Budget Footnotes

A Newsletter of the Ohio Legislative Budget Office December, 1996

Fiscal Overview

— Frederick Church

Tax revenues were $18.7 million above estimate in November, but the overage was due to a fluke of timing that will be reversed next month. The corporate franchise tax refunds against tax year 1996 payments, which OBM expected the state to pay in November, will instead be paid in December. (In fact, preliminary evidence suggests that when the refunds are paid in December they will be much larger than anticipated.) If one were to discount the $19.0 million overage in the corporate franchise tax, November tax revenues would be very slightly below estimate. Overages in the sales, public utility, and estate taxes would be offset by the shortfall in the personal income tax.

On the non-tax side, federal grants returned to their pattern of falling short of the estimate. November's reimbursement was $35.5 million below the forecast, which was roughly what one would expect given the underspending in Medicaid and the other welfare programs that draw federal matching money.

For the year, tax revenues are $62.1 million over estimate — a variance of 1.3 percent — with growth of 5.9 percent from last year. The biggest overage is in the non-auto sales tax, at $21.8 million. This tax continues to show surprising strength in the face of lackluster national retail sales growth numbers. The total sales and use tax is $27.3 million over estimate. The corporate franchise tax is $21.8 million over estimate but that overage is likely to be wiped out next month when refunds are paid against last year's taxes. The biggest shortfall is in the personal income tax, which is $7.2 million below estimate. Employer withholding did very poorly in November and is now well below estimate for the year. Given the volatility that monthly withholding results have shown, it is not clear yet whether this shortfall is a meaningful indicator or whether withholding receipts will bounce right back in December.

Disbursements from the GRF in November were $13.7 million above estimate. Combined with an unexpected $40 million in transfers from the GRF to the State Capital Improvement Fund and the Administrative Building Fund, the overage in total outlays was $53.7 million.[1] As in tax revenue, this result was probably the result of a timing matter and the underspending trend will probably reassert itself next month. Property tax

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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.

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

	Month of November	Fiscal Year 1997 to Date	Last Year	Difference
Beginning Cash Balance	($186.6)	$1,138.5		
Revenue + Transfers	$1,131.1	$6,441.1		
Available Resources	$944.5	$7,579.6		
Disbursements + Transfers	$1,442.3	$8,077.4		
Ending Cash Balances	**($497.8)**	**($497.8)**	**($732.9)**	**$235.1**
Encumbrances and Accts. Payable		$424.8	$464.3	($39.5)
Unobligated Balance		**($922.6)**	**($1,197.2)**	**$274.6**
BSF Balance		$828.3	$828.3	
Combined GRF and BSF Balance		**($94.3)**	**($368.9)**	**$274.6**

relief was $40.2 million over estimate, but this appears to be the result of early processing of claims from the county auditors rather than a substantive difference between actual and estimated relief. Without this overage, disbursements would have been below estimate again in November.

For the year, disbursements are $251.5 million below estimate, although the overage in the other transfers category keeps the variance in total outlays down to $210.0 million. In fact, if one were to exclude the $55.6 million overage in property tax relief , underspending would exceed $300 million.

Most spending categories are below estimate, with human services leading the way. Medicaid spending is not only below the estimate but also less than last year's amount, and ADC/TANF has also declined. The falling ADC/TANF caseload is primarily responsible for both results. As we mentioned last month, the change from the ADC program to the TANF program has caused spending to be reclassified across GAAP categories, making ADC spending look much lower and boosting "Other Welfare" spending. 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.[2]

The $17.8 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.

Agency spending is far below estimate and up only 2.1 percent from last year. Total outlays for FY 1997 are 1.6 percent *lower* than for FY 1996 at the same point, owing to the fact that fewer transfers have been made from the GRF this year. This reduction in interfund transfers is also the primary reason that the unobligated GRF balance is $274.6 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.

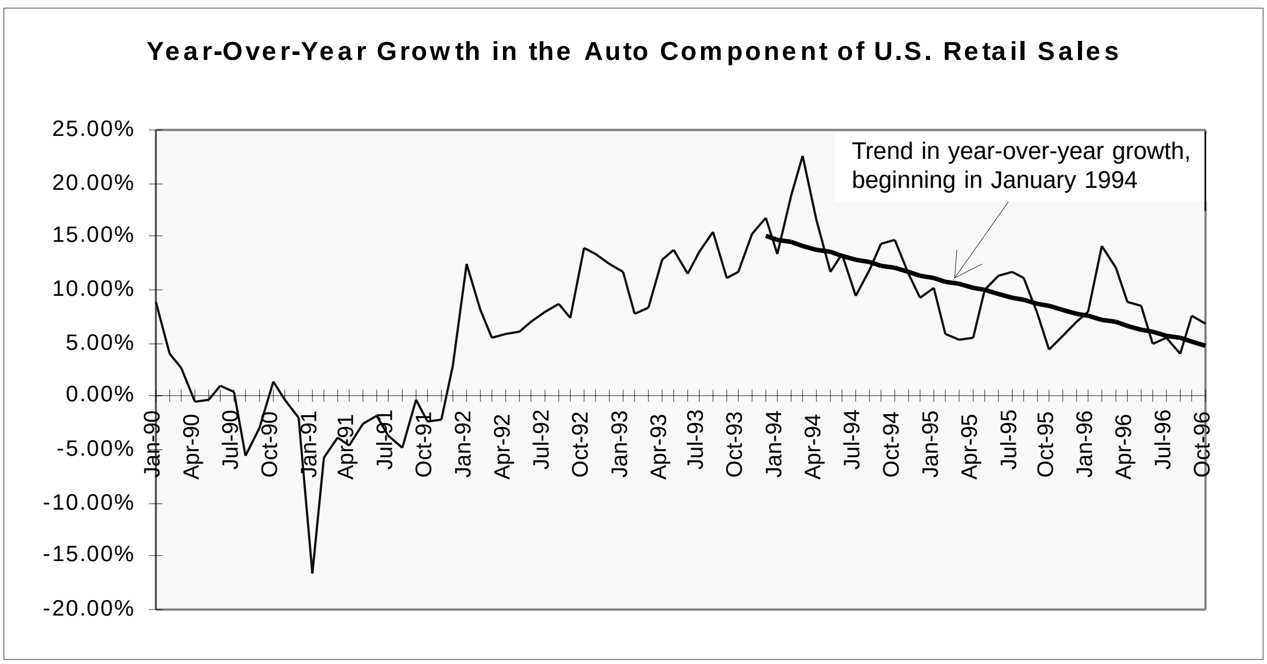
Although the year-to-date variance in primary and secondary education shrank to $45.5 million in the wake of November's overage, LBO had expected spending to get even closer to the estimate. Apparently foundation payments have not yet come back into line with the estimates.❑

