Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE NOVEMBER, 1996

FISCAL OVERVIEW

— Frederick Church

Tax revenues were mixed in October, with six categories finishing below the estimate and five categories finishing above. The various shortfalls and overages would have roughly canceled each other out, if not for the big $17.9 million overage in the estate tax. The estate tax pushed total tax collections $15.2 million over the estimate for the month.

For the year, tax revenues are $43.3 million over estimate — a variance of 1.1 percent — with growth of 6.1 percent from last year. The biggest overage is in the non-auto sales tax, which is $17.3 million over estimate. The only other overage above $10 million is in the estate tax ($10.1 million). The October shortfall shrank the year-to-date income tax overage to $9.1 million. Four of the twelve tax sources — not counting the soft drink and racing taxes — are below estimate for the year, but the amounts are small.

In non-tax revenue, federal reimbursement bounced back part way in November, shrinking the year-to-date shortfall to $43.8 million. This shortfall is roughly what one would expect given the underspending so far in Medicaid and the other welfare programs that draw federal matching money.

Disbursements from the GRF in October were $113.9 million under estimate. The October variance, the largest so far this year, amplified the already pronounced trend of underspending. Through October, total GRF outlays (including transfers) were $263.7 million below estimate.

Almost every spending category is below estimate for the year. The only significant exception is property tax relief, which is $15.4 million above the estimate. Since tax relief payments in each month so far have been well off the estimate, but the year-to-date variance is not that large, the best explanation to this point is that the estimated pattern of monthly settlements is in error, but the overall assumptions about annual payouts are still reasonable.

The welfare and human services category was $58.8 million below estimate in October, and the year-to-date variance is now $145.2 million. Medicaid is $55.2 million below estimate, due to the continuing decline in the Aid to Dependent Children (ADC) caseload and lower-than-expected health maintenance organization (HMO) capitation rates. The falling ADC caseload has led to underspending across most Medicaid service categories, with the notable exception of prescription drugs.

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STATUS OF THE GRF

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ISSUES OF INTEREST

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 cotains 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

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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 October	Fiscal Year 1997 to Date	Last Year	Difference
Beginning Cash Balance	($334.8)	$1,138.5		
Revenue + Transfers	$1,656.8	$5,310.0		
Available Resources	$1,322.1	$6,448.5		
Disbursements + Transfers	$1,508.7	$6,635.1		
Ending Cash Balances	**($186.6)**	**($186.6)**	**($538.0)**	**$351.4**
Encumbrances and Accts. Payable		$507.6	$494.9	$12.7
Unobligated Balance		**($694.2)**	**($1,032.9)**	**$338.8**
BSF Balance		$828.3	$828.3	
Combined GRF and BSF Balance		**$134.2**	**($204.6)**	**$338.8**

In the ADC category itself, a reclassification of spending has made ADC spending look much lower and has boosted "Other Welfare" spending. In response to the new federal block grant program for poor families, Ohio opted to replace its ADC program with the TANF program on October 1, 1996, the effective date of the Personal Responsibility and Work Opportunity Reconciliation Act (H.R. 3734). Ohio made the switch at the beginning of federal fiscal year (FFY) 1997, rather than waiting until July 1, 1997, in order to get more federal matching money. By switching to the new block grant program at the first opportunity, the Department of Human Services estimates that the state will receive a windfall of around $40 million in federal funds in federal FY 1997.

Because of the switch from ADC to TANF, spending that formerly was in the ADC GAAP category has moved over to the Other Welfare GAAP category. Since the monthly spending estimates for FY 1997 were done without this change in mind, ADC spending will be far below estimate and Other Welfare spending will be far over estimate for the remainder of the year, unless OBM and LBO restructure their estimates.

Year-to-date primary and secondary education spending was $65.3 million under estimate through October. Currently, OBM and LBO expect foundation payments to come back into line with the estimates in November. If this happens, and the $39.4 million in nonpublic administrative cost reimbursement — originally scheduled to be paid in September — is released, spending should be much closer to the estimate.

The $15.0 million underspending in higher education appears to be the result of overestimates of funding needs by the Ohio Student Aid Commission (OSAC). While it is still early in the fiscal year, it looks like the OSAC may lapse some appropriations in FY 1997.

Total outlays for FY 1997 are just slightly higher than for FY 1996 at the same point. Agency spending, while far below estimate, is up 6.1 percent from last year. However, the spending increase is almost completely offset by a decrease in transfers out of the GRF to other funds. 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, and $311.0

million to a variety of other purposes. This year, the GRF transfers have been reduced by over $300 million. 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 cut to Ohio taxpayers ($400.8 million) and to provide additional moneys for SchoolNet Plus ($100 million) and the State Infrastructure Bank ($30 million).

Owing mostly to the fact that fewer transfers have been made from the GRF this year, the unobligated GRF balance is $338.8 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

— Frederick Church

The Federal Reserve received some support for its decision not to raise short-term interest rates, pending the arrival of third quarter economic data. Real GDP growth dropped from 4.7 percent in the second quarter to 2.2 percent in the third quarter. The slowdown was the result of a cutback in consumer spending. After rising 3.4 percent in the second quarter, consumer spending gained only 0.4 percent in the third quarter. This was the smallest growth figure in four years. Inventory buildup was also higher than expected in the third quarter, at least according to the initial estimates. If the inventory numbers are not subsequently revised downward substantially, then one can expect slower GDP growth in the fourth quarter as well, as suppliers seek to sell excess inventory before increasing production.

The slowdown in consumer spending is being driven primarily by a slowdown in consumer credit. Consumer debt had been growing at explosive, double-digit rates, but rising debt to income ratios, increased personal bankruptcies, and rising credit card delinquency rates have made both consumers and lenders more cautious. The WEFA Group has calculated that total monthly debt payments — including mortgage payments, installment debt payments, and vehicle leases — as a percentage of disposable income are very close to the previous peak of 17.8 percent in 1989. [1] This has contributed to making consumers more cautious in borrowing and financial institutions more cautious in lending. Much of the expansion of consumer debt has probably been due to positive expectations about the labor market. In fact, job growth has been steady and the unemployment rate has stayed at very low levels for some time. Compensation growth has been slow but steady. However, most consumers can probably tell that the labor market is probably near its peak — at least in terms of unemployment — and that it is time to be more cautious about debt.

While consumers have slowed their debt growth, most analysts are not looking for a consumer retrenchment for the holiday season. Both of the widely used indicators of consumer confidence, the Conference Board's consumer confidence index and the University of Michigan's index of consumer sentiment, posted strong readings again in October (although the Conference Board's measure declined from the prior month). With real disposable income growth running at 2.0 percent to 2.5 percent, and inflation still slightly below 3 percent, one can expect consumer spending to increase in line with nominal income growth, roughly 5.0 to 5.5 percent growth at annualized rates. While this represents a slowdown from the recent past, where increases in debt have allowed consumer spending to increase faster than disposable income, the slowdown should not be so sharp as to seriously harm overall growth. “

Status of the General Revenue Fund

REVENUES

— Frederick Church

Tax revenue was $15.2 million over estimate in October, increasing the year-to-date overage to $43.3 million. The overall deviation from estimate is only 1.1 percent, and most of the individual categories show only small percentage errors. The biggest year-to-date overage is in the non-auto sales tax, which is $15.4 million above estimate. The estate tax is $10.1 million over estimate, and the personal income tax is $9.1 million over estimate. There are smaller overages in several other taxes, and no major shortfalls to report.

Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of October, 1996
($ in thousands)

REVENUE SOURCE	Actual	Estimate*	Variance
TAX INCOME			
Auto Sales	$55,251	$58,377	($3,126)
Non-Auto Sales & Use	369,658	357,966	11,692
Total Sales	$424,909	$416,343	$8,566
Personal Income	$412,523	$420,300	($7,777)
Corporate Franchise	20,861	16,559	4,302
Public Utility	213,356	215,040	(1,684)
Total Major Taxes	**$1,071,648**	**$1,068,242**	**$3,407**
Foreign Insurance	$135,700	$142,100	($6,400)
Domestic Insurance	0	0	0
Business & Property	34	225	(191)
Cigarette	25,306	24,778	529
Soft Drink	0	0	0
Alcoholic Beverage	4,054	3,865	188
Liquor Gallonage	2,023	2,228	(205)
Estate	30,656	12,750	17,906
Racing	0	0	0
Total Other Taxes	$197,772	$185,945	$11,826
Total Taxes	**$1,269,420**	**$1,254,187**	**$15,233**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	8,637	5,850	2,787
Other Income	8,351	6,000	2,351
Non-Tax Receipts	$16,988	$11,850	$5,138
TRANSFERS			
Liquor Transfers	$6,000	$4,500	$1,500
Budget Stabilization	0	0	0
Other Transfers In	0	0	0
Total Transfers In	$6,000	$4,500	$1,500
TOTAL INCOME less Federal Grants	**$1,292,408**	**$1,270,537**	**$21,871**
Federal Grants	$364,436	$349,316	$15,120
TOTAL GRF INCOME	**$1,656,844**	**$1,619,853**	**$36,991**

* July, 1996 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

In non-tax revenue, the biggest variance is still in federal reimbursement, although the strong performance in October trimmed the year-to-date shortfall to $43.8 million. Based on LBO calculations, this figure is in line with what one would expect based on the current underspending in human services programs — Medicaid, TANF, etc. — that receive federal matching money. After four months, the expectation is that underspending in these welfare programs will continue and federal reimbursement will end the fiscal year well below estimate.

Investment earnings, driven in part by higher than expected GRF average daily balances and higher than forecasted interest rates (the OBM and LBO interest rate forecasts were deliberately very cautious), are $5.6 million over estimate. Liquor profits are also looking strong. There is a $4 million overage in that category and no sign that the monthly overages will stop.

