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Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE JULY/AUGUST, 1998

FISCAL OVERVIEW

— Frederick Church

It was fitting that the National Conference of State Legislatures (NCSL) held its annual meetings in Las Vegas this year, because state governments, Ohio among them, hit the jackpot in FY 1998. In Ohio, 10 of the 12 GRF tax sources exceeded the original forecast. Tax revenue was $737.7 million above the estimate, or 5.5 percent. Year-over-year growth in tax revenue was 9.4 percent.[1] The total surplus in non-federal revenue was $852.6 million — year-over-year growth was 8.2 percent. The news on the other side of the ledger was also good, although not quite as striking. Spending excluding transfers, adjusting for the shortfall in federal revenue, was $227.3 million below estimate.[2] Altogether, Ohio ended FY 1998 with an unobligated GRF balance of $1,084.4 million. This provided for $200 million in capital funding for school buildings and solvency assistance, a $701.4 million tax cut, a carryover GRF balance of $90.7 million, an additional $44.2 million to the Budget Stabilization Fund (BSF), and $48.1 million in capital spending and offsets to the prior year tax cut. For more detailed information on the year-end balance and the tax cut amount, please see the separate article that follows the GRF summary.

As the year-end cash statement (Table 1) shows, Ohio's combined GRF and BSF balances for FY 1998 amounted to 13.6 percent of GRF spending, excluding transfers and federal moneys (i.e. state dollars only). This puts Ohio well ahead of the U.S. average (9.0 percent) and also ahead of all its neighboring states and fellow Great Lakes states, except for Indiana. Ohio was one of 17 states that had combined general fund and rainy day fund balances in excess of 10 percent of FY 1998 general fund spending, and was also one of the "billion dollar club" states.[3] This resurgence in the finances of the Great Lakes and Midwestern states is remarkable given the financial picture 15 years ago, and the forecasts of doom for the future.

Not surprisingly, the major force behind the revenue overage, and the single biggest factor in the FY 1998 surplus, was the personal income tax. GRF income tax collections finished $567.3 million above the original forecast, on growth of 15.4 percent.[4] Total income tax collections, including the amounts going to the local government funds, were $639.4 million above the estimate. The forecast error was a full 10.1 percent. While the dollar overages by component were very similar, the percentage growth and percentage variances were by far the highest in annual tax dues and quarterly estimated payments. The fact that so much of the surplus was in these components makes it clear that it was largely unan-

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STATUS OF THE GRF

QUARTERLY LOTTERY REPORT

ISSUES OF INTEREST

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

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

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ticipated by taxpayers (at least early in the year when expectations were formed). This is one of the factors leading OBM, LBO, and our counterparts in other states to attempt to isolate how much of FY 1998's income tax collections were transitory.

The explosive growth in personal income tax revenue was also a nationwide phenomenon. According to preliminary data from the Center for the Study of the States, 27 of the 41 states with broad-based personal income taxes (i.e. not just dividends or interest) had double-digit year-over-year revenue increases in FY 1998. The average increase nationally was 11.9 percent; in the Great Lakes it was 11.1 percent. Ohio did better than those averages, but its growth was close to the norm.

The other three major taxes also finished FY 1998 well above estimate. The sales and use tax did not quite finish with the $100 million overage that we anticipated a few months ago, but the $95.9 million overage was not far off. Both the auto and non-auto components of the tax had big overages and solid growth from last year, with the auto component slightly more robust. This should not be surprising in the current economic climate of low unemployment, steady (and increasing) wage growth, low inflation, and low interest rates. The corporate franchise tax finished the year $36.4 million over estimate, despite alarums about slowing corporate earnings. Of course, FY 1998 franchise tax payments reflect taxable year 1997 corporate income, which in Ohio means that they are based on CY 1996 and CY 1997 profits. The outlook for next year is substantially more uncertain, both because of falling profits and the delayed impact of tax cuts. Finally, the public utility excise tax finished the year with a $27.0 million overage, due largely to unexpected growth in natural gas tax revenues.

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

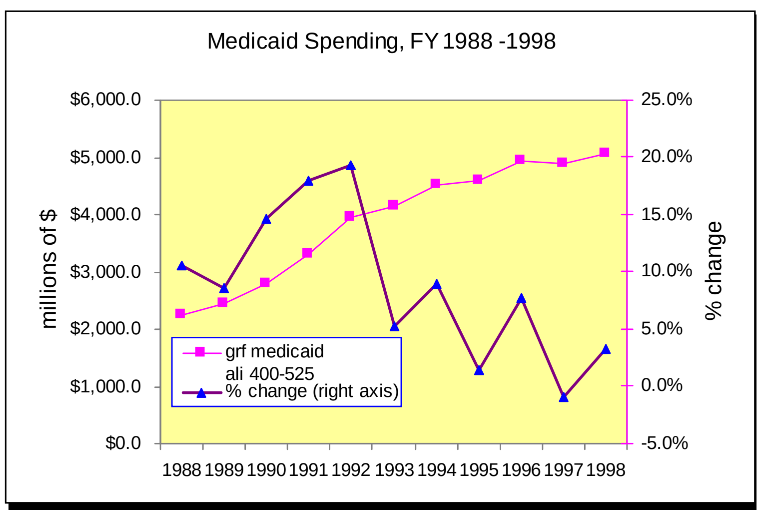
	Month of June	Fiscal Year 1998 to Date	Last Year	Difference
Beginning Cash Balance	$846.1	$1,367.7		
Revenue + Transfers	$1,907.1	$18,137.8		
Available Resources	$2,753.1	$19,505.6		
Disbursements + Transfers	$1,104.1	$17,856.6		
Ending Cash Balances	**$1,649.0**	**$1,649.0**	**$1,367.7**	**$281.3**
Encumbrances and Accts. Payable		$564.6	$532.8	$31.8
Unobligated Balance		**$1,084.4**	**$834.9**	**$249.5**
BSF Balance		$862.7	$828.3	
Combined GRF and BSF Balance		**$1,947.1**	**$1,663.2**	**$283.9**
Combined Balance as % of FY 1998 GRF Uses of Funds [State $ Only]		13.6%		
Indiana		17.7%		
Michigan		12.7%		
U.S. Average		9.0%		
Kentucky		8.5%		
Illinois		6.7%		
Pennsylvania		3.6%		
Wisconsin		3.5%		
West Virginia		2.7%		

In non-tax revenue, if one adjusts for the re-categorization of some revenues from licenses and fees to "other income," all sources except federal grants were above estimate. Buoyed by very high average daily cash balances, investment earnings were $45.2 million over estimate, and grew by 25.8 percent from the year before. Liquor transfers were $19.5 million over estimate.

Federal grants declined by almost $240 million, or 6.8 percent, from the previous year. The final shortfall was $472.7 million, more than the total underspending in human services programs ($469.2 million). Since the federal match on welfare programs is far less than 100 percent, and not all services are matched, this seems hard to explain. Looked at another way, Medicaid spending increased by 3.3 percent, but federal Medicaid reimbursement fell by 3 percent. In TANF, Ohio drew 31.3 percent less in federal grant money than last year. Spending from the 400-411 TANF federal block grant account was $435.5 million, but CAS reports show that federal revenue for TANF was only $329.6 million, more than $100 million lower. It has been suggested that the mismatch between the state and federal fiscal years somehow explains this, but LBO cannot confirm whether that is true.

Spending excluding transfers was $700.1 million below estimate, although the shortfall in federal revenue makes the net underspending only $227.3 million. The overage in transfers was essentially offset by transfers into the GRF on the revenue side of the ledger — for the most part these variances represent temporary transfers out of the GRF that are then repaid when bond proceeds are received.

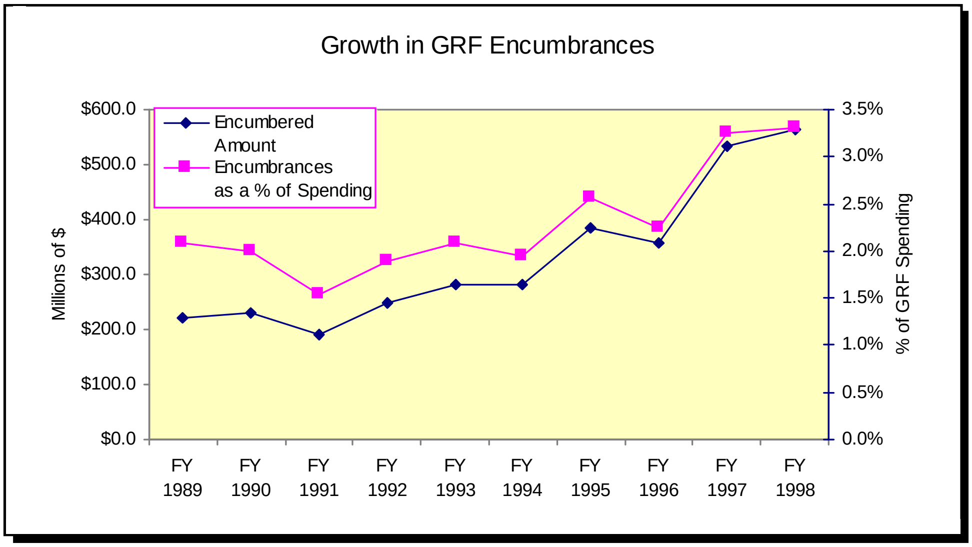
The biggest variances were in TANF and Medicaid. TANF spending was $228.8 million below estimate, dropping 11.0 percent from the prior year. Cash benefits were responsible for $106.6 million, or almost half of the total amount. The decline in caseloads was even more dramatic than the decline in spending: average monthly caseload fell by 22.0 percent between FY 1997 and FY 1998. Finally, the Department of Human Services did encumber about $20 million in TANF appropriations for various purposes.



Medicaid spending was $184.4 million below estimate, and growth from the prior year was only 3.3 percent. Of that amount, only $128.4 million is lapsed, with another $54.0 million being encumbered (transfers account for the remainder). As throughout the year, much of the underspending was in the HMO category. Further detail about Medicaid spending by category of service or recipient type will not be available until next month. In lieu of such information, we present the following chart on spending trends. As one can see, falling TANF caseloads, the deceleration in growth in the Aged, Blind, and Disabled (ABD) category, and slowing medical price inflation have all helped cut the growth in Medicaid spending. The biggest risk in Medicaid spending right now seems to come from prescription drugs, where both usage and prices are increasing rapidly.

Although the Other Welfare category was $31.4 million under estimate, largely due to underspending in line 400-416 computer projects, most of the money not spent was encumbered.

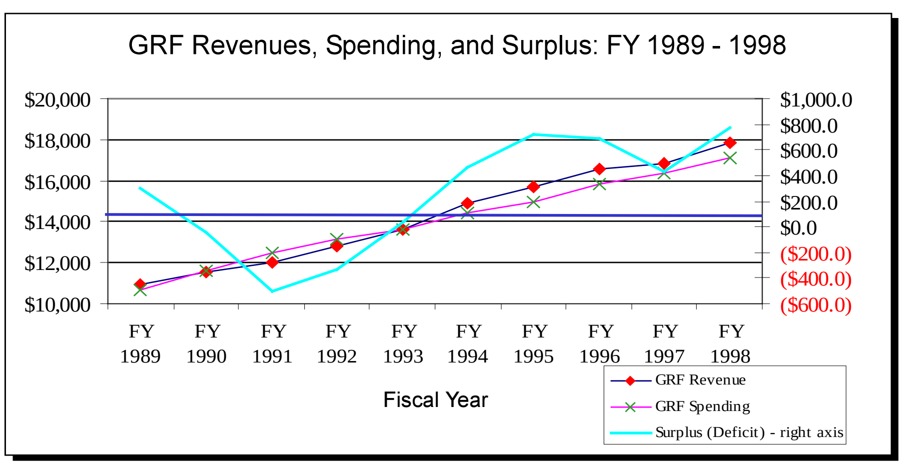
Outside of welfare and human services, there was substantial underspending in "other government" ($88.6 million) and primary and secondary education ($75.8 million). In the other government category, the Department of Administrative Services (DAS) was responsible for a large part of the variance. DAS left $34.3 million of its FY 1997 and FY 1998 appropriations unspent, lapsing $26.8 million and encumbering the other $7.5



million. In education, the basic aid item alone was underspent by $70.9 million. However, all of this money was encumbered for FY 1999. Altogether, the Department of Education left $138.4 million of its FY 1998 appropriations unspent — not counting tax relief ($2.4 million). The department lapsed very little ($9.1 million) and encumbered the remaining 93 percent ($129.3 million). In addition, the department kept encumbered $46.8 million of unspent FY 1997 appropriations.

Encumbrances hit a record high of $564.6 million in FY 1998, or 3.3 percent of GRF spending excluding transfers (but were only modestly higher than in FY 1997). The Department of Education alone was responsible for $207.1 million (the amounts identified above plus additional FY 1995 and FY 1996 figures). The chart below shows the last 10 years of GRF encumbrances, which have been rising steadily as a percentage of spending. LBO has not done an in-depth analysis of encumbrances, so we cannot say exactly where all of the increase in encumbered dollars has come from or how much of the encumbered monies are eventually spent. Unsystematic examination of spending patterns over the past few years suggests that some encumbered monies are not spent, and some of the spending that does occur seems to displace spending out of current year appropriations.

After this barrage of verbiage and numbers, some historical perspective may be helpful. A famous quote from the philosopher George Santayana states that those who cannot remember the past are condemned to repeat it. In the field of forecasting this aphorism is something of a double-edged sword. Forecasters who ignore history do so at their peril. On the other hand, the simple extrapolation of past trends also leads to trouble. Ohio and all the states have followed a distinctly cyclical fiscal path. The state falls short in recessions, and cuts spending, raises revenues, and uses the rainy day fund (if any). When the economy recovers, state forecasters are still very cautious, and the state begins to run budget surpluses. Eventually forecasts start to catch up with the new economic reality, and the executive and legislative branch become more aggressive in either increasing spending or reducing revenue in response to the surplus. Eventually the economy slows again, often catching forecasters at least somewhat unprepared, and the state once again falls into a deficit. So, a graph of budget deficits and surpluses tends to follow a sine-wave pattern. What one notices from looking at FY 1998 is that the huge income tax surprise pushed Ohio (and a number of other states) away from this pattern. Although the GRF surplus had been gradually shrinking, it exploded upward once again.



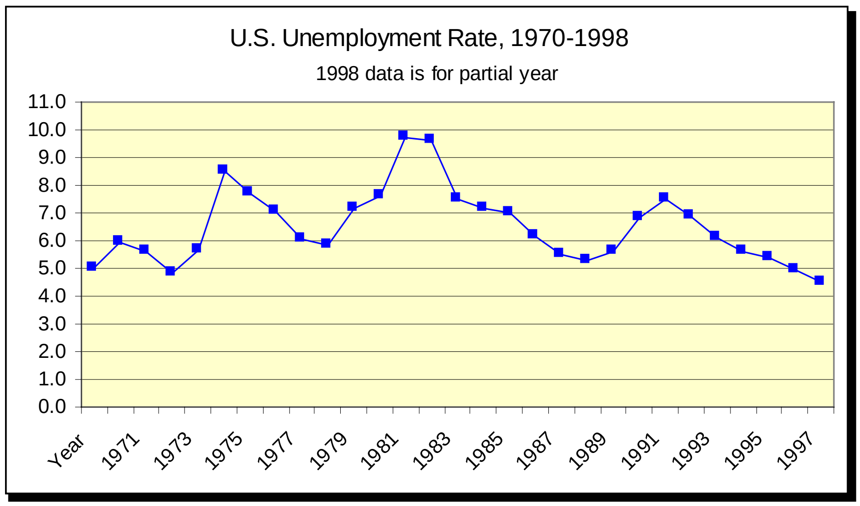
The chart on the previous page (entitled *GRF Revenues, spending, and Surplus*) looks at GRF revenues and spending net of transfers, except that liquor profit transfers are included in revenue.

Substantial uncertainty exists about FY 1999. The threat of a major correction in the stock market and unease about the depth of the economic turmoil in America's Asian trading partners has made a dent in consumer confidence, despite the fact that current economic statistics are still amazingly good. Past FY 1999, conflicting accounts about the magnitude of the Year 2000 computer problem and its effect on corporate profits have begun to make analysts leery. ❑

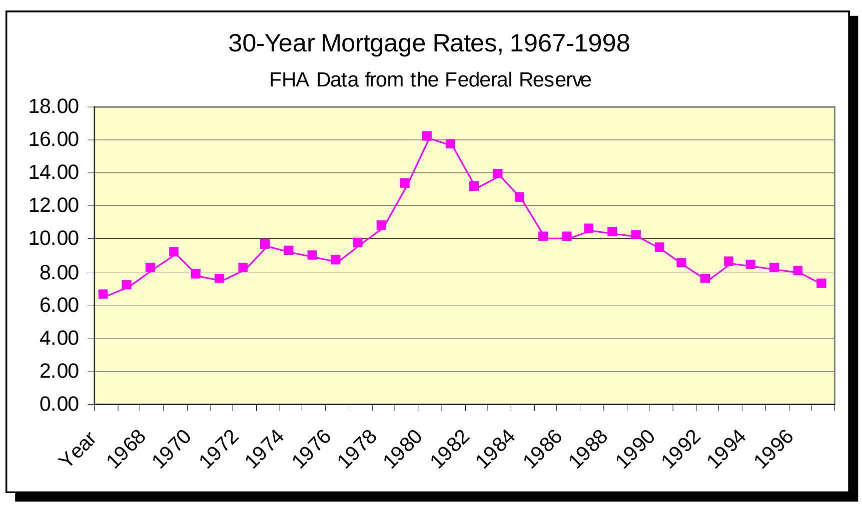
TRACKING THE ECONOMY

— Frederick Church

Economics as portrayed in the news media is very much concerned with the near future. This is the time horizon in which most commentators on financial markets operate. Now that the economic crisis in Asia and disappointing corporate earnings are roiling the financial markets, it is easy to forget what an extraordinary 12 months the nation has had. During FY 1998, unemployment fell to its lowest rate since 1973, and then proceeded to drop even lower. The U.S. unemployment rate hit 5.0 percent in April 1997, and counting that month, has been at or below 5.0 percent for 16 months in a row.



Meanwhile, inflation continued to fall along with the unemployment rate. For the 12 months that coincide with the state FY 1998, the CPI increased by only 1.8 percent. The "core" inflation rate (the CPI minus food and energy) increased by only 2.2 percent over the same period. These increases are the smallest since 1965 and 1966, respectively.



Buoyed by low inflation and low unemployment, consumer confidence soared to its highest levels in years. The Conference Board's consumer confidence index hit a 28 year high in May 1997 (127.9) and then surged well beyond that throughout FY 1998 (by June 1998 the index stood at 138.2). The University of Michigan's Index of Consumer Sentiment and the Money Magazine/ABC News Poll also hit historic highs. Consumer confidence was also spurred by the fact that reduced inflation expectations kept long-term interest rates low, spurring the purchase of houses and durable goods, and encouraging homeowners to refinance their mortgages to get more money in their pockets. Home mortgage rates in early 1998 are down to levels not seen since the late 1960s, except for a brief period at the end of 1993. Also, employee benefit cost increases decelerated sharply, allowing wage growth to increase more rapidly while keeping growth in total compensation moderate. Increases in stock prices made many Americans more wealthy. No wonder that some economists have called this economy "the best in a generation," the best performance the American economy has delivered since just before the oil shocks of the early 1970s.

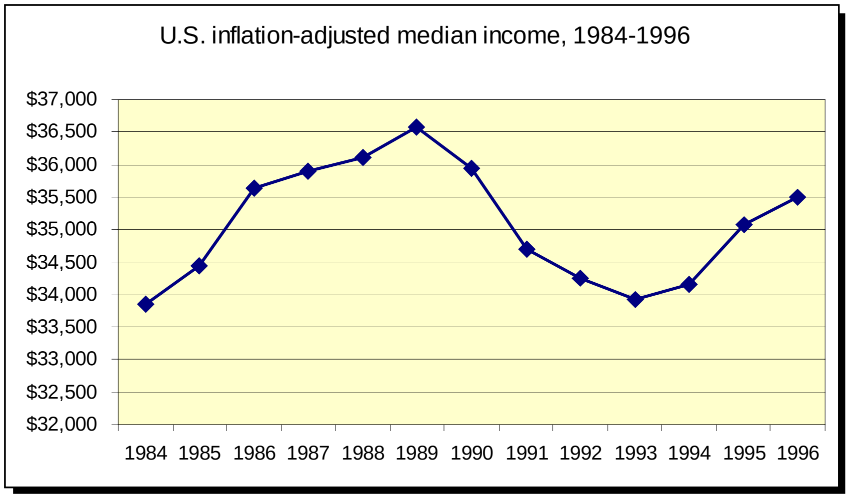
As a result of all this good news and good feeling, inflation-adjusted consumption expenditure grew by 4.2 percent for the 12 months of FY 1998 (growth derived from annual average of quarterly figures). An important side note for state governments that rely on sales tax revenue is that nominal growth (not inflation adjusted) was only slightly higher, at 5.5 percent. This is one reason why sales tax revenue has not boomed despite the flourishing economy.

The last year or so has been so extraordinary that you may have caught yourself wondering if you heard a faint echo of the British army playing "The World Turned Upside Down," at Yorktown. In a speech in January 1998, Allan Greenspan felt compelled to mention that there were risks associated with deflation as well as inflation. Ah yes, we remember deflation. The 1930s, Great Depression, Dust Bowl in the Plains. Or perhaps the 1890s, following the Panic of 1893. Didn't deflation vanish with the gold standard, the Model T, and the bison?[5] The weight of opinion in the economics profession seems to be that worries about deflation are premature and probably misguided, but here was the Federal Reserve chairman speaking about it with a straight face.

Speaking about inflation, some economists are also starting to question aloud the usefulness of a concept we have wrestled with several times in this space in the past: the NAIRU. The NAIRU is often thought of as a kind of "speed limit" for the economy, where all unemployment is structural or frictional (i.e. there is no excess demand or deficient demand), the rate of inflation is stable, and real GDP is growing at its long-run potential (the sum of the growth rates of the labor force and of productivity). Before a kind of political correctness worked its way into economic discourse, this was known as full employment, or the "natural rate" of unemployment. However, using the term NAIRU did give the concept of full employment operational content — when the unemployment rate dipped below the NAIRU, inflation would accelerate after a while. At the NAIRU, the inflation rate was stable. Theoretically, when the unemployment rate was above the NAIRU, inflation would decelerate. This was the new gospel that replaced old Keynesian notions of the Phillips curve tradeoff between inflation and unemployment. It took root when the oil price shocks of the early 1970s led simultaneously to rising unemployment and rising inflation, and the term "stagflation" was coined. The Keynesian notion that one could accept a given rate of inflation in exchange for an unemployment target was gone: if the unemployment rate was below the NAIRU, inflation would continually rise.

It is too early to tell if another epochal change is at hand, but at least a few economists are restless. Stagflation discredited the ideas of fine tuning the economy and unemployment rate targeting. We have now had a couple of years of experience that seem to fly in the face of NAIRU theory. Unemployment fell below 6 percent, which most economists thought was the NAIRU, and inflation stayed under control. Then it fell below 5.5 percent, without an increase in inflation. Then it fell below 5 percent, and has stayed there for 16 months. Still no increase in inflation. Some economists were saying even before the unemployment rate dropped so far that the estimates of the NAIRU were very imprecise and that it was therefore not a useful guide to economic policy.[6] Now there are economists who feel that the NAIRU may be around 5.5 percent but that temporary factors such as a strong dollar (holding down import and commodity prices), the downturn in Asia, and very slowly increasing benefit costs have allowed the economy to stay below 5 percent unemployment without increasing inflation.[7] These economists believe that this cannot persist in the long run.

Recently two economists from the Federal Reserve Bank of Cleveland argue that appeals to increasing productivity to explain the poor recent performance of the NAIRU theory are unlikely to be fruitful, and that it may be time to replace the NAIRU with a more sophisticated framework to link labor market conditions to economic policy, particularly monetary policy. It is much too early to know whether these tentative rumblings will lead to a theoretical revolution of the kind that 1973 produced, but it is interesting to see that the old models are beginning to be challenged.[8]



None of this suggests that there won't be another recession, perhaps even in the next couple of years. However, the long-term outlook is very different than it was 10 years ago. The U.S. economy has changed drastically since the eve of the last recession, in 1989. Then, chairman Greenspan was speaking about "headwinds," fundamental problems with the U.S. economy that were expected to cause us difficulty. U.S. manufacturing, commerce, and banking were in need of overhauling. U.S. households and corporations had huge levels of debt, and inflation was accelerating again. This was leading to expectations of rising inflation and higher long-term interest rates, making debt service increasingly expensive. Aftershocks were still being felt from the S&L debacle, the overbuilding of commercial real estate in oil boom and bust areas, soaring business costs in California and the Northeast, a collapse of residential real estate values in those areas, and massive trade deficits with Japan and Europe. U.S. industry was not particularly competitive. Almost all economists were forecasting either a soft landing, where we would just scrape by without a recession, or a recession. War in Kuwait and soaring energy prices cast the die for recession.

In 1998, there are risks to the U.S. economy, but most of the economy seems fundamentally strong. American business has reaped the rewards of high investment in telecommunications and computer technology (contrast this with the 1980s when most of the big money was being made in financial services, oil, and real estate). There are those who think that current improvements in technology around the world (and they really don't mean the much-touted office PC) amount to a kind of industrial revolution, a profound change in the way that we do business. In some sense, this can be seen in one of the less talked-about areas of the Year 2000 problem: the pervasiveness of embedded microprocessors in cars, phones, televisions, and all kinds of home appliances. The Year 2000 problem may well cause some short-term disruption, perhaps severe disruption. This will squeeze corporate earnings and hurt stock prices, and there are those who think that a recession could result. However, when these problems are fixed, the embedded technology will be that much better and more advanced. In the long run, it would seem likely that productivity would not suffer.

