Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE SEPTEMBER, 1998

FISCAL OVERVIEW

— *Frederick Church*

After the huge surpluses that the state ran in FY 1998, fueled by both revenue overages and underspending, the Office of Budget and Management (OBM) has revised its revenue projections for FY 1999. OBM also has revised its projections of spending, based on the law changes in HB 650 and HB 770, Controlling Board actions, and revised expectations. Detailed information about the revisions is included in tables A and B, included within the body of this report. In summary, OBM has increased its estimates of non-federal revenue by $775 million, and decreased its estimate of federal grants by $433 million, for a net change in GRF income of $342 million. On the spending side, OBM's estimates of FY 1999 spending are $70 million lower than the original appropriations: the net of an increase of $228 million to primary and secondary education and $298 million in decreases elsewhere.

LBO's comparison of actual and estimated revenues and spending, both monthly and year-to-date, are based on these revised forecasts, not the original projections. Thus, when we say below that revenues are in line with the estimates, the statement must be interpreted with caution: they may well be in line with the new estimates but above the original forecast.

Keeping those caveats in mind, non-federal revenues for the first two months are essentially equal to the revised estimates. For the past five years (FY 1994 through FY 1998) the state fiscal picture has been very similar: revenues above the estimate, spending below. Often, after only two months of the fiscal year, we could already see the familiar pattern emerging. In contrast, after two months of FY 1999, tax revenues are almost exactly equal to the estimate, as are non-federal revenues. There is an approximately $21 million shortfall in the sales and use tax and a $20 million overage in the income tax that essentially cancel each other out. Overall GRF income is $21.6 million below the estimate because of (surprise!) the shortfall in federal grants. Again, we would emphasize that federal grants are below the new estimate that was revised substantially downward.

On the spending side, the numbers look more like what we've grown accustomed to seeing. Spending is $83.2 million below estimate, for a mixture of timing and substantive reasons. Property tax relief, the "other government" category, and human services spending other than Medicaid and TANF are all substantially below the estimate. Prior experience

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Budget Footnotes examines the fiscal position of the state GRF on a monthly basis. Each issue also contains summaries of Controlling Board actions that have policy implications, and articles on fiscal issues of current interest.

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leads us to believe that most of this is due to timing: that is, a short-term mismatch in the actual and expected timing of payments. Property tax relief often lags the estimate but catches up or comes close by year's end. Primary and secondary education spending may not catch up, but most of the money not spent is encumbered rather than lapsed and thus put into the next year's spending plan. The aggregated human services category has had underspending that is a mix of timing and substantive issues.

On the other side, the underspending in Medicaid — $29.6 million after two months — may be substantive. LBO cannot make any pronouncement at this point about what this bodes for FY 1999, since we have little detail on recipients and payments by category of service. The information that we do have indicates that HMO and nursing home payments are driving the underspending, as they did in FY 1998. Note that the underspending in Medicaid is relative to the new estimate, revised substantially downward ($124.3 million for all of FY 1999). Relative to the original appropriation, the variance would be larger still.

Unlike FY 1998, TANF spending so far this year is very close to the estimate. Spending is down by 10.1 percent from last year, which is what OBM expected given the continuing decline in welfare caseloads. The TANF estimate for all of FY 1999 is $61.2 million below the original appropriation.

As Table 1 shows, the GRF's cash balance is lower than at the same point last year, and the unobligated fund balance is much lower. The reason can be found in the massive amount of transfers from the GRF to other state funds that have taken place in the first two months. Because of the size of the FY 1998 tax cut, transfers out of the GRF are almost $300 million more than they were at the same point last year.

TABLE 1
General Revenue Fund
Simplified Cash Statement
($ in millions)

	Month of August	Fiscal Year 1999 to Date	Last Year	Difference
Beginning Cash Balance	$282.8	$1,649.0		
Revenue + Transfers	$1,202.8	$2,524.8		
Available Resources	$1,485.7	$4,173.8		
Disbursements + Transfers	$1,509.2	$4,197.3		
Ending Cash Balances	**($23.5)**	**($23.5)**	**$2.9**	**($26.4)**
Encumbrances and Accts. Payable		$826.3	$737.0	$89.3
Unobligated Balance		**($849.8)**	**($734.1)**	**($115.7)**
BSF Balance		$906.9	$828.3	
Combined GRF and BSF Balance		**$57.1**	**$94.2**	**($37.1)**

Status of the General Revenue Fund

REVENUES

— *Frederick Church*

As noted in the Fiscal Overview, OBM has substantially revised their revenue estimates for FY 1999. The new estimates are presented in Table A, below. Non-federal revenues are revised upward by $775 million, while federal grants are revised downward by $433 million, leaving a net GRF increase of $342 million. The forecasted increase in GRF tax revenue is only $36.3 million, but this is an artifact of the way that the income tax cut is treated. The 9.3 percent income tax cut for tax year 1998 will reduce FY 1999 GRF income tax receipts by about $533.6 million (another $94.2 million will be lost in FY 2000). However, the $627.8 million set aside from the FY 1998 surplus to cover those expected losses will be transferred into the GRF from the Income Tax Reduction Fund (ITRF) in early calendar year (CY) 1999. This transfer is part of the $683.7 million in the "Other Transfers In" category in table A. If this were counted as part of the income tax, then forecasted income tax revenue would have been adjusted upward by $569 million, and the forecast for total tax revenues would have increased by $664 million.

Table A - Original vs. Revised FY 1999 GRF Revenue Forecasts
amounts in millions of $

	Original Forecast	Revised Forecast	Difference
Auto Sales	$699.6	$735.0	$35.5
Non-Auto Sales & Use	$4,707.2	$4,755.0	$47.9
Total Sales	$5,406.7	$5,490.0	$83.3
Personal Income	$6,209.8	$6,150.6	($59.2)
Corporate Franchise	$1,112.3	$1,112.3	$0.0
Public Utility	$653.2	$675.0	$21.8
Total Major Taxes	$13,382.0	$13,427.9	$46.0
Foreign Insurance	$279.6	$260.0	($19.6)
Domestic Insurance	$72.2	$75.0	$2.8
Business & Property	$9.3	$7.0	($2.3)
Cigarette	$295.3	$297.0	$1.8
Soft Drink	$0.0	$0.0	$0.0
Alcoholic Beverage	$50.4	$52.0	$1.7
Liquor Gallonage	$26.8	$27.5	$0.8
Estate	$99.8	$105.0	$5.2
Racing	$0.0	$0.0	$0.0
Total Other Taxes	$833.2	$823.5	($9.7)
Total Taxes	**$14,215.1**	**$14,251.4**	**$36.3**
NON -TAX INCOME			
Earnings on Investments	$83.8	$115.0	$31.3
Licenses and Fees	$67.3	$40.0	($27.3)
Other Income	$93.9	$132.0	$38.1
Non-Tax Receipts	$244.9	$287.0	$42.1
TRANSFERS			
Liquor Transfers	$68.9	$87.0	$18.2
Budget Stabilization	$0.0	$0.0	$0.0
Other Transfers In	$5.0	$683.7	$678.7
Total Transfers In	$73.9	$770.7	$696.8
TOTAL INCOME less Federal Grants	**$14,533.9**	**$15,309.1**	**$775.2**
Federal Grants	$3,907.8	$3,475.0	($432.8)
TOTAL GRF INCOME	**$18,441.6**	**$18,784.1**	**$342.5**

As one can see in Table A, based on Ohio's FY 1998 experience, the sales and use tax, public utility excise tax, investment earnings, and liquor profit transfers were all revised substantially upward. Only the foreign insurance tax was revised significantly downward (the downward revision in licenses and fees is based on a reclassification of revenue to the "other income" category).

