Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE OCTOBER, 1997

FISCAL OVERVIEW

— Frederick Church

Tax revenues were only slightly above estimate for the first two months of FY 1998, but a strong September performance by the personal income tax has brightened the revenue picture. The first quarter of this year (July - September) looks similar to last year, with both tax and non-tax receipts outdoing the forecast. As we say every month, federal reimbursement is lagging the estimate, but that is also good news because it is the result of underspending in human services programs. Total GRF spending excluding transfers is now $280.4 million below estimate, and has grown by less than 1 percent from last year. Much of the underspending at this point is timing-related: the $120 million variance in property tax relief payments and the $112.5 million variance in primary and secondary education spending are the prime examples. On the flip side, September overages in higher education and Medicaid may also be temporary, in which case the adjusted underspending might be in the neighborhood of $110 million. Even so, the state's overall fiscal health — nowithstanding the problems associated with funding a solution to the *DeRolph* decision in K-12 education — is still extremely good.

First quarter tax revenues are $46.7 million above estimate, with roughly 2/3 of the overage, or $31.3 million, coming from the personal income tax. This puts Ohio in the company of a number of other states that also reported big overages in the third quarter of calendar year (CY) 1997. Since the overages in some states are largely due to growth in quarterly estimated payments, there is already speculation by analysts that some of the state revenue gains are the result of taxpayer responses to the recent federal changes in capital gains taxation (the "mystery revenue" in the federal budget that reduced the federal fiscal year 1997 deficit to only $22 billion has lent some additional backing to this explanation). The Taxpayer Relief Act of 1997, signed into law in August, generally reduces federal tax rates on capital gains. Most analysts believe that this will lead to some short-run "unlocking" or increased realization of gains. While LBO obviously agrees with this analysis, the assumption that the new law has already had an impact seems premature.

The anticipation of lower capital gains taxes may have had a small impact on tax revenue growth at both the federal and state level, but the bulk of the impact should come in CY 1998. First, federal law allows individuals with large capital gains in taxable year 1997 to delay paying

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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 September	Fiscal Year 1998 to Date	Last Year	Difference
Beginning Cash Balance	$2.9	$1,367.7		
Revenue + Transfers	$1,421.5	$3,814.6		
Available Resources	$1,424.4	$5,182.4		
Disbursements + Transfers	$1,598.4	$5,356.5		
Ending Cash Balances	**($174.2)**	**($174.2)**	**($334.8)**	**$160.6**
Encumbrances and Accts. Payable		$718.4	$517.3	$201.1
Unobligated Balance		**($892.6)**	**($852.1)**	**($40.5)**
BSF Balance		$862.7	$828.3	
Combined GRF and BSF Balance		**($29.9)**	**($23.8)**	**($6.1)**

taxes on those gains until next year — a regulation most high-income taxpayers will take advantage of. Second, the federal and state data was showing strong increases and big overages in income tax revenue even before TRA97 was passed. The adoption of TRA97 might have accelerated growth somewhat, but so far it has only reinforced a trend already in place.

On the spending side, the biggest variances are not in human services outlays but in property tax relief and K-12 education spending. At this point, the tax relief variance is assumed to be due to timing issues that will work themselves out over the next few months. The education variance also appears to be due to timing at this point.

In human services, the Medicaid variance is surprisingly small, and September's payments actually exceeded the estimate. In light of the fact that TANF caseloads continue to fall, pushing TANF cash spending further below estimate, this is somewhat surprising. The culprit is nursing home payments, which have gone out much faster than anticipated. This appears to be (dare we say it again?) a timing issue. We expect Medicaid payments to fall back below estimate in October.

As Table 1 shows, the state's cash balance is much higher than at the same point last year. However, due to the extremely high levels of agency encumbrances and accounts payable being carried on the books, the unobligated balance is about $40 million less than last year's level. Whether this will still be true after OBM examines the encumbered amounts and cancels some in the upcoming months remains to be seen.

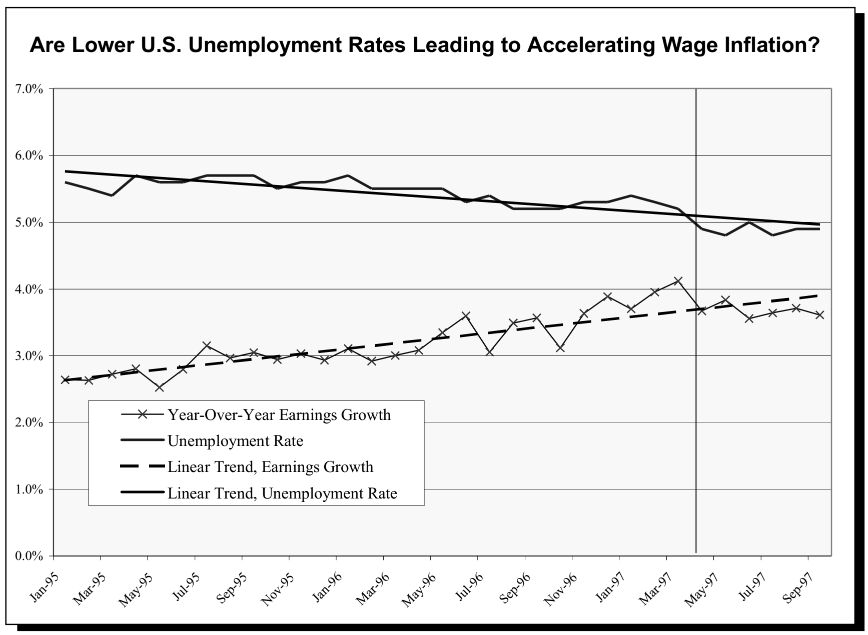
Finally, last month's issue of ***Budget Footnotes*** contained a discussion of the GRF transfers made from the huge year-end surplus in FY 1997. At that point, the scheduled transfer of $34.4 million to bring the Budget Stabilization Fund (BSF) balance up to the required 5 percent of prior-year GRF revenue had not been made. As Table 1 shows, that transfer was made in September and as a result the BSF balance is now $862.7 million. As a result, current combined BSF and GRF (unobligated) fund balances are almost equal to last year's amounts. ❑

TRACKING THE ECONOMY

— *Frederick Church*

The U.S. economy continues its remarkable run of solid, steady growth. The revised second quarter real GDP growth figure was 3.3 percent, following a 4.9 percent figure for the first quarter. Furthermore, the solid growth continues to be accompanied by low inflation.[1] The CPI-U has risen by only 2.2 percent for the 12 month period ending in September 1997. Stable wage inflation, falling energy prices and lower import prices have held inflation in check. As if that weren't good enough, the pickup in consumer activity in the third quarter suggests that economic activity is actually improving and that real GDP growth for the third quarter may top the second quarter rate.

For those who said that the U.S. unemployment rate absolutely could not go below 5 percent without accelerating inflation — well, in the long run that may turn out to be true, but the unemployment rate has been at or below 5 percent for six consecutive months now (September's U.S. rate was 4.9 percent), and output price inflation remains under control. The employment cost index is rising at about the same rate that it was when unemployment was above 5 percent. Year-over-year growth in average hourly earnings through September was about 3.6 percent. This is roughly the same year-over-year growth that we have seen since mid 1996, so it is hard to argue that wage inflation is accelerating. As the chart below shows, it is generally true that wage growth has been inversely related to the unemployment rate, as one would expect. However, this pattern has not held over the past half-year. Furthermore, over the past few quarters increases in productivity growth have held down growth in unit labor costs.



While it is clear that the U.S. labor market is very strong, the Ohio labor market has been sending mixed signals. Establishment survey data show Ohio nonfarm payrolls growing by only 0.8 percent from August of 1996 through August of 1997, while national payroll employment grew by 2.2 percent over the September 1996 through September 1997 period (we do not yet have September data for Ohio, so our comparison includes a one month lag). On the other hand, the household survey shows Ohio's 12 month employment growth to be a robust 2.4 percent. Given the experience in recent years and Ohio's strong growth in income tax withholding (more on that below), LBO currently expects Ohio payroll employment data to be revised upward toward the household survey data.

On the spending side, national retail sales were clearly stronger in the third quarter than in the second quarter. This was true in both automotive and non-auto sales. The various indices of consumer confidence compiled by the Conference Board, the University of Michigan, and Money Magazine/ABC News all continue to have strong readings. On the regional level, the Federal Reserve System's Beige Book reports that Fourth District (including Ohio and parts of Kentucky, Pennsylvania, and West Virginia) retail sales were weak in September, following a strong August. However, sales improved in the first half of October, led by appliances, telecommunications equipment, and toys. Overall, District retailers expect better times ahead, including automobile sales. ❑

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[1] LBO does not say that inflation has been low in spite of strong growth because we do not necessarily believe in that causal relationship. In fact, the recent performance of the U.S. economy supports the particular brand of monetarism that claims that low and stable inflation rates promote real economic growth, rather than inflation being a byproduct of strong demand in the real economy.

Status of the General Revenue Fund

REVENUES

— Frederick Church

The revenue picture for September and the entire third quarter is dominated by the personal income tax. September's $29.3 million overage puts collections $31.3 million over estimate for the year. This represents two thirds of the total $46.7 million overage in tax revenues. The sales and use tax is also $12.2 million over estimate for the year, with the strongest performance coming in the non-auto component. Most of the other tax sources are very close to the estimate. The foreign insurance tax is $5.5 million above the forecast, but this appears to be a timing issue, where some of the money due October 15th was received and processed very early.

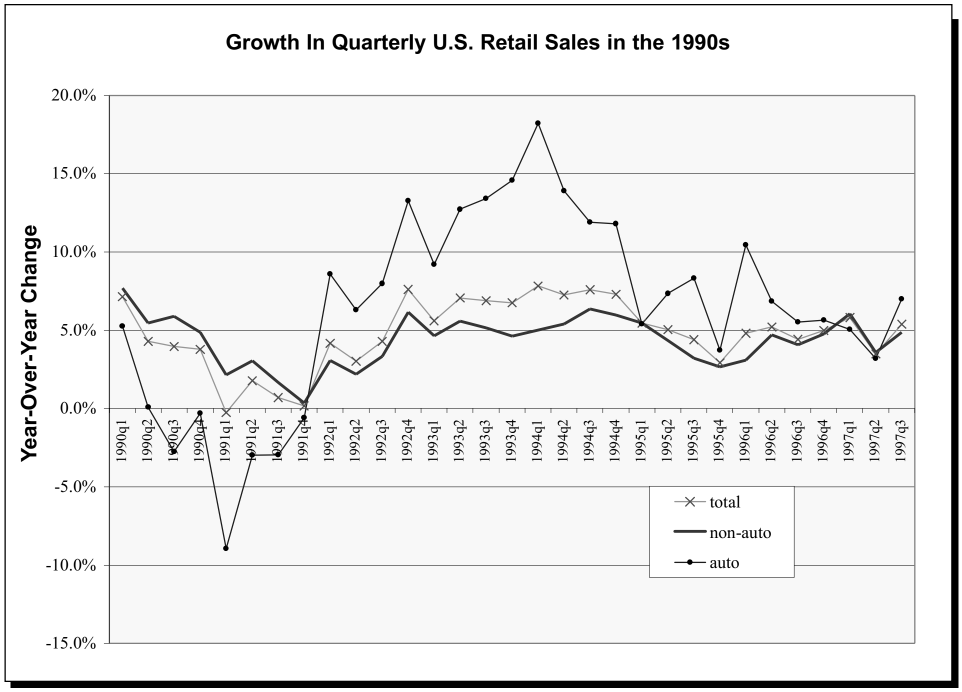
Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of September, 1997
($ in thousands)

