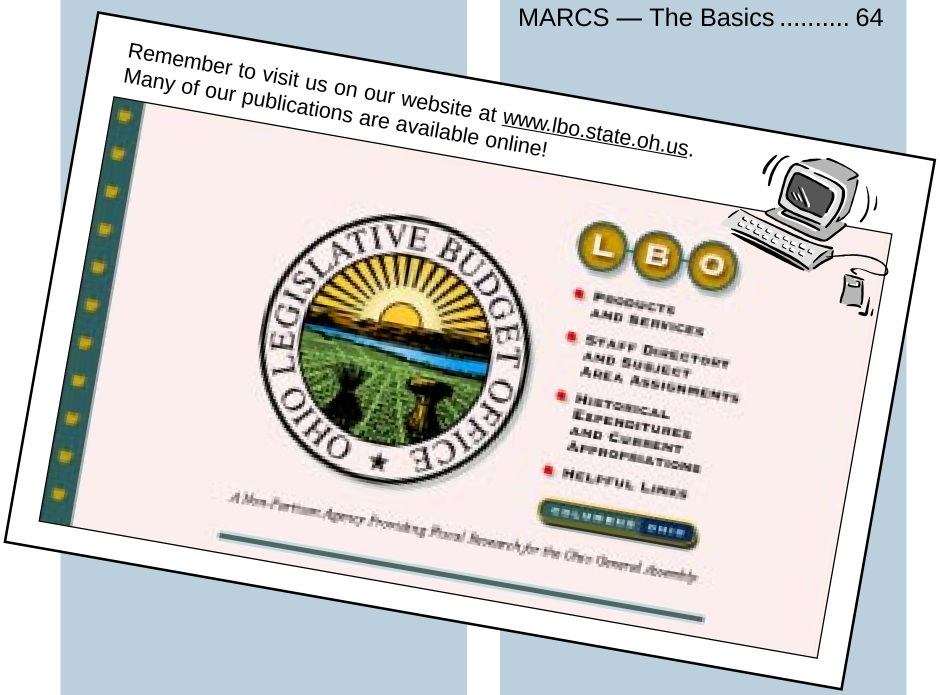
Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE

NOVEMBER/DECEMBER, 1997

Over the past several months, the Legislative Budget Office has been active in providing the Ohio General Assembly with information and background in relation to education funding. Unfortunately, time constraints have precluded us from publishing an overview narrative of the General Revenue Fund or an explanatory revenue update in this issue of Budget Footnotes. We hope to be able to return to a regular publication schedule shortly.



Volume 21, Number 3

STATUS OF THE GRF

Revenues 51
- Processing Delays Make November Look Weaker Than It was
- The Income Tax Continues Its Blockbuster Growth
- Sales Tax and Other Revenues Are Expected to be Stronger in December

Disbursements 53
- Underspending Swells Past $420 Million Mark
- Rounding Up the Usual Suspects: Timing and Declining Caseloads
- Calculating the Lapse is a Dodgy Enterprise

ISSUES OF INTEREST

MARCS — The Basics 64

Conrail Acquisition 67

The Unemployment Compensation System 68

OHIO FACTS EXTRA!

Percent of Ohio County Population on OWF 73

Announcements 74

Budget Footnotes is issued monthly by the Legislative Budget Office (LBO), a non-partisan fiscal research agency serving the Ohio General Assembly.

Budget Footnotes examines the fiscal position of the state GRF on a monthly basis. Each issue also contains summaries of Controlling Board actions that have policy implications, and articles on fiscal issues of current interest.

For questions or comments regarding specific sections:

GRF Revenue:
Fred Church 466-6274

GRF Spending:
Jeff Golon 644-8751

Other Articles:
Barbara Riley 644-9097

Legislative Budget Office
77 South High Street, 8th Floor
Columbus, Ohio
43266-0347

Telephone: 614/466-8734

E-mail:
BudgetOffice@lbo.state.oh.us

FISCAL OVERVIEW

— Frederick Church

The combined GRF and BSF fund balance is considerably lower than last year, but LBO still expects an ending FY 1998 fund balance that is about $200 million higher than the Conference Committee estimate. Higher encumbrances and transfers out of the GRF to other funds are partly responsible for the GRF fund balance being lower than it was at the same point one year ago.

TABLE 1
General Revenue Fund
Simplified Cash Statement
($ in millions)

	Month of November	Fiscal Year 1998 to Date	Last Year	Difference
Beginning Cash Balance	($147.3)	$1,367.7		
Revenue + Transfers	$1,081.9	$6,527.8		
Available Resources	$934.6	$7,895.6		
Disbursements + Transfers	$1,497.8	$8,458.7		
Ending Cash Balances	**($563.2)**	**($563.2)**	**($497.8)**	**($65.3)**
Encumbrances and Accts. Payable		$587.0	$424.8	$162.2
Unobligated Balance		**($1,150.2)**	**($922.6)**	**($227.6)**
BSF Balance		$862.7	$828.3	
Combined GRF and BSF Balance		**($287.4)**	**($94.3)**	**($193.2)**

Tax revenues were just above estimate in November, but it appears that processing delays caused by the holiday at the end of the month distracted the revenue results. Although LBO has made some adjustments to revenues based on information from State Accounting, we believe that even the adjusted numbers may be somewhat low. We currently expect December revenues to be well above estimate.

Even given the problems in November, tax revenues are $66 million above estimate for the year. The income tax overage of $78 million is partly offset by shortfalls in such categories as the estate tax and the corporate tax, but those shortfalls seem to be driven more by timing than by substantive problems. LBO expects sales tax revenue to rebound in December, and we also expect continued strong growth in the income tax.

Federal revenue continues to lag the estimate by a huge amount ($120 million) due to underspending in such items as Medicaid and TANF. Overall, of course, the positive fiscal impact of this underspending outweighs the lost revenue.

Spending excluding transfers is $425 million below estimate after five months. Most of this is due to timing: K-12 education, higher education, and property tax relief still expected to eventually catch up to the estimate (or at least to come close). However, the $145 million shortfall in Medicaid and TANF is real, based mostly on falling caseloads. ❑

Status of the General Revenue Fund

REVENUES

— *Frederick Church*

GRF tax revenues were only slightly above estimate in November, led by a strong showing in the personal income tax. Although both components of the sales tax were below estimate for the month, this appears to be a timing problem and the sales tax is expected to rebound in December.

The shortfall in licenses and fees is also a timing issue. This revenue source is expected to catch back up to the estimate in the coming months.

For the year, tax revenue is $66 million above estimate, led by an overage of more than $78 million in the personal income tax. The November shortfall in the sales and use tax pushed year-to-date receipts below the estimate. However, as stated above, LBO expects the sales and use tax to rebound in December, and for the income tax overage to continue growing. The overage in tax revenue should exceed $100 million by the end of December. ❑

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

REVENUE SOURCE	Actual	Estimate*	Variance
TAX INCOME			
Auto Sales	$41,347	$51,450	($10,103)
Non-Auto Sales & Use	357,652	358,688	(1,036)
Total Sales	$398,999	$410,138	($11,139)
Personal Income	$395,400	$366,413	$28,987
Corporate Franchise	(18,429)	4,641	(23,070)
Public Utility	15,239	(1,292)	16,531
Total Major Taxes	**$791,209**	**$779,900**	**$11,309**
Foreign Insurance	($14)	$0	($14)
Domestic Insurance	0	0	0
Business & Property	26	84	(58)
Cigarette	22,328	22,443	(115)
Soft Drink	0	0	0
Alcoholic Beverage	4,170	4,091	79
Liquor Gallonage	2,162	2,214	(52)
Estate	950	10,269	(9,319)
Racing	0	0	0
Total Other Taxes	$29,622	$39,102	($9,480)
Total Taxes	**$820,831**	**$819,001**	**$1,830**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	2,944	20,527	(17,583)
Other Income	6,006	5,360	646
Non-Tax Receipts	$8,950	$25,887	($16,937)
TRANSFERS			
Liquor Transfers	$8,000	$5,000	$3,000
Budget Stabilization	0	0	0
Other Transfers In	0	0	0
Total Transfers In	$8,000	$5,000	$3,000
TOTAL INCOME less Federal Grants	**$837,781**	**$849,888**	**($12,107)**
Federal Grants	$276,248	$308,607	($32,359)
TOTAL GRF INCOME	**$1,114,029**	**$1,158,495**	**($44,466)**

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

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	$301,990	$303,212	($1,222)	$297,431	1.53%
Non-Auto Sales & Use	1,870,605	1,874,146	(3,541)	1,790,307	4.49%
Total Sales	$2,172,595	$2,177,358	($4,763)	$2,087,738	4.06%
Personal Income	$2,240,470	$2,162,134	**$78,336**	$2,062,226	**8.64%**
Corporate Franchise	27,265	42,227	(14,962)	43,482	-37.30%
Public Utility	231,666	214,043	17,623	212,290	9.13%
Total Major Taxes	$4,671,996	$4,595,762	$76,234	$4,405,736	6.04%
Foreign Insurance	$146,907	$147,642	($735)	$143,256	2.55%
Domestic Insurance	435	440	(5)	200	117.50%
Business & Property	455	886	(431)	956	-52.41%
Cigarette	110,785	111,049	(264)	113,729	-2.59%
Soft Drink	(0)	0	(0)	17	-101.16%
Alcoholic Beverage	22,361	21,882	479	22,830	-2.05%
Liquor Gallonage	9,983	10,901	(918)	11,048	-9.64%
Estate	34,566	42,655	(8,089)	41,933	-17.57%
Racing	0	0	0	0	#N/A
Total Other Taxes	$325,492	$335,456	($9,964)	$333,968	-2.54%
Total Taxes	**$4,997,488**	**$4,931,217**	**$66,271**	**$4,739,704**	**5.44%**
NON -TAX INCOME					
Earnings on Investments	$34,803	$25,140	$9,663	$30,019	15.94%
Licenses and Fees	15,606	37,469	(21,863)	40,701	-61.66%
Other Income	51,072	38,615	12,457	33,995	50.23%
Non-Tax Receipts	$101,481	$101,224	$257	$104,716	-3.09%
TRANSFERS					
Liquor Transfers	$32,000	$25,500	$6,500	$23,500	36.17%
Budget Stabilization	0	0	0	$0	#N/A
Other Transfers In	203	0	203	64	219.63%
Total Transfers In	$32,203	$25,500	$6,703	$23,564	36.66%
TOTAL INCOME less Federal Grants	**$5,131,172**	**$5,057,941**	**$73,231**	**$4,867,983**	**5.41%**
Federal Grants	$1,428,730	$1,598,801	($170,071)	1,573,094	-9.18%
TOTAL GRF INCOME	**$6,559,901**	**$6,656,742**	**($96,841)**	**$6,441,077**	**1.84%**

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

DISBURSEMENTS

*— Jeffrey E. Golon**

As a holiday turkey tryptophan-induced haze eased,we grabbed a mug o' steaming joe, rounded-up assorted state reports, and put on our thinkin' caps. What's up with state General Revenue Fund spending?