Drawing any conclusions about the accuracy of the revised estimates after only two months is an exercise fraught with peril. Nevertheless, after two months, the revisions to the income tax are holding up, as collections are actually exceeding the new estimates. The best news is that employer withholding has continued to surpass the estimate, indicating that job and wage growth remain strong in Ohio.

On the negative side, the sales and use tax is lagging the revised estimates, and bears close watching in the coming months. The recent corrections in the stock market seem to be resulting in consumer confidence falling from the historic high levels we have seen recently. This could ultimately lead to a slowdown in consumer spending, and in taxable retail sales. Fortunately, there is the possibility that decreasing long-term mortgage rates will increase refinancing of mortgage debt, put more money into consumers' pockets, and thus stimulate sales somewhat in the coming months. We may need such a boost to hit the sales and use tax target.

While the auto sales tax was weak in August, perhaps partly as a result of the GM strike, economic forecasters are still optimistic about auto sales for the remainder of CY 1998. Low interest rates and strong employment and wage growth contribute to this positive outlook. Also, retailers have limited their price increases for the new model year (or in some cases cut prices) in order to stimulate sales. ❑

Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of August, 1998
($ in thousands)

REVENUE SOURCE			
TAX INCOME	Actual	Estimate*	Variance
Auto Sales	$62,556	$67,620	($5,064)
Non-Auto Sales & Use	369,538	385,155	(15,617)
Total Sales	$432,094	$452,775	($20,681)
Personal Income	$443,664	$423,778	$19,886
Corporate Franchise	1,957	2,780	(823)
Public Utility	0	(1)	1
Total Major Taxes	**$877,715**	**$879,332**	**($1,617)**
Foreign Insurance	$0	$0	$0
Domestic Insurance	20	225	(205)
Business & Property	66	314	(248)
Cigarette	27,575	25,760	1,815
Soft Drink	0	0	0
Alcoholic Beverage	4,805	4,834	(29)
Liquor Gallonage	2,415	2,281	134
Estate	0	0	0
Racing	0	0	0
Total Other Taxes	$34,881	$33,415	$1,466
Total Taxes	**$912,595**	**$912,746**	**($151)**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	5,074	3,200	1,874
Other Income	6,439	9,014	(2,575)
Non-Tax Receipts	$11,513	$12,214	($701)
TRANSFERS			
Liquor Transfers	$7,000	$6,000	$1,000
Budget Stabilization	0	0	0
Other Transfers In	5,000	5,000	0
Total Transfers In	$12,000	$11,000	$1,000
TOTAL INCOME less Federal Grants	**$936,108**	**$935,960**	**$148**
Federal Grants	$266,725	$288,427	($21,702)
TOTAL GRF INCOME	**$1,202,833**	**$1,224,387**	**($21,554)**

* July, 1998 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

Table 3
General Revenue Fund Income
Actual vs. Estimate
Fiscal Year-to-Date 1999
($ in thousands)

REVENUE SOURCE					
TAX INCOME	Actual	Estimate*	Variance	FY 1998	Percent Change
Auto Sales	$138,057	$143,121	**($5,064)**	$133,794	3.19%
Non-Auto Sales & Use	803,245	818,862	**(15,617)**	778,365	3.20%
Total Sales	$941,302	$961,983	**($20,681)**	$912,159	3.19%
Personal Income	$878,973	$859,087	$19,886	$813,689	8.02%
Corporate Franchise	9,845	10,668	(823)	2,938	235.14%
Public Utility	6	5	1	724	-99.17%
Total Major Taxes	$1,830,126	$1,831,743	($1,617)	$1,729,509	5.82%
Foreign Insurance	$245	$245	$0	$23	981.20%
Domestic Insurance	32	237	(205)	421	-92.40%
Business & Property	87	335	(248)	379	-77.03%
Cigarette	41,316	39,501	1,815	36,926	11.89%
Soft Drink	0	0	0	0	0.00%
Alcoholic Beverage	9,955	9,984	(29)	9,731	2.30%
Liquor Gallonage	4,631	4,496	135	4,442	4.24%
Estate	84	83	1	3,365	-97.52%
Racing	0	0	0	0	#DIV/0!
Total Other Taxes	$56,349	$54,882	$1,467	$55,286	1.92%
Total Taxes	**$1,886,475**	**$1,886,624**	**($149)**	**$1,784,795**	**5.70%**
NON -TAX INCOME					
Earnings on Investments	$0	$0	$0	$0	#N/A
Licenses and Fees	9,454	7,580	1,874	9,276	1.92%
Other Income	15,981	18,557	(2,576)	28,346	-43.62%
Non-Tax Receipts	$25,435	$26,137	($702)	$37,622	-32.39%
TRANSFERS					
Liquor Transfers	$13,000	$12,000	$1,000	$9,000	44.44%
Budget Stabilization	0	0	0	$0	—
Other Transfers In	16,250	16,250	0	203	7904.93%
Total Transfers In	$29,250	$28,250	$1,000	$9,203	217.83%
TOTAL INCOME less Federal Grants	**$1,941,160**	**$1,941,011**	**$149**	**$1,831,620**	**5.98%**
Federal Grants	$583,646	$605,347	($21,702)	561,552	3.93%
TOTAL GRF INCOME	**$2,524,806**	**$2,546,358**	**($21,552)**	**$2,393,172**	**5.50%**

* July, 1998 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

DISBURSEMENTS

— *Jeffrey E. Golon**

At summer's end, here we are, poised up the proverbial creek with no paddle. The raw materials that we count on to power our analytic foray into FY 1999 GRF spending — line item disbursement estimates for FY 1999 and detailed FY 1998 Medicaid data — have arrived only as we go to print. Therefore, information presented is sketchy, but we can assure readers that our push-off from shore is imminent, and we are supremely confident that the next issue of ***Budget Footnotes*** will be chock full of good stuff on GRF disbursements through the first quarter of FY 1999. That said, we offer the following overview and tables of data.

OBM has FY 1999 spending estimates that are substantially below the original appropriations in several categories, particularly Medicaid, TANF, and Other Welfare. Table B, below, compares the original appropriations and the new estimates.

