Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE — APRIL, 2000

FISCAL OVERVIEW

— Doris Mahaffey

The month of March added $42 million to the state's existing revenue overage. The state shelled out $68 million less than estimated, increasing the expenditure underage. As of March 31, year-to-date revenues are $291 million over estimate; year-to-date disbursements (including transfers out) are $360 million under estimate. As these variances have accumulated, they have resulted in a larger fund balance than expected, and so have had a beneficial impact on the state's earnings on investments. (The Fed action has helped in this regard, as well.) However, at -$137.3 million, the *unobligated* balance still tips the balance sheet on the negative side of the ledger (see Table 1).

Three quarters of the way through the fiscal year, the revenue picture is pretty sanguine. The combined overage in the sales tax and personal income tax categories is $300 million. Moreover, this overage is likely to continue to grow in the remaining quarter. A shortfall in the corporate franchise tax is likely to eat into that overage, but the other state revenues are expected to do their part and come in on estimate – if not slightly over. Overall, state revenues are likely to end the year at least $300 million over estimate.

The disbursement side of the ledger is not so clear. In spite of the persistent underage, there are many reasons to believe that much of it will evaporate by the end of the fiscal year. For example, primary and secondary education accounts for a full third of the existing year-to-date variance. Much of the underspending in this category relates to the computation and timing of various subsidy payments. These matters are expected to be resolved by the end of the fiscal year. In any case, it is unlikely that much K-12 education spending authority will be lapsed any time soon.

Another big chunk of underspending is in the category of property tax relief. This is nearly all timing-based and is not likely to result in any major spending lapse.

Other uncertainties in the spending category revolve around the Medicaid, Disability Assistance, and Temporary Assistance to Needy Families (TANF) programs, components of which may actually require additional resources. Plus with the recent Supreme Court decision in the *DeRolph* case and HB 640 (the capital bill) still lingering in the General Assembly, it's safe to say that anything might happen. ❑

Volume 23, Number 6

STATUS OF THE GRF

QUARTERLY LOTTERY REPORT

ISSUES OF INTEREST

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

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

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

	Month of March	Fiscal Year 2000 to Date	Last Year	Difference
Beginning Cash Balance	$124.3	$1,512.5		
Revenue + Transfers	$1,740.9	$14,161.0		
Available Resources	$1,865.2	$15,673.5		
Disbursements + Transfers	$1,481.9	$15,290.2		
Ending Cash Balances	**$383.3**	**$383.3**	**$720.3**	**($337.1)**
Encumbrances and Accts. Payable		$520.6	$600.9	($80.2)
Unobligated Balance		**($137.3)**	**$119.5**	**($256.8)**
BSF Balance		$953.3	$906.9	
Combined GRF and BSF Balance		**$816.0**	**$1,026.4**	**($210.4)**

TRACKING THE ECONOMY – MARCH 2000

— Allan Lundell

The economy continued its strong performance, but did give some indications of slowing down. The growth rate in consumer spending slowed a little and inflation (the growth rate in the price level) accelerated slightly. Labor markets remained tight. Although still performing at a high level, signs of strain are beginning to show. Production levels are up substantially over a year ago.

Consumers

Income growth remained strong. Personal income grew by 0.7 percent in March. Wages and salaries increased by 0.7 percent, dividends by 0.5 percent, interest by 0.4 percent, and transfer payments by 0.2 percent. Disposable income grew by 0.7 percent. On a year-over-year basis, personal income is up by 6.4 percent. Wages and salaries are up by 6.8 percent, dividends by 6.7 percent, interest by 7.4 percent, and transfer payments by 3.8 percent. Disposable income is up 6.2 percent from March 1999.

Consumers continue to spend, but the growth in spending may be slowing. Consumer spending grew by 0.5 percent in March. Spending on non-durable goods increased by 1.4 percent and spending on services increased by 0.7 percent. Spending on durable goods fell by 2.5 percent. On a year-over-year basis, consumer spending is up 8.5 percent. Spending on durable goods is up by 8.9 percent, spending on non-durable goods is up 10.8 percent, and spending on services is up 7.3 percent.

Advanced estimates of retail sales increased by 0.4 percent in March and are up 10.5 percent from March 1999. Sales of durable goods fell by 0.9 percent in March, but are still up 10.7 percent from a year ago. Auto sales decreased by 2.6 percent in March, but are up 11.1 percent in a year-over-year comparison. Sales of non-durable goods grew by 1.3 percent in March and are up 10.4 percent from March 1999.

The Conference Board's index of consumer confidence fell by 0.1 percent in March. The assessment of the current situation fell by 1.4 percent and the index of expectations increased by 1.3 percent. Although slightly weakened, consumer confidence remains high. On a year-over-year basis, the assessment of the current situation is up by 2.6 percent.

Prices

The Consumer Price Index (CPI) increased by 0.7 percent in February. The core CPI (excluding food and energy) increased by 0.4 percent. The energy index increased by 4.9 percent and the index for food increased by 0.1 percent. On a year-over-year basis, the CPI is up 3.7 percent. The core CPI is up by 1.2 percent, the energy index by 24.2 percent, and the index of food by 2.0 percent.

The Producer Price Index (PPI) increased by 1.0 percent in March. The core PPI increased by 0.1 percent, the index for intermediate goods increased by 0.9 percent and the crude goods index increased by 1.8 percent. On a year-over-year basis, the PPI is up by 4.6 percent. The core PPI is up by 1.2 percent, the index for intermediate goods by 6.1 percent, and the crude goods index (which includes oil) by 27.1 percent.

Production

Industrial production increased by 0.3 percent in March. Production of consumer goods decreased by 0.2 percent. Production of durable goods increased by 0.4 percent and production of non-durable goods decreased by 0.4 percent. Production of equipment increased by 0.7 percent. Compared to March 1999, industrial production is up by 5.1 percent. Production of consumer goods is up by 2.0 percent, production of durable goods is up by 5.5 percent, and production of non-durable goods is up by 1.0 percent. Production of equipment is 6.7 percent greater than March in 1999. Capacity utilization fell slightly in March to 81.4 percent, but is 0.9 percentage point higher than March 1999.

New orders for durable goods increased by 2.6 percent in March and are 7.4 percent above the same period a year ago. Orders for electronic components increased by 9.7 percent, orders for transportation equipment increased by 1.8 percent, and orders for industrial equipment decreased by 2.1 percent. Shipments of durable goods increased by 1.6 percent. Shipments of electronic components increased by 1.8 percent, shipments of transportation equipment increased by 2.0 percent, and shipments of industrial equipment increased by 1.7 percent.

Construction spending increased by 1.4 percent in March to s seasonally adjusted annualized rate (SAAR) of $765.2 billion. Private construction spending increased 1.0 percent to $586.8 billion SAAR and public construction spending increased 2.8 percent to $178.4 billion SAAR. Construction spending is up 7.0 percent compared to March 1999. Private spending is up 5.7 percent and public spending is up 11.5 percent.

Employment

The national unemployment rate stayed at 4.1 percent during March and Ohio's seasonally adjusted unemployment rate fell to 3.9 percent. Ohio employment increased by 5,000 to 5,636,000 and the number unemployed (defined as those not employed but seeking work) fell by 29,000 to 226,000. Compared to March 1999, Ohio's unemployment rate has fallen from 4.2 percent, the number employed has increased by 188,000 and the number unemployed has decreased by 15,000.

In Ohio, average hourly earnings for workers in manufacturing increased by 0.1 percent in March to $16.52. Average hourly earnings for workers in construction fell by 0.1 percent to $20.05. Average hourly earnings for workers in trade increased by 0.3 percent to $10.95. A year-over-year comparison shows that average hourly earnings are up 2.4 percent for manufacturing, 5.8 percent for construction, and 5.9 percent for trade.

Average weekly earnings for workers in manufacturing fell 0.1 percent in March to $710.36. Average weekly earnings for workers in construction grew by 0.6 percent to $793.98 and average weekly earnings for workers in trade increased by 0.6 percent to $329.59. In a year-over-year comparison, average weekly earnings are up by 3.4 percent for manufacturing, 11.7 percent for construction, and 5.5 percent for trade.

Status of the General Revenue Fund

REVENUES

—Doris Mahaffey

March revenues exceeded estimates by $42 million overall. The revenue picture for the month was generally mixed. However, a strong showing in both the auto and non-auto sales tax categories offset shortfalls in a half-dozen other revenue categories. Excluding federal reimbursements, revenues for the month were $51 million over estimate. (See Table 2 for details.) For the most part the month's variances (both over and under) can be blamed on timing matters. The exceptions are in the auto and non-auto sales tax, the corporate franchise tax, the earnings on investments, and (possibly) the personal income tax categories.

The auto sales tax was $20.7 million over estimate. The overage itself amounted to 30 percent of the estimate for the month. The non-auto sales tax was $41.4 million over estimate. The combined $62 million overage is the largest overage in this category this fiscal year. It increased the year-to-date overage by 63 percent to $160 million. An additional $11.4 million overage in the public utility excise tax eliminated the underage that had existed at the end of February. (The second payment of the tax was due March 1, so it's not surprising to find a timing-based variance

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

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$89,121	$68,400	$20,721
Non-Auto Sales & Use	$387,567	$346,150	$41,417
Total Sales	$476,688	$414,550	$62,138
Personal Income	$365,548	$368,590	($3,042)
Corporate Franchise	$247,612	$257,856	($10,244)
Public Utility	$215,590	$204,120	$11,470
Total Major Taxes	**$1,305,439**	**$1,245,116**	**$60,323**
Foreign Insurance	$62,237	$67,575	($5,338)
Domestic Insurance	$871	$0	$871
Business & Property	$409	$35	$374
Cigarette	$24,301	$25,290	($989)
Soft Drink	$0	$0	$0
Alcoholic Beverage	$5,278	$3,975	$1,303
Liquor Gallonage	$2,155	$1,960	$195
Estate	$5,820	$11,200	($5,380)
Racing	$0	$0	$0
Total Other Taxes	$101,073	$110,035	($8,962)
Total Taxes	**$1,406,512**	**$1,355,151**	**$51,361**
NON-TAX INCOME			
Earnings on Investments	$25,547	$20,145	$5,402
Licenses and Fees	$6,514	$7,315	($801)
Other Income	$6,752	$7,220	($468)
Non-Tax Receipts	$38,814	$34,680	$4,134
TRANSFERS			
Liquor Transfers	$9,000	$8,000	$1,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$2,750	$0	$2,750
Total Transfers In	$11,750	$8,000	$3,750
TOTAL INCOME less Federal Grants	**$1,457,075**	**$1,397,831**	**$59,244**
Federal Grants	$283,789	$300,964	($17,175)
TOTAL GRF INCOME	**$1,740,864**	**$1,698,795**	**$42,069**

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

Detail may not add to total due to rounding.

in that tax at this time.) The $5.4 million overage in earnings on investments – due largely to a larger than expected GRF fund balance along with higher interest rates – continued to shrink the existing underage in that category.

Federal grants came in $17.4 million under estimate. This increased the year-to-date underage to $21.7 million after it had been reduced to $4.5 million at the end of February. The corporate franchise tax came in $10 million under for the month, exacerbating the existing year-to-date underage. The estate tax, the personal income tax, and the cigarette tax also came in under estimate, but these underages merely served to make slight reductions to existing overages.

Sales Tax

Demand for vehicles showed no signs of diminishing in March, and the auto sales tax reflected that, coming in at $20.7 million over estimate for the month. While sales moderated from the very heady rate in February, March sales remained quite strong.

Nationwide, the first quarter of 2000 is the strongest first quarter ever for vehicle sales. In spite of growing interest rates and relatively high gas prices, sales of all types of vehicles continued apace; although sales of light trucks were especially vibrant. Flat prices on new models and manufacturers' incentives (such as rebates and generous financing) have kept sales brisk, as manufacturers strive to maintain market share. The strong market shows no signs of abating anytime soon – actions of the Fed to dampen enthusiasm notwithstanding.

Thus far in FY 2000 the auto sales tax has come in under estimate in only one month (December). Year-to-date revenues exceed the estimate by $50.7 million. That's more than total the auto sales tax revenue for the month of January.

The non-auto sales tax also came in over estimate in March – recovering from its February slump. At $41.4 million over estimate, it posted its largest overage of the year.

March non-auto sales tax receipts typically reflect February sales. February retail sales grew by 1.8 percent (revised estimate) over January, compared to the 0.7 percent growth in January. The increase in sales was broad-based with both durable goods (such as furniture) and non-durable goods (apparel and accessories) contributing to the growth. The acceleration of income tax refunds due to electronic filing of returns noted in the February issue of ***Budget Footnotes*** probably contributed to the growth.

