Next

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE NOVEMBER, 1999

FISCAL OVERVIEW

— Doris Mahaffey

Total GRF income for the first three months of FY 2000 exceeded estimates by $125 million. Tax revenues by far accounted for the bulk of the overage. First quarter tax revenues exceeded estimates by nearly $120 million. Strong performance in both the auto and non-auto sales tax accounted for 71 percent of the overage. The personal income tax and the estate tax also contributed significantly to the overage.

A $21 million transfer into the GRF added to the overage, as well; although other non-tax revenue sources were generally under estimate. The greatest shortfall was in earnings on investments; it was under by about $15 million. Surprisingly, federal reimbursements were nearly on target at only $2 million under estimate.

The revenue picture was nearly mirrored on the expenditure side. Total GRF spending excluding transfers were $289 million under estimate at the end of September. Nearly all program areas contributed to the underspending — the major exceptions were health care and environment and natural resources. The largest underspending was in primary and secondary education, TANF and other human services, and property tax relief. The bulk of this underspending can probably be attributed to timing factors.

The $21 million transfer to the GRF in September from the Medicaid Program Support Fund (Fund 5C9) was to reimburse the GRF for prior year overages in County Social Services (Title XX) spending. TANF increased the state's capacity to transfer more Title XX dollars for these purposes. Subsequently, H.B. 283 authorized the Department of Human Services to deposit revenues from TANF/Social Services Block Grant into the Medicaid Program Support Fund. It also directed the Department of Human Services to file claims for all allowable expenditures that qualify for Social Services Block Grant funding. As revenues are deposited into Fund 5C9, they are then to be transferred to the GRF in reimbursement for the claims. Hence, the $21 million transfer to the GRF.

The transfer had its counterpart on the expenditure side. H.B. 283 also directed the director of Budget and Management to increase the appropriations to certain Department of Human Services line items upon verification of the above transfer. Appropriations were duly increased by $2 million in the 400-200 line, Maintenance, for the Department of Human Services/Bureau of Employment Services merger and by $20 million in

Volume 23, Number 1

STATUS OF THE GRF

QUARTERLY LOTTERY REPORT

ISSUES OF INTEREST

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

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

For questions or comments regarding specific sections:

GRF Revenue:
Doris Mahaffey 644-7762

GRF Spending:
Jeff Golon 644-8751

Other Articles:
Barbara Riley 644-9097

❑❑❑❑❑

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

Telephone: 614/466-8734

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

Errata to a portion of the June/July, 1999 Disbursements section

p. 30 Employment Services section, top left column, top paragraph, line 6.

Delete phrase that starts "particularly …"

And Insert:

"An appropriation to support the administrative functions of the TANF Employment and Training Program was made using federal funds in the amount of $700,000 in each year of the biennium (line item 795-620). The availability of these funds is dependent upon an interagency agreement for a transfer from the Department of Human Services."

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

	Month of September	Fiscal Year 2000 to Date	Last Year	Difference
Beginning Cash Balance	$21.7	$1,512.5		
Revenue + Transfers	$1,555.6	$4,184.0		
Available Resources	$1,577.2	$5,696.6		
Disbursements + Transfers	$1,714.2	$5,833.5		
Ending Cash Balances	**($137.0)**	**($137.0)**	**($176.1)**	**$39.1**
Encumbrances and Accts. Payable		$861.3	$1,179.0	($317.7)
Unobligated Balance		**($998.3)**	**($1,355.1)**	**$356.8**
BSF Balance		$953.3	$906.9	
Combined GRF and BSF Balance		**($45.0)**	**($448.2)**	**$403.2**

the 400-416 line, Computer projects. Subsequent months might see expenditure "overages" as a result.

September 1999 ended with an ending cash balance of only -$137 million — the smallest first quarter negative balance since September 1994. The encumbrances and accounts payable still on the books are substantially lower than last year at this time, but are still higher than any previous year except September 1996. Still the combined GRF plus BSF cash balance of only -$45 million puts the state in a relatively good position for the rest of the fiscal year. ❑

TRACKING THE ECONOMY

— Allan Lundell

The U.S. economy continues its strong performance. During the July-September quarter, real gross domestic product grew at an annualized rate of 4.8 percent. Inflation remains relatively low. The GDP deflator grew at an annualized rate of 1.6 percent during the quarter. Personal income is growing, as is consumer spending. The housing market is slowing, but remains strong. Employment remains steady.

Consumers

Personal income grew by 0.5 percent in August due to 0.6 percent growth in wages and salaries. Consumer spending increased by 0.9 percent in August. This increase was led by a 2.6 percent increase in spending on durable goods (led by strong auto sales). The savings rate remained negative for the ninth consecutive month, declining to tie the record low of –1.5 percent. Consumer credit outstanding increased by $10.8 billion (0.8 percent) in August.

Although sales of existing homes fell by 2.1 percent in September, they remain strong. The seasonally adjusted annual rate was 5.13 million. Housing starts also declined in September, by 3.2 percent. Even though they declined in September, housing starts are still 2.5 percent greater than last year. New home sales increased by 2.9 percent in August.

The Conference Board's index of consumer confidence fell by 1.3 percent in September. This is the third consecutive month of decline in this index. Even though the index has declined, confidence remains high. The slight decline in confidence may be attributed to the volatility of the stock market and higher interest rates. Confidence is kept high by increases in personal incomes, low inflation, tight labor markets, steady job growth, and improving consumer credit.

Prices

In September, the overall consumer price index (CPI) rose by 0.5 percent. This increase was driven by increases in the prices of energy, cigarettes, food, apparel, and automobiles. Compared with September 1998, consumer prices were up by 2.6 percent, the highest year-to-year change since 1997. Core CPI (which does not include food and energy components) rose by 0.3 percent in September and was 2.0 percent greater than in September 1998. Energy prices rose 1.7 percent in September, largely due to increases in the prices of oil. This was the third consecutive month of increases in energy prices. The price index for cigarettes and tobacco products increased by 6.5 percent in September. This was due largely to an 18 cent per pack increase in cigarette prices. In September the producer price index (PPI) for finished goods increased by 1.1 percent. Compared with September 1998, the PPI for finished goods was up by 3.1 percent. Excluding food and energy, the PPI increased by 0.8 percent in September. For the last year, this index is up 1.7 percent. The crude goods index increased 5.1 percent in September and is up 18.6 percent during the past year.

Sales

Retail sales increased by 0.1 percent in September. Sales excluding automobiles increased by 0.6 percent. Sales of durable goods fell by 0.8 percent, mostly due to a 1.3 percent decline in automobile sales. Although they declined in September, automobile sales should still set a record in 1999. Sales of building materials fell by 0.6 percent. Sales of non-durables increased by 0.8 percent. Wholesale sales increased 1.1 percent in August after declining in July. The increase was lead by sales of petroleum products, which increased by 3.6 percent and sales of non-durable goods, which increased by 1.4 percent. Lumber, minerals, metals, and farm products experienced declining sales.

Production

Industrial production (IP) decreased by 0.3 percent in September. Part of the decline was due to weather. Electricity output was down by nearly 3 percent. Declines were not just weather related. The steel, lumber, and automobile manufacturing industries all contracted during September. As production fell, capacity utilization rates also fell, from 80.7 percent in August to 80.3 percent in September. Factory orders decreased by 1.3 percent in September. This was the first decline in five months. The largest decrease, 3.9 percent, was in orders for transportation equipment. Orders for goods other than transportation were down 0.5 percent.

Employment

The national unemployment rate remained at 4.2 percent. It has been at 4.2 percent or 4.3 percent since March. Average hourly earnings increased by 0.5 percent in September and are 3.8 percent higher than last year. The employment cost index (ECI), which measures changes in compensation costs (wages, salaries, and employer costs for employee benefits), rose 0.8 percent during September. The index is 3.1 percent higher than it was at this time last year.

Ohio’s seasonally adjusted unemployment rate stayed at 4.4 percent in September. Employment remained steady at 5,581,000. The steadiness in overall employment hides some gains and losses. Manufacturing employment fell by 5,000 and construction employment increased by 1,000. Government employment increased by 1,000 and wholesale and retail trade each decreased by 1,000. Average hourly earnings for workers in goods-producing industries increased by 1.0 percent in September. Average hourly earnings for workers in retail trade increased by 0.5 percent. ❑

Status of the General Revenue Fund

REVENUES

— *Doris Mahaffey*

The sales tax is the big story for the first quarter of fiscal year 2000. Continuing strong tax collections in both the auto and non-auto components added $38 million in September to the already substantial overage in total tax revenues. Personal income tax collections added another $4 million to the overage and the estate tax added another $12 million (although much of that overage was a timing matter). Overall, September tax revenues exceeded the estimate by $57 million.

The tax overage was partially offset by a substantial shortfall in earnings on investments, which came in at $15 million under estimate. Federal grants were also $35 million under estimate, but that essentially offset the overage in federal reimbursements that had existed at the end of August. Thus, total income excluding transfers exceeded estimates by only $8.7 million. A transfer of $21 million to the GRF raised the overage to $29.7 million.

Year-to-date total GRF revenue is over estimate by $125 million. The bulk of this overage is due to total tax revenue, which is $119.7 million over estimate. Again, the September transfer to the GRF of $21 million adds to the overage.

Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of September, 1999
($ in thousands)

REVENUE SOURCE	Actual	Estimate*	Variance
TAX INCOME			
Auto Sales	$76,520	$68,400	$8,120
Non-Auto Sales & Use	413,050	383,238	29,812
Total Sales	$489,570	$451,638	$37,932
Personal Income	$652,454	$648,003	$4,451
Corporate Franchise	11,057	10,744	313
Public Utility	241	0	241
Total Major Taxes	$1,153,321	$1,110,385	$42,936
Foreign Insurance	$9,167	$6,375	$2,792
Domestic Insurance	23	0	23
Business & Property	11	35	(24)
Cigarette	24,875	25,290	(415)
Soft Drink	0	0	0
Alcoholic Beverage	4,069	4,312	(243)
Liquor Gallonage	2,241	2,240	1
Estate	22,159	9,800	12,359
Racing	0	0	0
Total Other Taxes	$62,546	$48,053	$14,493
Total Taxes	**$1,215,865**	**$1,158,437**	**$57,428**
NON-TAX INCOME			
Earnings on Investments	$20,479	$35,550	($15,071)
Licenses and Fees	744	1,540	(796)
Other Income	10,909	8,502	2,407
Non-Tax Receipts	$32,132	$45,592	($13,460)
TRANSFERS			
Liquor Transfers	$6,000	$6,000	$0
Budget Stabilization	0	0	0
Other Transfers In	21,000	0	21,000
Total Transfers In	$27,000	$6,000	$21,000
TOTAL INCOME less Federal Grants	**$1,274,998**	**$1,210,029**	**$64,969**
Federal Grants	$280,560	$315,826	($35,266)
TOTAL GRF INCOME	**$1,555,558**	**$1,525,855**	**$29,703**

* July 1999 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

The most significant shortfall is in earnings on investments. Licenses and fees are under by $3.1 million, which is offset by an overage of $4.6 million in other income. Finally, federal reimbursement is only $2 million under estimate; whereas, at this time last year it was $27.9 million under estimate and $48.6 million under estimate at the end of FY 1999.

The first quarter of fiscal year 2000 continued many of the same trends noted at the end of fiscal year 1999 — at least with respect to tax revenues.

First, sales tax collections were substantially over estimate — reflecting stronger than anticipated consumer spending. Both the auto and non-auto components contributed to the overage. The estate tax was

Table 3
General Revenue Fund Income
Actual vs. Estimate
Fiscal Year-to-Date 2000
($ in thousands)

REVENUE SOURCE					
TAX INCOME	**Actual**	**Estimate***	**Variance**	**FY 1999**	**Percent change**
Auto Sales	$221,610	$206,791	$14,819	$198,540	11.62%
Non-Auto Sales & Use	1,293,078	1,223,262	69,816	1,172,062	10.33%
Total Sales	$1,514,688	$1,430,053	$84,635	$1,370,602	10.51%
Personal Income	$1,564,030	$1,541,806	$22,224	$1,521,517	2.79%
Corporate Franchise	17,114	20,810	(3,696)	21,237	-19.41%
Public Utility	254	0	254	57	345.00%
Total Major Taxes	$3,096,086	$2,992,669	$103,417	$2,913,413	6.27%
Foreign Insurance	($341)	($1,284)	$943	$7,438	-104.58%
Domestic Insurance	82	59	23	$39	111.34%
Business & Property	362	363	(1)	$100	263.55%
Cigarette	64,096	63,420	676	$65,473	-2.10%
Soft Drink	0	0	0	$1	-50.00%
Alcoholic Beverage	14,383	14,548	(165)	$14,261	0.85%
Liquor Gallonage	6,944	6,882	62	$6,815	1.89%
Estate	24,542	9,800	14,742	$9,287	164.26%
Racing	0	0	0	0	——
Total Other Taxes	$110,069	$93,789	$16,280	$103,413	6.44%
Total Taxes	**$3,206,155**	**$3,086,457**	**$119,698**	**$3,016,826**	**6.28%**
NON -TAX INCOME					
Earnings on Investments	$20,479	$35,550	($15,071)	$45,025	-54.52%
Licenses and Fees	5,100	8,210	(3,110)	$10,828	-52.90%
Other Income	30,987	26,406	4,581	$25,254	22.70%
Non-Tax Receipts	$56,566	$70,166	($13,600)	$81,106	-30.26%
TRANSFERS					
Liquor Transfers	$19,000	$19,000	$0	$19,000	0.00%
Budget Stabilization	0	0	0	$0	——
Other Transfers In	21,000	0	21,000	16,250	29.23%
Total Transfers In	$40,000	$19,000	$21,000	$35,250	13.48%
TOTAL INCOME less Federal Grants	**$3,302,721**	**$3,175,623**	**$127,098**	**$3,133,182**	**5.41%**
Federal Grants	$881,319	$883,360	($2,041)	$865,068	1.88%
TOTAL GRF INCOME	**$4,184,040**	**$4,058,983**	**$125,057**	**$3,998,250**	**4.65%**

* July 1999 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

also over estimate. While this overage may simply be the result of timing factors, it may also be a continuation of the trend observed over the last few years.

