Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE AUGUST, 1996

FISCAL OVERVIEW

— Frederick Church

FY 1997 got off to a quiet start in July. Tax revenues were very close to the estimate, finishing with a small ($8.0 million) overage. The overage was the result of the personal income tax finishing $7.7 million over estimate, a welcome surprise in light of the concerns about withholding shortfalls last fiscal year. Despite the tax overage, total GRF income was below estimate due to the $19.8 million shortfall in federal reimbursement. As was the case last year, this shortfall seems to result from the underspending in human services programs that draw federal matching money.

On the spending side, human services programs began FY 1997 the way that they ended FY 1996: below estimate. Medicaid, ADC, and Other Welfare all finished below forecast; the exception was the aggregated human services category that includes mental health spending and services for the mentally retarded, which was $20.3 million above estimate. Primary and secondary education, however, got off on a very different foot than last year. In FY 1996, spending fell behind the estimate and never caught up, despite repeated assurances that it would. This year, thanks in part to spending some of the encumbered money that was not disbursed last year, education spending was $45.9 million over estimate, and 28.6 percent over last July's outlays.

The other big difference between the first month of FY 1997 and the first month last year is in transfers out of the GRF. Last year, the GRF made $858.2 million in transfers in July: $535.2 million to the Budget Stabilization Fund (BSF) to meet the 5 percent balance target; $311.0 million to a variety of other purposes, including $202.9 million to a variety of K-12 education assistance programs (of which the biggest was SchoolNet Plus) and $100 million to a human services contingency fund; and $12.0 million to the state local government fund (LGF) to compensate local governments for revenue foregone when the state made the lower LGF share of state taxes permanent.

This year, the GRF made less than half the transfer made in FY 1996. Last year's big surplus went to beefing up the BSF and helping school districts; this year's surplus was used to provide a big personal income tax

Volume 20, Number 1

STATUS OF THE GRF

The August video tape from the Government Services Television Network has not yet arrived. Due to this delay, the GSTN Index will be published in next month's issue of Budget Footnotes.

Budget Footnotes is issued monthly by the Legislative Budget Office (LBO). LBO is 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.

For questions or comments regarding specific sections:

GRF Revenue:
Fred Church 466-6274

GRF Spending:
Chris Whistler 728-4810

Other Articles:
Barbara Riley 644-9097

Legislative Budget Office
77 South High Street
8th Floor
Columbus, Ohio
43266-0347
Telephone: 614/466-8734

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

	Month of July	Fiscal Year 1997 to Date	Last Year	Difference
Beginning Cash Balance	$1,138.5	$1,138.5		
Revenue + Transfers	$1,155.6	$1,155.6		
Available Resources	$2,294.1	$2,294.1		
Disbursements + Transfers	$2,016.0	$2,016.0		
Ending Cash Balances	**$278.1**	**$278.1**	**$184.0**	**$94.1**
Encumbrances and Accts. Payable		$589.9	$589.9	$0.0
Unobligated Balance		**($311.8)**	**($405.9)**	**$94.1**
BSF Balance		$828.3	$828.3	$0.0
Combined GRF and BSF Balance		**$516.5**	**$422.4**	**$94.1**

cut to Ohio taxpayers. Of the $405.2 million transferred out of the GRF in July, $400.8 million went to the newly created Income Tax Reduction Fund (ITRF). This amount, which was certified by the OBM director on July 31st as being the “surplus” GRF money that the state would return to taxpayers, will fund a tax cut of approximately 6.6 percent for taxable year 1996 (the current tax year). Since the GRF surplus is expected to be a transitory rather than a permanent phenomenon, the tax cut is for only two years rather than being permanent.

Owing to the fact that fewer transfers were made from the GRF this July, the unobligated GRF balance is $94 million larger this year. Since the BSF is unchanged - no new transfers, and its interest earnings are being diverted elsewhere - the change in the combined GRF and BSF balance is identical to the change in the GRF balance.

