Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE FEBRUARY, 1997

FISCAL OVERVIEW

— *Frederick Church*

January is a very important month for state tax revenues. It is traditionally the biggest collection month for the personal income tax and the non-auto sales tax. With the increase in payments by electronic funds transfer (EFT) it is now sometimes the biggest month for corporate franchise tax revenues also. A strong January showing in tax revenue is a good omen for the fiscal year as a whole; a bad January makes the budget director wring his or her hands. Fortunately, most of the news in January was good. Tax revenues came in well above estimate, and most of the overage seems to be due to real economic strength, although the overage in the corporate tax may be a function of payment timing factors.

Tax revenues were $79.7 million over estimate in January, led by a $51.3 million overage in the personal income tax. Employer withholding resumed its roller-coaster ride, falling short of the forecast, but quarterly estimated payments had a huge surplus. For the year to date, withholding has dropped back to slightly below the estimate — in percentage terms, the shortfall is so small as to qualify for being exactly at the estimate — but quarterly estimated payments show an overage in excess of $100 million. Apparently non-wage income was once again stronger than expected in CY 1996. Total income tax revenues are almost $90 million ahead of estimate for the year.

The non-auto sales and use tax added to its succession of unspectacular but solid overages in January. Despite reports from retailers bemoaning their Christmas sales, non-auto tax revenue increased by 7.3 percent from last January. It appears that in many places the "disappointing" Christmas season was more the result of unrealistic expectations than of low sales growth. The auto sales tax also bounced back in January after low December collections had raised worries about slowing sales.

The corporate franchise tax posted a big overage in January, but early February revenues were low. It seems that the January overage may have been the result of faster than usual processing of payments, and that total first payment revenue — split between January and February — may just make the estimate or even fall short. This is surprising in light of the latest corporate profit news. Although the official Bureau of Economic Analysis (BEA) statistics for the fourth quarter and thus for CY 1996 are

Volume 20, Number 7

STATUS OF THE GRF

ISSUES OF INTEREST

(continued on next page)

(continued from previous page)

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

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 January	Fiscal Year 1997 to Date	Last Year	Difference
Beginning Cash Balance	($565.7)	$1,138.5		
Revenue + Transfers	$2,381.6	$10,047.0		
Available Resources	$1,815.8	$11,185.5		
Disbursements + Transfers	$1,306.3	$10,676.0		
Ending Cash Balances	**$509.5**	**$509.5**	**($311.2)**	**$820.8**
Encumbrances and Accts. Payable		$405.4	$325.4	$80.0
Unobligated Balance		**$104.2**	**($636.6)**	**$740.8**
BSF Balance		$828.3	$828.3	
Combined GRF and BSF Balance		**$932.5**	**$191.7**	**$740.8**

not yet in, survey data for large companies suggests that fourth quarter profits showed strong growth from the preceding year.

For the year to date, most of the smaller taxes are very close to the estimate. An exception, the cigarette tax continues to outperform the forecast, having grown 2 percent rather than declining 2 percent as predicted.

On the non-tax side, federal grants continue to fall far short of the estimate. January's reimbursement was $49.6 million below the forecast, and the year-to-date shortfall is now $137.9 million — 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 $163.2 million over estimate — a variance of 2.3 percent — with growth of 6.9 percent from last year. The personal income tax is responsible for more than half of this overage. Fortunately, most of the tax overages seem to be the result of better economic performance than expected. The corporate franchise tax is the major revenue source where the overage may disappear because it results from timing factors.

Disbursements from the GRF in January were $121.4 million below estimate. Almost every category of spending was below estimate, in many cases far below. For both the month and the year, the biggest underspending was in Medicaid, which is now not only $185 million below estimate for the year, but also below last year's spending level. Much of this underspending can be traced to the HMO category, where lower than estimated caseloads and capitation rates have both held down spending. Continued declines in ADC caseloads have contributed to keeping all human services spending below estimate. It is difficult to tell exactly where ADC cash disbursements for the year are relative to the estimate, because the change in the program from ADC to TANF and the change in line—items has obviously made the old accounting methods overstate the variance. LBO hopes to have a useful comparison next month.[1]

Both K-12 education spending and higher education spending continue to fall below the estimates. Most of the K-12 underspending is in the Foundation line items, and it seems that use of the old ADM figures may once again be the culprit. The Department of Education began using updated ADM figures in January. The first full-month impact should be in February, and it is expected that K-12 spending will begin gradually catching back up to the estimates. For the year, disbursements are $474.4 million below estimate, although the overage in the other transfers category keeps the variance in total outlays down to $432.7 million.[2] Spending has grown by only 1.8 percent from FY 1996.

A quick look at Table 1 will reveal that the impact of revenue overages and continued underspending — mostly underspending — has been to keep unobligated GRF balances well above where they were last year. The unobligated GRF balance is an eye-opening $741 million ahead of last year's figure at the end of January. Even after one adjusts this figure for the transfer of $359 million from the Income Tax Reduction Fund (ITRF) to the GRF in January, the fund balance is still $382 million ahead of last year's level.[3] While spending in areas like education is still expected to catch up to the estimates by year's end, welfare spending is expected to finish up far below estimate. This points to a large GRF fund balance at the end of the year, and consequently to a large income tax rate cut for tax year 1997. LBO currently forecasts that the 1997 rate cut will be around 7.1 percent, larger than the 6.6 percent cut for tax year 1996.

Status of the General Revenue Fund

REVENUES

— Frederick Church

Tax revenues were $79.7 million over estimate in January, led by a $51.3 million overage in the personal income tax. The non-auto sales and use tax continued its steady string of overages, finishing $6.7 million above estimate. The auto tax bounced back from a poor December with a $2 million overage. Finally, the corporate franchise tax was $18.8 million over estimate, but this may be more the result of timing factors than of underlying strength in the tax. Preliminary indications are that combined January and February receipts will be below estimate.

The minor taxes were very close to the estimate in January. In non-tax revenue, liquor transfers were $3 million over estimate, and transfers in were $40 million over estimate (however, this is just a temporary transfer that repays the GRF for a temporary loan of cash prior to bond sales; see the *Fiscal Overview* section). The major story was that federal reimbursement was $49.6 million below estimate.

For the year, the story is similar: tax revenues are $163.2 million over estimate, and growth from last year is 6.9 percent. The biggest overage is in the income tax, at $89.3 million. The non-auto sales and use tax is $34.7 million over estimate, and the corporate franchise tax is $25.4 million over estimate. However, as noted above, the corporate tax overage may be partly due to timing factors. The minor taxes are close to the estimate. The exception is the tobacco products tax ($6.6 million overage) which keeps growing in defiance of predictions that it will decline.

In non-tax revenue, investment earnings are $8.6 million over estimate, fueled by bigger than expected daily GRF cash balances. Liquor transfers are $5 million over estimate, presumably due to stronger than anticipated liquor sales. The variance that dwarfs the others is, of course, in federal reimbursement, where the shortfall is $137.9 million and growing, as human services spending continues to fall short of the estimates.

Sales and Use Tax

The non-auto sales and use tax added to its succession of unspectacular but solid overages in January. Despite reports from retailers bemoaning their Christmas sales, non-auto tax revenue increased by 7.3 percent from last January. This strong growth occurred despite the fact that at the national level, December non-auto retail sales increased by only 4.1 percent from the year before (because Ohio collects non-auto sales tax revenue with a one month lag, December sales drive January tax collections). Once again, Ohio did better than one would predict on the basis of the national sales data.

The Federal Reserve's ***Beige Book*** from late January indicated that holiday sales varied widely by district. Year-over-year holiday sales growth was around 5 percent in the Philadelphia district, around 7 percent in St. Louis, in the 4 to 8 percent range in New York, but only 0 to 2 percent in Minneapolis. The Fourth District (the Cleveland District, including the rest of Ohio) did not provide specific numbers, but retailers there did say that sales were mixed. Essentially, there is nothing in the national or Federal Reserve regional data that provides an explanation of why Ohio did so well in its January collections. The strong month does not appear to be a fluke, however, because it fits the pattern of steady overages for the entire fiscal year.

The auto sales tax also bounced back in January after low December collections had raised worries about slowing sales. At the national level, auto sales growth picked up in January, and the ***Beige Book*** reports that sales in Ohio and the rest of the Fourth District actually picked up sharply somewhat earlier, in mid-December. The Ohio report was also better than the one from several of the other districts. Unfortunately, the auto sales tax has settled into a pattern where it is over and then under the estimate in alternating months, so that it is hard to discern a trend. However, on the whole it looks like the state will be able to maintain a small overage in this tax for FY 1997.

