Introduction

The Legislative Service Commission prepares this document for the members of the General Assembly. It reviews selected budget issues in the operating budgets adopted by the 125th General Assembly –Am. Sub. H.B. 95 (the General Operating Budget); Am. Sub. H.B. 87 (the Transportation Budget); Sub. H.B. 91 (the Workers Compensation Budget); and Am. H.B. 92 (the Industrial Commission Budget). These bills were all passed by June 30, 2003. An executive summary of the main appropriation acts is followed by an analysis of each agency's budget and a spreadsheet showing actual appropriations for all line items for the agency. Additional sections include: Tax Provisions, Fee Increase, and Local Government Provisions. The Tax Provisions section provides estimates of the impact of the substantive tax changes included in the operating budgets. The Fee Increases section summarizes all the new and changed fees included in the operating budgets. The section titled Local Government Provisions includes the enacted provisions from the operating budgets that effect local government.

For more detail on agency line items, please refer to the LSC publication, *The Catalog of Budget Line Items*, where each line is described by its legal basis, revenue source, and use. *The State Government Book*, produced by the Office of Budget and Management, provides a comprehensive description of state government programs. The LSC also produces *The Comparison Document*, which compares budget provisions as the various budget bills move through the legislative process, as well as final analyses for all of the separate bills, describing all of the substantive provisions in those bills.

The *LSC Fiscal Analysis* may be purchased at $6 per copy plus $1 postage and handling for mail orders. Orders should be addressed to:

LSC Fiscal Analysis
Legislative Service Commission
Vern Riffe Center
77 South High Street, 9th Floor
Columbus, OH 43215-6136

Please enclose a check or money order in the proper amount payable to the Ohio Legislative Service Commission.

 The *Fiscal Analysis* may be accessed via the Internet at www.lsc.state.oh.us.

- Sales tax changes used to fill projected revenue hole
- GRF appropriation to Job and Family Services increase by 14.3% in FY 2004 over FY 2003 spending (most is federal Medicaid money)
- GRF & LPEF FY 2004 appropriations to Department of Education increase by 2.1%
- Non-GRF fees provide funding for housing program

Main Appropriation Acts

Steve Mansfield, Fiscal Supervisor
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Other LSC analysts

OVERVIEW

The *LSC Analysis of the State Operating Budget for Fiscal Years 2004 and 2005* focuses on the funding for each state agency that was appropriated in the budget acts. The introductory section presents an overview of the general operating budget, along with information that cuts across all state agencies, and provides highlights of all the budget acts. Subsequent sections of this document examine the major budget actions for each agency. Other LSC fiscal documents that provide additional information on the budget process include the *Analysis of the Executive Budget as Introduced by Agency* (also known as the agency "Redbooks"), the Catalog of Budget Line Items (COBLI), the LSC Comparison Document ("Compare Doc"), and the Budget in Detail (spreadsheets).

APPROPRIATIONS BY BUDGET

This section contains a summary of the four operating budget acts of the FY 2004-2005 biennium: Am. Sub. H.B. 95 (the Main Operating Budget); Am. Sub. H.B. 87 (the Transportation Budget); Sub. H.B. 91 (the Workers Compensation Budget); and Am. H.B. 92 (the Industrial Commission Budget). **Table 1** shows the funding for each of the budget acts. The column on the right, labeled "Share," shows the portion of total state appropriations funded through each of the appropriation acts.

Table 1. Total FY 2004 - 2005 Appropriations by Budget Act

Budget	FY 2004	FY 2005	Biennium Total	Share
Main Operating [H.B. 95]	$45,500,121,768	$47,124,474,480	$92,624,596,248	94.6%
Transportation [H.B. 87]	2,303,688,680	2,275,681,400	4,579,370,080	4.7%
Workers Compensation [H.B. 91]	317,032,074	317,537,074	634,569,148	0.6%
Industrial Commission [H.B. 92]	59,999,383	59,999,383	119,998,766	0.1%
Total	$48,180,841,905	$49,777,692,337	$97,958,534,242	100.0%

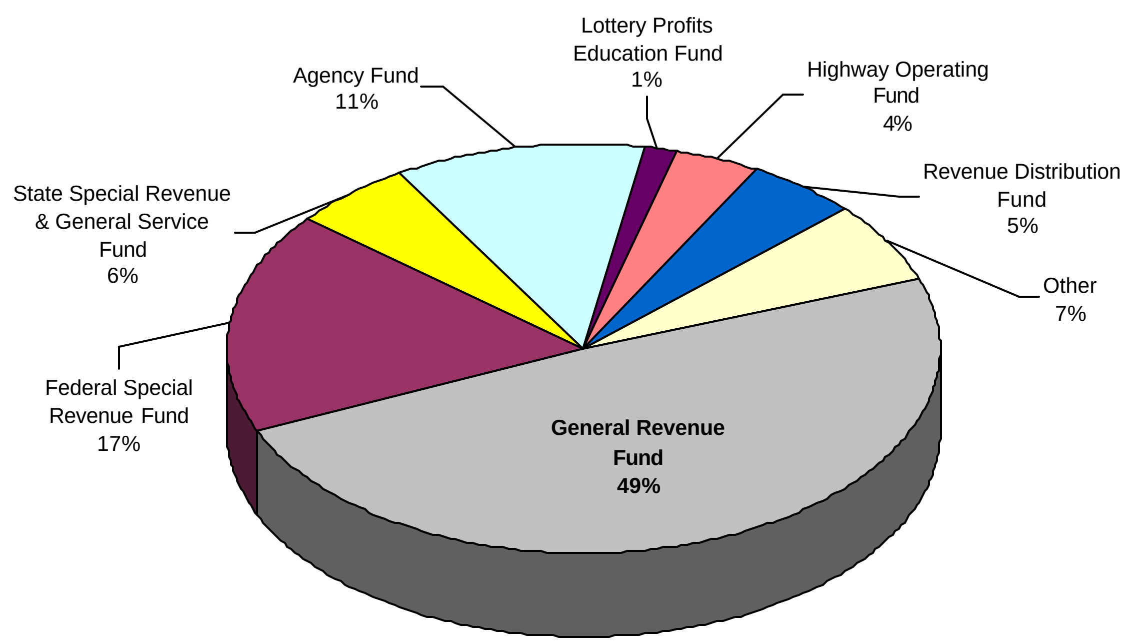
Total appropriations for all budgets and all fund groups in FY 2004 exceed actual FY 2003 expenditures by 8.1%. Fiscal year 2005 appropriations exceed FY 2004 appropriations by 3.3%. The Main Operating Budget, with over 94% of all appropriations, obviously defines these rates of increase. Significant increases in the budget for the Department of Education and the Department of Job and Family Services account for a large portion of the increase in the operating budget (for more detail, please see the discussion of the highlights of H.B. 95, below).