TRACKING THE ECONOMY

The Federal Reserve stood pat in August, leaving the federal funds rate at 5.25 percent, where it has been since January. The rate was cut from 5.5 percent that month, as fears about a slowing economy, fueled by the 0.3 percent growth of real GDP in the last quarter of 1995, nudged the Fed toward expansion. Since then, however, the economy has responded nicely. Real GDP grew by 2.0 percent in the first quarter of 1996, and then growth accelerated strongly to 4.2 percent in the second quarter. While this stronger growth began to spook bond markets with fears of inflation, the release of second-quarter employment cost index (ECI) figures helped dampen those fears. Most of the projections now seem to be for a return to moderate GDP growth and employment growth in the second half of CY 1996, with inflation remaining under control.

The Labor Market and Wage Pressures

Much of the inflationary fear has been centered on the labor market. With employment growth strong and the unemployment rate so low, some analysts argued that accelerated wage inflation would have to result, eventually leading to output price inflation. The July data releases do not support that case. There were a number of indicators of slowing economic growth, some specific to the labor market, others not. After averaging growth of 237,000 jobs per month over the first half of CY 1996, nonfarm employment growth moderated to 193,000 in July. The National Association of Purchasing Manager's Index (a barometer of activity in the manufacturing sector) fell sharply in July. Sales of new and existing homes fell in June. Finally, the ECI report showed that, while wages increased by 1.0 percent in the first quarter and 0.9 percent in the second quarter, fringe benefits have grown so slowly that total labor costs are under control. Specifically, over the last 12 months wage and salary costs have increased by 3.2 percent, but fringe benefit costs have increased by only 1.8 percent, so total compensation costs have increased by 2.9 percent. With labor costs rising less than 3 percent annually, it is hard to see where a spurt of "cost-push" inflation is going to come from.

The U.S. unemployment rate fell to 5.3 percent in June, the lowest rate in six years, but edged back up to 5.4 percent in July. The Ohio unemployment rate held steady at 4.9 percent. The tame behavior of inflation in the face of very low unemployment rates is rather remarkable, and has some economists scratching their heads. As the WEFA Group points out, the U.S. unemployment rate has hovered around 5.5 percent for the past 22 months without any acceleration in wage inflation or output price inflation. This casts some doubt on whether the estimates of the full-employment rate, or "non-accelerating inflation rate of unemployment" (NAIRU) are really accurate. DRI stated in its July *U.S. Forecast Summary* that their estimate of the NAIRU was still 5.9 percent, and that lower than NAIRU unemployment rates (essentially, greater than "full" employment) were driving up wages and slowly pushing up price inflation. In its August summary, DRI moderated that claim, saying that its new estimates of the NAIRU were around 5.5 percent to 5.6 percent.

Finally, the Federal Reserve itself has weighed in on the issue of the high demand for labor and what it means for wage inflation. In the August 7th *Beige Book*, the Fed noted that at the national level, "labor markets remain tight, but there has been no widespread increase in wage pressures." In our own region, the Fed remarked that "although a few firms indicate increased difficulty in attracting and retaining workers, wage growth is reported to be between 2 percent and 4 percent [annualized], similar to earlier in the year."

Consumption, Confidence, and Household Debt

Consumer spending rose sharply in the second quarter, and consumer confidence hit a six-year high in August (the correlation with the six-year low in the U.S. unemployment rate is no fluke). The major worry for economic analysts has been the rising level of household debt. Consumer credit recently topped 20 percent of disposable income, and total household debt is close to 100 percent of disposable income. These are historic highs, and along with the high levels of debt, delinquency rates have been rising. One interesting point made by DRI is that, while overall household debt to asset ratios have held steady - the increase in debt has been matched by an increase in asset values, mostly due to the stock market expansion - the increase in credit card debt has been concentrated in lower income households, while assets have increased for upper income (investment-owning) households. Thus, while overall debt to asset ratios are stable, the ratio for lower income households may be worsening.

The very recent data suggests that lenders are becoming more cautious and that growth in consumer installment debt is slowing rapidly. WEFA also points out that, because of the wave of mortgage refinancings over the past few years, monthly mortgage debt payments as a percent of income are very low, so that combined debt payments (mortgage and installment debt) as a percentage of income are still below their 1989 peak. The emerging consensus thus seems to be that while credit growth and consumption spending growth will slow, consumers are not way overextended and thus we are not facing a drastic consumption pullback that would seriously threaten overall economic growth.