TRACKING THE ECONOMY

— Frederick Church

Real GDP growth for the third quarter was revised downward slightly, from 2.2 percent to 2.0 percent. The economy is back on its steady, 2.0 - 2.5 percent annual growth track. Inflation also remains in check. With only one month to go, it looks like the CPI will have increased by 2.9 percent for calendar year (CY) 1996, the fifth consecutive year of CPI inflation of 3 percent or less. Employment growth has slowed - from an average of about 250,000 jobs per month over the summer to only 115,000 jobs per month over the past quarter - but not stopped, and both the U.S. and Ohio unemployment rates remain low. U.S. unemployment was only 5.2 percent in October, while the Ohio rate was 4.7 percent. Ohio's unemployment rate has been below 5 percent for seven consecutive months, and the maximum rate over the past two years was only 5.3 percent, in January of this year.[3]

Housing starts and permits have been falling, but average mortgage rates have also declined, and that should help housing and durable goods sales in CY 1997. Consumer spending has slowed — high debt ratios have slowed borrowing — but is still growing at a moderate pace. Inflation adjusted consumer spending grew by about 3.5 percent in the first half of CY 1996, then fell sharply to 0.6 percent in the third quarter. However, most



forecasters expect spending to rise by about 2.5 percent in the fourth quarter and continue growing in the 2.0 - 2.5 percent range next year. Non-auto retail sales have been growing by 4 - 5 percent throughout CY 1996 (on a year-over-year basis) and similar growth is expected for the Christmas season. Unfortunately, there is some sign of an auto slowdown. As the graph makes clear, year-over-year auto sales (dollar amounts, not units) have slowed sharply in recent months. This may signal an end to the auto boom that has been going on since the 1990-1991 recession. However, despite the slowdown in autos and disappointing export growth, the U.S. economy appears to still be solid. ❑

Status of the General Revenue Fund

REVENUES

— *Frederick Church*

Tax revenue was $18.7 million over estimate in November, increasing the year-to-date overage to $62.1 million. However, as stated in the Fiscal Overview section, November's overage was really the result of an error in estimating the timing of corporate franchise tax refunds. If one ignores the $19.0 million overage in the corporate tax, total November tax revenues would be just below the estimate.

The biggest year-to-date tax overages are in the non-auto sales tax and the corporate franchise tax, both $21.8 million over estimate. The biggest shortfall is in the personal income tax, $7.2 million below estimate. In non-tax revenue, the big news (as always) is in federal reimbursement, which is $79.3 million below estimate. This is about what one would expect given the $200 million underspending in human services programs.

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

REVENUE SOURCE			
TAX INCOME	Actual	Estimate*	Variance
Auto Sales	$54,511	$50,910	$3,601
Non-Auto Sales & Use	351,601	345,182	6,420
Total Sales	$406,112	$396,092	$10,021
Personal Income	$357,699	$374,000	($16,301)
Corporate Franchise	3,027	(15,988)	19,015
Public Utility	(1,103)	(5,120)	4,017
Total Major Taxes	**$765,735**	**$748,984**	**$16,751**
Foreign Insurance	$144	$580	($436)
Domestic Insurance	0	0	0
Business & Property	31	270	(239)
Cigarette	22,766	22,737	29
Soft Drink	17	0	17
Alcoholic Beverage	4,205	4,116	88
Liquor Gallonage	2,262	2,200	62
Estate	10,968	8,500	2,468
Racing	0	0	0
Total Other Taxes	$40,392	$38,403	$1,989
Total Taxes	**$806,127**	**$787,387**	**$18,740**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	23,007	19,500	3,507
Other Income	6,619	5,850	769
Non-Tax Receipts	$29,626	$25,350	$4,276
TRANSFERS			
Liquor Transfers	$5,000	$5,000	$0
Budget Stabilization	0	0	0
Other Transfers In	0	0	0
Total Transfers In	$5,000	$5,000	$0
TOTAL INCOME less Federal Grants	**$840,753**	**$817,737**	**$23,016**
Federal Grants	$290,306	$325,767	($35,461)
TOTAL GRF INCOME	**$1,131,059**	**$1,143,504**	**($12,444)**

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

Detail may not add to total due to rounding.

Corporate Franchise Tax

Preliminary December data suggests that when refund payments are done, they will exceed the total estimate, and year-to-date corporate tax receipts will fall below the forecast by the end of December. However, all corporate tax receipts in the first six months of the fiscal year are really adjustments — late payments, refunds, etc. — to last year's payments. The payments for fiscal year 1997, against taxable year 1996 liability, don't start until January 31.[4]

The data on national corporate profits leads one to expect that corporate tax revenues will make the estimate for the year. Preliminary data shows before-tax corporate profits falling in the third quarter, and some forecasters are predicting a fourth quarter drop also. However, growth in the first two quarters was so strong that even with that drop, most forecasts predict that annual profits will still be up 5 - 6 percent for CY 1996. With that kind of profit growth, it would be surprising if the Ohio corporate tax could not produce the 2.5 percent increase required to meet the estimate.

Sales and Use Tax

The non-auto tax has grown by 5.1 percent over the first five months of FY 1997, a half-point higher than the 4.6 percent increase in U.S. non-auto retail sales over the same period.[5] Estimated growth for the entire year is 4.7 percent, so if consumer spending and retail sales continue as they have, and the Ohio tax keeps pace, non-auto tax collections should make the estimate for the fiscal year. Of course, the Christmas season is crucial, and a bad Christmas would wreak havoc with tax collections, but most of the estimates seem to support roughly 4 to 5 percent growth over last year in non-auto Christmas sales.

It is still not clear precisely why Ohio is doing better than the national data would suggest. The December 4th issue of the Federal Reserve's ***Beige Book***, the compendium of information on regional economic activity, reported rather weak retail performance in Ohio. Sales of major appliances and apparel continue to be brisk, but sales of furniture and consumer electronics have been slow. However, the number of new chain stores in Ohio may be boosting overall sales, although same-store sales are relatively flat.

Ohio's auto sales tax followed a weak October with a strong November. The November overage more than offset the October shortfall, and November revenues were up 5 percent from last year (year-to-date collections have increased by 4.4 percent). This strong performance is in spite of the slowdown in national retail auto sales noted in the "Tracking the Economy" section. The ***Beige Book*** called sales for the last few months in the Fourth District "disappointing" and said that most dealers were reporting flat sales from last year. Perhaps this was based more on October data than November's results, since October was a poor auto sales month in Ohio.

