Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE SEPTEMBER, 1997

FISCAL OVERVIEW

— *Frederick Church*

It is never easy to tell very much about state finances from two months of data. With that caution in mind, the numbers from July and August seem to represent a continuation of the story we have been telling for the past few fiscal years: non-federal revenues somewhat above expectation, spending well below estimate. Tax revenues have grown strongly since last year, and are $9.6 million above estimate. Non-tax revenues such as liquor profits are also already above the forecast. On the spending side, there are some programs that are far below estimate due to pure timing issues (e.g. property tax relief). There are other categories where low spending seems to come from more substantive reasons (Medicaid and human services generally).

At this point, the tax revenue overage is being driven by the non-auto sales tax, which is $11.7 million above the estimate, and up 8.4 percent from last year. The biggest shortfall is in the corporate franchise tax, which is $3.3 million below estimate. Since Ohio corporate tax payments are made at the end of January, March, and May, revenues over the July through December period are based on late payments and audit findings. This means that the shortfall so far provides little information about the corporate tax for the remainder of FY 1998.

On the spending side, human services outlays are already $51.6 million below estimate (federal reimbursement is $41.8 million below the forecast, making total revenues fall well short of the estimate). TANF spending in particular is well below the estimated amount, as caseloads continue to be much lower than the forecast. The good news is that, in the wake of the recent federal and state welfare reform acts and the resulting block grant structure, Ohio has a longer time to determine an appropriate use of TANF money without losing the spending authority.

As Table 1 shows, the state's good fiscal news is not apparent in a comparison of this year's and last year's GRF cash balances. The GRF's cash balance is lower than at the same point last year, and the unobligated fund balance is much lower. The reason can be found in the massive amount of transfers from the GRF to other state funds that have taken place in the first two months. Transfers out of the GRF are almost $300 million more than they were at the same point last year.

Volume 21, Number 1

STATUS OF THE GRF

ISSUES OF INTEREST

OHIO FACTS EXTRA!

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 contains 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 August	Fiscal Year 1998 to Date	Last Year	Difference
Beginning Cash Balance	$969.5	$1,367.7		
Revenue + Transfers	$1,167.3	$2,393.2		
Available Resources	$2,136.8	$3,760.9		
Disbursements + Transfers	$2,134.0	$3,758.1		
Ending Cash Balances	**$2.9**	**$2.9**	**$38.9**	**($36.0)**
Encumbrances and Accts. Payable		$737.0	$541.9	$195.1
Unobligated Balance		**($734.1)**	**($503.0)**	**($231.1)**
BSF Balance		$828.3	$828.3	
Combined GRF and BSF Balance		**$94.2**	**$325.3**	**($231.1)**

The GRF ended FY 1997 with a large unobligated fund balance: $834.9 million. This allowed the General Assembly to budget for substantial one-time transfers to a number of K-12 education purposes, and also to fund an across-the-board income tax rate cut of approximately 4 percent. In all, the biennial budget act included $651.5 million of these transfers, which were made in August. Where the money went is summarized in the table below.

HB 215 FY 1998 Transfers

amounts in millions of $	Amount
Ending GRF Balance, FY 1997	$834.9
School Building Assistance	($250.0)
SchoolNet Plus	($94.4)
Textbooks and Materials	($35.0)
Distance Learning	($9.2)
Subtotal School Transfers	($388.6)
Taxable Year 1997 4% Rate Cut	($262.9)
Total GRF Transfers, except BSF	($651.5)

One scheduled transfer from the GRF had not been made as of the end of August. The $34.4 million needed to bring the Budget Stabilization Fund (BSF) balance up to the required 5 percent of prior-year GRF revenue is scheduled to be made in September. ❑

Status of the General Revenue Fund

REVENUES

— Frederick Church

At this point in the year, there is not very much to report on the revenue scene. Tax revenue is $9.6 million above estimate after two months of FY 1998. As mentioned in the previous section, the biggest overage is in the non-auto sales tax, which is $11.7 million over estimate, and up 11.6 percent from last year. There is a small overage in the personal income tax ($2.0 million) and a small shortfall in the corporate franchise tax ($3.3 million). In addition, the tobacco tax is $1.2 million below estimate. Overall, total tax revenue has grown at a healthy 6.1 percent pace for the first two months of FY 1998.

