Budget Footnotes

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FISCAL OVERVIEW

— *Frederick Church*

February is traditionally a pretty quiet month for state revenues. The big tax numbers come in January, with holiday sales driving the sales tax, several factors pushing up the income tax, and the bulk of the first major corporate franchise tax payment due. This year, February tax collections were only slightly over half their January levels. Overall tax receipts were $29.5 million over the estimate for the month, causing the year-to-date overage to swell to $192.7 million. Total non-federal revenues are now $254.8 million over estimate, although the federal reimbursement shortfall holds the total GRF overage down to $109.2 million.

Despite the fact that February is a relatively non-eventful month, there was big news in two taxes. On the plus side, the income tax was $61.3 million over estimate in February, pushing the year-to-date overage to $150.6 million. However, there is reason to expect that February's overage was more of a timing matter than a substantive one. Most of the month's overage was due to the fact that refunds were almost $58 million lower than estimated. While refunds for the year-to-date are about 16 percent over last year's level, and February's refunds were up almost 20 percent, the Tax Department thought that refunds would be up by almost 50 percent because of the 6.6 percent temporary rate cut for tax year 1999. So far, the anticipated refunds have not materialized. However, logic dictates that most or all of the anticipated refunds will materialize at some point, because the rate cut was expected to reduce total tax collections by about $340.7 million in FY 1997 (the other $60.1 million of the total $400.8 million impact is expected in FY 1998).

In contrast to the income tax, the franchise tax was $23.1 million short in February. Total January -February collections for the first major payment of the year (due January 31st) were $4.3 million (1.1 percent) less than the estimate. It was fairly apparent by early February that monthly collections, and the first payment as a whole, would be short. This remains something of a puzzle given the strong preliminary corporate profit numbers for calendar year 1996.

The February results for the non-auto sales and use tax offered the same sort of surprise as the corporate tax. Strong national numbers — non-auto retail sales rose by a revised 1.4 percent in January — did not

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STATUS OF THE GRF

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 February	Fiscal Year 1997 to Date	Last Year	Difference
Beginning Cash Balance	$509.5	$1,138.5		
Revenue + Transfers	$1,179.3	$11,226.3		
Available Resources	$1,688.8	$12,364.8		
Disbursements + Transfers	$1,178.4	$11,854.4		
Ending Cash Balances	**$510.4**	**$510.4**	**($72.9)**	**$583.3**
Encumbrances and Accts. Payable		$336.1	$312.1	$24.0
Unobligated Balance		**$174.4**	**($385.0)**	**$559.4**
BSF Balance		$828.3	$828.3	
Combined GRF and BSF Balance		**$1,002.7**	**$443.3**	**$559.4**

yield strong tax numbers. After a succession of modest but somewhat surprising overages, non-auto sales tax fell $7.5 million short in February, and collections grew by only 0.4 percent from last year.

A number of analysts took the retail sales numbers for January and February as a signal that consumer spending, and the economy in general, were overheating. The Federal Reserve seems ready to raise short-term interest rates, partly on the basis of the consumption data. However, some economists are wary of the numbers because of the seasonal adjustment factors. Unseasonably warm weather, particularly in November and February, may have skewed results. The seasonal adjustment factors adjust winter month sales upward (except holiday sales) in certain categories. This year, warm weather may have resulted in the upward adjustment overcompensating.

For the year to date, most of the smaller taxes are very close to the estimate. The main exception is still the tobacco products tax, which is $7.7 million over estimate, and which has 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. Although February receipts were only $7.6 million under the forecast, the year-to-date shortfall is now $145.6 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 $192.7 million over estimate — a variance of 2.4 percent — with growth of 6.0 percent from last year. The personal income tax is responsible for more than three quarters of this overage. Fortunately, most of the tax overages seem to be the result of better economic performance than expected. As stated above, some of the income tax overage may disappear if refunds catch up to the estimate.

Disbursements from the GRF in February were $45.9 million below estimate. For the year, GRF disbursements are $520.4 million below estimate, although the overage in the other transfers category keeps the variance in total outlays down to $477.7 million.[1] Spending has grown by only 3.4 percent from FY 1996.

In February, unlike prior months, there was a mix of positive and negative variances across the categories. The biggest underspending was once again in Medicaid, which was $34.2 million below estimate for the month and is now $219.7 million below estimate for the year — and down 1 percent from last year's level. As discussed in prior issues of this report, 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. Underspending in welfare and human services programs accounts for almost ¾ of the total state spending variance.

LBO has adjusted the disbursement tables to reflect the restructuring of line items that resulted when the old ADC program was replaced by Temporary Assistance to Needy Families (TANF). However, since the estimates have not been revised, the variance in TANF ($24.3 million) is artificially depressed, and the variance in other welfare ($118.6 million) is artificially inflated.

Both primary and secondary (K-12) education spending and higher education spending continue to fall below the estimates. Primary and secondary education outlays are now $62.5 million below estimate. The Department of Education now expects basic aid disbursements to finish the year $37 million below estimate, but only about $10 million is expected to lapse. The other $27 million will be used for the "recomputation of aid" for special and vocational education. Underspending in basic aid continues despite the use of updated Average Daily Membership (ADM, or what common folks call enrollment) figures. The continued variances in higher education are the result of the inaccurate estimating of monthly funding needs by the Student Aid Commission.

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 $559.4 million ahead of last year's figure at the end of February. 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 well ahead of last year's level.[2] While spending in areas like education will partly 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. ❑

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[1] 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.

[2] 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 be experienced in the form of lower tax return payments and higher refunds this Spring.

Status of the General Revenue Fund

REVENUES

— Frederick Church

Tax revenues were $29.5 million over estimate in February, led once again by a big overage in the personal income tax. The income tax followed its $51.3 million overage in January with a $61.3 overage last month. The only other tax with an overage above $1 million was the cigarette and tobacco products tax ($1.1 million). Several other taxes were low last month, but none of the shortfalls were big enough to offset the income tax overage. The corporate franchise tax was $23.1 million short in February. Total January-February collections for the first major payment of the year (due January 31st) were $4.3 million (1.1 percent) less than the estimate. The sales and use tax ended its string of modest overages and fell $7.5 million below the forecast, despite strong retail sales at the national level. Finally, the public utility tax was $3.8 million short, but year-to-date revenues are still very close to the estimates.

