Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE OCTOBER, 1998

FISCAL OVERVIEW

— *Frederick Church*

The first quarter of FY 1999 is in the books. GRF revenues are running behind the revised estimates by $69.0 million. Echoing FY 1998, most of the shortfall is in federal grants, which are $49.6 million below the estimate. So much for the idea that federal grants would rebound somewhat in the last quarter of federal fiscal year (FFY) 1998. The surprise is that non-federal revenues are also $19.4 million below estimate. The real trouble spot is in the sales and use tax. Collections there are already $32.4 million below the revised estimates, with three quarters left to go. Falling consumer confidence in the wake of stock market declines and international financial crises seems to have already put the brakes on retail sales. The foreign insurance premium tax is also $4.3 million below estimate. Overages in the income tax and in investment earnings partly counterbalance these shortfalls.

On the other side of the ledger, things still look good. Spending excluding transfers was $95.6 million below the revised estimate in September, and is now $178.8 million below estimate for the year. Netting out the shortfall in federal grants, spending is still $129.2 million below estimate. Most of the year-to-date underspending is accounted for by the usual suspects: Medicaid, other welfare, primary and secondary education, and TANF. Justice and corrections and "other government" are also far below estimate.

Medicaid is now $58.9 million below estimate, primarily due to our old friend, lagging HMO payments. As analysis later in this article makes clear, in FY 1998 Ohio actually overspent the estimate on nursing home care and prescription drugs. However, Medicaid spending was $184.4 million below estimate ($128.4 million once adjustments for prior year encumbrances are factored in) due to underspending of more than $200 million in the HMO category. The state has long been planning to cover at least 60 percent of Healthy Start and TANF recipients under HMOs rather than fee-for-service arrangements. This was expected to generate huge increases in HMO spending, and to reduce spending in other service categories. However, the precipitous drop in TANF caseloads has resulted in much lower HMO enrollment than expected, leading to much lower HMO spending than estimated. The average monthly number of Medicaid recipients being paid under HMO capitation arrangements in FY 1998 was only about 72 percent of the original estimate. Furthermore, LBO expects further TANF caseload declines in FY 1999, meaning that HMO spending should be far under estimate again.

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Budget Footnotes is issued monthly by the Legislative Budget Office (LBO), a non-partisan fiscal research agency serving the Ohio General Assembly.

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

	Month of September	Fiscal Year 1999 to Date	Last Year	Difference
Beginning Cash Balance	($23.5)	$1,649.0		
Revenue + Transfers	$1,473.4	$3,998.2		
Available Resources	$1,450.0	$5,647.2		
Disbursements + Transfers	$1,625.9	$5,823.3		
Ending Cash Balances	**($176.1)**	**($176.1)**	**$2.9**	**($179.0)**
Encumbrances and Accts. Payable		$1,179.0	$718.4	$460.6
Unobligated Balance		**($1,355.1)**	**($715.5)**	**($639.5)**
BSF Balance		$906.9	$828.3	
Combined GRF and BSF Balance		**($448.2)**	**$112.8**	**($560.9)**

The underspending in other welfare seems to be the result of familiar explanations: delayed advances to counties, prior year encumbrances not yet spent because accounting reconciliations for county administration payments are not yet done, etc. In primary and secondary education, the Department of Education has not yet switched over to using the new foundation formula put in place by HB 650. Foundation payments are thus running below estimate, as are Disadvantaged Pupil Impact Aid (DPIA) and power equalization payments. Finally, TANF spending is $17.9 million below estimate after one quarter. Cash assistance caseloads continue to drop: they have declined by more than 114,000, or 26 percent, over the last 12 months.

We reiterate that in both the text and the tables, LBO's comparison of actual and estimated revenues and spending, both monthly and year-to-date, are based on OBM's revised forecasts, not the original projections. Thus, when we say below that revenues are below the estimates, the statement must be interpreted with caution: they may well be below the new estimates but above the original forecast. For detail on the revisions to the forecast, please see last month's issue of ***Budget Footnotes***.

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 is twofold: transfers and encumbrances. Because of the size of the FY 1998 tax cut, transfers out of the GRF are about $277 million more than they were at the same point last year. Also, encumbrances and accounts payable are $461 million more than at the same point in FY 1998. ❑

Tracking the Economy

— *Frederick Church*

Forecasters are starting to take the risk of recession seriously. The Federal Reserve's 0.25 percent cut in short-term interest rates seems to have calmed the financial markets, but there are still fundamental problems in Asian economies and the stock market lost $2 trillion in value — no, there's nothing wrong with your TV set — in July and August, although by the end of September that figure had moderated to $1.3 trillion. DRI now predicts that the odds of recession are about 50 percent within the next two years. The WEFA Group is more optimistic, placing a 35 percent probability on a recession that starts in the fourth quarter of 1999. Both forecasting services predict slower economic growth for the rest of CY 1998, with real GDP growth dropping to 2.0 percent in CY 1999 (WEFA), or to 1.9 percent (DRI). DRI expects the stock market correction to reduce real GDP growth by 0.4 percent over the next 4 quarters.

Export Growth in the First Half of CY 1998

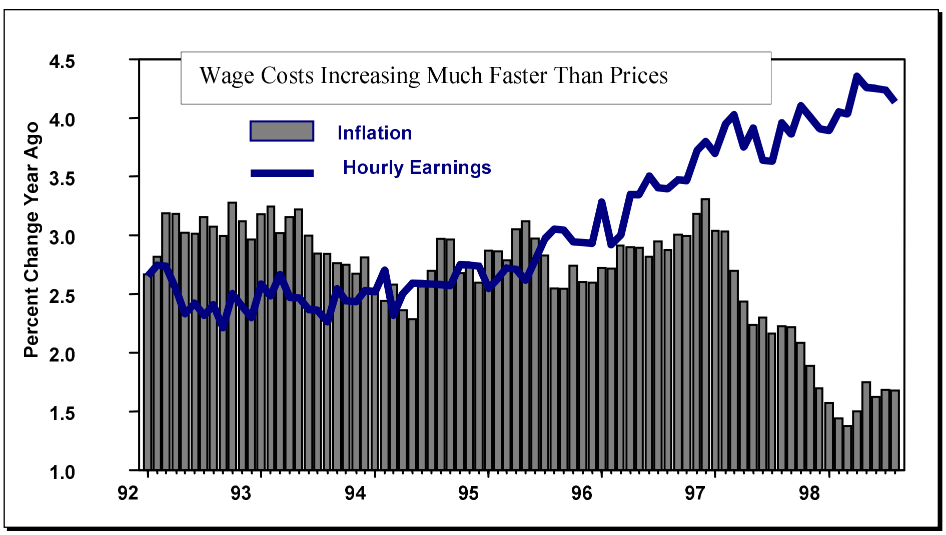
	Total	Asia	Europe	Canada	Latin America
United States	0.8%	-15.7%	3.5%	5.4%	13.8%
East North Central Census Region	1.8%	-23.3%	7.2%	6.8%	3.3%
Ohio	0.7%	-39.0%	11.0%	4.5%	32.4%
Illinois	11.5%	-14.4%	6.4%	29.1%	28.7%
Indiana	5.9%	-11.7%	14.1%	2.7%	31.0%
Michigan	-4.6%	-21.8%	14.7%	-1.8%	-23.9%
Wisconsin	-4.9%	-27.0%	-14.2%	12.6%	15.5%

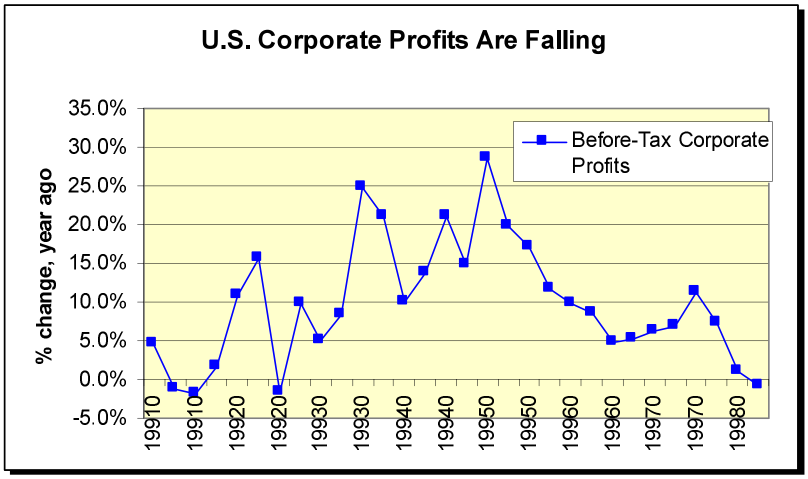
The regional outlook shows threats to every geographic region of the country. In the Midwest, the global slowdown threatens to hurt our exports, particularly in capital goods. In the first half of CY 1998, Ohio's exports to Asia crashed, falling 39.0 percent from a year ago. Fortunately, growth in exports to Europe, Latin America, and Canada managed to just offset the Asian drop. Total Ohio exports were up 0.7 percent from a year ago. DRI projects that the East North Central Census region will have the country's weakest employment growth over the next 8 quarters. There are rumors of steel layoffs or plant closings, which would hurt Ohio. At the national level, DRI expects falling exports to reduce GDP growth from its baseline by 1.3 percent in CY 1998, and by 0.7 percent in CY 1999.

Out of the welter of economic data, LBO has chosen three factors to emphasize: household assets and debt, the relative costs of capital and labor, and corporate profits.

The $1.3 trillion loss in stock market value is expected to lead to a $33 billion drop in consumption over the next year, based on DRI's estimate that the marginal propensity to consume (MPC) out of wealth is about 2.5 percent. Add to that the fact that the personal saving rate in the second quarter hit a postwar low of 0.4 percent, and it would appear that, in the long run, consumption growth has nowhere to go but down.[1]

Consumption is also threatened somewhat by household debt. The signals on debt are somewhat mixed. Household debt hit 99 percent of disposable income in the second quarter, which is a record. Personal bankruptcies hit another record high in 1997, although there is not enough data yet to draw a conclusion about 1998. Credit card defaults have dropped





from their 1997 record, but auto loan defaults are still rising.

On the other hand, there are indicators that suggest that household debt is still manageable. Despite recent stock market losses, household balance sheets seem to be OK, at least in the aggregate. Household net worth is a record 6 times as much as disposable income. Household assets and liabilities are both at record highs, but assets are up more than liabilities. The problem is in the distribution of assets. What the overall statistics mask is that asset wealth is concentrated in the 10 percent of households that hold 85 percent of stock market wealth. The other 90 percent of households may have problems paying their debts if an external shock hits the economy.

Wage and benefit costs are rising. The U.S. unemployment rate has stayed in the 4.5 percent range for months, and the demand for labor, particularly skilled labor, is pushing up wages. The employment cost index for the third quarter was up 3.7 percent from a year ago. In addition, fringe-benefit costs are rising as health-care premiums increase. All of this is leading to business, particularly in manufacturing, substituting capital for labor. With low interest rates, capital is becoming cheaper as labor is becoming more expensive. Big industrial companies are announcing layoffs and job eliminations. There is now a labor market dichotomy where small firms still want to hire more labor while big companies are shedding jobs. One of the reasons is that smaller companies are typically in service industries, don't face much foreign competition and are thus largely unaffected by the global slowdown. Expect these contrasting trends to continue for the next year.

Finally, goods-producing companies are facing increasing wage costs at a time when weak global demand makes it difficult or impossible to raise output prices (see graph below). As a result, profits are being squeezed. This is also driving layoffs at big companies. The danger is that weak profits will lead to slower business investment, which would particularly hurt a state like Ohio that sells a lot of capital goods. ❑

Status of the General Revenue Fund

REVENUES

— *Frederick Church*

After one quarter, the big revenue news is the shortfall in the sales and use tax. The non-auto component of the tax plunged again in September. The $11.6 million shortfall in September opened the year-to-date gap to $27.2 million. The auto sales tax is also lagging the estimate, but by only $5.2 million. There are signs that auto sales are rebounding and thus the auto tax may rebound as well, but the non-auto tax may continue below the estimate.

The income tax is over estimate by $5.5 million after one quarter. Unfortunately, employer withholding has slipped below the forecast. Withholding growth was 6.1 percent, which doesn't sound bad until one considers that since the first quarter of FY 1993, only four quarters have had slower growth. This could be the labor market "taking a breather" but it could also be the harbinger of a longer-term slowdown.

Most other tax and non-tax sources are quite close to the revised estimates. Investment earnings are $10.5 million over the estimate. At this point, it appears that the overage stems from higher than expected cash balances in the GRF and other funds whose interest earnings are credited to the GRF.

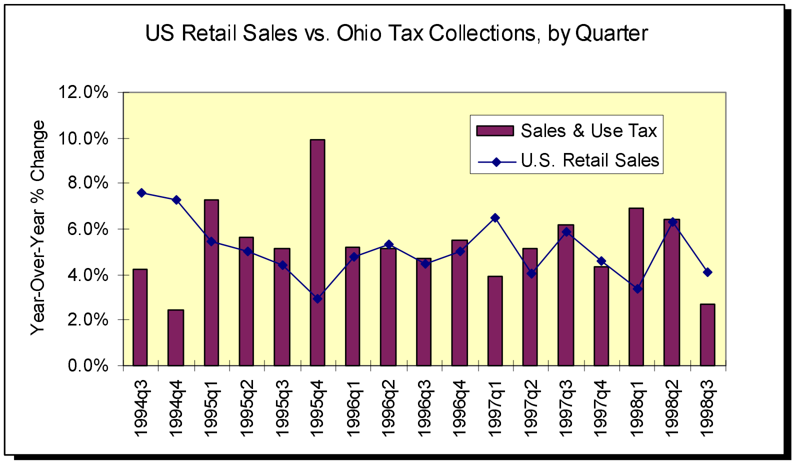
Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of September, 1998
($ in thousands)

REVENUE SOURCE			
TAX INCOME	Actual	Estimate*	Variance
Auto Sales	$60,483	$60,638	($155)
Non-Auto Sales & Use	368,817	380,400	(11,583)
Total Sales	$429,300	$441,038	($11,738)
Personal Income	$642,544	$656,884	($14,340)
Corporate Franchise	11,392	8,342	3,050
Public Utility	51	0	51
Total Major Taxes	**$1,083,287**	**$1,106,264**	**($22,977)**
Foreign Insurance	$7,193	$11,455	($4,262)
Domestic Insurance	7	0	7
Business & Property	13	70	(57)
Cigarette	24,157	25,245	(1,088)
Soft Drink	0	0	0
Alcoholic Beverage	4,306	4,368	(62)
Liquor Gallonage	2,184	2,338	(154)
Estate	9,203	9,975	(772)
Racing	0	0	0
Total Other Taxes	$47,063	$53,452	($6,389)
Total Taxes	**$1,130,351**	**$1,159,715**	**($29,364)**
NON-TAX INCOME			
Earnings on Investments	$45,025	$34,500	$10,525
Licenses and Fees	1,374	2,400	(1,026)
Other Income	9,274	7,500	1,774
Non-Tax Receipts	$55,672	$44,400	$11,272
TRANSFERS			
Liquor Transfers	$6,000	$7,500	($1,500)
Budget Stabilization	0	0	0
Other Transfers In	0	0	0
Total Transfers In	$6,000	$7,500	($1,500)
TOTAL INCOME less Federal Grants	**$1,192,023**	**$1,211,615**	**($19,592)**
Federal Grants	$281,422	$309,275	($27,853)
TOTAL GRF INCOME	**$1,473,445**	**$1,520,890**	**($47,445)**

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

Detail may not add to total due to rounding.