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	$297,431	$291,884	**$5,547**	$284,922	4.39%
Non-Auto Sales & Use	1,790,307	1,768,523	**21,785**	1,703,886	5.07%
Total Sales	$2,087,738	$2,060,406	**$27,332**	$1,988,808	4.97%
Personal Income	$2,062,226	$2,069,400	($7,174)	$1,949,422	5.79%
Corporate Franchise	43,482	21,698	21,784	30,472	42.69%
Public Utility	212,290	209,920	2,370	197,527	7.47%
Total Major Taxes	$4,405,736	$4,361,424	$44,312	$4,166,230	5.75%
Foreign Insurance	$143,256	$144,275	($1,019)	$136,496	4.95%
Domestic Insurance	200	0	200	79	153.16%
Business & Property	956	1,800	(844)	2,140	-55.35%
Cigarette	113,729	107,856	5,873	110,383	3.03%
Soft Drink	17	0	17	4	302.33%
Alcoholic Beverage	22,830	21,785	1,044	22,564	1.18%
Liquor Gallonage	11,048	11,166	(118)	11,103	-0.49%
Estate	41,933	29,325	12,608	26,540	58.00%
Racing	0	0	0	0	#N/A
Total Other Taxes	$333,968	$316,207	$17,761	$309,309	7.97%
Total Taxes	**$4,739,704**	**$4,677,632**	**$62,071**	**$4,475,539**	**5.90%**
NON -TAX INCOME					
Earnings on Investments	$30,019	$24,375	$5,644	$23,204	29.37%
Licenses and Fees	40,701	35,425	5,276	39,829	2.19%
Other Income	33,995	35,475	(1,480)	39,669	-14.30%
Non-Tax Receipts	$104,716	$95,275	$9,441	$102,702	1.96%
TRANSFERS					
Liquor Transfers	$23,500	$19,500	$4,000	$19,000	23.68%
Budget Stabilization	0	0	0	0	#N/A
Other Transfers In	64	0	64	0	#N/A
Total Transfers In	$23,564	$19,500	$4,064	$19,000	24.02%
TOTAL INCOME less Federal Grants	**$4,867,983**	**$4,792,407**	**$75,575**	**$4,597,241**	**5.89%**
Federal Grants	$1,573,094	$1,652,383	($79,289)	1,566,002	0.45%
TOTAL GRF INCOME	**$6,441,077**	**$6,444,790**	**($3,713)**	**$6,163,242**	**4.51%**

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

The outlook for this tax has weakened somewhat recently. While national dollar sales of autos are still growing, growth has slowed sharply. Unit auto sales actually fell by 1.7 percent in November, compared to a year ago. Unit sales of light vehicles are essentially flat. The auto slowdown may be the result of high consumer debt levels and relatively high auto financing rates. As noted in the "Tracking the Economy" section, long-term and intermediate interest rates have fallen somewhat recently, so autos may get a boost in the coming months. It will take time for this effect to be felt, so auto sales will probably stay flat or decline in December.

Because estimated growth in the auto sales tax for the year is low, the tax can absorb some slowdown in vehicle sales and still make the estimate.

Personal Income Tax

Employer withholding followed a small shortfall in October ($6.4 million) with a whopping shortfall in November ($23.1 million). Withholding is now $20.8 million below estimate for the year, and growth is only 5.1 percent. November collections were actually lower than a year ago, although we have not seen anything in the labor market data that would explain this decline.

The October issue of this report included a graph that showed that following 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, the fourth quarter looks surprisingly poor. If withholding falls short again in December, then prospects for the rest of FY 1997 will look considerably weaker.

Most of the other components of the income tax are also below the estimate, although by much smaller amounts. The exception is quarterly estimated payments, where there is a $19.5 million overage. The most important payments of the year are coming up: the payment due January 15th is generally split between December and January, although the bulk of receipts obviously comes in the second month. This payment is the last payment against tax year 1996 liability, and so it may follow the pattern of prior years where it acts as a "reconciliation" payment. That is, taxpayers who make estimated payments do a rough calculation of the tax they actually owe against 1996 and compare that amount to their estimated payments. If the tax owed is higher than expected, they make a big "catch-up" payment in January; if the tax owed is lower than expected, they cut their January payment. Thus, the January payment acts as an advance indicator for the whole filing season's refunds and tax payments.❏

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[1] These transfers are really temporary - when the proceeds from bond sales are realized monies will be repaid to the GRF.

[2] 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.

[3] These estimates are seasonally adjusted; the nonseasonally adjusted data shows greater volatility.

[4] Corporate tax payments are due January 31st, March 31st, and May 31st.

[5] Actually, retail sales are lagged one month because the Ohio non-auto tax is based on prior month sales activity.

DISBURSEMENTS

— *Chris Whistler**

November program spending was over estimate by $13.7 million, but transfers out of the GRF totaling $40.0 million that were not included in the FY 1997 estimates drove total GRF uses to a $53.7 million overage for the month. The $40.0 million in temporary transfers out of the GRF, which were approved by the Controlling Board on November 18, are anticipated to be replenished in January, 1997, following the receipt of proceeds from bond sales. Thus, the majority of the difference between the fiscal year-to-date program payment variance (under estimate by $251.5 million through November) and the total uses variance ($210.0 million under) is expected to be eliminated by the end of January.

Because about 7.1 percent ($576.8 million) of the total $8,077.4 million disbursements from the GRF thus far this fiscal year are attributable to transfers, it seems appropriate to summarize that activity.

In July, around $400.8 million was transferred to the newly created Income Tax Reduction Fund (ITRF) to be returned to taxpayers through a tax cut of approximately 6.6 percent for taxable year 1996.

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

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$208,529	$189,238	$19,291
Higher Education	265,708	268,637	(2,929)
Total Education	$474,237	$457,875	$16,362
Health Care	$396,047	$427,078	($31,032)
Aid to Dependent Children	(1,166)	85,646	(86,812)
General Assistance	9	0	9
Other Welfare	123,182	63,103	60,078
Human Services (2)	125,619	123,892	1,727
Total Welfare & Human Services	$643,690	$699,719	($56,029)
Justice & Corrections	$98,609	$93,102	$5,507
Environment & Natural Resources	13,850	13,951	(101)
Transportation	1,377	1,955	(578)
Development	8,842	7,754	1,088
Other Government (3)	26,372	19,781	6,592
Capital	1,164	460	704
Total Government Operations	$150,214	$137,002	$13,212
Property Tax Relief (4)	$134,141	$93,961	$40,181
Debt Service	0	0	0
Total Program Payments	**$1,402,283**	**$1,388,558**	**$13,725**
TRANSFERS			
Capital Reserve	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	40,000	0	40,000
Total Transfers Out	$40,000	$0	$40,000
TOTAL GRF USES	**$1,442,283**	**$1,388,558**	**$53,726**

(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.