Five months into FY 1998, state GRF spending, excluding transfers, was $424.8 million below estimate and just 2.7 percent higher than the same time last fiscal year. And, it should be noted, this underspending did not drop from the sky and land on the state's doorstep overnight. Underspending has been undergoing a somewhat steady fattening-up for sometime, a fact attested to by the parade of negative total monthly variances: $166.8 million (August), $113.7 million (September), $44.3 million (October), and $100.0 million (November).

A scan of the summary disbursement data revealed that four program components were by far the primary players in the year-to-date disbursement story as evidenced by the fact that over 80 percent of the underspending was traceable back to those budgetary items. In the lead, with $113.3 million worth of underspending was the state's tax relief program. Once past the negative variance in the tax relief program, three other program components leapt readily from the data as significant participants in the state's year-to-date underspending: Primary & Secondary Education ($98.9 million, almost entirely as a result of underages in the Department of Education), TANF (Temporary Aid to Needy Families, $77.0 million), and Medicaid ($68.4 million).

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

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$372,072	$330,304	$41,768
Higher Education	261,024	283,045	(22,021)
Total Education	$633,096	$613,349	$19,747
Health Care	$425,275	$439,907	($14,632)
Temporary Aid to Needy Families	76,166	100,362	(24,196)
General Assistance/Disability Assistance	4,359	5,170	(812)
Other Welfare	37,859	25,052	12,806
Human Services (2)	115,596	126,245	(10,649)
Total Welfare & Human Services	$659,254	$696,737	($37,483)
Justice & Corrections	$101,540	$104,404	($2,864)
Environment & Natural Resources	17,024	11,505	5,519
Transportation	1,337	1,753	(416)
Development	9,180	8,474	706
Other Government (3)	18,386	24,962	(6,576)
Capital	785	726	59
Total Government Operations	$148,252	$151,824	($3,572)
Property Tax Relief (4)	$32,209	$110,947	($78,738)
Debt Service	0	0	0
Total Program Payments	**$1,472,811**	**$1,572,856**	**($100,045)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	25,000	0	25,000
Total Transfers Out	$25,000	$0	$25,000
TOTAL GRF USES	**$1,497,811**	**$1,572,856**	**($75,045)**

(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.

Generally speaking, much of the state's underspending so far, including the above-noted negative variances in tax relief and primary and secondary education, appear, as we and others have suggested on previous occasions, to be driven by the proverbial matter of timing. That is, matters that will simply get on track and resolve themselves at some future point in time.

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)	$1,970,374	$2,069,322	($98,947)	$1,852,827	6.34%
Higher Education	1,002,502	1,019,340	(16,838)	939,422	6.71%
Total Education	$2,972,876	$3,088,661	($115,785)	2,792,248	6.47%
Health Care	$2,142,153	$2,210,588	($68,435)	$2,045,245	4.74%
Temporary Aid to Needy Families	387,483	464,523	(77,040)	275,504	40.65%
General Assistance/Disability Assistance	24,824	27,649	(2,825)	89	27791.93%
Other Welfare	206,390	211,165	(4,776)	427,513	-51.72%
Human Services (2)	542,292	557,410	(15,118)	522,878	3.71%
Total Welfare & Human Services	$3,303,142	$3,471,335	($168,194)	$3,271,229	0.98%
Justice & Corrections	$675,689	$667,235	$8,454	$610,509	10.68%
Environment & Natural Resources	71,845	65,231	6,614	61,870	16.12%
Transportation	9,526	14,278	(4,751)	5,965	59.69%
Development	56,171	63,744	(7,573)	56,496	-0.58%
Other Government (3)	178,861	207,516	(28,655)	170,504	4.90%
Capital	1,907	4,131	(2,224)	2,326	-18.03%
Total Government Operations	$994,000	$1,022,136	($28,136)	$907,671	9.51%
Property Tax Relief (4)	$351,164	$464,441	($113,277)	$454,695	-22.77%
Debt Service	81,170	80,560	611	74,793	8.53%
Total Program Payments	**$7,702,352**	**$8,127,134**	**($424,781)**	**$7,500,636**	**2.69%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	—
Budget Stabilization	34,400	34,000	400	0	—
Other Transfers Out	721,985	686,766	35,219	576,775	25.18%
Total Transfers Out	$756,385	$720,766	$35,619	$576,775	31.14%
TOTAL GRF USES	**$8,458,737**	**$8,847,900**	**($389,162)**	**$8,077,411**	**4.72%**

(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.

On the other hand, Welfare and Human Services, is a very large programmatic area which in recent years has exhibited underspending that was less a function of timing and more a function of declining caseloads. As a fiscal matter, this means that the amount of state money appropriated for a specific purpose exceeds the actual need, with the difference, in effect a savings, lapsing back into the GRF's cash balance where it, theoretically at least, becomes available for some other use.

Although only five months into FY 1998, it appears that declining caseloads are in fact at work again. This seems particularly to be the case in three programs administered by the Department Of Human Services — Medicaid, TANF, and Disability Assistance — where the actual number of recipients receiving certain state services are running markedly under where estimates would have us believe the number of recipients should be at this time. That being the case, some of the moneys appropriated for these departmental programs will most assuredly lapse, the size of which is a bit problematic to calculate right now.

Let's talk briefly about stuff that hampers our ability to accurately calculate the amount of appropriated state money that will truly lapse back into the GRF's cash balance at the close of FY 1998. First, the state is not even halfway through the fiscal year, which leaves a considerable amount of time for events to change and leave egg on our collective face as a result of a premature prognostication. Second, the estimates anchoring our variance analysis were made in the beginning of the fiscal year and have not been revised to reflect any changed expectations as to how much and when certain pools of state money will be spent. Third, these estimates are the result of mixing elements of guesswork, art, and science that makes some of the numbers less precise than they might appear on the surface. Fourth, state agencies are permitted under certain circumstances to encumber moneys appropriated in one fiscal year and disburse them in a subsequent fiscal year. Ascertaining when these moneys will be disbursed, or alternatively, the encumbrances will be cancelled allowing the funds to lapse back into the GRF's available cash balance, is no easy task. Thus, at any particular time, we are following not only current fiscal year appropriations, but we are also trying to track disbursements associated with prior fiscal years' appropriations and budgets as well. In the case of FY 1998, the amount of encumbered money that was carried in from prior fiscal years was $532.8 million. (Year-to-date $318.1 million of that amount has been disbursed.)

Primary & Secondary Education

Ohio Historical Society. A generally little noticed $14.5 million GRF budget in the Primary & Secondary Education component of the Education program category is tied into the Ohio Historical Society, a not-for-profit organization incorporated in 1885 that provides historical services under a contractual arrangement with the state. Tucked away in that budget is a new legislatively created line item (360-508, Historical Grants). Its entire $1.8 million biennial appropriation is earmarked to provide some state support for various local historical projects, with the bulk of it, $1.2 million, appropriated for distribution during FY 1998.

Table 6
FY 1998 Local Historical Project Grants

Earmark Recipient	County	Grant Amount	
Waynesville Bicentennial Commission	Warren	$	5,000
Chesterland Historical Society	Geauga	$	10,000
Franklinton Historical Society	Franklin	$	10,000
Belmont County Museum	Belmont	$	15,000
Zoar Town Hall	Tuscarawas	$	20,000
Thurber House	Franklin	$	25,000
Fremont Sesquicentennial	Sandusky	$	25,000
Geauga Historical Society	Geauga	$	30,000
Ohio Ceramic Pottery Museum Assocation	Perry	$	50,000
Big Walnut Historical Society	Delaware	$	100,000
Newark Bicentennial Commission	Licking	$	100,000
Noble County Historical Society	Noble	$	150,000
Bieber Mill on the Olentangy River	Delaware	$	200,000
Western Reserve Historical Society	Cuyahoga	$	500,000
Total		**$**	**1,240,000**

In a disbursement pattern mirroring the Historical Society's other line items, it was expected that these earmarked funds would be released quarterly. A clue left in October's disbursements, however, alerted us that the entire FY 1998 appropriation has in fact already been released to the Historical Society, which now has control over the disbursement of this earmarked state money to the fourteen local historical projects. (The local recipients of these historical project grants as well as the amount of state money they are scheduled to receive are displayed in Table 6.)

Higher Education

Board of Regents. The disbursement storyline for the Board of Regents lays in year-to-date disbursements, which were a total of $16.3 million under estimate, fueled primarily by one of a half dozen or so financial aid programs — the $93-plus million dollar Ohio Instructional Grants (OIG) program. A wall of OIG money totaling $42 million was expected to walk out the door in October; the reality was only $29 million, $13 million less than anticipated, actually made an exit. Presumably, timing was the driving force here, but only time itself will tell.

Board of Proprietary School Registration (SCR). In the scheme things — meaning a total annual GRF budget for the State of Ohio that exceeds $17 billion — SCR probably carries little, if any, monetary significance in most minds. SCR, whose primary mission is to monitor and regulate Ohio's for-profit, post-secondary institutions, operates on a handful of staff and annual spending slightly in excess of $450,000.

