# Budget Footnotes

A Newsletter of the Ohio Legislative Budget Office — April, 1997


## FISCAL OVERVIEW

*— Frederick Church*

She came in to my office like the breeze before a thunderstorm, stirring all the molecules with the promise of sudden and violent change to come. She was wearing a tan trench coat and a soft grey fedora. Her hair was strawberry blonde and her lips were the color of midsummer roses. My philodendron plant, wilting for lack of water, straightened up as she came near. To me, she looked like trouble.

"Tell me about taxes," she whispered, taking a seat on the edge of my desk. "We had another big overage in March," I said, and took a slug of bourbon from the bottle in my lower desk drawer. I wiped my mouth on my tie and hoped she wouldn't notice. "And?" she asked, cocking her eyebrows at me. I sighed and sat back in my chair. Another beauty who wanted to know about state revenues. Well, that was my game, and although I'd told the same story to a lot of dames in the past, it beat going home to cold pizza and trying to teach my cat to play checkers. He's not a bad tactician, but he's a terrible strategist. I cleared my throat and began.

March tax revenues were $33.3 million over estimate. Most of the tax sources were actually slightly below estimate, but a big overage in the income tax pushed total taxes above the forecast. There were small overages in the corporate franchise tax and public utility excise tax as well. The $44.8 million overage in the income tax was mostly attributable to strong withholding and slow refund payouts: roughly $25 million from withholding and $20 million from refunds.

To reiterate a point from last month's issue, the part of the income tax overage that is due to refunds may be short-lived. While refunds for the year-to-date are up about 38 percent from last year (March refunds were up 61 percent), the Tax Department thought that refunds for the year would have increased by over 60 percent because of the 6.6 percent temporary rate cut for tax year 1996. 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). Unfortunately, because of the way processing is done, we probably will not have a clear picture of end-of-year refund numbers until May.


***Volume 20, Number 9***



***STATUS OF THE GRF***

Revenues .......................... 172
- Income Tax Posted Another Big Overage in March
- Sales Tax Sagged Despite Strong National Consumption Figures
- Corporate Tax Growing Slowly in Ohio and Other States

Disbursements .................. 176
- Timing Issues Drive Total Uses $37.3 Million Over Estimate in March; YTD Still Below Estimate by $440.3 Million
- Medicaid Over Estimate by $12.3 Million for Month Despite Trend of Under-spending
- Recent Student Data Confirms K-12 Projected Lapses

***QUARTERLY LOTTERY REPORTS***

Lottery Ticket Sales and Profits Transfers ............................ 179

Lottery Profits Education Fund Disbursements .................. 182

***ISSUES OF INTEREST***

Time Marches On ............ 183

Ohio Facts Extra! .............. 185

GSTN Index .................... 186

Quarterly Article Index ... 187

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***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 March | Fiscal Year 1997 to Date | Last Year | Difference |
|---|---|---|---|---|
| Beginning Cash Balance | $510.4 | $1,138.5 | | |
| Revenue + Transfers | $1,397.5 | $12,623.8 | | |
| Available Resources | $1,907.9 | $13,762.4 | | |
| Disbursements + Transfers | $1,402.7 | $13,257.1 | | |
| **Ending Cash Balances** | **$505.3** | **$505.3** | **$8.5** | **$496.8** |
| Encumbrances and Accts. Payable | | $327.0 | $276.5 | $50.5 |
| **Unobligated Balance** | | **$178.3** | **($268.0)** | **$446.3** |
| BSF Balance | | $828.3 | $828.3 | |
| **Combined GRF and BSF Balance** | | **$1,006.6** | **$560.3** | **$446.3** |

Overall tax receipts are now $226.0 million above estimate for the year — a variance of 2.5 percent — with growth of 6.3 percent from last year. The income tax is responsible for more than 86 percent of that overage ($195.3 million). Thanks to strong investment earnings and some unanticipated temporary transfers, the overage in non-federal revenue stands at $302.2 million. The huge shortfall in federal reimbursement, which stems from underspending on welfare programs that draw federal matching money, has held the total GRF overage down to $89.6 million.

In March we sighted one of those rarest of birds: the GRF spending overage. Once plentiful in this state, this bird has in recent years been sighted only a couple of times a year. The *rara avis* is distinguished by its brilliant plumage and short life span. Some observers predict that it will return in greater numbers in the future due to economic downturns and federal government action. At present, it remains (fortunately) an elusive creature.

Despite the $34.6 million overage in March spending, year-to-date disbursements are still below estimate by $485.7 million through March. Transfers are over estimate by $45.4 million, leaving total GRF uses $440.3 million below estimate.[1] Spending excluding transfers has increased only 4.4 percent from last year.

The overage in March mostly due to various timing issues that may well be reversed in succeeding months. Several payments were released in March that were estimated to occur in other months. These mismatches between estimated and actual releases caused higher education and property tax relief to exceed the estimate by $23.2 million and $34.4 million, respectively. Similar timing issues also caused a $12.3 million overage in Medicaid, and smaller overages in the human services and justice and corrections categories.

The variance in higher education essentially offset earlier underspending. Disbursements for the year are very close to the estimate. Even this is misleading, though, because higher education is still expected to lapse roughly $25 million by year's end, through underspending in the instructional grants cluster of line items, and in debt service.

Property tax relief is expected to finish the fiscal year over estimate, but not by $29 million. LBO expects the overage to shrink by the end of June, leaving the final variance closer to $10 million over estimate.

The Medicaid overage is similarly misleading. For some reason, hospital payments were well above the estimate in March. It is not clear yet exactly what happened to push spending in this category so high. However, since the ADC-cash assistance caseload and managed care capitation rates are still well below estimate, it is likely that the March result was a fluke, and that April spending will once again be well below the estimate.

Offsetting the Medicaid overage, there was significant underspending in the welfare and human services category in March. The combined variance for both the Temporary Assistance for Needy Families (TANF) and Other Welfare components totaled $40.4 million for the month. For the year, the combined variance is $183.4 million. (As previously stated in *Budget Footnotes*, the line item restructuring that stemmed from federal welfare reform makes it necessary to combine the two components in order to make an objective comparison between disbursements and estimates.) This underspending is due primarily to lower-than-expected caseloads, both in TANF and Disability Assistance (DA).

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 $446.3 million ahead of last year's figure at the end of March. Even after one adjusts this figure for the portion of the transfer from the Income Tax Reduction Fund (ITRF) to the GRF that has not yet been given back to taxpayers in the form of refunds or lower tax due, 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 still expected to finish up far below estimate. This points to a large GRF fund balance at the end of the year, which could to a large income tax rate cut for tax year 1997. Of course, there is also the possibility that some of that fund balance would have to be earmarked for school funding in the wake of the Supreme Court's decision in *DeRolph v. State* (1997). ❑

# Status of the General Revenue Fund

## REVENUES

— Frederick Church

As stated in the Overview, tax revenues were $33.3 million over estimate in March, bringing the year-to-date overage to $226.0 million. For the month and the year, the overage is concentrated in the personal income tax. March tax revenue aside from the income tax was actually below estimate by $11.4 million. For the year, the income tax represents 86.4 percent ($195.3 million) of the total tax overage. The income tax and the non-auto sales tax combined account for 98 percent of the year-to-date overage.

