Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE JULY/AUGUST, 2000

FISCAL OVERVIEW

— *Doris Mahaffey*

The good times just keep rolling. Ohio did well this year. Very well. Buoyed by the longest economic expansion in U.S. history, FY 2000 tax revenues increased by 7.3 percent over FY 1999. With revenues over estimate by $500 million and disbursements (including transfers) under estimate by $168 million, the state racked up a large enough surplus to create a 6.9 percent personal income tax cut for tax year 2000.

The star performer this year was the personal income tax. It was 12.7 percent over last year and accounted for $315 million of the overage. It received a healthy assist from the combined sales and use tax, which added $209 million to the overage. The one drag was the corporate franchise tax. Not only was it under estimate $105 million, it was also down 10.6 percent from last year.

Disbursements also added to the surplus – although less so than in most previous years. Total program payments were under estimate by $215 million. Taking transfers into consideration, disbursements were $168 million under estimate. Table 1a shows the relative contributions of revenues and underspending to the GRF "surplus" since FY 1996.[1]

Unanticipated tax revenues by far accounted for the bulk of the "surplus," with the personal income tax accounting for the bulk of the surplus tax revenues. This is not terribly surprising, since the income tax accounts for 44 percent of total state revenues (calculated on the basis of either estimated or actual revenues). The sales tax accounts for an additional 36 percent. Hence the concentration in this report on the behavior of these two taxes. After federal grants, the corporate franchise tax is the next largest revenue source, accounting for between 6 and 7 percent of state revenues (depending on whether one uses actual or estimated FY 2000 revenues). Chart 1 shows the year over year growth of these tax sources since FY 1992 (basically, since state tax revenues began to register the current expansion). Since 1997 the growth in the personal income tax has been somewhat erratic – due in

[1] The term surplus as used here is not completely accurate. The combined revenue overage and net underspending does not necessarily equal the budget surplus in any given year. The revenue overage and underspending are simply deviations from a plan, and the plan itself likely incorporates a surplus or deficit. Furthermore, the annual surplus is not identical with the ending GRF fund balance, which includes carry forwards and reserves.

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

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

	Month of June	Fiscal Year 2000 to Date	Last Year	Difference
Beginning Cash Balance	$824.1	$1,512.5		
Revenue + Transfers	$1,879.9	$20,050.7		
Available Resources	$2,704.0	$21,563.2		
Disbursements + Transfers	$1,197.8	$20,057.0		
Ending Cash Balances	**$1,506.2**	**$1,506.2**	**$1,512.5**	**($6.3)**
Encumbrances and Accts. Payable		$650.4	$535.7	$114.6
Unobligated Balance		**$855.8**	**$976.8**	**($120.9)**
BSF Balance		$953.3	$906.9	
Combined GRF and BSF Balance		**$1,809.1**	**$1,883.7**	**($74.5)**

part to the impact of the Income Tax Reduction Fund. The sales tax shot up at the beginning of the expansion largely because of the expansion of the tax base by H.B. 904. Since then it has grown at a relatively steady pace, although it appears to have picked up somewhat this past year. On the other hand, the corporate franchise tax peaked in FY 1995 and has stalled since then. (The dive in FY 1999 resulted from the tax changes enacted in H.B. 215 of the 122nd General Assembly, but its continued decline raises questions, if not major concerns.)

On the spending side of the ledger, nearly all program areas came in under estimate in FY 2000. The largest negative variance was in primary and secondary education ($135 million under estimate). Virtually all of this money was encumbered – see Table 1c below. (Actually, Table 1c indicates that a larger amount of education funding was encumbered than the negative variance in the primary and secondary education program category would suggest. Education's 200-901 line is, however, included in the disbursement tables under the property tax relief program, which came in $29.5 million under estimate. Nearly all of that was encumbered, as well.)

The programs with the most significant "over spending" were Temporary Aid to Needy Families (TANF) and Health Care/Medicaid, at $74 million and $7.8 million over estimate, respectively. These programs will be discussed more extensively in the disbursements section, as well as in a separate update on TANF also in this issue of ***Budget Footnotes***. Briefly, the TANF overage reflects a March Controlling Board action that increased the appropriation to line 400-411, TANF Federal Block Grant by $156.8 million (half of which was later encumbered). This increase was funded out of current-year federal grant money. Each year Ohio

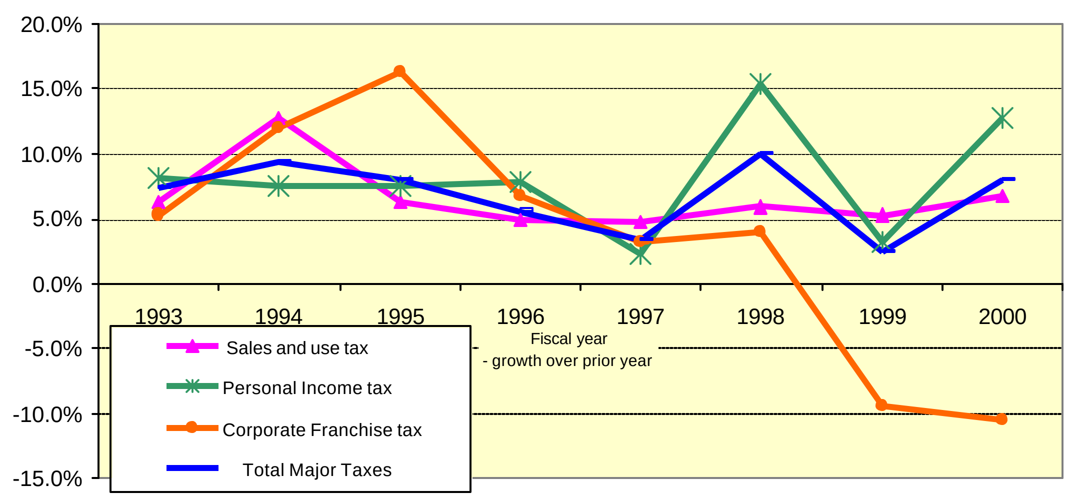
Table 1a - Sources of GRF Surplus, FY 1996 - 2000
Amounts are in millions of $

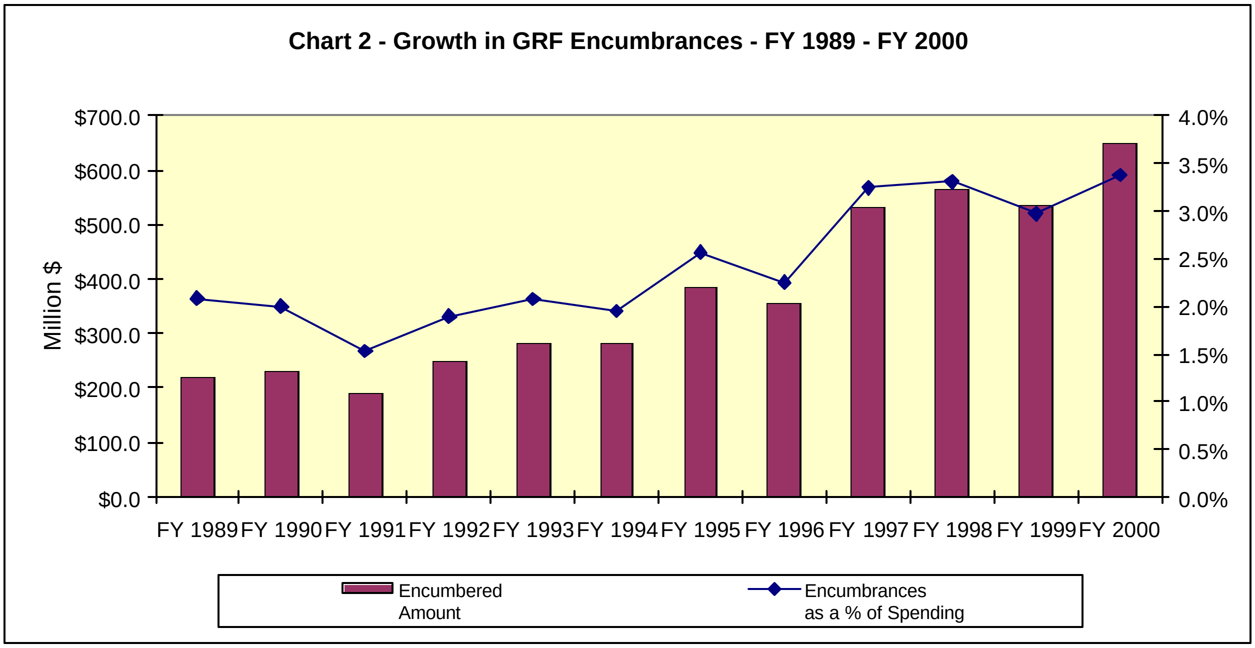
	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Income Tax Overage	$77.2	$280.0	$567.3	$266.2	$315.1
Total Tax Overage	$174.7	$334.3	$737.7	$301.2	$437.5
Non-Federal Revenue	$238.1	$436.8	$852.6	$327.9	$486.4
Underspending	$411.5	$726.4	$651.3	$314.2	$168.2
Federal Revenue Shortfall	$3.1	($393.3)	($472.7)	($46.6)	$13.9
Net Underspending	$414.6	$333.1	$178.6	$267.6	$182.1
Annual Deviations from Planned Revenues and Spending, or "Surplus"	$652.7	$769.9	$1,031.2	$595.4	$668.5
Ending GRF Fund Balance	$781.3	$834.9	$1,084.4	$976.8	$855.8
Income Tax % of Surplus	11.8%	36.4%	55.0%	44.7%	47.1%
Total Tax % of Surplus	26.8%	43.4%	71.5%	50.6%	65.4%
Underspending % of Surplus	63.5%	43.3%	17.3%	44.9%	27.2%

receives an annual grant of $728 million to fund the federal share of its TANF program. Ohio typically does not appropriate the full amount, leaving at least $75 million on reserve. The original appropriation, however, is what is used to gauge spending; hence any spending out of the increased appropriation appears as an "overage" in the disbursement tables. The overage basically reflects shifting strategies within the TANF program. The Medicaid overage, on the other hand, only hints at the increasing pressures that that program faces.

At the year's end, the GRF cash balance was $1,506.2 million. (see Table 1). This is very close to what it was at the end of FY 1999. However, encumbrances, or obligations to pay, were up $115 million or 21

Chart1 - Growth of Major Tax Sources FY 1993-2000





percent over last year. Subtracting the $650.4 million in encumbrances, FY 2000's unobligated balance was $855.8 million. This is less than it was at this time last year. After a small dip in FY 1999, encumbrances are again growing both in volume and in proportion to total expenditures.

FY 1999 encumbrances amounted to $535.7 million. Table 1b shows the disposition of these funds at the end of FY 2000 by year encumbered. At the end of FY 2000, $110 million of these funds remained encumbered.

Table 1b – Disposition of Prior Year Encumbrances in FY 2000

	Disbursements	Cancelled encumbrances	Remaining encumbrances
1991	37,766.60	-	-
1993	8,858.06	-	50,150.35
1994	27,075.11	20,600.00	192,761.08
1995	128,428.87	149,295.43	378,136.29
1996	745,541.22	10,231,254.31	2,275,207.94
1997	5,962,158.39	5,229,068.10	18,155,536.29
1998	19,630,639.10	3,382,394.68	21,698,483.10
1999	324,293,050.46	55,516,171.91	67,637,181.29
Total	350,795,751.21	74,528,784.43	$110,387,456.34

Additional encumbrances of $540 million were added to the remaining $110 million. Nine line items in five agencies accounted for 81 percent of these encumbrances. These are listed in Table 1c. By far the largest FY 2000 encumbrance was line item 400-411, TANF Federal Block grant. The second largest was the Department of Education's 200-501, Base Cost Funding.

Ohio's unobligated general revenue fund balance of $855.8 million and budget stabilization fund (BSF) balance of $953.3, yielded a combined year-end balance of $1,809.1 million. This amounted to 11.2 percent of the state's FY 2000 expenditures (excluding federal grants but including encumbrances). Ohio's experience was not unique. 36 of the 49 states reporting their fiscal condition to NCSL had year-end balances exceeding 5 percent, and 18 had balances in excess of 10 percent (the national average was 8.8 percent). However, only the states of California, Alaska, Florida and New York ended the year with a higher balance than Ohio.

The Great Lakes states (Ohio, Indiana, Illinois, Michigan, and Wisconsin) in general fared quite well – as did most states with a progressive income tax. Those relying more heavily on the sales tax or the

Table 1c - FY 2000 encumbrances $ in millions				
Agency	Total		Major line items	Amount
Education	$137.5	200-501	Base cost funding	$58.6
		200-901	Property Tax Allocation - Education	$11.4
Human Services (now Job and Family Services)	$135.1	400-411	TANF Federal Block Grant	$78.4
		400-416	Computer Projects	$29.0
Development	$53.6	195-422	Technology Action	$15.0
		195-434	Industrial Training Grants	$14.2
Rehabilitation and Corrections	$51.6	501-321	Institutional Operations	$26.6
Transportation	$31.6	775-451	Public Transportation - State	$17.3
Mental Retardation and Developmental Disabilities	$25.6	322-413	Residential and Support Services	$25.3

property tax were not so fortunate. On the other hand, those states were not faced with the problem of what to do with the unanticipated surplus.