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

REVENUE SOURCE	Actual	Estimate*	Variance
TAX INCOME			
Auto Sales	$61,464	$61,740	($276)
Non-Auto Sales & Use	368,234	356,565	11,669
Total Sales	$429,698	$418,305	$11,393
Personal Income	$387,872	$385,855	$2,017
Corporate Franchise	3,638	6,961	(3,323)
Public Utility	701	0	701
Total Major Taxes	**$821,909**	**$811,121**	**$10,788**
Foreign Insurance	$12	$0	$12
Domestic Insurance	411	430	(19)
Business & Property	275	465	(190)
Cigarette	25,689	26,872	(1,183)
Soft Drink	0	0	0
Alcoholic Beverage	4,919	4,697	222
Liquor Gallonage	2,316	2,214	102
Estate	317	489	(172)
Racing	0	0	0
Total Other Taxes	$33,938	$35,168	($1,230)
Total Taxes	**$855,846**	**$846,288**	**$9,558**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	5,795	4,375	1,420
Other Income	6,294	4,367	1,927
Non-Tax Receipts	$12,089	$8,742	$3,347
TRANSFERS			
Liquor Transfers	$6,000	$4,000	$2,000
Budget Stabilization	0	0	0
Other Transfers In	203	0	203
Total Transfers In	$6,203	$4,000	$2,203
TOTAL INCOME less Federal Grants	**$874,138**	**$859,030**	**$15,108**
Federal Grants	$293,148	$334,952	($41,804)
TOTAL GRF INCOME	**$1,167,286**	**$1,193,982**	**($26,696)**

* July, 1997 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

On the non-tax side, licenses and fees, "other income," and liquor profits are all above estimate. Federal reimbursement is $41.8 million below estimate, due as usual to lower than expected spending on human services programs that draw federal matching money. Total GRF income, despite the shortfall in federal dollars, is up 3.9 percent for the year, compared to an increase in spending (excluding transfers) of only 2.1 percent.

Sales and Use Tax

The rebound in the growth rate for the non-auto sales tax is the best news so far this year. Year-over-year growth rates in quarterly non-auto sales tax receipts had slowed to a crawl in the first quarter of CY 1997. Growth dropped below 4 percent for the first time since late 1994. Fortunately, growth picked up to 5.2 percent in the second quarter of CY 1997 (the last quarter of FY 1997) and it appears that the third quarter will show another acceleration, although we do not expect growth for the quarter to be as high as the 8.4 percent mark as of the end of August. Non-auto sales tax revenue will probably post its best year-over-year growth since 1995.

Not surprisingly, national data also shows an acceleration in growth of retail sales. Year-over-year growth in non-auto sales accelerated to 4.9 percent in August, the best monthly figure since March. Retailing activity is picking up across the board after a very slow Summer. Detail on monthly growth figures for U.S. sales this year is summarized in the table below.

U.S. Retail Sales Growth, CY 1997 ($ amounts in millions)						
	Total	Growth	Non-Auto	Growth	Auto	Growth
Jan-97	$211,957	7.20%	$159,789	6.78%	$52,168	8.52%
Feb-97	$213,022	5.94%	$160,483	6.18%	$52,539	5.19%
Mar-97	$212,965	5.47%	$160,609	5.68%	$52,356	4.84%
Apr-97	$212,241	4.98%	$160,377	4.27%	$51,864	7.23%
May-97	$209,370	2.70%	$159,445	3.16%	$49,925	1.25%
Jun-97	$210,940	4.02%	$160,192	3.94%	$50,748	4.27%
Jul-97	$212,825	4.69%	$161,154	4.34%	$51,671	5.81%
Aug-97	$213,679	5.24%	$161,617	4.93%	$52,062	6.23%

The Federal Reserve System's ***Beige Book*** summary has some information on sales at the regional level. The September 17th report states that in the 4th District (Ohio and surrounding areas) retail sales have picked up strength in July and August. Apparel, furniture, and computer software were noted as items with solid growth.