The income tax overage is spread across quarterly estimated payments, withholding, and refunds. Most of the overage is in estimated payments, which could end the year $140 to $150 million above estimate. The withholding overage, currently at $34.9 million, may shrink some by year's end, since the big March payment seems to have been partly timing-driven. LBO expects that withholding could end the year $20 million to $25 million over estimate. Finally, the overage due to low refund payouts is mostly timing driven and could completely disappear by year's end. The income tax is analyzed in greater depth below.

The non-auto sales tax was very close to the estimate in March. For the year, it is still $26.3 million over estimate. Unfortunately, the auto sales tax took a dive last month, finishing $7.3 million below estimate. This caused year-to-date auto tax revenues to switch from a small surplus to a small shortfall. However, based on the economic data, better results are expected for the remainder of the year.

Since ***Budget Footnotes*** is being issued late this month, we have the luxury of knowing that first quarter consumer spending increased at an annualized rate of 6.4 percent, the largest increase since the first quarter of 1988. Total retail sales for the first quarter increased by 6.2 percent from a year ago. National sales for March (which drive Ohio's April tax receipts) were up 5.7 percent. Based on these strong consumption and retail sales figures, LBO expects Ohio's April sales tax revenues to exceed the estimates. Although economic growth can be expected to slow in the second quarter, consumption spending will be at a higher level than anticipated when our revenue forecasts were made. If Ohio sales follow the national trend, the non-auto tax should end FY 1997 with a fairly healthy overage. The auto tax should bounce back to finish roughly even with the estimate. All this assumes no drastic action by the Federal Reserve Board.

At this point, the only significant tax shortfall is for the foreign insurance tax ($8.5 million). FY 1997 payments for this tax are essentially done – some refunds are expected in May. Once those refunds are made, net revenues for this tax will end up showing very little growth from FY 1996. Since FY 1994, this tax has shown very little revenue growth. The reasons are unclear. Most of the minor taxes, unlike the sales, income, and corporate taxes, are driven more by factors particular to individual markets than by broad economic forces, and thus it is harder to tie their performance to changes in the economy.

In non-tax revenue, investment earnings are $19.4 million over estimate, fueled by bigger than expected daily GRF cash balances. Liquor transfers are also $9.5 million over estimate for the year. 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 $212.6 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 1.8 percent.

Total non-federal revenues are $302.2 million over estimate for the year-to-date, although the federal reimbursement shortfall holds the total GRF overage down to $89.6 million.

## Sales and Use Tax

Despite being slightly below the estimate ($0.9 million) March non-auto tax collections were actually up 7.2 percent from last year. The small shortfall was more the product of a very ambitious estimate than of a problem with performance of the tax. OBM's April estimate is for 7.8 percent growth, which is also very ambitious. Because national sales were so strong in March (and the Federal Reserve's ***Beige Book*** gives us no reason to believe that Ohio significantly lagged the nation), the non-auto tax may hit the estimate anyway. If it does not, the growth estimates for May and June are 2.1 percent and 5.0 percent, respectively, and collections should easily beat those targets.

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

| REVENUE SOURCE | | | |
|---|---|---|---|
| *TAX INCOME* | Actual | Estimate* | Variance |
| Auto Sales | $53,780 | $61,092 | ($7,312) |
| Non-Auto Sales & Use | 276,068 | 276,998 | (930) |
| Total Sales | $329,848 | $338,090 | ($8,242) |
| Personal Income | $201,968 | $157,200 | $44,768 |
| Corporate Franchise | 277,697 | 274,080 | 3,617 |
| Public Utility | 208,927 | 205,440 | 3,487 |
| **Total Major Taxes** | **$1,018,440** | **$974,810** | **$43,630** |
| Foreign Insurance | $54,331 | $62,350 | ($8,019) |
| Domestic Insurance | 0 | 580 | (580) |
| Business & Property | 40 | 270 | (230) |
| Cigarette | 23,133 | 24,195 | (1,062) |
| Soft Drink | 0 | 0 | 0 |
| Alcoholic Beverage | 3,781 | 3,815 | (34) |
| Liquor Gallonage | 1,957 | 2,063 | (106) |
| Estate | 3,573 | 3,825 | (252) |
| Racing | 0 | 0 | 0 |
| Total Other Taxes | $86,815 | $97,097 | ($10,282) |
| **Total Taxes** | **$1,105,255** | **$1,071,908** | **$33,347** |
| *NON-TAX INCOME* | | | |
| Earnings on Investments | $20,955 | $10,125 | $10,830 |
| Licenses and Fees | 7,015 | 4,225 | 2,790 |
| Other Income | 5,414 | 5,925 | (511) |
| Non-Tax Receipts | $33,384 | $20,275 | $13,109 |
| *TRANSFERS* | | | |
| Liquor Transfers | $8,000 | $7,000 | $1,000 |
| Budget Stabilization | 0 | 0 | 0 |
| Other Transfers In | 0 | 0 | 0 |
| Total Transfers In | $8,000 | $7,000 | $1,000 |
| **TOTAL INCOME less Federal Grants** | **$1,146,639** | **$1,099,183** | **0** |
| Federal Grants | $250,895 | $317,917 | ($67,022) |
| **TOTAL GRF INCOME** | **$1,397,534** | **$1,417,100** | **($19,566)** |

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

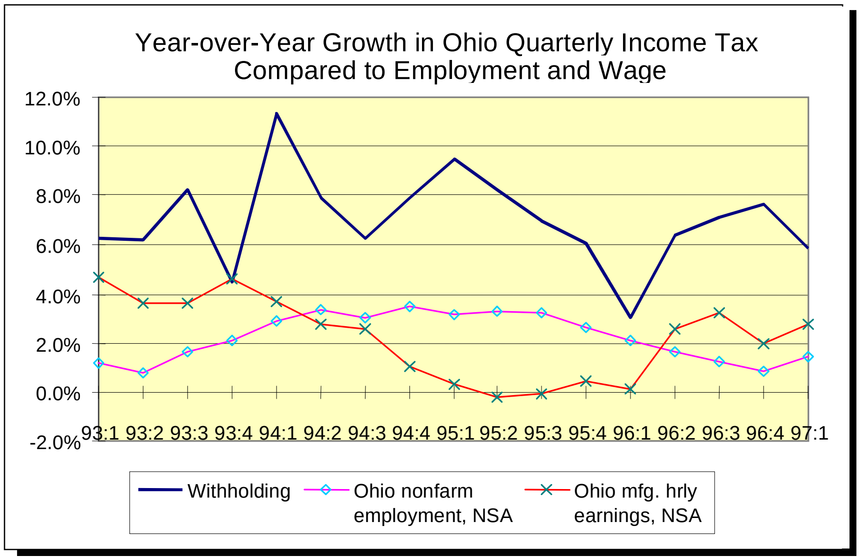
*Detail may not add to total due to rounding.*

The auto sales tax was not only $7.3 million below estimate in March, it was also down 14.5 percent from last year. Since national auto sales grew by 4.4 percent from the same month last year (weak growth, but still growth) and there is no data showing a regional slowdown, it is unclear why the auto tax did so poorly. At this point, LBO believes that the March result was a statistical anomaly and that sales will return to normal in April. At this point, it appears that the auto tax will just about break even for the year.