Personal Income Tax

Employer with-holding resumed its roller-coaster ride in January, falling short of the forecast, but quarterly estimated payments had a huge surplus. For the year to date, withholding has dropped back to slightly below the estimate. However, the error is so small — less than 1/10th of 1 percent — that for all practical purposes revenues are equal to the forecast. In contrast, January's huge quarterly estimated payment pushed the year-to-date overage above $100 million. Total

Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of January, 1997
($ in thousands)

REVENUE SOURCE			
TAX INCOME	Actual	Estimate*	Variance
Auto Sales	$46,163	$44,122	$2,041
Non-Auto Sales & Use	496,789	490,073	6,717
Total Sales	$542,952	$534,195	$8,758
Personal Income	$823,791	$772,500	$51,291
Corporate Franchise	287,192	268,370	18,822
Public Utility	30	0	30
Total Major Taxes	**$1,653,964**	**$1,575,065**	**$78,899**
Foreign Insurance	$71	$0	$71
Domestic Insurance	5	0	5
Business & Property	36	135	(99)
Cigarette	22,577	23,320	(743)
Soft Drink	1	0	1
Alcoholic Beverage	3,461	3,514	(53)
Liquor Gallonage	3,098	2,283	816
Estate	796	0	796
Racing	0	0	0
Total Other Taxes	$30,045	$29,252	$794
Total Taxes	**$1,684,010**	**$1,604,317**	**$79,693**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	3,168	3,900	(732)
Other Income	8,631	6,600	2,031
Non-Tax Receipts	$11,799	$10,500	$1,299
TRANSFERS			
Liquor Transfers	$3,000	$0	$3,000
Budget Stabilization	0	0	0
Other Transfers In	398,716	358,700	40,016
Total Transfers In	$401,716	$358,700	$43,016
TOTAL INCOME less Federal Grants	**$2,097,524**	**$1,973,517**	**0**
Federal Grants	$284,060	$333,617	($49,556)
TOTAL GRF INCOME	**$2,381,585**	**$2,307,134**	**$74,450**

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

Detail may not add to total due to rounding.

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	$389,021	$386,237	**$2,784**	$376,386	3.36%
Non-Auto Sales & Use	2,651,281	2,616,561	**34,720**	2,504,772	5.85%
Total Sales	$3,040,302	$3,002,798	**$37,504**	$2,881,158	5.52%
Personal Income	$3,345,166	$3,255,900	$89,266	$3,101,472	7.86%
Corporate Franchise	310,945	285,500	25,445	267,975	16.03%
Public Utility	212,164	209,920	2,244	197,183	7.60%
Total Major Taxes	$6,908,577	$6,754,118	$154,459	$6,447,788	7.15%
Foreign Insurance	$143,327	$144,275	($948)	$136,496	5.00%
Domestic Insurance	205	0	205	79	159.49%
Business & Property	1,021	2,070	(1,049)	2,179	-53.16%
Cigarette	162,583	155,956	6,628	159,478	1.95%
Soft Drink	18	0	18	4	325.58%
Alcoholic Beverage	30,153	29,213	940	29,829	1.08%
Liquor gallonage	16,510	16,751	(241)	16,561	-0.31%
Estate	46,117	42,925	3,192	42,027	9.73%
Racing	0	0	0	0	#N/A
Total Other Taxes	$399,933	$391,189	$8,744	$386,653	3.43%
Total Taxes	**$7,308,512**	**$7,145,307**	**$163,205**	**$6,834,441**	**6.94%**
NON-TAX INCOME					
Earnings on Investments	$50,988	$42,375	$8,613	$41,028	24.28%
Licenses and Fees	46,558	43,225	3,332	44,925	3.63%
Other Income	51,469	48,000	3,469	50,857	1.20%
Non-Tax Receipts	$149,014	$133,600	$15,414	$136,810	8.92%
TRANSFERS					
Liquor Transfers	$36,500	$31,500	$5,000	$33,000	10.61%
Budget Stabilization	0	0	0	0	#N/A
Other Transfers In	398,780	358,700	40,080	25,150	1485.60%
Total Transfers In	$435,280	$390,200	$45,080	$58,150	648.55%
TOTAL INCOME less Federal Grants	**$7,892,806**	**$7,669,107**	**$223,699**	**$7,029,401**	**12.28%**
Federal Grants	$2,154,217	$2,292,142	($137,925)	2,158,873	-0.22%
TOTAL GRF INCOME	**$10,047,023**	**$9,961,248**	**$85,774**	**$9,188,274**	**9.35%**

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

income tax revenues are almost $90 million ahead of estimate for the year.

As before, it is not clear what is behind the wild monthly fluctuations in employer withholding. Withholding was weak in October and November, shot up in December — year-over-year growth was 19.3 percent — and fell back in January. Some of the explanation seems to be timing: larger employers remit their withholding even more frequently than once per week, so that a variation of a couple of days in when withholding is remitted to the government can cause spillover from one month to the next and wreak havoc with monthly collections. It is also possible that other forces are at work, like the timing of year-end bonus payments. If bonuses last year were mostly paid in January, but this year were paid in December, that could explain part of the variation in growth patterns. It is a known fact that the timing of bonus payments does change from year to year, partly for tax reasons. What is unclear is the magnitude of these changes and how much they affect monthly state tax collections.

Often, although not always, the January estimated payment is an advance indicator of what the state will see in the Spring tax filing season. The January payment is the last payment against the prior tax year's liability (in this case, tax year 1996). Taxpayers with substantial non-wage income thus sometimes use the January payment as a kind of "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 from April through October. 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. In this way, the January payment acts as an advance indicator for the whole filing season's refunds and tax payments.

If this pattern holds, then the state may do much better than expected in annual returns and refunds this Spring. The gross numbers may not show strong growth, because the 6.6 percent tax rate cut established in S.B. 310 — caused by the big budget surplus at the end of FY 1996 — is working to push up refunds and push down annual returns. However, when the numbers are adjusted for the impact of the rate cut, Ohio may post strong numbers this Spring.

OBM's re-estimates of the income tax for FY 1997, which are the ones used in this report, have already been explicitly adjusted for the income tax rate cut, so comparisons of actual collections to estimates should need no further adjustment.

The reasons for the overage in quarterly estimated payments seem to be fairly clear, although the magnitudes of particular factors are uncertain. The huge run-up in the stock market and in stock mutual funds has no doubt created additional capital gain income for Ohioans, which is reflected in estimated payments. Non-wage income generally, including interest and dividends, has shown fairly strong growth (although, as many analysts have pointed out, stock dividend growth has not kept pace with increases in share prices). Also, the anecdotal evidence indicates that profits of unincorporated businesses (proprietorships, partnerships, limited liability companies, etc.), whose owners pay the personal income tax rather than the corporate tax, once again grew strongly in 1996. All these factors have contributed to strong growth in non-wage income of Ohioans, and thus in quarterly estimated tax payments as well.

Corporate Franchise Tax

The corporate franchise tax posted a big overage in January ($18.8 million), but early February revenues were low. It seems that the January overage may have been the result of faster than usual processing of payments, and that total first payment revenue — split between January and February — may just make the estimate or even fall short. This is surprising in light of the latest corporate profit news. Although the official Bureau of Economic Analysis (BEA) statistics for the fourth quarter and thus for CY 1996 are not yet in, survey data for large companies suggests that fourth quarter profits showed strong growth from the preceding year. Two possible explanations come to mind, although there may be others.

First, the profit numbers reported in surveys are often the worldwide profits of multinational companies. These profit numbers thus may substantially exaggerate the growth in U.S.-source corporate profits. If so, then these survey results will not be a good indicator of the corporate profits figures that will eventually be released by BEA, and cannot serve as a forecasting indicator Ohio franchise tax payments.

Second, previously enacted tax credits, such as the job creation tax credit and the manufacturing investment tax credit, may be taking a bigger bite out of FY 1997 franchise tax collections than anyone had expected. However, at this point that hypothesis is purely speculative, as LBO has little data on the job creation credit and none on the investment tax credit.

If indeed the first payment ends up being low, that does not ensure that collections for the March and May payments will also be low, or that total fiscal year revenues will fall short. However, in past years, the first payment has been a reasonably good predictor of total filing season payments, so a shortfall in combined January-February collections would be a warning signal for a small shortfall for the year as a whole. ❑

[1] As mentioned in prior issues of this report, 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, until OBM and LBO restructure their estimates.

[2] An examination of Table 3 and Table 5, later in this report, will show that both transfers into the GRF and transfers out of the GRF are roughly $40 million above estimate. These transfers represent loans from the GRF to the State Capital Improvement Fund and the Administrative Building Fund. The GRF was subsequently repaid with bond proceeds. These transfers thus have no net impact on the GRF.

[3] It is necessary to adjust for the ITRF transfer because, while the GRF has received that money to offset the revenue loss from the 1996 rate cut, very little of that revenue loss has been felt yet, since it will experienced in the form of lower tax return payments and higher refunds this Spring.

DISBURSEMENTS

*— Chris Whistler**

Disbursements from the GRF (including transfers) were $121.3 million under estimate for the month of January. The 8.5 percent negative variance added to the year-to-date underspending, leaving disbursements $432.7 million under estimate through January. (Note that program spending is $474.4 million under estimate — see the November issue of *Budget Footnotes* for a description of unanticipated transfers out of the GRF.)

If January's spending is any indication, **Primary and Secondary Education** disbursements will continue to be under estimate for the year. For the month of January, K-12 Education spending was $21.7 million under estimate, primarily due to underspending by the Department of Education in the 200-501, School Foundation – Basic Allowance, and 200-406, Head Start, line items. Basic Aid was $11.4 million under estimate as were several other SF-12 line items, namely Special Education (200-504), DPIA (200-520), and Gifted Education (200-521).

