Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE NOVEMBER/DECEMBER, 1998

FISCAL OVERVIEW

— Frederick Church

After five months of FY 1999, things look much better than they did after the first quarter. The shortfall in tax revenues has been replaced by an overage, and the underspending in welfare has gotten even larger. A surge in the income tax and the corporate franchise tax has pushed GRF tax revenues to a year-to-date overage of $47.1 million (0.9 percent), and non-federal revenues are $54.0 million above estimate. On the spending side, disbursements and transfers are $398.1 million below estimate. Even after adjusting that figure for the $58.0 million shortfall in federal grant revenue, total GRF spending is $340.1 million below estimate. The GRF is thus $394.1 million better off ($340.1 million + $54.0 million) than even the revised forecasts predicted.

The personal income tax is now $35.8 million (1.5 percent) above the revised forecast, on growth of 9.8 percent from a year ago. The most heartening fact is that more than half of the surplus ($18.3 million) is in employer withholding. Withholding revenues are growing at a 7.0 percent pace from a year ago. While this is slower than the torrid 9.1 percent growth of FY 1998, it is stronger than the 6.5 percent growth of FY 1997. The remainder of the $35.8 million overage comes from annual return payments (late payments of taxable year 1997 liability) and lower than anticipated refunds.

The corporate tax also shot past the estimates in October and November, resulting in a $31.4 million year-to-date overage. At the same time, the non-auto sales tax is $26.2 million below estimate. It tuns out, however, that these figures are misleading. Under a little-known provision of law in Ohio Revised Code section 5703.052, the Treasurer of State (TOS) has been paying some refunds of corporate tax out of non-auto sales tax receipts. Thus, the corporate tax has been credited with about $27 million too much in net GRF revenue, while the non-auto sales tax has received about $27 million too little. Adjusting the year-to-date figures by $27 million wipes out the shortfall in the non-auto tax and leaves only a small overage (about $4.4 million) in the corporate franchise tax.[1]

The GRF also has significant overages in the foreign insurance premium tax ($11.8 million) and the estate tax ($16.8 million). The estate tax surplus seems to be partly due to unexpectedly early settlement and payment, and thus we expect the overage to shrink — but not disappear — in December. The insurance taxes are in the first year of a five-year phase-in of a new tax structure that eliminates the old domestic preference. Year-to-date revenues reflect the October advance payment for

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STATUS OF THE GRF

ISSUES OF INTEREST

OHIO FACTS EXTRA!

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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

half of the prior year's liability. Barring any surprises, one would thus expect a year-end overage in this tax. Whether the domestic tax will make the estimate will not be known until close to the end of the fiscal year.

Once the adjustment for the non-auto sales tax is made, the revenue trouble spot is in the public utility excise tax. Revenues there are $27.0 million below estimate, mostly on the basis of the reconciliation of tax year 1998 taxes being a net negative number. The one advance payment of tax year 1998 taxes that the GRF has received so far was slightly below estimate, but the shortfall was much smaller than for the reconciliation.

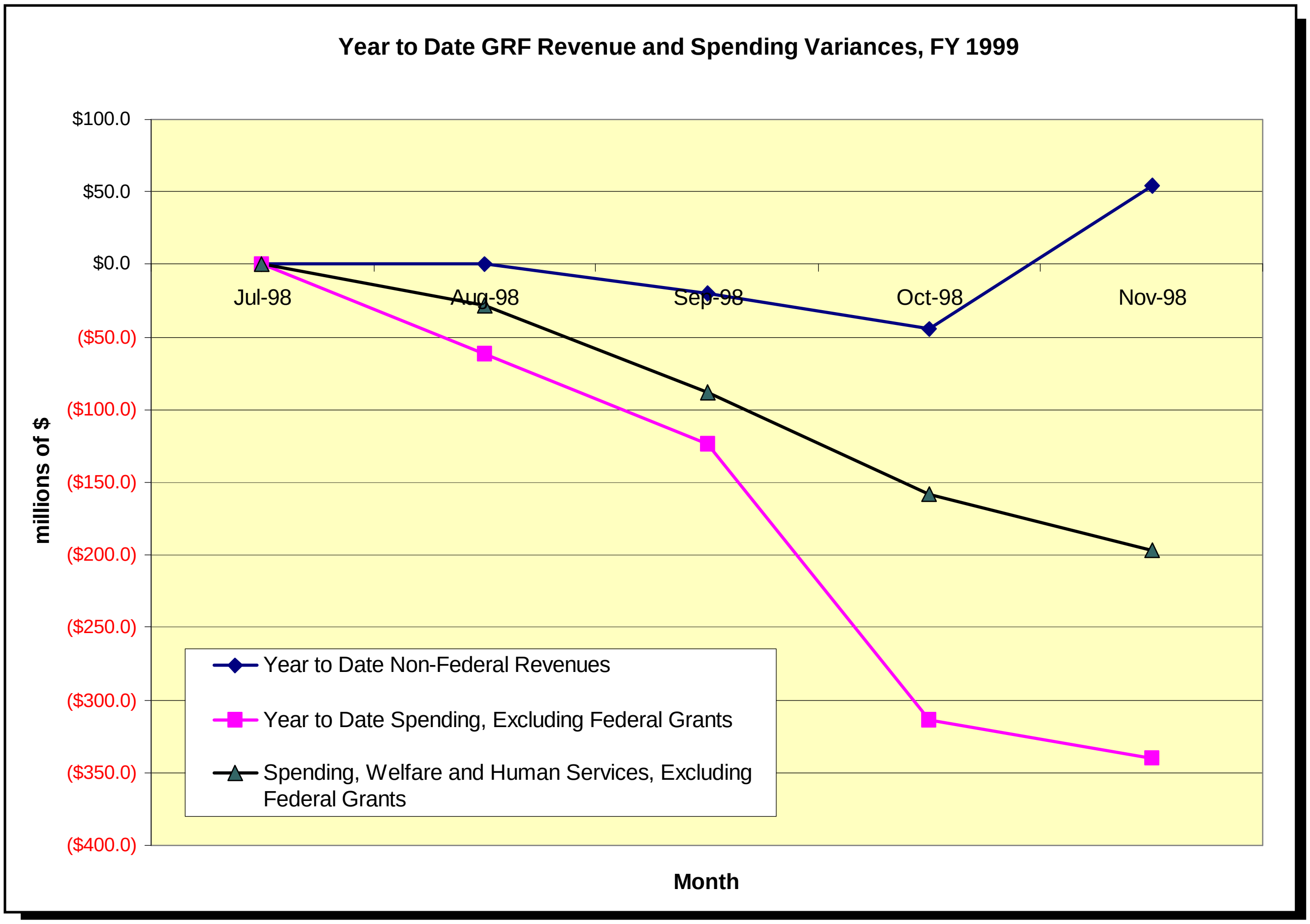
Federal grants, driven by underspending in human services programs such as Medicaid and TANF (a combined $193.5 million below forecast), are $59.0 million below estimate. In a reversal from FY 1998, the shortfall in federal grants is actually somewhat smaller than the underspending in human services would imply. Specifically, there is an estimated $113.3 million shortfall associated solely with TANF and Medicaid. When those two items are factored out, other federal grants are over the estimate by $54.3 million. The reasons for this are not yet clear. Overall, there are two points to be made about the shortfall in federal money. First, insofar as it represents lower than expected spending on welfare programs, it's good fiscal news. Second, unspent TANF grants are not "lost." Instead, they are held in reserve with the federal government in case Ohio should need them for expanded services or to combat a caseload increase resulting from an economic downturn.

On the other side of the ledger, spending continues to fall short of the revised estimates, and the gap is growing. By the end of November, spending excluding transfers was $404.1 million below estimate, while total outlays including transfers were $398.1 million below estimate. Total outlays were $340.2 million below estimate once federal grants were factored out. The following chart shows year-to-date revenue and spending variances, with federal grants removed, month by month through FY 1999. Whereas revenues only jumped up above the estimate in November, underspending has shown a steady trend throughout the year.

There are six categories with sizable negative variances:

1. the HealthCare/Medicaid program ($126.1 million);
2. the Primary and Secondary Education program category ($122.7 million);
3. the Temporary Assistance to Needy Families (TANF) program ($67.4 million);
4. the Other Welfare program category, which is spending by the Department of Human Services exclusive of the Medicaid, TANF, and General/Disability Assistance subsidy programs ($50.5 million);
5. the Justice and Corrections program category, ($33.8 million);
6. the Other Government program category, mostly from the Department of Administrative Services (DAS - $22.1 million).

The disbursement variances in K-12 education, justice and corrections, and other welfare are mostly due to issues of timing of payments. In Med-



icaid, TANF, and Other Government (DAS), while there may be timing issues, there are substantive reasons for the variances as well. Obviously, declining TANF caseloads have restrained both TANF cash assistance and Medicaid spending. In DAS, low interest rates and lower than expected debt service have combined with slow disbursements in computing and communications projects such as MARCS and SOMACS.

The underspending in Medicaid is by now a familiar story, based primarily on three components: (1) HMOs ($75.0 million); (2) nursing homes ($31.4 million); and (3) the "all other" category, meaning things other than HMOs, nursing homes, hospitals, physician care, ICF/MR care, and the Medicare buy-in ($18.6 million). The underspending in HMO (managed care) provider payments is almost 1/3 of the estimate (33.2 percent). This is the result of the continued startling decline in TANF caseloads. The number of cash assistance recipients has declined by about 40,000 since the beginning of the fiscal year, and the number of TANF eligibles in managed care has also declined. Medicaid budget estimates assumed that 60 percent of all TANF/Healthy Start eligibles would be enrolled in an HMO by the end of FY 1997. The Department of Human Services (DHS) planned to increase the HMO "penetration rate" to 78 percent by the end of FY 1999. Instead, HMO penetration rates reached a high of 54.4 percent in December of 1997 before declining to 41.0 percent by November of 1998. However, we must emphasize that the savings from not having to pay at all for a TANF client who leaves the rolls exceeds the savings from placing that client in managed care.

TANF spending is already $67.5 million below estimate, although $18.2 million of that variance is due to the substitution of federal day care money (line item 400-617) for state day care money (line item 400-613) in October. Presumably, some of this $18.2 million will be erased as the state spends state GRF money later in the year. However, overall TANF spending will continue to come in below estimate as caseloads almost free-fall. At some point, we presume that the TANF caseload will have declined so

TABLE 1
General Revenue Fund
Simplified Cash Statement
in millions)

	Month of November	Fiscal Year 1999 to Date	Last Year	Difference
Beginning Cash Balance	($51.7)	$1,649.0		
Revenue + Transfers	$1,272.8	$6,932.4		
Available Resources	$1,221.2	$8,581.4		
Disbursements + Transfers	$1,661.3	$9,021.5		
Ending Cash Balances	**($440.2)**	**($440.2)**	**($563.2)**	**$123.0**
Encumbrances and Accts. Payable		$1,011.8	$587.0	$424.8
Unobligated Balance		**($1,452.0)**	**($1,150.2)**	**($301.9)**
BSF Balance		$906.9	$828.3	
Combined GRF and BSF Balance		**($545.1)**	**($321.8)**	**($223.3)**

far that only a "core" of recipients who will find it very hard to gain employment remain. At that point, caseload declines will stop or slow very dramatically. However, it is not clear exactly where that stopping point is or when it will be reached.

We reiterate that in both the text and the tables, LBO's comparison of actual and estimated revenues and spending, both monthly and year-to-date, are based on OBM's revised forecasts, not the original projections. Thus, when we say that revenues are above the estimate and that spending is below, it is with respect to the revised forecasts. The variances would be even larger if the original estimates were being used.

As Table 1 above shows, the GRF's cash balance is higher than at the same point last year, but the unobligated fund balance is much lower. Encumbrances and accounts payable are $425 million more than at the same point in FY 1998. As one can see in the analysis of Department of Education Spending in the disbursements section, much of the encumbered money is being spent rather slowly. ❑

TRACKING THE ECONOMY

— Frederick Church

The world economy has pulled back from the brink of financial meltdown, the Federal Reserve has jumped in with three interest rate cuts amounting to 75 basis points, the U.S. stock market has righted itself, and recession fears have calmed. This is reflected in what the big economic forecasting firms are saying about recession probabilities. DRI has revised its official forecast of the probability of a 1999 recession down from 30 percent to 20 percent (at the worst points of the financial crisis, some analysts seemed to feel that the recession probability was greater than 30 percent). DRI has also revised its forecast of real GDP growth for CY 1999 up from 1.7 percent to 2.1 percent. The WEFA Group has reduced its recession probability from 35 percent to 30 percent, or to 20 percent, depending on which publication one reads.[2] WEFA's forecast of real GDP growth for CY 1999 is slightly more optimistic than DRI's, at 2.3 percent. Whatever the exact numbers, it is clear that consumers, investors, and forecasting firms are all breathing easier.

Recent FOMC Policy Decisions

Date	Federal Funds Rate	Discount Rate	Official Bias*
1998			
December 22	4.75%	4.50%	Not yet available
November 17	4.75%	4.50%	Neutral
October 15 (no meeting)	5%	4.75%	Toward Easing
September 29	5.25%	5%	Toward Easing
August 18	5.50%	5%	Neutral
July 1	5.50%	5%	Toward
May 19	5.50%	5%	Toward
March 31	5.50%	5%	Toward
February 3-4	5.50%	5%	Neutral

The column labeled "Official Bias" is due to the fact that the Fed maintains an official bias on interest rates, which suggests the FOMC's sentiment regarding the* ***future* *direction of rates.*

While on the topic of recessions, there are a couple of points to make about how future U.S. recessions will look, whenever they arrive. First, there is some reason to believe that the severity of the downturn will be somewhat dampened by the fact that more GDP and employment is in services, where supply and demand cycles tend to be somewhat less volatile than those for goods. The service economy tends to lack some of the features that increase volatility in the goods sector, like inventory buildup and decumulation (known as the inventory cycle) and the multiplier — accelerator relationship between demand growth and investment.[3] In fact, this may have already helped temper the last recession, the relatively mild 1990-91 downturn. On the other hand, by the same reasoning, recoveries that follow recessions may also be slower, as they were following the last recession. The second point is that as long as there is low inflation, the Federal Reserve can jump in to stimulate the economy with reductions in short term interest rates.

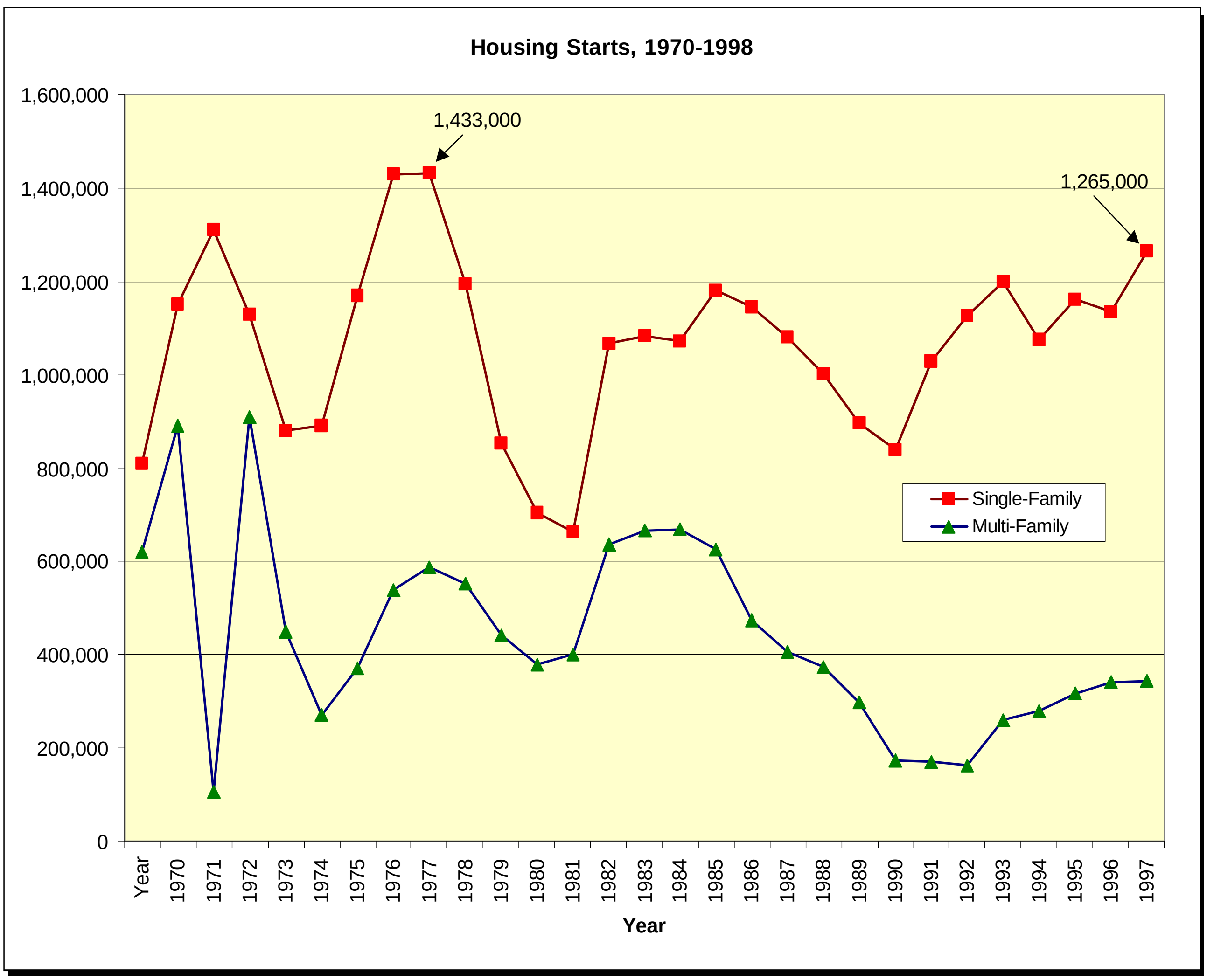
Of course, low inflation also makes it possible for the Federal Reserve to stimulate the economy as a preventive medicine against recession, and the Fed did exactly that with its three rate cuts in the 49 day period from September 29th through November 17th. The table above shows all of the Fed's actions for calendar year 1998.

