Budget Footnotes

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FISCAL OVERVIEW

— Doris Mahaffey

February 29th saw its own spate of minor Y2K-like computer glitches, but that did not stop the personal income tax revenues that were pouring into state coffers from being credited to the GRF. Revenues for the month were $124.7 million over estimate – largely due to strong personal income tax receipts and a healthy assist from federal reimbursements. Add to that $15.6 million under-estimate spending, and February ended with a GRF cash balance of $124 million – up $38 million from the previous month. The unobligated cash balance remains in the red, however. (See Table 1.)

In addition to the personal income tax and federal reimbursements, the auto sales tax, transfers in, other income and the foreign insurance tax were all over estimate by more than $1 million each for the month. The non-auto sales and use tax, the corporate franchise tax, and the public utility excise tax were all under estimate by at least $5 million each.

On the spending side, most program areas were under estimate for the month. Temporary assistance to needy families (TANF) had the biggest underage ($19 million under estimate), followed by the human services category (which includes mental health, mental retardation and developmental disabilities, aging, etc.), other welfare (department of human services funding for programs other than Medicaid, TANF and general and disability assistance), and justice and corrections. Medicaid sported the biggest overage ($23 million over estimate) – which gave it a positive year-to-date variance as well. The primary and secondary education category had the next largest overage ($16 million) – leaving it with a year-to-date underage of a mere $110 million.

Year-to-date revenues are over estimate by $249 million; year-to-date disbursements (including transfers) are under estimate by $291 million. Although it seems likely that the personal income tax and the sales taxes will end the year over estimate, it is also quite probable that the corporate franchise tax will come in under estimate for the year. Much of the underage in disbursements is a matter of "timing." Most programs still plan to use or encumber their total appropriation, doing little to add to any potential end-of-year surplus. Moreover, it would not be surprising at this time if Medicaid ended the year over estimate. On the other hand, some prior-year encumbrances are likely to be lapsed – particularly in the primary and secondary education and property tax relief categories.

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

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

	Month of February	Fiscal Year 2000 to Date	Last Year	Difference
Beginning Cash Balance	$86.0	$1,512.5		
Revenue + Transfers	$1,372.3	$12,420.1		
Available Resources	$1,458.3	$13,932.6		
Disbursements + Transfers	$1,334.1	$13,808.3		
Ending Cash Balances	**$124.3**	**$124.3**	**$578.0**	**($453.7)**
Encumbrances and Accts. Payable		$543.1	$700.2	($157.1)
Unobligated Balance		**($418.8)**	**($122.2)**	**($296.6)**
BSF Balance		$953.3	$906.9	
Combined GRF and BSF Balance		**$534.5**	**$784.7**	**($250.2)**

FY 2001, the second year of the biennium, has first claim on any surplus existing at the end of FY 2000. H.B. 282 and 283 (the education and general appropriations acts for the current biennium) projected a small surplus in FY 2000 to be used for an excess of appropriations over anticipated revenues in FY 2001. Before any plans can be made regarding any likely surplus this fiscal year, the revenue and spending prospects for FY 2001 need to be taken into consideration. The current underage in the corporate franchise tax combined with the strong Medicaid spending is enough to give one pause. ❑

TRACKING THE ECONOMY

— Allan Lundell

The economy set a new record in February, with its 107th month of expansion, and it shows little, if any signs of slowing down. Income continues to grow, consumers continue to spend, labor markets remain tight, and productivity growth remains high. Rising interest rates and oil prices have done little to slow this economy down.

Consumers

Income growth remains solid. Personal income grew by 0.4 percent in February. Wages and salaries were up 0.3 percent, dividends were up 0.6 percent, interest was up 0.5 percent, and transfer payments were up 0.5 percent. Disposable income was up 0.3 percent. One a year-over-year basis, personal income and disposable income are up 5.9 percent. Wages and salaries are up 6.3 percent, dividends are up 6.7 percent, interest is up 7.5 percent, and transfer payments are up 4.2 percent.

Consumers are still spending, continuing to drive the economic expansion. Consumer spending grew by 1.0 percent in February. Spending on durable goods was up by 1.5 percent, spending on non-durable goods was up by 1.4 percent, and spending on services was up by 0.6 percent. On a year-over-year basis, consumer spending is up 8.3 percent. Spending on durables is up 11.3 percent, spending on non-durables is up 8.9 percent, and spending on services is up 7.4 percent. Spending on services accounts for 58 percent of consumer spending; spending on non-durable goods 30 percent; and spending on durable goods 12 percent.

The housing market remained healthy, but appears to be cooling. Existing single-family home sales rose 6.7 percent in February to a seasonally adjusted annualized rate (SAAR) of 4.75 million. This is 8.6 percent below the 5.2 million average for 1999 and is 7.6 percent below the SAAR for last February. New home sales fell less than 1 percent to a seasonally adjusted annualized rate of 919,000 units. This is 1.3 percent above the average for 1999 and 2.9 percent above the SAAR for last February. Total housing starts rose 1.3 percent to an annual rate of 1.78 million. The increase was primarily due to multi-family starts. Single-family starts fell by 3.9 percent to an annual rate of 1.3 million.

Various factors are interacting in the housing market. Higher mortgage rates have reduced home affordability, which reduces demand. Strong job markets, income growth, and increases in stock market wealth are acting to increase demand. However, strong job markets are discouraging moving by individuals in search of new jobs and this acts to limit the supply of available housing on the market. The limited supply of existing homes on the market strengthens new housing starts and purchases.

The Conference Board's index of consumer confidence fell by 2.7 percent. The assessment of the current situation fell by 1.6 percent and the index of expectations fell by 3.8 percent. Although consumer confidence fell, it remains high, indicating continued economic growth. On a year-over-year basis, the index is 5.7 percent higher than in February 1999. However, higher interest rates, higher gas prices, and a volatile stock market may lead to further decreases in consumer confidence.

Prices

The Consumer Price Index (CPI) increased by 0.5 percent in February. The core CPI (excluding food and energy) increased by 0.2 percent. The energy index increased by 4.6 percent, the index for petroleum based energy increased by 8.0 percent, and the index for energy services increased by 1.1 percent. Higher energy prices were the major reason for the 1.3 percent increase in the transportation index and the 0.5 percent increase in the housing index. The index for food, driven largely by meat prices, increased by 0.4 percent.

On a year-over-year basis, the CPI is up by 3.2 percent and the core CPI is up by 2.1 percent. The index for energy is up by 19.9 percent, the index for transportation is up by 7.1 percent, the index for medical care is up by 3.8 percent, and the index for housing is up by 2.8 percent.

The Producer Price Index (PPI) for finished goods increased by 1.0 percent in February. This was largely due to a 5.2 percent increase in the index for finished energy goods. The gasoline index increased by 12.9 percent and home heating oil prices increased by 30.6 percent. Prices for finished goods other than food and energy (the core PPI) increased by 0.3 percent. The index for intermediate goods increased by 0.8 percent and the crude goods index increased by 4.2 percent.

On a year-over-year basis, the PPI is up by 4.0 percent. The index for finished energy goods is up by 24.7 percent and the index for finished consumer foods is up by 1.3 percent. The core PPI is up by 1.0 percent on a year-over-year basis. The index for intermediate goods is up by 5.3 percent and the crude goods index is up by 26.1 percent.

Sales

Seasonally adjusted advanced estimates of retail sales increased by 1.1 percent in February and are 9.4 percent greater than February 1999. After a slight slowdown in January, consumers returned to spending. Sales of non-durable goods increased by 1.4 percent. Gas sales were up by 4.2 percent due to higher gas prices. Food sales were up by 1.5 percent, rebounding from the Y2K induced decrease in January. Sales of durable goods were up by 0.7 percent. Auto sales were up by 1.3 percent and furniture sales were up by 0.7 percent. On a year-over-year basis, total retail trade is up by 9.0 percent. Sales of non-durable goods are up by 8.8 percent and sales of durable goods are up by 9.4 percent.

Production

Industrial production increased by 0.3 percent in February and is 5.6 percent higher than one year ago. Auto production decreased by 3 percent to a seasonally adjusted annualized rate of 13.3 million. Production of consumer goods decreased by 0.1 percent and production of equipment increased by 1.8 percent. Utility output was up by 0.7 percent. Capacity utilization increased slightly to 81.7 percent. This is 1.3 percentage points higher than February 1999, but is 0.3 percentage points below its historical (1967-99) average.

New orders for durable goods fell by 2.3 percent in February, but are 6.6 percent above the same period a year ago. The largest decrease was in transportation equipment, led by aircraft and parts, which fell by 8.7 percent. Orders for industrial equipment and machinery fell by 4.6 percent. Orders for electronic and other electrical equipment increased by 6.4 percent. This followed a 13.2 percent decrease in January.

Shipments of durable goods decreased for the first time since September 1999, falling by 1.8 percent. Year-to-date, shipments are 6.9 percent above the same period a year ago. Transportation equipment decreased by 4.0 percent. Industrial machinery and equipment decreased by 3.5 percent, the largest decrease since December 1991. Electronic and other electrical equipment, decreased for the first time since October 1999, falling by 0.5 percent.

Construction spending increased by 1.5 percent in February to a seasonally adjusted annualized rate (SAAR) of $758.7 billion. Private spending on construction increased by 2.0 percent to $579.6 billion SAAR, while public spending decreased by 0.1 percent to $179.2 billion SAAR. The decline in public spending on construction was primarily due to a weather induced decrease in spending on highway construction. Public spending on educational buildings increased by 4.3 percent to $41.5 billion SAAR.

Employment

The national unemployment rate increased slightly to 4.1 percent. The increase was not statistically significant. The labor force participation rate reached a record high of 67.6 percent. Average hourly earnings increased by 0.3 percent and are up 3.6 percent in a year-over-year comparison. The labor market is strong, but it is not expected to match last year's performance.

Ohio's seasonally adjusted unemployment rate increased to 4.3 percent. Total employment decreased by 4,000 to 5,631,000. The number of unemployed (defined as those not employed but seeking work) increased by 19,000 to 253,000. Compared with February 1999, the number of Ohioans working is up by 186,000 and the number unemployed is up by 12,000.

In Ohio, average hourly earnings for workers in goods-producing industries decreased by 0.1 percent in February to $17.06. Average hourly earnings for workers in the construction industry increased by 0.3 percent to $20.19. Average hourly earnings for workers in retail trade increased by 0.1 percent to $9.23. A year-over-year comparisons shows that average hourly earnings are up by 3.4 percent for workers in goods-producing industries, up by 6.8 percent for workers in the construction industry, and up by 5.5 percent for workers in retail trade.

Average weekly earnings for workers in goods-producing industries decreased by 0.5 percent in February to $725.05. Average weekly earnings for workers in the construction industry increased by1.4 percent to $793.47. Average weekly earnings for workers in retail trade decreased by 1.0 percent to $252.90. A year-over-year comparisons shows that average weekly earnings are up by 4.1 percent for workers in goods-producing industries, up by 7.9 percent for workers in the construction industry, and up by 3.2 percent for workers in retail trade. ❑

Status of the General Revenue Fund

REVENUES

—Doris Mahaffey

The personal income tax was the star performer in February, coming in at $109 million over estimate – compensating for its shortfall in January, and then some. The auto sales tax was another $10 million over estimate. However, the corporate franchise tax, the non-auto sales and use tax, and the public utility excise tax were all under estimate by a combined $39 million (See Table 2 for a detailed look at February revenues). The underage in the public utility excise tax is most likely a timing issue (the tax payment is due March 1). The underage in the non-auto sales tax reflects the January lull in retail sales. The underage in the corporate franchise tax is not so easy to explain.

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

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$57,768	$47,500	$10,268
Non-Auto Sales & Use	$291,293	$306,590	($15,297)
Total Sales	$349,061	$354,090	($5,029)
Personal Income	$453,166	$343,984	$109,182
Corporate Franchise	$104,280	$123,556	($19,276)
Public Utility	$2,418	$7,560	($5,142)
Total Major Taxes	**$908,925**	**$829,190**	**$79,735**
Foreign Insurance	$62,696	$61,200	$1,496
Domestic Insurance	$170	$0	$170
Business & Property	$195	$35	$160
Cigarette	$20,460	$21,075	($615)
Soft Drink	$0	$0	$0
Alcoholic Beverage	$3,406	$4,108	($702)
Liquor Gallonage	$2,025	$2,100	($75)
Estate	$0	$0	$0
Racing	$0	$0	$0
Total Other Taxes	$88,952	$88,519	$433
Total Taxes	**$997,878**	**$917,709**	**$80,169**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	$3,765	$3,080	$685
Other Income	$10,765	$6,740	$4,025
Non-Tax Receipts	$14,531	$9,820	$4,711
TRANSFERS			
Liquor Transfers	$10,000	$8,000	$2,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$6,000	$0	$6,000
Total Transfers In	$16,000	$8,000	$8,000
TOTAL INCOME less Federal Grants	**$1,028,409**	**$935,529**	**$92,880**
Federal Grants	$343,909	$312,110	$31,799
TOTAL GRF INCOME	**$1,372,317**	**$1,247,639**	**$124,678**

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

Detail may not add to total due to rounding.

Variances in the minor taxes basically cancelled each other out, so that taxes as a whole were $80 million over estimate.

The non-tax revenues added another $44 million over estimate, so that revenues were $124 million over estimate for the month. Federal reimbursements supplied $31 million of the February overage, mostly due to Title XIX Medicaid payments. This month's subsidy payments have nearly eliminated the shortfall that had been accumulating in this category.

