Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE APRIL, 1998

FISCAL OVERVIEW

— *Frederick Church*

March brought more good news to state finances. Led this time by the corporate franchise tax, state tax revenues finished the month $100.5 million over estimate. The personal income tax actually finished third in terms of revenue overage, behind the sales and use tax. However, exercising our usual caution, we point out that the $30.7 million corporate franchise tax overage may be nothing more than the usual timing-related spillover between months. While March collections from the payment due March 31st were above the estimate, preliminary April data indicates that April collections will fall short, although the combined revenues from both months should show a small overage. In contrast, the March overages in the income and sales tax stem from continuing strength in the underlying economic variables that determine their performance. This means that, even treating the whole corporate tax overage as a timing imbalance, the adjusted tax revenue overage in March was $70 million.

Federal grants aside, non-tax revenues were also well above the estimate in March. Most notably, investment earnings were $17.6 million above estimate, as the State Treasurer continues to take advantage of higher than expected cash balances in state funds.

For the year, state revenues — again excepting federal grants — are very healthy. Tax revenues are $275 million above estimate, and year-over-year growth is 6.9 percent. The overage in non-federal revenues is even larger, at $358.2 million, on growth of 5.4 percent. Federal revenues are $354.4 million below estimate, a shortfall even larger than the total underspending in human services. Based on information supplied by the Department of Human Services, LBO tentatively advances the hypothesis that much of this mismatch is due to the timing of draws of federal money for TANF, which is explained in greater detail later in this report (it is still not clear to us that the timing of federal TANF draws explains all of the federal revenue shortfall).

The personal income tax still leads the parade of revenue overages, at $165.7 million above the forecast. Growth from last year is an eye-opening 9.2 percent. While there are overages in all components of the income tax, employer withholding continues to be the biggest factor. Withholding revenue is $127 million above estimate and up 9.0 percent from last year. Making a decision about why growth is so strong and whether it is likely to continue may be the most important estimating challenge facing the state. In FY 1996 and FY 1997, revenue analysts were asking why withholding growth wasn't faster when the state economy was so strong.

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

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

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

Telephone: 614/466-8734

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

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

	Month of March	Fiscal Year 1998 to Date	Last Year	Difference
Beginning Cash Balance	$120.9	$1,367.7		
Revenue + Transfers	$1,601.7	$12,957.0		
Available Resources	$1,722.6	$14,324.7		
Disbursements + Transfers	$1,339.4	$13,941.6		
Ending Cash Balances	**$383.1**	**$383.1**	**$505.3**	**($122.2)**
Encumbrances and Accts. Payable		$421.9	$327.0	$95.0
Unobligated Balance		**($38.8)**	**$178.3**	**($217.2)**
BSF Balance		$862.7	$828.3	
Combined GRF and BSF Balance		**$823.9**	**$1,006.6**	**($182.8)**

Now the question is why withholding growth has accelerated so much. Unraveling this puzzle is clearly vital to the question of how much additional money will be available for education enhancements in the next few years.

On the spending side, March disbursements were far below estimate, but $72.5 million of the $80.5 million underspending was a timing-driven shortfall in property tax relief. The other spending categories were a melange of positive and negative variances. The $20.4 million underspending in TANF was enough to ensure that net spending aside from tax relief was $8.0 million below estimate.

Astute readers will notice that property tax relief disbursements are frequently out of sync with the estimates. A natural follow-up question is, why don't the OBM and LBO analysts do a better job? Unfortunately, we hapless bureaucrats really have only two tools at our disposal for this task: the law and historical spending patterns. We can look at the law to see when property tax payments are due and then estimate when the county auditors will submit the required paperwork to the state in order to receive GRF reimbursement, and further estimate what month that reimbursement will be paid. That done, we can then look at history to see whether these guesses are correct, and adjust our estimates when they are not. The problem is that there is a random and thus inherently unpredictable element to this process. Counties don't submit their requests at the same time every year, and the state agencies don't always respond at the same speed. Therefore the timing of state reimbursements can vary widely from year to year. OBM and LBO estimates are based on what history says about when payments are most likely to be made, but there is no guarantee in any year that monthly payments will follow prior trends. This year, payments to school districts have particularly lagged. March payments to non-school taxing districts actually slightly exceeded the estimate, but no money at all was paid out of the 200-901 line item for school districts.

TANF had the biggest March underspending not driven by timing factors, at $20.4 million. March disbursements were 22.2 percent below estimate. This was a fairly typical month — average monthly spending has been about $20 million short throughout FY 1998. The year-to-date underspending in TANF is $177.8 million, or 20.6 percent. Caseloads have continued to decline, dropping another 6,500 in March. The number of TANF recipients has declined by nearly 93,000 so far this fiscal year, representing a 20 percent decline.

Three quarters of the way through FY 1998, the Department of Human Services has disbursed 98 percent of state line item 400-410's FY 1998 appropriation authority, or $276.0 million. On the other hand, only 52 percent of the $653.0 million in federal money for FY 1998 appropriation authority has been disbursed.

With a reserve of $75 million in each of FYs 1998 and 1999 already in the budget, and a reserve of over $65 million from state FY 1997, the Department of Human Services is now projecting a cumulative unobligated reserve of federal TANF grant funds of approximately $155 million in state FY 1998, and $261 million in state FY 1999. In fact, it appears that the unobligated reserve could be even larger for FY 1998. Fortunately for Ohio and the other states, federal dollars remaining at the end of a federal fiscal year are available to the state over the lifetime of the TANF program, as long as the state fulfills their Maintenance of Effort (MOE) obligation, which Ohio has almost accomplished already for state FY 1998.

Medicaid spending was actually over the estimate in March, after being essentially dead even in February. This turn has come in spite of continuing declines in TANF caseloads and an overall decline for the year in Aged, Blind, and Disabled (ABD) caseloads, a primary driver of hospital spending. Prescription drug spending continues to escalate due to both increases in utilization and skyrocketing prices. It now appears that Medicaid underspending for the year may not be much larger than the current $105 million.

For the year-to-date, GRF spending excluding transfers is $498.2 million below estimate, on growth of 5.2 percent. About 60 percent of the underspending, or $297.5 million, is in human services programs. To repeat an earlier statement, the shortfall in federal grant money received, at $354.4 million, is actually quite a bit larger than the human services underspending (about $57 million). We know that the Department of Human Services has been spending state TANF dollars more in order to meet the Maintenance of Effort (MOE) requirements, and therefore holding federal dollars in reserve. As of the end of March, this is essentially done, and April through June spending should come from child support collections and federal money. Whether this will cause underspending and revenue shortfalls to be reconciled by year's end is still not clear.

Simplified Summary of Current-Year Revenues and Spending

Non-Federal Revenue, Excluding Transfers Other Than Liquor Profits	$324.2
State Spending, Net of Federal Dollars and Transfers	$143.9
Adjustment for Property Tax Relief	($73.9)
Current Year State Surplus Relative to Forecast	$394.1

Questions directed at the LBO in recent months have made it clear that some of our readers would prefer to get a "quick read" on the state's fiscal condition for the current year. While Table 1 paints a picture of the overall cash position of the GRF, it is not easy to extract a summary of year-to-date spending and revenue relative to expectation from that data. The simplified table above presents a summary of current year revenues and spending that shows that the state is doing about $394.1 million better than expected at the beginning of the year. This is a significant improvement over last month, when the figure was $280 million. Strong income tax numbers could make that number jump again by the end of April. Although this table is easier to digest, it does omit all the spice necessary to get the real flavor of the state's fiscal condition.

We have excluded most transfers from the calculation so that the results will not be affected by such transitory phenomena as transfers to and from bond funds, which by year's end should net out or be one-time occurrences that do not speak to the ongoing fiscal health of the GRF. ❑

STATE FINANCES ACROSS THE COUNTRY

— *Frederick Church*

"…when the sea was calm all boats alike
Show'd mastership in floating…"
William Shakespeare, *Coriolanus*, Act IV, Scene 1

Ohio is certainly not the only state with a big revenue overage and a general fund surplus. In FY 1997, state tax revenue across the country increased by 6.2 percent — adjusted for legislated tax changes (mostly cuts), the increase was actually 7.6 percent. Growth was fastest in the personal income tax (8.1 percent), moderate in the sales and use tax (5.2 percent) and in the corporate tax (5.4 percent). Tax revenue growth was fastest in the Far West, and slowest in our Great Lakes region. [1]

Most of the states have responded just like Ohio, with a mix of tax cuts and increased spending on K-12 education. In FY 1997, 26 states had legislated tax cuts operating. Ohio's income tax cut mechanism made it one of five states with cuts that reduced revenue by at least 3 percent. As far as LBO can determine, Ohio is one of five states currently doing its tax cuts in the form of rebates based on year-end surpluses. The other four states are Massachusetts, Minnesota, Missouri, and Oregon.

Most of the states are also similar to Ohio in being somewhat cautious in their tax cutting. Analysts at the National Conference of State Legislatures (NCSL) and the National Governors Association (NGA) have described the cuts as (with exceptions) "wide, but not deep."[2] State economists are still trying to pinpoint the exact reason for the surge in tax revenues. After growing more slowly than expected, given the strong economy, the personal income tax is now growing at or above historical trends based on the economic data. To the extent that the states believe that they know where the money is coming from, they also believe that it is from volatile sources and therefore are worried that it cannot be counted on in the long run.

Year Over Year Withholding Growth, FY 1998

	FY 98 Q1	FY 98 Q2
Ohio	8.8%	10.2%
Great Lakes States	7.3%	7.3%
U.S. Total	7.9%	8.8%

Note: the calculations for the Geat Lakes states and the U.S. total are from the Center for the Study of the States. The Ohio calculations are from LBO, and do not exactly agree with the CSS estimates.

So far in FY 1998, the revenue boom from FY 1997 is continuing. We only have comprehensive data from other states for the first two quarters of the year, but it is still interesting to compare Ohio's experience with that of other states. Basically, Ohio fits in with the national pattern. As the accompanying table indicates, Ohio's growth in withholding for the first two quarters of this year was very similar to the national average.

While Ohio's withholding growth has somewhat outstripped the Great Lakes and U.S. averages, its growth in quarterly estimated payments, while healthy, has been somewhat below the average. Of 31 states that reported quarterly estimated payment growth for the four payments against tax year 1997 to the Center for the Study of the States, Ohio, at 7.4 percent, was one of only eight states that did not have double-digit growth.[3]

It is worth noting in passing that Ohio's experience of having much stronger income tax growth than sales tax growth is also typical. Over the first six months of FY 1998, Ohio's sales tax revenue increased by 5.3 percent, slightly above the Great Lakes average and slightly below the national average.

Year Over Year Sales Tax Growth
FY 1997 and FY 1998

	FY 1997	First half of FY 98
Ohio	4.8%	5.3%
Great Lakes States	4.8%	5.2%
U.S. Total	5.2%	5.5%

Despite the cautions expressed by state economists, the "problem" of state revenue overages and budget surpluses is widespread and deep enough that NCSL will have a special session at their upcoming annual meeting devoted to how states are reacting to budget surpluses. LBO has some unsystematic data on other states that gives some indication of what is happening across the country. Indiana has a surplus of about $1.8 billion, Minnesota's is $1.9 billion. Minnesota is spending much of its surplus on reducing state taxes, giving property tax relief, doing additional capital projects, and increasing spending on K-12 education. Indiana is still debating what to do with its surplus (various tax cut schemes have been proposed). Missouri continues to rebate general fund surpluses to taxpayers. Washington state has used its almost $900 million surplus to increase its budget stabilization fund and do minor tax cuts. Delaware will use its $374 million surplus (almost 19 percent of its $2 billion annual budget) for tax cuts, revenue sharing, speeding up capital projects, and spending growth. Finally, Vermont will use its surplus to do property tax relief and build its education fund stabilization reserve (Vermont, like Ohio, has recently undergone a major school funding reform).

