Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE MAY, 2000

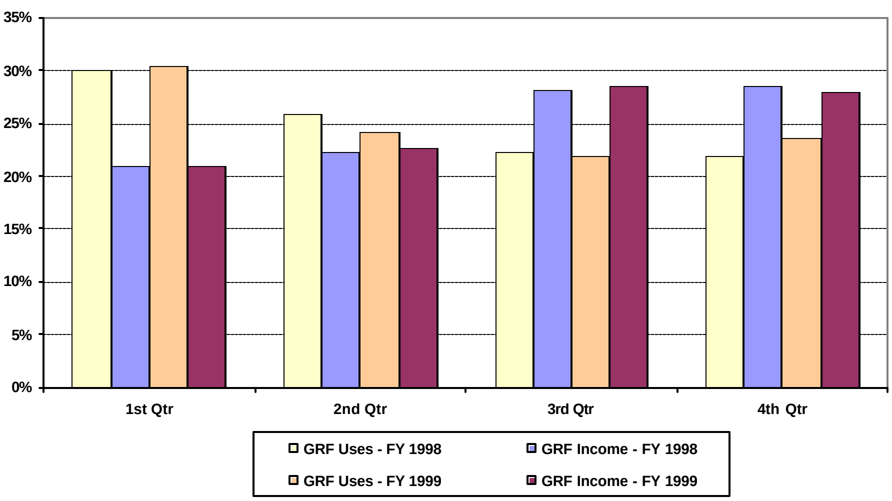
FISCAL OVERVIEW

— Doris Mahaffey

At the end of April the state was firmly in the black with an ending balance of $656.4 million and an unobligated balance of $234.4 million (see Table 1). This occurred in spite of the fact that revenues for the month were actually $103 million under estimate. Due to the timing of revenues and disbursements, the state generally receives a disproportionate share of its revenues in the last quarter of the year; while it disburses a disproportionate share in the first quarter of the year. Chart 1 shows the portion of total GRF income and expenditures received and disbursed by quarter for FY 1998 and 1999. For example, in FY 1998 just about 30 percent of the state's FY 1998 disbursements were made in the first quarter; while only 22 percent of its revenues were received in the first quarter. In the fourth quarter of FY 1998, however, the state received 29 percent of its income for that year and made only 22 percent of its total disbursements.

The revenue shortfall in April was due largely to shortfalls in the personal income tax ($100 million under estimate) and the corporate franchise tax ($48 million under); although the non-auto sales and use tax ($11.6 million under estimate) and the cigarette tax also added to the shortfall. Positive variances in the federal grants line ($24 million over estimate), the estate tax ($15.3 million over), the auto sales tax ($6.7 million over) and the other transfers in category ($8.7 million over) offset some of the shortfall. The $100 million shortfall in the

Chart 1 - Quarterly Revenues and Disbursements as Percent of Total FY 1998 and 1999



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 April	Fiscal Year 2000 to Date	Last Year	Difference
Beginning Cash Balance	$383.29	$1,512.53		
Revenue + Transfers	$1,803.78	$15,964.75		
Available Resources	$2,187.07	$17,477.28		
Disbursements + Transfers	$1,530.71	$16,820.91		
Ending Cash Balances	**$656.36**	**$656.36**	**$808.10**	**($63.98)**
Encumbrances and Accts. Payable		$421.94	$462.54	($40.60)
Unobligated Balance		**$234.43**	**$345.57**	**($111.14)**
BSF Balance		$953.30	$906.90	
Combined GRF and BSF Balance		**$1,187.73**	**$1,252.47**	**($64.74)**

April personal income tax receipts was an attention-getter; but that is about all. The shortfall was all in the annual returns component and was due to delays in processing annual returns. It was completely eliminated by the third week in May.

April's revenue shortfall reduced the year-to-date overage to $188.4 million – including transfers in and federal grants. The combined sales tax accounted for $155.3 million of the overage. The "other transfers in" category accounted for another $49.5 million. Much of the "variance" in the transfers-in category does not actually add to the year-end fund balance. Rather, it offsets a transfer out made earlier in the year. For example, the $8.7 million overage in the transfers-in category noted above was due to a temporary transfer of funds from Fund 5F6, Public Utility Fund, which supports the operations of the Public Utilities Commission. The Commission is funded largely by assessments against utilities and railroads. Each year's assessments are based on the Commission's appropriation for that fiscal year. Since the Commission does not receive the revenue until the second or third quarter of the fiscal year, it receives a temporary transfer of funds from the GRF. This is recorded as a transfer out on the disbursement side. Later, when the funds are returned to the GRF, this is recorded as a transfer in. Thus, the transfers do not affect the ending fund balance, but they do inflate the disbursement and revenue numbers. Other temporary transfers out and transfers in work in a similar fashion.

Major variances in the various spending categories basically cancelled each other out, so that as a whole, April disbursements were nearly on-target. Significant overages were posted in the Temporary Aid to Needy Families (TANF), Medicaid, primary and secondary education, and higher education categories. TANF, in particular, was over estimate by $44.8 million, which was enabled by an increase in March of appropriation authority in the TANF federal block grant line. Although year-to-date TANF disbursements remain $4 million under estimate, the program is likely to end the year substantially over-estimate due to this increase in appropriation authority. The $15 million overage in primary and secondary education was largely "catch-up" spending. Year-to-date spending in this category remains $111.6 million under estimate. However, the overages in Medicaid and higher education increase the size of existing year-to-date overages. Most notably, spending in the Medicaid line is $32 million over estimate.

Property tax relief posted the largest negative variance at $60 million under for the month – increasing its year-to-date variance to nearly $130 under estimate. For the most part, this variance is timing related and May disbursements have by now offset at least the April underage. Other underages were posted in the justice and corrections, other welfare, other human services, development and other government categories – for the most part adding to existing underages in these categories. ❑

TRACKING THE ECONOMY – APRIL 2000

— Allan Lundell

The economy continued to perform at a high level, but showed some signs of slowing. The growth in consumer spending slowed. Sales of both new and existing housing decreased. Construction spending fell for the first time in seven months. Although possibly slowing, the economy gives no indications of weakening.

Consumers

Income growth remained strong. Personal income grew by 0.7 percent in April. Wages and salaries increased by 0.9 percent, dividends by 0.4 percent, interest by 0.4 percent, and transfer payments by 0.3 percent. Disposable income grew by 0.7 percent. On a year-over-year basis, personal income is up by 6.5 percent. Wages and salaries are up by 7.2 percent, dividends by 6.7 percent, interest by 7.2 percent, and transfer payments by 4.2 percent. Disposable income is up 6.1 percent from April 1999.

Consumer spending grew by 0.4 percent in April, marking the second consecutive month of slower growth in consumer spending. Spending on durable goods decreased by 0.1 percent following a 1.3 percent decrease in March. Spending on non-durables grew by just 0.1 percent in April and spending on services grew by 0.6 percent. On a year-over-year basis, consumer spending is up by 8.2 percent. Spending on durable goods is up 9.6 percent, spending on non-durables goods is up 9.0 percent, and spending on services is up 7.6 percent.

Advanced estimates of retail sales decreased by 0.2 percent in April, but remain up 9.7 percent compared to April 1999. Sales of durable goods fell by 0.5 percent in April, but are still up 10.2 percent from a year ago. Sales of automotive dealers decreased by 0.7 percent in April, but are up 10.7 percent in a year-over-year comparison. Sales of non-durable goods grew by 0.1 percent in April and are up 9.4 percent from April 1999.

Consumer confidence remained high. The Conference Board's index of consumer confidence rose by 0.4 percent in April. The assessment of the current situation fell by 1.5 percent and the index of expectations rose by 2.7 percent. On a year-over-year basis, the index of consumer confidence is up 1.6 percent, the assessment of the current situation is up 2.5 percent, and the index of expectations is up 0.8 percent.

The housing market remained strong, but showed signs of slowing in April. Sales of existing homes were down 6.2 percent in April to a seasonally adjusted annualized rate (SAAR) of 4.88 million. New home sales fell by 5.8 percent to 909 thousand SAAR. In a year-over-year comparison of SAAR, sales of existing homes are down 6.9 percent and new home sales are down 4.5 percent. April housing starts were up 2.8 percent to 1.66 million SAAR. Housing starts are up 6.5 percent in a year-over-year comparison. Starts of single family housing increased 0.3 percent in April and are up 6.5 percent in a year-over-year comparison. Permits for single family housing fell by 6.3 percent in April and are down 4.4 percent in a year-over-year comparison.

Prices

The seasonally adjusted Consumer Price Index (CPI) was unchanged in April. The core CPI (excluding food and energy) increased by 0.2 percent. The energy index decreased by 1.9 percent (the first decrease since June 1999) and the index for food increased by 0.1 percent. On a year-over-year basis, the CPI is up 3.0 percent. The core CPI is up by 2.2 percent, the energy index by 15.0 percent, and the index for food by 2.0 percent.

The seasonally adjusted Producer Price Index (PPI) decreased by 0.3 percent in April. The core PPI increased by 0.1 percent, the index for intermediate goods decreased by 0.1 percent, and the crude goods index decreased by 2.5 percent. On a year-over-year basis, the PPI is up by 3.9 percent. The core PPI is up by 1.2 percent, the index for intermediate goods is up by 5.3 percent, and the crude goods index is up by 21.4 percent.

Production

Industrial production increased 0.9 percent in April. Manufacturing output increased 0.8 percent and the output of utilities increased by 2.8 percent. Industrial production in April 2000 was 6.1 percent higher than in April 1999. Capacity utilization for total industry rose 0.4 percent, to 82.1 percent.

Construction spending fell in April for the first time in seven months. Spending fell by 0.59 percent to $757.3 billion SAAR. Private construction spending decreased 0.58 percent to $583.8 billion SAAR and public construction spending decreased 0.63 percent to $173.4 billion SAAR. Construction spending is up 7.48 percent compared to April 1999. Private spending is up 6.56 percent and public spending is up 10.68 percent.