REVENUE SOURCE			
TAX INCOME	Actual	Estimate*	Variance
Auto Sales	$60,612	$58,310	$2,302
Non-Auto Sales & Use	361,676	363,172	(1,496)
Total Sales	$422,288	$421,482	$806
Personal Income	$585,891	$556,600	$29,291
Corporate Franchise	10,864	8,121	2,743
Public Utility	3	0	3
Total Major Taxes	**$1,019,046**	**$986,203**	**$32,843**
Foreign Insurance	$12,858	$7,338	$5,520
Domestic Insurance	0	0	0
Business & Property	54	93	(39)
Cigarette	26,277	25,101	1,176
Soft Drink	0	0	0
Alcoholic Beverage	4,317	4,343	(26)
Liquor Gallonage	2,328	2,295	33
Estate	5,934	8,313	(2,379)
Racing	0	0	0
Total Other Taxes	$51,768	$47,484	$4,284
Total Taxes	**$1,070,813**	**$1,033,686**	**$37,127**
NON-TAX INCOME			
Earnings on Investments	$34,483	$25,140	$9,343
Licenses and Fees	1,954	1,683	271
Other Income	7,253	2,487	4,766
Non-Tax Receipts	$43,690	$29,310	$14,380
TRANSFERS			
Liquor Transfers	$7,500	$7,000	$500
Budget Stabilization	0	0	0
Other Transfers In	0	0	0
Total Transfers In	$7,500	$7,000	$500
TOTAL INCOME less Federal Grants	**$1,122,002**	**$1,069,996**	**$52,006**
Federal Grants	$299,461	$348,124	($48,663)
TOTAL GRF INCOME	**$1,421,464**	**$1,418,120**	**$3,344**

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

Overall tax revenue has grown by 7.2 percent from last year. The two taxes most important to the GRF's overall health — the personal income tax and the non-auto sales tax — are growing at impressive rates. First quarter growth in the non-auto sales tax is 6.6 percent, and the income tax has grown by 8.3 percent. The sales tax growth figure is the best the state has posted since the last quarter of CY 1995.

On the non-tax side, investment earnings and liquor profits are continuing their good showing from FY 1997. Investment earnings are $9.3 million over estimate, fueled by higher than expected average daily cash balances in the GRF (and in other funds whose interest earnings go to the GRF rather than staying with the fund). Liquor profits are $2.5 million above the forecast, and this is the same size overage that the state had in FY 1997 after the first quarter. Last year, strong first quarter performance started liquor profits on a series of overages that led to a $10.5 million overage for the year.



Federal reimbursement is $90.5 million below estimate after the first quarter. While some of this is due as usual to lower than expected spending on human services programs that draw federal matching money, at this point the shortfall exceeds the total human services underspending amount ($60.6 million). It would seem that some of the federal funds shortfall is a timing issue, and that we could expect some offsetting overage in October.

Personal Income Tax

Ohio's GRF income tax collections are $31.3 million over estimate after the first quarter. Total collections, including the local government funds (LGFs) are $36.7 million over estimate. Most of the overage is in employer withholding ($20.4 million) and quarterly estimated payments ($10.5 million). Year-over-year growth in withholding is 8.8 percent, while growth in estimated payments is 9.1 percent.

The nonfarm payroll employment statistics do not offer any explanation of why withholding growth spiked upward in the first quarter of FY 1998 (third quarter of CY 1997). Although we do not yet have full statistics for September, it appears that year-over-year growth in payroll employment was only about 1 percent, and growth in hourly or weekly manufacturing earnings was about 3 percent. In recent quarters, these kinds of numbers have been associated with year-over-year growth in the 6 to 7 percent range.

On the other hand, data from the household survey are much stronger. Preliminary data suggests that year-over-year growth in total employment for the first quarter of FY 1998 is about 2.3 percent. The household survey is showing extremely low unemployment rates in Ohio: August's seasonally adjusted rate was 4.2 percent, and the unadjusted rate was even lower, at 3.8 percent. The establishment survey has been plagued by a downward bias in counting new jobs in recent years, and it appears that this may be happening again. Perhaps the establishment survey figures will be revised upward when the "benchmark" revisions are done next March.

Limited data from around the country shows strong withholding growth in other states also. This is not surprising in light of the low unemployment rates and solid job growth figures at the national level.

Finally, survey evidence from the Federal Reserve System's ***Beige Book*** also points to a very strong Ohio labor market. Besides noting that unemployment rates are very low in numerous areas of the state, the report goes on to mention that temporary employment agencies in the Fourth District are having trouble meeting labor demand from business. Employers are increasing their seasonal hiring to the point where some temporary agencies have reported a 20 percent month-to-month increase in business. However, there is no general increase in wages, which helps to hold down inflation. On the same point, organized labor reports no change in the trend of compensation growth from the current 3 percent annual increase. However, union term contracts are being extended to four and five years, as the unions are bargaining more for job security.

As stated in the ***Fiscal Overview***, there is already speculation by analysts that some of the gains in state income tax revenue from around the nation, particularly in estimated payments, are the result of taxpayer responses to the recent federal changes in capital gains taxation. The Taxpayer Relief Act of 1997, signed into law in August,

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	$194,406	$192,380	**$2,026**	$187,669	3.59%
Non-Auto Sales & Use	1,140,040	1,129,868	**10,172**	1,069,048	6.64%
Total Sales	$1,334,446	$1,322,248	**$12,198**	$1,256,717	6.19%
Personal Income	$1,399,580	$1,368,272	$31,308	$1,292,004	8.33%
Corporate Franchise	13,802	14,382	(580)	19,594	-29.56%
Public Utility	727	23	704	37	1864.86%
Total Major Taxes	$2,748,555	$2,704,925	$43,630	$2,568,352	7.02%
Foreign Insurance	$12,880	$7,349	$5,531	$7,413	73.76%
Domestic Insurance	421	440	(19)	200	110.50%
Business & Property	433	662	(229)	891	-51.44%
Cigarette	63,203	63,210	(7)	65,657	-3.74%
Soft Drink	1	0	1	0	100.00%
Alcoholic Beverage	14,047	13,852	195	14,571	-3.60%
Liquor Gallonage	6,771	6,635	136	6,764	0.11%
Estate	9,299	11,848	(2,549)	309	2914.42%
Racing	0	0	0	0	#DIV/0!
Total Other Taxes	$107,055	$103,997	$3,058	$95,804	11.74%
Total Taxes	**$2,855,610**	**$2,808,921**	**$46,689**	**$2,664,156**	**7.19%**
NON -TAX INCOME					
Earnings on Investments	$34,483	$25,140	$9,343	$30,019	14.87%
Licenses and Fees	11,230	9,539	1,691	9,056	24.00%
Other Income	35,598	28,907	6,691	19,025	87.11%
Non-Tax Receipts	$81,311	$63,586	$17,725	$58,101	39.95%
TRANSFERS					
Liquor Transfers	$16,500	$14,000	$2,500	$12,500	32.00%
Budget Stabilization	0	0	0	$0	#N/A
Other Transfers In	203	0	203	64	219.63%
Total Transfers In	$16,703	$14,000	$2,703	$12,564	32.95%
TOTAL INCOME less Federal Grants	**$2,953,624**	**$2,886,507**	**$67,117**	**$2,734,820**	**8.00%**
Federal Grants	$861,012	$951,479	($90,467)	918,352	-6.24%
TOTAL GRF INCOME	**$3,814,636**	**$3,837,986**	**($23,350)**	**$3,653,173**	**4.42%**

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

generally reduces federal tax rates on capital gains, which most analysts believe will lead to some short-run "unlocking" or increased realization of gains. However, LBO believes that the anticipation of lower capital gains taxes may have had a small impact on tax revenue growth at both the federal and state level, but the bulk of the impact should come in CY 1998, not now.

Federal law allows individuals with large capital gains in taxable year 1997 to delay paying taxes on those gains until next year — a regulation most high-income taxpayers will take advantage of. This tends to push any increases in tax revenue triggered by the behavioral change into next year. Also, federal and state data was showing strong increases and big overages in income tax revenue even before TRA97 was passed. The adoption of TRA97 might have accelerated growth somewhat, but so far it has only reinforced a trend already in place.

Both Minnesota and New Jersey have reported that, like Ohio, they saw estimated payment growth of about 9 percent in the third quarter of CY 1997, and this was "not out of line" with what recent experience had led them to expect. Bigger increases as a result of behavioral response to TRA97 could begin with the fourth quarter payment due in January of 1998 (the final payment against taxable year 1997 liability), although there is also a possibility that impacts will not really be seen until the April 1998 payment.

Ohio also has a state-specific factor working in favor of pushing up quarterly estimated payments. The taxable year 1997 reduction in marginal rates that stems from the prior-year budget surplus is 4 percent, compared to a 6.6 percent rate cut for taxable year 1996. This means that Ohio's effective tax rates are slightly higher this year, which should boost tax liability and estimated payments somewhat.

Sales and Use Tax

As we forecasted last month, non-auto sales tax revenue posted its best quarterly growth rate since 1995, at 6.6 percent (this was not a difficult prediction). National retail sales have been growing faster, and all the economic fundamentals point to continuing solid growth in consumer spending. Unemployment is at a 24-year low, wage growth is steady, and consumer confidence is strong. While a stock market correction may temporarily reduce asset prices, continued growth in corporate profits, low inflation and interest rates, and reduced capital gains taxes should buoy financial markets in the longer run and add to consumer wealth.

Since the ***Beige Book*** reported that Fourth District retailers felt that September retail sales were off, Ohio could see a shortfall in October non-auto tax revenues (non-auto sales tax collections are based on prior month activity). However, since the economic fundamentals are sound and retailers report improvement in October, any October shortfall is likely to be reversed in succeeding months.

September's overage in the auto sales tax put revenues $2.0 million over estimate for the first quarter. The overage came in spite of a September drop from last year in national unit sales of light vehicles, and slow Ohio sales in late September (unlike the non-auto tax, auto sales tax collections are based mostly on current month sales). Dollar sales were hurt by the incentives offered to sell off stocks of 1997 models. However, sales in early October seemed to be improving, and demand for new models is strong. Some Fourth District retailers are reporting that there are already shortages of particular new models. Taking into account that the economy is sound and consumer spending is increasing, many auto analysts now project a strong fourth quarter. ❑

DISBURSEMENTS

— *Jeffrey E. Golon**

Anchors aweigh! This marks the maiden voyage of the ship "Disbursements" under new command. Our friend and colleague, Chris Whistler, who relentlessly and courageously steered this column at sea for some 48 months, has transferred to another port of call. The rest of us analytic sailors left stranded here at the LBO have been stuck in a vast sargassum sea. I can't speak for the rest of this crew, but that's sure enough sautéed brown algae for me Cookie. We wish you well Chris, but where'd ya store the diesel fuel needed to motor this puppy?

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

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$339,779	$430,565	($90,786)
Higher Education	172,617	140,271	32,346
Total Education	$512,396	$570,836	($58,440)
Health Care	$473,873	$466,341	$7,532
Temporary Aid to Needy Families	60,513	72,952	(12,439)
General Assistance/Disability Assistance	5,463	5,508	(45)
Other Welfare	28,907	43,674	(14,767)
Human Services (2)	80,380	69,729	10,651
Total Welfare & Human Services	$649,136	$658,205	($9,068)
Justice & Corrections	$169,699	$161,425	$8,274
Environment & Natural Resources	12,651	11,406	1,245
Transportation	1,130	2,320	(1,190)
Development	10,837	11,803	(966)
Other Government (3)	69,028	76,900	(7,872)
Capital	454	612	(159)
Total Government Operations	$263,798	$264,465	($667)
Property Tax Relief (4)	$135,642	$181,769	($46,127)
Debt Service	4,956	4,341	615
Total Program Payments	**$1,565,929**	**$1,679,616**	**($113,687)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	34,400	34,000	400
Other Transfers Out	(1,915)	0	(1,915)
Total Transfers Out	$32,485	$34,000	($1,515)
TOTAL GRF USES	**$1,598,414**	**$1,713,616**	**($115,202)**

(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.