What this indicates is that Ohio seems to be similar to other states in the size of its budget surplus, and that many of the same themes run through state responses to surpluses: building reserves, doing selected tax cuts, property tax relief, increased capital spending and/or faster debt retirement.

The question that Ohio and the other states continue to grapple with is how much of the current good news is transitory — based on things like increased capital gains realizations — and how much should be added to the permanent revenue base when forecasting for the future. Similarly, on the spending side, how much of the reduction in welfare caseloads and slow growth in Medicaid spending is permanent? State economists and budget analysts are engaged in a continuing exchange of ideas and information in an attempt to reach consensus on these issues. Everyone involved hopes that forums conducted by NCSL, NGS, and other policy research bodies will help us find an answer soon. ❑

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[1] *See "Tax Cuts Dampened Strong Fiscal 1997 Revenue," Elizabeth Davis and Donald Boyd, State Fiscal Brief No. 48, January 1998 (Center for the Study of the States).*

[2] *This view is also expressed by the Center for the Study of the States, ibid.*

[3] *"Revenue Growth Accelerates Again," Elizabeth Davis and Donald Boyd, State Revenue Report No. 31, March 1998 (Center for the Study of the States).*

Status of the General Revenue Fund

REVENUES

— Frederick Church

Although the income tax did not have the largest overage in March, for the year to date it still far outdistances all other revenue sources. Through nine months of the fiscal year, income tax revenues are $165.7 million above estimate. Growth from last year is 9.2 percent. All components of the income tax have done better than the estimate, with the biggest overage coming in employer withholding. There are indications that April could be another big month, leading us to wonder exactly how strong FY 1998 will turn out and how much of this year's performance will carry over into FY 1999. More detail on the income tax is contained in a section devoted to it, below.

The performance of the sales and use tax has been less spectacular, but by year's end there will be a significant overage accumulated there as well. Through March the sales and use tax was $56.5 million over estimate. Both the auto and non-auto components of the tax are doing well, with growth slightly over 6 percent in autos and slightly less than 6 percent in non-automotive goods and services. The tax's performance has picked up over the last couple of months, buoyed by a strong economy — particularly a strong labor market — and by extra discretionary cash for consumers due to mortgage refinancings. We expect continuing overages for the last 3 months of the year, barring a stock market collapse or some other disaster.

Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of March, 1998
($ in thousands)

REVENUE SOURCE			
TAX INCOME	Actual	Estimate*	Variance
Auto Sales	$68,160	$54,880	$13,280
Non-Auto Sales & Use	303,492	291,434	12,058
Total Sales	$371,653	$346,314	$25,339
Personal Income	$241,421	$217,035	$24,386
Corporate Franchise	309,187	278,448	30,739
Public Utility	211,771	211,565	206
Total Major Taxes	**$1,134,032**	**$1,053,362**	**$80,670**
Foreign Insurance	$66,649	$57,233	$9,416
Domestic Insurance	0	0	0
Business & Property	0	93	(93)
Cigarette	26,260	23,919	2,341
Soft Drink	0	0	0
Alcoholic Beverage	4,077	3,687	390
Liquor Gallonage	1,982	1,944	38
Estate	11,190	3,423	7,767
Racing	0	0	0
Total Other Taxes	$110,158	$90,300	$19,858
Total Taxes	**$1,244,190**	**$1,143,661**	**$100,529**
NON-TAX INCOME			
Earnings on Investments	$33,933	$16,341	$17,592
Licenses and Fees	5,452	5,604	(152)
Other Income	7,500	2,892	4,608
Non-Tax Receipts	$46,885	$24,837	$22,048
TRANSFERS			
Liquor Transfers	$8,000	$8,000	$0
Budget Stabilization	0	0	0
Other Transfers In	0	0	0
Total Transfers In	$8,000	$8,000	$0
TOTAL INCOME less Federal Grants	**$1,299,075**	**$1,176,498**	**$122,577**
Federal Grants	$302,591	$319,898	($17,307)
TOTAL GRF INCOME	**$1,601,666**	**$1,496,396**	**$105,270**

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

Detail may not add to total due to rounding.

The overage in the corporate franchise tax is the result of the split of March 31st payment revenues between March and April being more heavily weighted toward March than originally expected. April revenues will probably fall below the estimate, although LBO expects the combined March-April total to show a small overage.

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	$515,905	$494,606	$21,299	$485,578	6.25%
Non-Auto Sales & Use	3,384,488	3,349,250	35,238	3,201,102	5.73%
Total Sales	$3,900,393	$3,843,856	$56,537	$3,686,680	5.80%
Personal Income	$4,215,065	$4,049,323	**$165,742**	$3,858,936	**9.23%**
Corporate Franchise	719,454	701,922	17,532	696,896	3.24%
Public Utility	452,257	430,453	21,804	426,898	5.94%
Total Major Taxes	$9,287,169	$9,025,554	$261,615	$8,669,410	7.13%
Foreign Insurance	$290,573	$295,126	($4,553)	$285,127	1.91%
Domestic Insurance	678	440	238	224	202.77%
Business & Property	485	1,489	(1,004)	1,135	-57.31%
Cigarette	207,978	204,954	3,024	207,482	0.24%
Soft Drink	0	0	0	18	-100.00%
Alcoholic Beverage	38,684	36,983	1,701	38,216	1.22%
Liquor Gallonage	20,735	20,405	330	20,496	1.17%
Estate	63,101	49,501	13,600	49,690	26.99%
Racing	0	0	0	0	#N/A
Total Other Taxes	$622,234	$608,899	$13,335	$602,389	3.29%
Total Taxes	**$9,909,403**	**$9,634,452**	**$274,951**	**$9,271,799**	**6.88%**
NON -TAX INCOME					
Earnings on Investments	$99,333	$58,660	$40,673	$71,943	38.07%
Licenses and Fees	29,972	57,879	(27,907)	58,003	-48.33%
Other Income	76,001	51,050	24,951	62,360	21.87%
Non-Tax Receipts	$205,306	$167,589	$37,717	$192,306	6.76%
TRANSFERS					
Liquor Transfers	$64,000	$52,500	$11,500	$49,500	29.29%
Budget Stabilization	0	0	0	$0	#N/A
Other Transfers In	269,308	235,300	34,008	398,780	-32.47%
Total Transfers In	$333,308	$287,800	$45,508	$448,280	-25.65%
TOTAL INCOME less Federal Grants	**$10,448,018**	**$10,089,841**	**$358,177**	**$9,912,385**	**5.40%**
Federal Grants	$2,508,948	$2,863,338	($354,390)	2,711,466	-7.47%
TOTAL GRF INCOME	**$12,956,965**	**$12,953,179**	**$3,786**	**$12,623,851**	**2.64%**

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

Detail may not add to total due to rounding.

The public utility excise tax slightly exceeded the estimate in March, and is now $21.8 million over estimate for the year. The March result was something of a surprise, since February revenues had exceeded the estimate. The second of the three estimated payments for each fiscal year is due on March 1. Some small proportion of the March payment is always received and processed early, so it is posted in February. Based on the fact that the first estimated payment in October 1997 almost exactly equaled the estimate, we had rather expected that the same would be true of the second payment also, which would have required that March collections fall short so as to offset the February overage. Since this did not occur, and the second payment was $6.2 million over estimate, it now appears possible that the third payment will also exceed the estimate. [1]

In non-tax income, investment earnings continue above estimate (by $40.7 million) despite the fact that the unobligated GRF fund balance is below last year's level. The average daily cash balance in the GRF and the other state funds that contribute to the GRF's investment earnings are far above what OBM originally expected. Investment earnings are also up 38.1 percent from last year. This appears to be due not only to higher cash balances but also to a greater rate of return on the state's portfolio.

Liquor profit transfers also show a $11.5 million overage. The overage in "other income" and the shortfall in licenses and fees is due to the reclassification of some revenue sources. Finally, federal grants received are even further below estimate than one would expect based on the underspending in welfare and human services programs — in fact, the federal dollar shortfall is far greater than the total underspending in human services programs. As stated above, LBO is still trying to determine exactly what is happening in federal grants revenue.

Personal Income Tax

The income tax component with the biggest overage is still employer withholding, now $127.3 million over the estimate. Year-over-year growth appeared to be moderating, but shot up again in March, making the third quarter figure very strong. Growth through March is 9.0 percent.

Regular readers of this report may recall graphic illustrations of the relationship between the quarterly growth rates of withholding, nonfarm employment, and wages (manufacturing hourly earnings). While quarterly growth rates in these variables show a rough correlation, we have been rather hard put to explain all of the jump in withholding revenue through wage and employment growth. The prior issue of this report suggested that growth in stock option compensation might be a contributing factor, since the receipt of certain types of options (as distinct from their exercise) is treated as ordinary income rather than capital gains, and so are reflected in increased withholding payments rather than in quarterly estimated payments.[2] Whatever the underlying reason for the explosive growth, Ohio is not alone, as the previous section makes clear. Late-year employee bonuses may also be factor in explaining the very high withholding growth in November and December, but cannot explain the surge in March.

In the February issue of ***Budget Footnotes*** we mentioned that the January 1998 estimated payment was well above the estimate and so we expected a strong filing season this Spring. It now appears that this expectation will be realized. One cannot really tell from the March data, but the preliminary April data leads us to expect big quarterly estimated payments and annual settlements. Next month's issue will have full details on April's collections.

Sales and Use Tax

The sales and use tax is over estimate by $56.5 million. As expected, the non-auto tax exceeded the estimate in March, based on February retail activity. Although the Federal Reserve's most recent ***Beige Book*** had painted a somewhat cautious picture of Fourth District retail sales in February (following a very strong January) national sales figures showed solid growth, and Ohio benefited. National sales figures were also revised upward for December and January, and now fit better with the overall picture of a solid, fast-growing, but not inflationary economy. The outlook for the non-auto tax for the rest of FY 1998 remains strong.

In the auto market, Ohio's sales tax rebounded with a big overage in March despite weak national sales figures. Fortunately, most auto analysts view march as an aberration and expect the national market to resume growing in the coming months. The underlying economic fundamentals are strong, and long-term interest rates remain low.

As noted last month, consumer loan demand has weakened slightly, but home mortgage refinancing is still very robust, making home-owners feel richer and boosting spending. In general, the strong economy, with low unemployment, solid wage growth, and low inflation continues to spur consumer confidence and should lead to steady consumption increases in the coming months. ❑

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[1] *The other $13.7 million of the year to date overage is due to the November reconciliation of tax year 1997 estimated payments and actual liabilities. Additional tax due far exceeded the estimate.*

[2] *The law is actually quite complex. "Non-statutory" options, with an "ascertainable market value," are treated as income immediately when the company grants the option to the employee.*

DISBURSEMENTS

*— Jeffrey E. Golon**

Does anybody out there still remember the historic battles between arch tennis rivals Jimmy Conners and Bjorn Borg as they muscled the ball back and forth to each other's baseline just waiting to pounce on their opponent's error? Well, viewing the last four months of the state's GRF disbursements has been a bit like one of those classic Conners-Borg rallys. A positive monthly disbursement variance (December) followed by a negative monthly disbursement (January) followed by another positive monthly disbursement variance (February) followed by yet another negative monthly disbursement variance (March).

March concluded itself by hurling a $81.5 million negative monthly disbursement variance into a pot of year-to-date underspending that equaled $416.8 million at the end of February. Excluding GRF transfers, state spending closed the month of March with a year-to-date high of $498.2 million under estimate. The FY 1998 high water mark for underspending — $460.9 million — was set just two months ago in January.

Of this just-posted $498.2 million negative year-to-date GRF disbursement variance, $226.1 million, or 45.4 percent, has really to be viewed as federal, and not, state money. This is a very large wad of money that is drawn from the federal government to support the state's welfare and human services programs; the most notable of which are Temporary Assistance to Needy Families (TANF) and Medicaid. Once that federal money is backed out, the year-to-date underspending of non-federal state money is reduced to $272.1 million.

