Budget Footnotes

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FISCAL OVERVIEW

— Frederick Church

Now that April's data are in, the state revenue picture is coming into clearer focus. Unfortunately, the same is not necessarily true for the disbursement side of the ledger. Most of the revenue news ends up confirming what LBO and OBM had suspected about the trends underlying the month-to-month fluctuations, although the magnitude of some of the variances has surprised us. With two months left in the year, total tax revenue is $161.0 million above estimate. Total non-federal revenue is $186.5 million above estimate, with 5.8% year-over-year growth. The $67.8 million shortfall in federal grant income reduces the total GRF revenue overage to $118.7 million.

The income tax had a strong showing in March and April, and GRF collections are now $199.1 million over estimate for the year. Total collections, including amounts going to the local government funds, are $227.6 million above estimate. All components of the income tax are ahead of the estimate. Annual returns and refunds combined are $112.5 million ahead of the estimate. Quarterly estimated payments are close behind, with an overage of $98.6 million.

In contrast, the non-auto sales tax has fallen into a swoon. After shortfalls in both March and April, GRF collections are $51.1 million below estimate, and year-over-year growth has fallen to 3.7%. The contrast between the income tax and the sales tax is striking, and as yet there is no good explanation why taxable sales are growing so slowly. However, there is some late evidence that perhaps the shortfall is due to processing problems and that revenues will rebound in May. Meanwhile, the $17.6 million overage in the auto sales tax is enough to hold the total sales tax shortfall to $33.5 million.

The corporate franchise tax and public utility excise tax also continue to fall below the estimate, although the franchise tax shortfall is not as big as originally feared. Revenues from the second of the three major payments, processed in March and April, actually exceeded the estimate. Revenues for the first and second payments combined are very close to the forecast. The year-end shortfall may end up very close to the $14.8 million figure from the end of April.

The public utility excise tax is $31.5 million below estimate, and the shortfall will get somewhat larger by year's end. The shortfall has two components, a shortfall in the estimated payments against tax year 1999

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Addendum: Budget in Brief

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 April	Fiscal Year 1999 to Date	Last Year	Difference
Beginning Cash Balance	$720.3	$1,649.0		
Revenue + Transfers	$1,779.6	$15,506.9		
Available Resources	$2,499.9	$17,155.8		
Disbursements + Transfers	$1,691.9	$16,347.7		
Ending Cash Balances	**$808.1**	**$808.1**	**$835.3**	**($27.2)**
Encumbrances and Accts. Payable		$462.5	$387.8	$74.7
Unobligated Balance		**$345.6**	**$447.5**	**($101.9)**
BSF Balance		$906.9	$862.7	$44.2
Combined GRF and BSF Balance		**$1,252.5**	**$1,310.2**	**($57.7)**

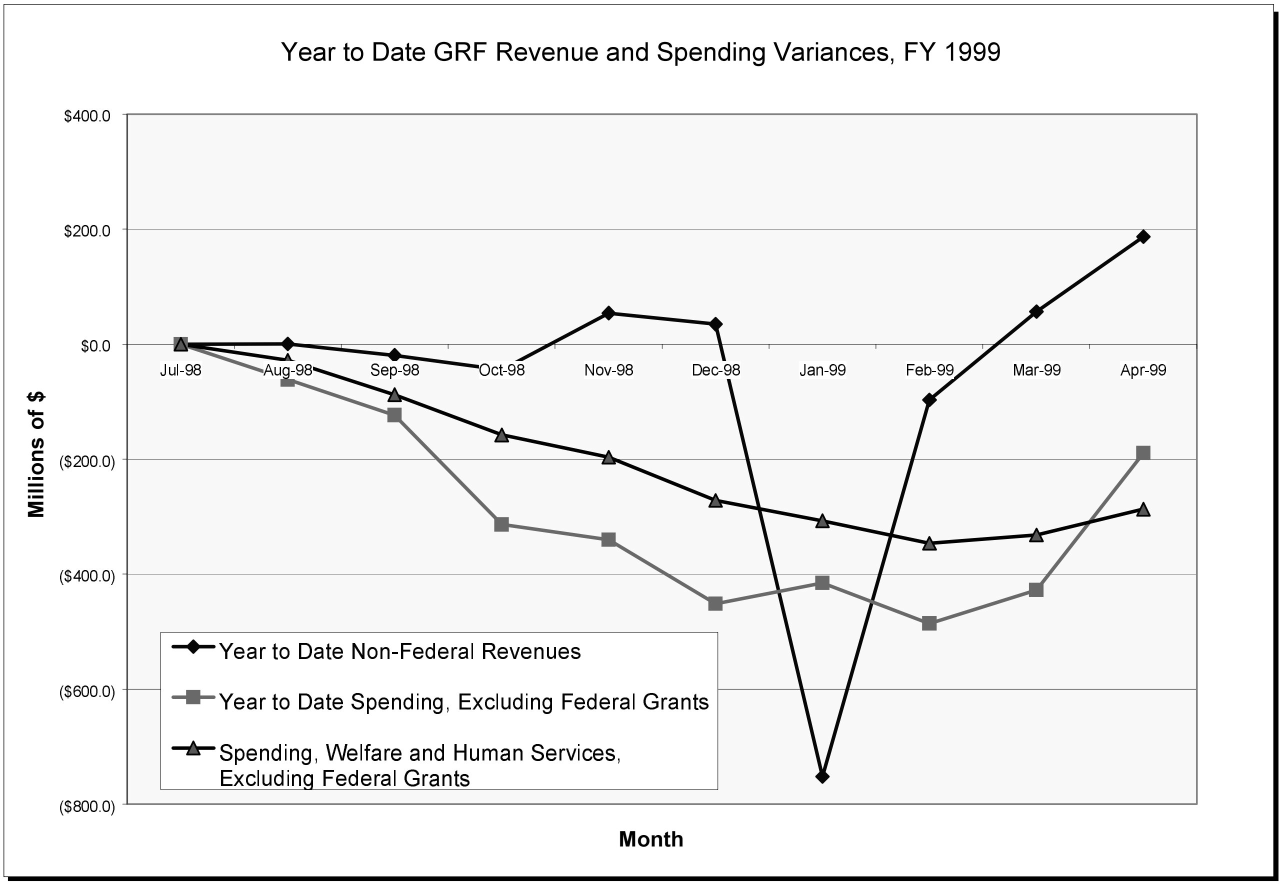
liability, and negative reconciliations of tax year 1998 liability (i.e. refunds) with tax year 1998 estimated payments. The negative reconciliations have cost the GRF $14.9 million, with the other $16.6 million of the shortfall coming from estimated payments. The year-end shortfall should be in the $35 million to $40 million range.

Medicaid has been running an erratic path over the past three months. By the end of January, Medicaid was $194.6 million below estimate, and had grown by only 0.2% from the prior year. February payments were $4.8 million above the estimate, March payments were $0.3 million below the estimate, and April payments were $53.4 million above the estimate. The April overage may have been largely the result of timing factors. One such factor that stands out is that $21 million in prescription drug rebates was not posted in April, but will instead show up in May. There may be other timing factors at work also, but the picture in other Medicaid spending categories is cloudier and may not be resolved until year's end.

TANF spending has been more predictable. Spending was under estimate in February, March, and April by $29.9 million, $22.2 million, and $17.1 million, respectively. Year-to-date TANF spending is now $169.1 million below the estimate. For the first 10 months of the fiscal year, average monthly recipient counts have fallen by 26.2% from the year before.

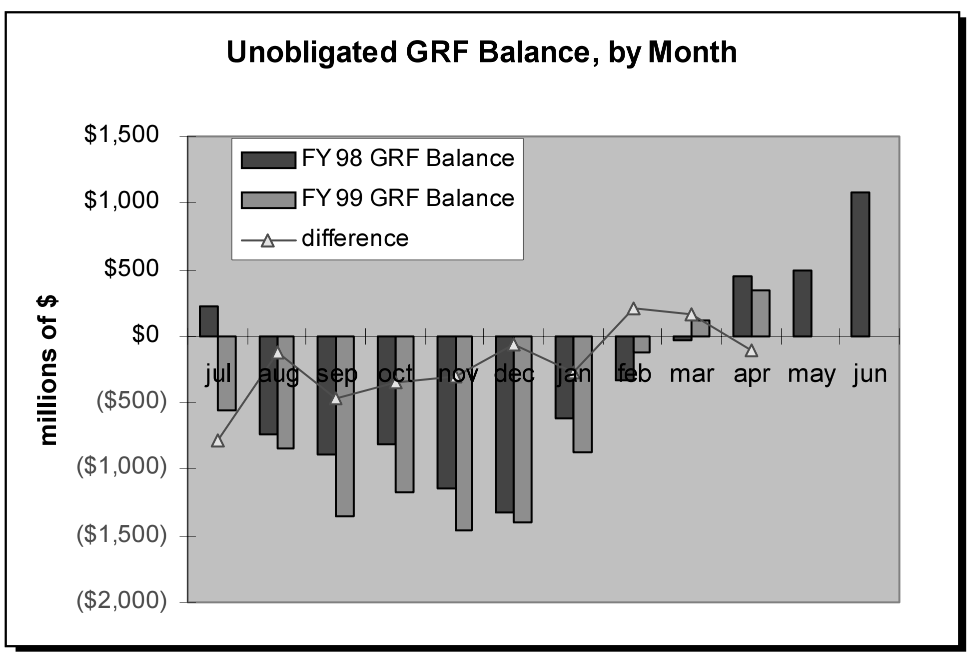
Human services spending as a whole is $354.7 million below estimate for the year. Besides Medicaid and TANF, there is underspending in Disability Assistance ($10.4 million) and Other Welfare ($40.9 million). Some of the underspending in Other Welfare may be due to timing factors, but the underspending in disability assistance is the result of declining caseloads.

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 that revenues are above the estimate and that spending is below, it is with respect to the revised forecasts. The variances would be even larger if the original estimates were being used.



As one would expect, spending in categories other than human services is much closer to the estimate. Primary and secondary education is finally beginning to catch up to the estimate, although it is possible that significant amounts of encumbered money from FY 1995 –1997 will lapse at year's end. Variances from the estimate in most other categories are probably largely due to timing factors, although there could be some lapses of appropriation authority in sub-components of the "other government" category.

As Table 1 shows, the GRF fund balance as of the end of April is about $102 million below the FY 1998 level. Except for February and March, the unobligated GRF fund balance this year has been below the FY 1998 balance every month. LBO thus expects the ending GRF balance to fall short of FY 1998's ending figure of $1.08 billion. ❑



Status of the General Revenue Fund

REVENUES

— Frederick Church

Some recent trends were continued in April. The income tax posted a big overage, the auto sales tax did well, the non-auto sales tax fell short. LBO will largely withhold comment about the non-auto sales tax until the May numbers are in, because there is the possibility that the figures for April (and for prior months) are distorted. The corporate franchise tax overage was partly a matter of timing, since revenues from the March 31st payment are unpredictably divided between March and April. However, combined March and April revenues for the second of the three payments were above the estimate. This overage followed a first payment shortfall. Prospects for the franchise tax now look a little brighter for FY 1999.

For the year-to-date, tax revenues are $161.0 million above estimate. Non-federal revenue is $186.5 million above estimate, and has grown by 5.8% from last year. The biggest overages are in the income tax ($199.1 million), the estate tax ($27.1 million), and the auto sales tax ($17.6 million). There are significant shortfalls in the non-auto sales tax ($51.1 million), the public utility excise tax ($31.5 million), and the corporate franchise tax ($14.8 million). On the non-tax side, investment earnings are $22.5 million above estimate, and liquor profits show an $8 million overage. Surprisingly, third quarter investment earnings deposits to the GRF, made in March, were below the forecast. LBO currently has no explanation of this reversal of trend.

Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of April, 1999
($ in thousands)

REVENUE SOURCE	Actual	Estimate*	Variance
TAX INCOME			
Auto Sales	$76,016	$69,825	$6,191
Non-Auto Sales & Use	392,099	408,930	(16,831)
Total Sales	$468,115	$478,755	($10,640)
Personal Income	$772,576	$691,943	$80,633
Corporate Franchise	135,760	112,240	23,520
Public Utility	209	0	209
Total Major Taxes	**$1,376,661**	**$1,282,938**	**$93,723**
Foreign Insurance	$61	$0	$61
Domestic Insurance	0	0	0
Business & Property	70	70	0
Cigarette	23,685	25,542	(1,857)
Soft Drink	0	0	0
Alcoholic Beverage	4,582	4,264	318
Liquor Gallonage	2,210	2,200	10
Estate	37,762	26,250	11,512
Racing	0	0	0
Total Other Taxes	$68,371	$58,327	$10,044
Total Taxes	**$1,445,032**	**$1,341,264**	**$103,768**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	3,458	4,000	(542)
Other Income	7,755	8,115	(360)
Non-Tax Receipts	$11,213	$12,115	($902)
TRANSFERS			
Liquor Transfers	$7,000	$6,000	$1,000
Budget Stabilization	0	0	0
Other Transfers In	25,000	0	25,000
Total Transfers In	$32,000	$6,000	$26,000
TOTAL INCOME less Federal Grants	**$1,488,245**	**$1,359,379**	**$128,866**
Federal Grants	$291,397	$302,325	($10,928)
TOTAL GRF INCOME	**$1,779,642**	**$1,661,704**	**$117,938**

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

Detail may not add to total due to rounding.

Personal Income Tax

The income tax is hitting on all cylinders. In the last three months, employer withholding has rebounded from a large (and still unexplained) January shortfall. Through the end of April, withholding revenues were $10.5 million over estimate. Year-over-year growth is 7.3%. This is a strong number, given Ohio's rather weak employment growth relative to the nation.

The components other than withholding also look strong. Quarterly estimated payments are $98.6 million above the estimate, and have grown by 9.4% from last year. While this is the first year since FY 1995 that Ohio is not seeing double-digit growth in estimated payments, one must remember that the 9.4% growth rate is in spite of a 9.3% cut in income tax rates for tax year 1998.

Once it became clear that December and January quarterly estimated payments were above the estimate, OBM and LBO began expecting a good filing season. This is because the January 15th payment was the last payment against tax year 1998. Taxpayers who did a rough calculation of their tax year 1998 liability clearly felt that their first three payments had been based on too low an estimate of their liability, so they increased their fourth and final payment. This is generally a harbinger of a strong filing season.

Through April, annual return payments were $41.6 million above the estimate, and refunds were $70.9 million below the estimate. (We do not report year-over-year growth figures for these components because they are distorted so much by the reduction in tax rates.) The size of the average refund is down, and it appears that refunds will fall short of the forecast in May and June also. Annual returns are expected to continue to exceed the estimate. The current $199.1 million income tax overage could exceed $300 million by year's end.

It should come as no surprise that we attribute much of the overage in estimated payments to capital gains. Ohio is not a huge player in capital gains, at least in comparison to states like New York and California, but even for us the increase in gains is enough to have a huge impact on tax revenues.[1] Unfortunately, the latest federal tax data that we have is from tax year 1996, but even that data shows an 84% increase in Ohio capital gains from tax year 1994, and an increase of more than 51% from tax year 1995 to tax year 1996 alone. Rough LBO calculations suggest that the increase from tax year 1994 to tax year 1996 brought in an additional $165 million in tax revenue for 1996 (FY 1997). Current numbers may be even bigger. Conversations with the Congressional Budget Office (CBO) and officials in other states lead us to believe that in tax year 1997, capital gains rose by anywhere from 45% to 70% above tax year 1996 levels, and that tax year 1998 growth is anywhere from 15% to 30%. Assuming growth for Ohio of 50% in tax year 1997 and 20% in tax year 1998 leads to an additional $320 million in tax revenue over and above the tax year 1996 amount, or $485 million over the tax year 1994 amount. In other words, in FY 1999 Ohio may be getting $485 million more in tax revenue from capital gains than it did in FY 1995.

Interestingly, the WEFA Group, using information from the Congressional Budget Office (CBO) and the Federal Reserve Bank of New York, has found that most realized capital gains are not the "ordinary" investor gains from stock sales that most analysis talk about. Instead, the gains are coming largely from such sources as sales of unincorportaed businesses (or S corporations), initial public offerings (IPOs), company stock options for executives (and for some other employees), and "golden parachutes" and other severance packages.

Sales and Use Tax

For the first half of FY 1999 (July 1998 through December 1998) Ohio had 4.7% year-over-year sales tax growth. The non-auto portion of the tax was growing by 4.6%. According to data from the Center for the Study of the States (CSS)[2], of the 40 states that have a sales tax and whose results were not distorted by legislative changes, Ohio's 4.7% growth ranked 25th. The weighted average growth for all those 40 states was 5.4%. This places Ohio in the bottom half of the growth distribution, below the national average, but in the ballpark of the median and the mean.

Ohio's results through April of 1999 are much weaker. For the 10 months of July 1998 through April of 1999, year-over-year sales tax revenue growth has dropped to 3.9%. Non-auto sales tax revenue growth is only 3.7%. This does not square well with our strong growth (adjusted for legislated cuts) in the income tax, or with the state's basic economic pic-

Sales Tax Growth Rates, by State, 1st Half of FY 1999
Ohio and Neighboring States Highlighted

Rank of % Change	State	Jul-97 to Dec-97	Jul-98 to Dec-98	% change
1	AL	$775.6	$923.4	19.1%
2	SC	$703.4	$789.9	12.3%
3	CO	$757.6	$842.4	11.2%
4	IA	$765.3	$839.4	9.7%
5	AZ	$1,140.7	$1,242.2	8.9%
6	NV	$833.6	$906.7	8.8%
7	WI	$1,236.4	$1,339.1	8.3%
8	VA	$957.2	$1,030.3	7.6%
9	ID	$336.8	$362.4	7.6%
10	TX	$7,083.4	$7,583.2	7.1%
11	FL	$5,640.1	$6,026.0	6.8%
12	PA	$3,087.0	$3,289.1	6.5%
13	MS	$844.4	$899.1	6.5%
14	MA	$1,513.5	$1,609.8	6.4%
15	NJ	$1,931.2	$2,050.0	6.2%
16	CA	$10,066.8	$10,671.6	6.0%
17	CT	$1,098.2	$1,161.1	5.7%
18	KY	$994.6	$1,049.2	5.5%
19	RI	$268.2	$282.9	5.5%
20	MI	$3,424.0	$3,606.5	5.3%
21	MN	$1,739.6	$1,826.4	5.0%
22	MD	$887.6	$931.0	4.9%
23	UT	$634.0	$664.8	4.9%
24	IL	$2,720.0	$2,852.0	4.9%
25	OH	$2,629.1	$2,752.8	4.7%
26	TN	$2,042.0	$2,135.9	4.6%
27	KS	$770.6	$805.4	4.5%
28	WV	$438.4	$458.1	4.5%
29	AR	$749.7	$780.1	4.1%
30	IN	$1,625.1	$1,689.4	4.0%
31	NY	$3,734.3	$3,868.3	3.6%
32	SD	$203.0	$209.0	3.0%
33	OK	$664.2	$682.1	2.7%
34	NM	$571.8	$583.9	2.1%
35	WY	$76.1	$77.7	2.1%
36	ND	$163.3	$166.7	2.1%
37	VT	$98.4	$100.3	1.9%
38	HI	$701.5	$712.7	1.6%
39	LA	$992.5	$1,008.0	1.6%
40	WA	$2,500.0	$2,240.3	-10.4%
Total		$67,399.2	$71,049.2	5.4%

ture. Our employment growth is weak relative to the U.S. as a whole (although it is close to the Great Lakes average), but it seems like it should be high enough to support at least 4% sales tax revenue growth.

For the nation, consumption spending increased by 6.7% in the first quarter of CY 1999. The Federal Reserve's Beige Book for the Fourth District reported that "retailers reported very strong sales in March." Again, this does not square with Ohio's anemic sales tax revenue growth.

The sales tax data thus seems grossly inconsistent with:
(i) the national, state, and regional economic data;
(ii) the personal income tax data;
(iii) the sales tax data for the first half of FY 1999.

In addition, LBO has informally canvassed other states about their sales tax growth through April. None of the other states that have responded have reported any sharp slowing in the rate of sales tax growth, nor have they suggested any reasons why Ohio might be experiencing such a slowdown. At this point, LBO is inclined to believe that there is a problem in the sales tax data, and that by year's end, the results might look very different.

The auto sales tax continues to look strong. Collections are $17.6 million over estimate, and year-over-year growth is 5.2%. Turning again to the ***Beige Book*** report for the Fourth District: "District auto sales in the first quarter were widely regarded as strong, generally exceeding sales volume for this period last year. Some dealers note a slowdown in April sales numbers following a 'feverish' March pace." In fact, some dealers are reporting low inventory and some trouble in meeting demand, particularly in sport utility vehicles and light trucks. The auto sales tax outlook for the remainder of the year looks good.

Corporation Franchise Tax

After the first payment came in below the estimate, LBO had expected revenues from the second and third payments to follow suit. In fact, combined March and April revenues from the second payment came in somewhat above the estimate. Year-to-date collections are still below the estimate by $14.8 million, but this is the result of a shortfall in the first six months of the fiscal year, when there are no regular payments required, just refunds, late payments, and payments of assessments.

U.S. corporate profits for calendar year 1998 fell by 2.3%. Ohio's decline in the franchise tax has been somewhat steeper. Of course, Ohio corporations do not all have a taxable year 1998 that coincides with CY 1998. In addition, there were a number of tax changes made in the last biennial operating budget

FY 1999 Corporate Franchise Tax Revenue amounts in millions of $				
	actual	estimated	variance	growth
First 6 months	$4.9	$21.2	($16.3)	-35.4%
Jan-Feb (first payment)	$372.1	$378.2	($6.1)	-7.6%
Mar-Apr (2nd payment)	$398.8	$390.3	$8.5	-3.3%
May-Jun (3rd payment)	???	???	???	???
Year-to-Date	$775.8	$789.7	($13.9)	-5.8%

(HB 215) that are acting to reduce revenues in FY 1999.

Public Utility Excise Tax

The public utility excise tax is $31.5 million below estimate, and the shortfall will probably get somewhat bigger by year's end. The shortfall has two components, a shortfall in the estimated payments against tax year 1999 liability, and negative reconciliations of tax year 1998 liability (i.e. refunds) with tax year 1998 estimated payments.

GRF public utility tax revenues were -$14.9 million in November and December (including LGFs, the amount was -$15.6 million). This was because the certified tax liability for tax year 1998 (May 1997 through April 1998 for utilities other than telephone and telegraph companies) was lower than for tax year 1997. So, the estimated payments that utilities made for tax year 1998, which were for the most part based on their tax year 1997 liability amounts, were too high. The reconciliation of estimated payments with what was actually owed resulted in $14.9 million in net refunds.

The first two of the three estimated payments against tax year 1999 liability, made in October and March (the third payment is due at the beginning of June) was also below the estimate. A strict reading of the law says that utilities should have made their first tax year 1999 payment equal to 1/3 of their actual tax year 1997 taxes. However, as in past years, it appears that the first payment actually was closer to 1/3 of the lower 1998 tax liability amount. Because tax liability fell in tax year 1998, we expected the last two estimated payments for FY 1999 to be slightly below estimate also. This was true of the second payment. It appears likely that the public utility tax will end the year $35 million to $40 million below estimate.❑

FY 1999 PUET Collections, GRF Share amounts in millions of $			
	actual	estimate	variance
Miscellaneous Rev, Jul-98 to Sep-98	$0.1	$0.0	$0.1
Estimated Payment, Oct-98	$216.8	$219.4	($2.6)
Reconciliations, Nov-98 to Dec-98	($14.9)	$10.1	($25.0)
Miscellaneous Rev, Jan-99 to Feb-99	$1.8	$6.8	($5.0)
Estimated Payment, Mar-99	$216.8	$216.0	$0.8
Estimated Payment, May 99/Jun-99	???	$222.8	???
Total Year-to-Date	$420.5	$452.2	($31.7)

[1] IRS Statistics of Income (SOI) data indicates that Ohio capital gains are less than 3% of the national total.