Personal Income Tax

The personal income tax was virtually on target for the month. The $3 million underage accounted for less than one percent of estimated revenues. However, substantial variance among the components of the personal income tax led to this "on target" performance. Withholding was *under* estimate by $15.7 million or 2.8 percent; while estimated payments, annual returns and refunds were all over estimate by $7 million (74 percent), $10.4 million (26 percent) and $7.5 million (52 percent), respectively. (Of course, the over-estimate refunds contributed to the negative variance.)

This was the first month of this fiscal year that withholding had been under estimate; although the overage was only $2 million in February. Employment remains strong but turnover is high. Thus, the lower withholding figure could reflect some churning in the labor markets. According to the Bureau of Labor Statistics, February posted the lowest increase in payroll employment in 4 years, with declines in both construction and manufacturing employment. Payroll employment then surged in March with increases in construction employment, business services, transportation and public utilities, and government jobs (the latter due to the U.S. Census). Manufacturing employment continued to fall in March. As people moved between jobs, unemployment during the (brief) interim could have depressed the withholding figures. In this case, withholding should bounce back up in the coming months. In cases where the new jobs offer lower pay or fewer hours (such as in the

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.

movement out of manufacturing jobs), withholding could be negatively affected. In this case, withholding could remain low in the coming months.

On a year-to-date basis, all major components of the personal income tax are over estimate. Based on total income tax returns (not just the GRF component), withholding is over estimate by $74 million, quarterly estimated payments are over by $49 million, and annual returns are over by $35 million. Refunds are virtually on target.

Corporate Franchise Tax

The corporate franchise tax continues to lag estimates. Revenues for the month were $10 million below estimate. By itself, this is not significant: the second payment of the tax is due

March 31st, so it could be a timing issue. However, this is the third month in a row that the tax has recorded a negative variance. (And the April numbers are even worse.) Year-to-date revenues are $53 million under estimate. This underage is only likely to continue to grow as the fiscal year winds down.

Year-to-date Revenue

Three quarters of the way through FY 2000, the state is in pretty good shape with respect to revenues. FY 2000 tax revenues exceed FY 1999 tax revenues by 6 percent. The auto sales tax is up 10 percent over last year.

Total income less federal grants is over estimate by $313 million. Including federal grants brings the overage down to $291 million. (See Table 3.)

The sales tax and the personal income tax account for the bulk of the overage. Sales taxes are over estimate by $160 million, and the personal income tax is over estimate by $142 million. The $53 million underage in the corporate franchise tax cuts into the overage, so that the major taxes are over estimate by only $256 million.

Aside from the corporate franchise tax, the only other revenue shortfalls are in federal reimbursements (-$22 million), earnings on investments (-$6 million), the foreign insurance tax (-$2 million), and licenses and fees (-$4 million).

The underage in earnings on investments is steadily shrinking, as the fund balance grows and interest rates increase, so the final payment in June is likely to erase that underage altogether.

Federal grants and reimbursements follow the spending in the Medicaid and TANF programs. Currently, Medicaid spending is $14 million over estimate, while TANF is $49 million under. It is still difficult to project where the spending in these programs – and, consequently, federal reimbursements – are likely to end up. ❑

DISBURSEMENTS

*— Jeffrey E. Golon with Steve Mansfield**

At the end of March, the state was holding a negative year-to-date disbursement variance, excluding transfers, of $405.1 million, 2.7 percent shy of the $14.9 billion that had originally been forecasted would be spent nine months through FY 2000. This meant that the state had eclipsed the previous high water mark in its year-to-date underage of $335.7 million, established just one month before. The primary force that propelled the state past the $400 million mark in March was a large, timing-based underage thrown in from the Property Tax Relief program.

This article takes three different looks at the state's FY 2000 disbursement activity. First, we examine the most notable departmental budgets and programs that came to bear on March'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 nine months (July 1999 through March 2000).

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

USE OF FUNDS			
PROGRAM	**Actual**	**Estimate***	**Variance**
Primary & Secondary Education (1)	$452,297	$468,032	($15,735)
Higher Education	$158,271	$158,438	($167)
Total Education	$610,567	$626,469	($15,902)
Health Care/Medicaid	$421,439	$424,760	($3,322)
Temporary Assistance to Needy Families (TANF)	$88,005	$79,518	$8,487
General/Disability Assistance	$4,918	$4,627	$291
Other Welfare (2)	$33,212	$33,244	($32)
Human Services (3)	$72,192	$59,447	$12,745
Total Welfare & Human Services	$619,766	$601,597	$18,169
Justice & Corrections	$157,819	$169,093	($11,275)
Environment & Natural Resources	$10,722	$8,228	$2,493
Transportation	$2,698	$6,102	($3,404)
Development	$10,235	$12,003	($1,768)
Other Government (4)	$42,753	$47,715	($4,962)
Capital	$1,070	$600	$470
Total Government Operations	$225,296	$243,742	($18,446)
Property Tax Relief (5)	$18,638	$73,907	($55,270)
Debt Service	$6,378	$4,372	$2,006
Total Program Payments	**$1,480,645**	**$1,550,088**	**($69,442)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$1,214	$0	$1,214
Total Transfers Out	$1,214	$0	$1,214
TOTAL GRF USES	**$1,481,859**	**$1,550,088**	**($68,229)**

(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.

I. March

Our discussion of the principal departmental budgets and programs that created March's $69.4 million (4.5 percent) monthly underage, arranged in order of the magnitude of their contribution, appears immediately 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 March's disbursement variances by program category.

Property Tax Relief. The Property Tax Relief program hurled in a gaudy $55.3 million underage for the month of March, short of the estimate by 74.8 percent. The disbursement variance, though undeniably large, was no more than a matter of timing related to delays in the planned distribution of real property tax credits/exemptions funding by the departments of Education and Taxation back to school districts, counties, municipalities, townships, and other special taxing districts. A closer examination of the disbursement variance revealed that the Department of Education, which was originally forecasted to release $51.7 million of real property tax credits/exemptions funding back to school districts in March, distributed no money in March. The Department of Taxation in somewhat of a dramatic contrast did, as planned, push a large chunk of real property tax credits/exemptions funding out the door to various counties, municipalities, townships, and other special taxing districts, but was still somewhat short of the originally forecasted amount for the month of March by $3.6 million. These disbursement variances in the department of Education and Taxation budgets were nothing new to frequent followers of the state's Property Tax Relief program and will quickly self-correct in the next month or two.

Education. The Department of Education recorded a $16.2 million negative disbursement variance for the month of March, off the estimate by 3.5 percent. The principal forces behind the monthly variance were underages of $21.7 million and $4.3 million posted in line items 200-406, Head Start, and 200-502, Pupil Transportation, respectively. The collective power of these underages was somewhat offset by overages of $5.7 million and $3.6 million thrown in from line items 200-570, School Improvement Incentive Grants, and 200-520, Disadvantaged Pupil Impact Aid (DPIA), respectively. Timing was the key factor at work in all of these disbursement variances, with the distribution of planned subsidy payments simply occurring contrary to expectations.

Rehabilitation & Correction. The Department of Rehabilitation & Correction's disbursements for March landed under the monthly estimate by $7.7 million, or 6.1 percent. The key feature of the underage was lower than expected monthly spending on day-to-day prison operations ($5.7 million), attributable, though we are by no means certain, to timing. A second, and much smaller, feature of the underage involved a scheduled debt service payment to the Ohio Building Authority that was $1.4 million below the originally forecasted amount of $46.0 million.

Administrative Services. For the month of March, the Department of Administrative Services posted a negative disbursement variance of $4.7 million, or 15.3 percent, roughly three-quarters of which was attributable to line item 100-447, OBA – Building Rent Payments. It appeared that a scheduled March debt service payment included a smaller portion of financing related to the state's Multi-Agency Radio Communication System (MARCS) than was originally forecasted, not surprising given its long and troubled history.

Mental Retardation. Due essentially to underspending in one line item — 322-413, Residential and Support Services — the Department of Mental Retardation & Developmental Disabilities landed $3.5 million, or 38.7 percent, short of the estimate for the month of March. The underage in line item 322-413, which is used by the department to pay for services delivered to individuals with mental

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)	$3,930,956	$4,057,580	($126,625)	$3,691,590	6.48%
Higher Education	$1,799,189	$1,797,052	$2,138	$1,698,288	5.94%
Total Education	$5,730,145	$5,854,632	($124,487)	$5,389,878	6.31%
Health Care/Medicaid	$4,125,900	$4,111,680	$14,220	$3,930,537	4.97%
Temporary Assistance to Needy Families (TANF)	$683,652	$732,459	($48,807)	$589,993	15.87%
General/Disability Assistance	$45,883	$43,807	$2,076	$43,730	4.92%
Other Welfare (2)	$369,569	$416,320	($46,750)	$314,424	17.54%
Human Services (3)	$901,017	$971,526	($70,509)	$858,328	4.97%
Total Welfare & Human Services	$6,126,021	$6,275,791	($149,770)	$5,737,011	6.78%
Justice & Corrections	$1,339,908	$1,374,178	($34,270)	$1,235,789	8.43%
Environment & Natural Resources	$110,758	$99,331	$11,427	$100,896	9.77%
Transportation	$29,562	$40,608	($11,046)	$28,660	3.15%
Development	$109,531	$108,726	$805	$91,846	19.25%
Other Government (4)	$306,444	$342,507	($36,062)	$293,185	4.52%
Capital	$12,876	$10,419	$2,457	$2,583	398.47%
Total Government Operations	$1,909,079	$1,975,768	($66,689)	$1,752,959	8.91%
Property Tax Relief (5)	$579,147	$649,091	($69,944)	$605,956	-4.42%
Debt Service	$133,315	$127,527	$5,788	$124,511	7.07%
Total Program Payments	**$14,477,707**	**$14,882,808**	**($405,102)**	**$13,610,315**	**6.37%**
TRANSFERS		$50			
Capital Reserve	$0	$0	$0	$0	—
Budget Stabilization	$46,400	$46,400	$0	$44,184	5.02%
Other Transfers Out	$766,099	$720,569	$45,530	$1,001,349	-23.49%
Total Transfers Out	$812,499	$766,969	$45,530	$1,045,533	-22.29%
TOTAL GRF USES	**$15,290,206**	**$15,649,778**	**($359,572)**	**$14,655,848**	**4.33%**

(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.

retardation or developmental disabilities, reflected the difficulty of predicting when service providers would bill the department.

Transportation. Timing once again temporarily disrupted the Department of Transportation's FY 2000 disbursement plan and caused a delay in the distribution of capital and operating assistance for local transit systems that was expected to occur during the month of March. The result was a $3.4 million underage, shy of the monthly estimate by 55.8 percent.

Medicaid/Health Care. In March, the state's $5-plus billion Medicaid program posted spending of $421.4 million, below the monthly estimate of $424.7 million by $3.3 million, or 0.8 percent. If, however, one peered into Medicaid's service category spending for the month, a rather incongruous picture emerged that included noticeable overages in the HMO

($30.4 million), Hospitals ($12.6 million), and All Other ($10.1 million) service categories, and a lone $13.9 million underage related to Nursing Homes. Faced with those overages totaling $53.1 million and a dramatically smaller underage in the Nursing Homes service category, how was one to make sense of a $3.3 million March underage? As a fictional Vulcan character might say, while crooking an eyebrow: "That does not compute."

The complicating factor in this story was that the Department of Human Services opted to credit $47.0 million of non-GRF Institutions for Mental Diseases/Disproportionate Share Hospital (IMD/DSH) funding against line item 400-525's total monthly spending in March, rather than specifically using IMD/DSH funds to cover HMO service category spending as expected (see footnote 3 in Table 6). Lingering evidence of this original intent was the fact that the estimate in Table 6 clearly indicates that "no" HMO disbursement activity was planned for the month of March. Contrary to that plan, $30.4 million in actual March disbursements for HMO payments were charged against line item 400-525.