Our expectation expressed in last month's issue of ***Budget Footnotes*** was that the amount of federal underspending would continue to grow as the state furiously spent its required maintenance of effort funding for the TANF program and stockpiled federal dollars for future use. This expectation was confirmed.

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of March, 1998
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$340,344	$345,509	($5,165)
Higher Education	148,748	143,754	4,994
Total Education	$489,092	$489,263	($171)
Health Care	$481,009	$464,044	$16,964
Temporary Aid to Needy Families	71,212	91,587	(20,375)
General Assistance/Disability Assistance	5,686	5,839	(153)
Other Welfare	19,371	21,147	(1,776)
Human Services (2)	50,981	46,000	4,981
Total Welfare & Human Services	$628,258	$628,618	($360)
Justice & Corrections	$136,826	$136,167	$659
Environment & Natural Resources	6,913	6,829	84
Transportation	4,492	5,821	(1,329)
Development	11,458	10,582	876
Other Government (3)	37,905	50,210	(12,305)
Capital	559	463	96
Total Government Operations	$198,153	$210,073	($11,920)
Property Tax Relief (4)	$18,436	$90,962	($72,526)
Debt Service	4,456	966	3,489
Total Program Payments	**$1,338,395**	**$1,419,881**	**($81,486)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	992	0	992
Total Transfers Out	$992	$0	$992
TOTAL GRF USES	**$1,339,387**	**$1,419,881**	**($80,494)**

(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.

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)	$3,417,713	$3,488,455	($70,741)	$3,135,432	9.00%
Higher Education	1,635,973	1,627,153	8,820	1,542,679	6.05%
Total Education	$5,053,686	$5,115,608	($61,921)	4,678,111	8.03%
Health Care	$3,907,850	$4,012,542	($104,692)	$3,751,353	4.17%
Temporary Aid to Needy Families	684,513	862,275	(177,762)	757,229	-9.60%
General Assistance/Disability Assistance	44,163	49,664	(5,500)	111	39686.82%
Other Welfare	308,479	325,116	(16,637)	407,474	-24.29%
Human Services (2)	868,154	861,029	7,125	811,284	7.01%
Total Welfare & Human Services	$5,813,160	$6,110,627	($297,467)	$5,727,451	1.50%
Justice & Corrections	$1,170,797	$1,177,098	($6,301)	$1,079,959	8.41%
Environment & Natural Resources	101,554	95,594	5,960	89,117	13.96%
Transportation	21,697	31,200	(9,503)	23,260	-6.72%
Development	91,900	105,144	(13,244)	96,730	-4.99%
Other Government (3)	279,885	322,827	(42,942)	284,758	-1.71%
Capital	3,612	6,588	(2,977)	6,019	-40.00%
Total Government Operations	$1,669,445	$1,738,453	($69,008)	$1,579,844	5.67%
Property Tax Relief (4)	$533,980	$607,859	($73,879)	$596,075	-10.42%
Debt Service	106,594	102,560	4,034	94,947	12.27%
Total Program Payments	**$13,176,866**	**$13,675,107**	**($498,241)**	**$12,676,427**	**3.95%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	——
Budget Stabilization	34,400	34,000	400	0	——
Other Transfers Out	730,343	686,766	43,577	580,631	25.78%
Total Transfers Out	$764,743	$720,766	$43,977	$580,631	31.71%
TOTAL GRF USES	**$13,941,609**	**$14,395,873**	**($454,264)**	**$13,257,058**	**5.16%**

(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 state closed the previous month (February) with 42.0 percent, or $174.9 million, of $416.8 million in year-to-date underspending attributable to federal money. A month later, the state closed with 45.4 percent, or $226.1 million, of $498.2 million in year-to-date underspending attributable to federal money.

What drove March's negative monthly disbursement variance of $81.5 million? In a word, property tax relief. A $76.5 million monthly distribution in real property tax relief from the Department of Education's budget did not occur as planned, a fact we ascribed to simply no more than a matter of timing.

Absent that non-happening, one was left with relatively small monthly underages scattered across various program categories accounting for the remainder of the month's negative disbursement variance.

Close to 80 percent of the year-to-date underspending was directly attributable to four areas of state government — TANF ($177.8 million), Medicaid ($104.7 million), the Department of Education ($70.5 million), and the nonregulatory state agencies included in Other Government Operations ($41.3 million), principally, in order of magnitude, the Department of Administrative Services ($28.5 million), the Auditor of State ($6.0 million), and the Office of Budget and Management ($4.1 million). The reader should keep in mind that, although the dramatic decline in human services caseloads appears to have been checked, the TANF and Medicaid programs still have generated significant amounts of underspending, most of it in federal money.

For some of the more interesting detail that we extracted from the month's disbursement activity read on.

Higher Education

Board of Regents. The Board of Regents (BOR) closed March over the monthly estimate by $5.0 million and over year-to-date by $9.4 million. However, given that BOR's total FY 1998 GRF appropriation authority exceeds $2.2 billion, these amounts were really pretty small in the scheme of the things.

The pattern buried underneath the aggregate spending that we'd like to take a moment and note relates to the student financial aid program where disbursements have accelerated over the course of the third quarter. Specifically what occurred was that spending during January, February, and March exceeded the monthly estimate by an ever-larger amount. These accelerated disbursements have effectively whittled the negative disbursement variance in the student financial aid program component of BOR's spending down to the point where spending was only around 5 percent below the year-to-date estimate.

The GRF side of BOR's student financial aid program contains seven line items with a FY 1998 appropriation authority totaling in excess of $154.0 million, the largest of which is Ohio Instructional Grants at $93-plus million (line item 235-503). All of this state funding is used to provide financial assistance to college students based on a variety of criteria ranging from economic need to academic achievement.

With regard to monthly student financial aid program spending, January disbursements of $14.3 million were virtually right on the estimate, February disbursements of $18.3 million exceeded the estimate by $1.6 million, or 10 percent, and March disbursements of $12.4 million exceeded the estimate of $7.4 million by $5 million, or 68 percent.

Year-to-date, student financial aid program disbursements totaled $119.3 million, approximately $6.6 million, or 5 percent, below the estimate of $125.9 million. This year-to-date variance at the end of March was smaller than where the year-to-date variance stood just

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

	March '98				Year-to Date Spending			
Service Category	Actual	Estimate	Variance	Percent Variance	Actual** thru' March	Estimate** thru' March	Variance	Percent Variance
Nursing Homes	$142,098,437	$146,722,391	($4,623,954)	-3.2%	$1,414,287,678	$1,374,826,976	$39,460,702	2.9%
ICF/MR	$26,790,458	$26,619,167	$171,291	0.6%	$255,616,099	$256,560,278	($944,179)	-0.4%
Hospitals	$131,413,410	$106,761,690	$24,651,720	23.1%	$882,168,355	$901,601,720	($19,433,365)	-2.2%
Inpatient Hospitals	$100,429,248	$83,958,775	$16,470,473	19.6%	$682,252,045	$698,679,206	($16,427,161)	-2.4%
Outpatient Hospitals	$30,984,162	$22,802,915	$8,181,247	35.9%	$199,916,310	$202,922,514	($3,006,204)	-1.5%
Physicians	$32,435,495	$25,730,065	$6,705,430	26.1%	$213,077,085	$215,651,317	($2,574,232)	-1.2%
Prescription Drugs	$60,698,685	$54,061,944	$6,636,741	12.3%	$391,441,530	$355,735,029	$35,706,501	10.0%
Payments	$61,194,313	$58,024,838	$3,169,475	5.5%	$469,242,468	$436,636,392	$32,606,076	7.5%
Rebates	$495,628	$3,962,894	($3,467,266)	-87.5%	$77,800,938	$80,901,363	($3,100,425)	-3.8%
HMO	$36,596,130	$60,594,060	($23,997,930)	-39.6%	$396,345,678	$498,012,735	($101,667,057)	-20.4%
Medicare Buy-In	$10,181,361	$10,125,966	$55,395	0.5%	$91,650,457	$98,502,561	($6,852,104)	-7.0%
All Other***	$40,995,838	$33,429,080	$7,566,758	22.6%	$262,277,178	$311,645,731	($49,368,553)	-15.8%
TOTAL	$481,209,814	$464,044,363	$17,165,451	3.7%	$3,906,864,061	$4,012,536,347	($105,672,286)	-2.6%
CAS	$481,008,620		$16,964,257	3.7%	$3,907,850,781		($104,685,566)	-2.6%
Estimated Federal Share	$279,884,045	$269,900,176	$9,983,869		$2,272,514,190	$2,333,975,963	($61,461,773)	
Estimated State Share	$201,325,769	$194,144,187	$7,181,582	3.7%	$1,634,349,871	$1,678,560,384	($44,210,513)	-2.6%

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

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

*** 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 March 98	FY 1997 Yr.-to-Date as of March 97	Variance	Percent Variance
Nursing Homes	$1,414,287,678	$1,310,036,435	$104,251,243	8.0%
ICF/MR	$255,616,099	$242,503,935	$13,112,164	5.4%
Hospitals	$882,168,355	$934,633,013	($52,464,658)	-5.6%
Inpatient Hospitals	$682,252,045	$716,475,263	($34,223,218)	-4.8%
Outpatient Hospitals	$199,916,310	$218,157,750	($18,241,440)	-8.4%
Physicians	$213,077,085	$223,746,195	($10,669,110)	-4.8%
Prescription Drugs	$391,441,530	$336,107,972	$55,333,558	16.5%
Payments	$469,242,468	$414,076,912	$55,165,556	13.3%
Rebates	$77,800,938	$77,968,940	($168,002)	-0.2%
HMO	$396,345,678	$333,780,988	$62,564,690	18.7%
Medicare Buy-In	$91,650,457	$99,551,378	($7,900,921)	-7.9%
All Other***	$262,277,178	$271,076,249	($8,799,071)	-3.2%
TOTAL	$3,906,864,061	$3,751,436,165	$155,427,896	4.1%
Estimated Federal Share	$2,272,514,190	$2,213,347,337	$59,166,853	2.7%
Estimated State Share	$1,634,349,871	$1,538,088,828	$96,261,043	6.3%

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

1 . Includes FY 1997 encumbrances of $78.5 million.

three months ago at the end of December, which was 15 percent below estimate. Obviously, state colleges and universities have gotten their student numbers into BOR for certification and the payment tap has turned wide open.

Health Care/Medicaid

March Medicaid spending registered an unexpected positive disbursement variance of $17.0 million over the estimated monthly total of $464.0 million, thus reducing Medicaid's year-to-date underspending to $104.7 million, or 2.6 percent below estimate. This monthly overage marked only the second such positive disbursement occurrence this fiscal year, with the first monthly overage — a mere $1.1 million — having occurred way back in September. (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.)

Could this be the beginning of a reversal of the pattern we have become accustomed to in this fiscal year, especially in light of last month's Medicaid spending landing virtually right on target? And should we be concerned? We, as analysts, are always concerned whenever we see results that are contrary to our expectations. However, that said, in our mind, the last two months of Medicaid spending should not be seen as the beginning of a trend, particularly when year-to-date disbursements are running 3 percentage points below planned FY 1998 spending growth relative to FY 1997 levels (see Table 8, Medicaid Spending Growth Review).

In addition, March was an unusual month in that five weekly payments were made as opposed to four (this occurs occasionally during any given year), introducing an element of timing to the monthly variance.

Furthermore, though lacking information regarding the characteristics of recipients for whom claims were paid, we believe from a limited analysis of claims processing data that certain claims for services rendered during the Christmas holidays are just now hitting the system. For those not familiar with Medicaid service and payment issues, significant time lags exist between when a service is offered to a Medicaid eligible person and when payment for that service is rendered. Such payment lags have been established and tracked through the history of the program and are used in the distribution of disbursements when the program budget is established. Thus, short-term changes in claims submission patterns by providers in large service categories like hospital services can cause unanticipated distortions in monthly disbursements.