The Industrial Revolution brought great wealth to some, massive dislocation to others. So far the technology boom of the 1990s has brought great wealth to a few famous entrepreneurs, and a lot of money to some less well-known ones, but it seems to have done so without widespread job elimination and massive turmoil. In fact, after almost two decades of little or no increase in inflation-adjusted American median incomes, median incomes have begun rising again. Growing wages and more widespread stock ownership seem to have led to less concern about unequal distribution of wealth and incomes than there was in the 1980s. Finally, the wage premium for going to college continues to increase (continuing a trend of the 1980s, which reversed a trend of the 1970s). Skilled labor is at a premium. In response, rates of U.S. college enrollment keep increasing, so that one of the challenges facing state governments today is affordable access to higher education. Fears from the early 1990s that a more skilled European workforce would "eat us alive" now seem like sadly mistaken paranoia.

The best economy in a generation brought a boom to state finances in FY 1998. It seems unlikely that such a boom will be repeated in FY 1999, and there are reasons for concern about a downturn in the next biennium. However, the foundations of U.S. industry seem stronger than before either the 1980-82 recession or the 1990-91 recession, and thus the long-term outlook still looks positive. ❑

Status of the General Revenue Fund

REVENUES

— *Frederick Church*

The income tax added another $101 million to an already swollen overage in June. For the year, GRF collections were $567.3 million above the estimate, up 15.4 percent from FY 1997.[9] This was the highest growth rate since FY 1987, when the federal Tax Reform Act of 1987 (TRA 87) and the stock market boom led to big state windfalls. Collections for all funds, not just the GRF, were $633.9 million above the estimate — a forecasting error of 10.1 percent.

While the dollar overages by income tax component were very similar, the percentage growth and percentage variances were by far the highest in annual tax dues and quarterly estimated payments. The fact that so much of the surplus was in these components makes it clear that it was largely unanticipated by taxpayers (at least early in the year when expectations were formed). This is one of the factors leading OBM, LBO, and our counterparts in other states to attempt to isolate how much of FY 1998's income tax collections were transitory.

As stated in the Fiscal Overview, startlingly high income tax growth was a nationwide phenomenon. Even adjusting for distortions caused by the ITRF and the rate-cutting mechanism, Ohio beat the Great Lakes and national average increases, although not by very much (see above).

Both the auto and non-auto sales and use tax finished the year very strongly. The total $25.0 million overage pushed the year-to-date total to $95.9 million. Total sales tax collections finished with 6.0 percent growth for FY 1998, which is roughly consistent with what one would expect based on national consumption and retail sales growth figures.

The corporate franchise tax ended the year with a $36.4 million overage, on growth of 4.0 percent from FY 1997. The monthly data make it look as if all the overage came in June ($41.9 million). In fact, the allocation of corporate tax receipts between the GRF and the

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

REVENUE SOURCE	Actual	Estimate*	Variance
TAX INCOME			
Auto Sales	$74,079	$65,170	$8,909
Non-Auto Sales & Use	406,152	390,073	16,079
Total Sales	$480,231	$455,243	$24,988
Personal Income	$607,184	$505,674	$101,510
Corporate Franchise	233,380	191,433	41,947
Public Utility	211,911	210,596	1,315
Total Major Taxes	**$1,532,706**	**$1,362,946**	**$169,760**
Foreign Insurance	$1,195	$1,016	$179
Domestic Insurance	1,996	1,547	449
Business & Property	377	1,860	(1,483)
Cigarette	25,620	25,675	(55)
Soft Drink	0	0	0
Alcoholic Beverage	4,787	4,884	(97)
Liquor Gallonage	2,296	2,356	(60)
Estate	4,640	3,912	728
Racing	0	0	0
Total Other Taxes	$40,910	$41,251	($341)
Total Taxes	**$1,573,616**	**$1,404,196**	**$169,420**
NON-TAX INCOME			
Earnings on Investments	$29,667	$25,140	$4,527
Licenses and Fees	2,105	2,692	(587)
Other Income	29,909	23,617	6,292
Non-Tax Receipts	$61,681	$51,449	$10,232
TRANSFERS			
Liquor Transfers	$10,000	$5,000	$5,000
Budget Stabilization	0	0	0
Other Transfers In	5,146	0	5,146
Total Transfers In	$15,146	$5,000	$10,146
TOTAL INCOME less Federal Grants	**$1,650,443**	**$1,460,645**	**$189,798**
Federal Grants	$256,622	$279,187	($22,565)
TOTAL GRF INCOME	**$1,907,065**	**$1,739,832**	**$167,233**

* July, 1997 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

local government funds (LGFs) had been incorrect throughout the year, and June was a correction. The franchise tax should have shown a revenue overage much sooner than it did.

The public utility excise tax finished the year $27.0 million above the estimate, on growth of 5.2 percent from FY 1997. It appears that this overage was due largely to unexpected growth in natural gas revenues, due largely to unexpected growth in natural gas tax revenues.

In non-tax revenue, investment earnings and liquor profits both posted big overages. As far as LBO can determine, the $129.0 million in GRF investment earnings was an all-time high. Investment earnings were obviously helped by extremely high average daily cash balances. Liquor transfers were $19.5 million over estimate, as state liquor restructuring continues to pay dividends in the form of higher profits.

Federal grants declined by almost $240 million, or 6.8 percent, from the previous year. The final shortfall was $472.7 million, more than the total underspending in human services programs ($469.2 million). LBO is still searching for an explanation for this phenomenon. As mentioned in the Fiscal Overview, Medicaid spending increased by 3.3 percent, but federal Medicaid reimbursement fell by 3 percent. In TANF, Ohio drew 31.3 percent less in federal grant money than last year. Spending from the 400-411 TANF federal block grant account was $435.5 million, but CAS reports show that federal revenue for TANF was only $329.6 million, more than $100 million lower. LBO will be closely watching GRF federal revenues in July through September — the final months of federal fiscal year (FFY) 1998 to see if Ohio does any catching up.

Personal Income Tax

All components of the income tax did well, but the overages in annual return payments and quarterly estimated payments were particularly notable. The variances between actual and estimated collections, and year-over-year growth by component are summarized in the table below.

Since FY 1984, when the last major legislated increases in the income tax had played out, and the high inflation of the 1970s had been mostly wrung out of the economy, there have been only two fiscal years where income tax revenue growth exceeded 13 percent. In FY 1989, income tax revenue growth was 13.2 percent. Growth was somewhat inflated that year by the implementation of an accelerated withholding schedule. In FY 1987, income tax growth was 15.9 percent. Growth that year was largely the result of the Federal Tax Reform Act of 1986 (TRA 86), which cut federal tax rates but also broadened the base. In tax year 1986 there were huge realizations of capital gains as taxpayers scrambled to take stock market profits before the 50 percent exclusion was eliminated and the federal tax rate for most taxpayers with gains rose from 20 percent to 28 percent. The tax base grew by so much that Ohio realized big gains in spite of the fact that state tax rates were cut in anticipation of the federal windfall.

The FY 1998 result does not look exactly like either FY 1987 or FY 1989. Like FY 1987, this year's result is partly the result of federal tax changes, although in this case federal tax rates on capital gains were cut rather than increased. Unlike FY 1987, when employer withholding grew by 3.9 percent, withholding growth in FY 1998 was very strong at 9.1 percent. Ohio has seen only one year this decade where withholding growth has been that high. Insofar as it looks like any year, FY 1998 looks more like FY 1989 in that growth in the components of the income tax — estimated payments, annual returns, employer withholding — is more uniform. (On a more ominous note: The next year, FY 1990, started the economy down towards the next recession.)

LBO is still trying to figure out how much of the unexpected income tax revenue was transitory, or

FY 1998 Income Tax Collections, by Component
amounts in milions of dollars

	Actual	Estimate	Variance	Yr-Over-Yr Growth
Employer withhholding	$5,654.7	$5,466.0	$188.7	9.1%
Quarterly estimated payments	$1,373.2	$1,192.0	$181.2	20.2%
Annual Tax Payments	$664.9	$467.9	$197.0	45.6%
Refunds	($789.5)	($855.5)	$66.0	-3.2%
Total Major Components	$6,903.3	$6,270.4	$632.9	
Total All Components	$6,946.9	$6,307.5	$639.4	15.4%
Total GRF Amount	$6,212.5	$5,645.2	$567.3	15.4%

Table 3
General Revenue Fund Income
Actual vs. Estimate
Fiscal Year-to-Date 1998
($ in thousands)

REVENUE SOURCE					Percent
TAX INCOME	Actual	Estimate*	Variance	FY 1997	Change
Auto Sales	$722,836	$686,000	$36,836	$673,715	7.29%
Non-Auto Sales & Use	4,542,687	4,483,600	59,087	4,295,279	5.76%
Total Sales	$5,265,523	$5,169,600	$95,923	$4,968,994	5.97%
Personal Income	$6,212,546	$5,645,198	**$567,348**	$5,382,264	**15.43%**
Corporate Franchise	1,196,601	1,160,201	36,400	1,150,758	3.98%
Public Utility	672,996	646,000	26,996	639,760	5.20%
Total Major Taxes	$13,347,667	$12,620,999	$726,668	$12,141,776	9.93%
Foreign Insurance	$280,941	$293,500	($12,559)	$283,533	-0.91%
Domestic Insurance	63,218	57,300	5,918	56,369	12.15%
Business & Property	6,450	9,301	(2,851)	8,930	-27.78%
Cigarette	296,627	295,300	1,327	298,407	-0.60%
Soft Drink	0	0	0	19	-100.00%
Alcoholic Beverage	52,410	50,503	1,907	51,922	0.94%
Liquor Gallonage	27,325	27,000	325	27,141	0.68%
Estate	114,784	97,800	16,984	101,967	12.57%
Racing	0	0	0	0	#N/A
Total Other Taxes	$841,755	$830,705	$11,050	$828,289	1.63%
Total Taxes	**$14,189,422**	**$13,451,703**	**$737,719**	**$12,970,065**	**9.40%**
NON -TAX INCOME					
Earnings on Investments	$129,000	$83,800	$45,200	$102,539	25.81%
Licenses and Fees	36,318	67,301	(30,983)	66,203	-45.14%
Other Income	123,562	82,900	40,662	99,322	24.41%
Non-Tax Receipts	$288,880	$234,001	$54,879	$268,064	7.77%
TRANSFERS					
Liquor Transfers	$88,000	$68,500	$19,500	$66,500	32.33%
Budget Stabilization	0	0	0	$0	#N/A
Other Transfers In	280,764	240,300	40,464	417,716	-32.79%
Total Transfers In	$368,764	$308,800	$59,964	$484,216	-23.84%
TOTAL INCOME less Federal Grants	**$14,847,066**	**$13,994,504**	**$852,562**	**$13,722,344**	**8.20%**
Federal Grants	$3,290,761	$3,763,502	($472,741)	3,531,562	-6.82%
TOTAL GRF INCOME	**$18,137,827**	**$17,758,006**	**$379,821**	**$17,253,906**	**5.12%**

* July, 1997 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

"one-time." From this perspective, it is interesting to look back at a February 1998 DRI analysis of the 1997 tax surprise that tried to anticipate whether the federal and state governments would get another income tax windfall in 1998.[10] DRI found that:

(i) Personal income rose significantly faster than GDP, although theoretically the two numbers should be equal, explaining about $15 billion in extra federal tax revenue;

(ii) Another $50 billion in federal income tax revenue could not be explained through capital gains tax revenues. Instead, it seemed to have been the product of capital gains that showed up as ordinary income in tax accounts. This happens primarily through realized gains from employee stock options and cashing in of 401k plans and IRAs.

(iii) Although most of the gains mentioned in (ii) should theoretically show up in quarterly estimated payments, there are also individuals who have increased their tax withheld to offset capital gains from mutual funds (which are not at the discretion of the fund shareholder);

(iv) In the future, the use of Roth IRAs may reduce the cashing in of 401k plans and regular IRAs, which could somewhat reduce the federal and state income tax take from people switching jobs.

DRI concluded that there would be another big income tax surprise in 1998, and clearly they were right. So, with tax revenues clearly soaring due to stock market gains, what can we expect for the future?

Clearly some of FY 1998's tax revenue was transitory. We cannot expect 20 percent stock price appreciation every year. This is particularly true given the slowdown in corporate earnings that we have seen in the first two quarters of 1998. Also, there has been a behavioral reaction to the change in federal tax treatment of capital gain income that spurred realizations last year. However, this does not mean that we can dismiss all or most of the income tax money as one-time revenue. First, most forecasters predict that the behavioral changes caused by revisions to federal law will take several years to play out, not just one.[11] Second, the stock market has appreciated so much that even after a correction, there is probably a large stock of unrealized gains that could be taken, resulting in additional income tax revenues. This is true unless the price correction is truly substantial, on the order of 15 percent to 20 percent.

Ohio taxpayers seem to expect that taxable year 1998 (and thus FY 1999) will be another good year. The first two estimated payments against taxable year 1998 liability, made in April and June, were up more than 25 percent from last year's already high level.

Sales and Use Tax

The sales and use tax had a strong and steady FY 1998 performance. Low unemployment, low inflation, low interest rates, and low mortgage rates made consumers willing to spend. Ironically, low inflation acted to curb tax revenue growth somewhat. Real purchases gained significantly, but retail inflation was so low that nominal dollar gains looked rather ordinary.

Both the auto tax and the non-auto tax did well, although the auto tax was stronger. The auto tax overage was $36.8 million, as receipts climbed 7.3 percent from the year before. According to the Federal Reserve Board's August 1998 ***Beige Book***, even the GM strike did not particularly hurt car sales or inventories. Interestingly, much of the gain in auto industry sales and thus in tax revenues seems to have come from increases in unit sales. The industry is finally holding down car price increases, after some spectacular run-ups in the mid 1990s.

With the economy as strong as it is, even after the relatively weak second quarter GDP report, LBO expects continued steady sales tax growth. The Beige Book reports that 4th District retailers (the 4th Federal Reserve District includes Ohio) reported unexpectedly strong sales growth in June and July, which should bode well for Ohio tax collections in July and August.

LBO hopes to provide some more in-depth analysis of the sales and use tax in the next issue.

Corporate Franchise Tax

Ohio's franchise tax revenues from current year liability — the $1,189.0 million that it took in over January through June — grew by 5.5 percent from the prior year. This matched up reasonably well with the 7.8 percent growth in U.S. pre-tax corporate profits for CY 1997. Revenue growth was about 70 percent of profit growth, which is close to Ohio's long-run average outside recession years.[12] This was much better than FY 1997's performance, where revenues excluding late payments, etc. grew by only 2.2 percent despite 8.7 percent profit growth in CY 1996.

Interestingly, many other states are also experiencing weak corporate tax revenue growth, although the experience is not uniform across states or regions. What are the common factors behind weak state corporate tax revenue growth? One intriguing hypothesis is that one of the factors behind weak corporate tax growth is also a factor behind strong personal income tax growth. Specifically, the hypothesis is that the income of unincorporated businesses (including capital gains income) is both contributing to pushing up the personal income tax in Ohio and in other states, and also reducing corporate tax revenue. The owners of all types of businesses other than regular "C" corporations — proprietorships, partnerships, S-corporations, LLCs, etc. — pay the personal income tax rather than the franchise tax. If a large number of businesses are choosing to organize as flow through businesses like LLCs, rather than as C corporations, that would give an extra kick to the income tax while slowing down growth in the franchise tax. At this point, we have no hard data to support this hypothesis.

Previous Next

Another hypothesis is that the large stock options being taken by executives at profitable businesses are pushing up income tax collections but reducing corporate taxable income and corporate tax revenues. While this seems inherently plausible, again we have no hard evidence to support it.

The table below contrasts recent experience in Ohio corporate tax collections with U.S. corporate profit growth. The reader should be aware that in Ohio, each fiscal year's tax collections is tied only loosely to the prior year's corporate profits, because of varying definitions of the taxable year and the alternative net worth basis of the tax, among other factors.

	Ohio Franchise Tax, Current Payments (millions of $)	Percent change	Ohio Franchise Tax, Total Payments (millions of $)	Percent change	U.S. corp. profits, pre-tax (billions of $)	Percent change
FY 87	$ 769.0		$ 788.7		$ 222.6	
FY 88	$ 805.2	4.7%	$ 844.6	7.1%	$ 293.6	31.9%
FY 89	$ 870.4	8.1%	$ 948.1	12.3%	$ 354.3	20.7%
FY 90	$ 817.7	-6.1%	$ 812.6	-14.3%	$ 348.1	-1.7%
FY 91	$ 751.7	-8.1%	$ 769.0	-5.4%	$ 371.7	6.8%
FY 92	$ 747.8	-0.5%	$ 761.6	-1.0%	$ 374.2	0.7%
FY 93	$ 799.5	6.9%	$ 801.4	5.2%	$ 406.4	8.6%
FY 94	$ 875.4	9.5%	$ 897.3	12.0%	$ 465.4	14.5%
FY 95	$ 1026.2	17.2%	$ 1043.8	16.3%	$ 535.1	15.0%
FY 96	$ 1103.2	7.5%	$ 1114.0	6.7%	$ 622.6	16.4%
FY 97	$ 1127.0	2.2%	$ 1150.8	3.3%	$ 676.6	8.7%
FY 98	$ 1189.0	5.5%	$ 1196.6	4.0%	$ 729.7	7.8%

Public Utility Excise Tax

Although electric utilities contribute the lion's share of the public utility excise tax — over 63 percent of tax year 1997 liability — it was natural gas that was primarily responsible for the $27.0 million overage in FY 1998. Natural gas revenues unexpectedly jumped almost 18 percent, or $18.9 million, between tax year 1996 and tax year 1997, and legally, tax year 1997 liability is the basis for tax year 1998 estimated payments. LBO does not currently have Ohio data to separate out the impact of prices and units of consumption. However, at the national level, prices increased substantially between Ohio's taxable year 1996 and taxable year 1997.

In the near term, public utility excise tax revenue should be stable. In the long term, this tax is likely to go through great changes as customer choice is greatly expanded in natural gas, alternative providers move into the local phone market, and electric generation presumably is deregulated. ❑

[1] Adjusting tax revenues for the transfer back to the GRF from the Income Tax Reduction Fund (ITRF), which approximately corrects for the impact of the rate cut - yields a growth figure of 8.2%, the same growth as non-federal revenue.

[2] Interpreting the spending number is somewhat more difficult than interpreting the revenue number, because the FY 1998 spending shortfall was accompanied by a record amount of encumbrances (commitments to spend appropriations in the next fiscal year).

[3] National Conference of State Legislatures, State Budget and Tax Actions 1998 (Preliminary Report) and unpublished data.

[4] As in footnote #1, adjusting the income tax for the rate cut by adding the ITRF transfer to income tax revenues, growth was "only" 12.3%.

[5] To be fair, there were a couple of years that the CPI fell in the 1950s, which is the last time that the U.S. saw this kind of productivity growth, low unemployment, and low inflation.

[6] See for example Douglas Staiger, James Stock, and Mark Watson, "How Precise Are Estimates of the Natural Rate of Unemployment?" ***National Bureau of Economic Research***, Working Paper Number 5477, March 1996.

[7] See for example David Wyss, "In The Long Run," ***DRI Review of the U.S. Economy***, May 1998.

[8] David Altig and Paul Gomme, "In Search of the NAIRU," Federal Reserve Bank of Cleveland ***Economic Commentary***, May 1, 1998.

[9] As stated in the Fiscal Overview, adjusting the income tax for the rate cut by adding the ITRF transfer to income tax revenues, growth was "only" 12.3%.

[10] David Wyss, "Will the 1997 Tax Surprise Repeat," ***DRI Review of the U.S. Economy***, February 1998.

[11] See pps. 380-381 in the tax revenue section of the ***LBO Analysis of the 1998-99 State of Ohio Operating Budget***.

[12] Longtime readers of this report are probably familiar with the litany of reasons why Ohio franchise tax revenues do not correlate all that well with U.S. corporate profits: differing taxable years, the dual net worth-net income tax base, the separate treatment of financial institutions, net operating loss carryovers, etc.

DISBURSEMENTS

— *Jeffrey E. Golon**

Sitting — like the much-maligned Monday morning quarterback — reliving the aftermath of FY 1998's GRF disbursement activity, we were reminded of those very old LPs, like The Who's classic *Tommy*, some of us still cling to and wax hopelessly nostalgic about, especially in the wake of the deathlike grip that CD technology has over the music industry. You put the vinyl platter on the turntable — "Yes, Dorothy, some people still play records as bizarre a ritual as that may sound" — and give it a spin. And, as it plays along, it skips a bit, and, hopefully, with some delicate nudging perhaps, makes its way to the recorded ending.

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

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$263,005	$272,186	($9,181)
Higher Education	149,763	141,322	8,441
Total Education	$412,768	$413,508	($740)
Health Care/Medicaid	$372,986	$425,235	($52,249)
Temporary Assistance to Needy Families	21,388	31,610	(10,222)
General/Disability Assistance	3,166	3,829	(663)
Other Welfare	20,797	21,680	(883)
Human Services (2)	37,239	59,906	(22,667)
Total Welfare & Human Services	$455,576	$542,260	($86,684)
Justice & Corrections	$96,581	$103,247	($6,666)
Environment & Natural Resources	4,073	3,988	85
Transportation	7,723	5,686	2,038
Development	9,498	9,190	308
Other Government (3)	15,626	61,268	(45,642)
Capital	269	533	(264)
Total Government Operations	$133,770	$183,911	($50,141)
Property Tax Relief (4)	$101,484	$95,237	$6,247
Debt Service	0	0	0
Total Program Payments	**$1,103,599**	**$1,234,917**	**($131,318)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	544	0	544
Total Transfers Out	$544	$0	$544
TOTAL GRF USES	**$1,104,143**	**$1,234,917**	**($130,774)**

(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, 1997 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

Well, FY 1998's GRF disbursements spun sort of like that. Along the way, there were a few skips (monthly overages), but mostly it was enjoyable, though sometimes scratchy, listening (monthly underages). Monthly underages, synonymous in these pages with the oft-used term "negative monthly variances," dominated the FY 1998 disbursement scene. Eight of the 12-months of spending experienced a negative disbursement variance. Locked in on the high-end of those eight monthly underages were April and August with $189.9 million and $166.8 million, respectively. And anchoring the low-end of the monthly underages were October and January with $44.2 million and $72.9 million, respectively.

July. Herein, we will not address the just completed first month of FY 1999 — July — for two primary reasons. First, as we are only one month into a brand-spanking new fiscal year, there are not a lot of meaningful things to say about disbursements. Thus, in this section of ***Budget Footnotes***, we are largely looking retrospectively over FY 1998 and only selectively in a prospective manner at FY 1999. Second, and perhaps more importantly, some of the raw material essential

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Fiscal Year-to-Date 1998
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance	FY 1997	Percent Change
Primary & Secondary Education (1)	$4,356,945	$4,432,743	($75,798)	$3,957,137	10.10%
Higher Education	2,209,215	2,227,556	(18,341)	2,084,744	5.97%
Total Education	$6,566,160	$6,660,299	($94,139)	6,041,881	8.68%
Health Care/Medicaid	$5,056,299	$5,240,714	($184,414)	$4,897,185	3.25%
Temporary Assistance to Needy Families	783,799	1,012,570	(228,770)	881,090	-11.04%
General/Disability Assistance	56,869	63,863	(6,994)	115	49351.10%
Other Welfare	379,576	410,990	(31,415)	510,968	-25.71%
Human Services (2)	1,072,687	1,090,342	(17,654)	1,043,597	2.79%
Total Welfare & Human Services	$7,349,230	$7,818,479	($469,249)	$7,332,955	0.22%
Justice & Corrections	$1,495,299	$1,519,154	($23,855)	$1,393,085	7.34%
Environment & Natural Resources	122,417	120,530	1,887	112,136	9.17%
Transportation	36,079	43,872	(7,793)	36,520	-1.21%
Development	112,983	130,704	(17,721)	121,104	-6.71%
Other Government (3)	335,160	423,720	(88,560)	348,759	-3.90%
Capital	4,255	8,389	(4,134)	7,595	-43.98%
Total Government Operations	$2,106,193	$2,246,369	($140,177)	$2,019,200	4.31%
Property Tax Relief (4)	$958,844	$959,400	($556)	$915,129	4.78%
Debt Service	106,593	102,560	4,033	94,883	12.34%
Total Program Payments	**$17,087,021**	**$17,787,108**	**($700,088)**	**$16,404,047**	**4.16%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	
Budget Stabilization	34,400	34,000	400	0	—
Other Transfers Out	735,176	686,766	48,410	620,611	18.46%
Total Transfers Out	$769,576	$720,766	$48,810	$620,611	24.00%
TOTAL GRF USES	**$17,856,597**	**$18,507,874**	**($651,277)**	**$17,024,658**	**4.89%**

(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, 1997 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

to our task of disbursement variance analysis is simply unavailable at this time.

June. There were three key pieces to June's negative disbursement variance of $131.3 million, excluding GRF transfers. The first key piece to the underage was Medicaid. It threw in its largest monthly underage for the fiscal year with $52.2 million, aided by actual spending on hospital services well below the estimate, not surprising given the apparent correlation between dropping TANF caseloads and unexpected declines in certain Medicaid service categories. The second key piece to the underage was $44.5 million chipped in from the Controlling Board's budget, buried within the catch-all Other Government component of the Government Operations program category. As near as we could ascertain, though relatively large, this piece of the monthly underage was not significant. It was in a sense an end-of-the-day accounting adjustment reflecting the reality that the funds appropriated under the Controlling Board's budget are not disbursed, but are in fact transferred to, and disbursed from, other state agency budgets. The third key piece to the underage ($20.4 million) emanated from the Human Services component of the Welfare and Human Services program category. Specifically, subsidy distributions expected from the departments of Mental Health and Mental Retardation and Developmental Disabilities simply did not occur as planned, a timing-based phenomenon that shaped much of both departments' monthly disbursement activity throughout the fiscal year. (See Table 4 for a comparison of June variances by program category.)