After the first quarter of FY 1998, spending, excluding transfers, is $280 million below estimate and barely a nudge up (+0.8 percent) from the same time last fiscal year. Just over $120 million of the underspending comes from property tax relief, which, given the night is still young, appears to remain a timing issue. Even after dropping property tax relief out of the calculations, underspending reveals itself as a rather healthy baby at $160 million and growing.

Once you get past the property tax relief matter, the bulk of the underspending clearly lies in the Education program category. Its Primary & Secondary Education component is running at $112 million under estimate, almost entirely as a result of underages in the Department of Education. Next in line is the Welfare & Human Services program category with an underage slightly in excess of $60 million, roughly half of which is a function of lower than expected TANF (Temporary Aid to Needy Families) disbursements.

Before we throttle full speed ahead and open our collective state wallet to tap this growing pot of unspent money, let's sound a note of caution. We are only a quarter through the fiscal year, so it would be awfully premature to break open the state's piggy bank with the expectation that another cash cow reminiscent of FY 1997 is sauntering our way. As any election eve watcher knows, favorable early evening returns do not always translate into midnight champagne and cigar celebrations. A very large amount of this $280 million year-to-date underage looks timing-related, with the state's only apparent "savings" at this time coming from the TANF program.

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)	$1,190,488	$1,302,953	($112,465)	$1,184,160	0.53%
Higher Education	485,650	455,532	30,118	423,199	14.76%
Total Education	$1,676,138	$1,758,485	($82,347)	1,607,359	4.28%
Health Care	$1,360,178	$1,362,287	($2,109)	$1,274,846	6.69%
Temporary Aid to Needy Families	234,057	264,432	(30,374)	273,023	-14.27%
General Assistance/Disability Assistance	16,702	17,303	(601)	72	23097.63%
Other Welfare	123,369	142,503	(19,134)	186,218	-33.75%
Human Services (2)	324,067	332,472	(8,405)	303,881	6.64%
Total Welfare & Human Services	$2,058,374	$2,118,998	($60,625)	$2,038,040	1.00%
Justice & Corrections	$432,908	$420,219	$12,689	$388,010	11.57%
Environment & Natural Resources	46,544	46,671	(127)	40,355	15.34%
Transportation	6,778	10,500	(3,722)	3,930	72.46%
Development	40,028	45,574	(5,546)	36,734	8.97%
Other Government (3)	143,729	163,535	(19,806)	126,598	13.53%
Capital	634	2,185	(1,552)	498	27.23%
Total Government Operations	$670,622	$688,684	($18,063)	$596,126	12.50%
Property Tax Relief (4)	$139,063	$259,080	($120,017)	$273,391	-49.13%
Debt Service	81,169	80,560	610	74,793	8.52%
Total Program Payments	**$4,625,366**	**$4,905,808**	**($280,442)**	**$4,589,709**	**0.78%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	—
Budget Stabilization	34,400	34,000	400	0	—
Other Transfers Out	696,769	686,766	10,003	536,752	29.81%
Total Transfers Out	$731,169	$720,766	$10,403	$536,752	36.22%
TOTAL GRF USES	**$5,356,535**	**$5,626,574**	**($270,039)**	**$5,126,461**	**4.49%**

(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.

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Primary & Secondary Education

Department of Education. The Department of Education's September spending was $89.1 million, or 21.6 percent, under the estimate of $412.2 million. The primary driver of this variance was underspending in GRF line item 200-511, Auxiliary Services. This line item – which carries FY 1998 subsidy moneys totaling $95.9 million and is distributed twice annually – is used to make payments to chartered nonpublic elementary and secondary schools for such things as the purchase of textbooks, health services, and programs for the handicapped. The first subsidy distribution ($47.5 million) occurred in August, rather than in September as had been originally anticipated.

If one wandered further into the department's mass of 50-odd GRF line items, other contributors to the month's negative variance popped out. The most significant of these were: (1) $11.9 million in Special Education (line item 200-504) due to timing; (2) $7.1 million in Vocational Education (line item 200-507), due to timing as well as underspending from previous fiscal year encumbrances because of departmental delays in resolving school district data issues; (3) $7.1 million in Desegregation Costs (line item 200-534) due to timing; and (4) $6.6 million in Basic Aid (line item 200-501) from previous fiscal year encumbrances due to departmental delays in resolving school district data issues.

Turning to the matter of year-to-date spending, the Department of Education was running $107.6 million below estimate. Two notable disbursement issues here related to previous years' encumbrances in Basic Aid (line item 200-501) and Vocational Education (line item 200-507). These are amounts that were not spent in previous fiscal years, but are expected to eventually be spent for the purposes designated in those previous fiscal years' budgets.

The department has historically been slow in spending previous years' encumbrances, and this is apparently the case again. For the current fiscal year, encumbrance spending in these same two line items is below estimate. Basic Aid and Vocation Education are $17 million and $6 million under projection, respectively. As reported in previous versions of this publication, some school districts are finding it advantageous to count special and vocational education students in their regular average daily membership (ADM) count, rather than as part of a special education or vocational education unit. This is particularly true when the classroom unit has a high number of students in it. It is unknown if the underspending in these two accounts is related to districts' ongoing decisions about counting students in a unit or counting them in the district's ADM.

NET. A relatively recent arrival to the Primary & Secondary Education component is the Office of Information, Learning, and Technology Services (NET), which under a prior life existed as a semi-autonomous office within the Department of Education. The main appropriations act of the 122nd General Assembly, Am. Sub. H.B. 215, established NET as a totally independent state agency governed by the 11-member Information, Learning, and Technology Authority. NET carries a $25 million annual GRF budget and is responsible for directing all programs for the provision of financial and other assistance to school districts and other educational institutions. This assistance covers the acquisition and utilization of educational technology, including SchoolNet, SchoolNet Plus, Ohio SchoolNet Telecommunity, and Interactive Video Distance Learning.

NET's September spending was close to $1 million under estimate. Due to a timing issue, SchoolNet (line item 228-404) disbursements were around $800,000 below estimate. Several projects (such as the SchoolNet Faculty and the Technology Clearinghouse) have not moved as quickly as the agency had anticipated. Therefore, disbursements for these projects have been delayed.

NET's year-to-date spending is $3.7 million under estimate. The biggest variance so far happened in August. NET had planned to disburse the entire $1.7 million in line item 228-559, Interactive Parenting, as a lump sum grant to RISE, Inc. in August. However, NET subsequently decided to disburse the grant quarterly. This decision alone added $1.2 million to the year-to-date underage.

Higher Education

Board of Regents. The Board of Regents (BOR) is, for all intents and purposes, the Higher Education component of the Education program category. For the month of September, BOR's disbursements were $32.6 million over the $139.9 million estimate, largely attributable to variances in three line items. Two of BOR's five performance-based line items – 235-418, Access Challenge, and 235-420, Success Challenge – were disbursed in September rather than starting a month later in October and spread out over the rest of the fiscal year as had been expected. Funds disbursed from the two items totaled $14.0 million. The entire FY 1998 Access Challenge appropriation of $12.0 million, which provides funding to two-year and certain four-year institutions, was shipped out the door. Half of this new annual source of performance-based funding must be used to restrain tuition growth. The entire FY 1998 Success Challenge appropriation of $2.0 million, which seeks to promote degree completion by "at risk" students, went out as well.

The third line item that contributed to BOR's monthly overage in a major way involved a $18.3 million debt service payment (line item 235-401, Rental Payments). The first FY 1998 debt service payment was not scheduled to occur until October.

If we turn our focus then to BOR's year-to-date disbursements, which registered $30.7 million over estimate, what is of interest is the underspending, compared to

Table 6, College Student Financial Aid Program Disbursements

	Year-to-Date					
	FY 1998 Appropriations			FY 1997 Encumbrances		
Program	*Estimate*	*Actual*	***Variance***	*Estimate*	*Actual*	***Variance***
Ohio Instructional Grants	$ 1,872,028	$ 14,000	-99%	$ 4,000,000	$ 2,014,000	-50%
War Orphans' Scholarships	$ 111,955	$ 51,000	-54%	$ -	$ 36,000	100%
Capitol Scholarships	$ 237,500	$ -	-100%	$ -	$ -	NA
Academic Scholarships	$ 7,000,000	$ 7,000,000	0%	$ -	$ -	NA
Student Choice Grants	$ -	$ -	0%	$ 700,000	$ 543,000	-22%
Part-time Instructional Grants	$ 7,700	$ 120,000	1458%	$ -	$ -	NA
Dayton Area Graduate Studies Institute	$ -	$ 1,450,000	100%	$ -	$ -	NA
Total	**$ 9,229,183**	**$ 8,635,000**	**-6%**	**$ 4,700,000**	**$ 2,593,000**	**-45%**

estimates, in the "student financial aid program." As shown in Table 6, spending from the Ohio Instructional Grant (OIG) program (line item 235-503) was much slower than expected both in terms of current year's appropriations as well as funds encumbered from FY 1997. Year-to-date spending of current OIG appropriations checked in at $1.9 million less than estimate, which translated into less than one percent of the OIG program's $93.6 million FY 1998 appropriation. Meanwhile, spending of prior year OIG encumbrances ran at $2.0 million, just over half of the $4.0 million estimate, and translated into about 30 per cent of the total amount of encumbered FY 1997 OIG funds – $6.5 million.

The Part-Time Student Instructional Grants appropriations (line item 235-549) have been disbursed more quickly than expected, but only a fraction of the total FY 1998 funding level has been spent at this time, $120,000 disbursed out of the $10.0 million appropriation.

Health Care/Medicaid

The Health Care component of the Welfare & Human Services program category, consisting entirely of Medicaid spending channeled through the Department of Human Services' line item 400-525, always seems to present itself as a problematic area of disbursement analysis for LBO. Generally, this task requires some examination of numerous health service categories buried under the rubric of Medicaid in order to write or say anything that is remotely meaningful. As has been noted in previous issues of Budget Footnotes, the disbursement reports that we use to undertake this analytic task do not always exactly match those produced by the Central Accounting System (CAS). At appropriate times during the year, we try to reconcile these two different reporting methodologies. However, that has yet to happen in FY 1998, and in order to offer some data and observations on spending trends, we have to turn away from the Health Care/Medicaid program disbursements summarized in Tables 4 and 5 that use CAS-produced data and look at the Medicaid data in Tables 7 and 8 that was mined from Department of Human Services' reports.

That said, Medicaid spending checked in $1.1 million, or 0.2 percent, over estimate in September. The major factor driving the overage in health care expenditures in September was nursing home payments, which exceeded estimates by $15.1 million, or 9.4 percent. For the year-to-date, nursing home payments are above estimates by $54.8 million, or 11.4 percent. We have been led to believe that these variances are simply matters of timing that will sort out as the fiscal year progresses. When compared to the same period in FY 1997[1], nursing home payments are $40.1 million, or 8.3 percent, higher in FY 1998.

While it is premature to debate trends based on one quarter's information, we present recipient data solely for the purpose of keeping a keen watch on events[2]. Total average monthly nursing home service recipients (those receiving services not eligibles) increased by 4.8 percent, from 48,086 in the first quarter of FY 1997 to 50,417 for the same period in FY 1998. The crossover group (people who are eligible for Medicare and Medicaid) receiving nursing home services declined 7.8 percent from the same period in FY 1997.