Employment

The national unemployment rate fell to 3.9 percent in April and Ohio's unemployment rate decreased to 3.8 percent. Compared to April 1999, Ohio's unemployment rate has fallen from 4.3 percent, the number employed has increased by 178,000 and the number unemployed has decreased by 21,000.

In Ohio, average hourly earnings for workers in manufacturing increased by 0.2 percent in April to $16.56. Average hourly earnings for workers in construction fell by 0.4 percent to $20.09. 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 1.9 percent for manufacturing, 6.1 percent for construction, and 4.3 percent for trade.

Average weekly earnings for workers in manufacturing rose 0.6 percent in April to $717.04. Average weekly earnings for workers in construction grew by 0.4 percent to $795.56 and average weekly earnings for workers in trade increased by 1.6 percent to $334.76. In a year-over-year comparison, average weekly earnings are up 2.1 percent for manufacturing, 8.0 percent for construction, and 4.3 percent for trade. ❑

Status of the General Revenue Fund

REVENUES

—Doris Mahaffey

April revenues were a startling $103 million under estimate. The personal income tax alone was $100 million under estimate. The corporate franchise tax was another $48 million under estimate. Even the non-auto sales and use tax contributed an $11.6 million shortfall. On the plus side, federal reimbursements came in $24.3 million over estimate. The estate tax and the auto sales tax posted overages of $15.3 million and $6.7 million, respectively. And other transfers in added $8.7 million in over-estimate revenues. (See Table 2 for a more detailed look at April revenues.)

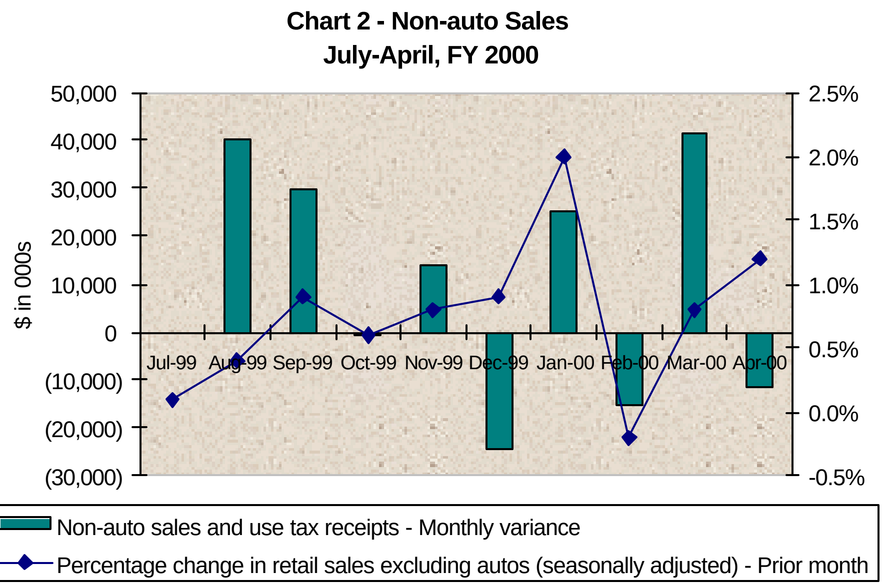
Personal Income Tax

The shortfall in personal income tax revenues is the most dramatic item appearing in Table 2. It was also short lived. The shortfall was entirely in the "annual returns" component. Withholding was $2.5 million over estimate; quarterly estimated payments were $30.7 million over estimate, and refunds were $31.8 million under estimate. Processing delays account for much of the $173.5 million underage in annual returns. The Tax Department was already three weeks behind in processing returns by the filing deadline (which was delayed by two days - from the 15th to the 17th). In addition, numerous religious holidays followed the filing deadline, which could have affected both delivery and processing of returns. Moreover, April had more than its full complement of weekends, accounting for fully one-third of the days of the month.

The first quarterly estimated payment for taxable year 2000 was due in April. That payment was $30.7 million – or 8.6 percent – over estimate for the month. This is quite impressive – particularly if these payments were also affected by processing delays. Capital gains from selling stocks during the first quarter of 2000 probably accounts for a significant part of the income for which these payments are made. Ironically, additional gains may have been realized this month as individuals sold stocks in order to pay their 1999 income tax. The stock market was particularly volatile around the 14th and the 17th of April. On Friday, April 14, in particular, the Dow lost over 600 points (down 5.6 percent) and the NASDAQ lost over 355 points (down 9.7 percent) "on heavy volume." Most stock analysts attributed the declines to concern about inflation and future rate hikes by the Fed. (The Labor Department had just issued the March CPI number: it was up 0.7 percent on top of a 0.5 percent rise in February.) And this was likely the chief reason for the activity. However, the need to get cash to pay federal and state income taxes could not have helped. Moreover, stocks appeared to recover on Monday, April 17th with the Dow closing up nearly 277 points (2.7 percent) and NASDAQ rising nearly 218 points (6.56 percent). And both indices generally continued to rise for the rest of the month.

Sales Tax

The sales and use tax took a breather in April – with the non-auto portion coming in at $11 million (or 2.9 percent) under estimate – down 0.9 percent from last month and down 2.1 percent from April 1999. It is not clear why these revenues were down. Non-auto sales and use tax receipts typically reflect the prior month's retail sales figures, and nationwide March retail sales were up 0.5 percent on a month over month basis. Excluding automobiles, sales were up 1.2 percent. (Chart 2 shows the relationship between the monthly non-auto sales tax revenue variances and the prior month's growth of non-auto retail sales.) According to the Federal Reserve's *Beige Book* for the Cleveland district (which includes all of Ohio and parts of Indiana and



Kentucky), district retailers reported "modest sales growth in March and April; although growth in April did not match the high first quarter growth rate." So, all in all, one would have expected the non-auto sales receipts to have at least reached the estimate for the month. One possible explanation for the shortfall is that the Treasurer's Office experienced processing delays similar to those that we have already speculated about above.

For the year-to-date, the non-auto sales and use tax is up over 6.6 percent from this time last year. It is almost $98 million over estimate and is likely to end the year between $140 and $150 million over estimate.

The auto component added $6 million to its overage in April bringing the year-to- date overage to over $57 million – 9.3 percent over the estimate. Total auto sales and use tax revenues are also up 9.7 percent from last year reflecting continued strength in the automotive market into April. However, the market is beginning to moderate from the record levels of February. Nationwide, sales in April were slightly stronger than in March - particularly, with regard to automobiles. Although some of the strongest selling vehicles in April were in the light truck category (including sports utility vehicles), light truck sales overall were down from March – perhaps the higher gas prices are starting to have an effect.

Corporate Franchise Tax

For the fourth month in a row corporate franchise tax receipts came in under estimate. April revenues were nearly $48 million below estimate.

The performance of the corporate franchise tax since January has been something of an enigma. The bulk of the revenues are received in three payments – due January 31, March 31, and May 31. So, by now, the first two payments are in and we are under by $101 million for the year. Revenues are down 13 percent from this time last year. A corporation's liabilities are calculated on both a net income and a net worth base with the corporation paying on the basis of whichever calculation yields the higher tax bill. However, the liability based on the net worth calculation was capped at $150,000 by H.B. 215 of the 122nd General Assembly, so since 1999, the net income basis has been the most important determinant. Essentially, a corporation's tax liability for tax year 2000 (also fiscal year 2000) depends on its net income for its fiscal year that included January 1, 1999. For a corporation that has a calendar year fiscal year (*i.e.*, most Ohio taxpayers), that means that its corporate franchise tax liability should be somewhat related to its profits for 1999. And corporate profits for 1999 were nothing to sneeze at: after tax profits were up 8.8 percent over 1998. Now, 1998 profits were not so good – generally due to the Asian crisis and the general malaise afflicting the rest of the world's economies.

So, what explains the apparent dismal performance of the corporate franchise tax this year? A spillover of net operating losses from 1998? That is a possibility. Due to the H.B. 215 changes to the corporate franchise tax, it is not possible for LBO to compare corporate franchise tax returns between 1998 and 1999 and gauge the performance of the tax in FY 1999. (Revenues for the corporate franchise tax for FY 1999 were only $28 million under estimate, which was not bad, considering the changes made to the tax.)

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

REVENUE SOURCE	Actual	Estimate*	Variance
TAX INCOME			
Auto Sales	$80,769	$74,100	$6,669
Non-Auto Sales & Use	$383,983	$395,600	($11,617)
Total Sales	$464,752	$469,700	($4,948)
Personal Income	$797,452	$897,237	($99,785)
Corporate Franchise	$81,121	$128,928	($47,807)
Public Utility	$501	$0	$501
Total Major Taxes	**$1,343,826**	**$1,495,865**	**($152,039)**
Foreign Insurance	$63	$0	$63
Domestic Insurance	$0	$0	$0
Business & Property	$107	$70	$37
Cigarette	$22,030	$23,180	($1,150)
Soft Drink	$0	$0	$0
Alcoholic Beverage	$4,668	$4,505	$163
Liquor Gallonage	$2,380	$2,240	$140
Estate	$51,032	$35,700	$15,332
Racing	$0	$0	$0
Total Other Taxes	$80,280	$65,695	$14,585
Total Taxes	**$1,424,106**	**$1,561,560**	**($137,454)**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	$4,158	$3,465	$693
Other Income	$8,554	$7,750	$804
Non-Tax Receipts	$12,713	$11,215	$1,498
TRANSFERS			
Liquor Transfers	$7,000	$7,000	$0
Budget Stabilization	$0	$0	$0
Other Transfers In	$8,667	$0	$8,667
Total Transfers In	$15,667	$7,000	$8,667
TOTAL INCOME less Federal Grants	**$1,452,485**	**$1,579,775**	**($127,290)**
Federal Grants	$351,295	$326,973	$24,322
TOTAL GRF INCOME	**$1,803,780**	**$1,906,748**	**($102,968)**

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

Detail may not add to total due to rounding.

