient management in state government and ongoing commitment to fiscal discipline. We must also recognize the benefits gained from Ohio's new emphasis on annual budget reviews, which for the first time in 2012 and again in 2014, provided a mid-biennium analysis of state agency spending, programs and policies. The result has been a continuous, comprehensive and business-like process aimed at restraining the growth of state spending, improving services for Ohio taxpayers and enhancing the climate of economic competitiveness that builds and maintains job opportunities in our state.

Ohio's two mid-biennium budget reviews and the entire budget-writing process we have employed have been underscored by my firm belief that state government must work to innovate each and every day – and, with those innovations, find value and efficiencies for taxpayers.

Ohio's return to sustainable fiscal stability that a more rigorous approach has made possible has not been lost on outside observers. Each of the nation's top credit-rating agencies continues to give Ohio a positive credit outlook. Also, job creators, far and wide, are making decisions to invest in our state because they now see Ohio as a promising place to do business. The stability afforded by our strong fiscal health is part of what makes Ohio attractive.

With all this in mind, the Executive Budget I present to the General Assembly today maintains fiscal restraint and builds on much of the work that we began in the last four years – addressing areas that are so critical to long-term economic success such as education, tax cuts to improve competitiveness, and opportunities for those most in need of assistance. We know this path is the right one because Ohio is winning once again.

To help more Ohioans share in our economic success and ensure we continue building a strong jobs-friendly climate, this budget will pursue transformational policies that create more opportunities for each and every Ohioan:

- Ensuring That Students Are Ready for College and Careers: To best serve Ohio's children and young adults, we need a world-class education system built at the local level that helps prepare students for careers or college. Our budget helps more students earn credit in new, flexible ways, strengthen opportunities for high school students to earn college-level credit, and ensures that more resources overall are provided to those districts with the least capacity to raise revenues locally.
- Helping More Students Get Degrees: Ohio's public colleges and universities are national leaders after adopting a performance-based funding formula that rewards student success and graduation, but affordability remains the nation's top issue impacting higher education. New strategies will help universities find ways to control costs, so college can be more affordable to students and their families.
- Cutting and Reforming Taxes: Ohio's $3 billion in tax cuts over the past four years has helped fuel our economic renaissance and my Administration's budget builds on this proven strategy by cutting the income tax rate by 23 percent and eliminating income taxes altogether for virtually all small businesses. New tax relief for low- and middle-income Ohioans will also help people move up the economic ladder by keeping more of the new money they earn. This budget's tax reform proposals will help move Ohio away from its traditional, excessive reliance on taxation of income, which stifles investment, savings and economic growth.

- Helping Ohioans Move Up and Out of Poverty and into Jobs: Our new Office of Human Services Innovation is bringing badly needed reforms to the state's array of programs to help break the cycle of poverty. This budget creates the framework for a person-centered case management system where services are based on an individual's needs in order to better support them as they move toward self-sufficiency. An initial focus will be on low-income teens and young adults, ages 16-24, where we can have the greatest impact on helping those with some of the highest unemployment rates.

The reforms in this budget will help create opportunities and jobs for all Ohioans – keeping us on the road toward solid, sustained prosperity throughout this great state. Together, we have done so much to lift up Ohioans, much remains to be done and I know we can continue to make Ohio the best place to work, live and raise our families.

Sincerely,

John R. Kasich
Governor

Budget Overview

Governor Kasich's Executive Budget

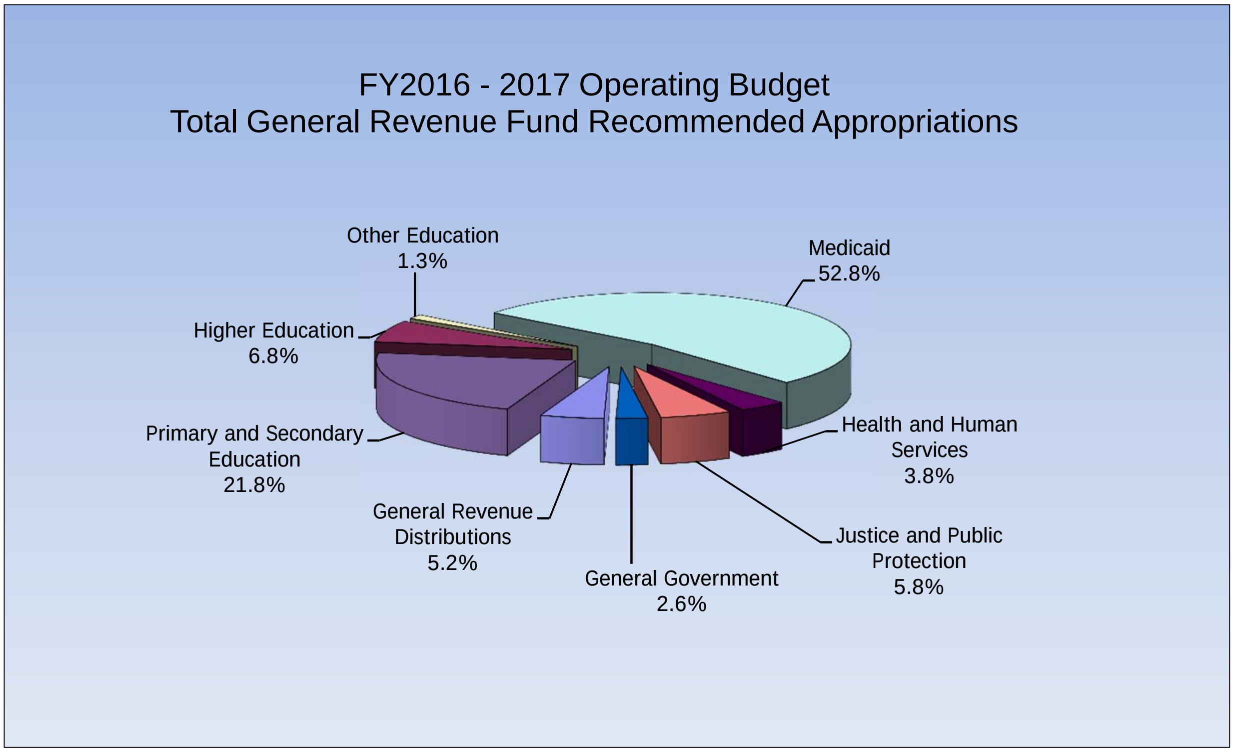
FY 2016 and FY 2017

In his Executive Budget for the FY 2016-FY 2017 biennium, Governor Kasich recommends GRF appropriations of $35.3 billion in FY 2016 (a 12.5% increase over estimated FY 2015 spending) and $37.0 billion in FY 2017 (a 4.8% increase over FY 2016). The Governor's recommendations for all funds total $68.5 billion in FY 2016 (a 2.0% increase over estimated FY 2015 spending) and $70.2 billion in FY 2017 (a 2.5% increase over FY 2016).

The state share of the GRF, not including federal appropriations within the Department of Job & Family Services and the Department of Medicaid, is $22.7 billion in FY 2016 (an increase of 4.2% over the FY 2015 estimate) and $23.6 billion in FY 2017 (an increase of 4.0% over FY 2016). The chart on page 4 displays the total GRF budget by major functional area, while the chart on page 5 displays the state-only GRF budget by major functional area.

- **Medicaid** is the single-largest program in the state budget, with recommended GRF appropriations in FY 2016 of $18.5 billion (21.4% above FY 2015 estimated spending levels) and $19.6 billion in FY 2017 (6.2% above FY 2016 spending levels). These appropriations include the federal share of the program, which makes up approximately 68% of the total. State share appropriations total $6.0 billion in FY 2016 (4.4% above FY 2015 estimate) and $6.3 billion in FY 2017 (6.1% above FY 2016).

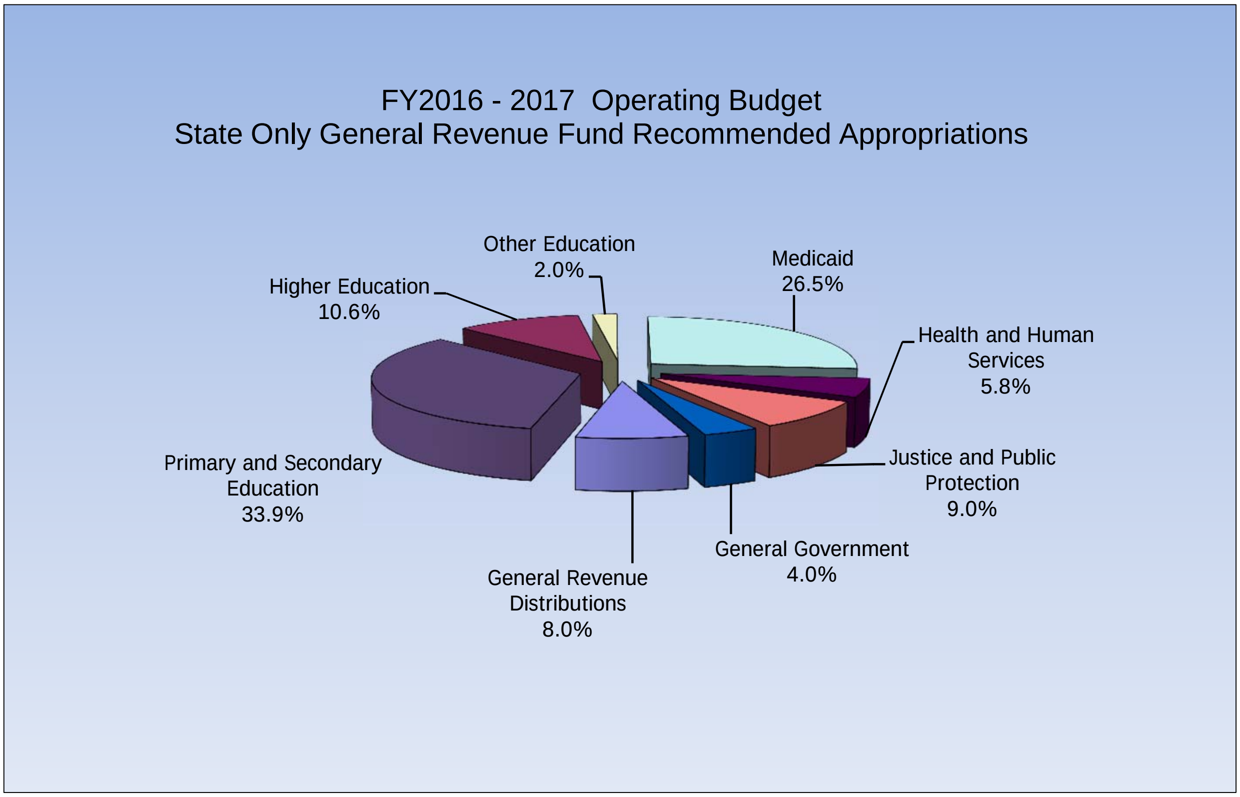
- **Primary and Secondary Education** comprises the second-largest GRF area of expense and the largest in terms of state-only funding. Recommended appropriations total $7.7 billion (6.1% above FY 2015 spending levels) and $8.0 billion in FY 2017 (4.5% above FY 2016).
- **Higher Education** recommendations total $2.4 billion in FY 2016 (2.0% above FY 2015 spending levels) and $2.5 billion in FY 2017 (2.5% above FY 2016).
- **Other Education** recommended appropriations $470.1 million in FY 2016 (6.3% above FY 2015 spending levels) and $478.1 million in FY 2017 (1.7% above FY 2016).
- **Health and Human Services** spending totals $1.4 billion in FY 2016 (3.5% above FY 2015) and $1.4 billion in FY 2017 (1.4% above FY 2016). The largest agencies in this category include the non-Medicaid portion of the Departments of Job & Family Services, Mental Health and Addiction Services, and Developmental Disabilities.
- **Justice and Public Protection** recommendations total $2.1 billion in FY 2016 (2.8% above FY 2015) and $2.1 billion in FY 2017 (2.6% above FY 2016). The largest agencies in this category are the Departments of Rehabilitation & Correction and Youth Services.
- **General Government** recommended appropriations in this category total $914.8 million in FY 2016 (0.4% above FY 2015) and $938.0 million in FY 2017 (2.5% above FY 2016).
- **General Revenue Distributions** spending consists of payments to school districts and local governments related to the 10.0% and 2.5% property tax rollbacks and the homestead exemption. The recommendations for these payments total $1.8 billion in FY 2016 (1.9% above FY 2015 estimates) and $1.9 billion in FY 2017 (1.7% above FY 2016).