Section 131.44 of the ***Revised Code*** readily resolves Ohio's problem regarding what to do with the surplus. That section calls for the transfer of year-end GRF monies in excess of certain obligations to the Income Tax Reduction Fund (ITRF) to be used to fund a tax cut for the current tax year. Assuming adequate revenues, the following obligations must be met before transferring funds to the ITRF:

1. The maintenance of a cash-flow balance in the GRF equal to 0.5 percent of prior year (in this case, FY 2000) revenues,
2. The transfer of sufficient funds to the Budget Stabilization Fund (BSF) to bring the balance of the fund up to 5 percent of prior year revenues,
3. The maintenance of sufficient funds in the GRF to meet capital obligations, and
4. The maintenance of sufficient funds in the GRF to cover the delayed impact of the prior year's tax cut.

After making the required calculations – which included a cash-flow balance of $100.3 million, a transfer to the BSF of $49.2 million, a capital obligation reserve of $56.7 million, and an income tax reduction impact reserve of $39.4 million – the FY 2000 "surplus" was whittled down from $856 million to $610.4 million. Based on the revised personal income tax projections for FY 2001, this was enough to certify a 6.929 percent tax cut for tax year 2000. This is almost double the tax cut for tax year 1999. ❑

Status of the General Revenue Fund

REVENUES

—Doris Mahaffey

While revenues for FY 2000 turned in a stellar performance, revenues for the month of June were not particularly impressive. As Table 2 shows, the combined sales and use tax was over estimate by $21 million. That's good, but after overages of $33 million in May and $62 million in March, it's not exciting. Similarly, the income tax was over by $14 million in June. That's a pittance compared to last month's $259 million overage. (It's so easy to forget April when the income tax was $100 million under estimate and the non-auto sales tax was under by another $12 million.)

On top of the relatively lackluster performance of the two major taxes in June, federal grants, the corporate franchise tax, and other income were all under estimate for the month by a total of $94 million. The overages in the sales tax and the personal income tax, along with overages in earnings on investments and transfers in, only partially offset this, so that the month ended with a $32 million revenue shortfall.

The shortfall in the corporate franchise tax had been anticipated. Last month's $21 million overage offsets much of June's $26 million underage; so that the third payment of the corporate franchise tax was only $5 million under. Since the first payment was $51 million under estimate; and the second payment was $58 million under estimate, the $5 million shortfall almost feels like a windfall.

The $28 million "shortfall" in the other income category was due for the most part to the delay in the transfer (via Intrastate Voucher or ISTV) of $29.8 million from the Lottery Profits Education Fund (fund 012) to the GRF to support the Ohio Veteran's Home Lease Rental Payments (line 230-428). This transfer was scheduled for June, but was not made until July.

The $34 million shortfall in the federal grants line was a matter of timing. This revenue reimburses the state for money expended on certain federal human services programs (i.e., Medicaid and Temporary Assistance to Needy Families (TANF)). It is difficult to project when the money is likely to be received. This source was $45 million over estimate in May; year-to-date revenues are $14 million over.

Personal Income Tax

June's personal income tax receipts carry a mixed message. The good news is that quarterly estimated payments were over estimate by nearly $30 million. This suggests that non-wage income (from real property, financial assets, and profits) is still growing.

The bad news is that withholding was under estimate by $27 million. Withholding has been slipping since January, but this is by far the biggest shortfall this year. It suggests that wage growth, if not falling is certainly plateauing. Recent employment news bears this out. Nationwide employment growth has moderated throughout May and June. In Ohio, non-agricultural wage and salary employment fell by 11,200 in June. Furthermore, the composition of employment has shifted slightly with more emphasis on lower-paying jobs – in services and retail trade, for example. Hours worked are also easing. For the whole second quarter of calendar year 2000, hours increased by only 0.5 percent on an annualized basis. This compares to the first quarter when hours worked increased by 3.2 percent. However, even more recent data suggests that wages and hours are picking up again, so it is difficult to project how withholding will behave in FY 2001.

With the shortfall in withholding nearly offsetting the overage in quarterly estimated payments, the revenue overage can largely be attributed to refunds, which were $12 million under the estimate for June.

For FY 2000 as a whole the personal income tax increased by 12.7 percent over last year. It exceeded the estimate by $315 million. Annual returns and quarterly estimated payments were by far the biggest engines of growth. The annual returns component increased by 35 percent over FY 1999. It exceeded the estimate for FY 2000 by $104 million or 14 percent. Quarterly estimated payments exceeded its FY 2000 estimate by $143 million (9.6 percent); it exceeds actual FY 1999 revenues by 12.7 percent. Compared to these dynamos, withholding was downright sluggish. It increased by only 6.5 percent over FY 1999; and it exceeded estimated FY 2000 revenues by a mere 0.7 percent.

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

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$76,982	$74,105	$2,877
Non-Auto Sales & Use	$463,143	$445,181	$17,962
Total Sales	$540,125	$519,286	$20,839
Personal Income	$653,923	$639,488	$14,435
Corporate Franchise	$75,939	$101,672	($25,733)
Public Utility	$211,799	$204,750	$7,049
Total Major Taxes	**$1,481,786**	**$1,465,196**	**$16,590**
Foreign Insurance	$244	$1,913	($1,669)
Domestic Insurance	$5,867	$4,441	$1,426
Business & Property	$503	$57	$446
Cigarette	$25,791	$25,290	$501
Soft Drink	$0	$0	$0
Alcoholic Beverage	$5,283	$5,035	$248
Liquor Gallonage	$2,420	$2,358	$62
Estate	$1,733	$5,600	($3,867)
Racing	$0	$0	$0
Total Other Taxes	$41,842	$44,694	($2,852)
Total Taxes	**$1,523,627**	**$1,509,890**	**$13,737**
NON-TAX INCOME			
Earnings on Investments	$42,120	$31,995	$10,125
Licenses and Fees	$1,033	$1,925	($892)
Other Income	$13,074	$40,619	($27,545)
Non-Tax Receipts	$56,227	$74,539	($18,312)
TRANSFERS			
Liquor Transfers	$10,000	$8,000	$2,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$4,267	$0	$4,267
Total Transfers In	$14,267	$8,000	$6,267
TOTAL INCOME less Federal Grants	**$1,594,121**	**$1,592,429**	**$1,692**
Federal Grants	$285,765	$319,542	($33,777)
TOTAL GRF INCOME	**$1,879,886**	**$1,911,971**	**($32,085)**

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

Detail may not add to total due to rounding.

To what extent can we expect more of the same in FY 2001? The stock market is currently rising, but it has not reached the heights it attained earlier in the year. Nor is its behavior as exuberant as it was last fall. Nevertheless, there are likely many capital gains still to be tapped. The economy may or may not be experiencing a "soft landing," but labor markets are likely to remain tight with upward pressure on wages – though, again, probably not as tight as in FY 2000. Furthermore, with the large income tax rate cut, the annual returns component will by no means increase by another 35 percent. OBM's revised estimate for the personal income tax (all components) for FY 2001 reflects an 8.5 percent growth from actual FY 2000 revenues. This does not include the impact of the 6.9 percent rate cut. (Including the tax cut reduces the growth rate to 2.1 percent.)

Sales Tax

The non-auto sales and use tax was $18 million or 4 percent over estimate in June; the auto sales tax was another $3 million – also 4 percent – over. Together, these numbers reflect the moderating – but continued high level of spending on both vehicles and other taxable items. In particular, June auto sales tax revenues largely reflect June sales. Nationwide sales of vehicles have slowed to an annual rate of 17 million units in May and June. This is down from the phenomenally high rate of 19 million units in February – which helped make the first quarter of calendar year 2000 the highest ever for motor vehicle sales. And in spite of the "slow down," the second quarter appears to be hitting the record books as the second highest on record.

June non-auto sales and use tax revenues typically reflect May retail sales activity. According to the June *Beige Book* for the Cleveland Federal Reserve District, "retailers reported that sales remain at high levels, [but] the pace of sales growth in April and May slowed relative to earlier in the year." Sales in general merchandising, in particular, remain strong, while furniture and home furnishings sales have flattened relative to the steep demand earlier in the year. This reflects the slow down in the housing market noted in the "Tracking the Economy" segment following "Disbursements," below.

For the year as a whole, the auto sales tax was up 8 percent over last year; while the non-auto sales tax was 6 percent over FY 1999. These are both increases over their FY 1999 growth rates, which increased vis-à-vis FY 1998 by 5.2 percent and 5.3 percent, respectively. It's hard to imagine that this pace of sales – and subsequently sales tax revenues – can continue (especially with the looming specter of Internet commerce and its uncertain implications for the sales tax). At any rate, with the coming "soft" landing, the rate of growth in both components of the sales tax can be expected to slacken. OBM's revised estimates for FY 2001 indicate a 1 percent increase in auto sales tax revenues over actual FY 2000 revenues and a 5 percent increase in non-auto revenues, for a combined growth rate of 4.4 percent. That would be the slowest growth rates for these taxes since the current expansion began.

Year-to-Date

Total GRF income was half a billion dollars over estimate in FY 2000. While the personal income tax and the sales tax had the largest overages, most revenue sources contributed to the overage. The major taxes contributed $430.9 million. The minor taxes added another $6.6 million. Transfers threw in $69.8 million; and federal grants chipped in $13.9 million. The federal grants category is a sort of good news bad news item. Overages in this category tend to reflect – and even lag – spending overages in the Medicaid and TANF program areas.

The non-tax income category came in $20 million under due to a delayed transfer of funds from the LPEF. Licenses and fees also came in $4.8 million short; but earnings on investments recovered from the underage that it had been carrying throughout the year and contributed $4 million. The overage was due to the growing fund balances, along with the Fed's accumulated interest rate hikes.

Perhaps in celebration of the new millennium or to toast stock market gains (or ease losses), cigarettes and liquor contributed significantly to the overage. The cigarette tax came in $6.7 million over; while liquor contributed both through the alcoholic beverage tax ($2.3 million over estimate) and liquor transfers ($6 million over estimate). It's not that people were drinking

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	$821,654	$760,000	$61,654	$760,406	8.05%
Non-Auto Sales & Use	$5,092,029	$4,945,001	$147,028	$4,784,943	6.42%
Total Sales	$5,913,683	$5,705,001	$208,682	$5,545,349	6.64%
Personal Income	$7,231,994	$6,916,901	$315,093	$6,416,830	12.70%
Corporate Franchise	$969,398	$1,074,400	($105,002)	$1,084,063	-10.58%
Public Utility	$642,112	$630,000	$12,112	$637,565	0.71%
Total Major Taxes	**$14,757,187**	**$14,326,302**	**$430,885**	**$13,683,807**	**7.84%**
Foreign Insurance	$252,316	$255,001	($2,685)	$271,609	-7.10%
Domestic Insurance	$88,161	$90,000	($1,839)	$77,547	13.69%
Business & Property	$8,673	$7,000	$1,673	$6,229	39.24%
Cigarette	$287,709	$280,999	$6,710	$290,563	-0.98%
Soft Drink	$0	$0	$0	$0	#N/A
Alcoholic Beverage	$55,276	$52,991	$2,285	$53,786	2.77%
Liquor Gallonage	$28,500	$28,000	$500	$27,650	3.07%
Estate	$139,953	$140,000	($47)	$141,456	-1.06%
Racing	$0	$0	$0	$0	?
Total Other Taxes	$860,588	$853,991	$6,597	$868,840	-0.95%
Total Taxes	**$15,617,775**	**$15,180,293**	**$437,482**	**$14,552,648**	**7.32%**
NON -TAX INCOME					
Earnings on Investments	$122,516	$118,500	$4,016	$148,356	-17.42%
Licenses and Fees	$33,673	$38,500	($4,827)	$36,117	-6.77%
Other Income	$110,963	$131,010	($20,047)	$129,734	-14.47%
Non-Tax Receipts	$267,151	$288,010	($20,859)	$314,206	-14.98%
TRANSFERS					
Liquor Transfers	$95,000	$89,000	$6,000	$90,000	5.56%
Budget Stabilization	$0	$0	$0	$0	#N/A
Other Transfers In	$341,185	$277,400	$63,785	$680,078	-49.83%
Total Transfers In	$436,185	$366,400	$69,785	$770,078	-43.36%
TOTAL INCOME less Federal Grants	**$16,321,112**	**$15,834,703**	**$486,409**	**$15,636,931**	**4.38%**
Federal Grants	$3,729,547	$3,715,601	$13,946	$3,428,373	8.78%
TOTAL GRF INCOME	**$20,050,658**	**$19,550,304**	**$500,354**	**$19,065,304**	**5.17%**

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

Detail may not add to total due to rounding.

all that much more in FY 2000 as they were purchasing more premium (i.e., pricier) liquor.

Surprisingly, after being over estimate for most of the fiscal year, the estate tax came in just slightly under estimate.

The corporate franchise tax was the one true anomaly. It came in $105 million under estimate, and it was down 10.6 percent from last year. Nationwide corporate income taxes have been pretty lethargic since 1995, when they received a big boost at the end of the recession. Many have speculated that businesses are increasingly eschewing the corporate form of organization in favor of the new forms of business organization that are taxed under the personal income tax. Another explanation for the lack of growth in corporate income tax revenue takes into consideration the increasing use of stock options as compensation in the 1990's and the ability of corporations to expense them on their tax returns. (At the same time options are not declared as a cost on corporate earnings statements, so they do not affect the apparent profitability of corporations.) Hence, as more employees receive stock options, and as the rising stock market encourages them to exercise their options, corporate taxable income correspondingly falls.[1] Both of these explanations probably have some merit.