APPROPRIATIONS BY FUND GROUP

Chart 1 shows the portion of total state appropriations funded by each of the state fund groups for the FY 2004-2005 biennium. See the spreadsheets for information on funding by agency, by line item, and by fund group within each agency for FYs 1999 through 2005.

The state General Revenue Fund (GRF) is the largest source for current appropriations. The rest of this section provides a brief discussion of the state GRF, along with the Lottery Profits Education Fund (LPEF), and changes in revenues and taxation. Following this are sections providing highlights of H.B. 95.

Chart 1. FY 2004-2005 Appropriations by Fund Group



STATE GRF AND LPEF FUNDING

This section places in historical context the funding levels of the state's General Revenue Fund (GRF) and Lottery Profits Education Fund (LPEF). The two are considered together since in most uses the state GRF is broadly defined to include the LPEF due to the fact that at one time lottery profits were deposited into the GRF and then transferred to the LPEF.

Total GRF funding for the biennium increases by 7.6% over actual expenditures for the prior FY 2003-2004 biennium. Fiscal year 2004 GRF appropriations exceed FY 2003 expenditures by 4.2%, while FY 2005 GRF appropriations exceed FY 2004 appropriations by 2.9%.

The purchasing power of total GRF plus LPEF appropriations for the biennium is expected to grow by 3.9% over actual FY 2002-2003 expenditures. **Chart 2** shows the state GRF and LPEF expenditures for FYs 1985 through 2003, along with the appropriations for FY 2004-2005 in both nominal amounts and amounts adjusted for inflation. Between 1985 and 2003, expenditures have grown by 168% in nominal dollars – or by 56% after inflation is taken into account. During the same period, expenditures as a percent of Ohio's gross state product (GSP) have risen from 4.0% to 4.7%, but are expected to fall back to 4.6% in the FY 2004-2005 biennium (see **Chart 3**).

Chart 2. Total State GRF and LPEF Expenditures
(in millions)

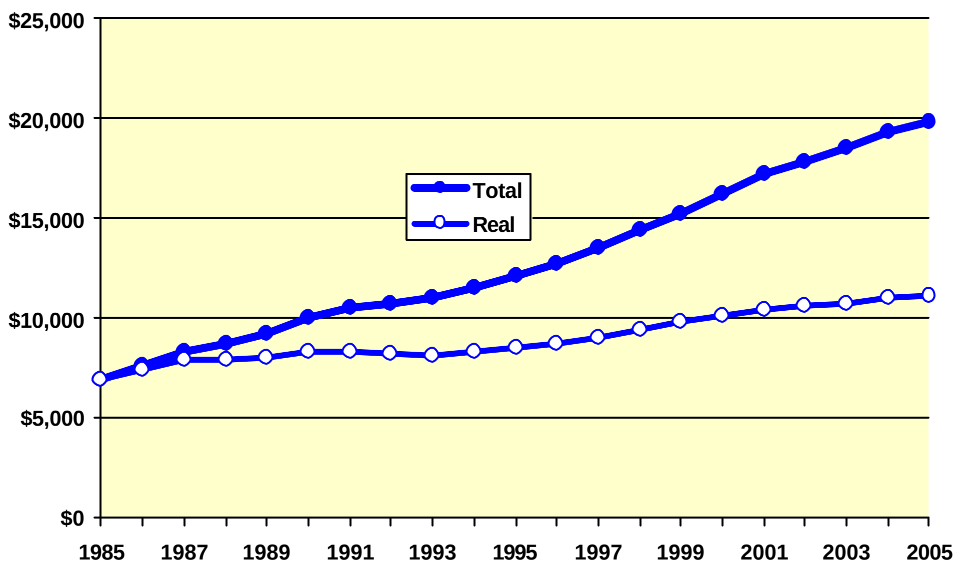
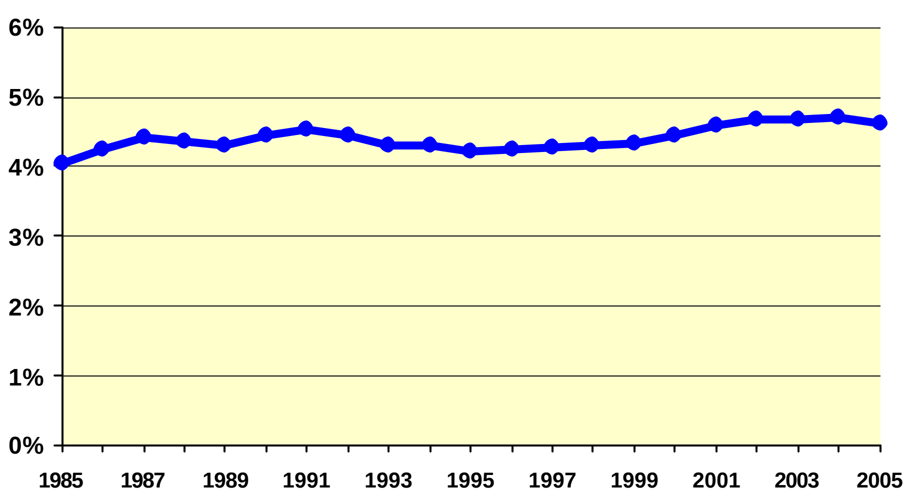