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of January, 1997
($ in thousands)

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$337,430	$359,123	($21,693)
Higher Education	144,972	163,647	(18,675)
Total Education	$482,402	$522,770	($40,368)
Health Care	$370,561	$444,599	($74,038)
Aid to Dependent Children	(57,093)	86,789	(143,882)
General Assistance	5	0	5
Other Welfare	206,713	65,122	141,591
Human Services (2)	83,097	90,143	(7,046)
Total Welfare & Human Services	$603,283	$686,653	($83,370)
Justice & Corrections	$150,483	$151,362	($879)
Environment & Natural Resources	8,449	9,200	(751)
Transportation	4,097	5,329	(1,233)
Development	8,259	9,611	(1,352)
Other Government (3)	30,430	25,710	4,720
Capital	1,060	311	749
Total Government Operations	$202,778	$201,524	$1,254
Property Tax Relief (4)	$1,049	$0	$1,049
Debt Service	16,612	16,623	(11)
Total Program Payments	**$1,306,125**	**$1,427,570**	**($121,445)**
TRANSFERS			
Capital Reserve	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	174	0	174
Total Transfers Out	$174	$0	$174
TOTAL GRF USES	**$1,306,298**	**$1,427,570**	**($121,271)**

(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 Head Start line item was $13.2 million under estimate. As reported in the October issue of *Budget Footnotes*, the estimate for Head Start is based on estimated disbursements for the quarter. Actual disbursements are made only after Head Start agencies send in requests for funding. If the same is true for this quarter, the entire $18.1 million estimate for the quarter should be spent by the end of March.

Other somewhat unusual underspending occurred in two line items related to teacher development: 200-417, Professional Development (under by $900,000), and 200-429, Local Professional Development Block Grants (under by $3 million). It is presumed that these are timing issues and that the funds will be spent in February.

Year-to-date **Primary and Secondary Education** spending was $51.6 million under estimate through January. February should be a telling month for the 200-501, School Foundation – Basic Allowance, line item, as updated ADM figures will be in effect for both of the foundation payments that are sent in February.

Rounding out the **Education** category in January was underspending by $18.7 million in the **Higher Education** component. This increased the year-to-date **Higher Education** variance to $30.2 million. As discussed in previous issues of *Budget Footnotes*, the variance is due to inaccurate estimating by the Student Aid Commission.

For the year-to-date, the **Education** category was $81.8 million under estimate through January.

In terms of magnitude, the **Welfare and Human Services** category has the most significant variance. Through January, total spending in the category was $343.5 million (7 percent) under estimate. This variance represented 72.4 percent of the total variance for all GRF program payments. Within the category, the most notable under-spending has occurred in two programs: Temporary Assistance for Needy Families (TANF) and Medicaid.

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)	$2,551,368	$2,602,969	($51,601)	$2,501,543	1.99%
Higher Education	1,221,930	1,252,156	(30,226)	1,177,061	3.81%
Total Education	$3,773,297	$3,855,125	($81,828)	3,678,604	2.57%
Health Care	$2,857,345	$3,042,865	($185,520)	$2,898,019	-1.40%
Aid to Dependent Children	217,105	628,217	(411,112)	585,912	-62.95%
General Assistance	100	0	100	9,511	-98.95%
Other Welfare	760,635	452,279	308,355	378,511	100.95%
Human Services (2)	669,807	725,159	(55,352)	688,952	-2.78%
Total Welfare & Human Services	$4,504,992	$4,848,521	($343,529)	$4,560,903	-1.23%
Justice & Corrections	$846,977	$856,344	($9,367)	$762,804	11.03%
Environment & Natural Resources	76,808	76,948	(140)	73,690	4.23%
Transportation	13,090	18,919	(5,829)	19,582	-33.15%
Development	79,019	82,516	(3,497)	67,867	16.43%
Other Government (3)	218,552	246,449	(27,897)	211,980	3.10%
Capital	4,873	4,011	862	2,197	121.76%
Total Government Operations	$1,239,319	$1,285,187	($45,868)	$1,138,120	8.89%
Property Tax Relief (4)	$490,020	$492,341	($2,321)	$456,371	7.37%
Debt Service	91,405	92,278	(872)	91,401	0.00%
Total Program Payments	**$10,099,034**	**$10,573,451**	**($474,417)**	**$9,925,400**	**1.75%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$12,000	-100.00%
Budget Stabilization	0	0	0	535,214	-100.00%
Other Transfers Out	576,949	535,237	41,712	339,130	70.13%
Total Transfers Out	$576,949	$535,237	$41,712	$886,344	-34.91%
TOTAL GRF USES	**$10,675,983**	**$11,108,688**	**($432,705)**	**$10,811,744**	**-1.26%**

(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.

In the Office of Budget and Management's (OBM's) spending discussion included in their monthly report to the Governor, the Aid to Dependent Children (ADC) spending category has been partially adjusted to reflect the advent of the TANF program. While the change adjusts the actual spending amounts included in the ADC and Other Welfare categories, it does not alter estimated spending in this category, even though the disbursements from the TANF program are considerably different from those under ADC. (TANF line items were originally added to Other Welfare, thus shifting cash assistance payments from the ADC category.)

Prior to October, the ADC spending category included only federal and state dollars for both ADC cash grants (400-503) and ADC day care (400-536). The TANF spending category supports the following: cash grants (federal and state shares); state day care dollars (spending authority for the federal share of day care has been transferred to a Federal Special Revenue line); expenditures for work activities (formerly know as JOBS); one-time emergency assistance payments (formerly FEA); and the counties' reimbursement for administration. The additional activities being funded through TANF, that previously were funded through the Other Welfare category, artificially inflate the spending in the TANF program relative to the estimate. For this reason, the TANF spending category appears to be closer to estimate than it actually is.

The reality is that the number of people receiving cash assistance under TANF continues to decline, which by itself represents considerable under spending (for the first two months of FY 1997, the last "clean" month of data, the underage in cash assistance alone was $12 million). This underage is masked by the additional items that are funded from TANF that were included in the Other Welfare category prior to TANF. The Executive continues to anticipate a lapse of $40 million in this category (the estimate was based on the appropriation, less $40 million); however, LBO believes the lapse will be considerably greater than this amount. Because information regarding the ADC/TANF adjustment was not received from OBM until very late in the month, and because LBO believes the adjustment is misleading, LBO has not adjusted Tables 4 and 5. The sum of the variances for the ADC and Other Welfare categories ($102.8 million) continue to accurately reflect the total GRF variance by the Department of Human Services aside from the 400-525, Health Care/Medicaid, line item.

Spending in **Health Care/ Medicaid** was under estimate by $74.0 million in January, which drove year-to-date disbursements from the 400-525 line item to $185.5 million below estimate. Although the monthly variance cannot be attributed to something as simple as the timing of payments to health maintenance organizations (HMOs) — a frequent cause of larger variances — spending in early February suggests that the January variance was an anomaly. Prior to January, the average monthly variance was $18.6 million, the bulk of which could be attributed to the below estimate cash assistance caseload and lower-than-expected HMO capitation rates.

Although those reasons continue to be factors in the underspending, a couple more issues could be involved. In general, forecasts of spending in the 400-525 line item were made on a quarterly basis, which makes the production of monthly estimates problematic. The typical method used by the department for making the monthly estimates is to look at monthly disbursement patterns in prior years relative to their quarterly totals and to assume the same patterns will hold in the future. (For example, it might be the case that one-third of the quarterly total generally is disbursed in each month of the quarter.) The possibility exists that the monthly spending pattern during the third quarter will not conform to historical patterns.

Another reason for the extreme underspending in January could be that the "HMO pipeline" is less than expected. Because of lags in the payment of Medicaid providers, it is frequently the case that when a Medicaid eligible is enrolled in an HMO, claims for their services prior to their enrollment in an HMO continue to be paid on a fee-for-service basis. This overlap of fee-for-service and capitation payments (which is due entirely to timing) is often referred to as the "HMO pipeline." Because the percentage of ADC/Healthy Start eligibles enrolled in HMOs is slightly below the Administration's original expectation, the HMO pipeline has been lower-than-expected. (Note that the reason for the below estimate "penetration rate" is likely due to the magnitude of the decline in the cash assistance caseload in urban areas, where HMOs are used, relative to that of rural areas.)

The **Government Operations** category has the least significant variance of the three major areas. Although it was over estimate by $1.3 million in January, year-to-date disbursements were $45.9 million under estimate. One of the major reasons for the variance continues to be underspending by the Department of Administrative Services on the State of Ohio Multi-Agency high-speed fiber Communication System (SOMACS). The agency's total variance for the year-to-date was $16.9 million through January. ❑

**Contributions to this article were made by Grant Paullo and Deborah Zadzi.*

ISSUES OF INTEREST

FORECAST OF REVENUES AND PUBLIC ASSISTANCE FOR THE FY 1998–1999 BIENNIUM

TESTIMONY OF DENNIS MORGAN, LEGISLATIVE BUDGET OFFICER
BEFORE HOUSE FINANCE AND APPROPRIATIONS COMMITTEE
FEBRUARY 11, 1997

This testimony presents the Legislative Budget Office's (LBO) forecast of revenues for the FY 1998 – 1999 biennium, as well as our forecast for the Medicaid program and some commentary on the Temporary Assistance for Needy Families (TANF) program. *[Note: Documentation supporting these forecasts is available from LBO.]*

Our forecasts project higher revenues and lower Medicaid expenditures than is assumed in the executive budget. These estimates taken together result in greater income to the General Revenue Fund (GRF) by the following amounts:

FY 1997	$ 144.4 Million
FY 1998	$ 102.7 Million
FY 1999	$ 129.9 Million

Further, LBO's estimates for Medicaid spending (400-525, state share, GRF only) are lower than the executive's by:

FY 1997	$ 9.3 Million
FY 1998	$ 39.9 Million
FY 1999	$ 49.7 Million

Before we begin to look at the detail supporting these numbers, I would like to briefly discuss a number of issues that I feel the committee should keep in mind as it considers the FY 1998-1999 biennium, as well as the impact it will have on the FY 2000-2001 biennium.