## Personal Income Tax

Employer withholding departed from its roller-coaster behavior – one month up, the next month down – in March. February's $11.7 million overage was followed by a $24.9 million overage. Year-over-year growth was very strong; too strong to be believable, in fact. While national and regional labor markets are both very strong, there is nothing in the employment or wage data to support 12.4 percent growth. One should probably expect a shortfall in April withholding. However, while the current $34.9 million surplus is likely to shrink, it would not be surprising if withholding ended the year $25 million or so above estimate. This would translate into fiscal year growth of 6.4 percent; a significant improvement over last year's 5.5 percent growth.

Paying attention to our own dictum of looking more closely at the quarterly numbers than the monthly numbers, in order to reduce statistical noise, we see a rather interesting result. Year-over growth




in withholding had been increasing for three quarters, but growth slowed back down in the first quarter of 1997. However, as the above graph shows, employment growth seems to have been following employment and wage growth with a one-quarter lag. The slowdown in withholding in the first quarter of 1997 followed on the heels of a wage and job growth slowdown in the last quarter of 1996. The labor market data shows wage and employment growth picking up again in the first quarter of 1997, which may lead to better withholding growth in the second quarter (April through June).

For the year, the biggest variance among components of the income tax is still in quarterly estimated payments. Estimated payments are $106.9 million above the estimate for the year (19.3 percent). There was little action in March in estimated payments. The first payment against taxable year 1997 liability is due on April 15th. We expect the April payment to exceed the estimate, perhaps by a sizable amount. Stock market fluctuations have slowed the growth in non-wage income, but that income is still at a much higher level than originally forecast.

Refund payouts are $73.9 million below estimate, but that is not expected to last. While refunds for the year-to-date are up about 38 percent from last year (March refunds were up 61 percent), the Tax Department thought that refunds for the year would have increased by over 60 percent because of the 6.6 percent temporary rate cut for tax year 1996. 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 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. However, we still expect refunds to catch up to the estimate by year's end.

Annual return payments, on the other hand, have been very close to the estimate. Here, as expected, the number of returns accompanied by tax reconciliation payments have dropped sharply from last year (many of these taxpayers are getting refunds instead, due to the tax cut). If the Tax Department can finish processing annual return payments earlier than usual, due to the lower counts, then refund processing could possibly be straightened out in late May.

### *Corporate Franchise Tax*

March collections were $3.6 million over estimate, but it would be wise not to read too much into this number. 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, and preliminary April data suggests that the second payment may be slightly short of the estimate also. It now looks like the franchise tax may end the fiscal year with a small shortfall. This 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, one would have expected Ohio to 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. However, it now looks as though growth will fall short of that 2 percent mark.

There are a number of possible explanations for a corporate tax shortfall, should one occur. Some of these explanations rely on state-specific factors. However, data from other states suggests that weakness in the corporate tax is fairly widespread across the nation. This casts doubt on state-specific explanations, and indicates that there may be undiscovered common factors behind the weak performance of state corporate taxes in FY 1997. ❑

**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 | $485,578 | $489,414 | **($3,836)** | $485,415 | 0.03% |
| Non-Auto Sales & Use | 3,201,102 | 3,174,818 | **26,285** | 3,034,817 | 5.48% |
| Total Sales | $3,686,680 | $3,664,232 | **$22,449** | $3,520,232 | 4.73% |
| Personal Income | $3,858,936 | $3,663,600 | $195,336 | $3,650,152 | 5.72% |
| Corporate Franchise | 696,896 | 690,910 | 5,986 | 555,788 | 25.39% |
| Public Utility | 426,898 | 424,960 | 1,938 | 409,295 | 4.30% |
| **Total Major Taxes** | $8,669,410 | $8,443,702 | $225,709 | $8,135,467 | 6.56% |
| Foreign Insurance | $285,127 | $293,625 | ($8,498) | $279,838 | 1.89% |
| Domestic Insurance | 224 | 580 | (356) | 621 | -63.93% |
| Business & Property | 1,135 | 2,700 | (1,565) | 2,324 | -51.15% |
| Cigarette | 207,482 | 200,849 | 6,634 | 204,661 | 1.38% |
| Soft Drink | 18 | 0 | 18 | 4 | 325.58% |
| Alcoholic Beverage | 38,216 | 36,791 | 1,425 | 37,408 | 2.16% |
| Liquor Gallonage | 20,496 | 20,795 | (299) | 20,614 | -0.57% |
| Estate | 49,690 | 46,750 | 2,940 | 42,898 | 15.83% |
| Racing | 0 | 0 | 0 | 0 | #N/A |
| Total Other Taxes | $602,389 | $602,090 | $299 | $588,368 | 2.38% |
| **Total Taxes** | **$9,271,798** | **$9,045,792** | **$226,007** | **$8,723,835** | **6.28%** |
| *NON-TAX INCOME* | | | | | |
| Earnings on Investments | $71,943 | $52,500 | $19,443 | $54,272 | 32.56% |
| Licenses and Fees | 58,003 | 54,600 | 3,403 | 56,364 | 2.91% |
| Other Income | 62,360 | 58,575 | 3,785 | 62,754 | -0.63% |
| Non-Tax Receipts | $192,306 | $165,675 | $26,631 | $173,390 | 10.91% |
| *TRANSFERS* | | | | | |
| Liquor Transfers | $49,500 | $40,000 | $9,500 | $45,000 | 10.00% |
| Budget Stabilization | 0 | 0 | 0 | 0 | #N/A |
| Other Transfers In | 398,780 | 358,700 | 40,080 | 26,150 | 1424.97% |
| Total Transfers In | $448,280 | $398,700 | $49,580 | $71,150 | 530.05% |
| **TOTAL INCOME less Federal Grants** | **$9,912,384** | **$9,610,167** | **$302,217** | **$8,968,376** | **10.53%** |
| Federal Grants | $2,711,466 | $2,924,051 | ($212,584) | 2,759,688 | -1.75% |
| **TOTAL GRF INCOME** | **$12,623,850** | **$12,534,217** | **$89,633** | **$11,728,064** | **7.64%** |

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

*Detail may not add to total due to rounding.*

[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, only part of that revenue loss has already been felt yet, with more yet to come.