Of the $131.5 million transferred in September, $100 million was associated with SchoolNet Plus and $30 million was for the State Infrastructure Bank (as authorized through Am. Sub. S.B. 310, the budget corrective act of the 121st General Assembly).

In November, $25 million was temporarily transferred to the State Capital Improvement Fund (Fund 38), and $15 million was temporarily transferred to the Administrative Building Fund (Fund 26). The transfers were made in order to ensure timely payments for projects funded through the FY 1997-98 capital budget act (Am. H.B. 748 of the 121st General Assembly). As noted above, the GRF will be replenished following the receipt of proceeds from bond sales.

Spending in **Primary and Secondary Education** for the month of November was, as expected, over estimate. However, the $19.5 million overage for the month was not nearly as high as had been anticipated.

As reported last month, three foundation payments had been estimated to occur in October instead of the usual two. However, the estimates were on the high side, and actual spending for all foundation items was under the estimate by approximately $23.7 million. The Office of Budget and Management (OBM) had predicted that its estimate for the resulting single payment in November would be low, and that spending would be over estimate. This did not occur as spending in all foundation items combined was again under the estimate, by $4.1 million, this month. Individual foundation line items actually had mixed variances as follows:

- Basic Aid, $7.2 million under;
- Transportation, $6.7 million under;
- DPIA, $1.0 million under;
- Vocational Education, $5.8 million over;
- Special Education, $4.2 million over; and
- Gifted Education, $0.8 million over.

Monthly estimates for each foundation line item are based on the disbursement patterns of last fiscal year. Disbursements from the Basic Aid line item for the current fiscal year are based on last year's Average Daily Membership (ADM) figures and will not be updated until January. Thus, spending may continue to be below estimate for December and part of January. After the ADM figures are updated, spending in basic aid *may* be closer to estimates. Another possibility is that ADM figures for the year will be lower than expected, and there will be extra cash in the account. This may not be a bad scenario since additional money for special education and vocational education recomputation is projected to be needed this fiscal year, as it was in FY 1996.

The nonpublic administrative cost reimbursement payment, originally estimated to be distributed in September, was finally made in November. The amount distributed ($35.3 million) was actually $4.1 million lower than had been projected.

Primary and Secondary Education spending for the year-to-date was $45.5 million under estimate through November. Even though the nonpublic cost reimbursement payment was made this month, foundation spending did not "right itself" as expected, and foundation item underspending is contributing greatly to total underspending by the department.

Although the other **Education** component, **Higher Education**, was nearly on target for the month, it remains under estimate for the year-to-date. As discussed in last month's issue of ***Budget Footnotes***, the variance appears to be due to inaccurate estimating by the Student Aid Commission and will likely persist throughout the fiscal year. The entire **Education** category was $63.4 million under through November.

While the total **Welfare and Human Services** spending category continues to run well below estimate — it is now $201.2 million under for the year-to-date — analyzing two of its components' variances remains a tricky ordeal. As discussed at length in recent issues of ***Budget Footnotes***, the federal Personal Responsibility and Work Opportunity Act (effective October 1, 1996) replaced the **Aid to Dependent Children** program with the Temporary Assistance for Needy Families (TANF) block grant. This resulted in the need to significantly alter the appropriation line item structure that had been in place.[1] Most notably, most of the appropriation authority for the **ADC** program was transferred from line items within the **ADC** GAAP category to newly created TANF line items within the **Other Welfare** category. Because FY 1997 spending estimates were based upon the **ADC** program and not TANF, spending from the **ADC** category is expected to finish the year well below estimate, while **Other Welfare** spending will be over estimate. (For the fiscal year-to-date, the former is below estimate by $179.4 million while the latter is over estimate by $94.9 million.)

Since the Department of Human Services (HUM) has not yet updated its spending estimates to reflect the new line item structure of the TANF program, it has been very difficult to track TANF-related spending. However, the department estimated that spending in the 400-503, ADC, line item (the old cash assistance line item and one of the two lines included in the **ADC** spending category) would have been approximately $15.6 million under estimate in November had the TANF changes not been made. This assessment is consistent with the familiar trend of below estimate caseloads, and it is also consistent with the fact that the combined spending of the two categories is below estimate for both the month and the year. According to the Office of Budget and Management (OBM), estimates from HUM should be available prior to the release of the January issue of ***Budget Footnotes***.[2]

On a closely related note, in August 1996, the Controlling Board authorized HUM to transfer $9.7 million from the FY 1996, 400-503, Aid to Dependent Children (cash assistance), appropriation line item to the FY 1997 appropriation for the non-guaranteed child care program, which was funded by the 400-550, Day Care, appropriation line item. Due to increased demand for services provided by this program, additional funding was needed. Although the counties were provided with these additional moneys, it was understood that this $9.7 million would barely maintain the status quo of the program given the increasing demand for services and the costs of providing day care. This means that in some counties, these additional dollars could only serve to maintain their current intake and outtake levels; in others, these dollars could be used to slightly offset any acquired deficit and in others, which have overspent their prorated annual allocation, there will be continued freezes on intake and possible releases of children currently in care.

With the implementation of the Child Care Development Block Grant and the TANF block grant, both of which were authorized by the same federal legislation referenced earlier, county departments of human services have the conundrum of striking a balance between providing day care services for families receiving public assistance and for other families with low incomes.

Under the Child Care Block Grant, the funding streams for two separate day care programs were consolidated. Now, state funding for the public assistance families and non-public assistance families are combined and supported by one line item: 400-413, Day Care Maintenance of Effort. The federal share for both is supported by the 400-617, Day Care Federal, line item, which used to only be for non-public assistance day care. As with the TANF program, this arrangement

