Budget Footnotes

Volume 23, Number 4 - February, 2000

FISCAL OVERVIEW

- Doris Mahaffey

January revenues came in under estimate (by $42 million) for the second month in a row; but January disbursements were even more underestimate ($111 million under), so the budget remains in good shape as the state moves into the second half of fiscal year 2000. The month even ends with a positive cash balance (see Table 1). Of course, the transfer this month of $262 million from the Income Tax Reduction Fund (to fund this year's tax cut) was the real source of this black ink.

On the revenue side, the personal income tax, the corporate franchise tax, and federal grants are responsible for nearly the entire shortfall. The personal income tax is, however, over estimate for the year; while the other two are under estimate. The sales tax reduces the revenue short fall, coming in over estimate by $26.5 million. Sales tax revenues are $103 million over estimate for the year, punctuating the fact that 1999 was a banner year for Ohio consumers.

On the disbursement side, January spending on K-12 education was $67.2 million underestimate, accounting for nearly two-thirds of the month's total underage in disbursements. Although Medicaid spending was $26.6 million over estimate, spending in the other programs in the welfare and human services category was $53 million under estimate. Spending on total government operations was under estimate by $28.4 million, due largely to justice and correction's $25.6 million underage. Besides the Medicaid program, only higher education and debt service were significantly over estimate.

For the most part, timing was the explanation for the noted variances in revenues and expenditures; and, perhaps, that is appropriate for a month named after an entity that looks both into the future and into the past. The major exceptions to the "timing" explanation include the shortfall in corporate franchise tax collections, the (persistent) underage in TANF, and the overage in debt service. The Fed's actions to raise interest rates are at least having an effect here.❑

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

	Month of January	**Fiscal Year 2000 to Date**	**Last Year**	**Difference**
Beginning Cash Balance	($827.1)	$1,512.5		
Revenue + Transfers	$2,380.2	$11,047.8		
Available Resources	$1,553.1	$12,560.3		
Disbursements + Transfers	$1,467.1	$12,474.3		
Ending Cash Balances	**$86.0**	**$86.0**	**($94.1)**	**$180.1**
Encumbrances and Accts. Payable		$799.0	$784.4	$14.6
Unobligated Balance		**($712.9)**	**($878.5)**	**$165.5**
BSF Balance		$953.3	$906.9	
Combined GRF and BSF Balance		**$240.4**	**$28.4**	**$211.9**

TRACKING THE ECONOMY - JANUARY, 2000

- Allan Lundell

The economy continued its strong performance in January. Y2K came and went with no major problems. Income continued to grow, consumers continued to spend, labor markets remained tight, and, in spite of all these things, inflation remained low.

Consumers

Personal income grew by 0.7 percent in January. Wages and salaries were up 0.8 percent, dividends were up 0.6 percent, interest was up 0.4 percent, and transfer payments were up 1.0 percent. Disposable income was up 0.9 percent. On a year-over-year basis, personal income is up 6.0 percent, wages and salaries are up 6.6 percent, dividends are up 6.5 percent, interest is up 6.5 percent, transfer payments are up 3.9 percent, and disposable income is up 6.0 percent.

Consumer spending grew by 0.5 percent in January. Spending on durable goods (largely motor vehicles and parts) was up 0.7 percent, spending on non-durable goods was down 0.4 percent, and spending on services was up 0.9 percent. The decrease in January spending on non-durables was the consequence of the large increase in December spending on non-durables. The items (largely food) purchased in December as a precaution against any Y2K problems were consumed in January. On a year-over-year basis, consumer spending is up 8.2 percent, spending on durable goods is up 10.9 percent, spending on non-durable goods is up 8.8 percent, and spending on services is up 7.3 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 cooled slightly in January, but the effects of higher mortgage rates still have not countered the effects of rising incomes and a strong stock market (and the accompanying wealth effect). Sales of existing single-family homes were down by 10.7 percent in January, to a seasonally adjusted annualized rate of 4.59 million. Total housing starts increased by 1.5 percent in January, up to a seasonally adjusted annualized rate of 1.775 million. Starts for single family housing, which account for approximately 80 percent of all housing starts, were down by 2.1 percent. Starts for structures with five or more units were up by 19.9 percent. Total housing permits were up 8.7 percent to a seasonally adjusted annualized rate of 1.763 million. Permits for single family housing were up 6.1 percent, permits for structures with two to four units were down 11.4 percent, and permits for structures with five or more units were up 22.8 percent.

In January, the Conference Board's index of consumer confidence increased by 2.2 percent, reaching the highest level in the history of the index. The assessment of the current situation increased by 0.4 percent and the index of expectations increased by 4.0 percent. Consumers are ready to spend and keep on spending. Of course, higher interest rates, a decline in the stock market, higher energy prices, or higher import prices could change consumers' plans.

Prices

The Consumer Price Index (CPI) increased by 0.2 percent in January. The core CPI (excluding food and energy) increased by 0.2 percent. The index for energy was up 1.0 percent, the index for transportation was up 0.1 percent, the index for medical care was up 0.3 percent, the index for housing was up 0.3 percent, and the index for food and beverages was unchanged. The index for apparel was down 1.1 percent. 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 14.7 percent, the index for transportation is up 5.6 percent, the index for food and beverages is up 1.6 percent, the index for housing is up 2.5 percent, the index for medical care is up 3.6 percent, and the index for apparel is down 0.9 percent.

The Producer Price Index (PPI) for finished goods did not change in January. Prices of energy goods (led by gasoline, heating oil, and natural gas) increased by 0.7 percent. If the prices of food and energy products are excluded, the resulting core PPI decreased by 0.2 percent. In January, the price index for intermediate goods increased by 0.4 percent and the crude goods index increased by 2.7 percent. On a year-over-year basis, the PPI for finished goods is up by 2.5 percent, the core PPI is up 0.8 percent, the index for intermediate goods is up 4.3 percent, and the index for crude goods is up 18.2 percent. Inflationary pressure appears to be contained. However, the intermediate and crude goods indices indicate the inflationary pressure continues to build. How and when this pressure is released remains to be seen.

Sales

Seasonally adjusted advance estimates of retail sales increased by 0.3 percent in January. Sales of non-durable goods were down 0.5 percent. This was not a surprise given the large amount of purchases of non-durable goods made in anticipation of Y2K. Food purchases were down 2.2 percent. Sales of durable goods, led by a 2.3 percent increase in auto sales, were up 1.4 percent. Furniture sales were down 0.7 percent and sales of building materials were up 0.6 percent. Gas sales were up 0.6 percent, sales of general merchandise were up 0.9 percent, sales at eating and drinking places were down 0.4 percent, and apparel sales were up 0.9 percent.

On a year-over-year basis, total retail trade was up 9.6 percent. Sales of durable goods were up 11.2 percent and sales of non-durable goods were up 8.4 percent on a year-over-year basis. Auto sales were up 13.4 percent, furniture sales were up 6.7 percent, and sales of building materials were up 7.6 percent. Apparel sales were up 1.4 percent. Sales at eating and drinking places were up 7.5 percent.

The National Retail Federation and Forrester Research reported that U.S. consumers spent almost $2.8 billion online during January 2000. Major categories of spending were: air tickets ($317.6 million), books ($224.4 million), computer hardware ($224.4 million), software ($186.7 million), apparel ($181.6 million), hotel reservations ($163.8 million), toys/video games ($146.1 million), and music ($143.1 million). The Census Bureau of the Department of Commerce estimated that U.S. retail e-commerce sales for the fourth quarter 1999 were $5.3 billion. This amount was 0.64 percent of the total retail sales estimate of $821.2 billion for the quarter. The estimates were not adjusted for seasonal variations, holiday, or trading-day differences.

Production

Driven by an increase in auto production, industrial production grew by 1.0 percent in January. Auto production increased by 3.1 percent to a seasonally adjusted annualized rate of 13.3 million. Utility output was up by 1.9 percent. Production of consumer goods increased by 0.9 percent, production of equipment increased by 2.2 percent, and production of materials increased by 1.1 percent. Capacity utilization increased to 81.6 percent, more than 1 percentage point above its level for January 1999. Capacity utilization is still below its average for the 1990's, indicating little pressure on prices at the factory level.

New orders for durable goods fell by 1.3 percent in January. New orders for January 2000 were 6.5 percent greater than new orders for January 1999. The largest decrease in orders was for electronic and other electrical equipment, 13.2 percent. Orders for transportation equipment decreased by 3.6 percent. Increases in orders for motor vehicles and parts and for railroad equipment were offset by decreases in orders for shipbuilding, tanks, and aircraft. New orders for industrial equipment and machinery increased by 12.3 percent.

Shipments of durable goods increased by 2.8 percent in January. Shipments for January 2000 were 9.2 percent greater than shipments for January 1999. The largest increase was for industrial machinery and equipment (led by computer and office equipment) which had a 4.5 percent increase. Shipments of electronic and other electrical equipment increased by 4.5 percent.

Construction spending increased by 2.7 percent in January to a seasonally adjusted annualized rate (SAAR) of $751.8 billion. Good weather conditions were a major reason for the increase, but a long-term increase in highway construction is also underway as increased federal funding makes its way to regional authorities. Private spending on construction increased by 2.3 percent to $569.0 billion SAAR and public spending increased by 4.2 percent to $182.8 billion SAAR. Of the public spending on construction, $66.2 billion (36.2 percent) was for highways and streets and $39.1 billion (21.4 percent) was for educational.

Employment

The national unemployment rate fell to 4.0 percent in January. This is the lowest unemployment rate in 30 years. The economy created 387,000 new jobs. Favorable weather lead to increases in employment in the construction and other weather sensitive industries. Average hourly earnings increased by 0.5 percent (from $13.44 to $13.50) and are up by 3.5 percent in a year-over-year comparison. The labor market is tight and getting tighter. The available pool of labor is getting smaller. Reported wage increases are small and the year-over-year percentage change has begun to decelerate. Wages may be an inadequate measure of compensation growth, because companies are choosing to compensate employees with bonuses and stock options instead of wage increases.

For January, Ohio's seasonally adjusted unemployment rate decreased from 4.1 percent to 4.0 percent. Total employment increased by 17,000 to 5,635,000. Those not employed but seeking work numbered 233,000. Employment in goods producing industries increased by 3,200 to 1,336,600. Manufacturing employment increased by 2,000 to 1,084,300. Construction employment increased by 1,400 to 239,600. Employment in service producing industries increased by 4,100 to 4,250,300. Service employment increased by 3,900 to 1,572,600; government increased by 3,300 to 784,000; and wholesale trade increased by 1,300 to 302,600. Retail trade decreased by 3,500 to 1,033,600 and employment in finance, insurance, and real estate decreased by 700 to 310,900.

In Ohio, average hourly earnings for workers in goods-producing industries decreased by 0.9 percent to $17.03 in January. Average hourly earnings for workers in the construction industry increased by 1.0 percent to $20.19 in January. Average hourly earnings for workers in retail trade remained steady at $9.22.

Average weekly earnings for workers in goods-producing industries fell by 2.5 percent to $725.48 in January. Average weekly earnings for workers in the construction industry increased by 0.7 percent to $785.39. Average weekly earnings for workers in retail trade decreased by 2.8 percent to $255.39. ❑

Status of the General Revenue Fund

- Doris Mahaffey

Revenues

Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of January, 2000
($ in thousands)

REVENUE SOURCE			
TAX INCOME	Actual	Estimate*	Variance
Auto Sales	$49,296	$47,804	$1,492
Non-Auto Sales & Use	$581,369	$556,313	$25,056
Total Sales	$630,665	$604,117	$26,548
Personal Income	$921,110	$957,063	($35,953)
Corporate Franchise	$215,617	$247,112	($31,495)
Public Utility	$302	$0	$302
Total Major Taxes	$1,767,695	$1,808,292	($40,597)
Foreign Insurance	$16	$0	$16
Domestic Insurance	$0	$0	$0
Business & Property	$42	$70	($28)
Cigarette	$22,677	$21,583	$1,094
Soft Drink	$0	$0	$0
Alcoholic Beverage	$3,799	$3,579	$220
Liquor Gallonage	$3,421	$3,360	$61
Estate	$153	$0	$153
Racing	$0	$0	$0
Total Other Taxes	$30,107	$28,592	$1,515
Total Taxes	[illegible]	[illegible]	[illegible]
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	$4,007	$2,955	$1,052
Other Income	$13,555	$8,985	$4,570
Non-Tax Receipts	$17,562	$11,940	$5,622
TRANSFERS			
Liquor Transfers	$6,000	$3,000	$3,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$265,563	$262,400	$3,163
Total Transfers In	$271,563	$265,400	$6,163
TOTAL INCOME less Federal Grants	$2,086,865	$2,114,224	($27,359)
Federal Grants	$293,368	$308,395	($15,028)
TOTAL GRF INCOME	$2,380,233	$2,422,619	($42,386)

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

Detail may not add to total due to rounding.

January revenues were a mixed bag. The personal income tax was nearly $40 million under estimate and the corporate franchise tax was $31.6 million under. Federal reimbursements were also (not surprisingly) $15 million under estimate.

Strong performance in the sales tax, along with the assistance of the non-tax income and transfer categories, cut this underage in half. Total sales and use taxes were $26.5 million over estimate, total transfers were $6 million over estimate, other income was $4.6 million over estimate, and the cigarette tax and licenses and fees each kicked in with another $1 million over estimate.

As a result, total GRF revenue for the month of January was $42.4 million under estimate.

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	$447,179	$427,495	$19,684	$416,104	7.47%
Non-Auto Sales & Use	$3,114,619	$3,031,155	$83,464	$2,911,396	6.98%
Total Sales	$3,561,798	$3,458,650	$103,148	$3,327,499	7.04%
Personal Income	$4,026,720	$3,991,140	$35,580	$3,902,322	3.19%
Corporate Franchise	$239,997	$263,624	($23,627)	$29,943	701.51%
Public Utility	$207,236	$206,325	$913	$202,099	2.59%
Total Major Taxes	[illegible]	$7,919,739	$116,914	$7,461,823	7.69%
Foreign Insurance	$128,243	$126,854	$1,389	$148,382	-13.57%
Domestic Insurance	$126	$59	$67	$42	199.74%
Business & Property	$497	$643	($146)	$169	195.08%
Cigarette	$158,019	$155,254	$2,765	$160,716	-1.68%
Soft Drink	$0	$0	$0	$0	15.33%
Alcoholic Beverage	$31,558	$30,730	$828	$31,010	1.77%
Liquor Gallonage	$17,314	$17,102	$212	$16,939	2.21%
Estate	$74,864	$61,600	$13,264	$61,943	20.84%
Racing	$0	$0	$0	$0	—
Total Other Taxes	$410,611	$392,242	$18,369	$419,200	-2.05%
Total Taxes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NON-TAX INCOME					
Earnings on Investments	$54,850	$66,360	($11,510)	$85,270	-35.68%
Licenses and Fees	$17,663	$21,175	($3,512)	$19,905	-11.32%
Other Income	$64,582	$56,161	$8,421	$54,142	19.47%
Non-Tax Receipts	$137,094	$143,696	($6,602)	$159,216	-13.89%
TRANSFERS					
Liquor Transfers	$52,000	$51,000	$1,000	$51,000	1.96%
Budget Stabilization	$0	$0	$0	$0	#N/A
Other Transfers In	$294,523	$262,400	$32,123	$19,848	1389.03%
Total Transfers In	$346,523	$313,400	$33,123	$70,848	389.10%
TOTAL INCOME less Federal Grants	[illegible]	[illegible]	[illegible]	[illegible]	10.18%
Federal Grants	$2,117,806	$2,154,096	($36,290)	$2,009,312	5.40%
TOTAL GRF INCOME	$11,947,788	$11,823,173	$124,617	$11,129,226	8.17%

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

Details may not add to total due to rounding.