# DISBURSEMENTS

— *Chris Whistler**

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

| USE OF FUNDS | | | |
|---|---|---|---|
| PROGRAM | Actual | Estimate* | Variance |
| Primary & Secondary Education (1) | $300,303 | $312,123 | ($11,820) |
| Higher Education | 167,054 | 141,873 | 25,181 |
| **Total Education** | $467,357 | $453,997 | $13,360 |
| Health Care | $483,397 | $471,051 | $12,346 |
| ADC/TANF | 66,444 | 87,354 | (20,910) |
| General Assistance | 7 | 0 | 7 |
| Other Welfare | 28,082 | 47,574 | (19,492) |
| Human Services (2) | 48,715 | 41,060 | 7,655 |
| **Total Welfare & Human Services** | $626,645 | $647,039 | ($20,394) |
| Justice & Corrections | $128,312 | $120,051 | $8,261 |
| Environment & Natural Resources | 5,833 | 5,961 | (128) |
| Transportation | 5,955 | 9,090 | (3,135) |
| Development | 10,531 | 9,199 | 1,332 |
| Other Government (3) | 47,448 | 46,905 | 543 |
| Capital | 537 | 293 | 244 |
| **Total Government Operations** | $198,616 | $191,499 | $7,117 |
| Property Tax Relief (4) | $106,133 | $71,741 | $34,392 |
| Debt Service | 1,183 | 1,041 | 142 |
| **Total Program Payments** | **$1,399,935** | **$1,365,316** | **$34,619** |
| TRANSFERS | | | |
| Capital Reserve | $0 | $0 | $0 |
| Budget Stabilization | 0 | 0 | 0 |
| Other Transfers Out | 2,718 | 0 | 2,718 |
| **Total Transfers Out** | $2,718 | $0 | $2,718 |
| **TOTAL GRF USES** | **$1,402,653** | **$1,365,316** | **$37,336** |

(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 largest program payment overage this fiscal year fell in March, with spending over estimate by $34.6 million. This overage, combined with unexpected transfers of $2.7 million, brought total GRF uses to a positive $37.3 million variance for the month. For the fiscal year-to-date, total program payments were under estimate by $485.7 million through March. Transfers were over estimate by $45.4 million, leaving total GRF uses $440.3 million below estimate.

The overage for the month was greatly due to various timing issues that caused payments to be released in March that were estimated to occur in other months. The most significant of these timing issues were in the **Higher Education** and **Property Tax Relief** components, which had overages of $23.2 million and $34.4 million, respectively. Smaller, though similarly notable overages also occurred in **Health Care/ Medicaid** ($12.3 million over), **Human Services** ($7.7 million above estimate), and **Justice and Corrections** ($8.3 million over).

According to the Office of Budget and Management's (OBM's) monthly report to the Governor, the **Higher Education** variance was due to the timing of payments for Ohio Instructional Grants and Part-time Student Instructional Grants. For the year-to-date, monthly variances have momentarily played out. Through March, spending for the year was only $188,000, or 0.01 percent above estimate.

While **Property Tax Relief** is expected to finish the fiscal year over estimate, the $34.4 million variance in March, and in turn, the $29.3 million year-to-date variance, overstates the projected year-end balance. LBO expects the overage to shrink by the end of June, leaving the final variance closer to $10 million over estimate.

Lesser in magnitude, yet more surprising, was the $12.3 million overage in the **Health Care** (Medicaid) spending component. Through February, **Medicaid** had been $219.7 million under estimate, with the degree of underspending appearing to escalate in the latter half of the fiscal year. (January and February contributed half of the total variance.) In March, however, spending appeared to change its course as hospital expenditures were well above estimate. The Department of Human Services has not yet determined whether the overage can be attributed to timing, but it is highly unlikely that the overspending signals a turn of events in the state's spending on **Medicaid**. Given the level of the cash assistance caseload and the degree to which the managed care capitation rates are below estimate, there is no reason to expect **Medicaid** disbursements to stray from the pattern of increased underspending.

In addition to the potential timing issue relating to hospital payments, two timing issues that occurred in **Medicaid** in March should be noted. Two Medicare buy-in payments were released instead of the expected one payment, and prescription drug rebates were lower than expected. Prescription drug rebates generally are highest in the first month of a quarter; however, the estimates assumed an even distribution across the months.

Overspending in the **Welfare and Human Services** category was not limited to **Medicaid**. The **Human Services** component was over estimate by $7.7 million mainly because of overages by the Department of Alcohol and Drug Addiction Services (ADA) and the Department of Mental Retardation and Developmental Disabilities (DMR). The $5.2 million overage by ADA was the result of the timing of subsidy payments to community boards, and the $2.2 million overage by DMR resulted from the timing of subsidy payments to community mental health centers and payments for community residential services. For the year-to-date, spending in the **Human Services** component was $13.0 million under estimate through March.

Significant underspending also occurred in the **Welfare and Human Services** category in March. The combined variance for both the **Temporary Assistance for Needy Families** (TANF) and **Other Welfare** components totaled $40.4 million for the month. For the year, the combined variance stood at $183.4 million under estimate. (As previously stated in *Budget Footnotes*, the line item restructuring that stemmed from federal welfare reform makes it necessary to combine the two components in order to make an objective comparison between disbursements and estimates.)

The biggest factor causing the underspending is lower-than-expected caseloads, both in **TANF** and Disability Assistance (DA). Although **TANF** generally receives most of the attention because of its magnitude relative to DA and its link to **Medicaid**, the DA variance is as significant in terms of underspending. Through March, DA disbursements were nearly 50 percent below estimate, with a negative variance of almost $40 million. While a part of this variance is due to a slight reduction in eligibility through Ohio's welfare reform bill (H.B. 167 of the 121st General Assembly), the majority of the variance is due to the unanticipated strong performance of Ohio's economy.

Other factors contributing to the two-component underspending, specifically **Other Welfare**, include adoption assistance (under by $15.1million) and computer projects (under by $4.6 million).

In addition to the **Welfare and Human Services** spending category, significant underspending also occurred in **Primary and Secondary Education**. March spending was $11.8 million below estimate, which increased the year-to-date variance to $74.3 million. Major underspending for the month was in the following line items:

- 200-501, School Foundation Basic Allowance, under by $ 11.9 million;
- 200-504, Special Education, below estimate by $2.3 million;
- 200-507, Vocational Education, under by $2.3 million; and,
- 200-514, Post-Secondary/ Adult Vocational Education, under by $3.1million.