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)	$1,852,826	$1,898,367	($45,540)	$1,381,803	34.09%
Higher Education	939,422	957,309	(17,887)	652,251	44.03%
Total Education	$2,792,248	$2,855,675	($63,427)	2,034,054	37.28%
Health Care	$2,045,245	$2,131,448	($86,203)	$1,680,761	21.69%
Aid to Dependent Children	275,504	454,886	(179,382)	367,864	-25.11%
General Assistance	89	0	89	8,923	-99.00%
Other Welfare	427,511	332,597	94,914	218,967	95.24%
Human Services (2)	522,879	553,506	(30,627)	372,169	40.50%
Total Welfare & Human Services	$3,271,229	$3,472,437	($201,208)	$2,648,684	23.50%
Justice & Corrections	$610,508	$620,511	($10,003)	$466,846	30.77%
Environment & Natural Resources	61,869	61,135	735	45,171	36.97%
Transportation	5,966	7,389	(1,423)	5,961	0.08%
Development	56,496	60,765	(4,270)	40,965	37.91%
Other Government (3)	170,505	196,471	(25,966)	146,519	16.37%
Capital	2,325	3,003	(678)	1,645	41.32%
Total Government Operations	$907,669	$949,273	($41,604)	$707,107	28.36%
Property Tax Relief (4)	$454,695	$399,141	$55,554	$287,262	58.29%
Debt Service	74,793	75,655	(862)	73,443	1.84%
Total Program Payments	**$7,500,634**	**$7,752,182**	**($251,548)**	**$5,750,551**	**30.43%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$12,000	-100.00%
Budget Stabilization	0	0	0	535,214	-100.00%
Other Transfers Out	576,775	535,237	41,538	311,418	85.21%
Total Transfers Out	$576,775	$535,237	$41,538	$858,632	-32.83%
TOTAL GRF USES	**$8,077,409**	**$8,287,419**	**($210,010)**	**$6,609,184**	**22.21%**

(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.

makes it is difficult to track estimated spending with actual spending for these day care populations. Again, however, OBM expects the department to make revised day care spending estimates available prior to the January issue of ***Budget Footnotes***.

Even though federal welfare reform severed the link between cash assistance and Medicaid (**Health Care**), eligibility for the former in Ohio still renders recipients eligible for the latter. Thus, below estimate cash assistance caseloads have played a significant role in the **Medicaid** underspending this fiscal year. (The 400-525, Health Care/ Medicaid, line item — the exclusive line item in the **Medicaid** spending component, but not the only Medicaid-related line item — was under estimate by $86.2 million for the year-to-date through November.) The below estimate caseloads have had the most noticeable impact in the Health Maintenance Organization spending component of Medicaid, in which the combination of lower than expected enrollment and rates have led to severe underspending.

Despite the trend of below estimate spending, however, the $31.0 million negative variance for the month may have been slightly overstated. One Medicare buy-in payment is scheduled to be released each month; however, none was released in November. Because the $10.0 million payment was delayed until December, the "true" variance was overstated by that amount. If both the November and December payments are released in December, the $10.0 million overage in Medicare buy-in spending for the month should bring the year-to-date variance slightly closer to estimate.

The real wild card for getting a clear picture of **Medicaid** spending stems from prescription drug rebates. For every $1 spent on prescription drugs, the **Medicaid** program is rebated about $0.20 from drug manufacturers. Usually, the majority of the rebates arrive in the first month of the quarter, but November rebates were abnormally large. The question is whether or not rebates are on track for the fiscal year or if they are ahead of schedule. If December rebates came in November, spending on prescription drugs should be a little higher in December; if the large receipt was due to an adjustment from October, however, prescription drug spending for the year-to-date should already reflect the rebate timing issue. (The prescription drug category continues to be well over estimate this fiscal year because of higher than estimated drug claims and costs for Aged, Blind, and Disabled eligibles.) This issue aside, the effects of the below estimate cash assistance caseload on **Medicaid** spending this fiscal year are unmistakable.

Although aggregate spending within the **Human Services** component was over estimate by only $1.7 million in November, variances for the following agencies are worth noting: the Department of Mental Health (DMH), $11.9 million under estimate; the Department of Mental Retardation and Developmental Disabilities (DMR), over by $9.2 million; the Department of Alcohol and Drug Addiction Services (ADA), under by $6.1 million; and the Bureau of Employment Services (BES), over estimate by $7.6 million.

Two of these variances were due mainly to timing issues related to county subsidies. First, about $8.0 million of DMH's $11.9 million variance was due to the timing of county draw-downs from the 334-408 line item. Recall that counties may request their quarterly subsidies at any time during the quarter, which makes estimating monthly disbursements difficult. Second, the ADA variance was due to a delay in the processing of county subsidies. The department expected the subsidies to be released in November; however, they were delayed until early December. As a result of these timing issues, spending by both agencies will likely be over estimate in December.

The overage by DMR in December is only slightly more interesting than those of DMH and ADA. Simply stated, funds for DMR's developmental centers are pulled from both GRF and Federal Special Revenue Fund line items, and OBM did not anticipate the use of GRF moneys in November.

Prior to FY 1996, federal funds covered most of the operating expenses (primarily payroll) for the unemployment insurance and employment services programs administered by BES. Any deficits were covered by BES's Special Administrative Fund (SAF, Fund 4A9 of the State Special Revenue Fund Group). Federal funds had been declining for these programs in recent years, and concerns of further tightening were addressed in the FY 1996-97 operating budget. The anxiety over whether their SAF would be depleted during the biennium led to the creation of a GRF line item, 795-407, OBES Operations.

In FY 1996, the bureau only used their SAF to cover their increasing state share of the two programs (presumably as an attempt to preserve GRF funds). By the end of the year, however, it was clear that

Homestead Exemption Program Parameters		
Income of Owner and Spouse Old Law	Income of Owner and Spouse Current Law	Reduce Taxable Value by the Lesser Of
$0 - $6,500	$0 - $10,800	$5,000 or 75% of taxable value
$6,500 - $11,500	$10,800 - $15,800	$3,000 or 60% of taxable value
$11,500 - $16,500	$15,800 - $20,800	$1,000 or 25% of taxable value
$16,500 and over	$20,800 and over	-0-

the combination of the remaining SAF moneys and the FY 1997 GRF appropriation in line item 795-407 (of around $8.9 million) would not be enough to cover the federal shortfall in the second year of the biennium. Therefore, the entire FY 1996 appropriation of $7.1 million in the 795-407 line was transferred to FY 1997, which brought total spending authority up to $16.0 million for the year. Because OBM's original spending estimates did not account for the transfer, the FY 1997 estimates for the line item are $7.1 million too low — the primary reason for the $7.6 million overage by BES in November.

Although most of the $26.0 million negative year-to-date variance in the **Other Government** component of the **Government Operations** category can be attributed to underspending by the Department of Administrative Services (DAS) on the State of Ohio Multi-Agency high-speed fiber Communication System (SOMACS) — the agency's total variance is $15.4 million — the $6.6 million overage in **Other Government** in November was due mainly to a $6.1 million variance by the Department of Taxation. Spending by DAS was also over estimate, by $1.5 million, for the month.