For the year, tax revenues are $192.7 million above estimate, and have increased by 6.0 percent from last year. The income tax is responsible for more than three-quarters of the overage, or $150.6 million. As mentioned in the prior overview section, while some of this overage is real, based as it is on stronger than expected withholding and estimated payments, some is a timing matter due to slower than estimated receipt of refund claims. Therefore, some of the overage could be lost before the end of the fiscal year.

Most of the other taxes are quite close to the estimate. The two other sources with variances worthy of note are the non-auto sales and use tax and the tobacco products tax. Despite the February shortfall, the non-auto sales tax is still $27.2 million ahead of the estimate. The cigarette/tobacco tax is $7.7 million above the estimate. At this point, no tax is significantly below the estimate.

In non-tax revenue, investment earnings are $8.6 million over estimate, fueled by bigger than expected daily GRF cash balances. Liquor transfers were $3.5 million over estimate in February, pushing the year-to-date overage to $8.5 million. Since liquor taxes are not far above the estimate, it appears that the increase in profits is due to cost savings and not high sales. The variance that dwarfs the others is still in federal reimbursement, where the shortfall is $145.6 million and growing, as human services spending continues to fall short of the estimates. Federal reimbursement is not only below estimate but has actually declined from last year, by 1.2 percent.

Total non-federal revenues are $254.8 million over estimate for the year-to-date, although the federal reimbursement shortfall holds the total GRF overage down to $109.2 million.

Sales and Use Tax

February non-auto sales tax collections were $7.5 million below estimate, with growth of only 0.4 percent from last year. This disappointing result came in spite of strong growth in retail sales at the national level. January non-auto retail sales (non-auto tax collections are based primarily on prior-month retail activity) rose by a revised 1.4 percent. The upward revision pushed year-over-year growth to 6.2 percent. If this number stands up after further revisions, it will be the highest monthly growth number since January of 1995.

According to the Federal Reserve's ***Beige Book*** (a summary of regional activity compiled by the Federal Reserve Bank of St. Louis),[3] retail sales in the Fourth District (which includes parts of Kentucky and Pennsylvania as well as all of Ohio) were "mixed" in January and February. Home supplies and upscale clothing are selling well, but electronics, sporting goods, and furniture are not. On the whole, just as in prior months, there was little to explain why Ohio was doing better than the national numbers would suggest; this time there was little to explain why Ohio underperformed the nation.

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

REVENUE SOURCE			
TAX INCOME	Actual	Estimate*	Variance
Auto Sales	$42,777	$42,086	$692
Non-Auto Sales & Use	273,752	281,259	(7,507)
Total Sales	$316,529	$323,345	($6,815)
Personal Income	$311,800	$250,500	$61,300
Corporate Franchise	108,254	131,330	(23,076)
Public Utility	5,807	9,600	(3,793)
Total Major Taxes	**$742,391**	**$714,776**	**$27,615**
Foreign Insurance	$87,469	$87,000	$469
Domestic Insurance	19	0	19
Business & Property	74	360	(286)
Cigarette	21,766	20,697	1,070
Soft Drink	0	0	0
Alcoholic Beverage	4,283	3,765	518
Liquor Gallonage	2,029	1,980	49
Estate	0	0	0
Racing	0	0	0
Total Other Taxes	$115,639	$113,802	$1,837
Total Taxes	**$858,029**	**$828,577**	**$29,452**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	4,431	7,150	(2,719)
Other Income	5,477	4,650	827
Non-Tax Receipts	$9,908	$11,800	($1,892)
TRANSFERS			
Liquor Transfers	$5,000	$1,500	$3,500
Budget Stabilization	0	0	0
Other Transfers In	0	0	0
Total Transfers In	$5,000	$1,500	$3,500
TOTAL INCOME less Federal Grants	**$872,938**	**$841,877**	**0**
Federal Grants	$306,355	$313,992	($7,637)
TOTAL GRF INCOME	**$1,179,293**	**$1,155,870**	**$23,423**

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

Detail may not add to total due to rounding.

Readers may recall that in past issues of ***Budget Footnotes*** we have cautioned repeatedly against reading too much into monthly statistics. The monthly data are notoriously noisy — factors such as weather, the number of business days in the month, and reporting anomalies all have undue influence. In the case of retail sales data, these problems are exacerbated by the fact that the numbers are frequently revised, sometimes far back into the past (although revisions of long-ago months tend to be relatively small). For example, at the end of April this year, retail sales numbers will be revised *all the way back to January of 1993*.

This year, there is some suspicion of the monthly sales data on two counts. First, some economists are wary of the numbers because of the seasonal adjustment factors. Unseasonably warm weather, particularly in November and February, may have skewed monthly results. The Commerce Department's seasonal adjustment factors operate to adjust winter month sales upward (except holiday sales) in certain categories. This year, warm weather may have resulted in the upward adjustment overcompensating for the impact of weather on sales. The second criticism of the monthly data is related to the weather problem, but more general. Some retail stock market analysts believe that buying trends have shifted, and not as much of the year's activity can be expected to concentrate around holiday purchases. These analysts have noted retail stocks outperforming general market indexes in the early part of the year, rebounding after falling to low levels in the wake of what are consistently labeled as "disappointing" Christmas sales. The pattern has become common enough that some analysts speculate that more purchasing has simply shifted from Christmas into the after-Christmas period.

Despite all these cautions, we and others still report the monthly data and try to divine from it what we can. Data is too tempting for an economist to ignore. It's also apparently too tempting for a stock market analyst to ignore. The volatility of retail stocks, driven by the monthly industry sales reports, has led some store chains (Toys 'R' Us, Barnes & Noble, Petsmart, etc.) to release only quarterly data. Other companies are moving in the same direction. Some analysts applaud this move, pointing out that retailers can shift the timing of markdowns and promotions to pump up sales in one month at the expense of another.[4] Quarterly data is much harder to influence in the same way. It will be interesting to see if more retailers follow this change in reporting.

The auto sales tax was slightly above estimate in February ($0.7 million). The ***Beige Book*** reports that sales in Ohio and the rest of the Fourth District slowed in February after strong growth in January. However, dealers in the area are optimistic about Spring sales, citing strong consumer interest and high showroom traffic. Interestingly, dealers report that leasing growth appears to finally be leveling off. On the whole, it still looks like the state will be able to maintain a small overage in this tax for FY 1997.