Of course, federal grants are $49.6 million below estimate. One could hardly expect anything different with Medicaid and TANF spending falling below even the revised forecasts. Ohio's federal medical assistance percentage (FMAP, the Medicaid matching rate) has risen to 58.26 percent in federal fiscal year (FFY) 1999, up slightly from the 58.14 percent in FFY 1998, but this effect is likely to be more than offset by lower than anticipated total spending. When one considers that TANF spending



will also fall below estimate, a large federal grant shortfall is expected by year's end.

Sales and Use Tax

Concerns about the stock market and global recession have made both investors and consumers more cautious. U.S. retail sales growth has slowed. In the first quarter of FY 1999 Ohio followed that trend with a vengeance. As the graphic below indicates, while year-over-year retail sales growth slowed from 6.3 percent in 1998:2 to 4.1 percent in 1998:3, Ohio retail sales growth fell from 6.5 percent to 2.7 percent. Exactly why Ohio was so hard hit is unclear, although hypotheses such as the GM strike have been advanced.

Mortgage refinancings, which put additional money in consumers' pockets and stimulate spending, have not helped so far. However, the Federal Reserve's ***Beige Book*** offers some hope, although not until November. Retail sales in the Fourth District, which includes Ohio, were weak in September, which means that Ohio non-auto tax collections will probably also be weak (non-auto collections are based on the prior month's retail activity). However, district retailers reported much stronger sales in October, which should mean that November tax collections should improve.

If DRI is right and U.S. consumption will be reduced by $33 billion as a result of the stock market plunge, then Ohio sales taxes will suffer also. A rough guess at the magnitude follows. Retail sales are about 47 percent of total consumption spending. So, a $33 billion drop in consumption translates into a $15.5 billion drop in retail sales. Since Ohio taxable retail sales are about 4.1 percent of the national total, that translates into a $636 million drop in Ohio retail sales. At a 5 percent state sales tax rate, this means a $32 million drop in Ohio sales tax collections, presumably spread out over several months. The upward revision in the FY 1999 non-auto sales tax was $32 million (the revision for both sales tax components combined was $83 million) so the stock market induced decline would be about 2/3 of the non-auto revision or almost 40 percent of the total revision. Although it is too early to call this race yet, it seems fairly likely that sales tax collections will not make the revised estimate in FY 1999.

Fortunately, and somewhat surprisingly, auto sales growth remains fairly strong, and auto sales taxes have not yet fallen far below the estimate. Low interest rates are helping to stimulate demand. September's U.S. sales of cars and light trucks were up 6 percent from a year ago, and early reports show a strong October also. Most analysts continue to expect strong auto sales at least through the end of CY 1998. ❑

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	$198,540	$203,759	**($5,219)**	$194,406	2.13%
Non-Auto Sales & Use	1,172,062	1,199,262	**(27,200)**	1,140,040	2.81%
Total Sales	$1,370,602	$1,403,021	**($32,419)**	$1,334,446	2.71%
Personal Income	$1,521,517	$1,515,971	$5,546	$1,399,580	8.71%
Corporate Franchise	21,237	19,010	2,227	13,802	53.87%
Public Utility	57	5	52	727	-92.16%
Total Major Taxes	$2,913,413	$2,938,007	($24,594)	$2,748,555	6.00%
Foreign Insurance	$7,438	$11,700	($4,262)	$12,880	-42.25%
Domestic Insurance	39	237	(198)	421	-90.74%
Business & Property	100	405	(305)	433	-77.00%
Cigarette	65,473	64,746	727	63,203	3.59%
Soft Drink	1	0	1	1	0.00%
Alcoholic Beverage	14,261	14,352	(91)	14,047	1.52%
Liquor Gallonage	6,815	6,834	(19)	6,771	0.65%
Estate	9,287	10,058	(771)	9,299	-0.13%
Racing	0	0	0	0	#DIV/0!
Total Other Taxes	$103,413	$108,333	($4,920)	$107,055	-3.40%
Total Taxes	**$3,016,826**	**$3,046,339**	**($29,513)**	**$2,855,610**	**5.65%**
NON -TAX INCOME					
Earnings on Investments	$45,025	$34,500	$10,525	$34,483	30.57%
Licenses and Fees	10,828	9,980	848	11,230	-3.58%
Other Income	25,254	26,057	(803)	35,598	-29.06%
Non-Tax Receipts	$81,106	$70,537	$10,569	$81,311	-0.25%
TRANSFERS					
Liquor Transfers	$19,000	$19,500	($500)	$16,500	15.15%
Budget Stabilization	0	0	0	$0	#N/A
Other Transfers In	16,250	16,250	0	203	7904.93%
Total Transfers In	$35,250	$35,750	($500)	$16,703	111.04%
TOTAL INCOME less Federal Grants	**$3,133,182**	**$3,152,626**	**($19,444)**	**$2,953,624**	**6.08%**
Federal Grants	$865,068	$914,622	($49,554)	861,012	0.47%
TOTAL GRF INCOME	**$3,998,250**	**$4,067,248**	**($68,998)**	**$3,814,636**	**4.81%**

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

Detail may not add to total due to rounding.

1 In the short run, some analysts think that the U.S. savings rate could go negative, as it recently has in Canada, but this is unlikely to be sustained.

DISBURSEMENTS

*— Jeffrey E. Golon**

In a strike of deja vu virtually lifted right from the pages of last year's disbursement headlines, a parade of monthly underages appears to be assembling once again. And not only are some of the same faces turning up in that crowd of negative disbursement variances, like the Medicaid and TANF programs and the departments of Administrative Services and Human Services, but so are some of the same reasons — timing delays, falling human service caseloads, and favorable bond markets.

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

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	406,716.00	431,531.96	-24,815.96
Higher Education	161,025.00	142,894.06	18,130.94
Total Education	567,741.00	574,426.01	-6,685.01
Health Care/Medicaid	419,466.00	448,751.67	-29,285.67
Temporary Assistance to Needy Families	51,375.00	70,186.49	-18,811.49
General/Disability Assistance	4,109.00	10,915.39	-6,806.39
Other Welfare	29,191.00	59,925.20	-30,734.20
Human Services (2)	80,008.00	82,504.99	-2,496.99
Total Welfare & Human Services	584,149.00	672,283.73	-88,134.73
Justice & Corrections	173,910.00	219,580.98	-45,670.98
Environment & Natural Resources	9,185.00	9,724.81	-539.81
Transportation	1,312.50	963.22	349.28
Development	17,056.00	10,754.90	6,301.10
Other Government (3)	75,759.00	86,676.54	-10,917.54
Capital	3.00	340.00	-337.00
Total Government Operations	277,225.50	328,040.45	-50,814.95
Property Tax Relief (4)	185,450.00	135,382.00	50,068.00
Debt Service	5,589.52	5,587.09	2.43
Total Program Payments	**1,620,156.02**	**1,715,719.28**	**-95,563.26**
TRANSFERS			
Local Govt Distribution	0.00	0.00	0.00
Budget Stabilization	0.00	0.00	0.00
Other Transfers Out	5,782.00	0.00	5,782.00
Total Transfers Out	5,782.00	0.00	5,782.00
TOTAL GRF USES	**1,625,938.02**	**1,715,719.28**	**-89,781.26**

(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.

September Variance. Excluding transfers, September closed with a negative disbursement variance ($95.6 million) of roughly the same magnitude as the month of August ($83.2 million). The top five players in the September underage were: (1) the Department of Rehabilitation and Correction ($36.6 million); (2) the Department of Human Services exclusive of the Medicaid, TANF, and General/Disability Assistance programs ($30.7 million); (3) the Healthcare/Medicaid program ($29.3 million); (4) the Department of Education ($25.5 million); and (5) the Temporary Assistance to Needy Families (TANF) program ($18.8 million). Generally speaking, the departments of Rehabilitation and Correction, Human Services, and Education underspent due to timing. Simply put, spending planned to occur in September didn't happen, but presumably will at some future point in time, perhaps as soon as October. On the other hand, declining human service caseloads were acting as a brake on spending and therefore what we were most likely seeing were underages that represented true savings in the Medicaid and TANF programs.

Also of interest was the whopping $50.1 million September overage thrown in by the Property Tax Relief program, the practical effect of which was to dramatically constrain the negative monthly disbursement variance from otherwise reaching into the neighborhood of $150 million. The overage in the Property Tax Relief program itself was no more than a simple matter of timing. Tax relief distributions that hit in September included some funding that did not go out the door as planned in August, as well as some funding that will was slated to be released a month later in October.

The reader is also directed to scope out Table 4, which provides a comparison of September disbursement variances by program category.

Year-to-Date Variance. The state ended the first quarter of FY 1999 with another jolt of underspending that shot the negative year-to-date disbursement variance, excluding transfers, up to $178.8 million. There were six principal contributors to the quarterly underage: (1) the HealthCare/ Medicaid program ($58.9 million); (2) the Department of Human Services exclusive of the Medicaid, TANF, and General/Disability Assistance programs ($38.7 million); (3) the Department of Rehabilitation and Correction ($36.6 million); (4) the Department of Education ($31.1 million); (5) the Department of Administrative Services ($18.9 million); and (6) the Temporary Assistance to Needy Families (TANF) program ($17.9 million). These disbursement variances were principally the result of timing. The exceptions were: (1) in the case of the Medicaid and TANF programs, lower than expected spending which, as previously mentioned, most likely represented savings resulting from ongoing drops in human service caseloads; and (2) in the case of the Department of Administrative Services, a portion of their underage — $6.2 million — reflected savings in expected debt service payments due to a favorable bond market.

The Property Tax Relief program played a part in the year-to-date underage analogous to its counterbalancing role in September's underspending. Year-to-date, the Property Tax Relief program was $32.6 million over the estimate, a variance due to timing. In the absence of this somewhat sizeable positive programmatic disbursement variance, the state's total year-to-date underspending would have grown more significantly to around $230 million.

A more detailed picture comparing fiscal year-to-date variances by program category is provided for the reader in Table 5.

Federal Money. Of the year-to-date underspending in the TANF and Medicaid programs combined ($76.8 million), 63.9 percent, or $49.1 million, was in the federal share of these two human services programs that are jointly funded by the state and federal government. Furthermore, a fairly sizeable portion of this underspending in the federal share — $34.3 million (69.9 percent) — was exclusively attributable to Medicaid. Once the federal money associated with TANF and Medicaid was backed out, the year-to-date underspending in non-federal state money was reduced to $129.7 million from $178.8 million.

Once again to utter one of our monthly mantras, any federal TANF money unspent at fiscal year's-end really represents money the state will have earned by meeting its required maintenance of effort (MOE). On the other hand, an underage in Medicaid really signals a loss of anticipated revenue since the state will not have spent the money necessary to earn financial reimbursement from the federal government.

Our summary done, we will now take a selective turn through some of the disbursement matters that caught our attention.

Primary & Secondary Education

Education. The Department of Education's first quarter FY 1999 spending landed $31.1 million, or 2.5 percent, under the year-to-date estimate of $1.2 billion. While the main force behind the negative quarterly variance appeared to be driven by timing and delays relative to implementing the new system for distributing state funds to school districts, the principal culprit was in reality the department's bus purchase allowance program. Specifically, an estimated $28.0 million in bus purchase subsidy funding (line item 200-503, Bus Purchase Allowance) was not disbursed as planned in September.

Bus Purchases. The bus purchase allowance funding is used to assist school districts and educational service centers with bus purchases or bus service contracts. None of this funding can be distributed without the approval of the Controlling Board. The state allocates the bulk of the bus purchase allowance funding to school districts for "regular" bus purchases or bus service contracts based on a complex formula that includes a per pupil or per mile

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)	1,258,513.00	1,289,415.56	-30,902.56	1,190,488.40	0.06
Higher Education	506,497.00	487,477.91	19,019.09	485,650.00	0.04
Total Education	1,765,010.00	1,776,893.47	-11,883.47	1,676,138.40	0.05
Health Care/Medicaid	1,340,630.53	1,399,537.46	-58,906.93	1,360,178.27	-0.01
Temporary Assistance to Needy Families	207,444.55	225,306.96	-17,862.41	234,057.40	-0.11
General/Disability Assistance	15,365.00	23,037.22	-7,672.22	16,702.29	-0.08
Other Welfare	127,583.00	166,322.79	-38,739.79	123,369.00	0.03
Human Services (2)	336,522.00	350,966.22	-14,444.22	324,066.70	0.04
Total Welfare & Human Services	2,027,545.08	2,165,171.65	-137,626.57	2,058,373.66	-0.01
Justice & Corrections	467,820.00	501,251.36	-33,431.36	432,907.70	0.08
Environment & Natural Resources	45,282.00	44,016.21	1,265.79	46,544.00	-0.03
Transportation	4,156.50	7,719.03	-3,562.53	6,778.25	-0.39
Development	38,418.00	39,171.87	-753.87	40,028.00	-0.04
Other Government (3)	150,374.00	175,063.24	-24,689.24	143,729.00	0.05
Capital	901.00	1,553.50	-652.50	633.60	0.42
Total Government Operations	706,952.50	768,776.22	-61,823.72	670,620.55	0.05
Property Tax Relief (4)	214,749.00	182,166.30	32,582.70	139,063.26	0.54
Debt Service	91,502.52	91,553.11	-50.59	81,169.48	0.13
Total Program Payments	**4,805,759.10**	**4,984,560.75**	**-178,801.65**	**4,625,365.35**	**0.04**
TRANSFERS					
Capital Reserve	0.00	0.00	0.00	0.00	—
Budget Stabilization	44,184.00	44,184.15	-0.15	34,400.00	0.28
Other Transfers Out	973,342.00	967,560.02	5,781.98	696,769.00	0.40
Total Transfers Out	1,017,526.00	1,011,744.17	5,781.83	731,169.00	0.39
TOTAL GRF USES	**5,823,285.10**	**5,996,304.92**	**-173,019.82**	**5,356,534.35**	**0.09**

(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.

base reimbursement, a rough road factor, and an equalization component.

