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Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE

JANUARY, 2000

FISCAL OVERVIEW

— Doris Mahaffey

Halfway through fiscal year 2000, the state's budget appears to be in pretty good shape. At the end of December year-to-date revenues were $167 million over estimate, while year-to-date expenditures were $165 million under. Beyond the pleasing symmetry of the year-to-date numbers, however, the story for the month was not as sanguine. December revenues were under estimate by $14 million and expenditures were $66 million over estimate.

With respect to revenues, taxes — in particular the sales tax — accounted for the underage. The sales tax (both auto and non-auto) was under estimate by $28.8 million. Total taxes were under estimate by $25 million, and total GRF income was under estimate by $14 million. (Federal reimbursements were over estimate by nearly $9 million.)

The effect of the December revenue figures was basically to reduce the existing variances — as total tax revenues remain $173.5 million over estimate — with the sales tax $76.6 million over estimate and federal reimbursements $21 million under estimate.

The month of December saw disbursement overages in 4 major categories — primary and secondary education, property tax relief, TANF, and other human services. As in the case of revenues, however, these overages basically served to reduce existing — in this case negative — year-to-date variances. At the same time, the under-estimate spending in Medicaid, transportation, justice and corrections, and the environment and natural resources, either reduced or eliminated existing overages.

The main question is whether the December spending and revenue pattern is an anomaly or the start of a trend. For the disbursement side, at least, it appears that the December numbers were substantially a "correction." It is likely that by the end of the year actual spending will have caught up with the estimates — or may actually in the welfare and human services areas be somewhat over estimate. Gone are the days of huge lapses in appropriations.

Revenues are more of a mystery. Revenue growth is likely to slow somewhat; but, barring a major shortfall in the corporate franchise tax (of which we'll have a better idea in mid-February), revenues for the year are likely to remain at or above estimate. ❑

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STATUS OF THE GRF

QUARTERLY LOTTERY REPORT

OHIO FACTS EXTRA!

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

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

	Month of December	Fiscal Year 2000 to Date	Last Year	Difference
Beginning Cash Balance	($603.6)	$1,512.5		
Revenue + Transfers	$1,422.3	$8,667.6		
Available Resources	$818.7	$10,180.1		
Disbursements + Transfers	$1,645.8	$11,007.2		
Ending Cash Balances	($827.1)	($827.1)	($497.6)	($329.5)
Encumbrances and Accts. Payable		$799.0	$895.0	($96.1)
Unobligated Balance		($1,626.1)	($1,392.6)	($233.5)
BSF Balance		$953.3	$906.9	
Combined GRF and BSF Balance		($672.8)	($485.7)	($187.1)

TRACKING THE ECONOMY

— Allan Lundell

December was a good month for the U.S. economy. Personal income continued to grow faster than prices. Consumer prices increased slowly. Inflationary pressure continued to build at the producer, intermediate goods, and crude goods levels, but this pressure did not manifest itself at the consumer level. Consumers continued to spend. Labor markets remained tight, unemployment remained low, and jobs continued to be created, but wage increases remained relatively small. Again, inflationary pressure continued to build-up, but it did not break-out. However, the continued build-up of inflationary pressure throughout the economy almost guarantees an interest rate increase by the Federal Reserve at its February meetings.

Consumers

Personal income grew by 0.3 percent in December. Wages and salaries were up 0.7 percent, dividends were up 0.6 percent, interest was up 0.5 percent, and transfer payments were up 0.8 percent. Disposable income was up 0.2 percent. On a year-over-year basis, personal income is up 5.9 percent, wages and salaries are up 6.6 percent, dividends are up 6.2 percent, interest is up 6.0 percent, transfer payments are up 4.1 percent, and disposable income is up 5.8 percent. For the year, real disposable income increased by almost 4 percent.

Consumer spending grew by 0.8 percent in December. Spending on durable goods was up 0.8 percent, spending on non-durable goods was up 1.3 percent, and spending on services was up 0.5 percent. On a year-over-year basis, consumer spending is up 7.7 percent, spending on durable goods is up 7.5 percent, spending on non-durable goods is up 9.3 percent, and spending on services is up 6.9 percent. Spending on durable goods accounts for 12 percent of consumption spending; spending on non-durable goods, 30 percent; and spending on services 58 percent.

The housing market remained strong in December. The effects of higher mortgage rates have not countered the effects of rising incomes and a strong stock market (and the accompanying wealth effect). Housing starts increased by 7.13 percent in December, up to a seasonally adjusted annualized rate of over 1.7 million. Starts for single family housing, which account for approximately 80 percent of all housing starts, drove the increase, increasing by 7.9 percent. The unseasonably mild weather enjoyed in December undoubtedly played a major role in the increase, as did rising incomes and a strong stock market. For the entire year of 1999, housing starts were 1.663 million, up 2.8 percent compared to the1.617 million starts in 1998. Sales of existing single-family homes fell by 1.4 percent in December, to a seasonally adjusted annualized rate of 5.06 million. For the entire year of 1999, sales of existing single-family homes were 5.197 million, up 4.6 percent compared to the 4.970 million sales in 1998.

In December, the Conference Board's index of consumer confidence increased by 3.4 percent, reaching the second highest level in the history of the index. The assessment of the current situation increased by 2.8 percent and the index of expectations increased by 4.2 percent. Consumers are ready to spend and keep on spending.

Prices

The Consumer Price Index (CPI) increased by 0.2 percent in December. The core CPI (excluding food and energy) increased by 0.1 percent. The index for energy was up 1.4 percent, transportation up 0.7 percent, food and beverages up 0.1 percent, housing up 0.1 percent, and medical care up 0.4 percent. The index for apparel was unchanged. On a year-over-year basis, the CPI is up by 2.7 percent and the core CPI is up by 1.9 percent, the index for energy is up 13.4 percent, transportation up 5.4 percent, food and beverages up 2.0 percent, housing up 2.2 percent, medical care up 3.7 percent, and apparel down 0.5 percent.

The Producer Price Index (PPI) for finished goods increased by 0.3 percent in December. Prices of energy goods (led by gasoline, heating oil, and natural gas) increased by 1.2 percent. If the prices of food and energy products are excluded, the resulting core PPI increased by 0.1 percent. In December, the price index for intermediate goods increased by 0.2 percent and the crude goods index decreased by 3.9 percent. On a year-over-year basis, the PPI for finished goods is up by 3.0 percent, the core PPI is up 0.9 percent, the index for intermediate goods is up 3.9 percent, and the index for crude goods is up 15.7 percent. Inflationary pressure continues to build at the producer, intermediate goods, and crude goods levels, but this pressure has yet to manifest itself at the consumer level.

Sales

Retail sales increased by 1.2 percent in December. Sales of non-durable goods were up 1.4 percent and sales of durable goods were up 1.1 percent. Interest sensitive sales continued to increase even though the Federal Reserve had increased interest rates. Furniture sales were up 1.4 percent and automobile sales were up 0.9 percent. Gas sales were up 2.5 percent, food sales were up 2.0 percent, sales of general merchandise were up 0.6 percent, sales at eating and drinking places were up 0.4 percent, and apparel sales were unchanged.

On a year-over-year basis, total retail trade was up 8.9 percent. Sales of durable goods were up 10.4 percent and sales of non-durable goods were up 7.9 percent on a year-over-year basis. Auto sales were up 12.0 percent, furniture sales were up 7.6 percent, and sales of building materials were up 10.5 percent. Apparel sales were up 6.3 percent. Sales at eating and drinking places were up 7.2 percent.

Production

In spite of declining auto production, industrial production grew by 0.4 percent in December. Auto production fell by 4.2 percent to a seasonally adjusted annualized rate of 12.9 million. Utility output was up by 3.5 percent.

Production of consumer goods increased by 0.2 percent, production of equipment increased by 1.9 percent, and production of materials increased by 0.8 percent. Capacity utilization increased slightly to 81.3 percent, still below the average for the 1990's, indicating little pressure on prices at the factory level. Reports indicate that little inventory stockpiling was done in advance of Y2K. Because of this, industrial production will not be reduced by inventory drawdowns in the early months of 2000.

Real gross domestic product (GDP) grew at a 5.8 percent annualized rate during the last quarter of 1999. Personal consumption expenditures grew at a 5.3 percent annualized rate and gross domestic private investment grew at an 8.4 percent rate. For the year, real GDP grew by 4.2 percent, personal consumption expenditures grew by 5.4 percent, and gross domestic private investment grew by 5.7 percent. The GDP price deflator grew by 2.0 percent during the fourth quarter. For the year, the GDP deflator grew by 1.6 percent.

Employment

The national unemployment rate remained at the 4.1 percent level it had fallen to in October. However, the Bureau of Labor Statistics used a new seasonal adjustment factor for December. If the previous adjustment factor had been used, the unemployment rate would have been lower. Lead by strong end-of-the-year retail hiring, the economy created 315,000 new jobs. In 1999, 2.7 million jobs were created nationwide, compared to 2.9 million in 1998. Average hourly earnings increased by 0.4 percent and are up by 3.7 percent in a year-over-year comparison. The labor market is tight, yet reported wage increases are small and the year-over-year percentage change has been relatively constant. Inflationary pressure may be building, but it is not accelerating.

For December, Ohio's seasonally adjusted unemployment rate remained at 4.0 percent. Total employment increased to 5.584 million. Those not employed but seeking work numbered 233,000. Employment in goods producing industries was unchanged at 1.3 million. Employment in service producers was up by 9,000 jobs to 4.2 million. For the year, 39,000 nonagricultural wage and salary jobs were created. Services created 19,000 jobs, lead by business services, social services, and membership organizations. Growth in local education helped government add 8,000 jobs. Finance, insurance, and real estate created 6,000 jobs. Wholesale trade created 5,000 jobs while retail trade created 4,000 jobs. Transportation and public utilities created 3,000 jobs. Manufacturing employment decreased by 10,000. Construction employment, lead by special trade contractors, increased by 5,000.

Overall, 1999 job growth in Ohio of 39,000 was only about one and one-half percent of total U.S. job growth. This reflects the low population growth rate for Ohio and the already tight labor market.

In Ohio, average hourly earnings for workers in goods-producing industries increased by 0.5 percent to $17.13 in December, and are up by 2.8 percent when compared with December 1998. Average hourly earnings for workers in the construction industry increased by 0.9 percent to $19.88 in December, and are up by 5.2 percent compared to December 1998. Average hourly earnings for workers in retail trade decreased by 0.1 percent to $9.16 in December, but are up by 4.8 percent when compared to December 1998.

Average weekly earnings for workers in goods-producing industries increased by 0.8 percent to $743.44 in December, and are up by 2.8 percent when compared with December 1998. Average weekly earnings for workers in the construction industry decreased by 3.3 percent to $779.30 in December, but are up by 2.6 percent compared to December 1998. Average weekly earnings for workers in retail trade increased by 1.3 percent to $260.14 in December, and are up by 2.6 percent when compared to December 1998. ❑

Status of the General Revenue Fund

REVENUES

— *Doris Mahaffey*

Sales Tax

For the month of December the sales tax was under estimate by $28.8 million. The non-auto sales and use tax accounted for $24.6 million of the underage and the auto sales and use tax accounted for another $4.3 million.

The December non-auto sales tax revenue, for the most part, reflects sales activity in the month of November. According to the Federal Reserve *Beige Book* for the Cleveland district, pre-Thanksgiving retail sales were down — especially in the apparal area — due, in part, to unseasonably mild weather. Sales rebounded after Thanksgiving, and January sales tax figures will probably show evidence of that.