Fiscal year 1998 year-to-date health care expenditures are below estimates by $8.4 million, or 0.6 percent. Comparing FY 1998 expenditures to the same period in FY 1997, FY 1998 spending outpaces that of FY 1997 by $78.8 million, an increase of 5.8 percent. However, when FY 1997 encumbrances of $78.5 million (counted against final FY 1997 spending) is factored out of FY 1998 spending, a negligible increase of $6.7 million is recorded for FY 1998 year-to-date spending over FY 1997.

Despite the virtual dead heat between FY 1998 and FY 1997 spending, several points are worth noting in FY 1998 spending-to-date. The declining Aid to Dependent Children (ADC)/Temporary Assistance for Needy Families (TANF) caseloads continue to hold down spending; most noticeably in hospital payments. Inpatient hospital payments are $21.7 million, or 9.3 percent, below year-to-date estimates and $41.8 million lower than the same period in FY 1997 (FY 1997 inpatient payment encumbrances not included). The total average number of monthly recipients declined by 12.5 percent, to 18,745 in FY 1998 from 21,436 in FY 1997. The TANF recipient group fell 18.5 percent, while the aged, blind, and disabled group (the largest consumers of this service) dropped 6.7 percent. Outpatient hospital payments are $9.4 million, or 13.2 percent, below year-to-date estimates, and $16.3 million lower than the same period in FY 1997. The average number of TANF recipients in this service category dropped 22.5 percent from the same period in FY 1997, while the ABD group increased by 5 percent.

Medicaid Consumer Hotline

The Office of Medicaid began operating a consumer hotline in July.

The number is 1-800-324-8680 or TDD 1-800-292-3572.

Another service category that needs continued watch is prescription drug payments. Although prescription drug payments were over estimate by $1.9 million in September, and under year-to-date estimates by $2.5 million, it is, however, running $13.9 million above FY 1997 spending for the same period. While average monthly TANF recipients of prescription drugs have dropped 26.7 percent, from 100,619 in the first quarter of FY 1997 to 73,788 in FY 1998, the ABD group (this group of Medicaid eligibles accounted for the largest share of fee-for-service drug spending, comprising nearly 90 percent of total FY 1997 drug spending) declined a mere 0.4 percent, indicating a higher cost-per-claim by all eligibility groups. We will continue to watch this service category, particularly in light of the change to the drug reimbursement formula's base.

In general, however, the total monthly average number of Medicaid recipients is down 5 percent from the same period in FY 1997. The TANF group declined 13.5 percent, while the aged and blind groups posted increases of 4.2

Table 7
Medicaid (400-525) Spending

	September				Year-to Date Spending			
Service Category	Actual[1]	Estimate[1]	Variance	Percent Variance	Actual** thru' Sept.	Estimate** thru' Sept.	Variance	Percent Variance
Nursing Homes	$160,479,563	$145,353,702	$15,125,861	9.4%	$481,039,249	$426,229,758	$54,809,491	11.4%
ICF/MR	$29,441,671	$28,710,443	$731,228	2.5%	$84,830,945	$84,155,263	$675,682	0.8%
Hospitals	$111,708,538	$117,628,468	($5,919,930)	-5.3%	$303,787,596	$334,883,333	($31,095,737)	-10.2%
Inpatient Hospitals	$85,975,883	$89,395,576	($3,419,693)	-4.0%	$232,715,235	$254,400,038	($21,684,803)	-9.3%
Outpatient Hospitals	$25,732,654	$28,232,892	($2,500,238)	-9.7%	$71,072,361	$80,483,295	($9,410,934)	-13.2%
Physicians	$27,237,565	$27,454,069	($216,504)	-0.8%	$74,378,493	$79,480,904	($5,102,411)	-6.9%
Prescription Drugs	$55,819,299	$53,866,293	$1,953,006	3.5%	$130,333,272	$132,798,878	($2,465,606)	-1.9%
Payments	$59,182,521	$57,229,515	$1,953,006	3.3%	$157,482,101	$168,685,996	($11,203,895)	-7.1%
Rebates	$3,363,222	$3,363,222	$0	0.0%	$27,148,830	$27,148,830	$0	0.0%
HMO	$44,637,752	$49,750,161	($5,112,409)	-11.5%	$163,713,426	$154,321,009	$9,392,417	5.7%
Medicare Buy-In	$10,194,462	$9,556,985	$637,477	6.3%	$30,465,081	$39,346,971	($8,881,890)	-29.2%
All Other***	$27,964,145	$34,021,232	($6,057,087)	-21.7%	$85,337,215	$111,071,249	($25,734,034)	-30.2%
TOTAL	$467,482,993	$466,341,353	$1,141,640	0.2%	$1,353,885,276	$1,362,287,365	($8,402,089)	-0.6%
CAS	$473,873,275				$1,360,275,558			
Estimated Federal Share	$271,140,136	$271,237,532	($97,396)		$787,635,842	$792,522,767	($4,886,925)	
Estimated State Share	$196,342,857	$195,103,821	$1,239,036	0.6%	$566,249,434	$569,764,598	($3,515,164)	-0.6%

* This table only includes Medicaid spending through Human Services' 400-525 line item.

** Includes spending from FY 1997 encumbrances in service categories for July & in the All Other category for August & September.

1 Includes spending from FY 1997 encumbrances in the "All Other" Category.

*** All Other, includes all other health services funded by 400-525.

Source: BOMC8300-R001 Reports, Ohio Department of Human Services.

Table 8
FY 1998 to FY 1997 Comparison* of Year-to-Date Spending

Service Category	FY 1998[1] Yr.-to-Date as of Sept. 97	FY 1997 Yr.-to-Date as of Sept. 96	Variance	Percent Variance
Nursing Homes	$481,039,249	$440,884,734	$40,154,515	8.3%
ICF/MR	$84,830,945	$80,199,437	$4,631,508	5.5%
Hospitals	$303,787,596	$329,286,165	($25,498,569)	-8.4%
Inpatient Hospitals	$232,715,235	$249,874,565	($17,159,330)	-7.4%
Outpatient Hospitals	$71,072,361	$79,411,600	($8,339,239)	-11.7%
Physicians	$74,378,493	$78,292,254	($3,913,761)	-5.3%
Prescription Drugs	$130,333,272	$104,849,964	$25,483,308	19.6%
Payments	$157,482,101	$131,732,749	$25,749,352	16.4%
Rebates	$27,148,830	$26,882,785	$266,045	1.0%
HMO	$163,713,426	$104,156,236	$59,557,190	36.4%
Medicare Buy-In	$30,465,081	$39,456,271	($8,991,190)	-29.5%
All Other***	$85,337,215	$97,928,803	($12,591,588)	-14.8%
TOTAL	$1,353,885,276	$1,275,053,864	$78,831,412	5.8%
Estimated Federal Share	$787,635,842	$752,281,780	$35,354,062	
Estimated State Share	$566,249,434	$522,772,084	$43,477,350	7.7%

* This table only includes Medicaid spending through Human Services' 400-525 line item.

1 . Includes FY 1997 encumbraces of $78.5 million.

percent and 5.7 percent, respectively.

As stated earlier, it is still a might early to draw conclusions about Medicaid activity in general. We would certainly expect that more clear cut patterns of activity will take shape or emerge by the end of the second quarter. However, we caution that any trend discerned in aggregate Medicaid activity can conceal more than it reveals. One has to get inside the numbers and look at specific health service categories and recipient types to adequately analyze the Medicaid spending picture. For example, if nursing home payments continue to grow and do not self-adjust, any spending reductions resulting from decreasing TANF recipients would be lost in the bottomline.

TANF

Temporary Aid to Needy Families (TANF) disbursements continued their FY 1998 run below estimates. September under-spending contributed $12.4 million to a year-to-date variance that registered $30.4 million below estimate. In September, the number of Ohio Works First (OWF) recipients declined by 15,511, a decrease of 3.5 percent from August and 19.8 percent from the same month a year ago.

In light of the reform that the TANF and OWF programs represent, the factors that account for the dramatic decline in caseload is receiving considerable scrutiny. For example, the White House Council of Economic Advisors (CEA) released a statistical analysis in May of the nationwide trend in the decline of AFDC caseloads from 1993 through 1996. The principal conclusion of the study was that "over 40 percent of the decline can be attributed to economic growth and that almost one-third is related to waivers, particularly those that sanction recipients who do not comply with work requirements." The CEA cautioned, however, that the reforms sought under waivers may have themselves been spurred by improved economic conditions. The effects of other policies on entrance into the labor market, like the 1990 and 1993 expansions of the Earned Income Tax Credit and the recent increases in federal and state spending on childcare, went unexamined in the CEA study.

The effects of changes in welfare program rules other than work requirements and sanctions also remain to be determined. Rules on such subjects as earnings, time limits, job subsidies, family caps, the requirement that unmarried minors who have a child in his or her care live in an adult-supervised arrangement, among others, each need to be examined for their independent effect on caseload and outcomes.

In general, linking caseload drops and policy changes will be tricky. Substantial caseload reductions have been seen recently in states that both have and have not implemented major welfare reforms. In any case, the decreasing trend for the number of TANF recipients in Ohio is expected to continue into FY 1999, albeit at a slower pace as the declining unemployment rate levels out.

Other Welfare

Department of Human Services. Contained within the Department of Human Services budget is a $40-plus million GRF line item (400-527, Child Protective Services) that is used to support county child welfare services, including identification and protection services for abuse and neglected children, foster care for children who must be removed from their parents' custody, and adoption assistance to help place children in permanent homes. These funds are distributed quarterly. The expectation was that the second quarter distribution would actually be advanced by one month, which meant that counties were to receive a total of $10.7 million in September rather than in October. That advance payment did not happen, it will occur in October instead. It was largely for that reason that the Other Welfare component was under estimate for the month of September by some $14.8 million.

Other Human Services

The major players in the Human Services component of the Welfare and Human Services program category, as measured by the size of their FY 1998 GRF budgets, line up as follows: Department of Mental Health ($487.2 million), Department of Mental Retardation/ Developmental Disabilities ($340.9 million), Department of Aging ($87.5 million), Department of Health ($77.3 million), Department of Alcohol and Drug Addiction Services ($27.8 million), and Rehabilitation Services Commission ($22.2 million).

Mental Health. Over the course of the first quarter, monthly disbursements from the Department of Mental Health's three major subsidy programs – line items 334-408, Community Mental Health and Hospital Services, 335-508, Services for Severely Mentally Disabled Persons, and 335-502, Community Mental Health Programs – have shown significant variances due to the timing of subsidy payments. However, year-to-date disbursements for these three subsidy programs were largely on-target.

Perhaps the most notable disbursement that has occurred so far in the Department of Mental Health's GRF budget relates to a community medication subsidy program (line item 335-419) carrying a FY 1998 appropriation of $4.9 million. This entire FY 1998 appropriation, which amounts to a 40 percent increase over FY 1997 community medication subsidy expenditures, was disbursed in August.

This community medication subsidy is allocated to all 51 Alcohol, Drug Addiction, and Mental Health Services (ADAMHS) and Mental Health Services (MHS) boards based on their severely mentally disabled (SMD)/severely emotionally disturbed (SED) counts, census population, and FY 1997 actual medication expenditures. The disbursed funds (which include $125,332 to subsidize methadone costs in FY 1998) are used to the local boards to subsidize psychotropic medication costs for indigent persons in the community. Client eligibility is based on both income and client characteristics (i.e., SMD/SED, at-risk of hospitalization, or recently released from a mental health inpatient facility.). These local boards are then responsible for determining how much of this state money is then awarded to eligible local mental health agencies in each of their service delivery areas.