Year-to-Date. June not only brought FY 1998 to a close, but also propelled year-to-date underspending to its highest point — $700.1 million — and eclipsed the year's previous high-water mark for year-to-date underspending — $688.1 million — set in April. There were six primary contributors to this rather sizeable amount of year-end underspending: Temporary Assistance to Needy Families/TANF ($228.8 million), Health Care/Medicaid ($184.4 million), the Department of Education ($86.2 million), the Controlling Board ($44.5 million), the Other Government component of the Government Operations program category ($43.5 million), and the Other Welfare component of the Welfare and Human Services program category ($31.4 million). (See Table 5 for a comparison of fiscal year-to-date variances by program category.)

The first two contributors to the fiscal year-ending underage — TANF and Medicaid — were major players in the year-to-date disbursement picture throughout the 12-month period as declining TANF caseloads constrained not only TANF spending well below expectations, but appeared to exercise the same fiscal effect on Medicaid program spending as well.

The Department of Education's contribution was affected by timing issues related to the distribution of various subsidy payments to school districts, including $146.4 million worth of FY 1997 encumbrances. And in the end, although the department posted a rather sizeable underage, all but $12.2 million of its FY 1997 encumbrances and FY 1998 appropriations had either been disbursed or encumbered.

The fourth contributor to the fiscal year-ending underage — the Controlling Board — was a late arrival to the party, showing up as previously mentioned with the month of June. Its appearance we believe was no more than some sort of accounting anomaly.

Behind the fifth contributor to the fiscal year-ending underage — the state's Nonregulatory agencies — was primarily the Department of Administrative Services ($30.7 million). Lower than anticipated rent and building operating expenses for certain state-owned buildings and slower than expected spending on computing and communications services to other state agencies were the chief culprits.

The sixth, and last major contributor, to the fiscal year-ending underage — Other Welfare — contained all of the Department of Human Services' GRF-funded tasks excluding TANF, Medicaid, and General/Disability Assistance, which are tracked as separate, stand-alone components of the Welfare and Human Services program category. This Other Welfare area of the department's GRF budget ran a negative disbursement variance that largely resisted erosion and built-up until the fiscal year's-end. The somewhat unpredictable nature of spending on several statewide computer system projects was the principal force at play here.

A discussion of fiscal year's-end spending would be incomplete without a brief mention of the tax relief program. Throughout FY 1998, it exercised a dramatic effect on monthly disbursement variances, alternating between powering huge underages and then just as suddenly turning to drive monster-like overages. And, in the end, it was no more than a matter of timing, as the rather miniscule underage of $554,897 demonstrated.

Federal Money. Of the year-to-date underspending in TANF and Medicaid programs combined ($413.2 million), roughly speaking, 78.6 percent, or $324.6 million, was in the federal share of these two human services programs that are jointly funded by the state and federal government. Furthermore, a substantial portion of this underspending in the federal share — $217.4 million — was exclusively attributable to TANF. Once the federal money associated with TANF and Medicaid was backed out, the year-to-date underspending in non-federal state money was reduced to $375.5 million.

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

Appropriations Summary. General Revenue Fund appropriations available for disbursement in FY 1998 totaled $18.2 billion, which included $17.6 billion that was originally appropriated in FY 1998. The remainder, around $532.8 million, was composed entirely of prior years' encumbrances stretching all the way back to FY 1990. At fiscal year's-end, of that $17.6 billion originally appropriated in FY 1998, $16.7 billion, or 94.9 percent, was disbursed, $429.8 million, or 2.4 percent, was encumbered, $16.2 million, or 0.1 percent, was transferred into FY 1999, and $475.2 million, or 2.6 percent, was essentially leftover or unspent.

Of those unspent FY 1998 appropriations — those appropriated amounts that were not disbursed, transferred, or encumbered by fiscal year's-end — $326.8 million, or 68.8 percent, was traceable to two human services programs: TANF ($198.4 million) and Medicaid ($128.4 million). As an unexpectedly dramatic decline in the TANF caseload suppressed TANF, and, apparently, Medicaid spending as well, it was not particularly surprising that both programs closed the fiscal year with a substantial chunk of FY 1998 funding that was not needed and therefore was not spent.

Prologue. Much of what follows is a rather admittedly dense and selective review of the disbursement activity of many, but not all, of the state agencies that utilized GRF funding during FY 1998. And what you will notice in our disbursement narrative is somewhat less attention to variances per se, as we have typically done in the past, and more attention to the particular pieces of a state agency's FY 1998 total appropriation that have either been encumbered for disbursement in FY 1999, or leftover, that is, neither disbursed nor encumbered. And by leftover, we mean the residual appropriation authority that remains after a state agency has completed its disbursement and encumbrance activity for the fiscal year. We have tried to avoid using the term "lapse," because technically speaking, FY 1998 appropriations that had not been disbursed nor encumbered at the close of FY 1998, have not lapsed. Technically speaking, these leftovers or available balances do not lapse until the biennium in which they are appropriated comes to an end, which in this case before us, means the close of FY 1999. Essentially, a state agency may appear to carry unused FY 1998 appropriation authority that it can tap in FY 1999, but the reality is control of any such unused appropriation authority reverts to the Office of Budget and Management.

Primary and Secondary Education

Blind School. The FY 1998 story for the Ohio State School for the Blind, a residential school located in Franklin County that serves school age Ohio residents with visual disabilities, was not to be found in disbursement variances or in funds that were appropriated, but left unspent at fiscal year's-end. Rather the school's story was in the unexpected surplus in personal services funds created by some vacant staff positions. Over the course of April through June, the school took that as an opportunity to approach the Controlling Board several times to shuffle around $150,000 in excess personal services funding into its maintenance and equipment line items. These transferred funds, which significantly increased the available maintenance and equipment appropriations, were made to enable the school to perform necessary, but unbudgeted, repairs and to purchase needed, but unbudgeted, equipment including a van for transporting students and a forklift device for use in the renovation of the dormitories.

Deaf School. The FY 1998 story for the Ohio School for the Deaf, a residential school located in Franklin County that serves school age Ohio residents with hearing disabilities, was a virtual carbon copy of the disbursement narrative composed by the Ohio State School for the Blind. As a result of some vacant staff positions, the school was looking at surplus funding in its personal services line item. The school took that as an opportunity to approach the Controlling Board several times over the course of April through June to shuffle around $238,000 in excess personal services funding into its maintenance and equipment line items. These transferred funds, which significantly increased the available maintenance and equipment appropriations, were to enable the school to perform necessary maintenance tasks not included in the school's capital request (new doors and locks, new carpeting, repair of equipment, remodeling of classrooms, computer furniture and workstations for the classrooms and dormitories, et al.), and to purchase needed, but unbudgeted, equipment items such as a dishwashing unit, furniture and draperies, utility carts, and computer hardware.

Educational Telecom. When the state closed the books on FY 1998, the Ohio Educational Telecommunications Network Commission — which provides independent expertise and support to Ohio's educational television stations, educational radio stations, radio reading services, instructional television foundations, and other agencies of state government — was left with a negative disbursement variance of only 1.0 percent, or $81,592.

The backbone of the commission's service delivery system is a new statewide fiber-optic based interconnection system that has just recently become operational. The system enhancement allowed the commission to increase the number of interconnected affiliates from eight to 42, which includes eight public educational television stations, 15 public radio stations, nine radio reading services, eight educational technology agencies, the Statehouse News Bureau, and the Ohio Government Telecommunications Center. It has also allowed the commission's Operations Center to begin providing affiliated organizations with multiple-video-data services.

In anticipation of a surge in workload as a result of an increase in the number of affiliated organizations and the services delivered, the commission solicited and received Controlling Board approval on November 17, 1997 to transfer $121,021 in FY 1998 and $198,142 in FY 1999 from line item 374-300, Equipment, to line item 374-100, Personal Services. The purpose of the transfer was to permit the commission to create five new staff positions (two operations technicians, one traffic assistant, one maintenance technician, and one programmer specialist) and to upgrade five existing staff positions. By the close of FY 1998, the hiring process had been completed and five new staff positions had been filled.

Library Board. The State Library Board — whose role is to develop, maintain, provide, and disseminate information and library materials and services for Ohio's government and its citizens — ended FY 1998 only 1.1 percent, or $168,034, under estimate, signaling that at least two new programmatic initiatives had been implemented fairly smoothly. One of the programmatic initiatives involved an up to $1.0 million FY 1998 set aside within line item 350-400, Ohio Public Library Information Network. This amount was earmarked for the purpose of funding the Net Wellness Program, a Web-based consumer health information service developed by the University of Cincinnati Medical Center and its partners. The board distributed $458,147 of the $1.0 million earmark as a grant to the University of Cincinnati to establish and operate the program. The remainder of the earmark — $541,853 — was transferred to the next fiscal year by the Controlling Board on May 4, 1998 to ensure that grant funding is available to the Net Wellness Program in FY 1999 as well. The current biennial operating budget had loaded all of the earmarked GRF funding in FY1998 when in fact it probably should have been allocated to cover the entire biennium.

The second programmatic initiative involved the newly-created line item 350-504, Ohio Humanities Council, which received appropriations totaling $100,000 in FY 1998 and $100,000 in FY 1999 to fund joint humanities library projects. The council used the money to create four new grant categories (collaborative projects, literacy projects, poets and writers in person, and other library-collaborative projects) for public libraries. It also worked in collaboration with a number of public libraries to bring nationally known writers to Ohio and develop a new "Let's Talk About It" book discussion program.

NET. The Office of Information, Learning, and Technology Services (NET) still managed to close the year with a $2-plus million underage despite an expected $3.1 million overage for the month of June. NET's year-to-date underspending was entirely driven by line item 228-404, SchoolNet, which is used to make grants to qualifying schools and entities for the provision of hardware, software, telecommunications services, and staff professional development to support educational use of technology in the classroom. Of the $2-plus million unspent from its FY 1998 SchoolNet appropriation, NET encumbered $750,024 to purchase a variety of equipment.

It also appears that NET has plans to approach the Controlling Board in the near future with a request to transfer the remaining $1.7 million in unused FY 1998 SchoolNet appropriation authority into FY 1999. This planned transfer is largely intended to carry along FY 1998 GRF funding that was budgeted for two slower-moving technology projects, but not fully disbursed or encumbered prior to the close of the fiscal year.

The first technology project involves the development of educational materials related to the restoration of the Statehouse and its role in Ohio government. The second technology project is part of an Education Management Information System (EMIS) initiative undertaken by the Department of Education to procure or develop common EMIS software for use by school districts and data acquisition sites.

NET's two other GRF line items – 228-539, Education Technology, and 228-559, Interactive Parenting Program – had fully disbursed their FY 1998 appropriations by the end of May.

Proprietary School. Fiscal year 1998 for the State Board of Proprietary School Registration, whose primary mission is to monitor and regulate the state's for-profit, post-secondary institutions, was one of underspending. Relative to the annual disbursement estimate, the board finished with a negative disbursement variance of $81,285, or 17.2 percent. Looking at it from another angle, relative to the total funds available to the board in FY 1998, including a FY 1998 appropriation of $466,099 and FY 1997 encumbrances of $40,755, 17.4 percent, or $88,376, was left unspent. Primarily personnel issues drove this underspending. Essentially, unexpected vacancies in budgeted staff positions and a lower-than-budgeted salary for a new executive director produced unplanned savings in the board's personal services line item (233-100).

This savings in personal services enabled the board to approach the Controlling Board in March and obtain approval to transfer $20,000 in unneeded payroll funds to restore the board's equipment line item, which had received no funding under the current biennial operating budget. The board used these transferred funds to replace aging computers, as well as to purchase a printer and some furniture.

Higher Education

Regents. The Board of Regents disbursed a total of $2.21 billion in GRF funds in FY 1998, which included $14.0 million in FY 1997 encumbrances. At fiscal year's-end, the board had encumbered $13.6 million in their remaining available FY 1998 appropriation authority for disbursement in FY 1999. (As a referent point, the board encumbered $17.8 million in FY 1997 and $12.4 million in FY 1996.)

The board also closed the fiscal year with an unused FY 1998 appropriation authority totaling $11.7 million plus an additional $3.8 million in cancelled FY 1997 encumbrances. Of this untapped FY 1998 appropriation authority and cancelled encumbrances, $9.9 million was attributable to Ohio Instructional Grant (OIG) funds — $3.5 million in cancelled FY 1997 encumbrances and $6.4 million in unspent FY 1998 appropriation authority. Three other line items comprised the remaining unused FY 1998 appropriation authority and cancelled FY 1997 encumbrances: debt service payments ($3.9 million), War Orphans' Scholarship funding ($620,492), and personal services ($383,514).

We'd like to turn away from what may be mind-numbingly-dull statistics to some interesting ideas and events that captured our attention. Why was some state assistance to low income higher education students, specifically OIG funding, going unused? Why was the board's spending on operational expenses looking so sluggish? What happened to the board's performance funding initiatives designed to "challenge" the state's higher education community? What was the status of the state's relatively new fiscal watch system? Were themes emerging that may shape future requests for higher education funding?

Let's explore these questions a little bit.

The OIG Story. Since 1969, Ohio has provided state assistance to low income students attending Ohio's public, private, and proprietary higher education institutions on a full-time basis. The line item, which fuels this student financial assistance program, is 235-503, Ohio Instructional Grants. Under the current biennial operating budget, the student grants range from a minimum of $288 to a maximum of $4,296 depending on the type of institution a student attends — proprietary, public, or private — and whether the student is dependent on, or independent of, other income earners. The grants serve dependent students with family incomes of less than $31,000 and independent students with incomes of less than $28,900.

The data in Table 6, OIG Student Utilization, revealed that the great majority of students awarded these grants use them — 80 per cent in recent years. The table compared the number of OIG awards offered to students ("Eligible Applicants") to the number of awards used by students at Ohio institutions ("Awards Utilized") for the last 10 years. The reader should keep in mind that the eligibility requirements and the allowable grant amounts were constantly changing during these years. For example, in fiscal years 1996 and 1997, the family income cap for a dependent student was $29,000; this cap was raised to $31,000 in fiscal years 1998 and 1999. In that time as well, the size of the average grant amount increased by more than 14 percent. Over the ten-year period captured in Table 6, the number of eligible applicants increased by 25 per cent.

Table 6 also showed that while the OIG usage rate was generally around 80 per cent for the last ten years, fewer students used their grants in the two academic years encompassing 1992-1994. In those years, 75 per cent and 71 per cent of grants awarded were actually used, respectively.

Table 6
OIG Student Utilization*

Academic Year	Number of Eligible Applicants	Number of Awards Utilized	Percent of Awards Utilized
1987-1988	86,953	68,311	79%
1988-1989	85,215	67,099	79%
1989-1990	86,760	69,357	80%
1990-1991	87,353	69,715	80%
1991-1992	99,836	76,393	77%
1992-1993	113,056	84,248	75%
1993-1994	115,437	82,503	71%
1994-1995	110,921	88,266	80%
1995-1996	109,562	84,384	77%
1996-1997	103,603	79,993	77%
1997-1998**	108,700	86,960	80%

*Source: Ohio Board of Regents

**Data for 1997-1998 is an estimate at this time due to the "cushion" factored into OIG cash flow.

Table 7, Percent of OIGs Utilized by Student Status, was constructed to show for the last four academic years the percentage of dollars awarded compared to their actual usage for dependent and independent students. The figures painted a consistent picture. Approximately two-thirds of the grants awarded to dependent students were actually used; while around one-half or less of the grants awarded to independent students were used annually.

Why do around 20 percent, or 20,000, of the students awarded grants opt not to draw on them? As we are not aware of any research that has been done on this subject, we don't really know why students chose not to use their grants. We can offer some plausible explanations though. Perhaps some of these students decide to attend college out of state. And perhaps other students decide to postpone going to college. Maybe others decide to attend school part-time, which would make them ineligible for an OIG grant, but eligible for the Part-time Instructional Grant program. The board has only just begun to study the OIG data in the hope that it can learn more about the program and its effects on college attendance patterns for lower income Ohioans.

We cannot close this discussion of student financial aid without mentioning the state's part-time student population. Since 1993, Ohio has provided grants to low-income students attending college on a part-time basis through line item 235-549, Part-Time Student Instructional Grants. Changes to this program brought about under the current biennial operating budget have dramatically increased the ability of higher education institutions to spend funds to assist part-time, low-income students. The biggest change involved permitting students to receive more aid through the Part-Time program than they would have received if they were full-time students participating in the OIG program.

Operating Expenses. With regard to the board's disbursement of FY 1998 appropriations for operating expenses, one important story centered on its management information systems, specifically issues related to computer integration and staff hiring. Computer integration

Table 7
Percent of OIGs Utilized by Student Status*

Academic Year	Dependent Students	Academic Year	Independent Students
1994-1995	68.3%	1994-1995	50.2%
1995-1996	67.7%	1995-1996	49.6%
1996-1997	68.3%	1996-1997	49.9%
1997-1998	67.5%	1997-1998	46.6%

Dependent Students
Percent of OIGs Utilized by Student Status by Type of Institution Attended
Academic Year 1997-1998**

Institution	Dependent Students	Institution	Independent Students
Public	62.3%	Public	47.2%
Private	80.6%	Private	59.8%
Proprietary	53.0%	Proprietary	43.1%

* Source: Ohio Board of Regents
** Trends in prior years consistent.

decisions were late in coming, leading to the encumbrance of some maintenance and equipment funding. While delays in the filling of five information systems positions led most noticeably to underspending in the board's personal services line item (235-100). Of the FY 1998 appropriation for personal services totaling $2.5 million, $325,049, or 12.9 percent, was left in the available balance at fiscal year's-end.

Challenging Performance. The current biennial operating budget funded seven "Challenge" line items, five of them new, for the purpose of rewarding higher education institutions for meeting performance goals. These line items represented a first, major step toward

Table 8
BOR Performance Challenges

Line Item/Name	Purpose	FY 1998 Appropriation	FY 1999 Appropriation
235-415 JOBS Challenge	Supports non-credit job-related training efforts at state-assisted colleges and universities. (NEW)	$500,000	$2.5 million
235-417 Technology Challenge	Creates TechLINK to support the dissemination of best technology practices in Ohio's higher education system. (NEW)	$2.0 million	$4.0 million
235-418 Access Challenge	Half of each year's new subsidy dollars to be used to restrain tuition growth at Access Campuses. Governor vetoed restricting this requirement only to institutions which have in-state, in-district tuition and fees above the state average. Eligible campuses: community and technical colleges, Shawnee State, Central State, Cleveland State, university branch campuses, and the community-technical colleges at the universities of Toledo, Cincinnati, and Akron, and Youngstown State. (NEW)	$12.0 million	$16.0 million
235-420 Success Challenge	Supports degree completion programs targeting at-risk students at state-assisted colleges and universities. (NEW)	$2.0 million	$4.0 million
235-421 Higher Education Efficiency	Provides a limited number of competitive grants to two-year and four-year institutions based on their plans to increase operational efficiency. (NEW)	$0	$2.0 million
235-416 Performance Challenge*	Rewards two-year campuses for attainment of the Two-Year Campus Service Expectations. Changes to permanent law (ORC 3333.20) require BOR to consider institutions which share campus locations as separate entities and as a single entity when making funding decisions in the Performance Challenge program. The co-located campuses will receive the higher amount derived from the two comparisons.	$3.1 million	$3.2 million
235-454 Research Challenge**	Supports public and private colleges and universities in their efforts to perform research which assists Ohio's economic redevelopment goals. New language sets aside $100,00 each year of the biennium for plant science research: in 1998, funds to Toledo for the Plant Science Research Facility, and in 1999, funds to the Ohio Plant Biotech Consortium.	$12.8 million	$14.8 million
TOTAL (5 NEW CHALLENGES)		**$16.5 million**	**$28.5 million**
TOTAL (ALL 7 CHALLENGES)		**$32.4 million**	**$46.5 million**

** New line item and name for discontinued line item 235-512, Performance Funding.*

***Research Challenge is not a new performance challenge.*

diversifying Ohio's state higher education funding away from its current heavy reliance on the instructional subsidy formula, which is based primarily on student enrollment.

The purposes and biennial funding levels for these seven line items are detailed in Table 8, BOR Performance Challenges. Relative to the FY 1999 funding levels originally appropriated for each of these line items, they remain unchanged despite the FY 1999 GRF appropriation reductions imposed on numerous state agencies in order to enhance state support distributed to school districts. The board opted to absorb its mandated FY 1999 appropriation reduction so as to not decrease the funding levels originally appropriated for the six performance challenge line items.

It would be remiss of us if we did not touch on one of the performance challenge line items in particular — 235-417, Technology Challenge — which looks a bit different than was expected. As originally proposed, this line item was to be used to fund "competitive and categorical grants to campuses to enhance technology acquisition, improve applications of technology in the learning process, and broaden the participation of faculty and staff in training and application efforts."

As is turns out, the line item supports an initiative to be run by the Ohio Supercomputer Center called TechLink that will serve "as a clearinghouse for instructional technology — identifying and disseminating best practices, promoting collaborative approaches for educational product development, and serving as a technological resource base for all colleges and universities." TechLink will also provide network advice for schools linking to SchoolNet.

Fiscal Watch. Amended Substitute Senate Bill 6 of the 122nd General Assembly, effective June 20, 1997, required the Auditor of State and the Board of Regents to develop a system to avoid fiscal crises in state affiliated higher education institutions, if possible, and to alert the state to crises-in-the-making so that remedial activities could be initiated. The rules were developed and the system has been operational for approximately 12 months.

Thus far, no institutions have been placed on "fiscal watch." Two institutions' financial audits — North Central Technical College and Northwest State Community College — noted weaknesses in their fiscal controls. Both institutions subsequently documented to the board that they had addressed the concerns raised by the audits. A third institution — Muskingum Area Technical College — filed a late audit due to what at the time was an on-going investigation of a former university employee who has since been convicted of embezzling funds. The Auditor of State reviewed the audit report and found that the institution was making appropriate progress toward improving its financial controls.

Future Themes. While we are neither skilled futurists nor psychic readers, here are just some of the themes or ideas that are clearly taking shape as the Board of Regents sets about the task of building their next biennial operating budget request. The board will continue its efforts to link higher education's next budget request to future growth in the state economy, particularly in light of the relative decline of Ohio's average wage compared to the national average wage and our relatively low educational attainment rate. The board will also be pushing for "an integrated economic growth strategy." Although we are not certain what this will mean operationally, it suggests that the board may make more efforts to interact with the departments of Development and Education on economic development issues. And last, two important priorities will continue to be: (1) ensuring that higher education institutions provide cost effective workforce training; and (2) trying to reduce tuition costs for Ohioans.

Health Care/Medicaid

Something would be greatly amiss were this disbursement story not to include a narrative that followed the state's $5-plus billion Medicaid program. Unfortunately, we were unable to engage in an appropriately penetrating analysis of FY 1998 Medicaid spending events. We have been forced into a "wait-and-see" mode as the Department of Human Services prepares the detailed data that provides the critical underpinning one must have to examine the trends running through the program's service and recipient categories. When the data is available, we plan to revisit FY 1998 and analyze Medicaid's spending in a more in-depth fashion.

We can, however, offer up this lone summary observation. For FY 1998, the Medicaid program carried $78.5 million of encumbered FY 1997 funds as well as a FY 1998 appropriation totaling $5.2 billion. The department disbursed all but $2.0 million or so of the FY 1997 encumbrances. With regard to the FY 1998 appropriation, the department disbursed $4.98 billion, encumbered $53.98 million, transferred $1.7 million (principally to address an accounting change related to a third party liability recovery contract), and left an available balance of $128.4 million. (Keep in mind that Medicaid is a state-federal program, thus around $74.7 million of the available balance in the FY 1998 appropriation is not state GRF money saved, but actually federal reimbursement that we did not earn because "you got to spend it to earn it.")

TANF

Prior to the passage of federal legislation reforming welfare in August 1996 (the Personal Responsibility and Work Opportunity Reconciliation Act, or PRWORA), Ohio government began a reform effort of its own with a waiver from the rules of the Aid to Families with Dependent Children (AFDC) program. The PRWORA created the Temporary Assistance to Needy Families (TANF) program, and was followed in Ohio with the passage of Substitute House Bill 408 of the 122nd General Assembly, which was enacted to implement additional reforms in line with the federal legislation. This combination of federal and state legislation made unprecedented changes to the nature of welfare assistance in Ohio. The resulting programs — Ohio Works First (OWF) and Prevention, Retention, and Contingency (PRC) — were designed to create a work-oriented, transitional assistance program. These programs replaced the entitlement-oriented AFDC program, the Job Opportunity and Basic Skills (JOBS) program, and the Emergency Assistance (EA) program. The new OWF and PRC programs began implementation on October 1, 1997.

The TANF program replaced the earlier entitlement programs with a "flat-funded" block grant that imposes work requirements on recipients, and establishes a five-year maximum lifetime limit on a family's receipt of federally-funded TANF benefits. In addition, states are required to meet work activity participation rates or face penalties.

The following paragraphs provide summary observations on spending, changes in the caseload, and budget initiatives in Ohio's TANF program.