Let's look more closely at a few of the Medicaid program's many service categories, in particular Hospitals, Prescription Drugs, and HMOs.

Hospitals. A review of service categories revealed that payments for Hospital services were over estimate by $24.7 million, or 23.1 percent. Inpatient Hospital services exceeded estimate by $16.5 million, while payments for Outpatient Hospital services were above estimate by $8.2 million. For the year-to-date, spending on Hospital services were $19.4 million, or 2.2 percent, below estimate, the result of a slightly lower than expected caseload in the Aged, Blind, and Disabled (ABD) population, who account for about 60 percent of the spending in this service category. In addition, spending on hospital services continued to perform well, when compared to estimated growth from FY 1997, posting a decline of 5.6 percent for the year-to-date versus an anticipated full year decline of 5.4 percent.

Prescription Drugs. Spending on Prescription Drugs continued its

Table 8
Medicaid Spending (GRF 400-525 only)
Growth Review

	Yr.-To-Date FY 98 Change From FY 97 as of March[1]	Estimated FY 98 Spending Growth From FY 97	FY 96 - FY 97 Growth
Nursing Homes	7.96%	6.18%	3.66%
ICF/MR	5.41%	5.71%	3.06%
Hospitals	-5.61%	-5.40%	-9.39%
Inpatient Hospitals	-4.78%	-3.81%	-9.60%
Outpatient Hospitals	-8.36%	-10.55%	-8.72%
Physicians	-4.77%	-6.43%	-10.57%
Prescription Drugs	16.46%	1.90%	8.39%
Payments	13.32%	2.62%	7.10%
Rebates	-0.22%	5.67%	1.94%
HMO	18.74%	57.29%	0.62%
Medicare Buy-In	-7.94%	7.76%	0.60%
All Other Care*	-3.25%	12.83%	1.57%
TOTAL	4.14%	7.01%	-0.89%
Federal Share	2.67%	2.77%	0.13%
State Share	6.26%	13.57%	-2.43%

1 Estimated disbursements: i.e. the sum of the FY 1998 appropriation and $76.1 million of the $78.5 million FY 1997 encumbrance that was disbursed early in FY 1998.

* Includes services such as dental care, home health care, and other practicioners, and includes various contracts.

Note: Table does not include Medicaid spending for administration, disproportionate share programs, bed-tax programs, "transfer services," or by agencies outside the Department of Human Services.

all too familiar pattern, exceeding estimate by $6.6 million in March. For the year-to-date, Prescription Drugs spending was above estimate by $35.7 million, or 10 percent. This was due primarily to increased demand for drug services by the ABD population. However, recently emerging data on drug pricing has led us to believe that the growth in prescription drug spending is being equally driven by an upward trend in base prices for brand name and generic drugs, although more so for brand name drugs. The March 1998 issue of ***Pharmacy Times*** reported that, as national demand for prescriptions soared in 1997, "a rash of important but costly new drugs reached the market," which accelerated spending.

In the February 5, 1998 issue of ***Hospitals and Health Networks*** (Vol. 72, No. 3), H. Meyer reported that third party industry costs increased by 17.5 percent in 1997. Meyer cited an aging population (well known to Medicaid), direct consumer advertising of prescription only products, faster FDA approval, and a willingness to substitute pharmaceuticals for other therapies as the contributors to the cost increase. Meyer further stated that these increases have forced HMOs and pharmacy benefits companies to begin to stem their cost increases by limiting drug formularies.

The Department of Human Services has certainly been ahead of the game in trying to achieve prescription drug cost savings. The current budget for prescription drug spending incorporated a change in formulary. Medicaid has moved away from a pricing scheme based on a national prices using the average wholesale price (AWP) system — the average price wholesalers charge retailers — to a more conservative system based on the Wholesale Acquisition Cost (WAC) — the price wholesalers pay manufacturers/labelers. The estimated effect of this change was that it would reduce the base pricing at which Medicaid could be billed by 4.2 percent, and took effect October 1, 1997.

In our opinion, this well intended cost saving measure will in the end serve to have contained a potentially explosive spending growth, when the anticipated price reductions collide against industry cost increases of 17.5 percent and increased utilization by our traditional Medicaid prescription drug recipient. The situation will be further complicated by the reduction in TANF caseloads, and as more of the TANF eligibles are moved into managed care. The ratio of ABD recipients to younger recipients will grow larger and generate higher averages in prescription counts and spending per recipient. TANF eligibles have traditionally contributed to keeping spending per recipient averages down.

HMOs. Spending on the HMO service category continued to be hampered by declining caseloads, and, more recently, declining rates of enrollment of TANF eligibles in HMOs. For the month of March, payments for HMO services fell short of estimate by $24.0 million, or 39.6 percent. For the year-to-date, HMO spending was below estimate by $101.7 million, accounting for 97 percent of Medicaid's total year-to-date underspending. In our November/December issue of ***Budget Footnotes***, we discussed the policy issue of increased HMO penetration rates and its implication for access to care and cost predictability of the Medicaid program. Since reaching a fiscal year high HMO penetration rate of 54.4 percent in December 1997, the penetration rate had fallen to 51.4 percent by the close of March, some three months later.

The effect of this lower than anticipated HMO penetration rate is that further gains in Medicaid fee-for-service spending on the TANF population will be delayed until well into the next fiscal year. This, however, assumes that the planned conversion of "Voluntary HMO Counties" to "Mandatory HMO Counties" on October 1, 1998 yields the desired HMO penetration rates.

TANF

The disbursement variance in the TANF (Temporary Assistance to Needy Families) program for March checked in at $20.4 million, or 22.2 percent, under estimate. The pressure of this negative monthly disbursement variance propelled TANF's year-to-date underspending upward to a high water mark of $177.8 million, or 20.6 percent below where the estimate assumed we would be at this point in the fiscal year.

Recall that last month, we witnessed state funded line item 400-410, TANF State, landing above estimate and line item 400-411, TANF Federal Block Grant, landing below estimate, and then suggested this would become a pattern running through the remainder of the fiscal year. And the March numbers are in. Disbursements from line 400-410 hit $40.7 million *above* estimate, while the disbursements from line item 400-411 fell $61.1 million *below* estimate.

Relative to the spending levels established by the budget bill, this meant that three-quarters through the fiscal year the Department of Human Services has disbursed 98 percent of state line item 400-410's FY 1998 appropriation authority — $275.96 million. On the federal side of the TANF coin, 52 percent of line item 400-411's $652.96 million FY 1999 appropriation authority has been disbursed.

With a reserve of $75 million in each of FYs 1998 and 1999 already in the budget, and a reserve of over $65 million from state FY 1997, the Department of Human Services is now projecting a cumulative unobligated reserve of federal TANF grant funds of approximately $155 million in state FY 1998, and $261 million in state FY 1999. Any federal dollars remaining at the end of a federal fiscal year are available to the state over the lifetime of the TANF program, as long as the state has met the appropriate level of its Maintenance of Effort (MOE) spending. By fully expending line item 400-410's appropriation, Ohio will have met our MOE obligation for FY 1998.

The decline in the TANF caseload continued, albeit at a somewhat slower pace of about 6,500 fewer recipients for the month. The number of TANF recipients has declined by nearly 93,000 so far this fiscal year, representing a 20 percent decline.

General Assistance/Disability Assistance

The March disbursement for the Disability Assistance program (DA) was below estimate by about $153,000, or 2.6 percent. This rather miniscule amount of underspending came right on the heels of February's much heftier $1.1 million negative disbursement variance. For the fiscal year, DA program disbursements now registered $5.5 million, 11.1 percent, below estimate.

Again, like last month, the DA caseload inched up, reversing what had been a steady downward trend.

Other Welfare

Department of Human Services. Folks who take our monthly disbursements tour may remember a January event in which the Controlling Board approved a Department of Human Services request to transfer $5.0 million in biennial appropriation authority from the Disability Assistance line item (400-511) to create a new GRF line item 400-414, State Option Food Stamp Program. The department's intent was for these transferred funds to initiate a new program to provide food stamps to a portion of the legal immigrant population who lost food stamp benefits as a result of the federal welfare reform. (For a more in-depth discussion on this new food stamp program, Steve Mansfield authored an article that appeared under "Issues of Interest" in the February issue of ***Budget Footnotes***.)

State Option Food Stamp Program Update. Of this new food stamp program's $1.0 million FY 1998 appropriation authority, $98,000 has been disbursed so far. This entire amount was disbursed during the month of March when the department made an advance purchase of food stamps from the federal government, with program operations expected to commence on April 1st.

Other Human Services

Aging. The Department of Aging again pushed more GRF money out the door for the PASSPORT program than was expected. Why? As noted in recent issues of ***Budget Footnotes***, the department had been spending nursing facility franchise fee revenues to fund PASSPORT — a program providing home health care to Medicaid eligible older persons — rather than GRF money, as originally assumed (line item 490-403). That trend continued through January, at which time year-to-date GRF spending for the program was approximately $7.6 million under estimate. However, February saw that trend reverse itself with a $2.1 million overage. March has followed suit by posting another overage, this one totaling approximately $3.3 million, and cut PASSPORT's year-to-date GRF underspending to $2.2 million. (LBO fully anticipates this new monthly disbursement trend of GRF spending on PASSPORT exceeding estimate to continue at least into the month of April.)

Alcohol and Drug Addictions Services. The Department of Alcohol and Drug Addiction Services hit well over the mark in March with a positive disbursement variance of $5.7 million, considerably over the $334,752 estimate for the month. What happened? The department released almost $6 million in third quarter allocations from line item 038-401, Alcohol and Drug Addiction Services — one month later than originally assumed — for use by local alcohol, drug addiction, and mental health (ADAMH) boards in the provision of alcohol and drug addiction prevention, intervention, treatment, counseling, and residential and community support services. The reason for the late release of funds was simply timing.

Health. Four selective line items within the Department of Health's $77-plus million FY 1998 GRF budget caught our attention. First, the department's single largest GRF line item — 440-505, Medically Handicapped Children, a $12-plus million annual effort that is part of the family and community health services program — had virtually exhausted its FY 1998 appropriation authority. This line item pays for diagnosis, treatment, and supportive services provided to handicapped children meeting certain medical and economic eligibility criteria. However, the depletion of this appropriation was not a point of concern as the department's strategy is to tap this GRF money and then turn to the financial resources available from Fund 666. (Fund 666 captures an annual assessment collected from each county during the months of March and April for the purposes of assisting medically handicapped children.)

And then there were three line items that presented a very different picture — sluggish year-to-date disbursement activity. The first line item, 440-413, Ohio Health Care Data System — which carries an annual appropriation of close to $3 million for the purpose of collecting, analyzing, and disseminating health care information — has yet to disburse even one-third of its FY 1998 appropriation. We then learned that the department was sitting on a $1.0 million encumbrance reflecting a future planned payment to The Gallop Organization, which is conducting an extensive survey project that will determine the number of uninsured and underinsured persons in Ohio and provide required baseline and descriptive health care information.

The second line item 440-504, Poison Control Network, has disbursed none of its $451,925 FY 1998 appropriation, which is guided by temporary law packed into Am. Sub. H.B. 215, the main operating budget bill of the 122nd General Assembly. The law states that roughly half of the appropriation shall be used to consolidate poison control centers in Ohio in a single location in Hamilton County and that all available funds are to be used for grants to the consolidated Ohio Poison Control Center to provide poison control services to Ohio citizens. It appeared that the state's three or so remaining poison control centers have been unable to agree upon a consolidation plan, and, until that day arrives, no funds will be disbursed.

The third, and last line item that drew our attention was 440-508, Migrant Health, where only 25 percent of its $123,000 FY 1998 appropriation has been disbursed, and all of that occurred in February. This line item was established in FY 1994 to provide seasonal health care services to migrant laborers and their families, services which are provided by Liberty Health Center, an ambulatory care facility located in northeast Henry County that also provides services to area residents on a year round basis. As we are fast approaching the peak growing season, it seems a reasonable expectation that the remaining money will soon find its way out the door.