An added complication arises, however, in FY 2000. According to a spokesperson from the Fiscal Studies Program at the Nelson A. Rockefeller Institute of Government (formerly the Center for the Study of the States), state corporate income tax revenue is rebounding throughout the U.S. For the U.S. as a whole, corporate income tax revenue in the January to March period increased by 8 percent between 1999 and 2000. Over the same time period, however, Ohio's corporate income tax revenue decreased by 10.5 percent.

This causes one to ponder a more Ohio-specific explanation of the phenomenon. It could simply be part of a continuing adjustment to the tax changes enacted in H.B. 215. In which case, those tax changes turned out to be a lot more expensive than originally thought. An alternative explanation, which was advanced in an earlier edition of ***Budget Footnotes,*** also springs to mind – i.e., the investment tax credit enacted by S.B. 188 of the 121st General Assembly and extended in two subsequent budget bills.[2] High profits and good prospects increase investment, which increases both productivity and personal income in the state, while incidentally qualifying for the manufacturing investment tax credit, lowering the corporation's tax burden and encouraging further investment. Under the circumstances, what corporation could afford not to invest? The tax credit currently applies to investments made through calendar year 2005, so that the state can expect to benefit from this provision for many years to come.

OBM has recently revised downward its corporate franchise tax revenue estimate for FY 2001 by $99.7 million. It was already anticipating a decline between FY 2000 and 2001, due, in part, to the expansion of tax credits provided in the last two budgets. ❑

[1] The term "surplus" as used here refers to the combined revenue overage and net underspending. This is not a completely accurate use of the term, since the revenue overage and underspending are simply deviations from a plan, and the plan itself may incorporate a surplus or deficit. Furthermore, the annual surplus is not identical with the ending GRF fund balance, which includes carryforwards and reserves.

[2] OBM's most recent Tax Expenditures report (for FY 2000-2001) estimated a cost of $32 million in FY 1999 and projected costs of $36.1 million and $61.7 million in FY 2000 and 2001, respectively. Those amounts would have been included in the base line estimate; only credits in excess of this amount would have had an impact on the variance. However, it is quite likely that this estimate for FY 2000 was too small, as it does not appear to account for the expansion of the credit in H.B. 215, which extended the window for investment that could qualify for the credit. That extension was estimated to increase the cost of the credit by $11.4 million in FY 2001 and by $23.3 million in FY 2002.

DISBURSEMENTS

— *Jeffrey E. Golon with Steve Mansfield**

The state closed FY 2000 holding a largely timing-based $214.6 million underage, with a host of secondary causes to the year-end disbursement variance floating in the background. The dominant element in the underage was the Department of Education ($129.0 million), with a noticeable secondary contribution from the Other Welfare component of the Department of Human Services' budget ($48.8 million).

Perhaps the most striking feature of the state's FY 2000 disbursements, from a recent historical perspective, was probably the role played by the Welfare & Human Services program category. It posted an overage of only $26,000, a truly microscopic disbursement variance in the context of a program category that spends in excess of $8.0 billion annually. Masked by that tiny disbursement variance was the fact that two components of the program category — the Temporary Assistance to Needy Families (TANF) and Medicaid programs — collectively overspent by $82.1 million.

This picture was quite a contrast to the disbursement variances that we witnessed in the last biennium. For fiscal years 1998 and 1999, the state posted noticeably larger year-end underages of $700.1 million and $461.1 million, respectively, with the Welfare & Human Services program category directly responsible for roughly 70 percent of those prior year-end underages. Furthermore, the TANF and Medicaid programs were very powerful contributors to the development of those negative disbursement variances. The fiscal effect of these rather sizeable underages produced by the Welfare & Human Services program category in the last biennium was to bolster the state's GRF ending fund balance. That fiscal effect on the state's bottomline was noticeably absent at the conclusion of FY 2000.

Our look at the state's FY 2000 disbursement activity is organized into five distinct parts. First, we examine the most notable departmental budgets and programs that came to bear on June's monthly disbursement variance. Second, we undertake a similar examination with respect to the state's year-to-date disbursement variance. Third, we subject the Medicaid program to some closer scrutiny. Fourth, we outline the state's disbursement dynamics as they have unfolded over the course of the last twelve months (July 1999 through June 2000). And, five, we selectively summarize FY 2000 GRF appropriation activity.

I. June

Excluding transfers, the state closed June with a rather sizeable $224.5 million negative disbursement variance, under the estimated monthly spending of $1.4 billion by 15.8 percent. The two largest contributors to the June underage were: (1) the Department of Education ($191.4 million); and (2) the Medicaid program ($81.2 million). The primary fuel in the former was the timing of various subsidies that are distributed to local school districts, while the latter was largely driven by a decision to cover a projected Medicaid funding shortfall by tapping into non-GRF funding streams. The combined power of these two underages ($272.6 million) was in turn diluted by monthly overages posted in the Property Tax Relief and Temporary Assistance to Needy Families (TANF) programs of $39.6 million and $34.5 million, respectively. The Property Tax Relief overage was an expected timing-based correction to prior monthly underages. Similarly, the TANF overage was no surprise either, as funding distributed to counties for administrative costs, incentives, and child care have accelerated in the past few months.

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

USE OF FUNDS			
PROGRAM	**Actual**	**Estimate***	**Variance**
Primary & Secondary Education (1)	$213,542	$403,288	($189,745)
Higher Education	$160,887	$159,964	$923
Total Education	$374,430	$563,252	($188,822)
Health Care/Medicaid	$398,385	$479,623	($81,238)
Temporary Assistance to Needy Families (TANF)	$34,935	$407	$34,528
General/Disability Assistance	$2,516	$3,871	($1,355)
Other Welfare (2)	$14,158	$16,295	($2,137)
Human Services (3)	$50,550	$51,001	($450)
Total Welfare & Human Services	$500,544	$551,197	($50,653)
Justice & Corrections	$112,222	$126,800	($14,578)
Environment & Natural Resources	$5,730	$12,307	($6,577)
Transportation	$4,041	$2,001	$2,040
Development	$7,222	$6,298	$924
Other Government (4)	$19,162	$38,379	($19,218)
Capital	$214	$531	($317)
Total Government Operations	$148,590	$186,316	($37,726)
Property Tax Relief (5)	$161,035	$121,436	$39,599
Debt Service	$13,070	$0	$13,070
Total Program Payments	**$1,197,669**	**$1,422,201**	**($224,532)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$93	$0	$93
Total Transfers Out	$93	$0	$93
TOTAL GRF USES	**$1,197,762**	**$1,422,201**	**($224,439)**

(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.

Our discussion of the principal departmental budgets and programs that produced the June disbursement variance appears immediately below. The underage components, arranged in order of the magnitude of their contribution, are discussed first, followed by a narrative outlining the few notable monthly overages. The reader is directed as well to Table 4, which provides a more detailed picture of June's disbursement variances by program category.

Education. For June, the Department of Education posted a negative disbursement variance of $191.4 million, under the estimated monthly spending of $399.1 million by 48.0 percent. Although the June disbursement variance was quite large, it was essentially no more than an expected correction to the prior month in which the department had registered a timing-based overage totaling $164.9 million. The key elements in this June correction were base cost funding ($148.4 million), disadvantaged pupil impact aid ($14.2 million), and pupil transportation ($5.7 million). Also in the disbursement mix was a $17.5 million FY 2000 appropriation intended to fund a $500 scholarship for each student who has passed all five parts of the 12th grade proficiency test. The original disbursement estimate assumed that the appropriation for this scholarship program would be transferred for administration by the Board of Regents in June 2000. This appropriation transfer actually occurred back in July 1999, as stipulated in temporary law contained in the department's biennial budget.

Medicaid. For the month of June, Medicaid posted an underage of $81.2 million, short of the estimate by 16.9 percent. The reader is referred to part III of this article for a more detailed treatment of the Medicaid program, including disbursements and caseloads.

Controlling Board. The Controlling Board's budget, which is buried within the catch-all Other Government component of the Government Operations program category, closed June with a negative monthly disbursement variance of $14.3 million, short of the estimate by 100 percent. While it looked somewhat large, this monthly underage was not significant. It simply reflected the results of a device — built into the original disbursement estimates assembled last August by the Office of Budget and Management (OBM) — intended to account for the portion of the Controlling Board's total FY 2000 GRF appropriation that was expected to be transferred to other state agency budgets. As the reader may be aware, Controlling Board appropriations are not disbursed per se, but are transferred to, and then disbursed from, other state agency budgets.

Rehabilitation & Correction. For the month of June, the Department of Rehabilitation & Correction generated a negative disbursement variance of $6.6 million, under the estimate by 7.7 percent. All of the disbursement variance was traceable to the timing of spending on prison and parole operations.

Natural Resources. The Department of Natural Resources recorded a $4.5 million negative disbursement variance for the month of June, under the estimate by 45.8 percent. The primary source of the disbursement variance was the Division of Parks and Recreation's operating expenses line item with an underage of $3.9 million that resulted from an error in estimating when the division would be billed for departmental central support charges. The estimate assumed that divisional disbursements covering FY 2000 central support charges would occur in July, December, and June. The reality was that those disbursements were made in the first few months of FY 2000. Thus, the underage we just experienced in June was an expected year-end correction.

Judiciary/Supreme Court. The Judiciary/Supreme Court, which serves as the budgetary umbrella for $94-plus million in funding principally used to pay the state's share of judges' salaries and other court system expenses, ended June $4.1 million, or 35.8 percent, short of the monthly estimate. This monthly underage was entirely traceable to the timing of payroll. The estimate for June assumed that three pay periods would be posted; the reality was that two pay periods posted in June. The three-pay period actually occurred a month earlier, causing a May overage and setting us up for the June correction.

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

Property Tax Relief. In June, the Property Tax Relief program followed its May overage of $60.5 million with another overage, this one not quite as large at $39.6 million. These back-to-back overages were anticipated disbursement reactions that more or less corrected for a total of $115.0 million in underages that were posted over the months of March and April. These rather large wild spending swings were not in the least bit troublesome, as they simply indicated that the 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 was slightly off schedule.

A close look at the disbursement variance showed that the Department of Education, which was originally forecast to release $77.1 million of real property tax credits/exemptions funding back to school districts in June, distributed $124.1 million, or 61.0 percent more than was forecast. Conversely, the Department of Taxation released $7.4 million less in real property tax credits/exemptions funding to various counties, municipalities, townships, and other special taxing districts than was originally forecast. The net of these two monthly disbursement variances for June was a largely timing-based $39.6 million overage.

TANF. June's disbursements in the Temporary Assistance to Needy Families (TANF) program were $34.9 million, well above the monthly estimate of around $400,000. Chiefly powering the monthly disbursement variance was line item 400-411, TANF Federal Block Grant, with an overage of $32.1 million. The June overage itself had nothing to with any change in the program's cash assistance caseload, but was related to a $156.8 million increase in the line item's FY 2000 appropriation that was approved by the Controlling Board in March. The primary purpose of the appropriation increase was to provide additional funding for county advances and incentives.

Debt Service. The Debt Service program category, which carries $150-plus million in annual appropriations that support the issuance of general obligation debt by the Treasurer of State and the Commissioners of the Sinking Fund for certain authorized capital improvements programs, closed June with a $13.1 million monthly overage. The source of the overage was the payment of debt service on obligations authorized, pursuant to the passage of State Issue 1 in November 1999, by Am. S.B. 206 of the 123rd General Assembly, effective December 10, 1999. The act authorized the Treasurer of State and the Ohio Public Facilities Commission each to issue general state obligations in an aggregate amount up to $150 million for the purpose of paying the costs of primary and secondary education facilities and higher education facilities, respectively. To cover these additional debt service obligations during the current biennium, the act also freed up GRF funding of $18.1 million in FY 2000 and $31.8 million in FY 2001 that was originally appropriated for the debt service needs of the School Facilities Commission and the Board of Regents. The need to cover these new debt service obligations came well after the current biennial budget was enacted, thus they were not included as part of the original disbursement forecast for FY 2000.

II. Year-to-Date

Excluding transfers, the state closed FY 2000 in possession of a $214.6 million year-to-date underage, short of the $19.5 billion estimate by 1.1 percent. There were two primary contributors to the year-end underage: (1) the Department of Education ($129.0 million); and (2) exclusive of its Medicaid, TANF, and General/Disability Assistance programs, the Department of Human Services' operating expenses and subsidy programs ($48.8 million). Secondary contributors to the year-end underage included, in order of magnitude, the Property Tax Relief program ($29.5 million), the Department of Administrative Services ($22.3

million), the Department of Mental Retardation & Developmental Disabilities ($19.0 million), and the Department of Rehabilitation & Correction ($18.8 million). The principal force at work on these year-end underages as a group was timing, with less pronounced effects coming from excess appropriations and programmatic glitches.

The Temporary Assistance to Needy Families (TANF) program was the lone area of state spending that exercised any significant braking effect on the size of the year-end underage. It posted a year-end overage of $74.3 million, attributable to an acceleration in the distribution of administrative, incentive, and child care funding to counties.