Up to 25 percent of the amount appropriated for this purpose may also be used to reimburse school districts and educational service centers for the purchase of buses to transport handicapped and non-public school students. Buses purchased and identified as "non-public or handicapped" are fully reimbursed by the state assuming they have met the state's mileage requirement for that year, with the priority for reimbursement funding starting with school districts and educational service centers having the highest mileage buses.

Although the Controlling Board released $9.3 million for non-public and handicapped bus purchases and contracted bus services at its late September meeting, the funds will most likely not show up in Education's monthly disbursement stream for another month or so. And then sometime in December, the department is expected to request Controlling Board release of around $20 million or so in "regular" bus purchase funding.

New Foundation Formula. As many readers are doubtless aware, most state aid for school districts is calculated and distributed through the School Foundation Program via a formula devised biennially by the state General Assembly. Through FY 1998, this state aid was calculated on what some knew as the SF-12 formula, named for the form used by the department to calculate the amount of state support. Starting with FY 1999, pursuant to policy changes contained in Amended Substitute House Bill 650 and Amended Substitute House 770, both acts of the 122nd General Assembly, the department planned to replace the SF-12 formula with what would become the new SF-3 formula. As a result of the reprogramming effort required to install this new foundation formula, state aid in the first quarter of FY 1999 was disbursed based on school districts' FY 1998 SF-12 funding. Come October, the department should be ready to distribute state aid via the SF-3 formula.

The five component line items of the SF-3 formula are: (1) 200-500, School Finance Equity; (2) 200-501, Base Cost Funding; (3) 200-502, Pupil Transportation; (4) 200-520, Disadvantaged Pupil Impact Aid (DPIA); and (5) 200-521, Gifted Pupil Program. Under the SF-3 formula, special education students (including those educated by educational service centers) and comprehensive high school vocational education students are first counted in their home district's formula ADM (average daily membership) to qualify for base cost funding. In addition to being counted in the ADM, special education students also generate additional weight funding depending upon the nature of their disability or handicap. School Finance Equity funding, which was not part of SF-12 formula, is part of the SF-3 formula.

Line items 200-504, Special Education, 200-507, Vocational Education, and 200-577, Preschool Special Education, which were part of the SF-12 formula are not an explicit part of the SF-3 formula, with the funding for these activities having been in effect relocated. For example, the state will be providing additional funding for vocational education in comprehensive high schools and for special education collaborative efforts through line items 200-545, Vocational Education Enhancements, 200-540, Special Education Enhancement, respectively.

Other Underages. Since the SF-3 formula was not ready to roll, no disbursements were made from line items 200-546 Charge-off Supplement, and 200-547, Power Equalization. As a result, these two newly established programs posted underages of $3.1 million and $2.7 million, respectively.

The charge-off supplement program pays a school district the difference between its local share (including base cost funding charge-off at 23 mills and local share of special education weight funding) assumed by the foundation formula and the amount the district actually collected in property taxes and school district income taxes for current operating expenses. This assures all school districts will receive the full amount of state and local revenues guaranteed by the foundation formula.

The power equalization program rewards low wealth school districts for their effort to support education beyond the basic foundation program level. If a district has levied more than 23 mills in the combination of Class I effective operating tax rate and income tax equivalent operating tax rate, the state will equalize a maximum of two additional mills up to the state average valuation per pupil level. That is, these two mills are guaranteed to generate the state average property revenue per pupil.

First quarter underspending was also reported as follows: (1) $5.4 million in line item 200-426, Ohio Educational Computer Network; (2) $2.3 million in line item 200-446, Education Management Information System; (3) $3.1 million in line item 200-545, Vocational Education Enhancements; (4) $7.4 million in line item 200-534, Desegregation Costs; and (5) $4.3 million in line item 200-526, Vocational Education Equipment Replacement. All of this underspending was due to timing, with the exception of the Ohio Educational Computer Network, which is used, among other things, to reimburse school districts for the operational costs associated with using the network. The department has changed the disbursement cycle for this subsidy line item from a pattern wherein 75 percent of the funding was disbursed in the first quarter to a schedule of even quarterly payments.

Some Overages. Notable overages that worked to reduce the size of the quarterly underage were uncovered as follows: (1) $6.3 million in line item 200-406, Head Start; (2) $2.7 million in line item 200-408, Public Preschool; (3) $11.8 million in line item 200-410, Professional Development; and (4) $3.7 million in line item 200-411, Family and Children First. These line items are used to provide moneys to school districts, Head Start grantees, professional development centers, county family and children first councils, and other eligible entities in support of a given program's implementation. The "paperwork" associated with these programs was finished ahead of the original plan, thus permitting the disbursement of a larger portion of grant and subsidy moneys in the first quarter than was originally assumed.

NET. The Office of Information, Learning, and Information Technology Services (NET) closed the first quarter of FY 1999 with a disbursement underage of almost $700,000, or 8.1 percent under the estimate. This underspending was entirely driven by line item 228-404, SchoolNet. In fact, the SchoolNet line item actually posted a much larger quarterly underage of $1.5 million that was then offset by a roughly $800,000 quarterly overage registered in line item 225-539, Education Technology. The entire $6.6 million FY 1999 Education Technology appropriation was earmarked for contracts with instructional television and education media centers to provide Ohio schools with instructional resources and services. The FY 1999 contract process moved faster than expected, and as a result, education technology awards planned for an October distribution occurred a month earlier than expected.

Timing was the key issue behind the underspending in the SchoolNet line item, which is used to make grants for the provision of hardware, software, telecommunications services, and staff development to support educational uses of technology in the classroom. Several projects have progressed slower than expected during the first quarter of FY 1999; most notably one tied to a $450,000 grant for regional SchoolNet faculty members. NET divides the state into four regions and contracts with about 30-to-40 consultants to provide professional development on the use of educational technology to school districts. The contract for those services was still under review, thus hanging up a planned first quarter disbursement until at least October.

Health Care/Medicaid

In the combined July/August edition of ***Budget Footnotes***, we indicated that a more in-depth narrative on Medicaid's $5-plus billion spending in FY 1998 would be presented as soon as the necessary details on the program's disbursement components were available from the Department of Human Services. Medicaid disbursement variances that appeared to be timing-based may be the result of "delays in payments" or inter-period adjustments that can only be reconciled with the state's central accounting system (CAS) when year-end "final" numbers are formalized. Hence, until that reconciliation process was completed, we were delayed in our ability to assemble the narrative that follows.

For FY 1998, the Medicaid program carried $78.5 million of encumbered FY 1997 funds as well as a FY 1998 appropriation totaling $5.16 billion. The department disbursed all but $1.54 million of the FY 1997 encumbrances in FY 1998, with $762,810 of those undisbursed FY 1997 funds being brought into FY 1999 as outstanding FY 1997 encumbrances. With regard to the FY 1998 appropriation, the department disbursed $4.98 billion, encumbered $53.98 million for disbursement in FY 1999, transferred $1.7 million (principally to address an accounting change related to a third party liability (TPL) recovery contract), and left an available balance of $128.4 million.

What this review of FY 1998 Medicaid disbursements points out is that one's analytic picture is muddied somewhat by the commingling of current fiscal year appropriations with the disbursement of outstanding encumbrances from prior fiscal years. Thus, to present a cleaner comparison of the "true" variance in FY 1998 spending against FY 1998 appropriations, and to relate this spending to growth from FY 1997, all FY 1997 and FY 1998 appropriations that were encumbered for disbursement in a future fiscal year were rolled back into the fiscal year in which they were appropriated, and in effect subtracted from the fiscal year in which the funds were actually disbursed.

Table 6, Medicaid Spending, shows a breakdown of Medicaid disbursement variances by major service categories after the suggested encumbrance adjustments are made. Presented in column 1 of this table is actual spending in FY 1998, while column 2

Table 6
Medicaid Spending*

	Fiscal Year 1998				FY 1998 to FY 1997 Comparison	
Service Category	**Adjusted[1] Actual**	**FY 1998 Appropriation[2]**	**Variance**	**Percent Variance**	**Adjusted FY 1997[3]**	**Variance**
Nursing Homes	$1,911,124,629	$1,861,588,651	$49,535,978	2.7%	$1,753,500,078	$157,624,551
ICF/MR	$330,697,397	$342,084,882	($11,387,485)	-3.3%	$323,637,989	$7,059,408
Hospitals	$1,113,882,725	$1,101,349,595	$12,533,130	1.1%	$1,231,314,664	($117,431,939)
Inpatient Hospitals	$866,387,747	$856,894,405	$9,493,342	1.1%	$941,208,082	($74,820,335)
Outpatient Hospitals	$247,494,979	$244,455,190	$3,039,789	1.2%	$290,106,582	($42,611,603)
Physicians	$271,369,341	$264,678,539	$6,690,802	2.5%	$301,147,901	($29,778,560)
Prescription Drugs	$510,191,683	$443,318,315	$66,873,368	15.1%	$457,990,362	$52,201,321
Payments	$619,228,562	$554,147,894	$65,080,668	11.7%	$562,874,972	$56,353,590
Rebates	$109,036,879	$110,829,579	($1,792,700)	-1.6%	$104,884,610	$4,152,269
HMO[4]	$419,609,294	$638,570,423	($218,961,129)	-34.3%	$427,293,011	($7,683,717)
Medicare Buy-In	$122,366,056	$129,141,612	($6,775,556)	-5.2%	$119,846,473	$2,519,583
All Other**	$354,865,968	$381,773,503	($26,907,535)	-7.0%	$358,634,202	($3,768,234)
TOTAL	$5,034,107,094	$5,162,505,520	($128,398,427)	-2.5%	$4,973,364,680	$60,742,414
Est. Federal Share	$2,928,340,096		($75,023,201)		$2,934,285,161	($5,945,065)
Est. State Share	$2,105,766,997		($53,375,226)		$2,039,079,519	$66,687,479

* This table only includes Medicaid spending through Human Services' 400-525 line item.

1. FY 1998 disbursements have been adjusted by adding spending from FY 1998 encumbrances that occurred in early FY 1999. This adjustment is made to show the "true" variance between FY 98 appropriations & spending.
2. FY 1998 appropriations are reduced by the transfer of $1.7 million due to an accounting change related to a third party liability contract.
3. FY 1997 disbursements were adjusted by adding spending from FY 1997 encumbraces of $76.2 million that occurred in early FY 1998.
4. HMO payment is made from IMD/DSH monies ($34,387,151.7-May & $34,535,631-June), Funds 5C9 & 3F0, ALI 400 - 672 & 623, therefore, total payments for HMO coverage of eligibles in FY 1998 is $69 million greater than the amount shown.

** All Other, includes all other health services funded by 400-525.

Note that additional expenditures may occur as FY 1997 & FY 1998 encumbrances are still available.

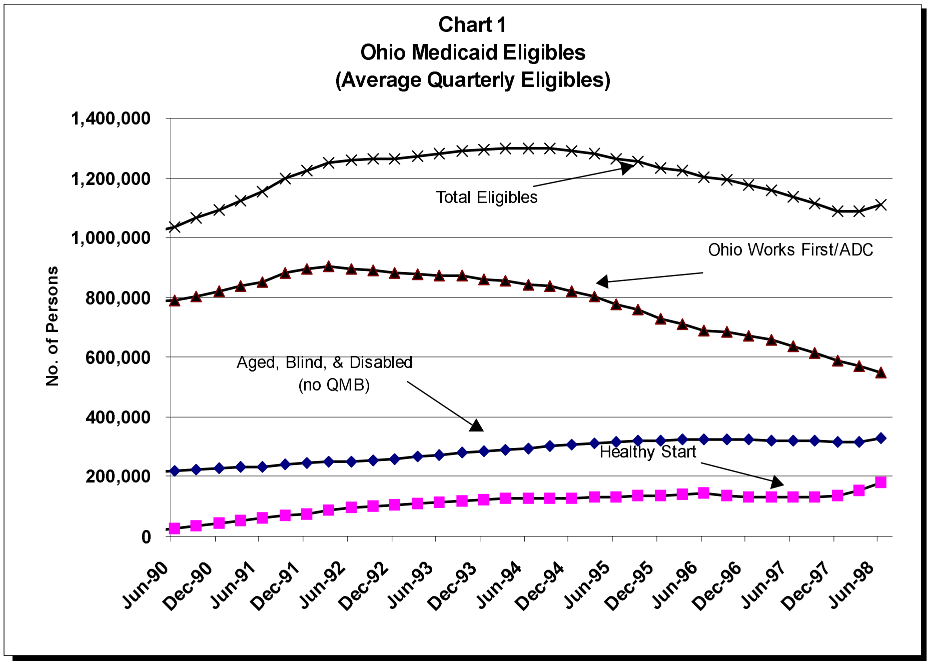
contains the corresponding FY 1998 appropriation level (adjusted for the TPL transfer stated earlier). Columns 3 and 4 present the spending variance amounts and percentages, respectively, indicating the spending departure or variances from planned levels in FY 1998. Under the "FY 1998 to FY 1997 Comparison" heading is a presentation of FY 1997 adjusted spending in column 5.The growth in spending amounts and percentage change from FY 1997 to FY 1998 are shown in columns 6 and 7, respectively.