Chart 3. State GRF and LPEF Appropriations as a percentage of Ohio GSP



As depicted in **Charts 4 and 5**, Primary and Secondary Education continues to receive the largest share of GRF appropriations ($16.1 billion over the biennium, or 41.0% of total state GRF plus LPEF funding, and excluding the Local Government Funds), followed by Human Services ($11.4 billion, or 29.0%), Higher Education ($4.9 billion, or 12.6%), and Corrections ($3.4 billion, or 8.6%). Histories of both the appropriation amounts and shares of these four program areas are included in the charts, below. Chart 4 presents the history of spending in the four program areas, plus the "Other Government" category, while Chart 5 presents the historical share of each program area (here the "Other Government" category is included in the calculations, but omitted from the chart). [Individual agency appropriation and policy changes along with a brief discussion of revenues and taxation are discussed in the highlights section, below.]

Chart 4: Total State GRF and LPEF Expenditures by Major Category
(in millions)

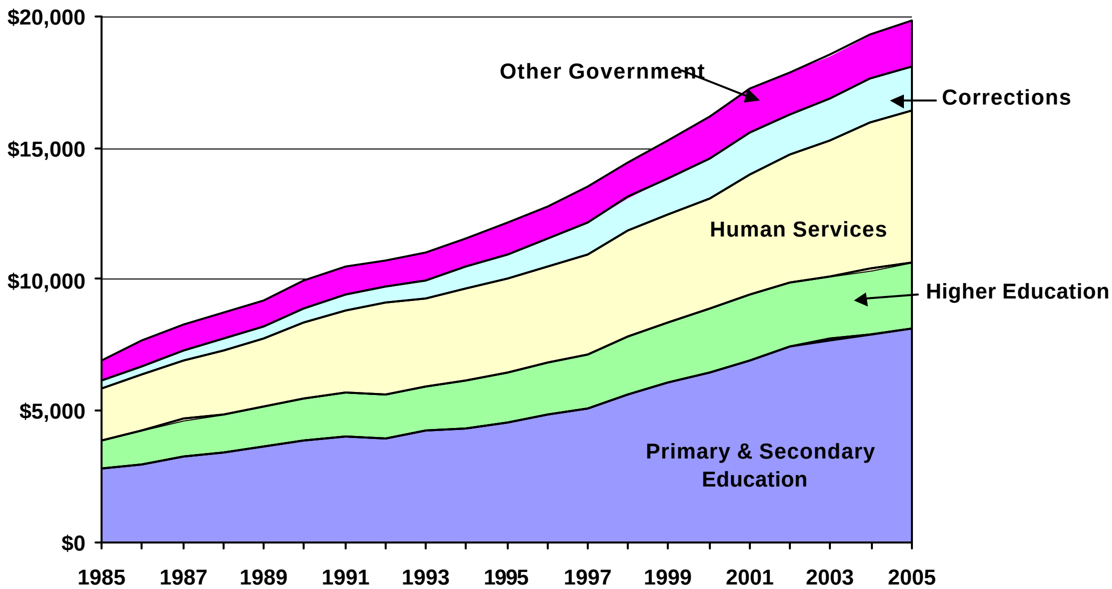
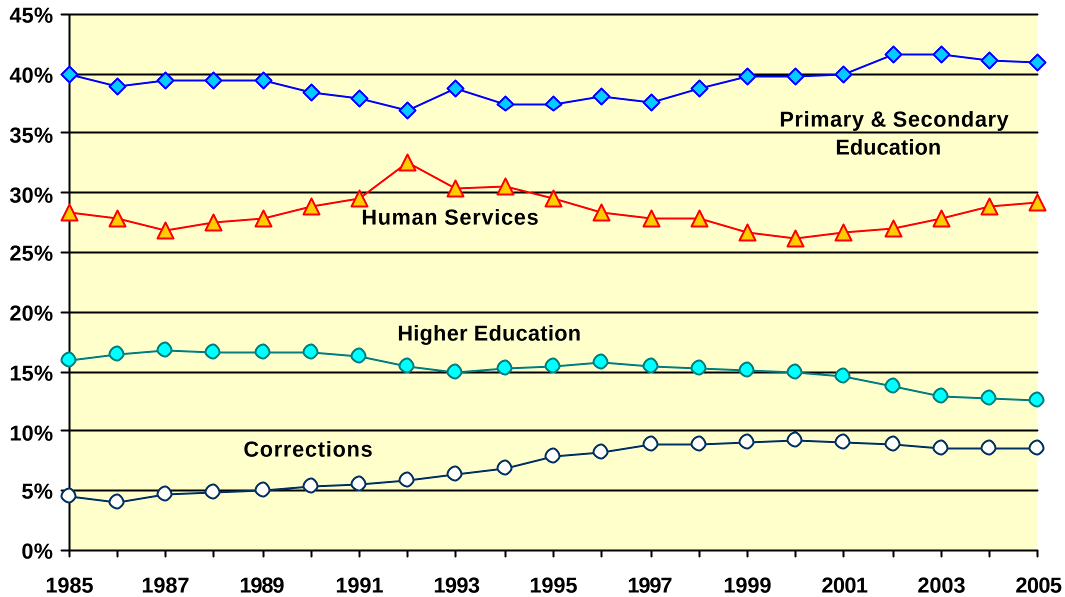