Personal Income Tax

This snapshot of GRF revenues does not really capture the budget's performance as we begin the second half of fiscal year 2000. Although falling short of the estimate, the January 2000 personal income tax collection of $921 million was the greatest monthly total for the personal income tax to date, exceeding the previous record high of January 1999 by 1.4 percent.

January collections are typically high, in part, because of large quarterly estimated payments. The January payment is the last payment scheduled before the April filing date. Quarterly estimated payments came in $31.2 million under estimate this month, but that shortfall is almost certainly due to delays in processing January payments. Perhaps because the last day of the month was on a Monday, many of the payments received in January were not recorded until February. In fact, by the first week in February, quarterly estimated payments had exceeded both the February estimate and the January shortfall combined. While the "sideways" trading of the stock market throughout much of 1999 probably contributed to lower than estimated quarterly estimated payments for the first half of fiscal year 2000, the steady climb of the stock market in the last quarter of 1999 will likely rescue that income component with regard to 1999 income tax calculations.

Withholding continued its strong performance in January. Total withholding for the month was $24.5 million over estimate. It exceeded December 1999 withholding by a whopping 14.3 percent. The substantial withholding continues to reflect the strong economy. The surprisingly strong growth in employment in January and recent months was largely responsible for the increase. The tight labor market put pressure on wages, but they increased by only 0.4 percent over the prior month. Employers continued to make use of other incentives to hire and retain workers. Signing and retention bonuses were among the incentives that would have translated into withholding increases.

The final component contributing to the "shortfall" in January income tax collections was refunds. Refunds were much higher than anticipated — $29.2 million over estimate. This, too, can largely be attributed to "timing" — i.e., the movement of more refunds into January rather than an increase in the overall amount of refunds. It is yet another result of the emerging digital economy, and reflects the increased use and greater speed of electronic filing and telefiling. These options that have only become available in the last few years, and the Tax Department was not sure how to account for such changes in their estimates.

Corporate Franchise Tax

The underage in the corporate franchise tax is problematic — a small cloud on the horizon that could be the harbinger of stormy times ahead. By now it does not appear to be a "timing issue". It looks like not only the January collection but also the first payment is underestimate; and that is an indication that this revenue source may come in under estimate, for the year, as well.

Sales Tax

After being under estimate in December (by $24.6 million), the sales tax rebounded in January — largely due to the non-auto portion. The excess in January ($25.1 million over estimate) basically offset the shortfall in December. The fact that the January overage was not greater was actually a little disappointing coming, as it did, on the heels of what by all accounts was an exceptional retail shopping season. In fact, however, January 2000 non-auto sales and use tax revenue exceeded January 1999 revenue by 8.9 percent, which is not too shabby.

The Dismal Economist reports that the holiday shopping season was the strongest since 1992. In particular, sales of non-durables were up 1.4 percent.[1[1]] Concern about Y2K problems most likely fueled these sales. However, to the extent that people were stocking up on food items, that would not have translated into higher sales tax revenues in Ohio.

Sales of durable goods — such as furniture — were also up in December. The rallying stock market may have been the impetus for some of these purchases. The Dismal Economist noted an acceleration of retail sales corresponding to the rebound in the stock market. The strong housing market also boosts durable sales.

The January auto sales tax was very nearly on target — exceeding the estimate by just about $1.5 million. According to WEFA, January light vehicle sales, nationwide, were the highest since 1986.[2[2]] (This is a seasonally adjusted number.) Moderate weather and dealer incentives probably contributed to the strong market. Dealer incentives have worked to counteract the interest rate increases by the Fed. Moreover, prices of model year 2000 vehicles have remained flat. With these factors in mind, January's auto sales tax collections may again be somewhat disappointing. January revenue exceeded December revenue by less than 1 percent. However, this has been a "boom year," so that continued growth of any sort is perhaps, by itself, an impressive enough phenomenon.

Year-to-date Revenue

At the end of January, total taxes exceed estimates by $134 million. Moreover, the actual exceeds the estimate in all tax categories except the corporate franchise tax ($23.6 million under estimate) and business and property taxes — a minor tax category. Star performers for the year are the non-auto sales and use tax, $83 million over estimate, the personal income tax, $35.6 million over estimate, the auto sales tax, $19.7 million over, and the estate tax, $13.25 million over estimate.

Compared to the end of January 1999, tax revenues to the GRF are up 7 percent, with the estate tax, the auto sales tax, and the non-auto sales and use tax the strong performers. (The high growth rate for the corporate franchise tax is a statistical fluke; due to timing issues corporate franchise tax collections were exceptionally low in January 1999.)

On the non-tax side, year-to-date transfers and other income contribute to the positive variance; while federal reimbursements and other non-tax income continue to chip away at it. ❑

[1[1]] See The Dismal Scientist: Retail Sales, Analysis and Business Implications, 1/13/00, at http://www.dismal.com/economy/releases/dyn_release.asp?r+usa_retail. Accessed 1/28/00

[2[2]] Andrew Hodge, "Forecast Overview," U.S. Economic Outlook 1999-2005, February 2000, WEFA Group, p. 2

DISBURSEMENTS

*— Jeffrey E. Golon with Steve Mansfield**

January's bitter cold has waned, permitting a thaw in our frozen analytic faculties and a return to more normal operating parameters. That included a return to our ongoing business of describing and analyzing state GRF spending. In this article, the reader will encounter a review of the state's disbursement activity for the month of January, as well as the fiscal year-to-date spending picture. We then close by offering the reader a broad outline of the state's FY 2000 disbursement dynamics as they have unfolded over the course of the last seven months (July 1999 through January 2000).

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of January, 2000
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$364,905	$436,268	($71,363)
Higher Education	$163,288	$152,478	$10,810
Total Education	$528,193	$588,746	($60,553)
Health Care/Medicaid	$507,053	$480,423	$26,630
Temporary Assistance to Needy Families (TANF)	$79,462	$94,837	($15,374)
General/Disability Assistance	$5,904	$5,500	$405
Other Welfare (2)	$44,747	$51,829	($7,082)
Human Services (3)	$72,854	$103,380	[illegible]
Total Welfare & Human Services	$710,020	$735,946	($25,926)
Justice & Corrections	$157,490	$183,106	($25,617)
Environment & Natural Resources	$6,488	$8,597	($2,110)
Transportation	$4,039	$2,308	$1,732
Development	$7,295	$6,554	$741
Other Government (4)	$19,753	$23,345	($3,592)
Capital	$1,163	$688	$475
Total Government Operations	$196,227	$224,598	($28,371)
Property Tax Relief (5)	$2,366	$2,780	($414)
Debt Service	[illegible]	[illegible]	[illegible]
Total Program Payments	$1,466,357	$1,578,139	($111,782)
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$720	$0	$720
Total Transfers Out	$720	$0	$720
TOTAL GRF USES	$1,467,077	$1,578,139	($111,062)

(1) Includes Primary, Secondary, and Other Education.
(2) Includes the Department of Human Services, exclusive of Medicaid, TANF, and General/Disability Assistance.
(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.
(4) Includes Regulatory and Non-regulatory agencies, Pension Subsidies, and Released Warrants.
(5) 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. January

The month's disbursements, exclusive of transfers, landed with a resounding thud in the form of a very large $111.8 million underage, short of the January spending estimate by 7.1 percent. The key pieces to this sizeable monthly underage, in order of magnitude, involved: 1) the Department of Education ($67.2 million); 2) the Department of Mental Health ($24.1 million); 3) the Department of Rehabilitation & Correction ($20.5 million); 4) Temporary Assistance to Needy Families/TANF ($15.4 million); and 5) the Department of Mental Retardation & Developmental Disabilities ($14.4 million). Excluding TANF, the dominant factor behind this collection of monthly underages was, as best we could determine, timing. The full effect of these underages on January's total disbursement variance was constrained by a $26.6 million overage tossed in by the Medicaid program.

Our discussion of the departmental budgets and programs that worked to form January's $111.8 million monthly underage, arranged in order of the magnitude of their contribution, commences below. It also includes a brief discussion of the few notable monthly overages. The reader is also directed to Table 4, which provides a more detailed picture of January's disbursements by program category.

Education. The Department of Education's January disbursements drove the monthly underage with a sizeable $67.2 million negative disbursement variance, under the estimate by 16.0 percent. The lead contributor was the department's line item 200-520, Disadvantaged Pupil Impact Aid (DPIA), which is the third largest line item in their FY 2000 GRF budget at $390.7 million, well behind Base Cost Funding ($3.5 billion) and Property Tax Reimbursement ($636.2 million). Other elements in the department's monthly underage included, in order of magnitude, desegregation costs ($9.0 million), post-secondary adult vocational education ($7.4 million), pupil transportation ($7.4 million), and base cost funding ($4.5 million). Timing played a key role in all of these underages.

Mental Health. For January, the Department of Mental Health posted a negative disbursement variance of $24.1 million, short of the monthly estimate by 44.1 percent. Virtually all of the monthly underage was traceable to the department's three largest GRF subsidy line items: 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. The key factor affecting this subsidy funding, which is typically distributed to community mental health boards on a quarterly basis, was timing, which means that the underage should erode in the months ahead. Quite simply, the department's disbursement plan assumed that county boards would seek to draw down a chunk of their remaining FY 2000 quarterly allocations in January, and that did not happen.

Rehabilitation & Correction. The Department of Rehabilitation & Correction's January disbursements landed under the target by $20.5 million, off the spending estimate for the month by 14.2 percent. The monthly underage was almost entirely attributable to the department's $751.5 million Institutional Operation line item (501-321), which supports the day-to-day costs of running the state's prison system. The monthly estimate predicted that there would be a noticeable upward spike in the January disbursements from this line item and that simply did not happen. This outcome was no more than a matter of timing that should self-correct as we move toward the end of the fiscal year.

TANF. After posting an uncharacteristic $27.1 million positive disbursement variance for the month of December, Temporary Assistance to Needy Families (TANF) spending returned to form in January by registering a $15.4 million underage, a negative disbursement variance of 16.2 percent. (Prior to that December overage, TANF spending had run off an unbroken string of four monthly underages.) TANF's January underage reflected the net effect of its three GRF line items combining monthly disbursement variances, in order of magnitude, as follows: 1) a $12.7 million underage in line item 400-413, Day Care Match/MOE; 2) a $5.0

million underage in line item 400-411, TANF Federal Block Grant; and 3) a countering $2.3 million overage in line item 400-410, TANF State.

The January underage in TANF's Day Care Match/MOE component was the direct result of the Department of Human Services' decision to distribute county day care advances out of federal line item 400-617, Day Care Federal, rather than from the Day Care Match/MOE line item, as planned. Lower than expected disbursements to counties for administrative and purchased services costs was the source of the monthly underage registered in the TANF Federal Block Grant component.

Table 6
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)	$3,081,472	$3,208,494	($127,023)	$2,927,369	5.26%
Higher Education	$1,449,995	$1,449,955	$40	$1,373,657	5.56%
Total Education	$4,531,467	$4,658,449	($126,983)	$4,301,026	5.36%
Health Care/Medicaid	$3,248,704	$3,254,398	($5,694)	$2,988,998	8.69%
Temporary Assistance to Needy Families (TANF)	$534,825	$573,106	($38,281)	$497,632	7.43%
General/Disability Assistance	$36,276	$34,553	$1,724	$33,239	9.14%
Other Welfare (2)	$318,762	$354,128	($35,366)	$250,152	27.43%
Human Services (3)	$765,873	$834,590	($68,716)	$718,045	6.66%
Total Welfare & Human Services	$4,904,541	$5,050,846	($146,305)	$4,488,765	9.26%
Justice & Corrections	$1,075,281	$1,089,173	($13,892)	$979,016	9.83%
Environment & Natural Resources	$93,853	$83,089	$10,765	$88,875	5.60%
Transportation	$25,474	$29,716	($4,242)	$19,238	32.43%
Development	$90,966	$91,266	($300)	$74,885	21.48%
Other Government (4)	$246,945	$274,557	($27,611)	$235,300	4.91%
Capital	$10,862	$9,269	$1,593	$2,462	342.07%
Total Government Operations	$1,543,272	$1,577,159	($33,887)	$1,399,762	10.26%
Property Tax Relief (5)	$658,761	$675,164	($16,403)	$630,260	4.20%
Debt Service	$125,227	$121,398	$3,829	$118,372	5.79%
Total Program Payments	$11,663,299	$11,963,036	($310,745)	$10,844,174	7.55%
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	—
Budget Stabilization	$46,400	$46,400	$0	$44,164	5.02%
Other Transfers Out	$764,601	$720,599	$44,031	$975,169	-21.59%
Total Transfers Out	$811,001	$766,999	$44,031	$1,019,333	-20.44%
TOTAL GRF USES	$12,474,299	$12,750,035	($275,714)	$11,863,507	5.15%

(1) Includes Primary, Secondary, and Other Education.
(2) Includes the Department of Human Services, exclusive of Medicaid, TANF, and General/Disability Assistance.
(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.
(4) Includes Regulatory and Nonregulatory agencies, Pension Subsidies, and Returned Warrants.
(5) 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.

As noted, the third GRF TANF component — line item 400-410 — actually landed over the January estimate, a direct result of Ohio Works First (OWF) cash assistance payments being higher than was forecasted for the month. The TANF cash assistance caseload increased in October through December by about 12,500 recipients, a fact that was largely attributable to two policy changes that went into effect on October 1, 1999: 1) the elimination of the time limit on the disregard for a portion of a recipient's earned income; and 2) a change in the sanction's notification procedure. In January, however, the cash assistance caseload dropped by about 1,300 recipients. Despite that dip, the cash assistance caseload was still larger than the Department of Human Services forecasted would be the case for the month of January, and benefit levels received a scheduled three percent increase, thus the resulting overage in cash assistance payments. Administrative costs paid out of 400-410 were also higher than expected.

Mental Retardation. After posting a total of $29.7 million in overages for the months of November and December, the Department of Mental Retardation & Developmental Disabilities countered in January with a $14.4 million underage, a negative disbursement variance of 43.8 percent. The primary factors behind the underage were line items 322-501, County Boards Subsidies, and 322-413, Residential and Support Services, which tossed in underspending of $15.0 million and $8.5 million, respectively. The disbursement variance in line item 322-501 represented a correction to an overage that occurred a month earlier in December when fears relative to Y2K drove the department to prematurely distribute larger chunks of state subsidy funding to county boards. And, in the case of line item 322-413, the disbursement variance reflected the difficulty of predicting when service providers would bill the department. A third, and more distant, contributor to the negative monthly disbursement variance was line item 322-452, Case Management, with a $1.8 million underage. This disbursement variance was no more than a timing-based adjustment to the fact that the department released higher than expected levels of case management services subsidy funding earlier in the fiscal year.

Taking quite a bit of the charge out of the department's monthly underage was line item 323-321, Residential Facilities Operations, which tossed in a countering $10.8 million overage. This was yet another timing-based adjustment. Earlier in the fiscal year, the department was covering the operating costs of its 12 developmental centers with a heavier mix of federal funds and less GRF money, contrary to the original disbursement plan. In January, the funding mix switched to a heavier reliance on GRF money.

Human Services. For January, disbursements for the Department of Human Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF and Disability Assistance, which are tracked under separate components of the Welfare and Human Services program category — landed $7.1 million (or 13.7 percent) below the monthly estimate. The most notable player in this disbursement variance was line item 400-409, Wellness Block Grant. 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 $7.1 million under the estimate. This was no more than a timing-based adjustment to the fact that a large chunk of this grant funding was released a month earlier in December, rather than in January, as had been assumed under the department's original disbursement plan.