[2] "Yet Another Strong Revenue Quarter," Karen Landers and Donald Boyd, Center for the Study of the States, State Revenue Report No. 35, April 1999.

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	$614,953	$597,351	$17,602	$584,412	5.23%
Non-Auto Sales & Use	3,917,971	3,969,050	**(51,079)**	3,778,540	3.69%
Total Sales	$4,532,925	$4,566,401	**($33,476)**	$4,362,952	3.90%
Personal Income	$5,265,390	$5,066,250	**$199,140**	$5,080,385	3.64%
Corporate Franchise	774,949	789,732	(14,783)	822,773	-5.81%
Public Utility	420,714	452,250	**(31,536)**	451,824	-6.89%
Total Major Taxes	$10,993,978	$10,874,633	$119,345	$10,717,934	2.58%
Foreign Insurance	$271,418	$264,420	$6,998	$290,693	-6.63%
Domestic Insurance	8,810	462	8,348	678	1199.07%
Business & Property	263	843	(580)	522	-49.68%
Cigarette	232,222	233,739	(1,517)	233,735	-0.65%
Soft Drink	0	0	0	0	#N/A
Alcoholic Beverage	43,949	42,744	1,205	43,001	2.21%
Liquor Gallonage	23,093	22,990	103	22,861	1.02%
Estate	110,613	83,475	27,138	91,710	20.61%
Racing	0	0	0	0	#N/A
Total Other Taxes	$690,369	$648,674	$41,695	$683,199	1.05%
Total Taxes	**$11,684,347**	**$11,523,307**	**$161,040**	**$11,401,133**	**2.48%**
NON -TAX INCOME					
Earnings on Investments	$108,801	$86,250	$22,551	$99,333	9.53%
Licenses and Fees	32,911	35,600	(2,689)	33,474	-1.68%
Other Income	76,303	79,943	(3,640)	83,695	-8.83%
Non-Tax Receipts	$218,014	$201,793	$16,221	$216,502	0.70%
TRANSFERS					
Liquor Transfers	$74,000	$66,000	$8,000	$64,000	15.63%
Budget Stabilization	0	0	0	$0	#N/A
Other Transfers In	672,392	671,148	1,244	275,615	143.96%
Total Transfers In	$746,392	$737,148	$9,244	$339,615	119.78%
TOTAL INCOME less Federal Grants	**$12,648,753**	**$12,462,248**	**$186,505**	**$11,957,251**	**5.78%**
Federal Grants	$2,858,107	$2,925,952	($67,845)	2,787,111	2.55%
TOTAL GRF INCOME	**$15,506,859**	**$15,388,200**	**$118,659**	**$14,744,361**	**5.17%**

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

Detail may not add to total due to rounding.

DISBURSEMENTS

— *Jeffrey E. Golon**

After watching two months of hurling large overages into the belly of the state's growing cash balance, an analogy jumped to mind: that of Wall Street investors, who had been seduced into believing they were riding an endlessly bullish market, being rudely interrupted by a den of bears, who themselves had been freshly wakened from a deep cozy winter's sleep and were ready to rumble. At the close of February, the state's year-to-date underage had, excluding transfers, topped out at $574.0 million. At that point, who would have guessed that March and April were about to muster overages powerful enough to reduce year-to-date underspending by $143.7 million, a drop of 25 percent. That in fact did happen, and the most that we can say in hindsight is that the key element in the big fall was our constant companion — timing.

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of April, 1999
($ in thousands)

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$423,694	$384,498	$39,196
Higher Education	221,109	219,457	1,652
Total Education	$644,803	$603,955	$40,848
Health Care/Medicaid	$431,150	$377,796	$53,354
Temporary Assistance to Needy Families	59,869	76,972	(17,103)
General/Disability Assistance	4,765	4,925	(160)
Other Welfare	37,596	37,102	494
Human Services (2)	66,735	69,324	(2,589)
Total Welfare & Human Services	$600,115	$566,119	$33,996
Justice & Corrections	$144,856	$129,128	$15,728
Environment & Natural Resources	6,105	6,352	(247)
Transportation	1,366	5,077	(3,711)
Development	12,068	5,574	6,494
Other Government (3)	22,288	20,820	1,468
Capital	1	431	(430)
Total Government Operations	$186,684	$167,381	$19,302
Property Tax Relief (4)	$121,218	$127,299	($6,081)
Debt Service	0	0	0
Total Program Payments	**$1,552,819**	**$1,464,754**	**$88,065**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	139,062	0	139,062
Total Transfers Out	$139,062	$0	$139,062
TOTAL GRF USES	**$1,691,882**	**$1,464,754**	**$227,127**

(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.

April Variance. Excluding transfers, April checked in with a strong $88.1 million monthly overage propelled by three program categories that, in order of magnitude, were as follows: (1) Education ($40.8 million); (2) Welfare and Human Services ($33.9 million); and (3) Government Operations ($19.3 million). The most notable contributors to these programmatic overages were Healthcare/Medicaid ($53.4 million); the Department of Education ($33.3 million), and the Department of Rehabilitation and Correction ($15.9 million), all three of which were principally a function of timing. The only significant counter to these positive monthly disbursement variances was the Temporary Assistance to Needy Families (TANF) program, which chipped in a negative monthly disbursement variance

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)	$4,115,284	$4,150,859	($35,575)	$3,752,143	9.68%
Higher Education	1,919,397	1,916,103	3,294	1,853,837	3.54%
Total Education	$6,034,681	$6,066,962	($32,281)	5,605,980	7.65%
Health Care/Medicaid	$4,361,687	$4,498,394	($136,707)	$4,325,731	0.83%
Temporary Assistance to Needy Families	649,861	818,970	(169,109)	710,642	-8.55%
General/Disability Assistance	48,495	58,930	(10,435)	49,433	-1.90%
Other Welfare	352,020	392,918	(40,898)	340,417	3.41%
Human Services (2)	925,063	922,621	2,441	919,816	0.57%
Total Welfare & Human Services	$6,337,125	$6,691,834	($354,709)	$6,346,040	-0.14%
Justice & Corrections	$1,380,645	$1,401,849	($21,204)	$1,301,649	6.07%
Environment & Natural Resources	107,001	103,641	3,360	108,241	-1.15%
Transportation	30,026	28,205	1,821	26,281	14.25%
Development	103,914	99,034	4,880	97,512	6.57%
Other Government (3)	315,473	354,542	(39,069)	302,511	4.28%
Capital	2,585	4,431	(1,846)	3,796	-31.89%
Total Government Operations	$1,939,645	$1,991,704	($52,059)	$1,839,990	5.42%
Property Tax Relief (4)	$727,174	$718,230	$8,944	$613,455	18.54%
Debt Service	124,511	124,670	(160)	106,594	16.81%
Total Program Payments	**$15,163,136**	**$15,593,400**	**($430,264)**	**$14,512,060**	**4.49%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	——
Budget Stabilization	44,184	44,184	(0)	34,400	28.44%
Other Transfers Out	1,140,411	967,560	172,851	730,343	56.15%
Total Transfers Out	$1,184,595	$1,011,744	$172,851	$764,743	54.90%
TOTAL GRF USES	**$16,347,731**	**$16,605,144**	**($257,413)**	**$15,276,803**	**7.01%**

(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.

of $17.1 million, continuing a nearly year-long pattern of underspending driven by any almost constant downward spiral in cash assistance recipients.

Table 4, on the previous page, provides a more detailed picture of April's disbursement by program category.

Year-to-Date Variance. If one were to try and describe in one phrase the state's year-to-date disbursement activity, it would be — "dropping caseloads exert strong braking effect on Welfare and Human Services program spending." Of the state's $430.3 million year-to-date underage, $354.7 million, or slightly in excess of 80 percent, was located in the Welfare and Human Services program category. The key player was the Department of Human Services, whose budget is the sole occupant of four of the Welfare and Human Services program category's five components. The sum of the year-to-date underages in these four components alone — HealthCare/Medicaid ($136.7 million) + the Temporary Assistance to Needy Families (TANF) program ($169.1 million) + General/Disability Assistance ($10.4 million) + Other Welfare ($40.9 million) — totaled $357.1 million. (This departmental underage was slightly offset by a $9-plus million year-to-date overage in the Department of Mental Retardation and Developmental Disabilities that was largely a function of timing-based variances in the release of subsidy funding.) In effect, 83.0 percent of the state's year-to-date negative disbursement variance was traceable exclusively to the Department of Human Services. While some of these departmental underages were clearly timing-based, particularly in the case of the Other Welfare component, a significant portion represented true savings that were being generated as a result of declining caseloads in certain service areas of the Medicaid, TANF, and General/Disability Assistance programs.

A more detailed picture comparing fiscal year-to-date variances by program category is provided for the reader in Table 5, which appears on the previous page.

Federal Money. Of the year-to-date underspending in the TANF and Medicaid programs combined ($305.8 million), 60.0 percent, or $183.6 million, was in the federal share of these two human services programs that are jointly funded by the state and federal government. Slightly over half of this underspending in the federal share — $104.0 million (56.6 percent) — was attributable to TANF. This was, in a manner of speaking, a turning of the table, as the Medicaid program has typically been the dominant force in the federal share of the state's human services underspending. Once the federal money associated with TANF and Medicaid was backed out, the year-to-date underspending in non-federal state money was reduced from $430.3 million down to $246.7 million.

As always, budget watchers should be somewhat cautious about what ought to be read into any particular spending picture at any particular time. One of those usual cautions involves the reality that, any federal TANF money unspent at fiscal year's end, is money in the bank so to speak, as the state will have earned it 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.

That completes our disbursement overview and we invite the reader to take a ride with us through some selective areas of state spending that follow.

Primary & Secondary Education

Education. The Department of Education closed April with a $33.3 million overage, 8.9 percent above the estimate for the month, a direct contrast to its year-to-date spending picture which revealed a $39.4 million underage, 1.0 percent below the year-to-date estimate. Timing continued to be the key factor behind the department's monthly overage and year-to-date underspending.

Monthly Overage. Notable monthly overages were as follows: (1) $22.1 million in line item 200-501, Base Cost Funding; (2) $8.3 million in line item 200-502, Pupil Transportation; and (3) $3.4 million in line item 200-504, Special Education. The long-anticipated final FY 1998 foundation (SF-12) payment adjustment was made in April, which included the special education recomputation, the vocational education recomputation, and some other obligations. This adjustment was the driving force behind the overages in the Base Cost Funding and Special Education line items. Under the SF-3 funding system initiated in FY 1999, state funding for special education was moved into the base cost funding program. Thus, the only appropriation authority left in line item 200-504, Special Education, was related to prior years' encumbrances.

Line item 200-502, Pupil Transportation, contains $231.6 million in FY 1999 appropriations to reimburse school districts for a portion of the costs they incur in transporting students to and from school. Within that FY 1999 appropriation, $27.0 million is set aside for handicapped transportation. Although the department planned to disburse the set aside as a lump sum in December 1998, its actual disbursement did not start until March 1999, three months later than was originally assumed. The department also dropped the idea of making a single lump sum payment of the handicapped transportation set aside in favor of a multiple payment distribution cycle tied to the SF-3 foundation payment cycle, which disburses subsidy funding twice per month. This delay in release of the set aside and the subsequent change in its distribution cycle was the main reason why we saw a $8.3 million April overage tied with a $23.1 million year-to-date underage at the same time in the pupil transportation subsidy program.

Year-to-date Underage. Notable year-to-date underages were as follows: (1) $23.1 million in line item 200-502, Pupil Transportation; (2) $8.7 million in line item 200-540, Special Education Enhancements; (3) $8.6 million in line item 200-545, Vocational Education Enhancements; and (4) $6.8 million in 200-558, Emergency Loan Interest Subsidy. These four programs posted a total of $47.2 million in year-to-date underspending.

As indicated earlier, the delay in releasing the handicapped transportation set aside and the change in the pupil transportation program's payment cycle played a key role in its $23.1 million year-to-date underage.