Rehabilitation Services. We have repeatedly remarked about the resistance of the Rehabilitation Service Commission's (RSC) year-to-date underspending to erosion and remained optimistic that it would ultimately give way. (If you are running programs driven by federal funding eventually you've got to ante up the required state match.) The March numbers suggested our confidence was not ill founded, with RSC posting a positive disbursement variance of $1.3 million driven almost entirely by the $11 million line item 415-506, Case Services for People with Disabilities. This monthly overage knocked RSC's negative year-to-date disbursement variance from its previous high of $3.8 million registered just last month down to a new low of $2.5 million. The previous low in RSC's year-to-date underspending — $2.7 million — was registered way back in August, just two months into the current fiscal year!

Other Government

Administrative Services. As we have mentioned on numerous previous occasions, the Department of Administrative Services (DAS) had been accumulating an ever-growing pile of year-to-date underspending. After yet another negative monthly disbursement variance, this one totaling $5.4 million, the department's year-to-date underspending hit a new fiscal year high — $28.5 million. The major players continued to be line items within two departmental program series — statewide support services and computer services.

Under the largest program component of statewide support services, DAS provides payment of rent and operating expenses for state agencies that occupy space in six state office buildings, including three Columbus sites — the State of Ohio Computer Center, the Rhodes Tower, and the Riffe Center for Government and the Arts. Rent expenses consist of payments of bond service charges for obligations issued by the Ohio Building Authority to finance the costs of those buildings.

At least $13.0 million of DAS's year-to-date underspending was traceable back to these line items, $11.3 million of which was attributable to lower than expected debt service payments (line items 100-447 and 100-448). (The lapsing of debt service moneys is never entirely unexpected and generally signals favorable market conditions.) The remainder, $1.7 million, was found in line item 100-433, which funds the operating and building management expenses of the State of Ohio Computer Center (SOCC).

We fully anticipate that all of the GRF moneys appropriated for SOCC's operations in FY 1998 ($4.9 million) will not be needed and that DAS may attempt to tap the excess to aid other departmental programs. How do we know that? The department already presented a request to the Controlling Board on its March 24, 1998 agenda that requested a transfer of $205,000 from SOCC's FY 1998 appropriation to three other departmental programs. That request was deferred.

The second major player in DAS's year-to-date underspending was their computer services program series, which provides computing and communications services to other state agencies. This program series was responsible for at least $10.8 million of the year-to-date underspending (Year 2000 Assistance, SOMACS, MARCS, and Strategic Technology). The Year 2000 Assistance line item (100-430) — a funding stream to hire computer programmers, purchase computer software applications, and conduct testing activities that will allow the state to correct computer applications, making them Year 2000 compliant — alone has chipped in $5.3 million. Although this Year 2000 Assistance money only accounted for about $600,000 of March's variance, for the fiscal year, only $738,000 of the $8.0 million FY 1998 appropriation, or 9 percent, has been disbursed. DAS had planned to disburse close to $6 million of the appropriation by this time, but the Year 2000 Assistance administrators have been slower in hiring staff, purchasing software and other equipment, and paying contracts than they had hoped. (A late start on these planned disbursements plus the critical nature of the state's Year 2000 task would suggest that a load of this unspent FY 1998 money will be encumbered, carried into FY 1999, and spent at some future date.)

Auditor of State. Year-to-date, the Auditor of State was carrying a $6.0 million negative disbursement variance, primarily driven by the $30-plus million line item 070-321, Operating Expenses. This line item, which covers personnel, maintenance, and equipment costs, was more than $4.5 million under estimate year-to-date.

We do not expect to witness any diminution in this underage in the Operating Expenses line item by the end of the fiscal year. Why? Because during the previous two fiscal years, the Auditor has ended with underages of around $5 million to $6 million in this line item. According to the Auditor's office, these underages reflect the current Auditor's philosophy to minimize spending, and, whenever possible, to charge costs to the Auditor's two non-GRF Public Audit Expense line items (Fund 109 and Fund 422). The revenue streams for these two funds capture payments from state agencies and local governments for the cost of audits performed by the Auditor.

A smaller contributor to the Auditor's year-to-date negative disbursement variance was the $2 million line item 070-406, Uniform Accounting Network, which is used to develop and maintain the Uniform Accounting Network (UAN). The UAN provides local governments with a complete computer system, training, and support to improve their management and accounting procedures. We expect most, but not all, of this underage to be spent by the close of the fiscal year. The Auditor's office has indicated that planned computer equipment purchases should eliminate most of the underage in the UAN line item. It should also be noted that temporary law contained in Am. Sub. H.B. 215 stipulates that any unencumbered balance in the UAN appropriation at the end of FY 1998 is transferred into FY 1999.

Budget and Management. Our monthly survey of the disbursement landscape revealed a potentially provocative find. Although perhaps not on the order of a space oddity, it most certainly was a relatively large number in a very unexpected location — the Office of Budget and Management (OBM). For the month of March, OBM showed a negative disbursement variance totaling $3.8 million.

On the face of it, one might then say that is not very odd whatsoever. Well, let's thicken the soup a little. OBM's entire FY 1998 GRF budget is only $3.6 million. Looks a little more interesting now doesn't it? This is when it becomes very useful to remember that state agencies frequently encumber funds appropriated in one fiscal year and carry them for disbursement in a subsequent fiscal year.

The source of this rather large $3.8 million wrinkle in OBM's monthly disbursements was line item 042-407, Central State Deficit Reduction. It was created by Am. Sub. S.B. 6 of the 122nd General Assembly, coming somewhat late in FY 1997 with appropriations totaling $10.3 million. Two key features of the bill were to: (1) provide OBM with moneys that would continue the process of extracting Central State University from a deep fiscal mess; and (2) order the creation of standards and procedures for instituting and terminating "fiscal watches" for all state universities and colleges. With regard to Central State University, the bill also: forgave a $1.5 million loan approved by the Controlling Board in FY 1995; required the university submit a Fiscal Recovery Plan; and required the Director of OBM appoint a financial supervisor to monitor adherence to the plan and advise the director on the financial status of the university. Of the original $10.3 million FY 1997 appropriation, $2.9 was spent, with the remainder — $7.4 million — encumbered and carried into FY 1998.

To date, none of those encumbered funds have been spent, but around $2 million in obligations have been identified thus far this fiscal year. These obligations include reimbursing Central State University for payments the school made for external consultants ($430,000), its federal financial aid settlement ($320,000), and other services ($300,000). Also included in that $2 million total is the not-to-exceed $1.0 million for reoccurring operating expenses in FY 1998 that is permitted under temporary law contained in Am. Sub. H.B. 215.

OBM had estimated that it would make a $3-plus million disbursement from the Central State Deficit Reduction line item in March, but that did not happen. Despite this non-happening, it appears, at this time, that OBM still fully expects to spend the entire $7.4 million still left in the line item.

While we're on the subject, some notes and notables. First, at Central State University: a Vice President for Finance has been hired, and various budget and fiscal staff positions have been filled; and a Financial Supervisor has been hired — KPMG Peat Marwick — and will begin biweekly reporting to OBM on the financial strength of the institution shortly. In addition to extracting the university from its operating budget woes, the state spent approximately $15 million on capital renovations, including critical fire and life safety repairs to dormitories and the cafeteria. Sherman R. Smoot Company, which essentially served as the construction manager on this campus-wide building rehabilitation process, finally departed the site last January. Smoot had been involved in this undertaking since at least July of 1996.

Second, and last, Am. Sub. S.B. 6. The bill required OBM, with assistance from the Board of Regents and the Auditor of State, to develop a system to avoid fiscal crises in state affiliated higher education institutions, if possible, and to alert the state to crises-in-the-making so that remedial activities could be initiated. That system has been operational for approximately 9 months.

Thus far, no new higher education institutions have been placed on "fiscal watch." (Central State University continued to be on "fiscal watch.") Two higher education institutions' financial audits noted weaknesses in their fiscal controls — North Central Technical College (Richland County) and Northwest State Community College (Henry County). Both have since documented to the Board of Regents that they are addressing the concerns raised by the audit. One institution — Muskingum Area Technical College (Muskingum County) — filed its audit late due to an on-going investigation of a former university employee who has now been convicted of embezzling funds. The Auditor of State recently received the audit report, but has not yet completed its review.

Property Tax Relief

The Property Tax Relief program category (four line items totaling $965.7 million) loaded in with a monster $72.5 million negative monthly disbursement variance. A $76.5 million monthly distribution in real property tax relief from the Department of Education's budget (line item 200-901) was originally assumed to have taken place in March and did not, with small amounts of overspending in two other tax relief line items diluting the size of the monthly underage. A similar kind of disbursement drama unfolded last fall and eventually sorted itself out. As we said then, and say again now, it's all in the timing of things.

The Property Tax Relief program category consists of state payments to local governments as compensation for credits or exemptions provided to taxpayers in state law. Two important facts about GRF tax relief: much more of the payments are for real property tax relief than for tangible tax relief, and about 70 percent of all tax relief (real and tangible) goes to school districts, due to their heavy reliance on the property tax. Real property relief tax relief is distributed through two line items: 200-901 in the Department of Education's budget reimburses school districts, and 100-901 in the Department of Taxation's budget reimburses counties, municipalities, townships, and other special taxing districts. ❑

**Numerous colleagues here at the LBO have contributed to the development of this issue, including, in alphabetical order, Ogbe Aideyman, Laura Bickle, Sybil Haney, Alexander C. Heckman, Steve Mansfield, Jeff Newman, Chuck Phillips, Jeffrey M. Rosa, and Roberta Ryan.*

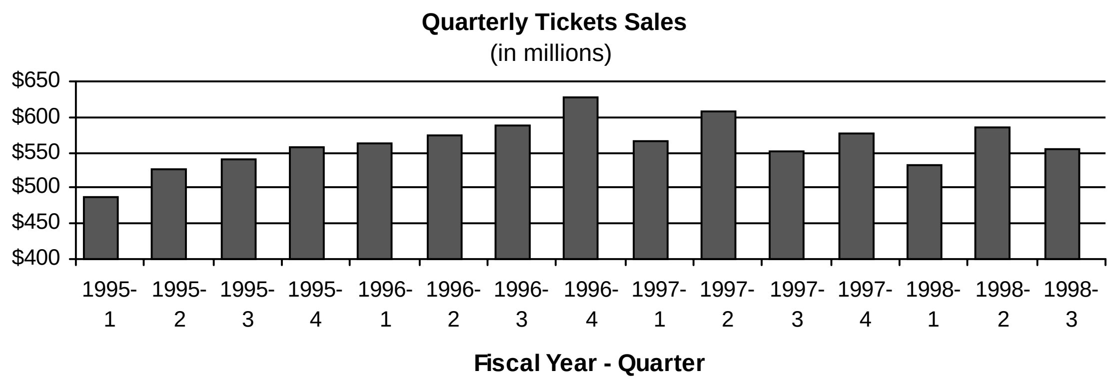
Lottery Profits Quarterly Report

Lottery Ticket Sales and Profits Transfers Third Quarter, FY 1998

— Sharon Hanrahan

Total ticket sales for the third quarter were $555.8 million, 5 percent lower than last quarter's sales and slightly higher than sales for the third quarter one year ago. Sales for the first three quarters of fiscal year 1998 were approximately 3 percent lower than for the same three quarters in fiscal year 1997.

Despite a dip in sales, actual dollars transferred to the Lottery Profits Education Fund decreased only slightly compared to last quarter. Transfers for the third quarter were $175.1 million, while year to date transfers total approximately $525.8 million. In order to meet projections, monthly transfers will need to average $51.2 million for the remainder of the year.