The Economy

The national economy drives the Ohio forecast. And in considering the economic forecasts, the committee's overriding question should be - How long will this recovery continue? And perhaps, has the Federal Reserve Board really tamed the business cycle? Our answers to those questions are —We don't know. And —Probably not.

As you have heard in the media and in testimony before this committee, the current recovery is now the 4th longest in US history. If our forecasts are correct, it will become the 2nd longest recovery since WW II. Many economists are speculating that the economy might go another five years without an economic downturn. Perhaps today's conventional wisdom will prove to be true. In any case, while the Legislative Budget Office is not forecasting a recession for the upcoming budget, we become increasingly wary of getting through the FY 2000-2001 biennium without a recession. Whenever the next recession occurs, what might we expect?

There are indications that while we haven't eliminated business cycles, they may be more moderate than we have experienced in the past. If this is true, it also assumes a continuation of the personal and business decisions and conditions that exist today regarding a myriad of things like investment, savings, inventory, spending and other related issues.

The recession of 1990 – 1991 was far more moderate than previous recessions. Both the decline in economic activity and the subsequent recovery were more moderate than in the past. The rate of growth for this recovery is only half what we experienced in the 1960s and about 2/3 of what we experienced in the 1980s. This moderation is probably a major key to the continuation of the recovery. More importantly, despite surface similarities between the present and the period prior to the 1990-1991 recession, the economy today is healthier overall than it was then.

What then are the primary risks to the economy (in addition to the length of the recovery)? As the Office of Budget and Management (OBM) noted in its testimony last week, consumer spending will probably continue to drive the economy for the next several years and there are many concerns about the high levels of consumer debt and possible consumer retrenchment. While the consumer debt numbers are indisputable, there are questions about whether debt levels are really a problem. Rising credit card debt is partly the result of substituting credit cards for cash or checks as a payment mechanism. Also, surveys of consumer finance show that households are wealthier than they were at the start of the last recession.

Finally, interest rates are lower, so the cost of servicing debt is reduced. Households seem to have recognized their debt situation and the growth of consumer borrowing has slowed recently. Because of this, any change in consumer confidence and spending is more likely to result in a slowdown, rather than a recession. Wage inflation is probably a larger threat than consumer debt at this point.

Unemployment rates are extremely low, possibly unsustainably low. High demand for labor is putting upward pressure on wages. Recent data show wage inflation accelerating slightly, but overall it is still mild. With productivity growth averaging about one percent and price inflation at about three percent, wage inflation would have to hit four percent before it put pressure on prices. At present this seems unlikely, so inflation and therefore long-term interest rates will probably be stable over the biennium. Capacity utilization data also tend to support this analysis. Capacity utilization has hovered around 82 percent, which is generally thought of as a non-inflationary number. Recently utilization has risen above 82 percent, but most forecasts predict that in the long run utilization will fall back to that level.

In summary, LBO expects Ohio's economy to continue to grow over the biennium, but at a slower pace. We are in general agreement with the executive budget's broad view of the Ohio and the U.S. economy, although as we have already indicated, we differ on the amounts of revenue that will be generated for the state. A second issue that I would like to discuss revolves around the recent and proposed policy changes from the federal government.

Impact of Changes from the Federal Government

Welfare Reform

The first of these changes is welfare reform. Our understanding of Ohio's proposal and federal law seems to indicate that we should be able to meet the work and training requirements imposed on the state over the upcoming biennium. But this assumes that the federal government will accept our education programs as part of the work requirement, an assumption that many believe may be problematic. There may also be problems in certain areas of the state with transportation and day care issues. After that, it is not at all clear what dislocations will take place or what efforts will be needed. Clearly, implementation in the FY 2000-2001 biennium is progressively more difficult. An important consideration in welfare reform are the financial implications.

In testimony last week, OBM stated that Ohio plans to leave $75 million of the new Temporary Assistance to Needy Families (TANF) monies a year in reserve at the federal level. This money is to be held in case we experience an economic downturn. OBM estimates that it would give Ohio the ability to support approximately 20,000 additional families for a year, or approximately 60,000 recipients. However, our current caseloads are approximately 200,000 recipients below what they were during 1992 and the impact of a severe recession would obviously be greater than the one we most recently experienced.

The problem is compounded by the fact that the TANF program is flat funded by the federal government for the first five years of the program. So unlike the old Aid to Dependent Children (ADC) program, a recession and higher caseloads won't necessarily be offset by additional funding support from the federal government. Another major uncertainty at the federal level is the impact of a balanced budget on Ohio.

Balanced Budget

Whether the federal government achieves a balanced budget through a Constitutional amendment or through overdue fiscal restraint, the impact on domestic spending has been variously estimated to require reductions of 25% to 35% in all domestic programs. Since some programs are likely to be protected, others will obviously have to be cut by a greater amount.

A discussion of the implications of a balanced budget has to recognize that the variables involved in the analysis are changing constantly. In 1996 the federal government experienced an increase in revenues as a result of a stronger than expected economy, thereby reducing the budget deficit numbers. Further, the next economic slowdown, or a recession, would obviously magnify the problem both on the spending and revenue side of the equation.

In any case, various analyses show that the impact of the reductions to the state might be affordable in the upcoming biennium. After that, the impacts become more severe. The policy decisions about how Ohio will respond become much more difficult.

Medicaid

Last year Medicaid faded from the policy environment while welfare reform was being debated, but it is about to return to center stage in Washington. The President has proposed individual caps on Medicaid recipients. Republican leaders in Congress supported total funding caps in 1995 and 1996. There are other variations of caps that have been considered. Regardless, it seems likely that the President and Congress will find some way in the upcoming federal budget to cap Medicaid if they are to control spending and future deficits. We will have to watch developments in this area closely as there is at least some probability that the federal government will shift at least a portion of the financial risk to the states.

Another issue to discuss, arguably of lesser concern, is the cost of previously enacted tax changes, as well as the tax changes currently proposed by the executive, that aren't fully felt until the FY 2000-2001 biennium.

Impact of Enacted and Proposed State Tax Changes

In the corporate franchise tax, changes proposed by the executive are expected to result in a loss of $41 million for the biennium ($ 26 million from regular corporations and $ 15 million from financial institutions). However, because of the way the changes are phased in, this number understates the full annual impact of the proposals. When the proposed extension of the previously enacted investment tax credit is added, the annual revenue loss under the corporate franchise tax is $ 86 million. These revenue impacts, and the losses from changing the insurance tax, are summarized in Table 1.

In addition to these changes to tax law, the expansion of local competition in the telephone and natural gas industries are also likely to have a sizeable impact on revenue in the FY 2000-2001 biennium. We are still assessing the probable cost of these changes.

Revenues

LBO forecast for revenues is over that of the executive by the following amounts:

FY 1997	$ 144.4 Million
FY 1998	$ 102.7 Million
FY 1999	$ 129.9 Million

As we begin to look at these forecasts, it is very important to remember that the LBO forecast, compared to the executive's forecast, has the advantage of being able to build in two to three additional months of actual revenue. These additional months have shown a strengthening of both the withholding and quarterly estimated payments in the personal income tax. Although monthly withholding has been very volatile over the last year, the overall growth trend has been following wage growth, which is increasing. Whereas it first appeared that slow withholding growth would be a drag on the income tax, it now looks like withholding will hit the estimate in FY 1997 and show reasonable growth in FY 1998 and FY 1999.

The bigger story is in quarterly estimated payments. The final quarterly estimated payment against tax year 1996, made in January, was $81 million over the original forecast. Quarterly payments are already more than $100 million over the original estimate for the year.

TABLE 1

	FY 1999	Full Annual Cost – FY 2000 (Or After)
Corporate Franchise*	$ 26,000,000	$ 55,600,000
Financial Institutions	$ 15,200,000	$ 30,400,000
Insurance**	$ 12,000,000	$ 17,100,000

This overage may also be a harbinger of a better than expected spring tax filing season for the state. Although growth in non-wage income is slowing, continued stock market growth should help buoy quarterly estimated payments and annual filings across the biennium.

For these reasons, LBO's baseline tax forecasts are higher than the executive's. LBO's FY 1998 forecast of total income tax revenues is smaller than the executive's estimate because LBO projects a bigger budget surplus for FY 1997 and therefore a bigger cut in the 1997 tax rate. Besides the income tax, the other major difference between the two forecasts is in the non-auto sales tax. LBO projects stronger growth across the biennium, consistent with our projections that consumption will follow income growth, rather than fall below it as assumed in the executive forecast.

Public Assistance

TANF Background

As you know, with the advent of the TANF block grant, cash assistance is no longer an entitlement program. However, Medicaid remains an entitlement and Medicaid expenditures are subject to the vagaries of caseload size, individual health care needs, medical inflation, and provider payment plans. Medicaid eligibility, in part, is based on whether an individual would have been ADC eligible, using the criteria in place in the state on July 16, 1996. Therefore, in order to forecast Medicaid we begin by forecasting the number of recipients we would expect to meet those standards in the upcoming biennium. In essence, this is the LBO baseline TANF forecast.

Our approach to TANF estimates essentially begins with the total amount available from the TANF federal block grant. To that we have added the administration's recommended Maintenance of Effort (MOE) commitment. We then estimated the amount we believe will be necessary to fund cash grants to the recipients, and the moneys being set aside for child care, subtracted those from the total available state and federal dollars, and the remainder is the amount we believe will be left to fund job related activities and administration.