Among other things, the special education enhancements program (line item 200-540) and the vocational education enhancements program (line item 200-545) provide unit funding for preschool special education and 49 joint vocational school districts. Since units need to be formed and approved by the department before actual disbursements can be made, it is not very unusual to see underspending in these two programs. Adjustments for unit reimbursements for a given fiscal year have often been made after the end of the fiscal year.

As indicated in prior issues of ***Budget Footnotes***, the emergency loan interest subsidy program was newly created in FY 1999. While the law establishing the program required that the department make payments based on the *prior calendar year's* interest calculation, it appeared that the original legislative intent was that these payments be based on the *current fiscal year's* interest calculation. Due to this statutory problem, the department planned to distribute no subsidy payments until the General Assembly clarified the program's statute.

As of this writing, the General Assembly has passed Sub. H.B. 32 on to the Governor for his signature. The bill clarifies that program payments should be based on the current fiscal year's interest calculations and that the FY 1999 June payments should be based on the FY 1999 interest calculations. It also contains an emergency clause, which means that the bill's provisions go into effect immediately upon the Governor's signing. Once the bill becomes law, it is likely that the money that has been trapped in this line item ($8.5 million) will be released as one lump sum payment.

Year-to-date Overage. Somewhat offsetting the above discussed $47.2 million in year-to-date underspending was the $12.1 million year-to-date overage posted in the Disadvantaged Pupil Impact Aid (DPIA) program (line item 200-520). As reported in our February, 1999 issue, the DPIA program posted a $47.7 million overage in January. This was partially caused by: (1) an expected catch-up payment; and (2) an inadvertent mistake of double counting kindergarten ADM in the all-day and everyday kindergarten funding calculation. This mistake was discovered after the fact and subsequently corrected. This was the main reason why we still saw a $12.1 million year-to-date overage in the DPIA program some three months later.

Prior Years' Encumbrances. We'd like to close our review of the department's spending with a quick examination of its disbursement activity relative to $207.9 million in encumbered appropriations it carried in from prior fiscal years, which we have summarized in Table 6 on this page. As the reader can see in the table, 52.7 percent (or $109.6 million) of the department's total amount of encumbered funding from prior years had been disbursed by the end of April. Of the remaining $98.3 million in prior years' encumbrances, $36.6 million was still stuck in the encumbrance pipeline and a much larger $61.7 million had been moved into the unallotted and unassigned category. Presumably, this latter amount will lapse at the close of FY 1999 and thus become part of the state GRF's unencumbered ending cash

Table 6
FY 1999 Disbursement of Prior Year's Education Encumbrances
($ in millions)

Fiscal Year	Total Amount Encumbered	Disbursements Year-to-Date	Percent Disbursed	Outstanding Encumbrances	Unallotted & Assigned
1995	$ 1.38	$ 0.05	3.6%	$ -	$ 1.33
1996	$ 20.48	$ 1.57	7.7%	$ 7.94	$ 10.97
1997	$ 46.76	$ 3.08	6.6%	$ 5.92	$ 37.76
1998	$ 139.29	$ 104.88	75.3%	$ 22.71	$ 11.70
Totals	$ 207.91	$ 109.58	52.7%	$ 36.57	$ 61.76

balance. Approximately 75 percent, or $46.8 million, of the prior years' funding sitting in unallotted and unassigned was traceable to line items 200-504, Special Education, and 200-507, Vocational Education, which are used to reimburse school districts for their special and vocational education unit costs.

Health Care/Medicaid

Medicaid fired a $53.4 million monthly overage into the disbursement mix at April's end, thus knocking the program's pre-existing $190.1 million year-to-date underage down to $136.7 million. This marked the third month in a row in which aggregate Medicaid spending revealed no discernible pattern, and was only the second time this fiscal year that the program checked in with a monthly overage; the first — a rather tiny $4.8 million — occurred in February. This was, to say the least, a strange state of affairs to have witnessed after Medicaid had rounded January, following a string of six monthly underages, with year-to-date underspending that totaled $194.6 million.

As legislative biennial budget deliberations continue to command considerable time and attention, our ability to adequately analyze the nooks-and-crannies of Medicaid has been somewhat limited over the last few months. That said, a quick scan of April's disbursements revealed a couple of simple facts. First, a goodly portion of the monthly overage was timing-based and specifically attributable to almost $21 million in prescription drug rebates that did not, but eventually will, post as expected. Second, Medicaid's year-to-date underage was a function of two service categories: HMOs ($138.2 million) and Nursing Homes ($58.0 million). The HMO underage was not surprising, as the spending suppression effect of declines in the large Ohio Works First (OWF), non-Healthy Start eligible population have long been in evidence. The Nursing Homes underage caught our attention some months back and we noted that it deserved careful watching, as it could disappear in a flash. We now believe that the original disbursement estimate for the Nursing Homes service category assumed a higher growth rate than was merited, which means that it could certainly lapse a chunk of money. (For a detailed summary of

Table 7
Medicaid (400-525) Spending in FY 1999

	April '99				Year-to Date Spending			
Service Category	Actual	Estimate	Variance	Percent Variance	Actual** thru' Apr.	Estimate** thru' Apr.	Variance	Percent Variance
Nursing Homes	$174,446,795	$174,205,613	$241,182	0.1%	$1,653,883,872	$1,711,903,090	($58,019,218)	-3.4%
ICF/MR	$29,211,269	$28,406,601	$804,668	2.8%	$286,532,999	$282,292,017	$4,240,982	1.5%
Hospitals	$101,390,089	$89,705,380	$11,684,709	13.0%	$987,720,082	$969,461,086	$18,258,996	1.9%
Inpatient Hospitals	$75,469,046	$69,692,251	$5,776,795	8.3%	$752,258,109	$753,216,344	($958,235)	-0.1%
Outpatient Hospitals	$25,921,044	$20,013,129	$5,907,915	29.5%	$235,461,974	$216,244,742	$19,217,232	8.9%
Physicians	$24,775,788	$22,502,955	$2,272,833	10.1%	$239,186,246	$235,636,741	$3,549,505	1.5%
Prescription Drugs	$52,816,741	$24,077,677	$28,739,064	119.4%	$494,546,299	$472,613,026	$21,933,273	4.6%
Payments	$61,792,703	$54,030,831	$7,761,872	14.4%	$604,830,358	$595,008,924	$9,821,434	1.7%
Rebates	$8,975,962	$29,953,154	($20,977,192)	-70.0%	$110,284,059	$122,395,898	($12,111,839)	-9.9%
HMO	$1,305,229	$0	$1,305,229	na	$268,793,304	$406,983,098	($138,189,794)	-34.0%
Medicare Buy-In	$10,159,400	$9,956,533	$202,867	2.0%	$112,308,378	$95,817,669	$16,490,709	17.2%
All Other***	$36,962,792	$28,941,238	$8,021,554	27.7%	$318,633,005	$323,696,371	($5,063,366)	-1.6%
TOTAL	$431,068,104	$377,795,997	$53,272,107	14.1%	$4,361,604,184	$4,498,403,098	($136,798,914)	-3.0%
CAS	$431,150,395		$53,354,398	14.1%	$4,361,686,477		($136,716,621)	-3.0%
Est. Federal Share	$251,010,957	$281,356,735	($30,345,778)		$2,539,762,117	$2,619,420,125	($79,658,009)	
Est. State Share	$180,057,147	$201,825,019	($21,767,872)	-10.8%	$1,821,842,068	$1,878,982,975	($57,140,907)	-3.0%

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

** Includes spending from FY 1998 encumbrances in service categories for July & in the All Other category for August & September.

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

Source: BOMC 8300-R001 Reports, Ohio Department of Human Services.

Table 8

FY 1999 to FY 1998 Comparison* of Year-to-Date Spending

Service Category	FY 1999[1] Yr.-to-Date as of Apr. '99	FY 1998 Yr.-to-Date as of Apr. '98	Variance	Percent Variance
Nursing Homes	$1,653,883,872	$1,602,839,654	$51,044,218	3.2%
ICF/MR	$286,532,999	$275,214,823	$11,318,176	4.1%
Hospitals	$987,720,082	$956,599,256	$31,120,826	3.3%
Inpatient Hospitals	$752,258,109	$739,968,990	$12,289,119	1.7%
Outpatient Hospitals	$235,461,974	$216,630,266	$18,831,708	8.7%
Physicians	$239,186,246	$232,533,272	$6,652,974	2.9%
Prescription Drugs	$494,546,299	$435,160,863	$59,385,436	13.6%
Payments	$604,830,358	$519,490,145	$85,340,213	16.4%
Rebates	$110,284,059	$84,329,282	$25,954,777	30.8%
HMO	$268,793,304	$432,533,313	($163,740,009)	-37.9%
Medicare Buy-In	$112,308,378	$101,778,913	$10,529,465	10.3%
All Other***	$318,633,005	$289,272,775	$29,360,230	10.1%
TOTAL	$4,361,604,184	$4,325,932,869	$35,671,315	0.8%
Est. Federal Share	$2,539,762,117	$2,527,426,279	$12,335,838	0.5%
Est. State Share	$1,821,842,068	$1,798,506,590	$23,335,478	1.3%

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

[1] Includes FY 1998 encumbraces of $54 million.

monthly and year-to-date Medicaid spending, as well as a comparison to FY 1998 spending, the reader is directed to Tables 7 and 8.)

TANF

The Temporary Assistance to Needy Families (TANF) program continued to post significant negative disbursement variances in the months of February, March, and April. In February, TANF spending hit $29.9 million, or 40.6 percent, below the estimate. In March, TANF spending posted $22.2 million, or 31.5 percent, below the estimate. And in April, TANF spending was $17.1 million, or 22.2 percent, below the estimate. These large negative disbursement variances occurred despite a small increase in the total number of recipients during February (the first such increase in 27 months), and a relatively small decrease in recipients in March. In April, however, the number of Ohio Works First (OWF), or cash assistance, recipients declined by approximately 11,000. Year-to-date, TANF spending registered $169.1 million, or 20.6 percent, below the estimate.

We then reviewed the status of the various TANF components, including a look to ascertain where the state was relative to meeting its federally required Maintenance of Effort (MOE). The state combines five sources of funding from the Department of Human Services' budget to meet the state's MOE, three of which figure in this disbursement discussion: (1) GRF line item 400-410, TANF State; (2) GRF line item 400-413, Day Care; and (3) non-GRF line item 400-658, Child Support Collections (Fund 4A8). As of April's end, line item 400-410 stood at 77 percent disbursed, line item 400-413 was virtually 100 percent disbursed, and Child Support Collections was 38 percent disbursed. Of the $652.9 million in federal TANF money (line item 400-411) appropriated for spending in FY 1999, only 55 percent has been disbursed so far.

How did the state's FY 1999 MOE picture compare to last fiscal year's? Relative to last fiscal year, the state's MOE disbursements are running behind schedule. At this point last year, 98 percent of the TANF State funding (line item 400-410) had been disbursed, and 100 percent of the Child Support Collections (Fund 4A8) MOE had been disbursed. With two months left in FY 1999, there remains $58.6 million in TANF State funding left to be disbursed, and $34.5 million in Child Support Collections MOE funding left to be disbursed.

Last year by this point in time, because the state's MOE had been nearly met, the department was able to turn and tap its very large load of federal money in line item 400-411, TANF Federal Block Grant. However, year-to-date, spending from this federal block grant was a somewhat staggering $104 million below the estimate; which did not include an additional $55 million in the FY 1999 appropriation authority that was planned to lapse all along. Given that the state's MOE disbursements were substantially behind estimate with just two months to go, a more likely amount to lapse in federal block grant money will be well in excess of $200 million.

Other Human Services

Employment Services. As we first reported in our November/December 1998 issue, the Bureau of Employment Services had not only reversed its initial pattern of underspending, it had actually managed to expend almost 70 percent of its total estimated disbursements for all of FY 1999 with seven months still left to go. In the next month, the bureau appeared to have applied the brakes, as spending slowed substantially. December's activity led us to believe that we had just witnessed a self-correction of sorts that would reduce the bureau's overage and draw actual year-to-date disbursements much closer to the estimate. March and April expenditures, however, have proven us wrong.

