Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE — JANUARY, 1998

FISCAL OVERVIEW

— Frederick Church

Fiscal year 1998 is now half over, and the state's finances remain in very good condition. Tax revenues at the halfway mark are $131.9 million over estimate, or 2.3 percent above the original forecast. Total non-federal revenue is up by $158.4 million. The income tax is by far the biggest source of strength, but the sales tax has also bounced back and is showing a modest overage. On the spending side, disbursements (transfers excluded) are $387.9 million below estimate. It is still true that much of the underspending is the result of timing mismatches between estimated and actual spending. The exception is in the human services categories, where most of the underspending is due to substantive factors like declining welfare caseloads. However, even there, most of the TANF underspending will not result in a year-end savings of state dollars, due to the complicated nature of the state's maintenance of effort (MOE) requirement for state spending.

Despite the fact that times are good and that the LBO expects a healthy GRF surplus by year's end, we wish to emphasize that we are not endorsing a simplistic exercise like taking the half-year variances of revenues and spending and doubling them to get an estimate of the year-end balance. Those exercises are misleading and potentially dangerous. While the revenue picture looks good, there is still enough uncertainty about the second half of the year that it is not clear what the final overage will be. On the spending side, it is clear that a number of the programs that are below estimate should catch up to the estimate or come close by year's end.

The story of FY 1998 is the continued strength in the personal income tax. LBO and OBM have been cautious in their forecasts of this tax because of fears that some of the past growth in quarterly estimated payments and net settlements (annual returns minus refunds) have been due to one-time revenue that could not be expected to remain in the tax base. So far this year those fears have proved unfounded. While the year-to-date growth in estimated payments is lower than last year, it was still a healthy 14 percent through December. An even bigger surprise is that withholding growth for the first half of the year is 9.5 percent. Four of the six months have shown double-digit growth over last year. In contrast, withholding growth for all of FY 1997 was only 6.5 percent, and the original forecast for FY 1998 was 5.5 percent. While the labor market data for Ohio do not support such strong growth, past experience leads us to believe that the estimates of job or wage growth (or both) may agree better with the income

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STATUS OF THE GRF

QUARTERLY LOTTERY REPORTS

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ISSUES OF INTEREST

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

Budget Footnotes examines the fiscal position of the state GRF on a monthly basis. Each issue also 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 December	Fiscal Year 1998 to Date	Last Year	Difference
Beginning Cash Balance	($563.2)	$1,367.7		
Revenue + Transfers	$1,324.7	$7,852.5		
Available Resources	$761.5	$9,220.3		
Disbursements + Transfers	$1,503.6	$9,962.3		
Ending Cash Balances	**($742.1)**	**($742.1)**	**($565.7)**	**($176.3)**
Encumbrances and Accts. Payable		$587.0	$401.5	$185.5
Unobligated Balance		**($1,329.0)**	**($967.2)**	**($361.8)**
BSF Balance		$862.7	$828.3	
Combined GRF and BSF Balance		**($466.3)**	**($138.9)**	**($327.4)**

tax data after being revised upward. However, there is also the possibility that some of the present overage will be lost when taxpayers file their returns, since the withholding tables are not adjusted for the rate cut that stems from the prior-year budget surplus.

On the spending side, some of the timing issues have begun to iron themselves out. Property tax relief has almost caught up to the estimate, finishing December only $5.6 million behind. On the other hand, primary and secondary education is still $96.8 million below the estimate, and no informed observer can expect that to continue through year's end in an environment where the state is trying all it can to boost education spending. At the very least, one would expect most or all of any unspent education money to be encumbered so it could be spent in FY 1999. Similarly, the reasons for the underspending in the "other government" and "other human services" categories are not clearly understood at this point and therefore LBO cannot make a statement about whether they can be expected to continue.

The story in welfare and human services is more hopeful. Medicaid spending is $72.2 million below the estimate (state share about $30 million), and LBO expects the underspending to continue. Expecting the variance to roughly double by year's end is not unreasonable. Average monthly Medicaid recipient counts have dropped by over 5 percent from the first half of FY 1997. The number of TANF/Healthy Start recipients has declined by over 15 percent, while the number of Aged, Blind, and Disabled (ABD) recipients has increased slowly. Hospital and HMO spending are well below estimate. If not for overages in long-term care and prescription drugs, the picture would be even brighter.

TANF spending is even further below estimate than Medicaid — the underspending reached $103.2 million by the end of December. Both cash assistance and child care expenditures are below estimate, but the big money is in cash assistance. The number of cash assistance recipients has now hit its lowest point in 25 years, although there is finally some evidence that the pace of "exits" from the program is finally slowing. Despite the good news on TANF, the state really can't save much GRF money because the terms of the federal block grant program require that the state's MOE spending be at least 75 percent of the base year amount. It appears likely that the Department of Human Services will spend all the required state money and possibly not draw as much federal match as anticipated, leaving a substantial reserve of federal money that can be carried forward to future years. This reserve would be in addition to the $75 million already built in through the budget bill. However, the Department and county departments of human services have considerable latitude to direct block grant dollars to support services such as transportation, job preparation, and training, which may tap the cash assistance underage.

Despite the good news in revenues and spending, Table 1 shows that the state's combined GRF and BSF balance is substantially less than it was last year at this point. The combined GRF and BSF balance is down by about $327 million. There are two major factors behind this decrease. First, encumbrances and accounts payable are at extremely high levels. OBM's November review of agency encumbrances doesn't seem to have resulted in many cancellations. Encumbrances and accounts payable are roughly $186 million more than at the same point last year. In the second place, transfers out of the GRF to other funds are about $146 million higher this year than last year. As previous issues of Budget Footnotes have pointed out, most of these transfers were done at the beginning of the year. GRF surplus money from FY 1997 funded various items of education capital: buildings, materials, technology, etc. Those two factors combined explain $333 million of the difference in the combined fund balance from FY 1997, which is actually slightly more than the bottom-line difference of $327 million. ❑

TRACKING THE ECONOMY

— Frederick Church

Real GDP growth for the third quarter of CY 1997 was revised downward slightly, from 3.5 percent to 3.1 percent. However, advance estimates by the Bureau of Economic Analysis (BEA) put fourth quarter GDP growth at 4.3 percent. For CY 1997 as a whole, GDP growth was 3.8 percent, or a full percentage point higher than the 1996 growth rate. This is the best calendar year growth rate since 1988. The engines of growth in CY 1997 were personal consumption expenditures, exports, and business fixed investment. Export growth accelerated in the fourth quarter despite the much-reported turmoil in Asia. For the year, import growth was a drag on total GDP, although import growth slowed in the fourth quarter. On the whole, CY 1997 was a banner year, with balanced, strong growth in all four quarters.

As one might expect, this strong growth in output was accompanied by good news in national labor markets. The U.S. unemployment rate ended the year at 4.7 percent, where it has been hovering for several months. As we have stated several times this past year, this is the best performance since 1973. In addition, between the fourth quarter of 1996 and the fourth quarter of 1997 the U.S. economy created 3.2 million new jobs. As the WEFA Group has pointed out, this is greater job growth than in the European Community in the past *decade*. Based primarily on this good labor market news, but also on strong income growth, low inflation, and low interest rates, the Consumer Confidence Index almost hit 140 in December, its highest level since December of 1969.

Although retail sales growth has been puzzlingly slow, high consumer confidence and good fundamentals suggest that growth may pick up somewhat in the last half of FY 1998. The mini-boom in mortgage refinancings due to lower long-term interest rates may also boost sales. The major risk on the retail sales side is household debt. Overall debt to income ratios have not changed very much, but debt to income ratios have been rising for low and middle-income households. Only households whose incomes are over $100,000 have seen substantial balance-sheet improvement since 1989. [1] While LBO believes that strong economic fundamentals will continue to lead to increased consumer spending (an opinion shared by forecasting firms such as the WEFA Group, which expects real consumer spending to rise by about 3 percent in CY 1998) high debt ratios make consumers more vulnerable to negative shocks.

Finally, this output growth and low unemployment has been achieved with low inflation.[2] For the 12-month period ended in December 1997, the CPI-U rose 1.7 percent. This compares with an increase of 3.3 percent in 1996 and was the smallest annual increase since a 1.1 percent rise in 1986. The food and energy components, which had accelerated in 1996 after acting as moderating influences throughout most of the preceding five years, were largely responsible for the deceleration in 1997. The food index rose 1.5 percent in 1997, following a 4.3 percent increase in 1996. The energy index, which increased 8.6 percent in 1996, declined 3.4 percent in 1997. The CPI-U excluding food and energy (the so-called "core inflation index") increased 2.2 percent in 1997, following an increase of 2.6 percent in 1996. The 1997 increase is *the lowest since a 1.5 percent rise in 1965.*

Much of the speculation that consumer prices will have to go higher in coming months is based on the hypothesis that domestic labor markets are so strong that we must have an increase in wage inflation. In fact, increases in the employment cost index (ECI) are starting to accelerate, but only slightly. The ECI for all civilian workers rose by 1.0 percent in the fourth quarter of CY 1997. For the year ended December 1997, the increase was 3.3 percent. This compares with increases of 2.9 percent in December 1996 and 2.7 percent in December 1995. Wage inflation is accelerating, but slowly.

Of particular interest to state government is the fact that inflation in compensation costs in private industry is accelerating, but in the government sector it is decelerating. Compensation costs in private industry rose by 3.4 percent in December 1997. This represents a steady increase from the 3.1 percent figure for 1996 and the 1995 increase of 2.6 percent. In contrast, compensation costs for state and local governments increased 2.3 percent for the year ended in December 1997, compared to 2.6 percent in 1996 and 2.9 percent in 1995. This brings some hope that the state can continue to control its labor costs. Also, the CY 1997 year-over-year increase in compensation costs in private industry was 2.1 percent for union workers, much lower than the 3.8 percent for nonunion workers. This may be good news for the state in terms of upcoming collective bargaining agreements.

The WEFA Group has pointed out that despite the fact that wage inflation is accelerating slowly at the national level, it could be somewhat more problematic in Ohio and in the Midwest generally. The Midwest has had the lowest unemployment rates in the nation throughout this expansion, and is seeing the fastest wage inflation of any region right now. Whether this labor market pressure will be relieved through faster in-migration remains to be seen.

After all the good news this past calendar year, one might expect that forecasters would be blowing trumpets for CY 1998. Not exactly. Essentially, CY 1997 was so good that most analysts believe that the U.S. cannot repeat the performance in CY 1998. Strong growth is still expected this year, but the assumption is that it will be closer to the estimated long-term trend rate of 2.5 percent.

One final thought on the recent prosperity and the booming job market: the states are lucky that the labor market has created so many jobs when state welfare-reform initiatives are being implemented. Analysts in the future, looking back, may find that this was just the right time to be able to pull off large-scale welfare to work programs. In fact, an influx of low-skill labor *may* take some pressure of wage inflation in the service sector of the economy, although the questionable initial productivity of these new labor market entrants makes it unclear whether unit labor costs will really be improved. ❑

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[1] See Jonas Fisher and Wendy Edelberg, "Household Debt," Chicago Fed Letter Number 123, November 1997, Federal Reserve Bank of Chicago.

[2] 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 income tax overage dominates the revenue story. Through December, GRF income tax collections are $100.2 million over estimate, have grown by 9.1 percent from last year, and are 3.8 percent above the forecast. Total collections are $112 million above estimate. The other taxes are relatively close to the estimates. The sales tax is $27.1 million above the estimate, having bounced back in December. There are overages in both the auto and non-auto portions of the tax. Overall sales tax growth is 5.3 percent, or slightly over a point higher than the forecast. However, the sales tax has performed erratically from month to month this year and it would not be surprising to see January's collections fall back below the estimate, and for the year-to-date overage to shrink somewhat.