Sales and Use Tax

The non-auto sales tax followed its September overage with an even bigger overage in October. Revenues were $11.7 million over estimate, and up 8.3 percent from the same month last year. This is somewhat surprising given that year-over-year growth in non-auto U.S. retail sales in September (Ohio's October collections are based on September retail activity) was only 3.9 percent. Ohio clearly did better than the national data would suggest, but it is not clear why. The Federal Reserve's ***Beige Book***, the compendium of reports on regional economic activity, did not indicate particularly strong retail performance in Ohio in September, although it did say that sales of major appliances were strong. The Fed reported that there was weakness in the Fourth District in sales of computers and home items.

Of course, it is never a good idea to read too much into the monthly data. Ohio has now had two months of surprisingly strong non-auto sales tax growth. If this continues for a third straight month in November, then there may be something happening at the state level, not explained by national sales, that bears watching. One piece of ***Beige Book*** news that may help explain the sales tax surge in Ohio is the number of new store openings. Ohio's retailing space has recently been expanded with the openings of a number of new stores in existing malls and at least one brand-new mall in northeast Ohio. It may be that while same-store sales are not showing strong

Table 3
General Revenue Fund Income
Actual vs. Estimate
Fiscal Year-to-Date 1997
($ in thousands)

REVENUE SOURCE					
TAX INCOME	Actual	Estimate*	Variance	FY 1996	Percent Change
Auto Sales	$242,920	$240,974	**$1,946**	$232,996	4.26%
Non-Auto Sales & Use	1,438,706	1,423,341	**15,365**	1,366,780	5.26%
Total Sales	$1,681,626	$1,664,315	**$17,311**	$1,599,776	5.12%
Personal Income	$1,704,527	$1,695,400	$9,127	$1,589,351	7.25%
Corporate Franchise	40,455	37,686	2,769	34,639	16.79%
Public Utility	213,393	215,040	(1,647)	211,178	1.05%
Total Major Taxes	$3,640,001	$3,612,441	$27,560	$3,434,944	5.97%
Foreign Insurance	$143,113	$143,695	($582)	$136,000	5.23%
Domestic Insurance	200	0	200	79	153.16%
Business & Property	925	1,530	(605)	1,683	-45.07%
Cigarette	90,963	85,118	5,845	85,592	6.28%
Soft Drink	0	0	0	4	-93.02%
Alcoholic Beverage	18,625	17,670	955	18,041	3.24%
Liquor Gallonage	8,786	8,965	(179)	8,938	-1.69%
Estate	30,965	20,825	10,140	20,902	48.14%
Racing	0	0	0	0	#N/A
Total Other Taxes	$293,576	$277,803	$15,773	$271,238	8.24%
Total Taxes	**$3,933,577**	**$3,890,245**	**$43,333**	**$3,706,183**	**6.14%**
NON -TAX INCOME					
Earnings on Investments	$30,019	$24,375	$5,644	$23,204	29.37%
Licenses and Fees	17,694	15,925	1,769	22,973	-22.98%
Other Income	27,376	29,625	(2,249)	33,906	-19.26%
Non-Tax Receipts	$75,090	$69,925	$5,165	$80,083	-6.24%
TRANSFERS					
Liquor Transfers	$18,500	$14,500	$4,000	$14,000	32.14%
Budget Stabilization	0	0	0	0	#N/A
Other Transfers In	64	0	64	0	#N/A
Total Transfers In	$18,564	$14,500	$4,064	$14,000	32.60%
TOTAL INCOME less Federal Grants	**$4,027,230**	**$3,974,670**	**$52,561**	**$3,800,266**	**5.97%**
Federal Grants	$1,282,788	$1,326,616	($43,828)	1,259,306	1.86%
TOTAL GRF INCOME	**$5,310,017**	**$5,301,286**	**$8,731**	**$5,059,572**	**4.95%**

*July, 1996 estimates of the Office of Budget and Management.

year-over-year growth, overall sales are being buoyed by store openings.

After a strong first quarter, Ohio's auto sales tax stumbled in October, falling $3.1 million short of the estimate and declining 5.6 percent from last year. Again, there is nothing in the national data that suggests that Ohio should have been stung that strongly in October. While U.S. auto sales declined in October, compared to a year ago, truck sales increased so strongly that total light vehicle sales (units) were up 2.2 percent.[2] The ***Beige Book*** reported that most Ohio dealers had higher sales than last year, at least through the first part of October.

At this point, it seems that October's poor result for the auto sales tax may be a random deviation from the trend. While auto sales growth has slowed nationwide, sales are not declining. Perhaps high consumer debt levels and rising auto financing rates have slowed sales in Ohio. If so, then we should start to see the same pattern nationally in the next couple of months.

Personal Income Tax

The $7.8 million personal income tax shortfall in October was the result of both employer withholding and annual return payments being below estimate. The October shortfall still leaves a $9.1 million year-to-date overage, most of it in quarterly estimated payments.

Employer withholding has been on a roller coaster for the first four months of FY 1997, over estimate one month, below estimate the next. For the year-to-date, withholding is very slightly above the estimate. The $2.1 million variance is a forecast error of only 0.1 percent.

Last month's issue of this report included a graph that showed that after four quarters of decline, the year-over-year growth in employer withholding had turned around and accelerated for two quarters. Results for the fourth quarter of CY 1996 and the first quarter of CY 1997 will be crucial in telling whether the change in the trend is long-lasting. The first quarter of CY 1997 is particularly important, as much of the extra revenue there comes from seasonal hiring for the holidays. So far, anecdotal reports show that the demand for holiday workers in central and northeast Ohio is strong, but companies are having trouble finding workers to fill the positions.

Public Utility Excise Tax

The first estimated payment of FY 1997 was $213.4 million, or $1.7 million below estimate. The second and third estimated payments are due in March 1997 and June 1997, respectively.

Although the October excise tax payment was slightly below OBM's estimate, it was actually a little more than the legal requirement of one-third of certified tax liabilities for tax year 1995. Currently, LBO expects that estimated payments in March and June will equal or slightly exceed the estimates, so that total fiscal year revenues will be very close to the estimate. “

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[1] Kurt Karl and Pasquale Rocco, “Forecast Overview,”, *U.S. Economic Outlook 1996-98*, the WEFA Group, November 1996.

[2] U.S. Department of Commerce data shows that in October, dollar sales of autos increased by 6.7 percent from a year ago.

DISBURSEMENTS

— *Chris Whistler**

Disbursements from the GRF in October were $113.9 million under estimate. The October variance, which has been the largest monthly variance this fiscal year, amplified the already pronounced trend of underspending. Through October, total GRF uses were $263.7 million below estimate.

Although the most significant variances have been in the **Welfare and Human Services** category, which was under estimate by $58.8 million for the month and $145.2 million for the year, underspending is the theme throughout most categories. The most notable exception to the rule is the **Property Tax Relief** category. In spite of the fact that **Tax Relief** disbursements were below estimate in October (by $43.5 million), the category has a $15.4 million overage for the year-to-date.

While substantial monthly variances in **Primary and Secondary Education** and **Higher Education** essentially canceled each other out in October, both **Education** components are responsible for the $79.8 million variance for the entire category this fiscal year. These components are discussed in greater detail in turn.

Spending in the **Primary and Secondary Education** component for the month of October was $31.3 million under the estimate of $491.4 million. According to the Office of Budget and Management (OBM), three foundation payments were estimated to occur in October (followed by one in November). While three payments were released in October, OBM's estimates were a bit high. In turn, OBM predicts that their estimate for the single foundation payment in November will be too low; thus, once the payment is released and an overage occurs, SF-12 spending will again be on track. As reported in last month's issue of ***Budget Footnotes***, spending in all of the SF-12 (foundation) line items (Basic Aid, Vocational, Special, and Gifted Education, Transportation, and

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of October, 1996
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$460,138	$491,435	($31,297)
Higher Education	250,515	223,783	26,731
Total Education	$710,653	$715,218	($4,566)
Health Care	$374,353	$418,378	($44,025)
Aid to Dependent Children	3,647	75,557	(71,910)
General Assistance	8	0	8
Other Welfare	118,114	65,275	52,839
Human Services (2)	93,377	89,107	4,271
Total Welfare & Human Services	$589,499	$648,317	($58,818)
Justice & Corrections	$123,891	$124,396	($505)
Environment & Natural Resources	7,664	6,640	1,024
Transportation	658	744	(86)
Development	10,920	12,009	(1,089)
Other Government (3)	17,533	23,839	(6,306)
Capital	663	772	(109)
Total Government Operations	$161,329	$168,400	($7,071)
Property Tax Relief (4)	$47,162	$90,646	($43,484)
Debt Service	0	0	0
Total Program Payments	**$1,508,643**	**$1,622,581**	**($113,938)**
TRANSFERS			
Capital Reserve	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	23	0	23
Total Transfers Out	$23	$0	$23
TOTAL GRF USES	**$1,508,666**	**$1,622,581**	**($113,915)**

(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, 1996 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

DPIA), was very close to OBM's estimates for the first quarter of the fiscal year.

One other item of significance for the month of October was the 200-406, Head Start, line item, which was under estimate by $15.4 million. A spokesperson from the Department of Education reports that the estimate of $18.8 million was based on estimated disbursements for the quarter. Disbursements from the account are made when Head Start agencies send in requests for funding. Requests from the agencies were slow in October, but have accelerated in November. The spokesperson estimated that by the end of the second quarter, the $18.8 million allotment would be spent.

Year-to-date **Primary and Secondary Education** spending was $65.3 million under estimate through October. The nonpublic administrative cost reimbursement payment, originally estimated to be distributed in September, has not yet been made. Once this $39.4 million subsidy is disbursed, and foundation payments have righted themselves, spending for the year should also be much closer to the original estimates.