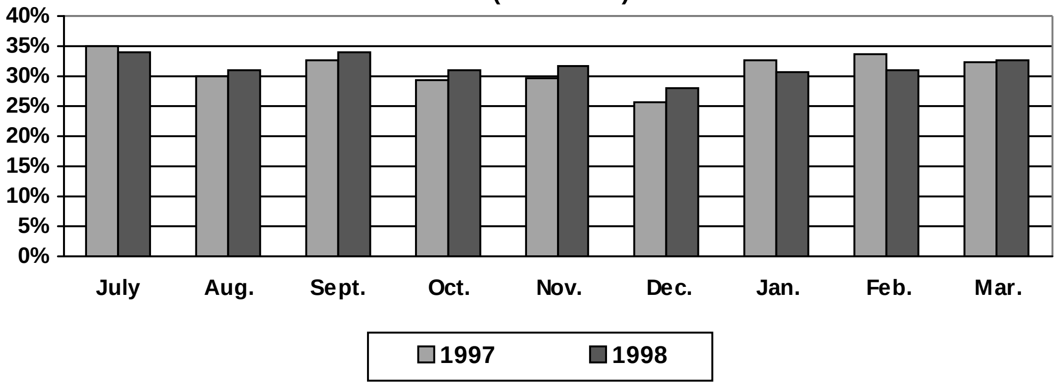


Lottery Ticket Sales and Transfers to LPEF, millions of current dollars

	Ticket Sales	*Actual Transfers*	*Projected Transfers*	*Dollars Variance*	*Percentage Variance*	*Transfers as a Percentage of Sales*
July	$ 172.16	$ 58.51	$ 57.71	$ .80	1.39	33.99
August	195.30	60.26	56.30	3.96	7.03	30.85
September	165.35	56.23	55.63	.60	1.08	34.01
Q1	**532.81**	**175.00**	**169.64**	**5.36**	**3.16**	**32.84**
October	199.00	61.53	56.70	4.83	8.52	30.92
November	179.05	56.52	55.55	.97	1.75	31.57
December	207.21	57.70	56.96	.74	1.30	27.84
Q2	**585.26**	**175.75**	**169.21**	**6.54**	**3.87**	**30.03**
January	183.64	56.56	56.08	.48	.86	30.80
February	193.60	60.20	55.89	4.31	7.71	31.09
March	178.53	58.30	57.88	.42	.73	32.65
Q3	**555.77**	**175.06**	**169.85**	**5.21**	**3.07**	**31.50**
Total	**$1,673.84**	**$ 525.81**	**$ 508.70**	**$ 17.11**	**3.36**	**31.46**

increased by $1.4 million (4.7

Transfers as a Percentage of Sales, FY97-FY98
(in millions)



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	92.56	199.00
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**	**314.74**	**585.26**
January	35.91	10.54	6.45	5.02	31.04	94.69	183.64
February	34.72	10.01	5.87	6.38	44.70	91.92	193.60
March	36.61	10.80	6.66	4.09	23.86	96.51	178.53
Q3	**107.24**	**31.35**	**18.98**	**15.49**	**99.60**	**283.12**	**555.77**
Total	**$319.83**	**$92.96**	**$55.4**	**$46.2**	**$295.29**	**$865.05**	**$1,674.70**

Transfers as a percentage of sales for the third quarter were actually higher than last quarter's and remain above projections. The ratio of transfers to sales in the first three quarters of FY 1998 is also higher than the same three quarters of FY 1997 in spite of a decrease in the actual dollar amounts of both sales and transfers.

The decline in sales in the third quarter may be due in part to a decline in Instant Ticket sales. Although still responsible for the majority of total sales, sales of Instant Tickets were 10.05 percent lower than last quarter's sales. December FY 1998 was the second best Instant Ticket sales month on record for the lottery, so this may be an unfair comparison.

In contrast to Instant Ticket sales, online sales increased slightly. Buckeye Five sales percent) from last quarter and Pick 3 sales increased by $4.2 million (1.02 percent). Super Lotto sales increased by $1.6 million , while the Kicker and Pick 4 games experienced a slight decrease in sales. ❑

Issues of Interest

DEATH CARE INDUSTRY REFORMS ALIVE AND WELL

JEFFREY M. ROSA

Amended Senate Bill 117, which was sent to the Governor for his signature on April 2, 1998, makes various changes to statutes involving the "death care industry." Major provisions of Am. S.B. 117 include the following:

- Modifies the existing Embalmers and Funeral Directors Law, which affects the operations of the State Board of Embalmers and Funeral Directors.
- Requires the regulation of crematory facilities.
- Creates the Crematory Review Board to conduct hearings on potential violations of law regarding crematories.
- Allows local governments the option to cremate certain deceased inmates, indigent persons, indigent patients, and indigent veterans.

Board Of Embalmers And Funeral Directors

Among other changes, Am. S.B. 117 rewrites Chapter 4717. of the Revised Code, the Embalmers and Funeral Directors Law. Although much of the substance of the changes are similar to existing law, there are some significant changes which will have a fiscal impact on the Board of Embalmers and Funeral Directors (FUN). To respond to these changes, the Board will need to publish new rules and regulations. There will be a one-time cost of printing the rules of about $3,000 to $5,000.

Crematory Facilities

One major addition to the Embalmers and Funeral Directors Law is the addition of crematory facilities to the purview of the Board. According to one Ohio crematory operator, there are approximately 50 facilities existing in the state. The Board stands to potentially gain about $5,000 per renewal cycle in license fees if each facility decides to pay the $100 renewal fee and remain in business. Offsetting the potential gain in revenue will be an indeterminate increase in expenses related to investigations and administrative hearings. According to the Board, the average cost per hearing is between $1,000 and $1,500. Although it is impossible to determine the number of hearings related to crematory facilities that will be held, four (4) hearings, at an average of $1,250 per hearing, would consume all of the board's revenue raised from crematory facility license fee revenue.

One issue raised during Senate Insurance, Commerce, and Labor committee hearings was the cremation of animals and humans in the same ovens. Although this bill would allow an individual to have their ashes commingled with a beloved pet, S.B. 117 would not allow Timmy to be cremated at the same time, or even in the same oven, as Lassie. Daniel Becker, representing the Ohio Crematory Operators Association, said that there is a consensus among OCOA members that animals shouldn't be cremated in the same retorts used for human remains. Mr. Becker, for example, said that he has two retorts at his facility. One is used exclusively for animal remains. Responding to a question from former Senator Karen Gillmor, the chair of the committee, Mr. Becker stated that there is no way to totally clean out a crematory oven and there will always be some commingling of residual ash from remains. In response to the argument that this provision in S.B. 117 would limit access to pet

License and Renewal Fees		
License	**Proposed Fee**	**Current Fee**
Initial Embalmers or Funeral Directors License	$5	N/A
Embalmer or Funeral Director Registration	$25	$25
Embalmer or Funeral Director Certificate of Apprenticeship	$10	N/A
Fee to Take Examination or Retake Sections of Exam	$35	$35
Embalmer or Funeral Director Renewal	$30	$30
Funeral Home License and Renewal	$125	$100
Reinstate Lapsed Embalmer or Funeral Directors License	$30 + $50 per month	$30 + $50 per month
Reinstate Lapsed Funeral Home License	$125 + $50 per month	$200 or $500
Embalming Facility License and Renewal	$100	N/A
Reinstate Lapsed Embalming Facility License	$100 + $50 per month	N/A
Crematory Facility License and Renewal	$100	N/A
Reinstate Lapsed Crematory Facility License	$100 + $50 per month	N/A
Issuance of Duplicate License	$4	$4

cremations in rural areas, Mr. Becker replied that nowhere in Ohio would someone be more than one hour from a major urban area that would have pet cremation facilities.

License and Renewal Fees

The changes outlined in this bill increase some of the fees that FUN currently charges. The Board will also be adding the new crematory facility license.

The new fees taken together could provide upwards of $38,000 per renewal cycle in additional revenue to the Board.

Crematory Review Board

Am. S.B. 117 creates the Crematory Review Board (CRB). The CRB will consist of three members of the Board of Embalmers and Funeral Directors, three members of the Cemetery Dispute Resolution Commission, and one member knowledgeable about crematories to be selected by the six members outlined above. Although CRB board members will receive only actual and necessary expenses, FUN could end up paying additional travel expenses for its board members who serve on the CRB. If the CRB and FUN were to meet on separate days or weeks, FUN would be required to pay travel expenses to its board members for attendance at the meetings of each board. This uncertainty presents potential minimal, but indeterminate, costs for FUN.

Hazardous Waste

Section 3734.021 of the Revised Code deals with the proper packing, treating, and disposition of infectious waste. Any facility that generates 50 pounds or more of infectious wastes during any one month is required to register with the Environmental Protection Agency as a generator of infectious wastes. Division (A)(1)(f) of this section states that blood, blood products, other body fluids, or embalming fluids that are discharged on the site of their generation into a disposal system by a facility licensed by the Board of Embalmers and Funeral Directors shall not be included when calculating the monthly amount of infectious wastes produced by the facility.

According to a Cleveland crematory facility operator, a dead body produces about ½ to 1 pound of infectious waste. This compares with approximately seven pounds produced by living individuals in a hospital or other institutional settings. The larger amount of waste includes needles, linens, etc. Generally, a facility that deals with the final disposition of dead human bodies will receive the body wrapped in a sheet. Additionally, much of the infectious waste is washed on site. According to this individual, these facilities will generally produce an annual maximum of 100 to 200 pounds of infectious waste. The major difference between the amount of waste produced by a crematory and a hospital is that hospital waste cannot be disposed of in a crematory furnace. Therefore, these facilities would not need to register with the Ohio EPA or pay to $300 fee for a generator registration certificate.

Cremation Vs. Burial

According to current law, local government subdivisions are required to assume financial responsibility for the final disposition of indigents, unidentified individuals, or persons residing in public institutions located within the borders of the subdivision. Currently, burial is the only legal means to dispose of the body. Am. S.B. 117 would allow for the cremation of these individuals. According to the Ohio Township Association, the number of burials statewide is probably very low. Although potentially minimal, the addition of cremation as a method of final disposition will provide some savings to these governments. In lean financial years, the financial burden of one required final disposition can produce a fiscal hardship on the affected county, city, or township.

According to FUN, the cost of a simple burial is about $500 to $1,000. Included in this cost are a casket, a vault, gravespace, a grave digger, and the required paperwork. Gravespace usually costs between $100 to $500. A vault, which is usually cement, lines the grave and is used to maintain plot integrity once the casket begins to disintegrate. Although political subdivisions are charged with the final disposition of these individuals, there is often not enough money in township budgets to financially provide for the burials, In these cases, funeral directors usually end up providing, free of charge, the activities needed for a proper burial.

According to one Ohio crematory facility operator, a basic cremation costs around $300 to $400. These costs include a cardboard casket, transportation to the crematory facility, required paperwork, and the actual operations of the crematory. This method saves on the added costs of a casket and, in many cases, a vault. Cremated remains can be buried in hard plastic containers that are impervious to soil acids. Unlike wooden caskets, these $5 plastic containers do not rapidly deteriorate. For these reasons, a vault is only necessary if the cemetery requires its use. According to information provided by the Ohio Funeral Directors Association, the average adult casket in Ohio costs about $700. ❑

STATE-SHARED REVENUE SUPPORTS POLITICAL SUBDIVISIONS

ALEXANDER C. HECKMAN

Local government in Ohio

Ohio has a long history of strong local government. Since Ohio entered the Union in 1803, local governments have served Ohioans providing them with fundamental services and direct input into the governing of their affairs. The importance of local government to Ohioans is evidenced by the fact that provisions were written into the 1851 constitution which ensure the existence of counties, townships, and municipal corporations.

An important factor behind the strength of local government in Ohio is the assistance provided to local governments by the state. From Ohio's municipal income tax structure to its Ohio Public Works program to the Uniform Accounting Network, the State of Ohio has developed many methods for partnering with and supporting local governments. Perhaps the most basic method of state support to local governments is "no-strings attached" revenue from the state's Local Government Fund (LGF) and Local Government Revenue Assistance Fund (LGRAF).