The overage in the public utility excise tax and the shortfall in the corporate franchise tax essentially cancel each other out, and the only other tax variance of any note at this point is the $3.8 million overage in the estate tax. In non-tax income, investment earnings and liquor profit transfers continue to post overages. Federal reimbursement is even further below estimate than one would expect based on the underspending in welfare and human services programs. Readers should expect a very large gap by year's end also, since — as mentioned in the Fiscal Overview — the state will spend state TANF dollars to reach the MOE and leave a large amount of federal money unspent and in reserve for future years.

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

REVENUE SOURCE			
TAX INCOME	Actual	Estimate*	Variance
Auto Sales	$53,494	$48,020	$5,474
Non-Auto Sales & Use	412,527	376,622	35,905
Total Sales	$466,021	$424,642	$41,379
Personal Income	$528,805	$487,683	$41,122
Corporate Franchise	(19,642)	(19,723)	81
Public Utility	295	0	295
Total Major Taxes	**$975,479**	**$892,602**	**$82,877**
Foreign Insurance	$1	$0	$1
Domestic Insurance	0	0	0
Business & Property	1	93	(92)
Cigarette	27,303	25,691	1,612
Soft Drink	0	0	0
Alcoholic Beverage	4,102	3,788	314
Liquor Gallonage	3,454	2,430	1,024
Estate	15,376	3,423	11,953
Racing	0	0	0
Total Other Taxes	$50,237	$35,426	$14,811
Total Taxes	**$1,025,716**	**$928,027**	**$97,689**
NON-TAX INCOME			
Earnings on Investments	$30,598	$17,179	$13,419
Licenses and Fees	1,697	5,384	(3,687)
Other Income	4,386	3,335	1,051
Non-Tax Receipts	$36,681	$25,898	$10,783
TRANSFERS			
Liquor Transfers	$14,000	$10,500	$3,500
Budget Stabilization	0	0	0
Other Transfers In	1,725	0	1,725
Total Transfers In	$15,725	$10,500	$5,225
TOTAL INCOME less Federal Grants	**$1,078,121**	**$964,425**	**$113,696**
Federal Grants	$246,577	$319,898	($73,321)
TOTAL GRF INCOME	**$1,324,698**	**$1,284,323**	**$40,375**

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

Detail may not add to total due to rounding.

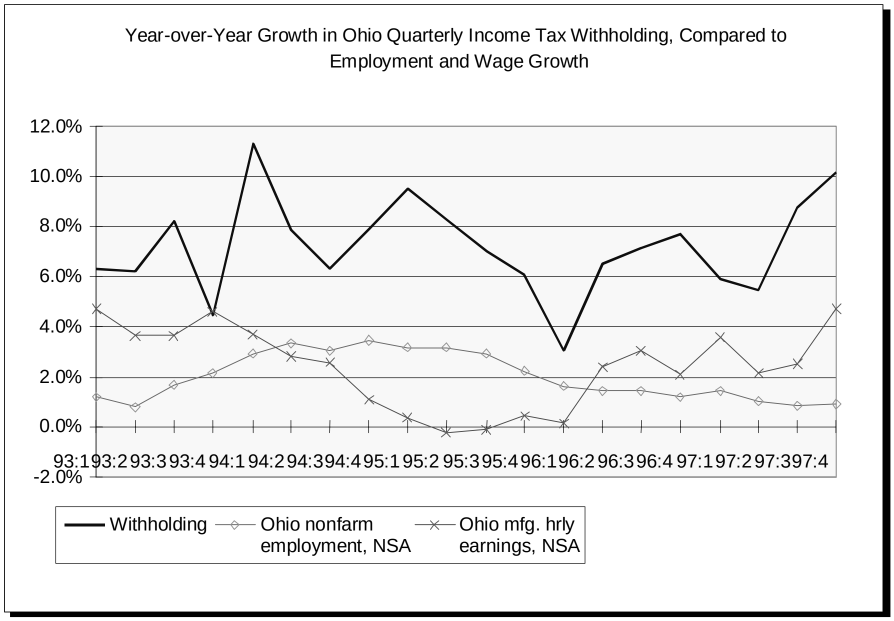
Personal Income Tax

The income tax component with the biggest overage is employer withholding. Through the first half of the year, withholding is $86.6 million above estimate, and has increased by 9.5 percent from last year. Four of the six months have had double-digit growth over last year. In contrast, withholding growth for all of FY 1997 was only 6.5 percent, and the original forecast for FY 1998 was 5.5 percent.

Current Ohio labor market data for the most part do not support such an increase in withholding. Both the household and establishment survey data show year-over-year employment growth for the last six months to be only about 1 percent. Of course, prior experience tells us that the employment numbers may be revised upward when re-benchmarking is done this March. On the other side, the wage data does show an upward spike. The broadest Ohio-specific measure that we have to go on is average hourly earnings in manufacturing, which increased by 4.7 percent in the fourth quarter (compared to last year). If wage growth of that magnitude is common to other sectors besides manufacturing, that would go part of the way to explaining the surge in withholding revenue. There may also be other factors at work, like late-year employee bonuses, that are also a factor, although we have neither hard data nor much anecdotal evidence to support that theory right now.[1]

Some analysts are concerned that the withholding overage may be misleading because the withholding tables are not adjusted for the rate cuts resulting from the prior year GRF surplus. While this is true, this should be smaller problem this year, because the tax cut is only 4.0 percent, smaller than the 6.6 percent cut for tax year 1996.

Quarterly estimated payments have also shown solid growth.



Through December, estimated payments are up about 14 percent over last year's level, and $29.7 million above the forecast. However, that is due in part to high early revenues from the payment due January 15th. Some years taxpayers pay an unusually high percentage of their January payment in December, and that appears to be the case this year.

Preliminary data for January indicates that the January portion of the payment will also exceed the estimate, although not by very much. After January's payment, we expect estimated payments for the year-to-date to have growth in the 9 percent to 10 percent range. For all of tax year 1997, we expect growth to be in the range of 6.5 percent to 7.0 percent. This is rather significant.

Regular readers of this report will recall the point made in prior years that the January estimated payment is a pretty good indicator of filing season activity. The January payment is the fourth and last estimated payment against tax year liability (in this case, the final estimated payment against tax year 1997 liability). This means that the last estimated payment is often used as a reconciliation payment. Some taxpayers who do preliminary calculations of liability may find that they owe significantly more in tax than they had been assuming in making their first three estimated payments. Those taxpayers will often make a big final payment. Conversely, taxpayers who have been overestimating their liability may make a much smaller final payment. In a year when the final estimated payment is well above the OBM or LBO estimate, one may assume that many taxpayers have higher liability than they anticipated and so the state can expect good filing season revenues. Just the opposite has happened in weak income years.

This January's estimated payment is expected to be solid but not as spectacular as the last two years. Furthermore, year-over-year growth in payments against tax years, as opposed to fiscal years, is expected to be about 6.5 percent to 7 percent. This is good, but much lower than the 10.5 percent and 16.5

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	$355,485	$351,232	$4,253	$342,858	3.68%
Non-Auto Sales & Use	2,273,628	2,250,768	22,860	2,154,492	5.53%
Total Sales	$2,629,113	$2,602,000	$27,113	$2,497,350	5.28%
Personal Income	$2,750,026	$2,649,817	**$100,209**	$2,521,377	**9.07%**
Corporate Franchise	7,622	22,504	(14,882)	23,753	-67.91%
Public Utility	229,151	214,043	15,108	212,134	8.02%
Total Major Taxes	$5,615,911	$5,488,364	$127,547	$5,254,614	6.88%
Foreign Insurance	$146,908	$147,642	($734)	$143,256	2.55%
Domestic Insurance	435	440	(5)	200	117.50%
Business & Property	455	979	(524)	985	-53.82%
Cigarette	137,564	136,740	824	140,006	-1.74%
Soft Drink	(1)	0	(1)	17	-103.47%
Alcoholic Beverage	26,464	25,670	794	26,692	-0.85%
Liquor Gallonage	13,437	13,331	106	13,411	0.19%
Estate	49,941	46,078	3,863	45,321	10.19%
Racing	0	0	0	0	#N/A
Total Other Taxes	$375,203	$370,881	$4,322	$369,888	1.44%
Total Taxes	**$5,991,114**	**$5,859,244**	**$131,870**	**$5,624,501**	**6.52%**
NON -TAX INCOME					
Earnings on Investments	$65,402	$42,319	$23,083	$50,988	28.27%
Licenses and Fees	17,303	42,853	(25,550)	43,390	-60.12%
Other Income	55,457	41,950	13,507	42,838	29.46%
Non-Tax Receipts	$138,162	$127,122	$11,040	$137,216	0.69%
TRANSFERS					
Liquor Transfers	$46,000	$36,000	$10,000	$33,500	37.31%
Budget Stabilization	0	0	0	$0	#N/A
Other Transfers In	1,928	0	1,928	64	2935.74%
Total Transfers In	$47,928	$36,000	$11,928	$33,564	42.80%
TOTAL INCOME less Federal Grants	**$6,177,205**	**$6,022,366**	**$154,839**	**$5,795,280**	**6.59%**
Federal Grants	$1,675,307	$1,918,699	($243,392)	1,870,156	-10.42%
TOTAL GRF INCOME	**$7,852,512**	**$7,941,065**	**($88,553)**	**$7,665,437**	**2.44%**

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

percent growth in tax years 1995 and 1996, respectively. Therefore, LBO expects a good filing season for the state this Spring, but not the bonanza of cash that we saw in fiscal years 1996 and 1997.

Sales and Use Tax

The sales and use tax is over estimate by $27.1 million, despite anemic growth in U.S. retail sales in the last quarter. Initial reports are that the Christmas shopping season was average, with pre-Christmas sales weak and post-Christmas sales somewhat better. Because of the one-month lag in collecting the non-auto portion of the tax, this means that Ohio's January tax collections may be weak, although February collections may be better than predicted.

As stated in the earlier section that reviewed the economy, one would expect somewhat faster retail sales growth given the fact that economic fundamentals are very strong. Unemployment is low, inflation is low, wages are rising, and interest rates are low. As a result, consumer confidence is at a 28 year high, but retail sales are not growing much, nor are state sales tax receipts.