For several of the line items, the most recent student allocation data submitted by the districts more closely resembles the Department of Education's revised student data estimates. This new data would tend to confirm the lapses predicted by the department, as reported in the March issue of *Budget Footnotes*. (The department is expecting to lapse approximately $30 million, and is projecting that another $27 million in unspent funds will be needed for special and vocational education recomputation.) Other

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

| USE OF FUNDS<br>PROGRAM | Actual | Estimate* | Variance | FY 1996 | Percent Change |
|---|---|---|---|---|---|
| Primary & Secondary Education (1) | $3,135,432 | $3,209,736 | ($74,305) | $2,946,418 | 6.42% |
| Higher Education | 1,542,679 | 1,542,491 | 188 | 1,454,352 | 6.07% |
| **Total Education** | $4,678,111 | $4,752,227 | ($74,117) | 4,400,770 | 6.30% |
| Health Care | $3,751,353 | $3,958,749 | ($207,396) | $3,712,865 | 1.04% |
| ADC/TANF | 757,229 | 802,453 | (45,224) | 730,203 | 3.70% |
| General Assistance | 111 | 0 | 111 | 9,712 | -98.86% |
| Other Welfare | 407,474 | 545,609 | (138,135) | 462,775 | -11.95% |
| Human Services (2) | 811,284 | 824,307 | (13,023) | 782,284 | 3.71% |
| **Total Welfare & Human Services** | $5,727,451 | $6,131,118 | ($403,667) | $5,697,837 | 0.52% |
| Justice & Corrections | $1,079,959 | $1,076,215 | $3,745 | $960,166 | 12.48% |
| Environment & Natural Resources | 89,117 | 88,993 | 124 | 85,273 | 4.51% |
| Transportation | 23,260 | 32,622 | (9,361) | 33,195 | -29.93% |
| Development | 96,730 | 98,669 | (1,940) | 83,974 | 15.19% |
| Other Government (3) | 284,758 | 315,302 | (30,544) | 273,152 | 4.25% |
| Capital | 6,019 | 4,558 | 1,461 | 2,385 | 152.34% |
| **Total Government Operations** | $1,579,844 | $1,616,360 | ($36,516) | $1,438,145 | 9.85% |
| Property Tax Relief (4) | $596,075 | $566,755 | $29,320 | $512,283 | 16.36% |
| Debt Service | 94,947 | 95,708 | (761) | 95,175 | -0.24% |
| **Total Program Payments** | **$12,676,427** | **$13,162,168** | **($485,741)** | **$12,144,211** | **4.38%** |
| TRANSFERS | | | | | |
| Capital Reserve | $0 | $0 | $0 | $12,000 | -100.00% |
| Budget Stabilization | 0 | 0 | 0 | 535,214 | -100.00% |
| Other Transfers Out | 580,631 | 535,237 | 45,394 | 340,336 | 70.61% |
| **Total Transfers Out** | $580,631 | $535,237 | $45,394 | $887,550 | -34.58% |
| **TOTAL GRF USES** | **$13,257,058** | **$13,697,405** | **($440,347)** | **$13,031,760** | **1.73%** |

(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.*

explanations for underspending in these accounts are the timing of payments and accounting corrections.

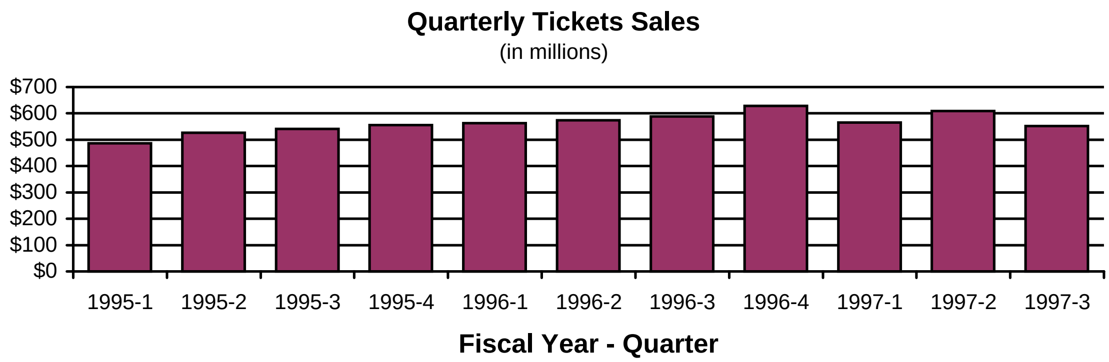
One more area worth mentioning is the **Other Government** component of the **Government Operations** category. Although the monthly variance was insignificant, the year-to-date variance is at $30.5 million below estimate. The Department of Administrative Services is the biggest contributor to this underspending, with a negative variance of $19.6 million. A significant portion of the department's underspending continues to result from delays in the implementation of contracts relating to the State of Ohio Multi-Agency high-speed fiber Communication System (SOMACS). Notable under-spending is also occurring within the budgets of the Auditor of State ($8.0 million) and the Department of Taxation ($2.3 million). ❑

**Deborah Zadzi made contributions to this article.*

# Lottery Profits Quarterly Report

## LOTTERY TICKET SALES AND PROFITS TRANSFERS THIRD QUARTER, FY 1997

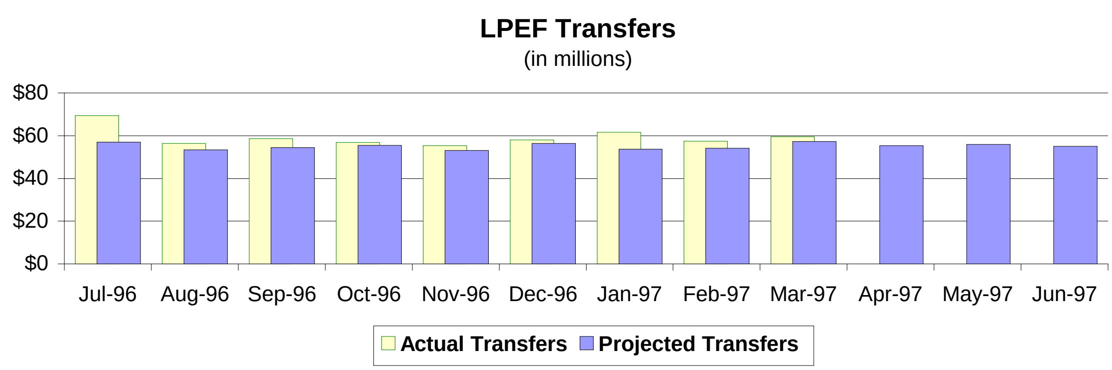
— *Allan Lundell*




Total ticket sales for the third quarter were $552.3 million, 9.34 percent less than second quarter sales, and 6.06 percent less than sales for the third quarter of FY 1996. This ends ten consecutive quarters of positive year to year growth. Sales for the first three quarters of FY1997 are 0.1 percent greater than sales for the first three quarters of FY 1996.