Mindful that this fiscal or accounting maneuver relative to HMO payments really gummed up LBO's ability to cleanly study the details of Medicaid's March spending pattern, it appeared that some portion of the disbursement variance might have been partially influenced by reimbursement rate increases implemented in February (Hospitals overage) as well as declining nursing home bed utilization (Nursing Homes underage). With regard to the All Other service category, the absence of good data

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

	March '00				Year-to Date Spending			
Service Category	**Actual**	**Estimate**	**Variance**	**Percent Variance**	**Actual[**] thru' Mar.**	**Estimate[**] thru' Mar.**	**Variance**	**Percent Variance**
Nursing Homes	$155,351,483	$169,316,734	($13,965,251)	-8.2%	$1,560,118,214	$1,621,080,191	($60,961,977)	-3.8%
ICF/MR	$28,579,801	$28,464,432	$115,369	0.4%	$263,423,243	$266,894,714	($3,471,471)	-1.3%
Hospitals	$107,499,010	$94,921,074	$12,577,936	13.3%	$941,638,510	$904,896,861	$36,741,649	4.1%
Inpatient Hospitals	$81,013,888	$73,348,329	$7,665,559	10.5%	$706,205,875	$696,681,862	$9,524,013	1.4%
Outpatient Hospitals	$26,485,123	$21,572,745	$4,912,378	22.8%	$235,432,636	$208,214,999	$27,217,637	13.1%
Physicians	$26,115,299	$23,734,840	$2,380,459	10.0%	$230,444,627	$220,181,274	$10,263,353	4.7%
Prescription Drugs	$66,174,416	$62,915,321	$3,259,095	5.2%	$493,116,172	$493,973,604	($857,432)	-0.2%
Payments	$67,105,509	$64,176,961	$2,928,548	4.6%	$616,340,995	$610,386,919	$5,954,076	1.0%
Rebates	$931,094	$1,261,640	($330,546)	-26.2%	$123,224,823	$116,413,315	$6,811,508	5.9%
HMO[2]	$30,446,423	$0	$30,446,423	na	$240,039,310	$182,348,676	$57,690,634	31.6%
Medicare Buy-In	$9,954,141	$11,113,598	($1,159,457)	-10.4%	$91,257,028	$98,078,405	($6,821,377)	-7.0%
All Other***	$44,359,139	$34,294,487	$10,064,652	29.3%	$375,637,612	$324,225,914	$51,411,698	15.9%
TOTAL[3]	$421,438,653	$424,760,486	($3,321,833)	-0.8%	$4,125,899,750	$4,111,679,639	$14,220,111	0.3%
CAS	$421,438,653		($3,321,833)	-0.8%	$4,125,899,749		$14,220,110	0.3%
Est. Federal Share	$245,841,181	$247,778,932	($1,937,751)		$2,406,794,108	$2,398,498,977	$8,295,131	
Est. State Share	$175,597,472	$176,981,554	($1,384,082)	-0.8%	$1,719,105,642	$1,713,180,662	$5,924,980	0.3%

* This table only includes Medicaid spending through Human Services' 400-525 line item.
** Includes spending from prior year encumbrances 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 = $269.2 million.
3. Please note that for FY 2000, including the month of March, details do not add to the total, since the IMD/DSH offset of $47,041,058.8 is applied to the bottom line & not HMO payments as planned.
Source: BOMC 8300-R001 Reports, Ohio Department of Human Services.

continued to make any analysis of its disbursement variance virtually impossible

We've provided a more detailed visual picture of Medicaid's March disbursement activity in Table 6 on the previous page.

Selective Overages. There were four notable overages in March totaling $28.5 million, commented on below, that collectively constrained the monthly underage from hitting closer to $100 million.

Alcohol & Drug Addiction. For the month of March, the Department of Alcohol & Drug Addiction Services posted a $9.4 million overage, which, though relatively large, was no more than an expected adjustment to the prior month's $12.4 million underage. The source of that February underage was the department's decision to temporarily withhold subsidy funding — which helps finance the local delivery of alcohol and drug addiction prevention, intervention, treatment, counseling, and residential and community support services — to roughly one-half of the 50 county boards statewide, because they had not submitted their required quarterly reports on time. All but a handful of those tardy county boards managed to provide that information in time to receive their quarterly subsidy in March, thus driving the department's actual disbursements well over the monthly estimate.

TANF. Disbursements from the Temporary Assistance to Needy Families (TANF) program sprung a March surprise by breaking from a fairly consistent year-to-date pattern of monthly underages and throwing in an $8.5 million monthly overage, exceeding the estimate of $79.5 million by 10.7 percent. The driving force behind the monthly overage was line item 400-413, Day Care Match/MOE, which exceeded its March spending estimate by $14.4 million. The cause of the line item's monthly overage was the unexpected release of advance payments to counties as part of a system that allows them to consolidate the administrative and contract service costs of various welfare and human service programs. The March spending activity virtually exhausted the remainder of the line item's $76.5 million FY 2000 appropriation, signaling that, in the three remaining months of the fiscal year, state assistance with county day care costs would have to be drawn from other existing child care funding sources of the Department of Human Services' budget.

The March Day Care March/MOE overage was muted somewhat by a negative monthly disbursement variance of $5.6 million registered in line item 400-411, TANF Federal Block Grant. The March release of federal block grant money in the form of county advance payments was lower than anticipated because the previously mentioned Day Care Match/MOE appropriation was hit much harder for that purpose. Also in the TANF March mix was an almost imperceptible underage of around $305,000 in line item 400-410, TANF State. This very small monthly underage was traceable to Ohio's cash assistance program — Ohio Works First (OWF) — which experienced a modest March caseload decline of 471 assistance groups composed of 1,425 recipients

Mental Health. Timing-based overages hit the Department of Mental Health's budget in March and produced the resulting positive disbursement variance of $6.8 million, which exceeded the monthly estimate by 26.1 percent. Key to the department's overage were its three largest GRF subsidy line items — 334-408, Community and Hospital Mental Health Services, 335-508, Services for Severely Mentally Disabled, and 335-502, Community Mental Health Programs — which exceeded their monthly estimates by $4.0 million, $2.1 million, and $1.2 million, respectively. These overages in what are essentially subsidy payments to county boards were expected adjustments to underages that had been posted in prior months.

Natural Resources. Powered largely by an overage emanating from its soil and water conservation program, the Department of Natural Resources recorded a $3.8 million positive disbursement variance for the month of March, running past the estimate by 63.6 percent. Specifically, the department disbursed close to $4.0 million more from its subsidy line item 725-502, Soil & Water Districts, in March than was anticipated. The source of this overage was a Controlling Board action that occurred last November, which, pursuant to temporary law, transferred $5.0 million into the department's budget to fund local flood mitigation projects. The effect of this fall transfer on the department's soil and water conservation program spending was not built into the FY 2000 disbursement plan that originated back in July 1999.

II. Year-to-Date

Excluding transfers, the state posted a $405.1 million negative year-to-date disbursement variance, a jump of $69.4 million from the cumulative FY 2000 underage reported just one month ago. Almost one-half of that year-to-date underage was attributable to two areas of state spending: 1) the Department of Education ($118.5 million); and 2) the Property Tax Relief Program ($69.9 million). The principal force at work was timing, which had hampered the anticipated distribution of certain educational subsidies and tax relief compensation payments to school districts.

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 continued to dominant the state's year-to-date disbursement picture with a $118.5 million underage, short of the estimate by 3.0 percent. Its closest rival was the state's Property Tax Relief program with a year-to-date underage of $69.9 million, around 90.0 percent of which was due to a timing-based $55.3 negative disbursement variance just posted for the month of March.

The three major components of the department's negative year-to-date disbursement variance were line items: 1) 200-520, Disadvantaged Pupil Impact Aid ($27.9 million), 2) 200-406, Head Start ($24.6 million), and 3) 200-502, Pupil Transportation ($20.7 million). Other noticeable elements of the department's year-to-date underage included, in order of magnitude, summer intervention services ($10.9 million), desegregation costs ($9.5 million), special education enhancements ($5.4 million), teacher incentives ($4.9 million), technical systems development ($3.6 million), charge-off supplement ($3.4 million), and power equalization ($3.4 million). While the majority of these variances were caused by timing-based delays in the distribution of various departmental subsidies, it was fairly apparent that around $17.7 million in funding allocated for the state's all-day, everyday kindergarten funding will most likely not be needed, and, as a result, would be unspent at the close of FY 2000. (Our colleague Wendy Zhan reviewed the status of the state's all-day, everyday kindergarten funding in the March 2000 issue of *Budget Footnotes*.)

Property Tax Relief. Year-to-date, the Property Tax Relief program posted a $69.9 million underage, short of the estimate by 10.8 percent. A huge portion of the underage was directly traceable to the large $55.3 million, timing-based underage just registered for the month of March. In terms of the type of property tax relief distributed, the year-to-date underage was composed of $64.6 million in real property tax credits/exemptions funding and $5.3 million in tangible tax credits/exemptions funding. Although most of the underage will most likely disappear by the end of the fourth quarter, it appeared that roughly $14.6 million of that amount represented property tax relief funding that would not be needed in FY 2000, including $9.3 million of encumbered FY 1999 property tax relief funding that would lapse back into the state treasury.

Over the course of FY 2000, the state's Property Tax Relief program will disburse approximately $1 billion back to school districts, counties, municipalities, townships, and other special taxing districts as compensation for credits or exemptions provided to taxpayers under existing state law. The timing of the state's distribution of this funding depends heavily on how quickly the settlement process goes at the local level and when county auditors apply to the state for relief payments. As a result, large negative or positive disbursement variances in the property tax relief program are not uncommon timing-based phenomena that come and go from one month to the next.

TANF. At the close of March — signaling the end of FY 2000's third quarter — the Temporary Assistance to Needy Families (TANF) program was carrying a $48.8 million year-to-date underage, below the estimated disbursement of $732.5 million by 6.7 percent. Compared to the situation at the mid-year point in the fiscal year (December), the just concluded third quarter added another $25.9 million to the program's pre-existing negative year-to-date disbursement variance.

TANF's negative year-to-date disbursement variance reflected the net effect of two opposing forces: a $36.6 million overage in line item 400-410, TANF State, battling it out with an $85.1 million underage in line item 400-411, TANF Federal Block Grant. The reader may recall that the bulk of the overage in line item 400-410 ($28.4 million) was tied a timing-related event that occurred last fall when the Department of Human Services opted to use state funds to pay cash benefits in the month of September rather than tapping federal money as originally planned. Also contributing to line item 400-410's overage were recent increases in the cash assistance caseload, which now stands at a little over 5,000 cases more than what was budgeted for at this point in the fiscal year.

With regard to line item 400-411, a chunk of its large year-to-date underage was partially attributable to the just-mentioned September departure from the disbursement plan, the effect of which has been to temporarily delay the spending of a portion of the department's federal TANF money until sometime this spring. Another significant factor in the line item's underspending has been lower than anticipated advances to counties for contracted services, administrative services, and computer contracts.

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 $46.8 million (or 11.2 percent) below the estimate. The major component in the department's sluggish disbursements thus far in FY 2000 has been cancelled or stalled computer projects, as well as slower than expected billings from various contractors. Although the department has disbursed $76.0 million in current and prior years' appropriations from line item 400-416, its principal source of funding for computer projects, year-to-date spending was still below the estimate by $26.9 million. An important factor in this underspending was the cancellation in late September of the department's plan to contract out the building of its Statewide Automated Child Welfare Information System (SACWIS), which was discussed in our November 1999 issue.

Line item 400-528, Adoption Services, which carries a $53.2 million FY 2000 appropriation that subsidizes the state's adoption program as it relates to special needs children, was a very distant second contributor to the year-to-date disbursement variance with an underage of $6.6 million. Its presence in this mix was surprising given the sizeable increase in adoptions in Ohio. The source of the disbursement variance appeared related to two factors: 1) a lower than expected cost per adoption; and 2) a decrease in the number of adoption cases qualifying for state funds only.

Other areas of the departmental budget that have contributed considerably smaller pieces to the year-to-date underage included, in order of magnitude: electronic benefits transfer ($3.9 million), child and family services ($3.1 million), children's health insurance ($2.0 million), child support match ($2.0 million), personal services ($1.8 million), state refugee services ($1.8 million), burial claims ($1.7 million), child support administration ($1.6 million), child protective services ($1.6 million), and adult protective services ($1.2 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 uncertainties created by the July 1, 2000 merger of the department with the Ohio Bureau of Employment Services.

Somewhat ameliorating the collective impact of these underages was: 1) a $2.8 million overage in maintenance spending, due to higher than anticipated payments to the Auditor of State for child welfare program audits; 2) 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 3) a $2.3 million timing-based overage related to the advanced payment of county administrative costs (line item 400-504).