June's TANF disbursements made it 11 out of 12 months in the fiscal year where spending was under the estimate — despite the fact that the June estimate was a comparatively low amount of $31.6 million. The negative disbursement variance in June was $10.2 million, as TANF spending checked in at a low $21.4 million. Virtually all of this monthly underage was in line item 400-411, TANF Federal Block Grant.

June's disbursements departed from the pattern established in prior months mainly because in June checks for cash benefits are not sent out at the end of the month, as is the pattern with all other months, but rather are delayed until the start of the fiscal year. This is the normal practice for the month of June. To "catch up," July will see cash payments issued at the beginning and the end of the month.

The number of TANF recipients continued its steady decline — with the bottom seemingly not yet in sight. In June, there were nearly 12,000 fewer recipients than there were in May.

From the recession peak of the caseload in 1992, the number of recipients in Ohio's AFDC/TANF program has declined from 748,717 to 341,839 — a dramatic drop of 54.3 percent. For FY 1998, the number of OWF recipients declined by 123,260 recipients, representing a 26.5 percent drop.

Forecasting this decline of the caseload in the wake of welfare reform has proven to be a perilous business. In December 1996, LBO produced a caseload forecast for FY 1998 that projected a decline in the caseload of 4.1 percent. The Department of Human Services forecast produced in June 1997 yielded a slightly more accurate projection of 6.1 percent. However, both forecasts were very wide of the actual 22.0 percent decline from the average monthly caseload in FY 1997 to the average FY 1998 monthly caseload.

Part of the problem for LBO's forecast was its assumption that the unemployment rate would stop falling and that the number of OWF-Unemployed cases (which are a special classification of two-parent families who experience deprivation because of unemployment) would increase slightly in the beginning of FY 1998 and then level out. Fortunately for Ohioans, this aspect of the forecast was inaccurate. The unemployment rate held steady at historically low rates, even dipping lower in the early months of 1998. Only in the last couple of months of FY 1998 have we witnessed any increases in unemployment. Over the course of the fiscal year, the number of OWF-Unemployed cases declined from 10,523 to 5,228 — a reduction of 50.3 percent. The unexpected size of the overall caseload decline, and especially the unemployed component,

Table 9
Ohio Works First Assistance Groups, by Category
FY 1997 and FY 1998

OWF Category	FY 1997 (actual)	FY 1998 (estimate)	FY 1998 (actual)	Percent change
Regular	181,555	170,175	138,541	23.69%
Unemployed	13,259	12,687	7,464	43.71%

Source: Estimate provided by the Department of Human Services

was responsible for the largest part of the year's underspending.

Table 9, Ohio Works First Assistance Groups, details the actual decline in the average number of assistance groups for two recipient categories: OWF-Regular and OWF-Unemployed.

The total estimated disbursement for the TANF program in FY 1998 — excluding child support collections and the local share of the TANF maintenance of effort requirement — was $1.01 billion. Out of which, $783.8 million was actually spent, making for a negative variance of $228.8 million, which represented 22.6 percent of the original estimate. The original estimate included a $658.5 million "base projection" of the cash benefits to be made during the year. The actual cash benefits for the year totaled $551.9 million. This shortfall accounts for $106.6 million of the $228.8 million negative variance. The remainder of the underspending includes $20.3 million encumbered for contracts that have been awarded, for interagency agreements, and for equipment purchases. Out of the total variance, $217.4 million was registered in line item 400-411, TANF Federal Block Grant. Any federal dollars remaining at the end of a federal fiscal year are available to the state over the lifetime of the TANF program, as long as the state has met the appropriate level of its maintenance of effort (MOE) spending.

PRC. Several initiatives in the TANF budget during FY 1998 deserve special mention, such as the Prevention, Retention, and Contingency (PRC) program, which replaced and expanded the Family Emergency Assistance program. As the name implies, the PRC program is a special category of assistance designed to help families with one-time urgent needs that could, if left unattended, result in the family requiring public assistance. Substitute House Bill 408 provided that each county develop a PRC program designed to meet the needs of the county or adopt the state model program. Examples of assistance and services provided under PRC include such things as: shelter expenses, transportation expenses and car repair, counseling/mentoring services, job-related expenses, household expenses, job support and retention services. In the first quarter of its operation (October through December 1997) expenditures were approximately $2.3 million. The tally of PRC expenditures for later months is still incomplete as of this writing since not all counties had reported.

A special element of the PRC program set up pursuant to Substitute House Bill 408 is the Disaster Fund Reserve. This reserve sets aside funds to be allocated to counties declared to be disaster areas by the Governor. While none of these funds were expended in FY 1998, it appears that such disaster assistance will be made available to victims of the flooding that occurred in the state around late June and early July of this calendar year. Counties are to determine eligibility for assistance.

E&T. In April, the executive branch withdrew its request for a Welfare-to-Work matching grant from the federal government. In its place, the Governor announced the creation of the TANF Employment and Training program, to be funded out of unobligated federal TANF funds. Out of these funds a reserve of $88 million was established. From this reserve, $22 million was made available to counties in June. But with time so limited, virtually none of this money was spent in June. This new employment and training effort will thus have about $44 million budgeted in each of fiscal years 1999 and 2000.

Reduction Incentives. The Department of Human Services also established a reserve fund of $60 million for caseload reduction incentives. Out of this reserve fund, $15 million will be awarded in each fiscal year. Those counties that have 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.

Encumbrances. The Department of Human Services also started FY 1998 with slightly over $9.2 million in AFDC funds encumbered from previous years, the bulk of which were set aside to cover the possibility that the state might owe counties money once the books on that now defunct entitlement program were closed. At the close of FY 1998, virtually none of these funds encumbered from prior years had been disbursed. In addition, $2.6 million of these outstanding encumbrances had been cancelled and $6.6 million in outstanding encumbrances were being carried into FY 1999.

General/Disability Assistance

The FY 1998 disbursement story in the Disability Assistance (DA) program (a state- and county-funded effort which provides cash and/or medical assistance to persons presently ineligible for public assistance programs that are supported in whole or in part by federal funds) was the steady decline in caseload. The number of DA cash recipients declined from a little over 14,500 in July 1997 to about 11,500 in June 1998, a fall of roughly 21.0 percent. The average number of cash recipients comparing FY 1998 to FY 1997 decreased a similar 21.0 percent. Likewise, the average monthly amount for cash benefits took a 22.1 percent dip from FY 1997 to FY 1998.

However, the number of monthly DA medical recipients held fairly steady, with only a slight decline. Consequently, the medical services component of DA also held steady compared to FY 1997, averaging about $3 million per month.

Overall, DA's disbursements registered negative variances in ten of twelve months, including the closing month of June, which was $662,563, or 17.3 percent, below the estimate. For the year, DA disbursements were nearly $7 million below the original estimate, representing an 11.0 percent negative disbursement variance. The reader should also be reminded that this underage included the $1.0 million of FY 1998 DA appropriation authority transferred into another line item by the Controlling Board in January 1998 enabling the Department of Human Services to initiate a new food stamp program for a portion of the legal immigrant population who had lost food stamp benefits at the time as a result of federal welfare reform.

Taber Class Action. In the January issue of ***Budget Footnotes***, we discussed the fact that virtually none of the $6.06 million in encumbered General Assistance (GA) funds carried in from the prior biennium had been disbursed. As a very quick snapshot, we noted that these funds were tied up pending resolution of a legal matter known as the Taber class action lawsuit. Under that lawsuit, the plaintiffs were challenging FY 1993 eligibility and benefit amount determinations made by the Department of Human Services under the revised GA program enacted pursuant to Amended Substitute House Bill 298 of the 119th General Assembly.

Both the plaintiffs and the department filed appeals to the state's Tenth District Court of Appeals following the June 1997 order of the Court of Claims. The latter court decided in favor of the department in its right to impose a gross income test to GA applicants before applying any earnings disregard. However, the court sided with the plaintiffs on the issue of whether the department had a right to extend the disregard to unearned income.

On March 31, 1998, the state's Tenth District Court of Appeals issued its ruling. The appeals court essentially said that the Court of Claims erred in its decisions. The appeals court held that the department had failed to follow the statute in making determinations of eligibility, but that the department was correct in the way that it determined grant amounts for GA benefits in that year. The case was remanded to the Court of Claims for further proceedings consistent with the appeals court decision.

The parties are now determining how the forms and directives that were part of the Court of Claims order must be modified to carry the court of appeals decision into effect.

In general, the impact of the appeal court's decision is that members of the plaintiff class will be entitled to some distribution of funds. However, according to sources associated with the plaintiff class, no estimate can be made at this time of the number of persons affected or the amount that will be disbursed.

Legal counsel affiliated with the department had indicated to LBO that their initial view of the implementation of the appeal court's decision is that it should have a very limited financial impact. However, it may require some administrative effort by the county departments of human services to process claims filed by former recipients of GA.

Where are we then? The department anticipates that there will be no disbursement of the encumbered GA funds related to this case until after January 1999. However, LBO assumes that it will more than likely be much later than that, because the counties will bear the burden of finding the former GA recipients affected by the court's ruling.

Other Welfare

Human Services. For FY 1998, disbursements for the Department of Human Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF, and Disability Assistance, which are tracked under separate components of the Welfare and Human Services program category — landed $31.4 million under the estimate. This underage, which grew throughout the fiscal year, was largely attributable to line item 400-416, Computer Projects, used to fund the development, implementation, and upgrading of such major computerized management information systems as CRIS-E (Client Registration Information System-Enhanced), MMIS (Medicaid Management Information System), SETS (Support Enforcement Tracking System), and FACSIS (Family and Children Services Information System). Disbursements from line item 400-416 fell below the estimate by nearly $11 million, the major reason being pinned on delays associated with the implementation of SETS. Although the visible result was that the department disbursed only three-quarters of the line item's $90.5 million appropriation, or $66.3 million. Almost the entire remainder, or $23.6 million, was encumbered for disbursement in FY 1999.

According to the department, SETS' problematic feature is its inherent complexity. Ohio, unlike most other states, is a state-supervised and county-administered system, and as such requires a close collaboration between the state and 88 county child support enforcement offices. Whereas most state child support systems involve only two levels of government (state and federal), Ohio's system involves three levels: county, state, and federal. This situation alone causes some delays in SETS' system planning and development.

The last note relative to this underspending issue involved disbursements from the $48.7 million line item 400-528, Adoption Services, a joint state/federal effort that provides payments associated with the adoption of "special needs" children, which fell below the estimate by $5.3 million. According to the department, the variance was attributable to slower than anticipated reimbursements to counties for adoption placements. Apparently, the counties did not make as many adoption placements as anticipated. Thus, the counties did not spend these dollars as quickly as was initially assumed. Consequently, $4.6 million of the FY 1998 appropriation authority remained unspent at the close of FY 1998.

Food Stamp Program. On January 26, 1998, the Controlling Board approved a request by the Department of Human Services to initiate a new food stamp program fund that would be designed to assist a portion of the legal immigrant population that had lost food stamp benefits as a result of changes in federal law. The new line item — 400-414, State Option Food Stamp Program — was funded by a transfer of appropriation authority totaling $1,000,000 in FY 1998 and $4,000,000 in FY 1999 from line item 400-511, Disability Assistance. (For more information on what we knew of this new program at its inception, see the article by Steve Mansfield in the February, 1998 issue of ***Budget Footnotes***.)

The program began operation on April 1, 1998. By fiscal year's-end, some three-month's later, only $315,294 of the program's appropriation had been disbursed and no funds had been encumbered, which meant that almost 70 percent of the $1.0 million appropriation remained unspent.

In late June 1998, President Clinton signed an agriculture bill that restored food stamps to legal immigrants (children, senior citizens, refugees, and disabled persons) who were in the country prior to August 22, 1996 (the date of the passage of the welfare reform bill, HR 3734, The Personal Responsibility and Work Opportunity Reconciliation Act).

The federal restoration of food stamps to this portion of the legal immigrant population takes effect November 1, 1998. Ohio will continue to operate the State Option Food Stamp program until then. As of this writing, the federal government had not yet issued implementation guidelines so it remains unclear as to whether all of the immigrant population currently being served by the State Option Food Stamp program will qualify for restoration of their federal food stamp benefits.

Other Human Services

Aging. Three items caught our collective eye as we scoped out the ending fiscal year disbursement picture for the Department of Aging: (1) unspent Residential State Supplement program funds in excess of $900,000; (2) encumbered Senior Community Services funds totaling $5.5 million; and (3) encumbered Seniors in Schools program funds of around $400,000.

First, the Residential State Supplement (RSS) program (line item 490-412). It provides cash assistance to aged, blind, and disabled adults who live in an adult foster home, an adult family home, an adult group home, or a rest home.

RSS recipients are individuals who have increased financial burdens due to a medical condition; however, the medical condition may not be severe enough to require institutionalization. Licensed RSS facility operators provide room and board, laundry, transportation, supervision, and personal care assistance for the RSS recipient. RSS recipients also receive Medicaid coverage for primary health care costs such as physician visits and prescriptions. State GRF appropriations combined with nursing facility franchise fee revenues provide sufficient funding to serve approximately 2,800 RSS recipients per month.

The current biennial operating budget increased the amount of the monthly RSS payment from $800 to $850, an increase of $50 per month. The increase was in effect for nine months during FY 1998 and will be in effect for all 12 months of FY 1999. Despite the increase in the monthly payment, $923,810 of the $12.2 million FY 1998 appropriation was still left in the available balance at fiscal year's-end.

In our minds at least, this raised the question of whether the department had given any consideration to expanding the RSS program in order to both serve additional individuals and more fully tap the available level of funding. Discussions of this matter with the department reminded us that the RSS program, formerly known as Optional State Supplement, was transferred to Aging from the Department of Human Services in FY 1994, and that the number of individuals receiving services under the RSS program has since increased from 1,100 per month to 2,800 per month.

The department has in fact taken a closer look at who is enrolled in the RSS program and in so doing has discovered, rather remarkably for a state agency that serves Ohioans age 60 or older, that many RSS recipients are "non-elderly." Sixty-two percent of the RSS recipients are under age 60 and 90.5 percent of those under age 60 recipients are mentally and/or developmentally disabled. Of the recipients who are over 60, 57 percent are mentally and/or developmentally disabled. As the department prepares its FY 2000/FY 2001 operating budget request, it is questioning the appropriateness of administering a program where a majority of those served are "non-elderly." Given this question, the department does not think it is the appropriate time to expand the RSS program.

The department also encumbered $5.5 million of its $13.0 million FY 1998 appropriation in line item 490-411, Senior Community Services, which is mixed with federal funding to provide services that assist older persons in remaining independent within their own homes and communities as long as possible.

Services under the Senior Community Services program are for persons who are not Medicaid eligible. The state's money essentially provides matching moneys that draw over $34 million in federal funding. Services provided include housing, transportation, and home delivered meals. The moneys are administered through the local Area Agencies on Aging (AAA). Similar encumbrances in Senior Community Services appropriations occur every fiscal year. The reason is that ten of the 12 local AAA's choose to receive their block grant awards from January through December of each year. The other two AAA's choose to receive their award from October through September. Although the GRF appropriation is made on a state fiscal year basis, the majority of the money is disbursed on a calendar year basis. Therefore, the department encumbers almost half of the appropriation to disburse in the first half of the next fiscal year.

Finally, the department encumbered $395,874 of an $800,000 FY 1998 appropriation in line item 490-408, Seniors in Schools, also known as STARS. The Seniors in Schools program was established under the current biennial operating budget as a new intergenerational initiative designed to promote volunteerism by older citizens in Ohio's schools. The department started the program at 15 schools in FY 1998 and plans to expand the program to 32 schools in FY 1999. According to the department, there was a delay in a request for funds by seven of the 15 schools during FY 1998.

Under the program, seniors work as tutors and mentors. Senior volunteers receive a small stipend or may choose to receive tuition credits purchased from the Ohio Tuition Trust Authority that the senior may use or transfer to any child designated by the senior. The stipend amount is $2.50 per hour and may not exceed 15 hours per week (a maximum of $37.50 per week).

According to the department, one-third of the senior volunteers opted to receive tuition credits in FY 1998.

Employment Services. Although the Bureau of Employment Services exhibited an uneven spending pattern throughout the fiscal year, it still managed to either disburse or encumber virtually its entire FY 1998 appropriation of $19-plus million. One noticeable exception was line item 795-417, Public Employment Risk Reduction Program, which showed an available balance of $127,549 from its original FY 1998 appropriation of $1.3 million. This remaining balance appeared to be an oversight, suggesting that the bureau will try to work its way to the Controlling Board for the purpose of transferring the unencumbered balance for use in FY 1999.

Line item 795-417, as well as line item 795-412, Prevailing Wage/Minimum Wage & Minors, was also the subject of a Controlling Board request in the last quarter of the fiscal year at which time the bureau received approval to transfer $250,000 from each line item to create a new line item 795-418, TANF Employment & Training.

The new line item will be used to pay for the bureau's administrative functions under the TANF Employment and Training program. Examples of these functions include: providing program technical assistance to local Private Industry Councils; program management in areas of establishing performance measurements and follow up activities; coordinating oversight and evaluation activities with the Department of Human Services; and program monitoring based on certain reports provided by the Department of Human Services. The latter will also contribute an additional $300,000 out of its federal TANF money to pay bureau administrative costs associated with the new program.

In spite of the rather sizeable transfer — $250,000 from each of these two line items — the bureau expects that neither program will experience a negative impact as a result of this Controlling Board action due to the fact that both programs were underspending because of problems related to filling vacant staff positions. The bureau appeared to have had great difficulty attracting qualified applicants given the pay range/class plan associated with the vacant staff positions. This particularly affected the Public Employment Risk Reduction program, which requires the hiring of safety inspectors, a more highly skilled position. To remedy this problem, the bureau applied to the Department of Administrative Services for a class plan change for the safety inspector position. However, although approval of this proposed classification change eventually was granted, it took quite some time to secure.

Health. The Department of Health closed the fiscal year having disbursed absolutely none of the $3.96 million appropriation lodged in line item 440-501, Local Health Districts, a subsidy account that aids local health districts in the inspection and/or licensure of swimming pools, manufactured home parks, food services, and wastewater and sewer services. As we had discussed in last month's issue of ***Budget Footnotes***, this was not unexpected, with the entire appropriation having been encumbered with an eye toward disbursement in the early months of FY 1999.

Two factors seemed to be at play here. First, there was our arch nemesis "Timing." The budget allocation periods for local health districts were divided into two six-month segments (January-June and July-December), reflecting the reality that the local government fiscal years mirror a calendar year and not the state's fiscal year, which starts July 1. The department planned to make two annual payments to the local health districts following receipt of the district's application for assistance, which typically means that some amount of one fiscal year's appropriation will not be disbursed and has to be encumbered for disbursement in the following fiscal year. And second, personnel shake-ups at the department appeared to increase the workload on certain personnel such that it hindered the timely processing of funding requests from local health districts.

Of the department's total FY 1998 appropriation of $77.7 million, 4.4 percent, or $3.4 million, was still available at fiscal year's-end, meaning it had not been disbursed or encumbered. This unspent appropriation balance was clustered mainly in four line items: 440-439, Nursing Home Survey and Certification; 440-458, Health Care Policy and Regulation; 440-451, Prevention; and 440-453, Quality Assurance. The possibility that some of these line items might not tap their entire FY 1998 appropriation was discussed in last month's issue of ***Budget Footnotes***.

We expect that the department will present a request to the Controlling Board sometime in July to transfer a load of this unspent $3.4 million from FY 1998 into FY 1999 for various purposes, including ameliorating a serious cash flow problem associated with the federal Preventive Health Services Block Grant that is used to award grants to local entities for disease prevention programs and services.

Lastly, in the May issue of ***Budget Footnotes***, we had taken time to detail the rather sluggish disbursement progress in line item 440-402, Osteoporosis Awareness, which was to be used by the department to establish an osteoporosis awareness program. At fiscal year's-end, only $10,753 had been disbursed of the $100,000 FY 1998 appropriation. However, a closer examination of the numbers somewhat relieved our concern that nothing was happening as it revealed that $87,000 had been encumbered, which meant that a rather paltry $2,247 was left behind in the line item's available balance from FY 1998. These osteoporosis awareness efforts were moving ahead, just much slower than might have been anticipated.

Mental Health. FY 1998 expenditures for the Department of Mental Health were, for the most part, on-target. Two exceptions of note were a $2,461,248 encumbrance in line item 334-408, Community Mental Health and Hospital Services, and a $1,188,406 encumbrance in line item 335-508, Services for Severely Mentally Disabled Persons. These encumbrances were in the range of two-to-three times larger than the amounts originally estimated at the start of FY 1998.

Moneys from both of these line items are disbursed to local mental health boards upon request once each quarter. Mental health boards request the disbursement of these funds based on their cash flow needs. Therefore, LBO expects that most, if not all, of the FY 1998 encumbrances for these line items will be disbursed early in FY 1999.

Mental Retardation. The Department of Mental Retardation and Developmental Disabilities posted a negative monthly disbursement variance of $5.96 million, mainly driven by two line items: 322-413, Residential and Support Services, and 323-321, Developmental Centers Operations.

Our old friend line item 322-413 was still lurking on the premises like the proverbial dinner guest that wouldn't leave. This line item registered a negative monthly disbursement variance of $3.4 million, leaving the line item with a year-to-date negative disbursement variance totaling $17 million. All fiscal year, line item 322-413 had been running sizeable monthly and year-to-date underages. The month of June was, as noted, no exception. However, as discussed in several prior issues of ***Budget Footnotes***, timing revealed itself as the inevitable culprit. In fact, a closer examination of the numbers revealed that the line item was carrying $17.8 million in outstanding encumbrances into FY 1999, which meant that of the line item's FY 1998 appropriation totaling $128.2 million, a mere $1.40 was left in the available balance at fiscal year's-end.

From what we have been able to gather, the department must still pay eight-to-nine weeks worth of Medicaid waiver services before it can close the books on FY 1998. Of the $17.8 million in this line item's outstanding encumbrances, approximately $9 million will be to pay providers for Medicaid waiver services at the rate of $800,000 per week (hence, eight-to-nine weeks). This is not meant to imply that services have not been delivered to clients in a timely manner. Rather, service providers have been, in many cases, tardy in supplying the department with bills and invoices, and, as a result, have not been paid yet.

This line item's outstanding encumbrances also contains approximately $1.4 million in clothing allowances which the department estimates will be spent by November 1, as well as funds to cover waiver match and the Purchase of Service (POS) payments to counties. Each county board is required to provide the department with documentation detailing how much waiver match money needs to be held. Until that documentation is submitted, the department is unable to disburse the funds.

In the case of the second line item that drove the June underage — 323-321, Developmental Centers Operations — the majority of the appropriation had been disbursed much earlier in the fiscal year than was originally assumed. As a result, in every monthly variance since February, this line item has topped a negative $2.0 million. June was no different as it posted a negative monthly disbursement variance of $2.6 million. However, at year's-end, the line item's FY 1998 appropriation of $100.5 million had been virtually exhausted. A meager $1,397 had been encumbered and only a slightly less paltry $8,408 was left in the available balance.

Trust Fund. As we noted in last month's issue of ***Budget Footnotes***, the department is in the rare position of having some statutory protection from the lapsing of GRF appropriations. Under section 5123.352 of the Revised Code, which was enacted by Amended Substitute Senate Bill 21 of the 120th General Assembly, the director of the department is required, not later than 60 days after the end of each fiscal year, to certify to the Office of Budget and Management (OBM) the amount of all the unexpended, unencumbered balances of

GRF appropriations made to the department for the fiscal year, excluding debt service appropriations. On receipt of the certification, OBM must transfer that amount to the Community Mental Retardation and Developmental Disabilities Trust Fund. All moneys credited to the trust fund must be used to provide temporary funding to county boards of mental retardation and developmental disabilities and to pay the expenses of members of the trust fund's advisory board.

This year, the department will be in a position to transfer approximately $112,000 in unspent FY 1998 GRF appropriations to the credit of the Community Mental Retardation and Developmental Disabilities Trust Fund (Fund 4U4). When combined with the fund's unencumbered cash balance at the close of FY 1998 of $110,624, the fund's FY 1999 available cash balance will rise to be in excess of $200,000. How much, when, and on what Fund 4U4's cash balance might be spent in FY 1999 is unclear at this time.

Line item 320-415, Rent Payments-OPFC, carried a FY 1998 appropriation totaling $41.96 million for debt service, of which $1.2 million was not needed.

However, as previously noted, unused GRF debt service appropriations do not qualify for transfer to the credit of Fund 4U4.

Minority Health. Timing produced the effect on the Commission on Minority Health's disbursements that had been anticipated, a substantial underage on the order of 17.1 percent at the close of the fiscal year. This underspending was driven by the commission's two subsidy line items: 149-501, Minority Health Grants, and 149-502, Lupus Programs. However, the balance of the unspent appropriations for these two subsidies, $473,565, was encumbered for disbursement in FY 1999. The encumbering of the Minority Health Grants funds simply reflected the normal timeframes associated with processing quarterly payments for grant recipients. The encumbering of the Lupus Programs funds, almost 40 percent of the amount appropriated for FY 1998, reflected what appeared to be a rather lengthy decision-making process on how those appropriated funds would be deployed. The entire FY 1998 appropriation will eventually be exhausted on 11 grants, with a substantial chunk going to three recipients: the Arthritis Association of Cincinnati, the Lupus Foundation of America, and the Arthritis Foundation.

Rehabilitation Services. For much of the fiscal year, the Rehabilitation Services Commission ran a negative year-to-date disbursement variance, largely due to underspending in line item 415-506, Case Services for People with Disabilities, a fact that we made repeated observations about in various issues of ***Budget Footnotes***. This led us to take the view that the commission would drop a lot of money by fiscal year's-end, and that, in fact, happened, but not to the degree we expected. The commission still closed the fiscal year with an underage of $835,489 as a result of not hitting the disbursement estimate for line item 415-506.