Chart 5: Program Spending as a Percentage of State GRF and LPEF Spending



HIGHLIGHTS OF THE MAIN APPROPRIATIONS ACT (AM. SUB. H.B. 95)

Revenues and Taxation

Am. Sub. H.B. 95 makes numerous changes to sales and use tax laws. Most notably, the budget act temporarily increases the sales tax rate from 5% to 6%, expands the sales and use tax base to include additional services, and makes required revisions to the sales tax law to comply with the Streamlined Sales and Use Tax Agreement. Over the biennium, the rate change is estimated to increase GRF revenues by $2,376 million and the base expansion is estimated to increase GRF revenues by $344 million. Am. Sub. H.B. 95 freezes the amounts of state tax receipts that are deposited into and distributed from the three local government funds (Local Government Fund (LGF), Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF)) at the lower of the formula amounts or the levels of FY 2003 (after all adjustments and reductions). The freezes are estimated to add $309 million to the GRF over the biennium. Am. Sub. H.B. 87 includes a phased-in increase in the motor fuel tax. The motor fuel tax increases, estimated to raise $408 million in additional revenue over the biennium, are not related to GRF financing needs, but are instead related to highway financing and construction needs (as required by the Ohio Constitution).

Primary and Secondary Education

State GRF and Lottery (LPEF) appropriations over the biennium for primary and secondary education total $15.7 billion, 38.5% of the $41.7 billion biennial total of state GRF, LPEF, and LGF. Total GRF and LPEF appropriations for the Department of Education grow by 2.1% in FY 2004 and 2.2% in FY 2005.

Base Cost Funding. The budget provides a 2.2% annual increase in the base cost formula amount, resulting in $5,058 per pupil in FY 2004 and $5,169 per pupil in FY 2005. The budget removes the option of using a three-year average formula ADM for districts with declining enrollments, requiring the current year ADM to be used for all districts.

Special Education Weighted Funding. The budget continues phasing in the special education weights established by Am. Sub. H.B. 94 of the 124th General Assembly at the 88% level in FY 2004 and the 90% level in FY 2005. Over $700 million in state special education weighted funding will be distributed to school districts over the biennium.

Parity Aid. The budget continues to phase-in parity aid at the 58% level in FY 2004 and the 76% level in FY 2005. It provides $320.7 million in FY 2004, an increase of 59.2%, and $427.0 million in FY 2005, an increase of 33.1%, for parity aid. The budget makes community schools eligible for parity aid. It requires that the resident district's parity aid per ADM be deducted from the district's state aid and transferred to the community school for each community school student residing within the district.

Head Start and Head Start Plus. The budget sets aside $83.5 million in FY 2005 for up to 10,000 slots in the new Head Start Plus program, as well as setting aside $22.8 million in FY 2005 for up to 4,000 slots in the traditional Head Start program. Head Start Plus combines traditional Head Start services with state administered childcare services, providing all-day services to eligible children and their families.

Preparation for the Ohio Graduation Test. The budget requires that districts in academic watch or academic emergency administer and score a practice Ohio Graduation Test (OGT) for 9th grade students. The budget sets aside $500,000 in FY 2004 and $100,000 in FY 2005 to train district personnel in scoring this practice test. In addition, the budget sets aside $4.6 million in each fiscal year for a new program to provide grants to districts in academic emergency for five days of embedded professional development to 9th and 10th grade teachers of the subjects covered by the OGT. The budget also sets aside $3.7 million in FY 2004 and $5.9 million in FY 2005 for academic emergency districts to provide intervention services to 9th and 10th grade students whose scores on the practice OGT indicate they are at-risk of not passing the actual OGT by the end of 10th grade.

Academic Standards and Student Assessments. The budget continues to fund the creation of academic standards and model curricula as mandated by Am. Sub. S.B. 1 of the 124th General Assembly (S.B. 1). The budget appropriates $9.0 million in each fiscal year, an increase of 47.1% over FY 2003 spending, for this purpose. The budget continues to fund the overhaul of the state's testing system, also mandated by S.B. 1, and the increased federal requirements mandated by the federal No Child Left Behind Act of 2001. The budget appropriates $41.4 million in FY 2004 and $46.0 million in FY 2005, increases of 55.2% and 11.1%, respectively, for this purpose.

School Facilities. GRF appropriations for the Ohio School Facilities Commission (OSFC) total $138.1 million in FY 2004, an increase of 73.6% over FY 2003, and $177.7 million in FY 2005, an increase of 28.7% over FY 2004. All of the OSFC's GRF appropriations are used to pay for the debt service of bonds issued for school building construction and renovations. The budget also transfers $122.8 million of tobacco settlement payments intended for school facilities in FY 2004 to the General Revenue Fund. Bond authority will be issued in the same amount to compensate for the transfer.