At April's end, actual year-to-date total disbursements were $5.1 million, or 23.4 percent, over the estimate. Of particular concern to us in the last two months of the bureau's spending was its March overage of $3.4 million coupled with an April overage of close to $1 million in line item 795-407, OBES Operating. Since this line item comprises over 75.0 percent of the bureau's FY 1999 GRF budget, variances in its monthly disbursements have exerted a great impact on year-to-date spending. Heightening our anxiety further was the fact that this $22-plus million line item, which supports operational costs of the bureau's unemployment insurance and employment services programs, was left with an available balance of only $487,405 with which to ride out the remaining two months of the fiscal year.

Before hitting the panic button, however, we needed to reflect on some relatively recent history. Originally established by Am. Sub. H.B. 117 of the 121st General Assembly, this line item was created to offset decreases in the primary source of financial support for the state's unemployment insurance and employment services programs: funding from the federal government deposited into Fund 331, Federal Operating. Given it was unlikely that the state's GRF could fill this funding gap by itself, another source of state financial support was made available — the Unemployment Compensation Special Administrative Fund, which consists of interest on delinquent employer contributions, fines and forfeitures, court costs and interest collected in connection with fraudulently obtained benefits, and all interest earned on the money in the fund. The bureau is allowed, with the approval of the Unemployment Compensation Advisory Council, to use this fund's money for its operations in circumstances where federal funds are not available or have not been received. With our memory thus refreshed on this matter, the bureau will likely utilize the resources of this special administrative fund to cover operational costs for the remaining two months of the fiscal year.

We also examined two additional bureau line items that were running over their year-to-date estimates. Specifically, in April, disbursements from line items 795-413, OSHA Match, and 795-417, Public Employee Risk Reduction Program, posted year-to-date overages of 10.6 percent and 8.6 percent, respectively. Any alarm associated with these overages quickly dissipated, however, as we remembered that, in March, the Controlling Board had approved a transfer of $70,000 from line item 795-412, Prevailing Wage/Minimum Wage and Minors, to augment the appropriations in these two line items. These transferred funds represented excess appropriation authority that had built up due to an unfilled director position and disability leave taken by an assistant director. Of the transferred funds, $20,000 was moved to bolster the state's OSHA match money, thus leveraging additional federal enforcement funding, while the remainder — $50,000 — was used to cover a projected deficit in the Public Employee Risk Reduction Program.

Justice & Corrections

In April, the Justice and Corrections program category's year-to-date underage continued its descent from a FY 1999 highwater mark of $86.9 million hit in December. As expected, timing has driven actual year-to-date disbursements in this program area back towards the estimates for various state agencies, most notably the departments of Rehabilitation and Correction (DRC) and Youth Services. At month's end, there were really only two feature players in the program category's year-to-date underspending that had been reduced to $21.2 million — DRC ($9.9 million); and the Judicial Conference of Ohio ($8.8 million) — which are discussed in more detail below along with a look at the Attorney General's spending activity.

Attorney General. Since last December, the Attorney General has been running a stream of monthly overages in its operating expenses line item (055-321) such that, by April's end, a year-to-date overage of $2.4 million had accumulated, which was 5.9 percent over the estimate. Although the source of this rising overage remained somewhat unclear, we believe a substantial portion was related to the additional ongoing payroll costs associated with the transfer of some staff positions into the Attorney General's GRF budget. The transfer was the result of a cash flow problem in Fund 419 (Claims Section), which supports the Attorney General's revenue recovery actions as well as officewide operating expenses. We previously remarked about Fund 419's cash flow quandary in our February, 1999 issue.

As of this writing, the General Assembly seems poised to apply a revenue enhancement fix to this cash flow matter by amending current state law controlling the distribution of delinquent moneys owed to the state, collected by the Attorney General, and the percentage then deposited to the credit of Fund 419. Specifically, the main operating budget bill covering fiscal years 2000 and 2001 (H.B. 283), which is awaiting action in the Senate, contains a provision that increases the percentage of those amounts collected and deposited into Fund 419 from 9 percent to "up to 11 percent."

Judicial Conference. With only two months left to go in FY 1999, the Judicial Conference of Ohio's year-to-date disbursements were 89.5 percent, or $8.8 million, below the estimate. While startling, it was not surprising. We last alerted readers in our January, 1999 issue of the emergence of this large underage, which was traceable to line item 018-502, Court Security Subsidy. The line item was created for the purpose of assessing and improving the security level of court facilities throughout the state.

Year-to-date, only $506,627, or 5.2 percent, of the $9.7 million that was appropriated for court security subsidies in FY 1999 has been disbursed. This rather sluggish spending activity became even more dramatic when we looked at the $1.0 million in FY 1998 court security subsidy funds that were encumbered for disbursement in FY 1999, but were not included in the conference's estimated FY 1999 disbursements. Of that $1.0 million in encumbered FY 1998 court security subsidy funding, only $23,000, or 2.3 percent, has been disbursed year-to-date in FY 1999.

In light of this disbursement reality, what should our expectations be? First, the conference has started to distribute larger chunks of its $1.0 million in encumbered FY 1998 court security subsidy funding and hopes to have disbursed the entire amount by the close of the fiscal year.

As for the current fiscal year's $9.7 million appropriation in court security subsidy funding, the conference has reassessed its ability to process grant applications and determined that $5 million of the roughly $9.2 million unspent year-to-date will need to be encumbered. The conference's goal would then be to disburse all of the encumbered FY 1999 court security subsidy funding by the close of the first quarter of FY 2000, with the possibility some of that encumbered court security subsidy funding, probably less than $1 million, will lapse and be returned to the state treasury.

Rehabilitation & Correction. The Department of Rehabilitation and Correction's April disbursement picture was a study in contrasts: a $15.9 million monthly overage posted side-by-side with a $9.9 million year-to-date underage. Both of these disbursement variances were traceable principally to the same budgetary element: departmental operating expenses. Specifically, timing-based payroll variances created a monster overage in the first half of FY 1999, followed by its steady erosion that we have observed in the latter half of the fiscal year with the matter working to resolve itself as expected.

A noticeable wrinkle buried in the department's bottom line was its spending relative to estimated debt service payments (line item 501-406). Year-to-date, its debt service disbursements, which are complete, were $6.1 million over the estimate. In light of the historical tendency of the department's actual debt service disbursements to land under the estimate, this outcome was surprising and guaranteed a much smaller lapse in FY 1999 appropriation authority ($3.4 million) than was originally anticipated ($9.5 million). As of this writing, the source of this debt service overage remained unclear. We did not know whether the overage might have been attributable to an error made in calculating the original estimate or whether a larger mix of new and refinanced criminal justice capital money than expected might have hit the bond market.

Other Government

Administrative Services. The year-to-date negative disbursement variance posted by the Other Government program category ($39.1 million) continued to draw its primary fuel from underspending poured in by the Department of Administrative Services ($31.0 million) that was a function 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. Year-to-date, state building rent and operating costs have contributed $16.5 million to the department's underage, with $11.2 million alone coming from smaller than anticipated debt service payments to the Ohio Building Authority (line items 100-447 and 100-448). Underspending in four components of the department's computer and communications services program have tossed another $12.8 million into the mix, in order of magnitude, as follows: (1) Year 2000 Competency Center (line item 100-430); (2) Multi-Agency Radio Communication System/MARCS project (line item 100-417); (3) Strategic Technology (line item 100-416); and (4) State of Ohio Multi-Agency Communications Systems/SOMACS (line item 100-419).

Auditor. At April's end, the disbursement story for the Auditor of State was in its year-to-date underage, which stood at $5.0 million. The primary force behind the Auditor's negative disbursement variance was, not unexpectedly, the $30-plus million line item 070-321, Operating Expenses, which covers personnel, maintenance, and equipment costs. This underage was a clear manifestation of the Auditor of State's ongoing strategy designed to curb GRF expenditures by various means, including tapping into non-GRF appropriations whenever feasible, thus guaranteeing that some amount of their GRF funding will lapse and be returned to the state treasury.

Taxation. Tracking the Department of Taxation's disbursements can be a little tricky because its roughly $450 million FY 1999 GRF budget is located in three separate program categories, which, in order of magnitude, are: property tax relief ($350.4 million), government operations ($89.9 million), and human services ($9.5 million). Of interest to us in this portion of our disbursement discussion is the "government operations" component of Taxation's budget, which essentially contains funding that covers the department's operating expenses (personal services, maintenance, and equipment).

At April's end, disbursements from Taxation's government operations component posted a year-to-date overage of $7.4 million, 10.5 percent above the estimate. Approximately $4.2 million of that overspending was directly attributable to an error made in the calculation of the monthly estimates, which meant that the "true" overage was a much lower $3.2 million. Slightly over half of that amount — $1.8 million — was traceable to Taxation's personal services spending (line item 110-100). After some poking around the data, the source of this variance became patently obvious ¾ employee pay raises. Last fall, the Controlling Board approved the transfer of $60.4 million in GRF funding that had been explicitly appropriated to assist state agencies with absorbing the costs of employee compensation increases; $3.1 million of which was moved into Taxation's personal services line item. The transfer of this employee pay raise money guaranteed that the department would post personal services overages throughout the fiscal year because the Taxation estimates upon which we base our disbursement discussions did not include fund transfers that had not yet happened. The other significant chunk of the department's year-to-date overage — $1.2 million — was simply attributable to timing-based maintenance and equipment expenditures involving their ongoing Integrated Tax Administration System (ITAS) project, the centerpiece of which is the replacement of an outdated computer system.

Property Tax Relief

Over the course of FY 1999, the property tax relief program will disburse approximately $1 billion back to school districts, counties, municipalities, townships, and other special taxing districts as compensation for credits or exemptions provided to taxpayers under existing state law. 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 relief payments.

In April, personal property tax relief payments distributed by the Department of Taxation to local governments were processed faster than expected, which created a $17.9 million monthly overage in line item 110-901, Property Tax Allocation. The Department of Education's piece of personal property tax relief payments (line item 200-901, Property Tax Allocation), which are disbursed to school districts, went in the opposite direction, as slower than expected processing generated a $23.9 million monthly underage. The net effect of these two timing-based variances was a monthly underage of $6.1 million.

The fiscal year-to-date property tax relief disbursement picture mirrored the month, with the Department of Taxation posting a $23.7 million overage and the Department of Education posting a $14.8 million underage. The net effect of these two timing-based variances was a year-to-date overage of $8.9 million. By the close of the fiscal year, two months away, we should see the disbursement variance in the property tax relief program approach zero, as there is no reason to believe that actual FY 1999 spending will not land extremely close the estimate.❑

**LBO colleagues developing material that anchored this article include, in alphabetical order, Ogbe Aideyman, Laura Bickle, Sybil Haney, Sharon Hanrahan, Alexander C. Heckman, Steve Mansfield, Jeff T. Petry, Corey Schaal, and Wendy Zhan.*

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS THIRD QUARTER, FY 1999

— *Allan Lundell*

Total sales for the third quarter of FY 1999 were $508.9 million, down 16.6% from second quarter sales and down 8.4% over sales for the third quarter of FY 1998. Year to date sales through the third quarter of FY 1999 ($1,626.7 million) are 2.9% lower than year to date sales through the third quarter of FY 1998 ($1,675.6 million). Although lower than the previous fiscal year, FY 1999 year to date sales are slightly ahead of forecast. Sales were initially forecasted to be $2,101.4 million for FY 1999. In recent years, sales through the third quarter have averaged 74.7% of total fiscal year sales. Applying this percentage to the initial forecast for FY 1999 yields a forecast of sales through the third quarter of $1,569.2million. Year-to-date sales are 3.6 percent above forecast. FY 1999 sales and transfers are summarized in Table 1. For the third quarter of FY 1999, transfers totaled $160.5 million. Year-to-date transfers are $8.97 million below the amounts projected.