Higher Education spending was over estimate in October but remains under estimate for the year. The $26.7 million monthly overage was due to the timing of Ohio Instructional Grants, which were released in October rather than as scheduled in September. The $15.0 million negative year-to-date variance primarily appears to be the result of inaccurate estimating by the Student Aid Commission. In fact, the agency may lapse some moneys in FY 1997.

Limiting the discussion of the $58.8 million negative variance in the **Welfare and Human Services** spending category in October to the $44.0 million variance in **Health Care** (Medicaid) would misrepresent the activity within the category. However, we will first look at **Medicaid** spending before moving on to other public assistance issues.

Underspending in October brought the year-to-date **Medicaid** variance to $55.2 million below estimate. The main reasons for the underspending continue to be the decline in the Aid to Dependent Children (ADC) caseload and lower-than-expected health maintenance organization (HMO) capitation rates. The falling ADC caseload has led to underspending across most **Medicaid** service categories, with the notable exception of prescription drugs. That category, which is mainly driven by the more costly Aged, Blind, and Disabled **Medicaid** eligibles, is continuing its trend from FY 1996 when overestimate claims and costs-per-claim led to a $38.3 million (10.3 percent) overage. Drug spending increased by 13.5 percent from FY 1995 to FY 1996 (as opposed to overall **Medicaid** growth of 7.8 percent).

As discussed at length in the August issue of ***Budget Footnotes***, one reason for the below estimate spending in the HMO service category (aside from the ADC caseload decline) is the fact that capitation rates have been below estimate. In part, that is because the Department of Human Services included a "six-percent managed care savings" when setting the rates for FY 1997. The idea of this savings was not introduced until midway through FY 1996; thus, it was not accounted for in the FY 1997 appropriations. The declining ADC caseload, however, continues to be a bigger factor than captitation rates in the below estimate spending in the HMO service category. About two-thirds of the $21.4 million (37.4 percent) HMO variance in October can be attributed to the caseload, while only around one-third was the result of below estimate capitation rates.

While **Medicaid** spending is under estimate in large part because of the declining ADC caseload, the degree of ADC underspending was not accurately represented by the $71.9 million negative variance in the **ADC** spending component in October. The enormous **ADC** variance was not the result a tremendous acceleration in caseload decline, but rather because of significant line item restructuring in response to the new Temporary Assistance for Needy Families (TANF) program.

Ohio opted to replace its **ADC** program with the TANF program on October 1, 1996, the effective date of the Personal Responsibility and Work Opportunity Reconciliation Act (H.R. 3734), rather than wait until July 1, 1997. States were given the optional implementation dates because their preparedness for such wide-sweeping reform varied significantly. By switching to the new block grant program at the first opportunity, the Department of Human Services estimates that the state will receive a windfall of around $40 million in federal funds in federal FY 1997.

Although Am. Sub. H.B. 167 of the 121st G.A. (Ohio's welfare reform bill) redesigned Ohio's **ADC** program in ways that are closely mirrored by the TANF program (enabling Ohio to switch programs on October 1), the new program generated the need for appropriation line item restructuring. Because most of the remaining FY 1997 appropriation authority for the **ADC** program was transferred from the **ADC** spending component to the **Other Welfare** spending component (because the latter contains the newly created TANF line items), large variances have occurred within both GAAP categories. (Like all of the spending categories in Tables 4 and 5, the definitions of **ADC** and **Other Welfare** are consistent with Generally Accepted Accounting Principles, or GAAP.) Specifically, the variances occurred because monthly spending analyses are based upon estimates from the beginning of the fiscal year. Unless the Executive chooses to modify the estimates, spending will appear far below estimate in **ADC** and far above estimate in **Other Welfare** for the remainder of the fiscal year.

The $52.8 million overage in **Other Welfare** in October, which was driven by the line item restructuring, masked underspending due to the lower-than-expected Disability Assistance caseload. According to OBM, however, the overage was understated because a second quarter children's services payment scheduled for October was disbursed in September.

Within the **Human Services** spending component, three departments continue to generate the greatest variances: Mental Health (DMH), Health (DOH), and Mental Retardation and Developmental Disabilities (DMR). In October, DMH led the way with a $9.7 million overage due to the timing of subsidy draw-downs by the community mental health centers. Year-to-date spending by the department is only $5.2 million over estimate.

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Fiscal Year-to-Date 1997
($ in thousands)

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 1996	Percent Change
Primary & Secondary Education (1)	$1,644,298	$1,709,128	($64,830)	$1,381,803	19.00%
Higher Education	673,714	688,672	(14,958)	652,251	3.29%
Total Education	$2,318,011	$2,397,799	($79,788)	2,034,054	13.96%
Health Care	$1,649,199	$1,704,370	($55,171)	$1,680,761	-1.88%
Aid to Dependent Children	276,670	369,240	(92,570)	367,864	-24.79%
General Assistance	80	0	80	8,923	-99.10%
Other Welfare	304,331	269,494	34,837	218,967	38.98%
Human Services (2)	397,259	429,614	(32,355)	372,169	6.74%
Total Welfare & Human Services	$2,627,539	$2,772,718	($145,179)	$2,648,684	-0.80%
Justice & Corrections	$511,900	$527,409	($15,509)	$466,846	9.65%
Environment & Natural Resources	48,019	47,183	836	45,171	6.30%
Transportation	4,588	5,434	(846)	5,961	-23.03%
Development	47,654	53,011	(5,357)	40,965	16.33%
Other Government (3)	144,132	176,690	(32,558)	146,519	-1.63%
Capital	1,161	2,543	(1,382)	1,645	-29.44%
Total Government Operations	$757,455	$812,272	($54,817)	$707,107	7.12%
Property Tax Relief (4)	$320,553	$305,181	$15,373	$287,262	11.59%
Debt Service	74,793	75,655	(862)	73,443	1.84%
Total Program Payments	**$6,098,351**	**$6,363,624**	**($265,273)**	**$5,750,551**	**6.05%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$12,000	-100.00%
Budget Stabilization	0	0	0	535,214	-100.00%
Other Transfers Out	536,775	535,237	1,538	311,418	72.36%
Total Transfers Out	$536,775	$535,237	$1,538	$858,632	-37.48%
TOTAL GRF USES	**$6,635,126**	**$6,898,861**	**($263,734)**	**$6,609,184**	**0.39%**

(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, 1996 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

The $2.9 million negative monthly variance in the DOH budget pulled their year-to-date spending to $5.4 million below estimate. Spending in two areas, the data center and immunizations, is worthy of noting. The data center has sent out a couple of Requests for Proposals (RFPs) for contract work to be paid through the Ohio Health Care Data System line item (440-413), but many are still being developed. Until the unfinished RFPs are released and they secure contracts for work, the money can not be spent.

Spending from the 440-418, Immunizations, line item, occurs when the department buys inventory, which only happens when the current inventory runs low. Therefore, the lack of inventory depletion is resulting in a repeat of last fiscal year's spending pattern. Only 2 percent of the current year appropriation of $7.0 million has been disbursed thus far. (Note that 94 percent of the $5.5 million encumbrance from last year has been spent.)

Although DMR's spending was only $2.4 million under estimate for the month, the department's year-to-date variance remains the largest of the **Human Services** spending component. Through October, DMR was $18.9 million, or 10.7 percent, under budget.

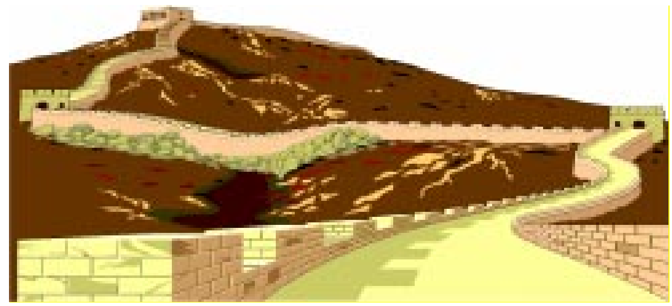
The final spending category, **Government Operations**, is also significantly under estimate for the year (by $54.8 million), and the **Other Government** component is responsible for well over half of the variance. **Other Government** spending was under estimate by $6.3 million in October and by $32.6 million for the year-to-date.

Within the **Other Government** component, the main sources of the monthly and year-to-date negative variances by the Department of Administrative Services ($1.1 million and $16.9 million, respectively) were delays regarding both the State of Ohio Multi-Agency high-speed fiber Communication System (SOMACS) and the State of Ohio Computer Center (SOCC). The delayed implementation of the SOMACS contract resulted in the delay of an $841,000 disbursement to Ameritech until November, as well as delays in hiring the technical positions needed for the project. Continuing delays in the negotiation of security and maintenance contracts for the SOCC has also resulted in underspending. "

**Contributions were made to this article by Clarence Campbell, Gloria Gardner, Grant Paullo, Debra Pelley, Barbara Petering, Chuck Phillips, and Deborah Zadzi.*

ISSUES OF INTEREST

THE GREAT WALL:
THE FACTS ON NOISE BARRIERS



BY LINDA BAILIFF PIAR

No, highway noise barriers do not compare in size to the Great Wall of China but sometimes the controversy may seem as big. Area residents request the erection of noise barriers to reduce traffic noise. Motorists complain that these structures not only obstruct the view but are unattractive. And, the complaint continues, people who choose to live by the freeway should not expect Joe Taxpayer to foot the bill for a noise wall. Once the wall goes up, there is no clear consensus that the barrier did what it was suppose to do. Some residents say the noise is just as loud as before, others say it did the job, and then there are those who say that noise levels actually increased.

It is this controversy that spurred the 121st General Assembly into action in the biennial transportation budget act, Am. Sub. H.B. 107. The act required the Ohio Department of Transportation (ODOT) to prepare a report discussing the relative effectiveness of existing sound barriers and compare their effectiveness to alternative noise-abatement techniques. The report, which also addressed federal and state policy, was submitted last April to the Speaker of the House and the President of the Senate. That report is the basis for this article.