Higher Education

The budget appropriates $2.46 billion to the Board of Regents in FY 2004, a 1.6% increase over the FY 2003 spending level, and $2.50 billion in FY 2005, a 1.6% increase over the FY 2004 appropriation level. For the FY 2004-2005 biennium, the total appropriations of $4.95 billion represent a 1.4% increase from the FY 2002-2003 biennium.

Subsidies. The State Share of Instruction (SSI) supports all of Ohio's state-assisted institutions of higher education, and is by far the largest of several subsidy items that are intended to partially offset the cost of a college education for Ohio residents attending Ohio's public institutions. SSI appropriations total $1.53 billion in FY 2004, a 0.3% increase over FY 2003, and $1.56 billion in FY 2005, a 1.6% increase over FY 2004. The four main Challenges (Jobs, Access, Success, and Research) provide nonenrollment-based aid to campuses. The budget appropriates $146.4 million in FY 2004 for these four items, an increase of 14.7% over FY 2003. In FY 2005, the budget appropriates $151.4 million, a 3.4% increase over FY 2004.

Tuition and Fee Caps. The budget re-imposes limitations on the increase in in-state undergraduate instructional and general fees (tuition caps). In each academic year, an institution may increase its tuition by 6% over the previous year, except for the Ohio State University, which is allowed to increase its tuition by up to 9%. In a separate vote, each institution may increase its tuition by an additional 3.9%. However, the proceeds from this additional increase can only be used to provide scholarships to low-income student, or for improved technology services for students.

Miami University Pilot Tuition Restructuring Plan. The budget also recognizes the Tuition Restructuring Plan at Miami University. Under this plan, Miami will charge the same tuition for both Ohio and non-Ohio undergraduates, but will provide each Ohio resident a scholarship in the amount of equal to the per capita funding received by Miami from the State Share of Instruction and the Success Challenge. These changes will have no direct financial impact for students who enroll prior to August 2004. Miami's tuition under this new price structure is also subject to the same tuition caps imposed on other institutions.

Human Services

Department of Job and Family Services (JFS). For FY 2004, the budget appropriates $15,392,156,168 in all funds to fund JFS. This exceeds FY 2003 spending by $1,924,707,466, or 14.3%. An increase of 23.5% in appropriation authority over FY 2003 expenditures occurs in federal funding. When looking solely at GRF appropriations, we see that FY 2004's appropriation of $9,718,075,406 is an increase of $869,156,241, or 9.8%, over the FY 2003 expenditure level. Looking further into the composition of the Department's GRF appropriation, we see that several GRF line items include a federal portion. The federal portion of the GRF appropriation for JFS amounts to over $5.3 billion in FY 2004, and $5.6 billion in FY 2005. As a portion of the Department's total budget for both FY 2004 and FY 2005, federal funds make up about 63% of the total. This federal component of GRF funds combined with federal special revenues totals $9.7 billion in FY 2004 and $10.1 billion in FY 2005.

Head Start. During FY 2004, Head Start will continue to function as it does under current law. The funding available for Head Start in FY 2004 is $68,170,000 ($11,000,000 GRF and $57,170,000 TANF), which will allow 11,600 children to receive state funded services under the program. (Funding for Head Start in FY 2003 was approximately $98.0 million, which allowed 18,000 children to receive state-funded Head Start services.)

Am. Sub. H.B. 95 creates, beginning in FY 2005, the Head Start Plus program, which will provide child care settings with an enhanced program that meets the purposes of the Head Start program and meets families' needs for all-day, year-round child care. In FY 2005, 10,000 children will receive services through Head Start Plus and 4,000 children will receive services through traditional Head Start. The Department of Job and Family Services is planning to fund part of the Head Start Plus initiative with TANF dollars. Total funding for the Head Start/Head Start Plus initiative in FY 2005 is $115,184,000 ($5,000,000 GRF and $110,184,000 TANF).

TANF Block Grant. The budget appropriates $786,095,609 for FY 2004 and $845,909,688 for FY 2005 to line item 600-689, TANF Block Grant. These appropriations exceed the annual TANF Block Grant award by $58,127,349 in FY 2004, and by $117,941,428 in FY 2005. The expenditure of the full appropriation in each year would thus have the effect of reducing the amount of the unspent TANF grant funds that have accumulated from previous years.

Disability Assistance. The budget contains several cost containment measures for the Disability Assistance program (DA). Prior to the budget act, DA benefits were provided to a variety of people including the elderly and disabled who are awaiting federal disability determinations, first and second trimester pregnant women, children under 18 living with a nonrelative, and individuals residing in treatment facilities certified by the Ohio Department of Alcohol and Drug Addiction Services. The act provides an increase of funding for FY 2004 of 6% above the spending in the program for FY 2003. All of this increase is in the medical assistance portion of the DA program. The appropriation level for FY 2004 for the cash assistance portion of DA is $22.8 million, which is the same as the actual spending for FY 2003. The act provides no growth for FY 2005. In order to operate the program at flat funding during the biennium, program eligibility will be restricted. The act permits the Director of Job and Family Services to adopt rules that revised the program's eligibility requirements and payment amounts, and to suspend acceptance of applications for DA financial and medical assistance. The Department of Job and Family Services estimated that the flat funding for FY 2004 and FY 2005 will result in approximately $83.0 million being saved over the biennium.

Medicaid. The budget appropriates $8.8 billion in combined federal and state GRF funds in FY 2004 and $9.3 billion in FY 2005 for the line item that funds most Medicaid programs. It also allows JFS to use a portion of the funds generated in accordance with the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 increases state's federal medical assistance percentage (FMAP) for certain quarters. The budget act requires ODJFS to deposit the amount of federal revenue attributable to the enhanced FMAP that is being made available to the newly created Federal Fiscal Relief Fund. The disposition of cash from this new fund is determined by the budget act.