Status of the General Revenue Fund

JULY/FY 1997 REVENUES

— *Frederick Church*

Tax revenue was $8.0 million above estimate in July, and growth from last year was a healthy 7.5 percent. Total GRF income was $14.2 million below estimate, due to the $19.8 million shortfall in federal reimbursement. That shortfall appears, as one would expect, to be tied to underspending in human services programs such as Medicaid and ADC that draw federal money.

The biggest overage was in the personal income tax, which was $7.7 million over estimate. The best news was that withholding was over estimate, after a weak performance in FY 1996. The sales and use tax finished $1.6 million below estimate, as the shortfall in the non-auto component of the tax more than offset a small overage in the auto component. Obviously, with only one month of data for FY 1997, there is not yet much to report.

Sales and Use Tax

The small shortfall in the non-auto sales tax in July is not surprising in light of the fact that U.S. retail sales in June were weak, decreasing by 0.5 percent from May (Ohio's non-auto sales tax collections are based primarily on prior month retail sales activity). The preliminary report for July retail sales showed a meager gain of 0.1 percent , suggesting that non-auto tax revenues could fall short in August also.

On the automotive side, tax collections were $1.1 million over estimate, and up strongly from last year. The outlook for the next few months in auto sales is unclear. Sales through the first six months were surprisingly strong, averaging 15.2 million units, at a seasonally adjusted annualized rate. Sales were thus on a pace to not only top 1995's mark of 14.7 million units - generally considered a disappointment - but to also top 1994's 15.1 million unit mark. Many analysts began 1996 with a sales forecast of 14.7 million to 14.8 million units.

However, after the good news in the first six months, sales fell sharply in July, to an annualized 14.3 million units. What can we expect for the last five months of CY 1996, given the volatility in the monthly numbers so far?

The Chicago Federal Reserve Bank held its third annual Auto Outlook Symposium in June, hoping to answer just that question. In a nutshell, the consensus of the participants seemed to be that factors that helped auto sales in the first half of CY 1996 (sales incentives, low long-term interest rates) were likely to be reversed in the second half, so that CY 1996 unit sales would end up at 14.8 million units and CY 1997 sales would weaken to 14.6 million units (the Big Three automakers are somewhat more optimistic in their sales projections, at least for CY 1996). With slow increases in new car prices (the Chicago Fed claims that new car prices have increased less than the CPI over the past 12 months), this forecast implies that Ohio will see little growth in auto tax revenues in FY 1997. Fortunately, the FY 1997 estimate assumes only 1.5 percent growth in collections from FY 1996, so we could make the estimate even with very slow growth.

Personal Income Tax

The overage in the income tax was driven by overages in quarterly estimated payments and in employer withholding. While the overage in estimated payments is trivial - no estimated payment is due in July, so presumably the money is a residual from the June 15th payment - the overage in withholding is not. After a FY 1996 in which state analysts puzzled over the conflicting news of a strong Ohio labor market and poor state income tax withholding growth, July withholding was up 11 percent from the same month last year. Of course, FY 1996 started strongly also but quickly deteriorated, and one should never assume a new trend on the basis of one month of data. Employer withholding revenues are one of the indicators that should be most closely watched in the next few months.

Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of July, 1996/Fiscal Year-to-Date 1997
($ in thousands)