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

Education. The Department of Education closed FY 2000 with a $129.0 million underage, which was 2.5 percent below an estimated spending level of $5.1 billion. Of this underage, $111.2 million, or 86.2 percent, was traceable, in order of magnitude and discussed in more detail below, as follows: (1) $58.2 million in line item 200-501, Base Cost Funding; (2) $19.2 million in line item 200-520, Disadvantaged Pupil Impact Aid (DPIA); (3) $17.5 million in line item 200-575, 12th Grade Proficiency Stipend; (4) $7.3 million in line item 200-545, Vocational Education Enhancements; (5) $4.9 million in line item 200-572, Teacher Incentive Grants; and (6) $4.1 million in line item 200-320, Maintenance and Equipment.

<u>Base Cost Funding</u>. At year-end, virtually all of the appropriations associated with the underage in the Base Cost Funding line item had been encumbered for disbursement in FY 2001. The underage and the resulting need to encumber the associated funding reflected the fact that the department had outstanding obligations with school districts that would have to be honored at some future point in time.

<u>DPIA</u>. The $19.2 million DPIA underage was primarily attributable to the state's all-day, everyday kindergarten program where the actual number of participating students was less than was assumed in building the FY 2000 appropriation. As it was clear that the funding associated with the DPIA underage was not going to be needed, appropriation transfers were undertaken that moved this portion of the FY 2000 DPIA appropriation as follows: (1) $13.5 million into FY 2001 for summer intervention programs; (2) $3.1 million for FY 2000 pupil transportation subsidies; (3) $1.3 million for FY 2000 expenses of the Summer Institute for Reading Intervention; and (4) $1.3 million into DPIA's FY 2001 appropriation.

<u>12th Grade Proficiency Stipend</u>. As noted in our discussion of the department's June disbursements, this program carried a $17.5 million appropriation in FY 2000 intended to fund a $500 scholarship for each student who has passed all five parts of the 12th grade proficiency test. Pursuant to temporary law in the department's biennial budget, the scholarship program and its associated FY 2000 appropriation was moved in July 1999 for administration by the Board of Regents. Thus, the FY 2000 appropriation was not disbursed per se by the department, but transferred to, and then disbursed from, the Board of Regents' budget.

<u>Vocational Education Enhancements</u>. At year-end, all of the appropriations associated with the underage in the Vocational Education Enhancements line item had been encumbered for disbursement in FY 2001. The underage and the resulting need to encumber the associated funding reflected the fact that the department had outstanding obligations with school districts

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)	$5,132,187	$5,267,092	($134,905)	$4,794,835	7.04%
Higher Education	$2,432,758	$2,428,104	$4,654	$2,301,054	5.72%
Total Education	$7,564,945	$7,695,196	($130,251)	$7,095,889	6.61%
Health Care/Medicaid	$5,525,570	$5,517,794	$7,776	$5,229,514	5.66%
Temporary Assistance to Needy Families (TANF)	$863,735	$789,436	$74,299	$787,849	9.63%
General/Disability Assistance	$59,676	$58,157	$1,520	$57,836	3.18%
Other Welfare (2)	$449,245	$498,025	($48,780)	$401,552	11.88%
Human Services (3)	$1,130,086	$1,164,874	($34,788)	$1,086,584	4.00%
Total Welfare & Human Services	$8,028,311	$8,028,286	$26	$7,563,334	6.15%
Justice & Corrections	$1,750,784	$1,769,892	($19,107)	$1,592,197	9.96%
Environment & Natural Resources	$135,976	$134,110	$1,866	$120,836	12.53%
Transportation	$41,540	$49,672	($8,132)	$35,319	17.61%
Development	$133,864	$133,878	($15)	$117,946	13.50%
Other Government (4)	$368,959	$422,062	($53,103)	$356,065	3.62%
Capital	$17,427	$12,600	$4,827	$9,818	77.50%
Total Government Operations	$2,448,551	$2,522,214	($73,663)	$2,232,181	9.69%
Property Tax Relief (5)	$1,055,427	$1,084,966	($29,540)	$1,000,948	5.44%
Debt Service	$146,385	$127,527	$18,859	$124,510	17.57%
Total Program Payments	**$19,243,619**	**$19,458,188**	**($214,569)**	**$18,016,862**	**6.81%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	—
Budget Stabilization	$46,400	$46,400	$0	$44,184	5.01%
Other Transfers Out	$766,956	$720,569	$46,387	$1,140,709	-32.76%
Total Transfers Out	$813,356	$766,969	$46,387	$1,184,894	-31.36%
TOTAL GRF USES	**$20,056,975**	**$20,225,157**	**($168,182)**	**$19,201,756**	**4.45%**

(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.

that would have to be honored at some future point in time.

Teacher Incentive Grants. The department's biennial budget contained a $5.0 million FY 2000 appropriation for the purpose of providing one-time incentive grants to qualified reading, mathematics, and science teachers. This new grant program started slower than was anticipated, and, as a result, only disbursed 2.2 percent of its FY 2000 appropriation by year-end. The remainder of the FY 2000 appropriation, $4.9 million, was encumbered with the intent that the funds would most likely be disbursed sometime during the fiscal half of FY 2001.

Maintenance and Equipment. The $4.1 million underage in the Maintenance and Equipment line item was almost entirely related to FY 2000 funding that was reserved for expenses associated with the department's planned move from the Ohio Departments Building. As that move had yet to occur, $4.0 million was still sitting unencumbered in the line item's available balance. Pursuant to temporary law in the department's biennial budget, this unencumbered funding will automatically be transferred into FY 2001 to pay for moving costs.

Notable Overage. The lone notable overage in the department's budget was registered by the pupil transportation program ($8.4 million). The bulk of the overage was traceable to a May Controlling Board action that transferred $7.4 million from various departmental line items into the pupil transportation program to cover school district costs associated with open enrollment.

Encumbrances. The department entered FY 2000 carrying $143.1 million in encumbered funding from prior fiscal years. At year-end, of that encumbered total, $95.1 million, or 66.4 percent, was disbursed, $31.3 million, or 21.9 percent was still encumbered for future disbursement, and $16.7 million, or 11.7 percent, had been cancelled and returned to the state treasury.

The department's current year funding for the just completed FY 2000 totaled $5.0 billion, of which $122.2 million was encumbered at year-end for disbursement at some future point in time. In order of magnitude, the largest components of this encumbered total were tied to base cost funding ($58.6 million), bus purchases ($8.9 million), disadvantaged pupil impact aid/DPIA ($6.6 million), vocational education enhancements ($6.3 million), and teacher incentive grants ($4.9 million). Timing was at the root of encumbering these subsidies. More specifically, base cost funding was encumbered to allow the department to pay for various outstanding set aside obligations and to make final subsidy payment adjustments. Bus purchase funding was held since subsidy distributions are generally not made until school districts take delivery of their new vehicles. DPIA funding was encumbered to cover outstanding set aside program payments for the Cleveland scholarship, alternative education, and school breakfast programs, as well as to make final subsidy payment adjustments. The vocational education program encumbered funding that covers various earmarked purposes. Lastly, the new teacher incentive grant program started slowly, effectively delaying the need for funding until FY 2001.

Human Services. For FY 2000, disbursements for the Department of Human Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF, and Disability Assistance, and which are tracked under separate components of the Welfare & Human Services program category — landed $48.8 million, or 9.8 percent, under the estimate.

Roughly one-quarter of the underage ($12.8 million) occurred in the department's line item 400-416 and was attributable to 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). Of the line item's underage, $9.2 million was encumbered for disbursement in FY 2001, while the remainder represented $3.6 million in encumbered funding from the prior fiscal year that was cancelled and returned to the state treasury. Our tracking of actual versus planned disbursements on computer projects was complicated by a $20.0 million September increase to the line item's original $99.0 million FY 2000 appropriation that was accomplished under a temporary law provision in the current biennial budget. That provision authorized the Office of Budget and Management to transfer that amount in cash receipts from the department's Fund 5C9, Medicaid Program Support Fund, to the state's GRF for various enumerated purposes, including computer projects, child care, food banks, and child nutrition services. The transfer of that $20.0 million was not built into the line item's FY 2000 disbursement estimates.

A secondary contributor to the year-end underage was line item 400-504, non-TANF county administration, which posted disbursements shy of the estimate by $9.8 million. Almost all of the line item's underage was composed of funding encumbered from FY 1999 that was being kept readily at hand by the department so that any payments counties may be due as part of the state's reconciliation process can be quickly disbursed.

More distant factors in the year-to-date underage included, in order of magnitude: the timing of various subsidy payments ($7.4 million), the cancellation of FY 1999 encumbrances ($6.5 million), a delayed children's health insurance expansion ($5.7 million), a lower than anticipated food stamp caseload ($4.5 million), and the July 1 merger with the Ohio Bureau of Employment Services that may have affected the department's handling of staff attrition and retirement ($1.6 million).

Property Tax. For the year, the Property Tax Relief program landed with a $29.5 million underage, an amount that included $24.3 million in real property tax credits/exemptions funding and $5.2 million in tangible credits/exemptions funding. Of this underage, $15.3 million was encumbered for disbursement in FY 2001, $4.9 million was left behind as an unencumbered FY 2000 available balance, and $9.3 million represented the cancellation of encumbered FY 1999 funding that was allowed to lapse back into the state treasury.

Over the course of FY 2000, the departments of Education and Taxation disbursed $1.1 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 these distributions depended heavily on how quickly the settlement process went at the local level and when county auditors applied to the state for relief payments. Not unexpectedly during FY 2000 that timing was off, and, as a result, we witnessed large negative and positive disbursement variances in the Property Tax Relief program from one month to the next.

Administrative Services. At the close of FY 2000, the Department of Administrative Services had a negative year-to-date disbursement variance of $22.3 million, 14.4 percent below the estimate. The department's FY 2000 disbursement storyline itself tracked very closely to our year-end reports covering fiscal years 1998 and 1999, as a huge portion of this annual underage (84.8 percent) was a function of: (1) lower than expected payments for rent and operating costs on certain state-owned buildings; and (2) slower than expected disbursements on computing and communications services to other state agencies. More specifically, four building rent and operating payment line items (100-433, 100-447, 100-448, and 100-449) produced underspending that totaled $10.7 million, while four computing and communications line items (100-416, 100-417, 100-419, and 100-430) created underspending that totaled $8.2 million.

OBA Buildings. The lead element in the department's underage was line item 100-447, OBA - Building Rent Payments, with $4.7 million. Of the line item's $89.4 million FY 2000 appropriation intended to cover debt service payments on state office buildings, $78.5 million was disbursed. The remainder, $10.9 million, was unneeded and left as the unencumbered available balance. Of this unencumbered available balance, $6.2 million was expected and the additional $4.7 million resulted from lower than forecast debt service needs. This underspending and resulting unencumbered available balance, however, was not unique to FY 2000, and, in fact, followed a trend from prior years in which actual debt service payments have been noticeably less than the estimate.

It appears that two factors lie at the root of this annual trend in debt service underspending. First, there are the conservative debt service guidelines established by the state's bond counsel, which create a pressure to increase related appropriations. Second, there is a quirk in state law. Under current bonding requirements, the department must include debt service payment estimates on all Ohio Building Authority-operated (OBA) properties statewide. The department, however, actually ends up paying debt service on fewer buildings than the number that is used to calculate its annual debt service payments. This is because in reality local agencies housed in OBA buildings, such as those located in Akron, Cleveland, and Toledo, pay their own debt service (rental costs) on the spaces they occupy and not the Department of Administrative Services.

MARCS. The second key piece in the department's underage was line item 100-417, MARCS, with $3.8 million. Of the line item's $5.9 million FY 2000 appropriation intended to pay operating and administrative costs incurred by the department in the development and implementation of the multi-agency statewide radio communications system known as MARCS, $2.3 million was disbursed, $1.1 million was encumbered, and $2.5 million was unneeded and left as the unencumbered available balance. The department indicated that it planned to request Controlling Board approval to transfer this unencumbered available balance from FY 2000 into FY 2001.

Various events transpired during the year that delayed the MARCS project and accounted for the rather sluggish disbursement activity. At the outset of the fiscal year, the department was required to make some changes to the technical aspects of the plan related to microprocessors, switches, and so forth. Also "Phase 1A" of the build-out stage of the project, which involves setting up the system throughout central Ohio, was hampered by the difficulty in finding acceptable tower locations and arranging leases for these sites. The ideal sites were often too close to other tower sites, and the lease negotiation process turned out to be more complex than originally foreseen. This tower location and site leasing process was expected to be less problematic in the future as the project evolves to areas of the state that are less densely covered with existing microwave and cellular towers.

Strategic Technology. Another notable contributor to the department's underage was line item, 100-416, Strategic Technology Development Programs, with $2.9 million. Of the line item's $4.3 million FY 2000 appropriation for technology initiatives, $1.9 million was disbursed and around $850,000 was encumbered. The remainder of the FY 2000 appropriation, $1.5 million, was unneeded and left as the unencumbered available balance, reflecting unanticipated delays that hit various technology projects. The projects handled by the department in FY 2000 included a number of software and programming upgrades for the Department of Job & Family Services, as well as a slew of pilot initiatives for smaller state agencies that do not have the technical expertise to develop their own technology-based systems. The department indicated that it planned to request Controlling Board approval to transfer this unencumbered available balance from FY 2000 into FY 2001 for use on ongoing technology projects, as well as to support the Governor's E-Commerce initiative.