There are several possible explanations for the weak retail sales growth:

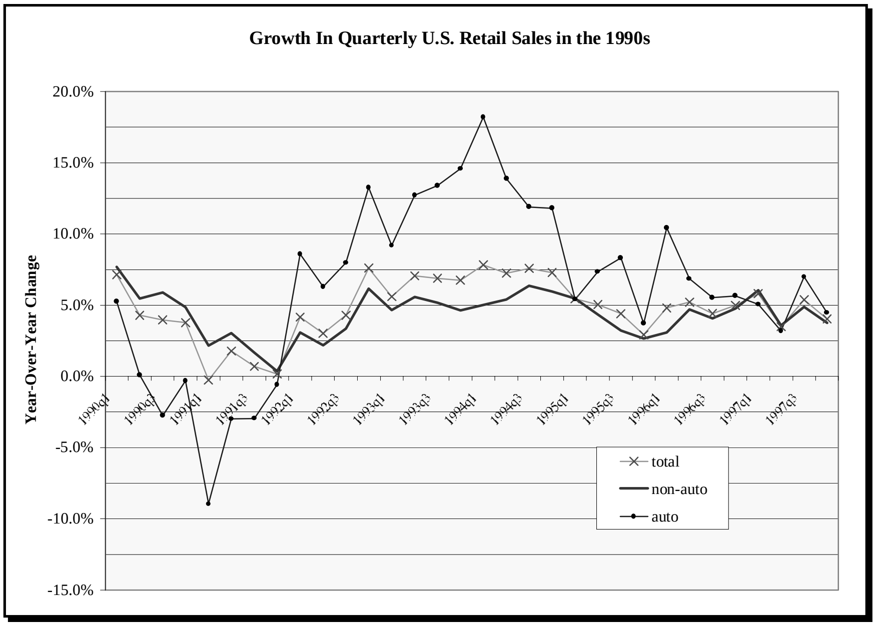
(i) Low inflation — low output price increases have held down the increase in overall dollar sales. As a Federated Stores economist has been heard to remark: "retailing is a nominal dollar business." This fits with the data that show real consumer spending (which is broader than retail sales) increasing by 3.3 percent in CY 1997, but nominal dollar consumption increased by only about 5.5 percent;

(ii) Household Debt — this was discussed in the preceding section. Briefly, some analysts believe that, in spite of good fundamentals and high consumer confidence, most low and middle income households are reluctant to finance more spending through debt.

(iii) Household purchase of financial assets — the theory is that households are putting much more of their earnings into buying stocks, mutual funds, and other investment vehicles. While anecdotal evidence certainly supports this, the U.S personal savings rate has remained stuck in the 3.5 percent to 4 percent range.

(iv) Composition of spending — much more U.S. consumption spending is on services rather than goods, and so both the retail sales figures and state tax collections are growing less than one would expect. There is clearly some truth to this, as consumption grew 0.5 percent to 1.0 percent more than retail sales in CY 1997. This also points to a long-term problem for states that rely heavily on the sales tax but do not tax many services. The Federal Reserve's January *Beige Book* report specifically mentioned that for the Fourth District (which includes Ohio) the volume of catalog sales rose sharply again in 1997, helped in part by the growing popularity of the Internet.

(v) It is late in the retail expansion cycle, especially in Ohio. Pent-up demand from the last recession was satisfied several years ago. House-hold consumption needs are stable.



In the next few months, consumption and retail sales may get a boost from the recent wave of mortgage refinancings. Refinancing activity has been heavy as mortgage rates have been lingering around their lowest levels since 1993. Some economists say that there is also evidence that homeowners have become more financially sophis-ticated and more sensitive to refinancing opportunities. In any case, mortgage refinancing makes consumers feel richer and generally leads to some boost in spending (it propelled the initially weak recovery to much more solid ground in 1993). This may help retail sales and state sales tax collections in the last few months of FY 1998. ❑

1 Limited data from around the country show that a number of other states are also experiencing very high withholding growth rates. The LBO has also received calls from tax analysts in other states asking if withholding growth seemed out of line with official employment estimates, so Ohio is not alone there either.

DISBURSEMENTS

— *Jeffrey E. Golon**

Stop the Presses! State posts first monthly overage. Timing finally hits town and manages to carry the day in a big way.

After a five-month parade of negative disbursement variances, the state closed the halfway mark through FY 1998 by finally registering its first positive monthly variance — $36.9 million. Although rela-tively small fish in the scheme of things, this fact did manage to pull the state's year-to-date GRF underspending back from its seasonal high of $424.8 million in the preceding month of November. Excluding GRF transfers, state spending closed the month of December $387.9 million under estimate year-to-date. Blended in with that number, of course, is federal money associated with the state's welfare and human services spending. The most notable program components — TANF and Medicaid — contained $77.1 million in underspending that, although tracked and included as GRF appropriations, is actually federal money. Once that amount was backed out, the year-to-date underspending of non-federal state money was reduced to $310.8 million.

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

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$388,933	$386,806	$2,127
Higher Education	154,484	144,047	10,437
Total Education	$543,417	$530,853	$12,564
Health Care	$472,547	$476,323	($3,776)
Temporary Aid to Needy Families	77,506	103,618	(26,112)
General Assistance/Disability Assistance	5,392	5,830	(438)
Other Welfare	30,202	26,447	3,755
Human Services (2)	72,879	116,752	(43,873)
Total Welfare & Human Services	$658,526	$728,970	($70,444)
Justice & Corrections	$98,235	$99,451	($1,216)
Environment & Natural Resources	6,671	7,017	(346)
Transportation	1,834	5,956	(4,122)
Development	10,169	15,355	(5,186)
Other Government (3)	22,900	24,323	(1,423)
Capital	434	1,102	(668)
Total Government Operations	$140,243	$153,203	($12,960)
Property Tax Relief (4)	$160,149	$52,456	$107,693
Debt Service	0	0	0
Total Program Payments	**$1,502,335**	**$1,465,482**	**$36,853**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	1,250	0	1,250
Total Transfers Out	$1,250	$0	$1,250
TOTAL GRF USES	**$1,503,585**	**$1,465,482**	**$38,103**

(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.

The major item of note that jumped from the December disbursement data was in the matter of tax relief programs — reimbursements to school districts and local governments for revenue lost to tax relief provided by state law to property owners and businesses — which hurled in a monster $107.7 million worth of overspending. The disbursement of this state money in a big way was not unexpected as readers of **Budget Footnotes** are aware. Last month, tax relief spending, actually the lack thereof, was the leading force in the monthly and year-to-date disbursement picture. This fact was ascribed to matters of timing that would sort itself out in time. And it hit hard. Last month, tax relief pro-grams led the state's year-to-date under-spending with $113.3 million. With December's huge over-age, it was now almost a ghost on the year-to-date radar screen with a negative disburse-ment variance of $5.6 million. Now, that my friends was some drop back to reality!

Obviously then, there had to have been some shifting among what we have come to call the big four players in the state's year-to-date underspending. And there was. With tax relief programs sent packing, the big four underspenders looked like so: the TANF program ($103.2 million), the Depart-ment of Education ($99.3 million), the Medicaid program ($72.2 million), and the Department of Mental Retardation and Develop-mental Disabilities ($44.3 million). The lone new face — the Department of Mental Retardation and Developmental Disabilities — made an appearance solely on the basis of timing, which we would fully expect to be straightened out in the next month or two. On the other hand, declining human services caseloads continued to suppress TANF and Medicaid disbursements, suggesting once again that FY 1998 appropriations exceeded actual programmatic needs for the moment and that come year-end a sizeable amount of money could lapse.

That completes our quick cruise through the highlights in the state's year-to-date disbursement picture. And with that, let's check out some of the detail associated with the disbursement activity of certain components of state spending.

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)	$2,359,307	$2,456,128	($96,820)	$2,213,938	6.57%
Higher Education	1,156,985	1,163,386	(6,401)	1,076,958	7.43%
Total Education	$3,516,292	$3,619,514	($103,222)	3,290,895	6.85%
Health Care	$2,614,700	$2,686,911	($72,211)	$2,486,784	5.14%
Temporary Aid to Needy Families	464,988	568,141	(103,153)	274,198	69.58%
General Assistance/Disability Assistance	30,215	33,479	(3,264)	95	31705.07%
Other Welfare	236,592	237,612	(1,021)	553,922	-57.29%
Human Services (2)	615,171	674,161	(58,991)	586,711	4.85%
Total Welfare & Human Services	$3,961,666	$4,200,306	($238,640)	$3,901,710	1.54%
Justice & Corrections	$773,924	$766,686	$7,237	$696,494	11.12%
Environment & Natural Resources	78,515	72,248	6,267	68,359	14.86%
Transportation	11,360	20,233	(8,873)	8,992	26.33%
Development	66,340	79,099	(12,759)	70,761	-6.25%
Other Government (3)	201,762	231,839	(30,077)	188,122	7.25%
Capital	2,341	5,233	(2,892)	3,813	-38.62%
Total Government Operations	$1,134,243	$1,175,339	($41,097)	$1,036,542	9.43%
Property Tax Relief (4)	$511,312	$516,897	($5,585)	$488,971	4.57%
Debt Service	81,170	80,560	611	74,793	8.53%
Total Program Payments	**$9,204,683**	**$9,592,616**	**($387,933)**	**$8,792,911**	**4.68%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	#N/A
Budget Stabilization	34,400	34,000	400	0	#N/A
Other Transfers Out	723,235	686,766	36,469	576,775	25.39%
Total Transfers Out	$757,635	$720,766	$36,869	$576,775	31.36%
TOTAL GRF USES	**$9,962,318**	**$10,313,382**	**($351,064)**	**$9,369,686**	**6.32%**

(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.

Higher Education

Board of Regents. December disbursements for the Board of Regents were approximately $10.5 million above the monthly estimate. Approximately $7.5 million of this overage was the result of student financial aid spending, most specifically the Ohio Instructional Grants/OIG (line item 235-503), Part-time Instructional Grants (line item 235-549), and Student Choice

(line item 235-531) programs. The Board also disbursed a total of another $1 million in Geriatric Medicine (line item 235-525) and Primary Care Residencies (line item 235-526) that was expected to be disbursed in November, but was actually posted to the state's financial books in December.

In the student financial aid program, the OIG disbursement was about $4.2 million over the monthly estimate. In other words, the actual disbursement of $7 million exceeded the estimated December disbursement of $2.8 million by approximately $4.2 million. Timing seems to be the best explanatory factor for this variance. According to a Board staff member, higher education institutions sent their fall data documenting OIG-eligible students later than expected, causing lower than expected payments in November. Disbursements to the institutions for fall term students really began in December instead.

Disbursements for fall term students are part of the January and February OIG estimates, as are disbursements for winter term students. The Board estimates predicted that OIG disbursements would increase from $2.8 million in December to $10.3 million in January and then $14 million in February, the peak disbursement for the year. December's actual OIG disbursement was $7 million, suggesting that perhaps the flood of student certification data arriving at the Board has started earlier than originally expected this fiscal year. But, of course, only time will tell.

The Part-time Instructional Grant variance was about +$1.8 million, with the actual disbursement of $2.6 million exceeding the estimated disbursement of $800,000. This actual-exceeding-estimate outcome seems to be a pattern. Five of the past six months have shown higher than estimated spending. The new, more flexible spending parameters made law in Am. Sub. H.B. 215 of the 122nd General Assembly — the biennial budget bill — seem to be having their intended effect. The higher education institutions are able to provide more assistance to their part-time students than under prior law, so appropriated funds are moving out the door more quickly than the estimates predicted.

The December disbursement in the Student Choice Grants program was approximately $1 million higher than BOR had estimated. It is not clear yet, whether this indicates student enrollment certifications are coming in sooner than expected or whether more students are attending private higher education institutions than BOR estimated. Stay tuned.

Year-to-Date. Disbursements from the Board's GRF-funded student financial aid program, which is actually a set of seven different programs, are approximately $10 million less than estimates year-to-date, with underspending totaling $11 million in the OIG program explaining the bulk of the variance.

We may be starting to see something interesting in OIG disbursements. Although a BOR staff member rightly insists that it is too early to declare a trend, it is beginning to appear that the FY 1998 OIG appropriation of $93.6 million may be too high, given the current level of demand.

The OIG program has a complicated cash flow. Because no hard and fast deadlines for each term are imposed and maintained on the higher education institutions to certify their OIG-eligible students, the Board maintains a "cushion" in its appropriation to deal with the flux of funds going out and refunds coming back to the Board. Refunds occur most often when OIG recipients do not complete the academic terms for which they are enrolled; occasionally, the Board's initial payments to higher education institutions are too high. Initial payments are based on 75 per cent of prior year payments for the same term and the higher education institutions then refund overpayments if their OIG enrollment level is lower than this base. The "cushion" guarantees that there is never a period during which higher education institutions are due OIG funding, but the Board temporarily can't pay it.