The budget act allows for the elimination of certain Medicaid coverage for adults such as chiropractic care and psychologist services. It continues the implementation of the Supplemental Drug Rebates and Preferred Drug List and allows copayments on nonpreferred drugs. H.B. 95 establishes a maximum mean total per diem rates applicable to nursing facilities and intermediate care facility for mental retardation (ICF/MR) in FY 2004 and FY 2005. Finally, the budget act allows for reform of the Ohio Home Care Program.

Department of Mental Retardation and Developmental Disabilities. Appropriations for developmental centers will not cover increased developmental center costs. As a result, the Department will close two developmental centers (Apple Creek and Springview), one at the end of the FY 2005, the other at the end of FY 2006.

The budget act sets a permanent cap on ICF/MR beds to reflect current capacity. The Department will be responsible for the non-federal share of residential facility expenditures for any newly certified bed.

Department of Aging. Total PASSPORT funding is increased by approximately $14 million in FY 2004 over FY 2003 expenditures and $32 million over FY 2004 appropriations. At these funding levels, the Department anticipates being able to meet the increasing demand for PASSPORT services and avoid waiting lists over the biennium. An estimated 29,700 people will be served in FY 2004, increasing to about 32,300 in FY 2005.

The budget act repeals Revised Code sections 173.45 through 173.59, which required the Department to develop a Long-Term Care Consumer Guide. In addition, no appropriations were provided to fund the program.

Department of Health. The Department received an additional $500,000 each fiscal year in GRF line item 440-407, Animal Borne Disease and Prevention, for prevention activities related to West Nile Virus.

The budget act also contains a $1.7 million earmark each fiscal year for women's health services in GRF line item 440-416, Child and Family Health Services, that takes effect on January 1, 2004. The budget act outlines what services are to be provided and how the funds are to be disbursed, with priority to be given to local health departments. Funds will be made available to organizations that do not meet all federal Title V and Title X requirements. Prior to January 1, 2004, the funds are to be used as they were in the FY 2002-2003 biennium, for family planning.

The budget act raised fees charged by the Department in nine different areas, which will increase revenues by about $4.3 million annually.

Department of Alcohol and Drug Addiction Services (ODADAS). The budget act increased appropriations in GRF line item 038-401, Treatment Services (formerly Alcohol and Drug Addiction Services), by $9.0 million in FY 2004, and added new earmarking provisions for the majority of that increase. Part of the increase is the transfer of $5.0 million for TANF MOE from the General Services Fund to the GRF in FY 2004 and FY 2005.

The budget act amended section 4301.30 of the Revised Code, doubling all liquor permit fees under $300 and increasing fees over $300 by 25%. In addition, the revenue distribution formula was changed so that ODADAS will receive 20% of the profits collected and transferred into State Special Revenue Fund 475, Statewide Treatment and Prevention. Under prior law, ODADAS received an amount equal to 21%. The increased liquor permit fees will generate approximately $2.1 million in additional revenue annually. However, because of the timing of collections and distribution of these revenues, ODADAS will receive approximately $1.3 million in FY 2004.

Increased liquor permit fee revenue will be used to fund treatment services only. The revenue will be deposited in the Statewide Treatment and Prevention Fund (Fund 475). Because the budget act did not increase that line item's appropriation amount, ODADAS will need additional appropriation authority in order to spend the additional revenue. The Department may seek additional authority through legislation or from the Controlling Board.

Department of Mental Health. The key issue that the Department focused on throughout the budget process was the adequacy of funding for community care. GRF line items: 334-408, Community Mental Health and Hospital Services; 335-502, Community Mental Health Programs; and 335-508, Services for Severely Mentally Disabled, provide the majority of GRF department funds to both the community mental and health hospital systems. Over the past decade, community mental health Medicaid expenditures in Ohio have grown substantially, from approximately \$60 million in FY 1990 to \$267 million in FY 2002.

The budget act combines appropriation line items 335-502 and 335-508 into one line item (335-505, Local Mental Health Systems of Care) and restores funding to the \$89.7 million level that existed prior to the most recent round of executive order reductions in FY 2003.

Justice and Corrections

Department of Rehabilitation and Correction. The budget act does not provide sufficient GRF funding to cover the future cost of delivering FY 2003 program and service levels. Thus, the Department will have to trim institutional operating costs over the course of the FY 2004-2005 biennium, which means reductions in payroll, maintenance, and equipment expenses. Since the lion's share of the Department's personnel are employed in its institutional program areas, it is likely that any potential Department wide reductions in force would be relatively larger than those that might occur in the Division of Parole and Community Services or Central Office. These reductions could occur through any number or mix of mechanisms, including: (1) an early retirement buyout, such as the one put into place March 1, 2003 for a period of one year, (2) a continued hiring freeze, (3) attrition, and (4) potentially more layoffs. The Department is also planning to close the Lima Correctional Institution, which was scheduled for July 1, 2003, so the savings effect would be first realized in FY 2004. As of this writing, the authority of the Governor to close a prison was undergoing a legal challenge and the Lima Correctional Institution had not been closed as scheduled.

Department of Youth Services. Because the vast majority of the Department's annual funding comes from the state's GRF, the relatively small increases in the total appropriated GRF funding for FYs 2004 and 2005 in comparison to actual total FY 2003 GRF expenditures mean that it will not be able to maintain its existing level of staff, services, and subsidies. As a result, the Department will implement a downsizing plan that will include a reduction of its overall workforce by 15%, consolidation of the Riverview Juvenile Correctional Facility into the Scioto Juvenile Correction Facility, closure of the Athens Regional Parole Office and caseload consolidation within the six remaining regional parole offices, and restructuring of Central Administration.