REVENUE SOURCE					
TAX INCOME	Actual	Estimate*	Variance	FY 1996	Percent Change
Auto Sales	$64,217	$63,128	**$1,089**	$57,995	10.73%
Non-Auto Sales & Use	363,812	366,489	**(2,677)**	354,772	2.55%
Total Sales	$428,029	$429,617	**($1,588)**	$412,766	3.70%
Personal Income	$385,226	$377,500	$7,726	$344,757	11.74%
Corporate Franchise	7,734	6,281	1,453	5,840	32.43%
Public Utility	0	0	0	0	#N/A
Total Major Taxes	$820,989	$813,398	$7,591	$763,363	7.55%
Foreign Insurance	$183	$0	$183	$38	381.58%
Domestic Insurance	0	0	0	6	-100.00%
Business & Property	430	540	(110)	1,352	-68.20%
Cigarette	12,463	12,243	220	9,473	31.56%
Soft Drink	0	0	0	1	-100.00%
Alcoholic Beverage	5,110	4,869	241	4,827	5.86%
Liquor Gallonage	2,130	2,255	(125)	2,287	-6.86%
Estate	0	0	0	1,288	-100.00%
Racing	0	0	0	0	#N/A
Total Other Taxes	$20,316	$19,907	$409	$19,272	5.42%
Total Taxes	**$841,306**	**$833,305**	**$8,001**	**$782,636**	**7.50%**
NON-TAX INCOME					
Earnings on Investments	$0	$0	$0	$0	#N/A
Licenses and Fees	4,780	4,875	(95)	5,000	-4.40%
Other Income	4,996	7,800	(2,804)	12,286	-59.34%
Non-Tax Receipts	$9,776	$12,675	($2,899)	$17,286	-43.45%
TRANSFERS					
Liquor Transfers	$2,500	$2,000	$500	$1,500	66.67%
Budget Stabilization	0	0	0	0	#N/A
Other Transfers In	0	0	0	0	#N/A
Total Transfers In	$2,500	$2,000	$500	$1,500	66.67%
TOTAL INCOME less Federal Grants	**$853,582**	**$847,980**	**$5,602**	**$801,422**	**6.51%**
Federal Grants	$302,014	$321,842	($19,828)	319,500	-5.47%
TOTAL GRF INCOME	**$1,155,595**	**$1,169,822**	**($14,227)**	**$1,120,922**	**3.09%**

* July, 1996 estimates of the Office of Budget and Management.
Detail may not add to total due to rounding.

DISBURSEMENTS

As in prior fiscal years, ***Budget Footnotes*** will attempt to keep you up-to-date on agency disbursements throughout FY 1996. In order to focus on the biggest spending issues during the fiscal year, LBO has decided to slightly change the format of the "Disbursements" section. Previously, this monthly discussion of spending has been heavily devoted to issues which explain the monthly GRF variance, such as the timing of payments, but those issues do not always have sustained impacts on GRF spending. In turn, line items with smaller monthly variances, but that are consistently over or under estimate, have received less attention. The new format attempts to remedy this problem by focusing on variances in line items that shed light on major policy successes and shortcomings.

This issue seems to be an ideal time for such a change. Because the Office of Budget and Management (OBM) had not finalized all monthly disbursement estimates for every agency, there are no complete July estimates with which to compare actual spending. Thus, the following is a discussion of past spending patterns that have frequently resulted in monthly variances and that we expect to hold during the course of FY 1996. These patterns will be categorized according to how they influence spending. In addition, this section will also address how the disbursement patterns of various new initiatives and policy changes can give us insight into the effectiveness of these programs.

Timing

Almost without fail, the monthly disbursements section makes some reference to issues of "timing." Timing issues generally affect monthly variances without having an impact on year-end line item disbursements. Examples of various types of timing issues follow.

The most obvious timing factor is that of payments released earlier or later than originally scheduled. The personal service component of the **Department of Rehabilitation and Correction's** (DRC) budget is a typical example. The line item can produce relatively large monthly disbursement variations simply as a function of the time at which the Office of State Accounting posts payrolls that land very early or very late in a month. DRC's current GRF-funded staff numbers around 11,500, which generates a bi-weekly payroll in the rough range of $18 million to $20 million. If one has estimated a September 3 pay date will post in September, but in fact it ends up being posted in late August instead, this one instance of Atiming@ alone shifts a considerable amount of money from one month to another.

This type of timing problem is not unique to payrolls. For example, weekly **Medicaid** payments, which averaged $88 million in FY 1995, are also occasionally disbursed early or late, leaving monthly and year-to-date reported spending far from "actual" levels. Furthermore, the processing of **Property Tax Relief** payments can greatly affect monthly GRF variances. Real property tax for calendar year (CY) 1993 was paid in two installments. The first was paid on December 31, 1993, and the second on June 20, 1994. The county treasurer and county auditor settled with the local governments in August 1994, and then the county auditor applied to the state for reimbursement from the GRF for the rollbacks and homestead exemption. The resulting GRF disbursements, as in FY 1995, do not always follow the estimated time line.