Table B - Original vs. Revised FY 1999 GRF Spending Forecasts
amounts in millions of $

PROGRAM	Original Appropriations	Revised Spending Forecast	Difference
Primary & Secondary Education (1)	$4,603.9	$4,832.2	$228.3
Higher Education	$2,299.5	$2,288.2	($11.3)
Total Education	**$6,903.4**	**$7,120.4**	**$217.0**
Health Care	$5,461.3	$5,337.0	($124.3)
Temporary Aid to Needy Families	$1,002.8	$941.6	($61.2)
General Assistance/Disability Assistance	$67.5	$68.1	$0.6
Other Welfare	$479.1	$437.7	($41.3)
Human Services (2)	$1,093.5	$1,090.2	($3.3)
Total Welfare & Human Services	**$8,104.1**	**$7,874.6**	**($229.5)**
Justice & Corrections	$1,633.3	$1,602.7	($30.6)
Environment & Natural Resources	$123.6	$117.3	($6.3)
Transportation	$40.7	$38.3	($2.4)
Development	$124.6	$115.7	($8.9)
Other Government (3)	$454.6	$464.9	$10.3
Capital	$10.4	$5.0	($5.4)
Total Government Operations	**$2,387.1**	**$2,343.9**	**($43.2)**
Property Tax Relief (4)	$1,014.4	$1,014.4	$0.0
Debt Service	$139.2	$124.7	($14.5)
Total Program Payments	**$18,548.2**	**$18,478.0**	**($70.2)**
TRANSFERS			
Capital Reserve	$0.0	$0.0	$0.0
Budget Stabilization	$44.2	$44.2	$0.0
Other Transfers Out	$967.6	$967.6	$0.0
Total Transfers Out	$1,011.7	$1,011.7	$0.0
TOTAL GRF USES	**$19,560.0**	**$19,489.7**	**($70.2)**

At first glance it is somewhat surprising that the TANF estimate has not been reduced more. TANF spending was $228.8 million below estimate in FY 1998, but the FY 1999 forecast has been reduced by only $61.2 million from the original appropriation. That reduction is composed largely of $55 million that will be added to TANF reserves.

There are two key factors limiting the reduction of TANF spending. First, the state's share of TANF spending must meet a minimum maintenance of effort (MOE) requirement of 75 percent of the level of welfare spending by the state in 1994. Whereas in FY 1998 the MOE expenditure level was at the 80 percent level, in FY 1999 the MOE level will be near the 77 percent level (due to cuts mandated by H.B. 650). Second, the TANF budget for FY 1999 reflects several new program initiatives and the expansion of certain support services, including such things as a new employment and training program, the Early Start health program, expanded support for child care, and performance incentives for county departments. Expenditures for these new initiatives and expansions total about $115 million. These increases more than offset the anticipated drop in cash assistance payments.

The $124.3 million revision to Medicaid follows underspending of $184.4 million in FY 1998. It makes sense not to reduce Medicaid projections for

FY 1999 by the full amount of the FY 1998 variance, since prescription drug prices continue to skyrocket, and there are risks that some of the other cost-limiting factors from last year will not repeat. Finally, the FY 1998 underspending was made unnaturally high by the $54.0 million encumbered, which will presumably be at least partially spent this year. Forecasted Medicaid spending growth for FY 1999 is 5.5 percent, following 3.3 percent growth in FY 1998.

LBO will report more fully on the spending revisions in other categories in the coming months, as we work our way through the revised estimates and explore the logic behind the revisions.

As one would expect, the prime beneficiary of the reductions in other areas of GRF spending is primary and secondary education. Education appropriations were increased in both HB 650 and HB 770. In addition, GRF spending estimates for FY 1999 have been boosted because the Department of Education encumbered $129.3 million in unspent FY 1998 appropriations (and has $207.1 million in encumbrances from all prior years), at least some of which should be spent in FY 1999.

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of August, 1998
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$430,985	$437,072	($6,087)
Higher Education	165,284	164,396	888
Total Education	$596,269	$601,468	($5,199)
Health Care/Medicaid	$471,223	$500,847	($29,624)
Temporary Assistance to Needy Families	56,863	55,915	948
General/Disability Assistance	5,362	6,228	(866)
Other Welfare	37,898	45,904	(8,006)
Human Services (2)	105,406	117,352	(11,946)
Total Welfare & Human Services	$676,752	$726,245	($49,493)
Justice & Corrections	$116,775	$104,535	$12,240
Environment & Natural Resources	11,539	9,733	1,806
Transportation	837	4,748	(3,911)
Development	11,052	18,107	(7,055)
Other Government (3)	20,585	34,357	(13,772)
Capital	132	448	(316)
Total Government Operations	$160,920	$171,928	($11,008)
Property Tax Relief (4)	$28,485	$45,970	($17,485)
Debt Service	21,373	21,426	(53)
Total Program Payments	**$1,483,799**	**$1,567,037**	**($83,238)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	25,443	25,443	0
Total Transfers Out	$25,443	$25,443	$0
TOTAL GRF USES	**$1,509,242**	**$1,592,480**	**($83,238)**

(1) Includes Primary, Secondary, and Other Education
(2) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services
(3) Includes Regulatory and Nonregulatory agencies, Pension Subsidies, and Reissued Warrants.
(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

* August, 1998 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

So after two months, where are we with respect to the new and improved estimates? Medicaid is $29.6 million below the new forecast, on growth of 3.9 percent from last year. Again, what information we have at this point indicates that the HMO and nursing home components are driving the underspending. TANF is slightly over the estimate, with spending having declined by 10.1 percent from last year. TANF caseloads continue to fall sharply: the number of cash assistance recipients in August was 323,272, down 8,406 (2.5 percent) from July, and

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Fiscal Year-to-Date 1999
($ in thousands)

USE OF FUNDS					
PROGRAM	Actual	Estimate*	Variance	FY 1998	Percent Change
Primary & Secondary Education (1)	$851,796	$857,884	($6,088)	$850,709	0.13%
Higher Education	345,472	344,584	888	313,033	10.36%
Total Education	$1,197,268	$1,202,467	($5,199)	1,163,742	2.88%
Health Care/Medicaid	$921,164	$950,787	($29,623)	$886,305	3.93%
Temporary Assistance to Needy Families	156,069	155,120	949	173,544	-10.07%
General/Disability Assistance	11,256	12,122	(866)	11,239	0.15%
Other Welfare	98,390	106,398	(8,008)	94,464	4.16%
Human Services (2)	256,514	268,461	(11,947)	243,688	5.26%
Total Welfare & Human Services	$1,443,393	$1,492,889	($49,496)	$1,409,240	2.42%
Justice & Corrections	$293,911	$281,670	$12,241	$263,208	11.66%
Environment & Natural Resources	36,097	34,291	1,806	33,893	6.50%
Transportation	2,845	6,756	(3,911)	5,648	-49.63%
Development	21,362	28,417	(7,055)	29,191	-26.82%
Other Government (3)	74,615	88,387	(13,772)	74,701	-0.12%
Capital	898	1,214	(316)	180	398.89%
Total Government Operations	$429,729	$440,736	($11,007)	$406,821	5.63%
Property Tax Relief (4)	$29,299	$46,784	($17,485)	$3,421	756.45%
Debt Service	85,913	85,966	(53)	76,213	12.73%
Total Program Payments	**$3,185,602**	**$3,268,842**	**($83,240)**	**$3,059,439**	**4.12%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	——
Budget Stabilization	44,184	44,184	(0)	0	——
Other Transfers Out	967,560	967,560	(0)	698,684	38.48%
Total Transfers Out	$1,011,744	$1,011,744	($0)	$698,684	44.81%
TOTAL GRF USES	**$4,197,346**	**$4,280,587**	**($83,241)**	**$3,758,123**	**11.69%**

(1) Includes Primary, Secondary, and Other Education
(2) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services
(3) Includes Regulatory and Nonregulatory agencies, Pension Subsidies, and Reissued Warrants.
(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

* August, 1998 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

down 126,059 from the same month last year (28.1 percent). The Other Welfare estimate was reduced by $41.3 million for FY 1999 as a whole, but actual spending has started off $8.0 million below the revised numbers. The usual culprits are at work: computer projects and county administration.