GRF Recommended Appropriations (dollars in millions)

Function	FY 2015 Estimate	FY 2016	% Change	FY 2017	% Change
Primary and Secondary Education	$ 7,256.0	$ 7,697.2	6.1%	$ 8,041.6	4.5%
Higher Education	$ 2,379.9	$ 2,428.3	2.0%	$ 2,487.9	2.5%
Other Education	$ 442.1	$ 470.1	6.3%	$ 478.1	1.7%
Medicaid	$ 15,232.0	$ 18,499.1	21.4%	$ 19,649.7	6.2%
Health and Human Services	$ 1,334.7	$ 1,381.1	3.5%	$ 1,400.6	1.4%
Justice and Public Protection	$ 2,006.8	$ 2,062.9	2.8%	$ 2,116.7	2.6%
General Government	$ 911.5	$ 914.8	0.4%	$ 938.0	2.5%
General Revenue Distributions	$ 1,812.2	$ 1,846.5	1.9%	$ 1,877.1	1.7%
Total	**$ 31,375.1**	**$ 35,299.9**	**12.5%**	**$ 36,989.6**	**4.8%**

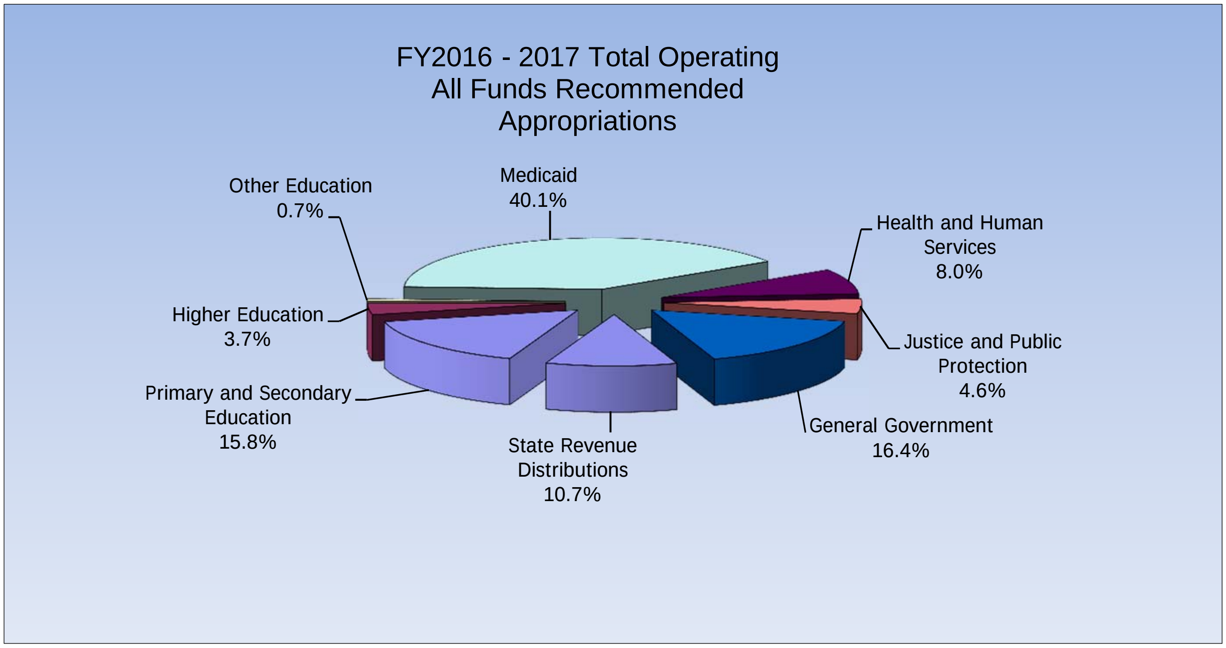
Note: Numbers may not add to total due to rounding
Source: Ohio Office of Budget and Management



GRF Recommended Appropriations (dollars in millions)
State Only

Function	FY 2015 Estimate	FY 2016	% Change	FY 2017	% Change
Primary and Secondary Education	$ 7,256.0	$ 7,697.2	6.1%	$ 8,041.6	4.5%
Higher Education	$ 2,379.9	$ 2,428.3	2.0%	$ 2,487.9	2.5%
Other Education	$ 442.1	$ 470.1	6.3%	$ 478.1	1.7%
Medicaid	$ 5,714.8	$ 5,968.5	4.4%	$ 6,334.0	6.1%
Health and Human Services	$ 1,296.5	$ 1,342.9	3.6%	$ 1,362.4	1.5%
Justice and Public Protection	$ 2,006.8	$ 2,062.9	2.8%	$ 2,116.7	2.6%
General Government	$ 911.5	$ 914.8	0.4%	$ 938.0	2.5%
General Revenue Distributions	$ 1,812.2	$ 1,846.5	1.9%	$ 1,877.1	1.7%
Total	**$ 21,819.7**	**$ 22,731.0**	**4.2%**	**$ 23,635.7**	**4.0%**

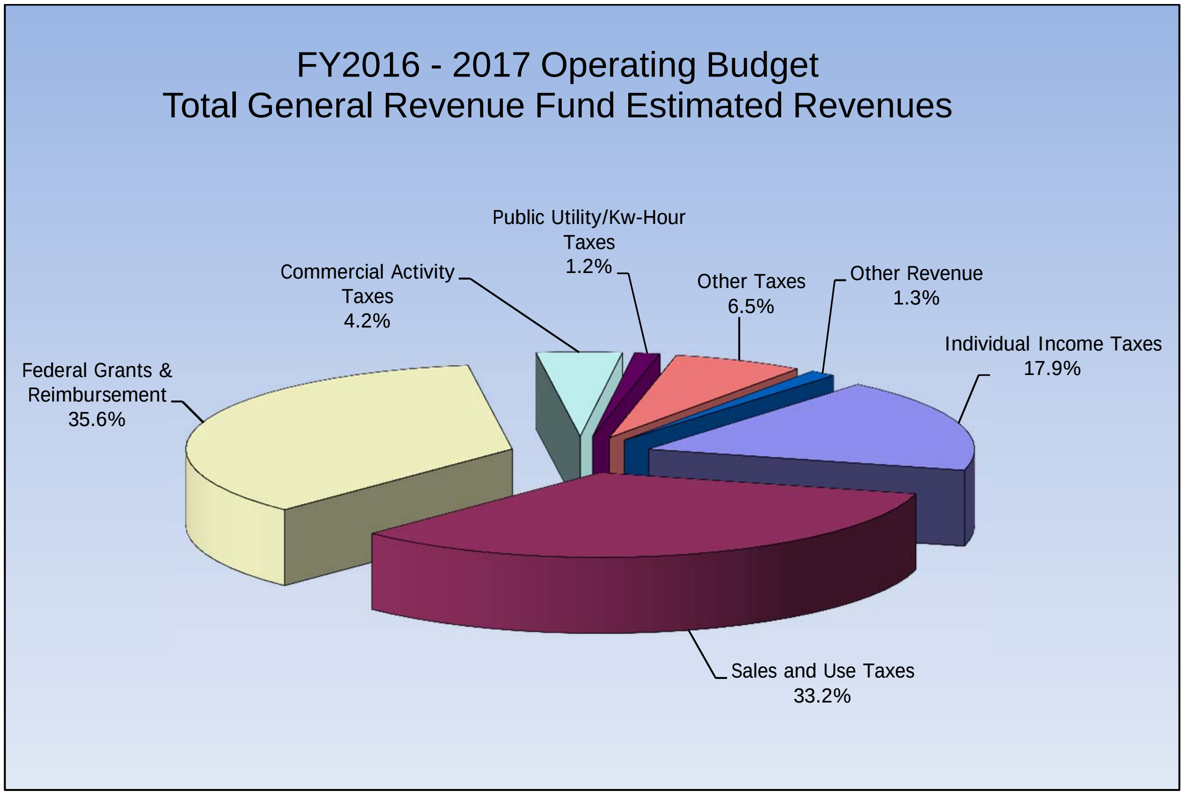
Note: Numbers may not add to total due to rounding
Source: Ohio Office of Budget and Management



All Funds Appropriations (dollars in millions)

Function		FY 2016		FY 2017		Total
Primary and Secondary Education	$	10,784.3	$	11,132.5	$	21,916.8
Higher Education	$	2,523.9	$	2,567.7	$	5,091.7
Other Education	$	503.7	$	511.8	$	1,015.5
Medicaid	$	27,384.2	$	28,252.6	$	55,636.8
Health and Human Services	$	5,517.5	$	5,534.6	$	11,052.2
Justice and Public Protection	$	3,175.3	$	3,227.9	$	6,403.2
General Government	$	11,226.5	$	11,512.0	$	22,738.5
State Revenue Distributions	$	7,373.1	$	7,442.8	$	14,815.9
Total	**$**	**68,488.5**	**$**	**70,182.0**	**$**	**138,670.5**

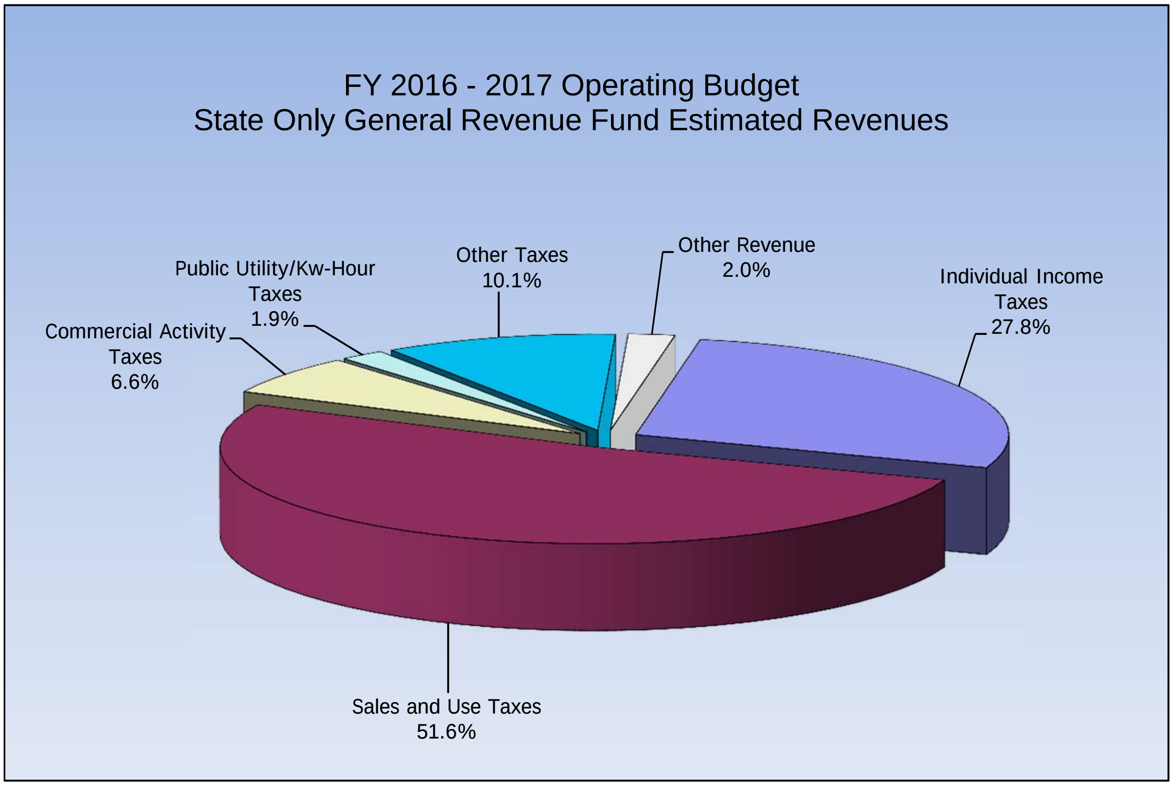
Note: Numbers may not add to total due to rounding
Source: Ohio Office of Budget and Management



Estimated GRF Revenues (dollars in millions)