About the LGF and LGRAF

The LGF is composed of 4.2 percent of the state sales tax, use tax, personal income tax, corporate franchise tax, and public utility excise tax. Funds from the LGF are distributed by the state to counties and municipalities. Counties receive 90 percent of the total LGF annual distribution while municipalities receive 10 percent.

LGF funds are allocated among counties based upon a statutory formula that takes into account each county's population and the municipal tax valuation within each county. In addition, each municipality levying an income tax in the preceding year is eligible to receive a share of the municipal portion of the LGF. The share each municipality receives equals its percentage of total municipal income taxes collected in the state in the second preceding year.

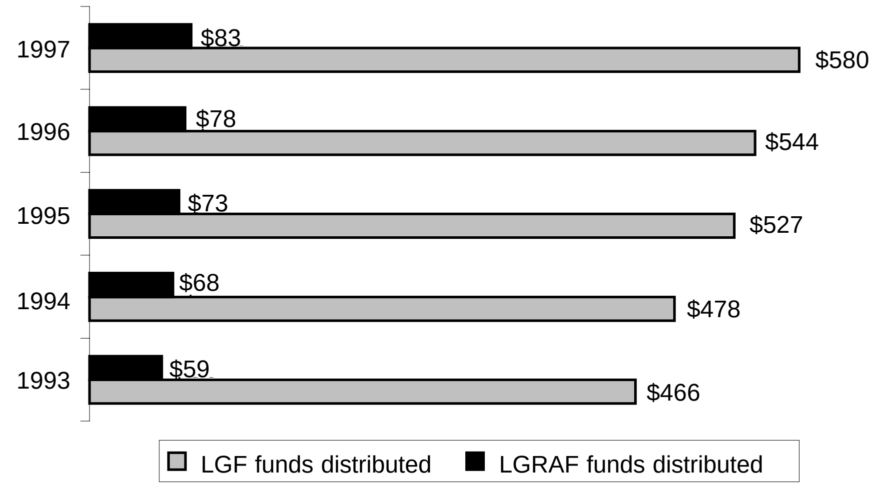
The LGRAF is composed of 0.6 percent of the state sales tax, use tax, personal income tax, corporate franchise tax, and public utility tax. The LGRAF is distributed to counties based upon a county's percentage of the total state population.

> ***"...Two-thirds of the LGF and LGRAF moneys distributed to counties ultimately go to municipalities and townships."***

LGF and LGRAF funds distributed to counties go into county undivided local government funds (CULGF) and county undivided local government revenue assistance funds (CULGRAF). Counties then disburse these funds among the county government and municipalities and townships within the county.

Funds disbursed from the CULGF and CULGRAF can be used for current operating expenses. As defined in section 5747.51 of the revised code, " 'current operating expenses' means the lawful expenditures of a subdivision, except those for permanent improvements and except payments for interest, sinking fund, and retirement of bonds, notes, and certificates of indebtedness of the subdivision." Therefore, local

Graph 1, LGF and LGRAF Amounts Disbursed, 1993 - 1997
(in millions of dollars)



governments have many options in regard to spending these funds even before accounting for the fungibility of funds. Municipalities have even more discretion when spending moneys disbursed directly to them from the LGF, as these funds can be used for "any lawful purpose."

Allocating the LGF and LGRAF

In 1997, local governments received nearly $580 million from the LGF and nearly $83 million from the LGRAF. Graph 1 shows the amounts distributed to local governments from the state over the past five years.

As the graph above shows, local governments have received more than $2.5 billion dollars from the state through the LGF over the past five years, and more than $360 million dollars from the LGRAF. That's nearly $3 billion in additional state-shared revenue to Ohio's local governments from 1993 to 1997.

While the vast majority of LGF moneys and all of the LGRAF moneys initially are distributed to counties, two-thirds of the LGF and LGRAF moneys are ultimately allocated to municipalities and townships. Counties must distribute the funds from the CULGF and CULGRAF based upon section 5747.51 of the Revised Code or by an alternative apportionment method approved at the local level. Such alternative method of apportionment must be approved by all of the following governmental units within the county: the board of county commissioners, the city with the greatest population, a majority of townships, and of majority municipal corporations in addition to the largest city. Eighty counties use an alternative method to apportion LGF and LGRAF moneys.

Table 1 below presents data which show the amount of the LGF and LGRAF ultimately disbursed to four types of political subdivisions in 1995.

In 1995, approximately $600 million dollars combined from the LGF and LGRAF was distributed to Ohio's local governments. Of that total, almost $336 million ultimately went to municipalities, over $206 million went to counties, nearly $47 million went to townships, and about $11 million was provided to county park districts. This means that in 1995, on average, each municipality in Ohio received almost $358,000 and each county received more than $2.3 million. On average, each township received $36,000 and, of county park districts that received funds, the average amount was $400,000.

Table 1, 1995 LGF and LGRAF Distributions by Political Subdivision

Political subdivision type	Total dollar amount received from LGF and LGRAF*	% of total LGF and LGRAF received	Average dollar amount received per political subdivision
County	$206,000,000	34%	$2,300,000
Municipality	$336,000,000	56%	$358,000
Township	$47,000,000	8%	$36,000
Park district	$11,000,000	2%	$400,000**

* *All figures rounded to the nearest million dollars.*
** *This figure represents only county park districts that receive disbursements, not all county park districts. Twenty-seven counties share LGF money with park districts and 28 share LGRAF money.*

Ultimately, the disbursement of LGF and LGRAF moneys in 1995 resulted in Ohio's municipalities receiving about 56 percent, counties receiving 34 percent, townships receiving 8 percent, and park districts receiving about 2 percent of the total LGF and LGRAF moneys.

Supporting local governments

The data presented above demonstrate a significant financial commitment by the state in support of local government in Ohio. Local governments now receive over a billion dollars combined from the LGF and LGRAF for a biennium. The fact that LGF and LGRAF moneys come with few strings attached indicates a significant level of trust, on the part of the General Assembly, in local government officials. This trust and financial support from the state portend a future, much like the past, of strong local government in Ohio. ❑

MONITORING SENTENCE REFORM

AN EXCERPT FROM A REPORT BY THE OHIO CRIMINAL SENTENCING COMMISSION

AS PRESENTED BY FRITZ RAUSCHENBERG, DIRECTOR OF RESEARCH
EDITED BY JEFF NEWMAN

This is an excerpt from the report *Monitoring Sentencing Reform* prepared by the staff of the Ohio Criminal Sentencing Commission. This report is the first major review of the impact of Am. Sub. S.B. 2 of the 121st General Assembly on the Ohio criminal justice system.

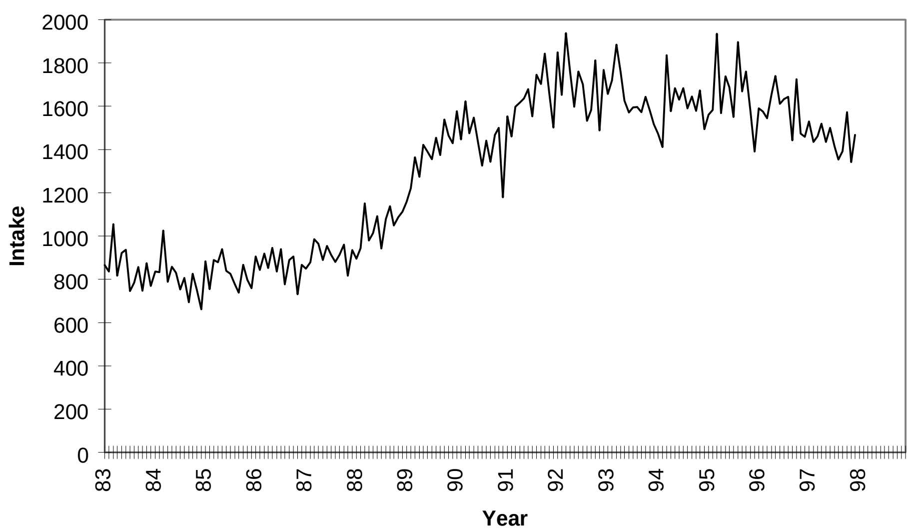
S.B. 2 Background

S.B. 2 and its companion legislation changed hundreds of sections of the Revised Code and reworked the way in which judges sentence convicted felons. Key provisions of the act include: 1) truth-in sentencing; 2) tougher sanctions for high level offenders; 3) application of community sanctioning options for low level, non-violent offenders; and 4) appellate review of sentencing at the request of either the prosecutor or the offender. What this report examines is the impact of the legislation on both the level and makeup of prison intake, case process time, and appeals filings.

Prison Intake

Since prison intake is one of the most easily measured aspects of the justice system and one of the crucial elements (along with time served) for forecasting prison populations,

Graph 1
Monthly Prison Intake 1983 - 1997



it is also important in analyzing the effects of S.B. 2. Graph 1 (previous page) shows the overall trend in monthly prison intake over the last 14 years. Note that monthly intake was relatively stable at between 800 and 1,000 in the early eighties, before jumping dramatically with the arrival of crack cocaine. The last few months (when S.B. 2 is more fully in effect) show a slight but noticeable decline in intake.

Intake for the period of July-December 1997 is 12.0 percent lower than intake for the same period in 1995.

Last biennium's DRC budget was based on the assumption that 4,140 offenders who would have gone to prison under prior law would be punished in the community under S.B. 2. In the short term, the prison population was expected to drop as well. In the long term, the population would grow, as more serious felons begin serving the stiffer prison sentences meted out under S.B. 2 and the prison population would continue to rise (although not as quickly as under prior law), and would have, on average, a tougher class of criminals. Looking back, the question is, has this happened?

During FY 1997 (the first year of S.B. 2's effectiveness), 18,256 offenders entered Ohio's prison system, or 1,175 fewer offenders (6.05 percent) than in FY 1996. While intake is down from the preceding year, the number diverted is far lower than our estimated 4,140. This may in part be attributable to the fact that the phase-in period for S.B. 2 was much longer than anticipated. Specifically, reported intake from July through December of 1997 (after the phase in period is over) is down by 12.06 percent from the same period in 1995. The reality that diversions are lower than expected makes it clear that the prison system has not dumped offenders onto the local justice system the way some had feared.

While prison intake has declined, there may be alternative explanations other than the effects of S.B. 2. One alternative explanation comes from the fact that crime rates overall have fallen, both nationally and in Ohio and that while the link between crime rates and overall prison intake is fairly weak, intake should eventually reflect recent drops in the crime rate. Another potential alternative explanation is the dramatic expansion in community corrections funding and the possibility that it may have played a part, and perhaps may have generated the reduction in intake without presence of S.B. 2.

Are the Prisons Holding a Tougher Crowd?

One of the primary goals of S.B. 2 stated above was to insure there would be prison beds for the most serious offenders in the state. Due to the reclassification of offenses under S.B. 2, it is difficult to make apples to apples comparisons in order to measure whether or not this has occurred. Nonetheless, a rough assessment can be made using DRC FY 1997 intake data.

Table 1 - Percentage of FY 1997 Prison Intake by Equivalent Offense Level

Level* (Pre SB2/Post SB2)	Pre S.B. 2 Percent	S.B. 2 Percent
Death	0.09%	0.03%
Life	1.24%	0.75%
F1/F1	7.20%	10.05%
F2/F2	11.95%	14.02%
F3 Indef/F3	4.35%	16.35%
F3 Def,F4 Indef/F4	30.24%	24.65%
F4 Def/F5	44.93%	34.14%

* "Indef" refers to indefinite prison terms under the pre-S.B. 2 law. "Def" refers to the definite prison terms for F3s and F4s under the pre-S.B. 2 law. The definite levels generally became F4s and F5s under S.B. 2.