MR/DD. Timing was the main reason behind a $4-plus million overage in the Department of Mental Retardation & Developmental Disabilities' September disbursements. Some subsidy funding for county boards, as well as residential and support services money for the Purchase of Service, Supported Living, and Individual Options Medicaid Waiver programs, landed a month later than had been estimated.

Aging. The month of September found the Department of Aging $2.0 million under estimate, the cause of which lies primarily with the timing of transfer funds from the Residential State Supplement (RSS) program. These funds are typically transferred on a quarterly basis to the Department of Human Services, with the latter then making provider payments. Although this expected transfer will not occur until October, provider payments were not affected.

Alcohol & Drug Addiction Services. The Department of Alcohol and Drug Addiction Services checked in for the month of September with spending that was $5.0 million over estimate. Not to be alarmed. This was largely due to some subsidy funding slated for local Alcohol, Drug Addiction, and Mental Health Services (ADAMHS) boards and Alcohol and Drug Addiction Services (ADAS) boards being distributed a month or two later than had been anticipated. The department's year-to-date spending was pretty much on target.

Health. On the face of it, the Department of Health's disbursements presented a picture of contrasts. Monthly spending was $3.1 million over estimate, while year-to-date spending showed a $2.9 million underage. In

September, two line items were victims of timing (440-459, Ohio Early Start, and 440-505, Medically Handicapped Children). Disbursements built into July and August estimates were not made until September. Ohio Early Start funds are used to provide services to children under age three who are at risk of developmental delay or child abuse and neglect, while Medically Handicapped Children funding pays for diagnosis, treatment and supportive services provided to handicapped children meeting certain medical and economic eligibility criteria.

With regard to the department's year-to-date underage of roughly $3 million, a half-dozen or so line items have displayed what might be termed sluggish spending patterns relative to estimates. Specifically in the list of suspects were subsidies for local health districts, tuberculosis, migrant health, and arthritis care, as well as immunization purchases and Ohio Health Care Data System operating expenses. An examination of FY 1997 disbursement patterns for these same kinds of activities suggests that spending will pick up as the year progresses.

Rehabilitation Services. The major item of note relative to the Rehabilitation Services Commission is that their year-to-date disbursements were $3.2 million under estimate, an amount largely attributable to the roughly $11 million line item 415-506, Case Services for People with Disabilities. Early FY 1997 disbursements looked very similar, with initially slow spending that eventually picked up speed. Whether this is related to a decision to hit federal dollars first and then tap the required state match later we do not know. Hopefully, over the course of the second quarter, we can get a better handle on that issue.

Justice & Corrections

Let us turn very briefly to the Justice & Corrections component of the Government Operations program category, where the reader can plainly see disbursements registered over estimates, $8.3 million for the month and $12.7 million year-to-date. The departments of Rehabilitation and Correction and Youth Services are the prime culprits here, not surprising given the two departments totally dominate the program category. We are still sorting through the disbursement picture here and are not quite able to offer a storyline worth telling at this time.

Environment & Natural Resources

Ohio EPA. Within the Environment & Natural Resources component of the Government Operations program category, two things caught our eye with regard to the Ohio Environmental Protection Agency. First, for the month, spending was over estimate by around $4 million. Roughly three-quarters of this variance was due to a one-time $3.0 million distribution of funds appropriated for a sewer and drainage remediation project at the Rocky Fork State Park in Highland County that occurred in September rather than in August as had been planned. Second, inside the year-to-date numbers, the operating expense accounts for air pollution and water quality were headed in opposite directions, the former considerably under estimate, the latter considerably over estimate. These variances did not appear to be significant as the two programs are funded with a mix of federal and state money, which can make the calculation of reasonably accurate monthly GRF disbursement patterns a bit difficult. Presumably, fiscal officers are in a constant state of juggling how much and when to spend state and federal money.

Development

Department of Development. The driving force in the $5-plus million year-to-date underage within the Development component of the Government Operations program category was the Department of Development itself, with spending under estimate by $5.6 million. Primarily behind this result was the slow disbursement of FY 1997 encumbrances from three grant programs: Urban/Rural Initiatives (line item 195-417), Industrial Training (line item 195-434), and Business Development (line item 195-412); not an uncommon occurrence with many of the department's subsidy/grant programs. These funds are disbursed only after a grant agreement has been executed and cost reimbursements have been requested.

Most notable to date was that the entire $8.0 million FY 1998 appropriation for line item 195-441, Low and Moderate Income Housing, was transferred to the Low and Moderate Income Housing Trust Fund (line item 195-638) in August as planned. The trust fund is used to provide grants and loans for qualifying housing projects serving low and moderate-income persons.

Other Government

DAS. The Department of Administrative Services (DAS), with an annual GRF budget tipping into the neighborhood of $140 million, is the big spender in the Other Government component of the Government Operations program category, which is composed of 20-plus state agencies. Thus, the monthly and year-to-date underspending visible in the Other Government component is a DAS-driven force. For the month, DAS was $6.4 million under estimate, while year-to-date it was $14.6 million under estimate. Much of this underage was a result of debt service payments (line items 100-447 and 100-448) that came in under estimate. This was not surprising since the state has been encountering extremely favorable bond markets that reduce actual debt service needs. (It should also be noted that close to 70 percent of DAS's GRF budget is taken up by these twin debt service line items.)

The other area in which DAS revealed slower than expected disbursements was group of computing- and communications services-related line items, in particular brand-spanking new line item 100-430, Year 2000 Assistance, which was $1.8 million under estimate year-to-date. This Year 2000 line item contains funding to hire computer programmers, purchase computer software applications, and conduct testing activities that will allow the state to correct computer applications, making them Year 2000 compliant. Like many things new, it ain't 'til the goods have left the factory and the rubber meets the road that one can really find the problems and work 'em out.

Property Tax Relief

The Property Tax Relief program category consists of state payments to local governments as compensation for credits or exemptions provided to taxpayers in state law. In this way, the state provides tax relief to taxpayers but local governments that depend on property taxes do not lose revenue. Instead, the state GRF reimburses the local governments for the revenue that would otherwise be lost due to the exemptions and credits. There are four separate property tax relief programs combined into this category:

(i) the 10% rollback (tax credit) on all real property, regardless of ownership;
(ii) the 2.5% rollback (tax credit) on owner-occupied residential property;
(iii) the homestead exemption, a property tax credit for low-income elderly or disabled homeowners;
(iv) the $10,000 "small business" exemption for the tangible property tax.

Two important facts about GRF tax relief: much more of the payments are for real property tax relief than for tangible tax relief, and about 70 percent of all tax relief (real and tangible) goes to school districts, due to their heavy reliance on the property tax. Real property tax relief is distributed through two line items: 200-901 in the Department of Education's budget reimburses school districts, and 100-901 in the Department of Taxation's budget reimburses counties, municipalities, townships, and other special taxing districts.

Real property taxes are paid in two installments: the first half is due December 31 in the year that the property is listed and the second half is due June 20th of the subsequent calendar year. Therefore, real property tax relief payments are also made in two installments. When the county treasurer receives property tax payments, the treasurer and the auditor settle with the local governments: that is, they determine the revenues due to each taxing district based on the valuation and tax rates in effect in each district. The settlements usually occur in February and August. The settlement contains two components: the revenue due each district from actual property tax payments and the revenue forthcoming from the state for the rollbacks and the homestead exemption. After the settlement figures are verified, the county auditors apply to the state (the Department of Education and the Department of Taxation) for the actual property tax relief payments. School district payments are made separately from the other local government payments, and go directly to the districts.

As should be clear, the timing of GRF payments of tax relief depend heavily on how quickly the settlement process goes at the local level and when the county auditors apply to the state for property tax relief. OBM estimates the monthly flow of GRF payments based on historical data from prior years, but the estimates are based on averages. Actual payments fluctuate substantially from year to year. This year, payments are running $120 million behind the estimate, but this probably means nothing more than that the settlement process has been slower than the average. It is likely that payments will catch up to the estimate in the next couple of months. This is particularly true in light of the fact that the GRF payments that counties and school districts are applying for are based on the property tax payments for the second half of the calendar year, which were essentially a known quantity at the time that OBM made the estimates.

Tangible tax relief is not a part of the underspending at this point. All the tangible relief payments are estimated to be made in the October through December period, so estimated and actual payments through September are both zero. ❑

**Numerous colleagues here at the LBO have contributed to the development of this issue, including, in alphabetical order, Ogbe Aideyman Clarence Campbell, Fred Church, Nelson Fox, Sybil Haney, Steve Mansfield, Jeff Newman, Barb Petering, Chuck Phillips, Jeffrey M. Rosa, Roberta Ryan, Kathy Schill, Deborah Zadzi, and Wendy Zhan.*

[1.] In comparing all FY 1998 spending with FY 1997, FY 1997 encumbrances are factored out, to present an accurate assessment of the "true" variance.

[2.] All recipient data are tabulated from the BOMM 1420-R004 report of the Department of Human Services.

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS FIRST QUARTER, FY 1998

— *Allan Lundell*

Total sales for the first quarter of FY 1998 were $532.8 million, down 7.7 percent from $577.5 million for the fourth quarter of FY 1997. Because lottery ticket sales have a seasonal pattern, quarter to quarter changes may give a misleading indication of trends in sales. Year to year changes provide a better indicator of trends in sales. Sales for the first quarter of FY 1998 were 5.7 percent less than the $564.9 million in sales received in the first quarter of FY 1997. This is the third consecutive quarter in which sales were less than that of the same quarter of the previous year. The forecast of decreased ticket sales for FY 1998 appears to be justified.

Transfers to the Lottery Profits Education Fund mirrored ticket sales. Transfers for the first quarter of FY 1998 were $175 million, down 1.2 percent from $177 million for the fourth quarter of FY 1997. First quarter FY 1998 transfers were 5.1 percent less than transfers for the first quarter of fiscal year 1997. Although transfers are down, they still exceed projections, although by a smaller percentage than in recent years.

Total sales decreased 7.7 percent from fourth quarter FY 1997 levels. Sales decreased for all games. Pick 3 sales fell by 2.4 percent, Pick 4 sales fell by 2.7 percent, Buckeye 5 sales fell by 3.6 percent, sales of Instant Tickets fell by 8.6 percent, Kicker sales fell by 10.6 percent, and Super Lotto sales fell by 13.0 percent. Comparing year to year sales reveals that total ticket sales for the first quarter of FY 1998 were 5.7 percent less than sales for the first quarter of FY 1997. The only game experiencing an increase in sales was Pick 4, with an 11.3 percent increase. Pick 3 sales fell by 2.9 percent, Buckeye 5 sales fell by 9.9 percent, sales of Instant Tickets fell by 6.1 percent, Kicker sales fell by 6.0 percent, and Super Lotto sales fell by 10.5 percent. The forecast of decreased ticket sales for FY 1998 appears to be justified.