Revenue Source	FY 2015	FY 2016	% Change	FY 2017	% Change
Individual Income Taxes	$ 8,308.8	$ 6,503.4	-21.7%	$ 6,428.5	-1.2%
Sales and Use Taxes	$ 10,021.0	$ 11,584.8	15.6%	$ 12,423.8	7.2%
Federal Grants & Reimbursement	$ 9,562.3	$ 12,451.9	30.2%	$ 13,228.8	6.2%
Commercial Activity Taxes	$ 818.4	$ 1,474.6	80.2%	$ 1,589.3	7.8%
Public Utility/Kw-Hour Taxes	$ 388.5	$ 452.4	16.5%	$ 446.1	-1.4%
Other Taxes	$ 1,677.3	$ 2,321.6	38.4%	$ 2,368.3	2.0%
Other Revenue	$ 771.7	$ 377.6	-51.1%	$ 562.5	49.0%
Total	**$ 31,547.9**	**$ 35,166.3**	**11.5%**	**$ 37,047.4**	**5.3%**

Note: Numbers may not add to total due to rounding
Source: Ohio Office of Budget and Management



State Only Estimated GRF Revenues (dollars in millions)

Revenue Source	FY 2015	FY 2016	% Change	FY 2017	% Change
Individual Income Taxes	$ 8,308.8	$ 6,503.4	-21.7%	$ 6,428.5	-1.2%
Sales and Use Taxes	$ 10,021.0	$ 11,584.8	15.6%	$ 12,423.8	7.2%
Commercial Activity Taxes	$ 818.4	$ 1,474.6	80.2%	$ 1,589.3	7.8%
Public Utility/Kw-Hour Taxes	$ 388.5	$ 452.4	16.5%	$ 446.1	-1.4%
Other Taxes	$ 1,677.3	$ 2,321.6	38.4%	$ 2,368.3	2.0%
Other Revenue	$ 771.7	$ 377.6	-51.1%	$ 562.5	49.0%
Total	**$ 21,985.6**	**$ 22,714.5**	**3.3%**	**$ 23,818.6**	**4.9%**

Note: Numbers may not add to total due to rounding
Source: Ohio Office of Budget and Management

Actual and Estimated Revenues for the General Revenue Fund
Fiscal Years 2014 to 2017

(dollars in millions)

Revenue Source	Actual FY 2014	Estimated FY 2015	% Chg	FY 2016	% Chg	FY 2017	% Chg
Tax Revenue							
Auto Sales and Use	1,209.9	1,307.0	8.0%	1,468.1	12.3%	1,565.9	6.7%
Non-Auto Sales and Use	7,955.9	8,714.0	9.5%	10,116.7	16.1%	10,857.9	7.3%
Subtotal Sales and Use	9,165.8	10,021.0	9.3%	11,584.8	15.6%	12,423.8	7.2%
Personal Income	8,064.9	8,308.8	3.0%	6,503.4	-21.7%	6,428.5	-1.2%
Corporate Franchise	(11.4)	0.0	-100.0%	0.0	0.0%	0.0	0.0%
Financial Institutions Tax	197.8	176.0	-11.0%	190.0	8.0%	190.0	0.0%
Commercial Activity Tax	794.2	818.4	3.0%	1,474.6	80.2%	1,589.3	7.8%
Petroleum Activity Tax	0.0	6.0	N/A	8.0	33.3%	8.0	0.0%
Public Utility	106.0	92.0	-13.2%	100.3	9.0%	101.9	1.6%
Kilowatt Hour Tax	306.3	296.5	-3.2%	352.1	18.8%	344.2	-2.2%
Natural Gas Consumption	76.1	62.0	-18.5%	62.0	0.0%	62.0	0.0%
Foreign Insurance	286.5	298.0	4.0%	307.0	3.0%	319.0	3.9%
Domestic Insurance	196.9	244.8	24.3%	277.6	13.4%	289.3	4.2%
Severance Tax	0.0	0.0	0.0%	76.5	N/A	183.4	139.6%
Business and Property	0.8	0.0	-100.0%	0.0	0.0%	0.0	0.0%
Cigarette	814.0	793.6	-2.5%	1,301.9	64.1%	1,217.1	-6.5%
Alcoholic Beverage	55.5	55.0	-0.9%	56.5	2.7%	56.5	0.0%
Liquor Gallonage	41.8	41.9	0.2%	42.0	0.2%	43.0	2.4%
Estate	39.4	0.0	-100.0%	0.0	0.0%	0.0	0.0%
Total of Tax Revenue	20,134.7	21,213.9	5.4%	22,336.8	5.3%	23,256.1	4.1%
Non-Tax Revenue							
Earnings on Investments	17.3	20.0	15.6%	44.0	120.0%	54.8	24.5%
Licenses and Fees	57.3	62.0	8.2%	57.0	-8.1%	57.0	0.0%
Other Income	21.8	32.0	46.6%	29.0	-9.4%	30.6	5.5%
Interagency Transfers	20.4	4.5	-77.9%	9.8	117.8%	9.7	-1.0%
Total of Non-Tax Revenue	116.8	118.5	1.4%	139.8	18.0%	152.1	8.8%
Transfers							
BSF Transfer	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Transfers In - Other	400.2	653.2	63.2%	237.8	-63.6%	410.4	72.6%
Transfers In - Temporary	5.5	0.0	-100.0%	0.0	N/A	0.0	0.0%
Total Transfers	405.7	653.2	61.0%	237.8	-63.6%	410.4	72.6%
Total Sources Excl. Federal Grants	20,657.2	21,985.6	6.4%	22,714.5	3.3%	23,818.6	4.9%
Federal Grants	8,575.6	9,562.3	11.5%	12,451.9	30.2%	13,228.8	6.2%
Total Sources	29,232.8	31,547.9	7.9%	35,166.3	11.5%	37,047.4	5.3%

Source: Ohio Office of Budget and Management, February 2015

Estimated Expenditures and Recommendations by Agency
General Revenue Fund, FYs 2015, 2016, 2017

State Agency	FY 2015 Estimate	FY 2016 Recommendations	% Change	FY 2017 Recommendations	% Change
Primary and Secondary Education					
Education, Department of	7,255,955,295	7,697,170,506	6.1%	8,041,580,485	4.5%
Total Primary and Secondary Education	**7,255,955,295**	**7,697,170,506**	**6.1%**	**8,041,580,485**	**4.5%**
Higher Education					
Higher Education, Department of	2,379,887,812	2,428,257,219	2.0%	2,487,889,271	2.5%
Total Higher Education	**2,379,887,812**	**2,428,257,219**	**2.0%**	**2,487,889,271**	**2.5%**
Other Education					
Arts Council	11,349,204	11,972,050	5.5%	12,472,050	4.2%
Broadcast Education Media Commission	7,813,706	7,847,422	0.4%	7,847,422	0.0%
Facilities Construction/School Facilities Comm	390,464,951	415,674,700	6.5%	422,532,700	1.6%
Historical Society	10,549,625	10,149,625	-3.8%	10,149,625	0.0%
Library Board	5,759,947	5,759,947	0.0%	5,759,947	0.0%
Ohioana Library Association	140,000	155,000	10.7%	160,000	3.2%
State School for The Blind	7,278,579	8,242,799	13.2%	8,488,609	3.0%
State School for The Deaf	8,727,657	10,254,435	17.5%	10,678,878	4.1%
Total Other Education	**442,083,669**	**470,055,978**	**6.3%**	**478,089,231**	**1.7%**
Medicaid					
Aging, Department of [1]	3,385,057	3,385,057	0.0%	3,385,057	0.0%
Developmental Disabilities, Department of [1]	444,511,179	485,572,594	9.2%	542,921,324	11.8%
Health, Department of [1]	3,300,000	3,300,000	0.0%	3,300,000	0.0%
Job and Family Services, Department of [1]	68,948,465	73,348,465	6.4%	76,148,465	3.8%
Medicaid, Department of	14,710,099,360	17,931,797,285	21.9% [a]	19,022,178,639	6.1%
Medicaid State	*5,192,911,829*	*5,401,120,281*	4.0%	*5,706,462,818*	5.7%
Medicaid Federal	*9,517,187,531*	*12,530,677,004*	31.7%	*13,315,715,821*	6.3%
Mental Health and Addiction Services, Department of [1]	1,736,600	1,736,600	0.0%	1,736,600	0.0%
Total Medicaid	**15,231,980,661**	**18,499,140,001**	**21.4%**	**19,649,670,085**	**6.2%**
State Total	*5,714,793,130*	*5,968,462,997*	*4.4%*	*6,333,954,264*	*6.1%*
Federal Total	*9,517,187,531*	*12,530,677,004*	*31.7%*	*13,315,715,821*	*6.3%*
Health and Human Services					
Aging, Department of [1]	11,262,368	11,262,368	0.0%	11,262,368	0.0%
Developmental Disabilities, Department of [1]	89,292,234	97,082,884	8.7%	96,167,184	-0.9%
Health, Department of [1]	85,957,614	87,450,078	1.7%	87,450,078	0.0%
Hispanic-Latino Affairs, Commission on	392,776	413,383	5.2%	413,375	0.0%
Job and Family Services, Department of [1]	724,834,207	744,887,863	2.8%	745,012,222	0.0%
Job and Family Services State	*686,631,650*	*706,685,306*	*2.9%*	*706,809,665*	*0.0%*
Job and Family Services Federal	*38,202,557*	*38,202,557*	*0.0%*	*38,202,557*	*0.0%*
Mental Health and Addiction Services, Department of [1]	364,058,109	381,179,156	4.7%	387,203,502	1.6%
Minority Health, Commission on	1,580,637	1,678,319	6.2%	1,728,319	3.0%
Opportunities for Ohioans with Disabilities Agency	15,711,070	16,250,894	3.4%	16,250,894	0.0%
Service and Volunteerism, Commission on	294,072	305,834	4.0%	304,547	-0.4%
Veterans' Services, Department of	39,393,644	38,705,121	-1.7%	52,964,821	36.8%
Veterans' Organizations	1,887,986	1,887,986	0.0%	1,887,986	0.0%
Total Health and Human Services	**1,334,664,717**	**1,381,103,886**	**3.5%**	**1,400,645,296**	**1.4%**
State Total	*1,296,462,160*	*1,342,901,329*	*3.6%*	*1,362,442,739*	*1.5%*
Federal Total	*38,202,557*	*38,202,557*	*0.0%*	*38,202,557*	*0.0%*
Justice and Public Protection					
Adjutant General	8,594,883	9,879,883	15.0%	9,879,883	0.0%
Attorney General	45,803,589	45,803,589	0.0%	45,803,589	0.0%
Civil Rights Commission	4,725,784	5,406,444	14.4%	5,406,444	0.0%
Court of Claims	2,501,052	2,568,582	2.7%	2,609,680	1.6%
Ethics Commission	1,381,556	1,381,556	0.0%	1,381,556	0.0%
Judicial Conference	847,200	999,000	17.9%	1,038,000	3.9%
Judiciary/Supreme Court	143,818,909	153,368,942	6.6%	161,592,239	5.4%
Public Defender Commission	14,566,485	14,704,112	0.9%	14,727,653	0.2%
Public Safety, Department of	10,500,000	18,624,300	77.4%	18,624,300	0.0%
Rehabilitation and Correction, Department of	1,539,011,322	1,591,188,402	3.4%	1,640,972,422	3.1%
Tax Appeals, Board of	1,700,000	1,925,001	13.2%	1,925,001	0.0%
Youth Services, Department of	233,323,163	217,003,154	-7.0%	212,733,454	-2.0%
Total Justice and Public Protection	**2,006,773,943**	**2,062,852,965**	**2.8%**	**2,116,694,221**	**2.6%**

Estimated Expenditures and Recommendations by Agency
General Revenue Fund, FYs 2015, 2016, 2017