As far as LBO can tell at this point, the other categories with significant variances — justice and corrections, other government, property tax relief, human services — are due to short-term mismatches between the estimated and actual timing of subsidy payments. Future reports will have more in-depth analysis of spending variances and discussion of the extent to which budget initiatives have been implemented.

Appropriation Activity. Table 6 contains a selective summary of the $19.6 billion in GRF appropriations registering in the state's accounting system as of August 31, 1998 (second data column labeled "Original Appropriation"). While not surprising to seasoned watchers of state spending, this total includes $1.03 million in GRF appropriations stretching as far back as FY 1990, although the bulk of that amount is essentially attributable to the just-completed FY 1998 — $894.7 million. The amounts appropriated prior to FY 1998 represent encumbered GRF funding that state agencies will presumably disburse at some future point in time. If this does not happen, the encumbrance will be cancelled by the Office of State accounting, with the associated funds then lapsing back into the GRF's available cash balance.

The third column of data in Table 6 — "Transfers" — summarizes the transfer of FY 1998 appropriations into FY 1999 that has transpired since the start of the new fiscal year, as well as the moving of FY 1999 GRF appropriations between various line items. The bulk of this transfer activity occurs pursuant to Controlling Board approval of state agency requests to move GRF funding around.

The most notable GRF transfer activity so far has been as follows: (1) $2.6 million in unspent FY 1998 Department of Health appropriations into FY 1999 principally to triage a cash flow problem in its disease prevention program; (2) $4.0 million in the FY 1999 appropriated state share of Medicaid over to the Department of Health to fuel a new program providing for home visits by nurses to parents of first-born babies and teenage parents (Ohio Early Start); (3) $8.5 million in the FY 1999 appropriated state share of Medicaid and $1.5 million in FY 1999 Disability Assistance funding into Non-TANF County Administration (line item 400-504) to be used to support non-TANF individuals in counties declared to be in a state of emergency due to June storms and flooding; and (4) $900,000 in FY 1999 Controlling Board Emergency Purposes/Contingencies funding into the Ohio Veterans' Home budget to hire additional staff in response to state inspections that cited and fined the home for shortcomings in the provision of care to its residents.

The third and fourth columns of data in Table 6 — "Disbursements" and "Outstanding Vouchers & Encumbrances" — summarize the amount of GRF appropriations that either been spent (disbursed) or items for which state agencies have committed appropriated funding (vouchers and encumbrances).

The fifth and last column — "Appropriation Balance — summarizes the GRF appropriations that have not been transferred, disbursed, or committed (vouchers and encumbrances). The FY 1998 appropriation balance of $462.2 million has two facets that need to be stressed. First, $327.1 million, or 70.0 percent, is traceable to two human services programs: TANF ($198.7 million) and Medicaid ($128.4 million). The former represents federal funds available to the state over the lifetime of the TANF program. The latter includes around $74.7 million of the available Medicaid balance in the FY 1998 appropriation that represents federal reimbursement that the state did not earn. This really signals a loss of anticipated revenue since the state did not have spent the money necessary to earn financial reimbursement from the federal government.

Table 6
GRF Appropriation Activity*

Budget Fiscal Year	Original Appropriation	Transfers	Disbursements	Outstanding Vouchers & Encumbrances	Appropriation Balance
1990	$ 793,386	$ -	$ -	$ 793,386	$ -
1991	$ 472,579	$ -	$ 50,383	$ 422,196	$ -
1992	$ 44,650	$ -	$ -	$ 6,800	$ 37,850
1993	$ 366,179	$ -	$ -	$ 217,227	$ 148,952
1994	$ 779,969	$ -	$ 280,397	$ 479,012	$ 20,560
1995	$ 3,335,121	$ -	$ 335,263	$ 2,680,791	$ 319,067
1996	$ 36,660,725	$ -	$ 1,773,215	$ 34,744,795	$ 142,715
1997	$ 92,373,312	$ -	$ 3,465,820	$ 88,884,765	$ 22,726
1998	$ 894,687,176	$ (4,370,717)	$ 190,520,156	$ 237,589,452	$ 462,206,851
1999	$ 18,570,182,916	$ 4,672,379	$ 2,989,178,818	$ 463,173,122	$ 15,122,503,355
Total	**$ 19,599,696,012**	**$ 301,662**	**$ 3,185,604,052**	**$ 828,991,546**	**$ 15,585,402,076**

*Data drawn from RAPPR17S, a Central Accounting Sytem report as of August 31, 1998.

Second, once the above-noted unspent federal shares of TANF and Medicaid is backed out, the FY 1998 appropriation balance falls to $188.8 million. The reality is that state agencies have lost control of this roughly $190 million in remaining FY 1998 appropriation authority to the Office of Budget and Management (OBM). Theoretically, the only means state agencies have of accessing any of their unspent FY 1998 appropriation authority is through the acquiescence of OBM. And any such agreement typically manifests itself in the form of a request for Controlling Board approval to transfer those unused FY 1998 appropriations into FY 1999.

Functional Reporting Categories. Table 7, GRF Appropriation Summary: Program and Functional Reporting Categories, is a monster of a table with a very simple purpose. Tables 4 and 5 routinely appear in each month's issue of ***Budget Footnotes***, with the GRF disbursement data being organized around five programs (education, welfare and human services, government operations, property tax relief, and debt service) and a subset of functional reporting categories or components. Table 7 breaks out those five program areas and related functional reporting categories by identifying each of its associated state agencies or programs. And for each of those state agencies and programs the table displays their total GRF appropriations, including FY 1999 as well as any funding from prior budget fiscal years (1990-1998). As the reader reviews the data in Table 7, in particular the appropriations for budget fiscal years 1990-1998, keep in mind that a load of this GRF represents unspent FY 1998 appropriations over which control resides with OBM and not with the state agencies that may still be carrying any such funding on their books. ❑

**LBO colleagues who contributed to the development of this month's disbursement section include, in alphabetical order Ogbe Aideyman, Fred Church, and Steve Mansfield.*