Table 1, FY 1998 Lottery Ticket Sales and Transfers to LPEF, millions of dollars

	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfers as a Percentage of Sales
Q1 97	**$ 564.90**	**$ 184.47**	**$ 164.86**	**$ 19.61**	**11.89**	**32.66**
Q4 97	**577.50**	**177.09**	**166.31**	**10.78**	**6.48**	**30.66**
Jul 97	172.16	58.51	57.71	0.80	1.39	33.99
Aug 97	195.30	60.26	56.30	3.96	7.04	30.86
Sep 97	165.35	56.24	55.63	0.61	1.09	34.01
Q1 98	**$ 532.82**	**$ 175.00**	**$ 163.63**	**$ 5.37**	**3.17**	**32.84**

Table 2, FY 1998 Lottery Ticket Sales by Game, millions of dollars

	Pick 3	Pick 4	Buckeye Five	Kicker	Super Lotto	On-Line Sales	Instant Tickets	Total Sales
Q1 97	**$109.58**	**$27.17**	**$20.29**	**$16.08**	**$107.71**	**$280.82**	**$284.08**	**$564.90**
Q4 97	**109.05**	**31.09**	**18.96**	**16.90**	**110.85**	**286.85**	**290.65**	**577.50**
Jul 97	35.17	10.21	6.15	4.72	29.01	85.26	86.91	172.16
Aug 98	35.39	9.96	5.87	6.66	46.16	104.03	91.27	195.30
Sep 97	35.87	10.08	6.26	3.73	21.25	77.19	88.16	165.35
Q1 98	**$106.43**	**$30.24**	**$18.28**	**$15.11**	**$96.42**	**$266.48**	**$266.34**	**$532.82**

Table 3, Comparison of Forecasted and Actual Ticket Sales

Game	Month	Jul-97	Aug-97	Sep-97	Q1
Pick 3	Forecast	$ 35,700,000	$ 36,200,000	$ 32,900,000	$ 104,800,000
	Actual	35,167,344	35,387,119	35,872,149	106,426,612
	Variance	-532,656	-812,881	2,972,149	1,626,612
Pick 4	Forecast	10,200,000	10,300,000	9,400,000	29,900,000
	Actual	10,207,193	9,955,527	10,081,474	30,244,194
	Variance	7,193	-344,473	681,474	344,194
Buckeye Five	Forecast	6,100,000	6,200,000	5,600,000	17,900,000
	Actual	6,146,466	5,867,055	6,261,135	18,274,656
	Variance	46,466	-332,945	661,135	374,656
Kicker	Forecast	4,900,000	5,000,000	4,500,000	14,400,000
	Actual	4,721,468	6,665,457	3,726,120	15,113,045
	Variance	-178,532	1,665,457	-773,880	713,045
Super Lotto	Forecast	33,900,000	34,400,000	31,300,000	99,600,000
	Actual	29,013,082	46,157,743	21,252,382	96,423,207
	Variance	-4,886,918	11,757,743	-10,047,618	-3,176,793
On-Line Total	Forecast	90,800,000	92,100,000	83,700,000	266,600,000
	Actual	85,255,553	104,032,901	77,193,260	266,481,714
	Variance	-5,544,447	11,932,901	-6,506,740	-118,286
Net Instants	Forecast	90,200,000	94,500,000	92,900,000	277,600,000
	Actual	86,905,985	91,270,883	88,161,147	266,338,015
	Variance	-3,294,015	-3,229,117	-4,738,853	-11,261,985
Grand Total	Forecast	181,000,000	186,600,000	176,600,000	544,200,000
	Actual	172,161,538	195,303,784	165,354,407	532,819,729
	Variance	-8,838,462	8,703,784	-11,245,593	-11,380,271

Details of Decreased Ticket Sales: Ticket sales for FY 1998 are forecasted to be $2,244 million. This amount is 2.6 percent less than sales for FY 1997. The forecasted decrease in sales was due to the maturing of the Ohio Lottery and increased regional competition for Ohio's gaming dollars. Table 3, based on the monthly report of the Marketing Division of the Ohio Lottery Commission, provides a comparison of forecasted and actual sales for the first quarter of fiscal year 1998.

Total sales are 2.1percent less than forecasted. However, looking only at the total ignores what is happening to sales of the individual games. Sales of Instant Tickets are 4.1percent below forecast. The greater than expected decrease in instant ticket sales is most likely the result of increased regional competition for Ohio's gaming dollars (river boats in Indiana and Kentucky; casinos in Michigan and Canada; enhanced racetracks in West Virginia). On-line sales are slightly below (less than one-half of one percent) forecast. Super Lotto sales are 3.2 percent below forecast. Sales of all other on-line games are above forecast: Pick 3, 1.6 percent; Pick 4, 1.2 percent; Buckeye Five, 2.1 percent; and the Kicker, 5.0 percent. ❑

LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS DISBURSEMENT OF FY 1998 PROFITS

— Deborah Zadzi

Lottery Profits Education Fund (LPEF) disbursements in fiscal year 1998 (year-to-date) total \$111.7 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), plus smaller payments from the Lottery Profits Education Reserve Fund (Fund 018) for the disability access project and judgement loans. Table 4 shows fiscal year 1998 appropriations, disbursements, and available appropriation balances for each account in the LPEF as of September 30, 1997.

As reported in previous issues of this report, most lottery moneys blend with General Revenue Fund (GRF) moneys to fund certain education subsidies. Table 5 below shows programs which are funded with a combination of GRF and LPEF moneys.

An exception to the above is the lottery money used for debt service. Instead of combining with General Revenue Fund moneys, these moneys are now transferred to the General Revenue Fund to pay the School Facilities Commission's debt service on bonds issued for the School Building Assistance Program. Thus, even though these appropriations appear in the Department of Education's Lottery Profits Education Fund and the School Facilities Commission's for lease rental payments, the total amount for this purpose does not equal the sum of the two amounts. ❑

Table 4
LPEF Appropriation/Disbursement Summary

	FY 1998 Appropriations	FY 1998 Disbursements (through Sept. 30,1997)	Appropriation Balance
Fund 017			
670 Basic Aid	\$584,137,200	\$94,183,639	\$490,033,561
671 Special Ed	\$44,000,000	\$7,088,335	\$36,911,665
672 Vocational Ed	\$30,000,000	\$4,832,956	\$25,167,044
682 Lease Rental Payment	\$21,185,000	\$0	\$21,105,000
694 Bus Purchase One Time Supplement	\$10,000,000	\$0	\$10,000,000
Total Fund 017	**\$689,242,200**	**\$106,024,930**	**\$562,112,270**
Fund 018			
649 Disability Access Project	\$5,000,000	\$60,000	\$4,940,00
669 Judgement Loan	\$5,650,000	\$5,618,561	\$ 31,439
Total Fund 018	**\$10,650,000**	**\$5,678,561**	**\$4,971,439**
Total Funds 017 and 018	**\$699,892,200**	**\$111,703,491**	**\$567,083,709**

Table 5, Combined General Revenue Fund and Lottery Profits Education Fund Appropriations for Basic Aid, Special Education and Vocational Education, FY 1998

Program	GRF Appropriations	Lottery Appropriations	Total Appropriations
Basic Aid	\$2,202,851,688	\$ 584,137,200	\$2,786,988,888
Special Education	\$ 556,029,126	\$ 44,000,000	\$ 600,029,126
Vocational Education	\$ 317,612,847	\$ 30,000,000	\$ 347,612,847
Total	**\$3,076,493,661**	**\$ 658,137,200**	**\$3,734,630,861**

ISSUES OF INTEREST

REFUNDIN', RECALCULATIN', AND 'RITHMETIC: THE NEW THREE R'S?

PROPERTY TAX REFUNDS AND THE RECALCULATION OF BASIC AID

DORIS MAHAFFEY

Over the past year at least three major taxpayers in Ohio have discovered that they made substantial overpayments of property taxes to local governments. As a result, numerous school districts and other local governments have to make large property tax refunds. The school districts and other local governments must both refund the excess taxes paid and also pay accumulated interest.

The Ohio Revised Code provides local governments with certain options for making these refunds, such as installment payments over two to five years. However, even with this buffering, the unanticipated refunds reduce the available money for current operations. For school districts receiving foundation aid, there is an additional problem. Before the latest budget bill, there was nothing in the state foundation aid formula that compensated districts for this kind of refund. One possible fix would involve recalculating state aid for the prior years when local taxes were overpaid. Instead, Am. Sub. H.B. 215 (the latest biennial budget act) creates a new section (3317.026) that recalculates state aid for the current year for school districts that make a refund of over three percent of their current year tax receipts.

Background

Foundation aid payments to school districts for any given year are based on the value of real and tangible property in the district in the previous calendar year. For example, foundation aid for a school district in fiscal year 1998 is based on the value of property in the district in calendar year 1996 (taxes payable in calendar year 1997), as certified by the Tax Department in June, 1997. Prior to the enactment of H.B. 215, Ohio law already contained two provisions which provided adjustments to foundation aid payments to school districts. Section 3317.027 of the Revised Code provides for the recalculation of basic aid due to reductions in the value of real property in the district. Section 3317.028 provides for the recalculation of basic aid in districts where changes in the value of tangible property exceeds a threshold. Specifically, a district's state aid is recalculated when the value of changes in tangible property (including public utility property) over the previous two years exceed 5 percent of the district's total value used in computing basic aid.

The biennial budget bill typically earmarks money in the Department of Education's budget to fund additional payments to school districts as a result of basic aid recalculations. For example, the budget bill for fiscal years 1996-1997 (Am. Sub. H.B. 117) earmarked $4 million of appropriation item 200-501, *School Foundation Basic Allowance*, each year for this purpose. Am. Sub. H.B. 215 not only created section 3317.026 to provide assistance to school districts making tax refunds, it also made those districts eligible for the 200-501 earmark and increased the earmark to $9 million per year.

Mechanics of the New Recalculation

Not every school district that makes property tax refunds will qualify for the new basic aid recalculation. To qualify, a district must in one calendar year make property tax refunds greater than 3 percent of the district's total property tax receipts for that calendar year. The district's basic aid is to be recalculated by reducing the valuation used in the calculation by the total amount of the reduction in value upon which the refunds were based. With this lower value, the formula for the ***current*** year is rerun and the difference in aid is paid to the district prior to the end of the fiscal year. So, if in calendar year 1997, a school district must make property tax refunds greater than 3 percent of its tax year 1997 property tax revenue, its basic aid payments in fiscal year 1998 will be supplemented in June of 1998. The supplement will equal the additional revenue that the district would have received if the original calculations for FY 1998 had used the revised, lower property values, even though the lower values incorporate changes in previous year values rather than current values.

House Bill 215 added an additional wrinkle to the "026" recalculation for the first year that the law is in effect. Temporary law (found in both sections 50.27 and 193 of H.B. 215) provides that for payments to be made in June, 1998, refunds made between July 1, 1996, and December 31, 1997, are to be included in the recalculation. In other words, for the first year that the law applies, the refund period is extended to 18 months to include July 1 to December 31, 1996, as well as calendar year 1997. The refunds (including interest) over this 18 month period are to be compared with the taxes charged and payable in 1997 for the purpose of the 3 percent determination. The total change in value giving rise to the refunds over this period would then be subtracted in the calculation of the additional supplemental aid. (Because of the way the tax is structured and refunds are paid, the provision will actually cover most refunds for 1996.)

This new section of law will be of great assistance to certain school districts which must make refunds to three important taxpayers as a result of valuation changes. One school district in Franklin County made a $2 million dollar refund to Lucent Technologies as a result of changes in that company's property value. Refunds in excess of $4 million affecting numerous school districts have already been certified as a result of the Texas Eastern Pipeline case. A third case involving General Electric potentially entails the greatest valuation changes. However, this case is still before the courts, so the question of refunds is far from settled.

The Texas Eastern Pipeline case (*Texas Eastern Transmission Corp. v. Tracy (1997)* is probably more typical of the type of situations that section "026" may be expected to deal with in the future: Texas Eastern is a public utility and public utilities generally pay taxes and then dispute them. Whereas, general businesses, such as General Electric and Lucent Technologies typically do not make payments of tangible property taxes that are in dispute. For different reasons, both the Lucent Technologies and General Electric cases are rather unique circumstances.