By executive order in March 2000, the Governor formed the Council on E-Commerce, a steering committee composed of state agency directors that, with the assistance of various technical and legal staff, will be responsible for guiding the development of a coherent state

Internet presence. The initiative is intended to: (1) convert much of the paper license application and renewal process to electronic format; and (2) allow the state to take advantage of "B2B" — business-to-business — technologies that have saved private industry millions of dollars. Many firms now buy bulk supplies and fuel, and acquire raw materials on-line at guaranteed rates. It is envisioned that the state should be able to take advantage of the same technology in order to reduce future equipment and supply acquisition costs, especially on state-term contracts. (The recently passed capital appropriations and budget modifications act, Am. Sub. H.B. 640, provided the department with an additional FY 2001 appropriation of $1.8 million for the E-Commerce initiative.)

Veterans' Records Conversion. The department also received a $1.0 million biennial appropriation (line item 100-410) to convert veterans' records to an electronic image format to replace an existing labor-intensive records management system that takes up vast amounts of storage space. Of the $500,000 in funding that was available in FY 2000, none was disbursed, as the department solicited proposals to perform the records conversion task and found that the bids far exceeded the amount appropriated. Rather than proceed piecemeal, the department opted to defer the project while revisiting its strategy.

Innovation Ohio. One of the smaller human resources programs that the department administered during FY 2000 was Innovation Ohio, a reward program that offers state employees cash prizes of up to $5,000 for generating ideas that save money and improve the quality of state services. Early on in the fiscal year, many of the money-saving ideas were coming from employee teams, and, as a result, the department found itself awarding cash prizes at a pace that was going to quickly eat up the program's original FY 2000 appropriation of $150,000. Pursuant to approval of the Controlling Board, the program's FY 2000 appropriation was bumped up by $200,000 to cover the unexpected costs. In light of this development, the department started in on reworking its rules for the program, with one likely outcome being that cash awards won't be quite as generous in the future.

Mental Retardation. The Department of Mental Retardation & Developmental Disabilities closed June with a negative year-to-date disbursement variance of $19.0 million, under the estimated spending of $351.9 million by 5.4 percent. The story behind that underage was unchanged from our last few monthly reports on the department's spending activity. At the center of the underage was line item 322-413, Residential and Support Services, which has dominated the department's disbursement picture since January. The line item, which carries funding to pay for services delivered to individuals with mental retardation or developmental disabilities, ended FY 2000 with a $17.8 million underage. The underspending was related to the difficulty in 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. At year-end, most of this unspent Residential and Support Services funding had been encumbered by the department for disbursement in FY 2001.

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 that involved the appropriateness of placing certain individuals in nursing facilities. Virtually all of this unspent Sermak funding was encumbered for disbursement in FY 2001.

We'd also like to remind the reader that the department is in the rare position of having some statutory protection from the losing certain GRF appropriations that are not disbursed or encumbered at the close of the fiscal year. Under section 5123.352 of the Revised Code, which was enacted by Amended Substitute Senate Bill 21 of the 120th General Assembly, the director of the department is required, not later than 60 days after the end of each fiscal year, to certify to the Office of Budget and Management (OBM) the amount of all the unexpended, unencumbered balances of GRF appropriations made to the department for the fiscal year, excluding debt service appropriations. On receipt of the certification, OBM must transfer that amount to the Community Mental Retardation and Developmental Disabilities Trust Fund (Fund 4U4). All moneys credited to the trust fund must be used to provide temporary funding to county boards of mental retardation and developmental disabilities and to pay the expenses of members of the trust fund's advisory board.

This year the department will be in a position to transfer approximately $637,485 in unspent FY 2000 GRF appropriations to the credit of Fund 4U4. When combined with its unencumbered cash balance of $282,004 at the close of FY 2000, the fund's FY 2001 available cash balance will rise to slightly in excess of $900,000. How much, when, and on what Fund 4U4's cash balance might be spent in FY 2001 is unclear at this time.

Rehabilitation & Correction. For the year, the Department of Rehabilitation & Correction's disbursements registered $18.8 million, or 1.4 percent, lower than was originally forecast. All of the disbursement variance was traceable to the timing of spending on day-to-day prison operations (personal services, maintenance, and equipment). As a result of the underage, the department closed FY 2000 with a larger than expected amount of encumbered funding, primarily for the acquisition of new and replacement technology (networking equipment, teleconferencing units, security system enhancements, and so forth) and the payment of various outstanding medical services invoices (purchased personal services contracts and drug supplies).

Controlling Board. The Controlling Board's budget chipped in a year-to-date underage totaling $14.3 million, all of which showed up in the month of June. We previously noted this underage in our discussion of the state's June disbursement variance and judged it to be no more than an accounting adjustment.

Health. The Department of Health closed FY 2000 with disbursements that were $11.3 million, or 12.3 percent, below the estimate. From among the department's 25-plus GRF line items, we identified, in order of magnitude, the following three line items as prime culprits in this underspending: (1) 440-505, Medically Handicapped Children ($3.0 million); (2) 440-418, Immunizations ($2.6 million); and (3) 440-459, Ohio Early Start ($1.6 million). As suggested in our prior reports, a strong force in the Medically Handicapped Children program's underspending appeared to lie in the program's caseload, which 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. At year-end, $2.5 million of the funding associated with the Medically Handicapped Children underage was encumbered to cover the possibility of late arriving FY 2000 subsidy payment requests; the remainder, close to $600,000, was left in the line item's unencumbered available balance. The underage in line item 440-418, which is used to purchase vaccines for immunizations against communicable diseases, generally reflected the fact that the department had not as yet replenished its stock of vaccines. Most of the funding associated with the immunization underage was encumbered at year-end. In the case of Ohio Early Start, a program that provides state funding to participating counties for direct services to high-risk children under age three, the underage was tied to lower than expected subsidy distributions.

There were two other items of note in the Department of Health's FY 2000 disbursement story: (1) the Cancer Registry; and (2) the Kid's Card program. The current biennial budget contained a relatively significant jump in annual funding (line item 440-412) intended to improve the department's handling of the Ohio Cancer Incidence Surveillance System, which included temporary law directing it to establish a partnership with The Ohio State University (OSU). The department spent the first half of FY 2000 working with OSU to formalize their new working agreement, a process that noticeably slowed disbursement activity. In the latter half of FY 2000, that agreement was put into place and disbursement activity accelerated.

Kid's Card was a relatively small $250,000 initiative under which the department was to produce and send to families with children, age 5 and under, a card, similar to the Golden Buckeye Card, that would allow card holders to receive a discount on merchandise at participating vendors, and to recruit vendors to participate in the program. Planning for the new program moved slowly, and, as a result, only 5.4 percent of its FY 2000 appropriation was disbursed. Virtually all of the unspent appropriation was encumbered to cover outstanding printing costs.

Transportation. The Department of Transportation closed FY 2000 with a negative disbursement variance of $8.1 million, under the estimate by 16.4 percent. The underspending was largely traceable to timing factors that affected the department's public transportation, rail transportation, and aviation programs. Roughly one-half of the underspending actually occurred in the public transportation program's capital assistance component, which provides financial assistance to local and regional transit systems for the procurement of vehicles and support equipment and the construction of facilities. This disbursement variance largely reflected how timing affects when eligible transit systems will draw on state financial assistance.

Auditor. The Auditor of State ended FY 2000 with a negative disbursement variance of $6.0 million, under the estimate by 13.8 percent. Two principal forces combined to create the Auditor's underage: (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. Their effect was most pronounced on the two line items that accounted for over 90 percent of the underage: (1) 070-321, Operating Expenses, which covers personnel, maintenance, and equipment costs; and (2) 070-406, Uniform Accounting Network/Technology Improvements Fund, which pays for the development and operation of a financial accounting computer system for townships, villages, and libraries, as well as for implementing new technologies within the Auditor's office. Although the Auditor's operating expenses line item posted a $3.1 million underage for the year, most of the associated funding was encumbered to make computer software purchases. In dramatic contrast, most of the unspent funding in the Auditor's network/technology line item ($2.5 million) was not encumbered, but instead was left in the available balance. Under temporary law in the Auditor's budget, this unencumbered balance will automatically be transferred into FY 2001 for uniform accounting network expenses and technology improvements.

Mental Health. Early in FY 2000, the Department of Mental Health developed a sizeable negative year-to-date disbursement variance that peaked at $54.1 million, or 14.9 percent below the estimate in January. That trend, however, was subsequently reversed as the department posted overages in every month from February through June, cutting the negative year-to-date disbursement variance to the point that it was only $3.8 million, or 0.7 percent below the estimate, at the end of FY 2000.

The source of the rather sizeable monthly underages and overages that developed during the fiscal year was the department's three largest subsidy line items (334-408, Community & Hospital Mental Health Services; 335-502, Community Mental Health Programs; and 335-508, Services for Severely Mentally Disabled), which county mental health boards use to fund their operating costs and mental health services provider contracts. These subsidy funds were distributed to the county boards on a quarterly basis at each board's request.

At the start of FY 2000, county boards began submitting Medicaid bills through a new electronic system. Under the new system, county boards have to identify their local share of Medicaid funds when submitting their claims. The department was concerned that this change could create cash flow problems for these county boards. To prevent any such cash flow problems, the department allowed the county boards to draw down subsidy funds one quarter early during FY 2000. The department's disbursement estimates were adjusted to reflect this shift. Few county boards, however, chose to draw down funds early. As a result, actual monthly and year-to-date disbursements were well under the estimate for the first half of FY 2000 and well over the estimate for the second half of FY 2000.

Library Board. The State Library Board – an information and research services arm of state government – closed the fiscal year holding a negative year-to-date disbursement variance of $3.6 million, or 17.7 percent. The main source of the negative year-to-date disbursement variance was a $2.6 million underage in equipment and maintenance spending, primarily due to a delay in the board's planned relocation from the Ohio Departments Building and an unanticipated decline in office space rental payments. Another factor contributing to the underage was a savings of around $600,000 that had developed in the Ohio Public Library Information Network (OPLIN) budget through use of the federal government's E-rate discount program for technology purchases.

Of the board's $3.6 million in FY 2000 underspending, $2.0 million was encumbered for disbursement in FY 2001 and around $272,000 was transferred into FY 2001 by action of the Controlling Board to handle anticipated increases in office space rental payments. The remainder, $1.3 million, was left sitting in the board's available FY 2000 GRF balance, and effectively under the control of the Office of Budget and Management. The board has indicated that they intend to approach the Controlling Board with a plan to transfer around $1.0 million of this available FY 2000 GRF balance into FY 2001 to handle budgeted moving expenses that will be incurred later than was originally assumed.

Notable Overages. There were six notable overages totaling $114.2 million in the state's year-end disbursement picture, all of which are discussed below.

TANF. The pre-existing year-to-date underage in the Temporary Assistance to Needy Families (TANF) program was finally wiped out in May. At the close of February, the year-to-date TANF underage hit what at that moment was its peak — $57.3 million — reflecting the effects of the program having posting underages in every month with the exception of December. Over the course of the remainder of FY 2000, TANF threw in four consecutive months of overages totaling $131.6 million, the result of which was, at the end of June, the program closed with a year-end overage of $74.3 million, in excess of the estimate by 9.4 percent. This development was the direct result of FY 2000 appropriation increases in two of TANF's GRF components — line items 400-411, TANF Federal Block Grant, and 400-413 Day Care Match/MOE — that we noted in our May and June issues. As a result, the two line items were able to overshoot their year-to-date estimate by $68.9 million and $7.3 million, respectively. These increased appropriations were made to provide additional funding for county advances and incentives, cash assistance, and day care. (For a more comprehensive treatment of TANF issues, the reader is directed to the TANF spending update in this issue authored by Steve Mansfield.)

Debt Service. Driven largely by unexpected debt service needs, the Debt Service program category closed with a year-end $18.9 million overage, beyond the estimated annual disbursement of $127.5 million by 14.8 percent. The principal source of the overage was the enactment of legislation that: (1) authorized up to $300 million in bonding authority for paying the costs of facilities for a state system of common schools and state-supported and state-assisted institutions of higher education; and (2) provided additional GRF appropriations in each of fiscal years 2000 and 2001 to cover the related debt service payments. As noted in our preceding discussion of the June disbursement variance, the need to service this new debt emerged after the original FY 2000 spending forecast was assembled.

Medicaid. For the year, Medicaid posted an overage of $7.8 million, beyond the estimate by 0.1 percent. The reader is referred to part III of this article for a more detailed treatment of the Medicaid program, including disbursements and caseloads.

Regents. The Board of Regents closed with a year-to-date positive disbursement variance of $4.8 million, an overage of only 0.2 percent in the context of $2-plus billion in spending authority. The overage arose primarily from 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 estimate, which guaranteed that the line item could produce nothing but overages. As a result, the line item posted a year-end overage of $13.8 million, reflecting the actual amount of the $17.5 million FY 2000 appropriation that was disbursed. Of the remainder, $500,000 was encumbered and $3.2 million was left in the line item's unencumbered available balance. This latter amount represented FY 2000 funding that was not needed, mainly because fewer students were eligible for the $500 scholarship than was assumed in building the program's appropriation.