One more area of note is that of **Tax Relief**, which has been the only category with consistently significant overages this fiscal year. Payments in November were $40.2 million above estimate, pushing the year-to-date overage up to $55.7 million. It appears at this point that these overages are still the result of timing issues (auditors filing for relief earlier than estimated) and not due to substantive changes or policy changes made in the budget act (Am. Sub. H.B. 117 of the 121st General Assembly). As it happens, there is some preliminary evidence on the impact of the one major policy change made in the budget act that affects tax relief: the expansion of eligibility for the homestead exemption. This evidence is discussed below.

The homestead exemption is the state's real property tax relief program for the elderly. Prior to the law change, the program was providing roughly 240,000 elderly and/or disabled Ohio homeowners with an average of about $210 in annual tax relief (a total of approximately $50 million per year). Because the income limits on eligibility had not changed since 1989, participation in the program had been steadily dwindling. Participation fell from 281,645 in tax year 1989 to 240,808 in tax year 1994, a decline of 14.5 percent.[3] In theory, at least part of this decline in participation could be traced to a decline in eligibility due to rising incomes among the elderly. To offset the decline in eligibility, the budget bill increased the income limit for each of the three brackets for the exemption by $4,300. The prior and current program parameters are summarized in the table above.

The Ohio Department of Taxation estimated that the change in the exemption would cost the GRF an additional $11 million in tax relief in FY 1996, and an additional $23 million in FY 1997. LBO's estimates for both year's were 15 to 20 percent higher. Preliminary FY 1996 data suggests that the increased tax relief due to the law change was slightly less than the Tax Department's estimate of $11 million. However, this estimate is very preliminary, and it is important to realize that the "true" number can never be known with certainty, because one cannot know what the exemption *would have been* in the absence of the law change. This is one of the peculiarities of trying to track the impact of tax changes after-the-fact. It is a common misconception that after data has been made available on the revenues collected after a change, one can say what the impact of the change was. In fact, it is still necessary to estimate what the tax revenue would have been under the old law. Just as the impact of a tax change must be estimated before it is implemented, its impact must also be estimated *after* it is implemented. ❑

**Contributions to this article were made by Clarence Campbell, Fred Church, Rick Graycarek, Grant Paullo, Debra Pelley, Grant Paullo, and Deborah Zadzi.*

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[1] For a more thorough discussion of the line item structure, please see the article entitled "Block Granting, Controlling Board Style," in the October issue of ***Budget Footnotes***.

[2] It should be noted that having the adjusted spending estimates for the old and new TANF-related line items will only allow us to track spending with greater accuracy – it will do nothing to change the appearance of enormous variances in the related GAAP categories. For that to occur, it would be necessary for OBM to alter the FY 1997 monthly disbursement estimates in the State Accounting System.

[3] Ohio Department of Taxation, *1995 Annual Report* and *1990 Annual Report*.

ISSUES OF INTEREST

AN ALTERNATIVE RETIREMENT PROGRAM FOR OHIO'S UNIVERSITIES AND COLLEGES: IMPLEMENTATION CONCERNS AND UNEXPLORED ISSUES

BY DEBRA PELLEY

Virtually every state and local government employee in Ohio is currently required to be a member of one of the state retirement systems. Under Am. Sub. H.B. 586 (passed by the General Assembly November 14, 1996), this situation will change, as the bill provides that all full-time unclassified academic and administrative employees of the state's universities and colleges who have less than five years of state service will have the opportunity to elect to participate in an alternative, defined contribution, retirement program in lieu of the state retirement systems. The bill contains provisions that would prevent the alternative program from affecting the unfunded liabilities of the State Teachers Retirement System (STRS), Public Employees Retirement System (PERS), and School Employees Retirement System (SERS). However, the bill leaves unaddressed a number of issues that can be expected to greatly complicate the implementation of the alternative program. This article addresses a few of these issues.

The Basic Framework

As a defined contribution (DC) plan, the alternative retirement program would be structured quite differently from the current state retirement systems, which are defined benefit (DB) plans. In a DC plan, contributions are deposited into a separate retirement account for each participant. Retirement benefits are based on the amount in the employee's account — the accumulated contributions plus actual investment earnings. In contrast, in a DB plan, regardless of the plan's investment results, the employee receives a benefit determined under a specified formula based on years of service and earnings.

In general, those employees who stay with the employer until retirement are likely to receive a greater benefit under a DB plan than they would under a DC plan. Those who stay with the employer for only a few years are likely to receive a greater benefit under a DC plan than they would under a DB plan, especially if this employment is early in life.

Under Am. Sub. H.B. 586, each employee who elects to participate in the alternative program would be required to make a contribution equal to the percentage of his or her salary that he or she otherwise would be required to contribute to the appropriate state retirement system. Additional voluntary employee contributions would also be permitted. The board of trustees of each university or college would determine the size of the employer contribution that it would make to the employee's retirement account.

In addition to the employer contribution to the employee's account, each university or college would also be required to make a contribution to the appropriate state retirement system initially equal to six percent of the salary of each employee electing the alternative retirement program. This contribution (referred to here as the “mitigating contribution”) would be used to mitigate any negative financial impact (i.e., increased unfunded liabilities) on the state retirement systems resulting from the implementation of the alternative retirement program. This contribution would be actuarially adjusted one year after the program’s implementation and every three years afterward. The contribution made to each of the affected state retirement systems would continue until the unfunded accrued liability for all benefits except health care for that system is fully amortized.

Two studies completed independently by the Legislative Budget Office (LBO)[1] and STRS[2] in 1994 of a similar proposed alternative program included actuarial estimates of the mitigating contribution that would be necessary under various scenarios. The initial six percent established under the bill falls within the range of these estimates. Both studies estimated the fiscal impact that an alternative plan would have upon STRS only, not PERS or SERS.

Which employees, and how many, will be eligible for the alternative program? It depends...

Nationally, alternative retirement programs are common in higher education. Although they have been promoted in Ohio and other states as a tool for public universities to use in the recruiting of faculty and upper-level administrators, no studies or data exist showing the existence of overall recruiting problems related to retirement programs for higher education employees. However, there is some anecdotal evidence that an alternative program would help the universities in recruiting certain individuals.

Many of the complexities involving the bill arise from the fact that the employees who would be eligible for the alternative program are currently split among three of the state retirement systems, rather than all contained in one. All of the academic employees who would be eligible are currently required to be members of STRS. These members are relatively easy to identify and count: approximately 5,000 current STRS members with under five years of service employed by universities and colleges would be eligible to elect alternative retirement program participation. After the program’s implementation, approximately 1,200 new employees each year who otherwise would become STRS members would also be eligible to participate in the alternative program.