A second, and more frequent, issue of timing arises from variations in expenditures resulting from the actions of entities with the ability to secure GRF funds. For instance, within the **Mental Health** category, three line items exist in which local mental health boards are allocated funds and may choose when to "draw-down" those funds. The 334-408, State and Community Mental Health Services, line item funds a base amount to state hospitals with the remainder of the money divided among the 53 local Mental Health/Mental Health, Alcohol, and Substance Abuse Services Boards (community mental health boards) to provide local services and to purchase bed days from the state hospitals. The boards are told the amount of their allotment at the beginning of the fiscal year, and they request the funding on a month-by-month basis. Therefore, large variances are often found in this line item due to the difficulty in predicting the timing of the boards' requests. Additionally, both the 335-502, Community MH Programs, line item (pays up to 75 percent of the operating costs of the boards) and the 335-508, Services for Severely Mentally Disabled Persons, line item (helps fund community services for severely mentally disabled persons in the community with the aim of keeping them out of hospitals) are also subject to the timing of draw-down requests.

Timing issues resulting from local requests are not limited to DMH. Similar variances also occur in the spending patterns of the departments of **Mental Retardation and Developmental Disabilities** (MR/DD) and **Transportation**. County MR/DD boards operate on a calendar year basis. Therefore, for accounting purposes, some of them like to take this subsidy payment in December rather than January. In the past, about 20 to 25 county boards (of the 88 total) have chosen to receive the subsidy in December. The remainder receive the subsidy payment in January or even later. Although the practice of letting the county boards choose which calendar year to take the money is long standing, this practice is not reflected in the department's disbursement estimates. The disbursement estimates have always shown the county subsidy payment as going out in January. As for **Transportation**, any variance is usually due to the timing of reimbursement checks for Public Transportation Grants (770-501) to local transit authorities. Although these checks are issued year round, the disbursement month depends on when the local authorities submit their requests.

Not only can Controlling Board actions affect variances by granting additional appropriation authority, a delay or decline of approval also can exacerbate variances in spending for programs previously included in an agency's estimates that would have already existed due to the timing of draw-downs. **Development** is one area affected in this manner. The disbursement of grant funds through the 195-412, Business Development, line item is difficult to follow because 412 requests are received at a steady pace until all the money is "committed," usually within about 6-8 months from the beginning of the fiscal year. Companies or communities that receive the grants have up to 3 years to draw them down. Moneys are disbursed on a reimbursement basis to assure that the project actually occurs and is eligible for 412 funds. Large variances occur when a project fails to draw down grant funds until project completion or the last minute, which ever come first. Because the grant funds can only be released with Controlling Board approval, CB decisions can increase the probability that variances will occur.

Enrollment - Entitlements and Education

A large determinant of GRF spending variances is the extent to which program participation deviates from estimates. Without a doubt, entitlement programs, such as **Medicaid** and **Aid to Dependent Children**, can drive the largest variances; however, the Average Daily Membership (ADM) counts, which are used to estimate **Primary and Secondary Education** spending, can also greatly affect the accuracy of GRF spending estimates. We need to only look to last fiscal year for a perfect illustration of this point. In FY 1995, the **ADC** caseload remained well below estimate, which contributed to a $540.2 million negative variance in the **Medicaid** (400-525) line item. Estimates for both of these entitlements for FYs 1996 and 1997 reflect a continued downward trend in the **ADC** caseload through the end of FY 1996 before the count begins a slow rise in FY 1997. It is important to note that while **ADC** eligibles represent almost three-quarters of the Medicaid population, they contribute to only slightly more than one-quarter of the total spending.[1] The more costly recipients, the Aged, Blind, and Disabled (ABD) eligibles, are expected to continue to grow. Combined with inflation, ABD growth will continue to drive Medicaid costs upward in the current biennium; however, expected growth is less than 8 percent each year.

In the same manner that **ADC** caseloads affect spending on welfare programs, average daily membership (ADM) counts influence **Primary and Secondary Education** spending through the 200-501, School Foundation-Basic Allowance, line item. Total disbursements in FY 1995 were under estimate because the count came in below estimate. For the first six months of the fiscal year, the department uses ADM estimates to determine each district's basic aid payment. In January, the department generally has updated numbers based on the “October count” of students; thus, monthly estimates are made accordingly. So when the ADM counts have been late because the Education Management Information System (EMIS) has not been able to produce the updated numbers until later in the year, timing problems have arisen--when the numbers come in below estimate (as they did in FY 1995), the problems are worsened. The EMIS is improving, and last year, the department obtained the actual ADM numbers earlier.