Given SCR's budget is largely allocated for personal services, the interesting item that caught our eye was in the negative year-to-date disbursement variance; actual spending was 25 percent below estimate. Further scrutiny revealed

Table 7
Medicaid (400-525) Spending in FY 1998

Service Category	November '97 Actual	November '97 Estimate	November '97 Variance	November '97 Percent Variance	Year-to Date Spending Actual** thru' Nov.	Year-to Date Spending Estimate** thru' Nov.	Year-to Date Spending Variance	Year-to Date Spending Percent Variance
Nursing Homes	$162,295,554	$162,490,939	($195,385)	-0.1%	$797,422,207	$745,969,993	$51,452,214	6.5%
ICF/MR	$30,063,441	$29,584,018	$479,423	1.6%	$140,594,397	$142,368,976	($1,774,579)	-1.3%
Hospitals	$90,443,124	$89,113,830	$1,329,294	1.5%	$470,577,896	$513,110,993	($42,533,097)	-9.0%
Inpatient Hospitals	$68,791,557	$69,683,427	($891,870)	-1.3%	$360,826,037	$393,766,892	($32,940,855)	-9.1%
Outpatient Hospitals	$21,651,567	$19,430,403	$2,221,164	10.3%	$109,751,859	$119,344,101	($9,592,242)	-8.7%
Physicians	$21,893,557	$21,313,582	$579,975	2.6%	$115,125,573	$122,108,068	($6,982,495)	-6.1%
Prescription Drugs	$43,617,506	$40,286,485	$3,331,021	7.6%	$191,001,281	$190,144,623	$856,658	0.4%
Payments	$43,771,990	$42,931,210	$840,781	1.9%	$241,190,181	$256,084,566	($14,894,385)	-6.2%
Rebates	$154,484	$2,644,725	($2,490,240)	-1612.0%	$50,188,901	$57,201,655	($7,012,754)	-14.0%
HMO	$39,806,769	$54,062,727	($14,255,958)	-35.8%	$244,968,348	$260,388,970	($15,420,622)	-6.3%
Medicare Buy-In	$10,212,926	$9,626,518	$586,408	na	$50,936,695	$58,564,762	($7,628,067)	-15.0%
All Other***	$24,986,291	$33,429,081	($8,442,790)	-33.8%	$130,338,784	$177,929,411	($47,590,627)	-36.5%
TOTAL	$423,319,168	$439,907,180	($16,588,012)	-3.9%	$2,140,965,181	$2,210,585,796	($69,620,615)	-3.3%
CAS	$425,275,311				$2,142,921,324		($67,664,472)	
Estimated Federal Share	$246,213,352	$255,861,367	($9,648,015)		$1,245,421,834	$1,285,915,024	($40,493,190)	
Estimated State Share	$177,105,816	$184,045,813	($6,939,997)	-3.9%	$895,543,347	$924,670,772	($29,127,425)	-3.3%

* 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.
*** All Other, includes all other health services funded by 400-525.
Source: BOMC 8300-R001 Reports, Ohio Department of Human Services.

that this rather large percentage variance was the result chiefly of events involving three staff positions. One position, vacant at the beginning of the fiscal year, was not filled until several months later; another vacant position, although budgeted, might not be filled at all. Finally, the new executive director's salary was less than that budgeted.

As these operations-related issues come on the heels of a FY 1997 downsizing plan that eliminated three staff positions, it may be important to monitor whether such moves affect SCR's ability to perform their regulatory duties.

Health Care/Medicaid

As budget veterans know, the Health Care component of the Welfare & Human Services program category consists of Medicaid spending lodged in the Department of Human Services's $5-plus billion mixed federal/state line item 400-525. In order to get a better handle on what might be afoot with Medicaid disbursements, our analytic doctors have to turn away from the CAS-produced data displayed in Tables 4 and 5 and examine the kind of Department of Human Services report data captured in Tables 7 and 8. As noted in the prior issue of ***Budget Footnotes***, the Human Services reporting data does not cleanly mesh with the CAS spending reports that typically guide LBO's analysis of disbursements. However, it is our only means of poking more deeply into Medicaid's varied health service categories and to then pose meaningful observations.

Since this source of Medicaid spending constitutes the single largest line item in the General Revenue Fund, and two months have elapsed since our last disbursements round up, we felt compelled to first stop and poke through results for the month of October.

Well, October Medicaid disbursements registered $47.7 million under estimate, dragging the year-to-date disbursements to $53.0 million below estimates. The rather sizeable negative October variance was due primarily to lower spending on hospital services and HMO payments, as well as the fact that no payments were made for the Medicare buy-in. On the flip side, nursing home payments landed within range of estimates for the first time in this fiscal year.

Given a recent report stating that cash assistance caseloads dropped by 11,000 recipients between September and October, it is safe to say that Medicaid's TANF/ADC cash assistance groups continue to contribute to this underspending. The resultant effects of this drop in caseload can be seen in hospital payments, which were under estimates by $12.0 million in October and $43.9 million year-to-date. Specifically, inpatient hospital payments were $9.9 million under estimate for the month, and $32.0 million below year-to-date estimates. Its companion service category, outpatient services, was $2.1 million below estimate for the month, and $11.8 million under estimate for the year-to-date.

Lower-than-expected payments to HMOs resulted in underspending of $10.6 million for the month. Prior to the month of October, HMO payments had been running $9.4 million above estimates. Events causing this underspending were not clear to us, especially in light of the departments push to service more of the TANF and Healthy Start population in managed care settings. Unless recently-witnessed and sizeable drops in TANF/ADC caseloads continue unabated, we have no reason to expect future monthly variances recorded for this service category to be anywhere near the same negative magnitude.

The other service category that notably chipped in to October underspending was a delay in the posting of the Medicare cost sharing payment, otherwise known as the "Medicare buy-in". These payments are scheduled to occur on a monthly basis; however, the $9.6 million October payment was not posted. That being the case, one would expect the payment to show up in November disbursements, creating the possibility that two buy-in payments would be recorded for the month of November. As best we can tell, this simply reflects the realities of how stuff hits the state's accounting system, and does not reflect any policy change on the part of the department.

Our look-see at October over, we turned to November and were guided by the data displayed in Tables 7 and 8.

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

Service Category	FY 1998 Yr.-to-Date as of Nov. 97	FY 1997 Yr.-to-Date as of Nov. 96	Variance	Percent Variance
Nursing Homes	$797,422,207	$738,257,140	$59,165,067	7.4%
ICF/MR	$140,594,397	$136,024,231	$4,570,166	3.3%
Hospitals	$470,577,896	$509,071,007	($38,493,111)	-8.2%
Inpatient Hospitals	$360,826,037	$388,184,298	($27,358,261)	-7.6%
Outpatient Hospitals	$109,751,859	$120,886,709	($11,134,850)	-10.1%
Physicians	$115,125,573	$122,985,051	($7,859,478)	-6.8%
Prescription Drugs	$191,001,281	$163,648,117	$27,353,164	14.3%
Payments	$241,190,181	$214,579,254	$26,610,927	11.0%
Rebates	$50,188,901	$50,931,137	($742,236)	-1.5%
HMO	$244,968,348	$179,267,009	$65,701,339	26.8%
Medicare Buy-In	$50,936,695	$49,455,627	$1,481,068	2.9%
All Other***	$130,338,784	$146,537,235	($16,198,451)	-12.4%
TOTAL	$2,140,965,181	$2,045,245,417	$95,719,764	4.5%
Estimated Federal Share	$1,245,421,834	$1,206,694,796	$38,727,038	
Estimated State Share	$895,543,347	$838,550,621	$56,992,726	6.4%

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

1 . Includes FY 1997 encumbraces of $78.5 million.

For the month of November, Medicaid disbursements were $16.6 million under estimate because of a lower-than-expected HMO payment, further boosting year-to-date underspending to $69.6 million. Payments to HMO's in the month of November were $14.2 million below estimate, or 35.8 percent, and $15.4 million below the year-to-date estimate. Compared to the same period in FY 1997 though, payments for HMO services were up 26.8 percent. HMO payments had been estimated to grow by 57.3 percent from FY 1997 spending levels of $414.3 million to $651.6 million in FY 1998. This estimate was predicated on the notion that by the end of FY 1997, 60 percent of all TANF/Healthy Start Medicaid eligibles in Ohio would be enrolled in HMOs. From that base, appropriations were increased to allow the department to implement plans to increase this "HMO penetration rate" to 78 percent by the end of the fiscal year 1998-1999 biennium.

Of concern to us is whether this underspending on HMO services is a benefit resulting from decreasing caseloads, or an unsavory result which will impact on the department's policy change of increased HMO usage that is designed to: improve cost predictability, improve access to care for Medicaid eligibles, and create program savings. Analyzing average monthly HMO enrollment data in relation to TANF/Healthy Start Medicaid eligibles uncovered good news. The HMO penetration rate for the first five months of FY 1998 is 8.3 percentage points above that of the same period in FY 1997. On a calendar year basis, the HMO penetration rate in December 1997 is 6.0 percentage points above that of December 1996. This indicates, that to-date, the department's policy goals of increasing HMO penetration rates to 78 percent by the end of the fiscal year 1998-1999 biennium are well on track. We can thus further say that the year-to-date underspending in the HMO services category can be primarily attributed to declining TANF/Healthy Start caseloads.

A small November event also merits noting for our readers. Earlier in our discussion of Medicaid disbursements for October, we speculated that an anticipated "Medicare buy-in" payment that failed to happen would instead hit the accounting system in the following month, resulting in two November buy-in payments. This did not occur as expected in November, indicating that a catch-up buy-in payment still lies somewhere in the future.

TANF

The November disbursement for the TANF/OWF (Ohio Works First) program was $24.2 million below estimate, or 24.1 percent. That took the variance for the year-to-date to $77.0 million, or 16.6 percent below estimate.