I would note that although we are providing an estimate of TANF cash assistance, those numbers are based on the program as it exists today, essentially implementing Sub. H.B. 167 of the 121st General Assembly. With the added flexibility provided by the TANF block grant, there is no doubt that Ohio will take the opportunity to further tailor our public assistance programs to meet our unique needs. The administration has indicated that their plan will be submitted to the legislature some time in March, (and at that time LBO will provide cost estimates for that plan), and the Executive budget does make some assumptions regarding policies and expenditures that we do not take into account. LBO is providing you today with our baseline forecasts, which do not reflect any proposed welfare reform or Medicaid policy changes.

In our estimation, the average monthly number of TANF recipients will continue to decline in FY 1998, going down by 4 percent or 21,500 recipients from our estimate of FY 1997. In FY 1999, we anticipate some leveling off with the number of recipients declining by 3 percent, or 16,200 recipients. The implications of this

Distribution of TANF Block
(millions of $)

	FY 1998	FY 1999
TANF block grant (federal)	$728	$728
Maintenance of Effort (state)	$417	$417
TANF money available (total)	**$1,145**	**$1,145**
Distribution:		
LBO estimated TANF cash grant	$692.4	$671.9
Recommended child care *set-aside*	*$29.4*	*$49.9*
Reserve	*$75.0*	*$75.0*
Available funding for work related activities and administration	*$235.1*	*$235.4*
MOE in lines non-TANF line items	*$113.0*	*$113.0*

are that LBO believes we will expend approximately $692.4 million in FY 1998 and $671.9 million in FY 1999 on TANF cash benefits. Subtracting that from the available state and federal TANF funds leaves $264.5 and $285.3 million in the respective fiscal years for work related activities, administration and emergency assistance. Of this remaining amount the administration has earmarked $29.4 million in the first year and $49.9 million in the second year for day care. We have not yet attempted to forecast whether these amounts will meet the needs for work, education, administration, and day care costs.

The accompanying materials provide you with LBO's estimate of the funds necessary to provide day care to TANF recipients. *[Note: Documentation supporting these forecasts is available from LBO.]* The estimate assumes the mandated work participation rate, that 40 to 50 percent of those in work related activities will need child care, and that each family will need child care for an average of 1.5 children. The administration has not yet released their final plan stipulating how they intend to allocate and distribute the available day care dollars, therefore LBO is providing you with only a very preliminary estimate of what we believe will be the day care demand. I would caution you against using those estimates for anything more than a starting point for considering the level of expenditures which may be necessary to effectively move our current recipients from dependency to independence.

In regard to Disability Assistance (DA), in FY 1998 LBO expects the average monthly caseload to fall by approximately 3.8 percent from the current year and then to level off in FY 1999. Even with the slight decline in caseload, LBO expects the costs of the DA program to continue to rise, by approximately one percent in each year. The primary cause is the medical inflation factor.

Medicaid

LBO's Medicaid forecast begins with the previously discussed LBO forecast of a continuing decline in the number of people who we believe will meet the ADC income eligibility guidelines. Add to that the fact that the prospective payment system has held the line on nursing home expenditures (previously a driving force in double digit Medicaid growth), plus the savings inherent in the continuing movement to managed care, and you have relatively restrained growth in the Medicaid program. LBO forecasts 5.1 percent growth in Medicaid in FY 1998 (increasing to $5,362.6 million) and 5.3 percent growth in FY 1999 (increasing to $5,647.5 million). These numbers build on a FY 1997 base, that we expect to be approximately $220 million under appropriated levels.

The factors affecting Medicaid are eligibility, utilization, and cost per claim. As noted, ADC eligibles are forecast to continue to decrease. However, the Aged, Blind, and Disabled (ABD) population will grow, but it will grow at a progressively slower rate. Another factor contributing to Medicaid growth is that in each year of the next biennium we will add an additional year of Healthy Start eligibility, for children 14 and then 15 years of age. (The Governor's initiative to expand that population for children through 18 years of age is not funded from the 400-525 line item.) In addition, we expect some increase in the number of eligible recipients in the Qualified Medicare Beneficiaries and Specified Low-Income Medicare Beneficiaries categories, but this growth, too, is expected to slow.

There are several things contributing to the comparatively slow growth in Medicaid. First, and foremost, the department continues to make good progress towards meeting their managed care goals. That is important, as capitation rates currently are set at six percent below the fee for service costs. This means that once payment lags are accounted for, each recipient moving to managed care allows us to anticipate a savings of six percent. LBO has assumed that we will meet the administration's goal of having a 78 percent managed care penetration rate for ADC and Healthy Start eligibles by the end of the upcoming biennium. Another positive is that utilization rates for most categories are anticipated to remain constant. A negative factor is the very rapid growth in the cost of prescription drugs among the ABD population. This growth is a product of a steady increase in the number of drug claims per eligible, and the even more dramatic increase in the cost per claim, which has far outstripped the medical CPI. This trend is expected to continue into the next biennium.

Another issue that has had a negative impact on Ohio is the change in Ohio's matching rate, the Federal Medical Assistance Percentage (FMAP) rate. As OBM indicated last week, due to the improvement in Ohio's per capita income relative to the U.S.

average, the state's share of the Medicaid burden will continue to grow. The federal share of funding will drop from the current rate of 59.28 percent to 58.14 percent in Federal FY 1998. Conservatively, we expect the federal matching rate to continue drop another half of a percent in Federal FY 1999.

This change in matching rates will require an additional $57 million in funding from the state General Revenue Fund (GRF) in FY 1998 and an additional $37 million in FY 1999. This is a total shift of $153 million across the biennium from federal funding to the state GRF. Although Medicaid may no longer be the PAC-Man of the state budget it once was, these changes in the matching rate, along with a projected moderate growth of about two percentage points above the expected inflation rate, have a great impact on state spending. Applying these changes to a budget of more than $5 billion per year is still a significant amount of money.

Summary

LBO forecasts continued slow growth for this year and the FY 1998-1999 biennium with higher revenues than the executive forecast by $ 377 million. We also forecast lower Medicaid expenditures for the same period by $ 98.9 million (state GRF). ❑

State of Ohio Performance Review Pilot Project

By Roberta Ryan

Information from the state's pilot project to collect and publicize data showing state agency performance is now available. The Office of Budget & Management (OBM) has included pilot results in the Governor's Executive Budget, also known as *the Blue Book.*

Six state agencies participated in the pilot, working with OBM to define performance measurements for certain programs or activities that are part of their mission. At the end of the measurement period, which usually started sometime during 1996 and ended in approximately September 1996, agencies provided a written report summarizing their results to OBM.

Results of the pilot at this point are mixed, both from the standpoint of results achieved, and from the project assessment point of view. At this time, we have little knowledge of where agencies "should be" in the accomplishment of their goals, i.e., whether the results achieved thus far are good, bad or uncertain. We also do not really know whether their goals for the upcoming Biennium are too high, too low, or just right. Some, maybe even many, goals may need to be refined or reviewed.

Performance Review information can be the basis for both executive and legislative

Performance Review Pilot Project

Participating Department	Program
Department of Education	*SchoolNet & Venture Schools*
Rehabilitation Services Commission	*Vocational Rehabilitation*
Environmental Protection Agency	*Division of Drinking & Groundwater*
Department of Transportation	*Construction Programs*
Department of Health	*Ohio Early Start*
Department of Mental Health	*Programs for Adults with Severe Mental Disability and Children & Youth with Serious Emotional Disturbance*

decision-making, if the two branches of government can agree on the measurements. **Striving to meet general consensus on what we need to know about agency operations in the future in no way binds the two branches of government to pursuing the same policies, but gives a common floor from which to begin policy debates.**

Assessments of the pilot's development and implementation by OBM, and the effect on participating agencies are still in the future, as well. See the **Next Steps** section of this article, below, for more concrete news on assessing the pilot. It is known, at this point however, that some agencies had trouble getting started, needing time to develop meaningful and "collectable" measurements and to gain buy-in from agency staff or leaders. Others found maintaining the project's momentum difficult; these programs always mean more work within the agency. Overcoming these start-up jitters for currently participating agencies and any subsequent participants will be an important outcome of assessing the pilot.

The overall assessment of the pilot also begs the more strategic question, what productive guidance can the Governor and the Legislature provide to the agencies now that they have this information? This question is especially difficult since the pilot was implemented with the promise that, at least initially, it will not be used to affect agency budgets. The question also highlights the importance of developing the consensus already mentioned.

One Example of the Information Now Available: the Department of Education

Education's (EDU's) SchoolNet was established by Am. H.B. 790 of the 120th G.A. in order to wire Ohio's schools for voice, video, and data connectivity, and to provide computers to low wealth districts. Funding at its initiation was $95 million. H.B. 117 of the 121st G.A. created a second program called SchoolNet Plus that requires state provision of one technology workstation for every five students in kindergarten through 4th grade. Program funding committed to the SchoolNet Plus effort for that biennium was $400 million.

The table, below, titled Measurable Goals and Objectives/ Activities, is a partial reproduction of the Executive Budget (the Blue Book) Performance Review information for EDU's SchoolNet/ SchoolNet Plus program. EDU is using three "Goals and Objectives" to measure its success in implementing SchoolNet/ SchoolNet Plus.