Finally, the personal income tax is over estimate — due largely to above-estimate withholding. Quarterly estimated payments were, in fact, below estimate — as they were in the last quarter of FY 1999.

The other taxes were pretty much on target. Corporate franchise tax collections were below estimate. However, the bulk of the tax is collected in the second half of the fiscal year, so the shortfall is not something to be overly concerned about at this time.

Sales Tax Revenue

Receipts from the sales and use tax on automobiles exceeded estimates by $6.7 million in August and by $8 million in September, resulting in a total overage of $14.7 million. (OBM did not finalize the estimates until August, so the July actuals are treated as the estimate for that month.) The overage is due to exceptionally strong sales of automobiles and light trucks in July and August. According to the Federal Reserve Bank's *Beige Book*, dealers in the Cleveland district reported that sales were up, inventories were low, and they were having difficulties stocking enough popular models to meet demand. This despite the Fed's June 30 increase in the federal funds rate.

Actually, the auto sales tax has consistently performed above estimate since early 1999. It reflects a phenomenal year in auto sales. Sales have remained strong through September, and are expected to continue to do so through the rest of the calendar year. The earlier strength was due largely to low interest rates rather than rebates and price breaks and therefore translate into even higher tax revenues. This, however, may change in response to the August 24 action by the Fed to increase both the discount rate and the federal funds rate.

The non-auto portion of the sales tax exceeded estimates by $40 million in August and by $29.3 million in September for a total first quarter overage of $59.8 million. The strong performance of the sales tax reflects the strong retail sales this summer and is largely a result of the strong growth in personal income in June through August, accompanied by an even stronger growth in personal consumption expenditures in July and August. According to the *Beige Book*, sales in the Cleveland district were particularly strong in apparel. Such sales are linked generally to the high employment rate throughout the region.

Nationwide, retail sales grew at a phenomenal rate of 1.5 percent in August — aided by the growth in light vehicle sales. They leveled out in September but remain strong — especially when compared with a year ago when the beginning of the Asian financial crisis put a damper on much economic activity.

The increase in sales tax collections seems to be more a function of volume than prices, as competition is apparently keeping prices in check —as measured by the core CPI. The major exception is the price of building materials — with the strong housing market, this may also have contributed to the sales tax overage.

The Personal Income Tax

Personal income tax withholding exceeded the estimate for the third quarter of calendar year 1999 by $36.1 million. This was partially offset by a shortfall in quarterly estimated payments of $17.3 million. All of the other components were more or less on target, so the quarter ended with a net overage of $83.3 million (including both GRF and LGF receipts).

Withholding growth reflects increases in wages and salaries rather than increases in employment, since employment growth was relatively flat. However, it may also reflect a change in the composition of employment, as people switch to higher-paying jobs. Substantial productivity increases over the past year support this trend.

The strong withholding numbers are the continuation of a trend observed since at least 1996 — and at first were generally linked to increases in employment rather than to wage increases. While concerns about job security worked to keep wages in check for much of calendar year 1998, a continued tight labor market has begun to put pressure on wages. Nationwide, wages increased by roughly 4.3 percent in the second quarter of 1999 according to the Bureau of Labor Statistics. In the Cleveland district, annual wage increases for workers with collective bargaining agreements have crept up from 3 percent to 3 1/2 to 4 percent. The resistance to wage increases in the region is, however, strong. For example, rather than increase wages to some unskilled seasonal workers, some regional amusement companies offered end-of-year bonuses instead. The realization of some of these bonuses in August and September could have contributed to the increase in withholding.

Temporary employment agencies have had a difficult time finding enough workers to meet demand all year long. Not only have wages increased for such workers, but also employers are now requesting more and more highly skilled workers for longer time periods — perhaps in the hope of hiring them on permanently later on. Administrative assistants and information technology specialists are in particular demand. The higher wages paid to such workers would not only increase withholding, but would also give a slight kick to the non-auto sales tax.

Quarterly estimated payments are a different story. Third quarter 1999 receipts are not only below estimate, but also fall short of quarterly estimated payments made in the third quarter of 1998. The decline in payments vis-à-vis a year ago follows a similar decline for the second quarter of calendar year 1999. This component is driven by relatively volatile factors, such as investment and self-employment income. These have been the source of much of the economy's recent strength — as well as the strong state revenues. However, tight labor and materials markets are eroding profits, and the stock market is extremely volatile, reflecting, perhaps, much economic uncertainty. While the decline in profits and the variability of the stock market may be seen as the main culprit behind the decline in quarterly estimated payments, the long-term impact of the 1997 Taxpayer Relief Act may also be a contributing factor.

The "bump" in realized income from the 1997 passage of the Taxpayer Relief Act may have finally worked its way through the system. Briefly, the Taxpayers Relief Act lowered the tax rate on capital gains for assets held longer than one year. When it first took effect many investors sold long-held assets — realizing and paying lower taxes on the gains. They then reinvested the funds. However, they may not have been able to reinvest in the assets of choice. Once having invested however, the funds were committed for another year (to avoid paying capital gains tax at the higher rate). After which time they could reinvest the funds as desirable investment opportunities presented themselves. Such a response could have drawn out the tax gain from the Taxpayers Relief Act through the end of calendar year 1998. The lower quarterly estimated payments seen in the last two quarters might simply be an indication that a new post TRA 1997 investment pattern has been established. ❑

DISBURSEMENTS

*— Jeffrey E. Golon with Steve Mansfield**

After finally cleaning the plate of legislative business that had to date consumed our collective attention and energy, we paused for a much-needed deep breath and took our first close look at the state's FY 2000 GRF disbursements. And, from the perspective of the state's cash flow, the picture was positive because the numbers were largely negative, as evidenced by a year-to-date underage of close to $300 million through the first quarter of FY 2000. Much of this underage was clearly no more than a function of timing, which likely means that overages lay somewhere nearby in the remaining months of FY 2000. The good news, however, was that, in the interim, the state revenue that would eventually be needed to support this spending was presumably still sitting in a bank collecting interest until such time as it was needed.

Let's turn then and check out some of the particulars with regard to the state's spending for the month of September and year-to-date.

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of September, 1999
($ in thousands)

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$439,784	$521,755	(81,970)
Higher Education	178,666	184,928	(6,262)
Total Education	$618,450	$706,683	(88,232)
Health Care/Medicaid	$467,412	$458,189	$9,222
Temporary Aid to Needy Families (TANF)	70,092	81,280	(11,188)
General/Disability Assistance	5,421	4,377	1,044
Other Welfare	34,168	38,098	(3,931)
Human Services (2)	83,184	90,479	(7,295)
Total Welfare & Human Services	$660,276	$672,423	(12,148)
Justice & Corrections	$195,412	$194,479	$934
Environment & Natural Resources	10,848	7,787	3,061
Transportation	2,006	2,745	(738)
Development	17,709	8,955	8,753
Other Government (3)	82,343	90,068	(7,725)
Capital	605	857	(252)
Total Government Operations	$308,923	$304,890	$4,032
Property Tax Relief (4)	$92,850	$182,203	($89,353)
Debt Service	5,950	5,554	396
Total Program Payments	**$1,686,448**	**$1,871,753**	**($185,305)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	27,771	0	27,771
Total Transfers Out	$27,771	$0	$27,771
TOTAL GRF USES	**$1,714,219**	**$1,871,753**	**($157,534)**

(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, 1999 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

September. Excluding transfers, the month landed with a large thud in the form of a $185.3 million underage. A sifting through of the resulting disbursement debris revealed that there were two primary program components to the monthly underage: the Department of Education ($81.2 million) and Property Tax Relief ($89.4 million). Timing was by far the dominant factor behind these two underages. There were some other forces affecting Education's spending as well, which we will cover in more detail a little further on in this review of the state's disbursement activity through the first three months of FY 2000.

Table 4, on the preceding page, provides a more detailed picture of September's disbursements by program category.

Year-to-Date. As the sun set on the first quarter of FY 2000, we stood looking into a negative year-to-date disbursement variance, excluding transfers, of $289.3 million, which was 5.4 percent less than the estimated level of spending. The most immediately interesting aspect of this year-to-date disbursement picture was that no one program category was responsible for this close to $300 million underage. In fact, three of the state's five program categories were essentially in a dead heat for control of the year-to-date underage. The sum of the year-to-date underages in these three program categories — Welfare & Human Services ($93.6 million), Education ($92.3 million), and Property Tax Relief ($89.4 million) — totaled $275.3 million. In effect, over 95 percent of the state's year-to-date negative disbursement variance was traceable to these three program categories.

The underages in two of these three program categories — Education and Property Tax Relief — were largely timing-based. This meant that, as the future unfolds, we should expect to witness overages in certain months that will in turn eat into these two programmatic underages and drive their year-to date disbursement variances back towards zero. As seasoned budget watchers are well aware, it would not be surprising if the entire $89-plus million negative year-to-date disbursement variance in Property Tax Relief all but disappeared with the arrival of one very large monthly overage in October. The year-to-date programmatic underage in Education though will most likely not disappear overnight, but will probably erode in chunks in the next quarter or so as various state subsidies to local school districts are released.

The third major programmatic contributor to the year-to-date underage — Welfare & Human Services ($93.6 million) — presented a much more complicated disbursement story to analyze. The three components of this programmatic underage were, in order of magnitude, as follows: (1) Human Services ($64.2 million); (2) TANF/Temporary Assistance to Needy Families ($31.1 million); and (3) Other Welfare ($17.7 million). Although the sum of the year-to-date underage in these three components hit $113.0 million, their effect was diluted by the surprising $18.5 million year-to-date overage thrown in by the Medicaid program.

The underage in the first of these three components — Human Services, which actually includes all state welfare and human services agencies except the Department of Human Services — was almost entirely attributable to timing matters that delayed planned spending for the departments of Mental Health ($31.6 million), Mental Retardation and Developmental Disabilities ($21.7 million), Aging ($5.5 million), and Health ($4.5 million). The underage in the second of these three components — TANF— represented the outcome of two very different forces in terms of their effect on future variances: timing-based spending delays mixed with actual savings as cash assistance caseloads continued their historic drop. The third component in the Welfare & Human Services program's year-to-date underage — Other Welfare, which includes all Department of Human Services activities exclusive of Medicaid, TANF, and General/Disability Assistance — was driven by a confluence of forces that included timing-based delays, faulty estimates, program population changes, and administrative obstacles.

Yes, as improbable as it may seem from recent history, Medicaid posted an $18.5 million year-to-date overage. At least one-half of this overage appeared to be led by an October Medicare "Buy-in" payment that occurred a monthly earlier than assumed. As for the spending to date for Medicaid's other service categories and the future, the jury was still out. We thought it slightly premature to make many Medicaid-related judgments at this time and thus more judicious to adopt a wait-and-see attitude for a few months rather than make rushed observations that we might live to regret.

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

Federal Money. It is important to remind the reader that many Department of Human Services activities, in particular Medicaid and TANF, are jointly funded by state and federal money that is appropriated as part of the GRF budget. Thus, some portion of the monthly or year-to-date disbursement variance that we might be analyzing at any point in time is likely to include federal money.