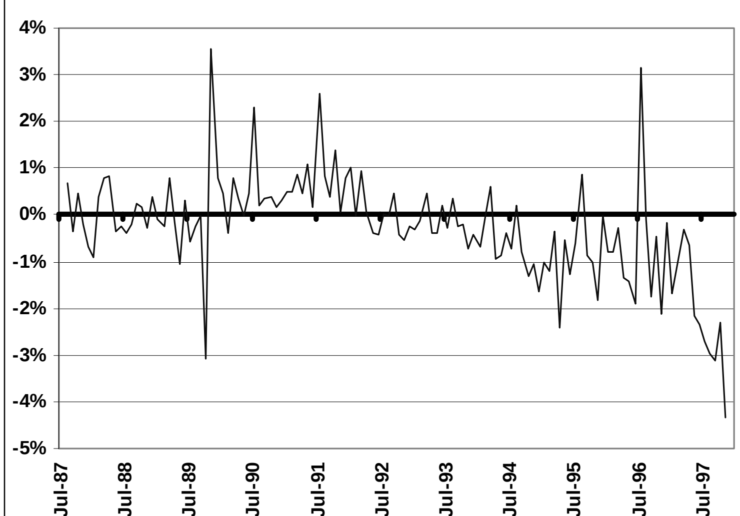
The continuing sharp decline in the caseload continues to be the driving force behind this variance. In November, the total number of cash recipients declined by over 20,500, marking sixteen consecutive months of decline, and the fifty-eighth decline out of sixty-seven months since a peak in caseload was reached in the spring of 1992. (See Chart 1 which depicts the percent change in recipients by month over a ten-year period that starts with July 1987.) The number of OWF-Regular (including incapacitated recipients) has declined by 12.2 percent since the beginning of the fiscal year and 21.4 percent since the same month a year ago.

The TANF program establishes a flat federal block grant to the states for the next five years. Ohio's TANF block grant is based on the amount of federal funds expended in federal FY 94 on three programs that have been eliminated and no longer exist: AFDC, JOBS, and FEA (Family Emergency Assistance). The federal block grant to Ohio for TANF is approximately $728 million. Under the program, Ohio is required to meet a maintenance of effort (MOE) requirement of 80 percent of what the state spent in federal FY 94 on the three eliminated programs (approximately $417 million). This MOE may be reduced to 75 percent if the state meets the work participation requirements established for the TANF program. If the state fails to meet the MOE, its TANF block grant for the next federal fiscal year will be reduced by the amount of the deficit, which would then require the state to increase its TANF spending by an amount equal to the federally imposed penalty.

In addition to declining cash grants, also contributing to the variance in TANF disbursements were spending for childcare and adjustments made in the amounts advanced to counties, which includes administrative costs. Usage of TANF childcare hasn't increased as expected — expenditures were below estimate by $4.0 million for November and $8.1 million for the year-to-date.

In November, the top five counties in terms of overall number of recipients were, in descending order: Cuyahoga, Franklin, Hamilton, Lucas, and Summit. In terms of the percentage of their population receiving OWF benefits, counties ranged from a low of 0.4 percent (Geauga) to a high of 7.5 percent (Lawrence). Counties in the southern tip of the state along the Ohio River had the greatest concentration per capita receipt of OWF benefits. (A statewide picture of per capita receipt of OWF benefits by county is provided in the ***Ohio Facts Extra!*** section located in the back of this month's issue of ***Budget Footnotes***.)

Chart 1
Percent Change ADC/TANF Regular Recipients by Month, 1987-1997



General Assistance/Disability Assistance

The November disbursement for the Disability Assistance (DA) program, a state- and county-funded effort which provides cash and/or medical assistance to persons ineligible for public assistance programs that are supported in whole or in part by federal funds, was below estimate by over $800,000, or 15.7 percent (GRF line item 400-511). The program's year-to-date variance was $2.8 million, or 10.2 percent, below estimate. So far this fiscal year, the DA caseload has experienced a 10 percent decline. The DA caseload has declined by 19 percent in the last calendar year, and nearly 41 percent in the last two calendar years. Several county administrators have cited improved job opportunities for the disabled as the main reason for this dramatic drop.

On the flip side has been the virtual absence of any disbursement activity in a Department of Human Services' line item that just won't seem to go away — 400-506, General Assistance (GA). For folks who may remember such things, GA, until its shutdown in August 1995, was also a state- and county-funded program that provided cash and medical assistance to certain individuals that did not qualify for such assistance under DA or federal programs. The department carried in $6.06 million of encumbered GA funds from the prior biennium. Presumably, these encumbered funds are being kept around on the belief that obligations against the GA program still exist out there somewhere. Year-to-date, around $1,200 of those encumbered funds have actually been disbursed.

This does lead one wonder aloud as to when a decision might be made that there are no more outstanding obligations against the now-dead GA program. Such a decision would trigger a cancellation of the encumbrance holding these funds, the practical effect of which will be to allow them to lapse back into the GRF's unobligated and unreserved cash balance.

Other Human Services

Mental Health. Perhaps the most interesting disbursement matter for the Department of Mental Health is in the background to a $1.2 million October overage in line item 332-401, Forensic Services. This disbursement variance was mostly attributable to unscheduled interdepartmental cash transfers to the departments of Rehabilitation and Correction and Youth Services totaling roughly $1,000,000. These cash transfers took place pursuant to temporary law in the biennial budget ordering the three state agencies to enter into an agreement to define their relationship and responsibilities regarding the funding and monitoring of Mental Health and Substance Abuse Demonstration Grant projects.

As a practical matter, this language actually supports what some refer to as the Ohio Linkages Project, an effort jointly planned and coordinated by the departments of Rehabilitation and Correction, Mental Health, Youth Services, and Alcohol and Drug Addiction Services. This collaborative effort was designed for the purpose of creating a partnership with certain counties in the delivery of mental health and recovery (alcohol and drug abuse treatment) services to adult and juvenile offenders. In the latter half of FY 1997, funds started flowing to demonstration or pilot projects in five counties (Cuyahoga, Hamilton, Lorain, Summit, and Trumbull).

Employment Services. We then took a quick spin through the Bureau of Employment Services and discovered that year-to-date disbursements were running almost $2.0 million under estimate, with three GRF line items providing the primary fuel.

Leading the pack of three is GRF line item 795-411, Customer Service Centers. For readers unfamiliar with this small niche in the budget, a short tangent seems in order. This GRF money assists with the state's service delivery system transition to "one-stop" employment and training centers. The purpose of the centers is to link a whole host of state and local employment and training service providers together in one location, either physically or electronically, to meet the needs of the unemployed and underemployed seeking assistance. The bureau's biennial plan calls for an expansion that will open 14 customer service centers. These new customer service centers, arranged alphabetically, will be opened in the following locations: Athens, Batavia, Bellefontaine, Cincinnati, Cleveland East, Columbus, Dayton, Hamilton, Lima, Medina, Sidney, Steubenville, Youngstown, and Wooster.

Year-to-date customer service center disbursements totaled almost $730,000 less than was anticipated for this point in time; a trend which, in all likelihood, should not be expected to continue for two reasons. First, lease negotiation and construction activities appear to have picked up. A customer service center in Athens opened in October, with another center scheduled to open in Sidney (Shelby County). In addition, work on centers to be located in Batavia (Clermont County), Cleveland East, and Columbus started in mid-November, with opening dates scheduled for the spring. Second, in October the Controlling Board approved a bureau transfer request that moved its entire FY 1999 appropriation for line item 795-411 ($1,029,613) into FY 1998, a move that more or less doubled the amount available for spending in FY 1998 to $2.0 million. Presumably, the bureau's decision to make such a request was driven by a belief that the pace in the state's transition to customer service centers will quicken.

Similarly sluggish disbursements have been noticeable in GRF line item 795-412, Prevailing/Minimum Wage and Minors, which supports the bureau's responsibilities relative to the prevailing wage, the minimum wage, and the working conditions of minors. The significance of this underage is twofold. First, expansion funding was provided to this line item to increase the full-time equivalent (FTE) staff handling prevailing wage matters from roughly 29 to 34. To date, the number of FTEs has not grown. According to the bureau, the reason lay with a decision to reclassify the positions. This led to new minimum qualifications, which prospective employees have found difficult to meet. The bureau has re-posted these positions.

At this point, regardless of when the bureau fills these positions, it is reasonable to expect that not all of the line item's $2.3 million FY 1998 appropriation will be spent.

Which leads to the second point. In accordance with a new collective bargaining agreement, classified employees of the bureau received a 3 percent pay raise. Historically, the bureau has been able to get the federal government to pick up the tab for any state-approved pay raise. However, since recent federal funding for two of the bureau's primary programs, employment service and unemployment service, has been less than adequate, this seems unlikely. What seems more likely is that the bureau will try to use these, and perhaps other, GRF funds that might otherwise remain unspent at the close of FY 1998 to assist it in absorbing the fiscal effects of employee compensation increases. Also in the cards is the possibility that unused GRF funds appropriated to line item 795-412 could be deployed to the division of prevailing wage to undertake technological upgrades.

Contributing to the bureau's underspending is line item 795-417, Public Employment Risk Reduction Program, which supports the bureau's responsibility to eliminate safety and health hazards in the workplace of public employees. (This activity was previously the purview of the now-defunct Department of Industrial Relations and funded by the Bureau of Workers' Compensation.) As was the case with the prevailing wage division, this underspending was driven by vacant staff positions for which GRF funds were appropriated, and potentially frees up money that could be used by the bureau to help pay for employee compensation increases or to make some technological upgrades.

Health. Issues apparently related to timing continued to dog the department, which witnessed its year-to-date underspending creep up to $5.1 million. The principal culprits were to two line items (440-459, Ohio Early Start, and 440-416, Child and Family Health Services) contained within the family and community health services program.

This "program" is actually a set of four programs that dominates the department's total budget and is designed to assure access to, and the availability of, community-based health care services for individuals, families, and children. The four programs cover child and family health services, early intervention, nutrition services, and technical assistance/support services, with nutrition services, as a result of federal money, receiving the most funding.