Personal Income Tax

The strong performance of the personal income tax in February is chiefly due to quarterly estimated payments, which were $84 million over estimate for the month, and refunds,

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	$594,068	$543,395	$50,673	$538,938	10.23%
Non-Auto Sales & Use	$3,793,480	$3,683,895	$109,585	$3,525,871	7.59%
Total Sales	$4,387,548	$4,227,290	$160,258	$4,064,809	7.94%
Personal Income	$4,845,434	$4,703,714	$141,720	$4,492,814	7.85%
Corporate Franchise	$591,889	$645,036	($53,147)	$639,188	-7.40%
Public Utility	$425,246	$418,005	$7,241	$420,504	1.13%
Total Major Taxes	**$10,250,117**	**$9,994,045**	**$256,072**	**$9,617,315**	**6.58%**
Foreign Insurance	$253,177	$255,629	($2,452)	$271,358	-6.70%
Domestic Insurance	$1,167	$59	$1,108	$8,809	-86.75%
Business & Property	$1,101	$713	$388	$193	472.06%
Cigarette	$202,780	$201,619	$1,161	$208,537	-2.76%
Soft Drink	$0	$0	$0	$0	—
Alcoholic Beverage	$40,242	$38,813	$1,429	$39,366	2.23%
Liquor Gallonage	$21,495	$21,162	$333	$20,882	2.93%
Estate	$80,674	$72,800	$7,874	$72,849	10.74%
Racing	$0	$0	$0	$0	—
Total Other Taxes	$600,637	$590,795	$9,842	$621,994	-3.43%
Total Taxes	**$10,850,754**	**$10,584,840**	**$265,914**	**$10,239,309**	**5.97%**
NON -TAX INCOME					
Earnings on Investments	$80,397	$86,505	($6,108)	$108,801	-26.11%
Licenses and Fees	$27,843	$31,570	($3,727)	$29,453	-5.47%
Other Income	$82,199	$70,121	$12,078	$68,548	19.92%
Non-Tax Receipts	$190,439	$188,196	$2,243	$206,801	-7.91%
TRANSFERS					
Liquor Transfers	$71,000	$67,000	$4,000	$67,000	5.97%
Budget Stabilization	$0	$0	$0	$0	—
Other Transfers In	$303,273	$262,400	$40,873	$647,392	-53.15%
Total Transfers In	$374,273	$329,400	$44,873	$714,392	-47.61%
TOTAL INCOME less Federal Grants	**$11,415,465**	**$11,102,436**	**$313,029**	**$11,160,502**	**2.28%**
Federal Grants	$2,745,505	$2,767,170	($21,665)	$2,566,709	6.97%
TOTAL GRF INCOME	**$14,160,971**	**$13,869,606**	**$291,365**	**$13,727,211**	**3.16%**

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

Detail may not add to total due to rounding.

which were $34 million under estimate for the month. Withholding was virtually on target.

Year-to-date, quarterly estimated payments are up 4.7 percent over the last day of February 1999. Part of the February overage in quarterly estimated payments is a spillover from January revenues. January recorded a $31 million shortfall in quarterly estimated payments – largely due to processing delays. However, the overage in February is more than double the January shortfall. Even with this overage, the 4.7 percent growth for the year is fairly tepid – especially when compared to the double-digit growth rates for quarterly estimated payments over the last several years.

Quarterly estimated payments are due on behalf of income that is not subject to withholding. That includes profits from sole-proprietorships and other non-incorporated businesses and dividend and capital gains income. It is likely that capital gains income – due largely to stock market activity – comprises as much as 60 to 80 percent of this. (Another important source would be real estate sales.) Given the substantial rise in the value of stocks over the past decade, along with heavy trading in the market, it's likely that many more people have had to pay taxes on their capital gains. (Even if the value of the stock were falling when it was sold, as long as the stock was sold for a price in excess of its purchase price, an individual would still have to pay a tax on the difference between its sale price and its purchase price.) Furthermore, Ohio treats both short term and long-term capital gains like any other form of income, so that capital gains on property (including stock) that has been held for over a year would be taxed at the same rate as any other form of income.

The February shortfall in refunds of $34 million essentially compensates for the January overage of $29 million. This reinforces the hypothesis that the January overage was a timing matter. Increased use of tele-filing and electronic filing allowed many taxpayers who previously would have gotten their refunds in February to get them in January instead.

Withholding for the month was virtually on target (a mere $2 million over estimate). After being substantially over estimate for 5 months in a row, this is notable in and of itself. Among other things, it reinforces the hypothesis expressed in the last two issues of Budget Footnotes that the increase in withholding – particularly in December and January – has largely been the result of "bonus" and other types of incentive payments, rather than regular wage and salary increases. In addition, employment in February has slackened a mite; and wages and salaries have decreased in some areas while increasing in others. Nevertheless, year-to-date withholding is up 7 percent over this time last year. (This is actually represents a faster growth rate than the 6.3 percent increase in withholding between February 1998 and February 1999. However, withholding increased substantially in the last quarter of FY 1999, so that by June 1999 withholding had increased by 7.9 percent over June 1998.)

Corporate Franchise Tax

The first payment of the tax year 2000 corporate franchise is in and it is under estimate. This is a good indication that the corporate franchise tax will come in under estimate for the year, as well. Revenues are not only under estimate; year-to-date revenues are also 8 percent lower than last year at this time. In fact, combined January-February receipts from this year are 14 percent lower than January-February receipts from FY 1999.

It's not clear why the corporate franchise tax is down. Nationwide, after-tax profits for calendar year 1999 grew at an estimated rate of 7.6 percent, compared to a rate of –2.9 percent in 1998.[1] (Most corporations in Ohio have a calendar year fiscal year.) Although competition kept prices down, and a tight labor market increased labor costs, productivity gains generally allowed corporations to earn sizable profits. It is possible that the more traditional mix of firms in Ohio did not fare as well as corporations in the rest of the economy. While manufacturing in general fared well in 1999 – having pretty much recovered from 1998's worldwide slump, fierce competition in steel and transportation equipment seems to have kept the lid on profits in those areas. The Fed-induced increases in interest rates in the second half of 1999 may have eaten into profits, as well.

In the past, the behavior of the corporate franchise tax has followed the behavior of quarterly estimated payments to some extent. That link may have been severed when H.B. 215 revised the tax and reduced the importance of the net worth calculation. While stock values are becoming more and more important to the calculation of personal income tax quarterly estimated payments, they are less significant in determining corporate franchise tax liabilities.

Sales Tax

Consumers took a breather in January after the almost frenetic buying in December, and February's non-auto sales and use tax revenues reflect that. Retail sales excluding autos actually declined by 0.3 percent nationwide. The stock market slid, as well, so consumers didn't feel quite as wealthy. Moreover, some undoubtedly had to use more of their income for the quarterly estimated payments than they had anticipated, and that made them feel less wealthy too.

Sales rebounded in February. Most notably, from the point of view of the February GRF, auto sales soared to their highest rate (annualized in terms of number of units sold)

[1] *U.S. Economic Outlook, 1999-2005*, WEFA Group, March 2000.

since September 1986. (Although auto sales were pretty healthy in January, as well.) The high nominal price of gasoline may have caused some griping, but apparently did not cause much change in behavior. Sales of light trucks (including the gas-guzzling SUV's) were particularly strong. This was not all that surprising, since in spite of the fact that the price at the pump got uncomfortably close to $2.00 per gallon in the state, the price of gasoline in real terms (1999 dollars) is still lower than it was before the first oil embargo in the 1970's.[2]

Automobile sales in Ohio were probably not as strong as in some areas of the country. The Federal Reserve's *Beige Book* for the Fourth District (March 8, 2000) observed, "Sales of new vehicles have generally slowed for the month of February." That probably explains why the auto sales tax overage was only $10 million. The *Beige Book* goes on to say "Dealers did not believe that high gasoline prices would significantly affect sales, and they foresaw continued strong sales for the next few months."

Non-tax Revenue

Nearly all the non-tax revenue categories were over estimate in February. Federal reimbursements had the largest overage. Medicaid subsidy payments were essentially "catching up" with Medicaid expenditures.

The $6 million variance in the "other transfers" category represents the repayment of a loan made in August from the GRF to the Parks and Recreation Improvement Fund (Fund 035), which produced at that time a $6 million increase in the "other transfers out" category on the disbursement side of the ledger. The two transactions essentially cancel each other out and have no net impact on the GRF fund balance.

The "other income" category is comprised of income from such things as timber sales, rentals, refunds, and recoveries. February receipts in this category were approximately $4 million over estimate. Much of this variance can be traced to a revenue category called "petty cash closeouts." This has not been a particularly important source of revenue to the GRF in years past. It is likely that many agencies had let their petty cash funds accumulate – just in case any major Y2K funding problems arose. As we know by now, the year 2000 started without any serious glitches and so many agencies likely "cashed out."

Year-to-date Revenue

At the end of February, revenue to the GRF is almost $250 million over estimate (See Table 3). The personal income tax – at $145 million over estimate – has over taken the sales tax as the chief source of that overage. (Combined auto and non-auto sales tax revenues are $98 million over estimate.) The corporate franchise tax at $43 million under estimate offsets part of the overage. Compared to the last day of February 1999, sales and personal income tax revenues are both up by 6.5 percent. Corporate franchise tax revenues are down by 8.5 percent.

On the non-tax side, transfers and other income contribute sizeable overages. Earnings on investments, federal reimbursements, and licenses and fees continue to be under estimate, but these underages appear to be shrinking. ❑

[2] David Wyss Ph.D., Chief Economist, Standard & Poor's DRI, "The Economic Outlook: Borrowing Trouble," presentation to Columbus Association of Business Economists, Columbus, Ohio, March 21, 2000.

DISBURSEMENTS

*— Jeffrey E. Golon with Steve Mansfield**

Relative to the variance between actual and estimated GRF disbursements, February was a quiet month. The surface evidence of this, exclusive of transfers, was in the state's posting of a small $15.9 million monthly underage, short of the estimate by 1.2 percent. The February underage in turn nudged the state's ongoing negative year-to-date disbursement variance up to $335.7 million.

Looking backward in time from the close of February, this article will take three different cuts at the state's FY 2000 disbursement activity. First, we examine the most notable departmental budgets and programs that came to bear on February's monthly disbursement variance. Second, we undertake a similar examination with respect to the state's year-to-date disbursement variance. Third, we close with an outline of the state's disbursement dynamics as they have unfolded over the course of the last eight months (July 1999 through February 2000).

I. February

Our discussion of the departmental budgets and programs that worked to form February's $15.9 million monthly underage, arranged in order of the magnitude of their contribution, commences below. Also included is a brief discussion of the few notable monthly overages. The reader is directed as well to Table 4, which provides a more detailed picture of February's disbursement variances by program category.

TANF. In February, disbursements from the Temporary Assistance to Needy Families (TANF) program checked in with their familiar pattern of running below the estimate, as evidenced by a $19.0 million monthly underage, shy of expected spending by 23.8 percent. February's underspending was driven by negative disbursement variances of $14.4 million and $6.0 million posted in line items 400-411, TANF Federal Block Grant, and 400-413, Day Care Match/MOE, respectively. The combined effect of these negative disbursement variances was muted slightly by overspending of $1.4 million tossed in from line item 400-410, TANF State.

February's underspending derived completely from a slower than expected delivery of services by counties, rather than any decline in the TANF caseload. In fact, the TANF caseload picked up approximately 1,500 additional cases in February, and, as a result, the program added about 3,800 new recipients. Consequently, cash benefit payments in February were approximately $835,000 higher than in January. Under the current biennial operating budget, a 3 percent increase in the level of cash benefits was authorized, which helped to account for the increase in monthly payments that we witnessed in January and February. In addition, the number of TANF cases has increased in four of the last five months.

Alcohol & Drug Addiction. At first sight, the Department of Alcohol & Drug Addiction Services' $12.4 million underage reported for the month of February, 99.1 percent short of the estimate, was quite an eye opener. Upon closer inspection, however, any concern that might have engendered quickly dissipated. The department did not as planned distribute $11-plus million in third quarter subsidy allocations to all of the county boards statewide. Apparently, around 25 of these 50 county boards, which use this subsidy funding in support of alcohol and drug addiction prevention, intervention, treatment, counseling, and residential and community support services, did not submit their required quarterly reports on time. In response, the department temporarily halted distribution of the scheduled quarterly allocations to those county boards, with the

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

USE OF FUNDS			
PROGRAM	**Actual**	**Estimate***	**Variance**
Primary & Secondary Education (1)	$397,187	$381,055	$16,133
Higher Education	$190,924	$188,658	$2,265
Total Education	$588,111	$569,713	$18,398
Health Care/Medicaid	$455,757	$432,551	$23,205
Temporary Assistance to Needy Families (TANF)	$60,822	$79,835	($19,013)
General/Disability Assistance	$4,688	$4,627	$61
Other Welfare (2)	$17,595	$28,948	($11,353)
Human Services (3)	$62,853	$77,388	($14,536)
Total Welfare & Human Services	$601,714	$623,349	($21,635)
Justice & Corrections	$106,808	$115,912	($9,104)
Environment & Natural Resources	$6,183	$8,014	($1,831)
Transportation	$1,390	$4,790	($3,400)
Development	$8,340	$5,467	$2,873
Other Government (4)	$16,845	$20,134	($3,289)
Capital	$943	$550	$393
Total Government Operations	$140,510	$154,866	($14,357)
Property Tax Relief (5)	$1,728	$0	$1,728
Debt Service	$1,710	$1,757	($47)
Total Program Payments	**$1,333,773**	**$1,349,685**	**($15,913)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$285	$0	$285
Total Transfers Out	$285	$0	$285
TOTAL GRF USES	**$1,334,058**	**$1,349,685**	**($15,628)**

(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 Reissued 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.

affected subsidy funding to be released as soon as the required reports were submitted.