Personal Income Tax

Employer withholding got back on track in February after the previous month's plunge. Monthly withholding variances have been fluctuating wildly — a big shortfall in November, a huge overage in December, another big shortfall in January — and it appears that much of the volatility was due to chance fluctuations in the timing of remittances rather than substantive factors. Most of the timing issues should have played out by now, so that one can expect collections for the rest of the year to be more

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	$431,798	$428,322	**$3,476**	$422,501	2.20%
Non-Auto Sales & Use	2,925,033	2,897,820	**27,213**	2,777,373	5.32%
Total Sales	$3,356,831	$3,326,142	**$30,689**	$3,199,874	4.91%
Personal Income	$3,656,965	$3,506,400	$150,565	$3,406,330	7.36%
Corporate Franchise	419,199	416,830	2,369	393,590	6.51%
Public Utility	217,971	219,520	(1,549)	207,497	5.05%
Total Major Taxes	$7,650,966	$7,468,892	$182,074	$7,207,291	6.16%
Foreign Insurance	$230,795	$231,275	($480)	$219,785	5.01%
Domestic Insurance	224	0	224	79	183.54%
Business & Property	1,094	2,430	(1,336)	2,304	-52.50%
Cigarette	184,349	176,653	7,696	180,192	2.31%
Soft Drink	18	0	18	4	325.58%
Alcoholic Beverage	34,435	32,977	1,458	33,551	2.63%
Liquor Gallonage	18,539	18,732	(193)	18,574	-0.19%
Estate	46,117	42,925	3,192	42,027	9.73%
Racing	0	0	0	0	#N/A
Total Other Taxes	$515,572	$504,992	$10,580	$496,517	3.84%
Total Taxes	**$8,166,540**	**$7,973,884**	**$192,656**	**$7,703,808**	**6.01%**
NON-TAX INCOME					
Earnings on Investments	$50,989	$42,375	$8,614	$41,028	24.28%
Licenses and Fees	50,988	50,375	613	52,288	-2.49%
Other Income	56,946	52,650	4,296	57,530	-1.01%
Non-Tax Receipts	$158,923	$145,400	$13,523	$150,846	5.35%
TRANSFERS					
Liquor Transfers	$41,500	$33,000	$8,500	$37,000	12.16%
Budget Stabilization	0	0	0	0	#N/A
Other Transfers In	398,780	358,700	40,080	25,150	1485.60%
Total Transfers In	$440,280	$391,700	$48,580	$62,150	608.41%
TOTAL INCOME less Federal Grants	**$8,765,743**	**$8,510,984**	**$254,759**	**$7,916,804**	**10.72%**
Federal Grants	$2,460,572	$2,606,134	($145,562)	2,490,694	-1.21%
TOTAL GRF INCOME	**$11,226,315**	**$11,117,117**	**$109,198**	**$10,407,498**	**7.87%**

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

Detail may not add to total due to rounding.

reflective of underlying trends. February collections were $11.7 million above estimate and up a healthy 6.9 percent from last year. This puts year-to-date withholding $10 million over the estimate. Preliminary March data suggests that withholding may top the estimate in that month also. Based on this new data, and on the strong employment and wage growth numbers being reported in most areas of the state, LBO expects that withholding will end FY 1997 above the estimate, although the magnitude of the overage is still uncertain.

For the year, the biggest variance among components of the income tax is still in quarterly estimated payments. Estimated payments are $105.3 million above the estimate for the year (19.2 percent). There was little action in February in estimated payments, and there will probably be even less in March. The first payment against taxable year 1997 liability is due on April 15th. It is likely that the April payment will exceed the estimate.

Most of the February overage was due to refund payouts being $57.7 million less than forecast. While refunds for the year-to-date are about 16 percent over last year's level, and February's refunds were up almost 20 percent, the Tax Department estimated that refunds would be up by almost 50 percent because of the 6.6 percent temporary rate cut for tax year 1999. So far, the anticipated refunds have not materialized. According to information from the Department of Taxation, for those refunds that have been claimed, the average amount is up about 30 percent from last year. Average refund amounts are therefore behaving roughly as expected. However, refund counts have not increased accordingly. Tax department analysts thought that in the wake of the rate cut, since more taxpayers would be owed refunds, and those refunds would be bigger, it would be logical for taxpayers to file earlier in order to get their money quicker. So far, that has not been the case. Refunds in early March have not gone out as quickly as expected, either.

Logic dictates that most or all of the anticipated refunds will still materialize at some point, because the rate cut was expected to reduce total tax collections by about $340.7 million in FY 1997 (the other $60.1 million of the total $400.8 million impact is expected in FY 1998). Of course, stronger income and tax liability growth than originally expected could result in a higher baseline tax amount, so that refunds may not be quite as much as predicted. However, if refunds don't accelerate in late March, it may not be until June that we actually see the higher numbers. The department is generally so busy processing returns in April and May that any bulge in refunds can be expected not to appear until June (experience from prior years supports this). As a result, the income tax numbers may look stronger than they really are — the underlying numbers will still be strong — until close to the end of the fiscal year.

Corporate Franchise Tax

As expected, the corporate franchise tax fell back to earth in February, after posting a big overage in January. The franchise tax was $23.1 million short last month. Total January -February collections for the first major payment of the year (due January 31st) were $4.3 million (1.1 percent) less than the estimate. This shortfall is somewhat surprising in light of the corporate profits data.

Surveys of large companies have for the most part reported big profit increases in 1996. However, survey numbers may be somewhat misleading because the profit numbers reported there are often the worldwide profits of multinational companies. These profit numbers thus may substantially exaggerate the growth in U.S.-source corporate profits, which is what matters for state tax collections. The difference between global and U.S.-source profits may explain part of the big difference in fourth quarter profit numbers. Survey data reported strong profits in the fourth quarter, whereas official government statistics show that some measures of corporate profits declined in the fourth quarter.

The definition of profits also matters. Even after a fourth-quarter drop, profits from current production, adjusted for changes in the valuation of inventories, increased by 11.5 percent in calendar year (CY) 1996. However, profits before tax, which is the government figure that most closely corresponds to the net income figure that states such as Ohio use as the corporate tax base, rose by only 6.8 percent in CY 1996.