Here's how we ended. Of the commission's FY 1998 appropriation totaling $22.3 million, $20.8 million was disbursed, $1.5 million was encumbered, and an almost imperceptible $612 was left in the available balance of the appropriation. Of the $1.5 million in encumbered funds, $1.4 million is lodged in line item 415-506. The latter was expected to be disbursed at the outset of FY 1999 to cover services rendered in late FY 1998.

The commission's concern relative to FY 1999 is the anticipated negative impact of GRF budget reductions that they, as well as many other state agencies, will have to absorb pursuant to Amended Substitute House Bill 650 of the 122nd General Assembly. In the case of the commission, they have a 1.0 percent cut to digest. Many of the affected line items are used for federal match purposes. Therefore, a loss in funding for these line items represents a decrease in the amount of federal money available to the commission to provide money for vocational rehabilitation, services for people with disabilities, services for people who are elderly, and independent living centers. RSC estimates that, as a result of their budget cut totaling $228,606, federal funds in the amount of $797,198 will be lost. RSC anticipates that this will most likely have adverse effects on 600-to-650 of its vocational rehabilitation cases. On the other, the commission's hopeful that some of this revenue loss will be offset by a revenue gain that might be realized through Amended Substitute House Bill 80 of the 122nd General Assembly, effective September 16, 1998, which increases fees assessed against individuals who have been charged with driving under the influence.

Veterans' Home. Not one single dime was left from the Ohio Veterans' Home's FY 1998 appropriations. Its total appropriation was $15.3 million, all of which was disbursed, with a small amount of funds encumbered for disbursement in FY 1999. This outcome was not a surprise to followers of ***Budget Footnotes***. We periodically noted the overspending on payroll and maintenance issues, a trend that would exhaust all available appropriations and would eventually force the home into its various non-GRF accounts to cover FY 1998 operating expenses that could not be delayed until funding was replenished with the start of the next fiscal year.

Two interesting fiscal phenomena are swirling currently around the Home at this time. First, the state's Department of Health recently cited the home for shortcomings in the provision of care to nursing home residents, attributable to an insufficient number of staff. To address that shortcoming, the home will need to hire at least 60 or so additional staff, mostly nurse aides and licensed professional nurses. In order to do just that, the home will need to procure around $900,000 in additional funding, which it intends to solicit from the Controlling Board's Emergency Purposes/Contingencies account (line item 911-401).

And second, as we remarked on in the March issue of ***Budget Footnotes***, the home is engaged in what can probably be best described as a protracted struggle with the U.S. Department of Veterans Affairs (VA) over the issue of prescription drug spending. Apparently, the National Association of State Veterans' Homes has gotten the VA to agree that the latter ought to be paying for drugs prescribed to residents of state veterans' homes. However, a prescription drugs agreement between the VA and the Ohio Veterans' Home was not operational as the month of June ended. Once operational, such an agreement could save the home a monthly amount estimated at $10,000. It remains unclear as to whether the VA might reimburse the home for some portion of the state money previously spent on prescription drugs.

Justice & Corrections

Attorney General. The Office of the Attorney General managed to disburse or encumber virtually its entire FY 1998 appropriation of $49.7 million. A subatomic 0.1 percent, or $41,138, was left unspent, almost all of it located in line item 055-406, Community Police Match and Local Law Enforcement Assistance. That said, the amount left unspent in this line item represented only 1.0 percent of the line item's $3.1 million FY 1998 appropriation, much smaller than the appropriated amounts left unspent in prior fiscal years.

When this line item's FY 1998 disbursement picture was compared with the two most recent fiscal years, the difference was dramatic as it lapsed as much as $2.9 million (35.5 percent) and $351,000 (12.0 percent) of the fiscal year 1996 and 1997 appropriations, respectively. As discussed in greater detail in the recent May and June issues of ***Budget Footnotes***, under the current biennial operating budget, the permissible uses of this law enforcement funding were expanded, a move greatly enhancing the ability of the Office of the Attorney General to more fully tap the available appropriation. Had it not been for the widening of the permissible uses of these funds, it is conceivable that the line item could have easily left $700,000 (22.6 percent) to $800,000 (25.8 percent) of its FY 1998 appropriation unspent.

Civil Rights Commission. In February, the Ohio Civil Rights Commission received approval from the Controlling Board to transfer $246,735 from the Emergency Purposes/Contingencies line item (911-401) into the commission's equipment line item, 876-300. The commission also received approval to transfer an additional $79,889 of cash and appropriation authority from its FY 1999 equipment appropriation into its FY 1998 equipment appropriation as well. The total amount transferred — $326,624 — was for the purchase of computer equipment and related training for commission administrators and staff. A condition of the Controlling Board's approval of this action was the return of any unused Emergency Purposes/Contingencies funds.

At the end of FY 1998, a total of $103,981 in commission operating expenses was essentially unspent, all of it contained within the equipment line item. The computer equipment acquisition project that was aided by the February funds transfer cost less than was estimated, leaving a balance that must be returned to the Controlling Board's budget, an action that will probably occur during one of the Controlling Board's August meeting dates.

Last, but not least, the commission also finished the fiscal year with an available balance of $220,430 in the special purpose account used by the Commission on African-American Males (line item 876-401). This unspent amount represented a striking one-third of the line item's adjusted FY 1998 appropriation authority. Two factors were at work here. First, the program weathered several changes in leadership. Second, the Consequences program — an alternative sentencing program targeting non-violent juvenile offenders — did not expand beyond Franklin County as had been anticipated.

Court of Claims. The Court of Claims — which has exclusive jurisdiction in all civil actions against the state and administers all claims for compensation under the state's victims of crime law — ended up with an available appropriation balance of $578,789. This meant that almost one-quarter, or 23.4 percent to speak more precisely, of the court's $2.5 million adjusted FY 1998 GRF appropriation was neither disbursed nor encumbered for spending in FY 1999. (General Revenue Funding basically supports the civil side of the court's operations, while Victims of Crime operations are supported by a single state non-GRF account.) This outcome was not anticipated when disbursement estimates were calculated back in the summer of calendar year 1997.

Essentially, the court had allocated a bundle of its FY 1998 operating budget for costs associated with equipment upgrades (computers, copiers, filing cabinets, and such) and court referees. Relative to the former, the court opted to upgrade only some of its equipment, with the expectation that it could hold off on other equipment upgrades until the next biennial operating budget. Relative to the latter, the need for a significant increase in the use of court referees never materialized.

Judicial Conference. The Judicial Conference of Ohio — a part of the judicial branch of state government which was created to study and recommend changes in the procedures and practices of Ohio's court system — ended FY 1998 with a rather whopping negative disbursement variance of 57.8 percent, or $1.1 million. The lion's share of the underage belonged to line item 018-502, Court Security Subsidy. The line item was newly-created in the current biennial operating budget with appropriations totaling $1.25 million in FY 1998 and $10.0 million in FY 1999 and earmarked for planning, training, and equipment necessary for court security.

Only $175,619 of the line item's FY98 appropriation was actually disbursed. Of the entire remaining appropriation, $1,000,000 was encumbered for disbursement later in FY 1999, which the conference expects, will occur by the end of the summer. It appeared that a potentially significant portion of these encumbered funds may not in fact be needed, suggesting that some of these outstanding encumbrances could be cancelled and the funds sent back into the state's unobligated and unappropriated FY 1999 GRF balance.

Part of the intent in creating the line item was to provide for a statewide assessment of court security needs and to develop up-to-date training material for court security personnel. The conference attempted to minimize those costs by coordinating the assessment in-house and is still working with local law enforcement to finish on-site assessments. Currently, the conference is creating a training video and manual that will be used in over 200 half-day sessions to educate local court personnel.

Judiciary/Supreme Court. Fiscal year 1998 marked the first time that The Judiciary and the Supreme Court were handled as a single entity for budgetary purposes. Previously, although the reality was that both were administered by the Supreme Court, they appeared on the surface at least to be separate budgetary entities.

In reviewing The Judiciary/Supreme Court's annual disbursement activity, a legislative reference jumped to mind: Amended Substitute Senate Bill 2 of the 121st General Assembly. This bill enacted a fundamental restructuring of the state's felony sentencing framework, and in light of that change, the current biennial operating budget contained two line items designed to assist Ohio's judicial system with the profound effects expected.

Line item 005-501, County Appeal Risk Pool, received a $2.0 million appropriation in each of fiscal years 1998 and 1999 for the purpose of reimbursing counties for increased expenditures expected to occur as a result of felony sentence and racial disparity appeals, with the funds to be distributed according to recommendations of the Felony Sentence Appeal Cost Oversight Committee. However, in April, the Supreme Court indicated that no flood of appeals had materialized and predicted that the entire $2.0 million FY 1998 appropriation would not be spent, effectively returning those funds back into the state's unobligated and unappropriated GRF balance. At fiscal year's-end, that was exactly what happened as none of the FY 1998 appropriation had been disbursed or encumbered.

Line item 010-402, Community Punishment, received an $85,000 appropriation in each of fiscal years 1998 and 1999 to extol the use of alternative and community punishments, most specifically to encourage common pleas judges to utilize the local sanctioning tools that that were being subsidized by the Department of Rehabilitation and Correction. None of that FY 1998 funding was spent.

Public Safety. As the Department of Public Safety relies heavily on its draw from the state's gasoline tax revenue, it operated with very little in the way of GRF appropriations in FY 1998: $6.5 million. The most noticeable of the four line items contained within that total was a $3.6 million appropriation to fund the operating expenses of the Emergency Management Agency (line item 763-403). Left in the balance at the close of the fiscal year was $600,851, or 16.7 percent of the line item's FY 1998 appropriation. The vast majority of these unspent funds were attributable to two "earmarks" in the current biennial operating budget that were not fully disbursed. Up to $500,000 in FY 1998 was to be distributed to the American Red Cross for disaster preparedness and emergency training. And up to $200,000 in each fiscal year of the biennium was to be used to match federal funds for the Miami Valley Urban Search and Rescue Task Force. It appeared that the amount of time that it took to finalize the necessary agreements and then process the paperwork meant that the bulk of the two earmarks were not distributed during FY 1998. Plans were afoot to request approval from the Controlling Board to transfer the unused portions of each earmark for distribution in FY 1999.

Youth Services. Out of FY 1998 GRF appropriations totaling $208.1 million, the Department of Youth Services (DYS), failed to disburse or encumber a mere $1.6 million, or a miniscule 0.8 percent. While this appeared rather insignificant, the fact that this amount was almost entirely concentrated in a single line item caused us to look closer.

Specifically, of this unspent $1.6 million, 99.9 percent was concentrated in line item 470-412, Lease Rental Payments, which funds debt service payments related to the issuance of bonds used to finance DYS' capital needs in addition to local juvenile correctional facility projects. While the line item is technically housed within the DYS budget, the appropriation is actually managed by OBM. As is the case with many GRF debt service appropriations, actual disbursements, for a variety of understandable reasons, often fall short of estimates. In the particular case of DYS and its FY 1998 debt service payments, the discrepancy between estimated and actual disbursements was explained by the fact that a bond sale that had been scheduled was not necessary and in fact did not actually take place. As a result, the anticipated debt service obligations that were expected to arise from such a sale were not realized.

The other notable FY 1998 DYS disbursement event occurred during the month of June when the Controlling Board approved the transfer of a combined $600,000 from two line items — 470-502, County Youth Facility Maintenance, and 470-510, Youth Services — to line item 470-405, County Program Development. These transferred funds were then to be disbursed in the form of $40,000 and $50,000 grants to 13 counties that were experiencing difficulties in successfully implementing RECLAIM Ohio (the Reasoned and Equitable Community and Local Alternatives to the Incarceration of Minors Program).

The question that LBO raised at the time was whether this transfer of funds would adversely affect either of the two line items that were being tapped, particularly in light of the fact that they are used exclusively for juvenile court subsidies. A quick examination of budget history suggested that both line items routinely disburse less than was appropriated, meaning that some of these funds, unless transferred for other departmental purposes, are routinely left unspent at fiscal year's-end. That being the case, the June funds transfer was not expected to adversely affect the department's ability to meet other juvenile court subsidy obligations.

In the matter of these two subsidy line items 470-502 and 470-510, how is that we seem to appropriate amounts in excess of what appears to be the need? Part of the problem it appears lies in the fact that DYS employs a very conservative approach in constructing estimates for line item 470-502, local detention center subsidies, in order to insure its ability to meet county reimbursement requests that are often received after the end of the fiscal year. And in the case of line item 470-510, a subsidy for juvenile court services and programs, while it has traditionally received excess appropriations, such experiences should become a thing of the past due to policy changes in which counties will receive a fixed subsidy amount up front or prospectively as opposed to retrospectively in the form of reimbursements that can occur over the course of the entire fiscal year.

Environment & Natural Resources

Ohio EPA. Three disbursement highlights stood out from the fiscal year for the Ohio Environmental Protection Agency. First, a one-time $3.0 million earmark was distributed last September to address problems with a wastewater system serving Rocky Fork State Park in Highland County. Second, a one-time $30,000 earmark of funds for the Harrison County Garage environmental assessment was distributed as well. Third, as we mentioned in last month's issue of ***Budget Footnotes***, the new Science Advisory Program (line item 715-503), designed to support research on the effects of environmental regulation, appeared to have trouble gathering steam. At fiscal year's-end, $230,000, or 51.1 percent, of its $450,000 adjusted appropriation was unspent and left sitting in the line item's available balance.

Natural Resources. The Department of Natural Resources appeared to end the fiscal year in good shape relative to unloading its GRF appropriations. Of the department's total FY 1998 appropriation of $103.8 million, which included $5.5 million in GRF capital funds, $96.4 million was disbursed and another $1.4 million was encumbered. This left $6.0 million unspent, over 80 percent of which was capital funds that will be disbursed in a later fiscal year. The remainder, around $1.05 million, represented small pools of unspent funds from the department's operating budget. The sole exception to this was the $16.3 million debt service line item (725-413, OPFC Rental Payments) which chipped in an unspent balance of $916,340, an outcome that we anticipated and discussed a bit in last month's issue of ***Budget Footnotes***.

Transportation

ODOT. As the Department of Transportation budget relies extensively on the state's gasoline tax and other non-GRF revenue streams, it worked with a FY 1998 GRF appropriation of only $46.1 million, a relatively small amount in the scheme of things when one considers the department's total FY 1998 budget was in the neighborhood of $2.0 billion. The department's GRF budget ended FY 1998 with a negative variance of $7.8 million, or 17.8 percent, largely traceable back to line item 775-451, Public Transportation - State. The line item received a FY 1998 appropriation of $26.9 million to provide capital and operating assistance to 50-plus transit systems around the state operating fleets that consist of busses, vans, light transit vehicles, automobiles, and rail cars. Although only $15.3 million of the FY 1998 appropriation was disbursed, very little ($5,736) was left in the balance of the appropriation as another $11.5 million was encumbered for disbursement in FY 1999. This underspending was simply a function of timing related to assisting transit systems with capital needs, specifically busses that were ordered, or to be purchased, but had yet to be delivered. And until a transit system takes delivery of such a capital item, the department was not releasing funds. Essentially, fewer busses were delivered in FY 1998 than were originally assumed.

Development

Agriculture. The Department of Agriculture closed the fiscal year with an available balance from its $20-plus million GRF budget of $572,584, which then drew our attention to the three line items primarily driving the leftover funding. First, from a FY 1998 appropriation of $333,300 for equipment (line item 700-300), 46.9 percent ($154,888) was left in the available balance. The department had intended to renovate the grounds surrounding their Consumer Analytical Laboratory, where milk and food supplies are tested for the presence of disease and bacterial infection. The scope of that renovation work — which originally entailed a new, but very durable fence — was expanded to include more costly improvements. As a result, the department held off on the renovation project, with the intent that it would seek the necessary funding in the upcoming capital bill.

Second, line item 700-403, Milk Lab Program, which is part of the state/federal funding mix that supports inspection staff that certify milk processing techniques and collect samples for analysis from the state's dairy industry, left an unspent balance of $197,361 from a FY 1998 appropriation of $1.1 million. It appeared as if the appropriated level of funding in this line item exceeded the amount necessary to meet current federal matching requirements.

Third, line item 700-499, Meat Inspection Match, which provides the required state match to operate the state's federally approved meat inspection program, left an unspent balance of $113,913 from a FY 1998 appropriation of $4.3 million. This favorable balance was largely the result of payroll savings for the program. During the fiscal year, a larger than expected number of meat inspectors, many of whom were hired in the early 1970s, retired. Their replacements had less seniority and experience, and thus commanded lower wages and benefits.

Other Government

Administrative Services. As was chronicled in ***Budget Footnotes*** throughout the fiscal year, the Department of Administrative Services was steadily building up a rather hefty amount of underspending. Thus, it was of no surprise that the department had an available balance in its GRF operating budget at fiscal year's-end of $18.7 million. The prime cause was a blend of lower than expected payments for rent and operating costs on certain state-owned buildings and slower than expected disbursements on computing and communications services to other state agencies. Over 70 percent, or $13.4 million, of the leftover appropriation balance tracked back to two of these building rent and operating payment line items (100-447 and 100-448).

The bulk of the remaining leftover in FY 1998 appropriation authority was attributable to three line items. First, line item 100-417, MARCS, received a $3.4 million appropriation to be used to pay operating and administrative costs incurred by the department in the development and implementation of a multi-agency radio communication system, known to most under the acronym MARCS. At fiscal year's-end, the available balance in the appropriation still stood at $2.1 million, representing some 60 percent of the total appropriation. As many readers will most likely already be aware, concerns regarding the escalating cost estimates associated with the statewide system's construction slowed progress to the point that its status was probably best described as being "on hold pending further developments and discussions."

Second, line item 100-416, Strategic Technology, received a $4.9 million appropriation to fund various technology-related research and development projects. At fiscal year's-end, the available balance in the appropriation registered $1.2 million. Virtually all of these funds were leftover because the department decided not to pursue a planned "smartcard" project, which would have aided the exchange of information on welfare recipients between the Department of Human Services and other agencies. The project was intended to help combat welfare fraud.

And third, line item 100-412, Information Center, received a $1.1 million appropriation to support computer information and education centers. At fiscal year's-end, the available balance in the appropriation sat at $565,995. An information and education center located in the state's Rhodes Tower was closed during 1997 and those leftover funds reflect the resulting cost savings.

The last line item that we feel compelled to note is 100-430, Year 2000 Assistance, which received a FY 1998 appropriation totaling $8.0 million to provide the department with the necessary resources to lead, support, and facilitate achievement of Year 2000 compliance throughout state government so that computer systems can recognize century dates. At fiscal year's-end, only $2.2 million of the appropriated total had been disbursed or encumbered. Virtually the entire remainder was slated to be left in the appropriation's available balance, but a late June Controlling Board action guaranteed that was not to be. At that time, $5.7 million in unneeded FY 1998 appropriation authority was transferred into FY 1999 to cover unanticipated and last minute testing and purchasing for state agencies.

Auditor. The fiscal year-end disbursement picture looked as was expected for the Auditor of State, which in this case, meant more of them appropriated greenbacks being returned to state's unobligated and unappropriated GRF balance as we enter FY 1999. As had been anticipated in the April issue of ***Budget Footnotes***, the Auditor ended the fiscal year with a rather sizeable available balance ($4.65 million) in its $31.2 million operating expenses line item (070-321, Operating Expenses). This reflected a calculated strategy that the Auditor implemented two fiscal years ago wherein operating expenses are kept on a tight leash, the practical effect of which is to force the "lapsing" of GRF appropriations and thus make the unspent funds available for other purposes as they are returned to the state treasury.

Another of the Auditor's line items, which previously was showcased in April's ***Budget Footnotes*** as well, 070-406, Uniform Accounting Network (UAN), also ended with a sizeable amount of unspent funds. The line item — used to pay the costs of the development and implementation of the UAN — closed the fiscal year with an available balance of $527,282, which represented roughly one-quarter of its $2.0 million FY 1998 appropriation. Under a temporary law provision contained in the current biennial operating budget, this unencumbered balance in the FY

1998 appropriation was automatically transferred into FY 1999 for the same purpose. Absent this provision, control of this unspent GRF appropriation would shift from the Auditor to OBM.

Budget & Management. Two things sparked our interest relative to the Office of Budget and Management's (OBM) FY 1998 budgetary burdens: financial planning commissions and Central State University.

First, on the matter of financial planning commissions, OBM carried a $490,306 FY 1998 appropriation (line item 042-434, Financial Planning Commissions) for the purpose of paying the operating expenses of financial planning and supervision commissions created to oversee the restoration of fiscal integrity to local governments that have been declared to be in fiscal emergency by the Auditor of State. Just to get it out of the way, the unencumbered balance in the appropriation at fiscal year's-end was $149,712. But that's not what interested us. What interested us was more along the lines of the current status of local fiscal watches and emergencies.

As of this writing, there were six school districts and six municipalities mired in fiscal emergency, with an additional 16 school districts and four municipalities in a slightly less dire budgetary struggle known as fiscal watch.

A seven-member financial planning and supervision commission composed of state officials, local officials, and citizens is formed to oversee the finances of a municipality or a school district when the Auditor of State determines that the municipality or school district has a fiscal emergency. A commission has broad oversight power to reduce the spending of a municipality or a school district declared to be in fiscal emergency. A commission for a municipality or a school district disbands once financial stability is restored and the local entity can offer a credible five-year plan for maintained stability.

Second, Central State University. In the April issue of ***Budget Footnotes***, we discussed the $7.4 million in encumbered FY 1997 funds that OBM still had on-hand for the purpose of assisting in the extraction of Central State University from the fiscal nightmare that threatened to consume it a few years back (line item 042-407, Central State Deficit Reduction). Of the encumbered funds, $2.5 million was disbursed, with the largest amounts going to cover old outstanding bills and emergency management team expenses ($1.3 million) and a $1.0 million chunk for reoccurring operating expenses. Pursuant to temporary law contained in the current biennial operating budget, the latter was the maximum amount that could be used in addressing what are essentially current or FY 1998 operating expenses. Of the remaining encumbered funds, $4.9 million, they were carried into FY 1999 to cover a variety of purposes, including, but not limited to, a collective bargaining unit salary adjustment ($950,426), outstanding bills ($800,000), a student revolving loan fund ($750,000), technology and library upgrades ($650,000), and academic computing and resource needs ($525,000).

Capitol Square. Three highlights of the Capitol Square Review and Advisory Board's FY 1998 GRF budget activity deserve mention.

First, Veterans' Plaza. Under Section 139 of the current biennial operating budget, OBM was empowered to increase the appropriation authority in the board's operating expenses account (line item 874-321) to pay for the completion of the Veterans' Plaza, with the enhanced funding appearing to come from revenue that was expected to be generated by the sale of the Ohio Veterans' Children's Home. Pursuant to that section of the budget, $1.95 million in FY 1998 appropriation authority was added to line item 874-321. Of that increase, around $1.0 million or so was encumbered to pay for the plaza's completion in FY 1999. The project commenced later in FY 1998 than expected, thus the need to encumber the funds.

Second, fund transfers. Last September, the Controlling Board approved a board request to transfer $56,000 in FY 1999 appropriation authority into FY 1998 to pay for video conference equipment. And then in early June of this year, the Controlling Board approved a board request to transfer $55,000 in FY 1998 appropriation authority into FY 1999 to be used to hire a new staff person to manage the board's computer network and oversee all telephone operations.

Third, unspent funds. The board ended the fiscal year with an available GRF balance of $217,973, representing the portion of their FY 1998 appropriation that had neither been disbursed nor encumbered. It appeared that the board wanted these funds to be available in FY 1999, perhaps for costs associated with the Veterans' Plaza, and will approach the Controlling Board for approval to transfer the unspent FY 1998 funds.

Consumers & Utilities. The operating expenses of the Office of the Consumers' Counsel (OCC) and the Utilities Department of the Public Utilities Commission (PUC) have always been funded by assessments against the regulated utilities. The assessments are linked in each fiscal year to the appropriations for the respective agency in that fiscal year. Any amounts not spent or encumbered during the year are credited to the assessment against the utilities for the subsequent year. Before FY 1998, the assessments were deposited to the credit of the GRF, so that both the PUC and the OCC received GRF funding (and provided GRF revenues).

The current biennial operating budget bill changed all that. It created two new State Special Revenue funds (one for the PUC and one for the OCC) to receive the assessments against the utilities. Consequently, even though the funding for either agency has not materially changed, they no longer add money to, nor receive money from, the GRF.

Since, however, FY 1998 was a transition year, both agencies did have some GRF spending, due to encumbrances for FY 1997. The PUC encumbered $1.7 million from FY 1997 — largely in line item 871-321, Utilities and Railroad Regulation. Of that encumbered total, it managed to spend $1.6 million, or 95 percent. The OCC encumbered $610,474, of which $419,232, or 69 percent, was spent. The OCC's remaining encumbrances totaling around $191,000 were not disbursed — chiefly the result of some contract commitments which fell through — and were cancelled.

Another wrinkle created by moving both the PUC and the OCC off the GRF is a timing issue. Assessments against the utilities are not made until October of each year; the revenues are typically received in November through January. Consequently, the two agencies need money beginning in July to tide them over until the assessments are received. In recognition of that fiscal reality, the current biennial operating budget contains a provision permitting an annual transfer from the GRF (to be made by the director of OBM within the first 5 days of the beginning of fiscal year), with said transfer to be equal to "an amount sufficient for maintaining and administering" the PUC or the OCC — in practice assumed to be one-third of each agency's appropriation for that year. The money is to be transferred back to the GRF no later than December 31, in the case of the OCC. In the case of the PUC, the transfer is to be made at such time as the director of OBM determines that the balance in the Public Utilities Fund (Fund 5F6) is sufficient to support the appropriations for the fiscal year.