The Federal Highway Administration categorizes noise barrier projects as Type I and Type II. Type I noise barrier projects are those that are a part of roadway improvement projects that either add lanes or construct a new highway. Federal noise regulations require certain actions of states planning and designing Type I projects. First, a noise analysis must be made to help predict the noise impact. Second, all potential mitigation measures must be examined, followed by the incorporation of "reasonable and feasible" noise mitigation measures. Finally, there must be coordination with local officials to provide information on compatible land use planning. State policy dictates noise barrier justification if it is determined that there will be a noise impact, that abatement will reduce the noise, that abatement benefits outweigh all adverse social, economic, and environmental impacts, and the cost meets the Test for Reasonableness. This test provides that barriers must cost less than $25,000 for each residential unit benefiting with a five decibel noise reduction after barrier construction. There are approximately 26 miles of Type I walls.

Until recently, federal noise regulation permitted states to use federal-aid highway dollars for projects to provide noise abatement along existing highways. These projects, called Type II, address the noise concerns of neighborhoods that existed prior to the construction of the interstate highway system. Noise barriers were not built at that time because of funding limitations. Federal regulation requires states requesting federal aid for these project to conduct a noise analysis to: identify noise impacts, demonstrate that abatement measures will reduce those impacts, and determine if the benefits outweigh the costs and all adverse social, economic, and environmental impacts. How the state makes such a determination is left up to each state. In 1991, ODOT developed a Noise Abatement Priority Index (NAPI) ranking system to prioritize potential noise barrier locations identified by a noise justification report. This system uses traffic volume, proximity to the highway, and the time period that impacts have existed. The state also applies the same Test for Reasonableness applied to Type I projects.

There are about 14 miles of Type II projects, but new construction of such projects is on the decline. One reason is the withdrawal of federal aid except for those projects already programmed (in the design stage) at the time of the repeal. The second reason is the repeal of state law which mandated that $10 million be spent each fiscal year for such projects. This mandate, which went into effect for the 1992-1993 biennium, was renewed the following biennium, but then was repealed by the current legislature. As a result of this repeal, the department plans to spend $5 million annually over the next six years to cover the remaining 16 programmed commitments.

Both Type I and Type II barriers are only constructed in non-commercial noise-sensitive areas. Primarily, these are residential areas but they also may contain schools, nursing homes, hospitals, and churches. In order for an area to qualify for a noise wall, noise must be at least 67 decibels, or an expansion project must increase the decibel level by at least five. A ten decibel reduction is an equivalent to a 50 percent noise level reduction. For the report, ODOT studied new noise barriers around the state. Pre-construction decibel noise readings were compared to post-construction readings. The average noise reduction was 9.5 decibels.

No matter the type of noise wall project, it is both department policy and state law that local public officials be notified before a barrier is constructed. Communities are not forced to have noise barriers but, according to an ODOT spokesperson, they typically request them. No barrier is built if the local officials and/or the majority of affected property owners do not want it. The law requires ODOT to hold at least one public hearing in the county in which the barrier is to be located. There, ODOT must present the design options available, including at least one design consisting of natural barriers. Once the hearings are complete, the director notifies the local legislative authority, in writing, of the available options. The local government must then make a determination within 30 days.

The department builds reflective barriers (as opposed to absorptive, for which the cost benefit has not been substantiated). The materials that may be used are steel, wood, fiberglass wood panel, concrete, brick or masonry block, recycled rubber, and vinyl. Of these, the least expensive are wood, steel, and concrete. Concrete probably has the most appearance versatility in that it can look like different materials by imprinting designs or adding color. Steel walls can come in just about any color. Wood is either natural or medium brown. Considering all materials, on average, a square foot costs $10 to $12, and one mile approximates $1 million. The addition of aesthetic features adds to the cost and, therefore, when used, face the residential property only. As long as local officials choose one of the three material types identified as the lowest cost per square foot, there is no cost to the local government.

The legislative study also included an analysis of alternative barrier methods. Many residents would prefer vegetative screening, which can be far more aesthetic than a concrete wall. In order to reduce noise by 50 percent, there must be a 200 foot depth of dense trees and shrubs. However, the typical highway right-of-way is not deep enough to accomplish this. A narrower vegetative barrier does not abate noise but does provide for privacy and, again, is more attractive. Earth berms or mounds also require more right-of-way than what is typically available. In order to be 20 feet tall (the maximum height of an ODOT noise barrier), the base of the mound would have to be about 90 feet wide. California has experimented with an electronically-driven “active noise mitigation” system in which transducers emit sound pressure waves to reduce in-coming noise, but the experiment failed when wet, freezing weather damaged critical components. Ohio intends to monitor any future developments of this experiment. Finally, the Washington State Department of Transportation contracted for a study on alternative barrier applications. Resulting reports concluded that standard barrier height could be reduced by using differently configured absorptive tops such as T-tops or Y-tops. Although, these systems can increase performance by as much as three decibels and increase aesthetics by decreasing barrier height, costs can increase by as much as 25 percent. Apparently, the new and improved noise barrier is still a product of the future. ″

THE ROAD TAKEN: THE DEPARTMENT OF LIQUOR CONTROL

BY RICK GRAYCAREK

The Department of Liquor Control has nearly completed a period of significant change. Everything from the department's core administrative operation to its role in the operation of liquor stores is changing. Starting with the conversion of all state-operated liquor stores to private agency stores and concluding with the elimination of the department as a separate agency in 1997, few can question the structural strains the department faces. Add in declining spirituous liquor sales and the degree of change extends to include societal concerns as well. Amidst these changes, however, the department continues to annually generate millions of dollars to support bond programs, alcohol awareness programs, while providing money for the state General Revenue Fund. At this point of the department's journey, it seems appropriate to examine the recent history of the department as it relates to spirituous liquor consumption, sales and revenue. It is to be hoped from this information will hlep with future inquiries about the fiscal effects of these changes and the current societal trends concerning alcoholic beverages.

Two Roads Meet

The Department of Liquor Control was established as an agency in 1933, the same year that Prohibition was repealed. At that time, the State of Ohio decided that all spirituous liquor sales would be controlled by the state government. While a population quota system limited the number of liquor stores, the new department was granted the authority to maintain the quantity and type of stock that stores would keep and to establish prices. It was also the department's responsibility to warehouse the product. For the next six decades, the department operated and regulated state liquor stores and annually contributed profits to the state.

Not until the early 1990's did things change. At that time, the department started converting state warehouses and liquor stores to private operation. The warehouses, once operated by the department, were sold and replaced with a bailment system. Under this arrangement, producers and manufacturers of spirituous liquor owned and stored the product until requested and then delivered the product to liquor stores. From a cost-management standpoint, this action removed the financial burden of maintaining a warehousing system for all liquor stores from the department.

The advent of the 1990's also brought the gradual conversion of state-operated liquor stores to agency stores. Once reaching more than 250, by the end of November 1996, no state-operated liquor stores will remain. All spirituous liquor stores will be operated by private businesses. Although still regulated by the same pricing and inventory mandates as state stores, these liquor stores are operated by private individuals and businesses. Primarily an issue of cost-effectiveness, this conversion process has reduced labor costs and overhead expenses for the department. In fact, the Department of Liquor Control has already reduced its staff by more than 700 employees in the past five years reflecting, in part, the elimination of many state-operated liquor stores.

Although the changes in the operation of liquor stores represent significant change, legislation passed in 1995 completely restructured the operation of the department itself. Enacted Am. Sub. S.B. 162 of the 121st General Assembly approved the elimination of the Department of Liquor Control and transformed the agency into a division to be housed within the Department of Commerce. This change becomes effective on July 1, 1997. Further, this legislation gave the Department of Public Safety the authority over enforcement activities.

Collectively, these changes will dramatically impact the structure of the Department of Liquor Control. Even as the Department actively engages in these changes, however, it still maintains its original purpose — to regulate the sale of alcoholic beverages and annually generate money for the State. As we come across the juncture in the road where the Department of Liquor Control sets out on a new course, an examination of some of the recent trends in sales, consumption and revenue is appropriate.

Sales, Consumption and Revenues

Since at least fiscal year 1985, spiritous liquor sales have been steadily declining. In terms of gallons, sales have plunged from more than 12 million in fiscal year 1985 to just around 8.1 million in fiscal year 1995, a thirty-two percent drop. Surprisingly, the decrease has only marginally affected revenues. As noted in Table 1, revenues from spirituous liquor sales have been fairly stable in the past five years. Over the course of the eleven year period examined, revenues have fallen by only 3.8% and have generally stayed between $368 and $374 million per year.

Spirituous liquor sales have been declining for a number of reasons. A redefined social outlook on alcohol consumption (which includes concerns about tougher drunk driving laws and health) as well as, higher liquor costs have contributed to this decline.

Table 2 shows the relationship between liquor sales and cost. As evidenced, when liquor costs increase, liquor sales decrease. This economic relationship is expected. As the cost of a good increases, consumers will usually purchase less of that good. However, the degree of consumption change can vary. For spirituous liquor, this relationship is not a perfect one-to-one relationship. Some consumers continue to purchase spirituous liquor regardless of the increase in price. This effect becomes obvious when comparing the increase in price to the decrease in consumption.

Since fiscal year 1985, the per gallon cost of spirituous liquor has increased by more than 42%, but consumption has only fallen by 33%. Many consumers have continued to purchase spirituous liquor despite the steady increases in price.