Another explanation for the revenue shortfall focuses on the dynamic performance of the Ohio economy in the last few years – specifically, the large amount of investment in the state and the opportunity to receive a credit against the corporate franchise tax for many of these investments via the manufacturing investment credit. This tax credit was first enacted by S.B. 188 of the 121st General Assembly. It provided a 7.5 percent tax credit for investment in machinery and equipment over a certain base amount (a 13.5 percent credit for investment in distressed areas). According to the March 1999 *Tax Expenditure Report*, the Tax Department estimated that the credit would cost $36 million in FY 2000. However, more recent estimates by the department suggest that the cost is at least double the original estimate.

Year-to-date Revenue

The month's revenue shortfall took a bite out of the year-to-date revenue overage that had been accruing. However, tax revenues are still $128 million over estimate for the year and total revenues are $188 million over. (See Table 3 for

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

REVENUE SOURCE / *TAX INCOME*	Actual	Esti-	Variance	FY 1999	Percent Change
Auto Sales	$674,837	$617,495	$57,342	$614,953	9.74%
Non-Auto Sales & Use	$4,177,463	$4,079,4	$97,968	$3,917,971	6.62%
Total Sales	$4,852,300	$4,696,9	$155,310	$4,532,925	7.05%
Personal Income	$5,642,887	$5,600,9	$41,936	$5,265,390	7.17%
Corporate Franchise	$673,010	$773,964	($100,954)	$774,949	-13.15%
Public Utility	$425,747	$418,005	$7,742	$420,714	1.20%
Total Major Taxes	**$11,593,943**	**$11,489,**	**$104,033**	**$10,993,978**	**5.46%**
Foreign Insurance	$253,239	$255,629	($2,390)	$271,418	-6.70%
Domestic Insurance	$1,167	$59	$1,108	$8,810	-86.75%
Business & Property	$1,209	$783	$426	$263	360.43%
Cigarette	$224,809	$224,799	$10	$232,222	-3.19%
Soft Drink	$0	$0	$0	$0	—
Alcoholic Beverage	$44,910	$43,318	$1,592	$43,949	2.19%
Liquor Gallonage	$23,875	$23,402	$473	$23,093	3.39%
Estate	$131,707	$108,500	$23,207	$110,613	19.07%
Racing	$0	$0	$0	$0	—
Total Other Taxes	$680,917	$656,490	$24,427	$690,369	-1.37%
Total Taxes	**$12,274,860**	**$12,146,**	**$128,460**	**$11,684,347**	**5.05%**
NON-TAX INCOME					
Earnings on Investments	$80,397	$86,505	($6,108)	$108,801	-26.11%
Licenses and Fees	$32,001	$35,035	($3,034)	$32,911	-2.76%
Other Income	$90,754	$77,871	$12,883	$76,303	18.94%
Non-Tax Receipts	$203,151	$199,411	$3,740	$218,014	-6.82%
TRANSFERS					
Liquor Transfers	$78,000	$74,000	$4,000	$74,000	5.41%
Budget Stabilization	$0	$0	$0	$0	—
Other Transfers In	$311,939	$262,400	$49,539	$672,392	-53.61%
Total Transfers In	$389,939	$336,400	$53,539	$746,392	-47.76%
TOTAL INCOME less Federal Grants	**$12,867,950**	**$12,682,**	**$185,739**	**$12,648,753**	**1.73%**
Federal Grants	$3,096,801	$3,094,1	$2,658	$2,858,107	8.35%
TOTAL GRF INCOME	**$15,964,751**	**$15,776,**	**$188,397**	**$15,506,859**	**2.95%**

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

Detail may not add to total due to rounding.

details.) Much of the difference between tax revenues and total revenues is due to the temporary transfers in category, which, as noted in the Fiscal Overview, above, do not add to the fund balance. Furthermore, the April shortfall in personal income tax receipts is expected to be erased and then some, as returns continue to be processed in May, and that will add to the fund balance.

Overall, FY 2000 tax revenues exceed FY 1999 revenues by 5 percent. Total FY 2000 revenues exceed FY 1999 revenues by 2.95 percent. The large transfer in from the Income Tax Reduction Fund to the GRF in FY 1999 dampened the total revenue growth rate. Will there be as large a transfer in FY 2001? On the revenue side, the answer to that question hinges largely on the performance of the sales tax, the personal income tax, and the corporate franchise tax.

Specifically, how much over estimate will the personal income tax and the sales and use tax be? How much under estimate will the corporate franchise tax be? All the other revenue sources are expected to come in on target. Or, as in the case of the transfers in and the federal reimbursements categories, have offsetting effects on the disbursement side. ❑

DISBURSEMENTS

*— Jeffrey E. Golon with Steve Mansfield**

The state's pre-existing negative year-to-date disbursement variance crept a little higher in April and hit $405.6 million below estimate. This established a new high water for the FY 2000 year-to-date underage, with the previous peak having been reached just a month ago at $405.1 million. Clearly dominating the underage were timing-based delays in the planned distribution of property tax relief and educational subsidy funding to various local governmental units. Timing in fact played a major role in the state's total year-to-date disbursement picture as well, which should caution us all relative to estimating the size of the GRF's unobligated and unappropriated FY 2000 ending cash balance.

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 April'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 ten months (July 1999 through April 2000).

I. April

Excluding transfers, the state closed April with an almost imperceptible $468,000 underage, short of estimated monthly spending of $1.53 billion by a microscopic 0.03 percent. Contrary to the impression that barely visible disbursement variance may have created, there was actually quite a bit happening below the surface where underage and overage forces, both in excess of $90 million, had effectively battled to a virtual deadlock. The primary fuel for both of these opposing disbursement forces was timing, which meant that their effects on the state's cash balance was somewhat transitory. A more distant secondary factor that hit selective areas of the state budget involved unanticipated programmatic difficulties, which tend to have more long-term fiscal effects.

Our discussion of the principal departmental budgets and programs that battled for control of the April disbursement variance appears immediately below. The prevailing underage forces, arranged in order of the magnitude of their contribution, are discussed first, followed by comments on the notable monthly overages. The reader is directed as well to Table 4, which provides a more detailed picture of April's disbursement variances by program category.

Property Tax Relief. In April, the Property Tax Relief program hurled its second huge consecutive underage into the monthly spending mix with a negative disbursement variance of $59.7 million, short of the estimate by 44.6 percent. Just one month before, as the reader may recall, the program threw in a powerful March underage that totaled $55.3 million. As was the case last month, the April disbursement variance, though eye-opening, was no more than timing related 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.

An inspection of the disbursement variance revealed that the Department of Education, which was originally forecast to release $77.5 million of real property tax credits/exemptions funding back to school districts in April, distributed not quite one-half of that expected amount ($36.9 million). The Department of Taxation performed slightly closer to the forecasted monthly disbursement by pushing $37.3 million in real property tax credits/exemptions funding out the door to various counties, municipalities, townships, and other special taxing districts; the anticipated disbursement amount for the month

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

USE OF FUNDS			
PROGRAM	**Actual**	**Estimate***	**Variance**
Primary & Secondary Education (1)	$412,204	$397,193	$15,011
Higher Education	$239,282	$227,606	$11,676
Total Education	$651,486	$624,799	$26,687
Health Care/Medicaid	$443,423	$425,562	$17,861
Temporary Assistance to Needy Families (TANF)	$78,354	$33,530	$44,824
General/Disability Assistance	$5,117	$4,783	$334
Other Welfare (2)	$34,052	$45,142	($11,090)
Human Services (3)	$56,041	$58,712	($2,670)
Total Welfare & Human Services	$616,987	$567,729	$49,258
Justice & Corrections	$147,685	$160,290	($12,604)
Environment & Natural Resources	$7,554	$8,046	($492)
Transportation	$2,113	$1,716	$397
Development	$7,801	$12,125	($4,324)
Other Government (4)	$19,308	$21,526	($2,218)
Capital	$3,510	$1,000	$2,510
Total Government Operations	$187,971	$204,702	($16,731)
Property Tax Relief (5)	$74,264	$133,946	($59,682)
Debt Service	$0	$0	$0
Total Program Payments	**$1,530,709**	**$1,531,177**	**($468)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$0	$0	$0
Total Transfers Out	$0	$0	$0
TOTAL GRF USES	**$1,530,709**	**$1,531,177**	**($468)**

(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.

of April was $56.4 million. As noted in many prior issues of this publication, these large monthly disbursement variances in the department of Education and Taxation budgets were not unusual and generally self-correct within a month or two of their appearance.

Rehabilitation & Correction. For the fourth month in a row, spending on day-to-day prison operations was markedly lower than expected and helped produce an $11.5 million, or 9.1 percent, April underage in the Department of Rehabilitation and Correction's GRF budget. The source of the underspending in the department's daily prison operations, which totaled $8.5 million, appeared to be timing. The department also disbursed $2.8 million less in community-based correctional facilities (CBCFs) funding than was anticipated, and it also appeared to be a victim of no more than timing.

Human Services. Programmatic delays and timing factors coalesced in April to hold disbursements from the Department of Human Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF, and General/Disability Assistance — $11.1 million, or 24.6 percent, under the monthly estimate. Roughly one-half of the April underage was traceable to line item 400-416, Computer Projects, the result of stalled computer projects, in particular child welfare information and child support collections systems, and difficulties in filling vacant management information system staff positions. Other contributors to the monthly underage included a timing-based adjustment in non-TANF county administration ($3.2 million), a temporary delay in a scheduled April contract payment to the operator of the statewide food stamp electronic benefits transfer (EBT) system ($1.4 million), and a departmental decision not to launch a planned expansion of the Children's Health Insurance Program (CHIP) until FY 2001 ($1.0 million). The collective punch of these assorted monthly underages was in turn partially offset by a $2.1 million, timing-based overage in the department's child support enforcement program, reflecting an expected adjustment in administrative cost subsidy payments distributed to counties.