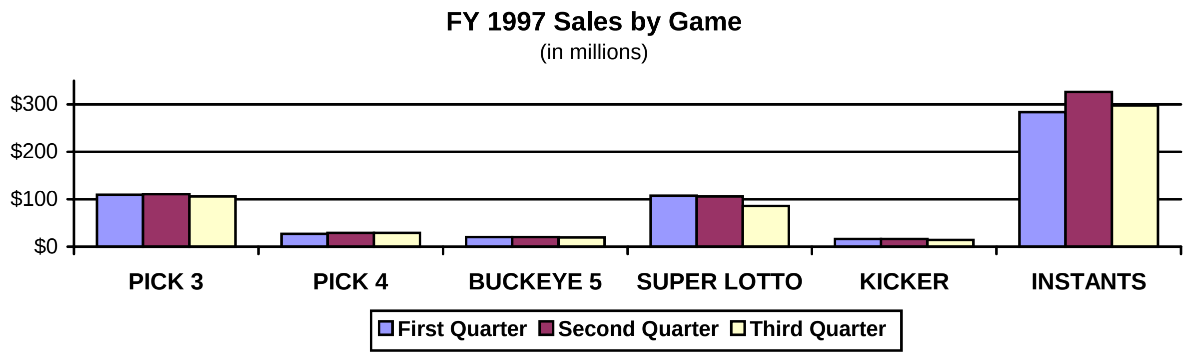
Transfers to the Lottery Profits Education Fund for the third quarter were $178.6 million, $13.4 million greater than projected. Year to date transfers are $533.4 million, $25.1 million greater than projected. The projected transfer for FY 1997 is $661.2 million. In order to meet projections, monthly transfers will need to average $42.6 million for the remainder of the year; monthly transfers have averaged $59 million so far this year. For the quarter, transfers to the LPEF were 32.3 percent of sales, and year to date transfers are 30.9 percent of sales.

Total sales decreased by $56.88 million, or 9.34 percent, from second quarter levels. Super Lotto sales fell by $20.61 million (19.34 percent) and Kicker sales fell by $2.09 million (12.88 percent). Sales of Instant Tickets decreased by $28.57 million (8.75 percent). Buckeye Five sales decreased by $0.41 million (2.06 percent). Pick 3 sales fell by $5.12 million (4.61



percent) and Pick 4 sales decreased by $0.06 million (0.22 percent).

Instant Tickets continue to dominate sales, accounting for almost 54 percent of sales for the quarter and 53 percent of total year to date sales. In FY 1990, the dominant game combination was Super Lotto and the Kicker, which accounted for almost 38 percent of total sales. In that year, Instant Tickets were 31 percent of sales, with Pick 3 and Pick 4 combining for the remaining 31 percent of sales. (Buckeye 5 was not introduced until FY 1992). The accompanying charts show the sales by game for each quarter of FY 1997 and the changing composition of sales throughout the 1990's. ❑



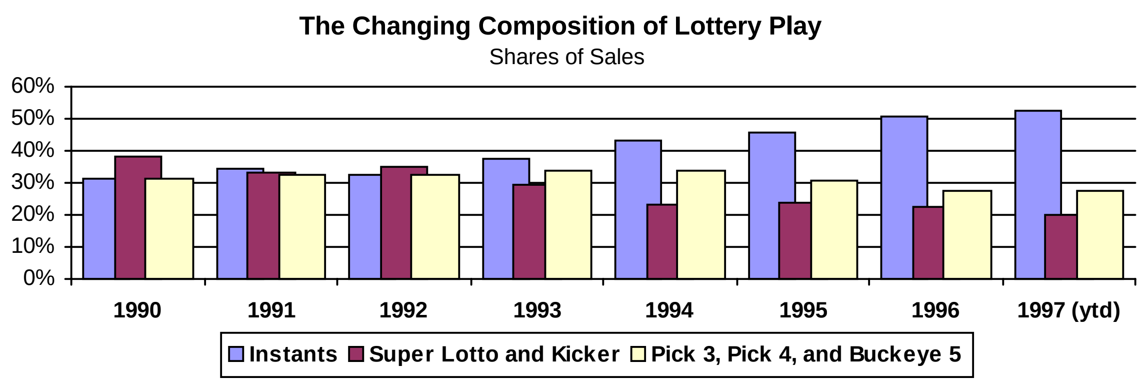




**Table 1, FY 1997 Lottery Ticket Sales and Transfers to LPEF, millions of current dollars**

| | *Ticket Sales* | *Actual Transfers* | *Projected Transfers* | *Dollars Variance* | *Percentage Variance* | *Transfers as a Percentage of Sales* |
|---|---|---|---|---|---|---|
| July | $ 198.57 | $ 69.46 | $ 57.01 | $ 12.45 | 21.84 | 34.98 |
| August | 187.19 | 56.42 | 53.41 | 3.01 | 5.64 | 30.14 |
| September | 179.14 | 58.59 | 54.44 | 4.14 | 7.60 | 32.71 |
| **Q1** | **564.90** | **184.47** | **164.86** | **19.61** | **11.89** | **32.66** |
| October | 194.76 | 56.84 | 55.46 | 1.38 | 2.49 | 29.18 |
| November | 187.48 | 55.44 | 53.06 | 2.38 | 4.48 | 29.55 |
| December | 226.94 | 58.09 | 56.34 | 1.75 | 3.11 | 25.60 |
| **Q2** | **609.18** | **170.37** | **164.86** | **5.51** | **3.34** | **27.96** |
| January | 189.05 | 61.64 | 53.67 | 7.96 | 14.83 | 32.61 |
| February | 171.41 | 57.48 | 54.18 | 3.31 | 6.11 | 33.53 |
| March | 191.85 | 59.48 | 57.31 | 2.18 | 3.80 | 31.01 |
| **Q3** | **552.30** | **178.60** | **165.16** | **13.45** | **8.14** | **32.34** |
| **Total** | **$1,726.38** | **$ 533.45** | **$ 494.89** | **$ 25.12** | **5.08** | **30.90** |

**Table 2, FY 1997 Lottery Ticket Sales by Game, millions of current dollars**

| | *Pick 3* | *Pick 4* | *Buckeye 5* | *Kicker* | *Super Lotto* | *Instant Tickets* | *Total Sales* |
|---|---|---|---|---|---|---|---|
| July | $ 37.48 | $ 9.07 | $ 6.91 | $ 6.47 | $ 46.71 | $ 91.92 | $ 198.57 |
| August | 37.91 | 9.40 | 6.94 | 5.01 | 31.52 | 96.42 | 187.19 |
| September | 34.18 | 8.70 | 6.44 | 4.61 | 29.48 | 95.74 | 179.14 |
| **Q1** | **109.57** | **27.17** | **20.29** | **16.09** | **107.71** | **284.08** | **564.90** |
| October | 37.03 | 9.74 | 6.83 | 5.58 | 36.61 | 98.97 | 194.76 |
| November | 37.21 | 9.64 | 6.37 | 4.78 | 28.90 | 100.58 | 187.48 |
| December | 36.82 | 9.79 | 6.76 | 5.92 | 40.82 | 126.84 | 226.94 |
| **Q2** | **111.06** | **29.17** | **19.96** | **16.28** | **106.32** | **326.38** | **609.17** |
| January | 36.45 | 9.97 | 6.85 | 5.29 | 33.47 | 97.02 | 189.05 |
| February | 33.26 | 9.03 | 6.21 | 3.99 | 22.81 | 96.11 | 171.41 |
| March | 36.23 | 10.11 | 6.48 | 4.91 | 29.43 | 104.69 | 191.85 |
| **Q3** | **105.94** | **29.11** | **19.55** | **14.19** | **85.71** | **297.81** | **552.30** |
| **Total** | **$326.58** | **$85.45** | **$59.74** | **$46.55** | **$299.74** | **$908.27** | **$1726.38** |

# LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS DISBURSEMENT OF FY 1997 PROFITS

— Deborah Zadzi

**Table 3, LPEF and LPERF Appropriation/Disbursement Summary**

| LPEF | FY 1997 Appropriations | FY 1997 Disbursements (through March 31, 1997) | Appropriation Balance |
|---|---|---|---|
| 670 Basic Aid | $579,770,000 | $360,887,104 | $218,882,896 |
| 671 Special Ed | $ 44,000,000 | $ 27,366,662 | $ 16,633,338 |
| 672 Vocational Ed | $ 30,000,000 | $ 18,659,088 | $ 11,340,912 |
| 682 Lease Rental | $ 20,000,000 | $ 0 | $ 20,000,000 |
| Total | $674,200,000 | $406,912,854 | $267,287,146 |

**Bonds Issued for School Building Construction**

| Authorizing Legislation | Amount of Bonds Authorized | Amount Actually Issued |
|---|---|---|
| Am. Sub. H.B. 152 of the 120th G.A. | $68.1 million | $68.1 million |
| Am. Sub. H.B. 790 of the 120th G.A. | $70 million | - 0 -* |
| Am. H.B. 748 of the 121st G.A. | $100 million | - 0 - |

*Scheduled to be issued during the week of April 28th, 1997

Lottery profits Education Fund (LPEF) disbursements in fiscal year 1997 (year-to-date) total $406.9 million. Disbursements to date consist of payments for three major education subsidy line items (200-670, School Foundation Basic Allowance; 200-671, Special Education; and 200-672, Vocational Education). Table 3 shows fiscal year 1997 appropriations, disbursements, and available appropriation balances for each account in the LPEF as of March 31, 1997.

### *Why Haven't Lease Rental Moneys Been Spent?*

The Lease Rental line item in the Department of Education's budget pays the debt service on bonds issued for school building projects. The following table shows legislation authorizing the sale of bonds, the amounts that have been authorized, and the amounts actually issued to date.

The debt service on the first round of bonds, issued in January, 1995, is approximately $10 million a year. According to the Office of Budget and Management, the debt service on these bonds *will* be made later this year from the lease rental line item. Even though a second round of bonds has been authorized since September, 1994, they haven't been issued because proceeds from the first issue had not been spent down until recently. As noted above, the second round of bonds, for $70 million, is scheduled for the week of April 28th, 1997. Since the first payment of debt service is usually not paid until at least six months after the bonds have been issued, debt service on these bonds is not expected in FY 1997. Thus, only about half of the $20 million appropriated for debt service will be spent. ❑

# ISSUES OF INTEREST

## TIME MARCHES ON

**AN EXCERPT FROM THE LBO ISSUE PAPER, "LOOKING AHEAD AT LONG-TERM CARE"**
**BY BARBARA MADDEN-PETERING AND CHUCK PHILLIPS**

Much ado has been made about health care reform, but when long-term care (LTC) is mentioned, the room suddenly clears. Other than the occasional tweaking of the present system and a lot of intergenerational grumbling, not much has been accomplished in the way of thinking "outside the box". Like a poor relation, the issue of LTC has been avoided, excused and passed around. In addition to its usual litany of ills, other predicaments are materializing. It is impossible today to read anything about LTC without being bombarded with evidence that the elderly population in the United States is accelerating at an amazing rate and expected to gain momentum well into the middle of the next century.

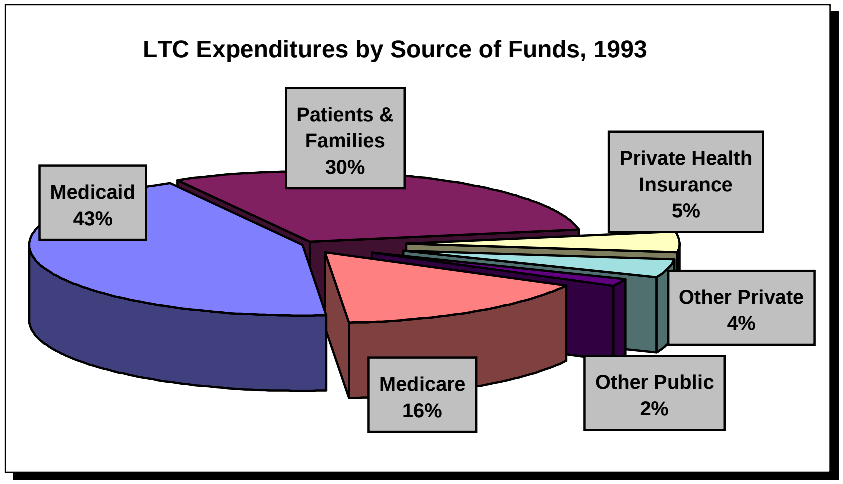
Will the future population really be different, not only in number but also in its characteristics? Will the next generation of retirees really be as unprepared as the direst predictions claim? Or will they be secure and populous enough to significantly change the way we define "old age" and the type of care that is offered? Will the same old bag of tricks still work? And how will we fund them? From a public policy perspective, it is important to consider not only the significant increase in the population, but also the associated issues.

According to the U.S. Census Bureau, the rate of growth of persons aged 65 and older has far exceeded the growth rate of the population as a whole. The number of elderly persons has increased by a factor of 11, from 3 million in 1900 to 33 million in 1994, while the total population has only tripled. Furthermore, the Bureau projects that the number of persons aged 65 and older will more than double by the year 2030 from 33 million in 1994 to 80 million. Even more remarkably, the number of persons aged 85 and older is growing at an even faster rate and is not projected to slow down. This group of the "oldest old" made up just over 1 percent of the total population in 1994 (about 3.5 million, which is 28 times larger than in 1900). However, from 1960 to 1994, this group increased an astounding 274 percent; those in the 65 and over bracket increased 100 percent; but the total population increased a "meager" 45 percent. This group of the "oldest old" will number about 19 million around 2050, comprising 24 percent of the elderly and 5 percent of all Americans.

As age increases, the number of males to females decreases. In 1994, elderly women aged 65 to 69 outnumbered elderly men by 6 to 5. At 85 years of age, the difference had grown to 5 to 2. This gap may narrow somewhat over the next 50 years as more men live to older ages through improved health and medical advances.

For a ten-year span from 1984 through 1994, women experienced a poverty rate nearly twice that of their male counterparts. Specifically, men aged 65 to 74 had a poverty rate of 7 percent while females in that age group had a poverty rate of 13 percent. Men aged 75 and over had a poverty rate of 11 percent while the rate for women in this age range was nearly 20 percent.