Human Services. For February, disbursements for the Department of Human Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF and General/Disability Assistance, which are tracked under separate components of the Welfare and Human Services program category — were $11.4 million (or 39.2 percent) below the monthly estimate. The two largest contributors to the monthly underage were computer projects ($4.2 million) and non-TANF county administration ($4.8 million). Multiple factors converged to produce the underage in the department's computer projects program — cancelled or stalled projects, slower than expected billings from contractors, and difficulties in filling vacant management information system staff positions — while the source of the non-TANF county administration underage was timing. Other notable areas of the department's budget that chipped into the monthly underage included: 1) electronic benefits transfer ($1.3 million), due to a large

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

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 1999	Percent Change
Primary & Secondary Education (1)	$3,478,659	$3,589,549	($110,890)	$3,282,714	5.97%
Higher Education	$1,640,919	$1,638,614	$2,305	$1,545,106	6.20%
Total Education	$5,119,578	$5,228,162	($108,585)	$4,827,820	6.04%
Health Care/Medicaid	$3,704,461	$3,686,919	$17,542	$3,447,622	7.45%
Temporary Assistance to Needy Families (TANF)	$595,647	$652,940	($57,294)	$541,618	9.98%
General/Disability Assistance	$40,965	$39,180	$1,785	$38,134	7.42%
Other Welfare (2)	$336,358	$383,076	($46,718)	$279,055	20.53%
Human Services (3)	$828,825	$912,079	($83,254)	$793,586	4.44%
Total Welfare & Human Services	$5,506,256	$5,674,194	($167,939)	$5,100,014	7.97%
Justice & Corrections	$1,182,089	$1,205,084	($22,995)	$1,084,362	9.01%
Environment & Natural Resources	$100,037	$91,102	$8,934	$94,805	5.52%
Transportation	$26,864	$34,505	($7,642)	$23,172	15.93%
Development	$99,296	$96,723	$2,573	$79,963	24.18%
Other Government (4)	$263,691	$294,791	($31,100)	$252,247	4.54%
Capital	$11,805	$9,819	$1,986	$2,544	364.04%
Total Government Operations	$1,683,782	$1,732,026	($48,243)	$1,537,093	9.54%
Property Tax Relief (5)	$560,509	$575,184	($14,675)	$536,423	4.49%
Debt Service	$126,937	$123,155	$3,782	$120,100	5.69%
Total Program Payments	**$12,997,061**	**$13,332,721**	**($335,659)**	**$12,121,450**	**7.22%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	—
Budget Stabilization	$46,400	$46,400	$0	$44,184	5.02%
Other Transfers Out	$764,886	$720,569	$44,316	$1,001,349	-23.61%
Total Transfers Out	$811,286	$766,969	$44,316	$1,045,533	-22.40%
TOTAL GRF USES	**$13,808,347**	**$14,099,690**	**($291,343)**	**$13,166,983**	**4.87%**

(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 Reissued 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.

February invoice that was expected but not received; 2) adoption services ($1.0 million), with lower than expected costs per adoption case as a factor; and 3) maintenance ($750,000), due to an accounting adjustment. The combined impact of these underages was partially offset by a $1.6 million timing-based monthly overage associated with county social services administration.

Rehabilitation & Correction. The Department of Rehabilitation & Correction's February disbursements hit short of the monthly estimate by $9.9 million, or 11.9 percent. The department's $751.5 million Institutional Operations line item (501-321), which supports the day-to-day costs of running the state's prison system, was the key factor in the monthly disbursement variance, with the culprit appearing to be no more than a matter of timing.

Employment Services. The Bureau of Employment Services performed a $4.4 million accounting maneuver in February that produced a $4.0 million underage with a rather interesting two-part story. In part one, bureau operating costs previously posted against its GRF budget were reimbursed with federal dollars, the practical effect of which was to restore $4.4 million in GRF funding and increase line item 795-407's FY 2000 available balance to slightly over $6.0 million. In part two, the Department of Human Services and the Controlling Board came into play. At its late February meeting, the Controlling Board approved a request by the Department of Human Services to create a new fund — OhioWorks Supplement (Fund 5L4) — and establish a FY 2000 appropriation authority of $6.0 million, the source of which would be a $6.0 million transfer of funding from the bureau's just replenished line item 795-407, OBES Operating. The purpose of the transfer was to assist the Department of Human Services in paying Andersen Consulting $23.0 million over the course of the current biennium largely to design, build, test, and operate an internet job search application that will serve the soon to be formed Department of Job & Family Services. This work represented a significant modification to an existing $22.1 million contract with Andersen Consulting to support the ongoing development and operation of the Department of Human Services' internet job search application known as OhioWorks.

Transportation. For the month of February, the Department of Transportation landed short of the estimate by $3.4 million, or 71.0 percent, principally traceable to its dominant GRF line item 775-451, Public Transportation. The monthly disbursement variance served as a reminder of the difficult task one faces when trying to accurately forecast when, and how much, of the department's capital and operating assistance will be released to the 50-plus transit systems around the state.

Selective Overages. There were three noteworthy overages in February, commented on below, that worked to hold the monthly underage to under $20.0 million.

Medicaid/Health Care. In February, the state's $5-plus billion Medicaid program registered spending of $455.7 million, above the monthly estimate of $432.5 million by $23.2 million, or 5.4 percent. The February overage was primarily a function of three Medicaid service categories: 1) HMO ($29.0 million); 2) All Other ($14.6 million); and 3) Hospitals ($13.8 million).

At first blush, the most intriguing aspect of Medicaid's February disbursements was the large overage in the HMO service category, in light of the fact that the estimate indicated that "no" HMO disbursement activity was planned for the month. The Department of Human Services original FY 2000 Medicaid disbursement plan called for it to draw $33.4 million in non-GRF funding from its Institutions for Mental Diseases/ Disproportionate Share Hospital (IMD/ DSH) program to cover HMO service payments in February. As previously reported, this fiscal tactic to cover HMO payments was expected to be employed in the four-month period running from January through April. These transferred IMD/DSH funds were then credited against line item 400-525's total monthly spending, and not specifically against HMO service category spending as expected (see footnote 3 in Table 6). In February at least, there was an apparent shift in this planned tactic, as only $22.7 million (not $33.4 million as expected) was transferred into Medicaid's line item 400-525, Health Care/Medicaid.

With regard to an analysis of the overage in the All Other service category, that continued to be a problematic task due to 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 February overage was partially influenced by a one-time payment adjustment that reflected application of the market basket index that increased payments for inpatient care services, as well as changes to the outpatient fee schedule.

Two of Medicaid's service categories were working against the February overage: 1) Nursing Homes ($13.6 million); and 2) Medicare Buy-In ($11.1 million). The Nursing Homes service category has been posting monthly underages throughout the fiscal year, and, as previously reported, seemed to be rooted in declining bed utilization. The Medicare Buy-In underage simply reflected the fact that the planned February payment was actually made in January.

We've provided a more detailed visual picture of Medicaid's February disbursement activity in Table 6.

Education. The Department of Education registered a relatively modest $15.7 million, or 4.2 percent, overage for the month of February. The leading element in the overage was line item 200-520, Disadvantaged Pupil Impact Aid (DPIA), which ran past the estimate by $18.2 million. Also contributing noticeably to the overage was spending on the Ohio Educational Computer Network, which exceeded the estimate by $8.3 million. The combined effect of these twin overages was in turn partially offset by a $7.0 million underage posted in the pupil transportation program. Timing was clearly the major factor behind these disbursement variances.

Mental Health. For February, the Department of Mental Health posted a positive disbursement variance of $6.4 million, exceeding the monthly estimate by 20.3 percent. Virtually all of the monthly overage was traceable to timing factors that affected the department's three largest GRF subsidy line items: 1) $4.3 million in 334-408, Community and Hospital Mental Health Services; 2) $1.0 million in 335-502, Community Mental Health Programs; and 3) $1.1 million in 335-508, Services for Severely Mentally Disabled. This monthly overage, which essentially involves subsidy funding distributed to county mental health boards, was not unexpected, as it simply represented an anticipated adjustment or correction to prior monthly underages.

II. Year-to-Date

Excluding transfers, the state recorded a $335.7 million negative year-to-date disbursement variance, a relatively small one-month $15.9 million rise in the size of the cumulative FY 2000 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 ($102.3 million); 2) Temporary Assistance to Needy Families/TANF ($57.3 million); 3) the Department of Mental Health ($47.7 million); and 4) exclusive of its Medicaid, TANF, and General/Disability Assistance programs, the remainder of the Department of Human Services' GRF budget ($46.7 million). Timing combined with some programmatic and administrative difficulties were the primary factors driving 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 disbursement variances by program category.

Education. The Department of Education has been a major player in the state's year-to-date disbursement story throughout FY 2000, and its relatively modest overage posted for the month of February, did not dramatically alter that fact. At the end of February, it was very clear that, carrying a $102.3 million underage, the department was by far the single most dominant force in the state's $335.7 million negative year-to-date disbursement variance. It closest rival, the Temporary Assistance to Needy Families (TANF) program, was a distant second, with a year-to-date underage of $57.3 million.

Driving the department's negative year-to-date disbursement variance was its disadvantaged pupil impact aid (DPIA) program, which tossed in $31.5 million worth of underspending, thanks in part to an $18.2 million underage that just arrived in February. Other noticeable components of the department's year-to-date underage included, in order of magnitude, pupil transportation ($16.4 million), desegregation costs ($9.5 million), summer intervention services ($9.3 million), special education enhancements ($7.6 million), power equalization ($5.7 million), school improvement incentives ($5.5 million), teacher incentives ($5.0 million), and school improvement models ($4.5 million). These disbursement variances were mostly a function of timing issues, with the exception of the DPIA program where around $17.7 million in state funding allocated for the state's all-day, everyday kindergarten funding will most likely not be needed, and, as a result, will be unspent at the close of FY 2000. (For more on the state's all-day, everyday kindergarten program, see the article in this issue written by our colleague Wendy Zahn.)

TANF. Year-to-date, Temporary Assistance to Needy Families (TANF) program disbursements were running under the estimate by $57.3 million, which was 8.8 percent short of the $652.9 million year-to-date estimate. The year-to-date disbursement variance was composed of: 1) a $79.5 million underage in the TANF Federal line item; 2) a $36.8 million overage in the TANF State line item; and 3) a $14.6 million underage in the Day Care Match/MOE line item.

The negative year-to-date disbursement variance would have been even greater if it weren't for timing-based September and December overages that occurred in the Federal and State line items, respectively. In the remaining four months of the fiscal year, we are likely to see large monthly overages develop in the Federal line item, as it is more heavily tapped to pay cash assistance as well as administrative costs and services.

Mental Health. Year-to-date, the Department of Mental Health posted the third largest underage at $47.7 million, shy of the estimate by 12.0 percent. The three key players in the year-to-date underage, referenced in many of our prior reports on the department's FY 2000 disbursements, remained unchanged: 1) 334-408, Community and Hospital Mental Health Services ($33.7 million); 2) 335-502, Community Mental Health Programs ($8.9 million); and 3) 335-508, Services for Severely Mentally Disabled ($3.0 million). As these underages were no more than matters of timing, they should largely disappear between now and the end of the fiscal year.

Human Services. Year-to-date, disbursements for the Department of Human Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF and General/Disability Assistance — were $46.7 million (or 12.2 percent) below the year-to-date estimate. The dozen-plus areas of the departmental budget that contributed to the year-to-date disbursement variance included, in order of magnitude: computer projects ($19.5 million), adoption services ($5.9 million), electronic benefits transfer ($4.8 million), child support match ($3.7 million), non-TANF county administration ($3.6 million), child and family services ($3.0 million), state refugee services ($1.8 million), burial claims ($1.7 million), child protective services ($1.6 million), personal services ($1.4 million), child support administration ($1.3 million), children's health insurance ($1.2 million), and adult protective services ($1.1 million). As a group, these underages grew from contractual spending, subsidy distributions, and staffing levels that were running contrary to expectations, with those elements in turn being driven by a jumbled mix of timing, programmatic obstacles, faulty estimates, and hiring difficulties.

Working slightly against the cumulative impact of these underages were overages related to 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 maintenance (higher than anticipated payments to the Auditor of State for child welfare program audits).

Rehabilitation & Correction. Aided by a February underage just shy of $10 million, the Department of Rehabilitation & Correction's negative year-to-date disbursement variance grew to $22.4 million, or 2.5 percent off the estimate. The dominant element in the year-to-date underage was the department's massive Institutional Operations line item (501-321), an apparent victim of timing.

Administrative Services. A string of three roughly $5.0 million monthly underages recorded very early in the fiscal year continued to exert their effect four months later, as evidenced by the fact that the Department of Administrative Services was still carrying a negative year-to-date disbursement variance of $16.4 million, 14.4 percent under the estimate. At least 80.0 percent of the year-to-date underage was a function of two previously reported elements: 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 $7.1 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) State of Ohio Synchronous Optical Network/Ohio SONET (line item 100-419); and 4) Year 2000 Assistance (line item 100-430). The MARCS project, with slow going a considerable part of its history, has acquired only a small number of the sites on which towers will be built. With respect to Strategic Technology, a major database project that will allow multiple state agencies to share information on recipients of state benefits has developed more slowly than anticipated. In the matter of Ohio SONET, the department was working to reconcile invoices with services rendered.