Mental Health. Year-to-date, the Department of Mental Health recorded a negative disbursement variance of $40.9 million, under the estimate by 9.7 percent. The essential elements in the underage were line items 334-408, Community and Hospital Mental Health Services ($29.7 million); 2) 335-502, Community Mental Health Programs ($7.7 million); and 3) 335-508, Services for Severely Mentally Disabled ($0.8 million), reflecting previous timing-based delays in the release of subsidy funding to county boards that should self-correct in the months ahead.

Rehabilitation & Correction. At the close of March, the Department of Rehabilitation & Correction was holding a $30.1 million year-to-date underage, short of the estimate by 3.0 percent. Virtually all of the disbursement variance was attributable to spending on day-to-day prison operations that registered $29.0 million less than the originally forecasted year-to-date amount of $742.0 million. The origins of this disparity between actual and estimated spending on prison operations, which has developed over the last three months, remained unclear as of this writing, but could be as innocuous as timing.

Administrative Services. Aided by a March underage of $4.7 million, the Department of Administrative Services' negative year-to-date disbursement variance grew to $21.1 million, or 14.6 percent off the estimate. Two components of the department's budget accounted for at least 85.0 percent of the underage. The first component contained four building rent and operating costs line items that chipped in $10.1 million. Factors behind the component's underage included smaller than anticipated debt service payments to the Ohio Building Authority, attributable at least in part to delays in constructing the state's Multi-Agency Radio Communication System (MARCS), and lesser than expected renovation and relocation expenditures related to state agency moves that had not yet taken place.

The second underage component contained $7.8 million tied to four line items that support the provision of computing and communications services to various state agencies. That mix of underspending included, in order of magnitude, line items: 1) 100-417, Multi-Agency Radio Communication System (MARCS); 2) 100-416, Strategic Technology Development Programs; 3) 100-430, Year 2000 Assistance (Y2K); and 4) 100-419, State of Ohio Synchronous Optical Network/Ohio SONET. With regard to each of these line item underages, the following factors appeared to come into play: 1) the tower leasing and site acquisition phase of the MARCS project was running behind schedule; 2) the Data Linkage Project, using Strategic Technology funding to build a system that will allow state agencies to share information on recipients of state benefits, hit some snags that necessitated redesign work; 3) the Y2K bug came and went fairly quietly, leaving a chunk of encumbered FY 1999 funding that won't be needed; and 4) the work on reconciling invoices with services rendered had slowed Ohio SONET spending.

Mental Retardation. Year-to-date, the Department of Mental Retardation & Developmental Disabilities posted a negative disbursement variance of $16.2 million, 5.3 percent short of the estimate, almost of all which was traceable to line item 322-413, Residential and Support Services. The underage in the line item, which is used by the department to pay for services delivered to individuals with mental retardation or developmental disabilities, was composed of $7.8 million in current year funding and $7.4 million in encumbered prior years' funding. As noted in prior disbursement reports, this ongoing variance indicated the problematic nature of precisely predicting payments to service providers. Also mixed into the department's year-to-date underage was a previously reported $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. The source of this Sermak-funding related disbursement variance remained unclear.

Transportation. Fueled by back-to-back $3.4 million underages posted in the last two months, the Department of Transportation closed March with a negative year-to-date disbursement variance of $11.0 million, shy of the estimate by 27.2 percent. The prime culprit behind the disbursement variance was timing, which temporarily snagged the expected release of departmental capital and operating assistance funding to the state's 50-plus urban and rural transit systems.

Health. There were disbursement variances littered throughout the Department of Health's 25-plus line item GRF budget that combined to create its $8.6 million year-to-date, or 12.7 percent, underage. The most notable contributors to the disbursement variance, and frequent players in prior disbursement reports, were line items 440-505, Medically Handicapped Children, and 440-418, Immunizations, which posted year-to-date underages of $4.4 million and $1.8 million, respectively.

As the reader may recall from our last disbursement report, we had backed away from a belief that the underage in line item 440-505 simply reflected 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 in favor of information suggesting that fewer medically handicapped children were being served by the program. Thus, less GRF money than anticipated was being disbursed, hence a year-to-date underage, much of which we do not anticipate disappearing in the remaining three months of FY 2000. Further cementing that viewpoint was a change contained in House Bill 640, the capital appropriations and budget modifications legislation currently working its way through the Ohio General Assembly, that proposes to reduce line item 440-550's FY 2001 appropriation by $4.3 million and spread that amount among five other departmental line items that need supplemental funding. The actual caseload in the Medically Handicapped Children program has run well under projections in FY 2000, a trend expected to continue in FY 2001, with at least some of the credit in this decline ascribed to higher numbers enrolling in the Children's Health Insurance Program (CHIP).

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 as yet replenished its stock of vaccines. The department was expected to make those vaccine purchases sometime during the fourth quarter, which presumably means we should witness a significant reduction in the line item's underage by the close of FY 2000.

Auditor. With the sole exception of November, the Auditor of State has posted underages in every month so far this fiscal year, and, as a result, held a negative year-to-date disbursement variance of $5.8 million, or 17.1 percent, at the close of March. Fueling around 95.0 percent of that disbursement variance were two elements: 1) the Auditor's decision to leave some budgeted staff positions unfilled; and 2) scheduled mainframe computer software purchases that had yet to occur.

SchoolNet. The Ohio SchoolNet Commission — charged with administering many of Ohio's educational technology programs — closed March with a negative year-to-date disbursement variance of $4.6 million, short of the estimated mark by 21.8 percent. The source of this disbursement variance was twofold. First, as noted in prior issues, the commission spent time early on in the fiscal year honing its grant management skills, the most visible consequence of which has been sluggish subsidy spending. As a result, line item 228-406, Teacher & Instructional Professional Development, with funding intended to promote the use of educational technology by teachers and administrators in the state's 600-plus school districts, was holding a year-to-date underage of $3.1 million. Virtually all of the line item's underage was expected to disappear in the remaining three months of the fiscal year, with much of it going out the door as grants to support summer teacher training programs. Second, a $1.3 million year-to-date underage has developed in the commission's operating expenses line item (228-404) due to around a dozen or so staff positions that remained vacant because of difficulties in finding qualified applicants.

Library Board. The State Library Board — an information and research services arm of state government — finished March short of the year-to-date disbursement estimate by $3.7 million, or 22.8 percent. The key piece in this disbursement variance was a $2.3 million underage in maintenance and equipment spending, primarily due to a delay in the board's planned relocation from the Ohio Departments Building and secondarily because of an unanticipated decline in rental payments. Other contributing factors to the board's year-to-date underage, in order of magnitude, included: 1) savings in the Ohio Public Library Information Network (OPLIN) budget generated using the federal government's E-Rate discount program for technology purchases; 2) delays in the distribution of Netwellness funding to the University of Cincinnati and its partners pending the submission of required reports; and 3) delays in filling vacant staff positions.

Selective Overages. There were five notable overages totaling $33.5 million in the state's year-to-date disbursement picture, all of which are discussed below.

Medicaid/Health Care. With three-quarters of FY 2000 gone, the state's Medicaid program was holding a positive year-to-date disbursement variance of $14.2 million, 0.3 percent over the estimate. (No doubt this had to have been a rather curious state-of-affairs to seasoned budget watchers who are accustomed to seeing Medicaid as a major producer of underspending and the salutary fiscal effect that has on the state's GRF cash balance.) The key overage elements in the year-to-date disbursement variance included the HMO ($57.7 million), All Other ($51.4 million), and Hospitals ($36.7 million) service categories. The HMO overage was principally a result of February and March payments that were posted against Medicaid's GRF line item 400-525 contrary to the original disbursement plan that called for those payments to be covered by non-GRF funding. Unpacking the All Other overage was made virtually impossible given the absence of any good data. The Hospitals overage was most likely powered by a mix of three forces: 1) reimbursement rate increases implemented in February; 2) one time payments related to the effective date of the reimbursement rate increase; and 3) a timing gap between the rendering and payment of services.

There were also two aspects of Medicaid's disbursements that worked against the collective power of these three service category overages. First, there was the unexpected fiscal tactic undertaken by the Department of Human Services that involved the crediting of $69.7 million in non-GRF Institutions for Mental Diseases/Disproportionate Share Hospital (IMD/ DSH) funding against line item 400-525's total monthly spending for the months of February and March. Second, the Nursing Homes service category was running a $61.0 million underage, rooted in declining bed utilization.

Table 7

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

Service Category	FY 2000[1] Yr.-to-Date as of Mar. '00	FY 1999[2] Yr.-to-Date as of Mar. '99	Variance	Percent Variance
Nursing Homes	$1,560,118,214	$1,479,437,077	$80,681,138	5.5%
ICF/MR	$263,423,243	$257,321,730	$6,101,513	2.4%
Hospitals	$941,638,510	$886,329,993	$55,308,517	6.2%
Inpatient Hospitals	$706,205,875	$676,789,063	$29,416,812	4.3%
Outpatient Hospitals	$235,432,636	$209,540,930	$25,891,706	12.4%
Physicians	$230,444,627	$214,410,458	$16,034,170	7.5%
Prescription Drugs	$493,116,172	$441,729,558	$51,386,614	11.6%
Payments	$616,340,995	$543,037,655	$73,303,341	13.5%
Rebates	$123,224,823	$101,308,097	$21,916,726	21.6%
HMO	$240,039,310	$267,488,075	($27,448,765)	-10.3%
Medicare Buy-In	$91,257,028	$102,148,978	($10,891,950)	-10.7%
All Other***	$375,637,612	$281,670,213	$93,967,399	33.4%
TOTAL	$4,125,899,750	$3,930,536,081	$195,363,670	5.0%
Est. Federal Share	$2,406,794,108	$2,296,415,705	$110,378,403	4.8%
Est. State Share	$1,719,105,642	$1,634,120,376	$84,985,267	5.2%

* 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 the All Other category.
2. Includes FY 1998 encumbrances of $54 million.

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, respectively.

A look at the data in Table 7, a comparison of year-to-date Medicaid spending in FY 2000 with FY 1999, revealed a relatively moderate growth pattern at the bottom line. After three quarters in FY 2000, Medicaid spending grew by $195.4 million, or 5.0 percent, relative to the same period in FY 1999 (see the "TOTAL" line in the last two columns of data in Table 7). Although considerably higher than the annual increase of 0.6 percent experienced by the Medicaid program between FYs 1998 and 1999, the 5.0 percent jump from FY 1999 was within Medicaid's projected level of growth for all of FY 2000.

Natural Resources. There were two primary components to the $7.1 million, or 8.8 percent, year-to-date overage held by the Department of Natural Resources at the close of March. The lead component in the disbursement variance was the operating expenses line item of the Division of Parks and Recreation, which, largely due to an error in the estimate for central support service billings, had shot past the expected level of spending by $6.2 million. The second notable component in the disbursement variance was the department's soil and water conservation program with a $3.7 million overage, principally attributable to the recent unexpected release of around $4.0 million in funding for local flood mitigation projects, a fact noted earlier in this article when we reviewed spending for the month of March. The combined effect of these twin overages was in turn tempered a bit by a $1.5 million year-to-date underage in a state-federal partnership known as the Conservation Reserve Enhancement Program (CREP). The department was still working out the programmatic details with the U.S. Department of Agriculture, and, as a result, very little of the FY 2000 appropriation had been released.

Debt Service. The Debt Service program category, which contains the general obligation debt financing for certain capital improvements programs (highway construction, parks, recreation, and natural resources projects, coal research and development, and local government infrastructure), closed March with a $5.8 million year-to-date overage, 4.5 percent past the estimate. The disbursement variance was no more than a matter of timing.

Ohio EPA. Ohio EPA's year-to-date overage peaked last November at $7.6 million, off the estimated mark by 61.8 percent. Since that time, the agency has posted four consecutive monthly underages and reduced its year-to-date overage down to $4.3 million, 24.2 percent above the estimate. The variance initially developed as the result of an erroneous assumption that was used to build the agency's FY 2000 disbursement estimates, and, as expected, has started to self-corrected with the passage of time.