Even if pre-tax corporate profits grew only 6.8 percent in taxable year 1996, Ohio should be able to make the corporate tax estimate in FY 1997. OBM's estimate of revenues from the three payments in the January-June period is only 2 percent above actual collections last year. In fact, the first payment this year was 3.3 percent above last year's level. The payment ended up below the estimate because OBM had assumed bigger growth in the first payment than in the second and third payments.

If corporate tax revenue continues to grow at 3.3 percent, it will make the estimate, but still be lower than one would expect. At this point, there is no clear explanation as to why Ohio corporate tax revenue should underperform national profits to such a degree. Of course, Ohio corporate tax revenue growth never exactly matches national profit growth. Factors such as different taxable years (which don't always coincide with calendar years), the dual net worth-net income base of the tax, industry mix, and the rules regarding state apportionment and allocation of income and net worth all play a role in driving a wedge between what corporations report as federal pre-tax profits and the Ohio corporate tax base. It is an open question as to whether these factors are the primary cause of Ohio's current slow corporate tax revenue growth, or whether another cause such as growth in corporate tax credits is at work.

Some other states have also reported surprisingly slow corporate tax revenue growth. The Center for the Study of the States reports that state corporate tax collections fell by 3 percent in the fourth quarter. Some states had growth, but more states had declines. Even after adjusting for legislated tax changes (mostly cuts), aggregate state revenues are flat. Ohio is not the only state with weak corporate revenue growth. ❑

[3] See "Heard on the Street," Laura Bird and Suzanne McGee, ***Wall Street Journal***, March 31, 1997.

DISBURSEMENTS

— *Chris Whistler**

Total program spending in February was $45.9 million below estimate ($45.0 million when transfers are included). Over 85 percent of the variance was due to underspending in the **Welfare and Human Services** category, primarily in **Health Care** (Medicaid). This is not a new trend in GRF spending this fiscal year. Of the $520.4 million negative variance in program spending for the year-to-date ($477.7 million with transfers — see the November issue of *Budget Footnotes* for details), $383.3 million (73.6 percent) is due to **Welfare and Human Services** — $219.7 million of that is due to **Medicaid.**

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

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$283,760	$294,642	($10,882)
Higher Education	153,695	148,462	5,233
Total Education	$437,455	$443,104	($5,649)
Health Care	$410,610	$444,833	($34,223)
TANF	66,293	86,882	(20,589)
General Assistance	4	0	4
Other Welfare	26,143	45,756	(19,613)
Human Services (2)	92,761	58,088	34,673
Total Welfare & Human Services	$595,811	$635,558	($39,747)
Justice & Corrections	$104,670	$99,820	$4,850
Environment & Natural Resources	6,476	6,085	391
Transportation	4,218	4,612	(395)
Development	7,182	6,955	227
Other Government (3)	18,758	21,948	(3,190)
Capital	609	255	355
Total Government Operations	$141,913	$139,675	$2,238
Property Tax Relief (4)	($78)	$2,674	($2,752)
Debt Service	2,359	2,389	(30)
Total Program Payments	**$1,177,461**	**$1,223,400**	**($45,939)**
TRANSFERS			
Capital Reserve	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	964	0	964
Total Transfers Out	$964	$0	$964
TOTAL GRF USES	**$1,178,424**	**$1,223,400**	**($44,975)**

(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.

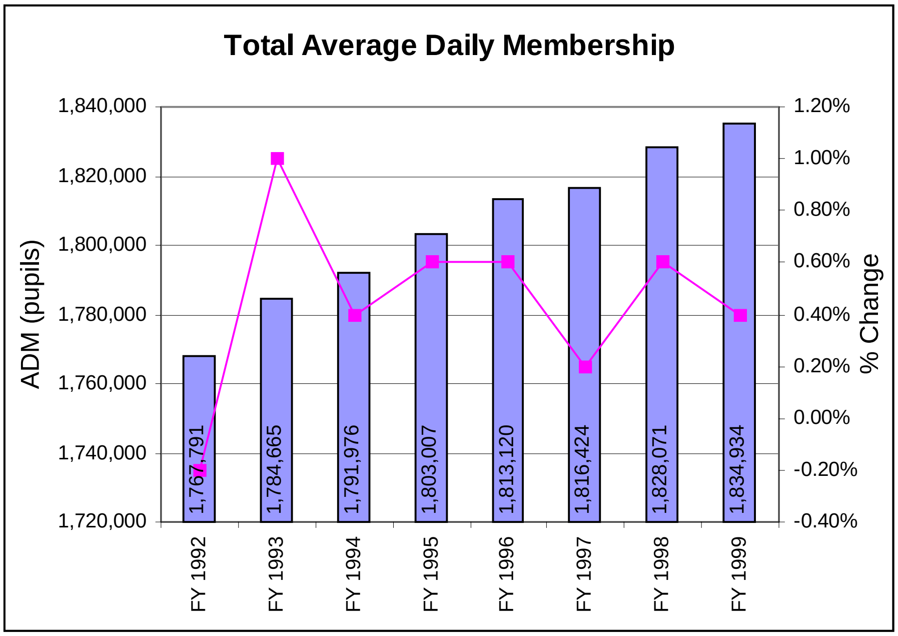
* August, 1996 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

Primary and Secondary Education disbursements in February held to the trend of underspending. For the month, this component of the **Education** category was $10.9 million under estimate. (Spending by the Department of Education was actually $11.4 million under the estimate of $292 million, but the schools for the blind and deaf generated a combined overage of $0.5 million.) The monthly underspending drove the year-to-date variance in **Primary and Secondary Education** further below estimate — to $62.5 million through February.

Spending activities in the following line items are worth noting:

- 200-501, School Foundation Basic Allowance: $3 million under estimate for the month (the department projects a fiscal year-end lapse of $10 million);
- 200-504, Special Education: $4 million below estimate in



February (the department projects a lapse of $5 million);

- 200-507, Vocational Education: $4 million under estimate (projected lapse of $5 million); and,

- 200-520, Disadvantage Pupil Impact Aid (DPIA): projected to lapse $10 million.

It should be noted that the department expects the 200-501, School Foundation Basic Aid, line item to finish the fiscal year much further below estimate than the estimated lapse of $10 million in the line. The department projects that it will need approximately $27 million of the 400-501 variance for special and vocational recomputation, leaving $10 million to lapse. (For a discussion of the recomputation process, please see the "Disbursements" section of the May/June, 1996, issue of *Budget Footnotes*.)