The Ohio Early Start line item, which holds funds used to provide services to children under age three who are at risk of developmental delay or child abuse and neglect, contributed to roughly two-thirds of the department's year-to-date underspending.

A secondary contributor to the department's year-to-date underspending was line item 440-416, which provides funding for community-based programs involving prenatal and child health and family planning services.

Department of Aging. Two community care choice programs — PASSPORT and residential state supplement — provided the twin storylines for the department's November disbursements. PASSPORT, a program providing an alternative to nursing home placement by offering home health care to Medicaid eligible older persons, dropped $4.3 million under estimate for the month. This solely reflected a decision to first spend recently arrived non-GRF money that serves as another source of financial support for the PASSPORT program, specifically the nursing facility franchise fee revenue which was transferred from the Department of Human Services.

Meanwhile, the monthly disbursement for the residential state supplement (RSS) program, which provides a cash supplement to low-income aged, blind, and disabled adults who need assistance with daily activities due to a medical condition, registered a variance in the opposite direction — $2.6 million over estimate. Again, nothing of significance was afoot here. We had noted in a previous issue of ***Budget Footnotes*** that a large quarterly transfer payment from the RSS program to the Department of Human Services scheduled to occur in September never materialized. Well, it finally did, some two months later in November.

Although the Department of Aging administers the RSS program, actual payments to recipients are made by the Department of Human Services. Temporary law in the biennial budget authorizes the transfer of funds from the former to the latter so that RSS recipients receive their benefit payments.

Rehabilitation Services. The major item of note relative to the Rehabilitation Services Commission continued to be underspending. Year-to-date disbursements stood at $3.4 million under estimate, largely attributable to line item 415-506, Case Services for People with Disabilities. Readers may recall some prior speculation on our part suggesting that this reflected a decision to hit federal dollars first and tap state money later on. Two months later, we can state with considerably more confidence that this is indeed the case. Federal first. State second.

Justice & Corrections

Let us turn very briefly to the Justice & Corrections component of the Government Operations program category, where the reader can plainly see total disbursements registered over estimates by $8.5 million year-to-date. The prime culprit has been the Department of Youth Services, which was somewhat of a surprise given the Department of Rehabilitation and Correction thoroughly dominates spending in this component of state GRF spending.

Youth Services. Year-to-date, Department of Youth Services disbursements exceeded estimates by $6.8 million, primarily in areas related to what might be termed *juvenile court subsidies*. Leading this group of "overspenders" was funding distributed to all eighty-eight county juvenile courts for services and programs that divert at-risk, unruly, and delinquent youth from entering, or further penetrating, the juvenile justice system (line item 470-510). Disbursements of financial assistance to counties that operate local detention centers and local rehabilitation and treatment centers have also been a mite higher than was originally anticipated (line item 501-502). Both of these appeared to be matters related to timing.

Also running a slowly-shrinking overage was the Care and Custody line item (470-401), which supports RECLAIM OHIO allowing juvenile courts to purchase services that sanction and treat juvenile offenders under their jurisdiction, including paying for the placement of youths in state-funded institutions. Apparently, juvenile courts have purchased fewer placements with DYS than had been anticipated. This has meant that some amount of state money that was planned to be available for the department's institutional operations has instead remained in local hands to be used for the purchase of other kinds of services that sanction and treat juvenile offenders. In response to what in effect was a decrease in expected revenue, DYS has a set in motion a plan to cut institutional costs by curtailing operations at the Training Institute of Central Ohio (TICO), a move that included initiating the elimination of approximately 100 positions through attrition, early retirement buy-outs, transfers, and as a last resort, lay-offs. This "move" to reduce institutional costs was already something contemplated to occur at some future date, thus, the drop in commitments to DYS just forced that to happen a bit earlier than had been planned.

Environment & Natural Resources

Ohio EPA. Agency operating expense accounts, three in particular, continue to attract our attention. Separate GRF operating accounts that support payroll and such for staff housed in the water quality program (line item 717-321) and central administration (line item 716-321) had nearly exhausted their entire appropriation and yet we were not even to the halfway mark for the fiscal year. Headed in the opposite direction was the GRF operating expense account that aids the air pollution control program (line item 719-321), which had disbursed less than 20 percent of its FY 1998 appropriation. Year-to-date disbursements were $1.7 million less than the estimate.

One need not sound the alarm and order all hands to their battle stations however. These disbursement variances are not all that surprising given the agency is funded with a veritable potpourri of federal and state money. Mixed funding streams of this sort complicate estimating how much and when state GRF money will be disbursed. Under such circumstances, GRF disbursement variances can simply reflect matters of timing, which we believe to be the case with the Ohio EPA.

Other Government

DAS. Year-to-date underspending in the Other Government component of the Government Operations program category hit $28-plus million, with the primary fuel coming from $18.2 million provided by the Department of Administrative Services (DAS). With regard to DAS underspending, reader attention has previously been brought to bear on two departmental program areas — rent/building operating cost support and computer services. The former, which largely amount to debt service payments, basically made a one-time $6-plus million addition to underspending way back in the month of September. The latter, which assists the State of Ohio in extracting the best bang possible out of technology, still exhibited somewhat sluggish disbursement behavior relative to where estimates would expect us to be at this juncture in time. In particular, spending of funds appropriated for Year 2000 Assistance (line item 100-430), SOMACS (line item 100-419), Strategic Technology (line item 100-416), and MARCS (line item 100-417) looked to be running somewhat slower than originally anticipated.

Property Tax Relief

Tax relief programs, a close to $1 billion spending category whose role is to reimburse school districts and local governments for revenue that is lost due to tax relief provided by state law to property owners and businesses, jumped out as the unquestionable leading cause of November's $100 million in underspending. Although nowhere near as dominant a factor in total year-to-date underspending, which totaled $424.8 million, tax relief programs still were the leading contributor, followed very closely by underspending in primary and secondary education. Clearly, this signaled that the expected flow of state tax relief payments to school districts and local governments was running slow. That said, there seemed no need to sound unnecessarily alarmist as this slow flow still appeared to be no more than a matter of timing.

A look inside the two pieces that compose the state's tax relief program revealed that over 80 percent of the year-to-date underspending was tied specifically to one piece — property tax relief moneys — while disbursements related to tangible personal property tax relief (the second of the two piece program) accounted for the remainder. After October had brought an apparent break in a prior pattern of sluggish disbursement activity in tax relief spending, November's sizeable negative variance totaling $78.7 million one month later indicated tax relief distributions to local taxing districts had slowed once again.

There are two major tax relief programs: 1) property tax relief; and 2) tangible personal property tax relief. There are two property tax relief programs — property tax rollbacks and the homestead exemption. And, within the property tax rollbacks program, there are two rollbacks — one of 10 percent for all property and one of 2.5 percent for owner-occupied residential property. The homestead exemption provides property tax relief to low-income elderly or disabled homeowners and their surviving spouses. In the area of property tax relief, FY 1998 GRF appropriations total $871.8 million, 65 percent of which is allocated for distribution to school districts.

The tangible personal property tax relief program reimburses school districts and local governments for tangible personal property tax relief provided to businesses. In the area of tangible personal property tax relief, FY 1998 GRF appropriations total $87.6 million, 70 percent of which is allocated for distribution to school districts.

Recapping LBO Testimony

LBO recently provided a fiscal overview of the state GRF to members of the General Assembly. At that time, we did not delve deeply into estimating the amount of GRF that might actually "lapse", but we stated that trying to pin down such a number could be a might premature. We indicated that GRF spending was running $424.8

"under estimate" year-to-date, largely due to slower than expected spending in tax relief, primary and secondary education, and certain welfare and human services programs, specifically Medicaid and TANF. We also suggested that as a result of declining caseloads that the underspending in Medicaid, TANF, and Disability Assistance probably signaled there would be lapses in funds appropriated for these three programs in FY 1998. At the same time, we were cautious in that regard, particularly with respect to TANF where policy changes at the state level could accelerate spending and what appeared to be a looming surplus would be gone in a flash. ❑

Numerous colleagues here at the LBO have contributed to the development of this issue, including, in alphabetical order, Ogbe Aideyman, Erica Burnet, Rick Graycarek, Sybil Haney, Steve Mansfield, Jeff Newman, Barb Petering, Chuck Phillips, David Price, Jeffrey M. Rosa, and Roberta Ryan.

MARCS — The Basics

Joshua Slen

The Multi-Agency Radio Communication System (MARCS) represents a vision for radio communications between state level safety and service personnel. This vision includes the ability to provide reliable and secure voice and data communication links within and among fourteen different state agencies. The system is needed to eliminate problems with the existing radio communication systems. The problems that exist in current radio communication systems will not improve and without a new system of some sort the ability of our state level safety and service personnel to respond to emergencies will slowly worsen.

The radio systems that our highway patrol troopers, natural resource enforcement officers, and correction officers are using date back fifty years. While they have served us well, they do not allow for the encryption of messages or the transmission of data. In addition, large portions of the state are inadequately covered by our current radio technology, creating gaps in coverage (areas where officials can not talk to each other). Finally, at certain times a phenomenon known as "skip" occurs. This event creates instances where officials in Ohio end up talking to police or other safety officers in other areas of the country instead of their intended contacts here in Ohio.

Since 1987 the Ohio State Highway Patrol (OSHP) has been planning for the implementation of a new radio communication system. Over time planning and design have expanded to include 14 state agencies and additional system features. The following is a brief discussion of what is to be included in the current vision of the system as it is now under evaluation. The discussion is followed by a summary of the various cost estimates and the design requirements driving those costs since 1987.

Current Vision

In a nutshell, 201 towers will be built, acquired, or leased. New mobile radios and computer terminals will allow state level personnel to communicate with each other in a more reliable manner. Reliability means that the system will cover more geographical area with fewer interruptions in service than the current system. Specifically, the system will include 97.5 percent of the geographical area of the state, will eliminate the phenomenon known as "skip", will allow for street level coverage in Franklin, Cuyahoga, Hamilton, and Montgomery counties, will provide for in-building[1] coverage within Franklin county, and will cover all facilities statewide for the departments of Rehabilitation and Correction (DRC) and Youth Services (DYS).