Another $6.5 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). In addition, tenant moves expected to occur this year involving state facilities managed by the department that would have triggered renovation and relocation expenditures have not yet taken place.

Property Tax Relief. 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, posted a $14.7 million negative year-to-date disbursement variance, under the estimate by 2.6 percent. In terms of the type of property tax relief distributed, the year-to-date underage was composed of $9.3 million in real property tax credits/exemptions funding and $5.4 million in tangible tax credits/exemptions funding. From our vantage point at month's end, it appeared that the year-to-date underage included $9.0 million or more in Property Tax Relief funding that would not be needed in FY 2000 and effectively lapse back into the state treasury.

Mental Retardation. Largely as a result of the underspending in one line item — 322-413, Residential and Support Services — the Department of Mental Retardation & Developmental Disabilities was holding a $12.7 million, or 4.3 percent, negative year-to-date disbursement variance at the close of February. The underage in line item 322-413, which is used by the department to pay for services delivered to individuals with mental retardation or developmental disabilities, was a mixture of $8.1 million in encumbered prior years' funding and $3.5 million in current year funding, and reflected the difficulty of predicting when service providers would bill the department. Also part of the department's negative year-to-date disbursement variance, for reasons that remained unclear as of this writing, was $1.1 million in unspent prior year funding related to the residential placement of individuals who were part of the Sermak class action lawsuit settlement.

Alcohol & Drug Addiction. Year-to-date, the Department of Alcohol & Drug Addiction Services reported a negative disbursement variance of $11.6 million, under the estimate by 32.7 percent. The root of the year-to-date variance was the department's previously discussed February disbursements. As noted, two dozen-plus county boards had not submitted their required quarterly reports on time and the department moved to withhold their $11-plus million in subsidy funding until those reports were submitted.

Transportation. As a result of a $3.4 million February underage, the Department of Transportation's negative year-to-date disbursement variance was propelled up to $7.6 million, short of the estimate by 22.1 percent. The story remained the same. Quite simply, the release of the department's capital and operating assistance to the state's 50-plus urban and rural transit systems was occurring contrary to the original disbursement plan. This was not surprising given the difficulty of precisely estimating the distribution of those subsidies, a process that is made more troubling by the reality that these transit systems budget within the context of differing local, state, and federal budget cycles.

Health. Numerous disbursement variances scattered throughout the Department of Health's budget contributed to its $6.3 million year-to-date underage, 10.6 percent short of the estimate. Most noticeable in their contributions to the disbursement variance were line items 440-505, Medically Handicapped Children, and 440-418, Immunizations, which posted underages of $2.4 million and $1.1 million, respectively. We've previously reported that the underage in line item 440-505 developed as a result of the way that the department was apportioning the costs of paying for services provided to certain children with medical handicaps between its GRF and non-GRF revenue streams. We've since run into other information suggesting that fewer medically handicapped children were being served by the program, thus less money is being disbursed; hence, the underage. 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 as anticipated in replenishing its stock of vaccines.

SchoolNet. The Ohio SchoolNet Commission, which is charged with administering many of Ohio's educational technology programs, recorded a relatively small overage in February, which reduced its negative year-to-date disbursement variance down to $5.0 million, off the estimate by 24.2 percent. As previously reported, the commission spent some time enhancing its grant management skills early on in the fiscal year, the practical effect of which was to temporarily delay planned subsidy distributions.

Auditor. In February, the Auditor of State posted yet another monthly underage and drove its ongoing negative year-to-date disbursement variance up to $4.7 million, 15.3 percent shy of the estimate. Virtually all of the year-to-date underage was traceable to two factors: 1) the Auditor's decision to leave some budgeted staff positions unfilled; and 2) scheduled mainframe computer software purchases that had yet to occur.

Library Board. The State Library Board, perhaps most known in its role as the fiscal agent for the Ohio Public Library Information Network (OPLIN) which connects 240-plus public library systems in the state, closed February with a negative year-to-date disbursement variance of $4.3 million, under the estimate by 29.0 percent. The multitude of forces that coalesced to create the year-to-date underage included, in order of importance, a slow-moving office relocation, an apparent savings in OPLIN's budget resulting from the federal government's E-Rate discount program, a timing-based delay in subsidy distributions, an unanticipated decline in rental payments, and an unexpected delay in filling vacant staff positions.

Selective Overages. There were some overages spread throughout the state's year-to-date disbursement picture, the five most notable of which are discussed below.

Medicaid/Health Care. Under the weight of two consecutive $20-plus million monthly overages totaling $49.8 million, the state's Medicaid program now carried a positive year-to-date disbursement of $17.5 million, in excess of the estimate by 0.5 percent. Three Medicaid service categories essentially fed the overage: 1) All Other ($41.3 million); 2) HMO ($27.2 million); and 3) Hospitals ($24.2 million). Given the absence of good data, the source(s) of the large overage in the All Other service category remained a mystery for the time being.

The HMO service category overage, however, was not so mysterious, as it clearly reflected a departure in February from the amount of non-GRF IMD/DSH money that the Department of Human Services originally planned to move into the Medicaid 400-525 line item. Given the amount of IMD/DSH funding actually transferred, and how the department then credited it against Medicaid's February spending, this accounting change actually produced two counter-intuitive disbursement outcomes: a $27.2 million overage combined with a $22.7 million underage (see footnotes 2 & 3 in Table 6).

Table 6

Medicaid (400-525) Spending in FY 2000

	February '00				Year-to Date Spending			
Service Category	Actual	Estimate	Variance	Percent Variance	Actual** thru' Feb.	Estimate** thru' Feb.	Variance	Percent Variance
Nursing Homes	$176,804,732	$190,432,588	($13,627,856)	-7.2%	$1,404,766,732	$1,451,763,457	($46,996,725)	-3.2%
ICF/MR	$29,567,463	$30,424,100	($856,637)	-2.8%	$234,843,442	$238,430,282	($3,586,840)	-1.5%
Hospitals	$108,758,306	$94,924,359	$13,833,947	14.6%	$834,139,500	$809,975,787	$24,163,713	3.0%
Inpatient Hospitals	$82,060,842	$73,350,874	$8,709,968	11.9%	$625,191,987	$623,333,533	$1,858,454	0.3%
Outpatient Hospitals	$26,697,465	$21,573,485	$5,123,980	23.8%	$208,947,513	$186,642,254	$22,305,259	12.0%
Physicians	$32,896,555	$23,735,651	$9,160,904	38.6%	$204,329,328	$196,446,434	$7,882,894	4.0%
Prescription Drugs	$52,572,290	$47,594,733	$4,977,557	10.5%	$426,941,757	$431,058,283	($4,116,526)	-1.0%
Payments	$54,161,130	$64,179,205	($10,018,075)	-15.6%	$549,235,486	$546,209,958	$3,025,528	0.6%
Rebates	$1,588,840	$16,584,472	($14,995,632)	-90.4%	$122,293,730	$115,151,675	$7,142,055	6.2%
HMO[2]	$28,986,760	$0	$28,986,760	----	$209,592,887	$182,348,676	$27,244,211	14.9%
Medicare Buy-In	$0	$11,145,579	($11,145,579)	-100.0%	$81,302,887	$86,964,807	($5,661,920)	-6.5%
All Other***	$48,904,747	$34,294,487	$14,610,260	42.6%	$331,278,473	$289,931,427	$41,347,046	14.3%
TOTAL[3]	$455,756,947	$432,551,497	$23,205,450	5.4%	$3,704,461,097	$3,686,919,153	$17,541,944	0.5%
CAS	$455,756,946		$23,205,449	5.4%	$3,704,461,096		$17,541,943	0.5%
Est. Federal Share	$265,860,345	$252,323,725	$13,536,620		$2,160,952,928	$2,150,720,045	$10,232,883	
Est. State Share	$189,896,601	$180,227,772	$9,668,829	5.4%	$1,543,508,170	$1,536,199,108	$7,309,062	0.5%

* This table only includes Medicaid spending through Human Services' 400-525 line item.
** Includes spending from prior year encumbrances in in the All Other category.
*** All Other, includes all other health services funded by 400-525.
2. HMO payment made in January is $29,184,196. No GRF funds were budgeted due to GRF offsets with IMD/DSH monies. Year-to-date HMO service payments = $238.7 million.
3. Please note that for FY 2000, including the month of February, details do not add to the total, since the IMD/DSH offset of $22,733,908 is applied to the bottom line & not HMO payments as planned.

Source: BOMC 8300-R001 Reports, Ohio Department of Human Services.

Table 7

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

Service Category	FY 2000[1] Yr.-to-Date as of Feb. '00	FY 1999[2] Yr.-to-Date as of Feb. '99	Variance	Percent Variance
Nursing Homes	$1,404,766,732	$1,337,238,457	$67,528,275	5.0%
ICF/MR	$234,843,442	$230,993,778	$3,849,664	1.7%
Hospitals	$834,139,500	$769,662,664	$64,476,836	8.4%
Inpatient Hospitals	$625,191,987	$588,573,707	$36,618,280	6.2%
Outpatient Hospitals	$208,947,513	$181,088,958	$27,858,556	15.4%
Physicians	$204,329,328	$182,895,238	$21,434,090	11.7%
Prescription Drugs	$426,941,757	$367,574,962	$59,366,794	16.2%
Payments	$549,235,486	$468,545,518	$80,689,968	17.2%
Rebates	$122,293,730	$100,970,556	$21,323,174	21.1%
HMO	$209,592,887	$239,479,941	($29,887,054)	-12.5%
Medicare Buy-In	$81,302,887	$81,623,086	($320,199)	-0.4%
All Other***	$331,278,473	$238,153,431	$93,125,042	39.1%
TOTAL	$3,704,461,097	$3,447,621,557	$256,839,540	7.4%
Est. Federal Share	$2,160,952,928	$2,014,272,895	$146,680,033	7.3%
Est. State Share	$1,543,508,170	$1,433,348,662	$110,159,507	7.7%

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

Two observations relative to the overage in the Hospitals service category are important to note. First, monthly HMO payments will rise as a result of February revisions to reimbursement rates for inpatient and outpatient services. Second, there are time lags between the submission and processing of claims that delay expected payments and make the analysis of data difficult.

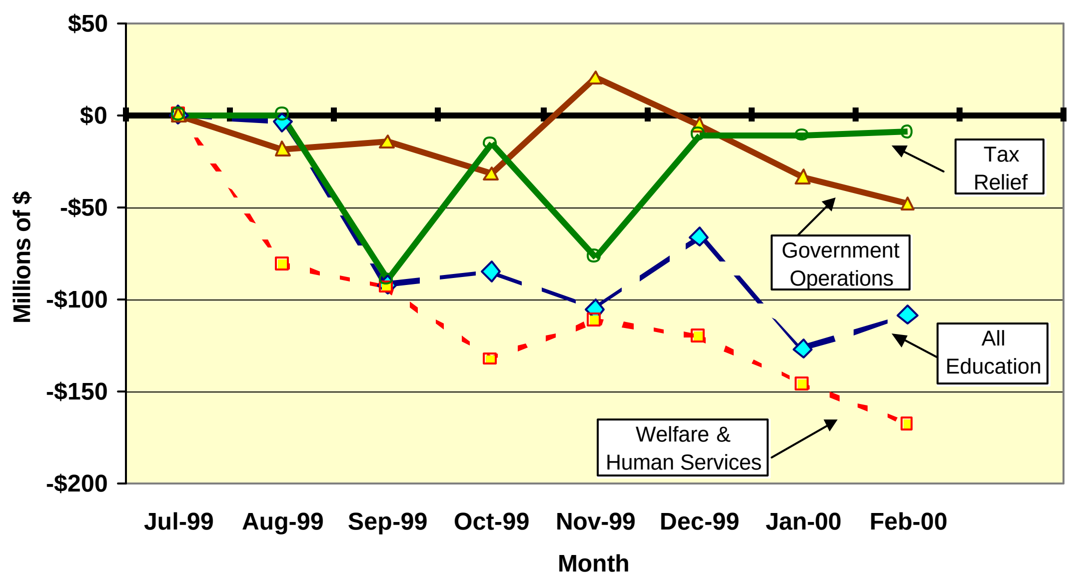
Year-to-date, the Nursing Homes service category continued to exert a powerful constraining effect on the potential size of any overage in total Medicaid spending, as evidenced by the presence of a $47.0 million underage. As previously reported, declining nursing home utilization was perhaps a major factor, and appeared to override the effect of increased per diem rates.

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.

Ohio EPA. After peaking at $7.6 million at the end of November, 61.8 percent above the estimate, Ohio EPA's positive year-to-date disbursement variance has been slowly driven back to $5.7 million, 35.9 percent above the estimate, as a result of three consecutive monthly underages. In prior disbursement reports, we have discussed this year-to-date overage and its source — an erroneous assumption that was used to build the agency's FY 2000 disbursement estimates — and stressed that, with the passage of time, it would disappear.