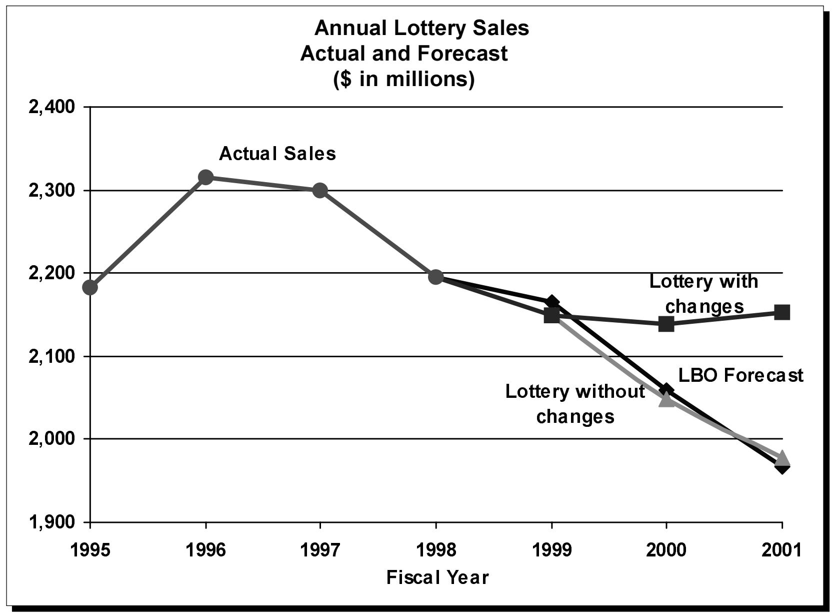
Table 1, FY 1999 Lottery Ticket Sales and Transfers to LPEF, millions of dollars

	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfers as a Percentage of Sales
Jul 98	$165.81	$53.62	$57.37	$-3.75	-6.54	32.34
Aug 98	171.65	55.31	57.04	-1.72	-3.02	32.22
Sep 98	169.91	55.11	56.34	-1.23	-2.18	32.43
Q1 99	**507.38**	**164.04**	**170.75**	**-6.70**	**-3.92**	**32.33**
Oct 98	177.34	56.71	56.40	0.31	0.54	31.98
Nov 98	175.67	57.05	57.72	-0.67	-1.17	32.47
Dec 98	257.85	70.41	59.72	10.69	17.91	27.31
Q2 99	**610.86**	**184.16**	**173.83**	**10.33**	**5.94**	**30.15**
Jan 99	167.20	51.24	57.61	-6.37	-11.05	30.64
Feb 99	164.30	53.31	56.01	-2.70	-4.83	32.45
Mar 99	177.42	55.93	59.45	-3.53	-5.93	32.52
Q3 99	**508.91**	**160.47**	**173.07**	**-12.60**	**-7.28**	**32.53**
Year to Date	**$1,626.7**	**$508.7**	**$517.7**	**$-8.97**	**-1.73**	**31.27**

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
Jul 98	$33.46	$10.40	$6.31	$4.51	$27.24	$81.92	$83.89	$165.81
Aug 98	32.10	10.01	6.05	4.68	28.67	81.50	90.15	171.65
Sep 98	31.74	10.04	5.88	4.79	30.01	82.45	87.46	169.91
Q1 99	**97.29**	**30.45**	**18.23**	**13.98**	**85.92**	**245.87**	**261.50**	**507.38**
Oct 98	32.76	10.63	6.16	4.73	29.28	83.55	93.78	177.34
Nov 98	31.09	9.90	5.76	3.85	22.94	73.55	102.11	175.67
Dec 98	34.57	10.85	5.79	8.95	70.40	130.55	127.30	257.85
Q2 99	**98.42**	**31.38**	**17.71**	**17.53**	**122.62**	**287.66**	**323.20**	**610.86**
Jan 99	31.86	9.91	5.41	4.59	28.44	80.21	86.99	167.20
Feb 99	31.63	9.78	5.39	3.75	21.78	72.33	91.97	164.30
Mar 99	35.85	11.03	6.13	4.23	24.75	81.98	95.44	177.42
Q3 99	**99.34**	**30.71**	**16.92**	**12.57**	**74.97**	**234.51**	**274.40**	**508.91**
Year to Date	**$295.05**	**$92.95**	**$52.86**	**$44.08**	**$283.51**	**$768.04**	**$858.70**	**$1,626.75**

Sales information for the first three quarters of FY 1999 is presented in Table 2. Total sales for the third quarter were down 16.7% compared to second quarter sales. Instant ticket sales were 15.1% lower and on-line sales were 18.5% lower. The decrease in on-line sales was lead by the 38.9% decrease in Super Lotto sales. Kicker sales fell by 28.3%, Buckeye Five sales fell by 4.5%, and Pick 4 sales fell by 2.1%. Pick 3 sales increased by 0.9%. Given that sales for the second quarter of FY 1999 were boosted by record setting December sales, a better indication of sales trends is given by a comparison of year-to-date sales through the third quarter for FY 1998 and 1999. Year-to-date sales for FY 1999 are down 2.9% when compared to the same time in FY 1998. On-line sales are down 5.1% and Instant Ticket sales are down 0.8%. Pick 3 sales are down 7.7%, Buckeye Five and Kicker are sales are down 4.6%, Super Lotto sales are down 4.0%, and Pick 4 sales are down 0.4%.



The record sales of December 1998 were an exception to recent lottery sales. Total sales peaked at $2,314.7 million in FY 1996, declined to $2,299.9 million in FY 1997, and fell to $2,195.8 in FY 1998. Sales were initially forecasted to be $2,101.4 million in FY 1999. Sales are expected to continue to fall due to the maturing of the Ohio Lottery and increased competition for Ohio's gaming dollars. LBO estimates that lottery sales will be $2,164.2 million in FY 1999, $2,059.7 million in FY 2000, and $1,967.9 million in FY 2001. The Lottery Commission forecasts sales to be $2,148.6 million for FY 1999, $2,139.3 million in FY 2000 and $2,152.7 million in FY 2001. LBO's forecast is based on recent trends in sales and assumes no change in the current mix of games offered by the Ohio Lottery. The Lottery's forecast incorporates proposed changes in games, prizes, and advertising that are expected to boost sales. Changes in games are somewhat risky since consumer reaction can never be fully anticipated; however, it is also risky to not make changes in the face of declining sales and profits. The Lottery's forecast of sales ***without*** the changes in games, prizes, and advertising are $2,049.0 million in FY 2000 and $1,977.6 million in FY 2001. These estimates are fairly close to LBO's estimates. Recent sales and forecasts for the upcoming biennium are presented in the accompanying chart. ❑

Issues of Interest

Background on TANF Spending Options

Steve Mansfield

On April 12, 1999, the Department of Health and Human Services issued the final TANF regulations. The "Final Rule" contains a provision that will have a substantial impact on the ability of the Ohio Department of Human Services to spend reserved funds in the ways that have been planned. As well, the Final Rule contains several provisions that present greater flexibility in the use of state funds that are used in Ohio's TANF programs. The following background analysis describes the key features of the TANF law on the rules on spending TANF state and federal funds, the funding options, and the decisions that now face policy makers in Ohio.

I. The Matching Grant System of the Old Aid to Families with Dependent Children Program

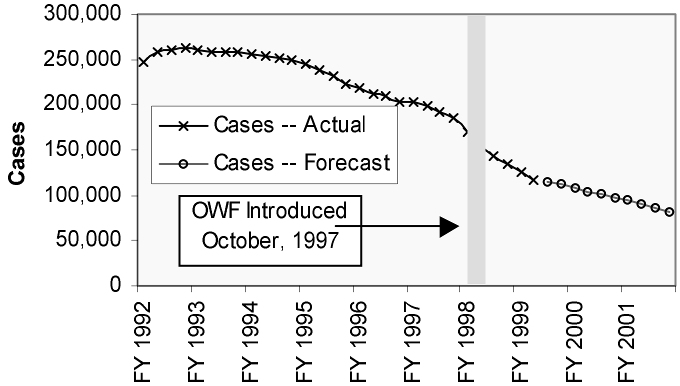
The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, which established the Temporary Assistance for Needy Families (TANF) program, fundamentally altered the financial and programmatic structure of the nation's "safety net" program for poor families with children. Prior to TANF, under the Aid to Families with Dependent Children (AFDC) program, the federal government provided states with open-ended matching funds if a state decided to participate in the program. The old AFDC program was an "entitlement" for states that chose to operate an AFDC program. The states that participated received a reimbursement for their welfare spending of 50 to 80 percent, depending on per capita income. In Ohio, this reimbursement averaged approximately 60 percent over the decade prior to PRWORA. Each state that participated determined (as continues today under TANF) the income standards for eligibility and the benefit levels of recipients. Recipients had a "right" (which also continues under TANF) to equal treatment in the determination of their eligibility and benefit levels. Under the original entitlement that was granted to participating states, federal appropriations were provided as a reimbursement for the assistance provided to needy families. If a state experienced an increase in welfare expenditures due to an increase in case loads or changes in benefit levels, this would result in an increase of federal reimbursements, and vice versa.

II. Ohio's MOE & the Federal TANF Reserve—What are they?

The TANF program establishes a flat block grant to the states through FFY 2002. Ohio's annual TANF block grant is based on the amount of federal funds expended in FFY 94 for three eliminated programs: AFDC, Job Opportunity and Basic Skills (JOBS) program, and the Family Emergency Assistance (FEA) program. The annual federal TANF grant to Ohio is approximately $728 million. Under the program, Ohio is required to meet a maintenance of effort (MOE) requirement of 80 percent of what it spent in FFY 94 on the three eliminated programs (approximately $417 million), through FFY 2002. This MOE may be reduced to 75 percent if the state meets the work participation requirements established in the program.

If the state fails to meet the MOE, its TANF grant for the next FFY will be reduced by the amount of

FIGURE 1
OWF Combined Caseload
FY 1991 -- FY 2001 (LBO Forecast)



At the end of FFY 1998, and after a transfer of $72.8 million to the Social Services Block Grant, Ohio had a TANF reserve of approximately $544.9 million. The Ohio Department of Human Services (ODHS) has projected that by the end of state fiscal year 2001 Ohio's TANF reserve will grow to about $905.2 million. LBO has projected that the TANF reserve will be $937.6 million by the end of SFY 2001 (*see Table 1, below*). However, both of these forecasts were prepared prior to the recent publication of the TANF Final Rule by the U.S. Department of Health and Human Services, and do not take account of policy changes on the use of TANF reserves. The TANF Final Rule includes a limitation on spending TANF reserve funds that will be discussed in section VI, below.

the deficit, and the state will be required to increase its TANF spending by an amount equal to the penalty.

A key factor easing the process of transition to the new environment of TANF is that caseloads have been going down steadily since the spring of 1992 (*see Figure 1*), as Ohio and the nation have experienced uninterrupted economic expansion. As a result, Ohio and most other states have, under the block grant, received more federal money than they would have under the old funding system.

The reductions in recipient case loads reduce the amount of "baseline" cash benefits, thus leaving more funds available for other TANF related program services or activities, introducing the need for states to manage reserves for future needs, and making room to provide more intensive services to those "harder to serve" recipients who remain on the caseload. If TANF grant funds go unspent in a particular year, the PRWORA legislation provides that "a State may reserve amounts paid to the State under [this legislation] for any fiscal year for the purpose of providing, without fiscal year limitation, assistance under the State program funded under [this legislation]."

III. What is Ohio's MOE?

In order to receive the federal block grant, Ohio is required to meet a minimum MOE requirement of 80 percent of what it spent in FFY 1994 on the three eliminated programs (approximately $417 million), through FFY 2002. The MOE can be lowered to 75 percent if the state meets its work participation requirements.[1] Current funding is at the 77 percent level. Ohio has five different sources of revenue that make up the MOE (see *Table 2*).