Development. Led by underspending in its Thomas Edison program, which distributes technology development subsidies that support the Department of Development posted a negative disbursement variance of $4.4 million for the month of April, short of the estimate by 41.0 percent. The Thomas Edison program accounted for roughly 70 percent ($3.0 million) of the departmental underage and reflected no more than an expected adjustment to the fact that a large chunk of its grant funding had been released in March, a month earlier than was originally forecasted. Other areas of the departmental budget that contributed smaller timing-based underages included economic development (urban/rural initiative grants and small business technical assistance) and community development (empowerment zones) activities.

Health. Timing factors constrained April spending in the Department of Health's family and community health services programs, which assures access and availability of community-based health care service, and produced a negative monthly disbursement variance of $4.2 million, under the estimate by 46.0 percent. Specifically, monthly spending was off-track for such activities as AIDS prevention and treatment, direct services to very young, high-risk children (through a program known as Ohio Early Start), and immunization vaccine purchases, temporary conditions that should rectify themselves in the next few months.

Mental Retardation. The Department of Mental Retardation & Developmental Disabilities posted April spending that was under the monthly estimate by $3.2 million, or 35.6 percent. Propelling that underage was line item 322-413, Residential & Support Services, indicating that a smaller amount of money than expected was paid to providers for servicing individuals with mental retardation or developmental disabilities. This disbursement variance was not in the least bit surprising, as line item 322-413 has consistently defied FY 2000 monthly estimates. It was also not in the least bit troublesome, as the line item's disbursement variance simply reflected the difficulty of predicting precisely how much time it will take the department to process and pay provider claims for services rendered.

Notable Overages. The departmental budgets and programs that produced monthly overages, arranged in order of the magnitude of their contribution, are commented on below.

TANF. April's disbursements in the Temporary Assistance to Needy Families (TANF) program were $44.8 million, or 133.7 percent, above the estimated monthly spending of $33.5 million. This large positive monthly disbursement variance itself masked a rather sizeable underage in line item 400-410, TANF State, of $17.5 million, or 52.2 percent less than was the estimate for April. Rather than tapping line item 400-410 to make cash assistance payments to

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)	$4,343,160	$4,454,773	($111,614)	$4,115,284	5.54%
Higher Education	$2,038,471	$2,024,658	$13,814	$1,919,397	6.20%
Total Education	$6,381,631	$6,479,431	($97,800)	$6,034,681	5.75%
Health Care/Medicaid	$4,569,323	$4,537,242	$32,081	$4,361,687	4.76%
Temporary Assistance to Needy Families (TANF)	$762,006	$765,989	($3,983)	$649,861	17.26%
General/Disability Assistance	$51,000	$48,590	$2,410	$48,495	5.17%
Other Welfare (2)	$403,621	$461,462	($57,841)	$352,020	14.66%
Human Services (3)	$957,059	$1,030,238	($73,179)	$925,063	3.46%
Total Welfare & Human Services	$6,743,009	$6,843,520	($100,512)	$6,337,125	6.40%
Justice & Corrections	$1,487,593	$1,534,467	($46,874)	$1,380,645	7.75%
Environment & Natural Resources	$118,312	$107,377	$10,935	$107,001	10.57%
Transportation	$31,675	$42,324	($10,649)	$30,026	5.49%
Development	$117,332	$120,850	($3,518)	$103,914	12.91%
Other Government (4)	$325,752	$364,032	($38,280)	$315,473	3.26%
Capital	$16,386	$11,419	$4,967	$2,585	533.88%
Total Government Operations	$2,097,050	$2,180,470	($83,420)	$1,939,644	8.12%
Property Tax Relief (5)	$653,410	$783,037	($129,627)	$727,174	-10.14%
Debt Service	$133,315	$127,527	$5,788	$124,511	7.07%
Total Program Payments	**$16,008,415**	**$16,413,985**	**($405,570)**	**$15,163,135**	**5.57%**
TRANSFERS		$1,531,226			
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	$1,140,411	-32.82%
Total Transfers Out	$812,499	$766,969	$45,530	$1,184,595	-31.41%
TOTAL GRF USES	**$16,820,914**	**$17,180,954**	**($360,040)**	**$16,347,730**	**2.89%**

(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.

recipients as scheduled, the Department of Human Services hit its non-GRF line item 400-658, Child Support Collections. At least in part, this departure from the April spending plan represented an adjustment to some unscheduled spending that took place in line item 400-410 last September.

Substantially outweighing the negative monthly disbursement variance in line item 400-410 was a very hefty April overage of $62.1 million in line item 400-411, TANF Federal Block Grant. Although a function of an adjustment to last September's disbursement variance as well, the monthly overage in line item 400-411 also included an unexpectedly large release of advance payments to counties under a system that allows counties to consolidate the administrative and contract service costs of various welfare and human services programs. This release was eased by an increased availability of funds due to a March Controlling Board increase of the appropriation authority of $161.8 million to ALI 400-411 TANF Federal Block Grant.

TANF's April overage had very little to do with any change in the caseload in Ohio's cash assistance program, known as Ohio Works First (OWF). Indeed, in April, OWF experienced a caseload decline of nearly 2,000 assistance groups, composed of almost 5,500 recipients. This caseload reduction produced a small decline in cash assistance payments from the previous month. Because the OWF caseload, however, has declined more slowly than expected, OWF cash assistance payments in April were still about $800,000 more than forecasted.

Also of note in TANF's April disbursements was the distribution of $30.0 million from federal line item 400-657, Special Activities/Self Sufficiency, to advance counties funding for incentive awards, childcare, and Prevention, Retention, and Contingency Development Reserve (PRCDR) programs. This represented the first, albeit relatively small, release from the $584.4 million in previously reserved TANF Federal Block Grant funds that were appropriated to line item 400-657 last September and the subject of a rather lengthy discussion in our November 1999 issue.

Medicaid. In April, the state's $5-plus billion Medicaid program registered a positive disbursement variance of $17.9 million, over the monthly estimate of $425.6 million by 4.2 percent. The April disbursement variance was primarily a function of overages in Medicaid's HMO ($30.3 million), All Other ($12.5 million), and Hospitals ($11.8 million) service categories mixed with a $13.1 million underage in its Prescription Drugs service category. April also marked the third consecutive month in which the Department of Human Services veered from its original disbursement plan relative to how HMO service category payments would be covered, leaving us, as in the past, with a more complicated story to unpack.

The most superficially startling aspect of Medicaid's April disbursement picture was the $30.3 million overage in the HMO service category when "no" activity was planned. What transpired here was that the Department of Hu-

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

	April '00				Year-to Date Spending			
Service Category	**Actual**	**Estimate**	**Variance**	**Percent Variance**	**Actual** thru' Apr.**	**Estimate** thru' Apr.**	**Variance**	**Percent Variance**
Nursing Homes	$193,346,181	$186,397,109	$6,949,072	3.7%	$1,753,464,395	$1,807,477,300	($54,012,905)	-3.0%
ICF/MR	$30,046,045	$30,059,711	($13,666)	0.0%	$293,469,288	$296,954,425	($3,485,137)	-1.2%
Hospitals	$105,505,155	$93,677,675	$11,827,480	12.6%	$1,047,143,665	$998,574,536	$48,569,129	4.9%
Inpatient Hospitals	$76,842,970	$72,322,986	$4,519,984	6.2%	$783,048,845	$769,004,848	$14,043,997	1.8%
Outpatient Hospitals	$28,662,185	$21,354,689	$7,307,496	34.2%	$264,094,821	$229,569,688	$34,525,133	15.0%
Physicians	$30,300,634	$24,904,474	$5,396,160	21.7%	$260,745,262	$245,085,748	$15,659,514	6.4%
Prescription Drugs	$30,184,148	$43,316,090	($13,131,942)	-30.3%	$523,300,320	$537,289,694	($13,989,374)	-2.6%
Payments	$69,401,966	$66,328,943	$3,073,023	4.6%	$685,742,961	$676,715,862	$9,027,099	1.3%
Rebates	$39,217,818	$23,012,853	$16,204,965	70.4%	$162,442,641	$139,426,168	$23,016,473	16.5%
HMO[2]	$30,318,596	$0	$30,318,596	na	$270,357,906	$182,348,676	$88,009,230	48.3%
Medicare Buy-In	$10,030,998	$11,144,207	($1,113,209)	-10.0%	$101,288,026	$109,222,612	($7,934,586)	-7.3%
All Other***	$48,539,231	$36,062,976	$12,476,255	34.6%	$424,176,843	$360,288,890	$63,887,953	17.7%
TOTAL[3]	$443,383,504	$425,562,242	$17,821,262	4.2%	$4,569,283,254	$4,537,241,881	$32,041,373	0.7%
CAS	$443,423,130		$17,860,888	4.2%	$4,569,322,879		$32,080,998	0.7%
Est. Federal Share	$258,642,446	$248,246,627	$10,395,819		$2,665,436,554	$2,646,745,604	$18,690,950	
Est. State Share	$184,741,058	$177,315,615	$7,425,443	4.2%	$1,903,846,700	$1,890,496,277	$13,350,423	0.7%

* This table only includes Medicaid spending through Human Services' 400-525. line item.

** Includes spending from prior year encumbrances in in the All Other category.

*** All Other, includes all other health services funded by 400-525.

2. HMO payment made in January is $29,184,196. No GRF funds were budgeted due to GRF offsets with IMD/DSH monies. Year-to-date HMO service payments = $299.5 million.

3. Please note that for FY 2000, including the month of April, details do not add to the total, since the IMD/DSH offset of $34,887,484.0 is applied to the bottom line & not HMO payments as planned.