State Agency	FY 2015 Estimate	FY 2016 Recommendations	% Change	FY 2017 Recommendations	% Change
General Government					
Administrative Services, Department of	164,387,951	166,589,928	1.3%	165,685,873	-0.5%
Agriculture, Department of	15,254,231	16,329,231	7.0%	16,254,231	-0.5%
Auditor of State	28,234,452	28,479,072	0.9%	28,479,072	0.0%
Budget and Management, Office of	4,601,054	4,796,898	4.3%	4,796,898	0.0%
Capital Square Review and Advisory Commission	3,578,565	3,578,565	0.0%	3,578,565	0.0%
Controlling Board	475,000	475,000	0.0%	475,000	0.0%
Development Services Agency	134,012,966	132,926,362	-0.8%	147,946,162	11.3%
Elections Commission	333,117	333,117	0.0%	333,117	0.0%
Environmental Protection Agency	10,923,093	10,923,093	0.0%	10,923,093	0.0%
Environmental Review Appeals	545,530	612,435	12.3%	612,435	0.0%
Expositions Commission	920,000	250,000	-72.8%	250,000	0.0%
Governor, Office of the	2,851,552	2,851,552	0.0%	2,851,552	0.0%
House of Representatives	25,024,667	23,272,941	-7.0%	23,272,941	0.0%
Inspector General, Office of	1,525,598	1,327,759	-13.0%	1,327,759	0.0%
Joint Committee on Agency Rule Review	456,376	493,139	8.1%	512,253	3.9%
Joint Committee on Medicaid Oversight	500,000	321,995	-35.6%	490,320	52.3%
Joint Legislative Ethics Committee	550,000	550,000	0.0%	550,000	0.0%
Legislative Service Commission	28,961,103	24,670,478	-14.8%	24,670,478	0.0%
Natural Resources, Department of	99,068,536	102,401,636	3.4%	103,412,136	1.0%
Public Works Commission (Operating)	261,396,600	264,112,300	1.0%	272,028,900	3.0%
Secretary of State	2,612,422	2,378,226	-9.0%	2,378,226	0.0%
Senate	13,460,369	12,518,143	-7.0%	12,518,143	0.0%
State Employment Relations Board	3,761,457	3,761,457	0.0%	3,761,457	0.0%
Taxation, Department of	68,828,532	69,565,985	1.1%	69,565,985	0.0%
Transportation, Department of (Operating)	10,050,000	11,050,000	10.0%	11,050,000	0.0%
Treasurer of State	29,206,559	30,243,959	3.6%	30,243,359	0.0%
Total General Government	**911,519,730**	**914,813,271**	**0.4%**	**937,967,955**	**2.5%**
General Revenue Distributions					
Property Tax Subsidies - Education	1,159,810,000	1,181,760,000	1.9%	1,201,340,000	1.7%
Property Tax Subsidies - Local	652,390,000	664,740,000	1.9%	675,760,000	1.7%
Total General Revenue Distributions	**1,812,200,000**	**1,846,500,000**	**1.9%**	**1,877,100,000**	**1.7%**
Grand Total	**31,375,065,827**	**35,299,893,826**	**12.5%**	**36,989,636,544**	**4.8%**
State Total	***21,819,675,739***	***22,731,014,265***	***4.2%***	***23,635,718,166***	***4.0%***
Federal Total	***9,555,390,088***	***12,568,879,561***	***31.5%***	***13,353,918,378***	***6.2%***

[1] For these agencies, Medicaid related lines are included in the Medicaid category; non-Medicaid lines are included in the Health and Human Service category.
[a] FY16 and FY17 appropriations reflect the shift of funding for Group 8 enrollees from non-GRF to the GRF.

Note: The following agencies were affected by the shifting of GRF rent from DAS: ART, BOR, BTA, CIV, CSV, DAS, MHA, DDD, DOH, DRC, DVS, DYS, EBR, EDU, ETC, IGO, JFS, MIH, OBM, OOD, SPA, and TAX.

Source: Ohio Office of Budget and Management

Estimated Expenditures and Appropriations by Agency
All Funds, FYs 2015, 2016, 2017

State Agency	FY 2015 Estimate	FY 2016 Recommendations	% Change	FY 2017 Recommendations	% Change
Primary and Secondary Education					
Education, Department of	10,941,102,376	10,784,327,048	-1.4%	11,132,522,528	3.2%
Total Primary and Secondary Education	**10,941,102,376**	**10,784,327,048**	**-1.4%**	**11,132,522,528**	**3.2%**
Higher Education					
Higher Education, Department of	2,436,753,748	2,523,939,826	3.6%	2,567,738,380	1.7%
Total Higher Education	**2,436,753,748**	**2,523,939,826**	**3.6%**	**2,567,738,380**	**1.7%**
Other Education					
Arts Council	12,471,204	13,497,050	8.2%	13,997,050	3.7%
Broadcast Education Media Commission	8,026,266	7,953,422	-0.9%	7,953,422	0.0%
Career Colleges and Schools, Board of	579,328	579,328	0.0%	579,328	0.0%
Facilities Construction/School Facilities Comm	408,678,293	424,174,700	3.8%	431,032,700	1.6%
Higher Education Facilities Commission	12,500	12,500	0.0%	12,500	0.0%
Historical Society	10,799,625	10,409,625	-3.6%	10,409,625	0.0%
Library Board	21,548,736	22,176,021	2.9%	22,272,763	0.4%
Ohioana Library Association	140,000	155,000	10.7%	160,000	3.2%
State School for The Blind	11,003,204	11,967,424	8.8%	12,213,234	2.1%
State School for The Deaf	11,214,902	12,741,681	13.6%	13,166,124	3.3%
Total Other Education	**484,474,058**	**503,666,751**	**4.0%**	**511,796,746**	**1.6%**
Medicaid					
Aging, Department of [1]	6,770,114	6,770,114	0.0%	6,770,114	0.0%
Developmental Disabilities, Department of [1]	2,402,716,757	2,611,019,417	8.7%	2,876,185,877	10.2%
Health, Department of [1]	25,692,094	25,692,094	0.0%	25,692,094	0.0%
Job and Family Services, Department of [1]	173,948,465	195,628,960	12.5%	201,228,960	2.9%
Medicaid, Department of	24,033,188,234	24,531,320,607	2.1% [a]	25,129,010,938	2.4%
Mental Health and Addiction Services, Department of [1]	17,266,217	13,736,600	-20.4%	13,736,600	0.0%
Total Medicaid	**26,659,581,881**	**27,384,167,792**	**2.7%** [a]	**28,252,624,583**	**3.2%**
Health and Human Services					
Aging, Department of [1]	83,179,071	83,379,071	0.2%	83,379,071	0.0%
Developmental Disabilities, Department of [1]	146,805,086	164,704,264	12.2%	168,788,564	2.5%
Health, Department of [1]	641,592,900	631,183,596	-1.6%	631,339,192	0.0%
Hispanic-Latino Affairs, Commission on	417,334	437,941	4.9%	437,933	0.0%
Industrial Commission	49,638,213	50,687,479	2.1%	51,753,389	2.1%
Job and Family Services, Department of [1]	2,925,732,583	3,269,564,364	11.8%	3,261,380,352	-0.3%
Mental Health and Addiction Services, Department of [1]	644,481,257	678,974,305	5.4%	684,998,651	0.9%
Minority Health, Commission on	1,770,637	1,855,152	4.8%	1,869,248	0.8%
Opportunities for Ohioans with Disabilities Agency	254,533,418	262,631,699	3.2%	261,631,698	-0.4%
Service and Volunteerism, Commission on	7,554,072	7,518,733	-0.5%	7,513,177	-0.1%
Veterans' Organizations	1,887,986	1,887,986	0.0%	1,887,986	0.0%
Veterans' Services, Department of	92,546,895	88,440,941	-4.4%	103,423,580	16.9%
Workers' Compensation, Bureau of	279,483,900	276,242,967	-1.2%	276,242,967	0.0%
Total Health and Human Services	**5,129,623,352**	**5,517,508,498**	**7.6%**	**5,534,645,808**	**0.3%**
Justice and Public Protection					
Adjutant General	55,863,958	53,795,633	-3.7%	53,795,633	0.0%
Attorney General	264,944,339	273,749,911	3.3%	276,379,670	1.0%
Civil Rights Commission	7,502,680	8,213,204	9.5%	8,358,426	1.8%
Court of Claims	2,917,005	2,995,766	2.7%	3,043,699	1.6%
Ethics Commission	2,022,556	2,022,556	0.0%	2,022,556	0.0%
Judicial Conference	1,282,200	1,336,000	4.2%	1,375,000	2.9%
Judiciary/Supreme Court	152,957,622	162,574,186	6.3%	170,774,948	5.0%
Public Defender Commission	78,696,680	80,136,507	1.8%	81,551,849	1.8%
Public Safety, Department of	693,977,457	686,287,971	-1.1%	685,810,371	-0.1%
Rehabilitation and Correction, Department of	1,627,633,274	1,670,903,612	2.7%	1,716,218,299	2.7%
Tax Appeals, Board of	1,700,000	1,925,001	13.2%	1,925,001	0.0%
Youth Services, Department of	247,160,392	231,356,649	-6.4%	226,667,949	-2.0%
Total Justice and Public Protection	**3,136,658,163**	**3,175,296,996**	**1.2%**	**3,227,923,401**	**1.7%**

Estimated Expenditures and Appropriations by Agency
All Funds, FYs 2015, 2016, 2017

State Agency	FY 2015 Estimate	FY 2016 Recommendations	% Change	FY 2017 Recommendations	% Change
General Government					
Employee Benefits Funds	1,538,079,486	1,608,712,278	4.6%	1,683,969,956	4.7%
Administrative Services, Department of	712,690,672	663,568,777	-6.9%	660,426,495	-0.5%
Agriculture, Department of	52,612,978	57,777,617	9.8%	57,702,617	-0.1%
Air Quality Development Authority	1,108,033	1,117,984	0.9%	1,104,216	-1.2%
Auditor of State	72,453,464	74,776,584	3.2%	74,982,584	0.3%
Budget and Management, Office of	27,599,772	28,642,814	3.8%	28,651,537	0.0%
Capital Square Review and Advisory Commission	7,710,596	7,781,305	0.9%	7,781,305	0.0%
Casino Control Commission	13,546,674	12,465,000	-8.0%	12,465,000	0.0%
Commerce, Department of	185,897,707	189,617,737	2.0%	191,047,692	0.8%
Consumers' Counsel, Office of	5,641,093	5,641,093	0.0%	5,641,093	0.0%
Controlling Board	475,000	10,475,000	2105.3%	10,475,000	0.0%
Deposit, Board of	1,876,000	1,876,000	0.0%	1,876,000	0.0%
Development Services Agency	1,197,457,272	1,269,903,713	6.1%	1,284,523,513	1.2%
Elections Commission	518,117	527,617	1.8%	527,617	0.0%
Environmental Protection Agency	199,606,723	183,226,886	-8.2%	185,898,047	1.5%
Environmental Review Appeals Commission	545,530	612,435	12.3%	612,435	0.0%
Expositions Commission	14,243,000	14,130,000	-0.8%	14,370,000	1.7%
Governor, Office of the	3,151,552	3,151,552	0.0%	3,151,552	0.0%
House of Representatives	26,496,180	24,744,454	-6.6%	24,744,454	0.0%
Housing Finance Agency	12,477,665	12,111,500	-2.9%	12,176,700	0.5%
Inspector General, Office of	2,350,598	2,152,759	-8.4%	2,152,759	0.0%
Insurance, Department of	36,545,157	36,841,409	0.8%	37,543,853	1.9%
Joint Committee on Agency Rule Review	456,376	493,139	8.1%	512,253	3.9%
Joint Committee on Medicaid Oversight	500,000	321,995	-35.6%	490,320	52.3%
Joint Legislative Ethics Committee	700,000	700,000	0.0%	700,000	0.0%
Lake Erie Commission	666,637	659,000	-1.1%	667,000	1.2%
Legislative Service Commission	29,201,103	24,780,478	-15.1%	24,680,478	-0.4%
Liquor Control Commission	796,368	796,368	0.0%	796,368	0.0%
Lottery Commission	470,489,928	362,302,329	-23.0%	364,663,457	0.7%
Natural Resources, Department of	325,298,171	342,891,727	5.4%	346,483,985	1.0%
Petrol. Undergd Storage Tank Release Comp. Bd.	1,141,971	1,257,155	10.1%	1,258,914	0.1%
Professional Licensing Boards	43,199,758	44,119,784	2.1%	44,451,771	0.8%
Public Utilities Commission	53,431,274	53,254,528	-0.3%	53,254,528	0.0%
Public Works Commission (Operating)	262,891,800	265,589,807	1.0%	273,514,956	3.0%
Public Works Commission (Capital)	52,000,000	56,000,000	7.7%	58,000,000	3.6%
Racing Commission	53,429,086	43,635,000	-18.3%	43,635,000	0.0%
Secretary of State	21,008,911	17,942,826	-14.6%	17,440,826	-2.8%
Senate	14,346,867	12,978,440	-9.5%	12,978,440	0.0%
Sinking Fund, Commissioners of	1,159,347,600	1,160,357,700	0.1%	1,226,079,300	5.7%
Southern Ohio Agriculture Redevelopment	325,000	426,800	31.3%	426,800	0.0%
State Employment Relations Board	3,846,457	3,836,457	-0.3%	3,836,457	0.0%
Taxation, Department of	1,897,144,182	1,693,158,745	-10.8%	1,692,956,245	0.0%
Transportation, Department of (Operating & Maint)	939,014,005	973,832,714	3.7%	989,262,547	1.6%
Transportation, Department of (Capital)	2,195,735,993	1,915,474,269	-12.8%	2,012,205,366	5.0%
Treasurer of State	40,826,616	41,864,016	2.5%	41,863,416	0.0%
Total General Government	**11,678,881,372**	**11,226,527,791**	**-3.9%**	**11,511,982,852**	**2.5%**
State Revenue Distributions					
General Revenue Distributions	1,812,200,000	1,846,500,000	1.9%	1,877,100,000	1.7%
Fiduciary Collections and Distributions	2,938,937,800	3,189,525,000	8.5%	3,314,925,000	3.9%
State Holding Funds and Internal Distributions	73,100,000	143,100,000	95.8%	163,100,000	14.0%
State Revenue Subsidy and Distributions	1,875,449,000	2,193,955,551	17.0%	2,087,669,263	-4.8%
Total State Revenue Distributions	**6,699,686,800**	**7,373,080,551**	**10.1%**	**7,442,794,263**	**0.9%**
Grand Total	**67,166,761,750**	**68,488,515,253**	**2.0%**	**70,182,028,561**	**2.5%**

[1] For these agencies, Medicaid related lines are included in the Medicaid category; non-Medicaid lines are included in the Health and Human Service category.