The system will enhance the level of service that safety personnel can provide to Ohio's citizens. Some highlights to individual agencies follow. These highlights are not necessarily exclusive to the agency mentioned but are of crucial importance to the specific agency.

The Department of Rehabilitation and Correction will be able to standardize all of the existing prison radio communication systems and establish talk groups across the state. The Department will also benefit from the virtual elimination of dead spots both within prisons and across the state when transporting prisoners.

The Ohio State Highway Patrol will gain better radio coverage throughout the state as well as new data transmission capabilities.

These abilities will allow the patrol to receive and transmit electronic data. Eventually, photographs and fingerprints as well as background reports from state and national databases will be capable of being sent directly to officers operating within their vehicles. The OSHP will also gain the ability to locate their officers within their vehicles anywhere within the state.

The Department of Natural Resources (DNR) will gain almost complete geographic coverage, virtually eliminating times when personnel are outside of radio communication.

All agencies will be able to communicate securely using encryption technology. All agencies will be able to coordinate activities during crisis situations using one fully integrated system and all agencies will gain the ability to transmit data from point to point.

Design Timeline and Cost Estimates

In 1987 the Ohio State Highway Patrol hired Sachs/Freeman to study their current system and make recommendations. At that time the recommendation was for the use of trunking technology. Trunking technology allows for the bundling of frequencies to be utilized by multiple personnel at a particular time.

The original estimate of cost to build the system was made in 1992 based on a best guess of what the ideal system would look like when complete. The best guess at that time was $150 million with full operability on December 31, 2001. While the first public estimate as to the final cost of MARCS was made in 1992, a contract with Ram Communications Consultants for engineering design services was entered into in 1991. This contract resulted in estimates being formed in 1994 of costs ranging from $245 to $301 million.

In 1994 the MARCS Steering Committee was created by Am. Sub. H.B. 790 of the 120th General Assembly. The committee includes the directors of Administrative Services, Public Safety, Natural Resources, Transportation, Budget and Management, and the Adjutant General. In 1995 the steering committee recommended a system that was estimated to cost $173 million.

Some of the contributing factors in determining the final cost of the various systems over time include:

- ***The $150 million system***. The first estimate included an assumption that the system would cover 95 percent of the state. Additionally, the first system did not specify any in-street or in-building coverage, telephone interconnect, network management, or transportable communications system capabilities. The $150 million figure was also based on twelve agencies participating. Since then the Department of Youth Services and the Ohio Turnpike Commission have joined the MARCS group.

- ***The $245 - $301 million systems.*** The second series of estimates developed by RAM Communications Consultants assumed that between 97.5 percent and 99 percent of the state would be covered, included in-street and in-building portable coverage within Franklin county, specified data transmission capabilities, assumed the need for between 186 and 266 tower sites, required some telephone interconnect features, required subsystem level network management, and specified three dispatch facilities.

- ***The $173 million system.*** The third estimate developed by the steering committee was the same as the lower end RAM estimate except that operations would be consolidated into two dispatch facilties.

- ***The currently proposed system.***[2] The same as the previous system except that only one dispatch facility will be utilized, in-street coverage will be provided in Cuyahoga, Hamilton, and Montgomery counties as well as in Franklin, and the system will provide for in-building coverage within Franklin county and with all DRC and DYS facilities statewide. Additionally, 201 tower sites will be utilized, network management will occur at the total system level, and a transportable communication system will be included.

Although the original cost estimate initially seems low when compared to subsequent figures, it should be kept in mind that the estimate was made in January 1992. Subsequent estimates have been made in 1994 and 1995. At 3 percent annually, the original figure of $150 million would have to be adjusted to $164 million in 1995 just to account for inflation. This factor along with the addition of agencies and the expansion of functions have all served to drive up costs.

It is currently uncertain what the final cost will be for the entire MARCS project. Additionally, the figures that have been discussed thus far deal with the contract that will be let for the actual construction of MARCS. Since the state has been discussing, planning, and organizing for the construction since the late 1980's, the state has already spent a great deal of time and money on MARCS. In fact, the MARCS office within DAS has a 1998 budget in excess of $3 million.

The Agencies

There are fourteen state agencies involved in MARCS. A percentage of operating costs has been determined for each agency based on a complex formula that weights the individual components in the system. The estimated operating costs for MARCS, once it is fully operational, are approximately $10 million per year. The accompanying table lists the agencies and their percentages of the total operating costs[3] for MARCS.

Percentage of Total Operating Costs for Multi-Agency Radio Communication System

Ohio State Highway Patrol (Department of Public Safety)	40.2%
Department of Rehabilitation and Correction	21.9%
Department of Natural Resources	17.8%
Department of Youth Services	4.9%
Emergency Management Agency (Department of Public Safety)	3.5%
Bureau of Criminal Identification and Investigation (Attorney General)	3.0%
Department of Administrative Services	2.3%
Liquor Enforcement (Department of Public Safety)	1.8%
MCSE (Motor Carrier Safety Enforcement)	1.6%
State Fire Marshall (Department of Commerce)	1.4%
Department of Transportation	0.6%
Environmental Protection Agency	0.4%
Department of Taxation	0.3%
Public Utilities Commission of Ohio	0.3%
TOTAL	**100%**

Conclusion

A new statewide radio communications system is needed to replace the aging patch-work of systems currently being utilized by state agency safety and service personnel. The primary purpose of the Multi-Agency Radio Communication System is to replace outdated communication systems currently being utilized by fourteen different state agencies. The secondary purpose of the new system is to provide new capabilities that will allow state level safety personnel to better perform their duties. The total cost and the final configuration of the new system is not yet known. Future articles in this publication will track total spending on the MARCS by agency. ❑

---

[1] "In-building" coverage within Franklin county means that all state buildings within Franklin county will be included in the radio coverage provided by MARCS.
[2] At the time of this printing the cost of the currently proposed system had not been disclosed.
[3] The capital costs for the establishment of the backbone for MARCS, which includes the tower sites, central computer equipment, and facilities, are being borne almost entirely by DAS. Estimates show DAS is carrying four fifths of the entire capital costs.

CONRAIL ACQUISITION

ERICA BURNETT

CSX Corporation and NS (Norfolk Southern Corporation) Railroad companies filed an application with the Federal Surface Transportation Board during June 1997 to jointly acquire control of Conrail (Consolidated Rail Corporation.) This will involve 44,000 miles of rail lines and related facilities in the eastern United States, including 1700 miles in Ohio. Ohio would be a nexus of the new system, mainly because nine interstate lines will operate through the state.

The acquisition of Conrail is expected to change the current railroad operations in Ohio. Some of these changes may be beneficial, although other changes have the potential to negatively impact Ohio. These changes include social, economic, and environmental impacts.

The Conrail acquisition may create economic impacts in Ohio. New jobs are anticipated for Ohio in the long run, despite an initial 3 percent job loss and family dislocation costs. This job growth may include rail labor, construction, newly attracted industrial and manufacturing businesses, and new service routes or related facilities. CSX has $175 million capital improvement plans to upgrade, expand, and improve existing Conrail facilities in Ohio; and NS has similar plans costing $50 million. Some job losses may permanently occur, particularly in areas of small rural communities such as southeast Ohio, where these areas may no longer be serviced. In addition, other railroad companies may be economically disadvantaged as a result of this merger, particularly for Wheeling and Lake Erie companies, which may not be able to compete. Finally, competitive pricing between CSX and NS will probably lower fares in areas of competition, but the prices may increase in the areas where only one company has service. This may lead to competitive disadvantages to certain aggregate, coal/utility, and steel industries as well as the Port of Toledo.

Economic impacts are not the only changes that could occur from the Conrail acquisition. This acquisition may cause social and environmental impacts as well. Although some areas, especially southeast Ohio, may experience a decrease in overall train traffic, other areas may have increases in train traffic that range from an estimated increase of 200 percent to 1200 percent. This increase in train traffic can create increased accidents and collisions; delays and/or congestion; safety issues for emergency vehicle access; higher air pollution; increased noise; disproportionate effects on elderly and minority residents who live nearby; and the increased risk of hazardous or infectious waste spills. Some of these effects may be offset by a reduction in overall trucking traffic in favor of the rail lines, such as reducing air pollution, reducing road congestion, and increasing energy and transportation efficiency.

CSX and NS must complete an Environmental Impact Statement (EIS), according to the National Environmental Policy Act process. The draft EIS, which will give more details about the potential impacts of the Conrail acquisition, is due on December 19, 1997. After allowing for a 45-day comment period and the submission of the final EIS, the Federal Surface Transportation Board is expected to decide on July 23, 1998 if the acquisition will be permissible.❑

THE UNEMPLOYMENT COMPENSATION SYSTEM: FEDERAL ADMINISTRATION FUNDING AND EXPERIENCES OF SELECTED STATES

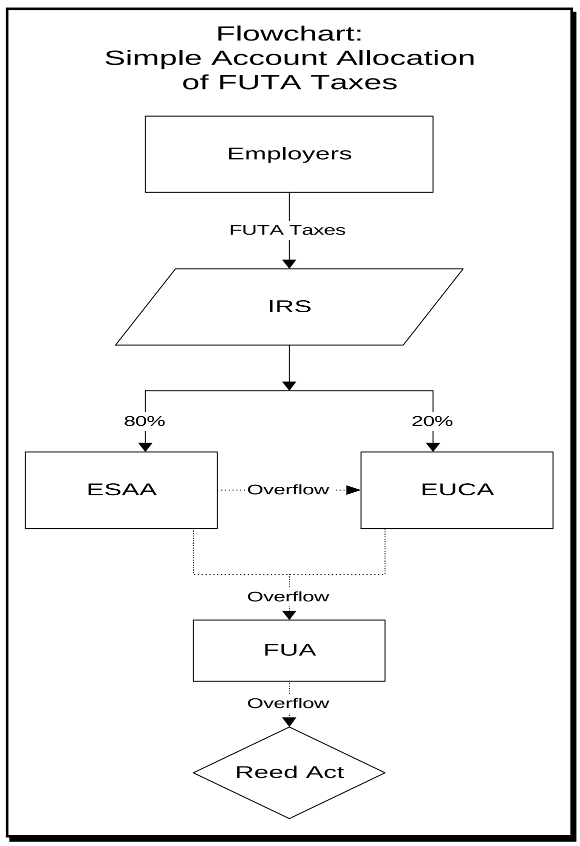
RICK GRAYCAREK

It has been stated quite often recently that federal funding of the unemployment compensation system is less than adequate. The Ohio Bureau of Employment Services has testified to such effects for at least the past two biennia. In addition, several non-governmental organizations (e.g., ICESA, IAPES[1]) have taken stances in favor of reforming the present federal unemployment compensation system. Federal legislation (H.R. 2459 of the 104th Congress) and legislative action in Ohio (S.C.R. 10 of the 122nd General Assembly) have been introduced to make changes to how the state unemployment compensation system is funded. The common theme through each has been the concern that the federal government does not sufficiently fund state administration of the unemployment compensation system[2].