- ✓ The table shows only the first Goal and Objective, *Goal # 1: The SchoolNet program will deploy technology infrastructure and encourage its use for learning.*

- ✓ The other two Goals and Objectives (not shown) are # 2 *SchoolNet will improve student achievement and develop alternative measures of academic progress* and # 3 *SchoolNet will prepare teachers for the use of technology in classrooms.*

Each Goal and Objective has anywhere from one to several Objectives/Activities (O/A) which are the "countable" or identifiable

EDUCATION

Measurable Goals and Objectives/Activities

Goals and Objectives		**Baseline Data 1995**	**Estimated 1996**	**Estimated 1997**	**Performance Targets 1998**	**Performance Targets 1999**
Goal # 1	The SchoolNet program will deploy technology infrastructure and encourage its use for learning					
Objectives/Activities						
	Percentage of classrooms with computers having access to on-line resources including the world-wide web	N/A	5.0	20.0	50.0	90.0
	Number of schools testing alternative learning and technology methods that promote the use of on-line resources	N/A	20.0	500.0	1000.0	2000.0
	Percentage of schools scoring high on the state's annual technology survey on both technology deployment and learning	N/A	3.0	6.0	10.0	15.0
	Percentage of students using the technology infrastructure to access content for educational assignments	N/A	3.0	20.0	30.0	50.0
	Percentage of teachers using information from on-line resources in daily lesson plans	N/A	3.0	15.0	25.0	40.0
Goal #2	SchoolNet will improve student . . .					

steps that schools have taken and reported to EDU, and that EDU is using to identify progress toward the Goal. While O/A look simple, great care must be taken by agency personnel to:

- **select** O/A that relate closely enough to the Goal to actually be meaningful measures of the Goal;

- **choose** O/A which can be accurately measured with existing staff, technology, and systems; and

- **define** the O/A so that individuals and agencies reporting raw data cannot erroneously over- or understate progress.

The table shows the five Objectives/Activities on which EDU is collecting data and using to decide how much progress is being made on Goal # 1. The first is *Percentage of classrooms with computers having access to on-line resources including the world-wide web.*

The percentages shown in the columns titled 1995 through 1999 show the current state and future goals for each O/A. Agency results are "actuals" for Fiscal Year 1995, and estimates for Fiscal Year 1996. Fiscal Years 1997 through 1999 should all be viewed as goals because the data was finalized and turned in to OBM early in Fiscal Year 1997. As can be seen in the table, EDU had no data collected for Fiscal Year 1995, probably due to the newness of the program. In Fiscal Year 1996, it estimated that 5% of the state's classrooms with computers had access to on-line resources including the world-wide web. Its target for this O/A is 20% in Fiscal Year 1997, 50% in Fiscal Year 1998, and 90% in Fiscal Year 1999.

Text provided in the Executive Budget along with the full version of this table provides additional details about the Program, the Data Collection and Methodology, and Results and Findings. This text informs readers that EDU proposes to have an outside contractor develop the evaluation for SchoolNet/SchoolNet Plus. It also provides additional background information, for example, that 4,193 classrooms out of 83,860 total are numbers behind the results of the first O/A in the table, which stated that 5% of classrooms with computers [have] access to on-line resources including the world-wide web.

Next Steps

In early March, OBM will meet with agency representatives, and for the first time, representatives of LBO, to evaluate the pilot thus far. The agencies' representatives will discuss their experience in implementing the pilot, and LBO will explain how it used the pilot data for budget analyses. From there, future conversations will map out how and to which agencies to expand the Performance Review project; eliminating or at least reducing "start-up glitches"; and evaluating the usefulness of the project for internal agency management, and how to encourage legislative interest in the performance data generated by this project.

In subsequent *Budget Footnote* articles, LBO will provide comparisons of Ohio's performance measurement project to those in other states, especially how the information generated is used by legislatures for policy making. ❑

STATE INFRASTRUCTURE BANKS: HIGHWAYS, RAIL, TRANSIT, AND PARKING FACILITIES?

BY LINDA BAILIFF PIAR

On January 13, 1997, the Controlling Board approved a $7.8 million loan to the Great Lake Science Center in Cleveland to construct a 500-space parking facility. Such approval did not come easily. There were concerns over using state transportation dollars for a parking garage, especially when the Ohio Department of Transportation (ODOT) is grappling with its much renowned capital dollar shortage. The project was enabled due to the financing source — the State Infrastructure Bank (SIB).

Ohio is one of ten states initially selected for the SIB pilot program by the U.S. Department of Transportation. This program, authorized by the 1995 National Highway System Designation Act (NHS), is one congressional action (of several) in response to states' requests for greater flexibility in surface transportation financing. The legislation allows for the creation of revolving loan funds as an innovative financing method to leverage additional dollars for transportation. Through a SIB, a state can use initial capital dollars for various forms of financial assistance for construction of projects qualified under the programs administered by the Federal Highway Administration (FHWA), the Federal Railroad Administration (FRA), and the Federal Transit Administration (FTA). As funds are repaid, they are turned around and loaned out to other projects thereby continually recycling the initial dollars.

Initial capitalization dollars are provided by a maximum of 10 percent of most of a state's annual federal highway and transit apportionments. At a minimum, each state must contribute an amount of at least 25 percent of the federal share in state dollars. In Ohio, Am. H.B. 748 of the 121st General Assembly, through temporary law, provided for the transfer of no more than $30 million from the General Revenue Fund (GRF) to provide for the state's 30 percent match to $70 million in federal funding.

Except for the limitations imposed under the NHS Act, there is no "preconceived concept"1 of SIB implementation. Both traditional and non-traditional approaches are welcomed and encouraged. In fact, the Act's limitations are fairly general allowing great program flexibility (see text box, following page). ODOT has established general guidelines in determining eligible projects. All capital improvement projects contributing to the state transportation system (including highways, transit, rail, aviation, and intermodal facilities) may be considered. Projects must contain the following elements:

> New federal dollars are expected for the SIB. In legislation passed in 1996, Congress opened the program up to more states and made available $150 million nationwide. Ohio applied for some of these dollars and will receive a response by late spring or early summer. More SIB dollars are also expected in the reauthorization of the Intermodal Surface Transportation Efficiency Act (ISTEA) currently being debated in Congress. Additionally, the reauthorization may make the SIB permanent.

- The environmental assessment and subsequent clearance process must be complete;
- Preliminary engineering (i.e. investment study, wetlands analysis, mitigation plan, etc.) must be completed prior to loan closure;
- There must be an identifiable revenue stream for debt amortization (e.g. tolls, tax

increment financing, property assessments, State Capital Improvements Program funds, etc.);

- Project revenue payments must begin within two years of project completion, and, at a minimum, must be equal or greater than the loan's interest cost;

- Loan terms include a maximum 20-year amortization (a 20-year loan must have a balloon payment in ten years); maximum interest rate (fixed or adjustable) equal to the current tax-exempt rate; and, in certain circumstances, an interest-free period during construction and up to 24 months after project completion.

The Great Lakes Science Center Parking Facility is defined as an intermodal facility. An intermodal project is one that links one mode to another. This parking facility provides for transfer to transit and pedestrian modes. Adjacent to the Great Lakes Science Center and Cleveland Municipal Stadium, the facility will be accessible by pedestrian walkways and the Waterfront Line, which is a light rail transit line connecting Terminal Tower to Tower City Mall. The first $4 million of the $7,825,000 loan is due 12 months after loan closure, and will be paid by private financing. The balance is payable at six percent interest over 20 years, and will be paid from parking revenues. Project completion is expected by the end of 1997.

According to an ODOT spokesperson, the federal share of the SIB is dedicated for projects listed in the State Transportation Improvement Plan (STIP), such as the Butler County Regional Highway and the Spring-Sandusky interchange. State SIB dollars will be used for non-traditional projects that provide for a quick return on dollars, such as the Cleveland parking facility. According to the FHWA2 , the benefits of the SIB include facilitating projects that would "otherwise be delayed or infeasible." Traditional highway dollars for the parking facility were non-existent and not practical. The state originally attempted funding this project through the Congestion Mitigation and Air Quality Improvement (CMAQ) program, which aids projects designed to reduce vehicular congestion and improve air quality. Since the facility is located outside downtown Cleveland, it keeps traffic away from the typically congested area. However, the approval process for CMAQ can be long and arduous, and the department determined that the SIB was the most viable financing solution for the parking facility. ❑

The limitations set by the NHS Act include the following:

- Separate accounts must be maintained for federal sources and for each mode;
- Loans may be for all or part of a project's cost, but initial federal funds may not be made in the form of a grant;
- To maintain SIB's viability, you must have sufficient level of bond or debt financing instrument insurance;
- Investment income is credited to the account to be used for financial assistance;
- Loan interest rates must be at or below market rates;
- Loan repayment must begin no later than five years after the project's completion;
- The loan term may not exceed 30 years;
- Assistance defined as loans, credit enhancements, capital reserve for bond or debt financing, subsidize interest rates, ensure the issuance of letters of credit, to finance purchase and lease agreements with respect to transit projects, to provide bond or debt financing instrument security.

[1] Federal Register, December 28, 1995 (Volume 60, Number 249); available from http://www.fta.dot.gov/fta/library/policy/bankpilot.html; Internet; accessed 14 February 1997.

[2] State Infrastructure Banks: A Primer, Federal Highway Administration, November 1995.

Controlling Board Approves Increased State Support for College Students

By Gloria Gardner

Instructional Subsidy Distribution for Fiscal Year 1997

At the January 13th meeting, the Controlling Board approved the release of General Revenue Fund moneys totaling $1.4 billion to support the operating costs of the colleges and universities. During the first six months of the fiscal year, subsidy payments are based on full-time equivalent (FTE) enrollment estimates. (One FTE equals 15 credit hours of instruction.) The payments are adjusted during the last half of the year to reflect actual enrollments and updated space inventory data for the Plant, Operation and Maintenance portion of the formula.