Thus, in July 1997, OBM transferred $7,341,777 to the PUC and $1,965,525 to the OCC. A problem arose, however, with respect to the transfer back to the GRF. The provision in the current biennial operating budget did not account for any unused GRF balances for the PUC or the OCC from FY 1997. Essentially, the assessments received by each agency (and deposited to the credit of each agency's State Special Revenue fund) did not equal their appropriation for FY 1998. The assessments were equal to the 1998 appropriations ***minus any lapse*** from the previous year. In FY 1997, the PUC lapsed $944,747; and the OCC lapsed $260,265. Such lapsed funds remained in the GRF. To remedy the situation, a provision was added to Amended Substitute Senate Bill 5 of the 122nd General Assembly, effective November 5, 1997, which specified that – in FY 1998 only – the amount to be transferred back to the GRF by the PUC and the OCC would be equal to the original transfer minus any lapse from the prior year. The difference made up for each agency's prior year lapse, which remained in the GRF.

Pension Subsidies. Stretching throughout the Treasurer of State's FY 1998 budget were 16 line items related to the state's five retirement system (PERS, STRS, SERS, Highway Patrol, and Police & Fire). Although all five retirement systems are now supported by a combination of employer and employee contributions, they have been receiving state GRF subsidies providing certain retirement benefit enhancements. The total FY 1998 appropriation covering these "subsidies" was $26.8 million, of which $1.6 million, or 6.0 percent, was left in the available balance at fiscal year's-end. This unspent amount was the result of both timing and a decreasing number of persons eligible for payments (due to the death of the retirees and their survivors).

The timing issue works something like this. On the first day of August, the board of trustees of each retirement system certifies to the Treasurer of State, who is custodian of the subsidies, the amount required to be paid in the **preceding fiscal year** to eligible persons. Since appropriations are made for two years, there is no sure way of knowing the exact amount due. Although the amounts appropriated for these subsidies is declining, and has been for some time now, there will continue to be lapses in each fiscal year. Since PERS has the greatest number of participants, it only follows that the largest amounts in unspent subsidies occur in their line items. (Of the unspent $1.6 million in FY 1998 retirement system subsidies, $1.0 million was tied to PERS.)

Treasurer. The Treasurer of State's 21-item GRF operating budget is actually composed of three distinct pieces: operating expense accounts, pension system subsidies, and debt service. The operating expense accounts, which amount to four line items, are the smallest of the three pieces with a total of $9.6 million out of a total FY 1998 GRF budget of $130.3 million. Let's take a selective look at some of those operating expense line items.

The largest was line item 090-321, Operating Expenses, with an appropriation of $8.9 million. Over 90 percent of the appropriation was disbursed, with virtually the entire remainder encumbered for disbursement later on in FY 1999. These funds were encumbered to pay for equipment and software ordered prior to the end of the fiscal year, but not yet delivered or invoiced. Most of these purchases were related to Year 2000 compliance issues.

Of the $340,000 appropriated for operating expenses related to the issuance of bonds for the Commissioners of the Sinking Fund (line item 090-401), almost 40 percent was left in the available balance at fiscal year's-end. These funds were left over because the commissioners were able to time some bond issuances so that two bond issues were sold at the same time. The expenses for the two bond issuances combined were approximately the same as they would have been for a single bond issuance. Because the amount appropriated was based on the number of individual bond issuances that might reasonably be anticipated to occur during the fiscal year, the combining of bond issuances results in actual disbursements being less than the amount appropriated. Additionally, funding was appropriated for at least one full-time position that went unfilled. Around 23.0 percent of the appropriation was encumbered to cover issuance costs related to the June sale of $200 million of Highway Capital Improvements bonds and the purchase of a new computer.

Lastly, of the $364,200 appropriated for the continuing education program for Ohio's 3,500 public funds managers (line item 090-402, Continuing Education), 27.0 percent was left in the available balance at fiscal year's-end, 71.0 percent was disbursed, and 2.0 percent was encumbered. As this was a relatively new program for the Treasurer to handle, it appeared to make predicting the amount of GRF funding that would actually be needed problematic. Additionally, it should be noted that the continuing education program is also funded from a non-GRF account that collects fees imposed for the education and training of county treasurers.

Sinking Fund/Debt Service

The FY 1998 appropriations for this program category, composed entirely of two debt service appropriations managed by the Treasurer of State, totaled $119.9 million, of which $13.3 million, or 11.1 percent, was left unspent at fiscal year's-end. Those familiar with these matters were not surprised nor concerned as the state invariably has a cushion built into debt service appropriations that not only has the intended effect of soothing the oft-fevered brow of bond markets, but also ensures that in the end some amount of that funding will not be needed and therefore will not be spent.

By far and away, the larger of the two line items is 090-900, Debt Service, with a FY 1998 appropriation that totaled $93.9 million. Funds are appropriated to this line item for the purpose of paying the principal and interest on the bonds issued to finance the local public infrastructure improvement program administered by the Ohio Public Works Commission and assisted by District Public Works Integrating committees. This program provides assistance, primarily in the form of grants, to eligible projects, including improvements to roads, bridges, culverts, water supply systems, wastewater systems, storm water collection systems, and solid waste disposal facilities.

The second line item, 155-900, is actually located under the budget associated with the five-member Commissioners of the Sinking Fund, whose role is to work with OBM on the issuance of certain general obligation bonds, which at this point includes the following three: the Department of Development for research and development of coal technology; the Department of Natural Resources for parks and natural resources improvements; and the Department of Transportation for highway purposes. The Sinking Fund's members are the state's five independently elected statewide officers. Of these three general obligation bonds, line item 155-900 pays the principal and interest associated with two: coal technology research and development and parks and natural resources improvements. ❑

**LBO colleagues who hunkered down with the raw materials integral to the development of this fiscal year's-end disbursement story included, in alphabetical order, Ogbe Aideyman, Laura Bickle, Erica Burnett, Clarence Campbell, Nelson Fox, Sybil Haney, Sharon Hanrahan, Alexander Heckman, Allan Lundell, Doris Mahaffey, Steve Mansfield, Jeff Newman, Chuck Phillips, David G. Price, Jeffrey M. Rosa, Corey Schaal, Joshua Slen, Roberta Ryan, and Wendy Zhan.*

Lottery Profits Quarterly Report

Lottery Ticket Sales and Profits Transfers Fourth Quarter, FY 1998

— *Allan Lundell*

Table 1, FY 1998 Lottery Ticket Sales and Transfers to LPEF, in millions of dollars

Month	Sales	Actual Transfers	Projected Transfers	Dollar Variance	Percent Variance	Transfers as a Percentage of Sales
July	$ 171.6	$ 58.5	$ 57.7	$ 0.8	1.4	34.1
August	196.2	60.3	56.3	4.0	7.0	30.7
September	165.9	56.2	55.6	0.6	1.1	33.9
Q1	**533.7**	**175.0**	**169.6**	**5.4**	**3.2**	**32.8**
October	199.2	61.5	56.7	4.8	8.5	30.9
November	179.4	56.5	55.6	1.0	1.8	31.5
December	207.5	57.7	57.0	0.7	1.3	27.8
Q2	**586.1**	**175.7**	**169.2**	**6.5**	**3.9**	**30.0**
January	182.6	56.6	56.1	0.5	0.9	31.0
February	194.2	60.2	55.9	4.3	7.7	31.0
March	179.1	58.3	57.9	0.4	0.7	32.6
Q3	**555.9**	**175.1**	**169.9**	**5.2**	**3.1**	**31.5**
April	187.2	58.8	57.2	1.6	2.8	31.4
May	167.5	56.8	56.8	0.0	0.0	33.9
June	165.1	53.8	56.7	-2.9	-5.2	32.6
Q4	**519.8**	**169.4**	**170.7**	**-1.3**	**-0.8**	**32.6**
FY 1998 Total	**$ 2,195.4**	**$ 695.2**	**$ 679.4**	**$ 15.8**	**2.3**	**31.7**

Total ticket sales for the fourth quarter were $519.8 million, down 6.49 percent from third quarter sales of $555.9 million. Sales were 9.99 percent lower than fourth quarter FY 1997 sales and 17.31 percent lower than sales for the fourth quarter of FY 1996. Total sales for FY 1998 were $2,195.4 million, down 4.71 percent from FY 1997 sales of $2,303.9 million and down 6.68 percent from FY 1996 sales of $2,352.5 million.

Fourth quarter operating transfers to the Lottery Profits Education Fund (LPEF) were $169.4 million. This amount was $1.3 million less than projected for the quarter. Total operating transfers for FY 1998 were $695.2 million, $15.8 million greater than projected transfers of $679.4 million. FY 1998 transfers were $15.3 million (2.15 percent) less than FY 1997 transfers and $18.3 million (2.56 percent) less than FY 1996 transfers. Monthly sales and transfers information is provided in the table below.

Table 2 presents the recent history of lottery sales and transfers to education. All dollar amounts are in millions of dollars. "Real" figures have been adjusted for inflation and "Ratio" is transfers as a percentage of sales. From a peak in FY 1996, sales have fallen by 6.71 percent and transfers have fallen by 2.56 percent. Adjusting for inflation reveals that sales have fallen by 12.51 percent since FY 1996 and transfers have fallen by 8.63 percent.

Sales for FY 1999 were forecasted to be $2,204 million, 1.03 percent below forecasted sales for FY 1998. Applying this reduction to actual FY 1998 sales, results in a rough forecast of FY 1999 sales of $2,170 million. If sales continue to fall as rapidly as they did in FY 1998, then $ 2,092 million may be a better estimate of sales for FY 1999.

Forecasting a decrease in sales indicates two things about the Ohio Lottery. First, the lottery faces a sig-

Table 2, Recent History of Lottery Sales and Transfers to Education

Fiscal Year	1994	1995	1996	1997	1998
Sales	$ 1,853.9	$ 2,110.0	$ 2,353.2	$ 2,303.9	$ 2,195.4
Real Sales	1,853.9	2,051.2	2,227.1	2,119.9	1,948.5
Transfers	652.3	656.4	713.5	710.5	695.2
Real Transfers	652.3	638.1	675.3	653.8	617.0
Ratio	35.18	31.11	30.32	30.84	31.67

nificant and growing level of competition for the gaming dollars of Ohioans. Second, the Ohio Lottery is a "mature" lottery. Mature lotteries often find it difficult to maintain sales and profits at existing levels. Growth may require new games or the changing of existing games. Prize payouts may need to be increased. Advertising expenditures and advertising exposure may have to be increased. In sum, the presence of the lottery in Ohio would need to be expanded if real profit levels must be maintained or expanded.

If the effects of inflation are taken into account, simply maintaining the existing level of transfers will result in a decrease in the purchasing power of lottery transfers to education. The decreased purchasing power of transfers raises questions about the long term reliability of lottery transfers as a source of funding for primary and secondary education.

Sales by game are presented in table 3. For the fourth quarter, every game experienced decreases in sales from the previous quarter. Total sales were down 6.49 percent. On-Line sales were down by 6.71 percent and sales of Instant Tickets were down by 6.29 percent from the third quarter.

Total sales for FY 1998 were $2,195.4 million, down 4.71 percent from FY 1997 sales of $2,303.9 million and down 6.68 percent from FY 1996 sales of $2,352.5 million. The only game enjoying an increase in sales was Pick 4, which sales of $124 million, up $7.5 million (6.44 percent) from FY 1997. Pick 3 sales were down by 3.33 percent, Buckeye Five by 6.67 percent, Super Lotto by 6.26 percent, and the Kicker by 4.65 percent. Combined On-Line sales were down by 3.71 percent. Sales of Instant Tickets were down by 5.63 percent compared to FY 1997 sales.

Total sales were forecasted to be $2,227 million in FY 1998. The expected decrease in sales was 3.17 percent. Actual sales were $2,195.4 million, $31.6 million (1.42 percent) below forecast. One explanation for the decrease in sales is increased competition. The most significant example of this is the recent $195 million Powerball jackpot. Powerball tickets are sold in the neighboring states of Indiana, Kentucky, and West Virginia. The Ohio Lottery Commission estimates that approximately $14 million in sales were lost during the last three weeks of May 1998 due to the draw of the large Powerball jackpot. Other sources of competition for Ohioans' gaming dollars are river boats in Indiana and Kentucky; casinos in Michigan and Canada; and enhanced racetracks in West Virginia.

Table 3, FY 1998 Lottery Ticket Sales by Game, in millions of dollars

Month	Pick 3	Pick 4	Buckeye Five	Kicker	Super Lotto	On-Line Subtotal	Instant Tickets	Total
July	$ 35.2	$ 10.2	$ 6.1	$ 4.7	$ 29.0	$ 85.3	$ 86.4	$ 171.6
August	35.4	10.0	5.9	6.7	46.2	104.0	92.2	196.2
September	35.9	10.1	6.3	3.7	21.3	77.2	88.7	165.9
Q1	**106.4**	**30.2**	**18.3**	**15.1**	**96.4**	**266.5**	**267.2**	**533.7**
October	36.0	10.6	6.2	6.7	47.0	106.4	92.7	199.2
November	33.7	9.9	5.7	4.7	28.0	82.0	97.4	179.4
December	36.5	10.8	6.2	4.2	24.3	82.1	125.4	207.5
Q2	**106.2**	**31.4**	**18.1**	**15.6**	**99.3**	**270.5**	**315.5**	**586.1**
January	35.9	10.5	6.4	5.0	31.0	89.0	93.6	182.6
February	34.7	10.0	5.9	6.4	44.7	101.7	92.5	194.2
March	36.6	10.8	6.7	4.1	23.9	82.0	97.0	179.1
Q3	**107.2**	**31.4**	**19.0**	**15.5**	**99.6**	**272.7**	**283.2**	**555.9**
April	35.1	10.7	6.0	5.8	38.4	96.1	91.1	187.2
May	33.5	10.3	5.8	4.1	23.5	77.2	90.3	167.5
June	32.6	10.1	6.2	4.4	27.7	81.1	84.0	165.1
Q4	**101.3**	**31.1**	**18.1**	**14.3**	**89.6**	**254.4**	**265.4**	**519.8**
FY 1998 Total	**$ 421.1**	**$ 124.0**	**$ 73.5**	**$ 60.5**	**$ 384.9**	**$ 1,064.0**	**$ 1,131.4**	**$ 2,195.4**

Another possible explanation for the greater than expected decrease in sales is the decrease in advertising expenditures by the Ohio Lottery. In order to contain operating costs, the FY 1998 advertising budget was reduced by $4 million from the $19.6 million budgeted for FY 1997. The Lottery Commission hoped that "through strategic placement of advertising dollars" it would be able to "maintain a fairly constant revenue stream over the biennium and minimize potential revenue loss." The results for FY 1998 indicate that the advertising strategy has not prevented an erosion of sales.

One final factor contributing to the decrease in sales is the decrease in the prize payout percentage. In FY 1996, the prize payout percentage was 57.2. Through May of FY 1998, the prize payout percentage was 56.9. A decrease in the prize payout percentage increases the net ticket price, which acts to decrease ticket sales. A decrease in the prize payout percentage increases profit margins and makes it easier to meet the "30 percent requirement." Increasing the prize payout percentage may result in greater profit if sales respond favorably to the decrease in the net ticket price. Preliminary analysis using information from a cross section of states indicates that net sales per capita (or per capita profit) is maximized by an 80 percent payout rate. This conclusion is supported by evidence from casinos where slot machines with payouts around 90 percent are the prime source of profit. ❑

LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS FISCAL YEAR 1998 DISBURSEMENTS REACH $680 MILLION

— Deborah Zadzi

Table 4
LPEF and LPERF Appropriation/Disbursement Summary

	FY 1998 Appropriations	FY 1998 Disbursements (through June 30, 1998)	Appropriation Balance
LPEF			
670 Basic Aid	$584,137,200	$584,137,200	$0
671 Special Ed	$44,000,000	$44,000,000	$0
672 Vocational Ed	$30,000,000	$30,000,000	$0
682 Lease Rental Payment	$21,105,000	$21,105,000	$0
200-694 Bus Purchase One Time Supplement	$10,000,000	$791,420.65	$0*
Total LPEF	**$689,242,200**	**$680,033,620.65**	**$0***
LPERF			
200-649Disability Access Project	$5,060,000	$134,579.73	$4,925,420.27
200-669 Judgement Loan	$5.650,000	$5,618,561.04	$31,438.96
Total LPERF	**$10,710,000**	**$5,753,140.77**	**$4,956,859.23**

** A total of $9,208,579.35 was encumbered*

Lottery Profits Education Fund (LPEF) disbursements in fiscal year 1998 totaled $680.0 million; Disbursements for three major education subsidy line items (200-670, School Foundation Basic Allowance; 200-671, Special Education; and 200-672, Vocational Education) constituted 97 percent of the total. Table 4 shows fiscal year 1996 appropriations, disbursements, and available appropriation balances for each account in the LPEF as of June 30, 1998. While only about $800,000 of the one-time $10 million Bus Purchase supplement was spent, the remaining $9.2 million was encumbered and should be spend in FY 1999.

Lottery Profits Education Reserve Fund (LPERF) disbursements in fiscal year 1998 totaled $5.8 million. Two projects were funded from this fund in fiscal year 1998: the Disability Access Program, and the Judgment Loan Program. The Disability Access Program received appropriations of $5,060,000 to fund capital projects that make building more accessible to students with disabilities. Of this amount, $60,000 was set aside for the Danville High School wheelchair lift. The remaining funds are to be distributed to all districts except the urban 21 school districts and districts with valuations per pupil in excess of $200,000. The following rules apply to the program: a) no school districts can receive a grant in excess of $100,000; and b) districts in the 11th through 100th percentiles are required to pay a percentage of the cost of the project for which the grant is being awarded equal to the percentile in which the district is so ranked. This program is now being administered by the School Facilities Commission. The Judgement Loan Program was used to make loans to districts that in a certain two-year period had been the subject of a single or multiple final judgment in a civil action for damages for injury, death, or loss of person or property, equal to at least 90 percent of the district's annual expenditures for operating expenses. Only one district was eligible for the loan. ❑

Issues of Interest

FUNDING K-12 EDUCATION REFORM

H.B. 650 BUDGET CUTS

BARBARA MATTEI SMITH*

"Finance is the art of passing currency from hand to hand until it finally disappears."
— Robert W. Sarnoff

In addition to providing for school funding reforms, Am. Sub. H.B. 650 mandated fiscal year 1999 General Revenue Fund appropriation reductions in all agencies not directly involved in K-12 education finance. Most agencies were required to reduce appropriations by 3 per cent; some were required to reduce appropriations by 1 per cent or 2 per cent; while the Board of Regents was required to cut operating appropriations by 3 per cent, leave certain scholarship funds untouched and reduce other appropriations by ½ per cent. In the end, these cuts resulted in a decrease in GRF appropriations of approximately $125 million. (Please refer to the table following this article for the overall GRF reductions for each agency.)

When passed by the General Assembly, Am. Sub. H.B. 650 set out guidelines on the methodology agencies should employ when allocating the cuts among the appropriation line items. In particular, the General Assembly required: "The reductions shall be allocated such that cuts to the operating expenses, excluding subsidy payments and transfer payments, of the agency are equal to the maximum percentage reduction applied to the agency…"[1]. Thus, an agency could not 'finance' the appropriation reductions from subsidy lines while leaving operating appropriations untouched. The Governor vetoed this requirement which has resulted in some agencies leaving certain operational expenses untouched or only minimally reduced while subsidy programs were subject to reductions significantly higher then the maximum reduction required. The following is LBO's review of agency appropriation reductions when allocations were not evenly distributed between all of the agency programs.

Adjutant General

The Adjutant General absorbed approximately 46 per cent of its nearly $450,000 reduction for fiscal year 1999 in line 745-406, Tuition Grant Program. The department estimates it will lapse approximately $320,000 in this line item for fiscal year 1998 and believes the remaining appropriation will provide funding for all tuition reimbursement applications in FY99. However, the FY99 appropriations are now estimated to be very close to projected costs and any unanticipated increase in applications or tuition costs may cause the department to turn down applicants.

With the tuition grant line absorbing such a large proportion of the cut, the agency was able to reduce the Army and Air National Guard lines and the Central Administration line by only 2.3 per cent. This will allow the agency to continue to dedicate more resources to maintenance backlogs while minimizing any loss in federal matching funds.

Department of Administrative Services

Line item 100-416, Strategic Technology, took the largest cut at $505,497, or 10.25 per cent of the original FY 99 appropriation. The Strategic Technology line item funds computer technology research and development costs that are not recoverable from state agencies for indirect cost allocation, under federal guidelines. According to DAS, the cut can be completely absorbed in this line item because the Electronic Commerce/Electronic Data Interchange (EC/EDI) program is now fully functional under a rotary fund and will no longer need its GRF appropriation. The EC/EDI program, which provides for the electronic sharing of business information and is currently used primarily for human services, was originally appropriated at $560,289 for FY 99. DAS had hoped for the EC/EDI program to be operated through a rotary fund in FY 98 and until recently there were doubts that the program would be self-sustaining in FY 98. However, the program is progressing faster than anticipated and the development costs for EC/EDI have been slashed, so the GRF money is no longer needed.

Line item 100-406, County Personnel Services, took a 3.8 per cent cut of $49,393 because it is estimated that less time for such services will be needed in FY 99. County Personnel Services line item funds the costs of administering civil service exams, maintaining the exam records, maintaining personnel files, and other personnel-related services provided to counties by DAS.

Line item 100-430, Year 2000 Assistance (Y2K), took a 3 per cent cut of $157,860 as DAS plans to transfer $5.6 million of unused money from FY 98 to FY 99. The Y2K program hiring and contracting has been slow, in part because of the agencies' slow progression of testing and computer upgrades. Of the $8 million appropriation, $1.2 million, or about 15 per cent has been used as of May. However, the budget cuts may prove to be problematic if the agencies' demand for technical assistance relating to Y2K compliance increases beyond current expectations. This could happen if, for example, at the last minute a number of agencies realize how far behind they are in being compliant. Although the objective for the Y2K Competency Center of DAS is to help agencies become compliant and to lessen the inevitable computer failures, the center can go only so far to help the agencies.

Attorney General

The Attorney General took the entire 3 percent reduction of $1.99 million from line item 055-321 (Operating Expenses). Although such a reduction will reduce the appropriation to this line item to $44.5 million, the line item will experience a 1.5 percent increase over FY1998 appropriations. Since a study of disbursements during fiscal year 1998 reveals that the Operating Expenses line item is "stretched" in terms of its obligations and shortfalls have been avoided by shifting personnel to various non-GRF line items, cuts for fiscal year 1999 could very likely result in forced staff reductions. To the extent that such reductions become necessary, the Attorney General intends to rely on attrition as well as leaving certain positions vacant. Despite existing pressures on the 321 line item, it was the decision of the Attorney General to exempt subsidies and other financial assistance to localities provided through line items 055-406 Community Police Match and Law Enforcement Assistance), 055-411 (County Sheriffs), and 055-415 (County Prosecutors).

Ohio Civil Rights Commission

Appropriation adjustments applied to the Ohio Civil Rights are composed of a 3 percent across the board cut for each line item, along with a 40.29 percent transfer of authority from a single line item. Line item 876-300, Equipment reduced by 43.29 percent; reflects Controlling Board action on February 9, 1998, on a request of the Commission to transfer $79,889 of the FY 99 appropriation into the FY 98 appropriation for the purchase of computer equipment.

Department of Development

Of the 29 GRF lines that were funded in 1999, 20 lines were reduced by 3 per cent, 4 lines were reduced by an amount between 3.7 per cent and 6.5 per cent, and 5 accounts received no reductions at all.

The 4 lines that were reduced by an amount greater than 3 percent include:

- 195-410, Defense Conversion -3.7%;
- 195-415, Regional Offices -6.5%;
- 195-416, Governor Office of Appalachia -5.8%;
- 195-417, Urban/Rural Initiatives -6.0%.

The Defense Conversion and the Urban/Rural Initiatives programs each experienced a lower amount of activity in FY 1998 than originally anticipated; this level is expected to continue into FY 1999. The reduction for the Governor's Office of Appalachia will likely reduce the amount of subsidies distributed from this account, leaving that responsibility to the remaining, untouched Appalachian accounts (501 & 502). The notable reduction in the Governor's Regional Offices (-$434,034) curbs the significant growth in this account over the years, perhaps anticipating personnel changes during the transition period between the existing Governor's and the new Governor's administrations.

The 5 accounts that retained full FY 1999 funding include:

- 195-405, Minority Business Development;
- 195-408, Coal Research;
- 195-434, Industrial Training;
- 195-501, Appalachian Local Development districts; and
- 195-502, Appalachian Regional Commission.

These items remain a priority in DEV's budget for a variety of reasons. The Minority Business Development program is in the second year of rebuilding its program under a newly functioning board. GRF funding for Coal Research activities provides the administrative component needed to support bond-funded Coal Research projects. The Industrial Training Program, one of the department's most popular programs, helps new or existing workers to upgrade their job skills, as needed by the employer. And the two Appalachian items provide modest subsidy funds to localities in Ohio's 29 Appalachian counties.

Educational Telecommunications Network Commission

Before the enactment of Am. Sub. H.B. 650, OET requested a transfer of $198,142 in FY 1999 from item 374-300, Equipment, to item 374-100, Personal Services, to hire five new staff and upgrade five existing positions. This is to provide services for the expanded number (from eight to 43) of interconnected affiliates as a result of the new fiber-optic interconnection system. The request was approved by the Controlling Board on August 11, 1997. This action increased appropriations for item 374-100, Personal Services, from $1,493,738 to $1,691,880 and decreased appropriations for item 374-300, Equipment, from $299,885 to $101,743 in FY 1999.