At this point, the auto sales tax is very slightly below the estimate, and has grown by only 1.5 percent from last year. Most projections of unit sales for the coming year are relatively flat, implying that dollar sales can be expected to rise by the extent of retail price increases. However, not all analysts agree. Some analysts believe that fourth quarter sales will be very strong, based on such factors as high consumer confidence ratings.

The regional evidence also suggests that in Ohio auto sales and tax revenues might do better over the next few months. The ***Beige Book*** reports that 4th District auto sales were strong in July and August, and that the percentage of car buyers with good equity and credit has risen since earlier this year. However, one caution to the optimistic scenario comes from the fact that much of the recent improvement in sales is due to incentives used to clear out 1997 models. It is not clear yet what will happen to the pace of sales when the new 1998 models form the primary market.

Total unit sales of light vehicles are down about 1 percent from last year. The sales volume for light trucks is still increasing, but so far that increase has been more than offset by the decline in car sales. If sales decline by 1 percent for the entire calendar year, then CY 1997 sales would end up at about 14.8 million to 14.9 million units, right about where the major forecasting firms like the WEFA Group had predicted (CY 1996 sales were 15.0 million units).

Personal Income Tax

Income tax collections are $2.0 million above the estimate after two months, a variance of only 0.25 percent. No single component of the income tax stands out: annual payments showed a small overage, refunds had a small shortfall (which increases net collections). This early in the year, the variance in quarterly estimated payments is really of no consequence. The dollar variance is small and probably due to timing factors. However, September will bring the first real test of quarterly estimated payments in FY 1998. The third estimated payment against taxable year 1997 is due September 15th. Since the April and June payments were above the estimate, we are expecting that the September payment will be also, especially in light of the fact that the taxable year 1997 rate cut is now known to be smaller than last year's rate cut (4.0 percent vs. 6.6 percent). ❑

Table 3
General Revenue Fund Income
Actual vs. Estimate
Fiscal Year-to-Date 1998
($ in thousands)

REVENUE SOURCE *TAX INCOME*	Actual	Estimate*	Variance	FY 1997	Percent Change
Auto Sales	$133,794	$134,070	**($276)**	$131,851	1.47%
Non-Auto Sales & Use	778,365	766,696	**11,669**	718,027	8.40%
Total Sales	$912,159	$900,766	**$11,393**	$849,878	7.33%
Personal Income	$813,689	$811,672	$2,017	$765,009	6.36%
Corporate Franchise	2,938	6,261	(3,323)	10,622	-72.34%
Public Utility	724	23	701	24	2916.67%
Total Major Taxes	$1,729,509	$1,718,722	$10,787	$1,625,533	6.40%
Foreign Insurance	$23	$11	$12	$282	-91.95%
Domestic Insurance	421	440	(19)	200	110.50%
Business & Property	379	569	(190)	843	-55.08%
Cigarette	36,926	38,109	(1,183)	39,773	-7.16%
Soft Drink	0	0	0	0	0.00%
Alcoholic Beverage	9,731	9,509	222	10,142	-4.05%
Liquor Gallonage	4,442	4,340	102	4,393	1.13%
Estate	3,365	3,535	(171)	310	987.08%
Racing	0	0	0	0	#DIV/0!
Total Other Taxes	$55,286	$56,514	($1,228)	$55,941	-1.17%
Total Taxes	**$1,784,795**	**$1,775,235**	**$9,560**	**$1,681,474**	**6.14%**
NON -TAX INCOME					
Earnings on Investments	$0	$0	$0	$0	#N/A
Licenses and Fees	9,276	7,856	1,420	7,771	19.37%
Other Income	28,346	26,420	1,926	12,297	130.52%
Non-Tax Receipts	$37,622	$34,276	$3,346	$20,068	87.48%
TRANSFERS					
Liquor Transfers	$9,000	$7,000	$2,000	$6,500	38.46%
Budget Stabilization	0	0	0	$0	#N/A
Other Transfers In	203	0	203	64	219.63%
Total Transfers In	$9,203	$7,000	$2,203	$6,564	40.21%
TOTAL INCOME less Federal Grants	**$1,831,620**	**$1,816,511**	**$15,109**	**$1,708,105**	**7.23%**
Federal Grants	$561,552	$603,355	($41,804)	595,682	-5.73%
TOTAL GRF INCOME	**$2,393,172**	**$2,419,866**	**($26,694)**	**$2,303,787**	**3.88%**