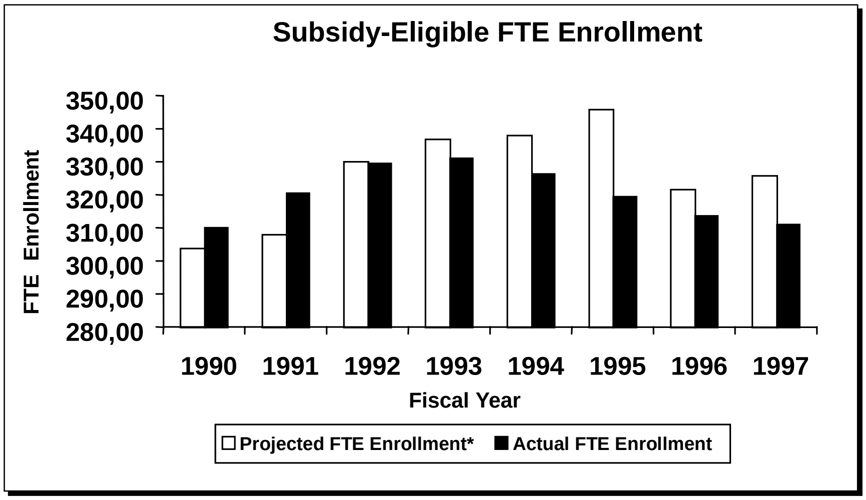
Actual subsidy-eligible full-time equivalent enrollment totaled 310,832 or about 4.6 percent below the projected enrollment of 325,774. As a result, initial subsidy allocations using the operating budget fee assumptions and guarantee totaled about $4.6 million less than appropriations. The Controlling Board approved the Board of Regents' request to distribute the $4.6 million difference between initial allocations and appropriations by reducing the student fee assumptions. With the enrollment decline, average subsidy support per FTE increased from $4,407 to $4,619 or by 4.8 percent in fiscal year 1997. With the distribution of the additional funds, a number of campuses shifted from dependency on the 3.0 percent guarantee to the formula.

Enrollment Trends

Systemwide, public institutions have suffered a decline of about 20,459 subsidy eligible FTE students since fiscal year 1993. The decline continued into fiscal year 1997 with an enrollment drop of 2,981 FTE or 0.9 percent below fiscal year 1996. All of the four-year university main campuses experienced declines in fiscal year 1997 except the University of Cincinnati, Miami University and Shawnee State University. Almost all branch campuses posted enrollment increases with the exception of Ohio University's Belmont, Chillicothe and Lancaster campuses and Ohio State University's Newark campus.

Overall, community and technical colleges continued to experience declining enrollment in fiscal year 1997. Declines at community colleges ranged from as many as 974 FTEs or 7.4 percent at Cuyahoga to as few as 31 FTEs at Rio Grande. Those with the greatest increases included Owens Community College, Northwest State and Lorain County Community College. Both Northwest and Owens, which recently became community colleges, also posted strong enrollment increases in fiscal year 1996. Other community colleges showing enrollment growth included Columbus State, Edison State, Southern State and Washington State. The Agricultural Technical Institute and Lima Technical College were the only technical colleges showing enrollment growth.

From fall 1990 to 1995, enrollment by the traditional age college student (age 20 to 24) decreased 11.8 percent at main campuses and increased 5.6 percent at two-year campuses. Enrollment by students "age 19 and under" also decreased at the main campuses and increased at two-year centers. For that same time-period, the rate of enrollment growth for the older nontraditional student either slowed significantly or declined altogether in both the four-year and two-year sectors.



Ohio Board of Regents
Subsidy-Eligible FTE Enrollment

	1990	1991	1992	1993	1994	1995	1996	1997
Projected FTE Enrollment*	303,653	307,746	330,113	336,987	337,960	345,795	321,689	325,774
Percent Change		1.3%	7.3%	2.1%	0.3%	2.3%	-7.0%	1.3%
Actual FTE Enrollment	310,118	320,557	329,634	331,291	326,360	319,373	313,813	310,832
Percent Change		3.4%	2.8%	0.5%	-1.5%	-2.1%	-1.7%	-0.9%

**Enrollment projections used for conference committee recommendations for fiscal years 1990 through 1997.*

These enrollment trends are consistent with the impact of a strong economy, the waning size of high school classes, and demographic shifts. In fiscal year 1998, the Board of Regents is projecting 315,892 FTEs or 1.6 percent over fiscal year 1997. In fiscal year 1999, projections total 297,615 or 5.8 percent less than fiscal year 1998 enrollments. The projected decline in fiscal year 1999 is largely due to the use of all-terms enrollment data, so the two estimates are not on the same basis.

In the upcoming biennium, the Board of Regents is proposing that the subsidy distribution be based solely on moving average enrollments from prior years. Current year enrollments will not be used for the subsidy allocation. This proposed formula revision would provide a more predictable stream of revenue for the campuses. ❑

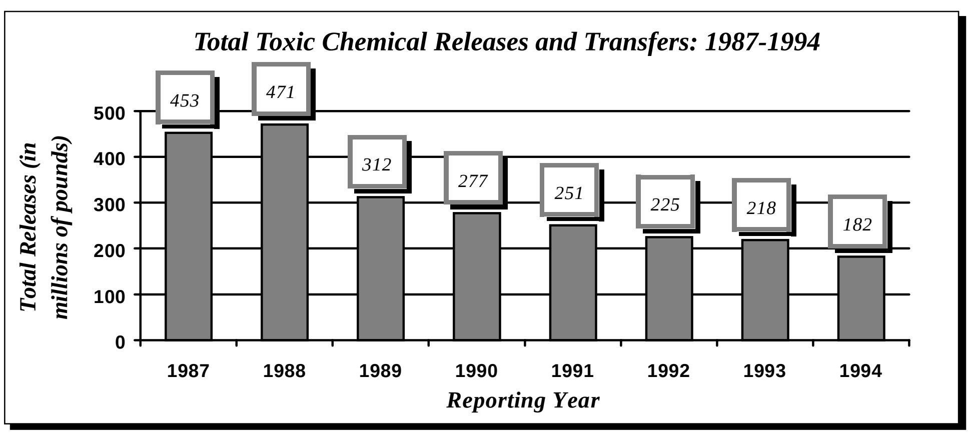
OHIO FACTS EXTRA!

A Glance at Ohio's Toxic Releases

In February 1996, the Ohio Environmental Protection Agency (EPA) issued a news release stating that, according to the Toxic Release Inventory, Ohio companies reported a decrease in toxic releases and transfers for 1994. To those not familiar with air pollution-speak: (1) what is the Toxic Release Inventory? (2) how does the decrease compare to other years? and (3) what type of toxic releases make up the total releases? The following may help with the translation.

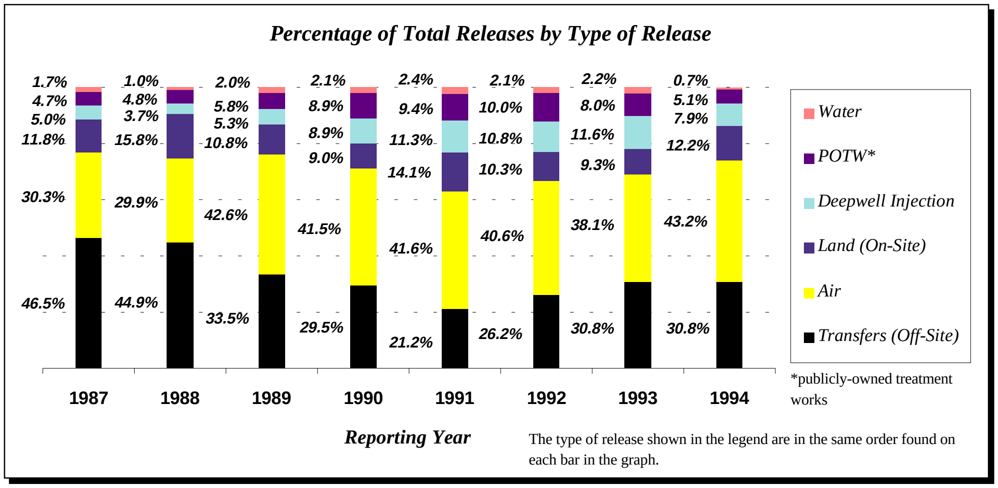
The Toxic Release Inventory (TRI - also known as Title III, Section 313 of the Superfund Amendment and Reauthorization Act) is a database containing specific toxic chemical and transfer information from manufacturing facilities. The initial federal implementing legislation for TRI is contained in 1986's Emergency Planning and Community Right-to-Know Act, which allows public access to information on the presence and release of over 300 chemicals and 20 chemical categories. The Ohio Right-to-Know Act was passed by the General Assembly in 1988, charging the EPA with administration and enforcement of Section 313. A facility is subject to the reporting requirements if it: (1) conducts manufacturing pertaining to certain codes of the Standard Industrial Classification; (2) has 10 or more employees; and (3) manufactures, produces, imports or otherwise uses any of the listed toxic chemicals in an amount that is greater than specified threshold quantities.

To provide further insight to the questions raised above, three illustrations are offered. The first graph, which follows, depicts the total toxic chemicals released and transferred off site by reporting facilities for 1987 through 1994.



- The graph illustrates that the 1994 decrease is part of an overall decline in toxic releases and transfers from 1988's high of 471 million pounds. So, are the number of reporting facilities that released 471 million pounds of toxic chemicals in 1988, the same number that released 182 million pounds in 1994? No. In 1988 there were 1,404 reporting facilities, while in 1994 the number was 1,691. The highest number of reporting facilities occurred during 1990, when 1,794 facilities reported their releases.