Ohio Public Defender Commission. Under existing permanent law, the state is required to reimburse counties at a rate of 50% of the cost of providing indigent defense services, subject to available appropriations. The level of annual GRF funding provided in the budget act will in all likelihood support a state reimbursement rate for indigent defense services in the range of 33%.

Office of the Attorney General. In the matter of GRF funding, the annual amounts appropriated to the Office of the Attorney General for the FY 2004-2005 biennium represent what can, perhaps at best, be termed a "no growth" budget. In light of the available level of annual funding relative to its ongoing operating expenses, the Office of the Attorney General has sought to reduce or shift GRF expenditures by a variety of means, including: (1) restructuring and reorganizing the agency, to more effectively utilize existing staff and make the best use of limited resources, (2) utilizing non-GRF revenue streams to maintain service and staff levels, a potentially problematic strategy as the cash flow of these non-GRF state and federal funds may not be healthy enough to provide long-term payroll support, especially one-time judgments and court settlements, the magnitude and timing of which are highly unpredictable, (3) offering an early retirement incentive (ERI) program, which will reduce the agency's total annual payroll cost, (4) consolidating six downtown office locations, including merger of information technology support, mailroom, and printing operations, into one downtown office location, and (5) reducing a fleet of 283 automobiles by 20% to 30%.

Judicial Agencies. The Supreme Court of Ohio, the Court of Claims, and the Judicial Conference of Ohio are scheduled to move into the newly restored Ohio Courts Building on Front Street in downtown Columbus by March 2004. The Supreme Court will actually operate and maintain the building, which will require it to hire an estimated 30 or so security, management, and maintenance personnel. State agencies generally are not responsible for the management and operation of space occupied in state-owned buildings. However, in this case, apparently because the judicial branch of Ohio government will be the primary tenant of the building, the Court has been delegated to assume all responsibility for the building.

General Government

Department of Administrative Services (DAS). The budget requires the implementation of a Fleet Management Program administered by DAS, whose goal is to reduce the statewide vehicle fleet by 10% by the end of FY 2005. The Department also plans to fully implement the Multi-Agency Radio Communications System (MARCS) during FY 2005, relying on user fees for the system's operating revenue.

Department of Commerce. The budget increases the fees for many permits issued by the Division of Industrial Compliance and the Division of Liquor Control. The increase in inspection fees is estimated to generate approximately $2.18 million in additional revenue each year in the Industrial Compliance Operating Fund (Fund 556). The Division of Liquor Control increased all liquor permits of $300 or less by 100% and all permits more than $300 by 25%. The Department of Liquor Control estimates an $8.11 million increase in liquor permit fee revenue in FY 2004 and a $12.14 increase in FY 2005. This increase in revenue will be distributed to the GRF, ODADAS, and the local taxing districts.

Department of Development. The Department's total GRF appropriations in FY 2004 represent a 20.8% decrease over FY 2003 spending levels; FY 2005 appropriations increase 6.9% over FY 2004 levels. Among the most significant developments in the budget concerning the programs in the Department of Development are the following:

- The Housing Trust Fund (HTF) is no longer funded with money from the GRF; a new recordation fee (called the Housing Trust Fund fee), collected by county recorders, will serve as the revenue source for the HTF. Appropriations of $40 million are made in each FY of the biennium in SSR 195-638, Low and Moderate Income Housing Trust. Also four programs that were previously GRF-funded are now funded through the HTF: 195-406, Transitional/Permanent Housing; 195-431, Community Development Corporation Grants; 195-440, Emergency Shelter Housing Grants; and 195-441, Low and Moderate Income Housing. These four line items spent $26.8 million in FY 2003; the $40 million appropriation for the HTF represents a 49.2% increase over the FY 2003 spending level.

- The Coal Development Office is transferred from the Department of Development to the Air Quality Development Authority. Accompanying that transfer are two GRF appropriation items that paid for administrative expenses of the Coal Office (195-408, Coal Research Development) and debt service on coal bonds (195-906 Coal Research/Development General Obligation). Also transferred is the appropriation item that funded coal development projects through bond obligations (195-632, Coal Research & Development Fund).

- The Technology Action Fund is renamed the Third Frontier Action Fund and appropriates $16,790,000 in each FY (flat funded from FY 2003).

- An appropriation of $7.4 million will be made in FY 2005 in GRF appropriation item 195-905, Third Frontier Research and Commercialization, to pay for debt service of bonds issued under the Research and Commercialization Program of the Third Frontier Project. These bonds will appear on the November 2003 ballot, for approval by Ohio voters.

- GRF appropriation item 195-515, Economic Development Contingency, receives appropriations of $10 million in each fiscal year. Originally enacted as a GRF transfer of $25 million over the FY 2002-2003 biennium in Am. Sub. H.B. 299 of the 124th General Assembly, this line item provides grants for large capital investment projects with the creation or retention of a significant number of jobs.

Office of Budget and Management. The Offic e of Quality Services, responsible for the Quality Services through Partnership (QStP) courses offered to government employees, was closed due to budget constraints. The Office, which had FY 2003 expenditures of approximately $480,000, will receive $30,000 in FY 2004 for final expenses.

The Governor's Blue Ribbon Task Force on Financing Student Success will receive $1.0 million in FY 2004 and $250,000 in FY 2005 through OBM's Budget Development and Implementation line item. The Task Force is a 33-member group of education, community and business leaders charged with evaluating Ohio's system of financing primary and secondary education. It began meeting last month and will report its findings to the Governor in FY 2004.