Table 7
GRF Appropriation Summary:
Program and Functional Reporting Category

Program	Functional Reporting Category**	Appropriation for Budget Fiscal Years* 1990-1998	1999	Total
Education				
	Primary & Secondary Education (P&S)			
	Education	$ 207,186,529	$ 4,617,888,891	$ 4,825,075,420
	Information, Learning & Technology	$ 2,478,819	$ 25,336,873	$ 27,815,692
	School for the Blind	$ 279,101	$ 5,877,018	$ 6,156,119
	School for the Deaf	$ 344,795	$ 7,590,678	$ 7,935,473
	School Facilities	$ 3,370,304	$ 57,176,000	$ 60,546,304
	Subtotal P&S Education (B2)	$ 213,659,548	$ 4,713,869,460	$ 4,927,529,008
	Other Education			
	Arts & Sports Facilites	$ 1,604,389	$ 25,587,769	$ 27,192,158
	Arts Council	$ 7,003,169	$ 14,874,366	$ 21,877,535
	Library Board	$ 1,095,242	$ 15,770,863	$ 16,866,105
	Educational Telecommunications	$ 434,539	$ 7,827,548	$ 8,262,087
	Historical Society	$ -	$ 14,107,852	$ 14,107,852
	Ohioana Library Association	$ -	$ 223,130	$ 223,130
	Subtotal Other Education (B4)	$ 10,137,340	$ 78,391,528	$ 88,528,868
	Higher Education			
	Board of Regents	$ 25,281,239	$ 2,299,109,547	$ 2,324,390,786
	Proprietary School Board	$ 102,878	$ 475,048	$ 577,926
	Subtotal Higher Education (C2)	$ 25,384,117	$ 2,299,584,595	$ 2,324,968,712
	TOTAL EDUCATION	$ 249,181,006	$ 7,091,845,583	$ 7,341,026,589
Welfare & Human Services				
	Health Care Payments			
	Medicaid	$ 183,148,880	$ 5,414,215,630	$ 5,597,364,510
	Subtotal Health Care (E2)	$ 183,148,880	$ 5,414,215,630	$ 5,597,364,510
	Temporary Assistance to Needy Families			
	TANF	$ 230,128,256	$ 989,076,422	$ 1,219,204,678
	Subtotal TANF (E4)	$ 230,128,256	$ 989,076,422	$ 1,219,204,678
	General/Disability Assistance (GA/DA)			
	GA/DA	$ 12,138,811	$ 63,500,000	$ 75,638,811
	Subtotal GA/DA (E6)	$ 12,138,811	$ 63,500,000	$ 75,638,811
	Other Welfare			
	Human Services	$ 60,000,514	$ 412,411,899	$ 472,412,413
	Subtotal Other Welfare (E7)	$ 60,000,514	$ 412,411,899	$ 472,412,413
	Human Services			
	Mental Health	$ 7,131,217	$ 482,962,379	$ 490,093,596
	Mental Retardation	$ 21,072,296	$ 338,229,327	$ 359,301,623
	Alcohol & Drug Addiction	$ 50,822	$ 28,079,200	$ 28,130,022
	Aging	$ 9,513,273	$ 87,487,701	$ 97,000,974
	Employment Services	$ 838,588	$ 28,067,403	$ 28,905,992
	Health	$ 12,503,304	$ 75,464,623	$ 87,967,927
	Legal Rights	$ -	$ 725,304	$ 725,304
	Minority Health	$ 564,779	$ 1,749,833	$ 2,314,612
	Veterans' Home	$ 47,133	$ 15,886,755	$ 15,933,888
	Rehabilitation Services	$ 1,577,902	$ 22,631,929	$ 24,209,831
	Hispanic-Latino Affairs	$ 38,603	$ 201,673	$ 240,276
	Taxation (Utility Bill Credits)	$ 3,302,309	$ 9,500,000	$ 12,802,309
	Veterans' Organizations	$ 10,229	$ 1,263,224	$ 1,273,453
	Subtotal Human Service (G2 & G4)	$ 56,650,457	$ 1,092,249,351	$ 1,148,899,808
	TOTAL WELFARE & HUMAN SERVICES	$ 542,066,918	$ 7,971,453,302	$ 8,513,520,220

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Government Operations

Justice			
Adjutant General	$ 2,407,649	$ 14,192,439	$ 16,600,088
Attorney General	$ 897,173	$ 49,006,276	$ 49,903,449
Tax Appeals Board	$ 421,032	$ 2,390,317	$ 2,811,349
Civil Rights Commission	$ 544,644	$ 10,107,777	$ 10,652,421
Criminal Justice Services	$ 1,365,489	$ 3,234,420	$ 4,599,909
Court of Claims	$ 595,571	$ 2,634,840	$ 3,230,411
Public Safety	$ 1,439,819	$ 5,867,353	$ 7,307,172
Ethics Commission	$ 36,205	$ 1,221,179	$ 1,257,384
Judicial Conference	$ 1,086,171	$ 10,328,560	$ 11,414,731
Judiciary/Supreme Court	$ 6,149,341	$ 88,636,533	$ 94,785,874
Public Defender	$ 708,645	$ 34,751,800	$ 35,460,445
Subtotal Justice (I2)	$ 15,651,742	$ 222,371,494	$ 238,023,236
Corrections			
Rehabilitation & Correction	$ 40,085,368	$ 1,170,025,272	$ 1,210,110,640
Youth Services	$ 9,231,036	$ 210,884,719	$ 220,115,755
Subtotal Corrections (I4)	$ 49,316,403	$ 1,380,909,991	$ 1,430,226,394
Environment & Natural Resources (E&NR)			
Natural Resources	$ 2,535,380	$ 98,073,377	$ 100,608,757
Environmental Review Appeals Board	$ 21,747	$ 388,815	$ 410,562
Ohio EPA	$ 641,395	$ 22,027,838	$ 22,669,233
Subtotal E&NR (K2)	$ 3,198,522	$ 120,490,030	$ 123,688,552
Transportation			
Transportation	$ 25,747,215	$ 41,517,443	$ 67,264,658
Subtotal Transportation (M2)	$ 25,747,215	$ 41,517,443	$ 67,264,658
Development			
Agriculture	$ 1,969,945	$ 20,475,342	$ 22,445,287
Development	$ 60,953,645	$ 100,015,160	$ 160,968,805
Expositions Commission	$ 1,617	$ 356,760	$ 358,377
Subtotal Development (Q2)	$ 62,925,208	$ 120,847,262	$ 183,772,470
Other Government			
Auditor	$ 6,457,430	$ 33,285,195	$ 39,742,625
Dispute Resolution	$ 172,234	$ 562,934	$ 735,168
Capitol Square	$ 1,414,793	$ 3,181,032	$ 4,595,825
Administrative Services	$ 26,230,071	$ 150,859,787	$ 177,089,858
Commerce	$ -	$ 742,500	$ 742,500
Elections Commission	$ 25,935	$ 437,374	$ 463,309
Employment Relations	$ 151,619	$ 3,442,483	$ 3,594,102
Governor	$ 383,752	$ 4,718,341	$ 5,102,093
Inspector General	$ 58,918	$ 555,350	$ 614,268
Joint Committee on Agency Rule Review	$ 77,535	$ 370,025	$ 447,560
Joint Legislative Ethics	$ 57,698	$ 549,645	$ 607,343
Legislative Service Commission	$ 2,966,724	$ 16,320,606	$ 19,287,330
Ohio Ballot Board	$ 3,542	$ -	$ 3,542
Budget & Management	$ 5,656,249	$ 3,508,235	$ 9,164,484
Personnel Board of Review	$ 24,903	$ 888,574	$ 913,477
House of Representatives	$ 2,443,144	$ 17,465,986	$ 19,909,130
Senate	$ 1,807,502	$ 10,960,238	$ 12,767,740
State & Local Government	$ 29,208	$ 243,821	$ 273,029
Secretary of State	$ 360,199	$ 6,803,517	$ 7,163,716
Taxation	$ 3,049,922	$ 89,896,854	$ 92,946,776
Treasurer of State	$ 1,020,916	$ 8,583,200	$ 9,604,116
Womens Policy/Research	$ 9,014	$ 251,908	$ 260,922
Pension Subsidies	$ 1,554,905	$ 28,014,527	$ 29,569,432
Controlling Board	$ 2,457,280	$ 75,209,500	$ 77,666,780
CAS-Reissued Warrants	$ 1,051,810	$ 50,290	$ 1,102,101
Subtotal Other Government (O4, Z2 & Z4)	$ 57,465,305	$ 456,901,922	$ 514,367,227