This article looks at federal funding of the unemployment compensation system — how it operates and how funding to the states is disbursed. It also presents information from Ohio and other selected states about the administration of each state's employment/unemployment service system. Looking at federal funding from this standpoint will hopefully provide a broader understanding of the federal unemployment compensation system, along with its implications for Ohio and the nation.

FUTA and the State Unemployment Compensation Tax

Employers pay two unemployment taxes — federal and state. The federal tax, commonly referred to as FUTA (Federal Uneployment Tax Act) was established in 1935 by the Social Security Act. The federal tax pays for administration of the unemployment compensation system including federal administrative expenses (approximately $200 million per year). It also pays for state administration of the Unemployment Insurance, Employment Service, and Labor Market Information programs. Currently, employers are assessed a tax rate of 0.8 percent of each employee's wages up to $7,000[3]. The Internal Revenue Service (IRS) collects the tax and deposits these funds into the Unemployment Insurance Trust Fund. Revenues are initially divided between two funds — 80 percent to the Employment Security Administration Account (ESAA)



and 20 percent to the Extended Unemployment Compensation Account (EUCA). A federally imposed ceiling on each of these accounts prevents them from accumulating limitless balances. Congress has limited balances in the ESAA to 40 percent of prior year funding and the EUCA to 0.5 percent of total wages. Under law, if the ESAA reaches its ceiling, revenues are transferred to the EUCA. A third account, the Federal Unemployment Account (FUA), receives funds when the ESAA and EUCA accounts are both full, up to 0.5 percent of total wages in covered employment. The FUA provides loans to states to pay unemployment compensation benefits. Generally loans are only made during times of economic duress — when the state unemployment compensation trust fund has expended or almost completely expended its trust fund balance. The Reed Act, established in 1954, is the final overflow bucket in this cascading process. Funds flow here when the other three federal funds are at their limits. Reed Act funds are used primarily for financing capital projects. The law stipulates that the federal government retains ownership of any property financed with these funds.

Employers also pay a state tax. This tax pays for employee unemployment benefits. These taxes are paid to the states. The U.S. Treasury holds these funds in each respective state's Unemployment Insurance Trust Fund account. States then draw down these funds to pay for unemployment benefits within their state. Ohio has an average tax rate of 2.6 percent on a taxable wage base of $9,000[4].

Federal Funding of the Unemployment Insurance and Employment Service Programs

Each state operates the federally mandated unemployment insurance and employment service programs. In return, the federal government provides the states with revenues from the federal unemployment tax, or FUTA. The amount of FUTA dollars appropriated by the Congress for state administration has been less than the total amount of FUTA dollars collected.

The underappropriation of FUTA revenues is at least partially attributable to the federal Budgetary Enforcement Act (BEA). Under the BEA, the federal employment and unemployment insurance programs are classified as discretionary domestic funds. This means that an increase in spending for any of these programs must be accompanied by an increase in federal revenues or a decrease in other expenditures. By maintaining relatively large balances in the Unemployment Insurance Trust Fund, the federal government has been able to more easily stay within their budget[5].

A generally healthy economy has also affected the flow of FUTA dollars back to the states. This is borne out by the way the U.S. Department of Labor (DOL) determines each state's administrative costs for operating the Unemployment Insurance (UI), Employment Services (ES), and Labor Market Information (LMI) programs. The DOL uses a formula based upon each state's estimated workload and their actual cost of processing that workload to determine the amount of FUTA money they get. The formula produces two allocation figures: one for the cost of personnel services (PS), and one for the costs of nonpersonal services (NPS), such as rent and supplies. The cost formula for PS uses the estimated future workload in a state multiplied by the minutes-per-unit for each unit of work to be done. The total number of minutes is converted into full-time staff equivalent years. That figure is multiplied by the state's average annual staff-year cost which then produces the state's PS reimbursement. Nonpersonal service costs are reimbursed based upon a sample-year cost and then adjusted each year for inflation. Future workloads for UI and ES programs are difficult to predict. The DOL, therefore, allocates contingency funding in addition to base funding. Contingency funding is based upon an increased workload for UI and ES programs, most likely caused by an increase in unemployment within the state. Most states receive some contingency funding because base funding is considered the minimum amount necessary to operate.

Federal Funding — ESAA

All state administrative grants are appropriated from the ESAA. By law, these appropriations are limited to 95 percent of the account balance. Therefore, looking at the amount of ESAA dollars returned to the states will accurately describe the return of state administration dollars[6]. For the period 1981-1995, the average amount of administrative grants returned to the states was 84.4 percent[7]. For Ohio, the level of state administrative funding from the ESAA averaged 66.8 percent. *(See Table 1 .)*

The Experience in Ohio

The level of ESAA funds returned to Ohio does not equal the

Table 1
Percent of Available ESAA Money Returned to States

Net "Gainer" States (> 100%)			Net "Loser" States (< 75%)		
State	**FY 81-95**	**FY 95**	**State**	**FY 81-95**	**FY 95**
Arkansas	102.7%	71.7%	Florida	51.1%	46.9%
Nevada	104.7%	78.1%	Virginia	55.1%	51.2%
West Virginia	105.3%	87.9%	Georgia	58.7%	51.2%
Michigan	109.0%	79.4%	North Carolina	58.9%	48.2%
New Mexico	109.9%	84.2%	Tennessee	58.9%	46.5%
Washington	110.2%	102.3%	Indiana	62.5%	48.2%
Oregon	117.0%	89.8%	Texas	63.6%	55.0%
Maine	119.3%	110.8%	***Ohio***	***66.8%***	51.5%
Dist. of Columbia	121.4%	112.4%	South Carolina	72.8%	60.4%
Vermont	125.4%	112.9%	Minnesota	73.1%	59.3%
Rhode Island	132.0%	128.5%	Kansas	74.2%	58.1%
South Dakota	141.5%	104.8%	New Hampshire	74.3%	69.8%
Utah	142.9%	94.4%	Massachusetts	74.5%	79.8%
Montana	170.1%	130.6%	Kentucky	74.8%	56.4%
Idaho	171.9%	117.8%	Arizona	74.9%	57.0%
Wyoming	186.0%	184.5%			
North Dakota	202.3%	155.6%			
Alaska	422.1%	338.4%	*National Average*	*84.4%*	73.8%

Source: (U.S. Dept. of Labor, Employment Training Administration, Unemployment Insurance Service)

available funds in that account. (*See Table 1.)* In Ohio, it would appear that the main effect of fewer ESAA dollars being appropriated for state administration has been a reduction in the number of local offices and staff. Since 1983, 47 local offices have been closed. Had an additional $780,000 in fiscal year 1998 and an additional $6.28 million in fiscal year 1999 not been appropriated by the legislature, fifteen more offices would have been closed during the biennium. The BES has also lowered staff levels. Since 1990, more than 200 full-time equivalent (FTE) positions in the UI and ES programs have been eliminated. In 1997, these programs operated with approximately 1,664 FTE positions. Total agency employment was around 2,350 FTE positions.

GRF money has been used since fiscal year 1996 to supplement a portion of the federal revenue shortfall. Over the 1995-1997 biennium, the BES was appropriated $15.93 million in line item 795-407, OBES Operations. For the current biennium, 1997-1999, the legislature appropriated $35.06 million in this line item.

Experiences of Other States

Experiences from the states of Michigan, Pennsylvania, Florida, Illinois and North Carolina are summarized in the Table 2 and detailed below.

Michigan

Historically, the State of Michigan has received more than the 95 percent of available ESAA funds. For the 1981-1995 period, Michigan received 109.0 percent of their estimated ESAA funds. It is not quite clear why this has occurred. Since nearly all other states that received more than the 95 percent of available ESAA revenues were relatively sparsely populated, Michigan stands out.

A concern greater than adequate federal funding, according to a spokesperson with the Michigan Bureau of Employment Relations, is an early retirement program. Approximately 20 percent of the 2,300 Bureau of Employment Relations employees will accept early retirement by June 1, 1997. This will have two effects. First, short-term costs will rise. The early retirement program includes a one-time "buy-out" or lump sum payment to departing employees. Second, the reduction of staff reportedly could lead to increased workloads for the remaining employees. Although not necessarily fiscally related, this change could influence productivity and efficiency. Michigan is also attempting to reduce administrative costs by locating their main computer system in Colorado.

Aside from penalty and interest income collected on delinquent employer contributions and fines and forfeitures, all administrative expenses for the Michigan Bureau of Employment Relations (BER) come from the federal unemployment tax. In fiscal year 1995, Michigan received an estimated $127.0 million dollars from the federal government.