The effect of this one large overage was in turn diluted by underages located in numerous other Regents' line items, most notably 235-599, National Guard Tuition Grant Program, which provides tuition assistance to individuals who enlist, extend or re-enlist in the Ohio National Guard for a six-year period. The program, administered by the Adjutant General with fiscal services from Regents, spent $3.0 million less of its $9.4 million FY 2000 appropriation than was originally forecast, a fact that was attributed to a lower than expected number of enrollees, delays in data submittals by some higher education institutions, and the length of time it takes to process funding applications. Of that underspent amount, $2.4 million was left in the line item's FY 2000 unencumbered available balance, while a much smaller amount, $500,000, was carried into FY 2001 as part of a larger than anticipated $1.5 million encumbrance. The Adjutant General remained optimistic that enrollments would rise as the program is marketed and the number of personnel finishing required military training, and therefore becoming eligible for tuition assistance, increases over the next few years.

Also in this assortment of underages was the Ohio Instructional Grant (OIG) program (line item 235-503), signaling that the number of needy Ohio students drawing this financial assistance over the course of the prior and current academic school years was less than originally forecast. As a result of this lower OIG grant utilization, $7.1 million in encumbered FY 1999 OIG funding lapsed ($1.1 million more than anticipated), and $5.0 million in FY 2000 OIG funding was left in the line item's unencumbered available balance ($4.8 million more than anticipated). The size of the FY 2000 unencumbered available balance reflected underspending of close to $900,000 plus a larger $3.9 million amount that was not encumbered as planned. This reduction in FY 2000 encumbrances from the planned amount of around $11.0 million to $7.0 million reflected Regents' recent implementation of an improved methodology used in the forecasting of OIG grant utilization.

Other FY 2000 underages included: (1) information technology grants ($1.0 million); (2) Student Choice Grants (close to $700,000); and (3) college readiness funding (around $530,000) most of which will be disbursed in FY 2001.

Capital. Due to unanticipated spending by the Department of Administrative Services, the Capital program category of the state's GRF budget ended FY 2000 with a $4.8 million year-to-date overage, past the estimate by 38.3 percent. As reported in a few of our recent issues, a chunk of capital funding earmarked for various rural and urban community assistance projects was released earlier than expected by the Controlling Board; the original forecast assumed these capital earmarks would not be distributed until FY 2001.

Natural Resources. At year-end, the Department of Natural Resources' disbursements registered $2.1 million, or 1.9 percent, over the estimate. The source of the 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.

There were two other notable aspects to the department's FY 2000 disbursement picture. The first notable aspect was a new $2.0 million departmental GRF subsidy 725-507, Conservation Reserve Enhancement Program (CREP), a state-federal conservation partnership program targeted to address specific state and nationally significant water quality, soil erosion, and wildlife habitat issues related to agricultural use. The program's intent was to offer financial incentives to encourage farmers and ranchers to voluntarily enroll in contracts of 10-to-15 years in duration to remove lands from agricultural production.

The purpose of the department's CREP subsidy was to provide 20 percent in state matching money that in turn drew 80 percent in federal funding. In other words, each $1 of state funds attracted $4 in federal money. During the first half of FY 2000, no disbursement activity occurred, as the department's Division of Soil and Water was focused on negotiating with the U.S. Department of Agriculture relative to the federal share of CREP. In April, with the programmatic details ironed out, the division disbursed virtually all of their FY 2000 CREP subsidy funding.

The second notable aspect of the department's FY 2000 disbursements was the $647,179 unencumbered balance in line item 729-321, which supports the annual operating expenses of the Office of Computers & Communications, a group charged with various technological responsibilities, including radio, voice and data networks, server management, data processing, and geographical information systems. This meant that over half of the line item's $1.2 million appropriation remained unspent at the end of FY 2000. The department stated that this unspent FY 2000 funding was tied to its involvement in the state's slowly developing Multi-Agency Radio Communications System (MARCS) and also indicated that it would probably approach the Controlling Board for approval to transfer this unspent funding into FY 2001.

GA/DA. At year-end, the state's General Assistance/Disability Assistance program component was holding a $1.5 million positive year-to-date disbursement variance, over the estimate by 2.6 percent. The key facet in the FY 2000 disbursement story was unexpected expenditure increases in 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, the DA program posted a string of uninterrupted monthly overages that ran from September through May. The year-to-date overage would have been even higher were it not for a decision to hold off making a portion of June's payments until July and the start of a new fiscal year. Prior to June, the DA program's monthly disbursements were averaging $5.2 million. In June, DA program disbursements only totaled roughly half that amount ($2.5 million).

The predominant reason for the year-to-date overage was the cash assistance caseload, whereas the medical assistance caseload's monthly average number of cases actually finished the year below the number forecast by the department. This was a fortunate result since the medical caseload generates over 60 percent of the total cost of the DA program. The cash assistance monthly average number of cases, on the other hand, exceeded the department's forecast by about 1,050 cases per month. At the end of June, there were about 12,000 recipients of DA medical assistance, and about 10,800 cash assistance recipients.

The DA program's original FY 2000 appropriation was $58.2 million. With the cash assistance caseload slowly but unexpectedly increasing and a budget shortfall on the 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 act. Relative to the DA program's adjusted FY 2000 appropriation of $60.3 million, $59.7 million was disbursed, with all of the remainder, just shy of $600,000, encumbered for a July disbursement.

III. Medicaid

In FY 2000, disbursements from the $5-plus billion Medicaid program departed from their recent history of salutary contributions to the state's fiscal picture by posting a $7.8 million year-end overage. It was also a 12-month period in which the Medicaid program featured a wild mix of monthly overages and underages, with the nature and size of the year-end disbursement variance very much in doubt until the waning moments of FY 2000.

Appropriations. With regard to the program's original FY 2000 GRF appropriation of $5.514 billion, few dramatic changes were made until the fiscal year curtains were readied for a close in June. At that time, a series of requests were approved by the Controlling Board that increased the program's total all funds FY 2000 appropriation authority by $110.0 million to address a projected funding shortfall, which included adding $17.4 million to the program's GRF line item and $92.6 million in various non-GRF funding streams.

As a result of this late June action, combined with considerably smaller prior appropriation changes, Medicaid's original FY 2000 GRF appropriation was adjusted up to $5.530 billion. (Prior to the June adjustment, the only noticeable change to the program's FY 2000 appropriation authority involved a Controlling Board-approved transfer of $1.2 million into another departmental line item to cover certain Medicaid contract payments.) Of this adjusted FY 2000 appropriation, $5.525 billion was disbursed, $5.3 million was encumbered for disbursement in FY 2001, leaving an available balance of $544,710.

As mentioned, covering the program's projected $110.0 million FY 2000 deficit was also accomplished by hitting a much larger $92.6 million in non-GRF funds. The specific source of these non-GRF funds was the state's Institutions for Mental Diseases/Disproportionate Share Hospital (IMD/DSH) Program. The IMD/DSH funds tapped included a mix of $54.3 million in federal money (Health Care Federal) and $38.3 million in state money (Medicaid Program Support). Of this $92.6 million increase in FY 2000 non-GRF appropriation authority, $57.1 million was disbursed, and $35.5 million was encumbered for disbursement in FY 2001.

Service Category Spending. Table 6, "Medicaid Spending (400-525) in FY 2000," shows a breakdown of FY 2000 Medicaid disbursement variances by major service category for the month of June and year-to-date. Table 7, "FY 2000 to FY 1999 Comparison of Year-to-Date Spending," contains disbursements for fiscal years 1999 and 2000 by major service category. The growth in disbursements and the percentage changes from FY 1999 to FY 2000 are shown in data columns 3 and 4 of Table 7, respectively.

June. For June, Medicaid registered a negative disbursement variance of $81.2 million, which was 16.9 percent below the monthly estimate of $479.6 million. The underage was primarily due to Controlling Board action that increased the FY 2000 appropriation authority in other Medicaid related line items that allowed

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

	June '00				Year-to Date Spending			
Service Category	**Actual**	**Estimate**	**Variance**	**Percent Variance**	**Actual** thru' June**	**Estimate** thru' June**	**Variance**	**Percent Variance**
Nursing Homes	$180,797,041	$185,187,673	($4,390,632)	-2.4%	$2,110,779,043	$2,169,890,578	($59,111,535)	-2.7%
ICF/MR	$29,843,993	$30,059,710	($215,717)	-0.7%	$352,235,439	$356,105,766	($3,870,327)	-1.1%
Hospitals	$79,311,637	$93,668,458	($14,356,821)	-15.3%	$1,261,297,915	$1,209,537,459	$51,760,456	4.3%
Inpatient Hospitals	$56,816,485	$72,315,846	($15,499,361)	-21.4%	$938,775,777	$931,920,495	$6,855,282	0.7%
Outpatient Hospitals	$22,495,152	$21,352,612	$1,142,540	5.4%	$322,522,137	$277,616,964	$44,905,173	16.2%
Physicians	$23,084,670	$24,902,197	($1,817,527)	-7.3%	$323,345,086	$301,120,565	$22,224,521	7.4%
Prescription Drugs	$62,949,907	$65,019,827	($2,069,920)	-3.2%	$669,107,626	$668,254,980	$852,646	0.1%
Payments	$66,661,863	$66,322,646	$339,217	0.5%	$840,075,404	$826,109,739	$13,965,665	1.7%
Rebates	$3,711,955	$1,302,819	$2,409,136	184.9%	$170,967,778	$157,854,759	$13,113,019	8.3%
HMO[2]	$31,647,029	$33,571,316	($1,924,287)	-5.7%	$331,212,972	$239,940,052	$91,272,920	38.0%
Medicare Buy-In	$10,168,593	$11,150,886	($982,293)	-8.8%	$121,342,841	$131,537,591	($10,194,750)	-7.8%
All Other***	$37,658,981	$36,062,976	$1,596,005	4.4%	$526,949,477	$441,406,846	$85,542,631	19.4%
TOTAL[3]	$398,385,032	$479,623,043	($81,238,011)	-16.9%	$5,525,569,749	$5,517,793,837	$7,775,912	0.1%
CAS	$398,385,031		($81,238,012)	-16.9%	$5,525,569,750		$7,775,913	0.1%
Est. Federal Share	$232,393,128	$279,782,347	($47,389,219)		$3,223,274,807	$3,218,738,821	$4,535,986	
Est. State Share	$165,991,904	$199,840,696	($33,848,792)	-16.9%	$2,302,294,944	$2,299,055,016	$3,239,928	0.1%

* 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 = $360.4 million.

3. Please note that for FY 2000, including the month of June, details do not add to the total, since payments of $57,076,819 are coded to IMD/DSH related accounts (per CB approval of 6/19/2000). For the year-to-date, IMD/DSH offset of $113,623,831 is applied to the bottom line & not HMO payments as planned.

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

for the offset of GRF expenditures with $57.1 million in payments from the previously discussed IMD/DSH–related accounts. In addition, payments for Inpatient Hospitals services fell below the monthly estimate by $15.5 million, or 21.4 percent, while payments for Nursing Homes services contributed $4.4 million to the June underspending, 2.4 percent below the monthly estimate.

Working against the program's June underage were two service categories: (1) Outpatient Hospitals service payments, which posted a $1.1 million (5.4 percent) overage; and (2) All Other service payments, which registered $1.6 million (4.4 percent) above the monthly estimate.

Year-to-Date. Medicaid disbursements for health care services, in a year where spending ran close to the estimate until the last quarter, ended FY 2000 with $5.525 billion in GRF payments, which was $7.78 million, or 0.1 percent, above the original disbursement estimate calculated back in the summer of 1999.

There were essentially three services categories that pushed Medicaid's FY 2000 disbursements above the annual estimate: (1) All Other ($85.5 million); (2) Hospitals ($51.8 million), with an overage in Outpatient payments of $44.9 million; and (3) Physicians ($22.2 million). Somewhat counterbalancing the collective power of these service category overages was the Nursing Homes service category with an underage of $59.1 million.

Also notable in Medicaid's FY 2000 disbursements was the apparent overspending ($91.3 million) in the HMO service category when a "lower" spending level was planned. What transpired here was that the Department of Human Services had planned to use $142.8 million from the non-GRF IMD/DSH Program to cover HMO service payments in FY 2000. As reported in previous issues, rather than crediting the transferred IMD/DSH funds specifically against the HMO service category, the department opted to credit the funds against Medicaid's GRF "bottomline" disbursements (see footnotes 2 and 3 in Table 6). The amount transferred to the GRF in FY 2000 was $142.8 million, with only $29.1 million of that amount actually used specifically to offset HMO payments in January 2000 as originally planned.