The *Beige Book* also reports that internet sales were up dramatically at the beginning of the holiday shopping period. Internet sales for the entire holiday season were four times that for the 1998 holiday season. Moreover, some retailers noted that the e-commerce sales were concentrated in the beginning of the holiday season. However, it is difficult to determine what impact e-commerce may have had on sales tax revenue at this time. Retailers, such as Eddie Bauer and Gap, that have a substantial business presence in the state do collect the sales tax. In addition, many of the internet sales could have replaced catalog sales from companies that do not collect the sales tax in Ohio. Later in the holiday period, sales at the "brick and mortar" stores increased, so that January sales tax revenues should be substantial.[1]

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

REVENUE SOURCE	Actual	Estimate*	Variance
TAX INCOME			
Auto Sales	$48,922	$53,200	($4,278)
Non-Auto Sales & Use	430,371	454,940	(24,569)
Total Sales	$479,293	$508,140	($28,847)
Personal Income	$558,944	$558,323	$621
Corporate Franchise	(28,114)	(36,530)	8,416
Public Utility	665	1,575	(910)
Total Major Taxes	$1,010,788	$1,031,508	($20,720)
Foreign Insurance	($1)	$0	($1)
Domestic Insurance	0	0	0
Business & Property	58	35	23
Cigarette	24,734	24,588	146
Soft Drink	0	0	0
Alcoholic Beverage	4,788	4,240	548
Liquor Gallonage	2,354	2,520	(166)
Estate	142	4,900	(4,758)
Racing	0	0	0
Total Other Taxes	$32,075	$36,284	($4,209)
Total Taxes	$1,042,863	$1,067,792	($24,929)
NON-TAX INCOME			
Earnings on Investments	$34,371	$30,810	$3,561
Licenses and Fees	1,485	1,155	330
Other Income	7,859	6,620	1,239
Non-Tax Receipts	$43,714	$38,585	$5,129
TRANSFERS			
Liquor Transfers	$11,000	$14,000	($3,000)
Budget Stabilization	0	0	0
Other Transfers In	45	0	45
Total Transfers In	$11,045	$14,000	($2,955)
TOTAL INCOME less Federal Grants	$1,097,621	$1,120,377	($22,756)
Federal Grants	$324,658	$315,826	$8,832
TOTAL GRF INCOME	**$1,422,280**	**$1,436,203**	**($13,923)**

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

Detail may not add to total due to rounding.

The auto sales and use tax was not only under estimate for the month, it was also at its lowest level since January 1999 (a month that will be remembered for its severe weather — not particularly conducive for motor vehicle shopping).

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	$397,882	$379,691	$18,191	$375,119	6.07%
Non-Auto Sales & Use	2,533,249	2,474,842	58,407	2,377,753	6.54%
Total Sales	$2,931,132	$2,854,533	$76,599	$2,752,871	6.48%
Personal Income	$3,105,610	$3,034,077	$71,533	$2,994,126	3.72%
Corporate Franchise	24,481	16,512	7,969	4,925	397.07%
Public Utility	206,895	206,325	570	201,960	2.44%
Total Major Taxes	$6,268,117	$6,111,447	$156,670	$5,953,882	5.28%
Foreign Insurance	$128,227	$126,854	$1,373	$148,332	-13.55%
Domestic Insurance	126	59	67	$39	222.56%
Business & Property	453	573	(120)	$137	232.04%
Cigarette	135,342	133,671	1,671	$138,777	-2.48%
Soft Drink	0	0	0	$2	-80.00%
Alcoholic Beverage	27,761	27,152	609	$27,369	1.43%
Liquor Gallonage	13,895	13,742	153	$13,635	1.91%
Estate	74,704	61,600	13,104	$57,857	29.12%
Racing	0	0	0	0	—
Total Other Taxes	$380,508	$363,652	$16,856	$386,147	-1.46%
Total Taxes	$6,648,625	$6,475,098	$173,527	$6,340,029	4.87%
NON -TAX INCOME					
Earnings on Investments	$54,850	$66,360	($11,510)	$85,270	-35.68%
Licenses and Fees	13,556	18,220	(4,664)	$16,375	-17.21%
Other Income	51,122	47,176	3,946	$46,836	9.15%
Non-Tax Receipts	$119,528	$131,756	($12,228)	$148,480	-19.50%
TRANSFERS					
Liquor Transfers	$46,000	$48,000	($2,000)	$48,000	-4.17%
Budget Stabilization	0	0	0	$0	—
Other Transfers In	28,960	0	28,960	16,313	77.53%
Total Transfers In	$74,960	$48,000	$26,960	$64,313	16.55%
TOTAL INCOME less Federal Grants	$6,843,113	$6,654,854	$188,259	$6,552,822	4.43%
Federal Grants	$1,824,444	$1,845,701	($21,257)	$1,753,816	4.03%
TOTAL GRF INCOME	**$8,667,556**	**$8,500,555**	**$167,001**	**$8,306,637**	**4.34%**

* July, 1999 estimates of the Office of Budget and Management.
Detail may not add to total due to rounding.

The relatively weak performance of this tax is not easy to explain, since by all accounts, December auto sales were strong. The advance estimates of the U.S. Census Bureau for motor vehicle sales nationwide indicate that seasonally adjusted sales grew by 0.9 percent in December over the prior month. The increase was due to a substantial increase in sales of light trucks (including vans and sports utility vehicles, as well as pick-up trucks). Sales of automobiles actually fell in December. Ohio's experience could have departed from that of the rest of the country, although the January *Beige Book* for the Cleveland district notes that auto dealers referred to sales as "steady" or "brisk." It's not clear how those terms translate into relative sales. Moreover, the *Beige Book* is, by no means, a definitive document. More to the point, the sales tax is not seasonally adjusted. Preliminary estimates of unadjusted sales put the month-over-month growth rate at only 0.5 percent. Furthermore, the growth figures are based on estimated dollar sales, but the sales do not take into consideration price changes. Apparently, dealers made significant price concessions in November and December —in part, perhaps, to counteract the increases in interest rates, due to the action of the Federal Reserve. According to the Bureau of Labor Statistics, prices of new vehicles were 0.3 percent lower in December 1999 than they were a year ago.

Overall, calendar year 1999 was a record year for auto sales. But, as WEFA points out:

> The extra volume did not come without a cost. Every trick in the book was used in order to keep the consumer in a buying mode. Incentives were maintained at very high levels…. Cars and trucks poured into the fleet. This muscle is usually applied in a sluggish economy to move unwanted inventory. Last year, even with a red-hot economic climate, market turf wars were intense. Every player fought over each point of share, and as a result every month saw a new promotion. There

are some ominous clouds on the horizon. The used vehicle market has begun to move downward once again, with both prices and volume weakening. And despite record sales, inventories, especially truck stocks, are getting fat.[2]

The year-to-date auto sales and use tax receipts — at 6 percent over last year and $18 million over estimate for this year — are a reflection of the strong market in the latter half of 1999; but the December figures may be a signal that such growth is not likely to be as strong in the latter half of the fiscal year.

Income Tax

The income tax was on target for the month of December ($600,000 above estimate). However, notable variances existed among its components. In keeping with the trend observed in the prior 6 months, withholding accounted for a larger portion of the total than estimated (it was $9 million over estimate for the month), while quarterly estimated payments were under estimate by $4 milllion. In addition, refunds were $6 million over estimate.

Growth in withholding reflects the continued strength in employment and in wages and salaries (see "Tracking the Economy"). That source is likely to hold its own for the rest of the fiscal year and into the next. In addition to the low joblessness going into December, demand for seasonal retail workers was also strong. Wages and salaries also increased; however, the growth in wages was moderate, reflecting increased emphasis by temporary employment agencies on benefits packages and increased emphasis by unions on job retention and security. In general, the state's (and the nation's) economy is strong and is expected to remain so with little risk of recession during this calendar year (WEFA's January 2000 forecast puts the risk of a recession this year at 5 percent). Consequently, withholding can be expected to meet or exceed estimates made in July 1999 for the remainder of fiscal year 2000.

The variances due to refunds and to quarterly estimated payments may simply be timing issues. January is the big month for quarterly estimated payments, so we should know more about the performance of that component later on in February. ❑

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[1] For a discussion of the impact of internet commerce on the sales and use tax, see"Tax Policy Update on Internet Commerce and State Sales Taxes," by Frederick Church, which appeared in the February 1998 issue of ***Budget Footnotes***. LBO intends to revisit this topic in an upcoming issue of ***Budget Footnotes***.

[2] Levin Czubaroff and George Magliano, "Consumer Markets January 2000," WEFA. WEFA is an economic forecasting firm that the State of Ohio contracts with.

DISBURSEMENTS

*— Jeffrey E. Golon with Steve Mansfield**

As bone-chilling January weather arrived, we hunkered down with December's GRF disbursements in the hope of discovering some warm and comforting fires in the state's fiscal picture. What we found was a year-to-date underage, largely driven by timing factors, undergoing erosion, with a disbursement variance that was very close to falling below $200 million. Whether or not that shrinking year-to-date underage provided one with any sense of relief or respite from the cold essentially depends upon your perspective on state finances.

If one believes that disbursement variances, particularly large ones, are a bad thing, then the disappearance of a sizeable underage is a good thing. From this perspective, minimal or non-existent disbursement variances mean state agencies are more or less staying on-target relative to an estimated spending plan, and this must be an indication that programs are operating as intended and services are being delivered.

One could believe as well that underspending, even large amounts, are in fact somewhat of a good thing. Why? Because, as the last two fiscal years or so amply demonstrated, spending underages combined with revenue overages have greatly strengthened the state's fiscal position.

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

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$476,276	$421,167	$55,109
Higher Education	170,503	186,305	(15,802)
Total Education	$646,779	$607,472	$39,307
Health Care (Medicaid)	$431,652	$467,340	($35,687)
Temporary Assistance to Needy Families (TANF)	121,764	94,673	27,090
General/Disability Assistance	4,479	4,457	21
Other Welfare	30,672	49,461	(18,789)
Human Services (2)	106,648	87,872	18,776
Total Welfare & Human Services	$695,214	$703,803	($8,589)
Justice & Corrections	$107,521	$115,784	($8,264)
Environment & Natural Resources	8,435	11,650	(3,215)
Transportation	1,404	9,615	(8,211)
Development	14,513	15,606	(1,092)
Other Government (3)	25,439	30,579	(5,140)
Capital	1,259	1,000	259
Total Government Operations	$158,570	$184,234	($25,664)
Property Tax Relief (4)	$145,209	$84,088	$61,121
Debt Service	0	0	0
Total Program Payments	**$1,645,772**	**$1,579,597**	**$66,175**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	0	0	0
Other Transfers Out	40	0	40
Total Transfers Out	$40	$0	$40
TOTAL GRF USES	**$1,645,812**	**$1,579,597**	**$66,215**

(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.

I. December

The month's GRF disbursements, exclusive of transfers, stormed over the estimate by a fairly sizeable $66.2 million, a positive variance of 4.2 percent. The essential fuel for the December overage was drawn from the following four areas of the state budget: 1) Property Tax Relief ($61.1 million); 2) Department of Education ($56.2 million); 3) Temporary Assistance to Needy Families/TANF ($27.1 million); and 4) Department of Mental Retardation & Developmental Disabilities ($13.2 million). The combined power of these overages ($157.6 million), however, was in turn markedly diluted by $96.0 million in monthly underages registering in a mix of budget areas that included: 1) Medicaid ($35.7 million); 2) Other Welfare ($18.8 million); 3) Government Operations ($25.7 million); and 4) Board of Regents ($15.8 million). The dominant factor behind this collection of monthly overages and underages was, as best we could determine, timing.

Table 4 provides a more detailed picture of December's disbursements by program category.

II. Year-to-Date

The state rounded FY 2000's halfway mark at the end of December with a year-to-date GRF underage in tow that, excluding transfers, totaled $208.0 million, short of the estimate by 2.0 percent. Considering where the state's disbursement variance stood in September at the close of the first quarter of FY 2000, this outcome was rather dramatic. At that time, the state was in possession of a $289.3 million year-to-date underage, shy of the estimate by 4.7 percent. Since then, $81.3 million has been knocked out of the year-to-date underage, largely as a result of monthly overages posted in October and December. A potent force in that erosion of the state's year-to-date underspending were large timing-based swings in Property Tax Relief program disbursements.

We spotted five pieces of the state budget that were feeding the year-to-date underage when December came to a close. The largest of these five underage pieces with $50.8 million was the Department of Education. The other four contributors were unsurprisingly all located in the Welfare & Human Services program category and included Medicaid ($32.3 million), Department of Mental Health ($30.0 million), Other Welfare ($28.3 million), and TANF ($22.9 million). There only two noticeable areas of the state budget that exerted a slight braking effect on the size of the year-to-date underage were the Environment & Natural Resources and Justice & Corrections components of the Government Operations program category, which posted overages of $12.9 million and $11.7 million, respectively. The key determinant in all of these year-to-date disbursement variances was timing.