The updated Average Daily Membership (ADM) figures as of February have not altered the trend of underspending for basic aid in the 200-501 line item (the count is still slightly below estimate). As depicted in the chart entitled "Total Average Daily Membership," the ADM count has been increasing steadily in recent years. The department has projected that total ADM will increase by 0.6 percent from FY 1997 to FY 1998 and by another 0.4 percent in FY 1999.

In the basic aid formula, a district's basic ADM (200-501), rather than its total ADM is used. To calculate a district's basic ADM, the following formula is used:

- the average daily membership in regular day classes for the first full school week in the month of October for kindergarten, and grades one through twelve (not including any pupil attending a joint vocational school or students counted in a vocational or special education unit);

- minus one-half of the kindergarten average daily membership;

- plus one-fourth of the pupils residing in the district and attending a joint vocational school.

The second part of the **Education** category, **Higher Education**, continues to run below estimate for the year despite a $5.2 million overage in February. The monthly variance, which according to the Office of Budget and Management was due to the timing of payments for the Ohio Instructional Grants and Student Choice Grants, was not enough to outweigh the persistent under-spending for the fiscal year-to-date that has resulted from inaccurate estimating by the Student Aid Com-mission. Through February, **Higher Education** spending was $25.0 million under estimate.

The real spending story this fiscal year is in the **Welfare and Human Services** category. The $39.7 million negative variance in February left the category $383.3 million below estimate for the fiscal year. Had the Department of Mental Retardation and Developmental Disabilities not had a $38.0 million overage due to the timing of subsidy payments for community residential services (driving the $34.7 million overage in the **Human Services** component), the **Welfare and Human Services** variance would have been twice as large in February.

To be consistent with the Administration, LBO has updated Tables 4 and 5 to adjust for the line item restructuring resulting from the enactment of the federal Temporary Assistance for Needy Families (TANF) program (which replaces Aid to Families with Dependent Children). As discussed in the last

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)	$2,835,128	$2,897,612	($62,485)	$2,650,380	6.97%
Higher Education	1,375,624	1,400,618	(24,994)	1,310,149	5.00%
Total Education	$4,210,752	$4,298,230	($87,478)	3,960,529	6.32%
Health Care	$3,267,955	$3,487,698	($219,743)	$3,299,993	-0.97%
TANF	690,784	715,099	(24,315)	658,209	4.95%
General Assistance	104	0	104	9,634	-98.92%
Other Welfare	379,392	498,035	(118,643)	420,499	-9.78%
Human Services (2)	762,567	783,247	(20,680)	740,797	2.94%
Total Welfare & Human Services	$5,100,802	$5,484,079	($383,277)	$5,129,130	-0.55%
Justice & Corrections	$951,647	$956,164	($4,516)	$853,333	11.52%
Environment & Natural Resources	83,284	83,032	252	79,594	4.64%
Transportation	17,308	23,531	(6,223)	24,188	-28.44%
Development	86,200	89,471	(3,271)	75,578	14.05%
Other Government (3)	237,310	268,397	(31,087)	230,272	3.06%
Capital	5,482	4,266	1,217	2,269	141.57%
Total Government Operations	$1,381,232	$1,424,861	($43,629)	$1,265,234	9.17%
Property Tax Relief (4)	$489,942	$495,014	($5,072)	$456,370	7.36%
Debt Service	93,765	94,667	(902)	94,016	-0.27%
Total Program Payments	**$11,276,492**	**$11,796,851**	**($520,359)**	**$10,905,280**	**3.40%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$12,000	-100.00%
Budget Stabilization	0	0	0	535,214	-100.00%
Other Transfers Out	577,913	535,237	42,676	340,152	69.90%
Total Transfers Out	$577,913	$535,237	$42,676	$887,366	-34.87%
TOTAL GRF USES	**$11,854,405**	**$12,332,088**	**($477,683)**	**$11,792,645**	**0.52%**

(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.

issue (February 1997) of *Budget Footnotes*, the adjustment is somewhat misleading due to the movement of line items between the **Other Welfare** and **ADC** (now **TANF**) spending components without correspondingly revising the estimates. Because the adjustment makes the **TANF** variance look artificially small and the **Other Welfare** variance look artificially big, the best comparison is the following: the sum of the variances in the **TANF** and **Other Welfare** spending components ($143.0 million) represents the total GRF variance by the Department of Human Services aside from the 400-525, Health Care/Medicaid, line item.

The below estimate cash assistance caseload and lower than originally expected health maintenance organization capitation rates continue to hold spending in the **Medicaid** component well below estimate. In February, **Medicaid** spending was $34.2 million under estimate. Two timing issues, which likely counteracted one another, occurred during the month: the Medicare buy-in payment that was scheduled for February was not released and revenue from the prescription drug rebates was not collected according to estimate.

The magnitude of the February variance was a far cry from the $74.0 million variance in January. Early evidence from March suggests that the variance for the final month of the third quarter should more closely resemble the smaller February variance than that of January. For the year-to-date, **Medicaid** was $219.7 million under estimate through February.

The final major spending category, **Government Operations**, was $2.2 million over estimate in February, but the picture is quite different for the fiscal year. Through February, fiscal year-to-date spending in the **Government Operations** category was $43.6 million under estimate. Approximately $31.1 million of the variance was in the **Other Government** component, most notably within the budgets of the Department of Administrative Services ($16.7 million under) and the Auditor of State ($7.6 million below estimate). ❑

** Deborah Zadzi made contributions to this article.*

ISSUES OF INTEREST

AM. SUB. H.B. 210: THE HIGHWAY BUCK STOPS HERE

BY LINDA BAILIFF PIAR

The transportation budget bill consists of the non-GRF portions of the Departments of Transportation (ODOT)[1] and Public Safety (DHS); the Public Works Commission (PWC); and one line item each from the Departments of Development and Health.

On March 31, 1997, the Governor signed Am. Sub. H.B. 210, the $4.6 billion transportation budget bill. Despite the 'no more money, no more highway projects' scenario, the bill contains no fuel tax increase, and no vehicle registration fee increase, or any other 'fix' discussed in the state's hallowed halls these past months. If there is no 'fix' next biennium, there will be a head-on collision between growing needs and limited funding sources at the start of the new century. ODOT warned that the increased bonding authority approved by voters in 1995 was a short-term solution (additional authority used in FYs 1996, 1997, and 1998 only), and that it can ill afford the debt service on additional issues. In FY 1999, the major new construction program will be about $156.5 million (down from about $300 million in each of the previous three years). Moneys for this program will continue to decline until they are nonexistent in FY 2001.