OET has applied a uniform three percent cut between its operating budget and subsidy line items. Within its operating line items, item 374-200, Maintenance, was cut by 3 per cent. However, item 374-100, Personal Services, was exempted from the cut due to the aforementioned need of personal services. To meet its allotted budget reduction requirement, OET further cut its equipment budget by another $53,808 in FY 1999. Since most of the equipment related to the fiber-optic system is brand new and comes with a one-year warranty, OET believes that the remaining appropriations are sufficient to cover the equipment needs in the current biennium.

Bureau of Employment Services

Line item 795-411, Customer Service Centers, appears to have been cut by 100 per cent. However, this action is the result of an October, 1997 Controlling Board request to transfer FY99 appropriations to FY98. This line item provides funding for the new one-stop employment centers that house representatives from OBES, JTPA, local departments of Human Services as well as a variety of other state and local agencies. It is a fairly new concept that offers a holistic approach to employment and unemployment by attempting to match labor supply and demand more effectively and efficiently. The Controlling Board action was to allow BES to complete the Customer Service Center renovations as quickly as possible. In June, 1998 BES instituted another CB action that transferred back the unspent and unencumbered balance of 795-411 Customer Service Centers to FY99. Plans are still under way, but due to contracting problems, the agency has not been able to move as quickly on these centers as they initially believed.

At first blush it may look that this was a rather deft maneuver on OBES' part in order to save the appropriations in that line-item. LBO does not believe this to be the case for two reasons: 1) the timing factor—HB650 was introduced after the initial CB action; and 2) the wide support enjoyed by this one-stop concept.

Environmental Protection Agency

The Environmental Protection Agency allocated the mandated cuts more heavily in GRF divisions that have other sources of funding such as fees or federal funds. Therefore, the reductions to the following line items may be offset by the alternative funding sources:

- 715-503, Science Advisory Program -10.00%;
- 719-321, Air Pollution Control -6.85%;
- 721-321, Public Water System Supervision -8.10%

This allowed the agency to allocate the reductions to the following line items at less then the 3 per cent mandate:

- 716-321, Central Administration -1.5%;
- 717-321, Water Quality Planning/Assessment -0.3%;
- 724-321, Pollution Prevention 1.6%;
- 726-321, Corrective Actions -1.8%.

Department of Health

Four line items within the Department of Health had reductions significantly above the 3 per cent mandated:

- 440-413, Ohio Health Care Data System -32.6%;
- 440-426, Medicare Balance Billing -19.2%;
- 440-509, Health Service Agencies -16.2%.

Based on historical spending patterns, the department felt funding for the health care data system in line 440-413 could absorb that sizeable reduction in appropriation.

Additionally, 4 line items were not reduced because of department priorities. These line items included:

- 440-444, AIDS Prevention/ AZT;
- 440-451, Prevention;
- 440-453, Quality Assurance; and
- 440-501, Local Health Districts (subsidies to local health districts).

Department of Mental Retardation and Developmental Disabilities

Funds appropriated to 322-501, County MR/DD Boards, which are used to subsidize the basic operating expenses of the state's 88 county boards of mental retardation (county MR/DD boards), were reduced by 3.06 per cent as opposed to the 2 per cent agency wide reduction. The operating subsidy is paid to a county board based upon the number of individuals enrolled in board programs, excluding children enrolled in approved special education units. The growth that the department had originally projected at the beginning of the biennium did not occur, so this line item was able to absorb the 3.06 percent cut in FY 1999.

322-413, Residential and Support Services. After the 1.5 percent cut, appropriations in this line item will increase by 0.96 percent from FY 1998 to FY 1999. This means that residential service providers will not receive an inflationary increase unless the local county board of MR/DD provides the increase. The county boards currently administer all residential services directly, with money passing through the department.

Department of Public Safety

The Department of Public Safety receives GRF funding for only four line items, of which, only two were not reduced by 3 per cent. Line 763-403, Emergency Management Agency, was reduced by $49,178 or 1.6 per cent while line 763-507, Individual and Family Grants, was reduced by $49,179 or 32.8 per cent. According to the Emergency Management Agency, a review of the worst disaster in the last 30 years (the floods in the spring of 1997) revealed that $100,000 in line 763-507 would have provided sufficient funding to carry the agency through the first 20 days of the disaster. The reduction amount would have carried the agency through an additional 3 days. Since the line item is meant to meet only immediate needs, the agency determined that 20 days was enough time to get additional money from the Controlling Board if a disaster were to occur.

Board of Regents

BOR's cuts were less than most other agencies: 3 per cent in its operating budget (the 100, 200, 300 line items) and .5 per cent to other non-student aid items. The student aid items were not cut. The agency cut "contributed" just under $9 million to K-12 education funding.

Regents chose to cut its 235-200, Maintenance, item by $93,506 or 18 per cent in order to comply with the required 3 per cent cut to its operating budget. An agency representative explained that the 235-100, Personal Services and 235-300, Equipment items were spared to retain flexibility in staffing and to avoid reductions in the already modest equipment funding.

The rest of BOR's cut total was accomplished by cutting all of its subsidy items which support statewide and institutional higher education projects and campuses by .51 per cent and cutting the over-appropriated Capital Component item by $114,696 or 1.5 per cent. Line item 235-552, Capital Component, was over appropriated by this amount during the passage of the Sub. H.B. 215, as campuses rescinded already-approved requests for Higher Education Investment bond funds for capital projects.

Regents' funding requests for the Capital Component item are based on the difference between the amount the capital funding formula would allocate to each school and the amount that the school has actually requested during a particular capital bill funding process. This difference is passed along to the schools, via the Capital Component item, as an incentive to campuses to "choose wisely" when considering requests for capital funding. If the schools rescind projects, as happened this past year, the item's appropriation can be reduced, but this did not occur during the passage of Sub. H.B. 215. The over appropriation amounted to $114,696.

The performance-based, Challenge items: 235-415, Jobs Challenge; 235-416, Performance Challenge; 235-417, Technology Challenge; 235-418, Access Challenge; 235-420, Success Challenge, included in the Regents' budget for the first time in fiscal year 1998, were not cut. The agency wanted to make clear that it continues to support performance-based funding as a part of the overall funding scheme for Ohio's public higher education system.

Secretary of State

The Secretary of State (SOS) has three line items appropriated GRF monies for FY99: 050-321, Operating Expenses; 050-403, Election Statistics; and 050-407, Pollworkers training. Of these three line items, only the operating expenses line item was cut for FY99. There are several reasons why this occurred.

First, the operating line item is the only one that is appropriated significant GRF dollars. Prior to the cuts the SOS operating line item was appropriated $6,728,147 for FY 99 while elections statistics was appropriated $119,738 and pollworkers training $166,000. This means taking the entire 3 per cent cut of $210,368 in the operating expenses line item only decreased the appropriation for that line item by 3.13 per cent. By comparison, a 3 per cent cut in the pollworkers training item would cut that line item by $4,980, but would only add .07 per cent to the overall required cut. Conversely, cutting pollworkers training by a more significant amount such as $17,0000 would be more than a 10 per cent cut for that item while still adding well less than 1 per cent to the entire amount of the cut required.

Second, the elections statistics and pollworkers training line items are generally less able to take cuts, both because of the low dollar amounts that they have been appropriated and the fact that the costs associated with these line items are fairly fixed. For example, the SOS is required to reimburse counties for specific cost associated with pollworker training. Costs associated with the reimbursement are fairly easy to predict and calculate from year to year. Therefore, the requested appropriation is quite close to what is expected to be required to reimburse counties and the SOS is required to provide this reimburse to counties. This leaves little room for cutting. This fact is exacerbated by the fact that the election statistics and pollworkers training line items FY 98 appropriations were cut by 44 per cent and 64 per cent respectively from the previous fiscal year.

Youth Services

The Department of Youth Services absorbed the majority of its nearly $4 million reduction for fiscal year 1999 in 470-401 line item (Care and Custody). This line item which constitutes 63.4 percent of the GRF appropriations the department absorbed 61.5 percent ($2.46 million) of the total savings. In addition to the sizeable reduction in the 401 line item, relatively sizeable reductions were also made to the 470-502 (County Youth Facility Maintenance) and the 477-321 (Administrative Operations) line items. Specifically, while these two line items make up 3.8 and 6.3 percent of the all GRF appropriations to DYS for fiscal year 1999, their cuts constituted 10 and 11.6 of all reductions respectively.

DYS opted to absorb 83 percent of the fiscal year 1999 reduction through a $500,000 cut in institutional preventive maintenance, a $2.8 million in savings from not contracting with two private facilities as well as reducing funding for community based options, and $200,000 from capping the increase to nine community corrections facilities (CCF) at 1.5 percent. The concern of DYS is that the cuts discussed above could in effect result in the deterioration of existing facilities, as well as a reduction in availability of smaller, intensive treatment programs through the loss of up to 275 beds. Furthermore, as a result of the 1.5 percent cap for CCF's, the potential exists for a decrease in services to youth as a result of difficulties in meeting required pay increases. While DYS has acted to curtail operations during fiscal year 1998 through the closing of Independence Hall and the Training Institute of Central Ohio (TICO), these reductions were driven by decreased commitments to state institutions. While the curtailment of operations discussed above could generate a savings of approximately $4.4 million in fiscal year 1999, the aforementioned decrease in commitments means that most of that savings will be passed on to the counties. ❑

**LBO colleagues developing the material that anchored this article include, in alphabetical order: Ogbe O. Aideyman; Erica Burnett; Sharon Hanrahan; Alex Heckman; Jeff Newman; Jeff Rosa; Roberta Ryan; Corey Schaal; Kathy Schill; Josh Slen; Wendy Zhan*

Summary of H.B. 650 GRF Appropriation Adjustments

	FY 1997	FY 1998	FY 1999	FY 1999	Savings	% Reduction
CEB Emergency Purposes	$0	$6,000,000	$6,000,000	$6,000,000	$0	0.00%
Debt Service	$735,475,577	$819,809,679	$914,676,301	$914,676,301	$0	0.00%
Higher ED	$1,742,300,611	$1,870,449,971	$1,945,009,254	$1,936,042,248	$8,967,006	-0.46%
Human Services	$6,289,358,368	$6,623,941,332	$6,943,152,379	$6,892,339,889	$50,812,490	-0.73%
Judicial Salaries	$65,306,398	$74,092,450	$77,565,272	$77,565,272	$0	0.00%
K-12 Education	$3,897,198,698	$4,310,287,915	$4,508,940,161	$4,631,850,342	($122,910,181)	2.73%
Mental Health	$435,924,251	$447,725,758	$455,102,403	$450,551,379	$4,551,024	-1.00%
MR/DD	$286,738,972	$298,953,966	$306,158,496	$300,035,327	$6,123,169	-2.00%
Other Programs and Services	$806,095,729	$906,449,519	$963,477,543	$934,534,335	$28,943,208	-3.00%
Rehabilitation and Correction	$906,717,646	$978,195,713	$1,077,639,055	$1,056,086,272	$21,552,783	-2.00%
Retirement	$26,294,494	$26,772,420	$28,014,527	$28,014,527	$0	0.00%
Rollbacks	$915,129,336	$959,400,000	$1,014,400,000	$1,014,400,000	$0	0.00%
Taxation	$86,961,043	$88,062,848	$88,263,085	$87,380,454	$882,631	-1.00%
Utility Bill Credits	$8,249,770	$9,500,000	$9,500,000	$9,500,000	$0	0.00%
Youth Services	$192,055,210	$193,462,570	$199,892,571	$195,894,719	$3,997,852	-2.00%
Grand Total	$16,393,806,103	$17,613,104,141	$18,537,791,047	$18,534,871,065	$2,919,982	-0.02%

'Other Programs and Services' includes agency lines not otherwise defined in this report including, but not limited to, approporiations for the following major agencies: Natural Reaources, Development, EPA, Aging , Agriculature, Elected Officials, and Health

THE 1998 TAX CUT

OHIO GIVES THE NATION'S BIGGEST REBATE (MAYBE)

FREDERICK CHURCH

"Never make forecasts, especially about the future."
— Samuel Goldwyn

"Size Does Matter"
— Godzilla Movie Ads

In the third year of its operation, Ohio's income tax rebate program will provide more tax relief than in the first two years combined. In FY 1998, the amount of the General Revenue Fund (GRF) surplus dedicated to the tax cut is $701.4 million, compared to $663.7 million in FY 1996 plus FY 1997. OBM has certified the resulting cut in marginal income tax rates for tax year 1998 to be 9.34 percent. The size of this year's tax cut is the result not only of an extremely large GRF surplus but also of a decision by the legislature not to commit more of the surplus to other one-time purposes. In 1997 the General Assembly devoted about $389 million to school buildings and other school capital projects. In 1998 that amount was reduced to $200 million. Table 1 shows the year-end GRF balances, the amounts obligated for school capital or other purposes, and the tax cut (essentially the residual amount).

TABLE 1 - Derivation of 1996,1997, and 1998 Tax Cut Amounts

amounts in millions of $	1996	1997	1998
Ending GRF Balance	$781.3	$834.9	$1,084.4
State Infrastructure Bank	($100.0)	$0.0	$0.0
School Building Assistance	$0.0	($250.0)	($170.0)
SchoolNet Plus	($30.0)	($94.4)	$0.0
Textbooks and Materials	$0.0	($35.0)	$0.0
Distance Learning	$0.0	($9.2)	$0.0
Solvency Assistance	$0.0	$0.0	($30.0)
Subtotal Transfers	($130.0)	($388.6)	($200.0)
Supplemental Appropriations	($46.2)	$0.0	$0.0
BSF Transfer	$0.0	($34.4)	($44.2)
Additional BSF Amount Needed for 5% Balance	($0.4)	$0.0	$0.0
Anticipated Operating Deficit	($121.0)	$0.0	$0.0
Capital Reserve	$0.0	($7.2)	($10.3)
Reserve Against Prior Year(s) Tax Rate Cut	$0.0	($55.5)	($37.8)
Necessary 0.5% GRF Carryover	($82.9)	($86.3)	($90.7)
Total All Transfers and Other Obligations	($380.5)	($572.0)	($383.0)
Amount Left for 1997 Tax Cut	$400.8	$262.9	$701.4
Rate Cut	6.61%	3.99%	9.34%

Ohio's tax rebate mechanism is structured so as to give *unanticipated* surpluses back to the taxpayer. In other words, it is largely the result of errors in forecasting, both for revenues and spending. Underspending by state agencies that is not from forecasting errors is also a factor. So, over the last 3 years, what has been the source of the GRF surpluses driving the school transfers and the tax cuts? Table 2 (on the following page) shows that from 1996 to 1998, underspending and revenue overages, specifically income tax overages, have swapped places in relative importance. In FY 1996 underspending accounted for more than half the GRF surplus, while the income tax overage accounted for less than 12 percent. By FY 1998, after adjusting for the federal revenue shortfall, underspending accounted for less than 17 percent of the GRF surplus, while the income tax overage accounted for 55 percent.

Note that in this formulation, the gross underspending number is adjusted for the shortfall in federal revenue. When the state doesn't spend money on human services

TABLE 2 - Source of 1996,1997, and 1998 GRF Surpluses

	1996	1997	1998
Income Tax Overage	$77.2	$280.0	$567.3
Tax Overage	$174.7	$334.3	$737.7
Non-federal Revenue	$238.1	$436.8	$852.6
Underspending	$411.5	$726.4	$651.3
Federal Revenue Shortfall	$3.1	($393.3)	($472.7)
Net Underspending	$414.6	$333.1	$178.5
Annual Budget Surplus	$652.7	$769.9	$1,031.1
Ending GRF Fund Balance	$781.3	$834.9	$1,084.4
Income Tax % of Surplus	11.8%	36.4%	55.0%
Underspending % of Surplus	53.1%	39.9%	16.5%

programs that draw federal matching money, then a certain amount of federal revenue is not received. So, we have backed out the federal revenue lost due to lower than expected spending on human services.

Thus, for FY 1998, there is symmetry in the way Ohio's rebate is granted. By far the bulk of the GRF surplus in this past year was due to excess income tax revenues, and the way that excess revenues are returned to taxpayers is through lower income taxes. Cutting the income tax for tax year 1998 returns the excess revenue to the source, so to speak. This was not the case in 1996, and was only partially true in 1997.

Whether the actual taxpayers who contributed most to the overage will get most of the rebate is unclear. Some argue that higher-income taxpayers earning capital gains and other nonwage income are responsible for the bulk of the overage, and should therefore benefit more. Others argue that Ohio's graduated rate structure particularly burdens lower-income taxpayers who are bumped into higher rate classes in the state's relatively narrow lower tax brackets (some proponents of indexing the brackets for inflation take this position). The across the board rate cut is neutral, or as tax analysts say, *proportional*. Everyone gets the same percentage cut in his or her pre-credit taxes.

That said, as Table 3 shows, the final amount of tax benefit can vary depending on the taxpayer's use of credits. Table 3 shows the estimated tax savings for a family of four, both parents working, both children at home, at various income levels. We assume that nobody in the family is a senior citizen or receiving retirement income, so we don't have to worry about the senior citizen credit or the retirement income credit. The family takes three major credits: the personal exemption credit ($20 for everyone for whom an exemption can be claimed); the child care credit (as long as their income is below $40,000 so that they qualify); and after all others, the joint filer credit. For these hypothetical family units, the tax cut is actually somewhat progressive. The percent-

TABLE 3 - Tax Savings in Percentage Terms, for Various Income Levels, Family of Four

2 adults, 2 children, married filing joint returns
Tax Year **1998** Personal Exemptions

Taxpayer and Spouse	$950
Dependent	$1,050

Ohio Adjusted Gross Income (OAGI)	Exemption Amount	Ohio Taxable Income (OTI)	Tax Before Credits - Before Rate Cut	Tax Before Credits - After Rate Cut	% Savings	Tax After Credits - Before Rate Cut *	Tax After Credits - After Rate Cut *	$ Savings	% Savings
$15,000	$4,000	$11,000	$141.17	$127.99	-9.34%	$0.00	$0.00	$0.00	NA
$20,000	$4,000	$16,000	$297.20	$269.44	-9.34%	$0.00	$0.00	$0.00	NA
$30,000	$4,000	$26,000	$713.22	$646.61	-9.34%	$334.24	$277.62	($56.62)	-16.94%
$40,000	$4,000	$36,000	$1,158.92	$1,050.69	-9.34%	$713.08	$621.08	($92.00)	-12.90%
$60,000	$4,000	$56,000	$2,169.36	$1,966.76	-9.34%	$1,880.42	$1,698.09	($182.34)	-9.70%
$80,000	$4,000	$76,000	$3,209.56	$2,909.82	-9.34%	$2,973.08	$2,688.33	($284.75)	-9.58%
$100,000	$4,000	$96,000	$4,368.48	$3,960.51	-9.34%	$4,074.06	$3,686.48	($387.57)	-9.51%
$125,000	$4,000	$121,000	$6,055.20	$5,489.70	-9.34%	$5,676.44	$5,139.22	($537.22)	-9.46%
$150,000	$4,000	$146,000	$7,780.20	$7,053.61	-9.34%	$7,315.19	$6,624.93	($690.26)	-9.44%
$200,000	$4,000	$196,000	$11,230.20	$10,181.41	-9.34%	$10,592.69	$9,596.34	($996.35)	-9.41%
$250,000	$4,000	$246,000	$14,956.20	$13,559.44	-9.34%	$14,132.39	$12,805.47	($1,326.92)	-9.39%
$500,000	$4,000	$496,000	$33,706.20	$30,558.38	-9.34%	$31,944.89	$28,954.46	($2,990.43)	-9.36%
$1,000,000	$4,000	$996,000	$71,206.20	$64,556.25	-9.34%	$67,569.89	$61,252.44	($6,317.45)	-9.35%

* Credits estimated here are the child care credit, personal exemption credit ($20 per exemption) and joint filer credit

age relief in tax liability is somewhat greater at lower income levels.

Two things stand out in comparing the before-credit tax cut (9.34 percent) with the after-credit cut (varies by income level). First, the after-credit cut amount is somewhat smaller than the before-credit cut, because of the way the joint filer credit works. The joint filer credit is a percentage of liability after all other credits are claimed, where the percentage decreases with increasing income levels. Since the rate cut pushes down liability, the joint-filer credit is reduced (all else constant). The second salient fact is that for people at lower income levels, the exemption credits, child care credits, and joint filer credit eat up a high percentage of liability. For the family earning $15,000, a rate cut that saves $66.61 (not shown) reduces their before-credit liability by 9.34 percent, but a cut of $56.62 is a full 16.94 percent of their much-lower after-credit liability.

Ohio in National Perspective

Ohio is far from the only state granting tax relief as a result of big budget surpluses. There are seven states that gave surplus-driven tax relief that can be thought of as tax rebates for FY 1999. There are another 12 states cutting taxes in a more permanent fashion because of excess revenues. Ohio's $701.4 million currently appears to be the largest rebate among the states, although we cannot tell yet if some of the permanent tax cuts yield bigger 1998 taxpayer savings.[1] Looking at all 19 states that cut taxes in response to excess revenues, Ohio was one of five states that had reductions of 4 percent or more.[2]

Among the seven states that are granting rebates, Missouri, Colorado, and Oregon all have constitutional tax and expenditure limitations (TELs) that require them to return excess revenue to taxpayers.[3] Missouri is a particularly interesting case because of litigation that surrounds its income tax rebate program. Over the FY 1995-1997 period, Missouri revenues exceeded the constitutional limit of 5.64 percent of prior year personal income. As a result, the state planned to give back the excess revenue through rebates to income tax payers. This was opposed by citizen groups who argued that it was unfair to give back money only to income tax payers. Poor people who pay little or no income tax and thus would get little relief do pay sales tax and thus have contributed to the revenue surplus (supporters of the existing law point out that it is much easier to measure the income tax paid by families). The Missouri Supreme Court upheld the income tax refund provision in December 1997, and the state awarded the three years worth of refunds. The plaintiffs have filed a petition with the U.S. Supreme Court to hear the case. In the meantime, Missouri exceeded the revenue limit again in FY 1998 and will be issuing another income tax refund.[4]

Colorado has both spending and revenue limits. Spending is limited to the combined growth of state population and inflation. Colorado revenue exceeded what could be spent in FY 1997, so the state gave taxpayers a graduated refund in 1998. Colorado did an interesting thing to try to get relief to low-income taxpayers: the refund is technically a sales tax refund, claimed as a credit against the state income tax. All taxpayers are eligible for the refund, whether they had income tax liability or not. Even so, state officials estimate that there are 163,000 taxpayers whose income is so low that they've never filed state income tax forms, so they are not claiming the credit.[5]

Revenues again exceeded the limit in FY 1998, so there will be another tax cut. State voters will have to decide in November whether Colorado should give back the entire surplus or set aside $200 million for schools and highways. The Colorado legislature will also have a special session to decide what to do with revenue overages in the future.

Oregon's TEL is somewhat different. The state must rebate revenue surpluses if the actual revenues are more than 2 percent higher than the forecast at the time that the budget was adopted. As a result, the state has issued rebates for 5 of the last seven biennia. Oregon's refunds apply to both income and corporate taxes: in December 1997, the state gave back $432 million to income taxpayers (average refund check of about $280) and $203 million to corporate taxpayers.

There are four states, including Ohio, giving tax rebates without a constitutional requirement. Last year, Minnesota gave $500 million in refunds to property taxpayers. Homeowners got a 20 percent rebate on their 1997 property taxes. Renters received about 3.6 percent of their 1997 rent. This 20 percent/ 3.6 percent rebate will be repeated this year. Connecticut is providing a property tax refund — only for 1997 income tax filers — of $115 million. The payment is a one-time refund against property tax paid on a primary residence or a car. Finally, Virginia is integrating its tax rebate with permanent tax relief. In 1998, property taxpayers will get back

12.5 percent of their motor vehicle property taxes. This is the first step in a five-year phaseout of property taxes on the first $20,000 in motor vehicle assessed value.

There are several states still debating what to do with their surplus. Florida and Indiana are examples of states that have surpluses but have not been able to agree on tax relief. Indiana has $1.8 billion in surplus revenue that legislators deadlocked on how to give back. Democratic legislators and the governor wanted to give all income taxpayers a $100 check, but Republican legislators preferred property tax relief. Indiana now has a special commission to study tax relief.

In Florida, the legislature chose to use the $184 million surplus to mail a $50 rebate check to all 3.6 million Florida homeowners. Advocacy groups for increased K-12 education funding were adamantly opposed, saying that the surplus should go for increased school funding. When the Governor vetoed the property tax refund, he cited the fact that no relief was provided for renters.

The Structure of Budget Surplus Tax Relief Programs

In the prior section, we included Ohio in the group of states that gave their tax relief for 1998 through rebate programs, rather than through permanent tax cuts. We make this classification despite the fact that Ohio's program is a hybrid or compromise between extremes in a couple of senses. First, Ohio's program constitutes a middle ground between the TEL states and the states giving temporary relief. Ohio's income tax rate cut is not based on a constitutional TEL, but the most recent biennial budget bill made the mechanism part of statutory law, so it is a permanent part of the budget and tax system. It is thus a much more formal structure than the ones in use in Minnesota or Connecticut.

Ohio's tax relief is also a hybrid in the sense of being between rebates — whether they are a fixed part of the landscape due to a TEL or essentially a one-shot deal based on circumstances — and permanent rate reductions. With rebates, even if the program is permanent and money is returned in a number of years, effective tax rates are not fixed but float with the amount of the rebate granted. Permanent rate reductions or other structural changes make fixed and definite changes in the state's revenue base. Viewed this way, Ohio's floating rate reductions look more like rebate programs, since the effective tax rate varies from year to year based on budgetary circumstances. However, the change made each year is structural: the state doesn't simply write checks or give everyone a certain amount of credit. Instead, key structural parameters, namely all nine marginal rates, are reduced that year to achieve the target amount of tax relief.