One additional factor that influences ADM numbers, and hence, disbursements to school districts, is the number of students in special education, vocational education, and gifted units. If a school district is approved for a new unit (a number of students served by a specialized teacher), then it can no longer count the students in the unit as part of its ADM. As unit funding is sorted out throughout the course of the year, ADM numbers are adjusted accordingly.

New Programs - New Policies

In order to assess the effectiveness of policy initiatives, it is often useful to track the disbursement patterns of their associated line items. Spending variances can give a variety of insights, such as “the program has not received enough publicity to attract participants,” “the department is not effectively enrolling eligible individuals,” or “more people appear to fit the program qualifications than originally believed.” As part of the new format of the GRF disbursements section, LBO will attempt to follow the spending patterns of various new programs and policy changes and will regularly report meaningful findings. Of course not all of the new GRF-funded programs will be discussed in this forum; the availability of information or interest expressed by the General Assembly will often determine which topics are discussed in any given month.

Two big budget agencies, the **Department of Mental Retardation and Developmental Disabilities** (DMR) and the **Department of Rehabilitation and Correction** (DRC) had significant line item restructuring during the budget process that will give the departments more flexibility in spending. While this might be beneficial for the programs, it will make spending in those line items difficult to track. These two new line items will be discussed in turn.

The new **DMR** line item, 322-413, Residential and Support Services, is the combination of the following four GRF line items: 322-402, Supported Living; 322-438, Individual Options Waiver; 322-439, Medicaid Services-OBRA; and 322-450, Purchase of Service. Temporary law in the budget act allows the department to use these funds for the same purposes that they were used previously. During FY 1995, DMR transferred significant GRF appropriations, with Controlling Board approval, from their 322-450, Purchase of Service, line item to their 322-402, Community Residential, line item (Supported Living program) to pay for persons who have been moved from the POS program to the Supported Living program (commonly referred to as POS conversions). They also transferred GRF appropriations from the 322-450 line item to the 322-438, Individual Options Waiver program to reimburse POS providers for clients who received I.O. Waiver services. In FY 1995, it was possible to track spending in these line items through both Controlling Board actions and monthly disbursements. The combining of the four line items will allow the department to move GRF appropriations between the four programs without having to come to the Controlling Board. Thus, while creating the new line item increases the department’s ability to manage the four programs, it will make it difficult (if not impossible) for LBO to track the disbursements for each of the four programs (Supported Living, I.O. Waiver, OBRA, and POS).

The operating expense portion of **DRC**’s GRF budget has also undergone some restructuring that will alter how one examines disbursement patterns. Beginning this biennium, GRF operating expenses are explicitly allocated across the department’s four major program areas--institutional operations, mental health services, parole and community services, and administration. Specifically, the GRF funds (personal service (100), maintenance (200), and equipment (300)) allocated to each of these four programs have been rolled into four separate operating expense line items, or 321 accounts, one for each of the four program areas. Previously, such GRF funding was buried within three appropriation line items that covered all **DRC** operations: 501-100, Personal Services; 501-200, Maintenance; and 501-300, Equipment. While this new budget structure lends itself to an easier analysis of the overall disbursements for each program, it makes identifying factors driving disbursements within a given program area a bit more problematic.

In addition to the 321 accounts, three new initiatives that might receive reference in the disbursements section also involve the **Department of Rehabilitation and Correction**. A substantial infusion of new GRF money will allow DRC to undertake two major expansions: first, the creation of around 1,300 new staff positions and second, the pumping of more than $20 million in additional community corrections assistance for various local sanctions--community-based correctional facilities (CBCFs), prison and jail diversion programs, halfway house beds, etcetera. DRC's experience in the last biennium with similar kinds of expansions and new initiatives encountered significant implementation snags, which in turn delayed planned disbursements, especially in FY 1994, when the department lapsed $30.4 million.

The third DRC initiative which may have interesting spending patterns involves the opening of correctional facilities. During the prior biennium, it appeared that DRC pursued a deliberate strategy of trimming GRF expenses, especially institutional maintenance spending, and to hold those savings back for the purpose of opening new correctional institutions and camps earlier than budgeted. The current budget provides funding to open the Noble Correctional Institution and the Northeastern Administrative Maximum Security Correctional Camp; however, no such explicit funding was provided for the activation and opening of the Richland Correctional Institution or the maximum security prison in Youngstown, both of which are under construction. It will be interesting to see if DRC deploys this Asavings@ strategy in an attempt to activate these new correctional facilities earlier than might otherwise be possible, including the latter two for which there are no funds specifically allocated in DRC's current budget.