As the reader no doubt was already aware and can plainly see from Table 6, the bottomline from the perspective of state spending was good news—Medicaid underspent FY 1998 appropriations by $128.4 million, or 2.5 percent. And also not surprising was that a mix of service categories generated overages, while some worked in opposition and promoted underages. For example, the HMO, ICF/MR, and All Other service categories contributed to the positive news (underspending), while other service categories (Nursing Homes and Prescription Drugs in particular) tossed in the negative news (overspending).

However, the primary factor responsible for the underspending was not self-evident from these service categories, but was more readily discernible when one looked at the recipient categories captured in Chart 1, Ohio Medicaid Eligibles. In that chart, most noticeable was the steady decline of the number of recipients associated with the Ohio Works First/Aid to Families with Dependent Children (OWF/ADC) caseload.

Turning back to the data in Table 6, a comparison of Medicaid spending in FY 1998 with FY 1997 revealed a relatively slow growth pattern at the bottomline, similar to that which was observed from FY 1996 to FY 1997. Medicaid spending grew by $60.7 million, or 1.2 percent, from FY 1997 to FY 1998 (see the "**TOTAL**" line in the last two columns of data in Table 6).

Peering deeper into these numbers, we further noted that the primary beneficiary of this slower spending growth appeared to be the federal government. Specifically, we saw in the spending variance from FY 1997 to FY 1998 (bottom of column 6 in Table 6) that, while total spending increased by



$60.7 million, the estimated federal reimbursement amount actually decreased by an estimated $5.9 million and the state's share increased by what seemed like a disproportionate amount of $66.7 million. While not surprising to us, this could quite possibly be perplexing for some readers.

What was up here? The answer to that question revolves around the reality that although the state planned for the implementation of numerous Medicaid policy initiatives that were to take place over the course of fiscal years 1998 and 1999, one of the most important was essentially beyond the control of Ohio lawmakers. In accordance with federal law, the federal government shares in the state's cost of Medicaid at a matching rate known as the FMAP (Federal Medical Assistance Percentage).[1] The FMAP is calculated for each state based upon the state's per capita income in recent years relative to the entire nation. Traditionally, this cost-sharing mechanism has generally worked as follows: for every $1 dollar we (Ohio) spend on Medicaid, the federal government gives us 60 cents.

However, due to the performance of Ohio's economy in recent years relative to the national average, Ohio's FMAP has been falling — making the "60 cents" example meaningful for illustrative purposes only. From federal fiscal year (FFY) 1996 to FFY 1997, Ohio's FMAP dropped by 0.89 percentage points, from 60.17 percent to 59.28 percent. An even larger drop occurred in FFY 1998, as Ohio's FMAP fell by 1.14 percentage points to 58.14 percent. This FMAP change resulted in an estimated $41.8 million of the Medicaid financial burden being shifted to the state in FY 1998. Furthermore, when the state's current biennial operating budget was being finalized in mid calendar year 1997, the estimate available at that time indicated that the FMAP in FFY 1999 would fall an additional 0.51 percentage points to 57.63 percent. As a result of these most recent FMAP changes, it was anticipated that, of the disbursements from the Medicaid line item (400-525) tapping fiscal year 1998 and 1999 appropriations plus FY 1997 encumbrances, approximately $160 million of that spending burden was to shift to the state.

In a pleasant reversal of events, when per capita income figures for 1996 became available in late 1997, Ohio lost ground relative to the entire nation. Bad news became good news, and when the formal FMAP was set for FFY 1999, Ohio's FMAP actually improved a squeak by 0.12 percentage points to 58.26 in FFY 1999. Now, only about half of that anticipated $160 million shift in financial burden to the state would likely materialize, assuming all other variables behave as expected.

Nursing Homes. Over the course of FY 1998, Medicaid's Nursing Homes service category exhibited a fluctuating mix of positive and negative disbursement variances, making it difficult to discern a trend or gauge events. When FY 1998 finally came to a close, the Nursing Home service category had finished $49.5 million, or 2.7 percent, above the estimate, on total spending of $1.9 billion (see Table 6). While growth in this service category was expected, it was estimated at 7.9 percent; the actual growth rate was 9.0 percent. Table 7, Medicaid Spending on Nursing Homes, then provided some clues as to the possible sources of this larger than anticipated growth rate, including the change in the per diem cost and number of recipients from FY 1997 to FY 1998.

Table 7
Spending on Nursing Facilities Services

	FY 1996	FY 1997	FY 1998	FY 97 - 98 % Change
Claim per Diem	$97.78	$101.37	$108.64	7.17%
Recipients	59,910	56,286	58,318	3.61%
Payments	$1,691,580,504	$1,753,500,078	$1,911,124,629	8.99%

Payments to nursing homes are based on cost reports. Nursing homes annually submit a cost report to the state's Department of Human Services, which are used to calculate facility-specific per diems for the following state fiscal year. In essence, each fiscal year's per diem rates are based on cost reports from the preceding calendar year. The per diem rates are then adjusted quarterly to account for differences in each resident's needs – known as the "case-mix adjustment."

Nursing home per diems were in excess of what was expected. Why? Preliminary analysis suggested that at least one force was at work. The recapture component in the capital cost factor of the reimbursement rate was higher than had been planned. The capital cost factor is tied to the buying and selling of nursing homes, as well as other capital expenditures, and comprises about 10 percent of the per diem.

We'd also offer the following more general observation on some of the important dynamics surrounding nursing homes and their costs of care. In this country, for various reasons related to demography, lifestyles, the physical environment, medical care, and so forth, people are living longer and the size of the aging population is growing. As a result, there is a larger pool of people that might require the more intensive level and more costly form of care associated with a nursing home stay and for a longer period of time as well. Aiding in constraining the acceleration of nursing home care costs associated with such a trend is the development of less-costly and more appropriate alternative forms of care, programs like PASSPORT, that target elements of the state's medically needy people not requiring a nursing home level of care. From the perspective of nursing homes, this means that the medical conditions of those people occupying their beds these days are generally more acute than was previously the case. This rise in acuity level alone would increase the nursing home's cost of doing business and the state's per diem has grown to reflect that reality. In summary, the rise in the state's per diem is fueled by heightened acuity levels, increased capital costs, and to a larger extent, elevated medical care costs, like prescription drugs.

HMOs. The purchase of HMO coverage for OWF/ADC and Healthy Start (HS) eligibles has been a major policy initiative of the state's Medicaid program. As part of that initiative, the department estimated the number of HS and OWF/ADC eligibles and then assumed in FY 1998 that 60 percent of those eligibles would be enrolled for HMO services as opposed to the traditional fee-for-service system. In light of that increase in the number of recipients, the HMO service category was estimated to grow by $211.3 million from FY 1997 levels of $427.3 million to $638.6 million in FY 1998. Had that in fact occurred the resulting growth rate would have registered 49.4 percent.

However, the unexpected and rapid decline of the cash assistance recipients in the OWF/ADC eligibility category severely hampered the department's ability to get anywhere close to the number of anticipated HMOs enrollees. The department's FY 1998 spending plan for HMO services was predicated on the belief that the number of Medicaid recipients for whom payments would be made each month would average 459,553. The actual number was 331,048, or 28.0 percent lower. (A previous discussion of this HMO enrollment matter occurred in the combined November/December 1997 issue of ***Budget Footnotes***.)

Medicaid spending on HMO services in FY 1998 totaled $488.5 million, growing by $61.2 million, or 14.3 percent, from FY 1997 levels. Of the $488.5 million, $419.6 million was paid from Medicaid's lone GRF line item 400-525. The balance of $68.9 million was covered by using a mix of state and federal money earned from the state's IMD/DSH (Institutions for Mental Disease Disproportionate Share) program.

IMD/DSH funds were also used to provide funding for the Healthy Start expansion for children living in families with incomes at or below 150 percent of the federal poverty level (FPL). This program's expenditures were estimated to be $12.7 million in FY 1998 and $69.9 million FY 1999. And not unlike any new program, the take-off was rather slow in the early stages, leading to an expenditure of only $5.9 million in FY 1998. (For more information on this subject, see the piece by Ogbe Aideyman entitled "CHIPping Away at the Uninsured" in this issue of ***Budget Footnotes***.)

Prescription Drugs. Spending on Prescription Drugs totaled $510.2 million in FY 1998, outpacing the estimate by $66.9 million, or 15.1 percent. Expenditures on this service category grew by 11.4 percent from FY 1997 levels. This somewhat large rise in spending was driven primarily by increases in: (1) market prices resulting from the introduction of a large number of new drugs; (2) mass market consumer advertising (in particular television); and (3) to a lesser extent, utilization rates by the Aged, Blind, and Disabled (ABD) Medicaid population. (For more detailed discussions of FY 1998 Prescription Drugs spending we would refer the reader to the January 1998 and April 1998 issues of ***Budget Footnotes***.)

What does the future hold for Prescription Drugs spending? In the short- to near-term, we believe more of the same. As a result, the spending estimate for Prescription Drugs has been revised upward for FY 1999.

Caseload. The total number of persons eligible for Medicaid declined by 5.7 percent from 1,166,169 persons in FY 1997 to 1,100,042 in FY 1998 (see Table 8, Ohio Medicaid Eligibles). The consistent decline in the cash assistance aid group (OWF/ADC) that started in FY 1995 has been the primary driving force behind the drop in total caseload. From FY 1997 to FY 1998, the OWF/ADC eligibility group declined by 11.7 percent, with a monthly average of 580,827 persons. Although OWF/ADC Medicaid eligibility has declined in recent years, due primarily to the decline in the OWF/ADC cash assistance caseload, it remains the largest Medicaid eligibility group, representing 52.8 percent of all eligibles in FY 1998. Until recently, the other major component of the Medicaid caseload — the Aged, Blind, and Disabled (ABD) population — had been increasing as was evident by a growth rate in the 1990s averaging 5.9 percent. The numbers for FY 1997 and 1998, however, suggested a stabilizing or decrease in the ABD caseload was afoot as an almost imperceptible percentage increase of 0.6 percent was posted in FY 1997, followed by a 1.9 percent drop in FY 1998.

It should be noted that included in this OWF/ADC number was a large number of people in "transitional status." Those in transitional status compose a lesser-known sub-category of Medicaid recipients in what is termed Transitional Medicaid. The average number of monthly eligibles on transitional status grew by 134.4 percent from 56,094 in FY 1997 to 131,496 in FY 1998. Under Transitional Medicaid, coverage is provided for those families who lose OWF/ADC cash assistance due to increased income from employment or loss of certain time-limited income disregards, for a period of up to 12 months. The data from this eligibility group is included with the ADC

Table 8
Ohio Medicaid Eligibles
(Average Monthly Eligibles)

Fiscal Year	ABD[1]	% Change	OWF/ADC[2]	% Change	Healthy Start	% Change	SLMB[3]	% Change	TOTAL	% Change
1991	232,629	7.8%	703,112	10.1%	47,007	196.8%	0	n/a	1,108,464	9.6%
% of Total	21.0%		63.4%		4.2%		0.0%		100.0%	
1992	255,971	10.0%	762,653	12.6%	82,166	74.8%	0	n/a	1,232,398	11.2%
% of Total	20.8%		61.9%		6.7%		0.0%		100.0%	
1993	279,742	9.3%	775,179	4.7%	109,162	32.9%	420	n/a	1,270,110	3.1%
% of Total	22.0%		61.0%		8.6%		0.0%		100.0%	
1994	306,845	9.7%	766,805	0.7%	123,663	13.3%	6,395	1422.6%	1,294,972	2.0%
% of Total	23.7%		59.2%		9.5%		0.5%		100.0%	
1995	332,349	8.3%	734,869	-2.9%	129,826	5.0%	12,955	102.6%	1,284,005	-0.8%
% of Total	25.9%		57.2%		10.1%		1.0%		100.0%	
1996	344,714	3.7%	721,950	-10.7%	139,529	7.5%	22,069	70.4%	1,228,262	-4.3%
% of Total	28.1%		58.8%		11.4%		1.8%		100.0%	
1997	346,814	0.6%	662,403	-8.2%	133,719	-4.2%	23,233	5.3%	1,166,169	-5.1%
% of Total	29.7%		56.8%		11.5%		2.0%		100.0%	
1998	343,495	-1.9%	580,827	-11.7%	149,795	2.0%	25,925	11.6%	1,100,042	-5.7%
% of Total	31.2%		52.8%		13.6%		2.4%		100.0%	

1. ABD - Aged, Blind , & Disabled, includes Qualified Medicare Beneficiaries (QMBs).
2. OWF/ADC - recipients of Ohio Works First cash assistance and other ADC - related programs like Transitional Medicaid.
3. SLMB - Specified Low-Income Medicare Beneficiaries.

adult and ADC children categories in most published reports.

Why is this eligibility group important? Contrary to the notion that decreasing caseloads immediately translate into reductions in the number of recipients receiving Medicaid services, most OWF/ADC related recipients (barring any significant improvement in the families financial status) receive services under this category where they transition out of the Medicaid program. Obviously then, this sub-category serves as a good indicator of the number of eligibles who are about to transition off Medicaid.

Yearly expansions of the Healthy Start eligibility category have resulted in a steady increase in the number of low-income children covered by Medicaid. This expansion has been the direct result of federal law (OBRA 90) requiring states to expand Healthy Start coverage to include children ages 6 through 18 in families with incomes up to 100 percent of the federal poverty line by phasing in one age group each federal fiscal year (14 year-olds were added in October 1997). The Healthy Start population is expected to grow at a even faster rate as the state's move to include children in families with incomes up to 150 percent of the federal poverty line combined with its Children's Health Insurance Program (CHIP) expansion attracts more eligible children into the program.

The decline in cash assistance recipients in Ohio Works First (OWF) has caused a significant change in the Medicaid caseload composition. Aged, Blind, and Disabled (ABD) eligibles comprised around 28 percent of the more than 1.2 million Medicaid eligibles in FY 1996, yet generated over 70 percent of all care-related Medicaid costs. By FY 1998, the ABD population had moved up to comprise 31 percent of the 1.1 million Medicaid eligibles and generated about 76 percent of Medicaid spending. The cost of long-term care was the primary reason for the relative expense of the ABD population. This increase in the ABD population and related costs has been a result of a natural shift in the program and not the result of any policy changes. In addition, the ABD population heavily utilizes some of the services with the fastest growing costs, such as prescription drugs. Thus, while we have experienced a slowing in expenditure growth, the change in caseload composition could trigger bigger increases in the near future.