IV. Spending Federal TANF Funds

Compared to AFDC, there is a great deal of flexibility in the use of TANF monies. TANF Federal monies can be used to support a wide range of activities and some of the monies can be transferred into other programs that serve low-income recipients. State expenditures in these outside areas can count toward the state's maintenance of effort (MOE) requirement. It is important to remember when discussing aspects of this flexibility that, while TANF

TABLE 1 - TANF Federal Grant Cumulative Reserve
(millions)

	FFY 1997	FFY 1998	SFY 1999	SFY 2000	SFY 2001
Reserve reported to HHS	$273.8	$544.9			
ODHS forecast			$668.4*	$750.1*	$905.2*
LBO forecast			$677.2‡	$772.4‡	$937.6‡

**projected by ODHS budget plan of 3/29/99. ‡projected by LBO.*

TABLE 2 Components of TANF State Maintenance of Effort	FY 2000 *(in millions)*	FY 2001 *(in millions)*
400-410, TANF State	$261.9	$261.9
400-413, Day Care MOE	$51.9	$51.9
400-658, Child Support Collections	$42.8	$42.8
County Share	$29.2	$29.2
State Operating	$15.3	$15.3
TANF MOE at 77% level	$401.0	$401.0

monies can be used outside of what might strictly be regarded as the TANF program, there are three general limitations: (1) expenditures must meet statutory requirements for "qualified State expenditures;" (2) such expenditures must be made with respect to "eligible families;" and (3) such expenditures need to supplement current state efforts, not replace them.

The PRWORA defines "qualified State expenditures" as total expenditures by the state in a fiscal year under all State Programs for the following activities with respect to "eligible families":

- Cash assistance;
- Child care assistance;
- Educational activities designed to increase self-sufficiency, job training, and work, excluding any expenditures for public education in the State except which involve the provision of services or assistance to a member of an eligible family which is not generally available to persons who are not members of an eligible family;
- Any other use of funds allowable under section 404(a)(1) of the act;
- Administrative costs in connection with providing the above benefits and services, but only to the extent that such costs do not exceed 15 percent of the total amount of qualified state expenditures for the fiscal year.

The term "eligible families" is interpreted by the federal Administration for Children and Families to mean that "State expenditures count as MOE only if made to or on behalf of families which: (1) have a child living with a parent or other adult relative (or to individuals which are expecting a child); and (2) are needy under the TANF income standards established by the State under its TANF plan."

Unless otherwise prohibited, a state may spend TANF funds in any manner that the state was authorized to use funds as of September 30, 1995, under the three eliminated programs referred to above, and associated child care programs. Or if the state operated under a waiver, a state may spend TANF funds in any manner that the state was authorized to use funds as of August 21, 1996 until the waiver expires.

Other "Reasonably Calculated" Expenditures

The "other uses" referred to above are described in section 404(a)(1) of the PRWORA, which states that TANF grants may be used "in any manner that is reasonably calculated to accomplish the purpose of this part, including to provide low-income households with assistance in meeting home heating and cooling costs."

What are the purposes of the TANF program? The four broad purposes of TANF, stated by the PRWORA, are to:

- Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies;
- Encourage the formation and maintenance of two-parent families.

Transfers

The act also specifies that a portion of the TANF federal monies may be transferred and used for other purposes. Specifically, up to 30 percent of the grant may be transferred to the Social Services Block Grant (SSBG) or Child Care Development Block Grant (CCDBG) programs, with the provision that not more than 10 percent of the TANF grant may be transferred to the Social Services Block Grant program. In FFY 2001, the portion transferable to the SSBG is reduced to a maximum of 4.25 percent of the TANF federal block grant.

Once transferred, funds are no longer subject to the requirements of TANF, but are instead subject to the requirements of the program to which they are transferred. However, funds transferred to the Social Services Block grant may only be spent on children or families with income up to 200 percent of poverty.

Funds transferred to the CCDBG do not carry TANF strings, but must meet the criteria of the CCDBG. A new section of the Social Security Act, dealing with the Child Care Development Block Grant, and added by the PRWORA, provides that:

> A State shall ensure that not less than 70 percent of the total amount of funds received by the State in a fiscal year under this section are used to provide child care assistance to families who are receiving assistance under a State program under this part, families who are attempting through work activities to transition off of such assistance program, and families who are at risk of becoming dependent on such assistance program.

V. What Expenditures Cannot Count Toward Ohio's MOE?

Generally speaking, expenditures which states make as a condition of receiving Federal funds under other programs may not be included as part of the state's TANF MOE requirement. An exception to this restriction is provided for certain child care expenditures that are allowable under the CCDBG.

The final TANF rule issued by HHS requires a "new spending test" that will apply for state MOE on new programs not previously a part of the prior Title IV-A (AFDC) program. States can only claim as MOE the difference between current expenditures on eligible families and 1995 total program expenditures. These expenditures must meet the requirements of qualified state expenditures referred to above in section IV.

All expenditures made under a state or local program that had been previously authorized and allowable under the former AFDC, EA, and JOBS programs in effect as of August 21, 1996, can count toward the state's MOE. There is no requirement that these expenditures be additional or new, above FY 1995 levels.

The following items are examples of expenditures that may not count:

- Expenditures of funds that originated with the Federal government;
- State expenditures under the Medicaid program under title XIX of the Social Security Act;
- Expenditures that a state makes as a condition of receiving Federal funds under another program, except for those matching funds expended under the requirements of the Child Care Development Block Grant;
- Expenditures made in other years than the one for which MOE is being calculated;
- Expenditures on services provided to children who are absent from the home for a significant period;
- Expenditures for the construction or purchase of buildings;
- State funds set aside for contingency purposes.

VI. What Limitations Exist on Spending TANF Reserves? How Does This Affect ODHS's Plans For the Reserves?

On April 12, 1999 the Administration for Children and Families in the federal Department of Health and Human Services issued the final regulations for TANF. The "Final Rule" contains a provision that will have a substantial impact on the ability of ODHS to use reserved funds in the ways that have been planned. In particular, the rule requires that any reserved TANF funds carried over from previous fiscal years be spent only on assistance (as this term is defined in the final rule) and can not be used on a broad range of services. The Final Rule does not go into effect until October 1, 1999, which allows states to spend or transfer TANF reserves before the limitation begins.

As noted above, in Table 1, ODHS anticipates a reserve balance of over $750 million in SFY 2000 and over $900 million in SFY 2001. Beyond maintaining $75 million per year for caseload contingencies, ODHS has planned to spend a substantial portion of these reserves in ways that will not qualify as assistance. When the Final Rule goes into effect the definition of assistance will not allow ODHS's planned expenditures from unobligated reserves on the following items: incentives to counties (to the extent they are not directed toward "assistance"), disaster relief, training county staff, employment and training services under that TANF E & T program, and child care for employed individuals.

Under the TANF Final Rule, the term "assistance" includes "cash, payments, vouchers and other forms of benefits designed to meet a family's ongoing basic needs." Assistance also includes supportive service such as transportation and child care provided to families who are not employed.

Excluded from the definition of "assistance" are non-recurrent, short-term benefits designed to deal with individual crisis situations rather than ongoing need. These benefits cannot provide for needs that will extend beyond four months. The definition also excludes child care, transportation, and other support services to employed families, contributions to Individual Development Accounts, refundable earned income tax credits, work subsidies to employers, and services such as education and training, case management, job search, and counseling.

ODHS has administratively designated eight reserve funds; each is derived from federal funds, held at the federal level, and specified for particular spending purposes in the current and future fiscal years. The federal government holds all these funds in one of two categories (Federal Unliquidated Expenditures and Unobligated Balance) and does not recognize these balances as designated for any specific purposes. The determination by the state that certain funds are designated as an unliquidated expenditures or obligations is subject to review by the U.S. Department of Health and Human Services as to how these funds have been obligated and spent.

It would appear that Ohio will be required to alter how these funds are reported. Funds that are not obligated in a manner that conforms to the definition of "obligation" in Title 45 of the Code of Federal Regulations, section 92.3, must be reported as an unobligated balance. Mack Storrs, Director, Division of Self-Sufficiency, Office of Family Assistance, in the Administration for Children and Families of the U.S. Department of Health and Human Services, recently indicated that reporting by states of funds as unliquidated expenditures which are in actuality an unobligated "rainy day" balance is "not correct."[2] Mr. Storrs further said that erroneous reporting of unliquidated expenditures that do not meet the definition of that term carries a potential penalty of four percent of the state's annual TANF grant. If such funds are not only erroneously reported but also drawn down and used for improper purposes the state faces a further potential penalty of five percent of its annual TANF grant.

The reserve funds that ODHS has designated are:

- The Caseload Contingency Reserve—Ohio has chosen to leave $75 million per year of unappropriated federal TANF funds "on account" with the federal government. As of September 30, 1998, this designation held $150 million. All of these funds have been reported to the federal government as "unliquidated expenditures" despite the fact that they have never been appropriated. The TANF Final Rule specifies that "The State must report any Federal funds reserved for "rainy day" purposes as an unobligated balance." An additional $75 million will be added to this designation by the end of state fiscal year 1999.

- The New County Incentive Reserve—Counties entering a partnership agreement with the state are offered a set of performance-based financial incentives to encourage increased work participation rates, reduced out-of-wedlock pregnancy, other performance measures. H.B. 215 of the 122nd General Assembly earmarked up to $15 million in fiscal year 1999 to provide such incentives without specifying that such funds be drawn from reserves. As of September 30, 1998, this designation held $90 million. To the extent that these funds are obligated in a manner that meets the federal definition of an obligation, they may be employed in the year after they were awarded for non-assistance purposes. Otherwise, they can only be employed for benefits that fall within the definition of assistance.

- The Caseload Reduction Incentive Reserve—Another incentive for counties is based on reductions in cash assistance expenditures. Those counties which have already entered into a partnership agreement with the state will share the reserve amount set aside for a particular fiscal year according to their percentage of the overall reduction in expenditures among those participating counties. As of September 30, 1998, this designation held $45 million. To the extent that these funds are obligated in a manner that meets the federal definition of an obligation, they may be employed in the year after they were awarded for non-assistance purposes. Otherwise, they can only be employed for benefits that fall within the definition of assistance.

· The Disaster Fund Reserve—An element of the Prevention Retention and Contingency (PRC) Program. Funds to be allocated to counties declared to be disaster areas by the Governor. Counties determine eligibility for assistance. As of September 30, 1998, this designation held $15 million. Benefits designed to deal with individual crisis situations are explicitly excluded by the TANF Final Rule from the category of assistance.
· The Training Reserve—A reserve for county department of human services staff training during the process of making the transition from an eligibility determination focus to a workforce focus. As of September 30, 1998, this designation held $6 million. Training for county staff clearly falls outside the definition of assistance.

· The Welfare To Work Reserve—A reserve established to fund the TANF Employment & Training (TANF E & T) program. As of September 30, 1998 this designation held $132 million. Employment and training services are explicitly excluded by the TANF Final Rule from the category of assistance.

· The Early Start Statewide Reserve—A reserve established to expand the Ohio Early Start Program to provide services to children aged birth to three years who are identified with or at risk of developmental difficulties, abuse or neglect. The Ohio Early Start program is administered by the Department of Health. As of September 30, 1998, this designation held approximately $28 million. These services do not clearly fall within the definition of assistance.

· Child Care Reserve from SFY 98 Earmark—approximately $19.8 million out of $29.4 million of funds earmarked for TANF Child Care in SFY 98 went unspent. These funds are now held as reserves to be spent on child care as needed. The TANF Final Rule specifically excludes child care for employed families from the category of assistance.

Unless these funds are obligated in a manner that conforms to the definition of obligation in the Code of Federal Regulations, they will enter Ohio's unspent TANF Federal Block Grant balance as unobligated and can only be spent in the future on assistance. When funds are obligated in a manner conforming to the requirements the Final Rule specifies that a state "must liquidate these obligations by September 30 of the immediately succeeding Federal fiscal year for which the funds were awarded."

VII. Options in Satisfying the MOE Requirement

A state can choose from three different budget options in structuring its spending that counts toward the MOE requirement.[3] States can **commingle** state and federal funds in a single TANF program; expend state funds **segregated** from federal funds in the state's TANF program; or expend state funds in a **separate state program** in which no federal TANF funds are used.

The distinctions between the three options matter because there are trade-offs with regard to state flexibility to design programs to pursue desired goals. The choice between these options will affect access to the federal Contingency Fund. The proposed TANF regulations could have subjected a state to a more stringent set of rules on the treatment of penalties, depending on the choice of options. Under the Final Rule, HHS has dropped the proposed policies that would have restricted the availability of penalty relief for states that operate separate state programs.