* July, 1997 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

DISBURSEMENTS

— Frederick Church

After the first two months of FY 1998, spending, excluding transfers, is $166.8 million below estimate and up only 2.1 percent from last year. Almost $74 million of the underspending comes from property tax relief, which probably is a timing issue. After dropping property tax relief out of the calculations, underspending is still a hefty $92.9 million, but year-over-year growth jumps up to 5.5 percent.

Once property tax relief is excluded, the bulk of the underspending is in human services items. The welfare and human services category is already $51.6 million under estimate, with growth of 2.8 percent from last year. There is also significant underspending in K-12 education ($21.7 million) and in the catchall "other government" category ($11.9 million).

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

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$495,646	$517,325	($21,678)
Higher Education	155,349	157,578	(2,229)
Total Education	$650,995	$674,903	($23,908)
Health Care	$414,800	$424,441	($9,641)
Temporary Aid to Needy Families	62,774	80,710	(17,935)
General Assistance/Disability Assistance	4,765	5,321	(556)
Other Welfare	43,224	47,588	(4,364)
Human Services (2)	110,658	129,712	(19,054)
Total Welfare & Human Services	$636,221	$687,773	($51,551)
Justice & Corrections	$105,097	$100,683	$4,414
Environment & Natural Resources	14,460	15,832	(1,372)
Transportation	4,504	7,036	(2,532)
Development	21,576	26,156	(4,580)
Other Government (3)	25,805	37,739	(11,934)
Capital	125	1,518	(1,393)
Total Government Operations	$171,567	$188,965	($17,398)
Property Tax Relief (4)	$2,615	$76,505	($73,890)
Debt Service	21,079	21,085	(5)
Total Program Payments	**$1,482,479**	**$1,649,230**	**($166,752)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	651,500	651,500	0
Total Transfers Out	$651,500	$651,500	$0
TOTAL GRF USES	**$2,133,979**	**$2,300,730**	**($166,752)**

(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, 1997 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

As mentioned in the "Fiscal Overview" transfers from the GRF to other funds are significantly higher this year than last year. In FY 1997, the big transfer out of the GRF was the $400.8 million in FY 1996 surplus that was used to pay for the 6.6 percent cut in marginal tax rates for taxable year 1996. The General Assembly was cautious about making other transfers. At the end of the biennium, the legislature is generally freer to transfer surplus cash for non-recurring expenditures, since a new operating budget based on new forecasts is being adopted. Hence the larger transfers, mostly for K-12 education, in FY 1998.

Primary and Secondary Education

Spending on K-12 education is already $21.7 million below the estimate. The specific reasons that OBM has cited for the variance are the timing of Head Start, Basic Aid, Vocational Education, and Desegregation programs. More generally, in recent years analysts have come to expect underspending in K-12 line items in the first six months of the year when old Average Daily Membership (ADM, or enrollment) figures are used. Whether this is a factor in Basic Aid underspending this year is not yet clear. Of course, last year the use of the updated ADM figures in the second half of the year did not have much impact on variances.

Medicaid

Year-to-date spending on Medicaid is $9.6 million below estimate, despite having increased by 10.8 percent from last year. So far, inpatient hospital services and HMO services are the categories significantly below estimate. The continuing drop in ADC/TANF caseloads has also reduced Medicaid eligibility and exerted downward pressure on spending.

TANF

TANF disbursements are already $17.9 million below estimate, and down by 14.1 percent from last year. August caseloads (in terms of recipients of cash assistance) dropped 3.4 percent from July, and are down by 18.2 percent from the same month last year.