Library Board. The State Library Board, whose mission is to develop, maintain, provide, and disseminate information and library materials and services, including the connection of 240-plus public library systems in the state through the Ohio Public Library Information Network (OPLIN), closed January with a negative monthly disbursement variance of $2.8 million, 77.0 percent below the estimate. The largest chunk of this monthly underage was traceable to $1.8 million earmarked in the board's FY 2000 maintenance and equipment budgets to assist in its relocation. The disbursement estimate assumed that the board would hit that earmarked funding in January, but since their move was still a few months away, that had not happened. Other notable components of the monthly underage included quarterly rental payments (due to a lower than anticipated increase in the board's rate per square foot at its existing location) plus OPLIN funding (due to price discounts now available on telecommunications products and services through the federal government's E-Rate program).

Selective Overages. In the midst of this rather lengthy parade of monthly underages, there were some monthly overages, the four most notable of which are discussed below.

Medicaid/Health Care. In January, the state's $5-plus billion Medicaid program continued its odd FY 2000 disbursement pattern — wild monthly gyrations over and under the estimate — by posting a $26.6 million (5.5 percent) overage immediately on the heels of a December underage totaling $35.7 million (7.6 percent). The January overage was primarily a function of three service categories: 1) All Other ($12.3 million); 2) Hospitals

($12.1 million); and 3) Medicare Buy-in ($9.0 million). An analysis of the overage in the All Other service category was made exceedingly problematic by the absence of good solid data, an ongoing dilemma that makes a thorough and timely investigation virtually impossible. In the case of the Hospitals service category, the January overage represented a “catch-up,” so to speak, for the element of timing that had temporarily strangled expected fee-for-service payments and restricted planned disbursement activity in the preceding month of December. The overage in the Medicare Buy-in service category signaled a doubling up of an expected payment, most likely meaning that it included the planned February payment as well.

The only Medicaid service category that worked against the overage was Nursing Homes, which posted a $10.2 million underage. As discussed in our January 2000 issue, declining nursing home utilization was perhaps a major factor in generating lower than expected payments to the nursing home provider community.

Also notable in Medicaid’s January disbursements was the apparent absence of any disbursement activity in the HMO service category. What this actually indicated was that the Department of Human Services, as planned, used $29.1 million from the non-GRF funding in its Institutions for Mental Diseases/Disproportionate Share Hospital (IMD/DSH) Program to cover HMO service payments in January, a monthly fiscal tactic expected to be employed through this coming April.

We’ve provided a more detailed visual picture of Medicaid’s January disbursement activity in Table 6, which appears a little further on in this article.

Regents. The Board of Regents’ January disbursements registered at $10.8 million, or 7.1 percent, over the monthly estimated spending of $152.4 million. The positive monthly disbursement variance was principally traceable to two line items. In the lead was line item 235-531, Ohio Student Choice Grants, which contributed a timing-based $9.4 million overage. Second to that was line item 235-590, 12th Grade Proficiency Stipend, with an overage $4.4 million. This line item was created after the start of the fiscal year pursuant to budgetary language that required the transfer of $17.5 million in appropriation authority from the Department of Education in order to fund a financial aid program under which certain students would be eligible for a $500 scholarship. Since that student scholarship appropriation did not actually reside in the board’s GRF budget at the outset of FY 2000, it was deliberately excluded from the original disbursement estimates, which also means that the overage in the line item will continue to build in the months ahead.

Partially negating the effect of these monthly overages were timing-based monthly underages posted in line items 235-503, Ohio Instructional Grants, and 235-599, National Guard Tuition Grant Program, with spending under the estimate of $1.7 million and $1.3 million, respectively.

Aging. For the month, Department of Aging’s disbursements were $4.3 million, or 63.1 percent, over the estimate. Most of this disbursement variance was propelled by three sources: 1) a $2.5 million overage in line item 490-412, Residential State Supplement (RSS); 2) an $800,000 overage in line item 490-414, Alzheimers Respite; and 3) a $300,000 overage in line item 490-403, PASSPORT. The RSS overage was simply due to the timing of a $2-plus million transfer of programmatic funding to the Department of Human Services, funding which is used to provide 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. That transfer of funds did not occur in December as scheduled, but despite that delay, monthly cash payments to RSS recipients were still on time.

Table 6

Medicaid (400-525) Spending in FY 2000

Service Category	January '00 Actual	January '00 Estimate	January '00 Variance	January '00 Percent Variance	Year-to-Date Spending Actual* thru Jan.	Year-to-Date Spending Estimate* thru Jan.	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Homes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ICF/MR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hospitals	$130,965,748	$118,860,559	$12,105,189	10.2%	$725,381,194	$715,051,428	$10,329,766	1.4%
Inpatient Hospitals	$98,784,217	$91,890,656	$5,893,561	7.5%	$543,131,145	$549,982,659	($6,851,514)	-1.2%
Outpatient Hospitals	$32,181,531	$26,969,903	$5,211,628	19.3%	$182,250,048	$165,068,769	$17,181,279	10.4%
Physicians	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Prescription Drugs	$58,043,727	$58,103,871	($60,144)	-0.1%	$374,369,466	$383,463,550	($9,094,084)	-2.4%
Payments	$84,291,977	$80,389,348	$3,902,629	4.9%	$495,074,357	$482,030,753	$13,043,604	2.7%
Rebates	$26,248,250	$22,285,477	$3,962,773	17.8%	$120,704,890	$98,567,203	$22,137,687	22.5%
HMO[#]	**$0**	**$0**	**$0**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Medicare Buy-In	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
All Other* **	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOTAL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GRF	[illegible]		[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
Est. Federal Share	$295,783,147	$280,249,127	$15,534,020		$1,895,092,582	$1,898,396,320	($3,303,738)	
Est. State Share	$211,269,620	$200,174,104	$11,095,516	5.5%	$1,353,611,568	$1,355,971,336	($2,359,768)	-0.2%

* [illegible]
** [illegible]
*** [illegible]
\# [illegible]
[illegible]
Source: [illegible]

With regard to its overage in the Alzheimers Respite line item, which is used by the state's Area Agencies on Aging (AAAs) to assist families of individuals who suffer from Alzheimer's with respite care (personal care, homemaker, adult day care, and visiting) and education services (support groups and information), the department opted to speed up a quarterly subsidy distribution to AAAs that had originally been planned for March. This decision to accelerate funding was driven by the department's desire to maximize the likelihood that the AAAs would spend this money on Alzheimer's services in FY 2000 and not carry it unspent into FY 2001. Why? Because, relative to its FY 1999 appropriation, the funding in this area of the department's budget was doubled in FY 2000 (an increase of $1.5 million), followed then by another $1.5 million appropriation increase in FY 2001. The purpose of enhancing this funding stream was to roughly triple the number of families receiving Alzheimer's respite care services from over 1,200 in FY 1999 to 3,600 by the close of FY 2001. Clearly then, by forcing this enhanced funding into the pipeline, the department hoped to expedite the program's expansion.

The monthly overage in the PASSPORT program, which provides an alternative to nursing placement by offering homecare for Medicaid-eligible persons age 60 and older, was no surprise, as self-correcting adjustments to previous monthly underages were expected.

Debt Service. The FY 2000 appropriations for this program category, composed entirely of two debt service appropriations managed by the Treasurer of State (line items 090-900 and 155-900) registered a $3.5 million overage for January, in excess of the estimate by 13.4 percent. Virtually all of this disbursement variance was traceable to line item 090-900, Debt Service, which contains a $122.5 million FY 2000 appropriation for the purpose of paying the principal and interest on bonds issued to finance the local public infrastructure improvement program administered by the Ohio Public Works Commission and assisted by District Public Works Integrating committees. The disbursement plan for this line item called for $10.6 million of its appropriation to be encumbered for a bond payment that was to occur after the close of FY 2000. Apparently, market conditions were such around January that a decision was made to issue a larger bond amount than planned, with the notion being that this action would reduce the state's future debt service costs.

II. Year-to-Date

For the year-to-date, excluding transfers, the state posted a $319.7 million negative disbursement variance, a $111-plus million January jump in the size of the year-to-date underage. Roughly three-quarters of the year-to-date underage was attributable to four areas of state spending, in order of magnitude, as follows: 1) the Department of Education ($118.0 million); 2) the Department of Mental Health ($54.1 million); 3) Temporary Assistance to Needy Families/TANF ($38.3 million); and 4) exclusive of its Medicaid, TANF, and General/Disability Assistance programs, the remainder of the Department of Human Services' GRF budget ($35.4 million). Timing appeared to be driving a considerable portion of these underages.

Our discussion of the departmental budgets and programs, arranged in order of the magnitude of their contribution to the state's negative year-to-date disbursement variance, appears immediately below. It is followed by a brief discussion of a few notable year-to-date overages. The reader's attention is also directed to Table 5, which provides a more detailed picture of year-to-date disbursements by program category.

Education. In addition to powering January's $111.8 million underage, the department also dominated the state's $319.7 million year-to-date underage with a negative disbursement variance of $118.0 million. As was the case with the department's monthly underage, the leading element in its year-to-date underage was line item 200-520, Disadvantaged Pupil Impact Aid (DPIA), which was running short of the estimate by $49.6 million. Other pieces of the department's budget that chipped into its year-to-date underage included, in order of magnitude, desegregation costs ($9.5 million), pupil transportation ($9.5 million), special education enhancements ($9.0 million), Ohio Educational Computer Network ($8.6 million), summer intervention services ($7.8 million), power equalization ($5.1 million), school improvement incentives ($4.8 million), and OhioReads administrative/volunteer support ($4.7 million). As these disbursement variances were principally being driven by timing issues, the underages should largely self-correct as we approach the close of FY 2000, with the notable exception of DPIA funding where we expect that the department will not need to tap all of the money that has been allocated for all-day, everyday kindergarten.

Mental Health. Year-to-date, the Department of Mental Health's spending landed short of the estimate by $54.1 million, a negative disbursement variance of 14.9 percent. The essential elements in the year-to-date underage were identical to those that shaped the department's disbursement story for the month of January: timing victimized its three largest GRF subsidy line items: 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. The department assumed that county boards would request early draws on their quarterly allocations from this subsidy funding, which has turned out not to be the case. As this was simply a timing-based phenomenon, these underages should dissipate by the close of FY 2000.

TANF. Year-to-date, Temporary Assistance to Needy Families (TANF) disbursements were running under the estimate by $38.3 million, which was 6.7 percent short of the $573.1 million year-to-date estimate. The year-to-date disbursement variance was composed of: 1) a $65.0 million underage in the TANF Federal line item; 2) a $35.4 million overage in the TANF State line item; and 3) an $8.7 million underage in the Day Care Match/MOE line item. The core elements of this disbursement variance — the TANF Federal line item being significantly under the estimate and the TANF State 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 federal fiscal year maintenance of effort (MOE) money in September, earlier than was assumed in the original plan for meeting this federal requirement. Since then, the overage in the TANF State line item has continued to grow, reflecting the additional reality that caseloads and related cash assistance payments are running ahead of forecasted levels.

In the matter of the Day Care Match/MOE line item, the $8.7 million year-to-date underage was a bit misleading, as a more detailed reading of available appropriation activity revealed. At this point in the fiscal year, 72.5 percent of the line item's $76.5 million FY 2000 appropriation had actually been disbursed, leaving a remainder of $20.8 million. Virtually all of this undisbursed funding was locked up in outstanding vouchers and expected to post as disbursements in February, thus more or less exhausting the available appropriation and indicating that the Department of Human Services would be tapping other line items to finance the remaining months of FY 2000 day care costs.

Human Services. Year-to-date, disbursements for the Department of Human Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF and Disability Assistance — registered $35.4 million (or 10.0 percent) below the year-to-date estimate. Underages contributing to the year-to-date underage were littered throughout the department's budget, and included, in order of magnitude, the following areas: computer projects ($15.3 million), adoption services ($4.9 million), child support match ($3.7 million), electronic benefits transfer ($3.4 million), child and family services ($2.8 million), state refugee services ($1.8 million), burial claims ($1.7 million), county social services administration ($1.7 million), child support administration ($1.6 million), child protective services ($1.6 million), and personal services ($1.2 million). Virtually all of these year-to-date underages tied back to contractual spending and subsidy distributions that were running below estimates, the source of which was a confluence of forces that included, in order of importance, timing, administrative obstacles, and faulty estimates. (The reader is directed to our November 1999 and January 2000 issues in which many of these matters are discussed in much greater detail.)

A portion of the combined impact of these monthly underages was in turn somewhat offset by notable overages related to non-TANF county advances (a $3.0 million timing-based adjustment), food banks (a $2.5 million lump sum distribution earmarked to the Ohio Association of Second Harvest Food Banks that was not built into the FY 2000 disbursement estimates), and audit payments (around $1.4 million traced to higher than anticipated payments to the Auditor of State for child welfare program audits).

Property Tax Relief. Year-to-date, the state's Property Tax Relief program, which will disburse approximately $1.0 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, was under the estimate by $16.4 million, or 2.9 percent. A closer examination of the negative year-to-date disbursement variance, in terms of the type of property tax relief distributed, revealed that spending was under the estimate by $9.4 million in real property tax credits/exemptions and by $7.0 million in tangible tax credits. Of the unspent property tax credits/exemptions funding, virtually all of it was tied to a cancelled $9.3 million FY 1999 encumbrance, suggesting that this amount ($9.3 million) would lapse back into the state treasury at the close of FY 2000. It also appeared that the unspent tangible tax credits funding ($7.0 million) might not be needed in FY 2000, as this component of the state's Property Tax Relief program has typically more or less completed its annual disbursement activity by the end of January.

Administrative Services. The Department of Administrative Services closed January with a year-to-date negative disbursement variance of $15.5 million, 13.9 percent under the estimate, largely due to a string of three roughly $5.0 million underages that hit back in August, September, and October. Close to 85.0 percent of this year-to-date 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 $6.5 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 $6.6 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).

Rehabilitation & Correction. Year-to-date, the Department of Rehabilitation & Correction posted a $12.5 million underage, short of the estimate by 1.6 percent. There were two notable elements to this disbursement picture. The key element was the $17.2 million year-to-date underage in the department's monster Institutional Operations line item, largely due to a $21.1 million timing-based underage posted in the line item for January. A secondary element in this disbursement mix was FY 1999 encumbrances, which registered a $4.3 million overage and acted as a brake on the size of the department's negative year-to-date disbursement variance. The department had simply tapped more of its operational expense funding encumbered from FY 1999 than OBM had assumed would be the case, a fact which we first discussed in our January 2000 issue.

Mental Retardation. One element of the Department of Mental Retardation & Developmental Disabilities essentially dominated the story behind the department's year-to-date $10.0 million, or 3.5 percent, underage: line item 322-413, Residential and Support Services. This line item, which is used by the department to pay for services delivered to individuals with mental retardation or developmental disabilities, carried $21.9 million in encumbered funding from prior fiscal years into FY 2000, all of which was expected to have been disbursed very early on in the fiscal year. To date, only $11.0 million of this encumbered prior years' funding has been disbursed, leaving us to wonder how much of the remaining $10.9 million would be unspent at the close of FY 2000 and eligible, pursuant to existing state law, to be transferred to the department's Community Mental Retardation and Developmental Disabilities Trust Fund.

Medicaid/Health Care. As a result of a relatively large $26.6 million January overage, Medicaid's year-to-date underage shrank to $5.6 million, only 0.2 percent shy of the estimated year-to-date disbursement total of $3.3 billion. On an even more provocative note, once the planned spending associated with $6.0 million in prior year's encumbrances was factored out, the year-to-date disbursement variance tied solely to Medicaid's current year funding (in essence its FY 2000 appropriation) was less than $600,000 under the estimate!