$30 Million for Local Governments

The bill provides about 30 million new dollars to local governments statewide. A portion of this gain is due to the elimination of the ethanol fuel credit ($4 million annually). The balance is due primarily to changes in the Public Safety's Information & Education and Bureau of Motor Vehicles (BMV) divisions. From amounts of money collected by the BMV for licenses and registrations, a portion is used for administrative costs. The remainder is passed on to counties, municipalities, and townships via the Auto Registration Distribution Fund (ARDF) for local road projects. If the Bureau's reliance on other revenue increases, then more revenue is available for local government distribution. The bill contains three changes that will provide more money to the ARDF ($9.4 million in FY 1998 and $11.5 million in FY 1999). Finally, due to a change in the seat belt fine revenue distribution,* Emergency Management Services' grants to local governments for EMS training and equipment will increase by $500,000 annually.

** Under current law, 2% of the seat belt fine revenue is paid to the Ambulance Licensing Board. Am. Sub. H.B. 215, the main appropriations bill, reduces this share to 1% for the FY 1998-1999 biennium and provides for this money to be used for EMS grants. After FY 1999, the Board's share is restored to 2%.*

Although falling short of the mark, the bill does provide some aid. First, there is the elimination of the $15 million annual ethanol fuel tax credit. Due to the distribution process of the revenue generated by the motor vehicle fuel tax, the elimination of the credit will result in about $11 million to ODOT and about $4 million to political subdivisions for local road projects. Second, within the Department of Health, the bill eliminates the Indigents Persons Care Fund (payor-of-last resort for medical expenses of individuals injured on state highways), and changes the funding source for the Alcohol Testing and Permit program to liquor profits. The Health changes free up about $5.5 million annually to ODOT. Collectively, all changes increase ODOT's FY 1998 appropriation authority by over $15 million.[2] In FY 1999, ODOT has the flexibility to use the increase for debt service on additional bonding authority, if so desired. (This was accomplished by increasing the FY 1999 bonding authority by $112 million.)

Total appropriation authority is summarized below by state agency, by fund group, followed by the bill's highlights. In addition to FY 1998-1999 appropriations, the bill also contains a $40 million GRF appropriation in FY 1997 in a new line item, Disaster Services, within the Controlling Board's existing budget to pay for disaster services related to the 1997 floods in southern Ohio.

Transportation

When comparing appropriation authority for the current biennial budget to the authority in H.B. 210, ODOT is realizing over a 20 percent increase. As this is a continuation budget, the increase is due primarily to a combination of savings in operations, greater cash levels (motor vehicle fuel tax revenues collected in the fund exceeded appropriations), the creation of the State Infrastructure Bank (SIB), and increased bonding authority. Biennial appropriation authority for the SIB is $127.2 million, plus $90 million in bonds for the I-670 Spring/Sandusky interchange. Total bonding authority (used for major new construction) is $432.5 million.[3]

The Department will continue to emphasize system maintenance and preservation. This accounts for about $750 million (with annual growth at three percent) in ODOT's $900 million to $1 billion construction contract program. The balance of the program is major new construction. With the increased bonding authority, the major new program is nearly $300 million in FY 1998 but will decrease to $140 million in FY 1999. Operating costs total about $600 million per fiscal year (with annual growth at two percent). These costs include payroll, labor, equipment, building debt service, and snow and ice control.

Other Transportation highlights include:

- The seven-member Transportation Review Advisory Council (TRAC) is created (currently resides within ODOT administratively) to manage the highway project selection process and hear community appeals, and also to oversee the major new construction program and approve loan requests for the SIB.

- The bill permits ODOT to lease their rights-of-way and/or air

Agency, Fund Group	FY 1998	FY 1999
Transportation		
Highway Operating Fund Group	$ 1,592,120,159	$ 1,615,099,920
Highway Capital Improvement Fund Group	$ 225,000,000	$ 215,000,000
Infrastructure Bank Obligations Fund Group	$ 50,000,000	$ 40,000,000
State Special Revenue Fund Group	$ 6,700,000	$ 6,700,000
General Revenue Fund	$ 2,000,000	$ -
Federal Special Revenue Fund Group	$ 1,000,000	$ 1,000,000
TOTAL - Transportation	$ 1,876,820,159	$ 1,877,799,920
Public Safety		
State Highway Safety Fund Group	$ 308,664,846	$ 322,875,423
State Special Revenue Fund Group	$ 2,493,589	$ 2,549,661
Liquor Control Fund Group	$ 7,582,426	$ 7,775,467
General Services Fund Group	$ 7,610,406	$ 9,066,317
Federal Special Revenue Fund Group	$ 6,419,019	$ 6,435,184
Holding Account Redistribution Fund Group	$ 1,635,000	$ 1,635,000
TOTAL - Public Safety	$ 334,405,286	$ 350,337,052
Development		
State Special Revenue Fund Group	$ 14,270,000	$ 13,000,000
TOTAL - Development	$ 14,270,000	$ 13,000,000
Health		
State Special Revenue Fund Group	$ 708,409	$ 726,664
TOTAL - Health	$ 708,409	$ 726,664
Public Works Commission		
Local Transportation Improvements Fund Group	$ 60,362,295	$ 60,387,817
Local Infrastructure Improvements Fund Group	$ 846,687	$ 912,360
TOTAL - Public Works Commission	$ 61,208,982	$ 61,300,177
TOTAL - Transportation Budget Bill	$ 2,287,412,836	$ 2,303,163,813

rights to wireless telecommunications service providers. A rough departmental estimate indicates that about 300 towers will be put up in the next two years, which would generate $6 to $7 million during the biennium.

Hilltop Complex

Both ODOT and DHS will move to their new office site in January 1998. The project is ahead of schedule and under estimate. Project cost is split between ODOT (45%) and DHS (55%) according to the percentage of occupancy. ODOT will consolidate four locations, and DHS will merge eight sites. Shared expenses will initially be paid for by DHS with charge-backs to ODOT. The Highway Patrol will provide security.

- Several changes are made to the statutes regulating billboards on the interstate and primary system, including codifying the permit process; and the maximum fine for violation of these statutes is increased from $1,000 to $5,000.