The Texas Eastern Pipeline Case

Texas Eastern Transmission Corporation is an interstate pipeline which transports natural gas from Louisiana and Texas through ten states (including Ohio) to Pennsylvania. In 1990, the company replaced a portion of its pipeline in Ohio and Pennsylvania at a cost of $81 million. Also, in 1990, the state of Ohio enacted a new section of the Revised Code (5727.11 (B)), which changed the way certain public utility property was valued. Before that time, Texas Eastern property was valued in accordance with the "unit-appraisal" method. The new statute called for a "cost-capitalization" approach.

The combination of these two events resulted in a substantial increase in Texas Eastern's property taxes. Texas Eastern challenged the value arrived at via the cost-appraisal method and in 1996 successfully argued in front of the Board of Tax Appeals (BTA) for the unit-appraisal method. The Board ruled that the Ohio Department of Taxation had overvalued the Ohio property of Texas Eastern for the year 1991 by approximately $63 million. On March 27, 1997, the Ohio Supreme Court concurred with the BTA's decision (*Texas Eastern Transmission Corp. v. Tracy (1997)*). The decision is likely to cost local governments in Ohio up to $15.5 million in property tax refunds, as well as an additional $4 million in interest expense. The cost to school districts alone is likely to be as much as $12.5 million in property tax refunds and an additional $3.1 million in interest payments.

Texas Eastern has property in 20 counties, including 69 school districts and numerous townships, municipalities, and other taxing districts. As a result of the ruling, all such taxing districts are required to refund the taxes they received on the excess valuation plus interest charges. For the year 1991, the refunds will amount to $3 million in overpaid taxes plus an additional $1.2 million in interest. Schools would be responsible for approximately $2.3 million in taxes and roughly $920,000 in interest. In addition, the Tax Department is revaluing Texas Eastern's property for the years 1992 through 1996 in accordance with the method approved by the Supreme Court. The revaluation will result in additional tax refunds (of approximately $12 to $12.5 million) and interest expense of $2.8 to $3 million. The additional cost to schools would be $9.8 million in tax refunds and $2.2 million in interest.

The school districts and other local governments could take up to 5 years to refund the taxes (per section 5727.471 of the Revised Code). Refunds could, in part, be made by reducing the taxes charged against the pipeline company. Nevertheless, for the purposes of section 3317.026, the total amount required to be refunded is to be considered to have been refunded on the day the first installment is paid. It is likely that the first installment paid by each school district will be made before December 31, 1997; so that the refunds made pursuant to the Texas Eastern decision should qualify for additional aid to school districts in fiscal year 1998.

In accordance with section 3317.026, the calculation of the change in state aid resulting from the Texas Eastern decision entails, first of all, determining the total tax refund and interest payments for each school district required to make a refund to Texas Eastern. The only districts to be reimbursed will be those for whom total tax refunds (including interest payments) exceed three percent of the total taxes charged and payable for the school district's current expenses for the calendar year in which the refunds are made. According to Department of Taxation calculations, that excludes 44 of the 69 school districts. The remaining 25 school districts account for 65 percent of the projected refunds, so that the ones to benefit would be the ones which accounted for the bulk of the refunds. (The number could actually be somewhat larger, since the interest expense was not included in this calculation. Other unrelated refunds could also increase the cost. The numbers would probably not increase significantly, however.)

The second task involves calculating the change in value for each remaining school district for each year of the revaluation and determining how the change in value will affect foundation aid payments. The total change in valuation for all 69 school districts is estimated to be $317 million. Assuming that 65 percent of the valuation change is located in the 25 school districts receiving the supplement pursuant to 3317.026, the total change in valuation in these districts would be $205 million. If all 25 schools received aid as a result of the foundation formula, this would result in a supplemental increase of $4.7 million. This figure is reduced by the fact that four of the 25 districts will be on the guarantee[1] in fiscal year 1998. However, two of these will probably "fall off" the guarantee as a result of the Texas Eastern revaluation. Consequently, the revenue required to make payments pursuant to section 3317.026 as a result of these refunds alone is likely to exceed $4 million.

The Missing Half of the Equation

Section 3317.026 provides for the recalculation of basic aid in the case of refunds. It does nothing about the recalculation in the case of assessments, which, according to the Department of Taxation, outnumber refunds by a nine-to-one ratio.

Assessments are additions to value for past periods; whereas, refunds result from reductions. Additions outweigh reductions largely because the tangible personal property tax is self-assessing. That is, multi-county businesses fill out forms indicating the value of property they own and submit that to the Department of Taxation. In situations where there is some ambiguity about a property's value, the business will list the lower value. (It will tend to underestimate values rather than overestimate them.) Consequently, the lower value will make it on to the property tax roles for the purpose of calculating basic aid. Later on, when the firm is audited, the Tax Department may make additional assessments. Schools and other local governments will receive additional tax revenues as a result; but foundation aid for school districts will not be recalculated as a result of such changes in prior year values. If that were to happen, school districts receiving such assessments would face reductions in their basic aid payments.

In the case of the tangible personal property tax, assessments are rather routine due to the fluid base of the tax, which consists largely of equipment and inventories. Situations in which a business has overvalued its property may occur but they are rare. In the case of general businesses, refunds typically occur as a result of taxpayer mistake. Thus, in a typical case, gains to taxing districts due to assessments generally swamp the losses due to refunds; but in any one district the picture may be quite different. Generally assessments occur in proportion to the location of manufacturing facilities; while refunds occur more haphazardly — in accordance with taxpayer mistakes.

The situation with respect to public utility property is somewhat different. Utilities file annual reports with the Tax Department, which the department uses in determining value. The utilities are assessed in October and have 30 days to file an appeal. The appeals process may last anywhere up to 10 years. In the meantime, the property has made it on to the tax roles; taxes have been paid on it, and it has been used in the calculation of basic aid to schools. In the case of public utility property an appeal is much more likely to result in a reduction in value than in an assessment, in which case the local government which earlier received the additional tax revenue will be liable for the refund and the accumulated interest. And it is likely that the refund will involve more than one year's payment of taxes.

With increasing competition among public utilities, such firms are likely to become increasingly aggressive in challenging property values. Needless to say, the districts most at risk are those which depend heavily on public utility property. Consequently, section 3317.026 may prove to be quite costly in the future. ❑

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1 Not all school districts in Ohio receive state aid based on the foundation formula. School districts are currently "guaranteed" their FY 1991 or 1992 basic aid payments. To the extent that this guaranteed amount exceeds what it would receive under the formula, a school district would be "on the guarantee". In such cases, changes in valuation will not affect the school district's basic aid.

A BACKGROUND OF DAS' OFFICE OF ENERGY SERVICES

SYBIL HANEY

The objective of the Office of Energy Services' staff of four is to promote and facilitate cost-effective and efficient uses of energy resources in state government buildings and operations. This office, under the General Services Administration division of the Department of Administrative Services (DAS), was established in 1995 under H.B. 117, although energy services for the state began as early as 1979. For the office's purposes energy resources include electricity, natural gas, propane, and coal. The Office of Energy Services' duties fall under the following categories: new construction design; energy-efficient procurement; alternative fuel usage and research; and energy upgrade management.

New Construction Design

The office ensures that for new construction the latest technologies have the lowest life-cycle costs. ORC 123.011 defines life-cycle costs as the cost of owning, operating, and maintaining a facility over the life of the structure, often expressed as an annual cost for each year of the facility's use. This oversight entails reviewing designs of new buildings and offering more cost-effective alternatives. The office also holds seminars for architectural/engineering firms on new and energy-efficient technologies and quotes the potential cost savings and payback estimates. To date the office has advised on at least 15 capital construction projects costing $753,845, which are estimated to save the state $146,321 in energy costs over a period of ten years.

Energy Efficient Procurement

Given that Ohio's state government spends over $60 million annually on energy-related costs, the office wisely requires energy efficiency, thus lower utility costs, in new equipment and services. Energy Services offers state term contracts for frequently-used equipment and regularly reviews utility rates. The office also bought natural gas for state buildings at lower than retail price, saving $1,680,489 for first nine months of FY 1997.

Energy Services takes part in the USEPA Energy Star Computers program, which funds the procurement of energy efficient computers. These computers have a high-tech feature which allows the computers to enter a low-power mode when not actively used. According to the office, these new computers have saved the state $150,000 in energy costs in FY 1997 and are estimated to save at least $300,000 by FY 1999. According to the April 1995 issue of the office's former publication, "Energy Smart", for one computer which is purchased under the Energy Star system and is turned off at night, the state could save up to $97 in annual electricity costs; the article explains that one of every three computers is left on all night. DAS' Office of Computer Services is in the process of placing only energy efficient equipment on state term contracts. USEPA urges participants in the Energy Star program to encourage employees to turn off computers when they leave for the day, and educate employees about the economic and environmental benefits of using the new equipment.

Funding for certain energy upgrades has also been supplied by the USEPA through the Green Lights program. These funds are used for energy-efficient light upgrades.

Alternative Fuel Vehicles

The Office of Energy Services promotes the economic and energy-

Table 1

Project	Amount	Controlling Board Review Date
Department of Rehabilitation and Corrections	$434,926	9/29/97
Toledo state facilities (Three emergency conservation projects)	$341,530	6/23/97
London Correctional Institution - Department of Rehabilitation and Corrections	$300,000	3/3/97
Chillicothe Correctional – Department of Rehabilitation and Corrections	$280,000	3/3/97
Marion Correctional Institution - Department of Rehabilitation and Corrections (Installment payment contract)	$271,000	1/13/97
Various projects (Request to increase appropriation authority to receive federal grants for energy conservation projects. Additional revenue from Public Utilities Commission of Ohio, United States Department of Energy, and the Council of Great Lakes Governors)	$250,000	8/25/97
William Green bldg. - Bureau of Workers' Compensation	$162,274	9/29/97
Trumbull Correctional - Department of Rehabilitation and Corrections (Installment payment for energy conservation measures at DRC's institution at Levittsburg)	$139,600	6/23/97
Support Services Warehouse lighting project - Department of Mental Health	$130,273	5/5/97
Lebanon Correctional Institution - Department of Rehabilitation and Corrections (Installment payment contract for energy conservation measures for DRC)	$121,708	7/21/97
William Green bldg. - *Bureau of Workers' Compensation* *(*Installment payment for energy conservation measures)	$114,612	8/5/97
Tiffin Developmental Center (Lighting renovation)	$104,450	5/5/97
Ohio Expositions Commission	$103,150	9/29/97
Cuyahoga Hills Boys School – Department of Youth Services (payment of $96K annually for ten years. H.B. 7 from 120th GA [ORC 156])	$96,137	8/25/97
Cincinnati OH - Department of Alcohol and Drug Addiction Services (Alcohol and Drug Addiction Services lighting renovation)	$95,805	3/24/97
Scioto Riverview Juvenile Correctional, Delaware - Department of Rehabilitation and Corrections (Installment payment contract with Roth Brothers, Inc. of Broadview Hts. for ten years at DYS's correctional Institution in Delaware)	$76,000	3/3/97
Lighting renovation, Columbus – Department of Mental Health (DMH Office of Support Services Warehouse)	$67,612	2/10/97
Rickenbacker National Guard Enclave - Adjutant General	$51,189	9/8/97
Department of Youth Services' sites ($83,925 FY 99 also)	$50,537	9/29/97
Department of Transportation (Request to increase appropriation authority to receive federal grants for energy conservation projects, specifically for Motor Vehicle Expenses)	$5,550	8/25/97

related benefits of non-petroleum fuels by conducting regional and statewide meetings. In FY 1995, the office held a conference which featured displays of vehicles operating on natural gas, propane, electricity, soybean oil, and ethanol. The office is currently researching alternative fuels for the state fleet.

