

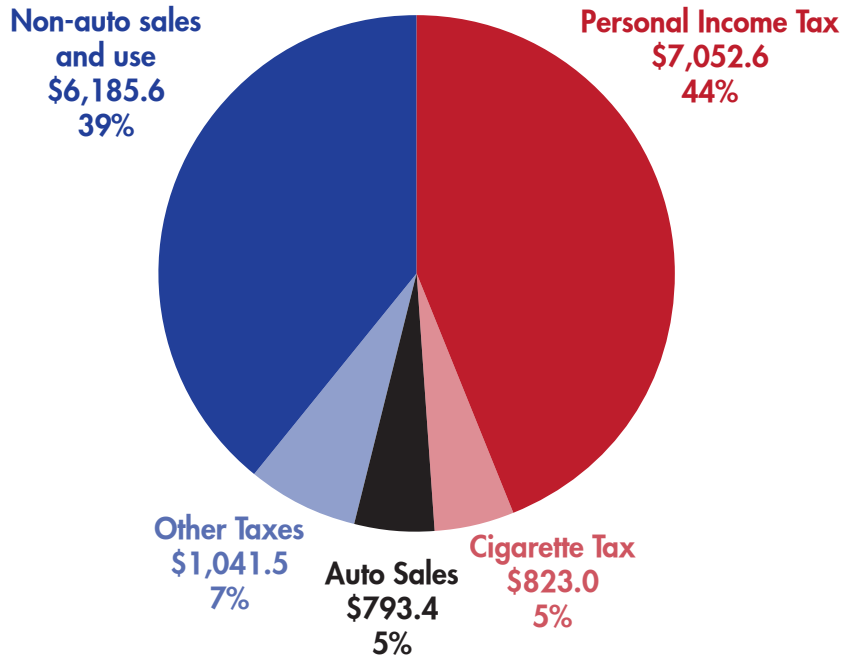
## II. State Revenues: An Overview of the General Revenue Fund

The General Revenue Fund is the largest part of Ohio's state budget, and it operates under the least restrictions on how it can be used. GRF spending supports education, human services, general government, and property tax relief programs. Primary sources of revenue in the GRF are state taxes and federal reimbursement for certain Medicaid expenditures. Smaller revenue sources include earnings on investments made by the state and transfers from special accounts including profits from the state's monopoly on the wholesale distribution of liquor and unclaimed financial accounts held in trust by the state. All together, planned GRF spending will total \$24.6 billion in FY 2010. State taxes are expected to support about \$15.9 billion of this spending.

State income and sales taxes (including auto sales) are the two largest state sources of GRF tax revenue. Together, they comprise 88 percent of state tax revenue in the 2010 budget (Figure 4). Most of the rest comes from public utility excise taxes, kilowatt-hour excise taxes, cigarette taxes, and alcoholic beverage taxes. Smaller amounts are derived from domestic and foreign insurance taxes, dealers in intangibles taxes (i.e., taxes on securities trading), and estate taxes. (For more information on how major Ohio taxes work, consult Appendix A.)

In addition to what it spends on state functions, the state shares a portion of GRF tax revenues with local governments and libraries. This revenue sharing with local government has been a mainstay of Ohio tax policy for decades. These amounts are determined by a formula. For much of the past decade, state budgets froze local government dis-

Figure 4. Major Taxes' Share of Estimated GRF Receipts, FY 2010 (amounts in millions)



Source: OBM H.B. 1 Conference Committee estimates; The Center for Community Solutions.

tributions at levels below what the formula would allocate. A new formula went into effect in January, 2008, under which the Local Government Fund receives 3.68 percent of all state GRF tax receipts and the Public Library Fund receives 2.22 percent. The FY 2010-2011 budget temporarily reduced the library distribution to 1.97 percent, which is estimated to cost libraries over \$40 million per year, unless they secure additional revenues through local levies.

Some non-tax revenues are also routinely placed in the GRF. Federal reimbursement funds from some Department of Job and Family Service expenditures are the largest example. Ohio's practice of placing federal reimbursements in its general fund is unusual, but this action increases the overall size of the GRF and enables the state to borrow more money for debt-financed capital projects.

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In times of financial emergency, the legislature can authorize the use of the state's Rainy Day Fund, a step it took at the end of FY 2009. The Rainy Day Fund is now gone, and there are no prospects for rebuilding it in the foreseeable future without major changes in the state's revenue structure.

### VLT Revenue

As the state budget process wound down in July, 2009, a provision was added to install video lottery terminals (VLTs) at seven Ohio racetracks. This would raise an estimated \$933 million, which would have funded education along with the existing transfer of profits from the state lottery. The slot machine plan is now dead after the state Supreme Court ruled that the budget language authorizing it was subject to a voter referendum, and most of the racetracks did not make their initial payment of licensing fees. In place of slot machines, the governor has proposed a two-year postponement of the final phase of the state income tax cut that began in 2005. At the time of this writing, legislation to implement the proposal (House Bill 318) had passed the House and awaited a Senate vote. It would raise \$851 million over the biennium.

### Tax Breaks and Loopholes

Each one of Ohio's taxes contains exemptions to its coverage or credits that reduce liability. These exceptions or tax breaks are referred to as "tax expenditures" because they have the same economic effect as the state appropriating money to support a particular kind of activity. Some of these exemptions—such as the sales tax exemption on prescription medication—serve a useful public purpose, but they are subsidies and should be reviewed regularly. Unfortunately, the state makes no attempt to regularly review the usefulness of these exemptions. Nothing is done beyond the Department of Taxation issuing a list at the beginning of each two-year budget cycle

of the revenue lost each year due to tax expenditures.<sup>2</sup> Collectively, these subsidies reduce state tax receipts by more than \$7 billion per year.

The sales tax has the largest number of exemptions, which total roughly \$5 billion each year. Purchases not subject to Ohio's sales tax include aircraft parts and repairs, prosthetic devices, food for off-site consumption, sales to nonprofits and government agencies, and construction materials.

**Figure 5. Tax Expenditures Cost State Over \$7 Billion a Year (in millions \$)**

Tax	FY 2010	FY 2011	Number of Exemptions
Sales	\$4,855.0	\$5,010.9	54
Personal Income	\$1,744.6	\$1,841.6	30
Corporate Franchise	\$182.6	\$191.5	3
Commercial Activity	\$456.7	\$481.6	17
Public Utility Excise	\$71.4	\$71.4	4
Kilowatt Hour	\$4.6	\$4.6	1
Insurance Premiums	\$13.7	\$13.8	3
Cigarettes & Tobacco	\$15.0	\$14.7	2
Alcoholic Beverages	\$1.5	\$1.5	4
Estate	\$99.1	\$99.1	4
Total	\$7,444.2	\$7,730.7	122

Source: OBM. *Executive Budget for FYs 2010-2011, Book 2.*

In addition because of the complexity of the tax code, those with access to sophisticated tax planners are often able to stay one step ahead of the curve. For this reason it is important to regularly review the state's tax code to ensure that the taxes are levied fairly and equally.