Another factor complicating the OIG cash flow is that over the last ten years, on average, only 63 per cent of students eligible for OIG awards are using the grants. The other 37 per cent are either enrolling and then dropping out of school, dropping below the required full time course load (12 credit hours), or not using their grants at all.

Programmatic changes to the OIG program were made in the biennial budget bill. These changes included: transferring the responsibility for paying the tuition of incarcerated students from the Board's OIG program to the Department of Rehabilitation and Correction; increasing individual grant amounts by approximately 14 per cent; and raising the income cap governing students' eligibility from $30,000 to $31,000.

According to a Board staff member, current OIG program data shows that fewer of the very poor — those with incomes at $10,000 or less — are using their grants than was originally projected. In FY 1997, approximately 58,000 eligible students with incomes at or below $10,000 used their OIG awards. This fiscal year usage at this income level is down to 49,000 students, a drop of 9,000 students. We do know that one-third of the drop in grant usage at this income level, which amounts to 3,000 students, reflects the removal of prisoners from the OIG program. However, the reasons behind the remainder of the decrease, which amounts to some 6,000 other students, remain uncertain at this time. Also, overall grant usage by individuals at all income levels, up to the $31,000 income ceiling, seems to be trending downward as well.

If coming months solidify this trend rather than reverse it, several million dollars may be available to the legislature that: could be reallocated to other programs; or perhaps, the income ceiling in the OIG program table for 1999 could be increased so that the grant program would assist students with incomes above $31,000 or individual grant amounts could be increased. However, we clearly need some more months of data to see if there really is a lower-than-appropriation-disbursement trend developing before one can think about alternative spending plans.

Progress Report on Part-time Instructional Grant. The budget bill changed the temporary law governing spending in the Part-time Instructional Grant program, lifting the eligibility cap on part-time students' incomes. The cap had prevented part-time students earning more than the OIG maximum allowable income, which was $30,000 in fiscal years 1996-97 and is $31,000 in fiscal years 1998-99, from receiving Part-time Instructional Grants. The new law permits institutions to award Part-time Instructional Grants to students with financial need, as determined by the higher education institutions, without any income ceilings.

An interesting sidenote is that nationally, as well as in Ohio, part-time attendance at higher education institutions is becoming more prevalent. Thus, the programmatic changes brought about by the biennial budget bill are bringing Ohio's state financial aid program into better alignment with current attendance patterns. These changes may unintentionally reinforce the trend of part-time attendance, however, by increasing the amount of aid available to part-timers. Only the future will tell.

Health Care/Medicaid

Medicaid's December spending posted a very slight negative deviation of $3.8 million from the estimated monthly total of $476.3 million. This underage further drove year-to-date Medicaid disbursements to $72.2 million, or 2.8 percent, below estimate. (For more detail on monthly and year-to-date Medicaid spending, as well as a comparison to FY 1997 spending, see Tables 6 and 7, respectively.)

Table 6
Medicaid (400-525) Spending in FY 1998

	December '97				Year-to Date Spending			
Service Category	Actual	Estimate	Variance	Percent Variance	Actual** thru' Dec.	Estimate** thru' Dec.	Variance	Percent Variance
Nursing Homes	$155,944,835	$157,249,296	($1,304,461)	-0.8%	$953,367,042	$903,219,289	$50,147,753	5.3%
ICF/MR	$28,558,817	$28,629,695	($70,878)	-0.2%	$169,153,214	$170,998,671	($1,845,457)	-1.1%
Hospitals	$110,328,782	$111,371,677	($1,042,895)	-0.9%	$580,906,678	$624,482,670	($43,575,992)	-7.5%
Inpatient Hospitals	$88,359,889	$87,088,395	$1,271,494	1.4%	$449,185,926	$480,855,287	($31,669,361)	-7.1%
Outpatient Hospitals	$21,968,893	$24,283,282	($2,314,389)	-10.5%	$131,720,752	$143,627,383	($11,906,631)	-9.0%
Physicians	$24,308,142	$26,636,804	($2,328,662)	-9.6%	$139,433,715	$148,744,872	($9,311,157)	-6.7%
Prescription Drugs	$67,272,503	$53,170,791	$14,101,712	21.0%	$258,273,784	$243,315,414	$14,958,370	5.8%
Payments	$67,590,853	$55,678,513	$11,912,340	17.6%	$308,781,035	$296,012,037	$12,768,998	4.1%
Rebates	$318,350	$2,507,722	($2,189,372)	-687.7%	$50,507,251	$52,696,623	($2,189,372)	-4.3%
HMO	$38,458,427	$56,195,669	($17,737,242)	-46.1%	$283,426,775	$316,584,639	($33,157,864)	-11.7%
Medicare Buy-In	$20,522,780	$9,639,647	$10,883,133	53.0%	$71,459,475	$68,204,409	$3,255,066	4.6%
All Other***	$27,161,285	$33,429,080	($6,267,795)	-23.1%	$157,500,069	$211,358,491	($53,858,422)	-34.2%
TOTAL	$472,555,570	$476,322,659	($3,767,089)	-0.8%	$2,613,520,752	$2,686,908,455	($73,387,703)	-2.8%
CAS	$472,547,040		($3,775,619)		$2,614,700,384		($72,208,071)	
Estimated Federal Share	$274,850,514	$277,041,550	($2,191,036)		$1,520,272,348	$1,562,956,574	($42,684,226)	
Estimated State Share	$197,705,057	$199,281,109	($1,576,052)	-0.8%	$1,093,248,404	$1,123,951,881	($30,703,477)	-2.8%

* 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.

Table 7
FY 1998 to FY 1997 Comparison* of Year-to-Date Spending

Service Category	FY 1998[1] Yr.-to-Date as of Dec. 97	FY 1997 Yr.-to-Date as of Dec. 96	Variance	Percent Variance
Nursing Homes	$953,367,042	$879,575,016	$73,792,026	7.7%
ICF/MR	$169,153,214	$162,718,610	$6,434,604	3.8%
Hospitals	$580,906,678	$627,453,264	($46,546,586)	-8.0%
Inpatient Hospitals	$449,185,926	$478,352,459	($29,166,533)	-6.5%
Outpatient Hospitals	$131,720,752	$149,100,805	($17,380,053)	-13.2%
Physicians	$139,433,715	$147,586,553	($8,152,838)	-5.8%
Prescription Drugs	$258,273,784	$216,757,693	$41,516,091	16.1%
Payments	$308,781,035	$271,954,348	$36,826,687	11.9%
Rebates	$50,507,251	$55,196,655	($4,689,404)	-9.3%
HMO	$283,426,775	$217,165,089	$66,261,686	23.4%
Medicare Buy-In	$71,459,475	$59,225,034	$12,234,441	17.1%
All Other***	$157,500,069	$176,302,917	($18,802,848)	-11.9%
TOTAL	$2,613,520,752	$2,486,784,176	$126,736,576	4.8%
Estimated Federal Share	$1,520,272,348	$1,467,202,664	$53,069,684	
Estimated State Share	$1,093,248,404	$1,019,581,512	$73,666,892	6.7%

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

1 . Includes FY 1997 encumbraces of $78.5 million.

The state's Medicaid program, as many readers may already be well aware, is a $5-plus billion annual effort composed of a multitude of service categories and recipient types. Given the complexity that breeds, one has to, in a sense, ignore the monthly or year-to-date bottomline and scrutinize the mix of negative and positive disbursement variances that inevitably lie below the surface to uncover what is really going on.

First, as we had anticipated, the two previously delayed Medicare Buy-in payments finally occurred, both in December, creating what amounted to a roughly $10.9 million overage in that Medicaid service category. For those not familiar with Medicaid terminology, and if we gloss over the nuances, these are generally-speaking federally required state payments for Medicare premiums, deductibles, and coinsurance for certain low-income individuals enrolled in Medicare or are Medicare eligible. In addition to these required payments, the state's Medicaid program currently exercises the option to pay Medicare premiums and coinsurance for Aged, Blind, and Disabled (ABD) Medicaid eligible individuals, thus buying them into Medicare coverage. For these individuals, however, the state receives no federal Medicaid reimbursement and must cover services not available through Medicare.

In December, payments to HMOs again contributed the single largest amount to underspending with a negative disbursement variance of $17.7 million. Since the number of TANF/Healthy Start eligibles enrolled in HMOs continued to drop as a result of lower case-loads, this was not surprising.

Prescription Drugs spending, on the other hand, was the most significant contributor of over-spending. Prescription drug payments exceeded the monthly estimate by $14.1 million, or 21 percent, pushing year-to-date drug spending to $258.3 million, or 5.8 percent, above the estimated year-to-date disbursement amount. This overage was a bit of a surprise, prompting us to probe further, particularly in light of generally declining caseloads and a recently implemented cost saving policy. A seasonal upward blip in prescription drug disbursements was anticipated in the estimate for December, but the amount of money actually spent was considerably larger. When compared with trends in the utilization of other fee-for-service categories — like Hospital (inpatient and outpatient) and Physician services that support demand for prescription drug services — this overage becomes even more puzzling.

So why did drug payments take such a leap in December? We believe there were two major reasons. First, an analysis of drug claims reveals that an unusually large number of claims were processed in December. The number of claims processed in December were in excess of 2.3 million, with 2.2 million claims being paid, for a total of $67.6 million[1]. This was 54.1 percent higher than the 1.4 million claims paid in November, and about 22 percent higher than the estimated claims level for December. This large number of claims can be attributed to higher than expected utilization of prescription drug services for all eligibility categories (see Table 8, Medicaid Prescription Drug Spending).

The second — although less significant in that it was due more to timing issues and as such will likely self-correct — was the issue of prescription drug rebates. Usually, the large majority of the rebates arrive in the first month of the quarter, with "finalized" moneys following, in the two subsequent months, at a rate that appears to be

Table 8, Medicaid Prescription Drug Spending*

	Nov 97[1]	Dec 97[1]	FY 1998 YTD[1]	FY 1997 YTD[1]	Monthly Average FY 1998	Monthly Average FY 1997	Monthly Average % Change
Total Dollars	$43,961,939	$67,851,646	$309,874,939	$269,183,819	$51,645,823	$44,863,970	15.1%
ABD[2]	$39,303,601	$60,640,478	$279,148,742	$233,832,529	$46,524,790	$38,972,088	19.4%
ADC[3]	$3,578,509	$5,493,279	$23,797,335	$29,220,342	$3,966,223	$4,870,057	-18.6%
ADC-Other[4]	$1,099,848	$1,743,198	$7,053,171	$6,164,804	$1,175,529	$1,027,467	14.4%
Adjustments	($20,019)	($25,309)	($124,309)	($33,856)	($20,718)	($5,643)	267.2%
Total Recipients	284,139	354,133	1,848,995	2,061,310	308,166	343,552	-10.3%
ABD	195,652	232,136	1,280,420	1,312,271	213,403	218,712	-2.4%
ADC	70,846	97,267	460,160	634,739	76,693	105,790	-27.5%
ADC-Other	17,641	24,730	108,415	114,300	18,069	19,050	-5.1%

* Amounts do not account for drug rebates, which equal approximately 20 percent of total spending.
1 Recipient numbers include multiple visits.
2 ABD = Aged, Blind, Disabled.
3 ADC = Recipients of ADC cash assistance and Healthy Start eligibles.
4 ADC-Other: Includes recipients of Title IV-E, adoption assistance and other ADC-related programs.
(Source: BOMM 1420-R004 Report, Ohio Department of Human Services)

approximately 8 percent of first month levels in the second month, and 16 percent in the third month.