TANF

September closed with spending in the TANF (Temporary Assistance to Needy Families) program landing $18.8 million below the estimate, a negative monthly disbursement variance of 26.8 percent. This obliterated the previous two months of TANF spending which had resulted in the posting of an almost $1 million year-to-date overage through the month of August. Contributing to September's variance was: (1) a continuing decline in the recipient caseload, which made for lower cash payments than expected; and (2) the lack of any claim by counties against funds that had been encumbered from previous fiscal years for the purpose of settling outstanding expenses of the defunct Aid to Families with Dependent Children (ADC) program.

Through the first quarter of FY 1999, the TANF caseload continued its steady decline. The number of recipients dropped by over 10,000 in July, 8,000 in August, and 3,000 in September. By month's-end, the total number of recipients stood at just under 320,000.

General/Disability Assistance

The General/Disability Assistance program category registered a large 62.4 percent negative disbursement variance for the month of September, emanating largely from the long-defunct General Assistance (GA) program. It was assumed that the Taber class action lawsuit would have been resolved, triggering a September disbursement of $6.1 million in GA funds encumbered from fiscal years 1996 and 1997. That simply did not happen, and it remains very likely that any such distribution will not occur until sometime after January 1999. We last updated readers on the Taber matter in our review of GRF disbursements covered in the combined July/August issue of ***Budget Footnotes***.

Keep in mind though that this $68.1 million program category is in reality dominated by the $62 million Disability Assistance (DA) program, a state- and county-funded public effort which provides cash and/or medical assistance to persons ineligible for public assistance programs supported in whole or in part by federal funds. In September, the DA caseload continued its slow decline from last year's levels, and by month's-end was hovering at just over 11,000 recipients.

Other Welfare

The Other Welfare component of the Welfare and Human Services program category is composed entirely of all of the Department of Human Services' operating expense and subsidy programs, exclusive of Medicaid, TANF, and General/Disability Assistance, which are tracked as separate components under the Welfare and Human Services program category as well.

Human Services. In September, the Department of Human Services' "Other Welfare" spending fell $30.7 million, or 51.3 percent, under estimate. Almost 60 percent of this underage was attributable to two line items: (1) 400-527, Child Protective Services ($12.6 million); and (2) 400-504, Non-TANF County Administration ($6.5 million).

The funding appropriated to the Child Protective Services line item, which is used to provide a state subsidy for the child foster care and adoptions program administered by county public children services agencies, was planned for disbursement in four roughly equal payments over the course of FY 1999, with a $12.6 million payment scheduled for release to counties in September. That distribution posted slightly later than anticipated with the result that it will land a month later in October.

The Non-TANF County Administration line item, which is used to provide an advance payment of the state's share of county administration for the Disability Assistance, Medicaid, and Food Stamp programs, was also a victim of timing. The resulting underage was largely due to $5.5 million in encumbered FY 1998 funds that were not disbursed in September as planned. These funds represented the amount that the state expected to owe after actual FY 1998 county administration expenditures were reconciled with the state's FY 1998 advance payments. That reconciliation process though was not completed as quickly as had been originally assumed.

Human Services

Employment Services. The Bureau of Employment Services' first quarter disbursements registered $4.7 million, or 25.9 percent, below estimate. The primary culprit behind the disbursement variance was $4.5 million worth of September underspending chipped in by line item 795-407, OBES Operations, which supports operational costs associated with the bureau's unemployment insurance and employment activities.

What was behind this rather dramatic disbursement variance in the OBES Operations line item? It has been suggested to us that the source of the variance lays with the bureau's use of an accounting system known as ICESA FARS — the Interstate Conference of Employment Security Agencies Finance and Reporting System. The ICESA FARS is one of three systems that have the ability to allocate indirect costs in accordance with the federal Department of Labor-approved cost allocation plan. Since the bureau receives approximately 80 percent of its funding from the federal government, adherence to the federal requirement is imperative.

The allocation of indirect cost to programs is based on time distribution. Indirect costs are assigned directly to federal grants in the ICESA FARS system and to the bureau's federal operating account in CAS — Fund 331. The ICESA FARS accounting reports are not available until approximately 21 days after the end of a month. The bureau then performs a quarterly reconciliation between ICESA FARS and CAS. Intrastate transfer vouchers (ISTVs) are issued to balance CAS to ICESA FARS and reimburse Fund 331. Since the bureau was required to submit its biennial operating budget request covering fiscal years 2000 and 2001 to the state's Office of Budget and Management by mid-September, time was not available to complete the ISTV process.

If this "reconciliation" theory holds true, then in the next month or two, the line item should post some rather substantial overages. We shall be on the lookout to see if in fact that winds up being the case.

There are two other bureau line items that we'd like to quickly note. First, actual spending from the Customer Service Centers line item (795-411) — funding appropriated for the state's transition to One Stop Employment and Training centers that would physically and electronically link state and local service providers to meet the needs of the unemployed and underemployed seeking assistance — was a mere 7.7 percent of the quarterly estimate. Since a lot of the activity associated with creating these centers, like site selection and commercial real estate negotiations, can follow a somewhat unpredictable path, estimates of when funding will be disbursed can easily and quickly fall by the wayside. In light of that reality, periods of sluggish or nonexistent spending can suddenly give way to a disbursement flurry as blocks to the scheduled opening of new centers are removed.

At the start of FY 1998, the bureau had 23 one-stop centers operational and planned to add another 14 over the course of the next two fiscal years. Nine of those 14 new one-stop centers were opened in FY 1998, with the remaining five scheduled to come online sometime during FY1999.

Second, actual spending from the TANF Employment & Training line item (795-418) performed somewhat better, but still managed to reach only 54.7 percent of the quarterly estimate. As this line item, which assists with the costs of the bureau's TANF-driven administrative expenses, was created very late in FY 1998 by action of the Controlling Board, a sluggish disbursement pattern was not all that surprising since theoretically a new program takes some time to get going.

Justice & Corrections

Rehabilitation & Correction. The monthly and year-to-date negative disbursement variances registered by the Justice and Corrections program category, $45.7 million and $33.4 million, respectively, were essentially driven by underspending in the Department of Rehabilitation and Correction's budget. Upon closer examination of the numbers, it became very evident that the underspending was clustered almost exclusively in the department's seven line items used to support the operational expenses of prisons, community supervision, and central office, the largest of those expenses being the payroll cost of 13,000-plus GRF-funded staff. At the root of the department's disbursement variance was "timing." A late September pay period landed in October rather than in September as has been assumed when FY 1998 spending estimates were originally assembled.

Development

Development. For the first quarter of FY 1999, actual Department of Development disbursements seesawed over and under estimates, gyrations which were not all that surprising given the dynamics of certain grant programs. A closer review of the department's quarterly spending activity revealed that, from a pool of $60.9 million in encumbered funds from prior fiscal years, $10.2 million, or 16.8 percent, had been disbursed, with our expectation being that a load of the remainder will go out the door as the current governor finishes his final year in office and tries to close the books on as many development deals as possible.

From the month of September, two elements of Development's disbursements were most notable. First, pursuant to temporary law in the budget bill, the entire $7.76 million FY 1999 appropriation in line item 195-441, Low and Moderate Income Housing, was transferred to non-GRF line item 195-638, Low and Moderate Income Housing Trust Fund, in support of activities providing affordable housing for low- and moderate-income persons. Second, around $511,000, or 22.6 percent, of the FY 1999 appropriation in line item 195-410, Defense Conversion Assistance Program, was disbursed as part of a defense adjustment program that assists businesses, communities, and individuals adjust to the effects of defense industry restructuring and associated funding cutbacks.

Other Government

Administrative Services. In a manner strikingly reminiscent of its FY 1998 spending pattern, the Department of Administrative Services closed the first quarter of FY 1999 with a negative disbursement variance that had already grown to $18.9 million. And the prime sources of the underspending were the same, a blend of: (1) lower than expected payments for rent and operating costs on state-owned buildings, including the State of Ohio Computer Center; and (2) slower than expected disbursements on computing and communications services to other state agencies.

State building rent and operating costs chipped in $10.6 million to the quarterly underage, with $6.2 million alone coming from smaller than anticipated debt service payments to the Ohio Building Authority (line items 100-447 and 100-448).

Three components of the department's computer and communications services program contributed another $5.5 million to the quarterly underspending. First, the Year 2000 Competency Center (line item 100-430), created to facilitate the ability of state government computer systems to recognize century dates, was under the estimate by $2.7 million. Second, the Multi-Agency Radio Communication System (MARCS) project (line item 100-417), established to develop a leading edge, statewide mobile radio system, fell short of the estimate by $1.5 million. Third, $1.3 million less than expected was disbursed on the State of Ohio Multi-Agency Communications Systems known as SOMACS (line item 100-419), a fiber optic network that provides voice, data, and video communications to most state agencies. Although there appeared to be no reason at this time to suspect that this sluggish pace in disbursements signaled that some deeper programmatic problems might be afoot, the spending activity associated with Year 2000, MARCS, and SOMACS will bear some watching over the next quarter to see if spending starts picking up steam.

Pension Subsidies. As discussed in the combined July/August issue of ***Budget Footnotes,*** all five of the state's retirement systems (PERS, STRS, SERS, Highway Patrol, and Police & Fire) receive GRF subsidies providing certain benefit enhancements. At the end of FY 1998, $1.6 million, or 6.0 percent, of the total appropriated for pension subsidies was left in the available balance. We fully expect FY 1999 to follow that same trend, with an estimated $1.7 million, or 6.1 percent, left in the available balance at fiscal year's-end from pension subsidy funding totaling $28.0 million.

How can we determine what will be left in the available balance at fiscal year's-end when little over three months of the current fiscal year have elapsed? Pension subsidies are disbursed **once** each fiscal year, with disbursements occurring either in July or August. The exact timing of disbursements depends on when the board of trustees of each retirement system notifies the Treasurer of State of the amount needed for benefit payments, with permanent state law requiring that this be accomplished on or before the first day of August. Since the payment amount is based on benefits awarded to eligible persons in the **preceding fiscal year**, and since the number of eligible persons declines over each year, there will invariably be unspent balances remaining in most of the sixteen line items that provide subsidy funding to the state's five retirement systems.

Of the $1.7 million currently expected to be left unspent in FY 1999 pension subsidy funding, over 88 percent will be attributable to PERS and STRS ($0.9 million and $0.6 million, respectively), which is in some sense not surprising since the two are the largest of the state's retirement systems. At the other end of the spectrum, the entire amount of FY 1999 pension subsidy funding appropriated to line items 090-575, Police and Fire Death Benefits, and 090-544, Police and Fire State Contribution — $19.3 million and $1.2 million, respectively — was fully disbursed in August.

Property Tax Relief

The Property Tax Relief program, which consists of $1-plus billion for the making of state payments to school districts, counties, municipalities, townships, and other special taxing districts as compensation for credits or exemptions provided to taxpayers in state law, closed September with a quarterly overage of 17.9 percent, or $32.6 million. Why? Timing!

The timing of the state's distribution of this funding depends heavily on how quickly the settlement process goes at the local level and when county auditors apply to the state for property tax relief payments. Table 9, Property Tax Relief Disbursement Percentages, focuses on the months of July through January and provides some selected disbursement details associated with the line items in the departments of Education and Taxation that fund the state's property tax relief payments. The table shows: (1) the percentage amount of appropriated property tax relief funding that has historically been disbursed in that seven-month period from 1990 through 1998; (2) the percentage amount of appropriated FY 1999

Table 9
Property Tax Relief Disbursement Percentages, 1990 – 1998
(July – January)

	Disbursements	July	August	September	October	November	December	January
Education	Historic Average	0.01%	9.33%	19.66%	8.77%	5.52%	5.16%	0.00%
	FY 1999 Estimate	0.00%	5.50%	15.00%	17.50%	5.50%	5.00%	0.00%
	FY 1999 Actual	0.00%	3.21%	19.14%	-	-	-	-
Taxation	Historic Average	0.45%	5.92%	17.28%	12.53%	6.39%	6.26%	0.00%
	FY 1999 Estimate	0.25%	4.00%	14.00%	19.25%	5.00%	6.00%	0.00%
	FY 1999 Actual	0.25%	2.84%	21.79%	-	-	-	-

property tax relief funding estimated to be disbursed monthly from July 1998 through January 1999; and (3) the percentage amount of appropriated FY 1999 property tax relief funding actually disbursed during the first quarter of FY 1999.

As the reader can see from the data in Table 9, the July estimated and actual payments for the property tax relief funding appropriated to the departments of Education and Taxation were small (and equal), which reflects the time needed by local jurisdictions to finalize their settlement process. Looking further into the quarter, actual disbursements were smaller than the estimates for the month of August, but then the actuals turned around and exceed the estimated amounts in September. It appears the settlement process was "held up" in August only to accelerate beyond disbursement expectations in September. Since the bulk of disbursements were estimated to land in September and October, we would expect to see disbursement underages in October as some of those expected payments appeared to have occurred a month earlier than assumed would be the case. ❑

**LBO colleagues developing material that anchored this article include, in alphabetical order, Ogbe Aideyman, Clarence Campbell, Sybil Haney, Sharon Hanrahan, Steve Mansfield, Jeffery T. Petry, Katherine B. Schill, and Wendy Zhan.*

[1] While the majority of Medicaid spending is matched at the FMAP, a few items are matched at different rates. For example, in the 400-525, Health Care/Medicaid, line item, a few items (primarily contracts) within the All Other Care category are matched at 50 percent, and all family planning services receive a 90 percent match. In addition, about 15 percent of Medicare buy-in premiums receive no federal match.

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS FIRST QUARTER, FY 1999

— *Jeff Petry*

Total sales for the first quarter of FY 1999 were \$507.5 million, down 2.4 percent from \$519.8 million for the fourth quarter of FY 1998. Because lottery ticket sales have a seasonal pattern, quarter to quarter changes may give a misleading indication of trends in sales. Year to year changes provide a better indicator of trends in sales. Sales for the first quarter of FY 1999 were 4.9 percent less than the \$533.7 million in sales received in the first quarter of FY 1998. The forecast of decreased ticket sales for FY 1999 appears to be justified.