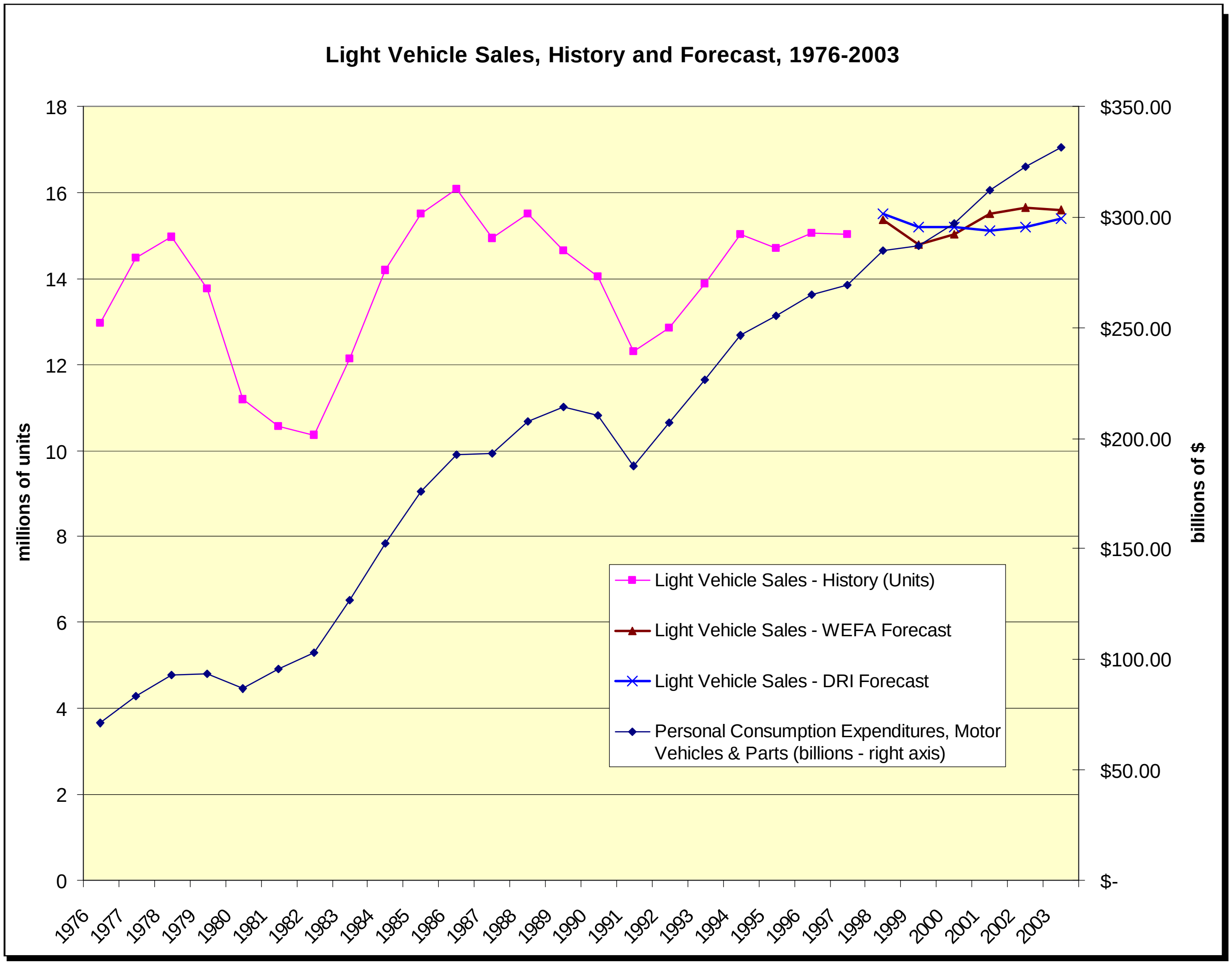
There is widespread speculation that the Federal Reserve will cut the target federal funds rate by another 25 basis points in early 1999 as the economy slows. Forecasters are much less willing to forecast Fed policy beyond that point.

Despite the rebound in the stock market, the U.S. is not out of the woods yet. The Asian situation is still dire, and many analysts think that the full impact of falling exports has yet to be felt. The collapse of Asian demand for goods has been the primary factor in turning U.S. export growth negative for the first time in 15 years. DRI projects that continuing export declines for the first part of CY 1999 will reduce real GDP growth by 0.7 percent for the year as a whole, which is an extremely strong negative impact. The collapse of Asian demand has also depressed commodity prices. This is a plus for some of the U.S. because it reduces inflation, but a negative for oil-producing regions. Finally, reduced Asian demand has reduced worldwide demand for agricultural products at a time when supplies are high, causing a crash in prices. Manufacturing intensive states have been hurt some by the export drop, and are likely to be hurt more. However, the states that are taking the worst hit are those dependent on natural resources (oil, timber, etc.) and agriculture.

Pluses for the economy can be found in the labor market, consumer spending, business equipment spending, residential construction, and automobile sales. Residential construction picked up just as the Fed envisioned, and housing starts (single family) are at their highest level in 20 years, although multi-family starts have not budged much from the low level that we have seen throughout the 1990s. More than 2/3 of Americans own their own homes — in fact, the home ownership rate is now 68 percent, the highest rate in recorded U.S. history. Light vehicle sales are expected to end the year at 15.5 million units, the best level since CY 1998. Earlier in the expansion there were warnings about consumers having used up their "pent-up demand" from the last recession, with the result that vehicle sales would slow and possibly not recapture their pre-recession levels. Now both WEFA and DRI are projecting sales levels above 15 million units per year for the foreseeable future, except during recession.

The labor market continues to be extremely strong, with low unemployment and substantial gains in jobs, wages, and benefits. Ohio's seasonally adjusted unemployment rate for October was 4.3 percent, unchanged from September. The U.S. seasonally adjusted unemployment rate edged down from 4.6 percent in October to 4.4 percent in November. Over the last 12 months, the jobless rate has ranged within a very narrow band, from 4.3 to 4.7 percent. In November, nonfarm payroll employment grew by 267,000, with sizable job gains in services, construction, and retail trade more than offsetting another large decline in manufacturing (manufacturing employment has decreased by 245,000 jobs since the most recent peak in March 1998). Over the last 12 months, U.S. nonfarm employment (seasonally ad-





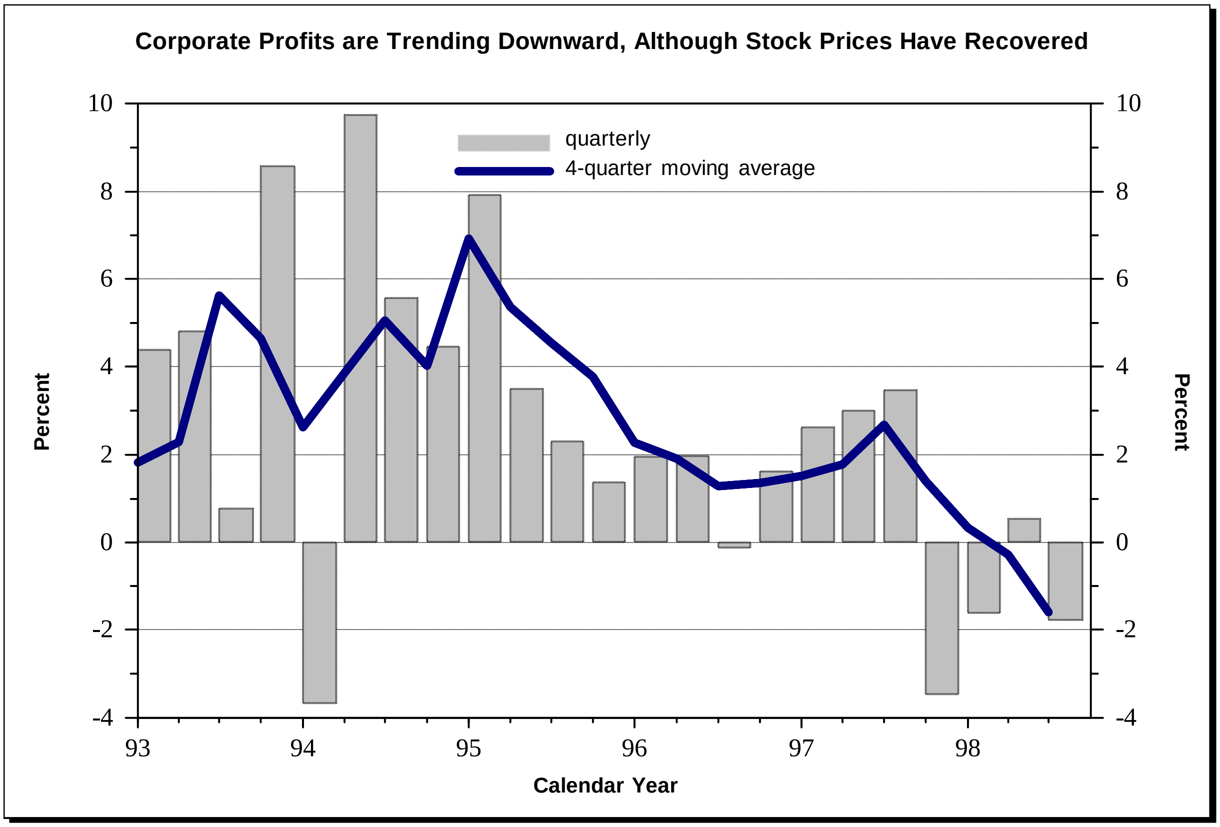
justed) has grown by 2.83 million jobs, or 2.3 percent. Over the 1993-1997 phase of the expansion, payroll job growth averaged about 2.3 percent annually, so 1998 has kept pace.

On the wage and benefit side, the following table shows that wage and benefit growth has clearly accelerated over the past 12 months. The combination of strong job growth, low unemployment, and faster wage and benefit growth has increased consumer confidence and led to steady increases in consumption.

As we said last month, the demand for labor, particularly skilled labor, is pushing up wages, leading business, particularly in manufacturing, to substitute

Labor Costs Increasing
12-month percent changes in Employment Cost Index, not seasonally adjusted

	Compensation Component	Sep-93	Sep-94	Sep-95	Sep-96	Sep-97	Sep-98
Civilian Workers	Compensation costs	3.6%	3.2%	2.7%	2.8%	3.0%	3.7%
	Wages and salaries	3.0%	2.9%	2.8%	3.2%	3.5%	4.0%
	Benefit costs	4.9%	3.8%	2.2%	1.8%	1.9%	2.6%
Private Industry	Compensation costs	3.7%	3.3%	2.6%	2.9%	3.2%	3.8%
	Wages and salaries	3.1%	2.9%	2.8%	3.3%	3.6%	4.3%
	Benefit costs	5.4%	4.0%	2.1%	1.8%	2.0%	2.6%
State & Local Government	Compensation costs	3.0%	3.0%	3.0%	2.5%	2.4%	3.0%
	Wages and salaries	2.9%	2.9%	3.1%	2.8%	2.7%	3.0%
	Benefit costs	3.2%	3.2%	2.5%	1.9%	1.5%	2.8%



capital for labor. With low interest rates, capital is becoming cheaper as labor is becoming more expensive. Big industrial companies are announcing layoffs and job eliminations. There is now a labor market dichotomy where small firms still want to hire more labor while big companies are shedding jobs. One of the reasons is that smaller companies are typically in service industries, don't face much foreign competition and are thus largely unaffected by the global slowdown. Expect these contrasting trends to continue for the next year.

Goods-producing companies are facing increasing wage costs at a time when weak global demand makes it difficult or impossible to raise output prices (see graph below). As a result, profits are being squeezed. The danger is that weak profits will lead to slower business investment, which would particularly hurt a state like Ohio that sells a lot of capital goods.

Unfortunately, although consumer spending has buoyed the economy in CY 1998, this cannot be expected to continue, at least not at the same rate. Consumers have been spending beyond their means. Real consumer spending has increased 5.0 percent in CY 1998, compared with a 3.1 percent increase in real disposable income. This increase in consumption has been financed by borrowing. The U.S. savings rate has been negative for two months in a row, and will probably be negative for the entire 4th quarter. This would be the first negative saving rate ever recorded in the quarterly data. The monthly negative saving rate is the first since 1934, in the midst of the Great Depression. Obviously, households have been financing part of their consumption out of increases in wealth resulting from increases in asset prices, particularly stock prices. Using the theory that households have wealth targets for retirement, college tuition, and other goals, and thus decrease saving from current income as asset prices appreciate, DRI estimates that the increase in the household net worth to income ratio of 4.5 to 6.0 has reduced the saving rate by 3.75 percentage points.

In CY 1999, as stock price growth slows due to reduced earnings, households will probably have to trim consumption growth back to equal income growth, which will slow, but not stop, the current expansion. ❑

Status of the General Revenue Fund

REVENUES

— *Frederick Church*

After five months of FY 1999, tax revenues are $47.1 million above the revised estimate, and have grown 7.2 percent from a year ago. Non-federal revenue is $54.0 million over estimate, and has grown 7.4 percent. Federal grants are $58.0 million below estimate, due to lower than expected spending on human services programs such as TANF and Medicaid. The star performer is once again the personal income tax, which is $35.8 million above the revised estimate. The income tax has grown by 9.8 percent overall, with particularly strong growth seen in quarterly estimated payments. Net settlements of tax liability (annual return payments minus refunds) are also up sharply from last year.

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

REVENUE SOURCE			
TAX INCOME	Actual	Estimate*	Variance
Auto Sales	$58,190	$51,450	$6,740
Non-Auto Sales & Use	400,748	368,513	32,235
Total Sales	$458,938	$419,963	$38,975
Personal Income	$460,581	$414,550	$46,031
Corporate Franchise	9,258	(5,562)	14,820
Public Utility	(14,357)	10,120	(24,477)
Total Major Taxes	**$914,420**	**$839,071**	**$75,349**
Foreign Insurance	$59	$0	$59
Domestic Insurance	0	0	0
Business & Property	23	35	(12)
Cigarette	23,167	21,978	1,189
Soft Drink	0	0	0
Alcoholic Beverage	4,402	4,160	242
Liquor Gallonage	2,387	2,200	187
Estate	31,435	7,792	23,643
Racing	0	0	0
Total Other Taxes	$61,473	$36,166	$25,307
Total Taxes	**$975,893**	**$875,236**	**$100,657**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	1,440	4,200	(2,760)
Other Income	7,581	8,115	(534)
Non-Tax Receipts	$9,021	$12,315	($3,294)
TRANSFERS			
Liquor Transfers	$8,000	$7,000	$1,000
Budget Stabilization	0	0	0
Other Transfers In	0	0	0
Total Transfers In	$8,000	$7,000	$1,000
TOTAL INCOME less Federal Grants	**$992,914**	**$894,551**	**$98,363**
Federal Grants	$279,904	$288,425	($8,521)
TOTAL GRF INCOME	**$1,272,818**	**$1,182,976**	**$89,842**

* July, 1998 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

Although the raw data make it seem that the non-auto sales tax is lagging the revised estimate, as we explained in the overview section, this is an accounting problem that will be corrected in December.

Under Ohio Revised Code Section 5703.052, the Treasurer of State (TOS) has been paying some refunds of corporate tax out of non-auto sales tax receipts. Thus, the corporate tax has been credited with about $27 million too much in net GRF revenue, while the non-auto sales tax has received about $27 million too little. Adjusting the year-to-date figures by $27 million wipes out the shortfall in the non-auto tax and leaves a small overage ($0.8 million) in its place. Conversely, removing $27 million from the corporate franchise tax leaves only a small overage ($4.4 million instead of $31.4 million) in the corporate franchise tax.

The public utility excise tax is $27.0 million below estimate. Although the first estimated payment was only slightly below the revised target, the reconciliation of prior year liability that happens in November and December has turned out to be significantly more negative than expected. The public utility tax should not lose much more relative to the revised estimate for the remainder of the year.

Other than the public utility excise tax and federal grants, there are no significant shortfalls. Besides the income tax, there are overages in the foreign insurance tax ($11.8 million) and in the estate tax ($16.8 million). The estate tax surplus seems to be partly due to unexpectedly early settlement and payment, and thus we expect the overage to shrink — but not disappear — in December. The insurance taxes are in the first year of a five-year phase-in of a new tax structure that eliminates the old domestic preference. Year-to-date revenues reflect the October advance payment for half of the prior year's liability. Barring any surprises, one would thus expect a year-end overage in this tax. Whether the domestic tax will make the estimate will not be known until close to the end of the fiscal year.

On the non-tax side, investment earnings continue to exceed expectations. Income is $10.5 million over estimate through November. Average daily cash balances for the GRF (and for other funds whose earnings are credited to the GRF) are higher than either LBO or OBM estimated when the revised forecasts of FY 1999 were made. Although interest rates have been falling, one presumes that the Treasurer has been able to earn some capital gains income as bond prices have appreciated.

All in all, the revised forecasts up to this point seem gratifyingly accurate. Non-federal revenues are 1.0 percent higher than the estimate, and tax revenues deviate by less than 1.0 percent. After the adjustment between the non-auto sales tax and the corporate franchise tax is made, most individual sources will also be very close to the estimate.

Personal Income Tax

Growth in employer withholding revenue was a relatively anemic 6.1 percent in the first quarter of FY 1999, but November collections were very strong, and year-over-year growth is now 7.0 percent. Total withholding revenues are $18.3 million above the revised estimate. This is good news, but there are still reasons to be cautious about withholding revenues for the remainder of FY 1999. When OBM did the monthly income tax estimates for FY 1999, it assumed that withholding growth would be slightly slower in the first five months of the year and then faster in the last seven months. For the year as a whole, the projection is for 7.0 percent growth in withholding revenues. So, while there appears to be an overage in withholding at this point, viewed another way withholding is just keeping pace with the overall target for the fiscal year.

Quarterly estimated payments are growing very strongly (15.7 percent), but LBO and OBM expected that growth, primarily because of the continued strong performance of the stock market and of asset prices generally. Households in Ohio and around the country continue to realize capital gains — of course, on mutual fund gains the taxpayer has no discretion about when gains are realized — and to owe additional taxes. So, quarterly estimated payments are only $1.3 million above the revised forecast.