In October 1997, the state received $22.8 million in rebates, but November ($154,484) and December ($318,350) rebates were abnormally low. The question was whether or not rebates are on track for the fiscal year. Current rebate levels for the fiscal year are lagging behind expectations. We estimate that rebates for the second quarter fell short of the anticipated amount by $8.1 million[2] (see Table 9, Rebate Estimates). We, however, expect that a rebate adjustment will occur, and thus, do not foresee a negative impact on final fiscal year spending on prescription drugs.

Table 9, Rebate Estimates[1]

First Quarter FY 1998			
4th Qtr. FY 1997 Payments	Estimated Rebates	Actual Rebates	Variance
$137,225,830	$27,445,166	$27,148,830	($296,336)
Second Quarter FY 1998			
1st Qtr. FY 1998 Payments	Estimated Rebates	Actual Rebates	Variance
$157,076,071	$31,415,214	$23,358,421	($8,056,793)

1. Assumes that total rebates in a given quarter are based solely on the preceding quarter's prescription drug expenditures.

At the half way mark of this fiscal year, confirmation of observations made in previous issues of **Budget Footnotes** about the general trend in Medicaid spending is in order. The total monthly average number of Medicaid recipients is down 5.2 percent from the same period in FY 1997[3]. The TANF/Healthy Start recipient group has declined 15.3 percent, while the Aged, Blind and Disabled recipient group posted an increase of 1.3 percent, close to anticipated levels.

In the midst of this good caseload news, is a lesser known sub-category called "Transitional" Medicaid. The average number of monthly recipients under this eligibility group has grown by 16.6 percent from the same period in FY 1997. Under the "Transitional" Medicaid sub-program, coverage is provided for those families who lose cash assistance due to increased income from employment or loss of certain time-limited income disregards, for a period of up to 12 months. The data from this eligibility group is included with the adult and children categories in most published reports.

Why is this eligibility group important? Because, contrary to the notion that decreasing caseloads immediately translate into reductions in the number of recipients receiving Medicaid services, most TANF/Healthy Start related recipients (barring any significant improvement in the families financial status) receive services under this category from when they transition out of TANF. The category serves as a good indicator of the number of eligibles who are about to transition out of Medicaid. We believe it will take on added significance as Ohio Works First cruises towards maturity.

TANF

TANF disburse-ments continued to run substantially below estimate. The December variance was $26.1 million, or 25.2 percent, below estimate. For the fiscal year, the variance in TANF spending was $103.2 million, or 18.2 percent, below estimate. The continuing decline in the number of cash recipients accounted for the bulk of this variance. There was, however, some evidence of a slow down in the pace of the caseload reduction: the decline was only 3,000 in December, as compared to over 20,000 in November and 11,000 in October.

There are at least two developments afoot that could disturb the steady gathering of negative monthly disbursement variances that, year-to-date, has led to underspending in the TANF program totaling in excess of $100 million. The state's TANF program can actually be viewed as being composed of two new programs: Ohio Works First (OWF), which replaced the Aid to Dependent Children program, and Prevention, Retention & Contingency (PRC), which replaced and expanded the former Family Emergency Assistance program.

The first development is with respect to the OWF program and the *County Roll-Out* of the Partnership Agreement process. Under OWF, each county is required to enter into a Partnership Agreement with the department that includes the terms and conditions that define the roles and relationships of the county and the state. It is in effect a contractual arrangement specifying expectations of county performance and detailing the state's commitment of support. Counties operating under a Partnership Agreement will receive one consolidated allocation of funds. This partnership process will be phased in, with twenty-two counties selected to participate in the three-wave Phase I Roll-Out. Seven of the twenty-two counties were operating under Partnership Agreements as of January 1998, with the remaining fifteen counties in the first wave to be operational by July 1, 1998. By January 2000, all counties are expected to be operating under Partnership Agreements.

The second development relates to the PRC program. We would suggest that, to date, the primary emphasis of state and local TANF spending has largely been on cash assistance grants and that, with time, one should see an acceleration in PRC-oriented spending. Under the PRC program, counties will be providing a number of services and benefits that were not available under prior law. The PRC program allows counties to divert people from welfare, provide people with supportive services to promote job retention, and help people deal with emergency problems as they come up so as to avoid reliance on welfare. Specific forms of assistance under the PRC program include help with such things as shelter costs, transportation, clothing, household items and appliances, home repairs, job-related expenses, and short-term training. As well, counties have the option of engaging in agreements with private and public employers (including school boards) to place OWF recipients in subsidized employment. As counties become more accomplished at using the PRC program, LBO expects to see expenditures in this area begin to more closely approach estimates.

General Assistance/Disability Assistance

The December disbursement for the Disability Assistance program (DA), 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 almost $440,000, or 7.5 percent. For the fiscal year, the variance was $3.3 million, or 9.7 percent, below estimate. The DA caseload continued its steady decline, dropping 12.5 percent so far this fiscal year, 20.4 percent from the same month a year ago, and 40.6 percent from the same month two years ago.

Now to the matter of the deceased General Assistance (GA) program. Readers may recall in the last issue of **Budget Footnotes** that we made mention of the fact that virtually none of the $6.06 million in encumbered GA funds carried in from the prior biennium had been disbursed. Given the GA program had been shut down in August 1995, we then went on to wonder about what the need for these GRF funds might still be some 2-plus years later.

Well, our collective memory has since been jogged.

Quite simply, those funds have been set aside by the department for settlement of a legal matter known as the Taber class action lawsuit. In bringing this lawsuit, the plaintiffs on behalf of themselves and all other persons similarly situated contend that, with regard to the revised GA program enacted pursuant to Am. Sub. H.B. 298 of the 119th General Assembly, the department promulgated a budgeting policy that violated the statutory budgeting method.

The statute required the department to apply this new budgeting method to applicants and recipients of GA, and to the earned income and unearned income of such individuals. However, the department implemented a budgeting method that was much narrower in scope. It implemented a policy that only applied to recipients of GA benefits, and only to the earned income of such recipients. The plaintiffs asserted as a further fact that the practical effect of this departmental action was to incorrectly deny GA program benefits or reduce the monthly GA financial grants.

According to an attorney with the department's Office of Legal Services, litigation of this matter continues. Currently, the case rests with the state's Tenth District Court of Appeals in Franklin County. From what we can gather, the sticking point at this time is the amount of money offered by the department to settle this matter.

A private law firm on a pro bono basis is now handling this case for the plaintiffs. According to an attorney with the firm, the settlement for this case would have to take into consideration the number of persons who were eligible for GA at the time, but were turned away as well as the number of GA recipients who were underpaid.

Given the plaintiffs requirements, it is our understanding that the $6-plus million in encumbered GA funds may not be sufficient. And in fact, according to an attorney with the department's Office of Legal Services, a worst case scenario could place a settlement in the range of $12 million to $20 million. Individuals closely following the case believe that the district court will render a decision on this matter within the next six to eight weeks.

Other Human Services

Mental Retardation. The department registered a whopping $41.7 million negative disbursement variance for December, with nothing more than timing the apparent culprit. What happened? As we understood it, around 850 individuals are moving from one Medicaid waiver program (Purchase of Service or POS) to another (Residential Facilities). (Medicaid waiver programs basically provide for services to eligible individuals residing in homes of their own choosing as an alternative to placement in an intermediate care facility.) To ensure that the money follows those transitioning individuals, county boards of mental retardation and developmental disabilities are required to notify the department so that the appropriate amount of funds can be set aside. Since that notification did not occur, the department held up virtually all of the funds that were planned for distribution from line items 322-413, Residential and Support Services, and 322-501, County MR/DD Boards.

Department of Aging. The Department of Aging continued to spend nursing facility franchise fee revenues in December to fund PASSPORT rather than dipping into GRF money first (line item 490-403), as was originally assumed. (A similar occurrence in November's disbursements was noted in the previous issue of ***Budget Footnotes.***) Disbursements for this program, which provides home health care to Medicaid eligible older persons, were approximately $2.5 million under estimate for the month of December.

In addition, the monthly disbursement for the Residential State Supplement program was approximately $3.2 million under estimate for the month. The department administers this program, which provides a cash supplement to low-income aged, blind, and disabled persons who need assistance with daily activities due to a medical condition. However, the Department of Human Services issues the cash payments. In order to make the payments, the Department of Aging transfers cash from its GRF line item 490-412, Residential State Supplement, to the Department of Human Services each quarter. Aging's estimates for FY 1998 assumed there would be a transfer in the month of December. That transfer did not happen.

Alcohol & Drug Addition Services. In November, the department withheld the release of approximately $1.6 million in second quarter allocations from GRF line item 038-401, Alcohol and Drug Addiction Services, that were intended for three county alcohol and drug addiction service/mental health (ADAMH) boards. ADAMH boards use these funds to provide alcohol and drug addiction prevention, intervention, treatment, counseling, and residential and community support services. One board reportedly had not submitted a required quarterly expenditure report to the department, so their funds were withheld. The other two boards merged in November. The department withheld their quarterly allocation until the merger was completed. Both allocations were disbursed during December. Since these allocations were built into the November estimate and not December's, departmental disbursements for December were approximately $1.6 million over estimate.

Justice & Corrections

Youth Services. The month of December witnessed departmental disbursements registering approximately $8.27 million under estimate. As a result of this first and relatively large one month underage, year-to-date disbursements went from $6.8 million, or 7 percent, over estimate to $1.1 million, or 1 percent, under estimate. Line items making a major contribution in that turnaround were: Care and Custody (470-401), Community Program Services (470-402), Administrative Operations (477-321), and County Youth Facility Maintenance (470-502). Let's talk a little bit about each of these line items.

Care and Custody. The 470-401 line item is the funding method for the RECLAIM Ohio program and provides for institutional placement and court community program services to juveniles convicted of a felony, as well as any delinquent, unruly, or juvenile traffic offenders under the jurisdiction of the court. Although the Care and Custody line item had experienced a relatively small monthly underage in recent months, it entered December with a year-to-date overage of more than $1.1 million. During the month of December, this line item experienced an underage of $4.3 million, which in turn resulted in the elimination of the year-to-date overage and the creation of a $3.2 million underage.

Explanations of the year-to-date overage for the Care and Custody line item through the month of November centered around the issues of timing as well as fewer commitments to departmental institutions by the common pleas courts. In response to the threat created by this overage, the department curtailed operations at the Training Institution of Central Ohio (TICO), resulting in the elimination or transfer of 100 positions.

With regard to the swing in disbursements experienced in the month of December, the department attributed it to the fact that estimates were based on three payrolls for the month instead of two, and the fact that both county and DYS populations were below estimates. While the portion of the underage related to the timing of payrolls should correct itself in the month of January (3 payrolls), it is unclear as to whether the drop in intake at both the county and state level is a self-correction that will in the end be closer to departmental population estimates.

Community Program Services. The Community Program Services line item, which is intended to provide support for various local juvenile justice alternatives, had experienced a small year-to-date underage ($74,000). During the month of December, however, this amount grew by $814,000, resulting in a year-to-date underage of $886,000. According to the department, the relatively large underage experienced during the month of December was primarily attributable to an unrealistically large estimate. The department asserted that, since the line item traditionally disbursed in the neighborhood of $200,000 to $300,000 per month, the disbursement estimate of $1 million for the month of December was not consistent with history. And in fact, an examination of the line item's historical disbursement pattern revealed that this assertion indeed appears to be correct.