There were really two very notable service categories that had essentially battled for control over Medicaid's year-to-date disbursement variance: 1) the Nursing Homes service category with an underage of $33.4 million countered by 2) the All Other service category with an overage of $26.7 million. As noted in our January 2000 issue, it appeared that a drop in bed utilization was producing a corresponding decline in monthly nursing home provider payments, despite increased per diem rates. And, on the matter of the All Other service category, unpacking this miscellaneous collection of Medicaid activities was confounded by the absence of good data that is both timely and readily available.

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

Service Category	FY 2000[1] Yr.-to-Date as of Jan. '00	FY 1999[2] Yr.-to-Date as of Jan. '99	Variance	Percent Variance
Nursing Homes	[illegible]	[illegible]	[illegible]	[illegible]
ICF/MR	[illegible]	[illegible]	[illegible]	[illegible]
Hospitals	$725,381,194	$682,330,502	$43,050,692	6.3 %
Inpatient Hospitals	$543,131,146	$521,281,762	$21,849,383	4.2%
Outpatient Hospitals	$182,250,048	$161,048,740	$21,201,309	13.2%
Physicians	[illegible]	[illegible]	[illegible]	[illegible]
Prescription Drugs	$374,369,466	$309,989,985	$64,379,481	20.8 %
Payments	$495,074,357	$405,817,506	$89,256,851	22.0%
Rebates	$120,704,890	$95,827,521	$24,877,369	26.0%
HMO	[illegible]	[illegible]	[illegible]	[illegible]
Medicare Buy-In	[illegible]	[illegible]	[illegible]	[illegible]
All Other**	[illegible]	[illegible]	[illegible]	[illegible]
TOTAL	[illegible]	[illegible]	[illegible]	[illegible]
Est. Federal Share	$1,895,092,582	$1,746,257,650	$148,834,932	8.5 %
Est. State Share	$1,353,611,568	$1,242,630,070	$110,981,499	8.9 %

* [illegible]
** [illegible]
1. [illegible]
2. [illegible]

A more detailed visual picture of Medicaid's year-to- date disbursement activity, as well as a spending comparison with FY 1999, is contained in Tables 6 and 7.

Health. A substantial portion of the Department of Health's negative $5.7 million year-to-date disbursement variance, 10.7 percent short of the estimate, was attributable to line items 440-505, Medically Handicapped Children, and 440-418, Immunizations, which posted underages of $3.4 million and $1.0 million, respectively. As initially noted in our November 1999 issue, the department decided to pay for services provided to certain children with medical handicaps by tapping more heavily into its non-GRF money first and then hit its GRF appropriations later in the fiscal year. Thus, early in the fiscal year, a timing-based underage developed in line item 440-505, but it should self-correct in the months ahead. The underage in line item 440-418, which is used to purchase vaccines for immunizations against communicable diseases, reflected the fact that the department had not moved to replenish its stock of vaccines as fast as the estimates had assumed would be the case.

SchoolNet. The Ohio SchoolNet Commission, which is charged with administering many of Ohio's educational technology programs, closed January with a negative year-to-date disbursement variance of $5.3 million, 29.3 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, release of this grant funding has been slower than expected, due to a decision made by the commission earlier in the fiscal year to spend some time on honing its grant management skills.

Transportation. The Department of Transportation's GRF operating budget posted a $4.2 million year-to-date underage (14.3 percent short of the estimate). This disbursement variance was largely traceable back to the department's dominant GRF line item — 775-451, Public Transportation, which carries over $50 million in current and prior years' funding 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, all of which was associated with FY 2000 or current year funding, simply demonstrated the difficulty of estimating with much certainty when, and how much, transit systems will draw from this pool of state financial assistance.

Library Board. Year-to-date, the State Library Board was carrying a $4.1 million underage, shy of the estimate by 30.3 percent. Much of this negative disbursement variance was traceable to the factors that drove the board's $2.8 million January underage: a relocation that had yet to happen, an unanticipated decline in rental payments, and the federal government's E-Rate program. In addition, spending from the NetWellness line item (350-505), which funds a web-based health information and education service operated by the University of Cincinnati, The Ohio State University, and Case Western Reserve University, was running under the estimate by $350,000, and the board's personal services disbursements showed an underage of around $200,000, due to unexpected delays in filling vacant staff positions.

Auditor. The Auditor of State closed January with a negative year-to-date disbursement variance of $4.0 million, under the estimate by 14.5 percent. Over 90 percent of the underage was attributable to two line items. The lead contributor was line item 070-321, Operating Expenses, with a $2.3 million underage, largely attributable to the Auditor's decision to leave some budgeted staff positions unfilled. A secondary contributor was line item 070-406, Uniform Accounting Network/Technology Improvements Fund, which helps pay for a financial accounting computer system utilized by certain local governmental entities, as well as for implementing new technology within the Auditor's office, with an underage of $1.4 million, apparently due to scheduled mainframe computer software purchases that had yet to occur.

Selective Overages. Relatively small overages were scattered throughout the state's year-to-date disbursement picture, the four most notable of which are discussed below.

Ohio EPA. Year-to-date, the Ohio EPA posted a $6.8 million overage, which was 48.9 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 the Ohio EPA. This year's disbursement estimates assumed that the agency would spend its GRF funding evenly over the 12-month period, when that was not an accurate depiction of the agency's planned spending strategy. In fact, the agency's spending strategy in recent years has been to first hit their GRF funding hard, exhaust that revenue stream, and then move on to spend their non-GRF moneys. That's in fact what occurred during the first five months of FY 2000, and, since that time, we have witnessed what portends to be a slow but steady erosion in the year-to-date overage.

Natural Resources. The Department of Natural Resources closed January with a positive disbursement variance of $3.9 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 appeared to be on track.

Notably working 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. To date, $1.2 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 programmatic details were still being hashed out.

Debt Service. Year-to-date, this rarely discussed program category posted a positive $3.8 million disbursement variance, 3.2 percent over the year-to-date estimate. This result was directly attributable to the program category's monthly overage that we noted in our discussion of January disbursement variances. It appeared to us that a decision was made to take advantage of favorable market conditions to increase the size of a planned bond sale for the state's local public infrastructure improvement program.

GA/DA. The state's General Assistance/Disability Assistance (GA/DA) program component, which is dominated by the Department of Human Services' $58-plus million Disability Assistance (DA) program, posted its fifth consecutive monthly overage in January ($404,910) and drove the component's preexisting year-to-date overage even higher. The positive year-to-date disbursement variance now stands at $1.7 million, over the estimate by 5.0 percent. From the perspective of current fiscal year appropriations, the department may be growing a bit uncomfortable, as the state was not quite through 60.0 percent of FY 2000 and 62.3 percent of the funding had been disbursed. Assuming that this overspending trend continues, a funding shortfall seems very likely in the closing months of the fiscal year.

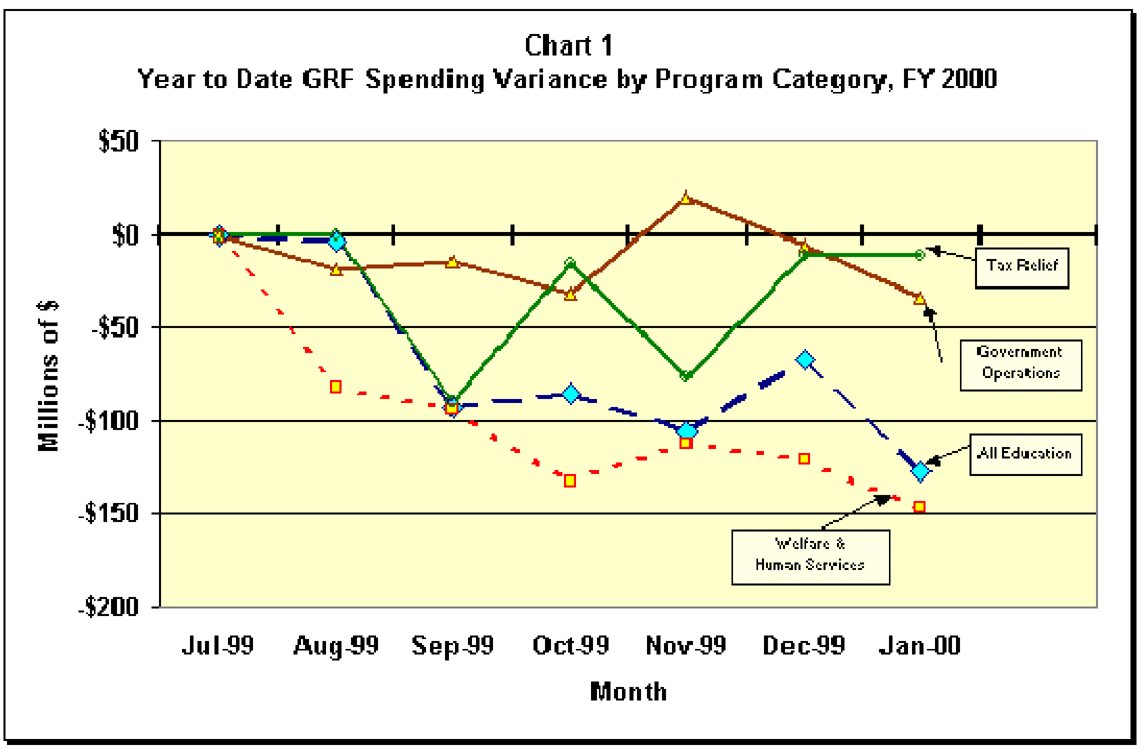
The culprit in these monthly overages has been the caseload in the DA program, which is a state- and county-funded effort that provides cash and/or medical assistance to persons ineligible for public assistance programs that are supported in whole or in part by federal funds. Specifically, the cash assistance group within the monthly DA caseload took unexpected jumps of 400 and 130 recipients in August and October, respectively. While that number of monthly cash assistance recipients has been on a slow decline since October, it still stood at about 10,300, some 800 more cash recipients per month than the DA program's budget assumed would be the case, a fact that neither the department nor LBO can adequately explain at this time. In contrast, the medical assistance caseload, where a greater proportion of the DA program's costs reside, has behaved very close to expectations.

Regents. In light of a barely visible year-to-date overage of less than $100,000, the Board of Regents' budget was not even close to being a player in the state's disbursement variance picture at the close of January. This virtual absence of a disbursement variance, however, concealed a battle below the surface between competing overage and underage forces. The overages were led by line item 235-415, Jobs Challenge, with a disbursement variance of $8.7 million, due to the fact that the early receipt of pertinent data enabled the disbursement of the entire FY 2000 appropriation of $8.7 million by December; the original plan called for the entire appropriation to be disbursed in June 2000. Also notable in the overages was line item 235-590, 12th Grade Proficiency Stipend, with a $4.4 million disbursement variance, attributable to the deliberate exclusion of this student scholarship program appropriation from the original disbursement estimates since it was not part of the board's budget when they were assembled.

The principal pieces of the board's underage force were its student financial aid programs, including, in order of magnitude, line items 235-503, Ohio Instructional Grants ($3.7 million), 235-549, Part-time Instructional Grants ($2.6 million), 235-599, National Guard Tuition Grant Program ($2.3 million), and 235-531, Student Choice Grants ($2.2 million). All of these underages were affected by either: 1) lower than planned numbers of student applicants; or 2) behind-schedule reporting of student certifications by campuses for spring quarter 1999, which delayed the subsequent processing of FY 2000 certifications, and, hence, delayed the processing of fall quarter payments.

III. Program Category Variances

In Chart 1, we've visually mapped from July through January the trajectory of the year-to-date variances of the state's four major GRF program categories. This is intended to aid our collective memory of how the state ended up building a year-to-date underage of $319.7 million at the close of January. In the narrative below, we've tried to distill the essence of the seven-month disbursement patterns exhibited by four key program categories.



Welfare/Human Services (-$146.3 million). Except for a $21.0 million timing-driven November overage, the program category's negative year-to-date disbursement variance has continued to grow. Various components of the program category have jumped into and out of the mix that has fueled that growth, with the only somewhat constant companion being underages thrown in from the Temporary Assistance to Needy Families (TANF) program. At the close of January, the program category accounted for approximately 46.0 percent of the total year-to-date underage. This represented quite a change from December when the program category was by far 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 $208.0 million total year-to-date underage at that time.

Education (-$127.0 million). The Education program category has cycled over and under the estimate throughout the fiscal year, led by large timing-based disbursement variances posted in various state subsidy programs administered by the Department of Education. In January, the department added another $67.2 million timing-laden underage to the year-to-date disbursement variance, led by a much smaller than expected release of subsidy payments from its Disadvantaged Pupil Impact Aid (DPIA) program.

Government Operations (-$33.9 million). The first six months of disbursements in the Government Operations program category featured largely timing-based monthly underages and overages, with around a half-dozen or so state agencies moving in and out of the program category's disbursement picture from one month to the next. The program category's January underage, led by the Department of Rehabilitation & Correction with $20.5 million, drove the year-to-date disbursement variance further under the estimate.

Property Tax Relief (-$16.4 million). Disbursements from the Property Tax Relief program broke from their erratic pattern of the first half of the year by remaining nearly level at about $16.4 million below the estimate for the year-to-date. The level of spending in this program category dropped precipitously from $145.2 million in December to $2.4 million in January, which was consistent with the expectation that disbursement activity would be relatively quiet during the months of January and February before picking up again in the closing fourth months of FY 2000. ❑

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

School Facility Capital Spending

- Jeff Newman

Second Quarter School Facilities Spending Accelerates

Through the first quarter of fiscal year 2000, capital moneys disbursed by the School Facilities Commission totaled $29.8 million, an amount that at least on the surface appeared to put the Commission behind schedule in meeting its annual spending goal of $300 million. Despite the relatively slow pace of spending experienced during the first quarter however, the Commission expressed confidence that its goal would be reached and attributed the slow rate of spending to issues of timing related to the characteristics of certain programs as well as construction levels. To determine whether the Commission's confidence that it would meet its annual goal was justified, LBO awaited the reporting of second quarter spending.

Second Quarter Spending

As the second quarter of fiscal year 2000 ended, an examination of spending indicates that Commission confidence might be well founded as disbursements increased to $72.5 million or 24.1 percent of the annual $300 million goal. While the pace of spending during the quarter experienced a marked increase and reduced the likelihood that the annual goal would not be met, questions remain as to what created the increase and whether it can be sustained during the rest of the fiscal year. According to the Commission, the increase in the rate of spending during the second quarter is primarily due to a ramping up of the number of projects being bid for work to begin and continue during the spring and summer months. While this view seems reasonable, we will have to take a wait and see approach with regard to future spending (see ***Spending Outlook*** for additional discussion of potential future spending).

The two Commission funds supporting spending during the second quarter were the School Building Program Assistance Fund (Fund 32) and the Public School Building Fund (Fund 21), which contributed $38.8 and $32.8 million respectively. Fund 32 is supported through the proceeds of bonds issued by the Treasurer of State, while Fund 21 is supported through available cash balances and appropriations. Programs supported by Fund 32 include the Classroom Facilities Assistance Program (CFAP), as well as the Big Eight, Emergency Repair (ERP), and Exceptional Needs Programs. Fund 21 meanwhile, not only supports CFAP and ERP, but the Disability Access Program (ADA) as well. Of the moneys disbursed during the second quarter, by far the largest share ($62.5 million) went to support CFAP, with ERP receiving a much smaller share of $3.9 million, and the ADA and Big Eight Programs each receiving $1.3 million. These moneys disbursed during the second quarter were used to support projects in eighty-seven school districts (see Table 1).

Table 1 - Districts Served by School Facilities Commission Programs Second Quarter FY 2000

Program	Amount Disbursed	Districts Served
CFAP	$62.5 Million	32
ERP	$3.9 Million	47
ADA	$1.3 Million	17
Big Eight	$1.3 Million	1

Spending Outlook

As discussed briefly above, while LBO will need to take a wait and see approach on the issue of whether the increase in spending experienced in the second quarter will continue, we were able to take a look at spending during the first month of the third quarter. Although it is unwise to draw broad conclusions from one month's performance, anecdotal evidence in the form of spending during the month of January suggests that expenditures may be continuing to accelerate as the Commission disbursed an additional $34 million (11.3 percent of the annual goal), thereby bringing the annual total to $136.2 million (45.4 percent of the annual goal).