[a] Beginning in FY16, appropriations in 651655 are significantly reduced due to an accounting improvement that will remove most double counting between Medicaid agencies. Total Medicaid appropriations grow by 10.2% to $27.3 billion in FY16 and then by 3.2% to $28.2 billion in FY17 when this line item is excluded.

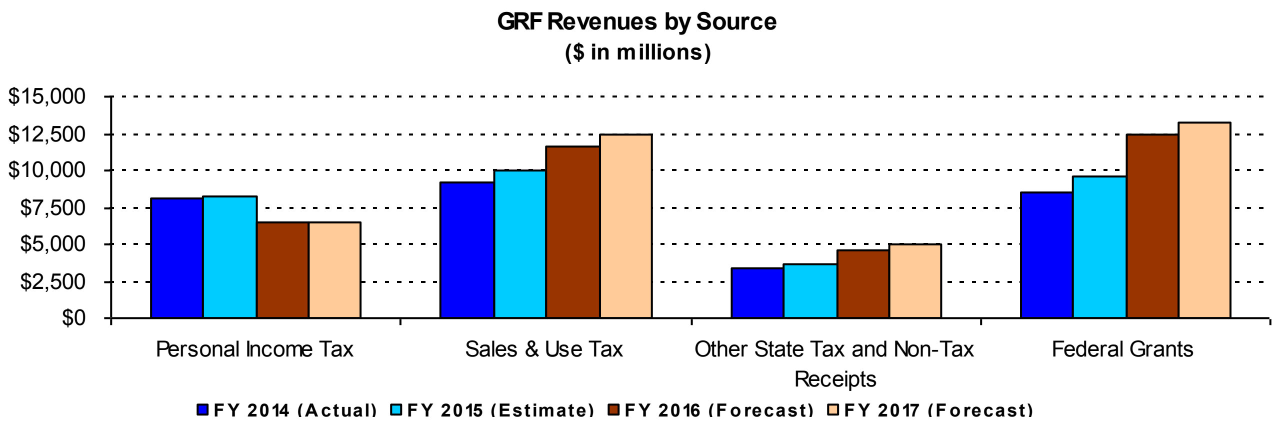
Source: Ohio Office of Budget and Management

Note: Does Not Include Reissued Warrants, Capital Spending or Capital Appropriations

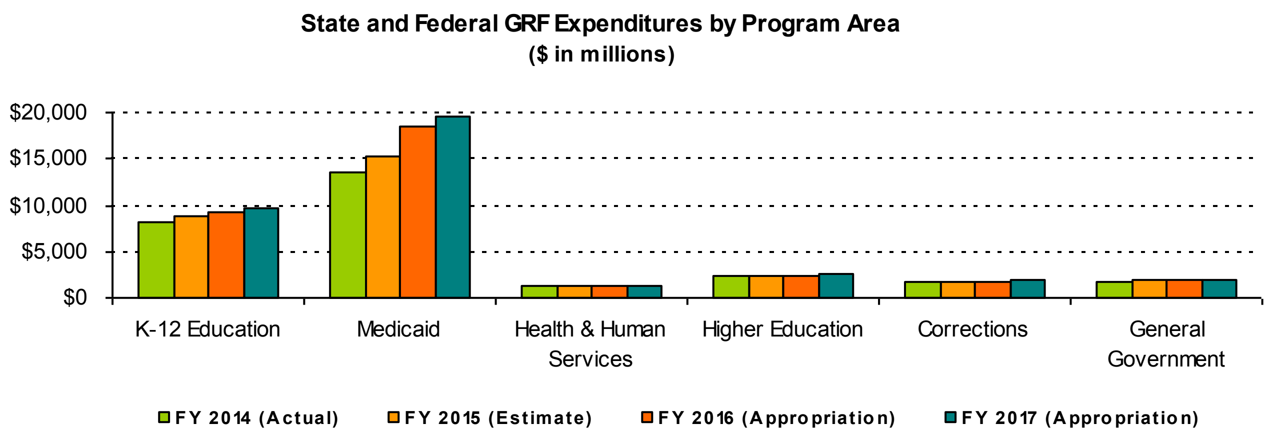
Estimated General Revenue Fund Balances
For Fiscal Years 2016 and 2017
(dollars in millions)

FY 2016	
Estimated FY 2016 Beginning Balance	**357.7**
Plus Estimated FY 2016 Revenues and Transfers to the GRF	35,166.3
Total Sources Available for Expenditure and Transfer	35,524.1
Less Recommended FY 2016 Appropriations	35,299.9
Less GRF Transfers Out	34.6
Total Uses	35,334.5
Estimated FY 2016 Ending Balance	**189.6**
FY 2017	
Estimated FY 2017 Beginning Balance	**189.6**
Plus Estimated FY 2017 Revenues and Transfers to the GRF	37,047.4
Total Sources Available for Expenditure and Transfer	37,237.0
Less Recommended FY 2017 Appropriations	36,989.6
Less GRF Transfers Out	34.3
Total Uses	37,023.9
Net Estimated Unreserved, Undesignated FY 2017 Ending Balance	**213.0**

Source: Ohio Office of Budget and Management, February 2015



Revenue Source	FY 2014 (Actual)	FY 2015 (Estimate)	FY 2016 (Forecast)	FY 2017 (Forecast)
Personal Income Tax	$8,064.9	$8,308.8	$6,503.4	$6,428.5
Sales & Use Tax	$9,165.8	$10,021.0	$11,584.8	$12,423.8
Other State Tax & Non-Tax Receipts	$3,426.5	$3,655.8	$4,626.2	$4,966.3
Federal Grants	$8,575.6	$9,562.3	$12,451.9	$13,228.8
Total	**$29,232.8**	**$31,547.9**	**$35,166.3**	**$37,047.4**



Program Area	FY 2014 (Actual)	FY 2015 (Estimate)	FY 2016 (Appropriation)	FY 2017 (Appropriation)
K-12 Education	$8,257.4	$8,797.9	$9,288.5	$9,664.2
Medicaid	$13,570.5	$15,232.0	$18,499.1	$19,649.7
Health & Human Services	$1,232.2	$1,291.1	$1,338.1	$1,343.3
Higher Education	$2,304.9	$2,379.9	$2,428.3	$2,487.9
Corrections	$1,740.8	$1,772.3	$1,808.2	$1,853.7
General Government	$1,795.8	$1,901.8	$1,937.7	$1,990.8
Total	**$28,901.7**	**$31,375.1**	**$35,299.9**	**$36,989.6**

Note: Revenues may not equal expenditures due to factors such as carryover balances, encumbrances, and transfers.

The executive budget provides total state and federal GRF appropriations of $35.30 billion in FY 2016 and $36.99 billion in FY 2017, increases of 12.5% and 4.8%, respectively. Including in the GRF Medicaid funding for newly eligible individuals ("Group 8") is the main contributor to the 12.5% increase in FY 2016. Medicaid and K-12 Education account for 52.8% and 26.2%, respectively, of the biennial total state and federal GRF appropriations. State-source GRF appropriations total $22.73 billion in FY 2016 and $23.64 billion in FY 2017, increases of 4.2% and 4.0%, respectively. K-12 Education and Medicaid represent 40.9% and 26.5%, respectively, of the state-source GRF biennial total. Across all funds, the appropriations total $64.69 billion in FY 2016 and $66.27 billion in FY 2017, increases of 2.5% and 2.4%, respectively.

Medicaid and Other Human Services

- Across all funds in six agencies, Medicaid funding totals $27.29 billion in FY 2016 and $28.16 billion in FY 2017, increases of $2.53 billion and $0.87 billion, respectively. The majority of the Medicaid budget is funded by state and federal GRF appropriations – $18.50 billion in FY 2016 and $19.65 billion in FY 2017. The state share of the GRF is $5.97 billion in FY 2016 and $6.33 billion in FY 2017.
- The $6.33 billion state share for FY 2017 includes almost $126 million for the required 5% state contribution to fund Group 8 for the second half of FY 2017. From calendar year (CY) 2014 through CY 2016, Group 8 is fully funded by the federal government. For CY 2017, the state is required to pay 5% of the total costs.
- The executive budget contains various Medicaid reform initiatives that produce net savings to the state, including requiring childless, non-pregnant adults with incomes from 100% to 138% of the federal poverty level (FPL) to pay a monthly premium and moving certain groups with incomes above 138% of FPL from Medicaid into the federal marketplace. Without these policy changes, the executive estimates that the overall state share of GRF Medicaid funding would have to be $127 million higher in FY 2016 and $193 million higher in FY 2017.
- The executive budget increases nursing facility reimbursement by $60.7 million ($22.8 million) over the biennium.
- The executive budget increases physician rates by $42.1 million ($15.8 million state share) in FY 2016 and $109.2 million ($41.1 million state share) in FY 2017 and dental rates by $1.5 million ($562,000 state share) in FY 2016 and $3.0 million ($1.1 million state share) in FY 2017.
- The executive budget includes various initiatives to, by June 2017, serve an additional 5,890 individuals with developmental disabilities in community settings and increase the participation in supported employment and integrated day services by about 6,100 individuals. The executive estimates that these initiatives will increase the spending from the Department of Developmental Disabilities by $88 million ($34 million state share) in FY 2016 and $229 million ($86 million state share) in FY 2017.
- The executive budget expands the Medicaid in Schools Program to include certain intensive behavioral and transportation services. This initiative will enable schools to claim federal reimbursements totaling $22.2 million in FY 2016 and $24.3 million in FY 2017.
- The executive budget includes the use of $310 million in existing Temporary Assistance for Needy Families (TANF) and Workforce Innovation and Opportunity Act funding to create a comprehensive case management and employment initiative for low-income individuals.

K-12 Education

- The executive budget modifies the school funding formula and provides an estimated $7.41 billion in FY 2016 and $7.72 billion in FY 2017 in formula aid, increases of 5.5% and 4.2%, respectively.
    - Core opportunity grant. The executive budget increases the per pupil amount of this aid from $5,800 in FY 2015 to $5,900 in FY 2016 and $6,000 in FY 2017. The state share of this amount is determined by an index that depends on a district's valuation and median income. The executive budget modifies the way income is incorporated.
    - Additional per pupil funding for students and schools with unique needs. The executive budget increases the per pupil amounts for special education, career-technical education, and K-3 literacy. The executive budget decreases the minimum state share for transportation funding from 60% to 50% and fully funds the resulting formula.
    - Guarantee and cap. The executive budget guarantees that formula allocations will not decrease in either fiscal year by more than 1% of a measure of total state and local resources. In both fiscal years, the budget maintains the cap at 10% of the prior fiscal year's formula allocation.
- The executive budget continues the formula for joint vocational school districts (JVSDs) and incorporates the same changes as those for traditional districts to per pupil amounts and the guarantee and cap. Instead of the state share index, the JVSD formula uses a 0.5-mill charge-off for core opportunity aid to derive each district's local share. Total JVSD formula aid is estimated to amount to $271.9 million in FY 2016 and $272.2 million in FY 2017, increases of 0.3% and 0.1%, respectively.