Of the state's $289.3 million negative year-to-date disbursement variance, we readily identified close to $50 million that was attributable to underspending in

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Fiscal Year-to-Date 2000
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance	FY 1999	Percent Change
Primary & Secondary Education (1)	$1,411,052	$1,489,763	(78,711)	$1,258,513	12.12%
Higher Education	529,720	543,274	(13,554)	506,497	4.59%
Total Education	$1,940,772	$2,033,037	(92,265)	1,765,010	9.96%
Health Care/ Medicaid	$1,375,186	$1,356,669	$18,517	$1,340,631	2.58%
Temporary Aid to Needy Families (TANF)	184,351	215,432	(31,082)	$207,445	-11.13%
General/Disability Assistance	15,716	14,852	864	$15,365	2.29%
Other Welfare	147,270	164,970	(17,699)	$127,583	15.43%
Human Services (2)	358,005	422,222	(64,218)	336,522	6.38%
Total Welfare & Human Services	$2,080,528	$2,174,147	($93,618)	$2,027,545	2.61%
Justice & Corrections	$506,836	$520,007	($13,171)	$467,820	8.34%
Environment & Natural Resources	49,819	37,995	11,824	$45,282	10.02%
Transportation	11,066	7,637	3,429	$4,157	166.24%
Development	52,865	53,901	(1,035)	$38,418	37.61%
Other Government (3)	158,142	173,400	(15,258)	$150,374	5.17%
Capital	5,635	5,874	(238)	901	525.47%
Total Government Operations	$784,366	$798,814	($14,448)	$706,952	10.95%
Property Tax Relief (4)	$122,460	$211,813	($89,353)	$214,749	-42.98%
Debt Service	95,676	95,332	345	$91,503	4.56%
Total Program Payments	**$5,023,803**	**$5,313,143**	**($289,340)**	**$4,805,758**	**4.54%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	——
Budget Stabilization	46,400	46,400	0	$44,184	5.02%
Other Transfers Out	763,341	720,569	42,771	973,342	-21.58%
Total Transfers Out	$809,741	$766,969	$42,771	$1,017,526	-20.42%
TOTAL GRF USES	**$5,833,543**	**$6,080,112**	**($246,569)**	**$5,823,284**	**0.18%**

(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, 1999 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

the federal share of TANF. While the actual year-to-date underage in the federal share of TANF was $60.4 million, its full effect was dampened by the presence of a $10.6 million overage in the federal share of the state's Medicaid program. Once the federal money associated with TANF's underage was backed out, the year-to-date underspending in non-federal state money was reduced to $239.3 million. The reader is also reminded that any unspent federal TANF funding at year's-end really represents money the state will have earned to spend in the future by meeting its required maintenance of effort (MOE).

Disbursements in Detail. The remainder of this article reviews the disbursement details of certain GRF programs to date, including the spending activities of around a dozen state agencies.

Primary & Secondary Education

Education. The Department of Education closed the first quarter of FY 2000 with a $77.1 million underage, or 5.4 percent below the year-to-date disbursement estimate of $1.4 billion. Of this year-to-date underage, $63.4 million (or 82.2 percent) was traceable, in order of magnitude, to seven line items as follows: (1) $29.4 million in line item 200-503, Bus Purchase Allowance; (2) $12.6 million in line item 200-540, Special Education Enhancements; (3) $6.8 million in line item 200-545, Vocational Education Enhancements; (4) $4.4 million in line item 200-566, OhioReads Grants; (5)$3.7 million in line item 200-514, Post-Secondary/Adult Vocational Education; (6) $3.4 million in line item 200-524, Educational Excellence and Competency; and (7) $3.1 million in line item 200-520, Disadvantaged Pupil Impact Aid (DPIA). Timing appeared to be the main factor behind these underages.

Bus Purchases. Line item 200-503, Bus Purchase Allowance, contains a $38.1 million FY 2000 appropriation to assist school districts and educational service centers with bus purchases or bus service contracts. Up to 25 percent of the amount appropriated for the program is earmarked for reimbursing school districts and educational service centers for the purchase of buses used to transport handicapped and non-public students, with 100 percent of that cost reimbursed if the local entity has met the state's mileage requirement for that year. The state distributes the remaining 75 percent of the funding to school districts for "regular" bus purchases or bus service contracts based on a complex formula that includes a per pupil or per mils base allocation, a rough road factor, and an equalization component. The release of this school bus purchase funding is contingent upon approval of the Controlling Board. The department originally planned to seek the Controlling Board's approval to release the $28.6 million allocation for regular bus purchase subsidies in August; however, that did not happen. As of this writing, it appears that the department is now planning to seek approval from the Controlling Board in November. Until then, no disbursements will be made from this line item.

Special Education Enhancements. Line item 200-540, Special Education Enhancements, contains a $127.8 million FY 2000 appropriation to fund preschool special education units, county MR/DD boards, and a few other set-aside programs. Preschool special education and gifted education are the two major programs currently funded by units. Unit funding provides partial reimbursements for program personnel. Units need to be formed and approved by the department before actual disbursements can be made. It is not very unusual to see underspending in this program at the beginning of a fiscal year. Adjustments for unit reimbursements for a given fiscal year have often been made after the end of the fiscal year.

Vocational Education Enhancements. Line item 200-545, Vocational Education Enhancements, contains a $30.8 million FY 2000 appropriation to fund a variety of set-aside programs, such as Jobs for Ohio Graduates (JOG), tech prep, career passport, and vocational education equipment replacements. The department generally disburses 85 percent of the line item's annual allocation throughout the year, with the remaining 15 percent held for year-end adjustments. A $5.6 million FY 1999 adjustment did not happen in September as originally planned, but is expected to take place in early October.

Post-Secondary/Adult Vocational Education. Line item 200-514, Post-Secondary/Adult Vocational Education, contains a $21.3 million FY 2000 appropriation to fund full-time and part-time adult vocational training programs. The funding is distributed via a unit formula. One unit is composed of 900 hours of program services and receives $20,000 in state funding. Again, a FY 1999 adjustment planned for September, this one amounting to $3.5 million, did not occur, but also was expected to take place in early October.

OhioReads. There was no disbursement activity in the newly established $25.0 million line item 200-566, OhioReads Grants, during the first quarter of FY 2000. OhioReads is Governor Taft's major educational policy initiative that calls for 20,000 volunteers as reading tutors to help improve the reading skill of students in kindergarten through fourth-grade (K-4). Specifically, the program provides two types of competitive grants: Classroom Reading Grants (funded at $20 million in each fiscal year) and Community Reading Grants (funded at $5 million in each fiscal year). In addition, line item 200-445, OhioReads Administrative/Volunteer Support, contains a $5.0 million appropriation in each fiscal year to cover the program's administrative costs, including reimbursing volunteers for background checks. The OhioReads Council established by Am. Sub.

H.B. 1 of the 123rd General Assembly is charged with program oversight. A new OhioReads Office has been established within the department to implement the program.

OhioReads grants are to be distributed based on criteria developed by the OhioReads Council. School districts, educational service centers, and community schools serving K-4 students are eligible for Classroom Reading Grants ($20 million in each year) to pay for reading-focused programs for a two-year period. Sixty percent of the funding ($12 million in each year) will go to schools in urban and rural school districts and the other 40 percent ($8 million in each year) will fund reading grants in suburban districts. The maximum award that can be allocated to any school over the two-year period is $60,000.

Community Reading Grants ($5 million in each year) are to be awarded to community organizations that seek to partner with local elementary schools and school districts in providing tutoring to students in grades K-4, with 50 percent of that amount annually to be used for summer reading programs. The maximum award per partnership project over the two-year period is $30,000. As is the case with the Classroom Reading Grants, 60 percent of the Community Reading Grants funding in each year ($3 million) will be targeted for grants to community organizations partnering with schools in urban and rural districts and the other 40 percent ($2 million) in each year will be awarded to community organizations partnering with schools in suburban school districts.

The OhioReads Office has completed reviewing 1,277 Classroom Reading Grants applications and is currently processing Community Reading Grants applications. Classroom Reading Grants are expected to be announced in early November, while the decision for Community Reading Grants is expected to be made in late November or early December. Therefore, we should not anticipate any disbursement activity in this program until November at the earliest.

DPIA. The $3.1 million year-to-date underage in the $390.7 million line item 200-520, Disadvantaged Pupil Impact Aid, was mainly caused by slower-than-expected disbursements in the newly established alternative education grant program. In addition to funding formula allocations for all-day and every day kindergarten, K-3 class size reduction, and safety and remediation measures, the DPIA line item provides $20 million in each fiscal year for competitive alternative education grants. Of this amount, $10 million is targeted for the 21 major urban districts and the other $10 million is targeted for rural and suburban districts. The program focuses on at-risk and delinquent youth. The department is currently in the process of receiving and reviewing grant applications, with award decisions not expected to be made until early December. For rural and suburban school districts, a single grant would range from $50,000 to $250,000. For urban school districts, a single grant could range from $500,000 to $2 million.

Educational Excellence & Competency. Line item 200-524, Educational Excellence and Competency, contains a $13.5 million appropriation, all of which is earmarked for non-competitive grants to a variety of initiatives that promote educational excellence and competency. Not only has the amount of biennial funding appropriated for this purpose ($25.4 million) increased by around 36 percent from the prior biennium ($18.7 million), but the number of programs receiving grants has also increased significantly. In the first quarter of FY 2000, the paperwork associated with this grant program did not move as quickly as was originally anticipated, which caused slower-than-expected disbursements.

Higher Education

Regents. The Board of Regents' FY 2000 disbursements through September fell $13.5 million, or 2.5 percent, short of the $543.1 million quarterly estimate. This year-to-date negative disbursement variance arose chiefly from three financial aid programs that collectively, in order of magnitude, underspent by $14.0 million as follows: (1) Ohio Student Choice Grants ($10.1 million); (2) Part-Time Student Instructional Grants ($2.4 million); and (3) Ohio Instructional Grants ($1.5 million). The underages reported in Ohio Student Choice Grants (line item 235-531) and Part-Time Student Instructional Grants (line item 235-549) were composed almost entirely of current FY 2000 appropriations and insignificant amounts of prior year's funding that were encumbered but not disbursed as planned in the first quarter. At root here was the fact that some higher education institutions had not reported the necessary fall-term enrollment/eligibility data to Regents in time to obtain their student financial aid funding before October.

The underage in Ohio Instructional Grants (line item 235-503) was a very different matter, as it was composed almost entirely of funding encumbered from the prior year that was not disbursed as planned. The amount of this prior year's encumbered funding ($12.0 million) was based on the predicted number of eligible spring-term students for which Regents would need money on hand to disburse to the higher education community after the close of FY 1999. The actual number of those spring-term students has proven to be considerably lower than the predicted number. As a result, it appeared, as of this writing, that in excess of $7.0 million of this prior year's Ohio Instructional Grant funding will not be needed and thus lapse.

The were also several line items that posted overages for the quarter and worked to decrease the overall size of the Regents' underage. Two such line items of note were 235-553, Dayton Area Graduate Studies Institute (DAGSI), and 235-508, Air Force Institute of Technology (AFIT), which fell over the estimate at the quarter's end by $942,000 and $875,000, respectively. The DAGSI line item contains a $3.8 million state subsidy for the not-for-profit consortium of five Ohio graduate engineering schools known as the Dayton Area Graduate Studies Institute and the AFIT line item contains a $3.5 million state subsidy for a consortium of Ohio universities that provide graduate-level education in logistics, acquisitions management, and engineering to Air Force personnel enrolled in the Air Force of Technology. The estimates for these two subsidies erroneously assumed that they would be disbursed in four equal quarterly payments, which would have meant that half of each subsidy would have been distributed by the end of the second quarter. The reality is that the Regents' intent was that half of each subsidy would be distributed in the first quarter.

Health Care/Medicaid

Having recovered somewhat from post-traumatic budget syndrome at the close of the first quarter FY 2000, we managed to take our first peek at Health Care/Medicaid spending and were immediately surprised by a relatively rare phenomenon: a monthly and year-to-date positive disbursement variance. For the month of September, Medicaid spending registered $9.2 million above the estimated monthly total of $458.2 million. This brought year-to-date Health Care/Medicaid spending to $1.375 billion, which was $18.5 million, or 1.4 percent, above the year-to-date estimated level of $1.356 billion. (For more detail on monthly and year-to-date Medicaid spending, see Table 6.)

This relatively small variance in the monthly bottom line, however, masked events that transpired in Medicaid's various service categories. While it appeared that a significant amount of overspending

Table 6
Medicaid (400-525) Spending in FY 2000

	September '99				Year-to Date Spending		
Service Category	Actual	Estimate	Variance	Percent Variance	Actual** thru' Sept.	Estimate** thru' Sept.	Variance
Nursing Homes	$181,751,121	$180,841,464	$909,657	0.5%	$516,406,430	$520,747,396	($4,340,966)
ICF/MR	$29,608,495	$29,773,636	($165,141)	-0.6%	$87,458,187	$87,771,059	($312,872)
Hospitals	$94,342,156	$92,185,939	$2,156,217	2.3%	$307,435,598	$294,367,919	$13,067,679
Inpatient Hospitals	$71,627,617	$71,133,960	$493,657	0.7%	$230,563,804	$224,033,187	$6,530,617
Outpatient Hospitals	$22,714,540	$21,051,979	$1,662,561	7.9%	$76,871,793	$70,334,732	$6,537,061
Physicians	$23,400,975	$22,115,125	$1,285,850	5.8%	$69,263,965	$70,749,197	($1,485,232)
Prescription Drugs	$55,356,424	$59,545,261	($4,188,837)	-7.0%	$157,280,784	$157,929,053	($648,269)
Payments	$59,532,493	$60,717,927	($1,185,434)	-2.0%	$196,842,684	$195,230,448	$1,612,236
Rebates	$4,176,069	$1,172,666	$3,003,403	256.1%	$39,561,900	$37,301,395	$2,260,505
HMO	$30,212,143	$30,454,122	($241,979)	-0.8%	$90,407,329	$90,811,971	($404,642)
Medicare Buy-In	$20,380,496	$10,734,814	$9,645,682	89.9%	$41,198,493	$32,408,836	$8,789,657
All Other***	$32,255,467	$32,538,886	($283,419)	-0.9%	$105,479,147	$101,885,893	$3,593,254
TOTAL	$467,307,277	$458,189,247	$9,118,030	2.0%	$1,374,929,933	$1,356,671,324	$18,258,609
CAS	$467,411,659		$9,222,412	2.0%	$1,375,186,207		$18,514,883
Est. Federal Share	$272,598,092	$281,356,735	($8,758,643)		$802,048,878	$791,397,937	$10,650,941
Est. State Share	$194,709,184	$201,825,019	($7,115,834)	-3.5%	$572,881,056	$565,273,387	$7,607,669

* This table only includes Medicaid spending through Human Services' 400-525 line item.
** Includes spending from prior year encumbrances in in the All Other category.
*** All Other, includes all other health services funded by 400-525.
Source: BOMC 8300-R001 Reports, Ohio Department of Human Services.

occurred for the Medicare "Buy-in" service category ($9.6 million), the reality was that the $20.4 million September payment, roughly double the monthly estimate, essentially represented two months worth of Buy-in payments, which included, we believe, the Buy-in payment scheduled for the following month of October. If one were to factor out this early payment, Medicaid's year-to-date positive disbursement drops by more than half to $8.9 million.