As a result of the increases in the rate of spending experienced during the second quarter as well as the month of January, the Commission has partially made up for the slow first quarter. If the Commission is correct in its assumption that spending will continue to increase during the third and fourth quarters, it would mean that fiscal year 2000 would experience a pattern of spending similar to 1999. The Commission believes this pattern (if it occurs) will be due to the way in which state accounting procedures, construction schedules, and the school calendar interact to inflate spending during the third and fourth quarters.

Under current state accounting procedures, while spending activity might occur during the first quarter of a fiscal year, it may not appear on the books until early in the next quarter, a situation that can occur in all but the fourth quarter. As a result, numbers reported during the first quarter come only from activity occurring in the first three months of the year, while the totals for later quarters reflect not only the activity occurring during the quarter in question, but some from a previous quarter as well. The end result of this situation is that it can inflate the amount of moneys reported as being disbursed later in the fiscal year. Additionally, since state accounting procedures prohibit carrying over appropriations from the fourth quarter of one fiscal year to the first quarter of the next, school districts are encouraged to seek these moneys in advance in order to meet the acceleration in construction activity that occurs during the summer months. As mentioned above however, we will have to take a wait and see approach to determine if the same pattern develops in fiscal year 2000.

First General Obligation Bonds
Issued in December

In addition to the spending discussed above, it is worth mentioning that the second quarter of the fiscal year witnessed the first exercise of the state's newly granted power to issue General Obligation bonds to support public school construction. These bonds were issued by the Treasurer of State and totaled $142 million with an interest rate of 5.305 percent over fifteen years. Assuming the bonds are not refunded after ten years, total payback over the fifteen-year period will be in the neighborhood of $209.5 million, with an average annual payback of $14.0 million. Proceeds from the bonds are deposited into Fund 32 and are used in concert with cash appropriations made through Fund 21. While Issue One approved the use of GO bonds for primary and secondary school facilities, legislation (in the form of Senate Bill 206) was required to authorize the actual selling of these bonds. Since Senate Bill 206 limited the amount of debt that the Treasurer could issue to $150 million, additional legislation will be required to authorize future bond issues. SFC does not anticipate the need for another major bond sale until late in calendar year 2000. ❑

TANF Spending Update

-Steve Mansfield

TANF Expenditures by Component
FFY 1997 – 2000

TABLE 1: OHIO TANF FEDERAL BLOCK GRANT EXPENDITURES BY CATEGORY						
ITEMS	FFY 1997 Award	FFY 1998 Award	FFY 1999 Award	FFY 2000 Award To-Date	Expenditures To-Date	% of Total To-Date
Cash & Work Based Assistance	$438,083,638	$197,819,006	$94,752,218	819,194	$839,262,966	60.13%
Work Activities	3,034,130	16,113,133	4,057,052	4,734,982	$27,939,298	2.00%
Child Care	0	29,419,442	73,752,807	0	$103,172,249	7.40%
Transportation	–	–	–	860,012	$860,012	0.06%
Diversion Payments	–	–	–	99,469	$99,469	0.01%
Prev. of Out-of-Wed. Pregnancy	–	–	–	0	$0	0.00%
Administration	32,221,858	38,048,963	61,602,333	7,870,813	$139,643,967	10.01%
Information Systems	0	14,592,299	31,370,732	11,690,230	$57,653,260	4.13%
Transitional Services	0	3,869,137	0	3,464,169	$7,312,296	0.52%
Other Expenditures	109,851,809	152,529,239	97,907,306	0	$359,348,444	25.76%
TOTAL EXPEND.	580,171,434	462,347,107	333,412,448	29,088,829	$1,396,017,907	100.00%
Federal Grant Award	$727,968,290	$727,968,290	$727,968,290	$296,303,460	$2,470,208,240	
Transfer to Title XX	$72,796,826	$72,796,826	$72,796,826	$0	$218,390,478	
UNSPENT FEDERAL RESERVE	$75,000,000	$209,982,817	$449,209,034	$267,218,632	$856,799,855	

The expenditure of federal TANF funds are reported to the federal government on a quarterly basis on TANF Form ACF196 against the TANF federal grant award that was made in a specific federal fiscal year. Thus in a particular quarter, expenditures from federal funds may be filed simultaneously against the awards that were made in different years. In contrast to federal dollars, expenditures from state TANF funds are reported against the state's maintenance of effort (MOE) requirement, so that what is spent in a particular federal fiscal year counts against that year's MOE requirement. The most recent report, the first of the new federal fiscal year, was submitted on a new version of ACF196, which was revised to include several new components and subcomponents. For simplicity, the tables below have added only three of the new components, since not all the new ones are yet in use.

Table 1 shows what has been spent by federal reporting components from the federal TANF block grant awards that have been made beginning with the first TANF award in FFY 1997. ***Table 2*** shows what has been spent in each component to reach Ohio's MOE requirement. The right hand column in both tables shows each component's share of total spending to date from the TANF block grant (*Table 1*) or the state's MOE (*Table 2*). Since the composition of federal and state TANF spending is strongly influenced by certain timing issues, any partial year reports on shares of spending should be regarded as fairly fluid. All TANF spending to date (both state and federal funds since FFY97) totals $2,755,315,804. Not counting whatever may remain of the funds transferred to the Title XX grant, the accumulated reserve in Ohio of unspent TANF federal dollars totals $856,799,855.

ITEMS	FFY 1997	FFY 1998	FFY 1999	FFY 2000 To-Date	Expenditures To-Date	% of Total To-Date
TABLE 2: OHIO MOE EXPENDITURES BY CATEGORY						
Cash & Work Based Assistance	$306,689,907	$314,094,233	$314,826,299	$96,672,124	$1,029,831,563	75.78%
Work Activities	8,812,398	824,878	408,316	2,134,878	12,080,370	0.89%
Child Care	46,828,364	61,850,611	40,436,664	0	148,914,619	10.81%
Transportation	--	--	--	0	0	0.00%
Diversion Payments	--	--	--	0	0	0.00%
Prev. of Out-of-Wed. Pregnancy	--	--	--	18,838	18,838	0.00%
Administration	22,462,848	18,814,890	13,189,849	3,340,103	66,697,287	4.09%
Information Systems	0	6,088,027	3,346,493	944,103	9,413,620	0.62%
Transitional Services	0	0	0	0	0	0.00%
Other Expenditures	34,301,888	31,820,361	32,846,030	7,440,841	106,407,907	7.83%
TOTAL MOE	$418,876,181	$420,072,790	$413,849,339	$109,400,687	$1,360,363,794	100.00%

Table 1 shows a substantial increase in child care expenses as a share of total expenditures from federal funds, going from 2.4 percent at the end of FFY99 to 7.4 percent after the first quarter of FFY00. There is also a noticeable increase in expenditures for transitional services, which help people as they come off assistance. At the same time, total expenditures for cash and work based assistance slipped from 56.8 percent to 50.1 percent of total spending from federal funds. This share is likely to increase as spending for cash assistance shifts more to federal funds in the coming months.

In contrast, ***Table 2*** shows a slight increase in expenses on cash and work based assistance as a share of total MOE, going from 74.7 percent to 75.8 percent. ***Table 2*** also shows a small increase in expenditures on work activities as compared to the total that was registered at the end of FFY99. All other components exhibit small declines as a share of total expenditures.❑

Issues of Interest

From Main Street to Cyberspace:
An Overview of State Sales and Use Taxes in the Emerging Technology Economy

-Doris Mahaffey

Electronic commerce — the purchase of goods and services via the Internet — has catapulted into the national consciousness over the past few years. People think nothing of buying and downloading software from a website, ordering a book from an online bookstore, purchasing an airline ticket over the web, or buying and selling stocks online. These business-to-consumer transactions make up only a fraction of the total volume of e-commerce in the country. Roughly 90 percent of electronic commerce involves business-to-business connections that facilitate the purchasing activities of large corporations. However, it is the rapid rise in business-to-consumer activities that have captured the imagination. From next to nothing in 1995 (the year Amazon.com was born), consumer online spending in the U.S. increased to $2.4 billion in 1997. It reached $8.0 billion in 1998 (a 233 percent increase) and $20.2 billion in 1999 (another 150 percent increase). It is projected to reach $184 billion by 2004.3[1]

Electronic commerce is a form of remote or distance sales. Catalogue or mail order sales are another form of remote sales. From the birth of the first catalogue company in the 1880's to the 1970's the mail order business was a slow-but-steady growing industry. Its growth rate picked up in the 1970's with the advent of toll-free telephone numbers and consumer credit cards. By 1990 the mail order industry comprised approximately 1.4 percent of total retail sales. Throughout the 1990's mail order sales grew at a faster rate than total retail sales, so that by 1998 they amounted to $73 billion and constituted approximately 2.7 percent of the total.4[2] Some of this increase may have been due to the coincident rise of the Internet, which facilitates research on products that may ultimately be purchased by telephone or mail. All forms of remote commerce are expected to continue to grow at a healthy pace. However, while e-commerce currently accounts for less than one-quarter of all remote sales, by 2003 it is likely to account for the bulk of it.

The growth of the mail-order industry revealed some important flaws in state sales and use tax administration — not so much in whether things are taxable but who can be called upon to pay the tax. And, like the mail-order business, e-commerce creates many headaches for state and local tax collectors. However, with the apparent meteoric expansion of e-commerce, these headaches have all the symptoms of developing into a full-blown migraine.

How the Traditional Sales and Use Tax Works

The sales tax is a tax levied on the retail sale of tangible personal property or specified services within a state. It is generally imposed on the consumer but collected and remitted to the taxing authority by the seller. 46 states impose sales taxes or permit some of their political subdivisions to impose them. In all, over 7,000 taxing authorities impose some form

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3[1] Estimates from Forrester Research. These projections have been subject to substantial upward revision over time.

According to the U.S. Department of Commerce — in its first report on Internet sales — online retail sales totaled $5.3 billion in the fourth quarter of 1999. This is consistent with a 1999 figure for total online retail sales of $13 billion. This number differs from the business-to-consumer number given above because the Department of Commerce number does not include such purchases as airline tickets, which constitute a significant portion of all online business-to-consumer sales. The difference between these reported numbers for e-commerce demonstrates that a plethora of yet-to-be resolved definition and measurement issues regarding e-commerce exist.

3[2] R. Bruce Josten, "E-Commerce Taxation: Issues in Search of Answers," U.S. Chamber of Commerce, September 8, 1999. http://www.uschamber.com/policy/9-technology/issues/itax/es990908.htm of sales tax. In Ohio the state sales tax rate is 5 percent. The 88 counties are allowed to impose an additional tax in 0.25 percent increments up to 1.0 percent or 1.5 percent for special purposes (such as the implementation of a 9-1-1 system in the county). Subject to voter approval, six regional transit authorities may also impose a sales tax of up to 1.5 percent on top of the state and county taxes. Hence, in Ohio, at least, the tax base remains the same throughout the state, although the rate varies from 5.0 percent in Columbiana County to 7.0 percent in Cuyohoga County. The statewide average is 6.12 percent.

Sales taxes are routinely supplemented by use taxes. A use tax is a tax collected on the privilege of using, storing, or consuming tangible personal property or specified services within a taxing jurisdiction, the purchase of which would have been subject to the jurisdiction's sales tax had the sale occurred within it. A given sale is subject to either the sales tax or the use tax, but not both. For example, an Ohioan who purchased a motor vehicle from an Indiana dealer would pay the use tax in Ohio on the price of the vehicle. The tax would be calculated based on the sales tax rate in the purchaser's county of residence. Due to reciprocity arrangements with Indiana, the buyer would not owe Indiana sales tax.

The use tax is in a sense a more onerous tax than the typical sales tax collected by the typical Main Street merchant, even though the two are equivalent in tax rate and rate base. The Main Street merchant knows its location and the tax laws that transactions at that location are subject to (*e.g.*, tax rates, tax exemptions, procedures for remitting taxes, *etc*.). All transactions at that location are subject to the same set of rules. To collect the use tax, an out-of-state vendor would need to determine the taxing district where the customer is located (*i.e.*, where the sale is deemed to have taken place) and then determine the taxability of each purchase and the rate (not to mention procedures for remitting the tax to the appropriate tax authority for each transaction). With over 7,000 variations in tax systems to contend with, the cost of collecting and remitting the use tax can be substantial.

In Ohio, the sales tax is levied on the sale of all tangible property unless specifically exempt and of those services that are specifically taxed. Among the services that are specifically taxed is the business use of automatic data processing and electronic information services. As the Internet developed, it "grew into" this definition, and as a result business access to the Internet is taxed in Ohio. Ohio receives approximately $3 million from this source annually; counties and transit authorities receive an additional $600,000.

In exchange for collecting the sales tax and to help defray the costs associated with collecting and remitting the sales tax, states often provide a vendor discount — that is, the vendor may retain a certain percent of taxes collect. Nationwide the vendor discount ranges from 0 percent to 3.5 percent. In Ohio the discount is 0.75 percent, available to both in-state and out-of-state vendors for timely remission of the sales or use tax.

Problems With the Sales Tax in the Context of Remote Sales

The basic problem with taxation of remote sales lies with reliance on vendors to collect the tax from buyers and turn it over to the state. In situations where the vendor happens to have a significant presence in the state where the sale is made (*e.g.*, property or a dedicated sales force), the vendor is considered to have "nexus," and the state can insist that the vendor collect the tax. However, if the vendor has insufficient presence in the state, the U.S. Supreme Court has ruled that the state cannot compel the vendor to collect the tax. Since sales taxes are levied in over 7,000 different taxing jurisdictions nationwide, each with different tax rates, tax bases, and administrative procedures, collecting a use tax would constitute an "undue" burden on the part of the vendor and would, in general, interfere with interstate commerce.[5][3] In such cases, the consumer is responsible for paying the use tax on the item.

5[3] In *National Bellas Hess v. Department of Revenue of the State of Illinois* (386 U.S. 753, 1967) and again in *Quill Corp. v. North Dakota* (504 U.S. 298, 1992). The Court did indicate in *Quill* that the Congress could change the definition of nexus to expand the ability of states to collect the sales and use tax from remote vendors.

However, the typical non-business consumer does not pay the use tax. Either he or she is not aware that such a tax is owed or he or she has no clue as to how to go about paying it. States don't make it particularly easy for them, either, although some states (such as Minnesota and Wisconsin, and now Michigan) include a space on an individual's state income tax form to declare and pay the amount of use tax they owe. This is not a particularly useful fix for those states that do not have a state income tax.

Revenue Loss Due to Remote Sales

Lack of compliance with the use tax is a problem that has existed with remote sales for quite some time. (The U.S. Supreme Court's *Bellas Hess* ruling was in 1967, after all.) With the rapid expansion of e-commerce on the worldwide web, the stakes have suddenly been raised. Nationwide $13 billion in sales taxable retail goods were sold online in 1999 — taxes were paid on only 20 percent of these sales yielding $140 million in taxes nationwide. Roughly $525 million in taxes owed were not paid.[6[4]]

According to Forrester, by 2003 e-commerce sales will amount to $1.5 trillion nationwide. The majority (90 percent) of this will be business-to-business sales; the remainder will be business-to-consumer sales. Of the portion of sales that are taxable, tax will be collected on 70 percent of *taxable* business-to-business sales and 21 percent of *taxable* business-to-consumer sales. (Again, some of this would have been lost anyway due to other remote sales.) Thus, by 2003, the revenue loss to the states due to e-commerce will be $10.9 billion or 4 percent of total sales tax revenue.[7[5]]

Robert Cline and Thomas Neubig claim that these numbers exaggerate the impact of e-commerce. Their analysis finds that while total remote sales, including online sales, constituted approximately 3 percent of total retail sales in 1998, the incremental sales tax loss from e-commerce was only $170 million nationwide.[8[6]] They note for example the substitution of e-commerce purchases for purchases from other remote sellers does not add to the tax loss attributable to e-commerce — although it is still a tax loss. Ultimately, they say, their figures suggest that e-commerce does not currently represent the black hole in state and local budgets that some analysts claim and that policymakers and the business community have time to carefully consider the tax problems and potential solutions presented by the rise of e-commerce. There is no need to attempt to devise an overly hasty fix.