Transfers to the Lottery Profits Education Fund mirrored ticket sales. Transfers for the first quarter of FY 1999 were \$164 million, down 3.2 percent from \$169 million for the fourth quarter of FY 1998. First quarter FY 1999 transfers were 6.3 percent less than transfers for the first quarter of FY 1998. Transfers for the first quarter of FY 1999 are 3.9 percent lower than projected.

Total sales decreased 2.4 percent from fourth quarter FY 1998 levels. The only game experiencing an increase in sales was Buckeye 5, with a 0.7 percent increase. Sales decreased for all other games. Pick 3 sales fell by 3.9 percent, Pick 4 sales fell by 2.0 percent, sales of Instant Tickets fell by 1.4 percent, Kicker sales fell by 2.4 percent, and Super Lotto sales fell by 4.1 percent. Comparing year to year sales reveals that total ticket sales for the first quarter of FY 1999 were 4.9 percent less than sales for the first quarter of FY 1998. The only game experiencing an

Table 1, FY 1999 Lottery Ticket Sales and Transfers to LPEF, millions of dollars

	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfers as a Percentage of Sales
Q1 98	**\$533.67**	**\$ 175.00**	**\$ 169.63**	**\$ 5.37**	**3.17**	**32.79**
Q4 98	**519.80**	**169.41**	**170.72**	**-1.31**	**-0.77**	**32.59**
Jul 98	166.07	53.62	57.37	-3.75	-6.54	32.29
Aug 98	171.50	55.31	57.04	-1.73	-3.03	32.25
Sep 98	169.94	55.11	56.34	-1.23	-2.18	32.43
Q1 99	**507.50**	**164.04**	**170.75**	**-6.71**	**-3.93**	**32.32**

Table 2, FY 1999 Lottery Ticket Sales by Game, millions of dollars

	Pick 3	Pick 4	Buckeye Five	Kicker	Super Lotto	On-Line Sales	Instant Tickets	Total Sales
Q1 98	**\$106.43**	**\$30.24**	**\$18.28**	**\$15.11**	**\$96.42**	**\$266.48**	**\$267.19**	**\$533.67**
Q4 98	**101.26**	**31.06**	**18.11**	**14.32**	**89.63**	**254.37**	**265.42**	**519.80**
Jul 98	33.46	10.40	6.31	4.51	27.24	81.92	84.15	166.07
Aug 98	32.10	10.01	6.05	4.68	28.67	81.50	89.99	171.50
Sep 98	31.74	10.04	5.88	4.79	30.01	82.45	87.48	169.94
Q1 99	**\$97.30**	**\$30.45**	**\$18.23**	**\$13.98**	**\$85.92**	**\$245.87**	**\$261.62**	**\$507.50**

increase in sales was Pick 4, with a 0.7 percent increase. Pick 3 sales fell by 8.6 percent, Buckeye 5 sales fell by 0.2 percent, sales of Instant Tickets fell by 2.1 percent, Kicker sales fell by 7.5 percent, and Super Lotto sales fell by 10.9 percent. Although sales are down, there was a smaller percentage decrease in the first quarter FY 1999 than in recent years.

Sales are expected to continue to fall due to the maturing of the Ohio Lottery and increased competition for Ohio's gaming dollars (river boats in Indiana and Kentucky; casinos in Michigan and Canada; enhanced racetracks in West Virginia; and Powerball). ❑

Issues of Interest

CHIPPING AWAY AT THE UNINSURED

OGBE O. AIDEYMAN

Introduction

The federal Balanced Budget Act of 1997[1] created the State Children's Health Insurance Program (CHIP), Title XXI of the Social Security Act, giving states another option to initiate or expand health care to uninsured "low income" children. The new program affords states increased flexibility in designing and implementing CHIP programs and provides states a higher federal matching payment than Medicaid, up to a states available allotment. States may implement CHIP as a Medicaid expansion, or can create a separate program that works in conjunction with Medicaid. The funds must be used to provide child health assistance to "targeted low-income children", defined as uninsured children in families with incomes below 200 percent of the federal poverty level (FPL) and who are not otherwise Medicaid eligible. The law is authorized for 10 years with initial federal allotments totaling $20.3 billion available to participating states between federal fiscal year (FFY) 1998 and FFY 2002. Ohio's estimated[2] allotment is $114.4 million annually between FFY 1998 and FFY 2000 and $578.5 million in the first five-year period of the law.

Prior to the passage of the Federal Balanced Budget Act of 1997, which included CHIP, Ohio included in its biennial budget a children's health insurance expansion for children up to the age of 19 in families at or below 150 percent of FPL. Combining the state's initiative with the federal CHIP opportunity, Ohio submitted a CHIP State Plan to the Health Care Financing Administration (HCFA) to implement a Medicaid expansion under CHIP. HCFA approved Ohio's CHIP State Plan on March 23rd 1998 – making Ohio the fifth state approved to draw down CHIP funding. Ohio implemented its children's health insurance expansion by expanding Healthy Start,[3] Medicaid coverage for low-income children up to age 19, in families at or below 150 percent of the FPL.

Table 1
1998 Federal Poverty Guidelines*
Annual Income by Poverty Level & Family Size

Family Size	Annual Income[1] at 100% of FPL	Annual Income at 200% of FPL: Amount	FTE-Hourly Wage
1	$8,052	$16,104	$7.74
2	$10,848	$21,696	$10.43
3	$13,656	$27,312	$13.13
4	$16,452	$32,904	$15.82
5	$19,248	$38,496	$18.51

[1] The table shows income at 100% of FPL as a reference point.

By providing non-technical information on CHIP and Ohio's Healthy Start expansion program (more technical information is presented in footnotes) we hope this report will become a resource for all concerned parties, as the state strives to increase enrollment in Healthy Start.

Background information on the CHIP Program

Title XXI of the Social Security Act provides[4] states with HCFA approved plans with annual, aggregate amounts of federal financial assistance to identify and enroll targeted low-income children, and provide health assistance to these children who are ineligible for Medicaid. States have access to a total of $24.0 billion in federal funding available between October 1st, 1997 and September 30th 2002. For the 10-year program authorization period, total federal funding is $46.2 billion.

States are required to match federal funds, but at a lower rate relative to the traditional Medicaid program's federal medical assistance percentage (FMAP), which in Ohio is 41.86 percent in FFY 1998. CHIP enhanced the FMAP rate, making Ohio's contributions about 12 percentage points lower than Ohio's current Medicaid matching rate. The enhanced federal share may not exceed 85 percent. Ohio's estimated CHIP FMAP rate is 70.78 percent or 71 cents on the dollar. Therefore, for CHIP eligibles, Ohio will provide 29 cents of every dollar spent.

A state CHIP program may utilize any one or a combination of the following approaches: establish new separate children's health insurance programs; expand eligibility for Medicaid; or a combination of the two.

Eligibility. Children up to the age of 19 in families with incomes at or below 200 percent of FPL[5] without "creditable coverage[6]" by private health insurance and not already eligible for Medicaid, are eligible for CHIP. Creditable coverage is defined as coverage that is similar to the Blue Cross Blue Shield preferred provider plan available to federal employees or health coverage available to public employees in the state. However, children who are inmates of a public institution; or are in institutions for mental disease (IMDs); or are members of a family eligible for health care coverage based on public sector employment and have access to the state employee health plan (not applicable if expansion is done under Medicaid), are specifically singled out as ineligible.

States that elect to use funds to establish new title XXI insurance programs have broad flexibility to establish conditions of eligibility (including age, rules for valuation of income and resources, disability, duration of coverage, conditions of eligibility, residency, and statewideness) but may not exclude children with preexisting conditions or diagnoses. However, states that elect to expand Medicaid must follow applicable Medicaid regulations rules related to the treatment of income and resources, statewideness, duration of coverage, residency and other conditions of eligibility. Please note that states have some policy flexibility on the treatment of income and other conditions of eligibility.

Benefits. There are several options available to states regarding the scope of benefits depending on the method of CHIP implementation chosen by each state: establish new separate children's health insurance programs; expand eligibility for Medicaid; or any combination of the two. States that choose to expand coverage through Medicaid are bound by all federal rules relating to benefits and scope of coverage.

If however, states elect to implement a new insurance program, coverage must be equivalent in value to one of several benchmark benefit packages[7] outlined in Title XXI. If choosing the benchmark equivalence option, the plan must have an aggregate actuarial value equivalent to the chosen benchmark package and provide the following basic services: inpatient and outpatient hospital; physicians' surgical and medical services, laboratory and x-ray services, well-baby and well-child care, and appropriate immunizations. In addition to the above services, if the chosen benchmark package includes the following benefits, the CHIP plan must include them at a value equivalent to at least 75 percent of the actuarial value of the chosen benchmark: prescription drugs; mental health services; vision care; and hearing services.

Who is EligiEle?

- *ChiOdUHn uS to DgH19*
- *With fDPiO inFoPHVDt oU bHOow 200% of FPL*
- *Without FUHditDbOH inVuUDnFHFoYHUDgH*
- *Not FuUUHntO HOigibOHfoU MHdiFDid*

Benefit Options

- *StDtH'V MHdiFDid PDFNDgH*
- *BHnFhPDUN BHnHfitV PDFNDgH*
- *BHnFhPDUN EquiYDOHnt – PuVt inFOudH HoVSitDOFDUH, DoFtoUVYiVitV, LDb & X-UDy, IPPunizDtionV, HHDOth FhHFN-uSV & PUHYHntiYH FDUH, PUHVFUiStion, ViVion & DHntDOVHUYiFHV, MHntDO hHDOth & SubVtDnFHDbuVH VHUYiFHV.*

> ***Cost Sharing Options***
>
> - *FoUFhi@lUHn bH@ow 150% of FPL – HktUHP Hy @iP itHd.*
> - *FoUFhi@lUHn DboYH150% of FPL – SUHP iuP V, dHduFtib@HVP Dy bHDSS@iHd. AP ountVDUH@iP itHd to 5% of fDP i@y inFoP H*
> - *No Fo-SDyVDUHDSS@iHd to SUHYHntiYH VHUYiFHV.*

Provisions limiting spending stipulate that direct services costs and administrative costs, including outreach, cannot exceed 10 percent of total program expenditures.

Cost sharing is allowed under CHIP. In the case of children with family incomes of below 150 percent FPL, the amount charged cannot exceed the maximum permitted under Medicaid for the medically needy. For families with incomes above 150 percent of FPL, premiums, deductibles, or other cost sharing may be imposed, but may not exceed 5 percent of the family's annual income.

Ohio's CHIP

Am. Sub. H. B. 215 of the 122nd General Assembly enacted Ohio's children's health insurance plan as part of the biennial budget process. This Act expanded Medicaid coverage to children up to the age of 19 in families with incomes at or below 150 percent of FPL. Ohio chose to implement CHIP through Healthy Start by drawing on the experience of an established and efficient program structure that offers a comprehensive benefit package; thus reducing the implementation schedule and insuring the commitment to cover uninsured children in the shortest time possible.

Table 2 provides a comparative picture of the eligibility income standards that existed prior to the effective date of the expansion on January 1st, 1998, and the new eligibility income standard, by affected age group.

Ohio's CHIP initiative uses a two pronged approach for the implementation of the two new co-existing health coverage options for children[8]. One method implements a Medicaid expansion for children up to age 19 in families with incomes at or below 150 percent of FPL for the "optional targeted low-income children". Health care payments for children covered under this option will be eligible for the enhanced FMAP. The Ohio Department of Human Services anticipates that 50 percent of the expansion population will fall into this category.

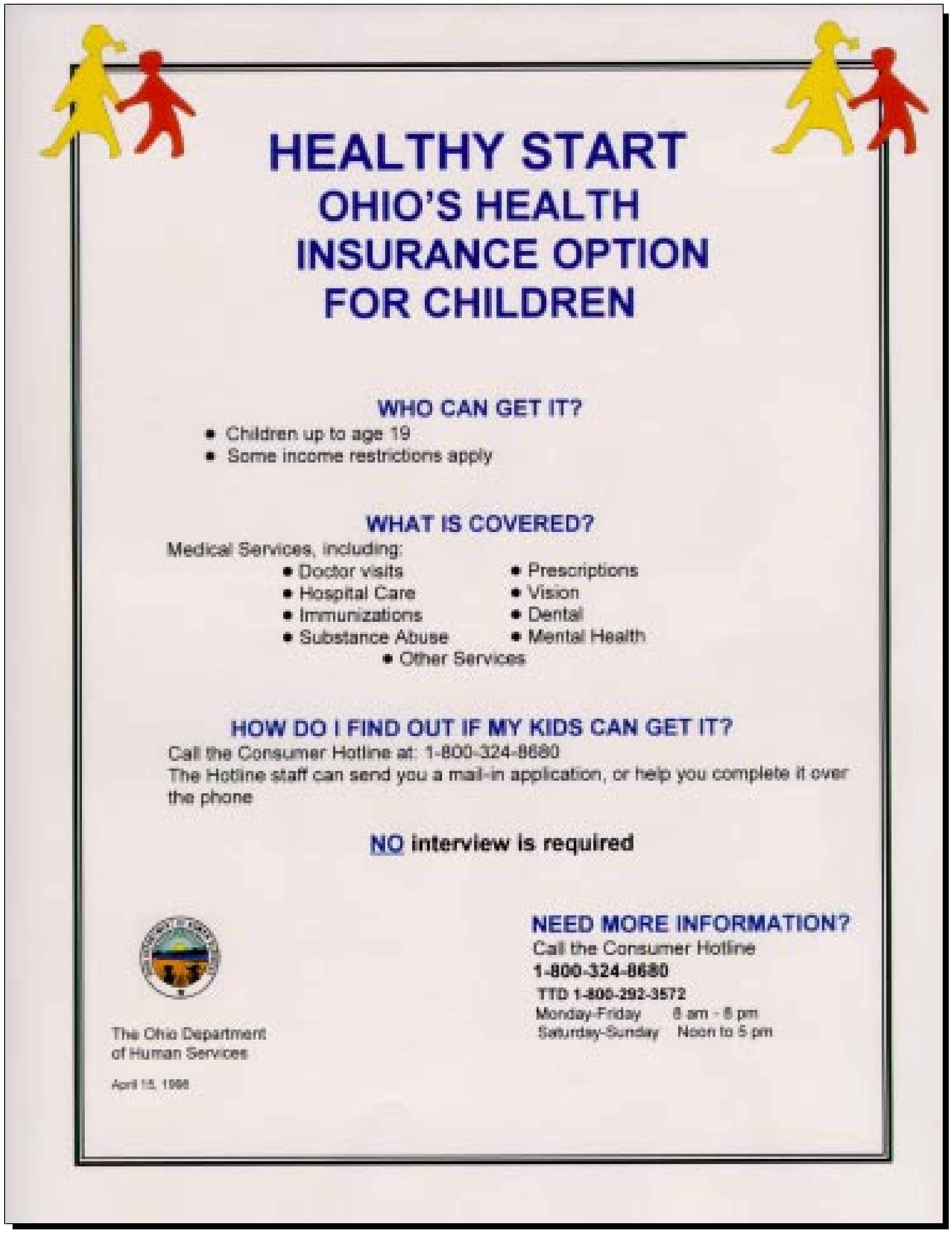
Table 2
Comparative Look at Income Standards