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Fiscal Year-to-Date 1998
($ in thousands)

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 1997	Percent Change
Primary & Secondary Education (1)	$850,709	$872,388	($21,678)	$791,893	7.43%
Higher Education	313,033	315,262	(2,229)	292,508	7.02%
Total Education	$1,163,742	$1,187,650	($23,907)	1,084,401	7.32%
Health Care	$886,305	$895,945	($9,640)	$800,205	10.76%
Temporary Aid to Needy Families	173,544	191,480	(17,935)	202,081	-14.12%
General Assistance/Disability Assistance	11,239	11,795	(556)	34	32955.88%
Other Welfare	94,464	98,829	(4,365)	127,991	-26.19%
Human Services (2)	243,688	262,743	(19,055)	240,668	1.25%
Total Welfare & Human Services	$1,409,240	$1,460,793	($51,552)	$1,370,979	2.79%
Justice & Corrections	$263,208	$258,794	$4,414	$241,937	8.79%
Environment & Natural Resources	33,893	35,265	(1,372)	26,173	29.50%
Transportation	5,648	8,180	(2,532)	2,577	119.18%
Development	29,191	33,771	(4,580)	25,708	13.55%
Other Government (3)	74,701	86,635	(11,934)	73,278	1.94%
Capital	180	1,573	(1,393)	184	-2.17%
Total Government Operations	$406,822	$424,219	($17,397)	$369,857	9.99%
Property Tax Relief (4)	$3,421	$77,311	($73,890)	$102,186	-96.65%
Debt Service	76,213	76,219	(5)	70,678	7.83%
Total Program Payments	**$3,059,440**	**$3,226,192**	**($166,752)**	**$2,998,101**	**2.05%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	#N/A
Budget Stabilization	0	0	0	0	#N/A
Other Transfers Out	698,684	686,766	11,918	405,253	72.41%
Total Transfers Out	$698,684	$686,766	$11,918	$405,253	72.41%
TOTAL GRF USES	**$3,758,124**	**$3,912,958**	**($154,834)**	**$3,403,354**	**10.42%**

(1) Includes Primary, Secondary, and Other Education

(2) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services $3,056,019 $3,148,880

$2,895,915

(3) Includes Regulatory and Nonregulatory agencies, Pension Subsidies, and Reissued Warrants.

(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

* August, 1997 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

There is some confusion over whether the structure of the new TANF program, in contrast to the old ADC program, will exhibit the same kind of variances between estimated and actual spending. Since the program is now a block grant, isn't our expenditure more or less constrained to equal the block grant amount in any given fiscal year?

The short answer is no, the fact that the program is now a block grant does not substantially change the potential for spending variances within a given fiscal year. Theoretically, the legislature could make midstream adjustments in grant levels or spending on items other than cash assistance within a fiscal year in order to bring spending up toward the grant total, but it seems unlikely that the adjustments made would be large enough to offset an accumulated large variance. In other words, if caseload and recipient counts continue moving as they have, it is likely that there will be a large negative variance in FY 1998, despite the new program structure.

Other Welfare

FY 1998 disbursements are $4.4 million below estimate, due to slower than estimated disbursements for computer projects. This continues a trend we have observed over the last several fiscal years.

It should be noted that a quick read of Table 5 shows an extremely large increase from FY 1997 in General Assistance/Disability Assistance (GA/DA) spending, and a significant decrease in spending on Other Welfare. In fact, this represents nothing more than a reclassification of Disability Assistance into a separate category, moving it out of the Other Welfare category. The year-over-year changes are therefore misleading. In a future issue LBO will have reconstructed history so that the year-over-year changes are adjusted for the reclassification.

Human Services

Spending in the aggregated human services category is $19.1 million below estimate, and has grown by only 1.3 percent from FY 1997. For the most part, variances in this category seem to be timing issues: i.e., payments are going out later than expected, but there has been no underlying change in conditions that leads one to think that budgeted payments will not eventually be made. A large number of programs — Medically Handicapped Children, Early Start and Immunization, PASSPORT, etc. — are below the estimate at this point. Only time will tell for sure if these are indeed timing problems or whether there are substantive factors driving the spending variances. ❑

ISSUES OF INTEREST

COMMERCE STEPS INTO RENOVATED FACILITY

RICK GRAYCAREK

The Department of Commerce recently opened for business a renovated facility. Located on Tussing Road in Reynoldsburg, this facility is the home for the former departments of Industrial Relations and Liquor Control. The onetime shoe manufacturing complex also contains fire inspectors and Bureau of Underground Storage Tank Registration (BUSTR) personnel from the State Fire Marshal's office. Prior to moving to Tussing Road, the departments of Industrial Relations and Liquor Control were located on W. 5th Avenue in Columbus.