If a state **commingles state and federal funds** in a single TANF program the federal and state funds are subject to the same rules. Time limits, other prohibitions, participation and work requirements, and child support requirements apply to all "assistance" provided under the program. Such expenditures count toward both the state's basic MOE and Contingency Fund MOE.

If a state uses the model of **segregated state funds** within a TANF program, then the federal time limit and other prohibitions will not apply to families receiving "assistance." However, such families must still meet participation and work requirements, and child support requirements. Expenditures of segregated funds count for both basic MOE and Contingency Fund MOE purposes.

If a state provides services and "assistance" through a **separate state program,** recipient families are not subject to TANF time limits, participation and work requirements, and child support requirements, and other prohibitions. Expenditures in separate state programs count toward the basic MOE requirement, but not toward the Contingency Fund MOE. While separate state programs are exempted from family level TANF reporting requirements, a state that wishes to receive a high performance bonus, qualify for a work participation caseload reduction credit must collect case-record data where the benefits or services fall within the TANF definition of assistance.

VIII. How Important Is Access To the Federal Contingency Fund? What Are the Conditions and Costs Associated with Accessing the Contingency Fund?

In order to access the Contingency Fund, a state must meet a 100 percent level of MOE in the year it receives the funds.[4] Based on the proposed MOE expenditure level recommended by the Executive for FY 2000 and 2001, Ohio would need to spend an additional $119.1 million to come up to the 100 percent level; and then, to draw the maximum amount allowed, Ohio would have to provide a match of $88.4 million. In order to access $145.6 million in federal funds, the total cost to Ohio would amount to $207.5 million. In an economic downturn, when resources are already strained, this cost could be considered too high.

To access the contingency fund, a state would also have had to exhaust its TANF reserves. As indicated above, Ohio will have a cumulative TANF reserve of about $677 million by the end of SFY 1999. Previous research by LBO calculates the cumulative cost of the additional caseload experienced during the recession years 1990-1994 was $617 million.[5] Although the caseload would be starting from a smaller base in any recession scenario likely to develop in the next few years, the amount of the current TANF reserve now exceeds the cost of the additional caseload that was experienced over the first five years of the decade. Any forecast of the impact of contemporary recession scenarios would need, of course, to take into account the changes in program rules, and different demographic trends, among other things.

The increased spending that would be required and the current size of Ohio's TANF reserves limit the significance of the option to access the federal Contingency Fund. Perhaps even more critical to the determination of this issue—President Clinton's fiscal year 2000 budget request either repeals or reduces (summaries differ) the existing contingency fund.[6] While the proposed repeal or reduction has yet to be implemented, it certainly suggests that states should begin to think differently about their MOE options.

IX. Is a Shift in Strategy on MOE Called For?

Under the federal law and regulations (see the discussion in section IV, above), Ohio could claim new expenditures that are "reasonably calculated" to accomplish the purposes of the TANF program as MOE expenditures. Below are examples of programs funded in other states as "separate state programs." A state adopting any of these approaches can claim them as MOE spending, thereby reducing MOE is that is spent on "assistance," and instead shift federal TANF funds to replace spending in the state's MOE that would have been used for cash assistance. In SFY 1998 $308.6 million within the Ohio's MOE requirement of $419.1 million was spent on cash assistance. Establishing new services and programs with state MOE funds could help to limit accumulation of future federal reserves and thereby also reduce the prospect of an attempt by the federal government to rescind reserves that remain at the end of the five year period of the TANF block grant.

At the same time, however, it should be noted that the narrower definition of the term "assistance" also gives greater flexibility to the use of current year federal TANF dollars for the innovative delivery of services. Several of the following items—because they involve services and not assistance—could be accomplished with federal TANF dollars, or state dollars that are commingled with federal dollars. Perhaps the clearest situation where a state would want to develop a separate state program is where there is a policy decision that it would be desirable to deliver benefits that would fall within the definition of assistance, but the state would like to deliver those benefits without time limits, work participation requirements, or child support assignment. Following are examples of programs adopted in other states:

· Continuing assistance for children of adults who exhaust their time-limited benefits or whose case is closed due to sanctions;
· College tuition funds for children of welfare families—purchase a block of prepaid tuition units that can be awarded as scholarships to selected chil-

dren of TANF recipients. The cost can be counted against the state MOE in the year of the purchase, the children can use the tuition units (even for room and board expenses) after they turn 18 and enroll in college;

- Medical expenses that serve the purposes of the PRWORA—provided that state MOE funds have not been commingled with federal funds. Such expenses cannot be used as Medicaid matching funds;[7]
- Services in Homeless Shelters;
- Refugee and immigrant services (job training, English as a 2nd language, etc.) for immigrants who can not be served under TANF;
- Earned Income Tax Credit—the refundable portion of a state EITC can be counted against the state MOE;
- "Off the time-limit clock" programs— such things as job retention services, or education benefits and services received by employed recipients out of state and local funds may be provided without a time limit. Or, for students in higher education on condition of good performance who have gone past the number of hours allowable within the terms of the rules for participation, funding benefits out of state and local funds would allow the student/recipient to receive benefits "off the clock;"
- Assistance Groups with Grandparents as the adult care giver could be funded in a separate state program, without time limits and work participation requirements;
- Assistance could be provided to other families with special needs such as those unable to engage in work for the requisite hours—e.g., families dealing with substance abuse, incapacity (or caring for a disabled child). Such families would be exempt from time limits and work requirements;
- Individual Development Accounts—while federal TANF funds can be used to pay administrative costs of IDAs, or as matching contributions to IDAs, state funds can also be used for these purposes.

X. Conclusion

By narrowing the definition of assistance, the TANF Final Rule encourages even greater state flexibility and innovation in the design of programs to move families will multiple barriers toward self-sufficiency and to provide support for working families who are transitioning off welfare or are in an "at risk" category. It will now be easier for states to use TANF moneys and state MOE moneys to fund services and programs that do not carry restrictive rules like time limits, work participation requirements, and child support assignment, and do not have the more extensive reporting requirements that are attached to providing those supports that fall within the definition of "assistance."

Ohio has acquired a very large reserve in TANF Federal Block Grant funds. Beginning October 1, 1999, these reserve funds may only be expended on assistance or on the related administrative costs of providing assistance. A significant portion of "cash assistance" is currently paid for from state MOE funds. Federal TANF dollars could be more effectively tapped, rather than letting them build up as reserves, if ODHS and county departments of human services develop alternative support services for former recipients who are now working and for those families with multiple barriers to self sufficiency, who remain on the rolls. Either current year state MOE or federal TANF funds can be used to provide these services. The choice of which to use should turn on whether the state wants to do something that would be considered as "assistance" under the federal rule but the state would like to provide as if it was non-assistance, and therefore exempt from time limits, work participation requirements, and child support assignment. ❑

End Notes

[1] For details on federal work participation requirements, please see Steve Mansfield, "Ohio Works First Participation Rates and Requirements," Ohio Legislative Budget Office, *Budget Footnotes*, November/December, 1998, p. 102.

[2] Telephone conference call moderated by the National Association of Child Advocates, June 1, 1999.

[3] This discussion summarizes key points from Steve Savner and Mark Greenberg, "The New Framework: Alternative State Funding Choices Under TANF," March 1997, The Center for Law and Social Policy.

[4] National Conference of State Legislatures, "Analysis of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996," as revised August 30, 1996, p. 4, describes additional conditions for accessing the contingency fund. In addition to meeting the 100 percent MOE level, a state must meet one of two triggers to access the contingency fund: 1) The unemployment trigger—a state must have an unemployment rate of at least 6.5 percent

End Notes (continued)

and the average rate must be at least 10 percent higher than the same quarter in either of the two preceding years; or 2) The food stamp trigger—a state would be eligible if the number of food stamp recipients (for the most recent three month period for which data is available), is 10 percent greater that the monthly average number of individuals that would have participated in the food stamp program in FY 1994 or FY 1995 (whichever is lower) in the corresponding three month period if the changes in cash assistance and benefits for immigrants made be the PRWORA had been in effect.

[5] Steve Mansfield, "TANF Reserve Funds," Ohio Legislative Budget Office, *Budget Footnotes*, May 1998, p. 204.

[6] National Governors' Association, NGA Online http://www.nga.org/106Congress/WelfareReform.asp "Welfare Reform, Current Status," as of April 26, 1999. However, according to the National Conference of State Legislature's February 2, 1999 summary of the proposed budget, "The budget reduces the **TANF Contingency Fund** by $360 million along with a legislative proposal making it easier for states to access the money."

[7] Department of Health and Human Services, Administration for Children and Families, "Temporary Assistance for Needy Families Program (TANF); Final Rule" *Federal Register*, Vol. 64, no.69, April 12, 1999. Section 263.2(a)(4), on page 17894, specifies as countable toward meeting a State's basic MOE expenditure requirement is included the following: "Any other use of funds allowable under section 404(a)(1) of the Act (such as nonmedical treatment services for alcohol and drug abuse <u>and some medical treatment services, provided that the State has not commingled its MOE funds with Federal TANF funds to pay for the services</u>), if consistent with the goals at sec. 260.20 of this chapter" (emphasis added).

Virtually LBO

Analyses of the State of Ohio's Budgets
— Barb Mattei Smith

LBO has been very busy with the production of documents to assist the legislature in the preparation of the state's biennial budget. The office has prepared economic forecasts, analyses of each agency's budget requests, comparison reports of legislative changes as the budgets have been amended, expenditure spreadsheets, and brief recaps of major spending and policy areas. To date, the office has created approximately 150 reports that have been posted to the website. We would like to take this opportunity to point out the budget information available on line and how to find it.

Your initial entry to the budget section of the LBO web site begins at the Operating Analysis entry page at: http://www.lbo.state.oh.us/ohbudget/opanalysis/. From there, you may choose any of the five paths listed:

- Redbooks http://www.lbo.state.oh.us/ohbudget/opanalysis/redbooks/ A redbook is prepared for each existing agency to provide an analysis of the initial agency budget requests and executive policy and expenditure recommendations.

- Forecasts http://www.lbo.state.oh.us/ohbudget/opanalysis/forecasts/ LBO presented estimates of economic growth, revenues, and public assistance expenditures to the House Finance and Appropriations Committee on March 16, 1999 as the committee began deliberations on the Governor's budget recommendations. In addition, the committee was presented with detailed documentation of the forecast assumptions and methodologies. This information is available by topic at the address listed. Forecasts will be updated later in June for the budget conference committees.

- Budget In Brief http://www.lbo.state.oh.us/ohbudget/opanalysis/bib/bib.pdf This document provides highlights of the main and education operating budgets. Chart and graphs outlining the appropriation amounts are supplemented with brief overviews of the major policy changes contained in the bills.

- Appropriation Spreadsheets http://www.lbo.state.oh.us/ohbudget/opanalysis/spreadsheets/

  These spreadsheets contain appropriation amounts contained in the five appropriations acts in their various stages of the process. In addition, the spreadsheets contain historical expenditure data for all state programs in fiscal year 1998 and estimates of 1999 expenditures.

- Compare Documents. http://www.lbo.state.us//ohbudget/opanalysis/comparedocs/ These documents provide a comparative analysis of the temporary law changes and fiscal effects of permanent law changes made as the budget bills are under consideration by both the House and Senate. All temporary law changes associated with agency appropriation sections and other temporary law changes with fiscal effects appear in this document. For permanent law, only changes that have a fiscal effect are presented.

In addition to these items, another jump that may be of interest is to the pages outlining K-12 education funding estimates at:

http://www.lbo.state.oh.us/ohbudget/opanalysis/redbooks/edu/default.asp?dept=Education&title=estimates. These funding estimates, by school district, are based on current projections of valuation and ADM by local school districts for fiscal years 2000 and 2001.

Grab a cup of coffee, put your feet up and stop by LBO on the web to get up to date on the latest changes to the budget. We promise to have enough information there to make your trip worthwhile! ❑

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