- The executive budget phases down the remaining reimbursements for school district and JVSD losses due to utility deregulation and the elimination of the tax on general business tangible personal property (TPP). Appropriations for these reimbursements fall from $510.0 million in FY 2015 to $360.9 million in FY 2016 and $249.8 million in FY 2017, decreases of 29.2% and 30.8%, respectively.
- The executive budget provides $80.3 million in FY 2016 and $90.3 million in FY 2017, increases of $35.0 million and $10.0 million, respectively, from the combination of the GRF and casino operator settlement money to fund early childhood education for lower income families. The budget also provides GRF funding of $5 million per year within the Department of Mental Health and Addiction Services budget to promote identification and intervention for early childhood mental health.
- The executive budget provides lottery profits of $100 million per year to continue the Straight A Fund program. It earmarks $5 million per year to award schools that increase participation in advanced placement or college credit plus (CCP) program. It also earmarks $10.0 million in FY 2016 and $3.5 million in FY 2017 to support graduate coursework for high school teachers to receive credentialing to teach CCP courses in a high school setting.
- The executive budget provides lottery profits of $15 million per year, an increase of $5 million in FY 2016, to provide funding for local networks of volunteers and organizations to sponsor career advising and mentoring for students in districts with high poverty rates and low graduation rates.
- The executive budget provides GRF funding of $23.5 million in FY 2016 and $31.5 million in FY 2017, increases of $6 million and $8 million, respectively, to continue the income-based EdChoice expansion. It also increases the EdChoice scholarship amount for high school students from $5,000 to $5,700.
- The executive budget increases the per pupil funding for community school facilities from $100 to $200 and provides lottery profits of $18.4 million in FY 2016 and $19.7 million in FY 2017 to fund the increase. It also provides $25 million in capital funding to make classroom facilities grants to “exemplary” community schools.
- The executive budget establishes a competency-based education pilot program and provides $2.5 million per year in GRF funding to award grants of up to $250,000 each to ten pilot districts or schools.

Higher Education

- The executive budget generally caps annual in-state undergraduate tuition increases for FY 2016 at the greater of 2.0% or $193 for university campuses, the greater of 2.0% or $116 for university regional campuses, and the greater of 2.0% or $83 for community and technical colleges; it freezes tuition for FY 2017 at the FY 2016 levels.
- The executive budget increases the total state share of instruction (SSI) appropriations by 2% per year to $1.86 billion in FY 2016 and $1.89 billion in FY 2017. It earmarks $1.43 billion in FY 2016 and $1.46 billion in FY 2017 for universities and their regional campuses and $427.3 million in FY 2016 and $435.8 million in FY 2017 for community and technical colleges.
- The formula for universities (including regional campuses) allocates 50% of the SSI for degree completions, a little over 28% for course completions, and the remainder for doctoral and medical education and for phasing out certain historical set-asides. The formula for community and technical campuses allocates 50% of the SSI for course completions, 25% for success factors, and 25% for completion milestones. Neither formula contains a “stop-loss” provision for individual campuses.
- The executive budget provides $20 million in FY 2017 to fund the newly created higher education innovation grant program to achieve sustainable, long-term cost savings for students.
- The executive budget provides $30 million per year during the next biennium to reduce debt and financial burdens on students attending state colleges and universities.

Other

- The executive budget provides $20 million in capital funding within the Development Services Agency budget for the newly created Abandoned Gas Station Cleanup Grant Program for the cleanup and remediation of certain petroleum release sites.
- The executive budget transfers the Bureau of Recovery Services from the Department of Rehabilitation and Correction to the Department of Mental Health and Addiction Services (MHA) and provides $27.4 million in FY 2016 and $34.4 million in FY 2017 in GRF funding within the MHA budget to fund alcohol and drug addiction services to inmates and prepare them for re-entry to society.
- The executive budget increases the justices’ and judges’ salaries by 5% per year from FY 2016 through FY 2018. It provides $5.4 million in FY 2016 and $11.1 million in FY 2017 in the Supreme Court’s operating expense line item to fund the proposed salary increases.
- The executive budget phases down the remaining reimbursements for local government losses due to utility deregulation and the elimination of the general business tangible personal property tax. Appropriations for these reimbursements are reduced from $127.6 million in FY 2015 to $65.9 million in FY 2016 and $40.2 million in FY 2017, decreases of 48.3% and 39.1%, respectively.
- Under the executive budget, the Local Government Fund (LGF) and Public Library Fund (PLF) will each continue to share 1.66% of the total GRF tax revenues in FY 2016 and FY 2017. LGF and PLF receipts will each grow from $364.2 million in FY 2015 to $383.5 million in FY 2016 and $399.3 million in FY 2017, increases of 5.3% and 4.1%, respectively.

Total (State and Federal) GRF Appropriations by Agency

Agency	FY 2014 (Actual)	FY 2015 (Estimate)	FY 2016 (Appropriation)	FY 2017 (Appropriation)
Department of Medicaid	$13,065,250,163	$14,710,099,360	$17,931,797,285	$19,022,178,639
Department of Education*	$7,904,998,180	$8,415,765,295	$7,697,170,506	$8,041,580,485
Department of Higher Education	$2,304,928,556	$2,379,887,812	$2,428,257,219	$2,487,889,271
Revenue Distribution Fund*	$0	$0	$1,846,500,000	$1,877,100,000
Department of Rehabilitation and Correction	$1,512,192,641	$1,539,011,322	$1,591,188,402	$1,640,972,422
Department of Job and Family Services	$733,256,449	$793,782,672	$818,236,328	$821,160,687
Department of Developmental Disabilities	$521,699,150	$533,803,413	$582,655,478	$639,088,508
Ohio Facilities Construction Commission	$365,063,859	$390,464,951	$415,674,700	$422,532,700
Department of Mental Health and Addiction Services	$363,386,480	$365,794,709	$382,915,756	$388,940,102
Public Works Commission	$237,245,104	$261,396,600	$264,112,300	$272,028,900
Department of Youth Services	$228,622,143	$233,323,163	$217,003,154	$212,733,454
Department of Administrative Services	$145,921,080	$164,387,951	$166,589,928	$165,685,873
Judiciary/Supreme Court	$134,165,973	$143,818,909	$153,368,942	$161,592,239
Development Services Agency	$115,692,270	$134,012,966	$132,926,362	$147,946,162
Department of Natural Resources	$98,532,150	$99,068,536	$102,401,636	$103,412,136
Department of Health	$88,617,505	$89,257,614	$90,750,078	$90,750,078
Department of Taxation*	$706,678,526	$721,218,532	$69,565,985	$69,565,985
Attorney General	$46,173,434	$45,803,589	$45,803,589	$45,803,589
Department of Veterans Services	$36,454,945	$39,393,644	$38,705,121	$52,964,821
Treasurer of State	$29,028,399	$29,206,559	$30,243,959	$30,243,359
Auditor of State	$27,600,915	$28,234,452	$28,479,072	$28,479,072
Legislative Service Commission	$21,096,993	$28,961,103	$24,670,478	$24,670,478
House of Representatives	$19,526,505	$25,024,667	$23,272,941	$23,272,941
Department of Public Safety	$9,752,977	$10,500,000	$18,624,300	$18,624,300
Department of Agriculture	$15,165,913	$15,254,231	$16,329,231	$16,254,231
Opportunities for Ohioans with Disabilities Agency	$15,701,880	$15,711,070	$16,250,894	$16,250,894
Ohio Public Defender Commission	$14,398,916	$14,566,485	$14,704,112	$14,727,653
Department of Aging	$14,807,961	$14,647,425	$14,647,425	$14,647,425
Senate	$11,024,228	$13,460,369	$12,518,143	$12,518,143
Ohio Arts Council	$9,750,815	$11,349,204	$11,972,050	$12,472,050
Department of Transportation	$12,542,291	$10,050,000	$11,050,000	$11,050,000
Environmental Protection Agency	$9,813,394	$10,923,093	$10,923,093	$10,923,093
Ohio School for the Deaf	$8,735,110	$8,727,657	$10,254,435	$10,678,878
Ohio Historical Society	$10,149,625	$10,549,625	$10,149,625	$10,149,625
Adjutant General	$8,528,566	$8,594,883	$9,879,883	$9,879,883
Ohio State School for the Blind	$7,185,778	$7,278,579	$8,242,799	$8,488,609
Broadcast Educational Media Commission	$6,523,399	$7,813,706	$7,847,422	$7,847,422
State Library Board	$5,832,424	$5,759,947	$5,759,947	$5,759,947
Ohio Civil Rights Commission	$4,725,740	$4,725,784	$5,406,444	$5,406,444
Office of Budget and Management	$4,092,758	$4,601,054	$4,796,898	$4,796,898
State Employment Relations Board	$3,394,842	$3,761,457	$3,761,457	$3,761,457
Capitol Square Review and Advisory Board	$3,555,099	$3,578,565	$3,578,565	$3,578,565
Office of the Governor	$2,751,881	$2,851,552	$2,851,552	$2,851,552
Court of Claims	$3,217,673	$2,501,052	$2,568,582	$2,609,680
Secretary of State	$2,141,406	$2,612,422	$2,378,226	$2,378,226
Board of Tax Appeals	$2,010,208	$1,700,000	$1,925,001	$1,925,001
Veterans' Organizations	$1,887,914	$1,887,986	$1,887,986	$1,887,986
Commission on Minority Health	$1,450,932	$1,580,637	$1,678,319	$1,728,319
Ethics Commission	$1,410,850	$1,381,556	$1,381,556	$1,381,556
Inspector General	$1,224,781	$1,525,598	$1,327,759	$1,327,759
Judicial Conference of Ohio	$824,415	$847,200	$999,000	$1,038,000
Environmental Review Appeals Commission	$467,276	$545,530	$612,435	$612,435
Joint Legislative Ethics Committee	$527,133	$550,000	$550,000	$550,000
Joint Committee on Agency Rule Review	$394,788	$456,376	$493,139	$512,253
Controlling Board	$0	$475,000	$475,000	$475,000
Commission on Hispanic/Latino Affairs	$355,312	$392,776	$413,383	$413,375
Ohio Elections Commission	$331,769	$333,117	$333,117	$333,117
Joint Committee on Medicaid Oversight	$6,536	$500,000	$321,995	$490,320
Commission on Service and Volunteerism	$286,660	$294,072	$305,834	$304,547
Expositions Commission	$464,749	$920,000	$250,000	$250,000
Ohioana Library Association	$135,000	$140,000	$155,000	$160,000
GRF - State	*$20,645,237,311*	*$21,819,675,739*	*$22,731,014,265*	*$23,635,718,166*
GRF - Federal	$8,256,465,108	$9,555,390,088	$12,568,879,561	$13,353,918,378
GRF - Total	**$28,901,702,419**	**$31,375,065,827**	**$35,299,893,826**	**$36,989,636,544**
Medicaid - All Agencies				
GRF - Total	**$13,570,528,336**	**$15,231,980,661**	**$18,499,140,001**	**$19,649,670,085**
GRF - State	*$5,349,080,476*	*$5,714,793,130*	*$5,968,462,997*	*$6,333,954,264*
GRF - Federal	*$8,221,447,860*	*$9,517,187,531*	*$12,530,677,004*	*$13,315,715,821*
All Funds - Total	**$20,859,067,354**	**$24,764,178,533**	**$27,292,767,792**	**$28,161,218,583**

* The executive budget moves GRF appropriations for property tax relief payments from the Departments of Education and Taxation to the Revenue Distribution Fund.

BEFORE THE WAYS AND MEANS COMMITTEE
OF THE OHIO SENATE
SENATOR BOB PETERSON, CHAIRMAN

TESTIMONY
OF
MARK ENGEL
BRICKER & ECKLER LLP
OMA TAX COUNSEL

MARCH 11, 2015

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Mr. Chairman and members of the Committee, my name is Mark Engel. I'm an attorney with the law firm of Bricker & Eckler LLP and I concentrate my practice in the areas of state and local taxation and economic development. I'm testifying today on behalf of The Ohio Manufacturers' Association to provide you with background regarding the existing sales tax exemption provided to manufacturers with respect to the purchase and use of machinery and equipment used in a manufacturing operation to produce tangible personal property for sale. The OMA was created in 1910 to advocate for Ohio's manufacturers; today, it has 1400 members. Its mission is to protect and grow Ohio manufacturing.