Administrative Operations. The Administrative Operations line item was created to consolidate funding for central office administrative operations including personnel, maintenance, and equipment. While the line item had experienced an overage of $1.1 million through the month of November, a noticeable shift transpired in December in the form of a $906,000 underage. As a result of this significant one-month reversal, the year-to-date overage for Administrative Operations has decreased to $215,000. As with the Care and Custody line item, a large share of this December underage was due to the fact that the monthly estimates assumed three payrolls. Furthermore, departmental estimates incorporated periodic, one-time purchases of central office equipment (such as computers), the timing of which is not always as predictable as one might think.

County Youth Facility Maintenance. The County Youth Facility Maintenance line item supports two subsidy programs: 1) county detention centers; and 2) county rehabilitation and treatment facilities. A one-month underage of $2.4 million in December took what had been a total of $1.7 million in underspending through the month of November and created what now amounts to a $700,000 year-to-date overage. The departmental explanation for this reversal rested with the issue of timing. Specifically, this is a subsidy payment at the mercy of the receipt of county requests. Quite simply, timely paperwork spells timely state payments. Also potentially contributing to the monthly underage was that estimates were based on past performance, and that as a result of county populations falling below estimates, subsidy payments were, at least in the short term, lower than expected. ❑

**Numerous colleagues here at the LBO have contributed to the development of this issue, including, in alphabetical order, Ogbe Aideyman, Clarence Campbell, Steve Mansfield, Jeff Newman, Chuck Phillips, Jeffrey M. Rosa, and Roberta Ryan.*

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1. Source: BOMM 1600 R001 & R002, Ohio Department of Human Services.
2. Assumes that total rebates in a given quarter are based solely on the preceding quarter's prescription drug expenditures.
3. Source: BOMM 1420 R004, Ohio Department of Human Services.

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS SECOND QUARTER, FY 1998

— Sharon Hanrahan

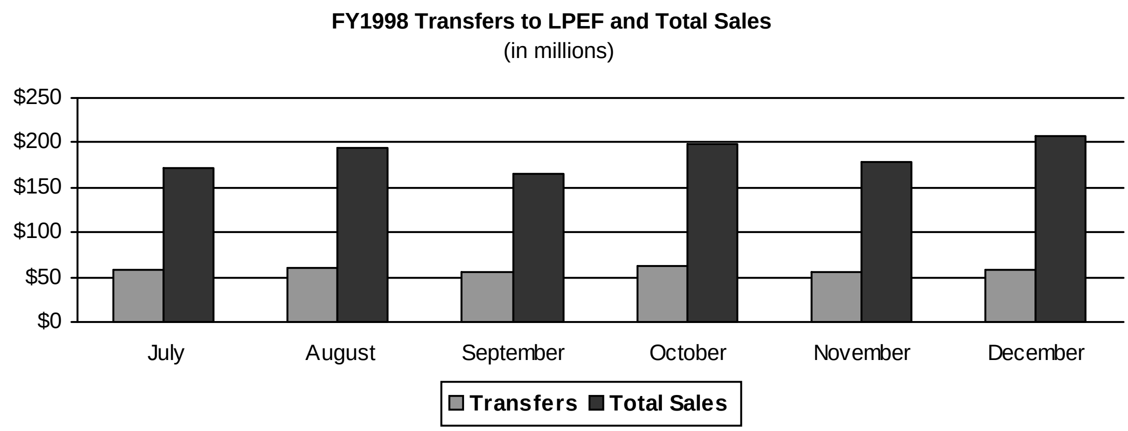
Total ticket sales for the second quarter were $585.3 million, 9.8 percent higher than first quarter sales, but 3.9 percent lower than the same quarter last year. Sales for the first half of fiscal year 1998 were 4.7 percent lower than sales for the first half of fiscal year 1997.

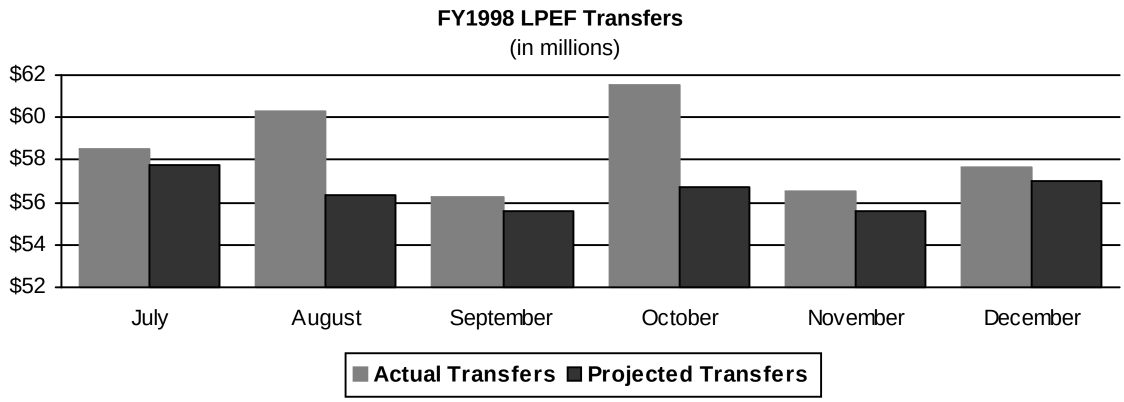
Transfers to the Lottery Profits Education Fund increased slightly from last quarter and continue to remain above projected levels. Year-to-date transfers are $350.8 million, while the total amount of transfers projected for FY 1998 is $679.4 million. In order to meet projections, monthly transfers will need to average $54.8 million for the remainder of the year. Transfers to the LPEF were 30.0 percent of sales, and year-to-date transfers are 31.4 percent of sales.

Although below projections, total sales did increase by about $52.4 million, or 9.8 percent from last quarter's sales. On-line sales showed slow growth overall. Super Lotto sales increased by $2.8 million (2.96 percent) and Kicker sales increased by $.5 million (3.17 percent). Pick 4 sales increased by $1.1 million (3.68 percent), while the Pick 3 and Buckeye 5 games experienced slight decreases in sales.

The majority of the second quarter's increase in sales can be attributed to Instant Tickets. Sales of Instants increased by $48.4 million (18.17 percent) from first quarter's sales. Instant tickets continue to dominate sales and accounted for approximately 53.8 percent of total sales for the quarter. The following table shows the sales by game for each quarter of fiscal year 1998.

The popularity of Instant Tickets continues to be the major reason for the growth in Lottery sales and transfers to the LPEF but also presents a double-edged sword of sorts. As sales increase, profit





transfers as a percentage of sales decrease due to the higher payout percentages of Instants. Lowering prize payouts to levels comparable to on-line games such as Super Lotto may only serve to decrease total sales, thereby decreasing total dollars transferred to the LPEF. ❑

Table 1, FY 1998 Lottery Ticket Sales by Game, millions of current dollars

	Pick 3	Pick 4	Buckeye 5	Kicker	Super Lotto	Instant Tickets	Total Sales
July	$ 35.17	$ 10.21	$ 6.15	$ 4.72	$ 29.01	$ 86.36	$ 171.62
August	35.39	9.96	5.87	6.67	46.16	92.16	196.19
September	35.87	10.08	6.26	3.73	21.25	88.67	165.86
Q1	**106.43**	**30.25**	**18.28**	**15.12**	**96.42**	**267.19**	**533.67**
October	35.96	10.59	6.23	6.70	46.97	92.76	198.99
November	33.67	9.92	5.73	4.69	27.96	97.07	179.05
December	36.53	10.85	6.18	4.20	24.34	125.11	207.21
Q2	**106.16**	**31.36**	**18.14**	**15.59**	**99.27**	**314.94**	**585.25**
Total	**$212.59**	**$61.61**	**$36.42**	**$30.71**	**$195.69**	**$582.13**	**$1,118.92**

Issues of Interest

The Changing Characteristics of Ohio's Welfare Recipients

STEVE MANSFIELD

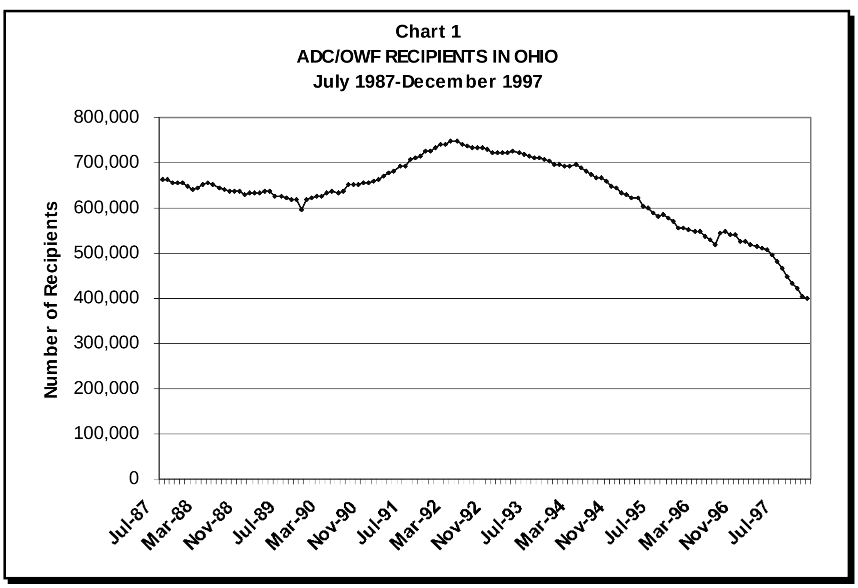
Since reaching a peak of about 750,000 in 1992, the number of recipients in the Ohio Works First program (formerly known as Aid to Dependent Children or ADC) has declined to just under 400,000 (**see chart 1**). This is a level that has not been seen since 1971. At the same time, the characteristics of those receiving aid have undergone some significant changes. Understanding the characteristics of the remaining caseload is very important to the successful delivery of assistance and services.

This article seeks to describe some of the changes that have been taking place in the characteristics of those people who are receiving income maintenance assistance in Ohio. Data from the Ohio Department of Human Services covers, with a few exceptions, the years 1992 through 1997. The source of this data is the report, "Statistics for ADC Recipients" (Report ID: GRP172RB), and other reports derived from ODHS report GRP342RA. Ohio data reported by Federal sources are from the U.S. Department of Health and Human Services, Administration for Children and Families report, "Characteristics and Financial Circumstances of AFDC Recipients." The latter is derived from state monthly quality control reports for federal fiscal years 1983, and 1987 through 1996.

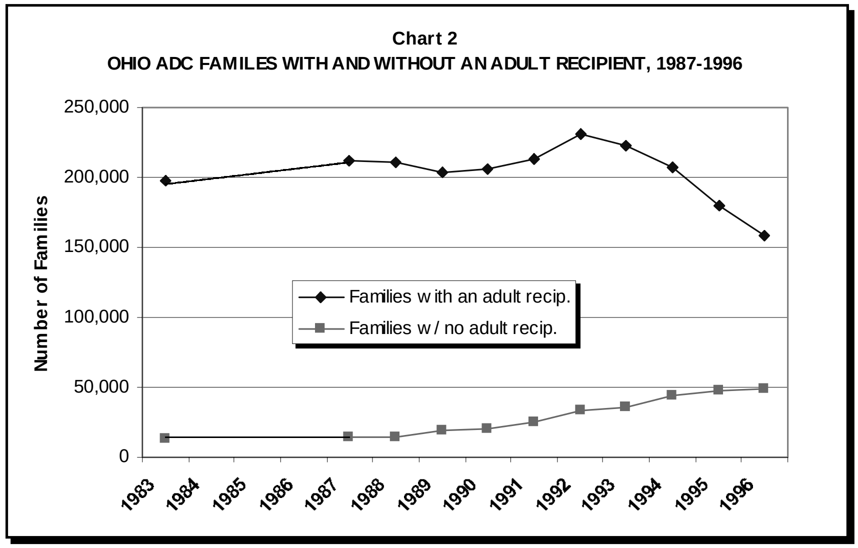
Characteristics of the Assistance Group (AG)

To be eligible to receive ADC/OWF benefits one must (1) have a child living with a parent or other adult (or be expecting a child); and (2) be needy under the income standards established by the State. In some of the cases, there are members of the household unit who do not receive benefits. In these cases, non-recipients may receive benefits in other programs (for example, Supplemental Security Income), or not qualify for benefits, yet have caretaker custody of children who do qualify (for example, a grandparent of recipient children, or a parent who has been sanctioned for non-compliance).