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	Capital			
	Board of Regents	$ 42,958		$ 42,958
	Administrative Services	$ 31,012	$ 4,374,263	$ 4,405,275
	Natural Resources	$ 335,445	$ 4,944,817	$ 5,280,262
	Transportation	$ 867,574	$ 700,000	$ 1,567,574
	Youth Services	$ 9,471		$ 9,471
	Arts & Sports Facilities	$ 25,774	$ 166,668	$ 192,442
	Employment Services	$ -	$ 102,139	$ 102,139
	Subtotal Capital (S2)	$ 1,312,233	$ 10,287,887	$ 11,600,120
	TOTAL GOVERNMENT OPERATIONS	$ 215,616,628	$ 2,353,326,029	$ 2,568,942,657
Property Tax Relief				
	Tax Relief			
	Education	$ 2,390,401	$ 664,010,000	$ 666,400,401
	Taxation	$ 6,606,445	$ 350,390,000	$ 356,996,445
	TOTAL TAX RELIEF (W2)	$ 8,996,845	$ 1,014,400,000	$ 1,023,396,845
Debt Service				
	Debt Service			
	Sinking Fund	$ 10,979,004	$ 26,098,000	$ 37,077,004
	Treaurer of State	$ 2,312,696	$ 113,060,000	$ 115,372,696
	TOTAL DEBT SERVICE (U2)	$ 13,291,700	$ 139,158,000	$ 152,449,700
TOTAL PROGRAM APPROPRIATIONS		**$ 1,029,153,097**	**$ 18,570,182,915**	**$ 19,599,336,011**

*Data drawn from RAPPR17S, a Central Accounting Sytem report as of August 31, 1998.

** Subtotals and Totals: The two-digit alpha-numeric code appearing inside parentheses denotes that area of state spending's GAAP functional reporting category as used by OBM.

Issues of Interest

Focus on Federal Funds

Background of the Joint Committee on Federal Funds

Jeffrey M. Rosa

Background Of The Joint Committee On Federal Funds

Amended Substitute House Bill 117 of the 121st General Assembly created the Joint Legislative Committee on Federal Funds. The committee includes five members of the House of Representatives and five members of the Senate. All ten members are required to be serving on their respective standing finance committees. According to section 103.31 of the Revised Code, the committee "shall conduct public hearings, review block grants proposed by state agencies, make recommendations and submit reports to the General Assembly and state and federal agencies, and take any other actions that are necessary or appropriate to participation by [Ohio] and its political subdivisions in federal block grant programs."

Section 103.32 of the Revised Code outlines which block grant proposals need to be submitted to the Joint Legislative Committee on Federal Funds. The following table outlines the agency, the block grant and the federal due date for the block grant proposals that need joint committee review.

The next few issues of *Budget Footnotes* will examine in more detail the specifics of the various block grants and potential federal activity affecting the amount of revenue Ohio will receive from the federal government. This month will focus on the Substance Abuse Prevention and Treatment (SAPT) block grant.

AGENCY	BLOCK GRANT	FEDERAL DUE DATE
Alcohol and Drug Addiction Services (ADA)	Substance Abuse Prevention and Treatment (CFDA #93.959)	September 1
Development (DEV)	Ohio Consolidated Plan*	April 1
	Community Services (93.569)	September 30
	Heat and Energy Assistance Program (93.568)	September 30
Health (DOH)	Maternal and Child Health (93.994)	July 15
	Prevention (93.991)	October 1
Human Services (HUM)	Social Services Block Grant (SSBG) pre-implementation report (93.667)	July 1
	SSBG expenditure report (93.667)	As soon as data available
Mental Health (DMH)	Mental Health Block Grant (93.958)	September 1

*Consists of the Community Development Block Grant (14.218, .228, .246, .248); HOME Investment Partnership (14.239); Emergency Shelter Grant (14.231); and Housing Opportunity for People with AIDS [HOPWA] (14.241)

Substance Abuse Prevention & Treatment Block Grant (CFDA #93.959)

In the current biennium, the SAPT block grant provides approximately 50 percent of the total budget of the Ohio Department of Alcohol and Drug Addiction Services (ADA). The appropriation in both FYs 1998 and 1999 totals $61,964,608.

The funds from the SAPT block grant are used for a wide variety of alcohol and drug services. Grant funds can only be expended for planning, carrying out, and evaluating activities that prevent and treat substance abuse. To carry out these activities, the federal government established spending allocations for certain activities:

- Not less than 35 percent must be used for prevention and treatment alcohol services.
- Not less than 35 percent must be used for prevention and treatment drug services.
- Not less than 20 percent must be used for primary prevention services.
- State funding maintenance of effort (MOE) requirements must be met.
- State must meet additional MOE requirements for pregnant women and women with dependent children.
- Not less than 5 percent must be used for HIV early intervention services.
- State administrative costs may total no more than 5 percent.

According to ADA[1], the majority of the block grant funds are allocated to the 50 local Alcohol, Drug Addiction, and Mental Health Services and Alcohol and Drug Addiction Services (ADAMHS/ADAS) Boards. The funds are used on a per capita basis to contract with local providers for the delivery of substance abuse services. In state fiscal year 1998, $141,940,986 was allocated for these purposes. Four program areas receive grant funding from the department through competitive requests for proposals. In SFY 1998, $10,741,360 was allocated for women's services and $3,206,908 for HIV early intervention services. The other two program areas funded via RFP's were Treatment Alternatives to Street Crimes [TASC] ($727,000) and Urban Minority Alcoholism and Drug Abuse Outreach Programs [UMADAOPS] ($2,062,636). The remainder of the grant funds in SFY 1998, $2,568,397, was used for administrative costs.

Potential Funding Decrease

When calculating the amount of funding allocated to each state under the SAPT block grant (as well as the Community Mental Health Services Block Grant), the Substance Abuse and Mental Health Services Administration (SAMHSA) of the U.S. Department of Health and Human Services (HHS), modified the formula for FFY 1999 (beginning 10/1/98). Although final consensus on the new formula has not yet been achieved, under the method used by SAMHSA, Ohio stands to lose about $13.2 million, a decrease of a little over 20 percent from the FFY 1998 block grant allocation of $61,247,287.

According to SAMHSA, "1999 State allotments have been generated using . . . factors based on current law and [HHS's] proposal to use the non-manufacturing wage proxy in calculating the cost of service factor."[2] Using the non-manufacturing/health specific occupation wages in determining grant awards, the National Association of State Alcohol and Drug Abuse Directors (NASADAD) issued a draft, dated February 10, 1998, that reported that some states could gain as much as 20 percent in funding while some states, including Ohio, could lose as much as 20 percent,[3] based on total block grant funding at FFY 1998 levels. Without the funding increase provided by the House subcommittee, 27 states would be negatively affected. With the proposed total block grant amount, only 11 states would face a decreased block grant allocation. SAMHSA uses the wage rates as part of the formula to determine the costs of services in the various states. In the president's FFY 1999 budget, the amount of the SAPT block grant increased by $150 million to $1.51 billion.