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

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

Service Category	FY 2000[1] Yr.-to-Date as of Apr. '00	FY 1999[2] Yr.-to-Date as of Apr. '99	Variance	Percent Variance
Nursing Homes	$1,753,464,395	$1,653,883,872	$99,580,524	6.0%
ICF/MR	$293,469,288	$286,532,999	$6,936,288	2.4%
Hospitals	$1,047,143,665	$987,720,082	$59,423,583	6.0%
Inpatient Hospitals	$783,048,845	$752,258,109	$30,790,736	4.1%
Outpatient Hospitals	$264,094,821	$235,461,974	$28,632,847	12.2%
Physicians	$260,745,262	$239,186,246	$21,559,016	9.0%
Prescription Drugs	$523,300,320	$494,546,299	$28,754,021	5.8%
Payments	$685,742,961	$604,830,358	$80,912,604	13.4%
Rebates	$162,442,641	$110,284,059	$52,158,582	47.3%
HMO	$270,357,906	$268,793,304	$1,564,602	0.6%
Medicare Buy-In	$101,288,026	$112,308,378	($11,020,352)	-9.8%
All Other***	$424,176,843	$318,715,296	$105,461,547	33.1%
TOTAL	$4,569,283,254	$4,361,686,475	$207,596,779	4.8%
Est. Federal Share	$2,665,436,554	$2,548,315,323	$117,121,231	4.6%
Est. State Share	$1,903,846,700	$1,813,371,152	$90,475,547	5.0%

* 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.
3. $57.4 million in HMO payments were made from IMD/DSH funds in FY 1999 (in April & May) therefore, total program payments for HMO coverage of eligibles in FY 1999 = $356.94 million.

man Services had planned to use $33.3 million of its non-GRF Institutions for Mental Diseases/Disproportionate Share Hospital (IMD/DSH) funding to cover HMO service payments in April. The Department of Human Services, as it similarly did in February and March, opted instead to credit IMD/DSH funding against line item 400-525's total monthly spending, rather than specifically using IMD/DSH funds to cover HMO service category spending as expected (see footnote 3 in Table 6). The amount of IMD/DSH funding actually transferred to line item 400-525's bottom line in April was $34.9 million, $1.6 million above the estimate. Thus, the HMO overage in essence was largely an artifact of accounting.

An analysis of the overage in Medicaid's All Other service category continued to be problematic due to the absence of good solid data, an ongoing dilemma that makes a thorough and timely investigation virtually impossible. That said, April's All Other service category overage was at least partially attributable to hospital audit settlements. In the case of the Hospitals service category overage, some of the disbursement might have been partially influenced by reimbursement rate increases implemented in February.

The only service category really working against these overage forces was Prescription Drugs, with an underage of $13.1 million. This was primarily due to $16.2 million in unexpected drug rebates that hit the system in April. The monthly estimate assumed the state would gain $23.0 million in drug rebate revenue; the actual amount of April drug rebate revenue was a much stronger $39.2 million. Timing was at work here, thus leading us to anticipate a correction (lower than expected monthly drug rebate revenue) in the very near future.

In light of its recent string of double-digit monthly underages, the Nursing Homes service category's April disbursement performance deserves at least a mention. The service category posted an unexpected $6.9 million monthly overage. It was doubtful this result meant that the decline in nursing home bed utilization had reversed itself and more likely reflected a one-time spending adjustment.

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

Education. The Department of Education's April disbursements landed over the monthly estimate by $16.0 million, or 4.2 percent. Driving the overage were subsidy distributions tied to the Head Start program and summer intervention services, which ran past their April estimates by $22.3 million and $13.9 million, respectively. Partially offsetting that combined overage of $36.2 million were subsidy and contractual payment underages related to base cost funding ($6.2 million), student proficiency ($2.7 million), the education management information system ($2.6 million), and vocational education enhancements ($2.4 million). Timing was the key factor in these April disbursement variances.

Regents. With an unexpectedly large load of student financial aid funding in the form of Ohio Instructional Grants (OIGs) being distributed in April, rather than in May as originally forecasted, the Board of Regents produced a positive monthly disbursement variance of $11.7 million, over the estimate by 5.1 percent. The force behind the OIG overage, which totaled $10.1 million, was no more than timing. Other parts of the Regents' student financial aid system where expected distributions were noticeably affected by timing in April included Part-Time Student Instructional Grants ($1.5 million over), National Guard Tuition Grants ($900,000 over), and Ohio Student Choice Grants ($1.5 million under).

Mental Health. For April, the Department of Mental Health posted a positive disbursement variance of $6.4 million, exceeding the monthly estimate by 23.5 percent. Virtually all of the monthly overage was traceable to two of the department's three largest GRF subsidy line items (334-408, Community & Hospital Mental Health Services and 335-502, Community Mental Health Programs), both of which essentially provide subsidy payments to county mental health boards. April disbursements posted for these two line items exceeded their monthly estimates by $10.4 million and $1.9 million, respectively. These monthly overages were no more than expected corrections to prior monthly underages.

Partially offsetting these twin overages was an unexpected $5.8 million April underage emanating from the third of the department's three largest GRF subsidy line items: 335-508, Services for Severely Mentally Disabled. Apparently, some of the line item's FY 2000 funding set aside for the development of new children's services and prevention programs (mental health services to juvenile offenders, early childhood programs, and local partnerships targeting students with disciplinary challenges) was not released in April as expected.

II. Year-to-Date

Excluding transfers, the state was in possession of a $405.6 million negative year-to-date disbursement variance, under estimated spending of $16.41 billion by 2.5 percent. This meant that the state's cumulative FY 2000 underage, which peaked at $405.1 million just last month, continued to grow, but by a very small amount. Roughly 60 percent of that year-to-date underage was attributable to two areas of state spending: 1) the Property Tax Relief program ($129.6 million); and 2) the Department of Education ($102.5 million). The principal force at work was timing, which had hampered the anticipated distribution of tax relief compensation payments to various local governments and certain educational subsidies 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 discussion of the 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.

Property Tax Relief. Year-to-date, the Property Tax Relief program posted a monster

$129.6 million underage, shy of the estimate by 16.6 percent. Almost 90 percent of the underage was a function of $115 million in timing-based underages registered in just the last two months. In terms of the type of property tax relief distributed, the year-to-date underage was composed of $124.3 million in real property tax credits/exemptions funding and $5.3 million in tangible tax credits/exemptions funding. Although virtually all of the underage will evaporate in the next few months, 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.

Education. Year-to-date, the Department of Education posted a negative disbursement variance of $102.5 million, short of the estimate by 2.4 percent. The two primary elements in the negative year-to-date disbursement variance were line items 200-520, Disadvantaged Pupil Impact Aid/DPIA ($28.7 million) and 200-502, Pupil Transportation ($17.7 million). Additional, but considerably smaller, contributors to the department's year-to-date underspending included, in order of magnitude, desegregation costs ($9.6 million), special education enhancements ($7.4 million), teacher incentives ($5.0 million), education management information system ($3.9 million), technical systems development ($3.5 million), and charge-off supplement ($3.5 million). While the bulk of these disbursement variances were timing-based delays in expected subsidy distributions, at least three of these areas (DPIA, special education enhancements, and charge-off supplement) contained GRF appropriations that exceeded the amount of funding that would be needed in FY 2000. Most noticeable within this group of three was the $390.7 million DPIA program that would not tap around $18.0 million of its funding allocated for all-day, everyday kindergarten because the actual number of school districts and students participating in the program has been lower than what was projected.

Also buried within the Department of Education's FY 2000 spending picture was slightly in excess of $143.0 million in prior years' funding that had been encumbered for disbursement at some future point in time, at least one-half of which was tied to "school foundation basic aid" (now known as "base cost funding"). Year-to-date, the department has disbursed close to $93.0 million of that prior year's funding and another $34.0 million was still encumbered. The encumbrances covering the remainder — $16.7 million — had been cancelled, effectively returning the funds to the state treasury.

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 $57.8 million (or 12.5 percent) below the estimate. Almost 60 percent of that underage ($33.2 million) was fueled essentially by delays in computer projects, most notably last fall's decision to cancel a planned contract for the building of the Statewide Automated Child Welfare Information System (SACWIS). A very distant second element in the underage was the department's adoption services program (line item 400-528), which had disbursed $7.1 million less than originally forecasted. The source of that disbursement variance appeared to be 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 contributed considerably smaller pieces to the year-to-date underage included, in order of magnitude: electronic benefits transfer ($5.2 million), child and family services ($3.1 million), children's health insurance ($3.0 million), personal services ($2.1 million), state refugee services ($1.8 million), child support administration ($1.7 million), burial claims ($1.7 million), child protective services ($1.5 million), and adult protective services ($1.2 million). The largest factor in this collection of underages was the timing of various county subsidy payments, with more limited effects coming from a lower than anticipated food stamp caseload, a delayed children's health insurance expansion, a higher than expected number of vacant staff positions, and the cancellation of some FY 1999 encumbrances.

Slightly counteracting the collective impact of these underages was: 1) a $2.5 million overage in maintenance spending, due to higher than anticipated payments to the Auditor of State for child welfare program audits; and 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.

Rehabilitation & Correction. The year-to-date story for the Department of Rehabilitation and Correction was essentially unchanged from our March disbursement report, as underspending on day-to-day prison operations continued to dominate the picture. Year-to-date, the department's disbursements were under the estimate by $41.6 million, or 3.7 percent. Almost 90 percent of the underage ($37.1 million) was traceable to a lower than expected amount of spending on daily prison operations, a fact which, lacking any evidence to the contrary, we continued to assume was timing-related. Also in the disbursement mix, but very distant contributors to the underage, was lower than expected spending on community-based correctional facilities ($3.4 million) and lease rental payments ($1.7 million). Timing slowed the former, while smaller than anticipated debt financing needs favorably constrained the latter.