Recipient children are getting somewhat younger. In 1983 the average age was 8 years and 3 months. By 1996 this had declined to 7 years and 6 months. As well, the percentage of children under age 5 has increased from 43.5 percent in 1983 to 45.5 percent in 1997. The proportion of children under 5 peaked in 1993 at nearly 48 percent.



Among adult recipients, women make up a large and increasing majority. In 1983, female adult recipients were 77.5 percent of all adult recipients, while in 1996 they constituted 87.9 percent. Prior to the recession in the early 90s adult male recipients were on the decline. As the recession deepened, there was an increase in the percentage of male adult recipients. However, that increase did not match the earlier level of adult male receipt; and when caseloads began to decline after 1992, male participation continued its decline.



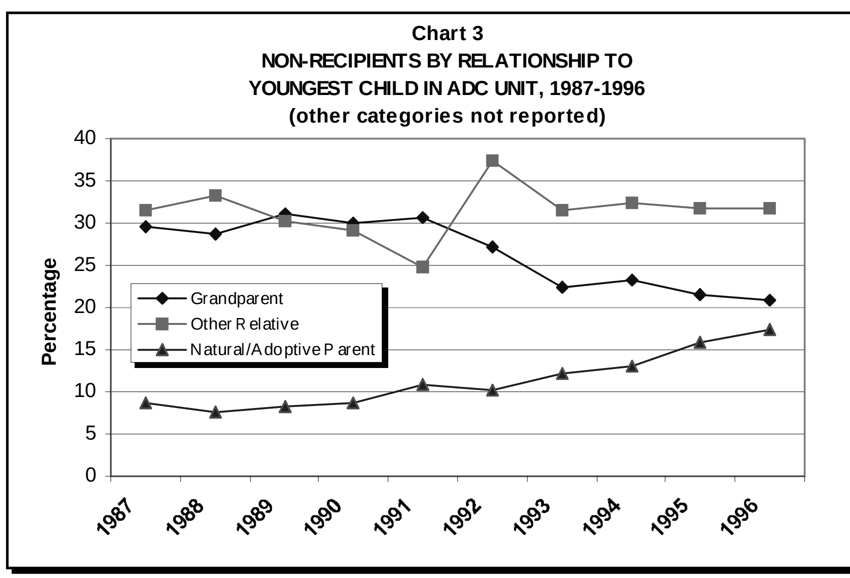
The size of the average recipient family or AG in Ohio has declined from 2.7 in 1992 to 2.5 in 1997. At the same time, however, the average number of children per family has held constant at approximately 1.7. What is happening to the adult component of the caseload thus warrants a more detailed analysis.

The proportion of the caseload composed by adults has declined from 36.6 percent in 1983 to 31.9 percent in 1996. Thus, children compose a larger share of the number of recipients. Yet, as noted above, the average family size is decreasing, not increasing. What explains this development is the increase in the number of cases in which there is no adult recipient. The proportion of AGs without an adult recipient increased from 6.4 percent in 1983 to 23.6 percent in 1996. Besides increasing as a share of the overall caseload, this type of case increased in number from approximately 13,600 in 1983 to 48,700 in 1996 (**see chart 2**).

Nearly all of the adult recipients are the parents of the recipient children (97.5 percent in 1996). Other adult recipients would include grandparents, step-parents, relatives, and others who have been granted custody of the recipient child. Non-recipients who are members of the household may include persons such as those who are recipients in other programs, or non-eligible grandparents, custodians, or parents, including those who have lost eligibility due to sanctions. Analysis of the trend in the distribution of persons in the household who are not recipients reveals that there is an increase in the number of non-recipients who are adoptive or natural parents. This category of non-recipients in the family has increased from 8.6 percent in 1987 to 17.4 percent in 1996. At the same time, the proportion of grandparent non-recipients has declined from 29.6 percent in 1987 to 20.9 percent in 1996. Other categories of non-recipients have either experienced a slight decline (siblings, step-parents, and non-relatives), or held fairly constant (other relative) (**see chart 3**). The cause(s) of this trend is undetermined at the present time.

Reason for Economic Deprivation

By far the numerically largest reason for the economic deprivation of recipient children is



that the parents have never married and one or both of them is absent. The rate of never married parents as a reason for deprivation has increased from 37.5 percent in 1983 to nearly 61 percent in 1996. The proportion of the caseload affected by this reason for deprivation held steady from 1988 to 1992, as the overall caseload peaked during the recession, but increased in the period after the recession, as the caseload declined in overall size (**see chart 4**).

Other reasons for deprivation include one or both parents being absent due to divorce, legal separation, separation but not legally, incapacitation, and death. Unemployment for one or both parents is also a reason for deprivation. Divorce, separation, and unemployment have all exhibited declines in their share of the reasons for deprivation. Incapacitation or death of a parent have held constant.

Chart 4
ADC RECEIPT BY REASON FOR DEPRIVATION
Circumstances of Parent(s), 1987-1996

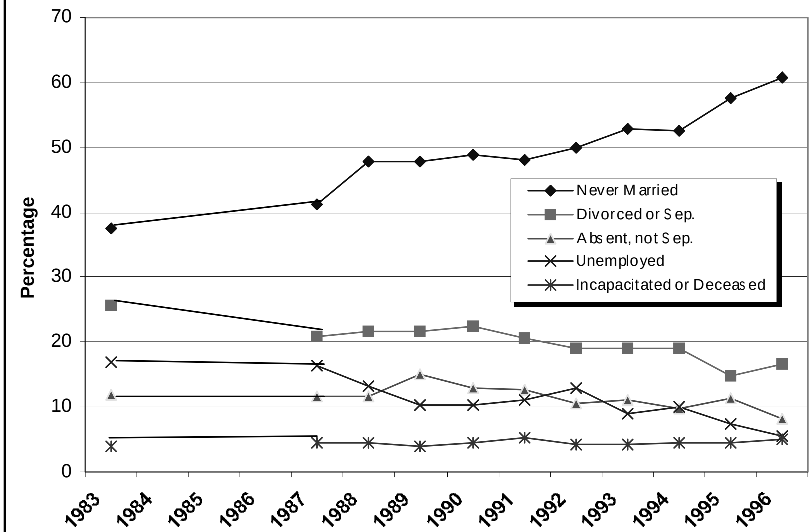
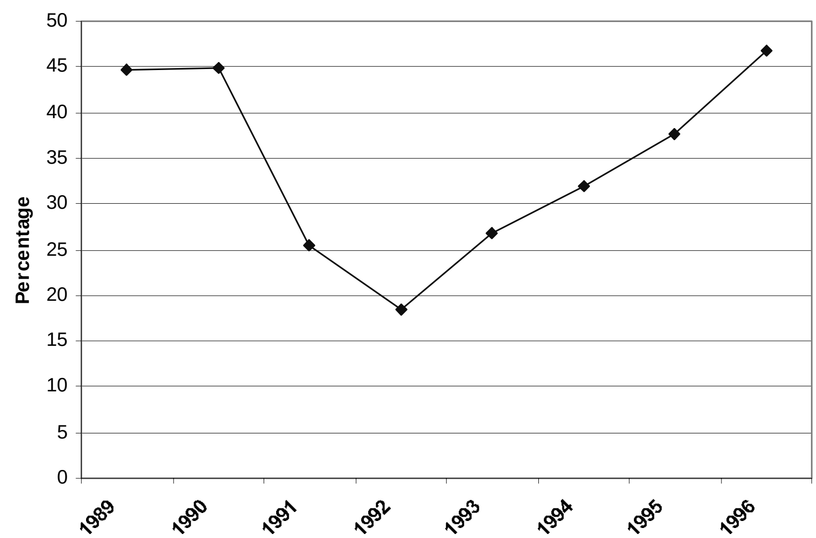


Chart 5
PRIOR RECEIPT OF ADC BENEFITS, 1989-1996



Prior Receipt and Long-term Dependency

Those families with prior receipt of assistance were approximately 45 percent of the caseload in 1989 (the first year this statistic became available), declined to 18.5 percent in the recession year of 1992, and returned to a level of almost 47 percent in 1996 (**see chart 5**).

Among the active cases, the length of time the case has been open has undergone a significant change. Long-term cases (those open 37 or more months) have declined as a share of the caseload from over 45 percent in 1987, 1988, and 1989 to about 35 percent in 1996. Medium-term cases (those open between 13 and 36 months) experienced a slight decline from about 28 percent to 25 percent, in the same time period. At the same time, short-term cases (those open a year or less) have increased as a share of the caseload from about 25 percent to 40 percent (**see chart 6**). The caseload is thus somewhat more "fluid" in composition.

Racial and Urban Distribution of the Caseload

In 1992, African-Americans composed only 37.7 percent of recipients in Ohio, while whites were 56.9 percent. African-Americans have recently exceeded whites in the number of recipients. In December 1997, African-American recipients numbered 192,108, whites 187,947, and Hispanics 11, 873 (**see chart 7**). As a share of the December, 1997 caseload, African-Americans composed 48.3 percent of all recipients, and whites 47.3 percent. The Hispanic composition of the caseload has been fairly constant from 1992 to 1997, varying between 2 and 3 percent.

The trend in racial distribution is different when looking at the nation as a whole. During the period from 1983 to 1996, in the U.S. as a whole, the percentage of white recipients declined from about 34 percent to 32 percent. The percentage of African-Americans declined from roughly 41 percent in 1983 to about 38 percent in 1996, and the percentage of Hispanics increased from about 13 percent in 1983 to 22 percent in 1996. [1]

In 1991, urban dwellers were 60.6 percent of the recipients, where in 1997 they had increased to 67.9 percent (**see chart 8**). At the same time, the trends in the receipt of benefits in urban and non-urban counties has been virtually identical (**see chart 9**). On average, the group of 8 Ohio urban counties compared against the remaining "non-urban" counties are each losing about 1750 recipients per month. With similar rates of decline, the fact that the urban areas of the state started out with a larger number of recipients accounts for the increase in the percentage of urban recipients.