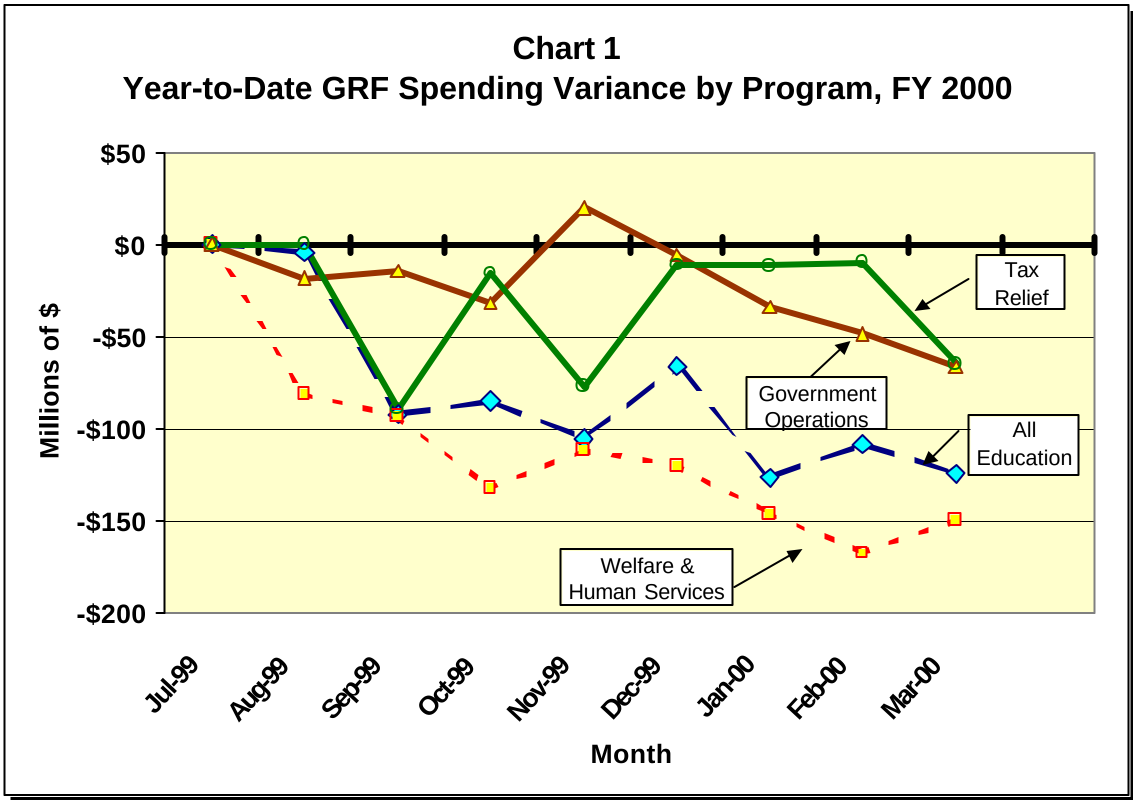
GA/DA. The state's General Assistance/Disability Assistance (GA/DA) program component — dominated by the Department of Human Services' $58-plus million Disability Assistance (DA) program — posted its seventh consecutive monthly overage in March ($290,896), which pulled the program's preexisting year-to-date overage up to $2.1 million, past the estimate by 4.7 percent. The driving 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. During March, the DA cash assistance caseload increased by almost 200 recipients and now stands at about 1,000 recipients above what was estimated for this point in the fiscal year. In contrast, the DA medical assistance caseload declined by 350 recipients over the course of March and now stands at about that number of recipients (350) below what was estimated for this point in the fiscal year. Despite the fact that medical assistance is by far the largest cost component of the DA program, it's been the smaller cash assistance component — with a caseload stubbornly refusing to behave as predicted — that has pushed the DA program's overspending. As a result, the DA program seems destined to exhaust its FY 2000 appropriation authority in the next few months and will presumably need a funding transfusion before the end of the fiscal year.

This prospect has prompted a proposed realignment of the Department of Human Services' FY 2000 GRF operating budget contained in House Bill 640, a piece of capital appropriations and budget modifications legislation currently working its way through the Ohio General Assembly, that would provide the DA program with supplemental FY 2000 funding. As written, the legislation would decrease the state share of the department's FY 2000 appropriation in GRF line item 400-426, Children's Health Insurance Program, by $2,104,086 and increase the DA program's FY 2000 appropriation by a like amount.

III. Program Category Variances

In Chart 1, we've visually mapped from July through March the trajectory of the year-to-date disbursement variances of the state's four major GRF program categories. This is intended to help us see how the state ended up holding a year-to-date underage of $405.1 million by the close of March. In the narrative below, we've tried to distill the essence of the nine-month disbursement patterns exhibited by the four key program categories.

Welfare/Human Services (-$149.8 million). Except for largely timing-driven underages posted for the months of November ($21.0 million) and March ($18.2 million), the Welfare & Human Services program category's negative year-to-date disbursement variance has continued to increase. While various components of the program category have



spurred that growth, the only regular contributor has been the Temporary Assistance to Needy Families (TANF) program, excluding the months of December and March when it registered timing-based overages of $27.1 million and $8.5 million, respectively. At the close of March, the program category was still the largest contributor to the year-to-date underage, accounting for 37.0 percent of the disbursement variance — down from 50.0 percent at the end of February. Perhaps most noticeable in a recent historical context was the absence of the state's Medicaid program in fueling the program category's year-to-date underage.

Education (-$124.5 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. In March, the department added another $15-plus million to the underage, largely attributable to a timing-based delay in the release of Head Start program funding.

Government Operations (-$66.7 million). For the first six months of the fiscal year, 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. Since that time, the program category has posted three consecutive monthly underages totaling $61.2 million, around $38.9 million of which emanated from the Department of Rehabilitation & Correction. During that three-month period, day-to-day spending on prison operations was lower than originally forecasted for reasons that remained unclear as of this writing.

Property Tax Relief (-$69.9 million). Timing has driven disbursements from the Property Tax Relief program wildly over and under the estimate throughout the fiscal year, with relative quiet in the months of January and

February as expected. Timing hit the program hard again in March, as evidenced by the $55.3 million monthly underage, which will self-correct in the remaining three months of the fiscal year. ❑

**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 Newman, Jeff Petry, Chuck Phillips, Jeffrey M. Rosa, and Wendy Zhan.*

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS THIRD QUARTER, FY 2000

— *Jean Botomogno*

Total ticket sales for the third quarter of fiscal year 2000 were $539.0 million, 5.6 percent lower than second quarter sales, but 3.8 percent higher than first quarter sales. On-line ticket sales at $247.5 million in the third quarter were 45.9 percent of total ticket sales. Compared to third quarter results a year ago in fiscal year 1999, sales for the third quarter of fiscal year 2000 were up 5.9 percent.

A closer look at Y-T-D results for fiscal years 1999 and 2000 show increased sales of 6.9 percent and 15.6 percent for Pick 3 and Pick 4, whereas Buckeye 5, Kicker, Super Lotto show sales decreases between 10 and 15 percent. Pick 3 and Pick 4 increases are due to twice daily drawings. In contrast, year-to-date sales of Instant Tickets had a 2.5 percent sales increase over the same period a year ago. As of March 2000, year-to-date sales for the fiscal year show a minimal increase of 0.1 percent over sales during the same period in fiscal year 1999. Overall, the online game year-to-date FY2000 shows a decrease of 2.5 percent compared to year-to-date results for the same period in FY1999.

Table 1 summarizes fiscal year 2000 Lottery ticket sales by game. It shows total ticket sales were $1,629.7 million and Instant Ticket sales were larger than on-line sales by about 8 percent at the end of March 2000.

Table 1, FY 2000 Lottery Ticket Sales by Game, millions of current dollars

	Pick 3	Pick 4	Instant Tickets	Super Lotto	Kicker	Buckeye 5	Total Sales
Jul-99	$35.0	$10.9	$93.8	$31.5	$4.9	$5.6	$181.8
Aug-99	$34.0	$10.9	$93.3	$20.6	$3.5	$5.6	$167.8
Sep-99	$34.7	$11.6	$90.8	$23.7	$3.9	$5.1	$169.9
Q1	**$103.6**	**$33.4**	**$277.9**	**$75.8**	**$12.4**	**$16.3**	**$519.4**
Oct-99	$35.5	$12.1	$93.2	$27.5	$4.4	$5.1	$177.9
Nov-99	$34.9	$12.1	$97.6	$33.1	$4.9	$5.3	$187.8
Dec-99	$36.8	$13.0	$121.1	$25.4	$4.0	$5.4	$205.6
Q2	**$107.2**	**$37.2**	**$311.8**	**$85.9**	**$13.3**	**$15.8**	**$571.3**
Jan-00	$33.1	$11.7	$91.1	$25.8	$4.2	$5.0	$170.9
Feb-00	$34.0	$11.8	$102.6	$25.8	$4.1	$5.0	$183.4
Mar-00	$37.5	$12.9	$97.8	$26.9	$4.4	$5.4	$184.8
Q3	**$104.6**	**$36.4**	**$291.5**	**$78.4**	**$12.7**	**$15.4**	**$539.0**
Total	**$315.5**	**$107.0**	**$881.2**	**$240.1**	**$38.4**	**$47.5**	**$1,629.7**

Table 2, FY 2000 Lottery Ticket Sales and Transfers to LPEF, millions of dollars

	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfer as a Percentage of Sales
Jul-99	$181.8	$56.3	$52.3	$4.0	7.60%	30.9%
Aug-99	$167.8	$52.4	$53.4	-$1.0	-1.94%	31.2%
Sep-99	$169.8	$52.1	$53.0	-$0.9	-1.76%	30.7%
Q1	**$519.3**	**$160.7**	**$158.7**	**$2.0**	1.26%	30.9%
Oct-99	$177.9	$53.4	$54.6	-$1.2	-2.18%	30.0%
Nov-99	$187.8	$57.3	$54.3	$3.0	5.61%	30.5%
Dec-99	$205.6	$58.6	$61.7	-$3.0	-4.91%	28.5%
Q2	**$571.3**	**$169.3**	**$170.5**	**-$1.2**	-0.69%	29.6%
Jan-00	$170.9	$52.4	$52.8	-$0.4	-0.82%	30.7%
Feb-00	$183.4	$54.6	$53.6	$1.0	1.92%	29.8%
Mar-00	$184.8	$57.4	$59.1	-$1.7	-2.84%	31.1%
Q3	**$539.0**	**$164.5**	**$165.6**	**-$1.1**	-0.65%	30.5%
Total	**$1,629.6**	**$494.5**	**$494.7**	**-$0.3**	-0.05%	30.3%

Table 2 shows transfers to the Lottery Profit Education Fund (LPEF). Transfers to LPEF in the third quarter of FY 2000 were $164.5 million, down 2.8 percent from the previous quarter and up 2.3 percent when compared to first quarter transfers. Transfers were 30.5 percent of ticket sales in the third quarter.

Transfers to LPEF were 3.2 percent higher this year than a year ago in the third quarter of fiscal year 1999.Year-to-date FY2000 transfers at $494.5 million were 0.05 percent less than projected transfers. ❑

LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS
DISBURSEMENTS OF FY 2000 PROFITS

— *Wendy Zhan*

Table 1: FY 2000 LPEF Appropriation/Disbursement Summary
As of March 31, 2000

Agency	Fund	Line Item	Line Item Name	FY 2000 Appropriation	FY 2000 Disbursement	Appropriation Balance
EDU	017	200-612	Base Cost Funding	$ 656,247,000	$ 439,000,000	$217,247,000
EDU	017	200-682	Lease Rental	$ 29,753,000	$ 0	$ 29,753,000
NET	017	228-690	SchoolNet Electrical Infrastructure	$ 20,052,987	$ 4,102,600	$ 15,950,387
			Total LPEF	**$ 706,052,987**	**$ 443,102,600**	**$262,950,387**

Lottery Profits Education Fund (LPEF) year-to-date disbursements in fiscal year 2000 totaled $443.1 million. Of this amount, $439.0 million (or 99.1 percent) occurred in appropriation item 200-612, Base Cost Funding. Table 1 shows the LPEF appropriation and disbursement summary as of March 31, 2000.

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

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

SchoolNet Electrical Infrastructure – "Power-up For Technology." To help school districts implement SchoolNet and SchoolNet Plus initiatives, the 122nd General Assembly appropriated $27 million in LPEF moneys in fiscal year 1998 for electrical service upgrades. Approximately $7.0 million was disbursed in fiscal year 1999 and the remaining $20.0 million was transferred into fiscal year 2000. The SchoolNet Office is to distribute the funding through a competitive grant application process. School districts with a valuation per pupil less than $200,000 are eligible for the funding. The maximum grant amount for a single district is $1 million. ❑

Issues of Interest

HUMAN SERVICES CONSOLIDATED FUNDING TO COUNTIES

Steve Mansfield

Welfare and social service policy in the United States has undergone a dramatic shift within the last decade. This shift is most evident in the change in welfare policy from an income maintenance approach that had relatively weak requirements for work to an approach that makes benefits time-limited and requires work. In the wake of this reform, agencies that administer the welfare programs have had to reorient their entire way of doing business to one of providing assistance and services that will move people into work and help keep them there. Since this approach requires community-based solutions, a significant degree of policy making authority has been "devolved" back to states and local government.