That exercise left one main factor that was really responsible for Medicaid's year-to-date positive disbursement variance: the Hospital payments service category. As a meaningful analysis of the dynamics affecting hospital payments seemed premature, we did not attempt one, but certainly intend to keep a close watch in the months ahead, particularly in the area of outpatient hospital services, which were running at 9.3 percent ($6.5 million) above the year-to-date estimate.

TANF

So far this fiscal year, TANF spending has followed the very familiar pattern that has characterized the last two years: substantial spending below the estimates that were developed at the beginning of the fiscal year. However, this familiar scenario should not lull observers of TANF spending to sleep, for there is much change afoot that promises to alter the pattern set by previous years, especially in the state's Prevention, Retention, and Contingency (PRC) program. These changes will be discussed below, after a few brief comments on what has actually transpired with TANF spending so far this fiscal year.

Spending in July and August was approximately $19.9 million below the estimate. September's numbers added another $11.2 million of under spending, taking the year-to date negative disbursement variance up $31.1 million, or 14.4 percent below the estimate.

Upon closer inspection, however, this year to-date underage reveals a much more intriguing picture than one might have expected from the surface. It is composed, on one hand, of an *overage* compared to the estimated spending from line item 400-410, TANF State, of $29.4 million, and, on the other hand, an *underage* compared to the estimated spending from line item 400-411, TANF Federal Block Grant, that totaled $60.4 million. This mix of being overspent in state funds and underspent in federal funds stems in large part from what are really timing issues. Probably the most significant of these timing issues was the fact that the Department of Human Services (ODHS) began spending toward the state's maintenance of effort (MOE) requirement in September, rather than in October, as scheduled. This has the effect of postponing the spending of a month's worth of federal TANF funds until after the full MOE is met next spring or early summer. Other factors related to timing were lower than anticipated disbursements for computer contracts, and lower than anticipated allocations to counties for administrative expenses.

Substantively contributing to the overall year-to-date negative disbursement variance in TANF was a continuing decline in the recipient caseload, which made for lower cash payments than expected. Since the beginning of FY 2000, the number of recipients has declined by almost 11,000. This represents a 4.2 percent decline in the first three months of the fiscal year, about two-thirds the 6.4 percent rate of decline that was experienced over the same time period last year. The total number of TANF recipients now stands at 247,800, and the number of cases at 99,300. Over 35,000 of these cases are "child only" cases in which caretaker adults are not members of the case because they are relative caretakers who have not applied to be included in the child's case, or parents of the child who are receiving other forms of assistance and are therefore not eligible for Ohio Works First (OWF) benefits.

PRC Development Reserve. A significant development has taken place in the Prevention, Retention, and Contingency (PRC) program that will impact TANF expenditures by taking a significant chunk of federal TANF dollars and, for the first time, putting them into a non-GRF line item. The PRC program is designed to "divert" families from public assistance by providing one-time, short-term customized assistance to overcome immediate problems or barriers that could, if not addressed, result in a situation that requires public assistance. Authority for the PRC program was established in Am. Sub. H.B. 408 of the 122nd General Assembly, effectively replacing the Family Emergency Assistance (FEA) program that existed at the time. The objective of the PRC program is to provide a mixture of cash and non-monetary services that will enable a family to retain or obtain employment and thereby stay off of public assistance. PRC thus serves as a companion program to Ohio's other TANF program, Ohio Works First (OWF).

In September 1999, ODHS announced a new initiative — *PRC Development Reserve* — to increase spending in the PRC program. The initiative, according to ODHS, does not represent any change in planned spending for the overall TANF program but is designed to "provide equal access to all counties seeking additional resources" in the effort to increase PRC services as the need for OWF benefits declines. ODHS has made available an additional $100 million in PRC funds for FY 2000, and $200 million for FY 2001. A spending cap based on the county's population with income below 200 percent of poverty has been determined for each county. Each county must submit a project request that meets specific criteria in order for the PRC funds to be accessed.

PRC Appropriation. The PRC Development Reserve has been funded with an increase in spending authority that was accomplished following a new method of appropriation allowed by a temporary law provision contained in Section 55.07 of Am. Sub. H.B. 283, the main biennial budget act of the 123rd General Assembly. The provision grants authority for ODHS to request additional appropriation authority over available federal funds. However, instead of processing this request through the Controlling Board, the provision allows the Director of the Office of Budget and Management (OBM) to appropriate the requested funds, and only requires the Director to inform the Controlling Board at its next regularly scheduled meeting as to the action taken. Prior to the increase in appropriation authority utilizing this new provision, PRC was solely a GRF-funded program financed out of line items 400-410, TANF State, and 400-411, TANF Federal Block Grant.

In September 1999, pursuant to the authority provided by Section 55.07, ODHS requested, and the Director of OBM agreed, to increase the FY 2000 appropriation authority in federal line item 400-657, Special Activities/Self Sufficiency, by $584,362,817. Prior to this, the FY 2000 appropriation authority in line 400-657 was only $498,600. The Controlling Board was notified of the increase in appropriation authority on October 15, prior to their meeting scheduled for October 18.

Fund 3G9. Line item 400-657 (Fund 3G9) was established in Am. Sub. H.B. 111, the main biennial budget act of the 118th General Assembly, and originally named: "Ford Foundation Reimbursement." The purpose of the line item at that time was to receive and disburse federal grant matching funds for the evaluation of the Learning, Earning, and Parenting Program (LEAP).

Subsequently, the line was renamed "Special Activities Family Assistance," and its purpose was broadened to support additional special grants related to public assistance programs. For example, within the last calendar year, the line item was used to receive and disburse federal matching grants to support the State Welfare Reform Evaluation grant, to support a special grant entitled the "Employment Retention and Advancement Project," and to receive the return of a portion of a penalty paid to the federal government that had been assessed against Ohio for high error rates. (The latter award was used to fund a portion of the development of the Integrated Case Management System, a computer-based system of holistic case management designed to ensure job preparation, job placement, and job retention for clients in the Ohio Works First program.) The Controlling Board approved the necessary increases in appropriation authority that would allow ODHS to disburse these additional federal funds, resulting in a dramatically all-time high of $1,349,583 being disbursed from the line item in FY 1999. Prior to that time, the line item rarely disbursed in excess of $100,000 in any given fiscal year. In Am. Sub. H.B. 283, line item 400-657 again had its name changed, becoming "Special Activities/Self Sufficiency."

The huge OBM-approved September 1999 increase in line item 400-657's FY 2000 appropriation authority in effect enabled ODHS to encumber the $584.4 million in federal TANF surplus funds. These funds had already been appropriated during fiscal years 1997, 1998, and 1999 to the GRF line item 400-411, TANF Federal Block Grant, but went unused and appropriation authority to disburse them had simply lapsed. Up to the point of this increase in FY 2000 appropriation authority for line item 400-657, line item 400-411 had been the sole depository of the state's TANF Federal Block Grant funds. Elsewhere in Am. Sub. H.B. 283, the department is required to go to Controlling Board for certain TANF transfers to use in the Child Care Development Block Grant and in the Social Services Block Grant.

Federal Rules. Recent federal regulations (TANF Final Rule, April, 1999), which have an effective date of October 1, 1999, limit how reserve funds can be used. The TANF Final Rule requires that, unless reserve funds are obligated and encumbered during the federal fiscal year in which they are awarded, they can only be used for purposes "that meet a reasonable definition of assistance" (HHS, Guidance on Application of TANF Final Rules, June 18, 1999). The intent of the Final Rule is to get states to structure their funding of activities using TANF reserve funds for cash benefits and other forms of assistance, and to use TANF current year funds for other "non-assistance" support services that are permitted under TANF. The U.S. Department of Health and Human Services (HHS), in its discussion on the uses of TANF funds that is contained in the preface to the Final Rule, states that:

> … we have determined that the statute [which created the TANF program] limits a State's ability to spend reserved money in a couple of very important ways. First, a State may expend reserved money only on benefits that meet the definition of assistance at Sec. 260.31 [of the Final Rule] or on the administrative costs directly associated with providing such assistance. It may not expend reserved funds on benefits specifically excluded from the definition of assistance or on activities generally directed at serving the goals of the program, but outside the scope of the definition of assistance. Secondly, a State may spend its reserved funds only on assistance provided within its TANF program (i.e., "the State program funded under this part"). This latter limitation precludes the State from transferring reserved funds to either the SSBG or the Discretionary Fund of the CCDF. We believe the effect of these limitations will not be too serious because States are still spending such large portions of their funds on benefits that meet the definition of assistance. However, to ensure themselves the maximum flexibility in the use of their funds, States could spend down their reserved funds on any expenditures on assistance and leave current-year funds available to cover transfers and other activities.

ODHS has chosen to encumber the funds appropriated to line item 400-657 in order to change the status of the funds so that they are no longer considered "reserved." ODHS has pursued this course of action because the uses of these funds will be for the most part outside the scope of "assistance."

The move to appropriate $584.4 million in FY 2000 does seem to be prudent, from two perspectives: (1) the need to maintain flexibility for spending Ohio's previously reserved TANF funds; and (2) the absence of a plan to fund assistance from reserved moneys and other "non-assistance" activities from current-year moneys. However, LBO continues to review these actions in relation to federal rules.

TANF Reserve Uses. As of spring 1999, ODHS had eight administratively designated reserves. A discussion of these reserves can be found in the April/May, 1999 *Budget Footnotes* article "Background on TANF Spending Options." In that article, LBO stated that the TANF Final Rule "will have a substantial impact on the ability of ODHS to use reserved funds in the ways that have been planned." The article went on to state that "When the Final Rule goes into effect the definition of assistance will not allow ODHS's planned expenditures from unobligated reserves on the following items: incentives to counties (to the extent that they are not directed toward "assistance"), disaster relief, training county staff, employment and training services under the TANF E&T program, and childcare for employed individuals."

The article also raised questions about whether expenditures from the fund called the "Early Start Statewide Reserve" would meet the definition. Even though the funds from prior years have been encumbered by ODHS, and even though the strictest definition of "assistance" only applies to funds awarded after October 1, 1999, ODHS has eliminated the reserve funds for disaster relief, training county staff, employment and training services under the TANF E&T program, and the early start statewide reserve. Expenditures for these purposes have been shifted to current-year funds.

Other Welfare

For the first quarter of FY 2000, disbursements for the Department of Human Services' operating expenses and subsidy programs, which fall under the rubric of "Other Welfare" and are tracked under separate components of the Welfare and Human Services program category, fell $17.7 million, or 10.7 percent, below the estimate. It appeared that a portion of this underage, some of which is discussed in more detail below, was not traceable solely to the usual timing culprit, but was perhaps attributable to more substantive matters that were constraining programmatic expenditures.

SACWIS. The department's SACWIS project hit a rock in September when the Department of Administrative Services rejected all contract proposals to build an enhanced computerized child welfare information system and cancelled the Request-for-Proposal. This action came in the wake of a joint decision made by the two departments that the contract was not in the best interests of the state and to revisit the planned "architecture" of the computer system. Consequently, spending from line item 400-416, Computer Projects, which was to fund this effort, fell under the estimate by $3.3 million.

According to the Department of Administrative Services, as bid, SACWIS was to have been a two-tiered architecture, however, that structure would not have been conducive to a large-client server application. As of this writing, the department was reviewing its SACWIS project plan and estimated that this unexpected development would delay implementation by perhaps as much as up to 12-to-18 months. Despite this recent procurement setback, the federal government was still expected to reimburse the state up to 50 percent of the SACWIS project costs.

SACWIS will eventually replace the department's existing statewide child welfare information system — Family and Children Services Information System (FACSIS). Since 1987, FACSIS has been Ohio's means of collecting data on child welfare programs and child abuse incidents. When the department determined that SACWIS was not going to become operational in time to comply with federal requirements, it opted to upgrade FACSIS in the interim. While less optimal than SACWIS, the upgraded FACSIS did meet minimum federal requirements, and will, in the department's opinion, ease the eventual migration of county departments of human services to SACWIS.