Of the total toxic chemicals released and transferred per year (shown in the above graph), the next graph shows the percentage that each type of release comprised of the totals for 1988 through 1994.



- While total releases and transfers have been declining, releases into the air made up close to 50 percent of all releases in 1994, compared to less than one-third of all releases in 1988. Additionally, air releases and off-site transfers consistently comprise between 60 to 75 percent of the total releases and transfers for all eight years.

The final tables illustrates how Ohio's total releases compare to five midwestern states and the nation as a whole.

Top Five States – Total Releases - 1994

State	*Total Release (in pounds)**	*National Rank*
Texas	250,125,291	1
Tennessee	155,824,043	2
Louisiana	153,041,482	3
Mississippi	121,607,444	4
Ohio	**117,222,103**	**5**

Midwestern States - Total Releases - 1994

State	*Total Release (in pounds)**	*National Rank*
Ohio	**117,222,103**	**5**
Illinois	97,677,290	6
Michigan	82,620,035	10
Indiana	78,853,619	11
Kentucky	36,275,011	21

- With regard to total releases, Ohio ranks fifth compared to the other states in the nation and ranks first compared to selected midwestern states. In 1994, Ohio's top five chemicals released or transferred were ammonia (14.5 million pounds), manganese compounds (14.3 million pounds), xylene (7.2 million pounds), toluene (6.9 million pounds), and hydrochloric acid (6.8 million pounds).

**Total Release shown in the tables are on-site releases only, while the first two graphs show all releases and transfers for treatment and disposal.*

Redbooks

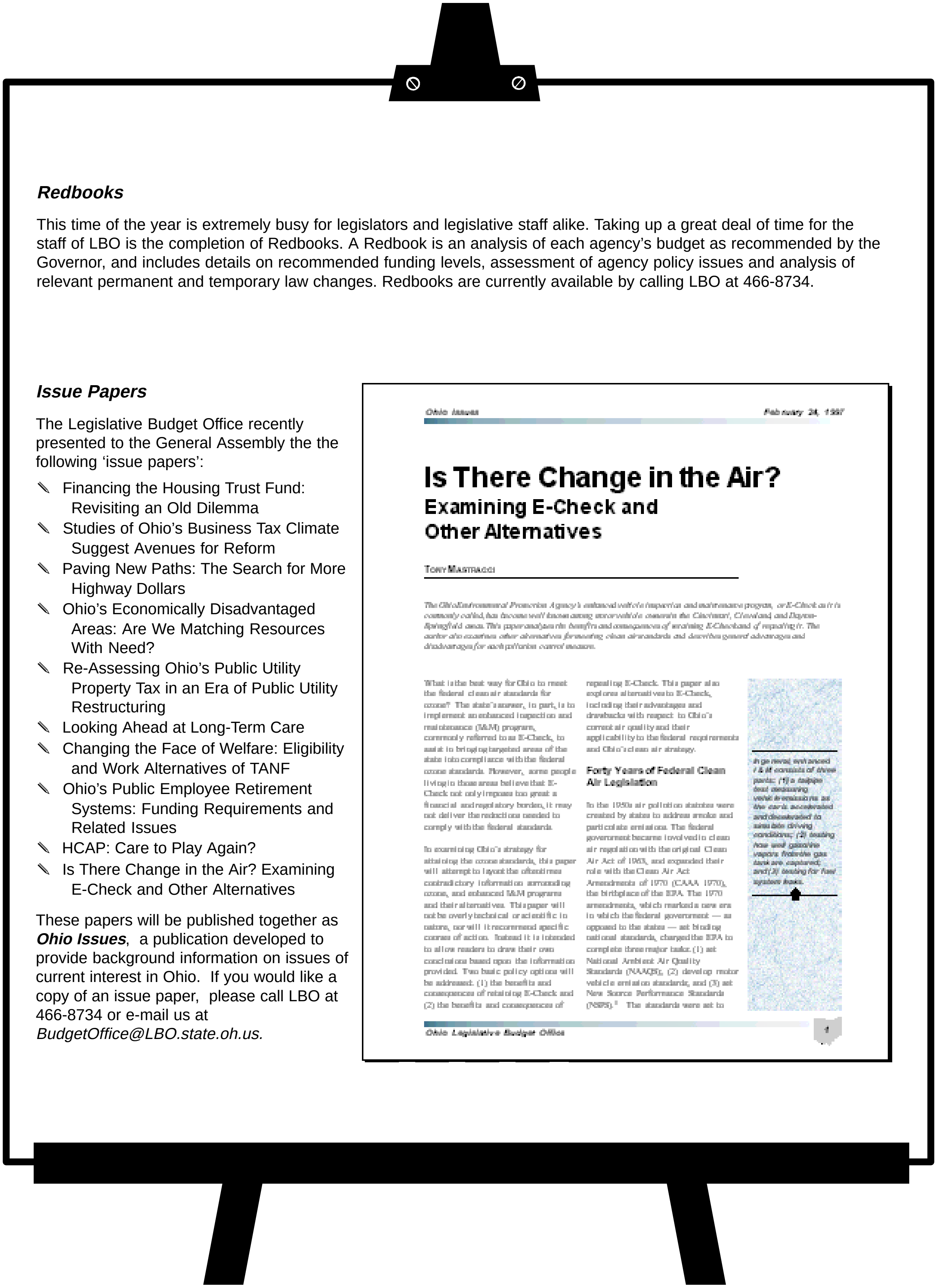
This time of the year is extremely busy for legislators and legislative staff alike. Taking up a great deal of time for the staff of LBO is the completion of Redbooks. A Redbook is an analysis of each agency's budget as recommended by the Governor, and includes details on recommended funding levels, assessment of agency policy issues and analysis of relevant permanent and temporary law changes. Redbooks are currently available by calling LBO at 466-8734.

Issue Papers

The Legislative Budget Office recently presented to the General Assembly the the following 'issue papers':

- Financing the Housing Trust Fund: Revisiting an Old Dilemma
- Studies of Ohio's Business Tax Climate Suggest Avenues for Reform
- Paving New Paths: The Search for More Highway Dollars
- Ohio's Economically Disadvantaged Areas: Are We Matching Resources With Need?
- Re-Assessing Ohio's Public Utility Property Tax in an Era of Public Utility Restructuring
- Looking Ahead at Long-Term Care
- Changing the Face of Welfare: Eligibility and Work Alternatives of TANF
- Ohio's Public Employee Retirement Systems: Funding Requirements and Related Issues
- HCAP: Care to Play Again?
- Is There Change in the Air? Examining E-Check and Other Alternatives

These papers will be published together as ***Ohio Issues***, a publication developed to provide background information on issues of current interest in Ohio. If you would like a copy of an issue paper, please call LBO at 466-8734 or e-mail us at *BudgetOffice@LBO.state.oh.us.*


Ohio Issues February 24, 1997

Is There Change in the Air?
Examining E-Check and
Other Alternatives

Tony Mastracci

Forty Years of Federal Clean Air Legislation

Ohio Legislative Budget Office

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 *January* and *February* editions of the GSTN video each contain five different programs/segments which are outlined below.

January

Segment/Topic	***Running Time***	***Content/Description***
GSTN Journal/ Various newsworthy topics from around the country	9:15	This month's journal contains segments on tighter EPA regulations, challenges facing cable TV operators, and utilizing a contest to design a waterfront improvement in Greenport, New York, among other interesting topics.
Leadership Spotlight/ Handling Difficult Public Issues	17:30	This program identifies certain steps that should be taken when beginning any project where there are multiple stakeholders. The program emphasizes the importance of a community vision and the necessity of being a "good loser" when you have fought the good fight and lost.
Training Track/ Fair Labor Standards Act, Part 2 – Public Safety Issues	12:30	This segment discusses several special circumstances that are covered by the fair labor standards act. The special circumstances discussed include; on call time, travel time, meal periods, physical fitness, and animal care.
Human Factor/ Human Resources Update	11:15	This program identifies some issues that human resources professionals are dealing with today in the areas of collective bargaining, hiring, firing, and compliance with federal regulations.
Money Watch/ The Year 2000 Computer System Challenge	10:30	This segment discusses ways to deal with the potential problems caused by how the year 2000 is represented in many computer systems.

February

Segment/Topic	***Running Time***	***Content/Description***
GSTN Journal/ Various newsworthy topics from around the country	8:35	This month's journal contains segments on direct broadcast television, an organization of local leaders concerned about spectrum allocations, and the availability of Department of Energy research funds for local governments, among other interesting topics.
Leadership Spotlight/ Neighborhood Governance	11:15	This program examines the Neighborhood Enhancement Action Team (NEAT) concept in Bryan, Texas. The key elements to this approach to problem solving include; utilization of city workers as volunteer team leaders, involvement of neighborhoods, and two way communication.
Training Track/ Team-Skill Building for Effective Teams, Part I.	15:15	The first in a three part series, this program outlines the four stages of team development. They are; 1-forming, 2-storming, 3-norming, and 4-performing.
Human Factor/ Employee Assistance Programs, Part I.	11:30	This segment provides an overview of what must be contained in all employee assistance programs. The segment explains that 20%-30% of a workforce may benefit from a well organized employee assistance program.
Money Watch/ Procurement Process Re-engineering	9:00	This program examines RAPID (Re-engineering Automated Procurement Information Delivery) in Montgomery County, Maryland. The RAPID system is an on-line procurement process that has drastically reduced the manpower required to get county projects on line.