Full implementation of the Ohio Administrative Knowledge System (OAKS) has been delayed, with funding for the project held to just over $2 million in each year of this biennium, down from $3.3 million in FY 2002 and $2.6 million in FY 2003. The Office of Budget and Management expects to choose its commercial software vendor by the end of the biennium with implementation expected during the next biennium. During FY 2004 and FY 2005, staff will also develop a web-based Controlling Board application to complement the commercial software.

State Library. In FY 2004, the Ohio Public Library Information Network (OPLIN) will be funded through the Library and Local Government Support Fund (as in the previous biennium), however, in FY 2005, OPLIN funding moves back to the GRF.

HIGHLIGHTS OF THE TRANSPORTATION BUDGET ACT (AM. SUB. H.B.87)

Am. Sub. H.B. 87, the transportation budget act, provides appropriations of $2.98 billion in FY 2004 and $2.96 billion in FY 2005. Of the biennial total amount, the Department of Transportation receives 77% to support the construction and maintenance of Ohio's state transportation system, 20% is used by the Department of Public Safety to preserve the safety and well-being of Ohioans and administer the state's motor vehicle laws, and 3% supports efforts of the Public Works Commission and the Department of Development to improve local government infrastructure. The majority of these appropriations are supported by the motor fuel tax, followed by federal funds and bond issuances. No GRF money is included in Am. Sub. H.B. 87.

Motor Fuel Tax Increases: Most notably, the act increases the motor fuel tax by up to 6 cents (from 22 cents to 28 cents) with a two-cent increase in FY 2004, another two-cent increase in FY 2005, and a possible two-cent increase in FY 2006. The final two-cent increase will not take effect if it is determined that: (1) Ohio's minimum guarantee of federal motor fuel tax revenue is increased from 89% to 95%, and (2) Ohio's current 13 cent per gallon (cpg) tax on alternative fuels is increased to the current federal motor fuel tax rate of 18.4 cpg. Therefore, dependent upon these federal conditions, by FY 2006 the tax increase is estimated to generate an additional $276 million to $414 million per year for the state, and from this amount, $51 million to $76 million will be distributed to local governments each year. The act also includes a provision that increases motor fuel tax revenues distributed to townships by way of a new township formula.

Other Highlights. Other highlights of the act include an increase in force account limits, a fuel tax exemption for school transportation purposes, phase-out of a portion of the motor fuel use tax, $13.9 million in funding for a new Automated Title Processing System at the Bureau of Motor Vehicles, $129 million in new Public Safety appropriation authority for future federal homeland security grants, and additional funding for Highway Patrol security at state buildings. At this point, the actual amount of homeland security grants is uncertain, and the Department of Public Safety expects the grants not to be as sizable as the $129 million of appropriations. For more information, see each agency's respective page in the Final Analysis, and the "Tax Provisions" section.

Department of Transportation (H.B. 95 portion)

The general aviation license tax is increased to $100 per aircraft and is estimated to generate an additional $400,000 per year. Formerly the tax was a range of $6 to $15. Also, budget reductions in public transportation, aviation, and rail may result in increased fares, reduced runway repair projects, and limited rail line acquisition and rehabilitation initiatives.

Department of Public Safety

Am. Sub. H.B. 87 was the primary funding act for the Department of Public Safety. Funding comes from various non-GRF sources, such as motor vehicle fees. FY 2004 appropriations of $591,490,000 represent a 37.2% increase over FY 2003 spending. FY 2005 funding of $605,789,000 is a 2.4% increase over FY 2004.

The most significant change introduced by Am. Sub. H.B. 87 concerning the Department of Public Safety was the funding source for the Ohio State Highway Patrol. In previous fiscal years, the Highway Patrol was funded primarily through the motor fuel tax. <u>The act gradually removes the Patrol from the fuel tax.</u> In order to fund the Patrol, motor vehicle fees are increased, with all revenue from the increases to be deposited in Fund 036 (State Highway Safety Fund). Driver's license fees are increased by $12, vehicle registrations are increased by $11, and temporary license placards are increased by $5. The increases will annually generate approximately $181 million.

Most of the Department of Public Safety's funding was received through the Transportation Budget, Am. Sub. H.B. 87. The main operating budget appropriates GRF money to the Department, most of which is used to fund the Emergency Management Agency. Public Safety is funding at $4,907,000 in each fiscal year, a 2.9% decrease from FY 2003 spending. The main operating budget also created the Division of Homeland Security within the Department of Public Safety, in order to coordinate homeland security activities between state agencies and local governments.

HIGHLIGHTS OF THE BUREAU OF WORKERS' COMPENSATION AND INDUSTRIAL COMMISSION BUDGET ACTS (SUB. H.B. 91 AND AM. H.B. 92)

Sub. H.B. 91 created the Industrial Commission Operating Fund (Fund 5W3). Formerly, BWC and OIC received funding through one assessment added to employer workers' compensation premiums and deposited to the Administrative Cost Fund (Fund 023). With the creation of Fund 5W3, the Administrator of BWC is to separately calculate employers' assessments for those costs solely attributable to OIC and for those costs solely attributable to BWC, and then is to divide the assessments collected into two separate administrative assessment accounts within the State Insurance Fund (Fund 5W3 and Fund 023). These accounting procedures will allow BWC and OIC to maintain direct control over their respective operating funds and will more clearly differentiate the costs of the services provided by the two agencies by showing employers what portion of their assessment goes toward BWC and what portion goes toward OIC.