Children's Age Group	Income Standard Before Expansion	Income Standard Implemented by Expansion Effective January 1st, 1998	Increase in Income Standard
0 to 5yrs	Up to 133% of FPL	Up to 150% of FPL	133% to 150% of FPL
6 to 14yrs	Up to 100% of FPL	Up to 150% of FPL	100% to 150% of FPL
15 to 18yrs	Up to 33% of FPL	Up to 150% of FPL	33% to 150% of FPL

Table 3
1998 Federal Poverty Guidelines*
Income by Poverty Level & Family Size

Family Size	Annual Income[1] at 100% of FPL	Annual Income at 150% of FPL: Amount	Annual Income at 150% of FPL: FTE-Hourly Wage	***Monthly Family Income Guide for Healthy Start Eligibility at 150% of FPL[2]***
1	$8,052	$12,078	$5.81	***$1,006.00***
2	$10,848	$16,272	$7.82	***$1,356.00***
3	$13,656	$20,484	$9.85	***$1,706.00***
4	$16,452	$24,678	$11.86	***$2,056.00***
5	$19,248	$28,872	$13.88	***$2,406.00***

**Annual income & hourly wage information are for reference only.*
[1] The table shows income at 100% of FPL as a reference point.
[2] Certain work-related expenses, such as child care, may be used to reduce countable income in determining eligibility.
Eligibility for coverage is based on "countable" monthly income.



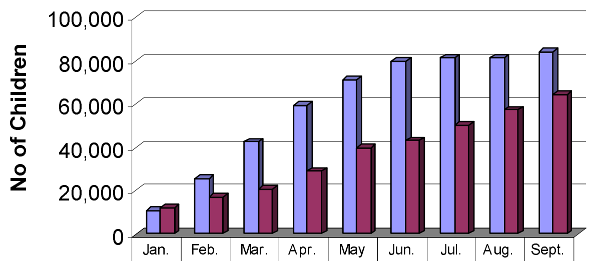
Children found eligible through the expansion get coverage under two different delivery systems: fee-for-service and managed care. In counties with mandatory managed care, children must enroll in a managed care plan (MCP). Where MCP enrollment is voluntary, families may choose to enroll the child in managed care or stay in the fee-for-service system. In counties with no managed care, children are in the fee-for-service system.

The second approach Ohio has chosen implements an additional Medicaid State Plan Amendment, which provides that children who do not meet the definition of "optional targeted low-income children" can be found eligible. This option allows the state to provide Medicaid coverage to children who meet the income requirements for the expansion but who have some health insurance. The primary reason for this option is that some of these children are considered as underinsured - enrolled in plans with poor benefits or plans with high costs (high deductibles and co-pays). These children are eligible for Medicaid wrap-around services under Healthy Start; i.e. Medicaid will cover benefits not covered by their current health insurance plan. These costs will be reimbursed at the regular Medicaid FMAP rate.

Healthy Start income eligibility is based on whether a family meets certain income tests. Information contained in Table 3 gives an idea of who would be eligible, but the criteria is very complicated, and actual determinations are made by County Departments of Human Services (CDHS). In making such determinations however, some work-related expenditures (such as child care) can be used to compute "countable" income which is used to determine eligibility for coverage. Thus, if a family's gross income is higher than the income listed for a family size, children may still be eligible for coverage because eligibility for Healthy Start is based on countable income, not gross income. A family's countable monthly income must be at or below the monthly income listed for a family of a particular size.

CHIP Summary Analysis
Published by the Ohio Department of Human Services

Expansion Eligibles vs. Caseload Projection, By Month, 1998



	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
Projection	11,047	25,834	42,579	59,679	71,077	79,801	81,485	81,481	84,058
Actual	12,020	17,110	20,897	29,011	39,785	43,161	50,426	57,422	64,292

- There were 64,292 children whose eligibility for the expansion program was confirmed through September 1998.
- The southeastern rural counties generally reflected mush higher enrollment than the rest of the state. Among the major metropolitan counties, Cuyahoga, Lucas, Mahoning, Stark and Trumbull counties had the highest rate of enrollment.
- The expansion eligibles represent 76% of the caseload expected through September of 1998, and 48% of the caseload expected by July of 1999.
- 63.25 of all eligibles were previously eligible for Medicaid.
- 69.2% of all eligibles had no health insurance.
- 55.9% of the new eligibles had been previously eligible for regular Healthy Start (The expansion is continuing eligibilty for some children who would not have qualified either because of their age or changing family income).

As stated earlier, Healthy Start provides coverage for: doctors visits; hospital care; immunizations; prescriptions; vision and dental services; health check-ups and preventive care; mental health, substance abuse and other services.

Families can apply for Healthy Start on behalf of their children by filling out a simple 2-page form called a Combined Programs Application (CPA). The application can be completed on the phone with assistance from Hotline staff (*See boxed flyer for contact information*). Healthy Start coverage does not affect a family's future eligibility for Ohio Works First, including time limits.

For program expectations to be met however, the enrollment of children in Ohio's program must be a priority. As you will observe in the presentation of CHIP enrollment statistics, enrollment figures show a continual increase. This increase is attributed to outreach activities at various levels of both governmental and private/public agencies initiated and sponsored by the Ohio Department of Human Services.

The task has just begun. Through September of 1998, 64,292 children had enrolled for the expansion program. This represents approximately 76 percent of the projected enrollment by the end of September 1998, and 48 percent of the target of 133,000 children. In order to reach the target of 133,000 children by July 1999, outreach efforts must continue.

Preliminary analysis indicates that outreach efforts are resulting in increased percentages of new eligibles in other Medicaid categories as well. If the state expands CHIP to cover children up to 200 percent of FPL, an additional 40,000 children would become potentially eligible with an expectation that 20,000 would actually apply for CHIP coverage.

We conclude our informational presentation of CHIP in Ohio with a presentation of the Ohio Department of Human Service's review of CHIP enrollment in state fiscal year 1998. Followed by a boxed reproduction of the Governor's CHIP task force recommendations on the implementation of CHIP II. ❑

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1 The Balanced Budget Act of 1997 contains several children's health initiatives: the State Children's Health Insurance Program, restoration of Medicaid benefits for children who lost SSI as a result of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, presumptive Medicaid eligibility, provisions to enroll more Medicaid-eligible children, and creation of pediatric diabetes programs.

2 General Accounting Office - estimates of state CHIP grants of August 1997.

3 Healthy Start Program is a two-part Medicaid program that (i) covers children birth through 6 years whose family income is at or below 133 percent of FPL and children 7 through 14 (as at October 1, 1997) whose family income is at or below 100 percent of FPL. Part (ii) covers low-income pregnant women who do not otherwise qualify for Medicaid, with family incomes up to 133 percent of FPL.

4 CHIP is an entitlement to states and not to individuals. States are permitted to establish coverage standards based on age, income, resources, disability status, and duration of eligibility and geographic area.

5 Some states with higher income standards prior to the effective date of CHIP can expand eligibility to 50 percentage points above the Medicaid eligibility limits in effect as of June 1st, 1997.

6 Creditable coverage is defined as actuarially equivalent to one of four benchmark policies described in the federal law. For details on benchmark policies, see footnote 7.

7 The benchmark benefit packages outlined in Title XXI are:

- The standard Blue Cross Blue Shield preferred provider option offered under the Federal Employee's Health Benefits Plan:
- Health coverage generally offered and available to state employees;
- The benefits package of the commercial HMO plan in the state, with the largest enrollment.

8 Ohio department of Human Services - Ohio State CHIP Plan.

CHIP Task Force Recommendations

The Task Force's recommendations for the CHIP Phase II programs design are:

1. Potentially eligible children are children without creditable insurance coverage ages 0-18, in families with countable income between 151 – 200% of FPL, using Ohio's Healthy Start definition of countable income to provide consistency across programs.

2. The covered benefit package should be the Ohio Healthy Start benefit, with some modifications that encourage responsible cost sharing by the child's family while discouraging crowd-out of employer-sponsored insurance. The benefit package would not include long term, institutional care services.

3. Administer the CHIP Phase II program through the existing Healthy Start administrative structures and service delivery arrangements wherever possible and beneficial to reduce added administrative costs and maximize funding for outreach effort.

4. The CHIP Phase II program will be a Title XXI plan only, not an expansion of Title XIX Medicaid programs. CHIP Phase II should not be an entitlement program but offered subject to available funding.

5. Include modest cost sharing (modest annual enrollment fee, non-refundable premiums and targeted co-payments) to encourage family responsibility and to make the product more comparable to an employer sponsored plan. There should out-of-pocket limits to protect families whose children experience catastrophic health events or have chronic health conditions.

6. Initial applications should be accepted any time to encourage families to apply for coverage for their children; renewals should be processed at periodic open enrollment periods to replicate what occurs in employer-sponsored plans. The application process should be streamlined, timely, and consumer-friendly, and support mail-in telephone and non-face-to-face applications processes.

7. Once a child has been approved as eligible for coverage under CHIP Phase II and the family has paid the required annual, non-refundable premium, coverage will begin 90 days after the application date. There are some exceptions to the 90-day waiting period, such as in the case when a family loses coverage for their children through no fault of their own.

8. After coverage begins, it should be guaranteed until the next annual renewal date.

9. Outreach should include decentralized assistance with the application process. Certified licensed private health and accident insurance agents and certified representatives of community agencies and health care providers should receive a modest fee for assisting consumers who complete an approved application.

10. The CHIP Phase II program should ensure that quality health care services are available to covered children through appropriate, accessible providers. Adequate provider reimbursement and other factors impacting access (geographic location, office hours, and cultural sensitivity of providers) and age-appropriate clinical performance measures are among the issues, which the program should address.

11. The Governor should appoint a public/private advisory board to monitor and provide input regarding the CHIP Phase II program's implementation. Membership should include consumers and representatives of business, health providers, and the state.

Source: Report of the Children's Health Insurance Program Advisory Task Force, July 1, 1998.

CHECK-UP ON DAY CARE

WHAT REALLY HAPPENED IN FY 1998?

CLARENCE CAMPBELL

Federal welfare reform legislation requires states to move at least fifty percent of Temporary Assistance to Needy Families (TANF) recipients into work or work related activities by federal fiscal year 2002. With such an emphasis on work participation, the implications for the increased demand for child day care were taken into consideration during the state's budgetary deliberations for fiscal years 1998 and 1999.

Subsidized Day Care Recipients
FY 97 - FY 99

Day Care Services Category	FY 1997	FY 1998	Percent change	FY 1999	Percent change
Guaranteed	22,000	42,200	91.8%	48,925	15.9%
Transitional	7,000	10,700	52.9%	13,875	29.6%
Non-Guaranteed	29,000	17,200	(40.7%)	17,200	0.00%
Total	**58,000**	**70,100**	**20.9%**	**80,000**	**14.1 %**

Source: FY 97 figures are actuals; the remaining are estimates provided by the Department

However, with the rapid decrease of the TANF caseload, the Department of Human Services finds that the demand for day care services for those who are required to participate in work programs has remained relatively constant, while the demand for day care services by non-public assistance, low-income families continues to climb.

With fiscal year 1998 behind us, this article examines the expectations and the reality of what transpired in regards to state spending on the delivery of child day care services.

What Was Expected?

The Department of Human Services estimated that the total number of children receiving subsidized day care (both TANF and non-TANF) would grow by almost 33 percent and that the total amount of money spent on subsidized child care would grow by 40 percent over fiscal years 1998 and 1999.

During fiscal year 1997, in a typical month, nearly 58,000 children received subsidized day care. The department projected this number to climb to 70,000 children in FY 1998; and to 80,000 per month by the end of FY 1999. The expectation was that there would be 12,000, or 20.7 percent increase in the number of children served in FY 1998 above that which was served in a typical month in FY 1997.

When one closely examines the 58,000 children served in FY 1997, nearly 22,000 of those who were provided day care services received it due to their parents' participation in the Job Opportunity and Training Program, more commonly known as JOBS. This group is more commonly known as the group that is *guaranteed* child care services to support their participation in work and training activities. The remaining recipients of child care services in FY 1997 breakdown as follows: 7,000 were provided transitional day care services; and 29,000 were provided *non-guaranteed* child care due to their income eligibility and the availability of state and federal funds to support the subsidy.

The table above, Subsidized Day Care Recipients, breaks down the three major categories for day services. The fiscal year 1997 numbers reflect actuals; while those for fiscal year 1998 and 1999 reflect estimates.

Again, the Department of Human Services based its estimate on the major policy shifts brought about by welfare reform and its emphasis on work participation. The expectation that the number of guaranteed day children would increase by 91.81 percent in FY 1998 clearly reflects this. Under the new federal TANF guidelines, Ohio had to increase its number of persons participating in work activities or face financial sanctions.

Under the new TANF guidelines, there is a very noteworthy allowable exemption from work requirements: a single parent household with a child under the age of one. Prior to this policy change, the state traditionally exempted households with children under the age of three. Thus, in order to meet the established work participation rates, the state required work participation for families with one and two year olds.

The Department of Human Services estimated that in order to achieve the goal of a 30 percent work participation rate in FY 1998, 16,297 additional individuals would have to participate in the Ohio Works First Program (OWF). In order to achieve the FY 1999 goal of a 35 percent work participation rate, 5,485 OWF participants above that of FY 1998 would have to be enrolled.