Mental Health. The Department of Mental Health's negative year-to-date disbursement variance peaked at $54.1 million in January, under the estimate by 14.9 percent. Since that time, the department has posted three straight monthly underages in excess of $6.0 million, and, by the close of April, had driven that negative year-to-date disbursement variance down to $34.5 million, off the estimate by 7.7 percent. At this point, the three essential elements in the negative year-to-date disbursement, unchanged from our prior disbursement reports, were, in order of magnitude: 1) line item 334-408, Community & Hospital Mental Health Services ($19.3 million); 2) line item 335-508, Services for Severely Mentally Disabled ($6.6 million); and 3) line item 335-502, Community Mental Health Programs ($5.8 million). These underages developed as a result of timing-based delays in the release of subsidy funding to county boards that should self-correct in the remaining two months of the fiscal year, although it should be noted that the department expects to encumber between $6 million and $7 million of this underspent subsidy funding for distribution to county boards in July or August.

Administrative Services. Year-to-date, the Department of Administrative Services was holding a $22.0 million negative disbursement variance, short of the estimate by 14.8 percent. (The bulk of the underage developed in the first half of FY 2000 and has largely resisted erosion.) Relative to our prior FY 2000 spending reports, the story behind the department's year-to-date disbursement stayed the same, as two components of the department's budget accounted for close to 90 percent of the underage: state support services ($11.4 million) and computer services ($8.1 million).

The state support services underage was composed almost entirely of line items that pay the rent and operating costs of state agencies that occupy space in various state office buildings, with the rent payments going to the Ohio Building Authority to retire the special obligation bonds it issues to finance the capital costs of certain state facilities. The primary factors in the underage were 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 computer services underage included a half-dozen line items, most notably, in order of magnitude: 1) 100-417, Multi-Agency Radio Communication System (MARCS); 2) 100-416, Strategic Technology Development Programs; 3) 100-419, State of Ohio Synchronous Optical Network/Ohio SONET; and 4) 100-430, Year 2000 Assistance (Y2K). In terms of their contribution to the total computer services underage ($8.1 million), the key reasons, arrayed in order of importance, were programmatic snags, timing, and cancelled FY 1999 encumbrances.

Mental Retardation. At April's end, the Department of Mental Retardation & Developmental Disabilities was holding a $19.4 million negative year-to-date disbursement variance, short of the estimate by 6.2 percent. At the root of the underage was line item 322-413, Residential and Support Services, which has dominated the department's disbursement story since January and carries funding to pay for services delivered to individuals with mental retardation or developmental disabilities. The line item's underspending appeared to be related to the difficulty of precisely predicting how long it will take the department to review and settle service provider payment requests, a process that in some instances can take up to three years. The remainder of the department's year-to-date underage was traceable to $1.1 million in unspent prior year funding related to the Sermak legal matter, a class action lawsuit involving the appropriateness of placing certain individuals in nursing facilities. The settlement of this legal matter has taken longer than expected.

Health. Roughly three-quarters of the Department of Health's negative year-to-date disbursement variance of $12.9 million, or 16.7 percent, was attributable to underspending that emanated from its family and community health services programs, the most notable element of which was the Medically Handicapped Children program. Relative to the year-to-date estimate, this program, which pays the costs of paying for services provided to certain children with medical handicaps, had disbursed $4.0 million less than was forecast. Recent legislative deliberations centering around various modifications and corrections to the current biennial operating budget suggested that the source of this underspending was because the program's caseload was lower than anticipated, perhaps due to the fact that some medically handicapped children were tapping into other programs for which they were also eligible. The remainder of the underspending in the department's family and community health services programs — around $5.4 million — was driven by timing factors that slowed various grant distributions and vaccine and drug purchases.

In addition, it appeared that vacant staff positions in the department's quality assurance, disease prevention, and health care policy programs may have contributed as much as $2.0 million to the year-to-date underage.

Transportation. Underspending in its public transportation program, which directs capital and operating assistance funding to local transit systems, was at the forefront of the $10.6 million negative year-to-date disbursement variance posted by the Department of Transportation at the end of April. Year-to-date, the department was expected to have disbursed $42.3 million, while actual year-to-date disbursements were less than that amount by 25.2 percent. The disbursement variance largely reflected how timing affects when local transit systems will draw on state financial assistance, thus leading one to believe that most of this unspent GRF funding will eventually be disbursed sometime after FY 2000 ends.

Auditor. As a result of posting underages in every month except November, the Auditor of State has built a negative year-to-date disbursement variance of $6.8 million, short of the estimate by 18.4 percent. Two forces seemed to be at the forefront of this development: 1) lower than expected payroll costs, as a result of a decision to leave some budgeted staff positions unfilled; and 2) slower than anticipated spending on information technology improvements. All indications were that the bulk of this unspent funding would eventually be disbursed, if not in FY 2000, then in FY 2001, on computer-related purchases.

SchoolNet. Sluggish subsidy spending and vacant staff positions had combined by April's end to hold the Ohio SchoolNet Commission's disbursements $5.2 million, or 21.8 percent, below the year-to-date estimate. This underage was primarily tied to the distribution of $3.7 million in educational technology and professional development subsidy funding, the timing of which was simply off, attributable in some sense to the commission's decision earlier in the fiscal year to hold up the awarding of grants until its management skills had been enhanced. That subsidy funding was expected to be released in the next couple of months, with a large chunk of it headed out in support of summer training programs for teachers. The commission — charged with administering many of the state's educational technology programs that assist school districts — was also carrying a $1.5 million underage in its operating expenses line item, traceable to difficulties in finding and then hiring qualified individuals to fill around 20 new staff positions.

Library Board. Largely due to a delay in its planned relocation from the Ohio Department's Building, the State Library Board — an information and research services arm of state government — was carrying a $4.3 million, or 24.1 percent, year-to-date underage at the close of April. The effect of this delay on the board's disbursements was most evident in its equipment and maintenance spending, which was under the year-to-date estimate by $2.5 million. As previously reported, other factors contributing to the underage included, in order of magnitude: 1) an unanticipated decline in office space rental payments; 2) savings in the Ohio Public Library Information Network (OPLIN) budget generated using the federal government's E-Rate discount program for technology purchases; 3) 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.

Development. Timing was largely at the root of the Department of Development's year-to-date disbursement variance, which, at the close of April, stood at $4.2 million, or 4.1 percent, under the estimate. The lead elements in the underage included empowerment zone match funds ($1.8 million), business development grants ($1.2 million), Project 100 bridge improvements ($1.0 million), with smaller contributions chipped in from the defense conversion assistance, Thomas Edison, and Appalachian development programs. The size of the department's underage was reduced somewhat by a $1.0 million overage in a piece of the department's economic development program — urban and rural initiatives — that had disbursed a portion of $8.3 million in grant funding that was originally assumed would be encumbered for disbursement sometime in the next fiscal year.

TANF. At the end of April, Temporary Assistance to Needy Families (TANF) program spending stood at a mere $4.0 million, or 0.5 percent, below the year-to-date estimate of $766.0 million. TANF's negative year-to-date disbursement variance peaked in February when it reached $57.3 million — all of it attributable to unspent federal block grant funding appropriated to line item 400-411, TANF Federal Block Grant. In the last two months, however, spending of this federal block grant funding has been working its way back toward the estimate. As a result, with just two months remaining in FY 2000, TANF federal fund disbursements were now $22.9 million below the year-to-date estimate of $417.2 million (the original appropriation for the full fiscal year). A noticeable twist to the line item's disbursement picture occurred in March when the state's Controlling Board approved a $161.8 million increase to its FY 2000 appropriation authority, bumping it up to $574.0 million. With the increased FY 2000 appropriation taken into account, TANF federal funds stood at approximately 70 percent disbursed, while virtually all state GRF dollars (line items 400-410 and 400-413) had been disbursed for the fiscal year.

Youth Services. As a result of underspending in its RECLAIM Ohio program, which provides subsidies to counties enabling them to sanction and treat juvenile offenders locally and funds state institutional operations, the Department of Youth Services was holding a $3.9 million, or 2.0 percent, negative year-to-date disbursement variance at the close of April. It appeared that, relative to the original disbursement estimates, the activation and opening of the Marion Juvenile Correctional Center, a new maximum security facility that will house up to 350 youth, had moved slower than anticipated, and the department's average daily institutional population was not as high as expected. The combination of these two factors in turn had constrained the department's institutional spending, thus producing an underage in the RECLAIM Ohio program.

Selective Overages. There were a handful of notable overages totaling $67.3 million in the state's year-to-date disbursement picture, all of which are discussed, in order of magnitude, below.

Medicaid/Health Care. With only two months left in FY 2000, the state's Medicaid program had run past its year-to-date estimated spending of $4.54 billion by $32.1 million, or 0.7 percent, a rather alarming state of affairs given the program's recent history of producing healthy year-end underages that strengthen the state's cash balance. The key overage elements in the year-to-date disbursement variance included the HMO ($88.0 million), All Other ($63.9 million), and Hospitals ($48.6 million) service categories.

The HMO overage was principally a result of February, March, and April 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. The All Other overage, however, remained an enigma, as the ongoing absence of good data continued to make any reasonable analysis very problematic. The forces potentially at work in building the Hospitals overage were more readily discernible, though difficult to disentangle, and included: 1) reimbursement rate increases implemented in February; 2) one-time payments related to the effective date of the reimbursement rate increases; and 3) a timing gap between the rendering and payment of services.

As mentioned in our previous issue, there were 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 $104.6 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, March, and April. Second, the Nursing Homes service category was running a $54.0 million underage, most likely rooted in declining bed utilization.

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.

Regents. The Board of Regents' year-to-date disbursements registered at $13.9 million, or 0.7 percent, over the estimated spending of $2.02 billion. The positive year-to-date disbursement variance was principally traceable to $20.2 million worth of overages emanating from two line items. In the lead was line item 235-590, 12th Grade Proficiency Stipend, which was created after the start of the fiscal year pursuant to budgetary language that required the transfer of $17.5

million in appropriation authority from the Department of Education in order to fund a financial aid program under which certain students would be eligible for a $500 scholarship. Since that student scholarship appropriation did not actually reside in the board's GRF budget at the outset of FY 2000, it was deliberately excluded from the original disbursement estimates, which guaranteed that the line item could produce nothing but overages. As a result, the line item was carrying a year-to-date overage of $11.5 million.