Although the academic employees who would be eligible for the alternative retirement plan are relatively easy to identify, the administrative employees who would be eligible for the program are another story. The eligible administrative employees at the University of Akron and 14 of the state’s 23 community and technical colleges are SERS members. Administrative employees at the rest of the universities and medical colleges and the other nine community and technical colleges are members of PERS. The number of PERS and SERS members with under five years of service who would be eligible for the alternative program is not known (although it has been estimated to be at least several hundred), because no data is available that tabulates the eligible unclassified administrative employees separately from other nonacademic university and college employees. Because data on these employees is not separately available, it has not yet been possible for the size of the necessary mitigating contribution for PERS and SERS to be estimated.

A related question concerns just how the universities and colleges determine which jobs are unclassified administrative positions, and whether the implementation of the alternative program will bring about any attempts to standardize the definitions institutions use in making this distinction. Because no uniform classification system exists across the universities and colleges, it is likely that some jobs with similar or identical duties would be unclassified at one institution (and therefore eligible for alternative plan participation), but classified (ineligible) at another. This could be seen as inequitable, and it also raises the question of what would happen to an administrative employee who has elected to participate in the alternative program at one institution, and then moves to a similar (but not alternative program-eligible) job at another institution. The bill’s provision leaving it up to each separate institution to determine which jobs are unclassified administrative positions does not make any special allowances for this situation — so presumably such an individual would be required to join a state retirement system.

It is likely that some jobs with similar duties would be unclassified (and therefore *eligible* for the alternative program) at one institution, but classified (*ineligible*) at another.

Benefits That Will Be Unavailable to Alternative Program Participants

Employees who elect to participate in the alternative program will not be eligible for any survivor and disability benefits analogous to those provided to members of the state retirement systems, although payment of the amount in the participant's retirement account would be made upon the termination of employment due to the participant's disability or death. Post-retirement health care benefits, which probably are a greater factor than survivor or disability benefits in an employee's evaluation of a retirement plan, would also not be provided to alternative program participants.

For faculty who transfer to the alternative program, the amount transferred would include interest, but for administrators it would not.

It could be argued that employees who elect to participate in alternative retirement programs place a greater value on the portability of pension benefits than on post-retirement health care. However, some potential university and college recruits may already be in situations in other states where they have both. In a survey of 20 states with alternative retirement programs, LBO found that 13 pay at least part of the cost of post-retirement health care for some or all alternative program participants. Of these 13, three provide this coverage through the state retirement systems, and the other ten provide coverage under state or university plans. This suggests that, depending on what other states already employ and/or are attempting to recruit potential employees of Ohio's universities and colleges, the lack of health care benefits could reduce any recruiting value resulting from the opportunity to begin or continue participation in an alternative program.

What amount will be transferred to the alternative program for current employees who elect to participate? It depends...

In addition to establishing an alternative retirement program, Am. Sub. H.B. 586 also provides that an individual who withdraws from STRS membership would receive, in addition to a refund of the employee contributions, interest based on years of service. This provision, which in its As Introduced version was a separate bill, was intended to increase the portability of STRS benefits by providing members who do not remain in state employment for a full career with a greater benefit than the refund of their contributions (without interest) that is received currently.

The STRS actuary has predicted that over the long term the value of the health care forfeited by members receiving refunds under this provision will exceed the cost of paying interest on refunds. However, this determination has not been made for the other retirement systems, and the bill does not contain similar provisions for them. Indeed, if this provision were extended to additional retirement systems, it would be necessary to analyze the fiscal effect upon each one separately.

This provision adds to the complexity of the implementation of an alternative program in that it applies to STRS members who withdraw from membership as a result of electing to participate in the alternative program. Because in a defined contribution plan, the amount of the benefit received is directly tied to the amount deposited in the employee's account, this provision could be considered inequitable, in that for faculty (STRS members) who elect to transfer to the alternative program, the amount transferred and initially deposited into the employee's alternative program account **would** include interest, but for unclassified administrative employees (PERS and SERS members), it **would not**.

What will the employer contribution rates be for the alternative program? It depends…

The bill permits each institution's board of trustees to set its own employer contribution rate for the alternative program. In several hearings and other discussions on this bill, representatives of the state universities and colleges and others indicated that one strategy that they considered to be reasonable would be for the institutions to set this rate so that, when combined with the mitigating contribution, the sum would be equal to the employer contribution to STRS, PERS, or SERS that would be made if that employee had elected to become (or remain) a member of that system. It has been observed that if this strategy were used, the institutions would hold their retirement costs unchanged, while maximizing the benefit to be received by alternative program participants. However, if this strategy were used, a few apparently unexplored problems would arise.

First, because (after the first year of the program) the mitigating contribution for each of the three systems would need to be determined separately (and the employer contribution for PERS, at 13.31%, is lower than the 14% contribution for STRS and SERS), the difference between the state system employer contribution and the mitigating contribution would necessarily be **different** for each of the three systems. Therefore, three separate employer contributions would result for three separate groups of employees: faculty (STRS) members, unclassified administrative employees at institutions whose non-teaching staff is in PERS, and unclassified administrative employees at institutions with non-teaching staff in SERS. While the existence of separate contribution rates in itself would not be a problem, the end result (lower benefits for those employees in the groups with the lower employer contribution levels) could again be perceived as inequitable. In other words, because the amount of the benefit received under a DC plan is directly tied to the amount of contribution deposited in the employee's account, academic and administrative employees at the same institution would receive different levels of retirement benefits based on the employer contribution. Because the alternative program has been promoted as a recruiting tool, and presumably the universities are equally concerned about recruiting faculty members and administrators, this could be seen as a shortcoming of using this strategy to set the employer contribution rate.

If different employer contribution rates were set for different groups, the end result would be lower benefits for the groups with lower rates.

Another problem with setting the employer contribution to the alternative program so that when combined with the mitigating contribution it equals the retirement contribution currently being made is that, under the bill, the mitigating contribution would be actuarially adjusted every three years. Therefore, the difference between the current contribution to STRS, PERS, or SERS and the mitigating contribution would change every three years.

It should be noted that both of these problems would occur if the employer contribution rates were set with the goal of the employer contribution rate plus mitigating contribution rate equalling any given target, and thus keeping employer costs stable; the target need not be the current employer contribution rate. Because the mitigating contribution rates for each of the three affected retirement systems would be different, and because these rates would be expected to change every three years, this would not be an ideal method for setting the employer contribution rate.

Only those with five or fewer years of service will be eligible

Another concern (albeit likely to be a smaller one) arises from the fact that the alternative program is only available to new employees who elect to participate in it within 90 days of starting employment and current employees with *less than five years* of service credit who elect to transfer to it within 120 days of its establishment.