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

III. Federal Money

Many Department of Human Services activities, the largest being the Medicaid and TANF programs, are jointly funded by state and federal money that is appropriated as part of the GRF budget. Thus, as we always are keen to point out, 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 $208.0 million negative year-to-date disbursement variance, we readily identified $78.8 million that was attributable to underspending in the federal share of the TANF and Medicaid programs. (While the actual year-to-date underage in the federal share of TANF was $60.0 million, its presence was obscured by a $37.1 million overage in the state share of TANF.) Once the federal money associated with the underages in the TANF and Medicaid programs was backed out, year-to-date underspending in the GRF budget was cut down to $129.2 million.

With regard to federal money, our usual reminder applies. At year's-end, unspent federal TANF funds represents money the state will have earned to spend at some point in the future, provided of course that Ohio has met its required maintenance of effort (MOE). An underage in the Medicaid program, however, is a different matter. Underspending in that program signals a loss of anticipated federal revenue, as the state will not have spent the money necessary to earn financial reimbursement from the federal government.

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)	$2,716,566	$2,772,226	($55,660)	$2,474,424	9.79%
Higher Education	1,286,707	1,297,478	(10,771)	1,229,303	4.67%
Total Education	$4,003,273	$4,069,703	($66,430)	3,703,727	8.09%
Health Care (Medicaid)	$2,741,651	$2,773,939	($32,288)	$2,622,420	4.55%
Temporary Assistance to Needy Families (TANF)	455,363	478,269	(22,907)	$426,504	6.77%
General/Disability Assistance	30,373	29,054	1,319	$29,301	3.66%
Other Welfare	274,005	302,299	(28,293)	$216,878	26.34%
Human Services (2)	693,114	731,331	(38,217)	618,493	12.06%
Total Welfare & Human Services	$4,194,506	$4,314,893	($120,387)	$3,913,595	7.18%
Justice & Corrections	$917,796	$906,067	$11,729	$812,459	12.97%
Environment & Natural Resources	87,366	74,491	12,875	$79,789	9.50%
Transportation	21,434	27,408	(5,974)	$17,326	23.71%
Development	83,661	84,702	(1,041)	$68,480	22.17%
Other Government (3)	227,093	251,312	(24,219)	$210,853	7.70%
Capital	9,699	8,581	1,118	2,133	354.71%
Total Government Operations	$1,347,050	$1,352,562	($5,512)	$1,191,040	13.10%
Property Tax Relief (4)	$556,415	$572,404	($15,988)	$535,585	3.89%
Debt Service	95,676	95,332	345	$91,503	4.56%
Total Program Payments	**$10,196,921**	**$10,404,893**	**($207,972)**	**$9,435,449**	**8.07%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	—
Budget Stabilization	46,400	46,400	0	$44,184	5.02%
Other Transfers Out	763,881	720,569	43,311	973,579	-21.54%
Total Transfers Out	$810,281	$766,969	$43,311	$1,017,763	-20.39%
TOTAL GRF USES	**$11,007,202**	**$11,171,863**	**($164,661)**	**$10,453,212**	**5.30%**

(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 remainder of this article reviews the disbursement details of certain GRF programs to date, including the spending activities of well over a dozen state agencies, and closes with a brief discussion of the dynamics of FY 2000 program category variances over time.

IV. Disbursements in Detail

Primary & Secondary Education

Education. The Department of Education closed the month of December with a large $56.2 million overage, 13.5 percent above the disbursement estimate of $415.5 million. Despite this sizable monthly overage, the department was still showing an equally large $50.8 million year-to-date underage, 1.9 percent below the year-to-date disbursement estimate of $2.7 billion. Timing appeared to play a key role in both the monthly and year-to-date disbursement variances, especially in new grant programs, such as OhioReads, alternative education, summer intervention services, school improvement incentives, and teacher incentives. These grant programs were only recently established by Am. Sub. H.B. 282 of the 123rd General Assembly. Thus, it was not surprising to see disbursement variances, especially underages, in grant programs that had only been in existence for six months.

December. The department's monthly overage was propelled by two line items that combined to post a $65.7 million positive disbursement variance in December. The lead contributor was line item 200-532, Nonpublic Administrative Cost Reimbursement, which chipped in a $48.0 million overage, followed by line item 200-566, OhioReads Grants, which provided $17.7 million in overspending. The impact of the monthly spending surge in these two programmatic line items on the department's disbursement picture was somewhat offset by a $6.7 million underage in line item 200-520, Disadvantaged Pupil Impact Aid (DPIA).

Year-to-Date. A much larger constellation of forces affected the department's year-to-date underage, with nine line items collectively generating underspending that totaled $63.4 million. The individual line item contributions to the year-to-date underage were as follows: 1) $16.7 million in line item 200-520, DPIA; 2) $11.0 million in line item 200-426, Ohio Educational Computer Network (OECN); 3) $10.7 million in line item 200-540, Special Education Enhancements; 4) $6.1 million in line item 200-513, Summer Intervention; 5) $4.4 million in line item 200-547, Power Equalization; 6) $4.1 million in line item 200-445, OhioReads Administration/Volunteer Support; 7) $4.0 million in line item 200-570, School Improvement Incentive Grants; 8) $3.4 million in line item 200-546, Charge-off Supplement; and 9) $3.0 million in line item 200-572, Teacher Incentive Grants. The collective effect of these underages on the department's year-to-date disbursement variance was in turn somewhat offset by $18.9 million in overages attributable to two line items as follows: 1) $10.3 million in line item 200-501, Base Cost Funding; and 2) $8.6 million in line item 200-566, OhioReads Grants.

The following is a brief discussion of the main programs behind both the department's December spending surge and its year-to-date underspending.

Nonpublic Administrative Cost Reimbursement. Line item 200-532, Nonpublic Administrative Cost Reimbursement, carries a $48.1 million appropriation in FY 2000 to reimburse chartered nonpublic schools for mandated administrative and clerical costs incurred for such things as filing reports and maintaining records. The reimbursement for each individual school, subject to available appropriations, is based on its prior year's actual cost up to $250 per pupil. The distribution of these reimbursement payments, although originally scheduled to occur in November, did not actually happen until the Controlling Board released the funds in early December.

OhioReads. OhioReads is Governor Taft's major educational policy initiative that calls for the recruitment of 20,000 volunteers who will serve as reading tutors to help improve the reading skills of students in kindergarten through fourth-grade (K-4). Line item 200-566, OhioReads Grants, one of the funding streams created to assist that effort, is being used to distribute two types of competitive grants: 1) Classroom Reading Grants (funded at $20 million in each fiscal year); and 2) Community Reading Grants (funded at $5 million in each fiscal year). Sixty percent of the overall funding for both grant types ($12 million in each fiscal year for Classroom Reading Grants and $3 million in each year for Community Reading Grants) will go to schools and community organizations in urban and rural districts. The other 40 percent ($8 million in each fiscal year for Classroom Reading

Grants and $2 million in each fiscal year for Community Reading Grants) will be used to fund grants for schools and community organizations in suburban districts.

The OhioReads Council established by Am. Sub. H.B. 1 of the 123rd General Assembly oversees the program. A new OhioReads Office has been established within the department to implement the program. After reviewing 1,271 valid classroom reading grant applications, the OhioReads Council awarded, in late November 1999, approximately $40 million in two-year Classroom Reading Grants to 740 schools in 87 counties. (There were no successful applicants from Washington County.) These grant awards, which are capped at $60,000 over the two-year period, averaged $53,989. In early December 1999, the OhioReads Council then approved approximately $5.0 million in FY 2000 Community Reading Grants to 184 organizations in 52 counties. A total of 352 valid applications from 68 counties were reviewed. These grants, which are capped at $30,000 over the two-year award period, averaged $27,176.

The original disbursement estimate for this new program envisioned that these grant funds would be distributed over FY 2000 in roughly equal monthly increments of $2.3 million. The reality has turned out to be much different. The entire $20.0 million allocated for Classroom Reading Grants in FY 2000 was disbursed in lump-sum payments in late December. That was why line item 200-566 ended December with a monthly overage of $17.7 million and a year-to-date overage of $8.6 million. The remainder of the $5.0 million in the line item's FY 2000 appropriation, all of which is allocated for Community Reading Grants, is likely to be disbursed in two payments, with $2.5 million being released in January and another $2.5 million going out-the-door in March.

In addition, line item 200-445, OhioReads Administration/Volunteer Support, carries a $5.0 million appropriation in each fiscal year to cover administrative costs of the OhioReads program. More specifically, the line item provides $4 million to support stipends for up to 2,000 local volunteer coordinators. The remaining $1 million is to be used to support the operations of the OhioReads Office, to reimburse volunteers for background checks, and to evaluate the OhioReads program. Local school and community organization recipients have just received grant moneys and begun to implement their programs. It will take some time for them to recruit volunteers and volunteer coordinators and then to seek reimbursements from the state. It is therefore not a surprise to see an underage in this line item at the early stages of program implementation. Disbursement activity should accelerate as program implementation progresses at the local level.

In addition to its new OhioReads initiative, the state also recently received a $30 million grant award under the federal Reading Excellence Act. Out of 49 states that applied for some of this federal grant funding, Ohio was one of only 17 successful applicants, and received one of the largest grant awards, second only to Texas, which received a $36 million grant award. This federal grant funding, targeted at schools and school districts with higher poverty rates, will be used in support of Local Reading Improvement and Tutorial Assistance programs. Based upon criteria established by the U.S. Department of Education, 263 Ohio school districts will be eligible to receive some of this federal grant funding. Eligible school districts will be run through a competitive grant application process, with awards expected to be distributed around May 2000.

DPIA. The main reason behind the $6.7 million monthly and $16.7 million year-to-date underages in the $390.7 million DPIA program (line item 200-520) was slower-than-expected disbursements in the newly established alternative education grant set-aside program. In addition to funding for all-day, every day kindergarten, K-3 class size reduction, and safety and remediation measures, the program's current biennial budget included $20 million in each fiscal year earmarked for competitive alternative education grants to school districts for programs that focus on at-risk and delinquent youth. Of this amount, one-half, or $10 million, was targeted for the state's 21 major urban school districts, while the other $10 million was targeted for the state's rural and suburban school districts. This grant funding was originally scheduled to be disbursed last August. As of this writing, the department had only just wrapped up the grant review process, with award decisions expected in mid-January and the actual release of the funds to follow in late January or early February.

OECN. Line item 200-426, Ohio Educational Computer Network, received a $25.1 million FY 2000 appropriation to be used by the department to maintain a system of informational technology throughout Ohio and to provide technical assistance for such a system in support of the State Education Technology Plan. Among other things, $10.3 million and $2.4 million were set aside to support connections of public schools and chartered nonpublic schools, respectively, to the network. (The OECN, which consists of 24 data acquisition sites, provides information services to the vast majority of school districts and nonpublic chartered schools.) Disbursement of these set aside funds did not occur in November as originally planned. As of this writing, the department was planning to disburse the $2.4 million chartered nonpublic school connection subsidy in January, and the $10.3 million network connection subsidy for school districts was most likely to follow in February.

Special Education Enhancements. Line item 200-540, Special Education Enhancements, was appropriated $127.8 million in FY 2000 to fund a variety of special education enhancement programs, including preschool special education, MR/DD board school-aged special education students, and various other set-aide programs. It appeared that the line item's $10.7 million year-to-date underage occurred mainly because of an inadvertent error made by the department in its original projection for September disbursements. It subsequently corrected the error and lowered its projected September spending by approximately $13.0 million. This revision, however, did not make it into OBM's FY 2000 disbursement estimates that were finalized back in July and August. Once that oversight was taken into account, the line item's underage was in reality not that far away from the corrected spending plan.

Base Cost Funding. Line item 200-501, Base Cost Funding, received a $3.5 billion FY 2000 appropriation, which, when combined with $656.2 million in additional base cost funding drawn from the state's Lottery Profits Fund (line item 200-612), constitutes the state's biggest education subsidy program. Among other things, the program provides equalized subsidies to school districts, including joint vocational school districts, that, subject to local contributions, guarantee base cost funding of $4,052 per pupil in FY 2000.