Table 7

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

Service Category	FY 2000[1] Yr.-to-Date as of June '00	FY 1999[2] Yr.-to-Date as of June '99	Variance	Percent Variance
Nursing Homes	$2,110,779,043	$1,967,983,642	$142,795,401	7.3%
ICF/MR	$352,235,439	$343,556,772	$8,678,667	2.5%
Hospitals	$1,261,297,915	$1,185,617,634	$75,680,281	6.4%
Inpatient Hospitals	$938,775,777	$901,702,939	$37,072,838	4.1%
Outpatient Hospitals	$322,522,137	$283,914,695	$38,607,442	13.6%
Physicians	$323,345,086	$289,566,368	$33,778,718	11.7%
Prescription Drugs	$669,107,626	$597,537,375	$71,570,251	12.0%
Payments	$840,075,404	$735,509,303	$104,566,101	14.2%
Rebates	$170,967,778	$137,971,928	$32,995,850	23.9%
HMO[3]	$331,212,972	$299,541,273	$31,671,699	10.6%
Medicare Buy-In	$121,342,841	$121,762,936	($420,095)	-0.3%
All Other***	$526,949,477	$423,948,138	$103,001,339	24.3%
TOTAL	$5,525,569,749	$5,229,514,138	$296,055,611	5.7%
Est. Federal Share	$3,223,274,807	$3,055,605,111	$167,669,696	5.5%
Est. State Share	$2,302,294,944	$2,173,909,027	$128,385,917	5.9%

* 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. Total program payments for HMO coverage of eligibles in FY 2000 = $360.4 million.

Caseloads. The total number of persons eligible for Medicaid grew by 0.8 percent from 1,095,717 in FY 1999 to 1,104,384 in FY 2000 (see Table 8, "Ohio Medicaid Eligibles"). This overall growth in the total number of Medicaid enrollees surpassed budgetary estimates by 2.0 percent.

The consistent increases in the number of children enrolled in Medicaid by way of Healthy Start and CHIP-1 (labeled as CHIP/HS-1 in Table 8), a trend that started in FY 1997, has been the primary driving force behind the growth in total caseload. The Healthy Start population grew by 9.9 percent from FY 1999 to FY 2000, following a 22.7 percent increase from FY 1998 to FY 1999, while the CHIP-1 population increased by 32.9 percent from FY 1999 to FY 2000.

In contrast, the Ohio Works First-related eligibility group, which dropped by 13.8 percent from FY 1998 to FY 1999, declined further in FY 2000, but at a slower pace of 4.8 percent to a monthly average of 476,580 persons. This slowed decline was due largely to the increased enrollment of covered low-income families not receiving cash assistance. Although OWF-related Medicaid eligibility has declined in recent years, due primarily to the decline in the OWF cash assistance caseload, it remains the largest Medicaid eligibility group, representing 43.2 percent of all eligibles in FY 2000.

Until recently, the other major component of the Medicaid caseload — the Aged, Blind, and Disabled (ABD) population — had been increasing, as was evident by an annual growth rate in the first half of the 1990s that averaged 7.6 percent. The numbers for fiscal years 1997, 1998 and 1999, however, suggested a stabilizing or decrease in the ABD caseload was afoot, as an almost imperceptible percentage increase of 0.3 percent was posted in FY 1997, followed by a 2.2 percent drop in FY 1998, and another 0.3 percent decline in FY 1999. In FY 2000, the downward trend in the ABD population was interrupted by a 1.1 percent increase in the caseload.

Table 8
Ohio Medicaid Eligibles
(Average Monthly Eligibles)

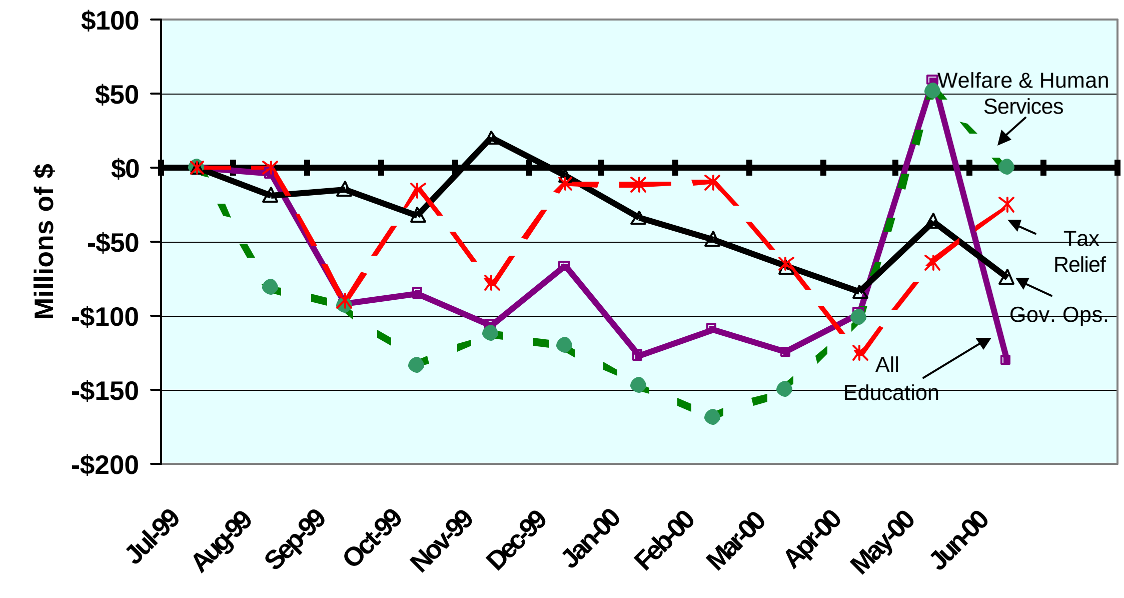
FISCAL			QMB				HEALTHY START		OWF		TOTAL without CHIP		CHIP/HS-1[3] 150%		TOTAL with CHIP	
YEAR	ABD	% chg.	only	% chg.	SLMB[1]	% chg.	(non-exp.)	% chg.	Related[2]	% chg.	Expansion	% chg.	Expansion	% chg.	Expansion	% chg.
1990	214,247		1,646		0		15,837		779,937		1,011,667		0		1,011,667	
1991	228,955	6.87%	3,674	123.26%	0		47,007	196.81%	828,828	6.27%	1,108,464	9.57%	0		1,108,464	9.57%
1992	246,369	7.61%	9,602	161.38%	0		82,166	74.80%	894,261	7.89%	1,232,398	11.18%	0		1,232,398	11.18%
1993	263,676	7.02%	16,067	67.32%	420		109,162	32.86%	880,786	-1.51%	1,270,110	3.06%	0		1,270,110	3.06%
1994	286,655	8.71%	20,191	25.67%	6,395	1422.59%	123,663	13.28%	858,069	-2.58%	1,294,972	1.96%	0		1,294,972	1.96%
1995	309,576	8.00%	22,773	12.79%	12,955	102.58%	129,826	4.98%	808,875	-5.73%	1,284,005	-0.85%	0		1,284,005	-0.85%
1996	321,978	4.01%	22,736	-0.16%	22,069	70.35%	139,529	7.47%	721,950	-10.75%	1,228,262	-4.34%	0		1,228,262	-4.34%
1997	323,023	0.32%	23,791	4.64%	23,233	5.28%	133,719	-4.16%	662,403	-8.25%	1,166,169	-5.06%	0		1,166,169	-5.06%
1998	315,884	-2.21%	23,683	-0.45%	25,925	11.59%	137,912	3.14%	580,827	-12.32%	1,084,231	-7.03%	11,873		1,096,104	-6.01%
1999	314,855	-0.33%	23,538	-0.61%	34,764	34.10%	169,210	22.69%	500,840	-13.77%	1,043,208	-3.78%	52,509	342.26%	1,095,717	-0.04%
2000*	318,199	1.06%	23,692	0.66%	30,103	-13.41%	186,011	9.93%	476,580	-4.84%	1,034,585	-0.83%	69,799	32.93%	1,104,384	0.79%

1. SLMB population growing due to a federal expansion for Medicare eligibles effective January 1, 1998.
   All costs related to this new group, Additional Low-income Medicare Beneficiaries, are 100% federally reimbursable
2. OWF related, includes OWF Cash Assistance, Transition & Low-income Medicaid Eligibles.
3. CHIP/HS-1, Phase I are a combined group of kids eligible for the state's 150% of FPL expansion implemented January 1, 1998.

* Average monthly eligibles through April 2000.

Source: ODHS BOMM 5100

Chart 1
Year End GRF Spending Variance by Program Category, FY 2000



IV. Program Category Disbursement Variances

In Chart 1, we've visually mapped from July through June 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 built up a $405.6 million negative year-to-date disbursement variance by the close of April, reversed field in May by posting a massive $415.5 underage, and then turned again in June to close with a year-end $214.6 million underage. In the narrative below, we've tried to distill the essence of the twelve-month disbursement variance patterns exhibited by the four major program categories.

1) Education (-$130.3 million). The Education program category 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. A substantial percentage of the funding associated with the department's underage was encumbered at year-end for future disbursement or had been transferred for other education purposes.

2) Government Operations (-$73.7 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 and running though May, the program category's disbursement variance was principally driven by what appeared to be timing-based disbursement variances thrown in by the Department of Rehabilitation & Correction. In June, a mix of state agency timing and accounting adjustments combined to then produce a monthly underage of $37.7 million. Over one-half of the program category's year-end underage was traceable to two state agencies: the Department of Administrative Services ($22.3 million) and the Department of Rehabilitation & Correction ($18.8 million).

3) Property Tax Relief (-$29.5 million). Timing produced wild swings over and under the estimate throughout the fiscal year in the Property Tax Relief program. By year-end, disbursements had moved closer to the estimate, but were still a bit short of the mark. Roughly one-half of the remaining underage at year-end reflected property tax relief funding that was not needed and therefore was not disbursed.

4) Welfare & Human Services (+$26,000). Except for a $21.0 million timing-driven November overage, the program category featured a negative year-to-date disbursement variance that grew continuously from July through February, hitting its FY 2000 underage peak in February at $167.9 million. While various components of the program category intermittently fueled the growing underage, the only more or less constant component in that underspending was the Temporary Assistance to Needy Families (TANF) program. Over the course of the three months that followed — March, April, and May — the program category posted a total of $218.6 million in overages, and, as a result was holding a positive year-to-date disbursement variance of $50.7 million at the end of May. Once again, the TANF program played a key role, accounting for roughly one-half of that rather dramatic change in disbursement activity. The acceleration in TANF disbursement activity was largely due to Controlling Board-approved increases in the program's FY 2000 appropriation authority totaling $164.2 million for the purpose of funding county advances and incentives, cash assistance payments, and child care. The fiscal year then closed in June with a stark monthly disbursement contrast between the TANF and Medicaid programs. TANF disbursements continued to accelerate beyond the estimate (+$34.5 million), while Medicaid disbursements landed well short of the estimate (-$81.2 million), the latter outcome attributable largely to the decision that a projected $110.0 million June funding shortfall would be covered by shifting expenditures to non-GRF revenue streams. One of the most thought provoking aspects of the program category's end-of-year disbursement picture was the Medicaid program's $7.8 million overage, which, in recent history, has been a major contributor to the state's rather sizeable year-end underages and the development of a healthy GRF fund balance.

V. Appropriation Activity Summary

At this point, we'd like to take a detour from our discussion of the variance between actual and estimated disbursements and close with a snapshot review of GRF appropriation activity. To do that, the reader is directed to Table 9, which contains a selective summary of the $20.12 billion in GRF appropriations that was registering in the state's accounting system as of June 30, 2000 (second data column labeled "Original Appropriation"). All of this GRF appropriation authority, theoretically at least, was available for disbursement in FY 2000. While not surprising to seasoned watchers of state spending, exclusive of the $19.59 billion in FY 2000, these GRF appropriations include $535.7 million stretching as far back as FY 1991. The pre-FY 2000 appropriations essentially represent GRF funding that state agencies had encumbered with the intent to disburse those amounts sometime in FY 2000.

The third column of data in Table 9 — "Transfers" — summarizes the net effect of transferring appropriations between fiscal years 2000 and 2001, as well as the movement of GRF appropriations between various line items within FY 2000. The bulk of this transfer activity occurs pursuant to Controlling Board approval of state agency requests to move GRF funding or temporary law authorizing such transfers. There were two notable areas involving appropriation transfers: the Department of Education and the Department of Human Services. By far, the largest amount of FY 2000 appropriation transfer activity (around $45.0 million) took place within the Department of Education's budget. Of that total, $18.8 million was transferred into FY 2001, $17.5 million was transferred into the Board of Regents' FY 2000

Table 9
GRF Appropriation Summary

Budget Fiscal Year	Original Appropriation	Transfers	Disbursements	Outstanding Encumbrances	Appropriation Balance
1991	$ 37,767	$ -	$ 37,767	$ -	$ -
1992	$ -	$ -	$ -	$ -	$ -
1993	$ 59,008	$ -	$ 8,858	$ 50,150	$ -
1994	$ 240,436	$ -	$ 27,075	$ 192,761	$ 20,600
1995	$ 655,861	$ -	$ 128,429	$ 378,136	$ 149,296
1996	$ 13,252,003	$ -	$ 745,541	$ 2,275,208	$ 10,231,254
1997	$ 29,346,763	$ -	$ 5,962,158	$ 18,155,536	$ 5,229,069
1998	$ 44,711,517	$ -	$ 19,630,639	$ 21,698,483	$ 3,382,395
1999	$ 447,446,405	$ -	$ 324,293,050	$ 67,637,181	$ 55,516,174
2000	$19,585,410,804	$ 20,762,492	$ 18,892,784,861	$ 539,978,967	$ 131,884,484
Total	**$ 20,121,160,564**	**$ 20,762,492**	**$ 19,243,618,378**	**$ 650,366,422**	**$ 206,413,272**

*Data drawn from RAPPR17S, a Central Accounting Sytem report as of June 30, 2000.

budget to fund the 12th Grade Proficiency Test Scholarship program, and $8.7 million was moved around within the department's FY 2000 budget, largely to enhance the pupil transportation subsidy program.