Stepping back from this issue for a moment, the question of why liquor costs increased by 42% over this ten year period remains unanswered. Excluding inflationary increases, the most likely influence on liquor costs during the period examined has been the gallonage tax. This is a tax administered by the Department of Liquor Control on the sale of spirituous liquor. Prior to January 1993, the gallonage tax was set at $2.25 per gallon. Legislation that became effective in January of 1993, however, increased that tax to $3.38 per gallon. Although this action was expected to significantly increase spirituous liquor costs, ironically it did not. In the two complete fiscal years following the enactment of the gallonage tax increase (FY 1994 &

Table 1
Declining Liquor Sales Affect Revenues

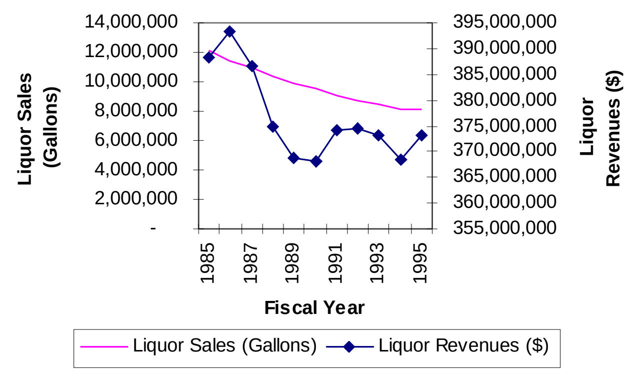
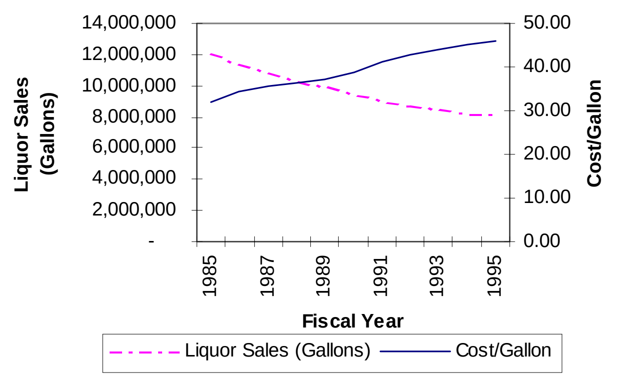
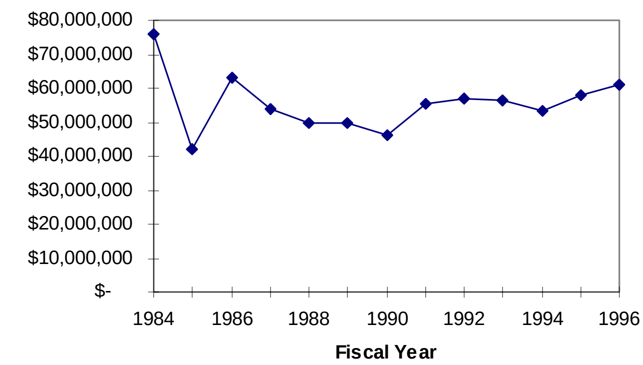


Table 2
As Liquor Costs Increase, Sales Fall



1995), the average increase in spiritious liquor prices was 2.2%. Over the prior eight year period, however, the average annual increase was 4.0%. Curiously, despite the 50% increase in the gallonage tax, the average annual increase in spiritious liquor costs for FY 1994 and 1995 only rose by approximately one-half of the prior eight year average. One theoretical explanation for this oddity is that spiritious liquor wholesalers acknowledged that this increase would reduce consumption so they adjusted their prices down to reflect a more consistent price increase with prior years.

Table 3
Liquor Profits Add Money to the State GRF



As might be expected, the increase in the gallonage tax created a surge in revenues. Staying fairly close to $20 million per year, revenues from the gallonage tax jumped to more than $27 million per year after the gallonage tax was raised. For the past three fiscal years, this increase has remained flat.

Why Have Revenues Remained Relatively Constant?

Despite steadily falling liquor sales, revenues have remained fairly constant (see Table 1). Considering the steady increases in spiritious liquor prices this result is not wholly unexpected. Although spiritious liquor consumption is declining, revenue per gallon is increasing (see Table 2). The increase in the revenue rate has helped offset any direct loss in revenue that comes naturally when fewer units are sold.

GRF Transfer

For each of the past thirteen fiscal years, the Department of Liquor Control has consistently transferred approximately $55 million to the state GRF. In light of the Department's ability to maintain a steady revenue stream this fact should not come as a complete surprise. However, there are other factors that potentially come into play that might help explain this occurrence.

One potential factor has been the conversion of state liquor stores to private agency stores. At one time under their direct operation, the department, with legislative approval, has moved to convert all of the state stores to private agency stores. Savings in labor and overhead expenses were two of the primary justifications for this action. According to the department, the conversion of the state liquor stores has saved millions of dollars annually. Based upon the conversion of the last 77 state stores to agency stores, the Department estimates that $9.2 million will be saved annually. (Department of Liquor Control Annual Report, 1995) A Legislative Budget Office fiscal note completed for the most recent legislation (Am. H.B. 57 of the 121st General Assembly) pertaining to these 77 state stores confirms this conclusion. It was estimated that the annual saving would equal approximately $10 million. At least a portion of these savings will likely show up in the total General Revenue Fund amount transferred by the department on an annual basis. Evidence of this event already exists. While the department has been converting state liquor stores to agency stores for the past several years, the amount transferred to the state GRF has continually risen. In the most recent three fiscal years, the department's GRF transfer has increased from $53.5 million in fiscal year 1993 to $61 million in fiscal year 1996. The department also predicts that their transfer in fiscal year 1997 will approach $65 million.[1]

Where Does Money for the GRF Transfer Come From?

Every month the Department of Liquor Control transfers revenue to the state General Revenue Fund. According to the Revised Code (section 4301.12), these transfers consist of liquor profits in excess of the amount necessary to cover all costs and obligations of the department. Since the amount of revenue transferred to the GRF comes only from the profits on the sale of spiritious liquor, the transfer amount is directly influenced by factors such as consumption and spiritious liquor revenue. License fees, as well as gallonage and sales taxes, are kept separate from this transfer.

Other Transfers

In addition to the transfer of profits to the state General Revenue Fund, the Department also provides funds for other activities. On a frequent basis, the Department of Development issues bonds for the Facilities Establishment Fund. Revenue generated from these bond sales are used for economic development activities. These bond issues are repaid with liquor profits. Most recently these repayments have totaled approximately $18 million per year. This year, however, a new bond was issued that carried an improved bond rating and a lower interest rate. These two changes have coupled to lower the Department of Liquor Control's annual repayment amount. According to the Department, over the next couple of years the bond repayment amount will drop to around $16 million annually. Funds from the Department of Liquor Control also go to the Ohio Department of Alcohol and Drug Addiction Services. Approximately $2 million per year helps fund alcoholism treatment and education programs at this agency.

The Road Taken

With a change in direction, the journey down a different road nears its completion for the Department of Liquor Control. Will this lead to changes in revenues? The amount transferred to the state General Revenue Fund? Present data indicates that the answer to these questions is "yes." The combination of the conversion of state liquor stores to agency stores and the transition of the department to a division has led to an improved fiscal picture. Despite falling liquor sales, the Department of Liquor Control has continued to generate consistent revenue amounts.

While it is helpful to examine the historical trends of consumption, revenues and sales, future trends will ultimately be determined by the changes described in this paper. The conversion of all state liquor stores to agency stores and the elimination of the Department of Liquor Control will likely be two of the more prominent factors in determining how the future evolves. Likewise, social influences concerning alcohol consumption will continue to play a significant role. Overall, the changes occurring in the Department of Liquor Control should continue to produce steady revenues and increasing GRF transfers in the near future. "

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[1] The Department has already transferred $12.5 million in the first quarter of fiscal year 1997, which is $2.5 million ahead of projections. Although this works out to only $50 million annually, spirituous liquor sales and the monthly GRF transfer amount surge during the Thanksgiving to New Year's season. See the "Revenues" section by Fred Church for monthly data concerning liquor revenues.

PRUDENCE, FOLLY OR NEITHER?
BWC IMPLEMENTS MANAGED CARE THIS YEAR WITH LAST YEAR'S DOLLARS

BY ROBERTA RYAN

What's Up at BWC?

The Controlling Board (CB) recently approved a Bureau of Workers' Compensation (BWC) request to transfer spending authority from fiscal year 1996 to fiscal year 1997, and reallocate it from several line items to one. With CB approval granted, BWC can now begin implementation of its current plans for the Health Partnership Program (HPP), and its seemingly new approach to management information systems (MIS) policy. This article discusses these topics in some detail, and presents one view of the key factors for successful implementation of both the HPP and management of BWC's MIS.

BWC will "carry forward" $17.7 million and reallocate it from the equipment, supplies, and personal services line items, to one line item, 855-100, Personal Services, in the 1997 budget. BWC also sought and received approval to reallocate $2.5 million in fiscal year 1997 funds. Again, the "migratory path" of the funds is from 855-300, Equipment to 855-100, Personal Services. In summary, BWC plans to transfer and reallocate a total of $20.2 million for spending in fiscal year 1997, and to put all of these funds in the 855-100, Personal Services line item.

What Does the CB Approval Allow BWC to Do?

First and foremost, it means that BWC can now spend these funds to implement its HPP program. HPP is the Bureau's managed care program, the goal of which is to reduce medical care costs, provide timelier and more appropriate medical services to injured workers, and, through these steps, improve employer and injured worker satisfaction with the workers' compensation system. The HPP has been through innumerable designs since it was first required by Am. Sub. H.B. 107 of the 120th G.A. in 1993. Its mandated implementation date was July 1, 1994, prior to Mr. Conrad becoming Administrator in September 1995, and its current, estimated completion date is January 1998. The first phase is scheduled for implementation on March 1, 1997. Mr. Conrad delayed implementation until he was comfortable that the stakeholders were satisfied with the proposed form of the HPP, and that the implementation schedule was realistic.