Slightly more than half of the total income tax overage is in annual return payments and refunds. Annual returns are 415.8 million over the estimate and refunds are $7.7 million below the estimate,

FY 1999 Income Tax Collections by Component
amounts in millions of dollars

	Actual	Estimate	Variance	Yr-Over-Yr Growth
Employer withhholding	$2,388.6	$2,370.6	$18.0	7.0%
Quarterly estimated payments	$313.1	$311.8	$1.3	15.7%
Annual Tax Payments	$72.4	$56.6	$15.8	27.3%
Refunds	($61.5)	($69.2)	$7.7	-13.9%
Total Major Components	$2,712.6	$2,669.8	$42.8	
Total All Components	$2,727.0	$2,684.3	$42.7	8.8%
Total GRF Amount	$2,438.1	$2,402.3	$35.8	9.8%

Table 3
General Revenue Fund Income
Actual vs. Estimate
Fiscal Year-to-Date 1999
($ in thousands)

REVENUE SOURCE					
TAX INCOME	Actual	Estimate*	Variance	FY 1998	Percent Change
Auto Sales	$320,675	$317,684	$2,991	$301,990	6.19%
Non-Auto Sales & Use	1,936,266	1,962,440	**(26,174)**	1,861,101	4.04%
Total Sales	$2,256,940	$2,280,124	**($23,184)**	$2,163,091	4.34%
Personal Income	$2,438,110	$2,402,272	**$35,838**	$2,221,221	9.76%
Corporate Franchise	72,662	41,256	31,406	27,265	166.51%
Public Utility	202,468	229,500	**(27,032)**	228,856	-11.53%
Total Major Taxes	$4,970,180	$4,953,152	$17,028	$4,640,433	7.11%
Foreign Insurance	$148,329	$136,500	$11,829	$146,907	0.97%
Domestic Insurance	39	237	(198)	435	-91.03%
Business & Property	123	545	(422)	455	-73.05%
Cigarette	113,372	111,969	1,403	110,261	2.82%
Soft Drink	1	0	1	(0)	#N/A
Alcoholic Beverage	22,987	22,620	367	22,361	2.80%
Liquor Gallonage	11,401	11,097	304	9,983	14.21%
Estate	57,245	40,425	16,820	34,566	65.61%
Racing	0	0	0	0	#N/A
Total Other Taxes	$353,497	$323,394	$30,103	$324,968	8.78%
Total Taxes	**$5,323,677**	**$5,276,546**	**$47,131**	**$4,965,401**	**7.22%**
NON -TAX INCOME					
Earnings on Investments	$45,037	$34,500	$10,537	$34,803	29.40%
Licenses and Fees	15,504	16,780	(1,276)	15,606	-0.65%
Other Income	40,070	43,502	(3,432)	51,072	-21.54%
Non-Tax Receipts	$100,610	$94,782	$5,828	$101,481	-0.86%
TRANSFERS					
Liquor Transfers	$34,000	$33,000	$1,000	$32,000	6.25%
Budget Stabilization	0	0	0	$0	#N/A
Other Transfers In	16,313	16,250	63	203	7935.96%
Total Transfers In	$50,313	$49,250	$1,063	$32,203	56.24%
TOTAL INCOME less Federal Grants	**$5,474,600**	**$5,420,578**	**$54,022**	**$5,099,085**	**7.36%**
Federal Grants	$1,457,838	$1,515,797	($57,959)	1,428,730	2.04%
TOTAL GRF INCOME	**$6,932,438**	**$6,936,375**	**($3,937)**	**$6,527,814**	**6.20%**

* July, 1998 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

meaning that total net settlements of tax due are $23.5 million above the estimate. Unfortunately, this tells us very little about what to expect from these components for the remainder of FY 1999, since payments that have been received so far this year are primarily late payments against taxable year 1997 liability (or from other, earlier years).

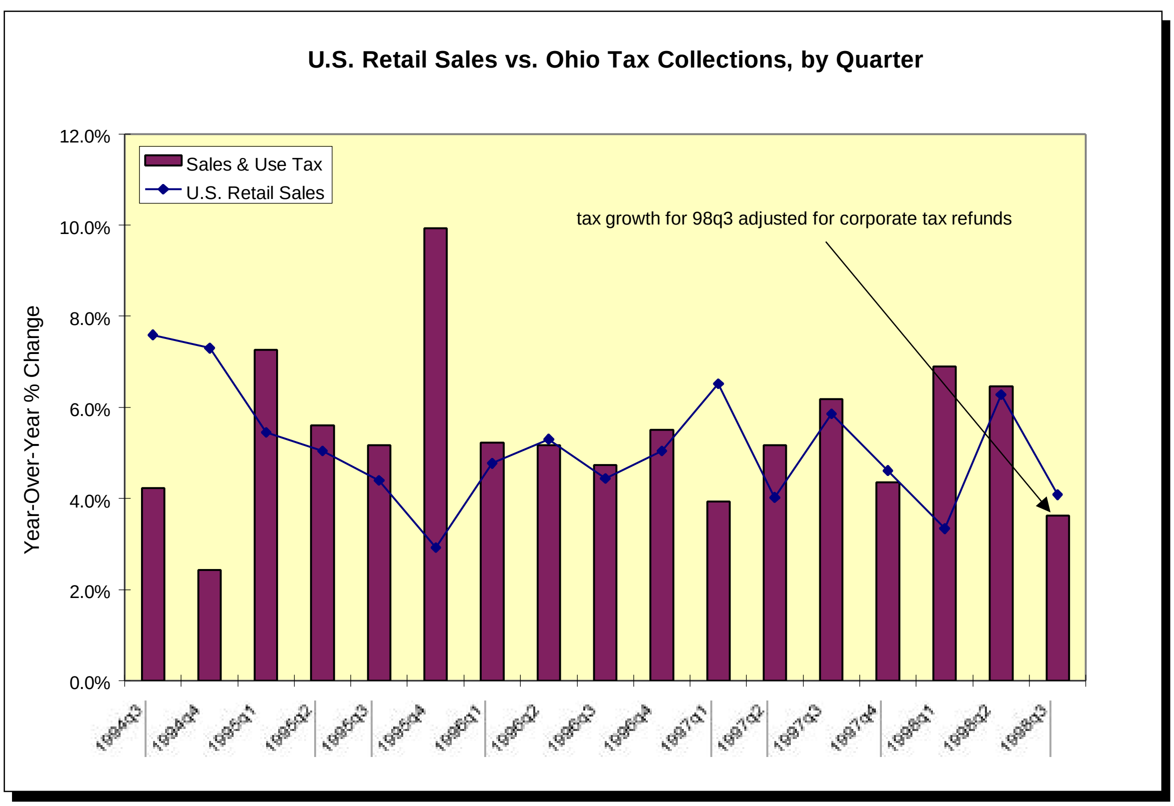
Overall, the income tax is roughly on track with the revised estimates. December and January will be telling months for this tax. The biggest withholding revenues of the year are expected in December and January, due to such factors as increased employment and income from seasonal hiring, payment of year-end-bonuses, etc. Also, the final quarterly estimated payment against taxable year 1998 liability is due January 15th. This last quarterly payment often serves as a bellwether for tax filing season revenues. If taxpayers look back on 1998 and realize that their non-wage income was greater than originally anticipated, and so they owe additional tax, then the final quarterly payment will be higher than estimated, and then it is also often true that annual returns will also exceed the estimate and that refunds will fall short of the estimate. However, if the converse is true and the final quarterly payment comes in low because taxpayers have received a negative surprise in their income, then generally the filing season tax collections are disappointing also.

Sales and Use Tax

To beat the subject to death, if the non-auto sales tax had been properly accounted for, collections would be $0.8 million above estimate instead of $26.2 million below estimate. The last issue of this report expressed some puzzlement about why Ohio non-auto sales tax growth slowed so much more sharply in the third quarter than U.S. retail sales did. The simple answer is that the original data was erroneous. While year-over-year growth in U.S. retail sales slipped from 6.3 percent in 1998q2 to 4.1 percent in 1998q3, Ohio sales and use tax growth fell from 6.5 percent to 3.6 percent, not 2.7 percent as originally reported. While Ohio still underperformed the nation slightly in the third quarter, the gap is much smaller with the revised tax collections figure: small enough to be explained by such factors as the GM strike. A revised version of the graphic that appeared in the previous ***Budget Footnotes*** is below.

The December 9th Beige Book report for the 4th Federal Reserve District (includes Ohio, part of Pennsylvania, part of Kentucky) said that retail sales had picked up in November. This should bode well for December sales tax collections (non-auto tax collections are based on the prior month's activity). Furniture sales and housewares were selling particularly well, while apparel sales were weak. Retailers were optimistic about the holiday shopping season. Next month's ***Budget Footnotes*** will report on whether those high expectations were realized. Early reports were that holiday season sales were increasing only in the 3.5 percent to 4.0 percent range, as contrasted with a 4.7 percent increase last year. Internet retail sales are reported to be very strong, but most Internet sales escape state sales tax, so Ohio will presumably gain little from that.

Earlier, in our economic review, we reported on the strong automotive sales in CY 1998. Unit sales are expected to hit 15.5 million light vehicles, the strongest showing since CY 1988. In addition, the big forecasting firms like DRI and WEFA expect



continued strong sales for the next several years. Low interest rates, healthy job and income growth, sales incentives, and the U.S. public's unquenchable demand for sport utility vehicles and other light trucks are pushing some automakers to U.S. sales records. Daimler Chrysler expects to break its 1996 sales record for Chryslers. Ford expects to break its 1997 truck sales record. Toyota has already beaten its 1997 U.S. sales record, and so has BMW. Finally, closer to home, Honda expects to break the 1 million vehicle mark for U.S. sales in 1998, for the first time ever. Given all this good news, it should not come as a surprise that auto sales tax collections are $3.0 million above estimate. Barring a recession, the outlook for the remainder of FY 1999 is good for this tax.

Finally, in the previous Budget Footnotes, we reported that DRI had estimated that U.S. consumption would be reduced by about $50 billion as a result of the $1.3 trillion in stock market losses when prices plunged.[4] LBO estimated that Ohio would lose $48 million in sales tax collections in FY 1999 as a result of this drop. However, the remarkable market recovery — the Dow Jones has almost recovered its July peak — makes it unlikely that this tax loss will occur. There are still signs that the market is overpriced and that another correction, this time longer lasting, could occur. In that case Ohio presumably would experience some sales tax loss, although it is unclear whether the market drop would be as large as the July-August amount, and so whether the sales tax loss would approach $48 million.

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1 Apparently FY 1998 tax collection amounts need to be adjusted also, by about $18 million, This is discussed in further detail below.

2 WEFA's December 1998 ***U.S. Outlook*** says that the risk of recession has dropped to 30 percent. On the other hand, the November 18 document, "Risk of Global Recession is Receding," says that the probability of recession has fallen to 20 percent.

3 The accelerator principle essentially says that the level of net investment depends on the growth in output. Thus, an acceleration in output growth is needed to increase the level of investment. When output growth accelerates, investment increases, which not only increases both the productive capacity of the economy (supply) but also further increases the level of demand through the expenditure multiplier.

4 The original figure was $2.0 trillion, looking at just July and August results.

DISBURSEMENTS

— *Jeffrey E. Golon**

Despite our collective tendency to ascribe little or no cachet to the word "negative," there are times when it can actually carry a positive connotation. And a case in point is the state's fiscal health, with specific reference to spending and its effect on the bottomline. With that in mind, one glances over at November's end and can see that it includes a perhaps timid $35.3 million underage, but more importantly, the state now has four consecutive months of "negative" monthly disbursement variances on record and a high-water mark in FY 1999 underspending totaling $404.1 million. And although some of the sources of this underspending undoubtedly will disappear with the passage of time, it seems clear that the state will end FY 1999 as it did FY 1998 with a healthier GRF cash balance than previously assumed.

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

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$386,989	$428,826	($41,837)
Higher Education	$278,562	$288,533	($9,971)
Total Education	$665,551	$717,359	($51,808)
Health Care/Medicaid	$440,972	$500,557	($59,585)
Temporary Assistance to Needy Families	$80,741	$92,845	($12,104)
General/Disability Assistance	$5,082	$5,688	($606)
Other Welfare	$19,978	$34,763	($14,785)
Human Services (2)	$141,115	$101,151	$39,964
Total Welfare & Human Services	$687,888	$735,004	($47,116)
Justice & Corrections	$102,109	$110,166	($8,057)
Environment & Natural Resources	$17,046	$16,564	$482
Transportation	$3,966	$1,948	$2,018
Development	$6,668	$10,207	($3,539)
Other Government (3)	$19,331	$20,685	($1,354)
Capital	$677	$404	$274
Total Government Operations	$149,797	$159,973	($10,176)
Property Tax Relief (4)	$158,021	$84,200	$73,821
Debt Service	$0	$0	$0
Total Program Payments	**$1,661,257**	**$1,696,536**	**($35,279)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$91	$0	$91
Total Transfers Out	$91	$0	$91
TOTAL GRF USES	**$1,661,348**	**$1,696,536**	**($35,188)**

(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, 1998 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

November Variance. Excluding transfers, November closed with a negative disbursement variance of only $35.3 million, a number that we would assert concealed more than it revealed. Two areas of state spending dominated the November underage — the Healthcare/Medicaid program ($59.6 million) and the Department of Education ($43.3 million) — and alone produced underspending totaling $102.9 million. When combined with a number of considerably smaller underages, most notably from the Department of Human Services exclusive of the Medicaid, TANF, and General/Disability Assistance programs ($14.8 million) and the Temporary Assistance to Needy Families (TANF) program ($12.1 million), November underspending attributable to certain areas of the state budget totaled over $145 million.

Underages in the Department of Education and other Human Services spending were essentially no more than matters of timing, while the Medicaid and TANF programs appeared to generate some amount of true savings as declines in certain human services caseloads continued to constrain spending below expectations.

And yet total spending for the month was only short of the estimate by a much smaller $35.3 million, a difference of some $110 million or so. What was up?

Two areas of the state budget threw in counterpunching overages: the Property Tax Relief program and the Department of Mental Health. These two areas collectively generated a positive monthly disbursement variance of $105.5 million, with the bulk of it coming in the form of larger than expected property tax relief distributions (+$73.8 million). Both overages were no more than matters of timing, with the Property Tax Relief program overage expected to sort itself out in the next two months, while Mental Health's was largely an adjustment to an October underage in community mental health subsidy funding.

Table 4 provides the larger picture of November disbursement variances by program category.

Year-to-Date Variance. November's underspending drove the negative year-to-date disbursement variance, excluding transfers, up to a fiscal year high of $404.1 million.

There were six principal contributors to the year-to-date underage: (1) the HealthCare/Medicaid program ($126.1 million); (2) the Primary and Secondary Education program category, most specifically the Department of Education ($122.7 million); (3) the Temporary Assistance to Needy Families (TANF) program ($67.4 million); (4) the Other Welfare program category, which consists entirely of the Department of Human Services exclusive of the Medicaid, TANF, and General/Disability Assistance programs ($50.5 million); (5) the Justice and Corrections program category, mostly from the Department of Rehabilitation and Correction ($33.8 million); and (6) the Other Government program category, largely emanating from the Department of Administrative Services ($22.1 million). The disbursement variances associated with the departments of Education, Human Services, and Rehabilitation and Correction were principally the result of timing. In the case of the Medicaid and TANF programs and the Department of Administrative Services, issues of timing were most likely mixing with true spending reductions to produce underages. Declining caseloads in certain service areas of the Medicaid and TANF programs were holding some spending in check, while other underages in these two programs were timing-based. And in the matter of the Department of Administrative Services, underspending largely reflected a combination of savings in expected debt service and other building operating payments, as well as unexpectedly sluggish disbursements relative to various computing and communications projects.

The Property Tax Relief program also played a part in constraining the size of the year-to-date underage as well. Year-to-date, the Property Tax Relief program was $54.9 million over the estimate, a variance due to timing. If this overage had not developed, then the state's year-to-date underspending at the close of November would have been approaching $460 million rather than sitting at around $400 million as was the case.

A more detailed picture comparing fiscal year-to-date variances by program category is provided for the reader in Table 5.

Federal Money. Of the year-to-date underspending in the TANF and Medicaid programs combined ($193.5 million), 58.6 percent, or $113.3 million, was in the federal share of these two human services programs that are jointly funded by the state and federal government. Furthermore, a fairly sizeable portion of this underspending in the federal share — $73.4 million (64.8 percent) — was exclusively attributable to Medicaid. Once the federal money associated with TANF and Medicaid was backed out, the year-to-date underspending in non-federal state money was reduced to $290.8 million from $404.1 million.

Don't forget our ongoing critical caveat relative to federal funds. Any federal TANF money unspent at fiscal year's-end really represents money the state will have earned by meeting its required maintenance of effort (MOE). On the other hand, an underage in Medicaid really signals a loss of anticipated revenue since the state will not have spent the money

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Fiscal Year-to-Date 1999
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance	FY 1998	Percent Change
Primary & Secondary Education (1)	$2,041,513	$2,163,931	($122,418)	$1,970,374	3.61%
Higher Education	$1,051,348	$1,055,387	($4,039)	$1,002,502	4.87%
Total Education	$3,092,861	$3,219,318	($126,457)	$2,972,876	4.04%
Health Care/Medicaid	$2,189,160	$2,315,246	($126,087)	$2,142,153	2.19%
Temporary Assistance to Needy Families	$343,874	$411,321	($67,448)	$387,483	-11.25%
General/Disability Assistance	$26,005	$33,612	($7,607)	$24,824	4.76%
Other Welfare	$187,138	$237,627	($50,489)	$206,390	-9.33%
Human Services (2)	$546,574	$549,507	($2,933)	$542,292	0.79%
Total Welfare & Human Services	$3,292,750	$3,547,314	($254,564)	$3,303,142	-0.31%
Justice & Corrections	$710,553	$754,622	($44,069)	$675,689	5.16%
Environment & Natural Resources	$70,556	$68,671	$1,885	$71,845	-1.79%
Transportation	$9,746	$10,815	($1,069)	$9,526	2.30%
Development	$53,737	$57,455	($3,718)	$56,171	-4.33%
Other Government (3)	$186,681	$216,935	($30,254)	$178,861	4.37%
Capital	$1,926	$2,635	($709)	$1,907	1.02%
Total Government Operations	$1,033,200	$1,111,133	($77,934)	$993,999	3.94%
Property Tax Relief (4)	$493,560	$438,618	$54,942	$351,164	40.55%
Debt Service	$91,503	$91,553	($51)	$81,170	12.73%
Total Program Payments	**$8,003,873**	**$8,407,937**	**($404,064)**	**$7,702,351**	**3.91%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	—
Budget Stabilization	$44,184	$44,184	($0)	$34,400	28.44%
Other Transfers Out	$973,479	$967,560	$5,919	$721,985	34.83%
Total Transfers Out	$1,017,663	$1,011,744	$5,919	$756,385	34.54%
TOTAL GRF USES	**$9,021,536**	**$9,419,681**	**($398,145)**	**$8,458,736**	**6.65%**

(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, 1998 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

necessary to earn financial reimbursement from the federal government.

That completes our overview of disbursement activity and we invite the reader to venture on for some additional details on certain areas of state spending.