Just like open enrollment or contractual students, community school students are included in their home districts' student counts for purpose of state aid calculations. The base cost funding payments for these students is supposed to be deducted from their home districts' state aid and transferred to the community schools where these students are educated.

The number of students attending community schools was expected to jump from about 2,350 in FY 1999 to more than 10,000 in FY 2000. And the number of community schools was also expected to leap from 15 in FY 1999 to more than 40 in FY 2000.

In the first half of FY 2000, the department made base cost funding payments to community schools based on estimated FY 2000 enrollment data. Deductions from home districts, on the other hand, were based on FY 1999 enrollment data. This was the main reason behind the $10.3 million year-to-date overage in the Base Cost Funding line item. In light of this, the department planned to make deductions based on the FY 2000 community school enrollment data beginning in late January when the actual FY 2000 October count data is utilized.

Summer Intervention. The newly established summer intervention program (line item 200-513) contains a $15.5 million FY 2000 appropriation to assist school districts providing remediation and intervention services to students. Beginning in the school year that starts July 1, 2001, subject to certain exceptions, students will have to attain a threshold score in the fourth grade reading proficiency test in order to be promoted to the fifth grade. To assist students in meeting this fourth grade guarantee, school districts are required to annually assess the reading skills of students and provide remediation services to those students who need help. This funding provides equalized reimbursement payments to school districts providing summer remediation services. The department is at the final stage of processing data as of this writing. Subsidies are most likely to be released as lump-sum payments in February.

School Improvement Incentive Grants. To support the statewide academic accountability system established by Am. Sub. S.B. 55 of the 122nd General Assembly, the school improvement incentive grant program (line item 200-570) was created by Am. Sub. H.B. 282 of the 123rd General Assembly. The program was funded at $10.0 million in each fiscal year to reward outstanding performance and improvements by schools. Among other things, $6.5 million was earmarked in each fiscal year to provide grants of $25,000 each to elementary schools and $50,000 each to middle, junior high, and high schools that demonstrate significant improvement on proficiency tests, attendance rates, and graduation rates based on standards developed by the Department of Education. As of this writing, the department was processing data and ranking schools based on their improvements, with grant rewards expected to be announced in late February.

Another $0.5 million in each fiscal year was earmarked to provide similar grants of $50,000 each to educational service centers and joint vocational school districts for exemplary programs or those demonstrating significant improvements. The department was still in the stage of sending out application forms as of this writing, with award decisions probably not to be made until the end of February or early March. Until then, we probably will not see much disbursement activity in this line item.

Teacher Incentive Grants. Line item 200-572, Teacher Incentive Grants, was appropriated $5.0 million in FY 2000 to pay one-time stipends to qualified teachers of reading, mathematics, and science. There was no disbursement activity in this newly established line item during the first half of FY 2000. In addition to being a new program, teachers also needed time to complete required courses and examinations in order to apply for the stipend. Therefore, it was not very unusual to see a slower-than-expected disbursement activity in the program, especially in the first half of FY 2000.

Individuals with an elementary school teaching certificate that successfully completed a program for a reading endorsement, and who successfully complete the examination prescribed by the State Board of Education will be paid a onetime stipend of $1,000. Individuals with a high school teaching certificate that successfully complete a program required to add mathematics or science to that certificate, and who successfully complete the mathematics or science examination prescribed by the State Board of Education will be paid a onetime stipend of $1,500.

SchoolNet. The Ohio SchoolNet Commission, which is charged with administering many of Ohio's educational technology programs, closed the first half of FY 2000 with a negative year-to-date disbursement variance of $4.6 million, 32.1 percent under the estimate. Roughly three-quarters of that underage was propelled by the commission's line item 228-406, Technical & Professional Instructional Development, which contains $12.4 million in FY 2000 funding to be distributed in the form of grants to low-wealth school districts, the Ohio Educational Telecommunications Network Commission, and other eligible recipients for the provision of hardware, software, telecommunications services, and staff development to support educational uses of technology in the classroom. To date, distribution of these funds has been somewhat sluggish, as the commission was in the process of strengthening its grant management skills. Now with these grant management improvements in place, grant disbursement activity will pick up considerably during the third quarter.

Higher Education

Regents. After a negative disbursement variance of $15.8 million for the month of December, the Board of Regents' year-to-date FY 2000 disbursements were $10.7 million, or 0.8 percent, below the year-to-date estimated spending of $1.3 billion. The negative monthly disbursement variance was essentially traceable to timing issues affecting line items 235-420, Success Challenge, and 235-531, Student Choice Grants, which contributed underages of $20.1 million and $6.1 million, respectively. Partially negating the effect of these monthly underages were timing-based monthly overages posted in line items 235-503, Ohio Instructional Grants, 235-415, Jobs Challenge, and 235-555, Library Depositories, with spending over the estimate of $5.8 million, $2.5 million, and $1.4 million, respectively.

Year-to-Date. The origins of the $10.7 million year-to-date underage lay chiefly in three financial aid programs that collectively, in order of magnitude, underspent by $19.0 million as follows: 1) Student Choice Grants ($11.7 million); 2) Ohio Instructional Grants ($6.4 million); and 3) Part-Time Student Instructional Grants ($0.9 million). Secondary contributors to the underage included line items 235-599, National Guard Tuition Grant Program, and 235-404, College Readiness Initiatives, with timing-based underspending of around $964,000 and

$723,000, respectively. The biggest underage, registered in the Student Choice Grants program, occurred because a few large campuses were late in reporting their student certifications for spring quarter 1999. Because the board's existing computer system cannot begin processing FY 2000 certifications until the FY 1999 processing has been completed for all campuses, the FY 2000 processing started later than intended, thus producing a delay in the processing of fall quarter payments. The board responded to this unexpected glitch by distributing funds to many campuses as advances against their eventual fall quarter FY 2000 financial aid payments. As of this writing, the board was in the process of certifying approximately $14.0 million in fall quarter FY 2000 payments.

The year-to-date underspending of $6.4 million (15.9 percent) in the Ohio Instructional Grants (OIG) line item had an interesting twist, as $1.1 million of its underage linked back to funding encumbered from the prior fiscal year that was not disbursed as planned. The total amount of these student financial aid funds encumbered from FY 1999 was $12.0 million, an amount that 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, however, has proven to be considerably lower than the predicted number. As a result, $7.1 million of this $12.0 million in encumbered FY 1999 funding has been cancelled, which technically means it will lapse back into the state treasury at the close of FY 2000. The remainder of the year-to-date underage in the Student Choice Grants line item, $5.3 million, was tied to the program's current fiscal year's appropriation. Certifications of student grant eligibility for the current academic year were running behind schedule.

Several line items posted overages for the first half of FY 2000 and served to limit the size of the Regents' net underage. By far the most significant of these was Jobs Challenge (line item 235-415), which, by the close of December, had disbursed its entire FY 2000 appropriation of $8.7 million. This discovery was made all the more remarkable by the fact that the line item's original disbursement plan called for its entire appropriation to be distributed in June 2000, the last month of the fiscal year. This estimate was incorrect. The board's intention all along was to distribute this Jobs Challenge funding, which assists state-assisted two-year college campuses in the provision of noncredit job-related training, as soon as possible. All of this funding was disbursed to the Lorain Community College, which has been designated as its fiscal agent for FY 2000 and will be charged with actually distributing this funding to eligible campuses.

The Jobs Challenge appropriation has three components. The first, and largest component at $3.5 million, is distributed to each two-year campus in proportion to their share of noncredit job-related training revenues received for the previous fiscal year. The second component, with a $2.7 million allocation, is distributed equally to EnterpriseOhio Network campuses in fulfillment of performance contracts to demonstrate their training capabilities for Ohio companies. The third component, with a $2.5 million allocation, is used, in conjunction with Department of Development funds, to attract and develop companies important to Ohio.

More distant overage participants included line items 235-553, Dayton Area Graduate Studies Institute (DAGSI), 235-508, Air Force Institute of Technology (AFIT), and 235-555, Library Depositories, with timing-based overspending of around $943,000, $875,000, and $846,000, respectively.

Health Care/Medicaid

In December, the Medicaid program fired off what has been for FY 2000 a surprising rare occurrence, a monthly underage, this one amounting to $35.7 million, 7.6 percent below the estimate. This negative disbursement variance marked the largest monthly underage recorded so far in FY 2000, and only the second time this fiscal year where Medicaid spending registered an underage in monthly spending. (The only other FY 2000 monthly underage, $27.2 million, appeared in October.) As a result of December's large monthly underage, Medicaid was $32.3 million, or 1.2 percent, below the estimate at the half-year mark of FY 2000. This was quite a contrast in light of the fact that, just one month before, Medicaid's year-to-date disbursements were $3.4 million over the estimate. (For more detail on monthly and year-to-date Medicaid spending, as well as a comparion to FY 1999 spending, see Tables 6 and 7, respectively.)

December. A hidden hand within the large December underage was the element of timing, which had strangled the expected fee-for-service payments in some Medicaid service categories and temporarily restricted planned disbursement activity. The three Medicaid service categories that experienced notable timing-based underages included: 1) Prescription Drugs ($11.2 million), with an unanticipated shortfall in payments brought about by the early arrival of January rebates; 2) Hospitals ($9.9 million), mostly due to $8.2 million in lower-than-expected payments for inpatient care; and 3) Medicare Buy-In ($10.8 million), due to a December payment that was made in November, a month earlier than originally scheduled.

Prescription Drugs. December spending from the Prescription Drugs service category registered $51.1 million; an amount which was 17.9 percent below the monthly estimate due to $12.9 million in unexpected drug rebates hitting the system in December. This rebate amount was budgeted for the month of January. Year-to-date, prescription drug spending was only 2.8 percent under the estimate, aided, as just mentioned, by the early arrival of rebates. In comparison to FY 1999 at this same point in time, actual year-to-date prescription drug spending in FY 2000 was higher by $23.3 million, or 7.9 percent.

Hospitals. For the month of December, payments to hospitals for inpatient and outpatient services totaled $82.9 million, which was under the estimate by $9.9 million, or 10.7 percent. After see-sawing through a six-month period of overages and underages that included December, payments for hospital services still managed to stick very close to the estimate, as evidenced by its very small $1.8 million negative year-to-date disbursement variance, only 0.3 percent off-the-mark.

Upon closer examination of hospital payments, we discerned divergent year-to-date disbursement trends between the service category's inpatient and outpatient components. Year-to-date, inpatient hospital payments were running $13.7 million, or 3.0 percent, under the estimate, while outpatient hospital payments were tracking

Table 6

Medicaid (400-525) Spending in FY 2000

	December '99				Year-to Date Spending			
Service Category	**Actual**	**Estimate**	**Variance**	**Percent Variance**	**Actual** thru' Dec.**	**Estimate** thru' Dec.**	**Variance**	**Percent Variance**
Nursing Homes	$183,731,790	$181,708,053	$2,023,737	1.1%	$1,048,758,664	$1,071,894,088	($23,135,424)	-2.2%
ICF/MR	$29,400,095	$29,608,571	($208,476)	-0.7%	$175,437,866	$177,582,082	($2,144,216)	-1.2%
Hospitals	$82,904,358	$92,809,966	($9,905,608)	-10.7%	$594,415,445	$596,190,869	($1,775,424)	-0.3%
Inpatient Hospitals	$63,738,933	$71,959,392	($8,220,459)	-11.4%	$444,346,928	$458,092,003	($13,745,075)	-3.0%
Outpatient Hospitals	$19,165,425	$20,850,574	($1,685,149)	-8.1%	$150,068,517	$138,098,866	$11,969,651	8.7%
Physicians	$20,500,879	$22,242,381	($1,741,502)	-7.8%	$137,630,360	$143,037,280	($5,406,920)	-3.8%
Prescription Drugs	$51,084,358	$62,237,801	($11,153,443)	-17.9%	$316,325,740	$325,359,679	($9,033,939)	-2.8%
Payments	$65,278,124	$63,463,248	$1,814,876	2.9%	$410,782,380	$401,641,405	$9,140,975	2.3%
Rebates	$14,193,766	$1,225,447	$12,968,319	1058.3%	$94,456,640	$76,281,726	$18,174,914	23.8%
HMO	$29,464,573	$30,613,289	($1,148,716)	-3.8%	$180,606,127	$182,348,676	($1,742,549)	-1.0%
Medicare Buy-In	$0	$10,800,005	($10,800,005)	-100.0%	$61,222,062	$64,739,180	($3,517,118)	-5.4%
All Other***	$34,566,418	$37,319,492	($2,753,074)	-7.4%	$227,255,121	$212,792,571	$14,462,550	6.8%
TOTAL	$431,652,472	$467,339,558	($35,687,086)	-7.6%	$2,741,651,384	$2,773,944,425	($32,293,041)	-1.2%
CAS	$431,652,472		($35,687,086)	-7.6%	$2,741,651,383		($32,293,042)	-1.2%
Est. Federal Share	$251,799,290	$272,616,923	($20,817,633)		$1,599,309,435	$1,618,147,193	($18,837,758)	
Est. State Share	$179,853,182	$194,722,635	($14,869,453)	-7.6%	$1,142,341,949	$1,155,797,232	($13,455,283)	-1.2%

* 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.