Ohio's Sales and Use Taxes

Ohio's sales tax was first enacted as a temporary measure in the depths of the Great Depression in the 1930s. At that time, it was conceived as a tax on final personal consumption of tangible goods. One year after initial enactment, the use tax was enacted; the two taxes were made permanent and the first exemption for machinery and equipment used to produce tangible personal property for sale by manufacturing was added. Similar exclusions were made for other activities that, similarly, resulted in the production of goods that would be subject to the tax upon final sale.

The rationale for these exclusions is simple: The taxes are intended to be imposed upon the final consumption of goods and, now, those selected services that are subject to tax. Intermediate transactions prior to the final sale of the product, including the acquisition of machinery and equipment and the raw materials that are incorporated into the final product, are not intended to be taxed. The basis for this is four-fold:

First, imposing the tax on intermediate transactions (sometimes called business inputs) causes the tax to be imposed at each step in the production of a good. This causes the tax to pyramid at each step of the economic ladder, resulting in an effective tax rate that may be much higher than the statutory rate. For example, in conjunction with the 1994 tax study commissioned by the General Assembly, the staff provided an example in which a sales tax rate of 6.5 percent applied to two stages of production resulted in an effective tax rate of 9.5 percent at the time of the final retail sale.[1]

Second, imposing the tax on business inputs increases the cost of doing business through the higher prices that result from the tax. Business generally will respond to higher costs in a combination of three ways: It may decide to charge higher prices; it may pay lower wages to workers (or expatriate those positions elsewhere); or it may provide a lower return on investment to owners.[2]

Third, direct inputs lead to the production of more valuable goods that are ultimately subject to the tax.

Fourth, the provision has economic development implications. Every single state that surrounds Ohio has a sales tax. Every one of those states has some sort of exemption from the tax for machinery and equipment used in the production of tangible goods to be sold by manufacturers. Moreover, the *1994 Study* also found that lower rates of taxation on business equipment increase the rate of business formation of smaller firms. Thus, imposing the sales tax on manufacturing machinery and equipment puts Ohio at a disadvantage from an economic development perspective.[3]

The application of sales and use taxes to business inputs has been the subject of comment on at least two prior occasions in Ohio. In 1982, the Final Report and Recommendations of the Joint Committee to Study State Taxes (114th General Assembly, December 1982), pp. 15-16 concluded that the taxes should be imposed broadly on consumer spending, but very selectively on business spending. Similarly, the *1994 Study* at p. 5-4 and the *1994 Staff Report* at p. 27 both recognized that the sales tax should only be imposed upon the final consumer and that business inputs should not be taxed at all. The taxation of business inputs should be avoided because

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[1] Roy Bahl, Ed., *Taxation and Economic Development: A Blueprint for Tax Reform in Ohio* (Battelle Press 1994), p. 277-278 (the "*1994 Staff Report*").
[2] *Taxation and Economic Development in Ohio: A Blueprint for the Future*, Final Report of the Commission to Study the Ohio Economy and Tax Structure (December 23, 1994), p. iii ("*1994 Study*").
[3] *Id.*, at p. 5-4.

doing so leads to multiple levels of taxation and economic disadvantages. Moreover, the *1994 Report* concluded that if the sales tax is extended to services, there should be liberal exemptions for transactions between businesses.

Manufacturing Exemptions for Tangible Personal Property Is Not Absolute

Manufacturers enjoy exemption for three categories of purchases:

- Machinery and equipment used primarily during and in the manufacturing process

- Ingredients and materials that are incorporated into the final product that is produced for sale

- Packages and packaging equipment

However, this does not mean that manufacturers do not pay sales and use taxes in Ohio. Manufacturers purchase and use many goods and services that are not included in the manufacturing exemptions. Those items include machinery and equipment that is used before manufacturing begins, or after it ends; cleaning equipment and supplies; maintenance and repair equipment and supplies; storage facilities; most safety items; and office supplies and equipment and motor vehicles. As a result, manufacturers pay millions of dollars in sales and use taxes annually to the state of Ohio.

According to the 2014 Annual Report of the Ohio Department of Taxation, manufacturers as an economic segment paid more than $410,000,000 in sales and use taxes directly to the state of Ohio. This is in addition to the untold millions of tax dollars that were paid to, and reported by, vendors and retailers located in Ohio. It appears that in terms of tax directly owed to the state, as opposed to tax that is collected from others, manufacturing is one of the largest payers of sales and use taxes in the state.

The Exemption Should Not Be Repealed

Repeal of the manufacturing exemption should not be considered.

First, repeal is contrary to the recent efforts of Ohio tax policy to move away from the taxation of economic investment and towards personal consumption. Manufacturers invest in manufacturing machinery and equipment in order to expand or maintain their capacity to provide jobs and to produce a product for sale, a product that in most cases will be subject to the sales and use taxes when it is sold and used.

Since 2005, Ohio has attempted to move away from the taxation of business investment. It eliminated the tax on business tangible personal property. It eliminated the net worth base of the corporation franchise tax. And, it excludes from the commercial activity tax, receipts in the nature of a return on investment. As noted earlier in my remarks, the purchase of machinery and equipment by manufacturers is not final consumption. Rather, it reflects an investment in the business. The sales tax exemption for manufacturing machinery and equipment is consistent with this policy.

Imposing the sales tax on business inputs, including manufacturing machinery and equipment (and labor) is contrary to sound tax policy. As previous tax study commissions[4] have concluded, good tax policy is based on simplicity, equity, stability, neutrality and competitiveness. Removing the exemption and subjecting those purchases to tax will render the tax more opaque, more complex, and less fair as final consumers who are less economically advantaged will pay an even higher proportion of their family income in sales taxes. Removing the exemption violates the principles of neutrality and competitiveness as it results in higher costs, which may influence economic decisions and competitiveness. Taken together, all these factors may in fact render the tax less stable.

Exclusion of Services as Manufacturing Inputs

There are two specific cases in which the sales or use tax should be amended to exclude specific manufacturing service inputs. I'll briefly describe the recommendations:

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[4] *1994 Study*, p. 5-1; *Report of the Committee to Study State and Local Taxes*, March 1, 2003, p. 6.

One, Ohio does not impose sales or use taxes (or the CAT) on the wages paid to employees. Just as wages are not subject to such taxes; and business inputs, such as ingredients, machinery and equipment, are exempted from the sales and use taxes, so too should amounts paid for temporary employees engaged in manufacturing activities that are otherwise exempt from the tax. Such employees are a business input; the sales tax should not apply to transactions by which such labor is obtained.

Two, Ohio also taxes industrial janitorial and maintenance services. Manufacturers' production facilities and the equipment components of their production processes require continuous repair and maintenance. Without the required cleaning, repairs and maintenance the machinery breaks down and fails to produce acceptable products for sale to customers. Cleaning industrial assets is absolutely critical to the manufacturing process. It is a necessary business input and sales tax should not apply.

Conclusion

In conclusion, the manufacturing exemption is founded on sound tax and economic policy. The sales and use taxes are intended to be taxes on ultimate household consumption; they are not intended to apply to business inputs or to intermediate transactions. Applying the taxes to transactions involving the investment in manufacturing machinery and equipment increases the cost of the goods that are produced, negatively impacts economic decisions, and may place Ohio at a disadvantage when it comes to economic development. That isn't good policy. It ought not to be the policy of Ohio.

Thank you. I'll be pleased to answer any questions you may have.

Tax

Manufacturers Concerned about Budget's Tax Provisions

Testifying before the House Ways and Means Committee this week, the OMA expressed the concerns of its members concerning the tax provisions contained in HB 64, the state operating budget bill.

"If the CAT rate is increased from 0.26% to 0.32%, as proposed in House Bill 64, manufacturers as a group will be required to pay roughly $111M in additional CAT per year, a 23% tax increase," testified Mark Engel, tax counsel for the OMA from Bricker & Eckler.

Regarding the sales tax provisions within the bill, Engel said: "(M)anufacturers are highly concerned about the provisions in House Bill 64 that would extend the sales tax to certain currently exempt services such as legal and accounting services. Among the concerns are (1) extension of the tax to transactions between members of an affiliated group of entities, (2) uncertainty surrounding sourcing rules, (3) failure to afford to services the benefit of existing exemptions for tangible property for purposes of resale or for business inputs, and (4) uncertainty of the breadth of taxable services under the plain language of the statute."

Pledging to work with the administration and the legislature to improve the state's tax structure, the OMA said: "Tax policy should encourage growth of capital, growth in intellectual property, and growth in jobs in Ohio. Unfortunately, as currently drafted, House Bill 64's tax provisions will have the opposite effect: They will increase costs, and discourage growth of capital and job creation." *3/11/2015*

OMA Urges Protection of Manufacturing Sales Tax Exemption

The OMA this week testified before the Senate Ways and Means Committee, urging that the manufacturing sales and use exemption be maintained in law. The testimony was presented by OMA tax counsel Mark Engel of Bricker & Eckler. The committee is looking at "tax expenditures" that might be eliminated to raise state revenues.

Engel noted: "The taxes are intended to be imposed upon the final consumption of goods and, now, those selected services that are subject to tax. Intermediate transactions prior to the final sale of the product, including the acquisition of machinery and equipment and the raw materials that are incorporated into the final product, are not intended to be taxed."

"Imposing the sales tax on business inputs, including manufacturing machinery and equipment (and labor) is contrary to sound tax policy. As previous tax study commissions have concluded, good tax policy is based on simplicity, equity, stability, neutrality and competitiveness. Removing the exemption and subjecting those purchases to tax will render the tax more opaque, more complex, and less fair as final consumers who are less economically advantaged will pay an even higher proportion of their family income in sales taxes. Removing the exemption violates the principles of neutrality and competitiveness as it results in higher costs, which may influence economic decisions and competitiveness. Taken together, all these factors may in fact render the tax less stable," Engel testified. *3/11/2015*

OMA Tax Committee to Feature Top Lawmakers

House lawmakers deeply involved in the tax provisions of the state budget bill, HB 64, are scheduled to attend the OMA Tax Committee meeting on March 18.

House Ways and Means Committee chairman, Rep. Jeff McClain (R - Upper Sandusky), has been holding hearings on the tax policy proposals in HB 64. The final scheduled hearing was this week; now, McClain will tender the recommendations of his committee to Rep. Ryan Smith (R - Bidwell), chairman of the House Finance Committee, which will consider amendments to the bill.

Both chairmen are scheduled to attend the OMA Tax Committee meeting.

OMA committee participants will also receive updates on Senate hearings on the Manufacturing Sales Tax Exemption (see separate story). All members are invited to participate in-person or by phone; register here. *3/12/2015*

A Pair of CAT Credit Bills Introduced

Two new bills that would create commercial activity tax (CAT) credits have been introduced in the Ohio General Assembly over the past two weeks.

SB 88 sponsored by Sen. Charleta Tavares (D-Columbus) would create tax credits, including CAT credits, for the employment of individuals who have been convicted of criminal offenses.

A second bill, HB Bill 102 sponsored by Reps. Niraj Antani (R-Miamisburg) and Hearcel Craig (D-

Columbus), would provide a bid preference for state contracts to a veteran-owned business and would authorize a personal income and CAT credit for a business that hires and employs a veteran for at least one year.

The OMA opposes CAT credits; they erode the broad tax base and threaten the competitive low CAT tax rate. *3/5/2015*

Budget Modifies AG's Monitoring of State Economic Development Incentives

HB 64, the state budget bill, proposes to modify the oversight role of the Attorney General to monitor state economic development incentive projects. Currently the Attorney General is required to monitor the compliance of entities with the terms of their awards and submit an annual report thereof to the General Assembly.

The bill would still require the Attorney General to determine compliance with the terms of the award, including the performance metrics, but at the end of the year by which the entity is required to meet one of those metrics, rather than annually. *3/5/2015*

Calculate Effect of Tax Proposal for Your Company

The state operating budget, House Bill 64, as introduced contains tax policy proposals of high interest to manufacturers, including adjustments to the commercial activity tax (CAT), sales tax, and personal income tax.

We've developed a calculator to help you determine the potential impacts to your company:

Use this calculator (with instructions) to determine your costs of the tax proposals (the calculator is an Excel form and may take several minutes to download).