Much of the debate about whether to do tax rebates or make structural tax reductions turns on expectations for the future. State and local governments have been surprised by several consecutive years of strong revenues, low spending, and budget surpluses. Among the statistics that attest to the fiscal health of the states:

- Combining general fund and rainy day fund balances, states ended FY 1998 with $28.6 billion, or 9 percent of general fund spending. Interestingly, the states have returned to the high-water mark they reached just before the 1980-82 recession.[6]
- 32 states had balances exceeding 5 percent of general fund spending, while 17 had balances in excess of 10 percent
- State legislatures lowered taxes for the fourth consecutive year in 1998, approving $3.8 billion in tax reductions taking effect in FY 1999.

Giving tax rebates is a more cautious strategy than doing permanent rate reductions and/or base changes. Advocates of permanent, structural tax reductions generally believe that economic growth is going to continue to be strong, and current services can be maintained along with tax cuts. Many of them also believe in a version of the "leviathan" theory of government: in economic booms, when revenue growth is high, federal or state governments increase spending to match revenue growth, and then in lean times it is hard to cut programs which began during booms and have become entrenched (Medicare would be an example at the federal level).

Advocates of rebates tend to be much more cautious about the next few years for the economy. They feel that much of the recent increase in income and income tax payments has been from increases in stock prices, coupled with changes in federal tax treatment, which cannot continue in the long run. They are also concerned about the economic crisis in Asia and the level of debt in U.S. households. Essentially, the advocates of rebates over cuts, still smarting from the recession of the early 1990s, require more proof before they're willing to commit to permanent tax reductions.

Besides the argument about the future strength of the economy, there is another underlying argument that reverses the old debate about "structural deficits." In the 1980s and early 1990s, analysts often stated that federal or state budgets were characterized by structural deficits. That is, the deficit was not just the result of a weak economy. Once one removed cyclical effects - the lower revenues and additional benefit spending that occur when the economy is below its long-run potential, if indeed it was — one would find a deficit that was structural. Programs and taxes were configured in such a way that the government would run a deficit even if the country or state were at full employment.

The question now is, do the states have a structural surplus? That is, if the economy were growing at its long run trend, would the states still be running a surplus, or are current conditions simply the result of good economic times? Without putting it in so many words, some of the advocates of permanent tax reduction state their position in such a way that they seem to be arguing that some states, with Ohio among them, now have a structural surplus. The problem with this idea is that it would be very difficult to test. Estimating where the national economy and the state economy are relative to the long-run potential has proven to be quite difficult. For the last couple of years, many economic analysts believed that the economy was operating above its potential, and that a slowdown was imminent. Nobody expected us to be able to stay below 5 percent unemployment with low and stable inflation for as long as we have, suggesting that the long-run "speed limit" to the economy may be higher than commonly believed a short time ago. Furthermore, even if we knew where the economy was relative to its potential, there is still the job of estimating what revenues and expenditures would be if we were at potential, and examining the difference from actual revenues and expenditures. As recent experience has shown, relating revenues and spending to the economy is an inexact science, complicated greatly by such things as the recent boom in capital gains realizations. On the expenditure side, the long term results of welfare reform can only be guessed at.

Finally there is the issue of perception, about which an economist cannot say very much. Ohio's floating rate cut has unfortunately created an example of the "no good deed goes unpunished" theory of public policy. A number of taxpayers complained this past year that their taxes had increased between 1996 and 1997, owing to the fact that the rate cut in 1997 was smaller than the cut in 1996. The fact that rates were still below their statutory levels, last in effect in 1995, seemed to make little impression. On the other hand, the big rate cut in 1998 has focused a lot of favorable media attention on Ohio. Whether the "perception gains" from years like 1998 outweigh the "perception losses" from years like 1997 is anybody's guess. ❑

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1 There is a possibility that Massachusetts or California may give a bigger rebate, but no data is yet available for those states.

2 Ohio's cut of $701.4, divided by the original FY 1999 tax revenue forecast of $14,215.1 million, was 4.6 percent. OBM's upward revisions to the FY 1999 forecast will leave the cut at about 4.3 percent of tax revenues.

3 Background material for this section draws heavily from Mandy Rafool, "State Tax and Expenditure Limits," ***The Fiscal Letter***, vol. XVIII no.5, 1996 [National Conference of State Legislatures]

4 Missouri serves as something of an object lesson in why it is important to clearly define terms in the constitution and/or the statutes. Because the constitutional language and supporting statutes are vague, Missouri not only has had debates and lawsuits over how to give back the excess revenue, but has also had huge disputes over what sources count in calculating total state revenue and the size of the excess.

5 Mandy Rafool, upcoming article in ***State Legislatures.***

6 In some ways, the 9 percent balance figure this time around is more impressive, since it has been done in a low-inflation environment.

APPENDIX A
Converting the $701.4 Million Surplus to a 9.339 percent Rate Cut

TABLE 4
Calculation of Contingent Income Tax Rate Cuts for Taxable Year 1998
all amounts are in millions of dollars

Taxable Year 1998 Calculation		
Ending BSF Balance, FY 1998	$862.7	
Ending GRF Balance, FY 1998	$1,084.4	
"Total Fund Balance"	$1,947.1	
FY 1998 GRF Revenue, Most Recent Estimate	$18,137.8	
5% of FY 98 Revenue - BSF Target	$906.9	
0.5% of FY 98 Revenue ("Cash-Flow" Balance)	$90.7	
Capital Appropriation Reserve	$10.3	
Expected Operating Deficit FY 99, part of "Carryover Balance"	$0.0	
Supplemental Appropriations and Inter-Fund Transfers	$200.0	
Income Tax Reduction Impact Reserve	$37.8	
"Maximum Year-End Balance"	$1,245.7	
"Surplus Revenue"	**$701.4**	
Estimated Income Tax Collections, FY 99 - All Funds Baseline		
Revised OBM Forecast, FY 99	**$7,510.6**	**9.339%**

Once the year-end fund balance is known, OBM takes several steps to determine the unobligated portion that goes toward the tax cut. As Table 4 shows, the "total fund balance" meaning the combined GRF and Rainy Day Fund balances, is compared to the "maximum year-end balance," and the difference, or "surplus revenue," becomes the basis for the tax cut. The maximum year-end balance consists of the amounts necessary to ensure that:

(i) the Budget Stabilization Fund (BSF) has a balance of at least 5 percent of prior year GRF revenue;

(ii) the GRF has a cash-flow balance of 0.5 percent of prior-year GRF revenue;

(iii) the GRF has sufficient moneys to pay for capital projects (cash, not debt service) appropriated in prior capital bills;

(iv) the GRF has sufficient moneys to offset any expected deficit in the next fiscal year (zero in FY 1999);

(v) the GRF has enough money to pay for that portion of the prior year's (tax year 1997) income tax cut that results in a revenue loss in the next fiscal year (FY 1999). Enough taxpayers file late and make late payments or receive late refunds that roughly 15 percent of the 1997 tax cut ($37.8 million) is expected to be actually felt in FY 1999.

(vi) Any moneys set aside by the General Assembly for transfers to other funds are available. In this case, HB 650 had designated $170 million to be used for school buildings and $30 million for school "solvency assistance."

Once the $701.4 million figure is established, then it must be compared to OBM's forecast of income tax revenues for FY 1999. After the huge overage in FY 1998, OBM has revised upward its FY 1999 forecast from $6,934.2 million to $7,510.6 million (an increase of $576.4 million). Note that this figure bears little relation to the GRF income tax amount. The $7,510.6 million number is an "all funds baseline" figure. That is, it is the income tax forecast for not just the GRF (89.5 percent of net collections), but also for the Library and Local Government Support Fund (LLGSF; 5.7 percent), the Local Government Fund (LGF; 4.2 percent), and the Local Government Revenue Assistance Fund (LGRAF; 0.6 percent). It is also the forecast for what receipts would be if there were no rate cut (to assume otherwise would be circular reasoning).

IOLTA REVISITED

COREY C. SCHAAL

(Writer's Note: This is a follow-up to an article that appeared in the January 98 issue of Budget Footnotes.)

On June 15th, the United States' Supreme Court handed down a decision that could have a devastating impact upon the manner in which the state funds legal aid societies. In a closely divided decision, 5-4, the High Court affirmed a Fifth U.S. Circuit Court of Appeals ruling that interest generated on the pooling of clients' funds remains the private property of the clients. Chief Justice William Rehnquist, writing for the majority of the Court, left no ambiguity in answering that "interest income generated by funds held in IOLTA accounts is the 'private property' of the owner of the principal." IOLTA stands for Interest on Lawyers' Trust Accounts.

This issue is key to an argument put forth by the Washington Legal Foundation, a conservative public interest law firm. The group has challenged the constitutionality of the Texas IOLTA program, Texas Equal Access to Justice Foundation, on the grounds that it violates the First and Fifth Amendments to the Constitution of the United States. The High Court narrowly spoke only to whether the interest generated by IOLTA programs is considered private property within the scope of the "takings clause" of the Fifth Amendment. It expressed no viewpoint as to whether a taking by the state had occurred, and if such a taking was compensatory.

This decision will not have an immediate impact on the operation of Ohio's IOLTA or its sister program, IOTA, Interest on Trust Accounts. IOTA is a similar program that raises revenue through the pooling of certain funds held by title agents. In Ohio, approximately two-thirds of the title agents are attorneys. All of the revenue generated by these two programs is used to support Ohio's local legal aid societies. Nearly 50 percent of their state funding is derived from these two sources.

The United States District Court for the Western District of Texas, Austin Division, will now decide the other relevant Constitutional questions that weren't answered in its original 1995 ruling. It is then likely that that decision would be back on appeal to the Fifth U.S. Circuit Court of Appeals and ultimately again to the United States Supreme Court. It could be several years, if at all, before Ohio is required to act. However, the issue of the interest not being "private property" was perceived as the strongest link in the state's argument for the program to pass constitutional muster.

If Texas' IOLTA program is ultimately found to be unconstitutional, then it does not necessarily mean that Ohio's program is illegal. A finding that the Texas program violates only the First Amendment should not have a negative impact upon our program. In Texas, funding is provided to legal groups that actively participate in legislative and political advocacy.

Additionally, a separate argument could be made that Ohio's program is constitutional since it was established by state statute and not by a rule of the court as is the case in Texas and 43 other states. Ohio's IOLTA program was created through the enactment of S.B. 219 of the 115th General Assembly. This distinction should provide Ohio with an additional avenue of appeal.

It will be some time before a final legal determination is reached on these issues. If needed, Ohio and a few other states may be able to extend the period of litigation. It has taken the federal courts four years to make a ruling on this particular issue. It will probably take several more years before the fate of the programs is finally determined.

What has the impact of the IOLTA & IOTA programs been on the funding of legal services to low-income Ohioans? In 1997, projected revenue generated through these two programs amounted to $7,298,937. Approximately, $46,576,208 has been raised since the program began in 1985. The elimination of these programs would basically cut in half the state expenditures given to the local legal aid societies. A slightly smaller amount of state revenue is annually generated from a surcharge on civil filing fees.

Funding for legal services for Ohio's poor may be in a rather precarious position. Besides the recent federal court decisions, federal funding has decreased as Congressional support for the Legal Services Corporation has diminished. 1997 marked the first year when state funding exceeded that from the federal Legal Services Corporation (LSC). In the past three years, funding from LSC has dropped 27 percent or nearly $3.9 million.

The current biennial budget bill, Am. Sub. H.B. 215, included a statutory request that the State Public Defender conduct a study of alternative sources of revenue for the state's Legal Aid Fund. The intent of the request was to find potential replacement funding to offset revenue generated from just the IOTA program. In summary, the State Public Defender found no funding alternative, except for perhaps General Revenue Funding that would generate an amount sufficient to replace the existing IOTA program. An effort to replace revenue from both the IOLTA and IOTA programs would probably be heavily dependent upon General Revenue Funding.

It will be some time before Ohio is forced to address the main issue, if at all. The federal judiciary may not deliver a death knell to the IOLTA programs. However, the Supreme Court's recent decision should sound a funding alarm.

The Ohio Legal Assistance Foundation has been proactive in attempting to meet the legal needs of Ohio's poor. However, the fiscal future is unclear and alternative solutions may be needed. An attempt should be made to contain future state financial liabilities. The concern should not only be for the replacement of this revenue stream, but also for the potential need to compensate for revenues previously collected. The amount that could require compensation will continue to grow as long as the IOLTA program operates in its current form. ❑

Opening the Books on the Urban Schools Performance Audits

Alexander Heckman

Urban School Performance Audits

Policy issues surrounding school funding and perfor mance have been a focus of the General Assembly in recent years. While the failure of Issues 1 and 2 in May prevented significant funding increases for Ohio's schools, the Legislature still took steps intended to strengthen school districts' finances, both in the current biennial budget bill and in several bills during the 122nd General Assembly. Perhaps one of the lesser known steps taken by the Ohio General Assembly, was the appropriation of special funding in the budget bill for Ohio's urban schools which was tied to urban school districts developing plans to improve their management practices and academic performance.

Section 50.40 of Am. Sub. HB 215, the FY 1998-1999 budget bill, set aside $113.4 million in Urban Initiative Funding for Ohio's 21 urban school districts. The $113.4 million for urban schools includes:

- $87 million in school foundation monies for extended and full-day kindergarten;
- $10 million in family and children first funds for school readiness resources;
- $6 million for professional development for urban leadership academies;
- $5.5 million for teacher peer review;
- $ 5 million for vocational education.

In order to receive the urban initiative moneys, Ohio's "big eight" school districts (Akron, Canton, Cleveland, Columbus, Cincinnati, Dayton, Toledo, Youngstown) and Ohio's other "urban school districts"[1] (Cleveland Heights-University Heights, East Cleveland, Elyria, Euclid, Hamilton, Lima, Lorain, Mansfield, Middletown, Parma, South-Western, Springfield, and Warren) must meet two criteria:

1. Adopt a plan to promote economy and efficiency (EE) based upon recommendations from the Auditor of State (AOS) and approved by the Superintendent of Public Instruction in consultation with the Director of Budget and Management.

2. Implement an academic performance benchmarking program approved by the State Board of Education. The program must establish an action plan for achieving enhanced performance levels on all indicators measured in the performance benchmarking program. Indicators include data on graduation rates, attendance rates, drop out rates, and literacy and basic competency measures.

A key, and rather unique, part of this initiative is that each of Ohio's 21 urban school districts must have a performance audit completed by the Auditor of State (AOS) that evaluates each district's management practices. In order to receive urban initiatives funding, each district must develop an EE plan to address problems identified in the performance audit. After receiving the official audit recommendations, districts have six months to adopt an EE plan consistent with the Auditor's recommendations. A district does not have to include every recommendation in the EE plan, but must identify the areas not included. Also, a district can develop alternate strategies for implementing recommendations included in the AOS report.

The AOS has chosen to focus the performance audits on five areas of school management: technology use, transportation, facilities management, human resources and financial operations— specifically payroll, purchasing, budgeting and strategic planning. The audits do not include an evaluation of a district's investment performance. Nor are the audits designed to evaluate a school's effectiveness in achieving educational outcomes.

While the audits are not designed to evaluate a school's effectiveness in achieving educational outcomes, they do provide some insight into how efficiently and effectively school districts are utilizing their financial resources. In turn, how well a school district uses it financial resources in the five management areas audited affects the financial resources available to be directed to activities directly related to educating Ohio's children. How well a school district is managed in the five audit areas also may provide some indication as to how effectively it is able organize to work toward achieving its educational objectives.

The purpose of this article is to provide information on the progress and process of the AOS urban school performance audits. In addition, the article presents preliminary findings as to what the AOS is discovering about Ohio's urban schools in completing the performance audits and provides an initial LBO assessment of the audits' implications.

Progress on the Performance Audits

The AOS is currently in the midst of completing the 21 urban school district performance audits. The AOS has set forth a timetable for completing the school audits and grouped districts with similar demographic characteristics in order to make meaningful benchmark comparisons. Table 1 below outlines the timetable for each group. The Cleveland and Youngstown school district audits, completed in 1996, cost over $1 million and $150,000, respectively. The remaining performance audits of the other 19 urban districts will not be as extensive and are not expected to cost as much as the Cleveland and Youngstown performance audits.

Table 1: Timetable for Completion of Urban School Performance Audit

Group 1 (Completed)	*Group 2* (September 1998)	*Group 3* (March 1999)	*Group 4* (June 1999)
Elyria	Akron	Canton	CH-UH
Hamilton	Cincinnati	Dayton	Euclid
Lorain	Columbus	East Cleveland	Mansfield
Springfield	Toledo	Lima	Middletown
		Parma	Warren
		South-Western	

According to the AOS, performance audits for Hamilton, Springfield, Elyria, and Lorain city school districts have been completed and the average cost was about $50,000 per audit or about $200,000 in total. The budget bill appropriates $500,000 in FY 1998 and $500,000 in FY 1999 to pay the costs of completing the urban school performance audits[2]. According to the AOS, it takes, on average, about 5 months to complete each audit, and the average cost is less than $3 per student.

Performance Audit Process

Of the 23 people working in the AOS performance audit department, the majority is working on the urban school performance audits. A Senior Deputy Auditor is in charge of the performance audit department and oversees each school district audit. The Senior Deputy Auditor in charge of the performance audits is a Certified Public Accountant who managed the initial performance audits of the Cleveland and the Youngstown school districts. A senior auditor oversees each the five management areas evaluated in the audit. Many of the frontline staff working on the audits are accountants and some of the staff include individuals who have worked as school district treasurers or human resource professionals, or have experience in functional areas such as transportation and food service.

The AOS reported that school districts do not routinely maintain the information and cost data needed to complete the performance audits. School districts have been relatively cooperative in developing and/or compiling the information necessary to complete the audits.

LBO interviewed three of the audited districts to obtain their perspective on the audit process. School districts indicated that the audit process was very labor intensive and time consuming. One district representative said that working with the AOS to compile the data requested in the desired format stretched the time and talents of the staff. Generally, school districts said that the process was a good one, though it could be improved, as the AOS's office becomes more experienced in performing the audits. You might also assume that the process will improved as schools become more attuned to collecting data in the required manner.

Performance Audit Process

In response to a list of questions from the LBO, the AOS described the process that it goes through in order to complete a school performance audit:

> "Initially we meet with the Superintendent, Board of Education, Treasurer, and Business Manager to discuss the performance audit process; establish a timetable for the performance audit; and provide an extensive listing of the type of information that we will need to complete the performance audit.
>
> During the performance audit, we schedule regular progress reviews with these individuals to share our preliminary findings and resolve any problems that arise during the audits. Our staff interviews a wide cross-section of the school district's employees, completes several broad-based surveys, compares the school district to peer districts and develops the performance benchmarks against the peer group plus national and state performance averages. We also review and evaluate previous district studies, research analyses and strategic plans from at least the prior three years.
>
> At the conclusion of a performance audit, we provide a draft copy of our report to the Board of Education, Superintendent, Treasurer, Business Manager, and other department heads in the school district. We meet with this group as a whole in a post-audit meeting and discuss the draft report in detail before we issue a final audit publicly. ... During a performance audit, we also meet with the leadership of the various unions and parent groups."

Preliminary Observations from the Audits

In responding to a LBO survey, the AOS listed several strengths and weaknesses that appear to be common among the management of Ohio's urban school districts[3]. These strengths and weaknesses are listed below. The weaknesses reflect areas for improvement for which the AOS has made recommendations in its audit reports.

Strengths

1. Use of "just in time" purchasing to avoid the cost of purchasing and maintaining excess inventory.
2. Movement toward site-based management of schools.
3. Complying with Ohio Department of Education teacher certification requirements.
4. Improving the quality of data collected for and utilization of Education Management Information Systems (EMIS) information.
5. Districts should be able to meet the capital, textbook, and reserve fund requirements set forth in HB 412.

Weaknesses

1. Inadequate use of strategic planning and long term budgeting.
2. Not collecting and maintaining useful management and cost data that can be used to set goals, evaluate performance, and make other management decision. For example, management systems are often designed only to capture cash receipt and expenditure information.
3. Poor facilities planning, maintenance, and utilization.
4. Failure to prioritize programs, with the result that resources are not allocated efficiently.
5. Contingency reserves are small or non-existent.
6. Failure to carefully negotiate collective bargaining contracts, with the result that schools do not have flexibility to adapt to circumstances and fail to minimize costs. For example, some districts could save significant expense for employee benefits by requiring employees to make co-pays for visits under their health insurance plans.

District Reactions

Audited districts had some concerns about some of the recommendations. One concern was that some of the recommendations were impractical. For example, one district cited a recommendation to cut staff to the state required minimum as impractical in light of both the negative effect it would have on quality of education provided and contractual obligations of the district.

Some recommendations, such as limiting tax abatements, were criticized because the suggested action was beyond the authority of the district. Other recommendations, such as purchasing new technology or expanding human resources functions, were considered to be infeasible because a district did not have the financial resources to hire personnel or purchase the equipment necessary to implement the suggestion.

Another district representative was concerned that several of the recommendations made by the AOS were for activities or methods that were already being performed in the district and which had been pointed out in the audit.

Overall, school districts reported that many of the performance audit recommendations would be helpful for improving their planning process, promoting changes in school management, and spurring changes that were already beginning to be implemented within the district. One school district representative said recommendations in the areas of human resources, finances, and facilities were particularly strong.

Perhaps one school district representative best summed up school districts' opinions about the recommendations when he said that his district found one-third of the recommendations to be useful suggestions that the district could and would attempt to implement; one-third were suggestions that warranted further consideration, but may prove unworkable; and one-third were simply not feasible for one reason or another.

Conclusions

The urban school performance audits completed to date indicate that Ohio's urban schools need to improve in all of the five management areas audited. Many school districts seem to be particularly deficient in the areas of facilities management and their use of technology. While a significant part of the problems in the area of technology and facilities can be attributed to a lack of funds, inadequate long term and strategic planning are exacerbating these problems.

In the area of human resources and finance, many districts seem to be getting by with systems being used only to accomplish immediate functional tasks and demonstrate compliance. These systems are generally not being used to develop mid to long range goals or achieve higher-level management tasks. For example, according to the AOS, human resource systems are often too basic, dealing primarily only with payroll and benefits information and not staff development objectives such as training and recruitment. Again, some of this may be due to limited financial and staff resources. However, at least one school district represented said that political problems, such as a general resistance to change could prevent otherwise sound recommendations from being implemented.

The urban school performance audits appear to be identifying issues and problems that the Legislature had in mind when requiring them in conjunction with the Urban Initiatives line item in the biennial budget. And more than one school district representative said that the audits might prove to be useful tools for spurring changes in their district.

It will be interesting to see what further insights can be gained about Ohio's urban school districts as the performance audits continue to be completed and the recommendations implemented. In addition, it is quite possible that many of the problems identified with the management of urban school districts are also problems with the management of other school districts in Ohio. Nevertheless, the next step will be to evaluate if the urban school districts effectively address the problems identified in the performance audits. This will be the true test as to how useful performance audits can be in the effort to improve Ohio's schools. ❑

1 As defined in section 3317.02 of the Ohio Revised Code.
2 Section 50.04 of Am. Sub. HB 215, line item 200-431 School Improvement Models (pg. 1088).
3 To see recommendations for specific school districts, please see the appropriate audit report.

State Spending at the Local Level

Which of Ohio's 88 counties received the most state education dollars per capita in 1997? How about state development grants?

Which county received the largest total state funding for transportation, health and human services, or the environment?

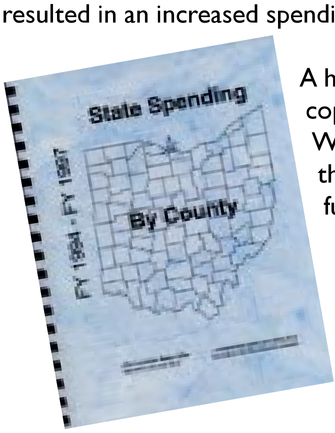
The answers to these questions and more are in the 1997 version of the Legislative Budget Office's annual State Spending by County report. This report is a compilation of data on state General Revenue Fund and Capital moneys spent or disbursed at the local level, as well as some permit fees and taxes which are redistributed to local governments. The report covers state fiscal years 1994 through 1997, with state spending for fiscal year 1997 totaling over $15 billion.

The report begins by listing the ten counties which received the most state funding on a per capita, total, or percent increase basis. For the "top ten" lists, state funding is divided into the following functional categories:

Development	Justice and Corrections
Education	Regulation and General Government
Environment and Natural Resources	Revenue Distribution
Health and Human Services	Transportation

After the "top ten" lists, the report shows, for each county, the funding received from each state agency from fiscal years 1994 through 1997. The report also lists total state funding from each state agency.

Spending figures used for the report are provided to LBO by state agencies. One agency, Ohio's Supreme Court, shows a dramatic increase in spending from 1996 to 1997 due to a change in the type of data included in the report. For the first time, the state portion of local judges' salaries is included in the figures for the Supreme Court, which resulted in an increased spending of over $33 million reported for that agency.



A hard copy of the report was mailed to each Ohio legislator in early August; additional copies of the report are available upon request. The report may also be viewed at LBO's Web site at http:\\www.lbo.state.oh.us, under the Products and Services link. Currently the Web site shows the 1996 report; it will be replaced by the 1997 report in the near future.

A more detailed, line item-by-line item breakdown of state spending for a particular county or state agency is also available. To order the line item report, contact LBO at 466-8734 and specify the county(s) or state agency(s) about which you would like additional information.

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