$12.0 million, or 8.7 percent, over the estimate. As of this writing, we found it hard to state with great certainty whether anything of significance was afoot in the hospital service category, essentially because the time lags inherent in the submission and processing of claims makes the analysis of monthly data very problematic. That said, we believed there was some evidence to suggest that modifications to how inflation-driven revisions were applied to reimbursement rates may be influencing payments, particularly in relation to outpatient services.

Table 7
FY 2000 to FY 1999 Comparison* of Year-to-Date Spending

Service Category	FY 2000[1] Yr.-to-Date as of Dec. '99	FY 1999[2] Yr.-to-Date as of Dec. '98	Variance	Percent Variance
Nursing Homes	$1,048,758,664	$991,044,978	$57,713,686	5.8%
ICF/MR	$175,437,866	$171,916,122	$3,521,744	2.0%
Hospitals	$594,415,445	$607,870,497	($13,455,051)	-2.2%
Inpatient Hospitals	$444,346,928	$464,491,047	($20,144,119)	-4.3%
Outpatient Hospitals	$150,068,517	$143,379,450	$6,689,067	4.7%
Physicians	$137,630,360	$141,287,043	($3,656,684)	-2.6%
Prescription Drugs	$316,325,740	$293,045,048	$23,280,692	7.9%
Payments	$410,782,380	$356,689,976	$54,092,404	15.2%
Rebates	$94,456,640	$63,644,929	$30,811,712	48.4%
HMO	$180,606,127	$180,036,891	$569,235	0.3%
Medicare Buy-In	$61,222,062	$60,750,227	$471,835	0.8%
All Other***	$227,255,121	$176,469,049	$50,786,071	28.8%
TOTAL	$2,741,651,384	$2,622,419,855	$119,231,528	4.5%
Est. Federal Share	$1,599,309,435	$1,532,148,800	$67,160,634	4.4%
Est. State Share	$1,142,341,949	$1,090,271,055	$52,070,894	4.8%

* This table only includes Medicaid spending through Human Services' 400-525 line item.
*** All Other, includes all other health services funded by 400-525.
1. Includes spending from prior year encumbrances in in the All Other category.
2. Includes FY 1998 encumbrances of $54 million.

Year-to-Date. Medicaid's $32.3 million negative year-to-date disbursement variance was due primarily to a $23.1 million underage tossed in from the Nursing Homes service category. As of this writing, we had come to believe that a good portion, if not all, of this underage was not going to disappear anytime soon. If the reader is a seasoned Medicaid watcher, then this statement would seem more than a little misguided, since history and experience would suggest it not inconceivable or unlikely that this negative year-to-date disbursement variance in the Nursing Homes service category could easily be wiped out in a single month.

What evidence do we have to support this statement that for some may verge on the point of heresy? Well, to begin with, while it is the case that the nursing home industry in general was thrown into a state of flux by the funding cuts instituted by the federal Balanced Budget Act of 1997, some of which were subsequently restored, we do know that nursing home occupancy is declining. In the first half of FY 2000, Medicaid-paid nursing home utilization is down about 1.4 percent relative to the same six-month period in FY 1999. As another point of comparison, relative to Medicaid-paid nursing home utilization for all of FY 1999, the half-year utilization in FY 2000 is down about 1.1 percent. And let's not forget to note per diem rates in our equation. Per diem rates, which do include an indirect cost re-basing in FY 2000, appear to have increased from a FY 1999 average of $112.74 to $120.98, which represents a bump in the average FY 2000 per diem rate of $8.24, or 7.3 percent. Regardless of this jump in rates, the net effect of these two trends — declining utilization and increased per diem rates — is still lower-than-expected monthly nursing home service payments in FY 2000.

Despite the fiscal effect of lower utilization, actual FY 2000 nursing home payments were still $57.7 million, or 5.8 percent, higher than they were for the same period of time in FY 1999.

Prior Years' Comparison. The data in Table 7 were assembled to provide the reader with a year-to-date spending comparison by Medicaid service category in FY 2000 with the same period of time in FY 1999. Relative to total year-to-date Medicaid spending, FY 2000 has exceeded FY 1999 by $119.2 million, an increase of 4.5 percent. If one were to look back even further and check out a similar comparison of total year-to-date

Medicaid spending between fiscal years 1998 and 1999, you would have found that there was an almost imperceptible increase of 0.4 percent. Although in that context the 4.5 percent increase from FY 1999 to FY 2000 was considerably higher, it was still within Medicaid's FY 2000 projected baseline growth rate.

Medical Inflation. In calendar year (CY) 1999, inflation increased the cost of health care by 3.5 percent, a slight rise of 0.3 percent from CY 1998. Although the health care inflation rate varied from month-to-month in CY 1999, it still managed to fluctuate within a very narrow range of 3.4 percent to 3.7 percent. In fact, the health care inflation rate hit the 3.7 percent rate of increase in the closing month of the calendar year — December — which was the highest such monthly increase in the health care inflation rate that has been posted since May 1996. The main contributors to the December increase were outpatient hospital care, prescription drugs, and inpatient hospital care with inflation rates of 6.7 percent, 6.1 percent, and 4.7 percent, respectively. In dramatic contrast to the December inflation rates of those three components of rising health care costs was physician care which started CY 1999 with a 3.4 percent inflation rate and then closed with five months of inflation rates that had dropped to within a range of 2.5 percent to 2.7 percent. (To date, actual health care inflation data has fairly consistently mirrored our projections for FY 2000.)

After hitting 8.7 percent in CY 1991, annual health care inflation rates moderated significantly for the better part of six years, falling all the way down to 2.8 percent in CY 1997. Although the annual health care inflation rate subsequently started to grow again, it only hit 3.2 percent and 3.5 percent in CYs 1998 and 1999, respectively.

TANF

After four consecutive months of underspending, December's TANF spending exhibited a dramatic reversal with a $27.1 million positive disbursement variance, 28.6 percent above the monthly estimate. Despite that large monthly overage, TANF's year-to-date disbursements were still running under the estimate by $22.9 million, which was 4.8 percent short of the $478.3 million year-to-date estimate. The state was now halfway through FY 2000 and the percentage of current fiscal year appropriations disbursed from TANF's three GRF line items — 400-410, TANF State, 400-411, TANF Federal, and 400-413, Day Care Match/MOE — was running at 52 percent, 59 percent, and 61 percent, respectively. In comparison, at this same point in time last year, the percentage of current fiscal year appropriations disbursed from these same three GRF line items was running at 45 percent, 40 percent, and 45 percent, respectively. One factor to keep in mind, when considering the pace of disbursements from the TANF Federal line item, is that approximately $311.8 million of Ohio's $728.0 annual TANF federal grant was not appropriated for the current fiscal year, but held in reserve. This reserved amount is quite sizeable considering the amount held in reserve in prior years was only around $75.0 million.

The most significant factor in producing December's overage was a department maneuver in the use of funding for the consolidated allocations to county departments. The state Department of Human Services provides a "consolidated allocation" each month to county departments of human services, and draws upon different sources of funding on a schedule that is developed at the start of each fiscal year. In December, the department departed from that schedule and used TANF funds instead of Medicaid funds for the county allocations. In addition, funds that had been scheduled for disbursement in earlier months for computer contracts were finally disbursed in December, which also contributed to the monthly overage. The monthly overage was thus largely an issue of timing.

Year-to-date, the TANF Federal line item was $60.0 million under the estimate, while the TANF State and the Day Care Match/MOE line items were $33.1 million and $4.0 million, respectively, over the estimate. The composition of the disbursement variance — one line item being significantly under the estimate and another line item being significantly over the estimate — was the result of a decision by the Department of Human Services to disburse some of the state's maintenance of effort (MOE) money in September, earlier than was assumed in the original plan for meeting this federal requirement.

Spending on cash benefits also increased in December. Cash benefits were $31.8 million in December as compared to $31.3 million in November. December marked the third monthly consecutive increase in the TANF caseload. The number of active assistance group cases has gone from 99,333 in September to 102,701 in December.

There were two significant policy changes that went into effect in October that taken together could explain the increase in caseload. The first was a change in the notification requirements involved in the sanction process. Available data (from *Human Services Report GRP528RA*) show that the number of cases closed due to sanction were 1,974 in September, 1,863 in October, 884 in November, and 785 in December, a noticeable drop since the effective date of the change in the sanction notification process.

The other significant policy change that went into effect in October was the elimination of the time limit on the earned income disregard. Prior to this change, the first $250, and half of any amount above that first $250, of an assistance group's earnings was disregarded in the calculation of the cash benefit for a period of 18 months. This 18-month time limit provision was repealed by language contained in the current biennial budget. Available data (from *Human Services Demographics Report GRP219RH*) reveal that the number of assistance groups with earned income jumped from 16,506 in September to 18,904 in October, 19,931 in November, and 20,136 in December. (For more data on sanctions and earned income, see this issue's *Ohio Facts Extra* section.)

General/Disability Assistance

General/Disability Assistance (GA/DA), a component of the Welfare & Human Services program category dominated by the $58-plus million Disability Assistance (DA) program, rounded the six-month mark with monthly caseloads trending in excess of projections. In December, the recent pattern of relatively small monthly overages continued, as disbursements exceeded the $4.5 million estimate by 0.5 percent, over the mark by a microscopic $21,367. This tugged the year-to-date overage up a bit to $1.3 million, in excess of the six-month estimate by 4.5 percent. From the perspective of current fiscal year appropriations, 52 percent of the funding had been disbursed and the state was halfway through FY 2000.

The monthly caseload in the DA program, a state- and county-funded effort that provides cash and/or medical assistance to persons ineligible for public assistance programs that are supported in whole or in part by federal funds, totaled 10,340 in December, a slight drop after monthly cash benefit caseload jumps were registered in August and October. Upon closer examination of the DA program's caseload, it was clear that the number of persons receiving monthly cash assistance was a bit greater than originally assumed would be the case, and thus, the source of the year-to-date overage in the General/Disability Assistance component. Conversely, the number of persons receiving medical assistance payments on a monthly basis from the DA program was running pretty much as expected.

Other Welfare

For the first half of FY 2000, disbursements for the Department of Human Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF & Disability Assistance, which are tracked under separate components of the Welfare & Human Services program category — fell $28.3 million (or 9.4 percent) below the year-to-date estimate. This large underage was a direct function of a hard-to-ignore $18.8 million (or 38.0 percent) negative monthly disbursement variance posted for December. Virtually all of the year-to-date and monthly underages tied back to contractual spending and subsidy distributions that were running below the estimates.

Year-to-Date. Year-to-date underages were littered throughout the department's budget, and included, in order of magnitude, the following areas: computer projects ($13.5 million), adoption services ($3.8 million), child support match ($3.7 million), electronic benefits transfer ($3.2 million), child and family services ($2.7 million), personal services ($1.8 million), non-TANF county administrative advances ($1.7 million), county social services administration ($1.7 million), burial claims ($1.6 million), and child support administration ($1.5 million). Their combined impact was in turn diluted by overages related to Wellness grant funding ($6.9 million), food banks ($2.5 million), and audit payments (around $1.0 million).