The devolution of policy making in welfare and social services from the federal government back to the state and local governments contains some important changes in the options for managing funding. This paper explores the impact of Ohio's system of consolidated allocation that was authorized in Am. Sub. H.B. 215—the main operating budget of the FY 1998-1999 biennium. In particular, the paper looks at the three different funding options that the Ohio Department of Human Services (ODHS) makes available to the counties, the method of allocating funds to different program areas, how ODHS reconciles the allocations with county spending, the requirements for counties to contribute a portion of the needed funds in welfare and social services, and the cost accounting method that Ohio has adopted. Finally, the paper examines the actual spending by counties that took place in state fiscal year 1999 in twenty-five specific program or subprogram areas. These twenty-five areas comprise what is included in the consolidated allocation, or are separate allocations directly related to the programs that are in the consolidated allocation.

Since state fiscal year 1999 was the first full year of operating with consolidated allocations for the counties who had formed partnership agreements with ODHS, the evidence provided by the spending patterns indicates that, while the system represents a very large shift in responsibility to local government, which is now called on to provide much more of a system of supports for workforce development, the new system is experiencing growing pains that are testing the management capacity of both ODHS and county departments of human services. In any change of this magnitude it is not at all surprising that difficulties will be experienced along the way. While this evidence looks only at the fiscal expression of the operation of programs, it also provides some insight into the fact that many counties are rising to the challenge of the devolution of policy making to the county level and are working hard to build their capacity to manage these programs in ways that meet the needs of their own communities. There are indications in the early and incomplete data from spending in state fiscal year 2000 that much of the unevenness that is evident in the fiscal year 1999 spending patterns is beginning to even out. But for now, let us take a first look at the first full year of operation of consolidated funding for human services in Ohio.

The Development of Consolidated Funding Options

For Ohio's human services programs, the federal government provides categorical funding and requires that expenditures be reported to them for each funding stream. Since human services programs in Ohio are administered by county departments of human services under state supervision, the matter is all the more complicated. Historically, counties had to keep track of spending in each separate category, managing each so as not to exceed the amount available. A complicated accounting and reporting system was required for the state to effectively manage this process. This situation, however, has changed. States are now permitted to allocate funds to counties in a manner that provides a greater degree of flexibility rather than having to keep all expenditures within their specific funding streams. Ohio—through Am. Sub. H.B 215, the main operating budget of the FY 1998-1999 biennium—permitted ODHS to substitute a single allocation for a number of different funding streams. This option is available for county departments of human services that are subject to a partnership agreement between a board of county commissioners and ODHS.[1]

The single or consolidated allocation has enabled counties to use funds as needed without regard to the original funding stream and, at the same time, determine and report costs according to their funding stream. Under this system, a county department of human services is not required to use all the money from each of the line items that support the consolidated allocation for the specific purpose of the item, so long as the money is used for at least one of the purposes of the other line items that support the consolidated allocation. The goal of consolidated funding is to enable county departments of human services to focus on providing needed services to program participants, with less concern about the accounting process of staying within prescribed funding streams. Thus, instead of several funding "ceilings" to worry about, a county department need only worry about the one consolidated allocation "ceiling." Counties bear the liability for spending over the consolidated ceiling, unless the spending estimates developed by ODHS to draw the federal funds are faulty and the county uses money in one or more of the items in a manner for which federal reimbursement is not available. In that case, ODHS must use available state dollars to ensure that the county department receives the full amount of its appropriate allocation. While counties still receive some separate categorical funding streams, the option of consolidating a number of major funding streams has fundamentally altered the ways that counties manage these funds.

Table 1. Appropriations Supporting Consolidated Allocations

Fund	ALI	ALI Name
GRF	400-410	TANF State
GRF	400-411	TANF Federal Block Grant
GRF	400-413	Day Care Match/Maintenance of Effort
GRF	400-504	Non-TANF County Administration
GRF	400-534	Adult Protective Services
GRF	400-552	County Social Services
384	400-610	Food Stamps and State Administration
385	400-614	Foreign Refugees
3H7	400-617	Day Care Federal
396	400-620	Social Services Block Grant (Title XX)

[1] Partnership agreements between ODHS and all 88 county commissions were reached in three phases from January 1998 to December 1999. A copy of each county's agreement can be found on the ODHS web site at: http://www.state.oh.us/odhs/owf/partagre/index.htm.

The appropriations that support consolidated allocations were updated by the most recent budget bill, Am. Sub. H.B. 283. These appropriation line items are listed in **Table 1**, on the previous page.

Within the enabling language of H.B. 215, ODHS provides partnership counties with two funding options, in addition to being permitted to retain the separate stream method:

Option one: Total Consolidated Funding Allocation. This option consolidates all of the funding received by the CDHS from seven federal allocations, and three state allocations. Option one provides the CDHS with one funding pool from which to operate, hence there is less concern about staying with prescribed funding streams and more in providing the services that the participant needs.

Option two: State Consolidated Funding Allocation. This option consolidates all of the state funding to the county for Income Maintenance Control (which includes the state share of Medicaid, Food Stamps, and Disability Assistance administration), the Adult Protective Services Allocation and the State Social Services Operating Allocation (which covers the administrative costs of delivering a broad range of social services supported by federal Title XX funds). This option limits the state liability to the actual amount of state funds provided to operate the CDHS, but at the same time provides the CDHS with the ability to earn federal Medicaid and Food Stamp funds in an open ended manner. The CDHS still must be concerned about which federal pool an expense is charged to, but this is a decision county departments have historically made.

Option three makes no changes from the system of separate allocations that existed prior to SFY 1998.

All eighty-eight counties have selected option one.

Allocation Methodology

Available funds are distributed to the counties according to a methodology based on four distinct funding groups: 1) Workforce Development/Public Assistance, 2) Social Services; 3) Child Care; and, 4) Refugee Resettlement Services. The allocation methodology is different for each group.

The Workforce Development/Public Assistance Group includes federal TANF funds, federal FSET funds, and state Income Maintenance Control funds (which includes state Food Stamp administration funds, state Medicaid administration funds, and state Disability Assistance administration funds). The allocation is based on the number of recipients in each of the categories in the previous year, the number of individuals at or below 100 percent of the federal poverty level compared to the statewide number of such individuals, the county's average OWF grant for a family of three, and the county's average unemployment rate compared to the statewide rate.[2]

The Social Services Group includes federal Title XX funds, state Adult Protective Services funds, and state social services administration funds. The allocation is based on the following proportions: the county's population at or below 100 percent of the federal poverty level as compared statewide; the county's population at or below 200 percent of the federal poverty level as compared statewide; the county's population at or below 18 years of age as compared statewide; and the county's population at or over 60 years of age as compared statewide.

The Child Care Group includes federal Child Care Development Block Grant funds. The allocations to counties are based on a county's

[2] For the full methodology used to determine this and the following allocations, see ODHS, Administrative Procedures Manual, sec. 6213.

population of children age 0-13 that are at or below 100 percent of the federal poverty level as compared to the statewide total of such children, the county number of TANF children age 0-13 as compared to the statewide total of such children, the number of children in the county determined eligible for publicly funded child care as compared to the statewide total of such children, and the county's number of certified type B homes as compared to the statewide total in the same category.

The Refugee Resettlement Group includes federal refugee resettlement social services funds. Only counties with an average of over forty refugee cases per month are eligible to receive these funds. The allocations to counties are based on data derived from the new refugee arrivals list as published by the U.S. Department of Health and Human Services, the county's number of cash and medical assistance eligible refugee recipients as compared to the total number of such recipients in the same category for all eligible counties, and the county's average unemployment rate as compared to the average unemployment rate for all eligible counties.

Reconciliation

At the end of the allocation period, a reconciliation occurs for each allocation issued to the county agency. The allowable expenditures applicable to the allocation period are tabulated by ODHS and compared to the allocation amount. County expenditures in excess of the county allocation may be recognized and supplemented with available unspent funds on a statewide basis, at the discretion of the Director of ODHS. Any remaining excess expenditures are the responsibility of the county. The reconciliation process is applied to each allocation. If a county receives a consolidated allocation, expenditures in excess of the allocation for any particular program within the consolidated group are paid for with funds that are "rolled over" from other items in the group. Only when a county exceeds its total consolidated allocation would the process of recognizing and supplementing the excess take place.

Table 2. Allocations that may be consolidated

Ceiling Item No(s).	Program Name	Source of Funds
1100	Income Maintenance Control	State & County
1425	Social Services Operating	State
1450	Adult Protective Services	State
3000	Medicaid Administration — Federal Share	Federal
3010, 1015	Food Stamp Administration — Federal Share	Federal
1000, 1010, 1011, 1012, 1016, 1017	Temporary Assistance to Needy Families (TANF)	Federal, State, & County
1185	Food Stamp Employment & Training	Federal
1400	Social Services — Federal	Federal
1615, 1650, 1675	County Child Care	Federal & State
1700	Refugee Social Services	Federal

County Mandated Share

Counties must contribute a share to the cost of administering the TANF, Medicaid, Food Stamp, and DA programs. Prior to May 16th of each year, ODHS is required to certify to each County Board of Commissioners the amount required in the following state fiscal year to meet the county's share of these Public Assistance expenditures. The county agency is notified of county allocation funding levels through ODHS allocation letters, which are sent to the county prior to the beginning of the state or federal fiscal year, which ever is appropriate. These letters identify a spending "ceiling" against which expenditures are posted. A list of these allocation "ceilings" is provided in **Table 2**. Some programs may have sub-programs, and hence have more than one ceiling. As already noted, when a county has chosen to receive a consolidated allocation, funds can "roll over" from one ceiling item to another within the allocation, as needed. Some related but separate allocations that are supported by the same appropriation line items will be included in the

Table 3. Related Separate Allocations		
Ceiling Item No.	**Program Name**	**Source of Funds**
1013	TANF Employment and Training	Federal
1014	TANF Incentive	Federal
1550	TANF Early Start Expansion	Federal
1110	Medicaid Outreach	Federal
1190	FSET Pass Thru	Federal
1196	TEER Incentives	Federal
1710	Refugee State	State
1750	Family Violence	State

discussion below of state fiscal year 1999 county spending. These related allocations are identified in **Table 3**.[3]

The methodology for calculating a county's mandated share varies with the program. Much the same as the state's Maintenance of Effort Requirement (MOE), a county's mandated share for TANF administration in FY 2000 is based on 77 percent of the county share of program and administrative expenditures for federal fiscal year 1994 in the three programs replaced by the TANF program (ADC, FEA, and JOBS programs).[4] A county's Disability Assistance (DA) administrative share is based on 25 percent of the county's total DA expenditures during the prior state fiscal year. For Food Stamps and Medicaid, a county's administrative share is based on 10 percent of the prior fiscal year's total expenditure for the administration of those programs. A county's Food Stamp and Medicaid mandated share percentage, however, may be reduced if the per capital tax duplicate of the county (i.e., the total taxable value of real, tangible, and public utility value in the county) is less than the state as a whole, or if the percentage of families in a county with an annual income of less than $3,000 is greater than the percentage of such families in the state.

Random Moment Studies for Cost Accounting and Reporting

Random moment studies are one method among others that are approved by the federal government for reporting and allocating administrative costs. Ohio has chosen to employ the random moment study. Random moment studies in the Income Maintenance Control and Social Service areas are designed to identify the time devoted to particular staff activities. In order to determine the administrative costs devoted to particular staff activities, properly assign them to the appropriate program, and then report these costs, time study percentages are correlated to the available funding sources.

In this method, cost assignments are based on a random sample of particular moments during the work day of randomly selected staff members. This allows the level of administrative resources dedicated to a particular program to be calculated. If, for example, it is determined in a particular quarter that the staff of a specific county devoted a total of 10 percent of its staff time to eligibility determinations in the Ohio Works First program, then the percent of its total administrative funds would be allocated to that activity. If it is determined that a particular program's administrative costs exceed its "ceiling," funds can be "rolled over" from allocations with unspent funds.