The second most significant element in the year-to-date disbursement picture was line item 235-415, Jobs Challenge, which had disbursed its entire FY 2000 appropriation of $8.7 million during the months of November and December. The line item's original disbursement plan called for its entire appropriation to be distributed in June 2000, the last month of the fiscal year. This estimate was incorrect; the result was a year-to-date overage of $8.7 million. The Regents' intention all along was to distribute this Jobs Challenge funding, which assists state-assisted two-year college campuses in the provision of non-credit job-related training, as soon as possible. All of this funding was disbursed to the Lorain Community College, which was designated as its fiscal agent for FY 2000 and charged with actually distributing this funding to eligible campuses.

The effect of these year-to-date overages was partially negated by the disbursement activity in a handful of the Regents' other line items, most notably: 1) 235-599, National Guard Tuition Grant Program, with a $3.5 million underage attributable to a lower than expected number of grant recipients and the length of time it takes to process funding applications; 2) line item 235-404, College Readiness Initiatives, with a $1.4 million underage caused by the Regents' decision to slow disbursements while remediation programming was being strengthened; and 3) line item 235-503, Ohio Instructional Grants, with a $1.1 million underage produced by the cancellation of encumbered FY 1999 funding.

Natural Resources. At April's end, the twin sources of the Department of Natural Resources' positive year-to-date disbursement variance, which stood at $8.1 million, or 9.3 percent, were unchanged from our report just one month: 1) operating expenses of the Division of Parks and Recreation ($6.0 million); and 2) subsidy funding for county soil and water conservation districts ($3.7 million). The former was due to an error in estimating when central support charges would be billed, while the latter resulted from $4.0 million in funding for local flood mitigation projects that was transferred from the Controlling Board's Disaster Services Fund and not built into the original FY 2000 disbursement estimates.

Also of note in the department's April disbursements was the distribution of $1.8 million in funding to county soil and water conservation districts in connection with the state-federal partnership known as the Conservation Reserve Enhancement Program (CREP). The release of this CREP funding, targeted at water quality, soil erosion, and wildlife habitat issues related to agricultural use, had been delayed pending the resolution of programmatic details with the U.S. Department of Agriculture.

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 April with a $5.8 million year-to-date overage, 4.5 percent past the estimate. The disbursement variance appeared to be timing-related, simply signaling that the Commissioners of the Sinking Fund and the Treasurer of State would carry forward smaller amounts (encumber) of their FY 2000 debt service funding than was originally assumed for possible use sometime into FY 2001.

Capital. Due to unanticipated spending by the Department of Administrative Services, the Capital program category of the state's GRF budget had built a $5.0 million year-to-date overage by April's end, past the estimate by 43.5 percent. Essentially, a chunk of capital funding earmarked for various rural and urban community assistance projects was released earlier than expected by the state's Controlling Board; the original forecast assumed these capital earmarks would not be distributed until FY 2001.

GA/DA. After eight consecutive monthly overages, the state's General Assistance/Disability Assistance program component was carrying a $2.4 million positive year-to-date disbursement variance, over the estimate by 5.0 percent. The driving force in the disbursement variance was the Department of Human Services' $58-plus million Disability Assistance (DA) program, which totally dominates the program component and 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. Over the course of FY 2000, while the DA program's medical assistance caseload has more or less behaved as expected, the cash assistance caseload has increased to the point where it was above the estimate by about 1,000 recipients. This state of affairs meant that the DA program was sure to prematurely exhaust its FY 2000 appropriation. With no sudden decline in the cash assistance caseload on the immediate horizon, $2.1 million in supplemental GRF funding was added to the DA program via Am. Sub. H.B. 640, the recently passed capital appropriations and budget modifications legislation. Despite that appropriation increase, it appeared that the DA program might still be facing a FY 2000 funding shortfall of somewhere between $1 million and $2 million.

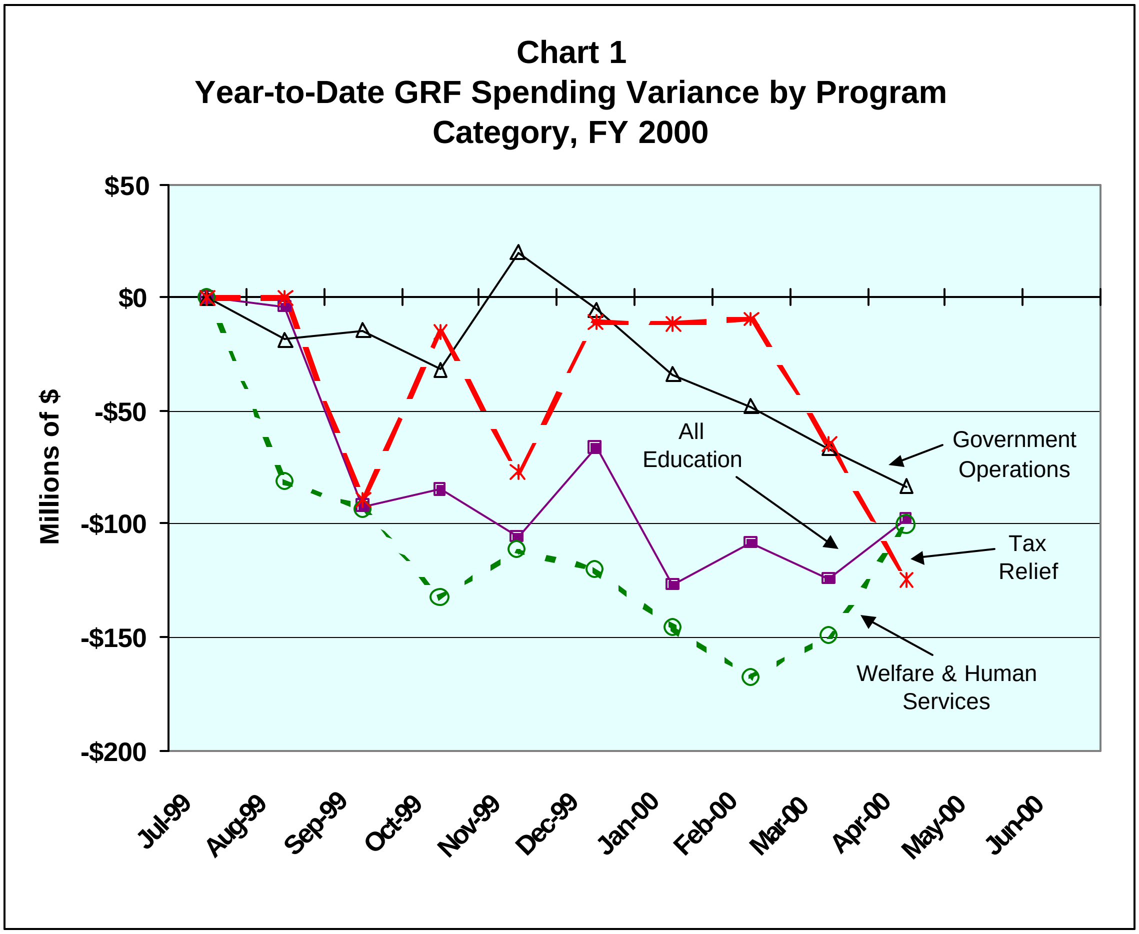
III. Program Category Variances

In Chart 1, we've visually mapped from July through April the trajectory of the year-to-date variances of the state's four major GRF program categories. This is intended to help us see how the state ended up holding a year-to-date underage of $405.6 million by the close of April. In the narrative below, we've tried to distill the essence of the ten-month disbursement patterns exhibited by the four key program categories.

Property Tax Relief (-$129.6 million). In the last two months, the Property Tax Relief program underspent by a total of $115.0 million and stood as the largest single contributor to the state's $400-plus million negative year-to-date disbursement variance, having eclipsed the previously dominant Department of Education. Timing, which has produced wild swings over and under the estimate throughout the fiscal year, was at work once again, with self-correcting adjustments only a month or two away.

Welfare/Human Services (-$100.5 million). In April, the Welfare & Human Services program category posted only its third monthly overage of the fiscal year. April's $49.3 million overage was achieved with a very large helping of Temporary Assistance to Needy Families (TANF) program spending that exceeded the estimate (by $44.8 million) that was topped off with what now seems to be pretty regular monthly overages from the Medicaid program ($17.9 million). As a result of the April overage, the program category was no longer the largest contributor to the year-to-date underage, having been replaced in that role by the Property Tax Relief program. In fact, the $160-plus million increase in the TANF program's FY 2000 appropriation granted by the state's Controlling Board, combined with the Medicaid program's unexpected overages, hinted that more monthly overspending was lying in the very near future for the Welfare & Human Services program category.

Education (-$97.8 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 April, the department and the Board of Regents combined to produce an overage totaling $27.7 million, thus driving the year-to-date negative disbursement variance back under $100 million.