Primary & Secondary Education

Education. At November's close, the Department of Education threw in a negative monthly disbursement variance totaling $43.3 million that, when piled with prior underages, propelled the department's year-to-date underspending up to its FY 1999 high-water mark — $122.7 million. As we had mentioned in the October issue of ***Budget Footnotes***, delays in operationalizing the new SF-3 foundation funding formula were exerting a dragging effect on disbursement activity relative to expectations, so finding signs of underspending some two months later was not surprising nor particularly troubling. Although the department did begin to disburse state aid via the new SF-3 formula in late October, it will take some time to distribute the FY 1999 funding that had been trapped, in a sense, under the old system of providing state aid. Timing also played a hand in the department's underages, and like the observed delays in instituting new or changed procedures and programs, should largely resolve itself over the next few months.

Nonpublic school subsidy. The department's nonpublic administrative cost reimbursement program, fueled exclusively through line item 200-532, Nonpublic Administrative Cost Reimbursement, accounted for almost all of November's underspending, as well as a large chunk of the year-to-date underage. The planned November distribution of the entire FY 1999 $44.3 million appropriation for nonpublic school administrative cost reimbursement did not happen, but will most likely be released by the state's Controlling Board a month later than was originally assumed.

This subsidy funding is used to reimburse chartered nonpublic schools for mandated administrative and clerical costs incurred for such things as filing reports and maintaining records. Section 3317.063 of the Revised Code specifies that the maximum reimbursement rate is $250 per pupil enrolled in a chartered nonpublic school. In reality, each chartered nonpublic school is first assumed to receive the **lesser** amount of the actual cost reported by that nonpublic school or the maximum reimbursement amount at a rate of $250 per pupil. If the calculated total statewide funding exceeds the appropriation for that year, each nonpublic chartered school's calculated reimbursement amount will be adjusted downward by a uniform percentage to meet the limitation of the appropriation level.

Bus Purchases. In addition to the nonpublic administrative cost reimbursement program, the school bus purchase allowance program (line item 200-503, Bus Purchase Allowance) was another expected key contributor to the department's year-to-date underspending. An estimated $28.0 million in bus purchase subsidy funding for school districts was not disbursed as planned in September, but it will also most likely be released by the state's Controlling Board at an early December meeting.

Other Underages. Delays in implementing the new foundation formula have also contributed to year-to-date underages in other departmental line items as well, including: (1) $3.3 million in line item 200-546, Charge-off Supplement; (2) $3.3 million in line item 200-547, Power Equalization; (3) $19.0 million in line item 200-520, Disadvantaged Pupil Impact Aid (DPIA); and (4) $2.6 million in line item 200-558, Emergency Loan Interest Subsidy. Both the Charge-off Supplement and Power Equalization line items were tied to recently enacted initiatives that experienced a slow start, and, as a result, did not begin spending money until after the first quarter of FY 1999 was completed, contrary to the July start that was assumed in OBM's original disbursement estimates.

While not a new program, DPIA has been changed significantly to now include funding for all-day kindergarten, K-3 class size reduction, and safety and remediation programs. In response to this programmatic expansion, FY 1999 DPIA funding ($386.6 million) was increased substantially over the FY 1998 funding level ($281.2 million). Since the necessary mechanism to distribute this enhanced level of funding took some time to put in place, first quarter DPIA disbursements were based on a prior scheme that used school districts' FY 1998 funding amounts instead. This was the reason why DPIA spending was under the year-to-date estimate by $19.0 million. This was no more than a matter of when a new distribution formula would be ready to roll, and it was not ready to roll as quickly as was originally assumed. An initial impression might have been that the falling TANF caseload could have been a factor in the DPIA underspending, but at this point that was not the case.

Last was the emergency loan interest subsidy (line item 200-558), yet another recently enacted program; for which we have seen absolutely no disbursement activity so far this fiscal year. This funding ($8.5 million in FY 1999) was made available to distribute a subsidy to every school district that, during the preceding calendar year, paid and was obligated to pay interest on an existing state-backed emergency school loan in excess of two percent simple interest. As of December 1998, 23 school districts have a total of $270.5 million in outstanding state-backed emergency loan liabilities (including principal and interest). It appeared that the department is prepared to make what will amount to retroactive interest subsidy payments in January or February, with a system of regular monthly payments expected to commence thereafter.

Table 6
Department of Education
FY 1999 Disbursement of Prior Fiscal Years' Encumbrances
($ in millions)

Budget Fiscal Year	Encumbered Amounts	Year-to-date Disbursements	Disbursement Percentage
1995	$ 1.38	$ 0.05	3.6%
1996	$ 20.48	$ 1.31	6.4%
1997	$ 46.76	$ 1.82	3.9%
1998	$129.28	$49.66	38.4%
Totals	**$197.90**	**$52.84**	**26.7%**

Solvency Fund Update. Substitute House Bill 412 of the 122nd General Assembly: (1) prohibited the state from approving loans under the preexisting emergency school loan law after March 1, 1998; and (2) created the School District Solvency Assistance Fund. The state's preexisting emergency school loan law was among those held unconstitutional in the *DeRolph* decision. Amended Substitute House Bill 650 of the 122nd General Assembly appropriated $30 million from FY 1998 surplus GRF revenue to the non-GRF School District Solvency Assistance Fund (Fund 5H3) in FY 1999. This funding was appropriated to provide advancements to school districts to enable them to remain solvent and to pay unforeseeable expenses of a temporary or emergency nature that they would be unable to pay from their existing resources. Such advancement would be required to be repaid no later than the end of the second year following the fiscal year in which it was made. As of this writing, the department was immersed in the process of reviewing applications from school districts, with the expectation that about 20 school districts will incur deficits in FY 1999, some of whom will be eligible for this solvency fund assistance.

Prior Years' Encumbrances. The department entered FY 1999 with a total of $197.9 million in encumbered funds from prior fiscal years, some of which stretched all the way back to FY 1995. The disbursement of these prior years' encumbrances was at a slower pace than was anticipated and accounted for another chunk of the department's year-to-date underage. Table 6 was assembled to summarize the department's disbursement of prior fiscal years' encumbrances. And as the reader can plainly see from that table, only 26.7 percent, or $52.8 million, of the department's total amount of encumbered funding from prior fiscal years had been disbursed by the end of November. This meant that much of the remainder, $145.1 million, was still stuck in the encumbrance pipeline.

Notable underages in the area of prior fiscal years' encumbrances were as follows: (1) $22.9 million in line item 200-501, Base Cost Funding; (2) $2.9 million in line item 200-502, Pupil Transportation; (3) $5.2 million in line item 200-504, Special Education; (4) $6.8 million in line item 200-507, Vocational Education; and (5) $3.0 million in line item 200-520, DPIA. Some of these underages were due the fact that the department had yet to make its final FY 1998 foundation aid adjustment calculations, which affect the special education recomputation, the vocational education recomputation, and some other obligations. Special and vocational education recomputation costs alone were expected to hit approximately $33 million. As of this writing, the department expected to perform the necessary calculation adjustments by January or February of next calendar year, thus permitting a load of these encumbered funds to be disbursed. Some of this $145.1 million in unspent encumbrances, however, will not get out the door so to speak, but instead will lapse and be returned to the state's FY 1999 available cash balance.

Health Care/Medicaid

Health Care/Medicaid spending continued its salutary contribution to the state's fiscal picture by hauling in another round of underspending in November, producing the fourth consecutive monthly underage for FY 1999. At November's end, Medicaid spending totaled $440.9 million, short of the estimate by $59.6 million, or 11.9 percent. This negative monthly disbursement variance in turn boosted Medicaid's year-to-date underspending to $126.1 million, which was 5.4 percent below the estimate. (For more detail on monthly and year-to-date Medicaid spending, including a comparison with FY 1998 spending, see Tables 7 and 8.)

Table 7
Medicaid (400-525) Spending in FY 1999

Service Category	November '98 Actual	November '98 Estimate	November '98 Variance	November '98 Percent	Year-to Date Spending Actual**	Year-to Date Spending Estimate**	Year-to Date Spending Variance	Year-to Date Spending Percent
Nursing Homes	$162,992,836	$176,298,210	($13,305,374)	-7.5%	$824,857,076	$856,221,780	($31,364,704)	-3.7%
ICF/MR	$29,568,904	$29,156,518	$412,386	1.4%	$143,477,117	$141,344,822	$2,132,295	1.5%
Hospitals	$119,650,502	$109,250,760	$10,399,742	9.5%	$518,555,906	$507,492,594	$11,063,312	2.2%
Inpatient Hospitals	$92,005,941	$84,959,461	$7,046,480	8.3%	$398,164,844	$393,621,895	$4,542,949	1.2%
Outpatient Hospitals	$27,644,561	$24,291,299	$3,353,262	13.8%	$120,391,062	$113,870,699	$6,520,363	5.7%
Physicians	$28,427,738	$26,770,782	$1,656,956	6.2%	$122,202,070	$121,990,177	$211,893	0.2%
Prescription Drugs	$36,395,710	$68,668,083	($32,272,373)	-47.0%	$239,332,634	$243,463,944	($4,131,310)	-1.7%
Payments	$67,651,416	$70,093,685	($2,442,269)	-3.5%	$302,315,673	$300,807,694	$1,507,979	0.5%
Rebates	$31,255,706	$1,425,602	$29,830,104	2092.5%	$62,983,039	$57,343,750	$5,639,289	9.8%
HMO	$29,274,748	$45,162,705	($15,887,957)	-35.2%	$150,872,120	$225,875,421	($75,003,301)	-33.2%
Medicare Buy-In	$0	$9,418,086	($9,418,086)	-100.0%	$40,491,787	$46,761,981	($6,270,194)	-13.4%
All Other***	$38,816,033	$35,831,765	$2,984,268	8.3%	$153,524,987	$172,099,652	($18,574,665)	-10.8%
TOTAL	$445,126,471	$500,556,910	($55,430,438)	-11.1%	$2,193,313,698	$2,315,250,373	($121,936,673)	-5.3%
CAS	$440,971,979		($59,584,931)	-11.9%	$2,189,159,207		($126,091,166)	-5.4%
Est. Federal Share	$259,197,144	$291,474,289	($32,277,144)		$1,277,166,566	$1,348,170,292	($71,003,726)	
Est. State Share	$185,929,327	$209,082,621	($23,153,294)	-11.1%	$916,147,132	$967,080,081	($50,932,949)	-5.3%

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

** Includes spending from FY 1998 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.

Before our usual selective monthly look-see at some of the service categories hidden below Medicaid's bottomline, we'd like to offer two broad observations.

First, as budget veterans know, the Health Care component of the Welfare and Human Services program category consists of Medicaid spending under the umbrella of the Department of Human Services' $5-plus billion mixed federal/state line item 400-525. And in order to get a better handle on what winds might be propelling Medicaid disbursements, we have to turn away from the aggregate Central Accounting System (CAS) data used to build Tables 4 and 5 and examine instead more detailed data that we have extracted from various Department of Human Services reports and displayed in Tables 7 and 8. As noted in prior issues of ***Budget Footnotes***, the Department of Human Services' data does not cleanly mesh with the CAS spending report that typically guides LBO's analysis of disbursements. However, it is our only means of peering deeper into Medicaid's varied health service categories allowing us to make meaningful observations about trends, if any.

Second, this being our first in-depth analysis of FY 1999 Medicaid disbursements means we now have an opportunity to bring folks up to speed about

Table 8
FY 1999 to FY 1998 Comparison* of Year-to-Date Spending

Service Category	FY 1999[1] Yr.-to-Date as of Nov. 98	FY 1998 Yr.-to-Date as of Nov. 97	Variance	Percent Variance
Nursing Homes	$824,857,076	$803,683,430	$21,173,646	2.6%
ICF/MR	$143,477,117	$137,750,341	$5,726,776	4.2%
Hospitals	$518,555,906	$468,192,369	$50,363,537	10.8%
Inpatient Hospitals	$398,164,844	$358,646,306	$39,518,538	11.0%
Outpatient Hospitals	$120,391,062	$109,546,063	$10,844,999	9.9%
Physicians	$122,202,070	$114,852,856	$7,349,214	6.4%
Prescription Drugs	$239,332,634	$190,681,044	$48,651,590	25.5%
Payments	$302,315,673	$240,869,946	$61,445,727	25.5%
Rebates	$62,983,039	$50,188,902	$12,794,137	25.5%
HMO	$150,872,120	$244,968,349	($94,096,229)	-38.4%
Medicare Buy-In	$40,491,787	$50,936,695	($10,444,908)	-20.5%
All Other***	$153,524,987	$131,184,498	$22,340,489	17.0%
TOTAL	$2,193,313,698	$2,142,249,582	$51,064,116	2.4%
Est. Federal Share	$1,277,166,566	$1,251,609,318	$25,557,248	2.0%
Est. State Share	$916,147,132	$890,640,264	$25,506,868	2.9%

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

[1]Includes FY 1998 encumbrances of $54 million.

Medicaid spending plans for FY 1999. In light of actual FY 1998 spending trends, the current administration made adjustments to its FY 1999 spending plan to better reflect the anticipated disbursement demands of various service categories. Total estimated spending still stayed within the total available funding for FY 1999 as existing appropriations were simply shifted between service categories as needed.

That said, let us turn then to monthly spending.

The underspending in November was traceable to four service categories: (1) Prescription Drugs; (2) HMOs; (3) Nursing Homes; and (4) Medicare "Buy-in."

Prescription Drugs. Prescription drug payments of $36.4 million fell below the estimate by 47.0 percent due to $31.3 million in drug rebates that hit the accounting system in November. This rebate amount, although slightly above expectation, was originally budgeted for the month of October.

Historically, rebates — which allow the state to recover approximately 20 percent of actual Medicaid prescription drug payments — have lagged and arrive two quarters after prescription drug payments have been made. About 90 percent of these "lagged" receipts typically arrive in the first month of the quarter, with the balance flowing in the subsequent two months. However, in FY 1999, this historical pattern appeared to be in jeopardy, raising the possibility that there were processing delays afoot. For the first quarter of FY 1999, anticipated July rebate amounts were spread almost evenly between July and August. We were uncertain as to whether history was in the midst of changing or not.

For the year-to-date, prescription drug spending totaled $239.3 million, which though 1.7 percent below the estimate, was still very close to the revised spending plan. Year-to-date drug spending in FY 1999 surpassed that for the same period in FY 1998 by $48.6 million, or 25.5 percent.

HMOs. Managed care provider payments continued to hold the lead that it held for all of FY 1998 in its contribution to Medicaid's underspending. For the month, HMO payments of $29.3 million were below the estimate by 35.2 percent, thus raising the HMO year-to-date underspending to $75.0 million, or 33.2 percent below the estimate.

This continued good news was the result of the ongoing decline in TANF caseloads. While this is welcomed news on any day, the bad news is that these declining caseloads have all but shot down the ability of the department to move more eligible recipients into a managed care setting. Budget estimates were predicated on the notion that 60 percent of all TANF/Healthy Start Medicaid eligibles would be enrolled in HMOs by the end FY 1997. From that base, the department planned to increase this "HMO penetration rate" to 78 percent by the end of the current biennium (June 30, 1999). Considerable progress was made in this direction, as we have reported in prior issues of ***Budget Footnotes***, with HMO penetration rates having reached 54.4 percent in December of 1997, before starting its slide to 41.0 percent as of November 1998.

The effect of this lower than anticipated HMO penetration rate is that further reductions in Medicaid fee-for-service spending on the TANF/Healthy Start population will be delayed until well into the next biennium, if still realizable.

Nursing Homes. Nursing home payments, which totaled $162.9 million in November, contributed $13.3 million to the service category's year-to-date underspending, which now stands at $31.4 million, or 3.7 percent below the estimate.

"Buy-in." A significant amount of underspending occurred for the "Buy-in" service category, due to an estimated $9.4 million November payment that was not made. We have noted previous delays in these estimated monthly payments, payments that ultimately have to occur. Based on the fact that this anticipated November payment must eventually happen, a spending adjustment was necessary to portray a more accurate picture of year-to-date Medicaid disbursements. When this missed November "Buy-in" payment is factored out, Medicaid's year-to-date underspending slipped from $126.1 million down to $116.7 million.

Hospitals. Payments for hospital services, which have posted a mix of positive and negative monthly disbursement variances throughout FY 1999, ended the month of November with an overage of $10.4 million on total spending of $119.6 million. For the year-to-date, payments to hospitals totaling $518.5 million were over the estimate by $11.1 million, or 2.2 percent. This year-to-date hospital spending out paced the spending for the same period in FY 1998 by $50.4 million, or 10.8 percent.

TANF

TANF spending in November landed under what was assumed in OBM's original August estimates. For the month, underspending was $12.1 million, or 13.0 percent below estimate. This variance was due largely to the continued decline in the cash assistance caseload. The number of cash recipients declined by over 10,000 in November, and has declined by about 40,000 recipients since the beginning of the fiscal year.

Year-to-date, TANF spending now stands at $67.5 million below the estimate, amounting to a negative disbursement variance of 16.4 percent. However, $18.2 million of the year-to-date variance was due to a timing issue that resulted in no spending from the state's TANF day care line item (400-413) in the month of October. The childcare expenses were deducted instead from the federal day care line item (400-617), contrary to the plan outlined in the estimates. Most of October's underage in state day care spending will be compensated for in the latter part of the fiscal year, which means that there should be occasions where TANF spending, at least in terms of line item 400-413, exceeds the monthly estimate.

General/Disability Assistance

A slow but steady decline in the caseload of the Disability Assistance (DA) Program accounts for the program's continued spending below estimate. At month's end, the DA caseload was hovering at just over 10,400 recipients, down from approximately

11,500 at the beginning of the fiscal year. For the month of November, DA spending was $606,000 below the estimate, representing a negative disbursement variance of 10.7 percent. Year-to-date, the variance was $7.6 million, or 22.6 percent, below estimate. The bulk of the year-to-date variance was due largely to the fact that the spending estimate called for the disbursement of over $6.0 million to settle the *Taber* lawsuit, which we last covered in more detail in the July/August, 1998 issue of ***Budget Footnotes***. It remains very likely, at least in our minds, that any such distribution of funds related to the *Taber* case will not occur until sometime after January 1999.

Other Welfare

The Other Welfare component of the Welfare and Human Services program category is composed entirely of all of the Department of Human Services' operating expense and subsidy programs, exclusive of Medicaid, TANF, and General/Disability Assistance, which are tracked as separate components under the Welfare and Human Services program category as well.