The sample of moments and staff members is drawn by ODHS and sent to county agencies. For the Income Maintenance study, the ten

[3] Other separate, but unrelated, allocations are also received by counties. Because they are unrelated to the consolidated allocation system under discussion, they will not be discussed here. These other allocations are for the following: Wellness Block Grant, Post Adoption Special Services, ProtectOhio, Title IV-B Child Services, Title IV-E Adoption services, Title IV-E Foster Care Maintenance Payments, and Purchased Family Foster Care.

[4] The 77 percent rate has been reduced from 80 percent that was in effect in state fiscal years 1998 and 1999.

TABLE 4. Consolidated and Related Allocations		
SFY 1999 Statewide Totals	**Consolidated Allocation Totals**	**Consolidated. & Related Separate Allocation Totals**
Total Allocations	$535,077,193	$636,338,821
Reconciled Allocations	$499,854,186	$595,910,017
Expenditures	$455,659,013	$473,580,383
Net Rollover	$14,359,193	$14,657,494
Mandated Share	($50,704,886)	($50,704,886)
Excess	**$80,529,266**	**$158,365,425**
Expenditures as % of Alloc. + Mand. Share	82.76%	73.24%
Excess as % of Alloc. + Mand. Share	14.63%	24.49%
Net Rollover as % of Alloc. + Mand. Share	2.61%	2.27%
	100.00%	100.00%

counties with the largest amount of Workforce Development/Public Assistance expenditures each have to gather activity data for 2,300 random moments per quarter. For each of the other 78 counties, 354 random moment observations per quarter must be collected. For the Social Services random moment study, the sample size varies according to the number of participating workers, and goes up to 2,400 observations per quarter.

State Fiscal 1999 County Spending Reports

Overview

At the time of this writing (April 2000), all but seven counties had completed the reconciliation process for funds spent in state fiscal year 1999.[5] As is seen in **Table 4**, reconciled reports capture $499.9 million of the $535.1 million, or 93.4 percent, of the consolidated allocations to the counties. Of the total of the $499.9 reconciled allocations, plus the corresponding $50.7 million county share, $455.7 million, or 82.8 percent, was expended. This left unspent $80.5 million of the consolidated allocations that have so far been reconciled. Out of the total allocation of $636.3 million in the combined consolidated and related separate allocations total, $595.9 million has been reconciled at the time of this writing. Of this $595.9 million, plus the county mandated share, $473.6 million, or 73.2 percent, was expended, leaving $158.4 million unspent. There was a positive net "rollover" of $14.7 million, which indicates that these funds were employed in areas outside the allocations that we are examining, or also went unspent.

Workforce Development /Public Assistance Group. As noted above, this group includes TANF, FSET, and State IM Control (administrative funds for the state share of the Medicaid and Food Stamp programs, and administrative funds for the state's Disability Assistance program). The TANF program has sub-programs that are reported separately but are part of the consolidated allocations. **Table 5**, on the following page, summarizes the allocations, expenditures, net rollovers, and mandated shares for the six items that form the TANF group.

There are a number of aspects of the data in **Table 5** that deserve a brief comment. We see for ceiling 1000—TANF regular—that only 61.3 percent of the allocation plus mandated share was expended. There was a positive net rollover of $63.1 million from this item, which indicates that the funds were charged against other items. These rollover funds were taken predominately from those allocated for administrative activities. This left unspent $40.6 million, or 15.2 percent, of total reconciled allocation in this item.

The reports for the TANF Transportation item show that only 52.1 percent of the allocations were expended. Twenty-five of the 81 reconciled counties had no expenditures.

[5] The ODHS Office of Fiscal Services reported that the work that remains to be done for the seven incomplete counties is with their random moment studies, rather than with the totals spent.

TABLE 5. TANF Group							
SFY 1999	**1000**	**1010**	**1011**	**1012**	**1016**	**1017**	
Statewide Totals	**TANF**	**TANF Transport.**	**Early Start/Leap**	**School Readiness**	**TANF Training**	**Special Project**	**Group Totals**
Total Allocations	$286,474,054	$4,976,091	$1,545,000	$2,003,148	$1,939,635	$18,641,307	$315,579,235
Reconciled Allocations	$238,150,610	$4,638,558	$1,545,000	$1,883,148	$1,804,622	$18,044,219	$266,066,157
Expenditures	$163,987,955	$2,415,267	$996,500	$646,661	$720,555	$9,489,126	$178,256,066
Net Rollover	$63,133,935	($192,075)	($40,538)	$143,784	($122,956)	($4,320,450)	$58,601,698
Mandated Share	($29,565,139)	$0	$0	$0	$0	$0	($29,565,139)
Ceiling Excess	**$40,593,857**	**$2,415,366**	**$589,038**	**$1,092,702**	**$1,207,022**	**$12,875,542**	**$58,773,530**
Expend. as % of Alloc. + Mand. Share	61.25%	52.07%	64.50%	34.34%	39.93%	52.59%	60.30%
Excess as % of Alloc. + Mand. Share	15.16%	52.07%	38.13%	58.03%	66.89%	71.36%	19.88%
Net Rollover as % of Alloc. + Mand. Share	23.58%	-4.14%	-2.62%	7.64%	-6.81%	-23.94%	19.82%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

The School Readiness program also shows a low level of expenditure of 33.3 percent. These funds are federal TANF dollars that are matched 4 to 1 with GRF dollars supplied by the Department of Education. These funds are intended to support 65 resource centers in 21 urban school districts. One of the fourteen counties receiving these funds has not yet reconciled its reports for fiscal 1999 with ODHS. Some county representatives report that expenditures for this item were frustrated by receiving the allocation late in fiscal year 1999, and also by having to develop and initiate contracts with the schools.

The reports also indicate that TANF Training—item 1016—had a low level of expenditure in fiscal year 1999. Some county representatives say that ODHS did not supply the staff training that was promised, or that the available training was not adequately tailored to their needs. Fifty-one of the eighty-one reconciled counties did not spend any of their funds that were available for staff training. Some counties supplied their own training and paid for it with other funds.

Twenty-five counties received funding for TANF special projects (item 1017), or were allowed to rollover funds from other programs to support special projects. The allocations for these projects were awarded competitively. Even including these rollover funds where there was no allocation, only about 52.6 percent of the total allocation was expended. In the section below on the outlook in fiscal year 2000, we will review how the special projects allocation has been transformed.

Taking the TANF group as a whole in fiscal year 1999, 60.3 percent of the available funding was expended, and 19.8 percent was “rolled over” to other areas, leaving 19.9 percent unexpended.

Table 6 reports fiscal year 1999 spending from two separate TANF-related allocations: the TANF Employment and Training (TANF

TABLE 6. TANF Related Separate Allocations		
SFY 1999	**1013**	**1550**
Statewide Totals	**TANF E&T**	**Early Start Expansion**
Total Allocations	$22,957,687	$22,911,300
Reconciled Allocations	$20,889,527	$21,442,900
Expenditures	$2,720,004	$3,689,006
Ceiling Excess	**$18,169,523**	**$17,753,894**
Expend. as % of Alloc.	13.02%	17.20%
Excess as % of Alloc.	86.98%	82.80%
	100.00%	100.00%

TABLE 7. Income Maintenance Control, Federal Medicaid & Food Stamps, FSET						
SFY 1999	**1015**	**1100**	**1185**	**3000**	**3010**	
Statewide Totals	**Fraud Campaign**	**Income Maint. Control**	**FSET**	**Federal Medicaid**	**Federal Food Stamps**	**Group Totals**
Total Allocations	$209,432	$93,805,569	$2,317,936	$32,340,225	$58,172,878	$186,846,040
Reconciled Allocations	$195,435	$67,219,508	$2,160,854	$30,558,606	$54,836,757	$154,971,160
Expenditures	$134,315	$93,610,862	$5,616,149	$40,286,695	$50,770,007	$190,418,028
Net Rollover	($10,180)	($12,746,047)	($3,669,173)	($10,425,709)	($4,686,281)	($31,537,390)
Mandated Share	$0	($21,139,747)	$0	$0	$0	($21,139,747)
Ceiling Excess	**$71,300**	**$7,494,440**	**$213,878**	**$697,620**	**$8,753,031**	**$17,230,270**
Expend. As % of Alloc. + Mand. Share	68.73%	105.94%	259.90%	131.83%	92.58%	108.12%
Excess as % of Alloc. + Mand. Share	36.48%	8.48%	9.90%	2.28%	15.96%	9.78%
Net Rollover as % of Alloc. + Mand. Share	-5.21%	-14.43%	-169.80%	-34.12%	-8.55%	-17.91%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

E&T) program, and the Early Start Expansion program. Both allocations are supported with TANF federal funds.

The TANF E&T program is a collaborative program between ODHS and the Bureau of Employment Services (OBES). ODHS has fiscal responsibility, and OBES has management responsibility. The program was established in the spring of 1998 when the executive withdrew its request for a Welfare-to-Work matching grant from the federal government. The executive cited "red-tape" problems with the Welfare-to-Work grant, as well as the existence in Ohio of a substantial reserve of federal TANF funds. The TANF E&T program is designed to substitute existing funding for the same purposes that would have been served by the Welfare to Work grant. The main goal of the program is to provide intensive services to welfare recipients who will have the most difficulty transitioning into employment. In order to receive TANF E&T funds each county commission, along with the local Private Industry Councils (PICs) that are to manage the provision of services, and the county department of human services, must develop an implementation plan. Of the eighty-one county reports that are complete for FY 1999, twelve received no TANF E&T allocation and had no expenditures. Twenty-three counties received an allocation but reported no expenditures. Six counties had no allocation but nevertheless had expenditures. The remaining forty counties had both an allocation and expenditures. By and large the most significant obstacle to TANF E&T expenditures in FY99 was that fact that the allocation was made available to counties after the start of the fiscal year. Agreements between the county commissions, county departments of human services, and PICs were also required. The program was slow in getting started. Because of the delay, some counties served this population by using the TANF regular funds, thus doing without the agreement process that is required for TANF E&T funds. Thirty-three counties operate a TANF E&T program that either pays all or part of the costs out of its TANF regular allocation (item 1000), rather than solely out of the TANF E&T allocation. The ODHS Office of Workforce Development reports that the situation has improved, with the rate of expenditure to this point of fiscal year 2000 at about 28 percent of the allocation.

Item 1550—The Early Start Expansion—is intended to serve the young children (ages 0-3) of Ohio Works First recipients with a comprehensive home visiting program. The program is jointly administered by ODHS and the Ohio Department of Health. The goals of the home visitation program are to ensure that these children have proper medical care, that other needed services are coordinated, and that the family environment is conducive to the growth and development of children. Of the $21.4 million reported as allocated in FY 1999 to the 81 counties with reconciled allocations, only $3.7 million, or 17.2 percent, was expended. County representatives report that the underspending in Early Start is due to the allocations being awarded half-way through the fiscal year. The process was also slowed by the fact that requests for proposals had to be put out to make arrangements for a provider or providers of these services.

Table 7, on the previous page, contains the administrative allocations for non-TANF Workforce Development and Public Assistance programs. Item 1015, Fraud Campaign, focuses on food stamp fraud prevention. Item 1100, Income Maintenance Control includes Food Stamp, Medicaid, and Disability Assistance administration. A mandated share of county funds is also included in Income Maintenance Control. The FSET allocation, item 1185, reimburses the county for costs associated with the assessment and assignment of persons receiving food stamps to an appropriate employment and training activity. And items 3000 and 3010 are the federal share of the administrative costs of Medicaid and Food Stamps.[6]

What is most noteworthy about the reports for this group is the fact the each of these items has a negative rollover, which indicates that a portion of the items expenditures have been charged against an item or items outside this particular group, but still within the whole consolidated group. As the totals column indicates, $31.5 million is charged against other items elsewhere within the consolidated group. This rollover from other items supplements the administrative funds in Income Maintenance Control, FSET, and Federal Medicaid. Despite these significant rollovers, the group as a whole ended the fiscal year with a remaining balance of $17.2 million that went unspent, indicating that more was rolled over than needed.

TABLE 8. Medicaid and FSET Related Separate Allocations

SFY 1999	1110	1190
Statewide Totals	**Medicaid Outreach**	**FSET Pass Thru**
Total Allocations	$18,707,895	$47,500
Reconciled Allocations	$17,721,049	$47,500
Expenditures	$7,663,702	$34,560
Ceiling Excess	**$10,057,347**	**$12,940**
Expend. as % of Alloc.	43.25%	72.76%
Excess as % of Alloc.	56.75%	27.24%
	100.00%	100.00%

Table 8 summarizes two related, but separate, allocations: Medicaid Outreach and FSET Pass Thru. The Medicaid Outreach allocation is either 90 percent or 75 percent federal funds with a corresponding local match, depending on the activity on which the funds are spent. Examples of outreach activities are: public service announcements, outstationing of eligibility workers, hiring new Medicaid eligibility workers, or identification of Ohio Works First recipients at-risk of losing or not getting Medicaid. Only 43.3 percent of the outreach funds were expended in SFY 1999. While this rate seems somewhat low, Ohio's record of expenditure in this area is better than the national average.