In constant 1992 dollars, median income for elderly persons more than doubled between 1957 and 1992 from $6,537 to $14,548 for men and from $3,409 to $8,189 for women. Overall, however, income disparity persists among elderly subgroups. For example, elderly white men had median income more than double that of elderly African-American and Hispanic women ($15,276 versus $6,220 and $5,968, respectively). As the following section points out, it is likely that the elderly population will continue to become more racially and ethnically diverse which could cause significant problems if such income disparity continues to exist.




Of those 65 and older in 1994, almost 30 million were Caucasian; 2.7 million were African-American; 1.5 million were Hispanic; 137,000 were American Indian, Eskimo and Aleut; and 615,000 were Asian and Pacific Islander. It is projected that the elderly population will become even more racially and ethnically diverse, with the Hispanic population increasing from less than 4 percent of the elderly population to 16 percent by the middle of the next century.

Perhaps the greatest concern should lie in the growing number of persons over the age of 85. Despite medical advances and the corresponding delay in poor health, there are still higher rates of disability and LTC utilization by the 85-and-over population. Fourteen percent of the elderly aged 65 to 74 were considered disabled in 1985 with more than 58 percent in that category for people over the age of 85.

Since the number of elderly are increasing and the baby boomers are such a huge portion of the "near elderly", a look at future needs is required. Many policy discussions treat them as a uniform group, but because of their number, there is speculation that the boomers will redefine "old" and have a significant influence on our current social, economic and political frameworks for providing services to the "old". The baby boomers are the first generation in which an overwhelming number have been affected by divorce and remarriage and made the "blended" family more "normal" than traditional family structures. These observations beg a number of questions, including: Will stepchildren have the same concern and obligation for their parents that is displayed by biological children? How will this affect the demand for caregiver services that are currently provided to parents by their children? Will a labor force increasingly made up of baby boom women and the rise in the number of private pension plans provide greater income security? Will healthier lifestyles and medical advances significantly delay the onset of serious disability for the elderly in the future? Additionally, current debate focuses on whether the United States can afford to support its current offerings of "old age" entitlements and programs, and if not, how can they be made more affordable. To further complicate the issue, we must project how a future system should look for a population that looks much different than when the present structure of Social Security and Medicare were laid out.

Researchers at the Brookings Institution estimated expenditures for nursing home and home care services for the elderly in 1988 to be nearly $42 billion. These costs (in 1987 dollars) are predicted to nearly triple to $120 billion by 2018 and nearly triple again in 2048 to over $350 billion. Overall, national health expenditures in 1993 totaled more than $884 billion. LTC costs made up 10 percent of the total, topping $90 billion.

In 1960, there were 5.1 workers to support each Social Security recipient. Today there are 3.3 and by 2040, there will be between 2.0 and 1.6. A similar ratio is seen based on the number of disabled elderly. Both of these declining ratios would suggest that it will become increasingly difficult to convince the present workforce to finance future long-term care expenditures. How much of a burden will be placed on today's workers will depend on a number of factors, including economic growth, cost distribution between public and private sources and relative earning power. ❑

# 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.*

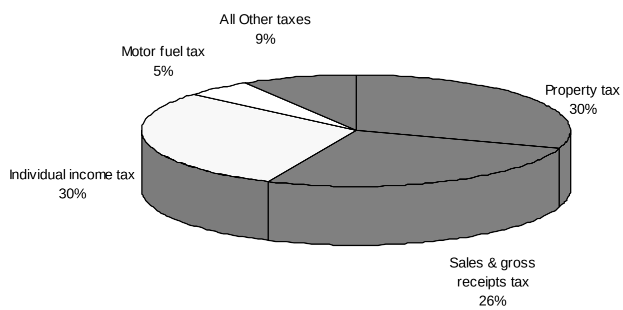
## Ohio State and Local Taxes Balanced Between Income, Sales, and Property

— *Frederick Church*

- Ohio state and local taxes are very evenly balanced between the "Big 3" of property taxes, income taxes, and consumption taxes. In comparison with other states, Ohio's tax system relies more heavily on the individual income tax, and somewhat less heavily on the property tax and on consumption taxes (and "other" taxes like the corporate income or franchise tax).

- Ohio's per-capita taxes exceed the national average for the personal income tax and the motor fuel tax, but are below the national average for the property tax, the sales tax, and the "other" taxes category.

Ohio State & Local Tax Revenues, FY 1993




- While taxes accounted for $22.77 billion of Ohio's own-source general revenue in FY 1993, fees and other non-tax sources accounted for another $10.15 billion, or more than 30 percent of the $32.92 billion total. Of that $10.15 billion, $5.60 billion was fees and charges. Almost three-fourths of those fees and charges were collected by educational institutions, including both K-12 schools, and colleges and universities.

- Besides fees and charges, the major sources of non-tax revenue to Ohio's state and local governments are investment income ($1.47 billion) and utility revenues ($1.30 billion). Utility revenues are completely local, and in recent years Ohio's local governments have had higher investment income than the state. ❑

***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 *April* 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 | 8:10 | This month's journal contains segments on Vice President Gore's speech to the National League of Cities, cable TV rate increases, and how Syracuse, N.Y. is getting landlords to clean up, among other interesting topics. |
| Leadership Spotlight/ Media Relations, Part I. | 15:00 | The first in a three part series, this portion focuses on the characteristics of different types of media and how governments can organize internally to deal effectively with the media. |
| Training Track/ Team-Skill Building for Effective Teams, Part III. | 17:30 | The third in a three part series, this program examines the skills team members need. The program outlines the importance of problem solving and decision making in a team environment. |
| Human Factor/ Innovative Pay Plan | 12:00 | This program takes us to Okeechobee, Florida for a look at how the city has restructured it's pay plan. The city bases all pay on market forces and has eliminated pay based on years of service. |
| Money Watch/ Electric Utility Restructuring & Competition, Part II. | 14:00 | This segment uses four municipal examples to explain how the restructuring of the electric utility industry is impacting local governments. |

## Budget Footnotes Quarterly Article Index

*January 1997 - March 1997*


| ***Subject*** | ***Volume*** | ***Page*** | ***Date*** |
|---|---|---|---|
| Budget - transportation budget | Vol. 20, No. 8 | 161 | March, 1997 |
| Forecast of revenues and public assistance - FY 98-99 biennium | Vol. 20, No. 7 | 131 | February, 1997 |
| Performance review, state | Vol. 20, No. 7 | 136 | February, 1997 |
| Pollution - toxic release inventory | Vol. 20, No. 7 | 143 | February, 1997 |
| Population - trends in Ohio demographics | Vol. 20, No. 8 | 165 | March, 1997 |
| Regents, Board of - student aid | Vol. 20, No. 7 | 141 | February, 1997 |
| Retirement - Ohio's public employee retirement system | Vol. 20, No. 6 | 117 | January, 1997 |
| Transportation - State Infrastructure Bank (SIB) | Vol. 20, No. 7 | 139 | February, 1997 |