There are currently over 1 million individuals (children, parents, perpetrators, witnesses, and so forth) tracked using FACSIS. Without it, this data would have to be collected from 88 different county automated or even manual child welfare systems. This would significantly increase the amount of time the department needs to answer federal questions about Ohio's child welfare programs and track child abuse victims and perpetrators. FACSIS data is also provided to the national central registry for tracking child abuse perpetrators.

AdoptOHIO. A portion of the funding appropriated to line item 400-408, Child & Family Services Activities, was made for the purpose of assisting AdoptOHIO, a statewide initiative launched in April 1997 involving a collaboration among the state's public and private adoption agencies intended to identify, recruit, develop, and retain adoptive parents. Year-to-date, disbursements from this line item were $1.3 million under the estimate; a fact that the department attributed to both an unexpected drop in the number of adoptions as well as a delay in implementing cultural awareness initiatives intended to increase the number of minority children that are adopted.

PASS. No FY 2000 funding related to the Post Adoption Support Services (PASS) Program, which provides financial support to families of adoptive children whose special needs went unrecognized at the time of adoption, has been disbursed. This absence of spending was not a sign that services were not being delivered. What it did reflect was the fact that the department and county departments of human services were working on the billing mechanics and financial accounting capabilities for the program. As a result, current year spending from line item 400-528, Adoption Services, which includes $3.7 million appropriated for the PASS program, posted a $1.6 million underage.

EBT. Line item 400-402, Electronic Benefits Transfer (EBT), which largely funds the contractor costs of running the Electronic Benefits Transfer (EBT) system, posted a $2.6 million underage. As of this writing, the source of this underage, which included $1.2 million in encumbered funding from the previous fiscal year, remained somewhat of a mystery to us. One possible source of the somewhat sluggish spending, in particular current year appropriations, was related to the number of monthly food stamp recipients. Since the contractor's compensation is based on that monthly caseload, and that caseload has been dropping, payments to the contractor have declined as well. This effect, at least for the first quarter, was apparently not captured in the disbursement estimate for this line item. The department has also indicated that, as the EBT system expands, contractor payments will accelerate.

Under EBT, traditional paper food stamps have been replaced with magnetically coded cards (smart cards) that automatically track the monthly food stamp allocation, deduct the cost of all purchases, and maintain the balance. The increase in biennial appropriation authority for this line item reflects the planned statewide rollout of the EBT system and the resulting significant increase in the number of monthly recipients using the smart card. Funding for the EBT system includes a 50 percent match from the federal Food Stamp Program.

Child Support. The department's Child Support Administration line item (400-420) under spent by $500,000 during the first quarter of FY 2000. The likely cause of the underage in this line item, which funds administration of the state's child support enforcement program that provides a variety of services from paternity establishment to the enforcement of financial and medical obligations, was a delay in finalizing a contract for the expansion of child support paternity and order establishment services.

Also of note is a budgeted disbursement of $15 million from the line item that took place in August and that covered federal fines resulting from missed deadlines for the implementation of Ohio's statewide child support enforcement tracking system (SETS). Although Ohio is one of only 11 states whose automated enforcement tracking system has not been certified, the department is confident that it will meet the final October 1, 2000 deadline for making SETS fully operational, at which time 90 percent of the fine monies paid will be reimbursed by Washington.

Wellness. A much smaller disbursement piece within the scheme of things related to line item 400-409, Wellness Block Grant, which is used in conjunction with other state funding to provide grants for community based prevention programs designed to reduce teenage pregnancy rates and to fund state-directed training, evaluation, and education. Disbursements from this line item were 70 percent, or $84,000, below the estimate. Apparently, grant agreements that were to be finalized during the first quarter were not.

The Wellness funding is allocated to counties through Family and Children First Councils, with counties then charged with the design, implementation, and management of prevention strategies. All of the state's 88 counties receive an allocation, as does the Department of Youth Services, whose incarcerated population is characterized by a high incidence of teen pregnancy.

Human Services

Aging. First quarter FY 2000 disbursements for the Department of Aging hit $5.5 million, or 21.6 percent, under the estimate. Most of this negative disbursement variance was attributable to a $3.1 million underage in line item 490-412, Residential State Supplement, and a $1.8 million underage in line item 490-403, PASSPORT.

RSS. Under the Residential State Supplement (RSS) program, the state provides a cash supplement to low-income aged, blind, or disabled adults residing in a residential care facility and who require assistance due to a medical condition. The RSS program was established in 1982. From 1982 to July 1, 1993, the RSS program was solely the responsibility of the Department of Human Services. Beginning July 1, 1993, the General Assembly split these responsibilities between the departments of Human Services and Aging. The Department of Human Services became responsible for sending out the cash supplement each month and county departments of human services assumed responsibility for determining applicant eligibility, while the Department of Aging and its area agencies on aging (AAAs) took charge of processing RSS applications, assessing the applicants, and providing on-going case management.

Funding for the RSS program is a combination of GRF appropriations and nursing facility franchise permit fee revenues. Each quarter, the Department of Aging transfers GRF and franchise permit fee moneys to the Department of Human Services' Fund 4J5 to cover the cost of the program. Each month, the Department of Human Services sends the cash supplement to RSS recipients by tapping Fund 4J5.

The first quarter $3.1 million RSS underage was due to timing. Aging had planned a $2.9 million September funding transfer to Human Services, which did not occur. Although the transfer from Aging to Human Services was late, the monthly cash payment to RSS recipients was on time. To cover the costs for September, the Department of Human Services simply utilized the available cash balance in Fund 4J5.

PASSPORT. The PASSPORT program provides an alternative to nursing placement by offering homecare for Medicaid-eligible persons age 60 and older. The program is funded with a mix of GRF, federal reimbursement for a portion of state Medicaid expenditures, nursing home franchise fees, and designated revenues from off-track betting. The previously-noted $1.8 million year-to-date underage in the PASSPORT line item occurred because, in September, Aging used more federal and less GRF funding than had been planned. Although not 100 percent certain, we believed that PASSPORT's disbursement estimates had been raised by the department, but had not been incorporated into OBM's original August 1999 esitmates. This left us with the impression that this 'glitch' in the estimating process might haunt PASSPORT's disbursements throughout the fiscal year. Despite that possibility, like timing, it should sort itself out by fiscal year's end.

Health. Of the Department of Health's $4.5 million year-to-date underage posted at the end of the first quarter of FY 2000, 93.3 percent was attributable to a single GRF line item: 440-505, Medically Handicapped Children. At September's close, the year-to-date underage in this $12.0 million line item, which is used to pay for diagnosis, treatment, and supportive services provided to children with handicaps meeting certain medical and economic eligibility criteria, was $4.2 million. Support for this program is also drawn from the department's non-GRF Fund 666, the Medically Handicapped Children-County Assessment Fund. Generally, the department spends GRF appropriated to line item 440-505 before it taps into Fund 666's revenue stream. Since Fund 666, however, started FY 2000 with a relatively healthy available cash balance, the department decided to pay for these programmatic activities with Fund 666 moneys prior to disbursing any GRF dollars. The department anticipates that it will continue to use Fund 666's revenue stream for the next few months, which means that the underage in 440-505 will continue to grow in the short-term future.

At the beginning of FY 2000, the cash balance in Fund 666 was $6.5 million. During the first quarter of FY 2000, the department disbursed approximately $4.8 million from this fund. During this same period, just over $2.8 million in new revenues were added to the fund, leaving a total unencumbered available cash balance as of September 30, 1999 of $3.3 million.

Mental Health. The Department of Mental Health (DMH) ended the first quarter of FY 2000 $31.6 million under estimate. As usual, most of the underage (i.e., $30.8 million) can be traced to the department's three largest GRF subsidy line items: 334-408, Community and Hospital Mental Health Services; 335-502, Community Mental Health Services; and 335-508, Services for Severely Mentally Disabled. As has been the department's practice, these subsidies are disbursed to community mental health boards on a quarterly basis. This fiscal year, however, a twist has been introduced into this quarterly disbursement process.

On July 1, 1999, 38 of the state's 50 community mental health boards began billing for community Medicaid costs through the new Multi-Agency Community Services Information System (MACSIS). This new system links local community mental health and alcohol and drug addition service boards electronically with both DMH and the Department of Alcohol and Drug Addiction Services. Prior to July 1, boards could receive federal financial participation (i.e., FFP or federal Medicaid matching funds) without fronting the federal share of the Medicaid service costs. The operationalization of MACSIS changed all of this. The new system requires boards to pay mental health providers for 100 percent of billed Medicaid services before they can draw down the FFP. To help local boards deal with this new requirement, DMH is allowing them to request their quarterly allotments up to one quarter ahead of time. To reflect this new funding option, the department front-loaded its disbursement estimates for these subsidies, meaning it was assumed this funding would be released much earlier in the fiscal year than had historically been the case. Apparently, however, not many boards chose to exercise it during the first quarter. Thus, as a result, first quarter actual subsidy funding releases were well below the estimated amounts.

In addition to the explaining the disbursement variances noted above, LBO would like to draw attention to the August disbursement of $7.2 million from line item 333-419, Community Medication Subsidy, as this appropriation has received considerable attention from the General Assembly during the last two biennial budget processes. The subsidy program was originally established in Am. Sub. H.B. 238 of the 116th General Assembly. The goal of the program is to assist community mental health boards in purchasing psychotropic medications for indigent persons, to reduce unnecessary hospitalization because of the lack of such medications, and to provide subsidized support for methadone treatment. Of that amount disbursed year-to-date, $7.1 million was targeted for psychotropic medications, and slightly

Table 7
Community Medication Assistance

Fiscal Year	Total Medication Costs	State Subsidy	State Percentage of Total Costs
1996	$ 6,482,990	$ 3,542,894	54.6%
1997	$ 6,988,160	$ 3,542,894	50.7%
1998	$ 8,047,158	$ 4,960,052	61.6%
1999	$ 8,766,480	$ 6,448,068	73.6%
2000	N/A*	$ 7,182,000	N/A*

*Not available at this time.

in excess of $100,000 supported methadone treatment. The Department of Alcohol and Drug Addiction Services approved all of the subsidy funding allocated for methadone treatment.

As shown in Table 7, since the creation of this community medication assistance program, the state has subsidized a greater share of these costs. For example, the state share of medication costs increased from 54.6 percent to 73.6 percent between FY 1996 and FY 1999. LBO believes that this trend is likely to continue in FY 2000 as the General Assembly has increased the appropriation for this subsidy by 11.4 percent, from $6.4 million in FY 1999 to $7.2 million in FY 2000. Community mental health boards are responsible for paying those medication costs not covered by the state subsidy.

Mental Retardation. When September closed, thus marking the end of the first quarter of FY 2000, the Department of Mental Retardation and Developmental Disabilities was left holding a negative year-to-date disbursement variance of $21.7 million, 14 percent below the estimate. There were two primary factors behind this underage: line item 322-413, Residential and Support Services, and line item 323-321, Residential Facilities Operations. These two line items are a major force in the department's budget, as evidenced by the fact that they account for 69.7 percent of its total FY 2000 GRF appropriation.

Line item 323-321, which carries a $104.0 million FY 2000 appropriation for the purpose of supporting the costs of operating12 state developmental centers, posted a year-to-date underage of $9.7 million. Our investigation of this matter led us to believe that the number of vacant developmental center staff positions was higher than expected, which in turn constrained actual payroll costs. Obviously, if these staff positions continue to remain vacant, then the underage in this line item will continue to grow as we proceed through FY 2000.

The other main source of this departmental underage is our old friend line item 322-413, which carries a FY 2000 appropriation of $133.9 million. As noted many times in previous issues of *Budget Footnotes*, this line item is used by the department to pay for services delivered to individuals with mental retardation or developmental disabilities. In order to disburse moneys from this line item, the department must first be billed by the service provider. As mentioned in previous reports on this line item, service providers have 365 days from the date of service to bill the department. For services provided in FY 1999, not all the bills have been received, which has lead to an $11.2 million year-to-date underage in disbursing GRF funds encumbered in this line item from the prior fiscal year. This same timing issue has also generated a $1.4 million underage in this line item's disbursement of current fiscal year appropriations as well.

Rehabilitation Services. For the first quarter of FY 2000, Rehabilitation Services Commission disbursements landed $566,265, or 6.0 percent, below the estimate. This underage was a function of an overmatch of state dollars in the commission's budget, most specifically in the area of vocational rehabilitation (VR) funding that benefits from a 3.7:1 federal match. The federal 1999 fiscal year-end reconciliation showed an overmatch of 2.6 percent of state VR funding that, when credited to the commission's federal vocational rehabilitation line item 415-616 (Fund 379), meant that a chunk of GRF money that was planned for disbursement from line item 415-100, Personal Services, was not needed in the first quarter and thus not spent. Given the large amount of funds and the large number of transactions involved in the commission's rehabilitation business, it is not uncommon for the final federal fiscal year-end reconciliation to reveal an under or over match.