- Funding of $250,000 per fiscal year is earmarked for administrative costs for the Butler, Stark, and Medina transportation improvement districts (TIDs), and up to two additional TIDs.

- The business logo sign pilot (placement of directional signs on non-interstate highways in Stark, Union, and Cuyahoga counties) is expanded to any highway in a rural area. Additionally, the ODOT director is required to conduct a study of the program to evaluate various methods of making the program more cost effective. The tourist-oriented directional sign (TODS) program is also amended to limit the commercial activities eligible for this program to a farm market, winery, or a bed and breakfast (any contract entered into for a sign on or before July 1, 1998 is valid irrespective of the type of commercial activity).

- Procedures and requirements are modified concerning the program under which ODOT can sell or transfer unneeded machinery, materials, and supplies.

- ODOT's non-competitive purchasing threshold is raised to that of other state agencies: $25,000 plus future inflationary adjustments.

- Motor vehicles used exclusively in vanpools are exempt from the state sales tax, which will cost the state about $25,000 annually.

Public Safety

This budget is also a continuation budget. When comparing appropriation authority for the current biennial budget to the authority in H.B. 210, DHS is realizing an eight percent increase. The increase is primarily due to debt service payments to support the bonds issued for the Hilltop complex[4], but funding (especially in FY 1999) also supports computerization updates in the Bureau of Motor Vehicles (BMV), and the agency's active participation in the Multi-Agency Regional Communications System (MARCS). Public Safety will both pay and receive MARCS user charges. System construction is expected to start in FY 1998. The year 2001 is the timeline for fixed site equipment, and total completion is expected in 2004. The Highway Patrol will not only be heavy users of the system but will also be responsible for maintenance. The Emergency Operating Agency will operate the system; however, funding for the system's overall operation will reside in the Department of Administrative Services.

Public Safety highlights are as follows:

- The BMV's 20-year old Operator License Systems database will be completely rewritten. This involves 1,000 computer programs, and will cost $3.5 million over the biennium.

- The Automated Title Processing System (ATPS) is to be replaced at a cost of $9 million. The system is fully supported by a $2 fee charged for each certificate of title.

- Eleven additional positions provide for the security at the Statehouse and Senate building, and to respond to incidents at the Riffe Center, Rhodes Tower, Department's Building, the Court of Claims and the State Auditor's office.

- At least two additional Highway Patrol cadet classes are provided for. Currently, the force is in decline due to a large number of retirements.

- The Ohio Criminal Justice Network is transferred from the

Department to Administrative Services to DHS, which is the largest state user of the network.

- A new $30 reinstatement fee is created for the reissuance of driver's licenses following suspension or revocation. This fee is also added to the $250 DUI reinstatement fee, and the Nonresident Violator Compact reinstatement fee is increased from $12.50 to $30.The fee increase is delayed until October 1, 1997.

- A waiver allows BMV to manufacture validation stickers (current law requires manufacture by Ohio Penal Industries) so that the Bureau may produce these on an as-needed basis for mail-in registrations. The BMV wasted $100,000 to $200,000 last year in unneeded stickers.

- The title fees pertaining to rebuilt vehicles and those vehicles assembled from component parts are increased from $25 to $40 in FY 1998, and to $50 in FY 1999 and thereafter.
- The bill removes the mandatory crash record report filing (where damage exceeds $400) unless the driver or vehicle owner is an uninsured motorist.

Several provisions were inadvertently omitted when the substitute bill was assembled in the Senate. These provisions will be contained in a separate bill with an emergency provision. These are as follows:

- The purchase of rock salt is exempted from existing "Buy America" provisions. ODOT estimates an annual $1.5 million savings.

- Language continues a current program in which ODOT leases state lands for billboards. The annual amount generated is about $12,000.

- A church bus that was previously a school bus can retain its paint color.

- ODOT districts are required to maintain the rest area coffee break program for those organizations that obtained a permit prior to January 1, 1997.

- Language permits persons to possess alcohol (not purchased on the premises) at a music festival on specific premises for which there has been issued an F permit (temporary permit). The only festival to which this language applies is "Jamboree in the Hills". ❑

Gubernatorial Vetoes

The Governor used his line item veto authority to strike the following provisions: (1) language establishing the compensation for the members of the TRAC; (2) language pertaining to vehicle remanufacturers who sell certain public safety or service vehicles; and, (3) language authorizing the placement of trauma center signs along interstates.

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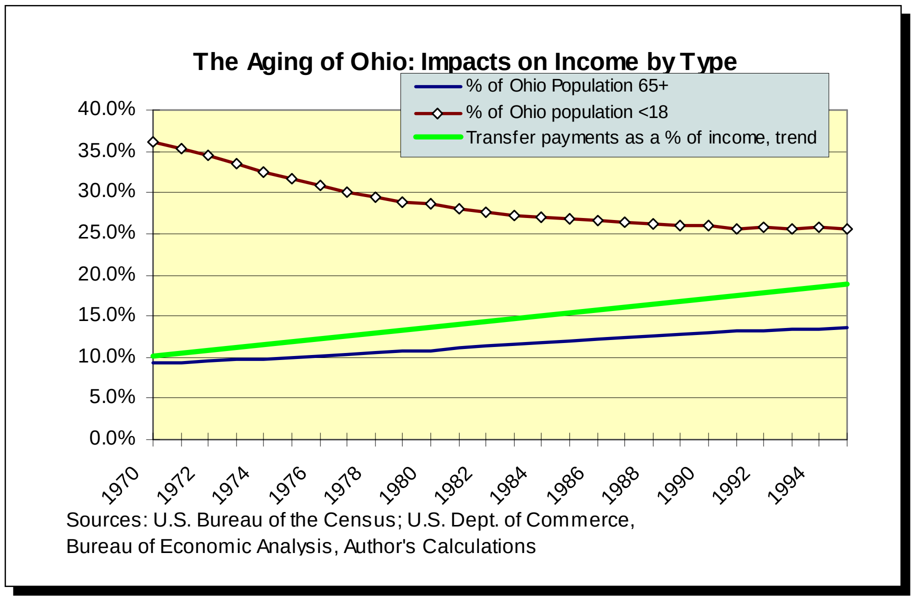
[1] The exception is a $2 million GRF appropriation in FY 1998.
[2] The total was actually $16.4 million but $1.27 million was transferred to the Roadwork Development Fund within the Department of Development.
[3] Debt service is paid through the Sinking Fund and therefore not appropriated by ODOT.
[4] Although the total debt service amount resides within Public Safety, 45 percent will be charged to ODOT.