Government Operations (-$83.4 million). For the first six months of the fiscal year, disbursements in the Government Operations program category featured timing-based adjustments, with around a half-dozen or so state agencies moving in and out of the program category's spending story. Starting with January, the program category has posted four consecutive monthly underages totaling $77.9 million, around $50.4 million of which was what appeared to be timing-based disbursement variances thrown in by the Department of Rehabilitation & Correction. A distant secondary year-to-date contributor was the Department of Administrative Services with a $22.0 million underage built from a mix of timing and excess appropriations. ❑

**LBO colleagues who contributed to the development of this disbursement story included, in alphabetical order, Susan Ackerman Murray, Ogbe Aideyman, Laura Bickle, Sybil Haney, Alexander C. Heckman, Eric Karolak, Jeff Newman, Jeff Petry, Chuck Phillips, David Price, Jeffrey M. Rosa, Katherine B. Schill, and Wendy Zhan.*

TANF Spending Update

TANF EXPENDITURES BY COMPONENT FFY 1997-2000

— *Steve Mansfield*

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

Table 1 shows what has been spent by federal reporting components from the federal TANF block grant awards that have been made beginning with the first TANF award in FFY 1997. ***Table 2*** shows what has been spent in each

TABLE 1: OHIO TANF FEDERAL BLOCK GRANT EXPENDITURES BY CATEGORY						
ITEMS	FFY 1997 Award	FFY 1998 Award	FFY 1999 Award	FFY 2000 Award To-Date	Expenditures To-Date	% of Total To-Date
Cash & Work Based Assistance	$435,721,483	$197,819,005	$65,750,966	7,499,372	$706,790,826	47.69%
Work Activities	3,778,835	16,113,133	4,260,906	22,549,958	$46,702,832	3.15%
Child Care	0	29,416,442	73,762,807	0	$103,179,249	6.96%
Transportation	--	--	--	2,546,482	$2,546,482	0.17%
Diversion Payments	--	--	--	1,002,979	$1,002,979	0.07%
Prev. of Out-of-Wed. Preg.	--	--	--	2,625	$2,625	0.00%
Administration	46,787,207	38,048,953	48,182,313	35,035,590	$168,054,063	11.34%
Information Systems	0	14,562,288	31,370,732	20,584,202	$66,517,222	4.49%
Other Expenditures	154,426,582	152,550,753	56,784,375	23,616,999	$387,378,709	26.14%
TOTAL EXPEND.	640,714,107	448,510,574	280,112,099	112,838,207	**$1,482,174,987**	100.00%
Federal Grant Award	$727,968,260	$727,968,260	$727,968,260	$499,290,104	**$2,683,194,884**	
Transfer to Title XX	$72,796,826	$72,796,826	$72,796,826	$0	**$218,390,478**	
UNSPENT FEDERAL RESERVE	$14,457,327	$206,660,860	$375,059,335	$386,451,897	**$982,629,419**	

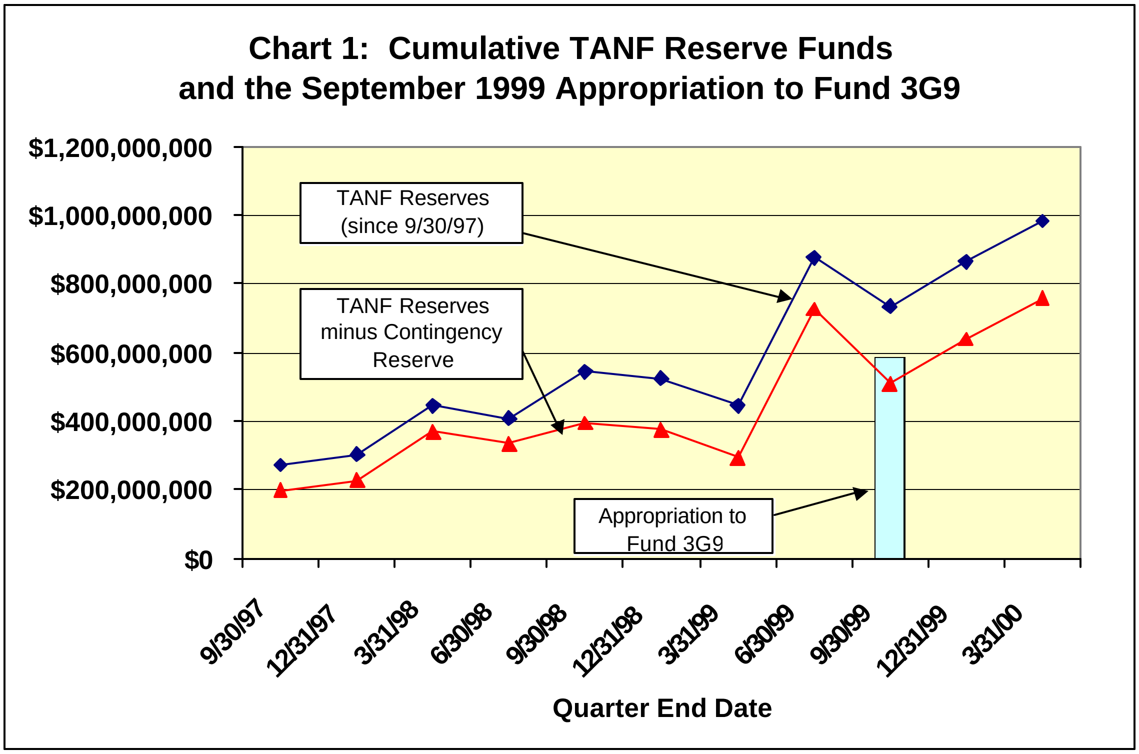
TABLE 2. OHIO MOE EXPENDITURES BY CATEGORY						
ITEMS	**FFY 1997**	**FFY 1998**	**FFY 1999**	**FFY 2000 To-Date**	**Expenditures To-Date**	**% of Total To-Date**
Cash & Work Based Assistance	$305,589,897	$314,094,233	$314,625,299	$192,304,869	$1,126,614,298	76.24%
Work Activities	8,912,399	624,678	408,315	4,505,409	14,450,801	0.98%
Child Care	45,628,354	51,850,611	49,435,554	0	146,914,519	9.94%
Transportation	--	--	--	0	0	0.00%
Diversion Payments	--	--	--	0	0	0.00%
Prev. of Out-of-Wed. Preg.	--	--	--	88,396	88,396	0.01%
Administration	22,452,646	16,614,890	13,189,648	6,742,479	58,999,663	3.99%
Information Systems	0	5,068,027	3,345,493	1,823,133	8,413,520	0.57%
Other Expenditures	34,391,885	31,820,351	40,496,328	15,503,089	122,211,653	8.27%
TOTAL MOE	**$416,975,181**	**$420,072,790**	**$421,500,637**	**$220,967,375**	**$1,477,692,850**	100.00%

component to reach Ohio's MOE requirement. The right hand column in both tables shows each component's share of total spending to date from the TANF block grant (Table 1) or the state's MOE (Table 2). Because the composition of federal and state TANF spending is strongly influenced be certain timing issues, any partial year reports on shares of spending should be regarded as fairly fluid. All TANF spending to date (both state and federal funds since FFY97) totals $2,961,690,970. Not counting whatever may remain of the funds transferred to the Title XX grant, the accumulated reserve of unspent TANF federal dollars totals $982,629,419.

The expenditures reported in Tables 1 and 2 show some interesting shifts since the last quarter. Compared to where total spending and the proportion composed by each category stood at the end of the last quarter, the spending of federal funds displayed a decrease in the proportion going to cash assistance. The decline was nearly 2.5 percent—a rather significant amount given that the calculation is made on all spending since FFY 1997. The proportion of federal dollars being used to support child care also dropped. Increasing in their share of overall spending from the federal grant awards were work activities, administration, information systems, and other spending. This pattern is to be expected given a decline in the cash assistance caseload and an expansion of efforts to provide support to the working poor who qualify for other forms of assistance.

In the spending of state TANF funds we observe some trends that run in opposite directions. The proportion of state TANF spending that is going to cash assistance continues to increase. State funds are now far more heavily tapped to support cash assistance. This stems in part from the needs to effectively manage the state's required spending to make sure that the MOE requirement is met. Also contrary to the increasing proportion of administration and information systems in expenditures from the federal grant awards, the proportion of state funds dedicated to those purposes shrunk.

A significant shift from the previous quarter is also evident in Table 1 in expenditures reported against the federal award in fiscal years 1997 and 1999. For fiscal year 1997 an additional $61.5 million is reported as expended, almost all of which was registered in the categories of administration and other expenditures. A large portion of this increase was shifted from expenditures that had already been posted against the FFY 1999 award. Prior to this, the FFY 1997 award had been spent down to the $75 million that had remained unappropriated at the request of the Governor.



What made additional expenditures against the FFY 1997 award possible? Section 55.07 of Am. Sub. H.B. 283 (the main operating budget act of the 123rd General Assembly) grants authority for ODHS to request additional appropriation authority over available federal funds. Rather than processing such requests through the Controlling Board, the provision allows the Director of the Office of Budget and Management (OBM) to appropriate the requested funds, and only requires the Director to inform the Controlling Board as to the action taken. In September 1999, pursuant to the authority provided by Section 55.07, ODHS requested, and the Director of OBM agreed, to increase the FY 2000 appropriation in FSR fund 3G9, line item 400-657, Special Activities/Self Sufficiency, by $584,362,817. Prior to this, this item was employed to capture special federal grant monies, and, in SFY 1999, the line held $1.3 million. The increase in appropriation authority enabled ODHS to encumber the $585.4 million in federal TANF reserve funds. These funds had already been appropriated during fiscal years 1997, 1998, and 1999 to GRF line item 400-411, TANF Federal Block Grant, but went unused and appropriation authority to disburse them had lapsed. The encumbrance on these funds designates their use for three purposes: the payment of incentives to counties, the support of the Prevention, Retention, and Contingency Development Reserve program, which was announced by ODHS in August 1999, and the payment of TANF eligible child care costs.

In making the calculation of the amount of TANF reserve funds that were available to be appropriated to Fund 3G9, however, the executive's commitment to maintain a caseload contingency of $75 million per year in federal TANF funds was overlooked, or the amount required to maintain that commitment was miscalculated. As illustrated in ***Chart 1***, the $584.4 million appropriation to Fund 3G9, once the commitment to maintain a caseload contingency fund is taken into account, exceeded the reserves available at that time by $75,490,966. As is also evident from Chart 1, subsequent quarterly disbursements from the federal grant have made up for the shortfall that was created in the Caseload Contingency Fund. The first disbursement from the TANF funds appropriated to Fund 3G9 took place in April. ❑