Energy Conservation Capital Projects

The Office of Energy Services has requested the release of funds for several of the projects, including the Cuyahoga Hills Boys School in Highland Hills. Because of the relatively high costs of electricity in Highland Hills, near Cleveland, finding alternative energy sources has been a priority. Project administrators determined that natural gas cooling would be more cost-effective and more environmentally friendly than electric, which uses chlorofluorocarbons. Using natural gas instead of electric power could reduce utility bills by 37 percent or $121,271 annually. Components of the project include energy-efficient lighting and new shower valves to reduce hot water use. The air quality benefits on an annual basis are 1,387 metric tons of carbon dioxide avoided, 24 metric tons of sulfur dioxide avoided, and 6 metric tons of nitrogen oxides avoided.

The projects listed in Table 1 were included either in the current capital bill, H.B. 748 of the 121st G.A., or the current reappropriations bill, S.B. 264.

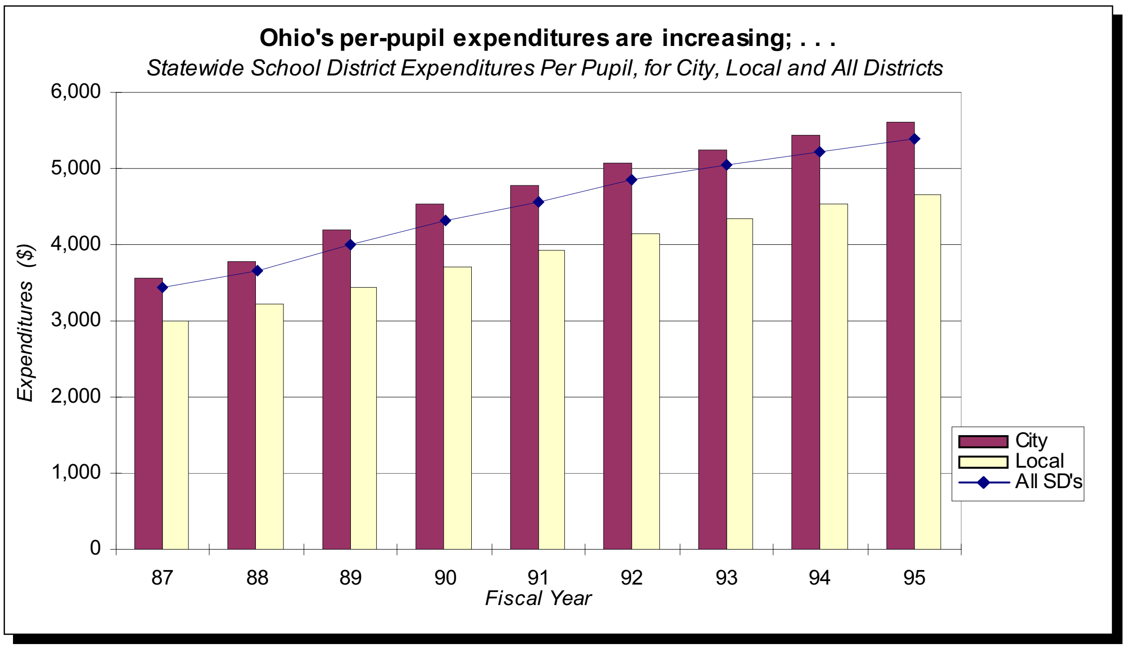
The office estimates that of the $2.5 million of projects appropriated by H.B. 748, savings of $500,000 *annually* over 20 years will be achieved. The Office of Energy Services might take on more importance as state government continues to grow and use vast amounts of resources. ❑

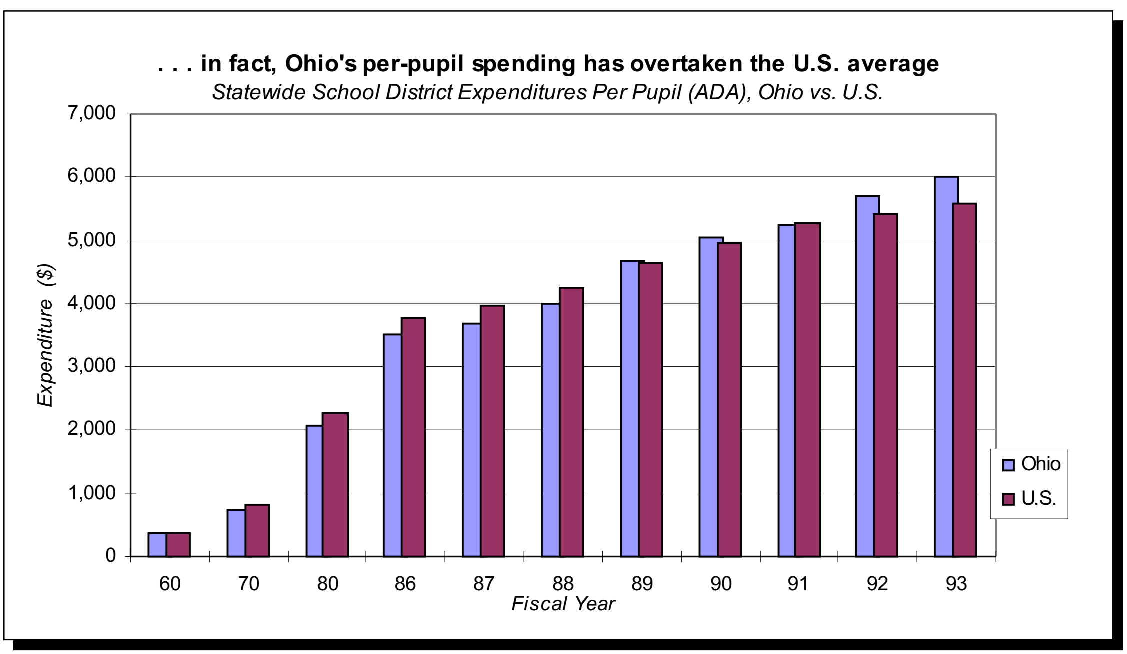
OHIO FACTS EXTRA!

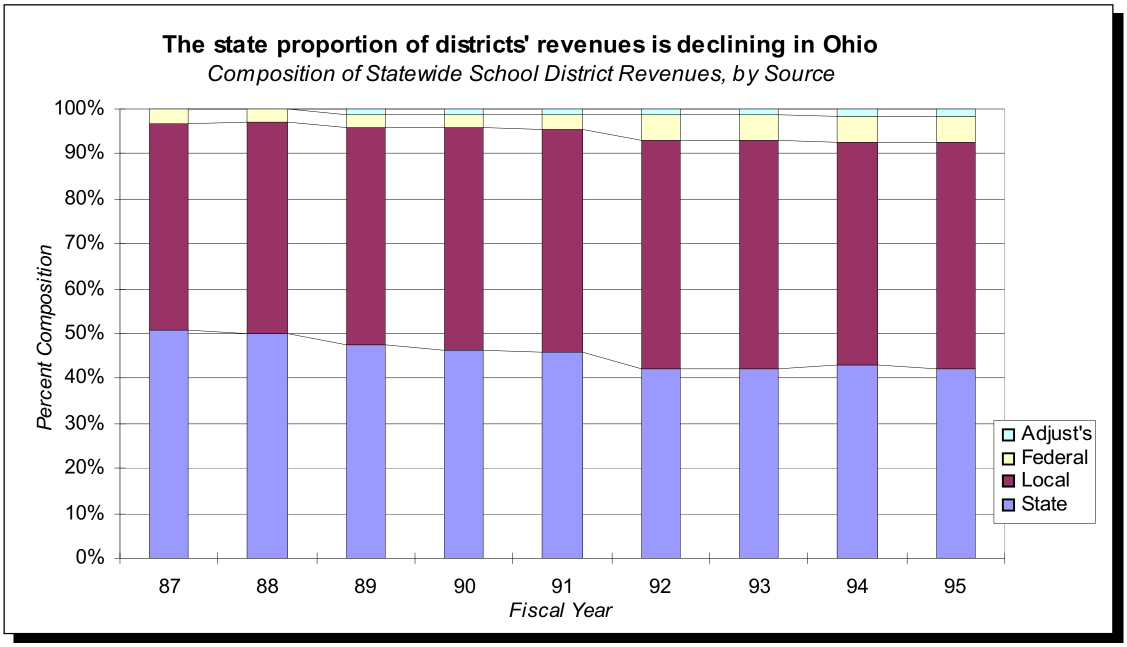
The Ohio Facts Extra! section grew out of the booklet, Ohio Facts, a publication developed by LBO to provide a broad overview of public finance in Ohio. Each month in Budget Footnotes, a different area of interest will be presented in graphics and text.

School Districts: Expenditures Rise, State's Share Falls

— *David Price*






The state proportion of districts' revenues is declining in Ohio
Composition of Statewide School District Revenues, by Source
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Percent Composition
87
88
89
90
91
92
93
94
95
Fiscal Year
Adjust's
Federal
Local
State

LBO Goes On-line!

— *Barbara Mattei Smith*

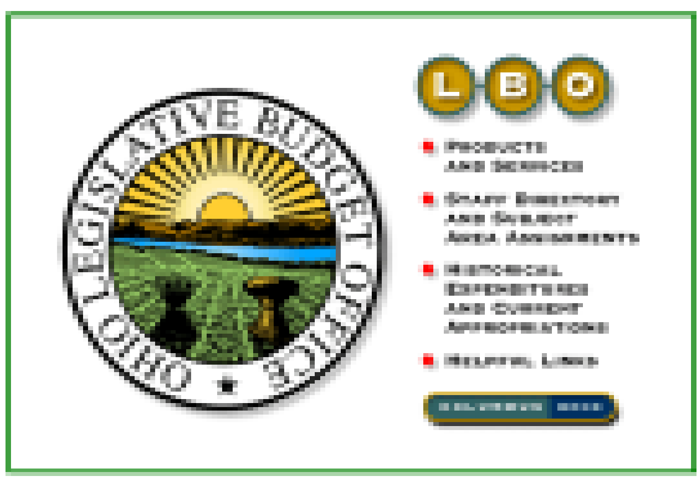
The Ohio Legislative Budget office is committed to providing the General Assembly with quality fiscal research in as timely manner as possible. To better meet this goal, LBO has made many of its publications available on the World Wide Web at www.lbo.state.oh.us. The site was unveiled on October 14th when the Ohio General Assembly premiered their site to an audience gathered in the statehouse classroom. The web site development was a joint effort between the Legislative Budget Office, Ohio Legislative Information Systems, and Digiknow, LLC.

LBO has been preparing for the dissemination of information via an Internet site for over a year. Preparations included changes to the design of Fiscal Notes and *Budget Footnotes* and the conversion of these publications into PDF formats, viewable with Adobe® Acrobat® Reader (available, free of charge, from the Adobe® home page. Follow the links at the LBO site.)

The LBO web site provides the visitor with the opportunity to learn about the role of LBO in the legislative process and obtain research for current legislation and critical policy issues before the General Assembly. In addition, the visitor can find the name of the staff assigned to review the various agency budgets, staff areas of expertise, and committee liaisons. E-mail can be sent to the office by legislators, to request fiscal and policy research and by the public, to request hard copies of the publications available on-line.

Currently, back issues of Budget Footnotes are available beginning with the August, 1996 edition. All published fiscal notes for the 122nd General Assembly are accessible by bill number. (Additional search features will be added in the future.) You will also find *Ohio Facts, Ohio Issues, The County Spending Report, SB 30 Report – The Cost of School Mandates, Ohio's Occupational and Licensing and Regulatory Board Report,* and *Budget-in-Brief.* Agency reports of historical expenditures and current appropriations are available as well. Additional reports will be added to the site as they are completed.

Please visit LBO at our virtual office and review the information available there! Send comments and suggestions to Webmaster @LBO.state.oh.us. ❑



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October, 1996 - October, 1997

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