OHIO FACTS EXTRA!

The Ohio Facts Extra! section grew out of the booklet, Ohio Facts, a publication developed by LBO to provide a broad overview of public finance in Ohio. Each month in Budget Footnotes, a different area of interest will be presented in graphics and text.

Age Doth Make Transfer Recipients of Us All

—Frederick Church

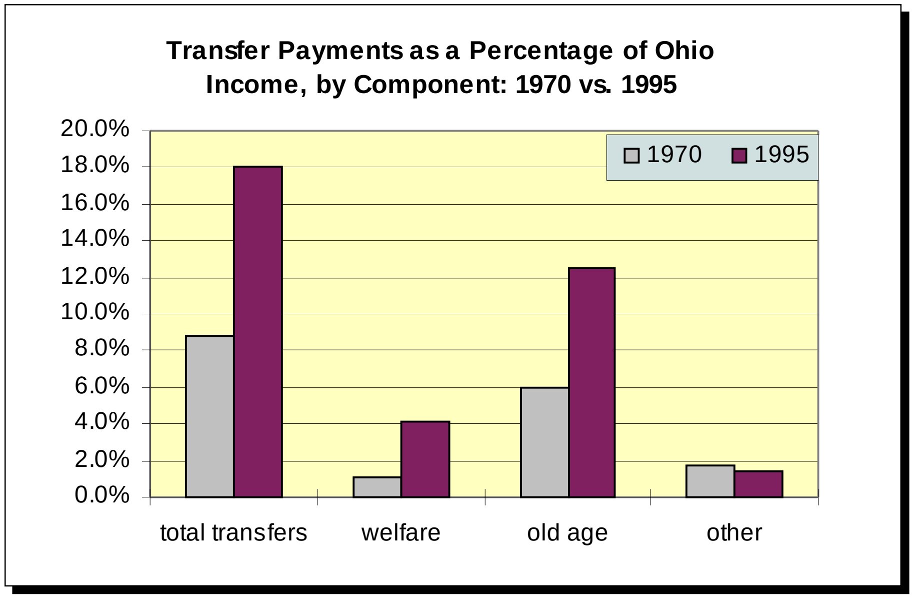


- Over the quarter-century from 1970 to 1995, the share of Ohio's population age 65 or above has increased by almost 50 percent, while the share of population held by children has shrunk markedly. This trend is evident at the national level also, although the Ohio change has been more pronounced.

- At the same time, Ohio's share of personal income from transfer payments has increased roughly in concert with the elderly share of population, although the increase in transfer payments has been somewhat faster.[1] Most of the increase in transfer payments is in government payments.[2] Once again, Ohio is following the national trend.

- The impact on state government finances is fairly straightforward. As transfer payments increase, the wedge between total income and taxable income grows larger. Most retirement income and medical assistance payments are not taxable at the state level. A given increase in total personal income will create a smaller increase in taxable income, and in tax revenue, over time.

- Confusion still exists about what the sources of the transfer payments are. It is often assumed that the increase in transfer payments is all due to increasing amounts spent on welfare programs. In fact, an examination of income data from the Bureau of Economic Analysis (BEA) suggests that the increase in transfer payments is more closely tied to the aging of the population, in Ohio and the nation as a whole.



- As the graph shows, while increases in welfare payments have contributed to driving up transfers as a share of income in Ohio, rising from 1% to about 4% from 1970 to 1995, payments associated with aging have been a bigger factor. Retirement and disability payments and Medicare payments[3] more than doubled, going from 6.0% of income in 1970 to 12.5% in 1995.

- In fact, our classification of payments into welfare and spending on the aged may actually overstate welfare and understate old age assistance. The reason is that we have included all of "public assistance medical payments" under welfare, whereas in truth more than half of Medicaid spending goes to nursing home and other medical care for the elderly. This will be somewhat offset - but probably not totally - by the fact that we have included all of the "retirement and disability" category under old age assistance, although some of these payments are going to disabled people under 65.

- Most of the increase in welfare is not in cash assistance in the so-called income maintenance programs such as aid to families with dependent children (AFDC), supplemental security income (SSI), or food stamps. These transfers increased from 0.8% of income to 1.5% over the period. The bulk of the increase in welfare is in medical assistance payments, particularly Medicaid. These payments went from 0.3% of income in 1970 to 2.6% in 1995.

- In contrast, among the payments made to the aged the increase was not as heavily weighted toward medical assistance. Retirement and disability payments went from 5.3% of income in 1970 to 9.5% in 1995, while Medicare payments rose from 0.7% of income to 3.0%.

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[1] What is shown here is the linear trend of transfer payments as a share of income (simple regression against time) to smooth out business cycle fluctuations.

[2] In 1995, 18.1% of Ohio personal income came from transfer payments, 17.3% from government transfer payments.

[3] This Medicare number includes the small amount of spending for CHAMPUS.

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 *March* 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	8:40	This month's journal contains segments on Clinton's juvenile crime initiative, using methane gas to heat a public high school in Montana, and etiquette on the N.Y. subway, among other interesting topics.
Leadership Spotlight/ Joint Land Use Planning	11:20	This program spotlights the City and County of Yuma, Arizona. The two separate entities, with the same name, collaborated on a long term land use plan. This plan, while not perfect, is an example of how comprehensive land use planning can work on an intergovernmental level.
Training Track/ Team-Skill Building for Effective Teams, Part II.	15:15	The second in a three part series, this program examines the skills team leaders need. The program identifies six roles that a team leader must learn: 1) coach; 2) conflict manager; 3) motivator; 4) evaluator; 5) performance manager; and 6) long range planner.
Human Factor/ Employee Assistance Programs, Part II.	11:30	This segment identifies four critical components of a successful EAP. The four necessary components are: 1) employee education; 2) professional staff services; 3) record keeping; and 4) program evaluation.
Money Watch/ Electric Utility Restructuring & Competition	13:30	This program explains how traditional provision of electricity has involved a vertically integrated structure. The segment discusses how the traditional model for generation, transmission, and distribution of electricity may evolve over the next several years.