5[4] "Forrester: $525 Million in Sales Taxes Went Uncollected Online in 1999," Forrester Research Press Release, February 24, 2000. http://www.forrester.com/ER/Press/Release/ (This is a "gross" tax loss number. Part of those sales substituted for mail order sales, which would have eluded taxes, as well.)

5[5] From Donald Bruce and William Fox, "E-Commerce in the Context of Declining State Sales Tax Bases." Presentation to the Joint NTA/IPT Conference on Electronic Commerce, Sarasota, Florida, January 24, 2000.

5[6] See Robert J. Cline and Thomas S. Neubig, "Ecommerce's Impact on Sales Taxes: Revenue Estimation, Tax Evasion, and Base Erosion," draft prepared for IPT-NTA Joint Sales Tax Seminar on Transaction Taxation and Electronic Commerce, January 24, 2000, Sarasota, Florida.

The revenue impact of this tax erosion varies from state to state. For most states, which rely on a combination of income, sales, and property taxes, losses due to remote sales and erosion of the sales tax have been swamped by gains from the growth in income tax revenue due to the vibrant economy. However, some states with heavy reliance on sales taxes — e.g., Florida, Nevada, South Dakota, Tennessee and Washington, which rely on sales taxes for over half of their state revenues — the issue is more critical. Even so, Bruce and Fox estimate that Ohio will lose 3 percent of total state taxes by 2003 due to remote sales — and the bulk of this (2.6 percent of total state taxes) will be from e-commerce.9[7]

Other Issues Related to Emerging E-commerce

Equity

Revenue loss is not the only state and local tax issue involved in the e-commerce debate. The issue of tax equity has been raised — particularly, by the traditional "brick-and-mortar" retail establishments. These merchants and their advocates claim that the *de facto* exemption of online sales from the state sales and use tax puts them at a competitive disadvantage. Retail profit margins are small as it is. If remote sellers can offer the product for 5 to 8 percent less by not collecting sales taxes, they will have an unfair advantage over Main Street merchants. These merchants argue for a "level playing field," whereby all sales of comparable items are subject to the same tax.

Many opponents of Internet taxation argue that online purchasers must typically pay shipping charges, which offset the benefits received from tax avoidance. This argument is problematic, however, since the transportation cost to online merchants represents a cost already included in the price charged by the main street merchant. Consequently, the elimination of taxes on the online sale may distort the consumer's decision-making process and reward less efficient production and marketing arrangements.10[8]

An alternative argument may be "be careful what you ask for." Currently, Main Street merchants do not have to apply a tax to items they ship out of state. If online merchants are required to collect use taxes from all consumers, it is likely that the Main Street merchants will have to as well.11[9]

Another equity issue involves the so-called "digital divide" — that is, the fact that high-income, Internet-savvy consumers may elude an increasingly large portion of the sales tax while lower income individuals and households without ready access to the Internet will bear an increasingly large portion of the swiftly eroding state and local sales taxes — adding to the regressivity of an already notoriously regressive tax.

Economic Development

Some analysts have argued that the Internet and its components (*e.g.*, the web) are the source of much of the prosperity the country is currently enjoying. Some have taken the argument a step further. To "tax" the Internet, they say, would be the fiscal policy equivalent of killing the proverbial goose that laid the golden egg.

9[7] Bruce and Fox, *op. cit.*

9[8] See Charles E. McLure, Jr. "Rethinking State and Local Reliance on the Retail Sales Tax: Should We Fix the State Sales Tax or Discard It?" January 4, 2000.

11[9] Kaye Caldwell, "A Message to Main Street Merchants: Be Careful What You Ask For" *The Public Policy Report, Vol. I, No. 9*, September, 1999. Reprinted on CommerceNet, The Public Policy Report Electronic Commerce Core Service, http://www.commerce.net/resources

According to the University of Texas Center for Research in Electronic Commerce, Internet commerce was responsible for over 480,000 jobs in 1998,[12[10]] many of which are high-skilled and high paying. Furthermore, the Internet provides people with access to a great array of goods and services at increasingly competitive prices. Taxing the Internet would be cumbersome by any means and would ultimately bar small retailers from the benefits of e-commerce.

The Internet allows businesses that have one retail location to expand their customer base way beyond their immediate neighborhood. However, the costs of requiring such small customers to collect and remit sales taxes would create a substantial barrier to entry to the electronic marketplace. Only large well-financed corporations could compete.

Other questions regarding the taxation of the Internet abound: Do people use the Internet to avoid taxation? Would they quit using it if transactions on the Internet were more generally subject to taxes? Would online businesses move to a tax-free haven if they were required to collect and transmit sales and use taxes?

It was in the context of such discussions that Congress passed the Internet Tax Freedom Act in 1998.

The Internet Tax Freedom Act and the Advisory Commission on Electronic Commerce

The Internet Tax Freedom Act (IFTA) was signed into law on October 21, 1998. The act imposed a three-year moratorium on state and local taxes on Internet access[13[11]] and on multiple or discriminatory taxes on e-commerce. The act also established the 19-member Advisory Commission on Electronic Commerce (ACEC). The ACEC is comprised of 8 state and local government officials, 8 business and consumer representatives of the technology industry, and 3 federal government representatives.[14[12]]

The Commission is charged with conducting a study of "federal, state, and local and international taxation and tariff treatment of transactions using the Internet and Internet access and other comparable intrastate, interstate or international sales activities." Its findings are to be reported to Congress by April 21, 2000, at which time the Commission will end. Congress provided no federal funds to support the activities of the Commission; however, the Commission is allowed to accept gifts and donations to fund its operations.

The first meeting of the Commission was convened in Williamsburg, Virginia, on June 21, 1999, and Governor Gilmore of Virginia was elected to chair the Commission. The Commission also heard presentations from a number of tax experts. At the ACEC's second meeting in New York City in September the Commission established a set of 18 criteria for an "acceptable" tax system and invited interested parties to submit proposals regarding the feasibility of adapting state sales tax systems to accommodate Internet-based transactions in accordance with these criteria. The proposals were to be submitted to the Commission prior to its third meeting in San Francisco in December. However, it was emphasized that the development of the criteria did not indicate the Commission would ultimately support the taxation of Internet commerce.

13[10] R. Bruce Josten, *op. cit.*, Table A

13[11] The act did, however, grandfather in taxes on Internet access that existed prior to October 1, 1998. Ten states, including Ohio, benefited from this provision.

13[12] For information on the members and their affiliations, see "Frequently Asked Questions" on the Advisory Commission on Electronic Commerce's website, http://www.ecommercecommission.org/FAQs.htm.

The 18 criteria fall under the following headings:

1. ➢ Simplification
2. ➢ Taxation
3. ➢ Burden on Sellers
4. ➢ Discrimination
5. ➢ International Aspects
6. ➢ Technology
7. ➢ Privacy
8. ➢ Sovereignty
9. ➢ Constitutionality

Also at the New York meeting, Governor Leavitt of Utah requested that a group of interested governors and their policy experts attempt to devise a solution based on the 18 criteria. The group, working under the auspices of the National Governors' Association (NGA), developed a "Voluntary Zero-Burden Sales Tax Administration System," which it submitted to the ACEC.[15[13]] The proposal was supported by seven state and local government organizations — the NGA, the National Conference of State Legislatures (NCSL), the National Association of Counties, the National League of Cities, the U.S. Conference of Mayors, the International City/County Management Association, and the Council of State Governments — and so became known, variously, as "the NGA proposal," "the Big 7 proposal," and "the zero burden proposal."

In all, the Commission received 37 proposals with suggestions ranging from changing the definition of nexus to eliminating all taxes on business-to-consumer electronic commerce. The Commission will consider the proposals at its final meeting in Dallas (March 21-22), where it hopes to devise a recommendation to submit to Congress by the April 21st deadline.

Of the 37 proposals submitted to the Commission, two that have received a great deal of attention are the proposal submitted by the ACEC business caucus[16[14]] (and backed by Commission Chair, Governor Gilmore) and the NGA zero burden proposal (backed by Commission member, Governor Leavitt).

ACEC Business Caucus Proposal

According to the ACEC business caucus proposal, priority should be given to "reducing or removing the barriers to access to perhaps the most advanced and useful medium of communications yet devised." The recommendations included in the report should "cumulatively drive down the cost of connecting to the Internet and consequently increase the numbers of those who can afford to connect." The proposal addressed the taxation of telecommunications services, as well as e-commerce.

With respect to e-commerce, the proposal recommends that Congress enact legislation that:

1. • Extends the current moratorium on the multiple and discriminatory taxation of electronic commerce for five years;
2. • Prohibits taxation of sales of digitized goods and products and their non-digitized counterparts;
3. • Bans taxes on the sale of Internet access and pre-empts any such taxes grandfathered under IFTA;
4. • Clarifies that software and e-commerce links do not create nexus for either income or sales tax purposes;
5. • Encourages states and local governments to work with the National Conference of Commissioners on Uniform State Laws (NCCUSL) to draft a Uniform State Sales and Use Tax Act by October 21, 2004; and

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15[13]See a "Streamlined Sales Tax System for the 21st Century," on the National Governor's Association website, NGA Online. http://www.nga.org/Internet/Proposal.asp

16[14] "A Proposal for Internet Tax Reform and Reduction"

6. • Creates a new advisory commission responsible for the oversight of the progress of NCCUSL's effort to draft this act.

The goal of the Uniform State Sales and Use Tax Act would be to create and maintain parity of collection costs (net of vendor discounts) between remote sellers and comparable single-jurisdiction vendors that do not offer remote sales (*i.e.*, Main Street businesses). The proposed law would (among other requirements) provide uniform tax base definitions, uniform vendor discounts, one (tax) rate per state and uniform limitations on state rate changes, uniform tax returns and forms, and uniform audit procedures.

Within six months after the completion of NCCUSL's work, the new advisory commission would report to Congress on the growth of Internet commerce from 1999 to 2004, the impact of electronic commerce on traditional retailers, and the impact of remote sales on state tax revenues. The commission would also provide an assessment of the Uniform Sales and Use Tax Act drafted by NCCUSL.

The concerns expressed about the ACEC business caucus proposal have focused on the pre-emption of state law, the historical difficulty of developing uniform state laws in the tax area, and the proposed exemption of "digitized" products. Given the current pace of technology, that is an exemption that could devour the sales and use tax.[17[15]]

NGA proposal

The NGA proposal's goal is to simplify and streamline the sales tax system in order to significantly reduce compliance burdens not only on Internet vendors but also on Main Street merchants while maintaining the ability of states and local governments to levy sales and use taxes on e-commerce.

The program relies on voluntary participation by both states and vendors. As originally submitted, the proposal would shift the responsibility for calculating, collecting, reporting, and paying sales and use taxes from the seller to a certified third party provider (i.e., some kind of financial clearinghouse arrangement), called a "trusted third party" (TTP). While the TTP would administer the tax system, the state would assume the costs of developing and implementing the system. Administrative burdens (costs) on sellers would be effectively eliminated.

In the initial phase of the system, only online sellers with the technological capability of participating in the system (those with the capability of transmitting and receiving information in a real-time environment) would be able to participate. Over time, as the system is improved, participation may be expanded to other retail establishments and environments where checks and cash are used as payment vehicles rather than credit cards.

States, in turn, must make certain changes to simplify their tax systems before they may participate. These simplifications entail the development and acceptance of uniform product codes, uniform definitions, and limitations on the frequency with which local government tax rate changes can be made.

The trusted third parties would be selected via a competitive bid and negotiation process. They would be responsible for receiving information on transactions from sellers and for operating software for determining the taxability of the transactions, the appropriate tax rate and tax due, and for providing this information to sellers on a real-time basis, so that information on tax due is available to the customer before the completion of the transaction.

The TTP would not have access to any personal identity information for any purchase. Information related to the purchaser's address — crucial to the calculation of the tax — would be converted to a "geocode" — a taxing district

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17[15] See, for example, "NCSL Responds to E-Commerce Industry's 'Compromise' Proposal on Sales Tax." National Conference of State Legislatures News Release, February 2, 2000. http://www.ncsl.org/program/press/pr000209.htm identifier — at the seller level before the information is transmitted to the TTP (hence the need for the TTP to integrate its software with that of the participating seller).

Payments for goods and services through credit cards would proceed as they do today. Once a buyer approves a purchase, the vendor will send the transaction (price of good or service plus tax) through the payment process system with the TTP providing the tax amount. The vendor will receive the full amount of the price plus tax. The TTP will have a standing debit authorization agreement with participating vendors to periodically debit the vendors' accounts for the tax owed to all participating states. The TTP will be responsible for remitting the appropriate tax to participating states, as well as providing all transaction and return information to states, along with the tax remittance.

States will pay all costs associated with the system. Payments to TTPs will be based on a negotiated rate, probably on a per-transaction basis. The rate will be the same for all TTPs within a state.

Participating sellers would be obligated to integrate their systems with that of the TTP, so that the tax determination can be made available on a real-time basis. Costs of this integration are to be paid by the TTP. Such costs will be reimbursed by the state via the transaction fee paid by the state. Since sellers would not then be responsible for making taxability determinations or in handing states the money, they would not be subject to traditional tax audits by the states.

In the long run states would adopt a uniform tax system. This would entail reducing the number of effective tax rates in a state, implementing uniform product codes, sourcing rules and procedures for exempt transactions (similar to those called for in the ACEC business caucus proposal).

While concerns have been raised about many features of the "Big 7 proposal," the trusted-third party concept has been the most controversial. Critics have argued that this is intrusive of both taxpayers' rights and vendors' economic security.[18[16]] Frank Shafroth of the NGA points out that third parties already play a major role in federal, state, and local taxation, and that the trusted third party concept was based, in part, on a system operated today by major U.S. corporations in Europe with respect to the value-added tax.[19[17]] However, this part of the proposal has been subsequently downplayed — if not modified. The revised plan calls for state and local governments to enter into partnerships with retailers to simplify sales taxes and "experiment with meaningful voluntary collection systems."[20[18]] The modification could ultimately involve third-party arrangements. Alternatively, a co-operative system might be developed, similar to the International Fuel Tax Agreement (IFTA), used to collect motor fuel taxes in the U.S., Canada, and Mexico.[21[19]]

Other concerns revolve around the extent to which the plan would be voluntary and how, in fact, such a plan could effectively be implemented without congressional action. In addition, some fear that a "streamlined" tax system, as envisioned in the NGA proposal, is simply one that would expand the states' taxing authority. The Committee on State Taxation (COST) raised concerns about the system's reliance on a technological "fix," when it's the sales and use tax

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18[16] See, for example, the debate between Frank Shafroth and Adam Thierer in "NGA's Shafroth, Heritage's Thierer On 'Streamlined Proposal, Origin-Basing for E-Commerce," *State Tax Notes*, January 24, 2000, pp. 279-290.

18[17] *Ibid*., p. 289

18[18] Rob Wells, "Leavitt Seeks Compromise on Net Taxes," *The Salt Lake Tribune*, February 24, 2000.