Debt Service. The Debt Service program category, which contains the general obligation debt financing for certain capital improvements programs (highway con-struction, parks, recreation, and natural resources projects, coal

Chart 1
Year-to-Date GRF Spending Variance by Program, FY 2000



research and development, and local government infra-structure), closed February with a positive $3.8 million year-to-date disbursement variance, 3.1 percent over the estimate. As previously reported, this overage was due to a slightly larger than planned January bond sale tied to the state's local public infrastructure improvement program.

Natural Resources. The slow erosion in the Department of Natural Resources' year-to-date overage continued during the month of February, shrinking its size to $3.3 million, 4.4 percent over the estimate. As previously reported, the principal source of this year-to-date overage was a miscalculation relative to the billing of central support service charges to the department's Division of Parks and Recreation; an error that should self-correct with the passage of time.

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 sixth consecutive monthly overage in February ($60,856). As a result, the GA/DA program's preexisting year-to-date overage was pulled up to $1.8 million, past the estimate by 4.6 percent. As previously reported, the prime force in the overage 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. While the DA program's medical assistance caseload has tracked very close to expectations, its cash assistance caseload has taken an unexpected and unexplained jump. Assuming the monthly DA program overages continue in FY 2000, a funding shortfall seems very likely.

III. Program Category Variances

In Chart 1, we've visually mapped from July through February the trajectory of the year-to-date variances of the state's four major GRF program categories. This is intended to help us see how the state ended up building a year-to-date underage of $335.7 million at the close of

February. In the narrative below, we've tried to distill the essence of the eight-month disbursement patterns exhibited by the four key program categories.

Welfare/Human (-$167.9 million). Except for a $21.0 million timing-driven November overage, the Welfare & Human Services program category's negative year-to-date disbursement variance has continued to grow. While various components of the program category have provided on and off fuel for the growing underage, the only more or less constant source of underspending has been the Temporary Assistance to Needy Families (TANF) program. At the close of February, the program category as a whole accounted for 50 percent of the total $335.7 million year-to-date underage — up from 45.7 percent at the end of January.

Education (-$108.6 million). The Education program category has cycled over and under the estimate throughout the fiscal year, led principally by large timing-based disbursement variances posted in various state subsidy programs administered by the Department of Education.

Government Ops (-$48.2 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 February underage, led by the Department of Rehabilitation & Correction with $9.9 million, drove the year-to-date disbursement variance further under the estimate.

Property Tax Relief (-$14.7 million). Timing drove disbursements from the Property Tax Relief program wildly over and under the estimate throughout the first half of the fiscal year until settling in relatively close to the estimate by the close of December. As expected, the months of January and February were relatively quiet, with the expectation that disbursement activity will noticeably pick up steam again in the closing four 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, Amy Frankart, Brian Friedman, Sybil Haney, Alexander C. Heckman, Eric Karolak, Cliff Marsh, Jeff Petry, Chuck Phillips, Jeffrey M. Rosa, and Wendy Zhan.*

Issues of Interest

DPIA ALL-DAY AND EVERYDAY KINDERGARTEN FUNDING UPDATE [3]

Wendy Zahn

House Bills 650 and 770 of the 122nd General Assembly overhauled the disadvantaged pupil impact aid (DPIA) program. Beginning in fiscal year 1999, the program includes funding for all-day and everyday kindergarten, K-3 class size reduction, and safety and remediation measurers.

As a result of the program expansion, DPIA spending in fiscal year 1999 increased by 33.3 percent over the FY 1998 spending level, from approximately $276.8 million to $369.7 million. The fiscal year 2000 appropriation for the program (item 200-520) amounts to $390.7 million.

To minimize the fluctuation in DPIA funding as a result of Ohio Works First (OWF) caseload falling, funding is distributed based on each district's DPIA index. A district's DPIA index, which measures the district's relative concentration of poverty, is determined by comparing the district's ADC/OWF percentage to the statewide average ADC/OWF percentage. When a district's ADC/OWF student counts and the statewide ADC/OWF student counts decrease at the same time, the district's DPIA index could remain unchanged or could change but by a smaller magnitude. Therefore, the

Table 1
DPIA All-day and Everyday Kindergarten Funding for Major Urban School Districts, FY 2000

Name of School District	County	DPIA Index	Kindergarten ADM	Appropriation for 100% of All-day Kindergarten	Actual All-day Kindergarten %	Funding for Actual All-day Kindergarten %	Funding Difference
Cleveland City SD	Cuyahoga	4.36	6,562	$ 13,294,612	100.0	$ 13,294,612	$ -
Columbus City SD	Franklin	2.38	5,748	$ 11,645,448	100.0	$ 11,645,448	$ -
Cincinnati City SD	Hamilton	2.79	4,015	$ 8,134,390	100.0	$ 8,134,390	$ -
Toledo City SD	Lucas	2.82	3,207	$ 6,497,382	100.0	$ 6,497,382	$ -
Akron City SD	Summit	2.40	2,782	$ 5,636,332	100.0	$ 5,636,332	$ -
Dayton City SD	Montgomery	3.00	1,910	$ 3,869,660	97.7	$ 3,780,658	$ 89,002
South-Western City SD	Franklin	0.72	1,518	$ 3,075,468	-	$ -	$ 3,075,468
Youngstown City SD	Mahoning	4.07	1,055	$ 2,137,430	100.0	$ 2,137,430	$ -
Canton City SD	Stark	2.17	970	$ 1,965,220	85.0	$ 1,670,437	$ 294,783
Total			*27,767*	***$ 56,255,942***		***$ 52,796,689***	***$ 3,459,253***

3 This update is largely based on the second February SF-3 payment file calculated by School Finance of the Department of Education. The data are subject to minor adjustments in subsequent calculations.

funding stability increases as a result of tying a district's funding level to the index.

Under the program, if a district's DPIA index is one or greater or its three-year average formula average daily membership (ADM) exceeds 17,500, the district is eligible for all-day and everyday kindergarten funding. The change in a district's DPIA index from slightly above one to slightly below one or vice verse could have a significant impact on the district's all-day kindergarten funding. House Bill 282 (the education budget) of the 123rd General Assembly guarantees school districts that qualified and actually provided the service in a preceding year to receive this funding regardless of changes to such districts' DPIA indexes. Based on the current available data, 106 districts are eligible for all-day kindergarten funding in fiscal year 2000 (four of these districts are eligible due to the guarantee provision).

The all-day kindergarten appropriation was made by assuming that all eligible school districts would provide the service for all their kindergarten students. However, the actual funding amount is based on each district's percentage of kindergarten students actually receiving the service. The formula to determine a district's actual funding amount in fiscal year 2000 is as follows:

FY 2000 Kindergarten ADM x Actual All-day & Everyday Kindergarten % x 50% x $4,052

(The other 50% of kindergarten ADM are included in formula ADM to qualify for the base cost funding.)

Of the 106 eligible school districts in fiscal year 2000, 77 (or 72.6%) districts are currently providing all-day and everyday kindergarten at the 100 percent level, 18 (or 17.0%) districts provide the service at the levels ranging from 26.5 percent to 99 percent, and the remaining 11 (or 10.4%) districts do not provide all-day and everyday kindergarten. Of the 106 eligible districts in fiscal year 1999, 71 districts offered all-day kindergarten service to all of their kindergarteners, 19 districts offered the service to a portion of their students, and the other 15 districts did not provide the service.

The fiscal year 2000 DPIA appropriation contains approximately $101.9 million in all-day and every day kindergarten funding. It appears that the appropriation might exceed the needed funding by approximately $17.7 million. Of this amount, $12.3 million is due to the fact that some eligible districts do not provide all-day kindergarten service and some eligible districts only provide this service to a portion of their kindergarten students. The other $5.4 million is a result of a higher kindergarten ADM projection for these districts. The projected kindergarteners for the 106 eligible districts were about 2,674 higher than their actual October counts.

Table 1, previous page, shows funding information and the all-day and everyday kindergarten service provided by major urban (Big Eight plus South-Western City) school districts in fiscal year 2000. The needed appropriation ($56.3 million) for these nine districts represents about 58.3 percent of total needed appropriation ($96.5 million) for the program. It can be seen from the table that South-Western City is the only major urban district that does not provide any all-day and everyday kindergarten service in fiscal year 2000. Dayton City and Canton City provide this service to 97.7 percent and 85 percent, respectively, of their kindergartners. All kindergarten students in Cleveland City, Columbus City, Cincinnati City, Akron City, Toledo City, Akron City, and Youngstown City receive all-day and everyday kindergarten service. The actual funding ($52.8 million) for these nine urban districts represents about 62.7 percent of total funding ($84.2 million) for the program in the state.

Table 2, below, details each eligible district's DPIA Index, kindergarten ADM, appropriation at the 100 percent level of all-day and everyday kindergarten, actual all-day and everyday kindergarten percentage, funding at the actual all-day and everyday kindergarten percentage, and the funding difference between the 100 percent and the actual all-day and everyday kindergarten percentage in fiscal year 2000. ❑

Table 2: DPIA All-day and Everyday Kindergarten Funding for 106 Eligible School Districts, FY 2000

OBS	County	District Name	DPIA Index	Kindergarten ADM	Appropriation for 100% of All-day Kindergarten	Actual All-day Kindergarten %	Funding for Actual All-day Kindergarten %	Funding Difference
1	Adams	Ohio Valley Local SD	1.40	371	$ 751,646	100.0	$ 751,646	$ -
2	Allen	Lima City SD	1.99	544	1,102,144	100.0	1,102,144	0
3	Allen	Perry Local SD	0.89	47	95,222	100.0	95,222	0
4	Ashtabula	Ashtabula Area City SD	1.61	369	747,594	41.0	306,514	441,080
5	Athens	Alexander Local SD	1.05	123	249,198	100.0	249,198	0
6	Athens	Athens City SD	1.04	206	417,356	70.0	292,149	125,207
7	Athens	Federal Hocking Local SD	1.51	87	176,262	100.0	176,262	0
8	Athens	Nelsonville-York City SD	1.84	107	216,782	100.0	216,782	0
9	Athens	Trimble Local SD	2.02	75	151,950	100.0	151,950	0
10	Belmont	Bellaire City SD	1.94	133	269,458	100.0	269,458	0
11	Belmont	Bridgeport Ex Vill SD	1.65	69	139,794	100.0	139,794	0
12	Belmont	Martins Ferry City SD	1.81	93	188,418	100.0	188,418	0
13	Belmont	Union Local SD	1.04	99	200,574	100.0	200,574	0
14	Butler	Hamilton City SD	1.28	728	1,474,928	100.0	1,474,928	0
15	Butler	Middletown City SD	1.00	729	1,476,954	0.0	0	1,476,954
16	Butler	New Miami Local SD	1.41	63	127,638	100.0	127,638	0
17	Clark	Springfield City SD	1.88	774	1,568,124	67.0	1,050,643	517,481
18	Clermont	Felicity-Franklin Local SD	1.22	88	178,288	100.0	178,288	0
19	Columbiana	East Liverpool City SD	1.73	247	500,422	100.0	500,422	0
20	Columbiana	Wellsville City SD	1.39	74	149,924	100.0	149,924	0
21	Coshocton	Coshocton City SD	1.05	153	309,978	100.0	309,978	0
22	Cuyahoga	Cleveland Hts-Univ Hts City	1.16	456	923,856	100.0	923,856	0
23	Cuyahoga	Cleveland Municipal SD	4.36	6,562	13,294,612	100.0	13,294,612	0
24	Cuyahoga	East Cleveland City SD	4.11	473	958,298	92.0	881,634	76,664
25	Cuyahoga	Euclid City SD	1.14	400	810,400	0.0	0	810,400
26	Cuyahoga	Warrensville Heights City SD	1.79	228	461,928	100.0	461,928	0
27	Erie	Sandusky City SD	1.39	325	658,450	100.0	658,450	0
28	Franklin	Columbus City SD	2.38	5,748	11,645,448	100.0	11,645,448	0
29	Franklin	South-Western City SD	0.72	1,518	3,075,468	0.0	0	3,075,468
30	Gallia	Gallia County Local SD	1.77	163	330,238	100.0	330,238	0
31	Gallia	Gallipolis City SD	1.71	178	360,628	100.0	360,628	0
32	Guernsey	Cambridge City SD	1.16	223	451,798	0.0	0	451,798
33	Hamilton	Cincinnati City SD	2.79	4,015	8,134,390	100.0	8,134,390	0
34	Hamilton	Lockland City SD	2.04	50	101,300	0.0	0	101,300
35	Hamilton	Mount Healthy City SD	1.36	316	640,216	0.0	0	640,216
36	Hamilton	Norwood City SD	1.31	205	415,330	100.0	415,330	0
37	Hamilton	St Bernard-Elmwood Place Cit	1.17	84	170,184	100.0	170,184	0
38	Harrison	Harrison Hills City SD	1.02	184	372,784	100.0	372,784	0

Table 2: DPIA All-day and Everyday Kindergarten Funding for 106 Eligible School Districts, FY 2000