Human Services. The Department of Human Services' "Other Welfare" spending landed below the November estimate by $14.8 million and propelled the year-to-date underage to nearly $51 million, a negative disbursement variance of 21.2 percent. In the case of the monthly underage, 80 percent was traceable to two line items: 400-416, Computer Projects, and 400-504, Non-TANF County Administration. These two line items were also responsible for slightly over half of the year-to-date underage. The variance in the Computer Projects line item reflected what the department described as slower than anticipated invoicing for various projects. And as we reported in the October, 1998 issue of ***Budget Footnotes***, Non-TANF County Administration spending was running slower than anticipated because the reconciliation process as it related to advance payments and actual expenditures remained unfinished.

In general, the reconciliation process allows the Department of Human Services to reconcile reported actual county expenditures with the monthly advances they actually made during the preceding fiscal year. Based upon conversations with the department, we were led to believe that counties may have been advanced more than was necessary for the administration of the Food Stamp program during FY 1998, and that the amount of that "overadvance" may not be certain until January.

Other notable contributions to the year-to-date underage included: (1) $3.2 million in line item 400-528, Adoption Services; (2) $2.7 million in line item 400-100, Personal Services; (3) $2.5 million in line item 400-402, Electronic Benefits Transfer (EBT); and (4) $2.0 million in line item 400-408, Child & Family Services Activities.

The Adoption Services line item, carrying $50-plus million in subsidy funding for the state's adoption program, has been running monthly underages for the entire fiscal year thus far. It appeared that adoption payments made by the state for children who do not qualify under federal Title IV-E requirements, as well as one-time payments, or reimbursements, to parents for adoptive expenses, were below expectations.

The Personal Services line item, with around $50 million in FY 1999 funding to cover payroll and personal services contracts, has been averaging a monthly underage of close to $550,000. Two forces were at work here. First, the department is operating under a temporary law requirement that it reduce 150 full-time equivalent positions by July 1, 1999. Second, in certain areas of the department where critical positions still must be filled, hiring has moved much slower than was anticipated.

Actual disbursements from the EBT line item have only reached 33 percent of the year-to-date estimate, a sluggish pattern reminiscent of FY 1998. Using EBT funding, the department has been charged with replacing traditional paper food stamps with magnetically encoded cards (smart cards), which automatically track a recipient's monthly food stamp allocation, deduct the cost of all eligible purchases, and maintain their available balance. The program was first piloted in the Dayton area. We were informed that some hardware and software testing delays were slowing the department's move to take the EBT program statewide.

Year-to-date spending from the Child and Family Services Activities line item, with $7.0 million in total available funding designed to assist county public children services agencies administer child foster care and adoptions programs, was 73 percent below the estimate. Programs like Kinship Care, which provides flexible support to relatives providing care for children who cannot safely remain with their parents, and AdoptOHIO, which is supposed to reduce the number of children waiting for a family, have not disbursed the level of available funding as was originally assumed.

Other Human Services

Employment Services. In the October issue of ***Budget Footnotes***, we expressed some concern over the Bureau of Employment Services' rather sluggish disbursement pattern. At the end of the first quarter of FY 1999, disbursements registered $4.7 million, or 25.9 percent, below the estimate. The driving force behind this variance was approximately $4.2 million of underspending in line item 795-407, OBES Operations, which supports operational costs of the bureau's unemployment and employment services programs.

It had been suggested to us that the source of the variance was the bureau's use of a federal accounting system known as ICESA FARS — the Interstate Conference of Employment Security Agencies Finance and Reporting System. We were informed that, since ICESA FARS is in effect the bureau's lead accounting mechanism, quarterly reconciliations with CAS via the use of intrastate transfer vouchers (ISTVs) are necessary, which in effect creates "lags" between the actual date of disbursements and their posting in CAS. Given this "reconciliation" theory, we expected to see some rather sizable overages in either October or November.

At the end of November, approximately five months into the fiscal year, our expectations became a reality as a result of a $5.7 million monthly overage. Not only did the underspending come to an abrupt halt, but the size of the reversal was such that, year-to-date, the bureau's disbursement variance now stands at 4.7 percent over the estimate. In the span of two months, line item 795-407, OBES Operations, went from being the major contributor to the bureau's previous underspending to the key player in what was now almost a $1.0 million year-to-date overage.

As a result of November's large spending spurt, we noted that the bureau had also managed to have expended almost 70 percent of its total estimated disbursements for all of FY 1999, with seven months left to go. Given the bureau's uneven disbursement history and its reliance on ICESA FARS, this outcome was neither particularly surprising nor troubling, though we do intend to closely monitor this situation.

Despite the bureau's sudden surge in aggregate disbursement activity, there were areas in which the underspending trend was not reversed. Actual year-to-date spending in line items 795-411, Customer Service Centers, and 795-418, TANF Employment & Training, remained below estimate by 9.0 percent and 48.0 percent, respectively. Although the combined funding for these two line items represents less than 6.0 percent of the bureau's total FY99 GRF appropriation, and thus exerts little, if any, discernible effect upon total GRF spending, a persistent negative variance may be noteworthy because it can be indicative of some underlying programmatic problems. Given that, it would be then fair to say that, in the case of these two aforementioned line items, each has been plagued with difficulties that could sufficiently explain the negative year-to-date disbursement variances. In the case of Customer Service Centers, there have been delays in site selection and commercial real estate transaction activities, and, in the case of TANF Employment & Training, this was a new initiative only just dropped on the bureau in late FY 1998 and still in its infancy.

When viewed in light of additional underspending in other bureau line items, e.g., 795-406, Workforce Development, and 795-410, Women's Programs, however, we were driven to wonder whether this underspending was symptomatic of larger, more systemic forces, having to do with: (1) the nature of the organization's commitment to certain programmatic initiatives; (2) the inherent difficulties generally associated with the implementation of employment and training programs; or (3) the sign of a healthy economy that means there is less to do and less of urgency to anything that needs doing.

Mental Retardation. The Department of Mental Retardation and Developmental Disabilities closed November with a monthly underage just shy of $4.0 million and a year-to-date underage of $13.6 million. The driving force behind these figures was the prior years' encumbrances in line item 322-413, Residential and Support Services, which total $17.9 million. In November, the underage in this line item hit almost $3.5 million. For the year-to-date, this line item was approximately $7.5 million underspent. As has been the case in prior months, timing was the culprit for this occurrence.

The funding appropriated to line item 322-413 represents waiver match dollars that the department holds on behalf of the county boards of mental retardation and developmental disabilities. Once the department is sure that all charges by providers have been made, it will reconcile the line item and then return funds to the county boards. A provider has 365 days to make a claim for payment to the department, which is the main reason why the department has not been able to reconcile all bills. According to a staff person with the department, the current target date for returning these funds to counties is January 1999.

As discussed in the July/August, 1998 issue of ***Budget Footnotes***, pursuant to section 5123.352 of the Revised Code, the department is required to transfer certain unspent GRF appropriations at the end of a each fiscal year to the Community Mental Retardation and Developmental Disabilities Trust Fund (Fund 4U4). All moneys credited to the trust fund must be used to provide temporary funding to county boards and to pay the expenses of members of the trust fund's advisory board. According to the department, about $100,000 in unspent FY 1998 GRF appropriations were transferred to the trust fund in keeping with existing state law.

Justice & Corrections

Five months into FY 1999 and the Justice and Corrections program category was holding a negative year-to-date disbursement variance of $44.1 million. In excess of 90 percent of that variance, or $41.4 million, was attributable to timing-based underages in two state agencies — the Department of Rehabilitation and Correction ($33.8 million) and the Judicial Conference of Ohio ($7.6 million) — which are discussed in more detail below. Additionally, we took a closer look at a law enforcement assistance line item in the Office of the Attorney General's budget.

Attorney General. Actual spending for the Office of the Attorney General has been pretty much consistent with the OBM estimates so far this year, with the exception of some underspending attributable to line item 055-406, Community Policing Match and Law Enforcement Assistance. So far this year, the Office of the Attorney General has only spent three-quarters of what OBM estimated would be the case.

Line item 055-406 is used: (1) to assist primarily local law enforcement entities in meeting the 25 percent match required to draw federal funds for the hiring of additional law enforcement officers under the Community Oriented Policing Program (COPS); (2) to provide grants to local law enforcement for equipment and technology purposes; and (3) to fund the Ohio Organized Crime Investigations Commission (OCIC) task forces.

In conversation with the Office of the Attorney General, we were reminded that historically disbursements from this line item have been very uneven and unpredictable. Two factors were cited as sources of the relatively slow pace in current spending: (1) the timing of when grants will actually be distributed; and (2) the fact that the Ohio OCIC uses funding available from this line item on an as-needed basis. It also became clear that the expectation was that much of this line item's funding would be gone by the close of the third quarter, as grants will have been distributed by that time.

The Violent Crime Control and Law Enforcement Act of 1994 authorizes federal funds to promote community policing and add 100,000 law enforcement officers. These funds are administered by the federal Department of Justice's Office of Community Oriented Policing Services. Under the program, the federal government pays 75 percent of the cost to law enforcement agencies for the hiring of additional police officers, while the remaining 25 percent of the cost must be absorbed by the hiring agency. The Office of the Attorney General uses this line item to assist hiring agencies with up to 40 percent of their required match, or alternatively could be seen as up to 10 percent of the required 25 percent.

The Ohio OCIC, created in 1986, supports local law enforcement through the creation of task forces throughout the state. The commission provides the task forces with logistical and technical assistance to investigate organized crime. Local governments provide personnel to operate the task forces, while the Office of the Attorney General provides all other resources, including: confidential funds, clerical support, workspace and office support, surveillance and communications equipment, and legal assistance to the task forces in their prosecution of narcotics, money laundering and other racketeering cases. The timing of when expenses will be incurred by these task forces is highly variable, with activity, at least at the somewhat superficial level of spending, appearing relatively quiet year-to-date.

Judicial Conference. The Judicial Conference of Ohio — a part of the judicial branch of state government — was nearing the end of the first half of FY 1999 having disbursed only 2.3 percent of the funds available for its court security program. At the beginning of FY 1999, a total of $10.7 million was available in line item 018-502, Court Security Subsidy, an amount that included $1.0 million in encumbered funds from FY 1998. As of November's end, only $244,357 had been disbursed from this line item, none of which was from the prior year's encumbrances. This underspending in the Court Security Subsidy line item was responsible for the conference's year-to-date negative disbursement variance of $7.6 million, a whopping 93.4 percent below the estimate.

The Court Security Subsidy line item was established in the current biennial operating budget, Am. Sub. H.B. 215, to provide funding to assess and improve the security level of court facilities throughout the state. In FY 1998, $1.25 million had been appropriated to conduct an assessment of each court's security needs and to provide security training for court building personnel. A late start on the project and a decision to cooperate with county sheriffs for the local security assessments delayed and diminished the disbursements that occurred in FY 1998. This also led to the encumbering of the $1.0 million in FY 1998 funding for use in FY 1999, not only to complete the assessment process, but also to permit an increase in the size of the security grants. At this point, all of the local assessments have been conducted.

The bulk of the money appropriated to this line item is to be used as grants to local courts to subsidize new training and equipment for security purposes, or to reimburse local courts that recently incurred expenses related to security improvements. Recommendations are being prepared that will address the current security inadequacies found at the local courts. Some of these twenty-five page evaluations have already been released to the local officials. Before the end of calendar year 1998, the conference will have distributed grant application forms to all of the state's courts. The conference expects to award the majority of the grants between January and May of 1999. The first grants awarded will utilize the $1.0 million in encumbered funds from FY 1998. The conference expects to have disbursed all of the court security funds by the beginning of June 1999.

Rehabilitation & Correction. At November's end, the Department of Rehabilitation and Correction was still experiencing the effects of a large September underage ($36.6 million), as evidenced by the presence of a $33.8 million year-to-date negative disbursement variance. A load of payroll expenses, in particular those associated with the actual day-to-day running of the state's prisons, were anticipated to hit two months ago and did not. We believed then, and still believe now, that this was no more than a monthly estimate gone awry and would resolve itself as we pressed further into the fiscal year.

Other Government

Administrative Services. The year-to-date negative disbursement variance registered by the Other Government program category ($30.3 million) was driven by underspending in the Department of Administrative Services' budget ($22.1 million) that occurred principally during the months of August and September. We previously discussed this fact in the October, 1998 issue of ***Budget Footnotes*** and noted at that time that the sources of the underspending were a blend of: (1) lower than expected payments for rent and operating costs on state-owned buildings, including the State of Ohio Computer Center; and (2) slower than expected disbursements on computing and communications services to other state agencies. Year-to-date, state building rent and operating costs have contributed $10.6 million to the department's underage, with $6.2 million alone coming from smaller than anticipated debt service payments to the Ohio Building Authority (line items 100-447 and 100-448). Four components of the department's computer and communications services program have tossed a $9.5 million underage into the mix as well: (1) Year 2000 Competency Center (line item 100-430); (2) Multi-Agency Radio Communication System/MARCS project (line item 100-417); (3) State of Ohio Multi-Agency Communications Systems/SOMACS (line item 100-419); and (4) Strategic Technology (line item

Table 9
Property Tax Relief Disbursement Percentages
(July, 1998 – January, 1999)

Disbursements			July	August	September	October	November	December	January
Education	Personal	FY 1999 Estimate	0.00%	5.50%	15.00%	17.50%	5.50%	5.00%	0.00%
		FY 1999 Actual	0.00%	3.21%	19.14%	12.78%	13.16%	-	-
	Business	FY 1999 Estimate	0.00%	0.00%	0.00%	0.00%	42.50%	53.00%	4.50%
		FY 1999 Actual	0.00%	0.00%	0.00%	0.00%	45.36%	-	-
Taxation	Personal	FY 1999 Estimate	0.25%	4.00%	14.00%	19.25%	5.00%	6.00%	0.00%
		FY 1999 Actual	0.25%	2.84%	21.79%	11.80%	11.12%	-	-
	Business	FY 1999 Estimate	0.00%	0.00%	0.00%	18.00%	30.00%	50.00%	2.00%
		FY 1999 Actual	0.00%	0.00%	0.00%	21.72%	52.81%	-	-

100-416). The sluggish pace of spending in these computer and communications services programs was expected to pick up as we moved into the latter half of the fiscal year.

Property Tax Relief

As a result of a settlement process that has generally moved faster than historically-based expectations, property tax relief disbursements this fiscal year have started to resemble the proverbial bouncing ball with its undulating sequence of underages and overages. August started it all by landing under the estimate (-$17.5 million), September responded with higher than anticipated payments (+$50.1 million), and October followed with disbursements that were considerably short of the forecasted amount (-$51.5 million). In a countering move, November has now posted a robust variance of its own, this one a monster +$73.8 million, which was 87.7 percent over the monthly estimate. This also marked the first month that the business tangible property exemption component of the state's tax relief program hit the disbursement stream in a big way ($42.9 million), and it too posted a relatively large monthly overage due to an unexpectedly rapid settlement process. All of these variances were no more than matters of timing.

The property tax relief program will disburse approximately $1 billion back to school districts, counties, municipalities, townships, and other special taxing districts as compensation for credits or exemptions provided to taxpayers under existing state law. The timing of the state's distribution of this funding depends heavily on how quickly the settlement process goes at the local level and when county auditors apply to the state for property tax relief payments.

Table 9, Property Tax Relief Disbursement Percentages, focuses on the months of July through January and provides some selected disbursement details associated with the line items in the departments of Education and Taxation that fund the state's property tax relief payments. The table shows: (1) the percentage amount of appropriated FY 1999 personal and business property tax relief funding estimated to be disbursed monthly from July 1998 through January 1999; and (2) the percentage amount of appropriated FY 1999 personal and business property tax relief funding actually disbursed during the first five months of FY 1999.

As can be seen from the data in Table 9, this year's unexpectedly rapid settlement process affected all of the state's November property tax relief distribution activity. In November, actual personal property tax relief disbursements made by the departments of Education and Taxation were roughly double the projected amounts and were more in line with October's actual payment distributions. Actual disbursements of business tangible tax exemption relief funding also landed over the estimates, with the amount actually released by the Department of Taxation being dramatically in excess of the anticipated disbursement percentage.

Year-to-date, property tax relief disbursements were running $54.9 million over the estimate, with clues to that reality littered throughout Table 9. In every case at November's end, actual year-to-date disbursement percentages were ahead of estimated year-to-date disbursement percentages with two months left (December and January) in what might be termed the first of two rounds of FY 1999 property tax relief payments (round two starts around March 1999).

The size of the year-to-date overage in property tax relief spending was solely a function of timing, thus there was no reason to believe that it will not dissipate over the next two months, meaning the negative disbursement variance will shrink as its moves towards zero by the close of January. ❑

**LBO colleagues developing material that anchored this include, in alphabetical order, Ogbe Aideyman, Laura Bickle, Clarence Campbell, Sybil Haney, Sharon Hanrahan, Steve Mansfield, Jeffery T. Petry, Chuck Phillips, Jeffrey M. Rosa, Corey Schaal, and Wendy Zhan.*

Issues of Interest

RECAPPING THE CAPITAL BILL

A SYNOPSIS OF AM. SUB. H.B. 850

SHARON HANRAHAN

On December 17, 1998, Governor Voinovich signed Am. Sub. H.B. 850, the capital ap propriations bill. Included in the bill is over $1.7 billion in appropriations for capital projects as well as several changes to temporary and permanent law. This article contains a brief summary of the capital appropriations included in Am. Sub. H.B. 850 and provides a comparison between this capital appropriations bill and capital appropriations of past years. For a more detailed description of Am. Sub. H.B. 850, please contact the Legislative Budget Office at (614)466-8734 or visit our website at: www.lbo.state.oh.us.