Justice & Corrections

Rehabilitation & Correction. The Department of Rehabilitation & Correction closed the first quarter of FY 2000 with a $10.9 million underage, 2.9 percent below the estimated disbursement level. The bulk of this year-to-date disbursement variance was attributable to underspending in a cluster of line items that are used to support the day-to-day operational expenses of the department's geographically far-flung network of 30-plus state prisons. Unable at this time to root out any plausible reasons for this underspending, we decided that the best course of action was simply to acknowledge its existence and watch the department's second quarter disbursement activity unfold.

Environment & Natural Resources

Ohio EPA. During the first quarter, the Ohio EPA disbursed $11.2 million, which represented 46.1 percent of the agency's total amount of GRF funding available for spending in FY 2000. The total estimated GRF disbursements for this three-month period were $6.4 million. As a result of this dramatic variance between the actual and estimated disbursements, the agency posted a year-to-date overage of $4.8 million. We have been led to believe that the source of this variance was an erroneous assumption that was used to build the FY 2000 disbursement estimates for the Ohio EPA. This year's disbursement estimates assumed that the agency would spend its GRF funding evenly over the 12-month period, when that was not an accurate depiction of the agency's planned spending strategy. In fact, the agency's spending strategy in recent years has been to hit their GRF funding hard first, exhaust that revenue stream, and then move on to spend federal moneys. The agency's actual disbursement pattern for the first quarter of FY 2000 was consistent with that current practice. The quarterly overage itself will shrink as we progress further into the fiscal year. Therefore, future disbursements should show a comparable underage to account for the erroneous estimates this past quarter.

The major line item driving this year-to-date overage was 717-321, Water Quality Planning and Assessment, which outspent its estimate by $3.0 million. Included in the quarterly disbursements from this line item was $450,000 divided evenly between six areawide planning agencies and $100,000 for the Toussaint River Ordinance Clean-Up Project.

Natural Resources. The Department of Natural Resources closed the first quarter of FY 2000 with a positive disbursement variance of $7.0 million, the bulk of which ($5.3 million) was traceable to a line item that supports the operational expenses of the department's Division of Parks and Recreation: 730-321. Apparently, all of this overage was a function of an erroneous estimate, including about $3.0 million in central support service charges that were excluded from its calculation. It appeared that the division's spending to date was consistent with its planned spending for FY 2000. The other notable piece of the year-to-date departmental overage totaled just shy of $900,000 and occurred in line item 725-404, Fountain Square Rental Payments — OBA. This line item is used to make payments to the Ohio Building Authority (OBA), which financed the purchase of the Fountain Square office complex in Columbus where the department is headquartered. A total of $1.1 million was appropriated for this purpose in FY 2000. The expectation was that two payments of roughly equal amounts would be made, one to occur this November and a second in May 2000. The November payment actually occurred in September.

Before we move on to other areas of state spending, we'd like to comment on the fact that none of the new $2.0 million departmental GRF subsidy 725-507, Conservation Reserve Enhancement Program (CREP), has been disbursed. CREP is a state-federal conservation partnership program targeted to address specific state and nationally significant water quality, soil erosion and wildlife habitat issues related to agricultural use. The program uses financial incentives to encourage farmers and ranchers to voluntarily enroll in contracts of 10-to-15 years in duration to remove lands from agricultural production.

The purpose of the department's CREP subsidy is to provide 20 percent in state matching money that in turns draws 80 percent in federal funding. In other words, each $1 of state funds attracts $4 in federal money. As of this writing, the department's Division of Soil and Water was still negotiating with the U.S. Department of Agriculture on the federal share of CREP. With that situation unresolved, it is likely that none of this GRF subsidy funding will be disbursed until sometime in calendar year 2000.

Other Government

Administrative Services. The Department of Administrative Services ended September with a year-to-date negative disbursement variance of $10.9 million, 12.4 percent under the estimate. An extremely large proportion of this underage was a function of two factors: (1) slower than expected disbursements on computing and communications services to other state agencies; and (2) lower than expected payments for rent and operating costs on certain state-owned buildings, including the State of Ohio Computer Center. More specifically, four computing and communications line items collectively tossed in a $5.1 million underage that, in order of magnitude, included: (1) Multi-Agency Radio Communication System/MARCS (line item 100-417); (2) Year 2000 Assistance (line item 100-430); (3) Strategic Technology Development Programs (line item 100-416); and (4) State of Ohio Synchronous Optical Network/Ohio SONET (line item 100-419). An additional $4.1 million in underspending was thrown in by four state building rent and operating cost line items, with $2.5 million alone coming from smaller than anticipated debt service payments to the Ohio Building Authority (line items 100-447 and 100-448).

The fact that these two factors were already playing a significant role in the department's year-to-date underage through the month of September was not all that surprising. In the previous biennium, they were the key contributors to the building of relatively large end-of-year departmental underages in fiscal years 1998 and 1999.

Property Tax Relief

Over the course of FY 2000, 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 relief payments.

Through the first quarter of FY 2000, the settlement process went slower than expected, with the departments of Education and Taxation disbursing less property tax relief funding than was forecasted. Specifically, the Department of Education's disbursements to school districts fell short of their estimate by $47.3 million and the Department of Taxation's disbursements to all other taxing districts landed under their estimate by $42.1 million, which created a total year-to-date programmatic underage of $89.4 million. All of this underage was generated in the month of September, as no disbursements were anticipated for July or August and none occurred. At this point in the fiscal year, large negative or positive disbursement variances are typically no more than timing-based phenomena that come-and-go from one-month-to-the-next.

**LBO colleagues who contributed to the development of this disbursement story included, in alphabetical order, Ogbe Aideyman, Brian Friedman, Sybil Haney, Eric Karolak, Jeff Petry, Chuck Phillips, David G. Price, Jeffrey M. Rosa, and Wendy Zhan.*

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS FIRST QUARTER, FY 2000

—Allan Lundell

Table 1, FY 2000 Lottery Ticket Sales and Transfers to LPEF, millions of dollars

	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfers as a Percentage of Sales
Jul 1999	$181.8	$56.3	$52.3	$4.0	7.6%	30.9%
Aug 1999	167.8	52.4	53.4	-1.0	-1.9%	31.2%
Sep1999	169.8	52.1	53.0	-0.9	-1.8%	30.7%
Q1 2000	**$519.3**	**$160.7**	**$158.7**	**$2.0**	**1.3%**	**30.9%**
Q4 1999	**$517.2**	**$162.6**	**$171.2**	**-$8.6**	**-5.0%**	**31.4%**
Q1 1999	**$507.4**	**$164.0**	**$170.7**	**-$6.7**	**-3.9%**	**32.3%**

Table 2, FY 2000 Lottery Ticket Sales by Game, millions of dollars

	Pick 3	Pick 4	Buckeye Five	Kicker	Super Lotto	On-Line Sales	Instant Tickets	Total Sales
Jul 1999	$35.0	$10.9	$5.6	$4.9	$31.5	$87.9	$93.8	$181.8
Aug 1999	34.0	10.9	5.6	3.5	20.6	74.5	93.3	167.8
Sep 1999	34.7	11.6	5.1	3.9	23.7	79.1	90.7	169.8
Q1 2000	**$103.6**	**$33.4**	**$16.3**	**$12.4**	**$75.8**	**$241.5**	**$277.8**	**$519.3**
Q4 1999	**$104.3**	**$32.5**	**$17.0**	**$13.2**	**$80.9**	**$248.0**	**$269.2**	**$517.2**
Q1 1999	**$97.3**	**$30.5**	**$18.2**	**$14.0**	**$85.9**	**$245.9**	**$261.5**	**$507.4**

Total sales for the first quarter of FY 2000 were $519.3 million, up 0.4 percent from $517.2 million for the fourth quarter of FY 1999. Because lottery ticket sales have a seasonal pattern, quarter to quarter changes may give a misleading indication of trends in sales. Year to year changes provide a better indicator of trends in sales. Sales for the first quarter of FY 2000 were 2.3 percent more than the $507.4 million in sales received in the first quarter of FY 1999. Although it is too early to say for sure, it appears that the Lottery is making progress in its attempt to reverse the recent decline in sales.

Transfers to the Lottery Profits Education Fund mirrored ticket sales. Transfers for the first quarter of FY 2000 were $160.7 million, down 1.2 percent from $171.2 million for the fourth quarter of FY 1999. First quarter FY 1999 transfers were 2.0 percent less than transfers for the first quarter of FY 1999. However, transfers for the first quarter of FY 1999 are 1.3 percent greater than projected.

Total sales increased by 0.4 percent from fourth quarter FY 1999 levels. The only games experiencing increases in sales were Instant Tickets with a 3.2 percent increase and Pick 4 with a 2.8 percent increase. Sales decreased for all other games. Pick 3 sales fell by 0.7 percent, Buckeye 5 sales fell by 4.1 percent, Kicker sales fell by 6.1 percent, and Super Lotto sales fell by 6.3 percent. Combined on-line sales fell by 2.6 percent.

Comparing year to year sales reveals that total ticket sales for the first quarter of FY 2000 were 2.3

percent greater than sales for the first quarter of FY 1999. Three games experienced higher sales. Sales of Instant Tickets were 6.2 percent higher, Pick 3 sales were 6.5 percent higher, and Pick 4 sales were 9.5 percent higher. Three games experienced lower sales than in the first quarter of FY 1999. Buckeye 5 sales were 10.4 percent lower, Kicker sales were 11.4 percent lower, and Super Lotto sales were 11.8 percent lower. Combined on-line sales were 1.8 percent lower.

The increases in sales indicate that the changes made by the Ohio Lottery to reverse the recent declines in sales may be partially succeeding. The Red Ball promotion and the mid-day drawings for Pick 3 and Pick 4 have helped increase sales of those games. The Red Ball promotion ran from June 7 through July 31. Pick 3 sales for July 1999 were 4.6 percent higher than sales for July 1998. Mid-day drawings for Pick 3 and Pick 4 started August 16. Pick 3 sales for August 1999 were 5.8 percent higher than sales for August 1998 and September 1999 sales were 9.3 percent higher than sales for September 1998. Pick 4 sales for August 1999 were 8.8 percent higher than sales for August 1999 and September 1999 sales were 15.7 percent higher than sales for September 1998. Additionally, sales of Instant Tickets have averaged 3.8 percent year-to-year growth since April 1999. However, sales of Buckeye 5, Super Lotto, and the Kicker continue to experience difficulties. Buckeye 5 sales continue to steadily decline. Super Lotto (and by association the Kicker) continues to be plagued with small jackpots and competition from multi-state games. The Pick 3 and Pick 4 sales increases could also be drawing some money away from the other on-line games. ❑

LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS
DISBURSEMENTS OF FISCAL YEAR 2000 PROFITS

— Wendy Zhan

Table 1: FY 2000 LPEF Appropriation/Disbursement Summary
As of September 30, 1999

Agency	Fund	Line Item	Line Item Name	FY 2000 Appropriation	FY 2000 Disbursement	Appropriation Balance
EDU	017	200-612	Base Cost Funding	$ 656,247,000	$ 105,000,000	$ 551,247,000
EDU	017	200-682	Lease Rental	$ 29,753,000	$ 0	$ 29,753,000
NET	017	228-690	SchoolNet Electrical Infrastructure	$ 20,052,987	$ 1,086,925	$ 18,966,062
			Total LPEF	**$ 706,052,987**	**$ 106,086,925**	**$ 599,966,062**

Lottery Profits Education Fund (LPEF) year-to-date disbursements in fiscal year 2000 totaled $106.1 million. Of this amount, $105.0 million (or 99.0 percent) occurred in appropriation item Base Cost Funding (200-612). The above table shows the LPEF appropriation and disbursement summary as of September 30, 1999.

*Base Cost Funding***.** The $656.2 million lottery profits appropriation blends with the General Revenue Fund (GRF) base cost funding (line item 200-501) appropriation ($3,469.7 million) to, among other things, provide equalized subsidies to school districts (including joint vocational school districts) to guarantee $4,052 in per pupil funding with the cost of doing business factor adjustment at the combination of state and local revenues at 23 mills (the charge-off millage rate is 0.5 mills for joint vocational school district funding formula) and to fund the state's share of additional special and vocational education costs. With the combination of GRF and LPEF moneys, base cost funding ($4,125.9 million), the biggest education subsidy item, represents about 64.1 percent of Department of Education's GRF and LPEF budget components.

*Lease Rental***.** The lease rental appropriation ($29.8 million) is to be transferred to GRF to support the GRF appropriation for line item 230-428, Lease Rental Payments, of the School Facilities Commission. Total GRF appropriation for the lease rental payments is $55.4 million in fiscal year 2000. These moneys are used to pay bond service charges on obligations issued for the classroom facilities assistance program.