Table 1
FY 1998 Day Care Funding in the General Revenue Fund Group

Source	State	Federal	Total
400-413 Day Care MOE	$45,628,354	$0	$45,628,354
400-413 State Match	$23,275,306	$0	$23,275,306
400-413 Above MOE	$7,514,071	$0	$7,514,071
400-411 CC Expansion*	$0	$29,416,442	$29,416,442
Total GRF Day Care Funds	***$76,417,731***	***$29,416,442***	***$105,834,173***

**These represent earmarked TANF dollars*
Source: The Department of Human Services

Table 2
Federal Child Care Development Block Grant

400-617 Day Care Federal	FY 1998
Mandatory	$56,511,475
Matching	$32,327,432
Discretionary	$26,339,414
Former CCDBG	$3,222,130
Total 400-617	**$118,400,451**

Source: The Department of Human Services

Table 3
Federal Social Services Block Grant (Title XX)

400-620 SSBG (Title XX)	FY 1998
Current SSBG	$15,000,000
SSBG Carry-over	$12,208,525
Total 400-620	**$27,208,525**

Table 4
Summary Of All Funding Sources For Day Care

Funding Source	FY 1998
State GRF	$76,417,731
400-617 CCDF	$118,400,451
400-620 SSBG (Title XX)	$27,208,525
400-411 TANF Federal	$29,416,442
Total Day Care	**$251,443,149**

What Was Funded?

Am. Sub. H.B. 251 appropriated nearly $251 million in FY 1998 to support the aforementioned day care recipients. The state provides $76 million or 30 percent of this $251 million. See Tables 1 through 4.

Reality Check: What really happened in FY 1998?

When the actual number of the monthly average of day care recipients in FY 1998 is compared to what was estimated, the actual falls below the estimate by 10,097 or 14.4 percent. In the following table, one can discern that the expectations for the Guaranteed Day component did not materialize. In fact, the numbers for this group in FY 1998 very closely mirror those for FY 1997. See Table 5.

Summary of FY 1998 Day Care Disbursements by Source

To ensure that the state received its total amount of federal day care funding, the Department of Human Services expended funding provided through the General Revenue Fund first. As stated earlier, this $76.4 million reflects the state's total financial commitment to day care services in FY 1998. According to the Department of Human Services, by first spending the state general revenue dollars, the state meets the maintenance of effort (MOE) requirements needed to secure federal funding. This $175 million in federal funding represents 70 percent of the total funding used to provide day care services. Tables 5

Table 5
FY 1998 Day Care Recipients
Actual vs. Estimated

Day Care Service	FY 1998 Actual	FY 1998 Estimate	Variance
Guaranteed	22,127	42,200	(20,073)
Transitional	9,771	10,700	(929)
Non-Guaranteed	28,104	17,200	10,904
Total	**60,003**	**70,100**	**(10,097)**

Source: The Department of Human Services

Table 6
1998 Day Care Disbursements by Source

Funding Source	FY 1998 Estimate	FY 1998 Actual
State GRF	$76,417,731	$76,417,731
400-617 CCDF	$118,400,451	$89,996,310
400-620 SSBG (Title XX)	$27,208,525	$15,000,000
400-411 TANF Federal	$29,416,442	$29,416,442
Total Day Care	**$251,443,149**	***$210,830,483**

**The disbursement information obtained from the Department of Human Services reflects moneys advanced to the counties. The Department expects final spending data at a later date. However, the department has released some preliminary actuals totaling $193,446,613.*

and 6 compare the estimated expenditures to the actual disbursements for day care.

Why Do the Intake and Outtake Eligibility Levels for Day Care Services Fluctuate?

A problematic aspect of budgeting for the provision of child day care services is the determination of the initial income eligibility and the determination of the income level at which eligibility cannot continue for the Non-guaranteed component.

Fiscal year 1998 started with a number of significant policy changes regarding the provision of subsidized child day care. No longer were the county departments of human services able to establish at what income level families could enroll in the Non-guaranteed component of the Day Care Program. The Department of Human Services determined that eligibility for this group would be at 100 percent of poverty.

However, when it became apparent that the demand for day care services needed for OWF recipients was not meeting expectations, the Department of Human Services increased the income level at which Non-guaranteed eligible families could enroll for day care services.

The intake level changed from 100 percent of poverty to 105 percent in October 1997. It changed from 105 percent to 135 percent in December 1997. It changed from 135 to 150 percent in April 1998.

Am. Sub. H.B. 770 (effective September 17, 1998) required the Department of Human Services to adopt rules specifying the maximum amount of income a family may have for initial and continued eligibility for publicly subsidized child day-care. It stipulates that the maximum may not exceed 185 percent of the federal poverty guidelines. Also, it required the Department to establish procedures under which a county department of human services may establish an income eligibility limit that is higher than the amount the Department establishes, but is less than 185 percent of the federal poverty guidelines.

By allowing for the expansion of the initial eligibility and the continued eligibility income limits for day care services, it is anticipated that there will be an increase in the number of enrollees in the state's day care programs. Consequently, the state can avoid repeating a surplus of nearly $40 million in FY 1999 that it had in FY 1998.

What Will Happen in FY 1999?

Clearly, the level of day care spending in FY 1999 is somewhat contingent upon the size of the TANF caseload. If the TANF caseload continues to drop, the amount of money spent to provide TANF related-day care will decrease, as it has in FY 1998. If this is indeed the case, priorities may have to change and moneys may have to be shifted to the Non-guaranteed to make accommodations in FY 1999.

At this point, the causes for the lower usage level for the combined subsidized child care categories are unknown. Caseload is a contributing factor, but is childcare accessible to those who need it, is it affordable, is it available, do the hours meet the needs, do the counties impede eligibility determination, or is the need not there?

One thing that is certain for FY 1999 is that the income intake and outtake levels of the Non-Guaranteed Day Care program will continue to fluctuate. Changes in the level of state and federal funding, changes in federal policy and regulation, and the level of increase or decrease in the size of the TANF caseload will continue to have an impact on these levels. ❑

FOCUS ON FEDERAL FUNDS

LOW INCOME HOME ENERGY ASSISTANCE PROGRAM

Part two in a multi-part series examining federal funds activity and it's impact on state revenue funds in Ohio.

JEFFREY M. ROSA

According to the Catalog of Federal Domestic Assistance, the objective of the Low Income Home Energy Assist Program block grant (HEAP) is to make "grants available to States and other jurisdictions to assist eligible households to meet the costs of home energy."[1] The State of Ohio, through the Department of Development (DEV), has administered HEAP since 1981. The four main uses of HEAP funds include:[2]

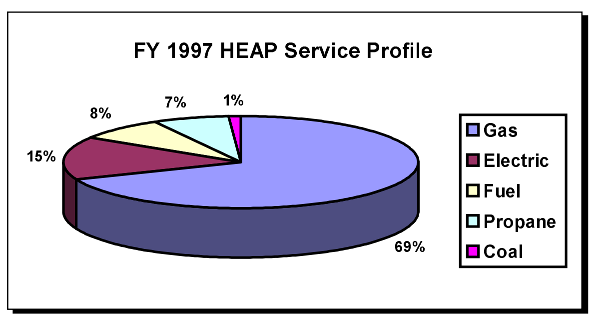
1. Conducting outreach activities and providing assistance to low income households in meeting their home energy costs;
2. Intervening in energy crisis situations;
3. Providing low-cost residential weatherization and other cost-effective energy-related home repair; and
4. Planning, developing, and administering Ohio's program under the requirements of federal statutes.

In order to be eligible for HEAP assistance, total household income of an applicant must be at or below 150 percent of the 1997-98 federal poverty level. For a family of four, the threshold is $24,075. For households that qualify, HEAP pays a one-time payment for PUCO regulated utility customers reflecting their usage for the winter heating season. For applicants who are not served by a PUCO regulated utility or do not have a utility bill in their name, the HEAP program issues vouchers.[3] Of the 225,000 households assisted by HEAP, about 200,000 had incomes at or below 110 percent of the federal poverty level.[4]

FY 1997 HEAP Service Profile

Of the 226,466 households served in the regular HEAP program, 37 percent contained at least one member above the age of 60 and 22 percent contained a child at or below six years of age. For the total 226,000 households, the average HEAP payment was $102.[5]

Heat Source	Households
Gas/Natural Gas	156,909
Electric	31,925
Fuel Oil/Kerosene	18,028
Bottle/Propane Gas	16,066
Coal/Wood	3,538



Winter Emergency Heating Assistance Program

This component of the HEAP program, administered by the local Community Action Agencies (CAA), provides emergency assistance once per heating season to households whose energy source has been disconnected or will potentially be disconnected. To qualify for emergency assistance, a household must be at or below 150 percent of the federal poverty level. A household with total income during the prior three months equal to or less than guidelines may also be available. For a family of four, the maximum three month income totals $6,019.[6]

Summer Crisis Cooling Program

As the heat waves in Texas earlier this year illustrated, lack of heat during the winter is not the only potential home energy crisis a low income household may face. The state of Ohio currently has a program, in association with the Central Ohio Breathing Association (COBA), to purchase air conditioners for qualifying low income households. Individuals with confirmed chronic lung disease meeting the income eligibility guidelines are eligible for cooling assistance.[7] Currently, the summer crisis cooling program in unavailable to the general HEAP population. During testimony before the Joint Committee on Federal Funds, the staff person from the Department of Development (DEV) stated that expansion of this program might be pursued in the future, especially if electric deregulation becomes a reality.[8]

Home Weatherization Assistance Program

According to section 47.11 of Am. Sub. H.B. 215 of the 122nd General Assembly, 15 percent of the HEAP grant is transferred to line item 195-614 for the Home Weatherization Assistance Program (HWAP), administered by DEV's Division of Community Development, Office of Energy Efficiency.

The HWAP reduces energy use in low income households. Some of the services provided include attic, wall, and basement insulation, heating system repairs, and health and safety testing and inspections, among others. No cash benefits are provided directly to eligible households. To be eligible for participation in HWAP, the household must be at or below 125 percent of the federal poverty level or participate in HEAP, Temporary Assistance to Needy Families, or in Ohio, Ohio Works First, or Supplemental Security Income. According to DEV, the average household saves $153 per year on its energy bills following weatherization.[9] Under this program, more than 240,000 dwellings in Ohio have been weatherized. The weatherization process has led to a savings of 242 billion BTUs and a reduction of 33.5 million pounds of carbon dioxide emissions. Services are provided in all 88 counties.[10]

Federal Action

In President Clinton's proposed Federal Fiscal Year (FFY) 1999 budget, the total amount of the HEAP block grant increased from $1 billion to $1.1 billion. In the Health and Human Services (HHS) appropriation bill that passed the U.S. House committee (H. Report 105-635), all funding for the HEAP grant was removed for FFY 1999. The House version of the bill did include appropriations of $1.1 billion for FFY 2000.

The U.S. Senate committee followed the president's budget request and provided funding for HEAP at $1.1 billion (S. Report 105-300). This amount is a 10 percent increase over FFY 1998 levels. Under the Senate version of the bill, Ohio would receive $55,024,000, a 10 percent increase over the FFY 1998 allocation.

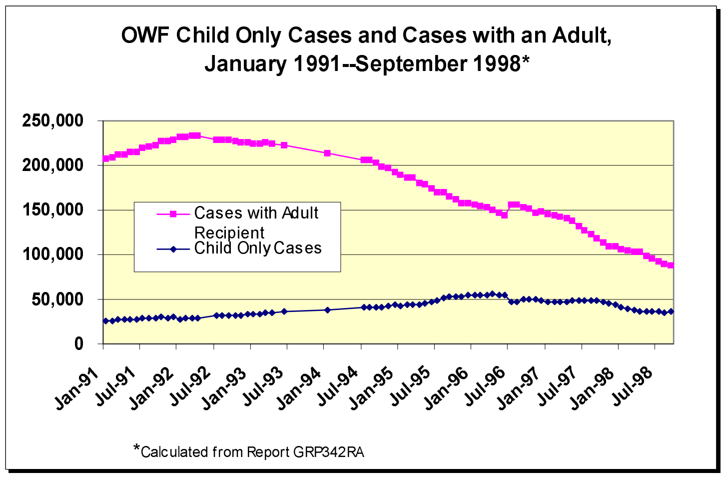
On October 21, President Clinton signed into law the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277). This omnibus budget bill incorporated the appropriations decisions for the agencies and grants included in the Health and Human Services appropriation bill, among others. The conference committee chose to adopt the recommendations passed by the U.S. Senate for the HEAP block grant. This action will provide the state of Ohio just over $55 million in FFY 1999. ❑

1 *Catalog of Federal Domestic Assistance*, U.S. General Services Administration, 1998, Grant No. 93.568.
2 State of Ohio State Plan for Participation for FFY 1999 - Draft, Ohio Department of Development/Community Development Division; Office of Community Services, pg. 2.
3 http://www.odod.ohio.gov/cdd/ocs/HEAP/heap.htm
4 Testimony of Vicky Mroczek, Chief, Office of Community Services, Department of Development, before the Joint Legislative Committee on Federal Funds, August 18, 1998.
5 http://www.odod.ohio.gov/cdd/ocs/HEAP/heap.htm
6 ibid.
7 ibid.
8 Testimony of Vicky Mroczek.
9 http://www.odod.ohio.gov/cdd/oee/hwap.htm
10 ibid.

Ohio Facts Extra!

"Child Only" Cases Constitute a Significant Portion of OWF Caseload

— Steve Mansfield



- "Child Only" cases occur when adults in the household are ineligible for OWF benefits or they are recipients in other programs. The relationship of non-recipient adults in the household is most often a grandparent, other relative, natural parent, or foster parent. Such cases are exempt from time limits and work requirements.

- "Child Only" cases have increased as a percentage of the caseload from 10.9 percent in January, 1991 to 28.8 percent in September, 1998. In terms of number, child only cases have increased from 25,422 to 35,643 over the same period.

- After decreasing slightly in number in July, 1996, when reforms introduced by HB167 were implemented, and again in the period since the implementation of HB408 in October, 1997, the number of child only cases experienced a small increase in September, 1998.

- The proportion of recipients composed by adults declined from 34.5 percent in January, 1991 to 29.0 percent in September, 1998.

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