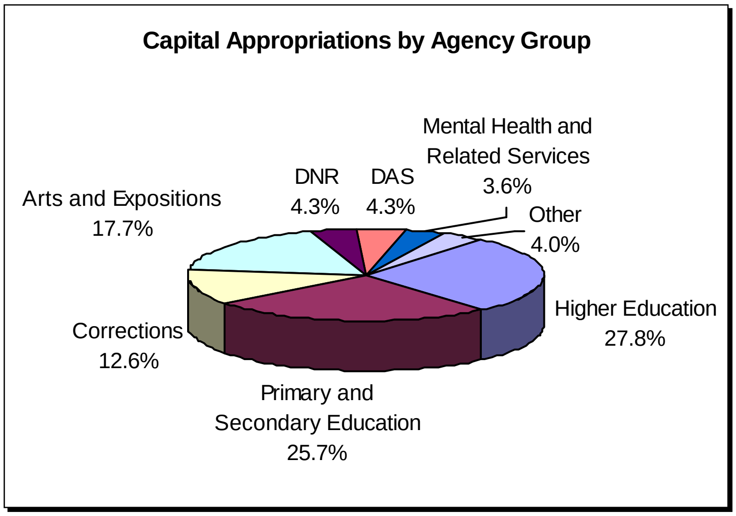
Summary of Appropriations

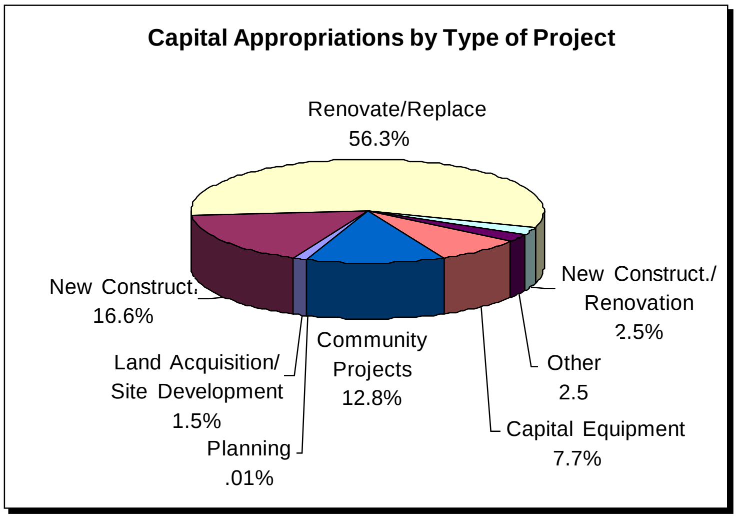
The entire amount of capital appropriations included in Am. Sub. H.B. 850 was distributed among twenty-eight separate state agencies and commissions. Not all agencies receive a proportionate share of the funding as projects are prioritized by the General Assembly and the Executive branch. Over 60 percent of the appropriations ($1,063,192,836) went towards the funding of capital projects for primary and secondary education facilities and institutions of higher education. In fact, Am. Sub. H.B. 850 contains the largest single allocation for school building assistance ever appropriated in a single bill.

Many of the agencies and commissions receiving capital appropriations in the bill have similar or overlapping purposes or functions. Each functional group is organized as follows: 1) ***Higher Education***- Board of Regents, State Institutions of Higher Education, and the Ohio Educational Telecommunications Network Commission; 2) ***Primary and Secondary Education***- School Facilities Commission, School for the Deaf, and School for the Blind; 3) ***Corrections***- Department of Rehabilitation and Correction and the Department of Youth Services; 4) ***DNR*** (Department of Natural Resources); 5) ***DAS*** (Department of Administrative Services; 6) ***Arts and Expositions***- Arts and Sports Facilities Commission and Expositions Commissions; 7) ***Mental Health and Related Services***- Department of Mental Health, Department of Mental Retardation and Developmental Disabilities, and Department of Alcohol and Drug Addiction Services; and 8) ***Other***- Judiciary/Supreme Court, At-

Top Ten Capital Appropriations by Agency

Board of Regents and Institutions of Higher Education	$549,516,915
School Facilities Commission	$505,000,000
Department of Rehabilitation and Correction	$224,255,419
Department of Natural Resources	$86,023,760
Department of Administrative Services	$85,423,150
Arts and Sports Facilities Commission	$82,909,605
Department of Mental Health	$42,490,215
Judiciary/Supreme Court	$32,600,000
Department of Youth Services	$25,400,000
Department of Mental Retardation and Developmental Disabilities	$25,272,396





Source: Agency Capital Project Requests, Table C-1

torney General, Adjutant General, Department of Agriculture, Department of Public Safety, Department of Transportation, Bureau of Employment Services, Ohio Veterans' Home, Department of Commerce, Capital Square Review and Advisory Board, Ohio Historical Society, and Department of Aging. The pie chart above depicts the proportionate share of capital appropriations received by each agency functional group.

Not only does the distribution of capital appropriations between agencies vary, but the way in which the funds are used differs as well. Capital projects funded by Am.Sub. H.B. 850 fall within two very broad categories; those capital facilities that are directly involved in the provision of state services and that are owned by the state, and capital facilities that are assets of local communities throughout the state. By far, funding for capital facilities that are owned and operated by the state comprise the bulk of the appropriations included in the bill. Of these state-owned facilities, funding has been appropriated for land acquisition/site development, planning, new construction, renovation and replacement, a combination of new construction and renovation, and capital equipment.[1] Facilities included in the community projects category include such things as stadiums, theatres, museums, and historic sites.[2]

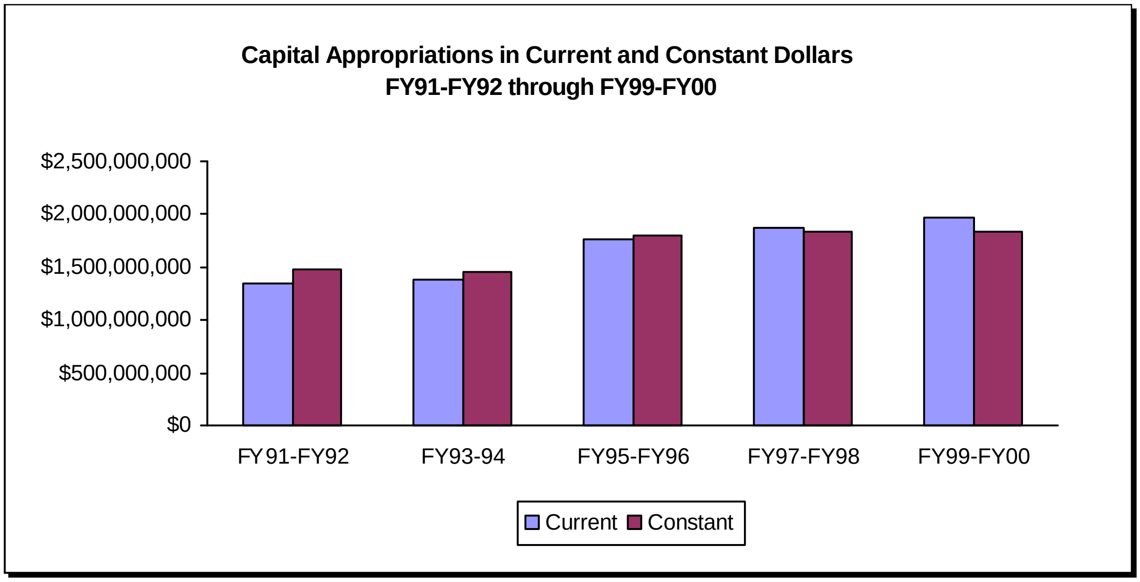
The vast majority of funding for capital projects will be used for renovation and replacement. Over 56 percent ($970,009,155) of the capital appropriations in the bill will be used for this purpose. Only $286,210, 451, or approximately 17 percent of the money appropriated will be used for new construction. Community projects, capital equipment, new construction/renovations, land acquisition/site development, and planning comprise a much smaller share of total capital projects.

In addition to the distribution of capital appropriations by agency and type of project, it is important to note the source of payment for these projects. Ninety percent or a total of $1,525,873,212 in appropriations will be supported by debt service.[3] Approximately 10 percent will be funded as cash payments through the General Revenue Fund or other funds.[4]

A Historical Perspective

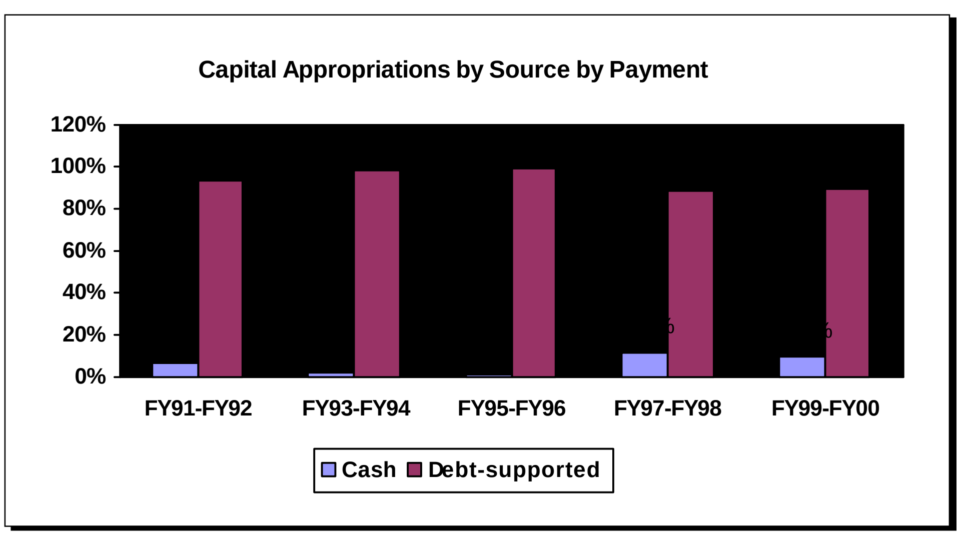
In the past eight years, the legislature has passed four separate capital bills: Am. H.B. 748 (FY97-98), Am. Sub. H.B. 790 (FY95-96), Am. Sub. H.B. 904 (FY93-94), and Sub. H.B. 808 (FY91-92). Due to the fact that each General Assembly is restricted by the Constitution to making no appropriations that last more than two years and that the completion of a capital project usually exceeds this time period, reappropriation bills are typically passed by the legislature.[5] Reappropriation bills reauthorize the unexpended and unencumbered amounts of previously approved capital appropriations for another two years.

The Office of Budget and Management (OBM) employs their "10-20-30-10 rule" when considering the spending pattern of appropriations for most capital projects.[6] Under this rule, it is likely that 10 percent of the appropriations will be spent within the



first year, when fairly small amounts may be needed for design and engineering costs. Approximately 20 percent of appropriations are expended in the second year, and 30 percent in the third and fourth years, when site preparation (and/or demolition) and the majority of construction takes place. As the project nears completion, usually around the fifth year, the remaining 10 percent of the capital appropriations are used for equipment and other components needed to finish the work.

During the period from 1991, when capital appropriations were made in Sub. H.B. 808, up to and including appropriations made in Am. Sub. H.B. 850 for the next biennium, a total of approximately $8.1 billion has been appropriated for capital projects (approximately $8.2 billion in constant dollars).[7] The chart above illustrates the capital appropriations included in the capital bills passed in all five biennia both in current and constant dollars. Included in the chart are new capital appropriations for the Public Works Commission that were appropriated in capital appropriations, reappropriations or corrective bills. The chart does not, however, include money appropriated for highway construction. In Ohio, appropriations for highway construction are included in the state's transportation operating budget.



During this period, capital appropriations have been paid for primarily through the issuance of debt obligations. The past two capital appropriation bills, however, have seen a a slight dip in the use of this type of funding.

It is important to realize that while the previous chart captures a glimpse of capital expenditures in recent history, it does not represent total capital spending by the state for that time period. Funding for capital projects is not always found strictly within the context of capital appropriations or reappropriations bills. As previously mentioned, corrective bills, such as Sub. S.B. 310 in the 121st General Assembly can also include appropriations for

Capital Appropriations for School Facilities
For the Biennia Beginning FY91-92 and Ending in FY99-FY00

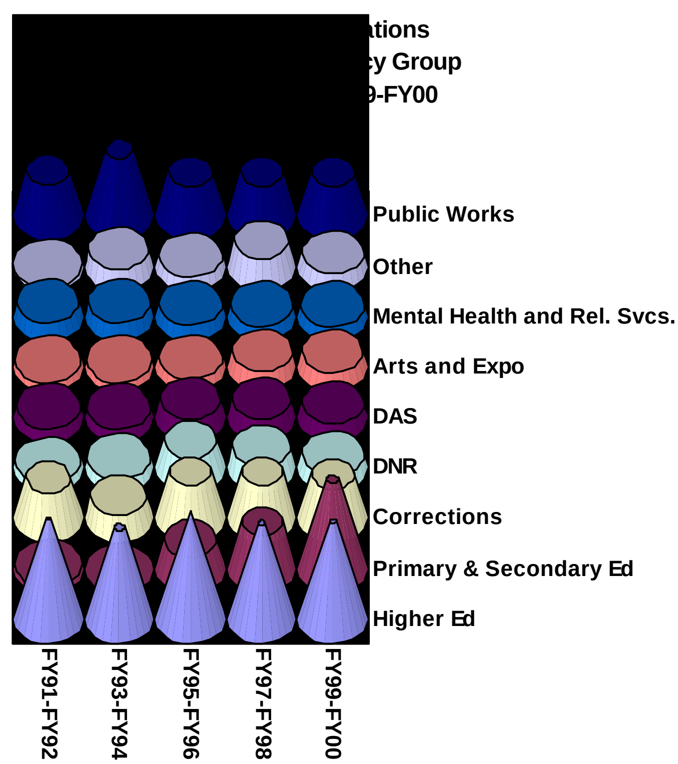
Fiscal Year	Capital Bills	Additional Legislation	Total
FY91-92	$27,850,000	$20,000,000	$47,850,000
FY93-94	N/A	$78,640,000	$78,640,000
FY95-96	$75,000,000	$41,960,000	$116,960,000
FY97-98	$120,000,000	$555,000,000	$675,000,000
FY99-00	$505,000,000	$170,000,000	$675,000,000
Total	$727,850,000	$865,600,000	$1,593,450,000

Source: Paolo DeMaria, Director of the Office of Budget and Management, testimony before the House Finance Committee, 1998; Legislative Budget Office, Capital Analyses, FY91-92 through FY99-00.

capital projects.[8] In addition, certain "stand-alone" pieces of legislation, such as S.B. 102 and H.B. 650 in the 122nd General Assembly, and some operating budget bills have included capital appropriations.

To illustrate this conundrum, one need only look to the appropriations made for capital projects for K-12 school facilities. In FY98-FY99, H.B. 650 appropriated $170,000,000 to the School Facilities Commission and Am. Sub. H.B. 215, the operating budget, appropriated an additional $255,000,000. The legislation that created the School Facilities Commission, S.B. 102, added further capital appropriations totalling $300,000,000. When these appropriations are combined with the appropriations found in capital appppropriations bills, the state has committed a total of over $1.5 billion for school facilities capital projects within five biennia. Over 77 percent or $1,230,000,000 has been appropriated since the passage of S.B. 102 in 1997.

Although capital appropriations bills do not include all the appropriations made by the state for capital projects in each biennium, they do contain valuable information concerning trends in spending. The following chart illustrates the concentration of capital appropriations among each functional agency group.



Note: Public Works has been separated into another category for purposes of this chart only.

As the chart indicates, Higher Education (Board of Regents, State Institutes of Higher Education, and the Ohio Educational Telecommunications Network Commission) has consistently received a lion's share of the capital appropriations in the past four capital bills. Am. Sub. H.B. 850 marks the first time that appropriations for primary and secondary education facilities have come close to meeting such proportions. With the exception of the Public Works Commission, which is somewhat of an anomaly due to its timing of appropriations, the remaining functional agency groups have received a fairly consistent share of capital appropriations in each biennium.

Summary

The term "capital" when applied to the budgeting process is defined as the cost of acquiring, constructing, reconstructing, rehabilitating, remodeling, renovating, enlarging, improving and/or equipping facilities. Although capital appropriations have varied both in amount and source of funding, the state of Ohio has consistently supported both state-owned and operated facilities as well as the capital assets of local communities. The present capital bill, Am. Sub. H.B. 850, serves only to confirm this support.

Am. Sub. H.B. 850 is, however, unique in one very important aspect. The bill includes the largest single allocation in a single bill for capital facilities for primary and secondary education. Given the increasing need for additional capital investments for primary and secondary education amidst an uncertain economic future for the state, it will be interesting to see how capital funding will be allocated in the future. ❑

Note: The author would like to thank both Frederick G. Church, Senior Economist and Allan Lundell, Economist for their helpful comments and suggestions as well as their assistance with data compilation.

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[1] Whenever possible projects were placed within the categories of renovation and replacement, new construction, new construction/renovation and replacement, capital equipment, planning, and land acquisition/site development Some projects were not clear cut as to their main purpose; in this case we chose the purpose for which most of the funding would be spent. Other projects fell in neither of the categories; these are labeled as "other". An example of this type of project would be appropriations for research grants.

[2] Some appropriations that are described as community projects are directly connected to an agency's mission and do not fall within the traditional meaning of community projects. An example of this is CAP-480, Community Assistance Projects in the Department of Mental Retardation and Developmental Disabilities. This line item is used for construction and renovation of adult service facilities, early childhood and family centers, and residential group homes placed within local communities.

[3] Funds financed by debt issuance include: Sports Facilities Building, Administrative Building, Adult Correctional Building, Juvenile Correctional Building, Arts Facilities Building, Mental Health Facilities Improvement, and Higher Education Improvement, among others.

[4] Other funds include: Wildlife, Public School Building Fund, Highway Safety, Waterways Safety, Underground Parking Garage Operating, Special Administrative, and Veterans' Home Improvement.

[5] In the past eight years, four reappropriations bills have been passed: S.B. 230 (FY99-00), Am. Sub. S.B. 264 (FY96-98), Sub. H.B. 715 (FY94-95), and Am. Sub. H.B. 351 (FY92-93).

[6] Ohio Office of Budget and Management. Capital Improvements Report. 1996 edition.

[7] Current dollars were adjusted for inflation using the U.S. Treasury's GDP price deflator, 1997 base year.

[8] Among some of the changes found in Sub. S.B. 310 is an appropriation of an additional $1,046,000 in DAS line item CAP-817, Urban Areas Community Improvements.

IS WELFARE REFORM WORKING?

IMPLEMENTATION OF WELFARE REFORM

STEVE MANSFIELD

This article is the first part of a two-part series that looks at the progress of implementing Ohio's welfare reform program, Ohio Works First. The focus of this first installment is the programmatic changes that are being introduced—the basic principles of the reform, the "devolution" of program authority to county government, and a detailed examination of some of the aspects of program reform toward workforce development. The second installment will look at the changing characteristics of the welfare population and at some measures of program outcomes, and consider the policy implications of those changing characteristics and outcomes.