39	Jackson	Oak Hill Union Local SD	1.18	100	202,600	100.0	202,600	0
40	Jackson	Wellston City SD	1.36	118	239,068	100.0	239,068	0
41	Jefferson	Buckeye Local SD	1.34	189	382,914	100.0	382,914	0
42	Jefferson	Edison Local SD	0.96	213	431,538	100.0	431,538	0
43	Jefferson	Indian Creek Local SD	1.04	172	348,472	98.2	342,339	6,133
44	Jefferson	Steubenville City SD	2.92	175	354,550	100.0	354,550	0
45	Jefferson	Toronto City SD	1.31	55	111,430	100.0	111,430	0
46	Lake	Painesville City SD	1.40	238	482,188	0.0	0	482,188
47	Lawrence	Chesapeake Union Ex Vill SD	1.79	97	196,522	100.0	196,522	0
48	Lawrence	Dawson-Bryant Local SD	1.64	109	220,834	100.0	220,834	0
49	Lawrence	Fairland Local SD	1.15	157	318,082	100.0	318,082	0
50	Lawrence	Ironton City SD	2.17	138	279,588	100.0	279,588	0
51	Lawrence	Rock Hill Local SD	2.20	140	283,640	100.0	283,640	0
52	Lawrence	South Point Local SD	1.95	157	318,082	100.0	318,082	0
53	Lawrence	Symmes Valley Local SD	1.84	58	117,508	100.0	117,508	0
54	Lorain	Clearview Local SD	1.32	90	182,340	100.0	182,340	0
55	Lorain	Elyria City SD	1.21	707	1,432,382	45.0	644,572	787,810
56	Lorain	Lorain City SD	2.16	927	1,878,102	76.0	1,427,358	450,744
57	Lorain	Oberlin City SD	1.02	93	188,418	41.0	77,251	111,167
58	Lucas	Toledo City SD	2.82	3,207	6,497,382	100.0	6,497,382	0
59	Mahoning	Campbell City SD	2.28	100	202,600	100.0	202,600	0
60	Mahoning	Struthers City SD	1.36	142	287,692	0.0	0	287,692
61	Mahoning	Youngstown City SD	4.07	1,055	2,137,430	100.0	2,137,430	0
62	Marion	Marion City SD	1.12	444	899,544	32.1	288,754	610,790
63	Meigs	Eastern Local SD	1.26	51	103,326	100.0	103,326	0
64	Meigs	Meigs Local SD	1.89	147	297,822	100.0	297,822	0
65	Meigs	Southern Local SD	1.87	57	115,482	100.0	115,482	0
66	Monroe	Switzerland Of Ohio Local SD	1.13	198	401,148	100.0	401,148	0
67	Montgomery	Dayton City SD	3.00	1,910	3,869,660	97.7	3,780,658	89,002
68	Montgomery	Jefferson Township Local SD	1.86	42	85,092	100.0	85,092	0
69	Montgomery	Northridge Local SD	1.69	191	386,966	100.0	386,966	0
70	Montgomery	Trotwood-Madison City SD	1.74	278	563,228	100.0	563,228	0
71	Morgan	Morgan Local SD	1.08	183	370,758	100.0	370,758	0
72	Muskingum	Zanesville City SD	1.81	382	773,932	100.0	773,932	0
73	Ottawa	North Bass Local SD	3.81	-	0	0.0	0	0
74	Perry	Crooksville Ex Vill SD	1.11	72	145,872	0.0	0	145,872
75	Perry	New Lexington City SD	1.20	159	322,134	0.0	0	322,134
76	Perry	Southern Local SD	1.46	79	160,054	100.0	160,054	0
77	Pike	Eastern Local SD	1.59	53	107,378	100.0	107,378	0
78	Pike	Scioto Valley Local SD	1.67	131	265,406	100.0	265,406	0
79	Pike	Waverly City SD	1.09	184	372,784	100.0	372,784	0
80	Pike	Western Local SD	2.23	77	156,002	100.0	156,002	0
81	Portage	Windham Ex Vill SD	1.33	76	153,976	100.0	153,976	0
82	Richland	Mansfield City SD	1.97	543	1,100,118	100.0	1,100,118	0
83	Ross	Chillicothe City SD	1.28	311	630,086	94.1	592,848	37,238

Table 2: DPIA All-day and Everyday Kindergarten Funding for 106 Eligible School Districts, FY 2000

84	Ross	Huntington Local SD	1.04	91	184,366	100.0	184,366	0
85	Ross	Paint Valley Local SD	0.98	93	188,418	100.0	188,418	0
86	Ross	Scioto Valley Local SD	1.26	75	151,950	98.0	148,911	3,039
87	Scioto	Bloom-Vernon Local SD	2.19	86	174,236	72.5	126,321	47,915
88	Scioto	Clay Local SD	1.27	44	89,144	100.0	89,144	0
89	Scioto	Green Local SD	1.67	51	103,326	100.0	103,326	0
90	Scioto	Minford Local SD	1.09	93	188,418	100.0	188,418	0
91	Scioto	New Boston Local SD	3.49	37	74,962	100.0	74,962	0
92	Scioto	Northwest Local SD	1.62	108	218,808	100.0	218,808	0
93	Scioto	Portsmouth City SD	3.07	222	449,772	100.0	449,772	0
94	Scioto	Valley Local SD	1.87	92	186,392	99.0	184,528	1,864
95	Scioto	Washington-Nile Local SD	2.05	111	224,886	100.0	224,886	0
96	Scioto	Wheelersburg Local SD	1.06	93	188,418	100.0	188,418	0
97	Seneca	Fostoria City SD	0.96	198	401,148	49.0	146,973	254,175
98	Stark	Alliance City SD	1.62	285	577,410	51.0	294,479	282,931
99	Stark	Canton City SD	2.17	970	1,965,220	85.0	1,670,437	294,783
100	Stark	Massillon City SD	1.07	351	711,126	100.0	711,126	0
101	Summit	Akron City SD	2.40	2,782	5,636,332	100.0	5,636,332	0
102	Summit	Barberton City SD	1.55	371	751,646	100.0	751,646	0
103	Trumbull	Girard City SD	1.06	135	273,510	100.0	273,510	0
104	Trumbull	Niles City SD	1.21	219	443,694	26.5	117,579	326,115
105	Trumbull	Warren City SD	2.70	618	1,252,068	100.0	1,252,068	0
106	Vinton	Vinton County Local SD	1.18	186	376,836	100.0	376,836	0
		Total		47,623	$ 96,484,198		$ 84,226,038	$ 12,258,160

OHIO'S RAINY DAY FUNDS

Frederick G. Church

Editor's note: Fred Church was the author of the status of Ohio's economy and revenues section until his departure for the Maryland Comptroller of the Treasury this past summer. Fred left behind a legacy of work at LBO that included the following article that was still in the "pipeline." We publish it now, with Fred's permission.

The Budget Stabilization Fund

The Budget Stabilization Fund (BSF) – Fund 013 – is Ohio's premier rainy day (contingency) fund. It currently has a balance of $953.3 million, which is 5 percent of fiscal year 1999 GRF revenues. Ohio has another contingency fund – the Human Services Stabilization Fund (HSSF) – to be used solely for human services programs. That fund currently has a balance of $100 million.

The BSF ended FY 1999 with a balance of $906.9 million. This was the seventh largest rainy day fund balance in the nation. Ohio's GRF closing cash balance for FY 1999 was $976.8 million. The combined GRF and BSF balance of $1,883.7 million was fourth highest in the nation.

Under current law, the BSF is required to maintain a balance equal to 5 percent of prior year GRF revenues. This necessitated a transfer of $46.4 million from the GRF to the BSF at the beginning of FY 2000 (bringing the BSF balance up to $953.3 million). Based on revenue forecasts for the FY 2000-2001 budget, the statutory 5 percent requirement will result in the BSF balance exceeding $1 billion in FY 2002.

Ohio's budget stabilization fund was created in statute in November of 1981 in the budget bill for FY 1982-1983. The budget was 4.5 months late that year due to the disastrous recession of 1980-1982. Ohio was one of a number of states that were convinced by that recession to test the hypothesis that a rainy day fund would reduce the need to cut expenditures and/or raise taxes in economic downturns.[4]

Although the fund was created in FY 1982, state finances did not recover enough to generate surplus cash to deposit into the fund until FY 1986. The fund reached a peak of $364.4 million in FY 1990, before being reduced to $300.4 million in FY 1991 and emptied in FY 1992.[5] The fund remained empty in FY 1993, finally receiving an infusion of $21.0 million in FY 1994 as state finances began to bounce back. By the end of FY 1996, the BSF balance was actually slightly over the statutory 5 percent target. Since then, the state has made transfers every year from the GRF to the BSF to keep the BSF balance at 5 percent of prior-year GRF revenue. Flows into and out of the BSF since its creation in FY 1982 are summarized in Table 1.[6]

[4] Michigan created the nation's first rainy day fund in 1977. By 1982, only 12 states had rainy day funds. By FY 1989, 38 states had them. After the 1990-91 recession, six more states adopted them, so that by FY 1993 there were 44 states with such funds. The number now stands at 46, according to NCSL, although as of the end of FY 1999, five states had no money in their funds, despite the recent boom. See Appendix I for state-by-state details.

[5] A token amount of 16 cents remained in the fund in FY 1992-1993, so that the balance was not technically zero.

[6] The explicit 5% target was introduced in 1997 and replaced the old system of *ad hoc* transfers determined by the budget bill.

Table 1 - Ohio Budget Stabilization Fund (Fund 013)
FY 1982 - 2002 Cash Statement
$ in millions

	Incoming			*Outgoing*	*Balances*		
Fiscal Year	**Transfers Into BSF**	**Investment Income**	**Loan Repayments**	**Transfers Out of BSF**	**End-Year BSF Balance (2)**	**Prior – Year GRF Revenue (1)**	**BSF balance as % of Revenue**
1982	0	0	0	0	0		0
1983	0	0	0	0	0		0
1984	0	0	0	0	0		0
1985	0	0	0	0	0		0
1986	$125.000	$15.898	0	0	$140.898	$8,432.4	1.67%
1987	0	$13.523	0	0	$154.421	$8,986.4	1.72%
1988	$108.009	0	$1.881	($2.396)	$261.915	$9,920.2	2.64%
1989	$22.000	0	$7.257	($16.231)	$274.941	$10,215.0	2.69%
1990	$65.192	$14.736	$9.494	$0.000	$364.363	$10,953.4	3.33%
1991	0	0	0	($64.000)	$300.363	$11,501.4	2.61%
1992	0	0	0	($300.363)	0	$12,185.7	0.00%
1993	0	0	0	0	0	$13,205.3	0.00%
1994	$21.012	0	0	0	$21.012	$13,673.2	0.15%
1995	$260.3	$11.793	0	0	$293.093	$14,928.8	1.96%
1996	$535.2	0	0	0	$828.307	$15,710.6	5.27%
1997	$0.0	0	0	0	$828.307	$16,575.1	5.00%
1998	$34.4	0	0	0	$862.707	$17,253.9	5.00%
1999	$44.2	0	0	0	$906.891	$18,137.8	5.00%
2000	$46.4	0	0	0	$953.268	$19,065.4	5.00%
2001	$24.2	0	0	0	$977.500	$19,550.0	5.00%
2002	$38.3	0	0	0	$1,015.760	$20,315.2	5.00%

(1) GRF revenue totals for years prior to 1989 have been adjusted to fit the current definition (i.e. lottery profits and LGF receipts have been removed).

(2) Does not include the $100 million in the Human Services Contingency Fund

At first the BSF was entitled to receive the income earned on the revenues in the fund. Now, however, because the OBM director must transfer a sufficient amount from the GRF to the BSF to keep the balance at 5 percent of GRF revenues, the BSF no longer retains its investment income. As Table 1 shows, the last time that the BSF was allowed to have all or a share of its investment income was FY 1995.

The GRF now gets the investment income from the BSF's balances. However, under temporary law in HB 283, in FY 2000 and FY 2001 the first $12 million each year in BSF investment income will go to the Low and Moderate Income Housing Trust Fund (LMIHTF). Assuming a 5.5 percent rate of return on the state's short-term investments, the FY 2000 balance of $953.3 million would result in $52.4 million in investment income. Even reducing this estimate slightly to reflect one month (July) of a lower balance, the BSF should generate $52.2 million in income. Subtracting the $12 million for the LMIHTF, the BSF will generate $40.2 million for the GRF. This amount exceeds the forecasted transfer that will be required to hit the 5 percent target in July 2000. So the BSF is now at a point where it is contributing more to the GRF than the GRF is providing in transfers. The BSF should more than pay for itself in FY 2000. Table 2 shows the estimated contribution to the GRF of the interest from Ohio's rainy day funds in FY 2000 and 2001.

Table 2 - Rainy Day Fund Interest Flows
calculations assume 5.5% rate of return
amounts in millions of dollars

		FY 2000	FY 2001
[1]	BSF Investment Income	$52.2	$53.7
[2]	BSF Transfer to LMIHTF	($12.0)	($12.0)
	Net BSF Earnings to GRF	$40.2	$41.7
[3]	Forecasted GRF Transfers to BSF	($24.2)	($38.3)
[4]	Net Contribution to GRF = Investment Income from BSF minus Transfers to BSF	$16.0	$3.4
[5]	HSSF Investment Income, formerly to LMIHTF, now to GRF	$5.5	$5.5
[6]	Net Contribution to GRF, All Rainy Day Fund Investment Income	$21.5	$8.9

Note: OBM and LBO documents show a loss to the GRF of $6.5 million each fiscal year from the interest transfers to the LMIHTF. This is the loss **relative to current law**, and is the net of rows [2] and [5] in the table above.

The Human Services Stabilization Fund

The Human Services Stabilization Fund was created in *Ohio Revised Code* Section 131.41 by HB 215, the budget bill for FY 1998-1999. It contains $100 million that was deposited into the fund in FY 1998. The HSSF has its own rules about when funds may be withdrawn and for what purpose, completely distinct from the rules governing the BSF.