18[19] Such an approach was contained in CommerceNet's proposal to the ACEC. See Kaye Caldwell, "CommerceNet Follows Up on Comments to the Federal Advisory Commission on Electronic Commerce," *The Public Policy Report, Vol. 1, No. 11*, November, 1999. Reprinted on CommerceNet, The Public Policy Report Electronic Commerce Core Service, http://www.commerce.net/resources itself that needs to be overhauled.[22[20]] The American Legislative Exchange Council (ALEC) essentially "seconded" this opinion, when it released a statement in opposition to the Big 7 proposal, stating that "unless there is a fundamental reform of existing tax policy within the constitutional limitations placed on state and local governments' taxing authority, the federal moratorium on Internet taxation should be extended indefinitely."[23[21]]

Summary and Conclusions

The sales and use tax is an important source of revenue for state and local governments. However, the growth of electronic commerce reveals some significant flaws with the current system. As e-commerce continues to grow, these flaws threaten to undermine the entire system — creating uneven burdens, exacerbating inequities, eroding tax revenues, hampering economic activity, and distorting economic decision-making.

In 1998 Congress passed the Internet Tax Freedom Act and created the Advisory Commission on Electronic Commerce to investigate the tax issues associated with electronic commerce and the use of the Internet. The Commission is to develop a recommendation (due this Spring) for how to deal with these tax issues.

The positions and proposals of the various Commission members are disparate and often contradictory. About the only thing that the proposals have in common is a recognition of the need to simplify the current sales and use tax. What simplification ultimately means and how and when it might be achieved is anyone's guess. It would not be surprising if it took a recession to engineer a result. ❑

22[20] Douglas L. Lindholm, "Electronic Commerce and 20th Century Taxes," Presentation to the 9th Annual Ohio Tax conference, Columbus, Ohio, January 19, 2000

22[21] Doug Sheppard, "NCSL Task Force Moves Forward on Streamlined Sales Tax Plan," *State Tax Notes*, January 24, 2000, pp. 275-276.

Issues of Interest

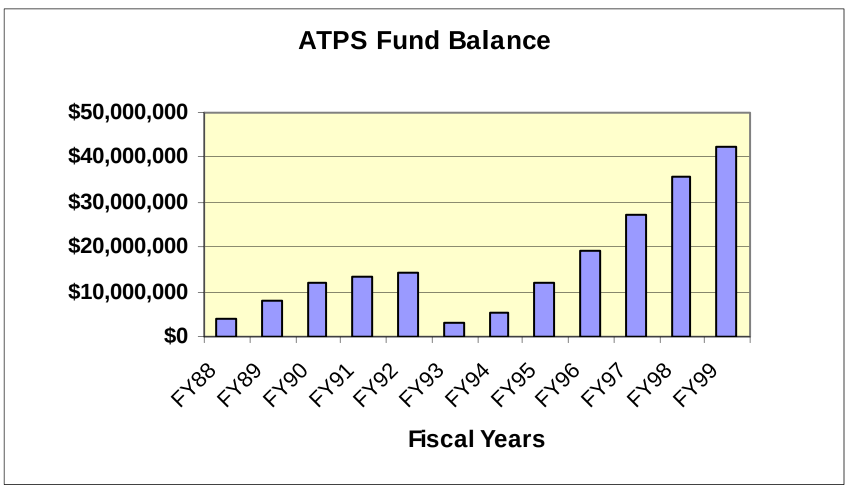
Money, Money, Money

The Automated Title Processing System Fund

-LIS GORENSTEIN

In the late 1980's the Automated Title Processing System (ATPS) Fund was established to provide a computer system for all Clerks of Courts. The intent was also to reduce the manual work of the Bureau of Motor Vehicles staff. Initially, the fund grew faster than the costs associated with the computerized system.

In 1988, the portion of fees associated with issuing a certificate of title and remitted to the ATPS Fund was $1.00. Over time, $1.00 was recognized as being insufficient to sustain the program or support future system replacements. In 1994, the fee was doubled to $2.00. At that time it was recognized that $2.00 might generate additional revenues beyond expenditures, however, due to uncertainties about future needs and potential accounting problems associated with a fee that required change to be collected (e.g., $1.75) — a $2.00 fee was enacted.



In fiscal year 1988, the cash balance was almost $3.9 million. At the end of fiscal year 1999, the ATPS Fund balance had grown to approximately $42,000,000. This figure represents a point in time and does not account for: new revenues, anticipated disbursements associated with annual operating costs and 5-year system replacements, or open fiscal year 1999 encumbrances which totaled approximately $3,000,000.

$2.00 ATPS Fund Fee

Approximately $10.5 million is generated annually from fees that are collected by the Clerks of Courts and remitted to the state Registrar. Currently, a $5.00 fee is charged by the clerks for each certificate of title, duplicate title, memorandum certificate of title, and notation of any lien on a certificate of title. Depending upon which product is actually issued — the clerks and Registrar retain different portions of the $5.00 fee. Of the $5.00 assessed for a certificate of title, the Registrar collects $2.75 and remits $.75 to various funds and $2.00 specifically to the ATPS Fund.

Operating Costs Supported by the ATPS Fund

Funds disbursed from the ATPS Fund are used to support the operating costs associated with the Automated Title Processing System. Annual operating costs include staff, hardware, telephone and computer lines, rent, computer system maintenance, software licenses, title forms, reimbursements to counties for travel and cabling, and Department of Administrative Services data processing costs.

Fiscal Year 2000 ATPS Replacement

ATPS is in the final stages of being replaced with an ATPS II system. The replacement should be completed prior to April 2000. The purpose of the new system is to improve the Clerk of Court's ability to title vehicles and provide better customer service by improving the system users abilities to function with the system, and to navigate the various computer terminal screens that must be filled with information for a title product to be issued. Improvements include: reducing the manual processes by using a mouse rather than re-keying information, allowing staff to access system information through a "help" button, using a new operating system (NT) which will increase system security and allow for an electronic mail system. The vendor contract will provide for: hardware, software, system testing, staff training and system implementation.

Relationship of the ATPS Fund to the Task Force on Motor Vehicle Titling

The Task Force on Motor Vehicle Titling suggested a variety of possible future uses for revenues deposited into the ATPS Fund. In part, this fund is being considered because of an existing balance. And it is also being considered because of the close connection between its purpose and the mission of the task force, which was to look at how technology might better serve the motor vehicle titling process. Any suggested use of the ATPS Fund, however, should take current operating expenses and future operating estimates into account. Decisions about short-term draws on the fund's balance and/or long-term commitments of current fees will require individual analyses. Any fund impacts cannot be determined until future potential needs are known. ❑

Issues of Interest

Changing the Way Ohio Does Business:

Report of the Task Force on Motor Vehicle Titling

-LIS GORENSTEIN

Through the Transportation Budget bill, the 123rd General Assembly created the Task Force on Motor Vehicle Titling. A goal of the Task Force was to evaluate the current motor vehicle titling process to determine whether technology could be used to improve the system. The Task Force had approximately six months to develop a report that included recommendations and general cost estimates. State Representative Ron Amstutz chaired the committee that included Senator Jim Carnes, Representative Dean DePiero and Senator Mark Mallory. State and local governments were represented by Clerks of Court Virginia Barney, Becky Bhaer, and Craig Zimmers; Department of Public Safety's Lieutenant Governor Maureen O'Connor and Registrar Frank Caltrider; Department of Taxation's Mike Weichmann and Attorney General's Office representative Helen MacMurrary. Private industry was represented by Tim Doran (Ohio Automobile Dealer's Association), Trevor Ferger (NetMed), John Guran (Time Warner), Charles Moses (Ohio Telecommunication Industry Association), Brett Van Meter (Auto Auctions of Ohio), and Gene Workman (The Savings Bank and Trust Company). The Legislative Budget Office and the Legislative Service Commission provided staff services.

Initially, the Task Force reviewed a variety of title and registration system processes of other states. For example, Virginia and Wisconsin are currently contracting with a third party vendor to provide an electronic interface to allow motor vehicle dealers to electronically submit title and registration applications to state motor vehicle agencies. Michigan and Illinois have implemented vehicle registration processes that allow for the use of touch-tone telephones to renew registrations. In addition, Michigan and Wisconsin are allowing the public to renew registrations by mail, using the Internet, or by fax.

Some of the Task Force's general concerns included providing for consumer protection, increasing customer convenience, reducing unnecessary duplication of effort between the various parties who deal with title and registration transactions, maintaining security and privacy whenever necessary and remaining compliant with federal law requirements. As the group discussed various issues associated with the current titling and registration system, consistent concerns were shared among the task force. Some of the concerns specifically related to fiscal issues were: (1) cash flow between groups involved in the processing of titles and liens is slower than is necessary, (2) Clerks of Courts rely on revenues to support their offices and transactions to maintain their staff complement, therefore, any changes made in the current system should be evaluated for impacts on clerks and their staff and, (3) as changes in the titling and registration laws are considered, provisions must be made to prevent individuals involved in casual (private) sales from falsifying the true selling price of vehicles, which would negatively affect tax revenues collected and remitted to the state. ❑

TASK FORCE FINAL RECOMMENDATIONS

The Task Force published several recommendations on September 27, 1999. The legislative mandate required that "a general estimate of the costs involved…" be included. LBO worked with task force members and state agency staff to prepare estimates of the fiscal impacts of the recommendations as part of the report. The cost figures following each recommendation are preliminary and subject to change with implementation details. They represent only technology needs, but not other needs (i.e. staff or materials and supplies). Cost savings and workload impacts have not been included in any estimates. In addition, various recommendations will likely affect revenues for current service providers and proposed service providers and the state Automated Title Processing System fund and county Certificate of Title Administration Funds. It is likely that the most solid cost and revenue estimates will result from the fiscal note process to be done by the Legislative Budget Office on bills as they are introduced.

1A. PROVIDE INTERNET INFORMATION FOR CONSUMERS

- Preliminary One-Time Cost Estimate: $150,000 - $200,000

Consumer "How to Do Business" information sources should be included on the Internet. The Bureau of Motor Vehicles (BMV) currently has an Internet web site that provides information about services to customers. The task force recommends expanding the information that already exists related to how the public can conduct transactions. In addition, information about the Clerk's of Court offices should also be provided.

1B. PROVIDE TOLL FREE TELEPHONE INFORMATION FOR CONSUMERS

- Preliminary One-Time Cost Estimate: $125,000 - $150,000

Information made available on the BMV's web site should also be accessible using a toll-free telephone number.

1C. ALLOW FOR INTERNET AND TELEPHONE VEHICLE REGISTRATION RENEWAL

- Preliminary One-Time Cost Estimate: $2,400,000 - $4,000,000

Individuals should be allowed to renew vehicle registrations using the Internet or telephone with payments being made by credit card or debit card.

2. ALLOW MOTOR VEHICLE DEALERS AND CLERKS OF COURTS TO ELECTRONICALLY RECORD TEMPORARY LICENSE TAGS

- Preliminary One-Time Cost Estimate: $50,000 - $250,000

Dealers and clerks should implement changes related to the 30-day temporary tag process and should be designated as "limited authority deputy registrars." Dealers and clerks should transit information related to 30-day tags electronically to the BMV. In conjunction with this, both groups should be allowed to retain $2.25 of the $4.25 they currently collect and remit back to the state for these transactions.

3. ALLOW FOR INTERNET ACCESS TO TITLE INFORMATION

- Preliminary One-Time Cost Estimate: $500,000 - $1,200,000

Wherever appropriate but considering privacy laws, federal requirements and security issues, certificate of title information (i.e. odometer information or “salvage” title brands) should be available using Internet access.

4. ALLOW FOR ELECTRONIC LIEN NOTATIONS AND CANCELLATIONS

- Preliminary One-Time Cost Estimate: $300,000 - $400,000

Require lenders to notify Clerks of Courts within 5 working days after receipt by the lender of “good funds” that a lien has been cancelled. When a paper certificate of title has been issued for a motor vehicle, the lender must surrender the certificate within 5 days. A monetary penalty should be prescribed if a lender does not meet the deadline requirements.

5. ALLOW MOTOR VEHICLE DEALERS TO PROCESS LICENSE PLATE TRANSFERS

- Preliminary One-Time Cost Estimate: $400,000

Dealers should be allowed to process transfers of license plates from trade-in vehicles and send registration information electronically to the BMV. In addition, although dealers do not want to issue new license plates, they would like to be able to electronically initiate the registration process. The BMV would mail the plates and certificate of registration. Dealers should be able to retain the $2.25 service fee.

Task Force Final Recommendations

6. REQUIRE CLERKS OF COURTS TO HAVE ELECTRONIC PROCESSING CAPABILITIES

- Preliminary One-Time Cost Estimate: $100,000

Require all clerks to have full electronic capabilities related to motor vehicle titling and registration. Allow for cross-county titling and lien notation and cancellation. The clerk’s office where a transaction is processed would receive the processing fee. However, any poundage collected (1.01 percent of taxes collected) would be remitted to the clerk of the county of residence of the individual whose transaction was processed. A lower electronic processing fee and higher manual-processing fee should be developed and assessed. Criteria should be developed to determine which dealers might be eligible to become “electronic motor vehicle dealers.” Recognizing the potential impacts of the task force’s recommendations it is also recommended that, during the transition period of moving from the current system to implementing various task force recommendations, the financial stability of clerks be assured. If necessary, the Automated Title Processing System Fund may be considered as a source to supplement the clerk’s operating funds.

7. ALLOW CLERKS OF COURTS TO PROCESS INITIAL VEHICLE REGISTRATION AND LICENSE PLATE TRANSFERS

- Preliminary One-Time Cost Estimate: $100,000

Allow clerks to process initial motor vehicle registration and transfer license plates for casual (private) sales. The clerk, designated as a “limited authority deputy registrar,” would retain the standard $2.25 processing fee. If necessary, clerks could be appointed deputy registrars in areas where it is not feasible to find alternative deputy registrars.

8. ELIMINATE REQUIREMENT THAT ELECTRONIC MOTOR VEHICLE DEALERS SURRENDER TITLE PAPERWORK TO CLERKS OF COURTS

- Preliminary One-Time Cost Estimate: No technology cost impact anticipated

For those dealers who participate in electronic processing, it is recommended that they retain the actual paper copies of paperwork and that clerks rely upon the electronic record that they receive from the dealer as evidence upon which the clerk will rely on to satisfy the statutorily mandated "reasonable diligence."

9. ELIMINATE SIGNATURE NOTARIZATION REQUIREMENT FOR MOTOR VEHICLE TITLES

- Preliminary One-Time Cost Estimate: No technology cost impact anticipated

Eliminate the requirement that signatures be notarized in relation to the motor vehicle titling process.

10. ALLOW ELECTRONIC DEALERS TO DO TITLE ASSIGNMENTS AND REASSIGNMENTS ELECTRONICALLY

- Preliminary One-Time Cost Estimate: $100,000 - $200,000

Dealers who electronically process titles would be allowed to have motor vehicle titles assigned and reassigned without requiring an actual paper title document to be acquired.

11. ALLOW FOR "PAPERLESS TITLES" AND "TITLE-ON DEMAND" SYSTEM

- Preliminary One-Time Cost Estimate: Additional details must be determined for costs to be developed

To reduce the number of paper copies produced, storage needs and the loss of titles, the task force recommended that motor vehicle owners and lien holders be offered the option of whether or not to have a paper title printed. All necessary information would be retained electronically and an individual could request a physical title at any time. Also, motor vehicle dealers would be authorized to print non-negotiable evidence of ownership papers if a customer requests.

12. ALLOW MOTOR VEHICLE DEALERS TO CHARGE A $5.00 PROCESSING FEE

- Preliminary One-Time Cost Estimate: No technology cost impact anticipated

Dealers who electronically transmit titling data to Clerks of Courts should be allowed to assess no more than a $5.00 processing fee on their customers. This fee should recoup the costs dealers would pay to third parties for the necessary electronic interface with the clerks.