Legislation enacted during the 121st General Assembly (Am. Sub. S.B. 162) eliminated the departments of Industrial Relations and Liquor Control and transferred their functions to other state agencies. Most Industrial Relations functions went to the Department of Commerce. This included elevators, boilers, steam engineers, pressure piping, factory and building, bedding and upholstery and the boards of Building Standards, Building Appeals, Construction Industry Examining Board and Ski Tramway. Prevailing wage, minimum wage and OSHA activities were transferred to the Bureau of Employment Services. Mine regulation ended up at the Department of Natural Resources. Department of Liquor Control functions were divided between the departments of Commerce and Public Safety. All licensing, administrative and merchandising operations went to Commerce. Liquor enforcement activities went to Public Safety.

Moving Costs

Moving to a new a location was expensive. Approximately $3.2 million was spent renovating and purchasing equipment for the Tussing Road facility. Slightly more than $1.8 million went to renovating the Industrial Compliance section of the building that occupies more than one-half of the office building's 87,500 square feet. (This charge does not include expenses for new office equipment, cubicles, etc.) Almost $1.4 million paid for renovations and new equipment for the Liquor Control portion of the building. These costs include expenditures for new modular office furniture, phone system and moving expenses among other things. Rental costs for the office building occupied by these two divisions are $9.50 per square foot.

A Controlling Board request (DAS-142, FY 1996) noted that a new location was necessary because the W. 5th Avenue location could not adequately accommodate all the employees. This location also did not provide a suitable customer service environment. Several alternative locations were originally considered. One, owned by Continental Properties, even went to the Controlling Board for a lease agreement. Annual rent was $12.00 per square foot for a 50,000 square foot building. Continental Properties withdrew their lease offer, though. This action precipitated the decision to move to the Tussing Road facility.

Consolidation Costs/Savings

The elimination of the departments of Industrial Relations and Liquor Control and the ensuing merger with the Department of Commerce affected expenditures. Overall, the consolidation reduced staff levels and should create some administrative cost savings.

Savings should come from the Division of Liquor Control. The consolidation of Liquor Control with Commerce has reduced total staff size. Over the past fiscal year, approximately twenty-seven administrative positions were eliminated[1]. Another five positions are now funded by the Department of Commerce's administration section (line item 800-620). An early retirement program was offered to employees. The maximum buy-out timeframe was three years.

For the Division of Industrial Compliance, most employees stayed. Of those who departed, approximately twenty-eight accepted early retirement. Only two people left without accepting early retirement — one was laid off and another accepted a different position. The maximum length of the buy-out for the Industrial Compliance ERP was two years.

The division expects to hire eight additional elevator inspectors during the 1997-1999 biennium. (These new positions are unrelated to the consolidation process.) Despite the cities of Cleveland and Cincinnati maintaining their own elevator inspection program, an increase in the number of elevators statewide has produced a demand for more inspectors. Appropriations in the current budget have provided for these new inspectors. However, it appears likely that not all eight inspectors will be hired. Open support staff positions also need to be filled. Money for these positions may come at the expense of one or more elevator inspector positions.

Paying unemployment compensation and early retirement charges have raised short-term costs for the divisions of Industrial Compliance and Liquor Control. However, reductions in payroll are expected in the long run.

Division of Industrial Compliance

Although most Industrial Relations activities had been located in one building prior to Am. Sub. S.B. 162, the Tussing Road facility is frequently termed a "one-stop center." When the Industrial Relations functions came to the Department of Commerce, the department focused on establishing a customer-oriented permit and service process. The one-stop concept primarily revolves around approving construction/building permits and licenses. Local building departments generally handle these responsibilities. However, in areas of the state without a local building department, contractors, builders and others can go to the Tussing Road facility to have their plans approved. They can also apply for and receive various permits. Because of customers' ability to have various permits and licenses processed in one location, the Tussing Road facility is called a "one-stop center."