The budget issues and impacts will be on the agendas of these upcoming OMA policy committee meetings, which are forums for OMA member input.

OMA Government Affairs Committee on March 11 at 9:30 a.m. The Director of the Office of Budget and Management, Tim Keen, is a confirmed guest speaker.
OMA Tax Committee on March 18 at 10:00 a.m.

Register here for these committee meetings and communicate your input directly to us. *2/25/2015*

Governor's Tax Proposal Summarized

In a memo prepared for OMA members, OMA tax counsel Mark Engle of Bricker & Eckler LLP notes: "In the broadest sense, the tax proposals contained in H.B. 64 are similar to those included in the last budget proposal: lower income taxes on individuals and small-business owners, paid for in part by increased sales, commercial activity, tobacco and severance taxes, especially on large business entities. Opposition to the prior proposal resulted in a somewhat scaled back reduction in income taxes and more modest increases in the sales tax rate, as well as increases in the taxes applicable to tobacco and alcohol."

The OMA Government Affairs Committee and the OMA Tax Committee are reviewing the proposal for establishing an OMA position on its various elements.

Read the full memo here. Give feedback to the OMA decision-making process by participating in the committees, and by communicating with Ryan Augsburger and Rob Brundrett. *2/19/2015*

House Ways & Means Committee to Hold Hearings on Budget Tax Package

Chairman Rep. Jeff McClain (R-Upper Sandusky) announced a full slate of committee hearings in the House Ways and Means Committee over the next three weeks.

The committee will be vetting the governor's tax proposal. Next week testimony is focused on business taxes; the following week on severance, personal and tobacco taxes; and the week of March 9th testimony on all the tax proposals will be heard. *2/19/2015*

3115 Exception Offered to Small Business

OMA Connections Partner, Clark, Schaefer, Hackett, tells us that last week the IRS released a new revenue procedure that gives small business taxpayers the option of making changes to comply with the tangible property regulations on the federal tax return without including a separate Form 3115 (Application for Change in Accounting Method) or separate statement.

Businesses that do not qualify as small taxpayers, who are otherwise required to comply with the regulations, will still be required to file the 3115 to indicate their compliance. Read more *2/18/2015*

House Finance Committee Hears Details on Kasich Tax Plan

This week the Ohio House Finance Committee heard testimony from Ohio Tax Commissioner Joe Testa on the newly introduced state budget plan, House Bill 64.

Commissioner Testa provided 31 pages of detailed testimony and took questions from committee members regarding Governor Kasich's proposed tax plan. You can watch a video of the hearing here. There were some testy moments in the hearing.

The OMA will provide analysis of the tax package as it affects manufacturers. Contact OMA's Rob Brundrett for information about tax matters in the bill, and register for the March 18 OMA Tax Committee meeting. *2/12/2015*

Senate Announces Tax Expenditure Review

This week Ohio Senate President Keith Faber (R-Celina) announced that the Senate Ways and Means Committee will undertake a review of state "tax expenditures," a name used for tax exemptions and carve-outs. A goal of the committee is to ensure existing tax breaks are relevant, logical, and helpful to the state and its citizens.

The governor's office published its report on the state's tax expenditures when it proposed the budget this month. *2/12/2015*

State Budget Unveiled

This week, Governor John Kasich unveiled his 2-year state budget proposal, dubbed a ***Blueprint For A New Ohio***. This state operating budget funds state government operations for the period July 1, 2015 to June 30, 2017. In addition to the state operating budget, separate budget legislation will fund the Bureau of Workers' Compensation and the Industrial Commission, and the Ohio Department of Transportation.

The governor released a **series of fact sheets** that describe the major points of the proposal. The budget bill itself is expected to be introduced into the House of Representatives next week. The governor's budget director, Office of Budget and Management director Tim Keen, presented the budget to the House Finance Committee this week.

Among his many proposals, the governor proposes \$500 million in net tax cuts. The budget would decrease personal income taxes while increasing the commercial activity tax (CAT), sales tax, cigarette tax, and severance tax rates. OMA Tax Counsel Mark Engel of Bricker and Eckler LLP has produced this 2-page **summary of tax policy proposals**.

The OMA Government Affairs Committee and Tax Committee will go to work to identify the budget elements that are important to manufacturing. The Government Affairs Committee meets March 11 and the Tax Committee meets March 18. All members are invited; register here. Meetings are in-person and call-in. *2/4/2015*

State Budget Unveiling Monday

The governor's state budget will be unveiled Monday, February 2. The legislature will act on three separate budgets: the main state operating budget, the transportation budget, and the Bureau of Workers' Compensation / Industrial Commission budget.

The House Finance Committee will begin hearings next Tuesday; the Office of Budget and Management and Legislative Service Commission are scheduled to offer testimony. On Wednesday the committee will hear testimony on the transportation budget from the Department of Transportation, Department of Public Safety, and the Ohio Turnpike and Infrastructure Commission. The House has scheduled a vote on the operating budget the week of April 20th.

Budget documents when they come out will be posted here on the Legislative Service Commission website and here on the Office of Budget and Management website.

The OMA Tax Committee will be following the budget issues that particularly impact manufacturers. Its next meeting is Wednesday, March 18. Register here. *1/29/2015*

New Chairman Appointed to House Finance Committee

With former House Finance Chairman Ron Amstutz (R-Wooster) becoming Speaker Pro Tempore, Rep. Ryan Smith (R-Bidwell) has been tapped to chair the House Finance Committee. This powerful committee will hold the hearings on the governor's budget proposal starting next month.

New Speaker Cliff Rosenberger (R-Clarksville) appointed Rep. Smith, who is currently serving his second complete term in the House after being appointed during the 129th General Assembly. He represents Ohio's 93rd district, which includes Gallia and Jackson counties along with parts of Lawrence and Vinton counties. *1/22/2015*

NAM: The Economic Cost of Delaying Pro-Growth Tax Reform

As the new Congress convenes, the National Association of Manufacturers (NAM) is releasing a new tax policy study.

The study shows how a pro-growth tax reforms have the power to contribute more than $12 trillion in GDP, $3.3 trillion in investment and 6.5 million jobs over 10 years. The projection is built on a platform of these five reforms: 1) a maximum corporate tax rate of 25%; 2) a globally competitive international tax system; 3) full expensing of capital equipment; 4) enhanced and permanent research & development incentives; and 5) parallel changes for non-corporate pass-through entities.

Go to NAM's website for the full study and an executive summary. *1/15/2015*

ODT Cracking Down on Tax Return Refund Fraud

The Ohio Department of Taxation (ODT) will be employing new protective measures to combat theft of tax refunds by people using stolen personal ID's. These measures will cause delays in tax refunds for certain returns that are selected for closer scrutiny. Read more about this important change in a letter from Ohio Tax Commissioner Joe Testa. *1/15/2015* .

This year will have a lot of content for the committee to consider as the state writes its biannual budget.

The 2015 meetings are scheduled for: (click to add to your calendar) Wednesday March 18, Thursday May 28, and Thursday October 15.

Register here. Contact OMA's Rob Brundrett who staffs the committee if you have questions. *1/15/2015*

Important Tax Figures for 2015

OMA Connections Partner, GBQ Partner, provides this table which lists some important federal tax information for 2015, as compared with 2014. Some of the dollar amounts changed due to inflation. Other amounts changed due to legislation. *1/6/2015*

HB9 **TAX EXPENDITURE REVIEW COMMITTEE** (BOOSE T) To create a Tax Expenditure Review Committee for the purpose of periodically reviewing existing and proposed tax expenditures.

Current Status: 2/10/2015 - House Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-9

HB12 **TIF-INCENTIVE DISTRICTS** (BUTLER, JR. J, BURKLEY T) To establish a procedure by which political subdivisions proposing a tax increment financing (TIF) incentive district are required to provide notice to the record owner of each parcel within the proposed incentive district before creating the district, and to permit such owners, under specific conditions, to exclude their parcels from the incentive district by submitting a written response.

Current Status: 3/17/2015 - House Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-12

HB19 **INTERNAL REVENUE CODE** (SCHERER G) To expressly incorporate changes in the Internal Revenue Code since March 22, 2013 into Ohio law and to declare an emergency.

Current Status: 3/11/2015 - **PASSED BY SENATE**; Vote 33-0, Emergency Clause 33-0

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-19

HB26 **COIN SALES-USE TAX EXEMPTION** (MAAG R, HAGAN C) To exempt from sales and use taxes the sale or use of investment metal bullion and coins.

Current Status: 3/17/2015 - House Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-26

HB32 **AIRCRAFT-MOTOR FUEL EXCISE TAX** (PERALES R) To subject the receipt of motor fuel used to operate aircraft to the motor fuel excise taxes rather than the sales and use taxes and to require a percentage of motor fuel excise tax revenue to be used for airport improvements.

Current Status: 2/10/2015 - Referred to Committee House Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-32

HB64 **OPERATING BUDGET** (SMITH R) To make operating appropriations for the biennium beginning July 1, 2015, and ending June 30, 2017, and to provide authorization and conditions for the operation of state programs.

Current Status: 3/19/2015 - House Finance Subcommittee on Primary and Secondary Education, (Tenth Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-64

HB65 **TAX-EXPENDITURE APPRAISAL** (DRIEHAUS D) To provide for the periodic appraisal of the effectiveness of tax expenditures.

Current Status: 2/18/2015 - Referred to Committee House Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-65

HB84 **MUNICIPAL TAX-CIVIL ACTIONS** (SPRAGUE R, SWEENEY M) To require civil actions by taxpayers related to municipal income taxes be brought against the municipal corporation imposing the tax rather than the municipal corporation's tax administrator.

Current Status: 3/3/2015 - Referred to Committee House Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-84

HB99 **INCOME TAX-SCHOOL FUNDING** (CURTIN M) To require that an amount equal to state income tax collections, less amounts contributed to the Ohio political party fund via the income tax checkoff, be distributed for the support of elementary, secondary, vocational, and special education programs.

Current Status: 3/10/2015 - Referred to Committee House Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-99

HB102 **VETERAN-OWNED BUSINESSES** (CRAIG H, ANTANI N) To provide a bid preference for state contracts to a veteran-owned business and to authorize a personal income and commercial activity tax credit for a business that hires and employs a veteran for at least one year.

Current Status: 3/16/2015 - Referred to Committee House Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-102

SB2 **INTERNAL REVENUE SERVICE-INCORPORATE CHANGES** (PETERSON B) To expressly incorporate changes in the Internal Revenue Code since March 22, 2013, into Ohio law, and to declare an emergency.

Current Status: 2/18/2015 - Referred to Committee House Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-2

SB12 **INCOME TAX CREDIT-SCIENCE RELATED DEGREE** (HOTTINGER J) To grant an income tax credit to individuals who earn degrees in science, technology, engineering, or math-based fields of study.

Current Status: 2/4/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-12

SB18 **TAX CREDIT-NATIONAL GUARD EMPLOYMENT** (GENTILE L) To authorize a refundable income tax credit for employers that hire one or more qualified veterans or members of the National Guard or reserves.

Current Status: 2/4/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-18

SB21 **EARNED INCOME TAX CREDIT RESTRICTION** (SKINDELL M) To remove the income restriction on the earned income tax credit and to make the credit refundable beginning in 2015.

Current Status: 2/4/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-21

SB40 **ECONOMIC DEVELOPMENT TAX CREDIT** (BEAGLE B) To authorize tax credits for contributions of money to economic and infrastructure development projects undertaken by local governments and non-profit corporations.

Current Status: 2/11/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-40

SB41 **NEW MARKETS TAX CREDIT QUALIFICATIONS** (BEAGLE B, TAVARES C) To modify the qualifications for the New Markets Tax Credit and the schedule for receiving the credit.

Current Status: 2/11/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-41

SB52 **AIRCRAFT FUEL EXCISE TAX** (BEAGLE B) To subject the receipt of motor fuel used to operate aircraft to the motor fuel excise taxes rather than the sales and use taxes and to require a percentage of motor fuel excise tax revenue to be used for airport improvements.

Current Status: 2/18/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-52

SB88 **FELON EMPLOYMENT TAX CREDIT** (TAVARES C, THOMAS C) To create a tax credit for the employment of individuals who have been convicted of criminal offenses.

Current Status: 3/4/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-88

SB100 **SALES TAX HOLIDAY-ENERGY STAR** (BROWN E) To provide a three-day sales tax "holiday" each April during which sales of qualifying Energy Star products are exempt from sales and use taxes.

Current Status: 3/4/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-100