December. Compared to the cluttered year-to-date disbursement picture just summarized, December's $18.8 million underage was a little cleaner to depict. Areas of the department's budget that reported monthly underages included, in order of magnitude, computer projects ($6.9 million), non-TANF county administrative advances ($6.8 million), child support match ($3.0 million), county social services administration ($2.4 million), personal services ($1.7 million), and burial claims ($1.6 million). A portion of the combined impact of these monthly underages was in turn somewhat offset by a $6.2 million monthly overage related to Wellness grant funding.

These monthly and year-to-date variances, some of which are commented on in more detail below, were driven by a confluence of forces that included, in order of importance, timing, administrative obstacles, and faulty estimates.

Computer Projects. A major contributor to the sluggishness of the department's disbursements thus far in FY 2000 has been cancelled or stalled computer projects, as well as slower-than-expected billings from various contractors. Although the department has disbursed more than $51.6 million in current and prior fiscal years' appropriations from line item 400-416, its principal source of funding for computer projects, its year-to-date spending was still below the estimate by $13.5 million. Nearly $7.0 million of that variance just arrived in December.

An important factor in this underspending trend is the cancellation in late September of the department's plan to contract out the building of its Statewide Automated Child Welfare Information System (SACWIS) because the planned architecture of the computer system, as specified in the original Request-for-Proposal (RFP), was deemed inadequate. One avenue the department is exploring is the possible internal development of SACWIS. (This impasse on SACWIS was first discussed in our November, 1999 issue.)

In the meantime, Ohio's child welfare program relies on a legacy system that dates to 1986, the Family and Children Services Information System (FACSIS), whose compliance with national standards has not been certified. Some county officials are worried that FACSIS may not be able to meet certification requirements. Although there is no requirement that the state create an automated child welfare information system, federal law establishes a lucrative incentive for doing so. If a state completed their system by the end of federal FY 1997, the federal government agreed to reimburse the state for 75 percent of the costs of establishing such a system. Ohio is now at the point where the federal government will only reimburse the state for 50 percent of the eventual cost of the system, should it be certified.

As background to this development, it is interesting to note that, over the course of the prior biennium, the department reportedly spent around $12.0 million in funding earmarked for SACWIS to purchase computer hardware for county human services systems, presumably now used in connection with FACSIS — the state's existing statewide child welfare information system that SACWIS is expected to replace.

Child Support. In this important area that bridges the realms of family and children services and economic self-sufficiency, disbursements had only begun to pick up speed, just as the department was hit with its third federal fine for failure to establish its automated Statewide Enforcement Tracking System (SETS). In December, for the first time in FY 2000, expenditures from line item 400-420, Child Support Administration, which supports the department's various enforcement contracts with medical laboratories, financial institutions, and other entities, posted a positive disbursement variance relative to the monthly estimate. This monthly overage left the line item with a year-to-date underage of $1.5 million, apparently the result of delays in the approval and execution of private enforcement and order establishment contracts (an area in which the department received expanded funding under the current biennial budget). All of these contracts, totaling more than $21.7 million in FY 2000 (of which $7.4 million is GRF), have been let, supporting the department's expectation that contract expenditures for the balance of the fiscal year will compensate for the mid-year underage.

As we were writing this disbursement report in January, the department was hit with its third federal fine because SETS had failed to meet federal compliance requirements. The federal Department of Health and Human Services (HHS) levied the fine by withholding 16 percent of the state's child support enforcement grant. All told, in the last six months, Ohio has paid more than $43 million in SETS fines to HHS, an amount representing 21 percent of all of the fine money HHS has collected in this area and second only to California.

If SETS is not judged federally compliant by October 1, 2000, HHS estimates that the department will face an additional fine of approximately $46 million, or 25 percent of Ohio's federal FY 2000 child support enforcement grant. If the department hits this compliance deadline, however, 90 percent of fines paid in FY 2000 (about $26 million) will be returned to the state. Ohio remains one of only eleven states that have failed to meet federal certification deadlines for the establishment of an automated statewide enforcement tracking system.

(Since our perspective here was to examine disbursements in retrospect, we would not typically write about events that actually happened in January 2000 when our focus starts with December 1999 and looks back from there. Given the magnitude of this federal compliance and fine issue, however, we have opted to alert the reader that the department did approach the Controlling Board in late January for approval to create a new fund (Fund 5K6) to receive and spend a transfer of $28.8 million in federal TANF/Title XX funds to offset the loss of federal money due the imposition of fines. The Controlling Board approved the request, but not without expressing concern over the department's management of the SETS project and amending the request to place restrictions on the use of the moneys transferred into the new fund. In amending the department's request, members of the Controlling Board specified that the new fund could not be used for purposes other than offsetting the penalty or — if fine monies are reimbursed — the department must seek Controlling Board approval of expenditures for any purpose.)

A related line item — 400-502, Child Support Match — posted a year-to-date underage of $3.7 million, attributable mostly to developments in the second quarter of FY 2000. The department suggested that counties had been somewhat tardy in seeking child support matching dollars from the state. Further complicating this story was the fact that the department was forced in December to make a $3 million journal entry adjustment (in effect subtracting money that was previously reported as disbursed) to correct for releasing too much in child support match funding to counties earlier in the year.

AdoptOHIO. Disbursements from line item 400-408, Child & Family Services Activities, closed December with a year-to-date underage that had slowly mounted to $2.7 million; a fact that the department attributed to vendors invoicing at a slower-than-expected rate, as well as a delay in implementing cultural diversity initiatives intended to increase the number of minority children that are adopted.

PASS. Line item 400-528, Adoption Services, which carries a $53.2 million FY 2000 appropriation that subsidizes the state's adoption program as it relates to special needs children, was nearly $1 million below the monthly estimate and concluded December with a year-to-date shortfall in expected spending of $3.8 million, this despite the sizeable increase in adoptions occurring in Ohio. The department pointed to lower-than-expected costs per case as a factor, citing the fact that the cost per case was approximately 3.6 percent below the budgeted amount. The department maintained that a new accounting program had caused delays in the release of adoption funding to counties as well, but also expressed a belief that we should see a noticeable upward spike in this line item's disbursements in the near future.

The more provocative feature of the state's adoption program is the financially troubled Post Adoption Support Services (PASS) Program, which is funded by a $3.7 million FY 2000 allocation pulled from the Adoption Services line item. Under PASS, families of adoptive children whose special needs went unrecognized at the time of adoption can receive up to $20,000 in financial support, with the types of services, as well as the threshold of need, varying from county to county. For the second year in a row, the department finds itself in the position of having an annual allocation for PASS that will not be sufficient to cover county requests for funding.

As a quick review of the PASS program's recent fiscal history, we would note that, in FY 1999, county departments of human services relied heavily on this program, and, as a result, exhausted their available state funding in March 1999. By the close of FY 1999, the program had exceeded its original annual budget allocation by around $1.5 million. The department covered the shortfall by tapping into surplus federal TANF/Title XX money. While use of the PASS program has apparently increased in FY 2000, management and monitoring of the available funding stream has apparently not followed suit. As of this writing, it was clear that FY 2000 state funding for PASS was headed for premature exhaustion again. From our perspective, it seemed that PASS was either underappropriated, its purpose and use was not clearly defined, monitoring and tracking of funds was deficient, or all of the above.

What will counties do in the face of this looming shortfall in PASS funding? For some large counties with human services levies, the county may be able to divert local money to pay for services initiated earlier in the year, but in other counties the sudden evaporation of these funds may threaten to disrupt services or budgets or both.

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 $3.2 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, as it was when we last commented on EBT disbursements in our November, 1999 issue. We have been told that 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 was apparently not captured in the disbursement estimate for the line item.

Non-TANF County Administration. Line item 400-504, Non-TANF County Administration, posted a $1.7 million year-to-date underage, attributable entirely to $8.8 million in underspending that landed in December. According to the department, the large monthly underage in the line item, which is used to pay the state's share of county administration for the Disability Assistance, Medicaid, and Food Stamp programs, was related to delays in completing paperwork necessary for county reports.

County Social Services. Line item 400-552, County Social Services, ended December with a $2.4 million monthly underage, and, as a result, a $1.7 million year-to-date underage. Apparently, the monthly underage in the line item, which contains funding distributed to county departments of human services for social services administrative costs, resulted from a journal entry adjustment that involved subtracting money previously reported as disbursed to correct for releasing too much social services administration funding to certain counties earlier in the year.

Notable Overages. A review of the department's disbursements would be incomplete if we failed to note a few overages, the most visible of which was located in line item 400-409, Wellness Block Grant. Year-to-date, the line item, 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, was $6.9 million over the estimate. Virtually all of this overage showed up in December. Apparently, grant agreements were finalized quickly and funding was promptly pumped out the door.

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.

A second notable year-to-date overage totaling $2.5 million appeared in line item 400-414, State Option Food Stamp Programs. The overage was tied to a $2.5 million disbursement for food banks. The budget bill contained temporary law addressing the matter of distributing these food bank funds through the GRF, but their disbursement was not included in the estimates for the department's FY 2000 spending.

Lastly, the department's line item 400-200, Maintenance, was over the year-to-date estimate by roughly $1.0 million, which the department traced to higher-than-anticipated payments to the Auditor of State for private and public child welfare agency audits. Other auditing tasks out there on the horizon that might cause an unexpected spike in maintenance disbursements include a comprehensive audit of child welfare programs in Montgomery County and a Human Services Director-ordered performance audit of the department's child welfare programs and services, which is to be completed in May 2000.

Human Services

Aging. Year-to-date disbursements for the Department of Aging were $4.9 million, or 10.1 percent, under the estimate. Most of this disbursement variance was fueled from two sources: 1) a $3.2 million underage in line item 490-412, Residential State Supplement; and 2) a $1.4 million underage in line item 490-403, PASSPORT.

RSS. The Residential State Supplement (RSS) program, which provides a cash supplement to low-income aged, blind, or disabled adults living in a residential care facility and who require assistance due to a medical condition, was established in 1982 as a responsibility of the Department of Human Services. Beginning July 1, 1993, the General Assembly split these responsibilities between the Department of Human Services and the Department of Aging, with the former department retaining responsibility for sending out the cash supplement each month and local departments of human services retaining responsibility for determining financial eligibility for applicants. The Department of Aging and its area agencies on aging became responsible for processing RSS applications, for assessing the applicants, and for 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 $3.2 million year-to-date underage that we observed in the department's RSS disbursements was due simply due to timing. The Department of Aging had planned a $2.7 million December transfer to the Department of Human Services that did not happen. Although the interdepartmental fund transfer was late, the monthly cash payment to RSS recipients was on time. To cover the costs for December, the Department of Human Services 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 year-to-date underage in PASSPORT spending was simply due the fact that the Department of Aging had revised its monthly expenditure estimates for the program, but those changes had not been incorporated into OBM's FY 2000 disbursement estimates that were finalized in August 1999.

Alcohol & Drug Addiction. As stated in last month's issue, in November, the Department of Alcohol & Drug Addiction Services did not release approximately $5.6 million in second quarter allocations from line item 038-401, Alcohol and Drug Addiction Services, as planned. A large chunk of this unreleased funding, used for the purpose of providing alcohol and drug addiction prevention, intervention, treatment, counseling, and residential and community support services, was not disbursed to three local boards as planned. We gathered that these local boards did not submit their required quarterly expenditure information to the department in November, so their funds were withheld. Additionally, the department was late in allocating another $1 million or so of this substance abuse funding that was to have been disbursed in November.

The department disbursed all of this unreleased funding in December, including the subsidy payments withheld from three local boards, $700,000 for adolescent substance abuse treatment, and $171,000 transferred to the state's Rehabilitation Service Commission as part of an interagency agreement to serve mutual clients. As a result of this spike in December disbursement activity, the year-to-date variance in the department's spending was virtually eliminated.

Health. Of the Department of Health's $7.0 million year-to-date underage, $4.1 million was attributable to line item 440-505, Medically Handicapped Children, which is used to pay for diagnosis, treatment, and supportive services provided to children with handicaps meeting certain medical and economic eligibility criteria. As noted in our November, 1999 issue, the department departed this year from its normal practice of spending GRF money appropriated to line item 400-505 before tapping into its non-GRF Fund 666, the Medically Handicapped Children — County Assessment Fund, which is also used to finance services provided to medically handicapped children. The department opted to hit Fund 666 first. Thus, a timing-based year-to-date underage developed in line item 440-505, but it will self-correct as the state moves through the second half of the fiscal year.