The Legislation

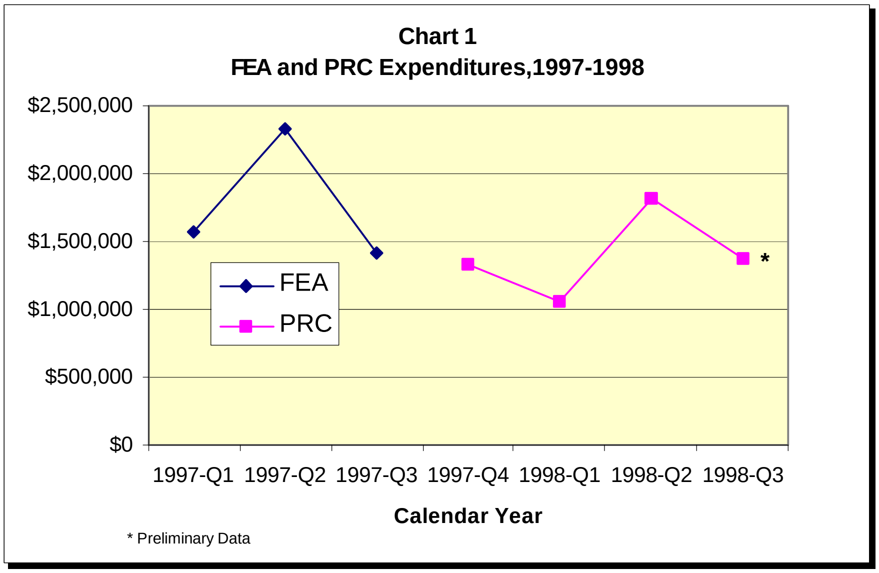
The passage of Ohio Am. Sub. H.B. 167, in 1995, marked an important step in reforming Ohio's welfare program. H.B. 167 introduced time limits for cash assistance and more extensive work requirements, expanded the earned-income disregard, and increased the emphasis on child support enforcement. These changes shifted the guiding principles of Ohio's welfare program toward increasing incentives to move off welfare and toward "self-sufficiency." Its basic principles were that assistance was to be temporary and finding work was to take priority over job-training or education.

In 1996 the federal government passed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which created the Temporary Assistance to Needy Families program (TANF). The PRWORA legislation replaced three earlier entitlement programs with a single "flat-funded" block grant that imposed work requirements on recipients, and established a five-year maximum lifetime limit on a family's receipt of federally-funded TANF benefits. In addition, it required states to meet increasing work participation standards and maintain their historic level of spending at a minimum of 75 percent of what was spent in 1994 on the entitlement programs that TANF replaced.

Ohio Am. Sub. H.B. 408, passed in 1997, refined and extended the "work first" strategy of welfare reform. It required applicants to agree to a self-sufficiency contract, including requirements on participating in job search or other forms of participation, accepting subsidized or unsubsidized employment, and cooperating with child support collection. Failure to sign the contract is grounds to deny assistance and failure to keep the terms of the contract subjects the recipient to sanctions. The original H.B. 408 legislation allowed children to lose their food stamp and Medicaid benefits when their parents were sanctioned. The law was subsequently changed to allow children to retain these benefits.

Am. Sub. H.B. 408 further advanced a "make work pay" strategy by extending the earned-income disregard from 12 to 18 months. It also imposed a new system of time limits, restricting life time receipt of cash assistance to thirty-six months. It allowed, however, the possibility of qualifying for an additional 24 months of cash assistance if there is an intervening period of at least 24 months.

Am. Sub. H.B. 408 also introduced a "diversion" program called the Prevention, Retention, and Con-



tingency program (PRC). The PRC program replaced the old Family Emergency Assistance program (FEA) and is designed to provide one-time, short term assistance to families with at least one child to overcome immediate barriers to maintaining self-sufficiency or employment. It includes, for example, help with utility bills, rent, work tools, transportation, etc. **Chart 1** details the last three quarters of spending under the old FEA and the first four quarters of spending in the PRC program.

Devolution

A significant aspect of H.B. 408 is that it "devolves" significant new authority to counties by introducing a "franchise model" for the new business relationship between counties and the state. The devolving of responsibilities means that the counties will develop and implement their own program of services without Ohio Administrative Code rules. Counties will develop and implement their programs within the parameters of all applicable state and federal laws and regulations, and will be rewarded on the basis of performance management principles. If the State is penalized by the federal government for failure to meet a performance standard, counties will share the penalty.

Under OWF, counties can now choose how to organize various human service functions, including TANF, PRC, day-care, transportation services for low-income workers, child support, children services, and employment and training activities. Prior to entering into a Partnership Agreement with the Ohio Department of Human Services (ODHS), a county must develop a Community Plan which outlines how all community agencies will be involved in implementing OWF in that particular county. Each plan is to include workforce development strategies, including specifically an employment and training plan, a plan of cooperation between community agencies, and a transportation plan. All 88 counties have developed a community plan.

Each county is also given various options to consolidate all or a portion of their funding, or maintain as separate the eight different allocation streams from the federal government. Most of the counties that have so far entered into partnership agreements have opted for the full consolidation of their state funding.

Each county is required by H.B. 408 to enter into a partnership agreement by January, 2000. As of January 1, 1999, forty-one counties are operating under partnership agreements, representing nearly 75 percent of the state's OWF recipients.

Workforce Development

One of the basic goals of federal welfare reform presented by the PRWORA is the transformation of welfare into a work-based system. Work, training, or other defined forms of participation such as job search, are required in exchange for time-limited assistance. Not only does the federal law contain strong work and other participation requirements, enforced by a system of sanctions, it also provides for a performance bonus to reward states for moving welfare recipients into jobs and for helping former recipients retain their jobs and increase their earnings. The first High Performance Bonus will be awarded in 1999 and future years on the basis of performance on four measures: (1) the job entry rate of recipients, (2) the rates at which former recipients retain their jobs and make earnings gains, (3) the increase that a state makes in the job entry rate, and (4) the increase in job retention rates and earning gains rate. Since federal fiscal year 1998 was the first year of operation of the TANF program, the latter two measures will be applied to future years. Ohio will not be competing for these high performance bonuses since the required data is not being collected at the present time.

Devolution of policy and rule making authority from the federal level to the state level means that states are free to determine how to allocate funds between cash assistance and employment-related services. ODHS sees the successful conversion from welfare to a work-based system fundamentally as a process of "workforce development." The problem, ODHS says, is not just moving former recipients onto the bottom rung of the economic ladder, because "there is the potential that in more difficult economic times they will all fall off, creating a new welfare crisis for the State."[1] ODHS has, therefore, developed a "pipeline" concept or strategy of workforce development, in which "current and former recipients continue to receive counseling, training and other support designed to keep them moving upward economically."[2] ODHS states that this pipeline concept is fundamental to Ohio's approach to welfare reform, and that "availability of services to support those individuals after they leave welfare is essential to ensuring that their departure from the welfare rolls is permanent."[3]

ODHS has established a Bureau of Workforce Initiatives to help implement the pipeline concept. Generally this will involve providing support to counties in preparing OWF recipients for employment, job retention, and job mobility, and also in engaging their local business community in viewing OWF participants and the working poor as a viable and reliable workforce. Specific steps to implement the pipeline concept include:

- Helping counties reach out to employers and the business community to create a system of pre-employment training that will result in placements in either the Work Experience Program (WEP), Job Training (OJT), Subsidized Employment Program (SEP), or unsubsidized new hires.
- Encouraging counties to be creative in coupling employment with ongoing education.
- Facilitating county development of systems to refer OWF participants to vocational educational training and job prep programs.
- Developing technology tools that will support the redesigned business practices supporting a Decision Support System as part of the Workforce Development Program.
- Modifying and redesigning business practices toward an integrated case management approach.

The technology and system development projects associated with the last two items above, are large and extensive programs central to the welfare reform effort. The first of these items involves the creation of what has been called a Decision Support System that will provide management information to counties as well as information to participant users to further workforce development goals. Two specific components of the Decision Support System are the development of the Pathfinder and Skills Match software applications, and the accompanying employer survey information. The redesign of business practices also involves the development of the Integrated Client Management System that will integrate the various phases of case management with referral, service, and placement functions. Both of these projects are discussed in more detail in the following few paragraphs.

In its initial phase, the Decision Support System will provide County Department of Human Services (CDHS) management with key performance indicator reports via the ODHS web site. Such performance indicator reports, detailing county participation rates and client demographics, are now available. Later, the Decision Support System will add "data mining" software that will enable CDHS managers to produce management reports for themselves "in order to evaluate program effectiveness and measure outcomes."[4]

The Decision Support System will also include the development of a software application called Pathfinder. Pathfinder is an Internet-based system that will provide local survey results from employers such as their hiring trends, the skills they employ, salary and employment levels, part-time employment, and receptivity to hiring welfare recipients. Pathfinder is distinct from the labor market information developed by the Ohio Bureau of Employment Services, at least in part, by providing information on part-time entry level employment and on the willingness of certain industries and employers to hire low skill adults without prior work histories. Pathfinder is currently undergoing a pilot trial in four counties.

The development of the Pathfinder software is also accompanied by the development of Skill Match software that will enable job seekers and case workers to take an inventory of an individual's skills, provide a skill-based match with employment opportunities in the local area, identify skill gaps, and identify nearby training providers.

The Decision Support System, and the Pathfinder and Skill Match software, are being developed under a contract with Anderson Consulting, LLP. The first contract for this system sought Controlling Board approval for a waiver of the competitive bid process. The request was approved in August, 1997 and the contract period was for August 11, 1997 to June 30, 1998. The amount of the initial contract was $1,688,000. The contract was amended in March, 1998, expanding the scope of work and extending the term of the contract to December 31, 1998. An amount of $4,967,000 was added to the contract. A second contract to continue the project received Controlling Board approval in August, 1998. The second contract expanded the scope of work and covered the period August 31, 1998 through June 30, 1999 for the amount of $16,103,000. The second contract also contained an option for an extension of the contract for the period July 1, 1999 to September 30, 1999, for the amount of $4,288,000. If the work is completed by the end of this period, the total cost would come to $27,046,000.

The Integrated Case Management System (ICMS), that is being developed to support a redesign of business practices, is an information system that will be added to the existing Client Registry Information System — Enhanced (CRIS-E) data system that currently operates to support the OWF program. With ICMS, integrated tracking information will be available on each of the various points of contact and service to the client. The new system will help to integrate the workflow functions associated with registration, diversion, appraisal and assessment, plan development, referral, and service provision. By being able to link the case information to the skills inventory and also to the Pathfinder and Ohio Job Net information, ICMS should enable case workers to increase their focus on participant employability, to assist with client job readiness, placement, and retention activities.

The work on ICMS is being performed under a contract with the vendor American Management Systems, Inc. (AMS). (AMS is also the vendor developing the Support Enforcement Tracking System (SETS) for the Child Support program.) Work began on developing ICMS in July, 1997 under a renewal of the contract of the SETS contract, even though such work was not included in the scope of work section of the contract and had not received approval from the Controlling Board. ODHS stated in November, 1997 that "a review of our internal records revealed the contract including the welfare reform language was inadvertently omitted due to an ODHS clerical error from the Controlling Board package."[5] Upon discovery of this omission, ODHS issued a cease-work letter to the vendor and sought Controlling Board retroactive authorization for the ICMS work and sought waiver of competitive bidding for a new contract. The new contract contained the expanded scope of activity and requested funding, in addition to the SETS contract, in the amount of $4,600,000 for fiscal year 1998. In August, 1998, ODHS sought approval of a second contract without competitive bidding to continue the development of ICMS. Controlling Board approved this request on August 18, 1998 in the amount of $13,700,000 for fiscal year 1999, with an option to extend the contract through fiscal year 2000 for an additional $13,700,000. ICMS is currently being pilot tested in Cuyahoga and Hamilton counties. If statewide roll-out is achieved by the end of fiscal year 2000, the project cost will total $32,000,000.

TANF Employment and Training Program

In April, the executive withdrew its request for a Welfare-to-Work matching grant from the federal government. In its place, the Governor announced the creation of the TANF Employment and Training program (TANF E&T), to be funded out of unobligated federal TANF funds. Out of these funds a reserve of $88 million was established. This new employment and training effort will have about $44 million budgeted in each of fiscal years 1999 and 2000.

TANF E&T is a collaborative program between the Ohio Department of Human Services and the Ohio Bureau of Employment Services. ODHS has fiscal responsibility, and OBES has management responsibility.

TANF E&T funds are targeted to welfare recipients who will have the most difficulty transitioning into employment. This includes those clients who are long-term recipients and have specific barriers to employment, or have certain characteristics associated with long-term welfare dependence. The goal of the program is to move "hard to serve" recipients into work within the three year time limit. The provision of services will be managed by local Private Industry Councils (PICs). PICs are councils of local business and industry and labor representatives from the Service Delivery Area (SDA). SDAs were created to coordinate employment and training services under the federal Job Training Partnership Act.

In order to receive TANF E&T funds each county commission, along with the local PIC and CDHS, must develop an implementation plan that will be incorporated into their community plan. The TANF E&T plan will identify the target population to be served, the services to be provided, and the financial arrangement between the CDHS and the PIC. At the time of this writing 55 counties have had TANF E&T plans approved.

There are some advantages to using reserve TANF funds for TANF E&T, rather than accept the Welfare-to-Work (WtW) grant. Such advantages include avoiding a 2-to-1 matching requirement, targeting a broader population of the hard to serve than would have been permitted under the WtW grant, and the possibility of greater coordination between county governments and PICs than would have been the case under the WtW grant. While the counties will lose the match portion of the funding, this arrangement is likely to reinforce the terms of the Partnership Agreement reached between ODHS and the county. However, non-custodial parents, who could have been assisted under the WtW grant, cannot be included in TANF E & T.

In the implementation process ODHS and OBES have had to work out issues of the coordination of services and fiscal procedures. Because the two departments have incompatible computer systems, they have also been pursuing a data exchange agreement to meet reporting and performance measurement requirements, and to enable the production of management reports. At the date of this writing, an agreement on data exchange has not been reached.

TANF Spending and Reserve Funds

As a result of a declining caseload, Ohio, like most other states, has experienced substantial reductions in welfare costs (**see Chart 2**). While cash expenditures have declined as caseloads have gone down, expenditures for other services, such as child care, work activities, and information systems, have gone up. In federal fiscal year 1997, cash assistance constituted 77.8 percent of total state and federal expenditures in Ohio's program. In federal fiscal year 1998, cash assistance amounted to 67.1 percent of the total.

However, because TANF is flat funded, Ohio has been awarded more federal money than it would have been under the old funding system. At the end of federal fiscal year 1998, Ohio had an unspent reserve in its federal TANF funds of $544.9 million.

Some of these funds have been administratively earmarked for specific purposes—including $75 million per year set aside for a caseload contingency fund, $88 for the TANF E&T program, $60 million for a caseload reduction incentive fund, $45 million for other county incentives, $28 million for a reserve for the Early Start program, and $20 million for a disaster relief fund.

TANF spending, to-date (through November 1998), for state fiscal year 1999 is already $67.4

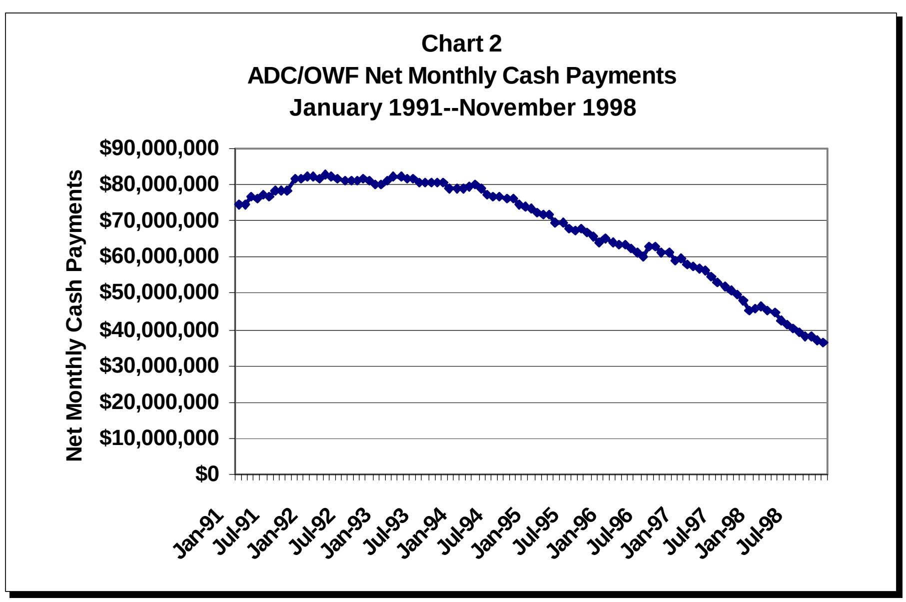


Chart 2
ADC/OWF Net Monthly Cash Payments
January 1991--November 1998

million below estimate, with a $55 million lapse already built into the estimate for the year's spending. Considering also that for caseload contingency purposes $75 million is added to the funds held on reserve, TANF spending for FY 1999 is thus likely to produce a very substantial increase in the amount of unspent reserves. ❑

1 ODHS, "Ohio Works First Progress Report," September, 16, 1998, p. 20.
2 Ibid.
3 Ibid.
4 Ibid., p. 23.
5 Controlling Board, December 15, 1997, C.B. no. HUM040, p. 2.

School Districts Respond to Prevailing Wage Exemption

Allan Lundell

Most construction projects undertaken by public authorities in Ohio are subject to Ohio's prevailing wage law. This law, enacted in 1931, requires that a public authority undertaking a project pay the locally prevailing rate of wages to workers on the project. In Ohio, prevailing wages are based on collective bargaining agreements. Prevailing wage rates are set at union wage rates. If there is no collective bargaining agreement in the immediate locality in which construction is taking place, then the prevailing rates of wages in the nearest locality in which a collective bargaining agreement is in effect is used. Additionally, contractors are subject to any work rules (including worker classifications) contained in the collective bargaining agreement used to determine the prevailing wage rates.

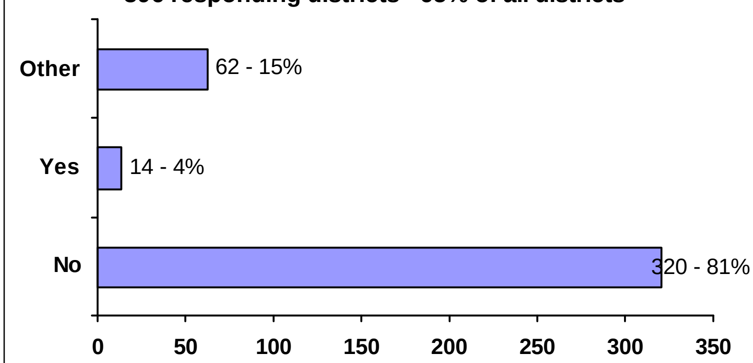
Senate Bill 102 of the 122nd General Assembly exempted school construction and renovation projects from Ohio's prevailing wage requirements. The prevailing wage exemption granted by Senate Bill 102 removed the requirement that school districts require that contractors pay prevailing wages on construction and renovation projects. The exemption does not prohibit school districts from requiring prevailing wages on construction and renovation projects. Districts are now free to choose whether or not to require the payment of prevailing wages. However, for some districts, the choice is not completely free. The Ohio School Facilities Commission has determined that districts receiving assistance can not require the payment of prevailing wages. A district choosing to require the payment of prevailing wages will not receive assistance from the School Facilities Commission.