SchoolNet Electrical Infrastructure – "Power-up For Technology." The need for electrical upgrades has been identified as the most pervasive obstacle for implementing SchoolNet and SchoolNet Plus initiatives. While school districts are allowed to use up to 10 percent of their SchoolNet Plus subsidies for electrical upgrade, the problem is more costly than this for many school districts. As another step toward resolving the problem, the 122nd General Assembly appropriated $27 million in LPEF moneys in fiscal year 1998 for electrical service upgrades. Approximately $7.0 million was disbursed in fiscal year 1999 and the remaining $20.0 million was transferred into fiscal year 2000. The SchoolNet Office is to distribute the funding through a competitive grant application process. School districts with a valuation per pupil less than $200,000 are eligible for the funding. The maximum grant amount for a single district is $1 million. ❑

Issues of Interest

Renewed Attention to the Thorny Issue of Supporting Kinship Care

Eric Karolak

"To me, that's discrimination, plain and simple," said a determined but polite participant at a recent community forum on child welfare reform when other attendees suggested that the state should not extend foster care per diem payments to Ohioans who take in the children of their relatives. The forum, held in Columbus, was one of five sponsored by the Child Welfare Shareholders Group, a collaboration of several hundred parent advocates, legislators and staff, public and private agencies, child care providers, juvenile judges, and statewide advocacy associations that the Ohio Department of Human Services (ODHS) charged in April 1999 with recommending improvements in Ohio's child welfare system. The charge of discrimination is one of several contextual thorns the Shareholders Group and the legislature must confront as they consider ways to improve the safety and well-being of the thousands of Ohio children in the care of their non-parent relatives. Kinship care is only one area the Shareholders Group is investigating. Separate from the work of this group, recent action by the General Assembly also has pushed ODHS to expand the provision of services to relative caregivers.

This new attention and the controversy it generates come as little surprise to those close to the issue. Both federal and state statutes require first preference for placement of a child by a Public Children Service Agency (PCSA) to be with a relative, and care provided in such a relative's home, more commonly called "kinship care," is a growing trend in the child welfare arena in Ohio and nationwide. Kinship care, by diverting children from traditional foster care placements and placing them in living arrangements with relatives whenever possible, affords children a greater sense of stability and reinforces personal and familial responsibility. Kinship care is linked to broader foster care reform in that kinship care represents a departure from traditional and costly substitute care placements, maintains a child within the family and community, and promotes family self-sufficiency.

Just what is Kinship Care?

Kinship care arrangements vary by the caregiver's degree of legal responsibility. Kinship care typically is categorized in two ways.

- *Formal Kinship Care* involves the parenting of children by relatives in the home of a relative as a result of the determination of a court and the PCSA. A court rules that the child must be separated from his or her parents on the grounds of abuse, neglect, dependency, abandonment or special medical circumstances. The child is placed in the legal custody of the PCSA or a relative caregiver, and the kin provide full-time care, protection, and nurturing. This process is governed by state and federal law.

- *Informal Kinship Care* is provided when a family decides that the child will live with relatives or kin other than his or her parent. A social worker *may* be involved by helping family members prepare for the child, but a child welfare agency does not assume legal custody of or responsibility for the child in this informal kinship care arrangement. Because parents still retain custody of the child, relative caregivers need not be approved, licensed, or supervised by the state. Indeed, most of these informal arrangements are "unknown" to the child welfare system.

Children in kinship care arrangements tend to stay longer in such "temporary" relative placements than otherwise. This may be the result of reluctance on the part of kin either to adopt, which requires severing the parental rights of a relative, or to obtain legal custody or guardianship, which implies some degree of financial responsibility for the child. In addition, the political terrain surrounding kinship care is uneven; many feel the distinction drawn between relative caregivers and foster parents in terms of eligibility for foster care maintenance funding is discriminatory, while others feel that kinship care outside of the foster care structure is wholly a familial obligation outside of government support.

It's Big, But How Big?

While everyone agrees that kinship care is significant and appears to be growing, its extent is not fully documented. In June 1997, the federal Department of Health and Human Services estimated that 150,000 foster care children nationwide, about one-third of all children in foster care, are living with relatives. In Illinois and in California, more than half of the children in foster care were living with relatives (27,000 of 47,400 in Illinois and 25,000 of 44,000 in California) in 1997. But because many states do not distinguish between relative and non-relative foster caregivers, a clear national picture of the extent of formal kinship care is difficult to obtain.

According to ODHS, between 3,000 and 4,000 children participate in *formal* kinship care statewide. Determining the extent of kinship care has proven difficult for the Department because local practices vary widely in how kinship care custody arrangements are accomplished. Some local courts require that the custody of the child be held by the PCSA, while others transfer custody to the relative. No estimate of the number of children in informal kinship care is available currently from ODHS.

Estimates of the total number of both formal and informal kinship care arrangements are sketchier. The Public Children Services Association of Ohio, a statewide association of children services providers, estimates that perhaps as many as 100,000 relatives in Ohio are providing care for perhaps as many as 160,000 relative children in informal as well as PCSA-placed kinship care. In its final report issued in June 1999, the Grandparents Raising Grandchildren Task Force, created by the 122nd General Assembly in 1997, estimated that among *grandparent* kinship caregivers in Ohio, 20 percent are legal guardians or have formal temporary custody while 80 percent have an informal kinship care arrangement. The Task Force concluded that statewide there are 32,340 households, with perhaps as many as 59,500 children, in which a grandparent is their grandchild's sole provider.

FY 2000-2001 Budget Act Spurs Extension of Services to Relative Caregivers

Am. Sub. H.B. 283, the recently enacted FY 2000-2001 biennium main operating budget act, provides added momentum to the state's efforts to assist kinship caregivers. The budget act created a Kinship Care Services Planning Council, charged to recommend to the Director of ODHS what services should be provided to kinship caregivers, and specified that such support services must include publicly-funded childcare, respite care, training in caring for special needs children, and a toll-free telephone number to provide kinship caregivers with easy access to information concerning available services and their legal rights. The Council is required to complete its report by December 31, 1999 and ODHS is required to establish the Kinship Care Services Program, a program of support for relative caregivers, no later than March 31, 2000.

Existing State Support

The state makes available two categories of support to eligible needy families and their children in Ohio: cash assistance through Ohio Works First (OWF) and a variety of support services. Cash assistance is funded through federal Temporary Assistance to Needy Families (TANF) dollars. Support services include subsidized child care, respite care for foster parents, parenting and early childhood development training, and subsidized health care, and are funded through a mix of federal and state moneys.

Access to these funds and services is dependent upon meeting state and federal eligibility requirements and program guidelines. Therein lies the source of much of the dissatisfaction among relative caregivers and neighborhood-based community placement advocates with the state of kinship care in Ohio. Federal moneys that underwrite programs under Title IV-E of the Social Security Act have restrictions that disqualify many relative caregivers in Ohio. Title IV-E funds provide foster care maintenance checks to certified, licensed foster caregivers. Importantly, Title IV-E moneys cannot be used to assist relative caregivers unless they meet the same licensing requirements as foster care providers in a state; in addition, states must pay the same rate of foster care maintenance to kin and non-kin foster care providers. Limitations on the use of federal funds, for example, contribute to the perception of inequality in the treatment of relative caregivers and non-relative foster parents and discrimination against relative caregivers.

The existing Ohio Kinship Care Family Preservation Support Services Program has broad eligibility, but is capped and time-limited. This program, established through Am. Sub. H.B. 215 of the 122nd General Assembly, is intended to divert children from placement in the child welfare system. To some extent, it also addresses the limitations of federal Title IV-E funds.

"Caretaker relatives" eligible to participate in this program are defined broadly in Ohio Administrative Code Section 5101:2-39-073 and include blood relatives, spouses of blood relatives, adoptive relatives, step-parents and step-siblings, as well as "any adult the current custodial caretaker identifies as having a familiar and long-standing relationship/bond with the child and/or the family which will ensure the child's social and cultural ties." Where a relative has been requested to provide care and the PCSA has custody of the children, or custody has been transferred to the caretaker relative, the Kinship Care Family Preservation Supportive Services Program provides time-limited services or financial support to eliminate the emergency situation and enable the children to be cared for by a relative rather than a more restrictive non-relative foster placement.

Because the program is not designed to provide an ongoing source of assistance, benefits are time-limited. These supplemental payments are limited to up to $100 per month, per child, for not more than six-months or $600 in any 12-month service period. Additional supportive services are permitted; but such supportive services cannot exceed $1,200 per child for a 12-month service period. The total cost of assistance is capped at $3600 per family in any 12-month service period. The program is wholly state-funded (Title IV-E moneys could not be used without the requirement that relative caregivers become licensed foster parents) with $3.03 million from General Revenue Fund appropriation line 400-527, Child Protective Services. These funds regularly are exhausted within the first six months of the fiscal year, leaving relative caregivers without this source of support for months at a time.

Who Gets What, When?

Determining what support services are available to kinship caregivers depends on a variety of factors outlined in the box below. For example, Ohio Works First cash assistance is available to a relative caregiver through "child-only" OWF cases. Similarly, subsidized medical care through Healthy Start, Ohio's version of the federal Children's Health Insurance Program (CHIP), is available to all children in households with incomes below 200 percent of the federal poverty level. On the other hand, subsidized day care, respite care, counseling, crisis management, and other services are available only to those parents known to a PCSA (i.e., there is an open child welfare case, but the parents still retain custody of the child) and only if the service is provided in the county of residence. Similar support services are available to relative caregivers, depending upon the needs of the child and the resources of the kin as well as availability in the county of residence.

Factors Influencing Access
To Services and Support

In general, access to cash assistance and support services for kinship caregivers is dependent upon four factors, including the caregiver's degree of legal responsibility.

- the **legal status** of the caregiver/child relationship ("specified relative," legal custody, legal guardian, adopted parent);
- the **TANF-eligibility** of the child/child's family;
- the relative's **status as a certified foster parent**; and
- in some cases, the **practices of the county** of residence.

To understand what assistance and support is available to relative caregivers, in particular, it may be helpful to consider several likely scenarios in which a child is being raised by a relative caregiver.

1. **Informal kinship care wholly arranged within/ by a family**. In this circumstance, the arrangement likely would be unknown to the PCSA or ODHS and with no government involvement, no assistance or support services may be available. Consequently, these informal arrangements show the greatest disparity in terms of access to cash assistance or support services.

2. **Kinship care provided for a child who is a "child-only" OWF case.** If the child involved is from a family participating or eligible to participate in OWF, the relative caretaker whether legal guardian, legal custodian, "specified relative" or informal kinship care provider, is eligible to receive OWF benefits and subsidized medical care. As a result of provisions of Am. Sub. H.B. 283, the *OWF child may become its own assistance group*, with the relative caregiver identified as payee for the *$216/month benefit for a family of one*. (County departments of human services may no longer assign the child as an additional member of the relative's assistance group with a benefit of $70 per month.) The child would have no self-sufficiency contract, work participation requirement or time-limit (other than reaching the age of majority) attached to his/her benefit. (If a relative caregiver *voluntarily* chooses, the *relative caregiver may become an additional member of the child's assistance group*. This would require that the specified relative enter into a self-sufficiency contract, meet the work participation requirement, and be subject to the time limits imposed under the Ohio Works First program.) In both formal and informal kinship care arrangements involving child-only cases, access to subsidized day care is dependent upon the child's eligibility.

3. **Formal kinship care placement of a child at risk of abuse or neglect**. In this circumstance, while custody most often remains with the parent or is transferred to the relative caregiver, the PCSA can provide case management services and the relative caregiver likely is eligible for the existing Kinship Care Family Preservation Supportive Services Program discussed above. Some counties provide relative caregivers under these circumstances with additional support services such as counseling services and respite care. Caretaker relatives may also become the designated payees for an eligible child's OWF benefit, which does not count against their OWF eligibility.

4. **Formal kinship care placement of an adjudicated abused, neglected or dependent child**. In such cases, custody often is awarded to the PCSA while the child is placed with the relative. Access to assistance and support is dependent upon whether the relative is certified as a foster parent and may vary from county to county:

   - *Relative caregiver is not certified as a foster parent*: The PCSA provides case management services and the relative caregiver likely is eligible for the existing Kinship Care Family Preservation Supportive Services Program discussed above. Additional support services may be available, depending upon the county of residence. While ODHS cannot outline which services are available to which relative caregivers in which counties, it is believed that metropolitan counties are more likely to offer additional support services under these circumstances than rural counties. In addition, caretaker relatives may also become the designated payees for an eligible child's OWF benefit, which does not count against their OWF eligibility.

   - *Relative caregiver is a certified foster parent*: In this circumstance, the relative caregiver can receive the Title IV-E foster care maintenance per diem rate, which averages $300 per child per month. A permanency decision is to be made within 12 months; even with compelling reasons to extend temporary custody in a kinship care arrangement, a permanency decision must be made within 24 months.

5. **Relative adopts kin child**. If the parent makes a voluntary surrender of parental rights or if the Juvenile Court terminates parental rights, and the relative adopts, most children would be eligible for Title IV-E assistance (a base payment of $250 per month until the child is age 18).

This kind of conditional complexity makes addressing the gap between assistance and support available to relative caregivers and that available to parents difficult. Still, important steps have been taken by the General Assembly. In Am. Sub. H.B. 283, the legislature included provisions that equalize access to OWF benefits for relative caregivers and, as noted earlier, that require ODHS to expand kinship care support based on the recommendations of the Kinship Care Services Planning Council and using TANF dollars.

However, addressing the remaining gap between parents and relative caregivers, especially expanding the per diem maintenance benefit, will require a substantial investment in state moneys. Calculating the cost of extending the per diem to non-certified relative caregivers is fraught with uncertainty because of the lack of an accurate count of the number of children in informal and formal kinship care arrangements. Assuming the average foster care length of stay of 230 days applies to those in kinship care arrangements (likely, it is longer), the estimated annual cost of extending the foster care maintenance per diem ranges between $111.5 million and $345 million, depending upon the estimate of the size of the relative caregiver population. Clearly this cost is a function of to whom you extend the assistance, and the level of assistance provided.