Only a small amount of FSET Pass Thru funds were received in Ohio. These funds,

[6] For some of those counties that had not yet signed a partnership agreement during state fiscal year 1999 artificial allocations were assigned for federal Medicaid and Food Stamps as an accounting device. To reach the group totals the actual expenditure was used in place of the artificial allocation.

which can be used for contracts and purchased services, require a 50 percent county match.

The ***Social Services Group*** includes allocations for Federal Social Services (under Title XX), State Social Services Operating, and State Adult Protective Services. While State Adult Protective Services are dedicated to services implied by the name, the other two items can support a broad range of services and activities. These include such things, for example, as: information and referral, residential treatment for children, day care, a variety of children services, counseling, day care for adults, home delivered meals, employment and training services, family planning services, transportation, independent living services, and more.

TABLE 9. Social Services Group

SFY 1999	1400	1425	1450	
Statewide Totals	**Fed. Social Services**	**Social Serv. Operating**	**Adult Prot. Services**	**Group Totals**
Total Allocations	$44,183,394	$11,792,753	$2,931,352	$58,907,499
Reconciled Allocations	$41,672,590	$11,106,689	$2,764,771	$55,544,050
Expenditures	$17,421,137	$33,446,165	$9,003,561	$59,870,863
Net Rollover	$21,265,805	($22,545,824)	($5,873,517)	($7,153,536)
Mandated Share	$0	$0	$0	
Ceiling Excess	**2,985,649**	**226,348**	**(365,272)**	**2,846,725**
Expend. as % of Alloc.	41.80%	301.14%	325.65%	107.79%
Excess as % of Alloc.	7.16%	2.04%	-13.21%	5.13%
Net Rollover as % of Allocation	51.03%	-203.17%	-212.44%	-12.88%
	100.00%	100.00%	100.00%	100%

TABLE 10. Child Care Group

SFY 1999	1615	1650	1675	
Statewide Totals	**County Child Care**	**Quality Child Care**	**Avail. Child Care**	**Group Totals**
Total Allocations	19,532,348	3,894,000	0	23,426,348
Reconciled Allocations	18,590,660	3,729,203	0	22,319,863
Expenditures	21,425,743	4,522,479	27,164	25,975,386
Net Rollover	(3,707,430)	(1,824,147)	0	(5,531,577)
Ceiling Excess	**872,347**	**1,019,272**	**(27,164)**	**1,864,454**
Expend. as % of Alloc.	115.25%	121.27%	-	116.4%
Excess as % of Alloc.	4.69%	27.33%	-	8.4%
Net Rollover as % of Alloc.	-19.94%	-48.92%	-	-24.8%
	100.00%	99.69%	-	100%

As we see in **Table 9**, one of the most significant aspects of the picture of spending in this group is the over spending of the allocation in the two state items (1425 and 1450) and the positive rollover in the federal item (1400). Items 1425 and 1450 are state funds that are used as matching funds for the federal social service, Title XX, grant. Items 1400 and 1425 have virtually identical allowable expenditures (item 1450 being dedicated to adult services). Counties generally regard items 1400 and 1425 to be one pot rather than two. The state funds are spent first and since the federal funds are matching they easily rollover to cover excess expenditures. As we see, however, the group as a whole produced a negative rollover of $7.2 million, which was rolled over to other items in the consolidated allocation.

Child Care Group. Allocations in this group reimburse counties for costs related to child care administration and direct delivery of services. The allocations consist of state and federal funds.

Table 10 indicates that there was $5.5 million in expenditures that were rolled over to other items in the consolidated allocation. Item 1675 —Availability Child Care— is no longer in existence, and the expenditures that exceeded the allocation were not reimbursed.

Refugee Resettlement Group. Allocations in this group contain both a federal and a state item. Item 1700—Refugee Social Services—is part of the consolidated allocation, and funded with federal funds from ALI 400-614, Foreign Refugees. Item 1710—Refugee State—is not part of the consolidated allocation and was funded from ALI 400-414, which was first created to provide state purchased food stamps to refugees who had lost eligibility due to welfare reform, and later modified to permit a broader range of services. Funding for item 1710 was not included in the operating budget for FY 2000—2001. The excess expenditures in item 1700 that we see in **Table 11** were picked up by ODHS from available funds.

TABLE 11. Refugee Resettlement Group		
SFY 1999	**1700**	**1710**
Statewide Totals	**Refugee SS**	**Refugee State**
Total Allocations	952,957	1,511,116
Reconciled Allocations	952,957	1,511,116
Expenditures	1,138,671	424,632
Net Rollover	0	0
Ceiling Excess	**(185,714)**	**1,086,484**
Expend. as % of Alloc.	119.49%	28.10%
Excess as % of Alloc.	-19.49%	71.90%
Net Rollover as % of Alloc.	0.00%	0.00%
	100.00%	100.00%

Performance Incentives

Performance allocations consist of federal TANF funds and federal Food Stamp funds. TANF performance allocations may only be used for TANF eligible services to TANF eligible participants. In the TANF area, there are at present five state performance incentives that are combined into the TANF incentive allocation. There are also two federal performance incentives from which counties can qualify to receive additional TANF funds. These following standards are employed to identify eligible counties :

TANF—State Incentives to Partnership Counties for:

- County reduction in caseload net assistance expenditures. This standard compares performance for the current quarter with the corresponding quarter of FFY 1995.
- County reduction in Administrative Costs. A year-over-year comparison of administrative costs in consolidated allocation.
- County exceeding the state all family participation rate. Utilizes the federal all family participation rate in effect on June 30^{th} of the SFY plus five percent.
- County exceeding the state two parent family participation rate. Utilizes the federal participation rate in effect on June 30^{th} of the SFY.

TANF—State Incentives to All Counties for:

- County reducing the TANF caseload out-of-wedlock birth rate. Compares county baseline SFY average out-of-wedlock birth rate with data for current year from Ohio Department of Health and from Medicaid data base. Applies to the top nine counties with the greatest improvement in reducing the average out-of-wedlock birth rate.

TANF—Federal Incentives to States:

- The federal high performance bonus rewards states for annual results in four categories: job placement, job success (measured by retention and earnings), biggest improvement in job placement, and biggest improvement in job success. $200 million is allocated among the four categories, with the top 10 states in each category receiving an amount proportionate to their percentage of the Temporary Assistance for Needy Families (TANF) block grant. The methodology used in Ohio to distribute these funds to the counties will be determined in the future. Ohio did not earn a bonus in the first round of awards that were announced in December 1999 and based on performance in federal fiscal year 1998.

- The federal bonus for decrease in illegitimacy will reward annually five states with the highest decline in the number of out-of-wedlock births for the two most recent federal fiscal years. The methodology used in Ohio to distribute these funds to the counties will be determined in the future. Ohio did not qualify to receive a bonus in the first round of awards announced in February 2000.

Federal Food Stamp Program Incentives:

Combined in the Top Element Error Review (TEER) incentive allocation are incentive dollars awarded for:

- County having a food stamp error rate below six percent. This standard utilizes data from county specific food stamp review results.
- County having a food stamp error rate below the national tolerance.

These incentive funds can be spent on activities that are related to the TANF or Food Stamp programs. For example, TEER incentive funds can be used to hire additional food stamp eligibility workers, to provide worker incentives, or for employee recognition. TANF incentive funds can be spent only on TANF eligible activities. In fiscal year 1999, about 54.9 percent of the TEER funds were expended.

As **Table 12** indicates, however, TANF Incentives went largely unspent in fiscal year 1999 with only about $810,000 (or 2.7 percent) out of $29.7 million being expended. Since these incentive funds can be carried over to later years, counties had little reason to expend these

TABLE 12. Incentive Allocations

SFY 1999	**1014**	**1196**
Statewide Totals	**TANF Incentive**	**TEER Incentives**
Total Allocations	$30,113,960	$4,908,020
Reconciled Allocations	$29,712,687	$4,570,702
Expenditures	$809,761	$2,507,909
Net Rollover	$298,301	$0
Ceiling Excess	**$28,604,625**	**$2,062,793**
Expend. as % of Alloc.	2.73%	54.87%
Excess as % of Alloc.	96.27%	45.13%
Net Rollover as % of Alloc.	1.00%	0.00%
	100.00%	100.00%

funds in a situation already characterized by underspending. As will be commented on in the next section, the situation on TANF incentives has changed in fiscal year 2000. Although outside of the consolidated allocation, the TANF Incentive fund did provide a small positive rollover that helped to cover overages in other TANF areas. A negative rollover from TANF Incentive is not allowed.

Changes for Fiscal Year 2000 and 2001

For FY 2000 the major change in allocations that has taken place in the allocations to counties that have been discussed in this paper is the replacement of TANF Special Projects with the TANF Prevention, Retention, and Contingency Development Reserve (PRC-DR). This reserve fund was the result of an appropriation and encumbrance of $584.4 million in TANF reserve federal funds. This appropriation was made to ALI 400-657, Special Activities/Self Sufficiency, in the Federal Special Revenue fund group in ODHS's budget.[7] The development of this fund reflects the fundamental shift that is taking place in the nature of welfare programming, shifting from the priority of

[7] For a more detailed discussion of this appropriation and encumbrance, see the disbursement section of LBO's publication, *Budget Footnotes*, vol. 23, no. 1 (November, 1999), pp. 15-16.

maintaining income to a priority of encouraging and supporting work. Initially, ODHS planned to make available $100 million of PRC-DR funds available in the second half of fiscal year 2000, and $200 million in fiscal year 2001. Because of slowness of getting proposals through the application and review process, much less than $100 million will be expended in PRC-DR allocations in fiscal year 2000. The PRC-DR funds are available to counties when they demonstrate that all current TANF resources have been obligated, including TANF incentives. A county may request a transfer of unspent PRC-DR funds from one state fiscal year to the next. Unused PRC-DR funds may be awarded to counties that have used all of their TANF allocations, TANF incentives, and their original PRC-DR allocation.

ODHS has also added an incentive to counties for counties to join the “Ohio Option,” which is one of the local area choices for organizing under the federal Workforce Investment Act. Eighty-two counties chose to join the Ohio Option. ODHS has committed to counties that join the Ohio Option a total of $41.9 million in both state fiscal year 2000 and state fiscal year 2001. Because of a slow start up at the county level, ODHS expects that only $9.4 million of the committed $41.9 million will actually be requested by counties during the current fiscal year, leaving the remaining $32.5 million that was committed for this state fiscal year to be disbursed during state fiscal year 2001, along with the $41.9 million already committed to this purpose in state fiscal year 2001.

Conclusion

Despite the obvious accounting complexities at the state level that are reported in this paper, consolidating allocations to county departments of human services makes it much easier to deliver services as needed. All of the accounting complexities come after the spending through reconciliation process that allocates costs to the various funding streams. Counties do have to perform the required random moment studies, but this is a tradeoff that all eighty-eight counties have chosen to accept. For both the state and the counties there are clear advantages to providing the local flexibility in delivering services that consolidated funding allows.

As we have seen from the spending patterns for SFY 1999, however, there are some areas of significant underspending. Overall spending in the consolidated allocations that were reconciled by the time of this writing fell $80.5 million short of what was allocated. The related separate allocations that were also discussed added another $77.9 million in unspent funds. The bulk ($58.8 million) of the underspending in the consolidated allocation was in the TANF group (see Table 5). The TANF group also contributed $58.6 million in net rollover funds that were used in other program areas. Taken together, the unspent and rolled-over TANF funds amounted to $117.4 million, or 44.1 percent of the total reconciled allocations for the group. Overspending was evident in the three other funding groups within the consolidated allocation (see Tables 7, 9, and 10).

As alluded to in the introduction, there are some indications that some of the unevenness evident in the pattern of county spending in SFY 1999 is beginning to even out. The question that naturally comes up in evaluating SFY 1999 county spending is: in areas that were underspent, were program participants being adequately served, or was there more money available than was needed? Because it requires an analysis of the program outcomes, this question cannot be answered here.

❑