The year-to-date underages in two other departmental line items were also noteworthy, and attributable to timing as well. The first noteworthy underage involved line item 440-418, Immunizations, which is used to purchase vaccines for immunizations against communicable diseases. Year-to-date disbursements from this line item were under the estimate by $1.2 million, reflecting the fact that the department had not yet felt compelled to replenish its stock of vaccines. As of this writing, the department was expected to approach the Controlling Board in late January for approval to purchase $3.1 million worth of vaccines from various vendors, and, as a result, we expect to see a rather large overage in this line item's disbursements in either January or February.

The second noteworthy underage involved line item 440-453, Quality Assurance, which pays for inspections of state licensed facilities. Year-to-date disbursements were running around $465,000 behind schedule. But this, again, was a timing matter, since, so far this fiscal year, inspections have been conducted disproportionately at Medicaid and Medicare licensed facilities rather than at state licensed facilities. Hence, more federal revenue in the department's Fund 391were being disbursed, but, as inspectors turn their attention back to state licensed facilities, this line item's underage should start shrinking.

Mental Health. The Department of Mental Health rounded the halfway mark for FY 2000 $30.0 million under their year-to-date estimate. Most of the underage ($28.6 million) was traceable to the department's three largest GRF subsidy lines: 1) 334-408, Community and Hospital Mental Health Services; 2) 335-502, Community Mental Health Services; and 3) 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.

In anticipation of these local boards experiencing a cash flow crisis induced by recent changes in the Medicaid reimbursement process, the department planned to permit them to request a draw on their state subsidies up to one quarter ahead of time (previously discussed in our November, 1999 issue). The department's disbursement estimates were constructed to reflect the expectation that, as a result, local boards would opt to take their state subsidies earlier than historical experiences would suggest. That has not turned out to be the case, dramatically so in the first quarter, as many local boards did not opt to draw on their state subsidies any earlier than they would have in the past. As of this writing, we saw these subsidy underages as no more than transitory phenomena that would simply self-correct in the latter half of FY 2000.

Mental Retardation. The Department of Mental Retardation & Developmental Disabilities followed its $16.5 million November overage with another equally large December overage of $13.2 million. As a result of these two relatively large consecutive monthly overages, the department posted a positive year-to-date disbursement of $4.4 million, 1.7 percent above the estimate.

December. Looking at the month first, the primary factors behind the overage were line items 322-413, Residential and Support Services, and 322-501, County Boards Subsidies, which tossed in overspending of $9.4 million and $7.2 million, respectively. The variance in line item 322-413 reflected the difficulty of predicting when service providers would bill the department. And, in the case of line item 322-501, the department's fears relative to Y2K drove it to distribute larger chunks of state subsidy funding to county boards in December than was originally assumed.

Ameliorating the monthly overage somewhat were line items 323-321, Residential Facilities Operations, and 320-412, Protective Services, which tossed in underages totaling $2.6 million and $1.1 million, respectively. As of this writing, our belief was that the source of line item 323-321's variance was a departmental decision to cover the operating costs of its 12 developmental centers with a heavier mix of federal funds and less GRF money to this point in the fiscal year. The cause of the variance in line item 320-412, which funds a $1.3 million contractual relationship with the non-profit Advocacy and Protective Services, Inc. for the provision of various forms of protective services, was, on the other hand, unclear as of this writing.

Year-to-Date. Three line items essentially dominated the story behind the department's year-to-date overage. Leading the pack was line item 322-501, County Boards Subsidies, with a timing-based overage of $15.7 million. The second element in the department's year-to-date disbursements was actually an underage of $11.6 million posted in line item 323-321, Residential Facilities Operations. As previously noted, we believed this simply reflected the timing of when the department hit its various funding streams that are used to cover developmental center operating costs. The third element in the year-to-date underage — line item 322-413, Residential and Support Services — was a study in striking contrasts. Disbursements of the line item's current fiscal year's appropriations were tracking $11.1 million over the estimate, while disbursements of the $21.9 million encumbered from the line item's prior fiscal years' appropriations was running $10.9 million under the estimate. Particularly noticeable was the fact that $6.4 million in encumbered funding from FY 1998 had yet to be disbursed. While it was suggested to us that the simultaneous occurrence of a sizeable overage and underage within this line item was strictly related to the timing of payments to residential service providers, we still remained more than a bit puzzled and curious, suggesting that more digging is in order.

Justice & Corrections

Rehabilitation & Correction. The Department of Rehabilitation & Correction's December disbursements were largely on target, as evidenced by spending that landed just shy of the estimate by less than $900,000, a negative variance of only 1.2 percent. A closer examination of the data revealed that the department's monthly spending picture was littered with line items posting various small overages and underages. To the degree that there was a story in the department's disbursements, it lay in their $8.0 million year-to-date overage, 1.2 percent over the estimate. This overage was composed of two almost equal parts: 1) $4.3 million related to the spending of funds encumbered from FY 1999 appropriations; and 2) $3.7 million related to the spending of FY 2000 appropriations.

FY 1999 Encumbrances. The department started FY 2000 with $42.9 million in funding encumbered from various FY 1999 appropriations. It was estimated that $33.2 million of this encumbered funding would be disbursed in FY 2000, most of which was scheduled to be spent by the end of November, and that the remainder, $9.7 million, would lapse back into the state treasury. As of this writing, the amount of this encumbered funding that has been disbursed totals $37.2 million, and the amount of the encumbered funding that will lapse looks like it will be more around $5.7 million. The department had simply tapped more of its operational expense funding encumbered from FY 1999 than OBM had assumed would be the case.

FY 2000 Appropriations. The overspending in the department's FY 2000 appropriations was tied to a couple of its operating expense line items, which at this time we attributed to nothing more than a matter of timing.

Environment & Natural Resources

Ohio EPA. As the state rounded FY 2000's halfway mark, the Ohio EPA revealed a $7.6 million overage, which was 61.8 percent above the year-to-date disbursement estimate. As remarked upon in prior issues of this publication, the source of this variance was an erroneous assumption that was used to build the FY 2000 disbursement estimates for 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 first hit their GRF funding hard, exhaust that revenue stream, and then move on to spend its non-GRF moneys. That's what has occurred so far in FY 2000, and, as a result, we expect to witness significant erosion in the year-to-date overage in the next six months.

Natural Resources. The Department of Natural Resources closed the second quarter of FY 2000 with a positive year-to-date disbursement variance of $5.3 million, principally traceable to a line item that supports the operational expenses of the department's Division of Parks and Recreation: 730-321. As we previously observed in our November, 1999 issue, all of this line item's overage ($6.1 million) was a function of an erroneous estimate, including about $3.0 million in central support service charges that were excluded from its calculation. Examined in light of this fact, the division's disbursement activity actually looked to be pretty consistent with the division's planned spending for FY 2000.

Also contributing to the department's year-to-date overage was the premature distribution in December of $1.0 million from line item 725-425, Wildlife License Reimbursement. These funds, appropriated to reimburse the department's Wildlife Fund for the cost of issuing hunting and fishing licenses to fee-exempt individuals, simply hit the door a month earlier than expected.

Helping to work against the departmental year-to-date overage was their new GRF subsidy 725-507, Conservation Reserve Enhancement Program (CREP), a funding stream tied to a state-federal conservation partnership program that we previously discussed in our November, 1999 issue that will target specific state and nationally significant water quality, soil erosion and wildlife habitat issues related to agricultural use. To date, $1.0 million of its $2.0 million FY 2000 appropriation was to have been disbursed, but, in fact, none of this funding has been spent. As of this writing, the department's Division of Soil and Water was still hashing out programmatic details with the U.S. Department of Agriculture.

Transportation

Transportation. The Department of Transportation's GRF operating budget, which is relatively small at $47.8 million in the context of its $2.2 billion FY 2000 budget that is fueled by the state's gasoline tax and other non-GRF revenue streams, posted a pair of negatives in December: a $8.2 million monthly underage (85.4 percent under the estimate) and a $6.0 million year-to-date underage (21.8 percent under the estimate). These twin disbursement variances were largely traceable back to the department's dominant GRF line item (775-451, Public Transportation), which carries a FY 2000 appropriation of $28.0 million plus $22.3 million in prior years' encumbrances used to provide capital and operating assistance to 50-plus transit systems around the state, operating fleets that consist of busses, vans, light transit vehicles, automobiles, and rail cars. The underspending in this line item was not in the least bit surprising, as recent history has repeatedly demonstrated the difficulty of predicting with much certainty when, and how much, transit systems will draw from this pool of state financial assistance.

Other Government

Administrative Services. The Department of Administrative Services ended the first half of FY 2000 with a negative year-to-date disbursement variance of $15.4 million, 14.5 percent under the estimate. Close to 90 percent 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 $6.8 million underage that, in order of magnitude, included: 1) Multi-Agency Radio Communication System/MARCS (line item 100-417); 2) Strategic Technology Development Programs (line item 100-416); 3) Year 2000 Assistance (line item 100-430); and 4) State of Ohio Synchronous Optical Network/Ohio SONET (line item 100-419). An additional $6.3 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 playing a significant role in the department's year-to-date underage through the month of December 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. We do feel compelled to note, however, that this current year-to-date underage was built over the three-month period of August through October, and that, in the ensuing months of November and December, the department actually posted microscopic overages.

Auditor. The Auditor of State closed December with a negative year-to-date disbursement of $3.2 million, short of the estimate by 13.1 percent. Over 90 percent of the underage was fueled by two line items. In the lead role was the $33-plus million line item 070-321, Operating Expenses, which covers the Auditor's personnel, maintenance, and equipment costs, with spending that landed under the estimate by $1.8 million. This variance was not particularly surprising given the Auditor's penchant in recent fiscal years for constraining operational expenses, in large part by leaving some budgeted staff positions unfilled. Line item 070-406, Uniform Accounting Network/Technology Improvements Fund, which pays for the development and operation of a financial accounting computer system for townships, villages and libraries, as well for implementing new technology within the Auditor's office, was the second notable contributor to the underage with a negative disbursement variance of $1.2 million. According to the Auditor's office, this line item's underage was attributable to a scheduled purchase of around $1.7 million in software for their mainframe that had yet to occur.

Property Tax Relief

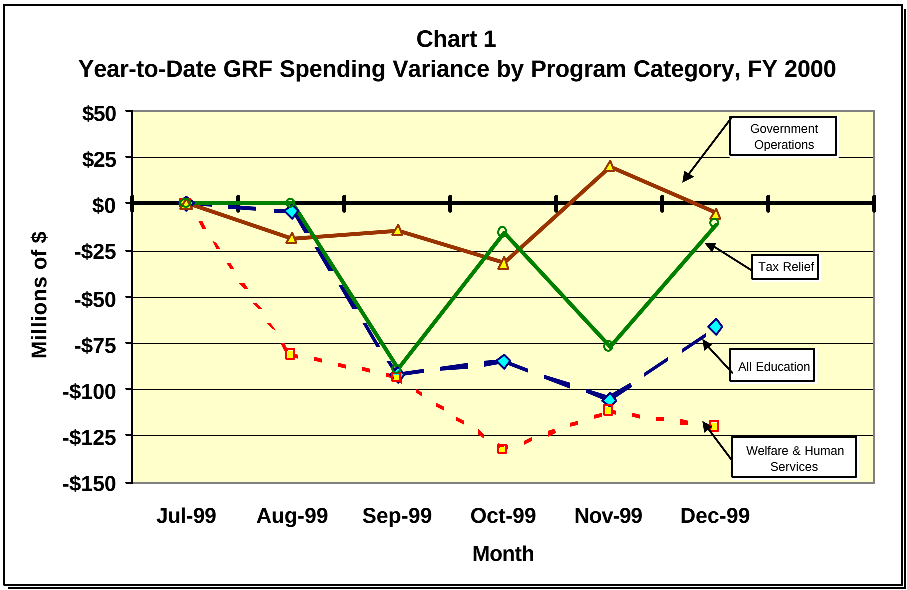
One of the key forces in December's spending picture was a huge timing-based $61.1 million overage tossed in from the Property Tax Relief program category, signaling that the departments of Education and Taxation disbursed significantly more property tax relief funding than was originally forecasted. Specifically, the Department of Education's disbursements to school districts shot over their estimate by $27.4 million and the Department of Taxation's disbursements to all other taxing districts ran over their estimate by $33.7 million. A closer examination of this monthly disbursement variance, in terms of the type of property tax relief distributed, revealed that spending was over the estimate by $45.2 million in real property tax credits/exemptions and by $15.9 million in tangible tax credits. The fact that the former (real property) was considerably larger than the latter (tangible) was not surprising given the amount appropriated annually for real property tax credits/exemptions greatly exceeds the amount appropriated annually for tangible tax credits. This December overage in effect compensated for an equally large $61.5 million underage that was posted in the prior month of November.