U.S. House Appropriations Committee Actions

The House appropriations committee increased the SAPT grant total to $1.585 billion. Although the House committee increased the appropriations for the SAPT block grant, it did not add the hold harmless provision. If the appropriations bill that the president signs into law follows the recommendations of the House, Ohio will lose over $8.5 million in FFY 1999. Under the proposed new formula, five states (shown in the following table) stand to lose the most in FFY 1999 if a hold harmless provision is not added to the block grant authorization.[4]

STATE	FY98 ALLOCATION	PROPOSED FY99 AMOUNT	$ AMOUNT OF DECREASE	% DECREASE
Ohio	$61,964,608	$53,393,166	$8,571,442	13.83 percent
Michigan	$53,819,688	$46,589,278	$7,230,410	13.43 percent
Indiana	$30,961,396	$29,324,022	$1,637,374	5.29 percent
Minnesota	$19,883,464	$18,883,017	$1,000,447	5.03 percent
Massachusetts	$31,633,006	$30,625,882	$1,007,124	3.18 percent

The figures in the preceding and following tables are just preliminary. There has yet to be a consensus on the new allocation formula. The information is the latest available from the Internet site for the Substance Abuse and Mental Health Services Administration. The difference between the percentage decrease in Ohio's allocation is due to the total size of the SAPT block grant. The 20 percent cut is based on a block grant of $1.36 billion whereas the 14 percent lowering is calculated using a total block grant award of $1.585 billion. If the hold harmless provision is included, any state that stands to lose potential funding under the new formula would instead receive the same allocation as in FFY 1998.

Whereas these upper-Midwest states are the big losers under the proposed new formula, the states of Texas ($30.7 million increase), California ($23.2 million increase), Florida ($22.4 million increase), and New York ($13.1 million increase) will receive dollar increases of at least $10 million in the FFY 1999 block grant.[5]

U.S. Senate Appropriations Committee Actions

On September 3, the Senate Appropriations Committee reported the HHS appropriations bill. The Senate committee decided to use the allocation formula currently in existence. However, instead of the dollar amounts recommended by either the president or the House, the Senate committee voted to keep the SAPT block grant at FFY 1998 levels. According to NASADAD, this level of funding actually represents a $50 million cut to the SAPT block grant. In FFYs 1997 and 1998, the block grant included $50 million from other sources to provide treatment services for recipients of SSI and SSDI.[6] The Senate committee's actions do not include this $50 million. According to the fiscal office at ADA, this would mean about a $2 million decrease from FFY 1998 levels for the state of Ohio.

Current Status

The SAPT block grant is part of the HHS appropriations bill (HR 4274/S. 2440). The bill has been reported by both House and Senate appropriations committees (H. Report 105-635 and S. Report 105-300). As of September 20, neither the full U.S. House of Representatives nor U.S. Senate have acted on the bill. Following passage by both Houses, the bill will be sent to a conference committee to hash out the final details. At this time, it is impossible to know the final outcome of the SAPT block grant formula conundrum.

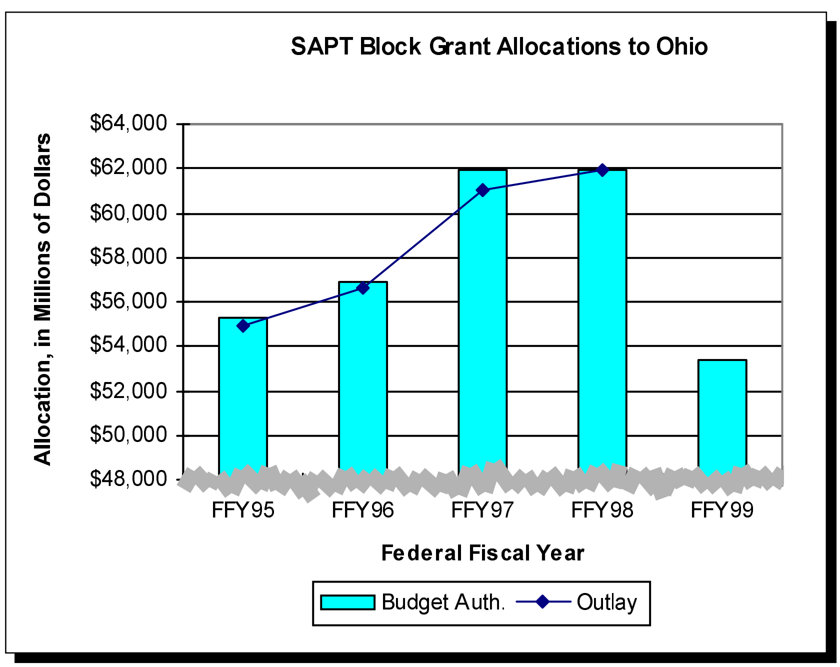
The following table and chart illustrate Ohio's share of the SAPT block grant since FFY 1995. The potential appropriation for FFY 1999 represents the amount that Ohio will receive under the recommendations reported by the House appropriations committee. As mentioned above, the House recommended a new formula without the hold harmless provision. With the hold harmless provision, Ohio's SAPT block grant allocation would be equivalent to the FFY 1998 amount.

Budget authority is the dollar amount specified in authorization and appropriation bills. It is the upper limit on new spending commitments. Outlays are the amount an agency or department actually

SUBSTANCE ABUSE PREVENTION AND TREATMENT BLOCK GRANT

	FFY95 Actual	FFY96 Actual	FFY97 Actual	FFY98 Estimate	FFY99 Potential House Appropriation
Budget Authority	$55,310	$56,898	$61,965	$61,965	$53,393
Outlays	$54,887	$56,596	$61,002	$61,965	Unknown

Source: Federal Funds Information for States; Dollar amounts in Millions of Dollars



spends during a fiscal year. This figure can include budget authorization from the current year as well as unspent budget authority from previous years. ❑

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[1] Testimony by Sharon Tention, ADA Grants Administrator and Hernando Posada, ADA Assistant Director to the Joint Legislative Committee on Federal Funds, August 18, 1998.

[2] Information from SAMHSA's FFY 1999 budget proposal; http://www.samhsa.gov/dfm/99budget/99budget.htm

[3] National Association of State Alcohol and Drug Abuse Directors, "Agreements on Substance Abuse Prevention and Treatment Block Grant Formula," February 27, 1998.

[4] Information from SAMHSA's FFY 1999 budget proposal; http://www.samhsa.gov/dfm/99budget/99budget.htm

[5] Information from SAMHSA's FFY 1999 budget proposal; http://www.samhsa.gov/dfm/99budget/99budget.htm

[6] http://www.nasadad.org/public1.htm

TRAVEL & TOURISM FUNDING IN OHIO

SUMMARY OF AN LSC RESEARCH REPORT BY JENNIFER RYSER

*We occasionally include in **Budget Footnotes** material of legislative interest from our colleagues outside of LBO. Jennifer Ryser, an LSC Research Assistant, recently completed the following report in response to a mandate in Am. Sub. H.B. 215 of the 122nd General Assembly.*

The report identifies possible sources of funding for use by the Department of Development's Division of Travel and Tourism; discusses the division of responsibilities among state agencies to promote tourism in Ohio; and provides an overview of the impact of the tourism industry on federal and state economies. The report also identifies alternative revenue sources and organizational structures used by other states to develop tourism within their borders; reviews current trends in the promotion of the tourism industry and discusses how such promotion affects the conservation of cultural and ecological resources. In conclusion, the report analyzes the effect the tourism industry has on school-to-work programs, and on the employment of public aid recipients reentering the workforce.

The development of the tourism industry has had significant impacts on consumer spending, job growth, the generation of tax revenue, and the development of state and local economies. In all types of regions from a local, rural community to an urban metropolis, tourism is rapidly becoming one of the largest industries in the United States. In fact, by the turn of the century, industry forecasters predict that tourism will be the largest business activity in the world. Consider the following economic indicators. The tourism industry:

- directly and indirectly, employs 15.8 million individuals;
- is ranked the first, second, or third largest employer in 32 out of 50 states; and
- is the third largest retail sales industry, following automotive dealers and food stores, respectively.