The HPP that will be implemented requires BWC-certified Managed Care Organizations (MCOs) to take over claims management for new injury claims at first, and by January 1998, all new and open BWC injured worker claims. Managing the claim includes monitoring the consistency of treatment for the type of injury diagnosed, working to contain claim costs, and encouraging the appropriate use of rehabilitation programs, among other functions. BWC will oversee the MCOs, monitor the outcomes quality and injured workers' satisfaction with their MCOs, and continue many of its current functions such as paying indemnity benefits to injured workers, as well as remaining vigilant against fraud, among other functions.

CARE Systems Corp won the competitive bid to design, create, house, maintain (including disaster recovery), and operate the HPP's management information systems (MIS). Since this was a competitive bid process, no Controlling Board approval was needed. Original BWC plans and budget for the HPP, determined during the beginning of this biennium, called for the agency to develop and house the HPP's MIS internally. One cost projection for the Buckeye Plan, one of the many renditions of HPP developed prior to Administrator Conrad coming to BWC, was in the ballpark of $5-10 million* for the 1996-97 Biennium. The current plan costs the agency more money in the short and long-runs but is supported by all stakeholders and permits a faster start up, especially considering BWC's shortage of MIS staff at this time. (* This ballpark figure may not fully reflect operational costs.) More on that topic later.

The primary use for the carried forward funds from the CB request will be to help pay for the implementation of the Health Partnership Program's management information system (MIS). Of the $20.2 million "carried forward" funds, $15.5 million will be used for the HPP contract with CARE Systems Corp. That $15.5 will be combined with 1997 funds already allocated toward HPP to pay the $21 million fiscal year 1997 bill for the HPP-MIS. The total costs of the HPP MIS and facility management for the MIS are expected to be $54 million over the course of the seven year agreement.

What else will BWC do with the "carried forward funds"?

Other planned expenditures of the "carried-forward funds" include approximately $1.2 million to pay for computer systems consultants to 1) staff the MIS Help Desk, 2) perform systems upgrades, 3) design, implement, and maintain changes to the BWC computer networks, and 4) perform other MIS Production Support. BWC has also identified other funds which may be used to supplement these, if MIS cannot hire staff to carry out these functions for the rest of fiscal year 1997.

In addition, approximately $1.9 million will be used to modify *Version 3 Release 6*. Version 3 is the Bureau's new claims system which tracks injured workers' claim files, treatments, benefit payments, medical bill payments, and benefit and treatment timeframes, among other items. It needs to be modified to keep track of information related to the managed care organizations which will provide most medical treatment once the HPP is up and running. (By the way, conversion from COLA, the old claim system, to Version 3 is going along well according to an agency representative who said that all active claims have been converted, and only archived claims are left for conversion.) The final use of the "carried forward" funds is approximately $1.55 million for the Pharmacy Benefits Manager position.

What's the new MIS policy?

The new MIS policy is the increase in outsourcing rather than in-house development of MIS projects. This new policy seems to have several "parents": the difficulties of hiring MIS professionals in a tight economy like Columbus', especially when state pay for these skills can be less than private sector pay; the philosophy that the private sector can do many things better than government; and finally, the desire to 'get things done' in a timely and complete fashion.

An era has come to an end, and with no ill effects yet visible to outsiders. Whereas once agency representatives lamented that only BWC MIS staff could design the systems the agency needed, now existing products, developed outside of BWC, are touted for their technical advancement, and short implementation timelines. Consultants such as IBM, Andersen, and Price Waterhouse, and private companies like CARE Corp are shouldering an increasing amount of the computing work for BWC as it is becoming an increasingly computerized agency.

Why was the $17.7 million not spent in fiscal year 1996?

The 1996 funds are available because the Health Partnership Program has not yet been implemented; BWC's staffing has been reduced by approximately 300 people in the past year, and BWC has made a concerted effort to slow operational spending, according to a BWC representative. Several management information systems projects have also not been fully implemented as expected by this time, including the $5 million (over the biennium) Imaging pilot project, and the Data Warehouse project which was to have cost $1.3 million in fiscal year 1996, among others. The majority of the available 1996 funds are from operations rather than projects, however, according to BWC.

The chart on the following page, provided by BWC, shows in greater detail the areas from which funds were *not* spent so that they would be available for spending in fiscal year 1997 on HPP, the MIS projects discussed above, and the pharmacy benefits management program. Of the total $17.7 million not spent in fiscal year 1996, for example, 23% came from funds allocated for payroll but not spent on staff due to attrition, leaving positions vacant, and reorganization of personnel.

12% of the "$17.7 million in carried forward funds" were allocated for facilities maintenance, but not spent.

an **Administrative Cost Fund (ACF) assessment** paid by State Insurance Fund (SIF) and self-insured companies, as well as state

implementation within BWC remove funds from employers hands and put them in the Bureau's, long before project spending begins.

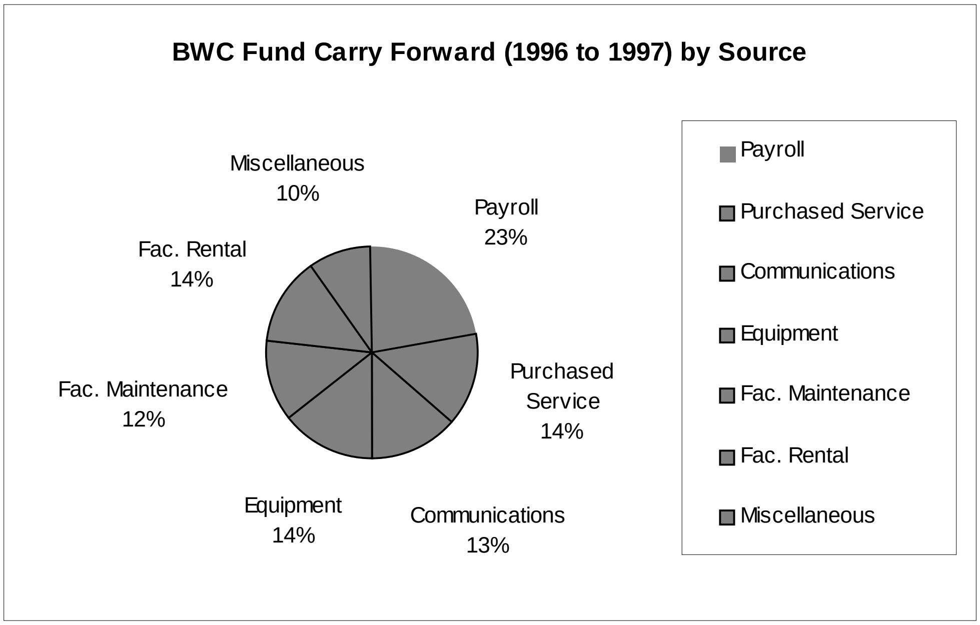


Table 1: Additional Detail on Fund Categories

Category	Description	Dollar Amount (in millions)	Percentage of Total
Payroll	funds for staff pay and benefits	$3.9	23%
Purchased Service	funds for service contracts, such as consultants	$2.4	14%
Communications	funds for communications with injured workers, employers, care providers, & other stakeholders	$2.3	13%
Equipment	funds for computers, vehicles, and other equipment	$2.5	14%
Facilities Maintenance	funds for renovation of owned & rented buildings	$2.1	12%
Facilities Rental	funds for leasing service office space	$2.4	14%
Miscellaneous	funds available due to the timing of purchases, and in some cases, decisions not to purchase already approved items	$1.7	10%
	TOTAL ➡	$17.30 *	100%

* Total is less than $17.7 million due to rounding errors.

Why is Not Spending Money a Potential Topic for This Winter's Budget Hearings?

Because of BWC's revenue source: Ohio employers. BWC's operating budget funds come from agencies and instrumentalities such as state universities, and political subdivisions including school districts. This is a separate assessment from **premiums**, which pay for medical and indemnity benefits. Delays in project

In fiscal year 1997, ACF assessments will be a percentage of premium for all employers, except for self-insured companies. Prior to 1997, SIF employers' ACF assessments were based on payroll. According to BWC, the changes coming in 1997 don't raise or lower the amount of revenue raised by the assessment; the purpose of the changes is to link ACF contributions to the insured's usage of the workers' compensation system. Since premiums are based on the number and severity of an insured's accidents, basing ACF contributions on premiums will hopefully serve as a motivator for insureds to take additional steps to make their workplaces safer. For all payers, the Administrative Cost Fund Assessment is due annually. Rates for fiscal year 1997 are 15.57% of premium for SIF private employers; for "public employer taxing districts" (i.e., municipalities, school districts, and other subdivisions which are not state universities or agencies), 11.2%; "for public employer state agencies," including agencies and universities, 14.83%. For self insured the rate is .0916 of "paid compensation," which is the dollar amount of medical and indemnity benefits paid to injured workers (a reduction due, according to BWC, to their improved experience, i.e., their reduced usage of the system).

In fiscal year 1996, the assessment rate for SIF employers was a percentage of payroll: .371 per $100 of payroll for private companies insuring through the SIF; and .231 per $100 payroll for public employer taxing districts. For public employer state agencies the rate was .235 per $100 payroll. The assessment rate for self-insured companies was .1084 multiplied by the company's paid compensation.

The ACF assessment finances operations and new projects, such as the HPP. Indecision and senior administrative turn over within the agency lead to projects being continuously redefined and their implementation dates being pushed back, as happened to the HPP. Some portion of the ACF assessment collected in fiscal year 1996 was designated for the HPP. That money will now be spent in 1997. Ohio employers could have used these funds for their own purposes, if BWC had not collected them "early." Of course, having had 3 Administrators in 3.5 years, each with different priorities and plans for projects, including the HPP, BWC also deserves kudos for still having the money available (unspent) for carrying forward. Obviously, spending is being controlled and the costs associated with huge new projects like HPP are being considered as spending decisions are made.