In a later issue, LBO will examine recommendations of the Kinship Care Services Planning Council. ❑

THE OMINOUS TAX REDUCTION FACTOR

JEFF PETRY

In Ohio, real property is divided into two classes: (I) Agricultural and residential property, and (II) All other real property, which includes commercial, industrial, mining, and public utility property. Both classes are taxable, with the overall average effective tax rate being 50.19 mills (5.019 percent) on Class I properties and 58.13 mills (5.813 percent) on Class II properties in 1998. At first glance, it appears that Class II property is taxed at higher rate than Class I property. Looking deeper shows that both classes were originally taxed equally, but over time, Class II rates receive a smaller reduction that translates into a higher tax rate. The culprit for the difference is the tax reduction factor.

What is a Tax Reduction Factor?

Tax reduction factors or similar provisions have been used in Ohio since 1925 to combat inflationary increases in property values, with the current methodology stemming from H.B. 920 (1976). The Ohio Constitution requires voter approval for tax levies beyond one percent of true value of property. This is commonly referred to as the "10-mill" limit, where one mill is equal to one-tenth of one percent (0.001). Taxes levied under the 10-mill limit are considered "inside" mills (inside the 10-mill limit) and are allowed to grow with inflation. Voter approved mills over the 10-mill limit are termed "outside" mills and do not grow with inflation. The mechanism used to prevent inflationary growth is the tax reduction factor. A tax reduction factor is a percentage reduction in each voted levy to calculated for each individual voted levy these mills, which generates the same amount of revenue each year but does not cause property owner's total tax bills to increase.[1]

For example, lets calculate the tax reduction factor on a property valued at $100,000 in 1998 with a gross millage rate of 50.00 mills, with 10 inside mills and 40 outside mills. First, The property tax bill for Tax Year 1998 is calculated as shown in Table 1.

Now, assume the same property, with no new construction, is valued at $110,000 in 1999. The gross millage rate is still 50.00 mills, with 10.00 inside mills and 40.00 outside mills. Table 2 presents what is known before figuring the tax reduction factors.

Because the market value of the property increased by 10 percent to $110,000, the inside millage portion of the tax liability increased 10 percent or $35. This should be the only increase seen in the property tax bill.

The next step in the above table is to calculate the tax reduction factor to fill in the question marks. Tax reduction factors prevent outside (voted) millage from increases due solely to inflation. From Table 1 (1998), the 40 outside mills generated $1,400 in revenue. In Table 2 (1999), $1,400 in revenue needs to be generated again, but with the inflationary increase in property value, a new, lower outside millage rate must be calculated. The simplest method to do this is to divide $1,400 by the assessed value of the property ($38,500), which results in a millage rate of 0.03636 or 36.36 mills.

Therefore the tax reduction factor is the number required to reduce 40.00 mills to 36.36 mills. The tax reduction factor is:

$$(0.04000-0.03636) / 0.04000 = 0.091.$$

Therefore, the tax reduction factor is 9.1 percent.

Table 1: 1998 Tax Liability								
Market Value	´	**Assessment Rate**	´	**(Inside Mills**	**+**	**Outside Mills)**	**=**	**Tax Liability**
$100,000	×	35%	×	(0.010	+	0.040)	=	$1,750
		($35,000)		($350)		($1,400)		($1,750)

Table 2: 1999 Tax Liability – Step 1								
Market Value	´	**Assessment Rate**	´	**(Inside Mills**	**+**	**Outside Mills)**	**=**	**Tax Liability**
$110,000	×	35%	×	(0.010	+	???)	=	$---
		($38,500)		($385)		($---)		($---)

Table 3: 1999 Tax Liability – Step 2								
Market Value	´	**Assessment Rate**	´	**(Inside Mills**	**+**	**Outside Mills)**	**=**	**Tax Liability**
$110,000	×	35%	×	(0.010	+	0.03636)	=	$1,785
		($38,500)		($385)		($1400)		($1,785)

(Note: To arrive at exactly $1,400, the millage rate needs to be carried out to at least 7 decimal places.)

Substituting the effective millage (millage rate after application of tax reduction factor) rate into our formula above gives the property owner's tax liability. This is presented in Table 3.

This example assumed that there was only one property in the taxing district. The same result would be obtained if all the properties had their values rise at the same rate. For actual tax districts, properties rise at different rates. But what was done here is still true in total (one reduction factor is calculated). However, with different properties increasing at different rates, taxes are shifted from slow growing properties to fast growing properties in the same class.

Why a Different Tax Rate for Class I and Class II Properties?

Real property is broken into two classes. Class I real property contains residential and agricultural lands. Class II contains all other properties, such as commercial and industrial. Each individual class has the same inside and outside millage rates applied, but each class has their own separate tax reduction factor calculated. In 1997, Class I property values were three times larger than Class II property values. With most of the growth occurring in Class I properties (generally, but not always), there are more inflationary pressures on the property values, and, therefore, a larger tax reduction factor applied.

So, the perceived different tax rate stems from not the gross millage rate, all properties are initially taxed equally in the jurisdiction, but in application of the tax reduction factors to determine the effective millage rate. There is generally less growth in Class II properties compared to Class I properties and this results in a smaller reduction factor for Class II properties. A smaller percentage decrease in the outside millage rate means a higher effective tax rate when compared to Class I properties. Small differences over the last 20 years have lead to the current effective tax rate differential of 8 mills.

Interesting Side Note: Why the Different Classification System for Apartments?

With the rapid expansion of Ohio's metropolitan areas in the last ten years, apartment have become increasingly popular as a residency option. Currently, properties with one, two, or three unit dwellings are classified as Class I properties and properties with four or more units are classified as Class II properties. This classification is not written in the Ohio Revised Code, but set forth in the Ohio Administrative Code (5705-3-06). The courts upheld this classification system in 1984 with the Roosevelt Properties vs. Kinney case. To change the classification of multiple unit dwelling to allow all units to be classified as Class I would require the Tax Commissioner to change the Department of Taxation's Administrative Code.

One fiscal consequence of changing all multiple unit complexes classified as Class I properties is the potential revenue loss to local governments and school districts from the lower effective millage rates. When a parcel is moved from one class to the other, it takes on the current effect millage rate in its taxing jurisdiction, which may be greater or less than its current effective millage rate. Statewide, there are 544 school districts with Class II effective millage rates greater than Class I effective millage rates. Reclassification of multiple unit dwellings in these districts would create a local revenue loss as the multiple units have a smaller effective rate applied to their property assessment. The remaining 67 school districts have Class I effective millage rates that are greater than Class II effective millage rates, which would create a local revenue gain. The net effect statewide would be a revenue loss to local taxing jurisdictions.

Just One Cog in the Property Tax Complexity Machine

The tax reduction factor is applied to every voted levy in the state and must be recalculated every year of a levy's existence, accounting for current property value, new construction, and re-appraisals. In Ohio, there are 88 counties, 611 school districts, 952 municipalities (cities and villages), and 1309 townships. Each is capable of levying a property tax, along with special tax districts (e.g. conservation districts). The calculation of the tax reduction factor is not easily done and relies on each level of government to be completed. Overall, it is just one cog in the property tax complexity machine, but does play a major role in formulating the property owner's tax bill. ❑

[1] New construction will receive a separate tax reduction factor and can account for higher tax liability, along with new levies and reappraisal.

RACCOON RABIES CONTROL IN OHIO
OR: HOW I SPENT THE DAY GETTING AIR SICK IN N.E. OHIO

JEFFREY M. ROSA

In early 1997, raccoon rabies spread into north east Ohio from western Pennsylvania. By the end of 1997, there were 62 infected animals found in Trumbull, Mahoning, and Columbiana Counties. Around the same time, a new oral rabies vaccine was introduced for wild raccoons. The vaccine, Raboral-V, is contained in a small plastic pouch and placed into a fishmeal-flavored bait.

The budget act for the FY 1998-1999 biennium provided $4.9 million in each fiscal year and the budget act for the FY 2000-2001 biennium appropriates $2.45 million in FY 2000 and $2.0 million in FY 2001 in 440-624 for rabies prevention activities. A transfer from General Services Fund 5C9 in the Department of Human Services funds this line item. The funds in 5C9 are achieved from Ohio's Institutions for Mental Diseases Disproportionate Share program (IMD DSH). This program provides additional federal reimbursement to hospitals that provide a disproportionate share of uncompensated services to persons who are medically indigent. In Ohio this includes services provided in our state psychiatric hospitals.

Under IMD DSH, the state claims as uncompensated care its expenditures in state IMD facilities "because the state is left with the bill," plus the uncompensated care of any private psychiatric facility that qualifies. The state receives federal reimbursement for these claims. Rather than distributing the federal funds to the state hospitals according to the relative amounts of charity care they provided, the money is retained by the state as earned federal revenue. The money earned by private providers is distributed to them via negotiated formulas.

Prior to the most recent rabies baiting activities this past September, the Department of Health (DOH), with support from a variety of state, federal, and international agencies, baited in May and September of 1997, April and October of 1998, and April and June 1999. The vaccine is distributed by ground in urban areas and by air in the rural areas of northeast Ohio. The goal of this program is to create a barrier of immunity along the Pennsylvania border to prevent further spread of rabies into Ohio.

As a result of the rabies baiting activities, the number of infected animals reported to the state decreased to 26 in 1998. This has shrunk to only five cases to date in 1999. These cases included one raccoon each in Ashtabula and Columbiana Counties and a raccoon and chipmunk in Trumbull County.

My Rabies Baiting Trip

Aside from yours-truly representing legislative staff, over 10 other groups were represented at the September 1999 baiting. From the state of Ohio, the Departments of Agriculture, Natural Resources, Transportation, and State Highway Patrol provided help. Federally, the DOH received assistance from the U.S. Department of Agriculture – Wildlife Services and the Centers for Disease Control and Prevention (CDC). The planes used to drop the baits were on loan from the Ontario Ministry of Natural Resources (OMNR). In addition to Ohio's program, the twin-engine otter OMNR planes are used in New York and Texas' rabies prevention programs. These planes, when not dropping rabies baits, are used by the OMNR to fight fires all across Canada. Universities and representatives of local health departments in northeast Ohio provided additional help.

If you've read this far, you're probably wondering what exactly goes on at one of these rabies baiting ventures and what is the $2.45 million per year that the General Assembly appropriated for in FYs 2000 and 2001 used for. Good question! Read on and find out how these dollars are used to fight the spread of raccoon-strain rabies.

The September 1999 baiting covered the entire width of Ashtabula, Trumbull, Mahoning, and Columbiana Counties and portions of Jefferson and Carroll Counties, encompassing 6,497 sq. km. Over three-and-a-half days, 561,000 baits were placed; 89,760 by ground and the rest by air using an ODNR helicopter and three OMNR twin-engine otter aircrafts. The target bait density is 75 baits per sq. km, about one bait per four acres.

The baiting program is based at a private airstrip in the Youngstown area with the command post located in the State Highway Patrol's mobile command post. I arrived in Youngstown after a short flight on an ODOT plane along with Director of Health Nick Baird and Dr. Forrest Smith, the head of DOH's Bureau of Infectious Diseases. In Youngstown, we were each assigned to one of the three crews flying that morning, the last day of the weeklong activities.

The twin-engine otters are bright yellow and very noticeable from the air, especially since they fly at the very low altitude of 500 feet. In addition to the pilot and navigator, who actually control the flow of the baits, my flight included a representative of the USDA, a public health veterinarian from the state of Indiana, and a representative of a local Ohio health department. Prior to take off, the hearty crew loaded 15 bins worth of bait onto the aircraft. Each bin contained 1,080 baits, for a total of 16,200 baits release on my flight alone. Our two-hour flight covered 322 miles over Mahoning and Columbiana Counties.

The two most noticeable features of the plane are the giant conveyor belt and the numerous airsickness bags. Prior to the flight, the conveyor belt is loaded with bait in six rows. As the baits are released, more is added until all 15 bins were used. My job was to clear the trash that consisted of the cardboard boxes that the baits are packaged in.

As mentioned above, the rabies baits are packaged in a fishmeal flavored cake. This stuff smells. There is no nice way to describe the effects of smelling rotting fish for two hours on an enclosed plane with no source of fresh air, so I won't! Although I had taken two Dramamine prior to the flight, Hurricane Floyd made sure that things wouldn't go smoothly. According to some of the DOH rabies program people, the day of my flight was the roughest by far, with wind gusts of up to 25 mph. Although northeast Ohio viewed from 500 feet up can be very pretty, the nausea quickly set in. Without going into great detail, the title of this article will let you know if I won my battle against airsickness!

On a more serious note, over the course of the baiting program, Ohio has dropped 2,531,821 baits in northeast Ohio. Working with the USDA, DOH is studying the effectiveness of the rabies barrier that has been undertaken over the past 3 years. There is much that is not known about the long-term effect of this program, however, Ohio, working with state and federal partners is attempting to proactively curtail the potential problems caused by rabies outbreaks. ❑