In somewhat sharp contrast to its monthly story was the year-to-date disbursement variance, which did not generate nearly as much drama with a much smaller $16.0 million underage, 2.8 percent below the estimate. The bulk of this year-to-date underage tracked back to the Department of Education ($14.2 million) and the remainder ($1.8 million) was traceable to the Department of Taxation. A closer examination of this year-to-date disbursement variance, in terms of the type of property tax relief distributed, revealed that spending was under the estimate by $9.3 million in real property tax credits/exemptions and by $6.7 million in tangible tax credits.

Over the course of FY 2000, the state's 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. As a result, large negative or positive disbursement variances in the property tax relief program are not uncommon timing-based phenomena that come-and-go from one-month-to-the-next.

V. Program Category Variances

So far in this article, we've essentially discussed monthly and year-to-date disbursements from a single point in time: December. And, as a result, one can easily lose sight of the dynamics of FY 2000 disbursements, in other words, what happened in the five months that preceded December. In Chart 1, we've tried to compensate for any such oversight by visually mapping the trajectory of the year-to-date variances of the state's four major GRF program categories from July through December. This is intended to aid our collective memory on how the state ended up holding a year-to-date underage of $208.0 million at the close of December. In the narrative below, we've tried to distill the essence of the six-month disbursement patterns exhibited by these four key program categories.



Welfare & Human Services. The Welfare & Human Services program category started with a rather hefty $81.5 million monthly underage in August, led by $50.5 million thrown in from the departments of Mental Health and Mental Retardation & Developmental Disabilities, largely due to the timing of subsidy payments to local boards and service providers. Except for a $21.0 million timing-driven November overage, the program category's negative year-to-date disbursement variance has continued to grow, with first TANF, and then more recently Medicaid and the Other Welfare component, providing the primary fuel. Halfway through FY 2000, the program category was now the dominant player in the state's disbursement picture with a $120.4 million year-to-date underage, which represented almost 60 percent of the state's $208.0 million total year-to-date underage.

Education. The Education program category leapt into the state's disbursement picture with a whopping $88.2 million September underage, and then took another nosedive totaling $20.8 million in November, before rebounding with a $39.3 million overage in December. October was, in that scheme of things, relatively quiet, with disbursements relatively close to the estimate. These monthly bumps in disbursements were driven largely by the Department of Education's budget. Notable in November's underage and December's overage was the fact that, while the Department of Education might have been in the proverbial driver' seat, the Board of Regents budget did alter the monthly variances with a $22.0 million overage in November followed by a $15.8 million underage in December. All of that said, the bulk of the disbursement variances in the program category were simply timing matters related to the distribution of various state subsidies.

Property Tax Relief. Disbursements from the Property Tax Relief program category have exhibited a roller coaster effect featuring huge positive and negative monthly swings around the estimates. This wild up-and-down ride was typical of the timing issues that dramatically affect this area of state spending. By the end of

December, its year-to-date disbursements were still under the estimate, but the variance was heading toward zero.

Government Operations. The first six months of disbursements from the Government Operations program category featured largely timing-based monthly underages and overages. Around a half-dozen or so state agencies have moved in-and-out of the program category's disbursement picture from one-month-to-the-next. At the close of December, the program category was carrying a $5.5 million negative year-to-date disbursement variance, a tiny 0.4 percent off the estimated mark, with its most notable elements including the departments of Administrative Services, Rehabilitation &Correction, and Natural Resources, as well as the Ohio Environmental Protection Agency.

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

Lottery Ticket Sales and Profits Transfers Second Quarter, FY 2000

— *Allan Lundell*

Total ticket sales for the second quarter of fiscal year 2000 were $571.3 million, 10 percent higher than first quarter sales, but 6.4 percent lower than the same quarter last year. Sales for the first half of fiscal year 2000 were 2.4 percent lower than sales for the first half of fiscal year 1999. However, comparisons with FY 1999 may be misleading. December 1999 was a record-breaking month for the Ohio Lottery. Five Ohio Lottery records were set in that month, including largest monthly sales — $257.8 million. If December is removed from both fiscal years, year-to-date sales for FY 2000 are 2.9 percent greater than in FY 1999.

Transfers to the Lottery Profits Education Fund were $169.3 million, up 5.4 percent from last quarter. Year-to-date transfers are $330.0 million, while year-to-date projections are 329.2 million.

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
July	$181.8	$56.3	$52.3	$4.0	7.60%	30.9%
August	167.8	52.4	53.4	-1.0	-1.94%	31.2%
September	169.9	52.1	53.0	-0.9	-1.76%	30.7%
Q1	**$519.4**	**$160.7**	**$158.7**	**$2.0**	1.26%	30.9%
October	177.9	53.4	54.6	-1.2	-2.18%	30.0%
November	187.8	57.3	54.3	3.0	5.61%	30.5%
December	205.6	58.6	61.7	-3.0	-4.91%	28.5%
Q2	**$571.3**	**$169.3**	**$170.5**	**-$1.2**	-0.69%	29.6%
Total	**$1,090.7**	**$330.0**	**$329.2**	**$0.8**	0.25%	30.3%

Table 2 summarizes sales information for the first two quarters of FY 2000. Total sales for the second quarter were up $51.9 million (10 percent) from first quarter levels. Most of the increase, 65 percent, is from sales of instant tickets. The only game that experienced a drop in sales was Buckeye Five.

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

	Pick 3	Pick 4	Buckeye 5	Super Lotto	Kicker	Instant Tickets	Total Sales
July	$35.0	$10.9	$5.6	$31.5	$4.9	$93.8	$181.8
August	34.0	10.9	5.6	20.6	3.5	93.3	167.8
September	34.7	11.6	5.1	23.7	3.9	90.8	169.9
Q1	**$103.6**	**$33.4**	**$16.3**	**$75.8**	**$12.4**	**$277.9**	**$519.4**
October	35.5	12.1	5.1	27.5	4.4	93.2	177.9
November	34.9	12.1	5.3	33.1	4.9	97.6	187.8
December	36.8	13.0	5.4	25.4	4.0	121.1	205.6
Q2	**$107.2**	**$37.2**	**$15.8**	**$85.9**	**$13.3**	**$311.8**	**$571.3**
Total	**$210.8**	**$70.6**	**$32.1**	**$161.7**	**$25.7**	**$589.7**	**$1,090.7**

Although year-to-date sales are 2.4 percent below FY 1999 levels, sales of Pick 3 and Pick 4 are both significantly higher than they were at this time last year. Pick 3 sales are 7.7 percent higher and Pick 4 sales are 14.2 percent higher. The mid-day drawings appear to have worked to increase sales of these two games. Super Lotto sales are down compared to last year, but most of the difference is due to the tremendous level of sales for December 1999. ❑

Lottery Profits Education Fund Disbursements
Disbursements of Fiscal Year 2000 Profits

— *Wendy Zhan*

Table 1, FY 2000 LPEF Appropriation/Disbursement Summary
As of December 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	$ 267,000,000	$ 389,247,000
EDU	017	200-682	Lease Rental	$ 29,753,000	$ 0	$ 29,753,000
NET	017	228-690	SchoolNet Electrical Infrastructure	$ 20,052,987	$ 2,628,048	$ 17,424,939
			Total LPEF	**$ 706,052,987**	**$ 269,628,048**	**$ 436,424,939**

Lottery Profits Education Fund (LPEF) year-to-date disbursements in fiscal year 2000 totaled $269.6 million. Of this amount, $267.0 million (or 99.0 percent) occurred in appropriation item 200-612, Base Cost Funding. The above table shows the LPEF appropriation and disbursement summary as of December 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 fund the state base cost funding program. Among other things, the program provides 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 the 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.

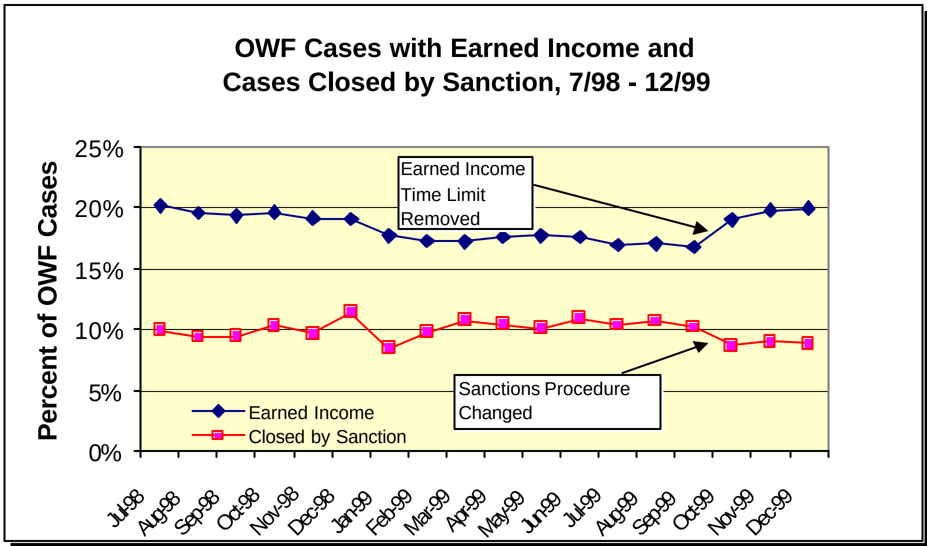
SchoolNet Electrical Infrastructure – "Power-up For Technology." To help school districts implement SchoolNet and SchoolNet Plus initiatives, the 122nd General Assembly appropriated $27 million in LPEF moneys in fiscal year 1998 for electrical service upgrades. Approximately $7.0 million was disbursed 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. ❑

Ohio Facts Extra!

OWF Caseload Dynamics and the Impact of Policy Changes

— Steve Mansfield

Reversing a trend of steady declines in the Ohio Works First (OWF) caseload, the number of open cases increased by 2,687 between September and December, 1999. During this period, the number of new entrants to the OWF program held steady, but the exit rate declined. What explains the slowdown in the exit rate?



Source: GRP219RH and GRP528RA

Two policy changes, both of which took effect on October 1, 1999, were implemented by Am. Sub. H.B. 283, the state's operating budget bill for fiscal years 2000 and 2001. Both changes seem to have contributed significantly to the slowdown in the OWF exit rate.

- An earlier *Ohio Facts Extra!* (see ***Budget Footnotes***, March 1998) presented data showing that the number of adult OWF recipients with earned income was very responsive to changes in the disregard policy concerning how earned income affects the calculation of OWF benefits. That data showed that there were significant increases in the number of adults reporting earned income in July 1996 and again in October 1997. These increases coincided with policy changes that reduced the impact of increased earnings on benefits, thus allowing recipients to receive cash benefits for a longer period of time as they transition off of welfare.

- At the beginning of October 1999, the 18-month time limit for the earned income disregard was eliminated. Since October 1, the number of assistance groups with earned income has increased by 3,630. As the chart above indicates, October 1999 marked a reversal in the downward trend in the number of recipients with earned income, which had been following the broader trend set by the overall decline in the OWF caseload. The percentage of cases reporting earned income has now climbed back to the 20 percent level.

- Also effective in October 1999 was a change in the notification procedure involved in the sanctioning process. This policy change provided assistance groups receiving sanctions with more time to respond. The number of cases closed due to sanctions has declined by 1,120 since October 1. As the chart above also indicates, there is a noticeable reduction in the rate of cases closed by sanction, which had already been trending downward. As a proportion of the total caseload, cases closed by sanction declined from 10.2 percent in September to 8.9 percent in December. ❑