Specifically, the OBM director may transfer moneys in the HSSF to the GRF in the case of "identified shortfalls, such as higher caseloads, federal funding changes, and unforeseen costs due to significant state policy changes." The OBM director is supposed to use HSSF moneys only after looking at the budget of the Department of Human Services to see if there are sources of funding from intra-departmental transfers. Before transfers are authorized, the director of budget and management must exhaust the possibilities for transfers of moneys within the Department of Human Services to meet the identified shortfall.

The statute states that the HSSF is to retain its interest earnings, but in practice that has always been overridden by temporary law earmarking the interest for the LMIHTF. In FY 2000 and FY 2001, that is changed. The BSF will provide the income for the LMIHTF. The HSSF earnings, estimated at $5.5 million per year, will go to the GRF to provide a partial offset.[7]

Operation of the BSF Five Percent Rule

Section 131.43 of the *Ohio Revised Code* contains the language creating the BSF and stating the intent of the General Assembly to maintain a BSF balance of approximately five per cent of the GRF revenues for the preceding fiscal year. Section 131.44 contains the language detailing how the transfers of "surplus revenue" to the BSF are actually calculated and performed.

The distribution from the GRF to the BSF precedes the distribution to the Income Tax

[7] The net impact on the GRF of the provisions in HB 283 is thus an annual loss of $6.5 million, relative to statutory law.

Reduction Fund (ITRF).[8] First the OBM director calculates the surplus revenue available on June 30th. Second, the OBM director calculates the amount by which the unobligated, unemcumbered balance in the GRF on June 30th exceeds 0.5 percent of the GRF revenues for the preceding fiscal year. This calculation is necessary to ensure that at least 0.5 percent of prior-year revenue is kept as an unobligated GRF "cash flow" balance, as required in Section 131.44 of the Revised Code.[9] Out of the excess balance, the director transfers "any amount necessary for the balance of the budget stabilization fund to equal five per cent of the general revenue fund revenues of the preceding fiscal year." If there is not enough surplus revenue to take the BSF up to 5 percent, then the OBM director transfers whatever is available to the BSF. The ITRF receives a distribution only if there is enough to take the BSF to the 5 percent target, and more left over.

Table 3 - What Would Happen if Money Were Taken from the BSF

	Actual	Hypothetical
FY 1999 GRF Revenue	$19,065.3	$19,065.3
5% of GRF Revenue	$953.3	$953.3
Amounts Taken From BSF	$0.0	$50.0
FY 1999 Year-End BSF Balance	$906.9	$856.9
Necessary Transfer to BSF, July 1999	$46.4	$96.4
Total Surplus Revenue	$755.3	$755.3
Amount for Education Technology	$415.7	$415.7
Transfer to ITRF = Tax Cut Amount	$293.2	$243.2

The language governing the BSF imposes a very important but not well-understood constraint on the General Assembly. Legislators sometimes desire to fund programs by taking money out of the BSF, stating that their intent is not to impact the GRF or the tax cut. However, unless the statute is changed or overridden, the existence of the 5 percent target ensures that removing money from the BSF will have an impact on the GRF.

Table 3 contains an example of why this is so. Suppose that the General Assembly had transferred $50 million from the BSF to the GRF to pay for some project in FY 1999, or had simply appropriated the $50 million directly from the BSF. In that case, the transfer necessary at the beginning of FY 2000 would have been $96.4 million, not $46.4 million. The additional $50 million would have had to come out of the GRF. All other things equal, this would have reduced the ITRF transfer from $293.2 million to $243.2 million, reducing the income tax cut from 3.63 percent to 3.01 percent.

The current version of the *Revised Code* governing the BSF is silent on the subject of spending BSF money. Older versions of the statute had explicit guidelines as to when money could be transferred out of the fund to help the GRF meet budgetary needs and what steps the OBM director was to take. Now there are no explicit guidelines as to when the money can be used or for what purposes. The General Assembly can appropriate money from the BSF, or transfer money into or out of the fund, subject to the constraints in the statute. However, there is no specific authority any more for the OBM director to transfer money out of the BSF in case of a GRF shortfall without an act of the General Assembly.

Recent research indicates that the fiscal discipline required by a statutory or constitutional rule significantly increases state saving. A 1999 paper that examined the importance of state BSF characteristics in influencing savings behavior found that the existence of a rule that required state officials to deposit funds into the BSF, where the amount

[8] For more detail about the operation of the ITRF, please see the upcoming ***Budget Footnotes*** article on that subject.

[9] Part of the reason for maintaining this "cash flow" balance is that GRF revenues and expenditures are mismatched in time. Typically, in the first half of a fiscal year, GRF spending outstrips GRF revenue, since most major tax payments are due in the second half of the year.

deposited or the target balance is a percentage of the previous year's revenue, instead of just allowing transfers to be made on an *ad hoc* basis, is associated with significant increases in state saving. All other things constant, states with such rules, like Ohio, have increased their total GRF and BSF balances by $203 million more than those states that do not have such rules, but instead make *ad hoc* transfers (as Ohio used to do).[10]

Is Five Percent the Right Target?

The current spate of large state budget surpluses has led to intense debate about what should be done with the extra money. One of the proposals in many states is that the money be put in the state's rainy day fund or funds. This in turn has renewed an old debate about how large the rainy day fund balance should be. The rule of thumb that a state should have 5 percent of its spending or revenues in reserve is just that, a rule of thumb. The origin of the "5 percent rule" is somewhat cloudy. It has been attributed to both Hyman Grossman, a director at Standard & Poor's, and Clair Cohen, Moody's Rating Service. One of the earliest printed references is in a presentation to the NCSL Fiscal Affairs and Oversight Committee in 1987. To quote from a transcript of that presentation:

> …we would say that probably 5 percent of revenues is a good level to have as a surplus. …The rationale behind it is that revenues are unlikely to fall more than 5 percent in any kind of casual situation, such as misestimation or a casual turn of events that couldn't be foreseen. When problems aren't casual, you aren't looking toward something that can be shored up with a reserve and then move on. You're probably looking at a situation where something more fundamental in nature has to take place to cure the financial shortage or the financial problem.[11]

Economic studies neither confirm nor refute the 5 percent target. Most of the recent empirical work seems to suggest that the optimal state reserve fund is larger than 5 percent. However, this empirical work is not definitive. It seems that the optimal size of a state rainy day fund is still an open question, and that the answer may vary from state to state. Furthermore, most of the empirical studies seem to implicitly or explicitly take fiscal neutrality (see below for definition) as the target of a rainy day fund, unlike the promulgators of the 5 percent rule.

There is some disagreement right at the start in the discussion of the optimal rainy day fund size because there is disagreement about what a rainy day fund is supposed to accomplish. Sobel and Holcombe's 1996 paper on the impact of state rainy day funds on state finances during the 1990-1991 recession measures the adequacy of rainy day funds by a yardstick of "fiscal neutrality." [12] That is, the optimal size of the rainy day fund is taken to be an amount such that the state does not have to increase taxes or cut spending in the period of economic contraction and the early stages of the recovery. The authors realize that this is not necessarily the actual goal of the states: "The use of fiscal neutrality as a benchmark does not constitute a policy recommendation … States may want to slow expenditure growth or increase taxes to some degree during a recession." [13] The late Steve Gold felt that states should not be completely buffered against recessions because recessions provided opportunities for the states to reassess their expenditures and cut

[10] Gary Wagner, "Are State Budget Stabilization Funds Only the Illusion of Savings?" Department of Economics, West Virginia University, paper undergoing publication review, December 1999.

[11] Tape transcript from a presentation to the Fiscal Affairs and Oversight Committee, edited by Corina Eckl, NCSL, November 6, 1987.

[12] Russell Sobel and Randall Holcombe, "The Impact of State Rainy Day Funds in Easing State Fiscal Crises During the 1990-1991 Recession," ***Public Budgeting and Finance***, vol. 16, number 3, Fall 1996, pp. 28-48.

[13] *Ibid.*

unnecessary programs.[14] This author's observation of state taxes over more than a dozen years finds that there may also be some positive impact on a state's tax system of not completely buffering state finances from recessions. Structural tax changes, such as moving away from taxing investment (property) to taxing consumption (sales) are often difficult in the absence of a revenue shortfall or a revenue surplus.

Sobel and Holcombe created a measure of "fiscal stress" for the states over the period from FY 1989-1992 (some states were running into difficulty in FY 1989, before the 1990-1991 recession, largely due to Medicaid cost overruns that were "crowding out" discretionary spending). Fiscal stress is defined to be the amount of tax increases over those years plus the amount by which expenditures fell short of their 1984-1992 trend growth. Their calculation for Ohio yielded a total fiscal stress amount of $1,249.6 million, the sum of $662.8 million in tax increases and $586.8 million in below-trend expenditures.

Sobel and Holcombe then add to that "fiscal stress" measure the amount of rainy day fund balance and GRF balance that the states used up over the FY 1989-1992 period. This sum is an estimate of the total amount that the states would have needed, going into the recession, to avoid raising taxes or reducing expenditures below trend. Ohio used $364 million in BSF balances, and also spent down $360 million in GRF balances over the FY 1990-1992 period. Thus, according to Sobel and Holcombe, Ohio would have needed $1,973.6 million in combined GRF and BSF balances to completely offset the impact of the 1990-91 recession. This estimated figure amounts to 21.3 percent of FY 1988 GRF spending, an immense number.[15] Most of the other states in the Sobel and Holcombe study would have needed even larger BSF amounts, as a percentage of expenditures, to completely avoid tax increases or expenditure slowdowns.

Other studies that have based the optimal size of the state BSF on "fiscal neutrality" type criteria – whether explicitly or implicitly – have found similar results. A 1997 paper by Navin and Navin that examined Ohio specifically, rather than all 50 states, estimated Ohio's optimal BSF size at 13.5 percent of prior-year GRF revenue, rather than 5.0 percent.[16] This paper looked at a longer period, 1969-1995, and estimated the optimal size of the BSF based only on revenue fluctuations, leaving out the spending side of the equation.

Navin and Navin found that there were three economic contractions over the 1969-1995 period, averaging 11 quarters each. The standard error of the estimate of annual GRF revenue, as a percentage of actual revenue, was 5.2 percent. Navin and Navin interpreted this result to mean that, if state officials wanted to set aside enough money to cover expected negative deviations from average GRF revenue growth, they would need to have a fund big enough to cover 1.28 percent per quarter compounded over 11 quarters. This actually works out to 15.0 percent of GRF revenue rather than the published figure of 13.5 percent.

Finally, the Center on Budget and Policy Priorities (CBPP) published a study in March of 1999 that estimated how much states would need to achieve "fiscal neutrality" over a recession in FY 2001-2003, assuming that the recession would be similar to the 1990-1991 recession. The methodology was an extension of that used in the 1996 Sobel and Holcombe paper, and the results for Ohio were essentially the same.[17] The

[14] Phone conversations, numerous occasions.

[15] This is an LBO calculation: Sobel and Holcombe calculate the "neutral" BSF as a percentage of total state expenditures, not general fund expenditures. Ohio's 11.4% required BSF size was 11th smallest among the 50 states.

[16] John Navin and Leo Navin, "The Optimal Size of Countercyclical Budget Stabilization Funds: A Case Study of Ohio", ***Public Budgeting and Finance***, vol. 17, number 2, Summer 1997, pp. 114-127.

[17] Iris Lav and Alan Berube, "When It Rains It Pours: A Look at the Adequacy of State Rainy Day Funds and Budget Reserves," Center on Budget and Policy Priorities, March 1999.

CBPP study found that Ohio would need combined GRF and BSF balances equal to 21.3 percent of FY 1999 GRF spending to get through a FY 2001-2003 recession without raising taxes, reducing spending, or engaging in spending avoidance by such measures as shifting responsibilities to local governments (*e.g*., the reduction in the share of taxes going to the local government funds that Ohio undertook in response to the 1990-1991 recession).

So, there is some consistency in the scholarly work in estimating how big a BSF balance, or how big a combined BSF and GRF and HSSF balance Ohio would need to weather a recession under "fiscal neutrality." The question is whether fiscal neutrality is the appropriate benchmark? As stated above, Steve Gold, the former chief economist for NCSL and founder of the Center for the Study of the States, felt (at least in conversation, if not in print) that fiscal crises born of recessions provide states with a needed opportunity to reassess spending priorities and cut spending where appropriate. Fiscal crises may also give states an incentive to realign their tax structure in the course of raising revenue.