How Could BWC Avoid This Outcome in the Future?

1. Keep the Administrators for awhile
2. Program Budgeting
3. Stakeholder involvement early in project development
4. Less secrecy.

BWC may have numbers 1 & 3 in hand. Administrator Conrad, appointed by Governor Voinovich in September 1995, seems likely to stay at BWC's helm until 1998 when the Governor completes his current term, and he succeeded in managing stakeholder involvement in the HPP process so that an agreed-upon plan emerged in the end. Continued success in managing stakeholders in the future would go a long way toward allowing BWC to plan its budget around project descriptions and their implementation dates.

Program Budgeting, number 2, is a jargon term for an agency showing how its funds will be spent by projects rather than line items. Instead of asking for funds for line item 855-100, Personal Services; 855-200, Supplies; and 855-300, Equipment, and completing the current Executive Budget Tables and Equipment Schedules, BWC would ask for funds by project, such as HPP and the Claims Management function, for example. It would show its cost forecasts for these projects or functions, and discussion of these forecasts and project descriptions would be the basis of Legislative budget hearings.

Less secrecy, suggestion number 4, is obviously a key ingredient of Program Budgeting. A switch to Program Budgeting would require considerable planning, legal authority, and the involvement of BWC, the Office of Budget & Management (OBM), and the Legislature. While Ohio is working toward more programmatic content in its budget presentations, no agency is prepared for a full switch over this or maybe even next Biennium, nor is OBM, which would have to develop guidance for Program Budget implementation and executive oversight.

BWC's upcoming budget hearings for the Legislature, however, could be presented and discussed with project costs, timeframes, and descriptions presented in a coherent fashion, perhaps by division. BWC's divisions include Claims Management, Risk Management, Fraud, MIS, Finance, and Human Resources. We could avoid discussions based on line items, which tend to disguise overall project costs because these costs are divided amongst many line items. Even Program Budgeting-type discussions require intensive preparation within the agency, and a commitment to open exchange of information about operations and management vision.

This article's first title asks the question of whether the spending authority carry-forward of $20.2 million is "prudence, folly or neither?" Neither seems to be the best answer — as happens in many large, complicated organizations, the decisions made had both beneficial and harmful outcomes, many of which were beyond the control of single individuals. Also it should be remembered that these decisions were made by different people at different times, and the outcomes were inherited by the next decision-maker. Despite the rocky path to it, a stakeholder-approved HPP plan has been developed and implementation is now underway. With adherence to and, certainly, improvement upon the four suggestions above, BWC can time projects and ACF funding contributions more closely, benefiting both employers and the agency in the future. "

DRUG MONEY...

REVENUE FROM DRUG FORFEITURES AND MANDATORY DRUG FINES AIDS LAW ENFORCEMENT

BY MICHAEL R. TOMAN

Each day it costs Ohio's state and local governments hundreds (if not thousands) of dollars to enforce the state's drug laws. Beyond safer communities and occasionally rehabilitating an offender, the only dividends provided from the high costs of drug enforcement are moneys from drug forfeitures and mandatory drug fines. Who receives the revenue generated from drug forfeitures and fines? The arresting law enforcement agency receives the largess from the revenue. Ohio's county Sheriffs and prosecutors, municipal and township police agencies, university and campus police, and park districts are all beneficiaries of drug forfeitures and mandatory fines. In 1995, assets from drug forfeitures and mandatory drug fines generated an estimated $10 million in revenue for Ohio's law enforcement agencies. The remainder of this article summarizes Ohio's forfeiture and mandatory drug fine laws and discusses the $10 million figure in more detail. In addition, the article discusses how forfeiture and fine revenue was expended by law enforcement in 1995.

Ohio's Drug Forfeiture Laws

Forfeiture programs are intended to punish and deter criminal activity by depriving criminals of property used or acquired through illegal activities.[1] In addition, the programs have made seized property available as assets to strengthen law enforcement. Seized and forfeited property may include businesses, cash, bank accounts, automobiles, boats, airplanes, jewelry, art objects, and real estate. Forfeiture laws have become part deterrent and part resource for law enforcement to use in their efforts against serious money launderers, gamblers, drug offenders, and drunk drivers. Although forfeitures have become a useful law enforcement tool, they have had their share of controversy and constitutional challenges. Over the years Supreme Court decisions have caused states, including Ohio, to make several changes in their forfeiture laws. From 1990 to 1992 Ohio passed four separate bills that made comprehensive changes to the forfeiture laws, which included separate statutes for criminal and civil forfeitures of property and disposition of forfeited property, and a statute regarding the motion for possession of unlawfully seized property. New laws also allowed townships and park districts to receive forfeiture revenue, and applied forfeiture procedures to juvenile delinquency proceedings. Since 1992 Ohio has made relatively few changes to its forfeiture laws.

Currently, any person who is convicted of or pleads guilty to a felony drug abuse offense is subject to criminal and civil forfeitures if 1) the property constitutes, or is derived directly or indirectly from, any proceeds that the person obtained directly or indirectly from the commission of the felony drug abuse offense, or 2) the property was used or intended to be used in any manner to commit, or to facilitate the commission of, the felony drug abuse offense or act.[2] After an arrest, a separate hearing is held to determine whether the seized property is subject to forfeiture. The prosecuting attorney must generally establish either (1) or (2) above by a preponderance of the evidence (in criminal forfeiture hearings) or prove by clear and convincing evidence (in civil forfeiture hearings) — note there are other procedural differences between criminal and civil forfeitures. Once a forfeiture is rendered, the proceeds of a sale of property and forfeited moneys are distributed as follows:

- First, to the payment of the costs of the sale and to the costs incurred by law enforcement agencies and financial institutions in connection with seizure (i.e. storage, maintenance, costs of a sale, and so forth).

- Second, to the payment of the value of any legal right, title, or interest in the property such as lienholders.

- Third, any remaining funds are generally distributed equitably to the law enforcement trust fund(s) of the prosecuting attorney and arresting law enforcement agencies. Forfeitures made by state law enforcement agencies, such as the Highway Patrol, are distributed to other specific state funds. If the forfeiture was rendered in a juvenile court, the court is required to distribute ten percent of the moneys to one or more alcohol and drug addiction treatment programs certified by the Department of Alcohol and Drug Addiction Services. It should also be noted that of the moneys distributed to the various law enforcement trust funds, ten percent of the first $100,000 collected must be used in connection with community preventive education programs. Twenty percent of any moneys in excess of $100,000 shall also be distributed for the same purpose.

The distribution rules for certain property differ from those described above, that property being: vehicles; drug paraphernalia; drugs; firearms; computers; obscene materials; and beer, liquor, and alcohol. For example, drugs can be destroyed or used by law enforcement agencies for undercover work, whereas obscene materials and firearms are required to be destroyed. In the instance of vehicles and computers, they can also be used for law enforcement purposes.

Beyond the distribution and spending rules required of law enforcement agencies by state law, are reporting requirements. Under existing law, each prosecutor and law enforcement agency that *receives* forfeiture moneys is required to submit to the Attorney General (AG) annual financial reports addressing how much forfeiture revenue they received and how the revenue was expended.

How Much Revenue is Generated from Drug Forfeitures?

According to the financial reports submitted to the AG's office, Ohio's law enforcement agencies collected nearly $7 million in forfeiture revenue in 1995 (see Table 1). This figure was calculated from the 580 law enforcement agencies that reported to the AG's office. Although there are approximately 1,000 law enforcement agencies in the state, agencies are only required to submit

Table 1: 1995 Reported Forfeiture Total (N=580 Agencies)

Law Enforcement Type	1995 Reported Total*	Percent of Total
Municipal/Village Police	$3.3 million	48.6%
County Sheriffs	$1.1 million	16.2%
County Prosecutors	$900,000	13.3%
State Agencies	$800,000	11.8%
Drug Task Forces	$400,000	5.9%
Township Police	$200,000	2.9%
Other Agencies	$90,000	1.3%
Total	***$6,790,000***	***100.0%***

*With the exception of "Other Agencies", these figures are rounded to the nearest $100,000; "Other Agencies" is rounded to the nearest $10,000.

an annual report if they receive forfeiture revenues. Of the agencies that reported, only 46% collected revenue from drug forfeitures. The percentage of agencies that received forfeiture revenue is likely much lower for the other 420 agencies that did not report since 1) they did not report, and 2) those consisted of primarily small municipal and township agencies that generally make fewer drug arrests and forfeitures. Another hint that suggests the non-reporting agencies did not collect any significant forfeiture revenue is the fact that agencies that reported included nearly every county sheriff and prosecutor and all the larger police departments in the metropolitan areas of the state. Although it is very possible that some of the agencies that did not report collected forfeiture revenue, the amount is likely insignificant. It should be noted that the 1995 forfeiture estimate should not be used to generalize about annual forfeitures, as the figure likely varies from year to year.

Of the agencies that reported, 450 collected less than $5,000 in forfeiture revenue while only 13 collected more than $100,000 in revenue (see Table 2). The Cleveland Police Department was the top forfeiture beneficiary, collecting nearly $1 million, while the Highway Patrol was second, collecting over $600,000. The other top forfeiture collecting agencies ranged from county sheriffs to municipal police agencies. Keep in mind the forfeiture distribution rules ensure that costs incurred by law enforcement and financial institutions, and moneys owed to legal rights or lienholders is taken from the top of any forfeiture. For example, a police agency seizes a boat worth $10,000; prior to the sale of the boat, the law enforcement agency incurs storage costs totaling $1,000 and the owner of the boat still owed the bank $5,000. After storage costs and the bank is paid, the law enforcement trust fund would only receive $4,000. Furthermore, if the drug arrest involved more than one law enforcement agency, forfeiture and fine revenue would likely be distributed to each participating agency. Thus, if $7 million seems low, it's because this figure only represents the amount deposited into agency trust funds. Total forfeitures, before costs and moneys owed to legal rights are shaved off the top, are significantly higher than the $7 million figure.