Likewise, the economic impact of the tourism industry in Ohio has also been substantial. For instance:

- Ohio ranked 6th in the nation in the number of leisure visitors with 61 million visits to the state in 1996;
- in that same year visitors to the state spent $9.9 billion and generated $520 million in state and local taxes; and
- annually, travel and tourism employs 309,000 Ohioans with a payroll of $4 billion.

Travel and tourism will continue to play a significant role in the future of employment as states are faced with federally-mandated changes in the management of social service programs. The tourism industry is working in cooperation with private and public sector entities to provide opportunities for employment through welfare-to-work and school-to-work programs. Such programs as the Good Start Project and the Hospitality On-Site Training program help to alleviate the strains of an increasing workforce on the public sector by providing a source of skills training and job placement to public aid recipients. The programs also benefit the private sector by providing trained individuals for the increasing number of jobs in the hospitality industry.

In Ohio, state-funded tourism promotion is delegated primarily to the Division of Travel and Tourism within the Department of Development. However, the responsibility is not exclusive and several other state agencies including the Department of Transportation and the Department of Natural Resources engage in promotional efforts for the state's tourism industry. Likewise, partnerships with private sector entities are also considered to be an essential aspect of tourism promotion in Ohio. In fact, most advertising and marketing of the state of Ohio undertaken through the Division of Travel and Tourism is accomplished through partnerships with the private sector. In 1996, a total of $4.1 million was spent on out-of-state promotions to entice visitors to Ohio. Less than 25% ($900,000) of those funds, however, came from the Division and public funds—the remaining $3.2 million was provided by the private sector through joint ventures with the state.

Currently, the Division is funded through appropriations from the state General Revenue Fund with FY 99 appropriations equaling $6,450,000.[1] Given the level of funding provided by the state and the relatively small staff allocated to this activity, Ohio appears to achieve significant benefits from its tourism promotion. Although this Report does not attempt to define an optimal funding or staffing level for the Division of Travel and Tourism in Ohio, the level of funding of tourism promotion in other states and the very competitive quest for tourists' dollars leads to the assumption that Ohio cannot continue to successfully compete for tourists without additional resources.

In order to generate additional revenue to promote travel and tourism, many states and political subdivisions impose taxes on various activities undertaken by the traveling public. These activities may include such things as renting hotel and motel rooms, eating at restaurants, renting cars, and attending entertainment events. The taxes are referred to as tourism taxes and are levied by some level of government in each of the fifty states. While Ohio does not impose any statewide tourism tax, lodging and rental car transactions are subject to the state and local sales taxes. Also, many local governments in Ohio impose additional taxes or fees on lodging, car rentals, and admissions in addition to the applicable sales taxes. The resulting total rate of taxation of some of these transactions in areas of the state is among the highest in the United States. For instance, the total combined tax levied on the rental of hotel and motel accommodations in Ohio may range as high as 17% in portions of the state.

The expansion of the types of local governments that can impose these tourism taxes in Ohio, the broad purposes for which revenue from the taxes may be used, and the general lack of state assistance in administering these taxes have led to some very high tax rates on tourists in some areas of the state and complex tax compliance issues for the industry. And, unlike many states in which the revenue generated by tourism taxes is earmarked for specific purposes normally associated with the promotion of tourism, Ohio does not require such a use for these funds. Although it is a permissible use for such funds, the revenue generated by tourism taxes in Ohio is not necessarily earmarked for tourism promotion.

As tourism increases in importance to the economic development of states, greater attention has been given to alternative organizational and funding mechanisms. While Ohio primarily utilizes the Division of Travel and Tourism within the Department of Development to promote tourism in Ohio and relies on General Revenue Fund appropriations to the Department for its funding, several states are experimenting with new organizational structures and funding mechanisms to increase the promotion of tourism within their states. This Report includes a brief description of alternative mechanisms and structures being implemented in other states including:

- the establishment of a centralized, cabinet-level state agency responsible for tourism promotion in Wisconsin;
- the creation of private, nonprofit corporations funded by a combination of public and private revenue as formed in Florida and Virginia;
- the use of an earmarked revenue source without the collection of any new tax on the tourism industry as formulated in Missouri; and
- mandatory self-assessments of the businesses comprising the tourism industry as attempted in California and Colorado.

These various attempts to restructure the promotion of travel and tourism have met with mixed results. Some states, such as Missouri, have recognized significant increases in the funds available for promotional activities. However, efforts in other states such as Colorado have met with resistance in their attempt to garner support for development of the tourism industry. In fact, Colorado became the only state in the U.S. without a state travel office in 1996 when voters refused to renew the restaurant tax that provided the travel office with its funding.

Despite the results in the individual states, one commonality exists among them all—the belief that the travel and tourism industry has a significant impact on state and local economies. ❑

[1]Am. Sub. H.B. 215 originally appropriated $6,450,000 to line item 195-407, Travel and Tourism, in the Department of Development. Am. H.B. 650 subjected this line item to a 3% cut, decreasing the total FY 99 appropriation by $193,500.

Virtually LBO

As our web site continues to grow and develop, we are constantly reminded of how minor items can create major problems in the world of computing. Take the difference between 1 and 0 – small and insignificant on a scale of 100, but deadly to the user who has triggers set to shut out access for any number greater then zero. And that is exactly what has happened to some recent visitors to our site.

Content advisory ratings are employed by a number of Internet users to insure the site they are about to enter will not expose them to objectionable content. Obtaining a rating is voluntary and is based on responses to a questionnaire developed by the rating organization. The LBO site carries a rating of 1 from the Recreational Software Advisory Council (RASCi)*, an independent, non-profit organization based in Washington, D.C. When completing the questionnaire, we were asked whether a visitor might find language that contained non-sexual, anatomical references. Fiscal notes or other research conducted by LBO in the criminal justice or health fields may contain anatomical references or descriptions of offensive acts. Our affirmative response to this question took the LBO site one step above the level of completely safe content. For some potential visitors, this has left the door to our virtual office locked. If you are experiencing difficulty accessing our site, review your content rating restrictions or contact your system administrator.

Once you have adjusted your content rating, please be sure to review *the 1998 Boards and Commissions Salary Study* at http://www.lbo.state.oh.us/products/Salary_Study/SalaryStudy.html. This report was recently added to our site and will be updated as additional information becomes available.

In addition to the salary report, we have added a page of video clips. No, LBO has not joined forces with Hollywood to produce the soap opera, *As Ohio Spends*. With the assistance of the video wizards at the Capital Square and Advisory Board, we have made available *The Fiscal Analyst*, a video produced by the National Association of Legislative Fiscal Officers. The original video is approximately 25 minutes long and was divided into nine individual clips ranging from 44 seconds to 7 minutes in length, available at http://www.lbo.state.oh.us/staff/Fiscal%20Analyst.htm. These clips are intended to provide the visitor with insight into the life of the typical LBO staff person. This will be particularly useful for anyone interested in employment opportunities at LBO.

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* For more information on this organization, visit their web site at http://www.rsac.org, or write to them at 5301 Wisconsin Avenue, Chevy Chase Plaza - Suite 400, Washington DC, 20015 USA