Although they are loath to be pinned down on an exact figure, there is evidence that the rating agencies feel that 5 percent of general revenues or spending is a reasonable target for state budget stabilization funds. Standard and Poor's cites Ohio's commitment to a 5 percent target for the BSF as a reason for upgrading the rating on the state's general obligation (G.O.) debt. Specifically, their analysts say: "Ohio has capitalized its rainy day fund up to its targeted level of 5 percent of general revenue fund expenditures. Reflecting ongoing spending discipline and widespread legislative support for this reserve policy, the state's G.O. rating was raised to AA+ from AA in 1996." [18]

From the point of view of the rating agencies, budget stabilization funds do not exist to completely buffer states against raising taxes and/or cutting spending in economic downturns. Instead, they are to be used to give states the time needed to assess the likely severity of the crisis and make good decisions about how much short-term change to make and how much long-term, structural change to make in response to the crisis. According to Standard and Poor's analysts:

> Ideally, a budget stabilization reserve, funded at a level sufficient to address unexpected revenue shortfalls or expenditure pressures, will enable a government to maintain balanced financial operations when a problem occurs. During the subsequent budgeting cycle, the government can then address the imbalance and prepare long-term solutions, including the replenishment of the reserve. [19]

This view of the function of state rainy day funds is echoed in an article in *Governing* magazine, where the authors state that budget stabilization funds are intended "to give states the time to make thoughtful cuts and sensible tax increases in a downturn. We never thought they were designed to make cuts and increases unnecessary." [20]

However, even if this more modest view of the function of stabilization funds is accepted, there is still the question of whether the 5 percent target is optimal for states. An upcoming paper by Professor Philip Joyce at George Washington University argues that states (and cities) with stable budget environments may find 5 percent sufficient, while states with volatile revenue streams or who depend overwhelmingly on one source of revenue probably need a reserve of more than 5 percent. This accords

[18] Michael Forrester, Steven Murphy, and Laverne Thomas, "Budget Stabilization Funds Can Help a G.O. Rating," in ***Viewpoint in General Obligations and Leases***, issue of Standard & Poor's Public Finance series, Fall 1997, pp. 11-12.

[19] *Ibid*.

[20] Katherine Barrett and Richard Greene, "The Gospel of Guidelines," ***Governing***, September 1999.

with Navin and Navin's idea that the optimal reserve size is related to the volatility of state revenues (measured in their paper by the standard deviation), although Professor Joyce is not advocating reserves of 13.5 percent.[21]

Table 4 - Estimates of the Optimal Size of Ohio's BSF
amounts as a percentage of prior-year GRF spending or revenue

Authors	Period Covered	Base of Calculation	Target %
Sobel and Holcombe	FY 1989-1992	GRF spending	21.3%
Navin and Navin	1969-1995	GRF revenue	13.5%*
Lav and Berube	Projected FY 2001-2003	GRF spending	21.3%
Standard and Poor's	any year	GRF revenue	5.0%

* LBO calculation of 15.0%, based on author's quarterly % over 11 quarters

The Human Services Stabilization Fund and the TANF Reserve

The General Assembly established the Human Services Stabilization Fund partly as a hedge against the possibility that lower Medicaid growth rates would prove fleeting and the appropriations would prove insufficient, which so far has not been the case. The fund has also been mentioned as a source of money in case the Temporary Assistance for Needy Families (TANF) block grant should fall short of the amount needed. That is the opposite of what has occurred since the program's inception. In fact, the TANF reserve is now $856.8 million (although all but $272.4 million of that is currently appropriated or encumbered).

In calculating how far Ohio falls short of the estimated 21.3 percent needed for "fiscal neutrality" the size of the HSSF and the amount of the TANF reserve must also be taken into account. Of course, the TANF reserve amount may only be spent on TANF deficiencies, and cannot be used to fill Medicaid gaps or pay for the Children's Health Insurance Program (CHIP). However, since the CBPP and Sobel and Holcombe estimate of how much the state would need in balances to get through a recession (21.3 percent of GRF revenues or spending) includes an amount necessary to fund additional TANF spending (actually the estimate is based on additional ADC spending over the FY 1989-1992 period), the TANF reserve can at least be used to offset those estimated additional TANF expenses. This means that the amount that Ohio has in reserve is not just the 5 percent in the BSF, but also the 0.5 percent in the HSSF and approximately 1.4 percent in TANF reserves (based on the $272.4 million "unappropriated, unencumbered" figure), making the available funds equal to almost 7 percent of prior-year revenues, not just 5.0 percent. (Whether all the TANF reserve money could be used would depend on how big the TANF caseload increase would be and how large the TANF shortfall would get. It is possible that the TANF shortfall would not use all the reserve money available, in which case the excess reserve money would not be available to help the state deal with the fiscal crisis.)

In addition, as mentioned earlier, Section 131.44 of the Revised Code requires OBM to keep at least 0.5 percent of prior-year GRF revenue as an unobligated cash flow balance. This means that the state actually has as much as 7.4 percent of prior-year revenues available to meet a shortfall, not 5.0 percent.

According to the studies released so far, this 7.4 percent balance is not enough for Ohio to

Table 5 – Total Ohio Reserves Available to Meet a Shortfall
Amounts in millions of $

Fund or source	Amount in FY 2000	% of FY 1999 GRF Revenue
BSF	$953.3	5.0%
HSSF	$100.0	0.5%
TANF Reserve	$272.4	1.4%
Total	$1,325.7	6.9%

[21] Philip Joyce, "What's So Magical About 5 Percent?" forthcoming, George Washington University.

maintain "fiscal neutrality," but it could be enough to give legislators a year to assess the severity of the next fiscal crisis and then cut spending and/or increase taxes. In the 1990-1991 recession, the BSF balance of 3.33 percent of GRF revenues was clearly inadequate to deal with the problem. At the end of calendar year (CY) 1992, the legislature passed a rather hastily assembled package of spending cuts and tax increases. Lingering dissatisfaction with the tax package is revealed by the pieces that have been repealed (such as the pop tax and the tax on property used to fulfill warranty repair contracts) and with the continued attempts to repeal other pieces (such as the tax on temporary employment services and fitness club memberships). To avoid such an outcome in the next recession, Ohio needs, and has, a larger BSF balance than it had going into the last recession. The current balances are significantly larger and should provide a better cushion, but whether they will be "large enough" is both a question about the goal of the fund and an empirical question that can only be answered with time. ❑

APPENDIX – State General Fund and BSF Balances, End of FY 1999

State General Fund and BSF Balances. End of FY 1999

States Sorted bv Size of Combined Funds

State Rank	State	Notes	FY 1999 General Fund Expenditures	FY 1999 General Fund Closing Balances	FY 1999 Rainy Day Fund Totals	Rainy Day Fund and General Fund Closing Balances	Rainy Day Funds as a Percentage of General Fund Expenditures	Total FY 1999 Balances as a Percentage of General Fund Expenditures
				(-------------millions------------)				
	Total for Nation		**$ 432,754.8**	**$ 18,812.0**	**$ 18,731.5**	**$ 37,543.51**	**4.3**	**8.7**
1	California		58,579.0	2,412.0	1,932.0	4,344.0	3.3	7.4
2	Texas		24,963.6	3,616.7	80.2	3,696.9	0.3	14.8
3	Alaska		2,384.9	0.0	2,800.0	2,800.0	117.4	117.4
4	Ohio		15,124.2	976.8	906.9	1,883.7	6.0	12.5
5	Indiana		8,972.4	1,247.6	524.5	1,772.1	5.8	19.8
6	Massachusetts		18,826.6	71.6	1,388.5	1,460.1	7.4	7.8
7	Florida		18,222.0	573.8	847.0	1,420.8	4.6	7.8
8	Minnesota		11,118.8	413.9	972.0	1,385.9	8.7	12.5
9	New York		33,633.0	892.0	473.0	1,365.0	1.4	4.1
10	Illinois	no rainy day fund	19,419.2	1,350.6	0.0	1,350.6	0.0	7.0
11	Pennsylvania		18,275.3	428.0	687.9	1,115.9	3.8	6.1
12	Michigan		9,285.2	12.2	1,030.0	1,042.2	11.1	11.2
13	New Jersey		18,326.7	426.2	608.1	1,034.3	3.3	5.6
14	Washington		9,826.0	0.0	964.0	964.0	9.8	9.8
15	North Carolina		12,812.9	440.4	522.5	962.9	4.1	7.5
16	Maryland		8,527.2	274.5	635.8	910.3	7.5	10.7
17	Virginia		10,193.6	485.0	360.0	845.0	3.5	8.3
18	Iowa		4,525.4	339.3	443.8	783.1	9.8	17.3
19	Wisconsin		9,845.4	701.3	0.0	701.3	0.0	7.1
20	Colorado		5,386.9	487.0	188.1	675.1	3.5	12.5
21	Kansas		4,223.0	585.6	0.0	585.6	0.0	13.9
22	Connecticut		10,033.4	71.8	498.6	570.4	5.0	5.7
23	Arizona		5,844.5	179.4	385.1	564.5	6.6	9.7
24	South Carolina		4,599.4	385.3	137.6	522.9	3.0	11.4
25	Georgia		12,368.3	83.0	355.5	438.5	2.9	3.5
26	Oklahoma		4,894.2	224.6	148.8	373.4	3.0	7.6
27	Delaware		2,152.6	239.1	114.1	353.2	5.3	16.4
28	Mississippi		3,138.2	104.8	236.1	340.9	7.5	10.9
29	Oregon	no rainy day fund	3,873.2	329.6	0.0	329.6	0.0	8.5
30	Maine		2,201.7	214.1	92.4	306.5	4.2	13.9
31	Nebraska		2,234.0	159.8	145.7	305.5	6.5	13.7
32	Kentucky		6,180.5	58.0	230.5	288.5	3.7	4.7
33	District of Columb	no rainy day fund	2,865.7	282.3	0.0	282.3	0.0	9.9
34	New Mexico		3,189.1	5.2	235.0	240.2	7.4	7.5
35	Nevada		1,523.8	79.2	129.0	208.2	8.5	13.7
36	Missouri		7,140.8	71.0	135.0	206.0	1.9	2.9
37	Hawaii	new rainy day fund	3,251.1	189.0	5.8	194.8	0.2	6.0
38	Tennessee		6,370.4	61.4	127.0	188.4	2.0	3.0
39	Rhode Island		2,058.2	78.6	65.0	143.6	3.2	7.0
40	Utah		3,248.2	28.2	92.4	120.6	2.8	3.7
41	Montana	no rainy day fund	1,043.4	72.0	0.0	72.0	0.0	6.9
42	West Virginia		2,620.6	0.0	67.6	67.6	2.6	2.6
43	Arkansas	no rainy day fund	3,265.7	54.5	0.0	54.5	0.0	1.7
44	Idaho		1,612.3	16.7	36.0	52.7	2.2	3.3
45	North Dakota		763.2	51.8	0.0	51.8	0.0	6.8
46	Vermont		763.8	0.0	46.4	46.4	6.1	6.1
47	Alabama		4,931.6	37.4	0.0	37.4	0.0	0.8
48	South Dakota		734.5	0.7	35.2	35.9	4.8	4.9
49	New Hampshire		971.8	0.0	24.9	24.9	2.6	2.6
50	Louisiana		5,863.8	0.0	23.5	23.5	0.4	0.4
51	Wyoming		545.5	0.0	0.0	0.0	0.0	0.0

Source: Survey of National Association of Legislative Fiscal Offices, June 1999-September 1999

2000 FEDERAL POVERTY GUIDELINES ISSUED

Steve Mansfield

On February 15, 2000, the U.S. Department of Health and Human Services issued poverty guidelines for 2000. The *poverty guidelines* are the administrative version of the measure of poverty produced by the federal government. The guidelines are a simplification of the measure of *poverty thresholds* that are issued by the U.S. Census Bureau. The *guidelines* are used for administrative purposes—for instance, determining financial eligibility for certain federal purposes. The *thresholds* are used mainly for statistical purposes like calculating the number of persons in poverty in the United States or in states and regions.

The Census Bureau's measure of poverty was first developed in 1963 and is based on a measure of a minimum adequate diet multiplied by 3. Both the poverty thresholds and the poverty guidelines are updated annually for price changes using the Consumer Price Index for All Urban Consumers (CPI-U).

A major reason for having the two measures of poverty is that the thresholds for a particular year are not finalized and published until late summer of the following calendar year. If poverty guidelines were not issued separately, agencies that rely on poverty data for determining eligibility would frequently be in the position of relying on two-year-old data.

At the direction of Congress, the National Research Council of the National Academy of Sciences convened in 1992 an expert panel to study the adequacy of the poverty measure. As a result of recommendations from the panel, the Census Bureau has developed several new experimental measures of poverty. These experimental measures look at income more broadly to include government food and housing benefits not in the form of cash, and tax-related benefits such as the Earned Income Tax Credit. They also take into account other costs in addition to food such as clothing and shelter, a variety of other mandatory costs, and the impact of geographic difference on housing costs.

Implementation of a new poverty measure is not yet planned. Changing the current poverty measure would require a new OMB directive, or a specific direction from Congress.

Ohio uses the poverty guidelines in several programs that serve needy or low-income populations. For example, Medicaid, Healthy

U.S. Department of Health and Human Services Poverty Guidelines since 1982

Year	First Person	Each Additional Person	(Four-Person Family)
2000	$8,350	$2,900	($17,050)
1999	8,240	2,820	(16,700)
1998	8,050	2,800	(16,450)
1997	7,890	2,720	(16,050)
1996	7,740	2,620	(15,600)
1995	7,470	2,560	(15,150)
1994	7,360	2,480	(14,800)
1993	6,970	2,460	(14,350)
1992	6,810	2,380	(13,950)
1991	6,620	2,260	(13,400)
1990	6,280	2,140	(12,700)
1989	5,980	2,040	(12,100)
1988	5,770	1,960	(11,650)
1987	5,500	1,900	(11,200)
1986	5,360	1,880	(11,000)
1985	5,250	1,800	(10,650)
1984	4,980	1,740	(10,200)
1983	4,860	1,680	(9,900)
1982	4,680	1,540	(9,300)

Start, the Children's Health Insurance Program (CHIP), and publicly-funded child care assistance all employ a percentage multiple of the guidelines, such as 125 percent or 185 percent, in setting eligibility criteria.

The accompanying table presents the poverty guidelines since 1982 for the 48 contiguous states and the District of Columbia. ❑