The above forfeiture figure also includes revenue generated from criminal and civil forfeitures not associated with drug crimes. Revenue from vehicles forfeited from drunk drivers convicted of three or more violations within five years is also included in these reports, as are forfeitures under the corrupt activity laws. However, the number of forfeitures made under the DUI and Corrupt Activity forfeiture laws is likely relatively small compared with forfeitures associated with drug crimes. Also law enforcement agencies often keep seized vehicles for their own use and a portion of the revenue generated from DUI forfeitures is distributed to the Crime Victims Reparations Fund and the D.A.R.E program. Thus, the amount of revenue generated from these forfeitures is relatively small compared to drug forfeitures.

Table 2: Agencies Forfeiture Total Within Ranges (N=580 Agencies)

Range	Number of Agencies	Percent of Agencies
$0 - $5,000	450	77.6%
$5,000 - $10,000	51	8.8%
$10,000 - $50,000	49	8.5%
$50,000 - $100,000	17	2.9%
$100,000 and up	13	2.2%

Ohio's Mandatory Drug Fine Laws

Senate Bill 67 of the 116th General Assembly (1986) first established mandatory drug fines for all non-indigent felony drug trafficking offenses. Before the bill was passed judges had discretion in selecting the fine imposed on those convicted of felony drug offenses. Fines generally varied depending on the nature and the amount of the controlled substance involved, the severity of the offender's behavior, and the offender's criminal record. Mandatory drug fines also varied, ranging from $1,000 to $50,000 depending on the number of convictions of each specific offense. Like forfeiture revenues, mandatory drug fine moneys are distributed to the law enforcement trust fund of the agency responsible for the arrest. Since their introduction, legislation expanded mandatory drug fines to non-trafficking drug offenses and allowed township and park district police agencies as well as the Board of Pharmacy, among others, to receive mandatory drug fine revenue. The most recent change to mandatory drug fines came with Senate Bill 2, the felony sentencing bill. Mandatory fines under S.B. 2 were kept for non-indigent felony one (F-1), felony two (F-2), and felony three (F-3) drug offenses and were tied to the basic fine schedule set for all felony crimes. The mandatory portion for F-1's, F-2's, and F-3's is half the schedule's maximum fine. For example the maximum fine for an F-1 offense is $20,000, thus the mandatory drug fine would be $10,000. Fines imposed for F-4 and the newly created F-5 offenses are based upon the judges discretion. However, the distribution rules remain the same.

Table 3: 1995 Reported Drug Fine Total (N=580 Agencies)		
Law Enforcement Type	**1995 Reported Total***	**Percent of Total**
Municipal/Village Police	$1.43 million	47.1%
County Sheriffs	$570,000	18.8%
County Prosecutors	$550,000	18.1%
State Agencies	$250,000	8.2%
Drug Task Forces	$140,000	4.6%
Township Police	$80,000	2.6%
Other Agencies	$17,000	0.6%
Total	***$3,037,000***	***100.0%***

*These figures are rounded to the nearest 10,000.

Table 4: Agencies Drug Fine Total Within Ranges (N=580 Agencies)		
Range	**Number of Agencies**	**Percent of Agencies**
$0 - $5,000	465	80.2%
$5,000 - $10,000	53	9.1%
$10,000 - $50,000	50	8.6%
$50,000 - $100,000	7	1.2%
$100,000 and up	5	0.9%

How Much Revenue is Generated from the Mandatory Drug Fines?

Law enforcement agencies that *receive* mandatory drug fine revenue are also required to submit to the AG annual financial reports addressing how much fine revenue they received and how the revenue was expended. According to the financial reports submitted to the AG's office, Ohio's law enforcement agencies collected over an estimated $3 million in mandatory drug fine revenue in 1995 (see Table 3). This figure was calculated from the 580 law enforcement agencies that reported to the AG's office. As stated above, there are approximately 1,000 law enforcement agencies in the state; however, agencies were only required to submit an annual report if they received mandatory fine revenues. Of the agencies that reported, 60% collected revenue from mandatory drug fines; only 46% of the same agencies collected revenue from drug forfeitures. As for the 420 agencies that did not report, it is unlikely they collected any significant amount of mandatory drug fine revenue for the same reasons discussed under forfeitures above.

Of the agencies that reported, 465 collected less than $5,000 while only 5 collected more than $100,000 (see Table 4). The State Highway Patrol was the top mandatory drug fine beneficiary, collecting over $220,000, while the Cincinnati Police Department was second, collecting nearly $200,000. The other top fine collecting agencies ranged from county sheriffs and municipal police to county prosecutors.

How do Law Enforcement Agencies Spend their Forfeiture and Fine Money?

Law enforcement agencies are required to report to the AG how they expended their forfeiture and fine revenue. The AG report separates spending into six categories: investigations, prosecution, training, personnel, equipment, and other. Of the law enforcement agencies that reported, slightly more revenue was expended than what was collected in 1995. This is the result of 1994 forfeiture and fine revenue carried into 1995 as a fund balance. In 1995, law enforcement agencies spent 43% of their forfeiture revenue and 46% of their mandatory drug fine revenue on equipment (see figure 1 and 2). The second largest spending category was "other;" agencies spent 38% of their forfeiture revenue and 24% of their mandatory fine revenue on "other" purchases (including purchases such as books, sweatshirts, and caps for the Drug Awareness Reduction Education (D.A.R.E.) programs, helicopter and car maintenance, K-9 medical care, and cellular phone bills, to name a few). The remainder of the revenue was spent on investigations, prosecution, training, and personnel. It should be noted that many agencies did not expend their entire 1995 fund balance, thus, these moneys were carried into 1996.

Drug Money in Review

Forfeitures and fines resulting from drug arrests have enabled state and local police agencies all across Ohio to increase enforcement and education activity within their own community. Without the revenue, law enforcement agencies may not have been able to go the extra mile to purchase law enforcement equipment and provide drug education. Beyond enforcement and education, fines and forfeitures provide one additional benefit, in that they stretch your tax dollar. Each dollar collected from drug forfeitures and fines can assist political subdivisions and law enforcement agencies in allocating tax dollars elsewhere. And that is Drug Money well spent. "

Figure 1
Spending of Forfeiture Revenue

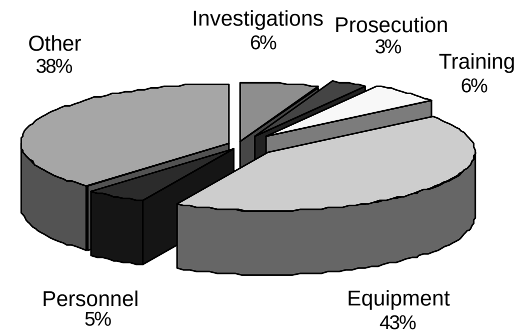
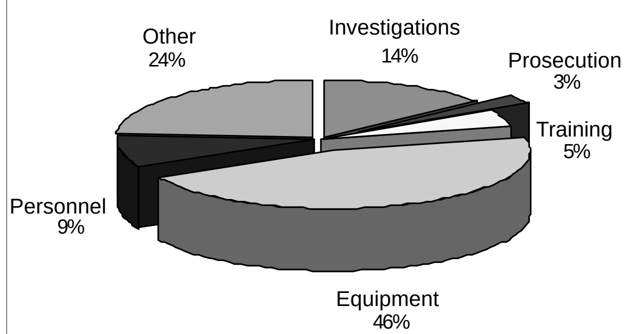


Figure 2
Spending of Mandatory Drug Fines



[1] United State General Accounting Office. Asset Forfeiture, Historical Perspective on Asset Forfeiture Issues, March 19, 1996 ppg. 2-5.

[2] The Felony Drug Abuse Law was expanded recently via H.B. 125 which now includes certain drug abusers within the law, making forfeitures applicable to those offenders as well.

Government Services Television Network Index
By Joshua N. Slen

The Legislative Budget Office receives a monthly video tape which offers general training and information segments that are applicable to all levels of government. The video tapes are kept at the LSC library, which is located on the 9th floor of the Vern Riffe Center for Government & the Arts, and are available to all members of the General Assembly and their staff. If you have questions about the availability of one of the tapes please contact the LSC library at 466-5312. The *November* edition of the GSTN video contains five different programs/segments which are outlined below.

Segment/Topic	***Running Time***	***Content/Description***
GSTN Journal / Various newsworthy topics from around the country.	11:15	This month's journal includes segments on local governments and the internet, a 311 non-emergency phone number pilot program, a new garbage collection system, and other newsworthy topics from around the country.
Leadership Spotlight/Marketing Your Downtown - Facts and Visions	12:00	A useful segment that focuses on what facts to gather and how to develop a vision in order to create a vibrant downtown. The program uses Iowa Falls, Iowa as an example of a successful downtown marketing project.
Training Track/Family and Medical Leave Act	18:45	The program discusses the impact of the Family and Medical Leave Act (FMLA) on local governments. The details of what constitutes legal compliance with the act in different situations are discussed.
Human Factor/Communications Skills and Gender Styles	1930	Male ("M") and Female ("F") cultures are differentiated and defined. The importance of understanding gender differences when communicating in the workplace is highlighted.
Money Watch/Intelligent Transportation Systems	18:00	This program looks at Montgomery County, Maryland in order to identify the three principal goals of an intelligent transportation system. The key objectives as identified in the segment are the tracking of traffic patterns, management of traffic flow, and providing information to the public. The costs and benefits of developing intelligent transportation systems are discussed.