Most (but probably not all) employees who could expect to receive greater benefits under the alternative program would fall into this group. However, it is to be expected that some employees with more than five years of service who do not expect to remain in public service in Ohio for an entire career would be dissatisfied with being barred from alternative program participation. Nevertheless, because these employees have already been recruited, this restriction would be in keeping with the use of the program as a recruiting tool, although so would barring current employees with less than five years of service from the program.

This restriction may reflect an expectation that the mitigating contribution that the institutions would be required to make would be lower if fewer employees were eligible for the alternative program. The results of an actuarial model developed by Milliman & Robertson for the 1994 LBO study suggest that, expressed as a *percentage of payroll*, the mitigating contributions that the state universities and colleges would be required to pay the retirement systems would actually be somewhat **higher** if the alternative program were only available to those with less than five years of service than if it were available to all employees in the eligible positions.[3] However, because fewer employees would be eligible to elect the alternative program, and therefore the contributions made by the institutions would be based on a smaller payroll, when expressed in *dollars*, the amount of this contribution would be expected to be lower if the program were only available to employees with less than five years of service.

And finally, what will the fiscal effect be on the universities and colleges? It depends!

However, the mitigating contribution is only one component of the fiscal effect that implementation of the alternative program will have upon the universities and colleges. It is impossible to predict with any certainty whether the implementation of this program will result in an increase or decrease in retirement expenditures for the state universities and colleges because, although it is possible to speculate about the rate-setting strategies that may be used, the rates that will be set by each institution are still not known. The overall direction of the fiscal effect on the institutions will be contingent upon the alternative program employer rate set by each separate institution and whether the sum of this rate and the mitigating contribution to the state retirement systems is greater or less than the current employer retirement contribution. Indeed, because it is likely that not all the institutions will set their rates at the same level, the implementation of the alternative program could result in an increase in expenditures for some institutions and a decrease for others. Whatever the direction (increase or decrease) of the fiscal effect on the universities and colleges, its size will be contingent on the number of employees who elect the alternative program.

It is interesting to realize that the alternative program employer contribution and election rate are not independent of each other, because the higher the contribution (and greater the expected benefit), the higher the alternative program election rate. Because alternative program benefit levels would be contingent on the contribution rate, and employees would choose between the alternative program and the state retirement systems on the basis of which they would expect to result in the greater benefit, it is impossible to accurately estimate the election rates for the alternative program until the employer contribution rates are known.

Although Am. Sub. H.B. 586 establishes the broad framework of the alternative retirement program, it is clear that a number of practical issues remain to be resolved before the program can be implemented smoothly. An accurate portrayal of the program's fiscal effect on the state universities and colleges will be possible only after the employer contribution rate to the alternative program has been set, the initial group of employees have made their elections, and the actuarially determined mitigating contributions for STRS, PERS, and SERS have been calculated. ❑

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[1] Ohio Legislative Budget Office, *A Study of the Feasibility of Implementing an Alternative Retirement Program for Certain Employees of Ohio's Universities and Colleges: A Report Mandated by Sub. H.B. 715 of the 120th General Assembly* (Columbus, December 27, 1994).

[2] State Teachers Retirement System of Ohio, *Study of Alternative Benefit Program*, by Buck Consultants, Inc. (Columbus, November 1994).

[3] Ohio Legislative Budget Office, 29-31.

A Win-Win Strategy for Dealing With Closed National Guard Armories

By Barbara Mattei Smith

Recently, OBM presented a request to the Controlling Board to allow the release of funds to refund Fayette County and the city of Defiance for 50% of the cost these local government units incurred in the purchase of armories from the Adjutant General. The authorization for this program was enacted in H.B. 117 of the 121st G.A. and amended in S.B.'s 162 and 293.

Over the past few bienniums, the National Guard has been subject to force reductions and restructuring of the national guard units in the state. As a result, a number of older armories have been 'abandoned.' At the same time, the Adjutant General was faced with increasing costs for maintaining the remaining armories. Part of the funding for these ongoing maintenance projects is taken from the Armory Improvement fund, a rotary fund financed by the sale of old armories. The Adjutant General was faced with the difficult task of disposing of the unused armories in a manner that protected the state's interest, statutory requirements, and the General's ability to fund maintenance needs at the remaining functional armories.

Most of the vacant armories are subject to a requirement that the Adjutant General offer the facilities to the local government unit in which they are located at appraised value prior to offering the property for sale to the general public. Frequently, the local government is interested in the property but can not afford the renovation costs required to make the building usable. Many of the armories were built in the early 1900's and require asbestos abatement work as well as general renovation projects like painting and flooring. These older armories were generally built on sites that were easily accessible and near the center of communities. Two of the abandoned armories, in Toledo and Marietta, are waterfront properties that have great potential for future development. The local governments were frustrated by their inability to obtain these properties and the loss of control resulting from private ownership.

The reimbursement program attempts to reduce these problems by allowing for local governments to be reimbursed by the state for 50% of the appraised value when purchasing an abandoned armory. A total of $1 million was appropriated in the Controlling Board budget for this purpose. Am. Sub. H.B. 376 granted the Adjutant General the authority to sell 21 parcels with the right of first refusal granted to the local government where the parcel is located. The OBM controlling board requests were for the first applications of this innovative program to balance the needs of a state agency and the local communities. ❑

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 *December* 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	8:35	This month’s journal contains segments on IRS audits of municipal bond transactions, new welfare reforms, and Supreme Court case involving freedom of religion and government regulation, among other interesting topics.
Leadership Spotlight/ Local Government Internet Update	10:30	This program examines Internet applications developed by the city of San Carlos, California. Among the innovative applications developed is a section called “Smart Voter.” This section allows citizens to enter their address and zipcode and obtain a copy of the ballot they would see at the polls. However, the ballot form they see has links to statements by the candidates, news articles, and other resources.
Training Track/ Fair Labor Standards Act	17:30	This segment outlines what is covered by the Fair Labor Standards Act and then goes into the details surrounding exemptions to the act. These exemptions are classified into four different categories; executive, administrative, professional, and outside sales.
Human Factor/ Workplace Diversity	8:00	This segment does not talk about ethnic or cultural diversity, rather, it examines the importance of opportunities for advancement in the workplace. The program outlines how the city of Sanger, California reorganized their workforce to create a more opportunities to fully utilize their human resources.
Money Watch/ Imaging and Records Management	11:00	This program takes us to Lenexa, Kansas in order to provide an overview of the considerations that go into developing and implementing a complete computerization of public records.