In order to determine how school districts have responded to this freedom of choice, LBO mailed surveys to every school district in Ohio. Responses were received from 396 of the state's 611 districts, a 65 percent response rate. Districts were asked whether they still required that contractors pay prevailing wages on construction and renovation projects and on what basis did they make their decision about requiring the payment of prevailing wages.

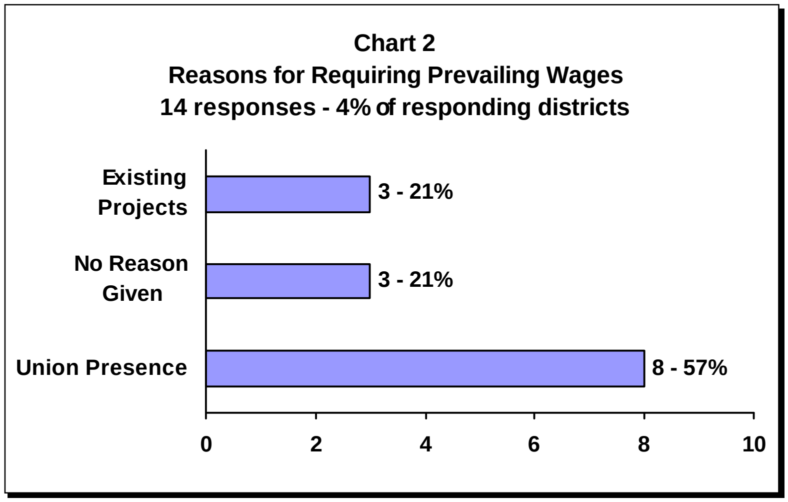
The responses to the question, "Does your district still require that contractors pay prevailing wages on construction and renovation projects?" are summarized in Chart One.

The category "Other" contains 55 districts that have made no decision, 5 districts that gave no answer, and 2 districts that answered "sometimes."

Chart 1
Does Your District Still Require Prevailing Wages?
396 responding districts - 65% of all districts



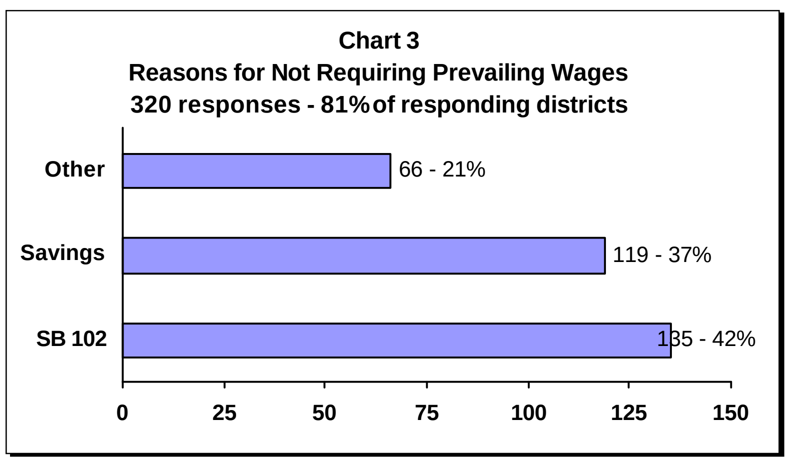
Most school districts no longer require the payment of prevailing wages. The reasons given by the 14 districts that reported still requiring the payment of prevailing wages are summarized in Chart Two.



Three districts indicated that their answers concerned projects that were started before Senate Bill 102 went into effect. These districts had no choice but to still require the payment of prevailing wages. Three of the eleven remaining districts still requiring the payment of prevailing wages did not give a reason. Eight districts gave answers that indicated that their decision was based on union presence in their district. Of the districts that chose to require the payment of prevailing wages, 73 percent (8 out of 11) did so because of the union presence in their district. Some districts included longer comments with their responses.

"The decision to do so is in all practicality a political one. Inasmuch as this area is highly unionized and both our teaching and non-teaching staffs are also union, our Board felt it would be wise to require the prevailing wage on outside contracts."
"We feel that the climate in this community is such that we need to require this on projects that are advertised."
"In all probability, on construction and renovation projects, the Board of Education will require the payment of prevailing wages because of the strong union influence in this part of the state."

Chart Three summarizes the responses given by the 320 districts that do not require prevailing wages to the question, "On what basis did your district decide to require or not require the payment of prevailing wages?"



As the chart indicates, the most common reason is Senate Bill 102. Some districts simply responded "S.B. 102" or "the new law." Others provided longer explanations that essentially said the same thing.

"We changed when state law changed"
" Change in ORC - no longer required so we don't require"
" Our district is now following the law with regard to prevailing wages. We do not require contractors to use prevailing wages. Our decision was simply based on the law"
" Our Construction Manager told us it was law."
"It is our understanding, and that of our architect, that with the passage of this legislation we are no longer required to mandate prevailing wage on school projects."
"If the law does not require that prevailing wage be paid then we will not require it."
"We have the ability under SB 102 not to pay prevailing wage."
" Prevailing wage was not required because of the relief provided by SB 102"
"We have decided not to require the payment of prevailing wage as allowed by Senate Bill 102."

"The district simply did what was allowed by law."
"The district took advantage of the recent changes in the law allowing us to avoid paying prevailing wages"
"We decided not to require prevailing wages based on the recently enacted law that exempts schools from this requirement."
" When the law changed under Senate Bill 102, we stopped requiring payment of prevailing wages."

The second most common reason given for not requiring the payment of prevailing wages was savings. Some districts simply used the words "savings" or "cost." Others gave more extended answers.

"We want the lowest cost for the district."
"We made this decision following the passage of SB 102 in order to reduce our construction costs. Currently, our district is constructing additions to elementary schools at a total cost of approximately $6,000,000. Our architect and construction manager estimate that our district will save approximately 5 percent, or about $300,000, by not requiring contractors to pay prevailing wages. Obviously, we very much appreciate the General Assembly's action to exempt school construction projects from the prevailing wage requirements."
" Not required — ability to save taxpayers money"
"We are looking forward to the savings in cost that we will see on future projects because of the change in the statute regarding prevailing wage."
"The . . . District does not require that contractors pay prevailing wages due to the fact that we feel contractors must be competitive. Why should public schools and other public agencies be required to pay prevailing wages for construction when non-public companies and others are not required to pay prevailing wages. To be required to pay prevailing wages is an injustice to the tax payers."
"We decided to not require due to cost savings."
" Administration decided to take advantage of the change in law and save money for the district."
"We specifically avoided projects until after the law passed in hopes of saving tax dollars and to allow moneys for additional projects."
" Prevailing wage rates mean higher costs; in addition smaller contractors would like to bid on certain school jobs but they can't pay prevailing wage rates. Prevailing wages usually add 10 - 15 percent to the cost of the project."
"The change in the law opened the door not to pay prevailing wages which would be a savings to the district."
" A cost saving measure; pricing now more competitive."
" Being a small district as we are, this is certainly a welcomed change in the way we do business by saving our taxpayers money. We strongly support the exemption of schools in paying the prevailing wage rate."
"To save the district money"
"The decision was based on an expectation of reduced costs and a reduction of paperwork and our experience is that costs have come down."
"It saves money that we desperately need."
"We believe that we save 10 percent on every job that would have required prevailing wage in the past."
"We can get projects done more reasonably when prevailing wages are not required. Senate Bill 102 has saved our district money as well as the countless documentation and paperwork requirements associated with prevailing wages."
"The district believes we will receive a lower project cost because of this decision."
" More effective use of taxpayer dollars"
" Not to require because of cost savings @ 20-30 percent"
" Felt we will be able to do much more and spend less money doing it"
"We believed that it was in the best interest of the taxpayers to avoid any unnecessary costs for school improvements. This is an opportunity for schools to do more with less."
"Save the taxpayers money !"
" Prevailing wage is more expensive"

Some districts based their decision to not require the payment of prevailing wages on the freedom that Senate Bill 102 gave them to accept the lowest and best bid. The removal of the prevailing wage requirement is thought to increase the competition for projects and increase the use of local workers on projects.

> *" Our Board was informed of the new exemption (8/19/97) and felt that we would get more competitive bids not requiring prevailing wages."*
> *"The basis for the decision was based on our belief that the bidding 'floor' would be lowered. In other words, we believe that the spirit of public bidding is enhanced by the removal of artificial cost levels."*
> *"This gives local contractors a chance to be very competitive and do our work."*
> *"Lowest and best bid"*
> *"The basis for the decision was the fact that we have a large Amish population in our area. Many carpenters and other tradesmen are not members of labor unions. We see this as an opportunity to save money and allow contractors to use more local labor."*
> *" Generally we believe that not paying prevailing wages saves the district money especially on renovation projects. We have several local contractors who pay less than prevailing wage and who do excellent work. They are not interested in the additional paperwork of prevailing wages."*
> *" On bid projects, any contractor can bid. It is up to them if they wish to pay prevailing wages to their workers. This normally increases their bid price. In competitive bidding projects, we contract with the lowest responsible bidder."*
> *"In the past we had to pay a higher rate regardless of the size of the project. . . . Today we have more latitude."*
> *"We follow the bidding process and award contracts to lowest bidder."*
> *"The decision depends on the nature of the projects. A project that may involve skilled or highly skilled labor could justify the use of prevailing wage personnel. Conversely, projects requiring a very low skill labor force could possibly justify a prevailing wage to eliminate unreliable contractors. Each project must be evaluated on its own merits, with judgements that will best serve the long-term welfare of the Districts.*
> *"We bid the projects and non-union companies may bid the jobs"; reason: " We let the bidding process decide. The lowest bidder if they meet the requirements of the bid package and are reputable, will get the job."*
> *" Our basis for this decision has been to achieve quality work at the lowest possible prices. Prior to the new legislation we had contracts with companies for work where they quoted both ways, but we were required to pay the higher rate to meet prevailing wage requirements, though the same company did the work. We will continue to outline specifications for work and provide our tax payers with the biggest 'bang for their buck.' . . . Our Board has not passed a resolution regarding prevailing wages since we will be going for the lowest responsible bidder."*
> *"We felt we may get better bids and quotes on those projects without having to pay prevailing wages"*
> *" Cost effectiveness. Smaller contractors more likely to bid"*
> *"We do leave that option up to the individual contractors and how they submit their bids. The passage of the new state law enabled us to have contractors bid either way on the construction projects."*

Although savings is a major determinant in the decision to no longer require the payment of prevailing wages, districts were concerned about the quality of construction. Some believe that prevailing wages need to be paid in order to assure quality and others believe that quality can be maintained even in the absence of the payment of prevailing wages.

> *"It is our contention that the quality of a contractor is related to the diligence of the School District during the selection process. We have found no correlation between amount of payment and quality of work performed."*
> *"In my opinion, districts can save a significant amount of money under the new law albeit not as much as some would suggest. However, we have an obligation to save where we can without sacrificing quality. Districts need to be judicious."*

" Our intent will remain to obtain the best quality work at the lowest possible price which may mean paying prevailing wage if we deem that necessary."
"We had to comply with the standards, but we feel that you get the quality of work for which you pay."
"We have found the quality of work to be the same regardless of prevailing wage or not."
"There is no apparent difference in the skill level and quality of workmanship between prevailing wage and non-prevailing wage personnel. Stated another way, the skill level and quality of workmanship do not increase by simply requiring and paying prevailing wages.
"It is not required on the basis that prevailing wages increase the cost of the work and we have not found the work to be of better quality to offset the increased cost."
" Our district does not require that contractors pay prevailing wages on our projects. We felt that we could still get quality work done at a more reasonable cost."
"We still demand quality work. We have even delayed advertising for contracts until after the effective date of legislation, which permitted us to contract at non-prevailing minimum wage rates. . . . Our basis for this decision has been to achieve quality work at the lowest possible prices. Prior to the new legislation we had contracts with companies for work where they quoted both ways, but we were required to pay the higher rate to meet prevailing wage requirements, though the same company did the work."
"The Board felt that not requiring prevailing wages would not affect the quality of the building addition and save tax payer's money."
"To date we have not seen any difference in the quality of work between a prevailing wage job and a non-prevailing wage job."
"We decided not to require payment of prevailing wages on the basis of cost and the fact that quality did not appear to decrease when prevailing wages were not paid."
"To insure we continue to get a qualified contractor, especially in specific trades, we require qualified labor to work on our projects. These qualifications result in most of the high skilled trades being filled by individuals making or exceeding prevailing wage rates. In lesser skilled areas, like fence installer, we do not require the same level of skill and thus prevailing wage rates are not paid. The district continues to demand the quality of labor necessary to complete a job under our standard. The basis of our decision was the need to attract the quality of contractor to maintain our high standards. We do not desire to have less than qualified workers completing projects for our district. We also recognize that not every job contract will require highly skilled labor. It is in these areas we find Senate Bill 102 has provided relief from the unnecessary overpayment for work under the previous prevailing wage requirements."

Senate Bill 102 exempted school construction and renovation projects from the state's prevailing wage requirements. Districts generally are not prohibited from requiring the payment of prevailing wages, but are now free to do whatever they believe to be in the best interest of their district. The exceptions to this freedom of choice are those districts receiving assistance from the Ohio School Facilities Commission. The School Facilities Commission has determined that for facilities the state is assisting in financing districts can not require prevailing wages. Two districts indicated that they do not require the payment of prevailing wages because of this policy.

The responses to our survey indicate that most districts no longer require the payment of prevailing wages and that potential savings are a major reason for their decision. Districts do not appear to be focused on cost to the exclusion of quality. Quality is still a concern, and many districts believe that quality levels are maintained even in the absence of prevailing wages.

School construction and renovation projects have been exempt from the state's prevailing wage requirement since August 19, 1997. The responses used to write this article were given during the spring of 1998. At the time these responses were given, the exemption had been in effect for less than a year. Given the natures of both the process of construction and the final product of the construction process, opinions and perceptions of the effects of the exemption may change. LBO plans to do follow-up surveys to track the experiences, opinions, and perceptions of school districts as they react to the new construction environment that was created by Senate Bill 102. ❑

Ohio Facts Extra!

Ohio Works First — Work Participation Rates and Requirements
— *Steve Mansfield*

- Federal Work Participation Rate Requirements (see reduction factor discussed in the accompanying table).

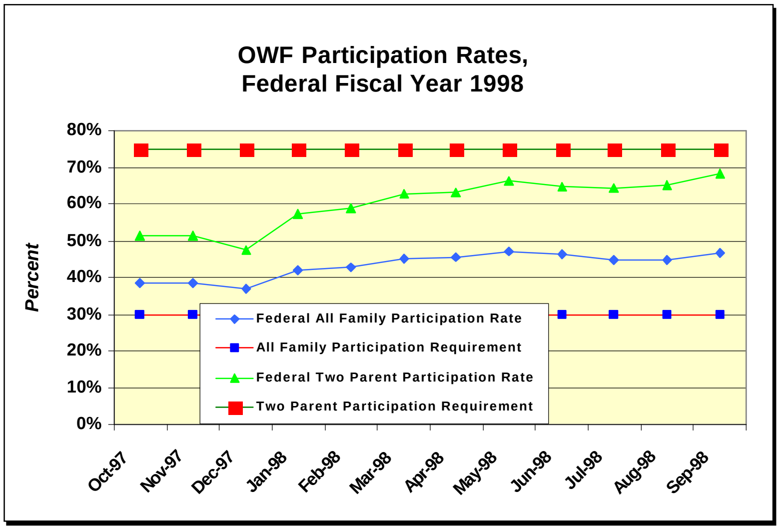
- The accompanying chart shows that in federal fiscal year 1998 there was a steady improvement in Ohio's work participation rates, especially in the two-parent category. The average participation rates for the year were 43.17 percent on the "all family" measure, and 60.01 percent for "two-parent" participation.

- Although Ohio did not meet the two-parent work requirement of 75 percent outright, it might be met once a "caseload reduction factor," allow by the federal welfare reform law, is taken into account.

- Unless Ohio qualifies for a caseload reduction, the Ohio program could be penalized. If the Secretary of Health and Human Services determines that a state has not met the participation requirements for a fiscal year, the state's TANF grant would be reduced by 5 percent for the first year and 2 percent for each following year, with a maximum reduction of 21 percent. Ohio's annual TANF award is almost $728 million. ❑

Federal Participation Requirements

Federal Fiscal Year	All Family Requirement	Two-Parent Family Requirement
1997	25%	75%
1998	30%	75%
1999	35%	90%
2000	40%	90%
2001	45%	90%
2002	50%	90%



Virtually LBO

When the LBO web site first appeared, we were pleased to provide everyone with an opportunity to gain easy access to the documents we publish. For our Budget Footnotes readers, this has meant the opportunity to receive an e-mail notification of the availability of the latest edition and an easy link to the newsletter. We have received numerous compliments on the depth of the information available at our site.

Unfortunately, when providing such a large repository of information, the ability to find what you needed often becomes mired down in a laborious search through each of the pages on the site. If you deleted your e-mail link to budget footnotes and did not bookmark the page, you were forced to travel through two pages to get to the final document. In addition, the organization of the rest of the information often seemed somewhat random and far from intuitive.

This fall, Michael Ramirez joined our staff to help revise and restructure the Web site. With the support and assistance of LIS (Legislative Information Systems), we have completely overhauled the site and Michael has redesigned the graphics and search functions. In addition to keyword searching of fiscal notes, you can do a keyword search through all other documents from our home page. These search functions have been coordinated with LIS to insure that our site can be fully searched from the integrated legislative site LIS is developing. The Budget Footnotes page has been redesigned to provide readers with a quick overview of the main articles before downloading. In addition, you will be able to download the current edition by article or in its entirety.

If you haven't visited us in awhile, come over to the site and stroll through the bigger and better LBO virtual office! http://www.lbo.state.oh.us ❑

LBO recently completed the second edition of ***Ohio Facts***, a booklet developed to address frequently asked questions and to provide a broad overview of public finance in Ohio.

If you would like a copy of ***Ohio Facts***, stop by our office on the 8th floor of 77 South High Street to request a copy. The cost is $3.00 per booklet for those outside the legislature.