13. COUNTY CERTIFICATE OF TITLE ADMINISTRATIVE FUND TRANSFERS

The Task Force recommended that language associated with county Certificate of Title Administration Fund revenues be strengthened to protect the financial situations of county Clerks of Courts. A transfer should not be possible unless sufficient grounds exist to justify such action.

14. BUREAU OF MOTOR VEHICLES REPORT

Lastly, if these recommendations are enacted into law, the Bureau of Motor Vehicles should be required to review the impacts and report upon whether any fee reductions or possible redistributions of excess revenues to the public exist and are feasible.

Issues of Interest

Kinship Care Council Recommends Expanding Support Services and Financial Assistance

- Eric Karolak

For Ohioans who care for their relative children in the absence of kin parents, the year 2000 may portend the dawn of a new era. On December 31, 1999, the Kinship Care Services Planning Council submitted its recommendations to Jacqueline Romer-Sensky, Director of the Department of Human Services (ODHS). The Council called for a statewide effort to expand a variety of services including information and referral, legal aid, training, respite and child care, and financial assistance. The Council also recommended the formation of a statewide advisory board and the designation of a local lead agency for coordination of the kinship care services program in each county. Specific recommendations are outlined in the accompanying table. Keep in mind, a number of these recommendations may require legislative action or specific appropriations prior to implementation.

Background

Am. Sub. H.B. 283, the FY 2000-2001 biennium main operating budget act, created the Kinship Care Services Planning Council. In response to the growth in the number of relative caregivers and their increasing needs, the 123rd General Assembly required the Council to report before the end of the year and charged ODHS to establish a statewide program of support services to kinship caregivers based on the Council's recommendations by March 31, 2000, using qualified state expenditures and federal funds. (See "Renewed Attention to the Thorny Issue of Supporting Kinship Care," *Budget Footnotes* 23:1, November 1999, 27-31.)

Both federal and state statutes require first preference for placement of a child by a public children service agency (PCSA) to be with a relative. Kinship care is thus a growing trend in the child welfare arena in Ohio and nationwide. Kinship care, by diverting children from traditional foster care placements and placing them in living arrangements with relatives whenever possible, affords children a greater sense of stability and reinforces personal and familial responsibility. Kinship care is linked to broader foster care reform in that kinship care represents a departure from the traditional and costly substitute care placements, maintains a child within the family and community, and promotes family self-sufficiency. However, federal eligibility requirements and limited state and county resources have combined to limit the assistance and support available to kinship caregivers relative to foster parents or even low-income birth parents. As described in the November, 1999 issue of *Budget Footnotes*, aside from the capped and time-limited financial support available through the state's $3 million Kinship Care Family Preservation Support Services Program, the services and supports available to relative caregivers in Ohio vary widely from county to county.

RECOMMENDATIONS FOR EXPANDED SERVICES FOR RELATIVE CAREGIVERS

SERVICE DELIVERY

- Require Family and Children First Councils to select a lead agency to administer the local kinship care services program in each county;
- Require lead agencies to establish community kinship coalition; prepare and submit a kinship care program plan to ODHS for approval and funding; contract for services; select a "kinship navigator" as a point of contact for all kinship caregivers;
- Establish a Statewide Kinship Care Advisory Board, coordinated within ODHS, oversees and monitors program implementation.

EXPANDING ELIGIBILITY FOR EXISTING SERVICES

- Use state General Revenue Fund (GRF) monies to provide legal services and child care for relative caregivers, on a sliding scale basis, whose incomes exceed state- or county-determined eligibility ceilings for such programs.

INFORMATION AND REFERRAL

- Develop a statewide information and referral network, including a WATS number, resource directory, and website to provide kinship caregivers with basic information about legal resources, financial and other public supports, and to connect them with the kinship navigator in each county;
- Launch a statewide publicity campaign to advertise the information and referral network and to educate Ohioans about the importance of kinship care;
- Host an annual statewide kinship care services conference.

LEGAL SERVICES

- Create a time-limited "power of attorney" to enable parents to empower kin to exercise certain rights and responsibilities with respect to children;
- Create a "kinship caregiver affidavit" to enable relative caregivers to assume certain rights and responsibilities with respect to a child when the parent cannot be located;
- Require lead agencies to ensure that kinship caregivers have access to "available and affordable" legal services through arrangements with existing services.

TRAINING

- Hire a statewide kinship care resource coordinator to expand and enhance training opportunities for relative caregivers; develop specialized kinship care training curricula; and host regional training events for trainers.

RESPITE CARE

- Provide maximum flexibility and funding to counties/service areas to design respite programs that meet the needs of the kinship caregivers in that area;
- Require lead agencies to ensure that relative caregivers have access to a range of respite care options to meet crisis, intermittent, and on-going needs.

CHILD CARE

- Improve access to existing publicly-funded child care services for eligible employed kinship caregivers by increasing the points of entry into the child care system, simplifying access to that system, and streamlining the application process;
- Provide for automatic eligibility to Head Start programs for children ages 3-5 in kinship care arrangements.

FINANCIAL ASSISTANCE

- Establish a special subsidy for kinship caregivers who are on a permanency (i.e., legal guardianship or custody) track;
- Increase Ohio Works First benefits by 6 percent across the board.

Outlook

The Council's recommendations, then, may portend the dawn of a new era for relative caregivers in Ohio, but the degree of change is subject to the response of ODHS and of the General Assembly to the proposals. Although Am. Sub. H.B. 283 authorized the creation of a kinship care services program using qualified state expenditures related to the federal Temporary Assistance to Needy Families program to establish new services and other unspecified federal funds to expand eligibility for existing programs, additional legislation establishing a new kinship care program and making an appropriation is necessary prior to implementing some of the recommendations cited above. For example, the Council anticipated that several recommendations—the special kinship subsidy and the 6 percent across-the-board increase in OWF, the expansion of legal services for families beyond 200 percent of the federal poverty level, and the expansion of the child care subsidy to families above the state eligibility ceiling—would not be implemented until the fiscal year 2002-2003 biennium and carry a Council-estimated price tag of $57.9 million, if fully funded as recommended. The balance of the recommendations—running the gamut from a toll-free information hotline to provision of respite care—may be implemented immediately or with minimal legislative effort. The Council has estimated that the annual costs for the balance of its recommendations totals $21.1 million. ❑

Issues of Interest

Do Local Impact Statements Impact Legislative Decisions?

FOUR YEARS OF DATA EXAMINED

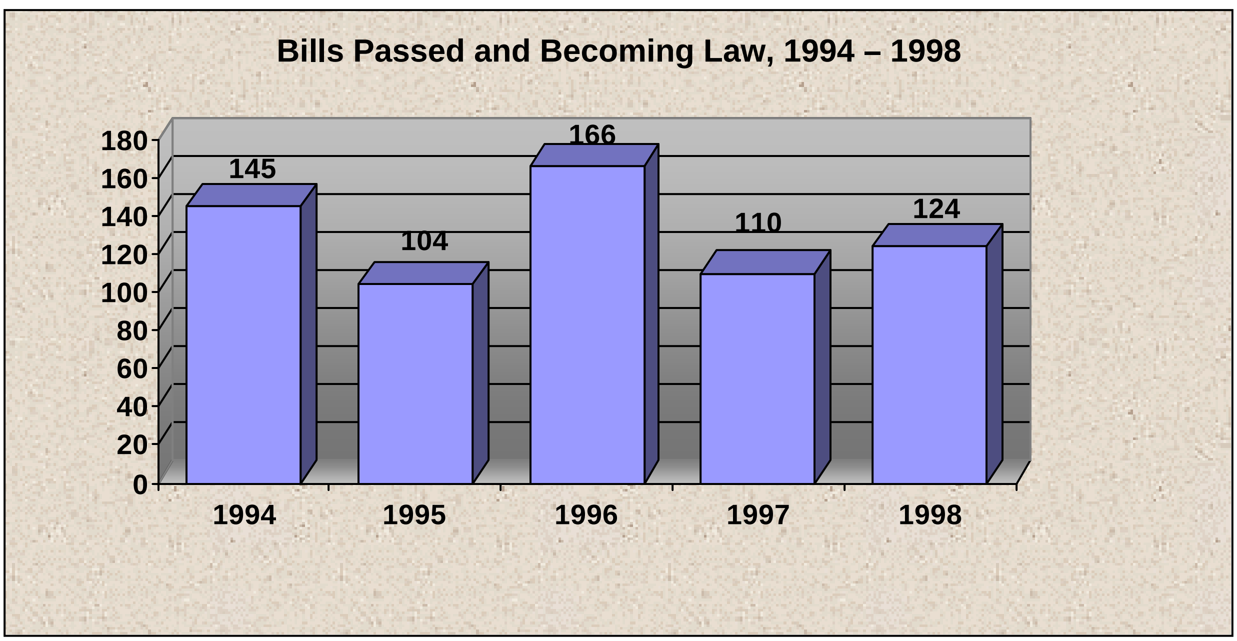
- Alexander C. Heckman

It has been five years since the Ohio Legislative Budget Office (LBO) issued the first local impact statement (LIS) as required by S.B. 33 of the 120th General Assembly. Since then, LBO has produced four annual reports, 1995-1998, on local impact statements and the legislative process. While the report on bills enacted in 1999 will be completed in September 2000, this article looks back at what we have learned from the last four annual reports. Specifically, the analysis will:

Compare the 1998 LIS data with previous years' data to assess LIS impact

Statistically analyze the connection between a bill's local impact and its enactment

The purpose of local impact statements is to provide members of the General Assembly with thorough and timely information on the potential financial impacts of proposed legislation on counties, municipalities, townships, and school districts (referred to generically as "local governments" hereafter). The LIS information is designed to allow legislators to make better-informed decisions on bills that could affect local governments.

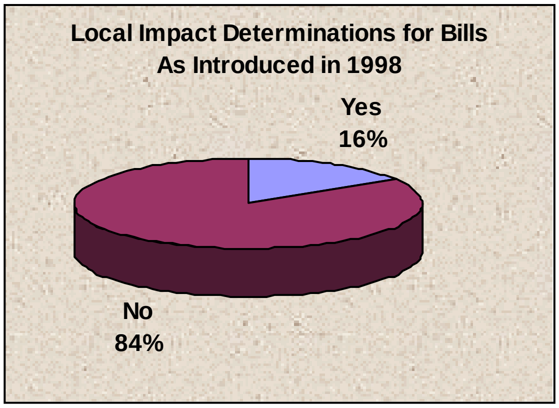


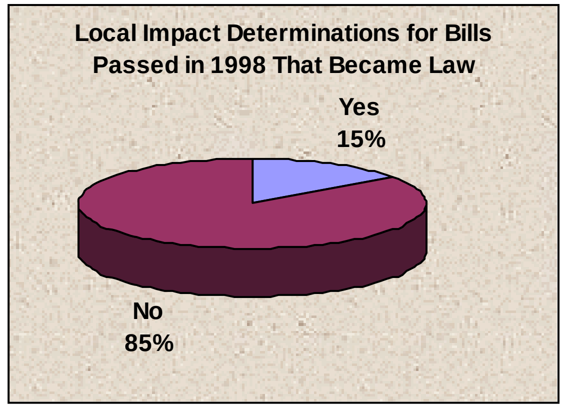
Enactment history

In calendar year 1998, the 122nd General Assembly passed 124 bills (84 House bills and 40 Senate bills) that became law. The total number of enacted bills over the past five years has varied from a low of 104 in 1995 to a high of 166 in 1996. The number of bills enacted in 1998 is somewhat lower than previous experience for even-numbered years.

Bills with Local Impact (YES) and without Local Impact (NO)

(Based upon LBO determinations for bills "As Introduced")





Of the 124 bills passed in 1998 that became law:

- ✓ 103 were initially determined by LBO to *not* have a local impact
- ✓ 21 were initially determined by LBO to have a local impact
- ✓ 5 bills had a local impact "As Introduced," but are estimated to have minimal or no local cost "As Enacted."[24[1]]
- ✓ 2 bills *did not* have a local impact "As Introduced," but are estimated to have a local impact "As Enacted"
- ✓ Therefore, a net of 18 bills had a local impact "As Enacted"

LIS impact

The enactment and LIS data for 1998 bills is similar to previous years. Table 1 shows that 23 percent or 64 of the bills introduced in 1998 did have a local impact "As Introduced." However, only 15 percent of enacted bills had a local impact. Seventy-seven percent of all bills had no local impact "As Introduced." These percentages follow previous LIS report findings. For example, the average percentage of enacted bills enacted 1995 to 1998 that had a local impact "As Enacted" is 19 percent.

24[1]. According to section 103.143 of the Ohio Revised Code, once a LIS is completed the local impact determination in the LIS stays with a piece of legislation regardless of subsequent legislative changes. However, LBO still analyzes any changes for fiscal effect, even though it cannot legally change the initially designated impact determination.

Table 1: Introduced Versus Passed Legislation for 1988 That Became Law			
The Numbers			
Version of Bill	**# of YES**	**# of NO**	**TOTAL**
Introduced	64	209	273
Enacted	18	106	124

The Percentages			
Version of Bill	**# of YES**	**# of NO**	**TOTAL**
Introduced	23%	77%	100%
Enacted	15%	85%	100%

It is important to note that the 1998 numbers, like past LIS data, do not provide insight into the overall impact of legislation passed by the state legislature. The historical data only suggest that less than 20 percent of legislation passed by the General Assembly has a negative fiscal impact on local governments. The data *do not* indicate the average overall magnitude of the fiscal impact created by this enacted legislation. Conversely, the data offer no insight as to the overall direction and magnitude of fiscal impact from bills not tagged as having a negative local impact. Therefore, it is not possible to determine the net fiscal effect on local governments resulting from all legislation passed by the General Assembly.

Does an LIS Really Affect My Bill?

The last four annual reports provide new insight into the significance of the relationship between a bill's LIS determination and its likelihood of being passed by the General Assembly. Because LBO has collected data for two General Assemblies, it was able analyze this relationship using statistical methods. Therefore, this section presents a chi-square analysis of the LIS data from the past four years to determine if there is a statistically meaningful relationship between a bill's local impact designation and whether or not it is enacted.

Table 2 is a contingency table that shows the actual numbers of bills introduced during two general assemblies as they correspond to two variables:

- Whether or not they were enacted
- Whether or not they were designated as having a local impact

Table2: Contingency Table of Enacted Bills and Local Impact, 1995-1998			
Initial Review	**# Enacted Bills**	**# Bills Not Enacted**	**Total**
YES (expected)	94 (123)	469 (440)	563
NO (expected)	410 (381)	1,337 (1,366)	1,747
TOTAL	**504**	**1,806**	**2,310**

Table 2 also shows in parentheses the frequencies that would be expected for these same bills if the two variables were not related. Using the frequencies in the table it is possible to perform a test of independence to determine if the variables have a statistically meaningful relationship. The test of independence showed that the two variables, enactment and impact designation, are dependent on one another at the 99 percent confidence level (chi-square = 11.449, critical value = 3.841). This result *does not* mean that one variable is the cause of the other. The result does mean that the two variables are correlated to one another in a statistically meaningful manner. This finding confirms a correlation that past reports suggested, but could not be systematically verified.

Conclusion

The 1998 report presented a similar story to past years, while also providing new insight into the significance of the LIS data. The on-going finding is that less than one-quarter of bills passed by the general assembly have a local impact. Second, while the historical data prevent LBO from drawing conclusions as to the cause and effect relationship between a bill's local impact and whether or not it is enacted, the data do show that a bill's local impact is correlated with its eventual disposition. This result provides some support for the idea that local impact analyses affect whether a particular piece of legislation will be enacted. This in turn suggests, that the LIS information is useful in informing legislators and their decisions. ❑