Table 2
Federal & State Revenue Sources for Selected States

	Ohio	Michigan	Pennsylvania	Florida	Illinois	North Carolina
Avail. ESAA Returned (FY 81-95)	66.8%	109.0%	97.4%	51.1%	81.4%	58.9%
Penalty & Interest Income (FY 96)	$2,312,034	$15,400,000	$4,097,000	$4,651,623	$14,000,000	$1,501,707
GRF Approp. for UI and ES Administration (FY 96)	$7,070,435	$0	$0	$0	$0	$0
Other Income (FY 96)	$0	$0	$0	$0	$0	$13,000,000
Admin. Grants (FY 95)	$101,600,000	$127,000,000	$166,900,000	$113,800,000	$151,500,000	$63,800,000

Sources: (U.S. Dept. of Labor, Employment Training Administration, Unemployment Insurance Service; Interstate Conference of Employment Security Agencies, 1996)

Penalty and interest income provided BER with approximately another $10 million. These funds were used to fund 20 auditor and 15 collection positions in the Bureau.

Pennsylvania

Pennsylvania is another state that has not received all of their ESAA dollars. Although relatively close to 100 percent in fiscal year 1995 (87.5 percent) and over the 1981-1995 period (97.4 percent), federal funding has become a concern. According to a spokesperson for Pennsylvania's employment security agency, several vacancies have remained unfilled because federal full funding has not existed.

The State of Pennsylvania receives several million dollars from penalty and interest income annually. Excluding these amounts, Pennsylvania relies exclusively on federal unemployment tax revenues.

Florida

Over the 1981-1995 fiscal year period, the percent of available ESAA dollars returned to Florida has been the lowest in the nation. At an average of 51.1 percent, Florida has, perhaps, had the most difficult time dealing with federal underfunding. As a result, Florida has reduced their employment security agency staff by 125 full-time positions over the October 1995 to April 1997 period. A spokesperson also reported that UI staff are being moved to the welfare reform area.

Like Michigan and Pennsylvania, Florida utilizes penalty and interest income to pay for operating expenses. In Florida these revenues pay for automation, building, and capital improvement projects. As a general practice, the State of Florida also carries forward 5 percent of their base revenue for emergency purposes each year. However, they have recently used several million dollars and currently only have a balance of around $3 million. A spokesperson did indicate that if the relative percentage of federal ESAA dollars returned to Florida continues to be low, state assistance might be needed in the near future.

Illinois

Illinois receives proportionately more ESAA revenues than Ohio. Over the 1981-1995 fiscal year period, Illinois received 81.4 percent of available ESAA revenues. With the exception of one time during the 1980's to pay interest on a loan from the federal government, Illinois has not relied on state general revenue money to support their employment service agency. A one-time employer surcharge imposed several years ago generated $9 million. Full access to approximately $14-16 million annually from the penalty and interest income fund provides the Illinois employment security agency with another non-federal funding source.

Illinois' unemployment insurance and employment service programs merged in 1985. Employees were cross-trained at that time to provide both services. As one of the first states to undertake this endeavor, the number of local offices has remained at 55 for the past ten years. This number reflects a decision to maintain offices within one-hour of the state's population. The Illinois employment security agency employs approximately 2,100 employees.

North Carolina

North Carolina has a unique financial situation. Although available federal ESAA funding averaged 58.9 percent over the 1981-1995 fiscal year period, state general funds have yet to be used. The reason rests with a $200 million state reserve fund. Just before the federal government forbid this practice, the State of North Carolina imposed a two-year surtax on employers for the purpose of generating revenue for a reserve fund. The result has been an approximate $13 million annual flow of interest income, of which around $5 million has been used to fund local office operations. Penalty and interest income provide an additional $1.5 million or so per fiscal year. Despite the $13 million in interest income generated by the reserve fund, North Carolina has recently cut about 50 local office positions. Attrition of state administrative positions has also occurred. Less than full-federal funding was fingered as part of the reason for the staff reductions.

Conclusions

The federal unemployment compensation system consists of two taxes. One pays for the federal and state administration of the system; the other pays unemployment benefits. This article described the process involved in the collection and disbursement of the administrative tax.

The federal government collects and appropriates the unemployment compensation tax, commonly referred to as FUTA. It then disburses these revenues from an account within the Unemployment Trust Fund (i.e., ESAA) to the states to pay their administrative costs. One characteristic of the present federal funding system is the lack of full funding. Under the Budget Enforcement Act, the federal government opted to essentially withhold full funding of the federal unemployment compensation system by categorizing FUTA revenues as discretionary money. This means in order to increase expenditures (i.e., state funding) the federal government would have to cut other expenditures or generate additional revenue. Neither option has been completely implemented.

This paper also examined the present condition of several states' employment security system. In general, the states examined, including Ohio, face at least moderate funding problems. Some of the problems were either likely created by or augmented by the federal government's decision to withhold disbursement of all available ESAA dollars. To adjust to this reality, each of the states contacted is entering a period of transition — both organizationally and technologically. The state employment security agencies have shed a considerable portion of their staff recently. According to these states, this has affected how their organization operates. At the same time, considerable effort and resources are being funneled into new and improved technological systems (e.g., telephone filing, Internet access, etc.). Both of these events signal profound changes in the operation of state employment security agencies. Exploring the role of federal unemployment compensation underfunding in this process would prove interesting research. ❑

---

[1] Interstate Conference of Employment Security Agencies, International Association of Personnel in Employment Security

[2] This includes funding of the unemployment insurance, employment service and labor market information programs.

[3] This is the federal minimum. States have the authority to establish higher tax rates and minimum taxable wage bases. The actual federal tax rate is 6.2%, but the federal government gives a tax credit to states that comply with certain federal regulations. With the credit, the tax rate is 0.6%. A 0.2% surcharge tax originally imposed in 1976, however, raises the current total tax rate to 0.8%. All states currently receive the credit.

[4] U.S. Department of Labor, UI Data, 2nd Quarter CY 1996

[5] Quarterly ESAA ending balances have hovered between $1 and $2 billion since 1991, according to the U.S. Treasury Department.

[6] A portion of the FUTA revenues also go to the EUCA and then to the other overflow accounts. These funds are only disbursed during times of extended unemployment or when a state's trust fund balance is low. They are not used to pay administrative expenses.

[7] The IRS does not maintain records showing the amount of FUTA revenues collected by each state. They only keep an aggregate measure of the level of FUTA revenue. This prevents an exact determination of the level of FUTA revenues returned to the states.

Ohio Facts Extra!

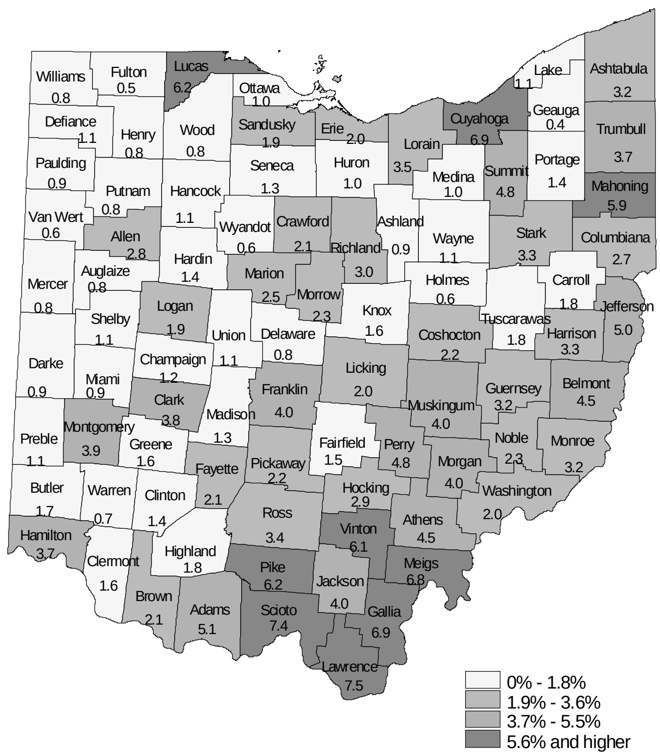
The Ohio Facts Extra! section grew out of the booklet, Ohio Facts, a publication developed by LBO to provide a broad overview of public finance in Ohio. Each month in Budget Footnotes, a different area of interest will be presented in graphics and text.

Percent of Ohio County Population on OWF November, 1997

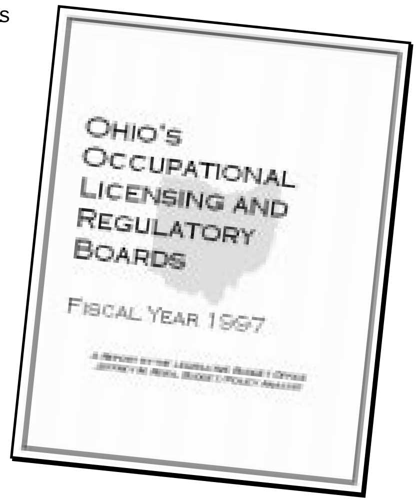
— *Steve Mansfield*

- Ohio Works First (OWF) took effect October 1, 1997, under the Federal Temporary Assistance to Needy Families block grant (TANF), and replaced Ohio's Aid to Depardent Chidren program (ADC), the Job Opportunity and Basic Skills program (JOBS), and the Emergency Assistance program (EA).

- 3.6% of Ohio's population was on OWF as of November, 1997.



Sources: Ohio Department of Human Services, Bureau of Financial Analysis and Reporting
U.S. Bureau of Census, Population Estimates Program, 1996 Estimates



The Legislative Budget Office is pleased to announce the publication of the fiscal year 1997 edition of Ohio's Occupational Licensing and Regulatory Boards report.

Ohio's occupational licensing and regulatory boards monitor, license, and regulate selected occupations and professions which provide services in technical and specialized fields.

Our report briefly describes the functions of each of Ohio's licensing and regulatory boards and evaluates the extent to which these boards and commissions are financially self-supporting.

You can pick up a paper copy of the report at LBO, or access the report online at http://www.lbo.state.oh.us. The online version contains information received after the paper copy was published.