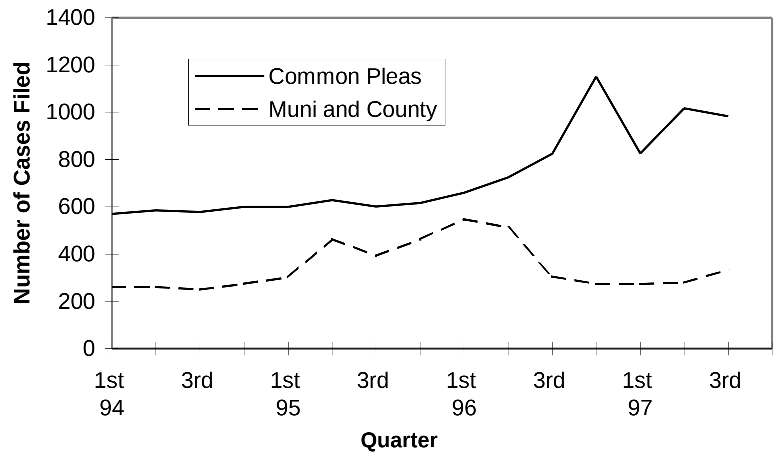
Table 1 shows the percentage of FY 1997 prison intake by equivalent offense level. Note that the proportion of F1s, F2s, and F3s is higher under S.B. 2 than under prior law, and the proportion of F4s and F5s is lower than under prior law. This is evidence that S.B. 2 is resulting in a more serious prison intake cohort and that prison cells are being reserved for the toughest offenders.

Time to Process Cases/Jail Time Credit

One of the initial concerns surrounding S.B. 2 was an expected increase in time to process cases through common pleas courts. If the sentencing hearing took longer, courts would be able to process fewer cases in the same amount of time, which would cause backlogs in the system. Greater backlogs in the system can be measured by looking at jail time credit. Longer jail time credit would be evidence of more backlogs in the system.

That in fact was not the case for FY 1997. Those coming in under S.B. 2 had an average jail time credit of 66.15 days, and those coming in under the pre-S.B. 2 law had an average jail time credit of 84.36 days. Offenders are doing less jail time before going to prison under S.B. 2 than they were under prior law, which means the justice system has not been slowed as some had feared.

Graph 2
Appellate Filings by Quarter - 1994 to 1997



Appeals

S.B. 2 created a mechanism under which sentences in limited circumstances could be appealed by either offenders or prosecutors. During the legislative process, appellate court judges, County Commissioners' Association of Ohio, and others voiced concerns regarding the cost of appeals and their impact on the justice system. At the time, the Sentencing Commission was unclear of both the number of appeals and their cost. Estimates at the time were that there would be 1,389 appeals in the first year, at an estimated cost of $876 per appeal, for a total cost of $1.22 million. To respond to the concerns regarding the potential increase in the number of appeals, S.B. 2 established the Felony Sentencing Appeal Cost Oversight Commission whose role was to distribute money to the counties in order to cover costs associated with S.B. 2's appellate review provisions. State funding in the amount of $2 million was set aside in FY's 1997 through 1999 to assist in covering the cost of appeals.

Graph 2 illustrates the criminal appellate filings from common pleas and (for comparison purposes) misdemeanor courts. The first spike in common pleas filings is likely attributable to S.B. 4's deadline on post-conviction relief (unrelated to S.B. 2), with increases experienced during the most recent two quarters probably attributable to S.B. 2.

The reality that there were fewer appeals than anticipated under S.B. 2 is especially surprising considering that 725 offenders came into state prison at the top of the sentencing range for their level of offense during FY 1997 and were thus eligible for an appeal of right. A right very few of the eligible offenders actually exercised and that was reflected by the fact that the $2 million set aside to assist the counties in responding the anticipated rise in appeals went untapped in FY 1997, a trend that has continued into FY 1998. ❑

Fritz Rauschenberg is Director of Research for the Ohio Criminal Sentencing Commission, and a former LBO criminal justice analyst.

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.

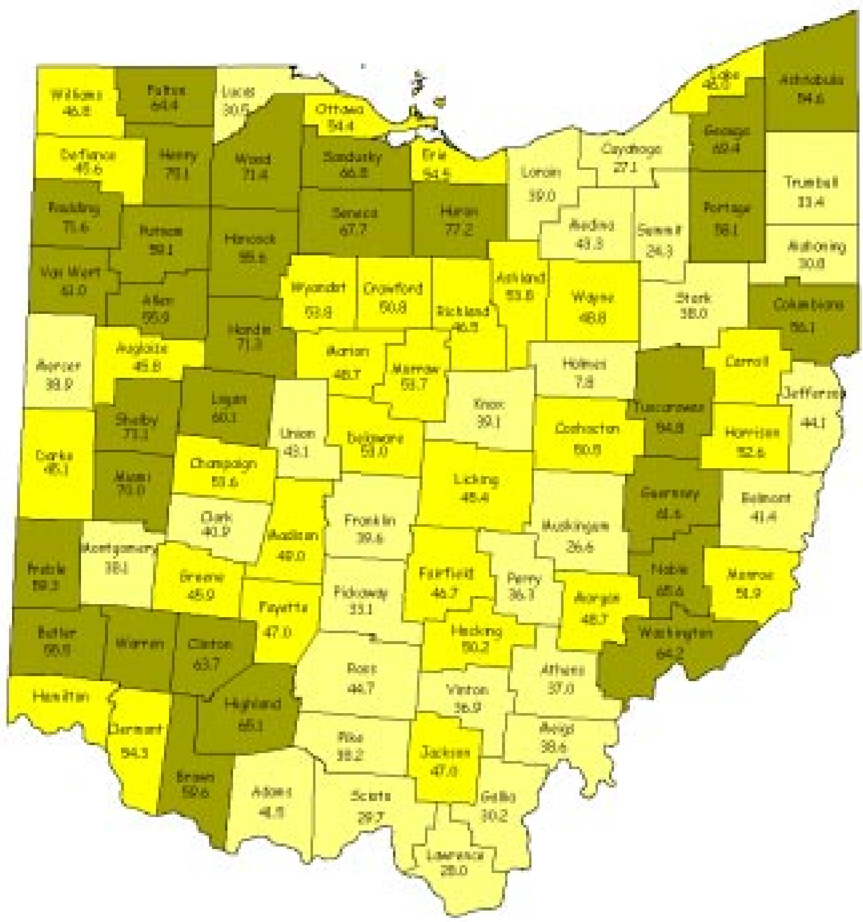
County Caseload Reductions in Ohio Works First Program Basis for Financial Awards

— *Steve Mansfield*

One of the cornerstones of Ohio's welfare reform is the use of performance management principles. Once a county enters into a Partnership Agreement with the State it may earn financial rewards based on its performance in three different categories: 1) reduced cash assistance, 2) increased rates of work participation among recipients, 3) reduced rate of out-of-wedlock births in the county population.

The reduction of cash assistance is directly tied to reductions in the number of people receiving OWF benefits. The reduction will be measured from fiscal year 1994. Since January, 1995, the number of cases in the OWF program (previously called Aid to Dependent Children) has declined from 232,574 to 141,750. This represents a statewide decrease of 39.1 percent. Individual counties ranged in decrease from 7.8 percent to 77.2 percent. For each county's caseload reduction, see **Chart 1**.

Chart 1
Percentage Reduction in Ohio Works First Cases by County
January, 1995 - March, 1998



Statewide average: 39.1% reduction since 1/1/95

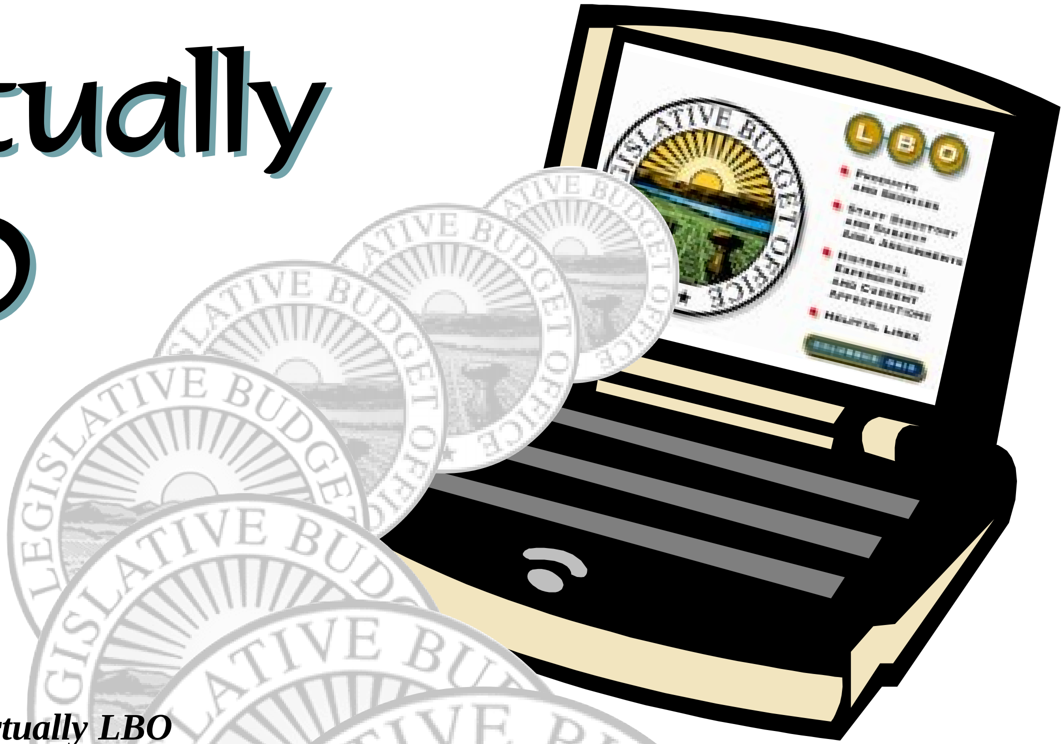
County Rank By Thirds
Top Third
Middle Third
Bottom Third

Awards for reductions in cash assistance will begin in the current quarter. Those counties which have already entered into a Partnership Agreement will share the available $7,500,000 according to their percentage of the overall reduction in expenditures among those participating counties. Reductions are calculated from the first quarter of 1995 to the first quarter of 1998. For those counties receiving an award, see **Chart 2.**

Chart 2
Cash Assistance Reduction Incentive Awards to Partnership Counties
April, 1998
($ in thousands)

Calculations, though **not official, are based on Human Services report GRP342RA.*

Virtually LBO



Welcome to Virtually LBO

This new section in ***Budget Footnotes*** will reference material of topical interest available on LBO's web site. Since the inception of our web site in October, 1997, a number of changes have been made to ensure that it is more user friendly. If you haven't visited us lately, stop by at **http://www.lbo.state.oh.us.**

Today's Specials

✓ With the current attention turned to education finance, LBO thought there may be renewed interest in the research our office has completed concerning **school funding in Ohio**. Select the **http://www.lbo.state.oh.us/schools/default.html** link for direct access to our school funding reports.

✓ LBO completes a fiscal note and a local impact statement for each bill at various points as the bill moves through the legislative process. Fiscal notes estimate the effects of proposed legislation on state and local government revenues and expenditures. **Newly completed fiscal notes** are added to our web site daily. To access our fiscal note database online, select this link: **http://www.lbo.state.oh.us/search/query.htm**.

✓ If you are reading this, you are likely interested in our newsletter, ***Budget Footnotes***. This newsletter examines the fiscal position of the state general revenue fund on a monthly basis. It also contains articles summarizing policy and fiscal issues of current interest. Issues of ***Budget Footnotes*** are now online from the current issue back to Volume 20, Issue 1 (August, 1996). In the near future, LBO will upload additional back issues of ***Budget Footnotes***. To review our online selection, choose the **http://www.lbo.state.oh.us/products/footnotes.html** link.

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