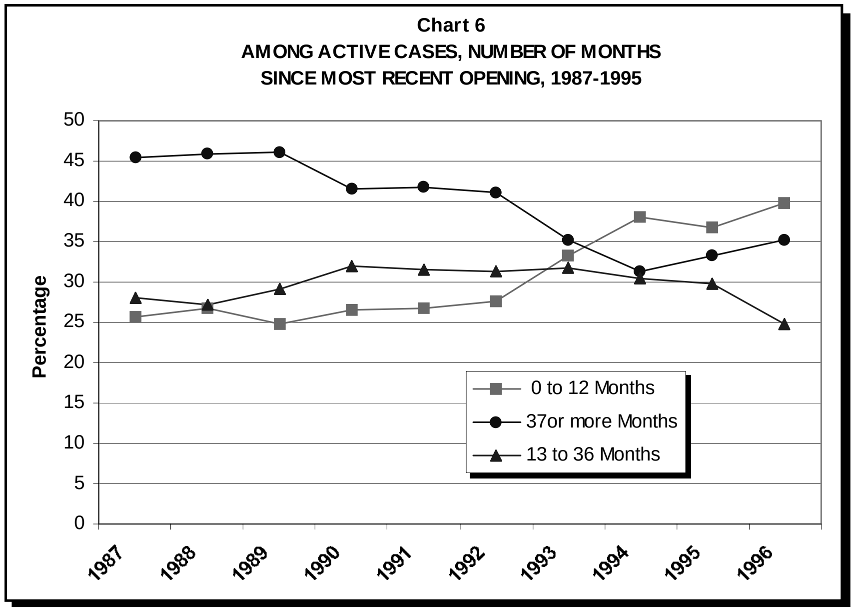
Conclusion

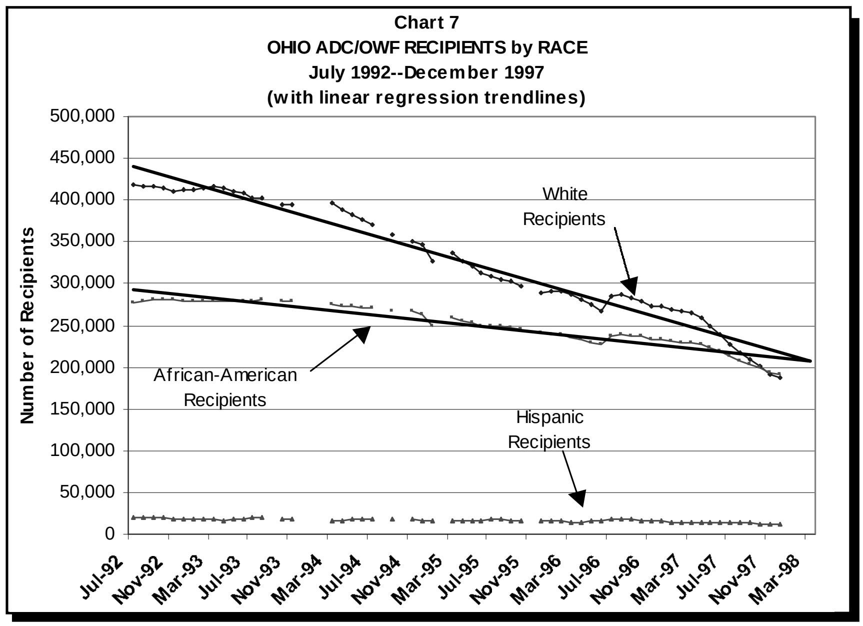
This article has made the following observations:

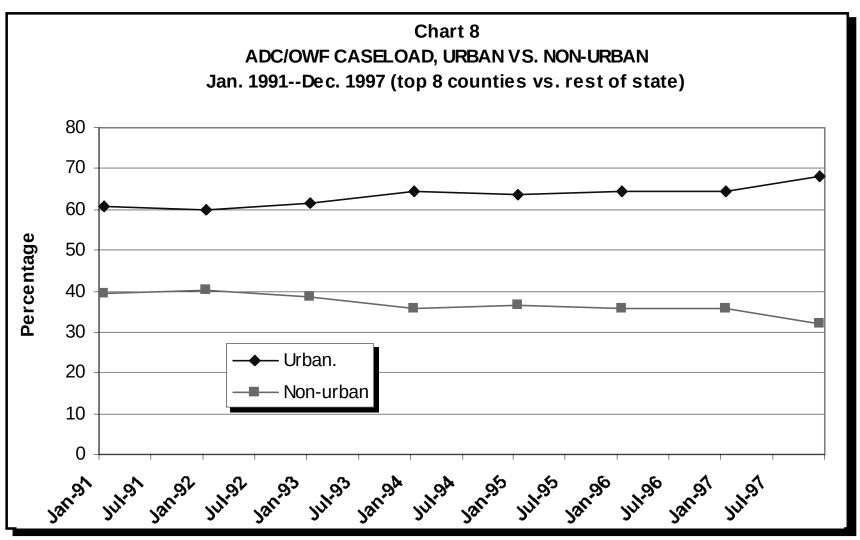
• Ohio's welfare caseload has dropped by nearly 47 percent since its peak in 1992.

• The average age of recipient children has declined.

• Adult recipients are predominantly and increasingly female.







• Adult recipients, in general, compose a smaller share of recipients.

• The share of "child only" cases has nearly quadrupled since 1983, now composing about one-fourth of all cases.

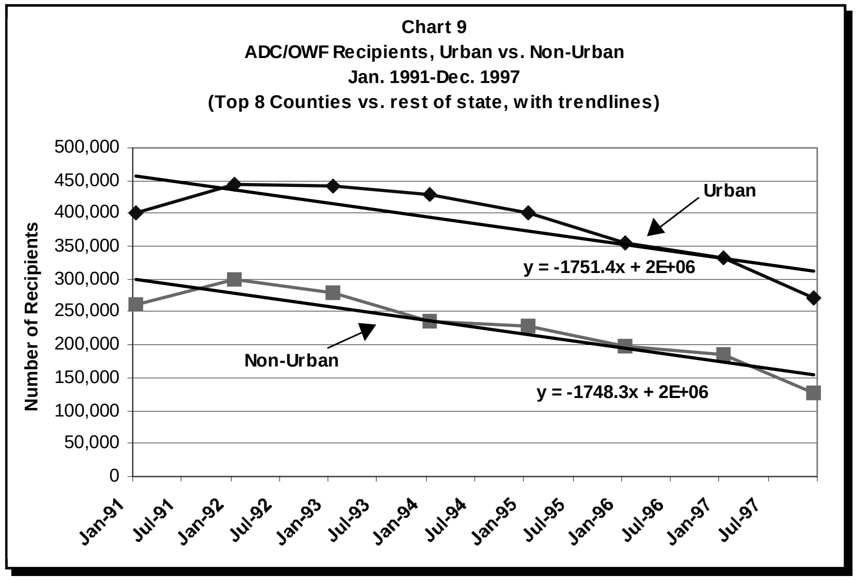
• While grandparents and other relatives are still the largest share of non-recipient household members of "child only" cases, natural and adoptive parents are increasingly present in such cases.

• The largest and increasing reason for economic deprivation of recipient children is that the parents have never married and one or both is absent.

• The percentage of recipients with prior receipt has returned to the pre-recession level. Long-term dependency, however, is in decline.

• Among recipients, African-Americans now outnumber whites.

• Urban recipients compose a majority and slowly increasing share of the caseload. ❑



1 These distributions are for recipient children, only.

Is IOLTA Illegal?

Corey C. Schaal

The scene could be eerily reminiscent. A court decision could be published that renders one of Ohio's programs unconstitutional. The court may hold that the funding mechanism unjustly violates the constitution and cannot continue to operate. However, it would not be the lead story on the evening news, or the headline on tomorrow's front page. Potentially, few people will be aware, as this is the relatively small IOLTA program. The Interest on Lawyers' Trust Accounts (IOLTA) program provides legal assistance in civil matters to those who meet low income criteria.

In 1980, new banking regulations allowed the creation of negotiable order of withdrawal (NOW) accounts, which basically operate as interest bearing checking accounts. Later, legislation enabled attorneys to pool client funds together into interest bearing trust accounts. Prior to this time, trust accounts containing client funds operated as interest free loans to banks. The funds were either too nominal in size or held for too short a period to be of anyone else's financial benefit. States began IOLTA programs as a means to switch this benefit from the banks to institutions that provide legal services for the poor and indigent. Florida began the first program in 1981. Ohio's IOLTA program was created in January of 1985 by Am. Sub. S.B. 219, but revenue collection did not begin until July of that year.

In Ohio, attorneys who receive funds belonging to a client are required under §4705.09 of the Ohio Revised Code to establish and maintain an interest-bearing trust account, for purposes of depositing client funds that are nominal in amount or to be held for a short period of time. All of the interest earned on such funds is transmitted by the banks to the treasurer of state for deposit in the legal aid fund, fund 574, administered by the Ohio Legal Assistance Foundation, a branch of the Ohio Public Defender Commission. In 1996, IOLTA and IOTA accounted for 50.47 percent of the revenues to the legal aid fund. Interest on Trust Accounts (IOTA) is a sister program that was created in 1995 that affects the interest on funds held by title agents. The Ohio Department of Insurance has stated that two-thirds of all title agents in the state are attorneys.

This time, it is not the Ohio Supreme Court that may find an Ohio program unconstitutional. It is the Supreme Court of the United States that is hearing an appeal that argues that a similar IOLTA program in Texas violates the takings clause found in the Fifth Amendment to the U.S. Constitution. On January 13, 1998, the Court heard oral arguments in ***Phillips v. Washington Legal Foundation.*** The case has been appealed from the 5th Circuit which reversed a district court ruling that had held the Texas program constitutional. Earlier cases from the 1st and 11th Circuits have held IOLTA programs constitutional. A ruling by the Supreme Court is not expected until June.

While ideological politics could be the basis for the current legal fight, it is the "takings clause" of the 5th Amendment that is at the foundation of the constitutional argument. The Fifth Amendment to the U.S. Constitution prohibits the taking of private property for public use without just compensation. Opponents argue that IOLTA funds are interest belonging to the individuals owning the generating principle. Proponents argue that the funds exist only because of the program and that a good use is being made out of a regulatory change that harms no one. The use of IOLTA funds has also been connected to advocating for certain legislative and judicial positions. It is for this reason that some claim IOLTA programs are under ideological attack.

If the IOLTA programs are held to be unconstitutional, it could have a detrimental impact upon the provision of legal services to the poor in Ohio. If the IOLTA program were held unconstitutional, then the same would be true of the sister program, IOTA. The state may not only have to eliminate the program, but may be required to return the nearly $50,000,000 disbursed over the past thirteen years. In 1996, the IOLTA and IOTA programs generated Ohio revenues of $5,970,029 and were expected to exceed that amount in 1997 as the IOTA program fully established itself. This comes at a time when federal funding for civil legal services has been severely reduced. Based on summary estimates, 1997 marked the first year when funding from the State surpassed that from the federal Legal Services Corporation (LSC). In the past two years alone, funding from LSC has dropped 27 percent or nearly $3.9 million.

In the state's current biennial budget bill, Am. Sub. H.B. 215, there was a provision requiring the State Public Defender to conduct a study to find additional sources of revenue that could potentially replace the funding derived just from the IOTA portion of the program. The recently released report identified several potential sources of new funds, but concluded that perhaps only the General Revenue Fund (GRF) could generate a sufficient amount of revenue to replace the IOTA program. The report did not take into account any possible need to replace the larger IOLTA program as well. The current funding issues with education make it seem unlikely that GRF would be used to replace either program.

The General Assembly may face a funding dilemma. Perhaps the U.S. Supreme Court will rule that the programs, like Ohio's, are legal. However, this does highlight the need for discussion on alternative funding sources to provide for civil legal services for the poor. The federal trend toward smaller LSC appropriations appears likely to continue for the near future.

The shades of gray are multiple for this debate. Funding to provide for access to civil legal services is not guaranteed under Ohio's Constitution. The state could rectify any constitutional problems by eliminating the IOLTA and IOTA programs without having to replace the lost revenue stream. Or, Ohio, along with other states, may find itself searching for replacement funds. ❑

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