Four other offices serve similar roles. These offices also support areas of the state not covered by local building departments. The offices are in Toledo, Akron, Athens and Batavia. The Batavia office is new.

Throughout Ohio, a total of 204 certified building departments provide permit and licensing duties for construction and building activity. Most larger cities operate their own departments.

Division of Liquor Control

The Tussing Road facility also serves as the headquarters for the Division of Liquor Control. The division is responsible for licensing the sale of liquor and administering the sale of spirituous liquor. Licensing includes renewing permits and reviewing requests for new permits. A new imaging system purchased during fiscal year 1996 has significantly improved the efficiency of this process.

With a total cost of approximately $1.2 million, the imaging system allows the division to process license requests and to provide customer information in an efficient manner. Prior to this system, all permit records were kept in a folder on paper. This created several problems. First, tracking a permit holder's or new applicant's records was difficult. With only a paper trail to follow, employees often resorted to checking with the entire office to find a particular folder. On occasion staff could spend hours locating an applicant's folder and the documents that belonged in that folder. With the imaging system, this problem was essentially eliminated. All records are now scanned into the imaging system and indexed soon after they arrive. Through indexing, the licensing section can keep all records for a particular location or permit holder in one electronic file. This helps ensure that records can be easily searched and located when needed in the future. Second, the old folder system did not allow for applicant or permit records to be shared. The new imaging system allows for more than one person to view these records at the same time. Finally, the old system could not effectively pass along application information throughout the licensing process. With the applications in electronic format, each person in the review process can now include notes in the file. This helpful tool allows information to be forwarded clearly.

Beside the increases in efficiencies created by the imaging system, personnel savings are also expected. However, because the imaging system has only been operating since April of 1997, staff size has not changed. Future reductions in staff could still occur, depending upon how the Division of Liquor Control utilizes the new imaging system. Right now the system is new enough that all procedural and job classification issues have not been resolved.

Conclusion

The Department of Commerce's Tussing Road facility is the new home for the divisions of Industrial Compliance, Liquor Control, BUSTR and fire inspectors from the State Fire Marshal's office. Renovation and purchase costs totaled around $3.2 million. While short-term costs are high because of the renovations and staff reduction charges, long-term savings should result. In order to capture all the costs and benefits, it would be beneficial to re-examine the fiscal effects of the consolidation once the short-term costs have been finalized and the long-term benefits are realized. ❑

[1] The conversion of state-operated liquor stores to agency stores, while unrelated to the consolidation process, has been primarily responsible for the elimination of around 1,400 other positions over the past six years.

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.

Real Property Tax
Current Agricultural Use Values

— *Barbara Mattei Smith*

- The need to preserve and protect farmland in Ohio was recognized as early as 1912 when the Ohio Constitution was amended to include a section allowing for the adoption of laws to encourage the preservation of natural resources, forestry, and agricultural land. The constitution was amended again in 1974 to provide for special treatment of agricultural land when assessed for real property tax purposes.

- Agricultural land appraised under the current agricultural use (CAUV) program is assessed at less then its true market value. As a very simple explanation, this means that agricultural land is valued according to its ability to generate farming income and not according to the property's highest and best use value.

- In calendar year 1996, approximately 15.9 million acres of farmland in 350,000 parcels were enrolled in the CAUV program. The value of this land when appraised at its highest and best use value was $7.2 billion; under CAUV it was $1.9 billion.

- To qualify for the CAUV program, the parcel must be have been used exclusively for agricultural purposes for the preceding three years and must be greater than 10 acres in size or generate an annual income from farming over $2,000 if less than 10 acres in size.

- Land removed from the CAUV program is subject to a tax recoupment charge equal to the value of lost property taxes for the three years preceding withdrawal from the program.

Current Agricultural Use Value
Calendar Year 1996 Values