Within the budget of the **Department of Mental Health** is another new initiative which may receive some attention in the coming months. The 333-403, PreAdmission Screening, line item is for expenditures related to the development, administration, and delivery of screening assessments designed to help ensure that only those persons in need of institutional placements receive such services. These screenings will take place before a Medicaid-eligible person is admitted to a psychiatric hospital or nursing home or may be done after a person has been placed in a facility to determine the appropriateness of continued placement. Moneys in this line item may also be used for discharge planning and referral, and adjudication of appeals and grievance procedures. Spending for this line item receives a 50 percent federal Medicaid match.

Previously the Department of Human Services had been responsible for pre-admission screening for Medicaid-eligible persons admitted to psychiatric units in general hospitals. Medicaid coverage was not provided for persons receiving services in Institutions for Mental Diseases (IMDs), such as a state operated psychiatric hospital or other free-standing psychiatric facility, but in July of 1995 Ohio was granted a waiver to allow coverage for Medicaid-eligible persons who are under 22 or over 65 years of age and are treated in an IMD. The Department had anticipated pursuing a second waiver to allow Medicaid coverage for persons treated in IMDs who are between the ages of 22 and 65 as part of OhioCare, but with the OhioCare proposal on hold, it is not known at this time if the second waiver will be pursued.

There are roughly 11,000 to 12,000 Medicaid-covered psychiatric admissions per year to the psychiatric units of general hospitals. An additional 1,000 Medicaid admissions per year are anticipated through the IMD waiver for persons under 22 or over 65. If the second IMD waiver and OhioCare (or another managed care proposal) are not implemented, it is doubtful that a pre-admission screening program of the magnitude originally planned will be pursued. Thus, spending for this line item is unpredictable at this time and will probably be less than the appropriation, in spite of a $1 million cut in the enacted budget from the Executive proposals for this line item.

Two subsidized work programs administered by the **Department of Human Services**, the new

Employment Assistance program (EA) and the expanded Subsidized Employment Program (SEP), will be interesting to watch during FY 1996. Because the intent of both programs is to find jobs for recipients of ADC (SEP) and former recipients of GA (EA), the individuals in the two programs will be fighting for the limited number of jobs the department can find. Therefore, if one of the programs turns out to be highly successful, the other program will likely underspend.

Because of the new programs for employment training created in H.B. 167, the **Department of Human Services'** 400-415, JOBS, line item may be interesting to track. Underspending would imply that the department is not placing people in the JOBS program as expected. Overspending will not be as easy to interpret: they may place people more quickly than estimated, participants may need JOBS training for a longer period of time than originally expected, or there might be a disproportionate number of people in the more expensive components of the JOBS program. Tracking will likely be limited to a semi-annual basis due to changes in the budget act which reduce the frequency requirements of JOBS reporting.

If the JOBS program is successful, the effectiveness of the Non-Aid to Dependent Children Day Care (Non-ADC) Program will be crucial to the department's efforts to keep former ADC recipients off ADC-cash assistance. The program, which subsidizes day care costs for low-income families not on ADC, is funded with GRF dollars from the 400-550, Day Care, line item as well as federal dollars. The funds are advanced monthly to the counties based on a combination of county estimates and historical expenditures, with adjustments being made quarterly for over or under payments. This pattern is expected to continue this biennium; however, there is serious discussion of the development and implementation of an allocation formula for the distribution of these funds. Temporary law prohibits its implementation prior to January 1, 1996.

Conclusion

Analysis of spending patterns in recent years suggests that timing issues are likely to occur during FY 1996. While greatly affecting monthly variances, they rarely give important insight into the status of the General Revenue Fund. Enrollment issues can tell us more about the state's economy and demographics, but the most interesting discussions of spending variances are often those which highlight new programs and policy changes. Exploring these variances can help us assess the effectiveness of these initiatives, which may aid future policy decisions. For this reason, the monthly disbursements section will attempt to place greater focus on policy issues in forthcoming monthly disbursements articles than in years past.

[1] Percentages from FFY 1994 data as reported by the Department of Human Services.