The second notable appropriation transfer activity was tied to the Department of Human Services' $5-plus billion Medicaid program. In the closing month of June, the Controlling Board authorized a transfer of funds from several different sources that increased the program's FY 2000 GRF appropriation by $17.4 million, the purpose of which was to cover a projected budget deficit of $110.0 million.

The fourth and fifth columns of data in Table 9 — "Disbursements" and "Outstanding Encumbrances" — summarize the amount of GRF appropriations that either had been spent (disbursed) or items for which state agencies have committed appropriated funding (encumbrances) for disbursement in FY 2001.

The sixth and last column — "Appropriation Balance" — summarizes the GRF appropriations that have not been transferred, disbursed, or encumbered. The amounts listed in fiscal years 1990 through 1999 represent encumbered funding that was cancelled over the course of FY 2000, causing it to lapse back into the GRF's cash balance. Of those cancelled encumbrances totaling $19.0 million that cover fiscal year 1990 through 1998 appropriations, roughly three-quarters was tied to Department of Education subsidy funding that was not needed. The largest amount of lapsed funding, however, was clearly tied to FY 1999 encumbrances, with $55.5 million going unspent. Three state agency budgets were the primary contributors to these cancelled FY 1999 encumbrances: (1) the Department of Human Services ($17.5 million); (2) the Department of Education ($12.4 million); and (3) the Board of Regents ($7.5 million).

The nature of the FY 2000 appropriation balance ($131.9 million), on the other hand, is a little different from those cancelled encumbrances from prior fiscal years. This amount represented FY 2000 appropriations that had not: (1) been disbursed in FY 2000; (2) been encumbered at year-end for disbursement in FY 2001; or (3) technically speaking, lapsed back into the GRF's cash balance. This distinction is important because these unspent FY 2000 appropriations were, subject to certain conditions, still available for disbursement in FY 2001. In some cases, state agencies had lost control of their portion of this unspent 2000 appropriation authority to the Office of Budget and Management (OBM). This meant that the only way that certain state agencies had of accessing any of its unspent FY 2000 appropriation authority was through the acquiescence of OBM. And any such agreement typically manifests itself in the form of a request for Controlling Board approval to transfer those unused FY 2000 appropriations into FY 2001. Certain other state agencies have more flexible temporary law guiding their budgets that requires or permits the transfer of unspent FY 2000 appropriations into FY 2001.

Roughly one-half of those unspent FY 2000 appropriations were attributable to the following four state agencies: (1) the Department of Administrative Services ($25.4 million); (2) the Board of Regents ($14.7 million); (3) the Department of Education ($13.8 million); and (4) the Department of Rehabilitation & Correction ($13.2 million). ❑

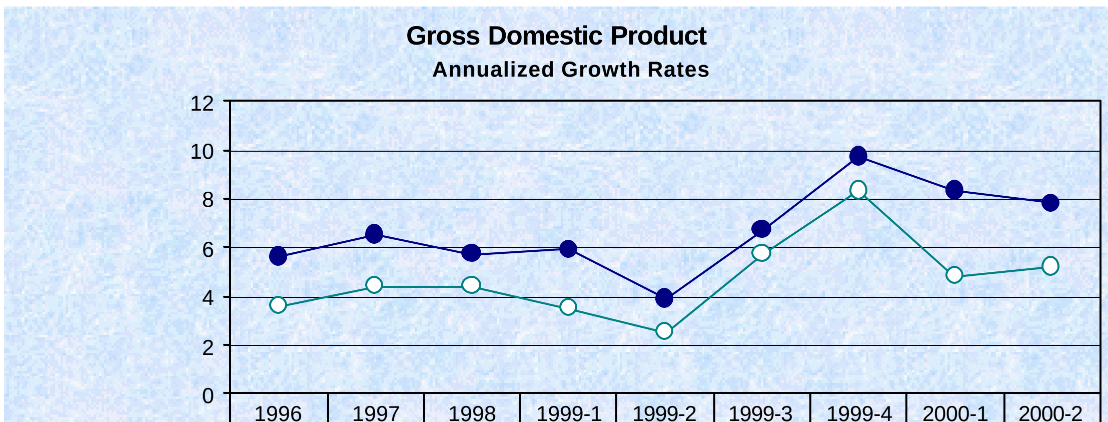
LBO colleagues who contributed to the development of this end-of-year disbursement story included, in alphabetical order, Ogbe Aideyman, Laura Bickle, Nelson Fox, Amy Frankart, Gene Gabrys, Lis Gorenstein, Sybil Haney, Alexander C. Heckman, Eric Karolak, Jeff Newman, Chuck Phillips, David Price, Joe Rogers, Jeffrey M. Rosa, John Ryan, and Wendy Zhan.

TRACKING THE ECONOMY

— Allan Lundell

Do we really have a slowdown? Some indicators are up and others are down. The Conference Board's Index of Leading Economic Indicators, which attempts to forecast economic trends for the next three to six months, did not change. Four of the ten indicators that make up the index rose in June and five of the indicators fell. The Index of Coincident Indicators, which measures current economic activity, rose 0.2 percent. Two of the three indicators for which data was available increased. The Index of Lagging Indicators, which reflects changes that have already occurred, rose by 0.8 percent. All of the five available indicators in the index rose. The three indices suggest a continued expansion at a slightly slower pace than earlier in the year.

Advance estimates indicate real (adjusted for inflation) gross domestic product increased at an annual rate of 5.2 percent during the second quarter of 2000. This is up from the 4.8 percent growth rate for the first quarter. Growth in nominal GDP slowed to an annual rate of 7.8 percent in the second quarter, down from 8.3 percent for the first quarter. The implicit GDP price deflator grew at a 2.5 percent seasonally adjusted annualized rate (SAAR) during the second quarter. Although this is down from the 3.3 percent SAAR for the first quarter, it is still high compared to recent years.



	1996	1997	1998	1999-1	1999-2	1999-3	1999-4	2000-1	2000-2
Nominal	5.6	6.5	5.7	5.9	3.9	6.7	9.7	8.3	7.8
Real	3.6	4.4	4.4	3.5	2.5	5.7	8.3	4.8	5.2
GDP Deflator	1.9	1.9	1.3	2.2	1.4	1.1	1.6	3.3	2.5

Consumers

Income growth increased slightly to 0.4 percent in June, rising from May's revised monthly growth rate of 0.3 percent. Wages and salaries grew by 0.5 percent. Dividends increased by 0.6 percent and interest income increased by 0.2 percent. Transfer payments decreased by 0.2 percent backing down from the large May increase that resulted from the elimination of the retirement earnings test. Disposable income grew by 0.1 percent. On a year-over-year basis, personal income is up by 6.2 percent, wages and salaries are up 6.7 percent, dividends are up 7.0 percent, interest income is up 7.8 percent, and transfer payments are up 5.2 percent. Disposable income is up 5.2 percent compared to June 1999.

Consumer spending grew by 0.5 percent in June, up from 0.3 percent in May. Spending on durable goods, non-durable goods, and services all increased by 0.5 percent. On a year-over-year basis, all consumer spending is up 7.8 percent, spending on durable goods is up 6.7 percent, spending on non-durable goods is up 9.5 percent, and spending on services is up 7.1 percent. In June, spending on durable goods accounted for 12 percent of consumer spending. Spending on non-durable goods accounted for 30 percent and spending on services accounted for 58 percent of consumer spending.

Advanced estimates indicate a 0.5 percent increase in seasonally adjusted retail sales. Additionally, the 0.3 percent decline in May was revised to a 0.3 percent increase. Sales of durable goods increased by 0.7 percent and sales of non-durable goods increased by 0.4 percent. The increase in durable goods sales was led by a 1.5 percent increase in sales of auto dealers. On a year-over-year basis, retail sales are up 8.7 percent, sales of durable goods are up 7.9 percent and sales of non-durable goods are up 9.2 percent. In the second quarter, sales grew at a 2.7 percent annualized rate compared to a 13.5 percent rate for the first quarter.

Consumer confidence, influenced by higher gasoline prices, higher interest rates, and the sell-off in high tech stocks, dipped in June. The Conference Board's index of consumer confidence fell by 4.1 percent to 138.8. The assessment of the current situation fell by 1.9 percent (to 180.2) and the index of expectations fell by 6.4 percent (to 111.2). Even though the consumer confidence index fell, confidence remains at a high level. More than four times as many households rate current conditions good as rate them bad. Almost three times as many households expect conditions to improve in the next six months as expect them to get worse. On a year-over-year basis, the index of consumer confidence is down by 0.1 percent. The assessment of the current situation is up by 3.0 percent and the index of expectations is down by 3.2 percent.

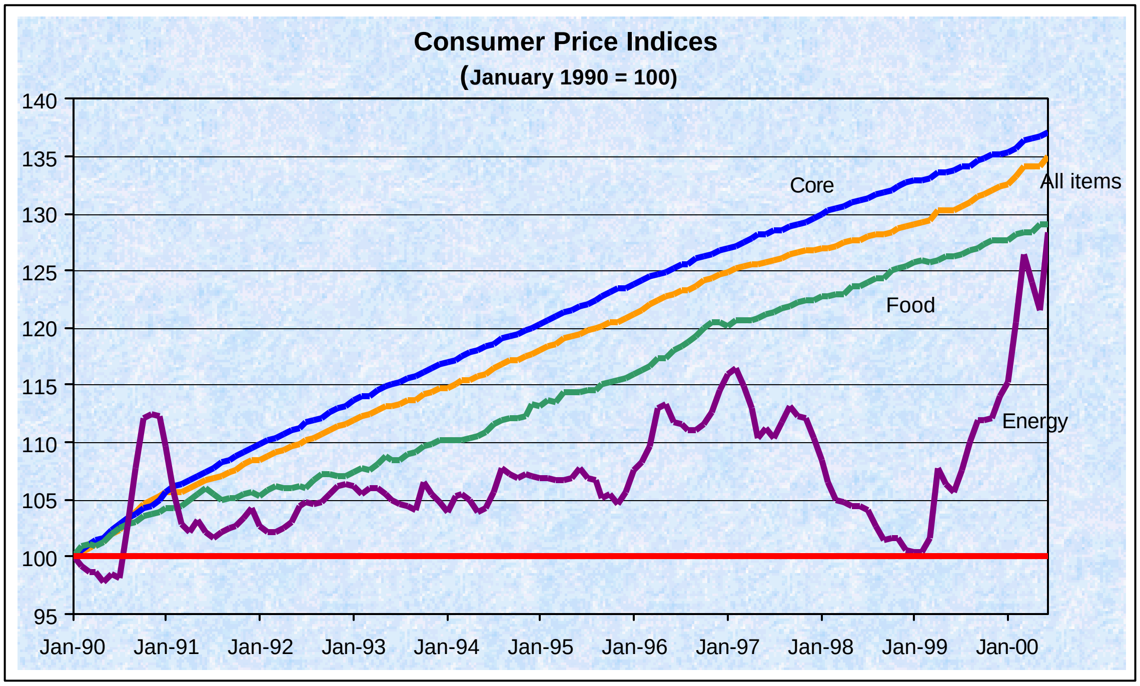
Sales of existing single family homes rose 2.8 percent in June to 5.23 million SAAR. However, in the Midwest, sales fell by 1.7 percent to 1.13 million SAAR. On a year-over-year basis, sales are down by 6.4 percent nationwide and down 7.4 percent in the Midwest. The slowing in home sales should slow spending on housing related consumer durables.

Housing starts fell by 2.6 percent in June to 1.55 million SAAR. Single family starts fell by 3.2 percent to 1.21 million SAAR. In the Midwest, housing starts fell by 19.8 percent to 279,000 SAAR. On a year-over-year basis, starts are down 0.5 percent nationwide with single family starts down 4.3 percent. In the Midwest, starts are down 21.4 percent compared to June 1999.

June marked the third consecutive month and the fourth month out of six this year in which sales of newly built homes declined. Sales of newly built one-family homes fell by 3.7 percent in June to 829,000 SAAR. This is the slowest sales pace in over two years. In the Midwest, sales fell by 7.0 percent to 133,000 SAAR. Compared to June 1999, sales are down 12.6 percent nationwide and 22.7 percent in the Midwest. Although sales are down, they are still high. Prior to the recent boom in sales, a level of 700,000 was considered strong. Nationwide, sales for the first half of 2000 are just 2.5 percent lower than in 1999 and are 1.9 percent above sales for the first half of 1998. However, in the Midwest sales for the first half of 2000 are 11.0 percent lower than in 1999 and 10.0 percent lower than in 1998.

Prices

The seasonally adjusted Consumer Price Index (CPI) grew by 0.6 percent in June and is up 3.7 percent in a year-over-year comparison. The core CPI (excluding food and energy) rose by 0.2 percent in June



and is up 2.4 percent in a year-over-year comparison. The index for food was up by just 0.1 percent in June and is up 2.3 compared to June 1999. The index for energy was up 5.6 percent in June and is up 21.3 percent from June 1999. The chart above presents a recent history of index values. With the exception of energy, relatively mild and steady inflation is evident for the years depicted.

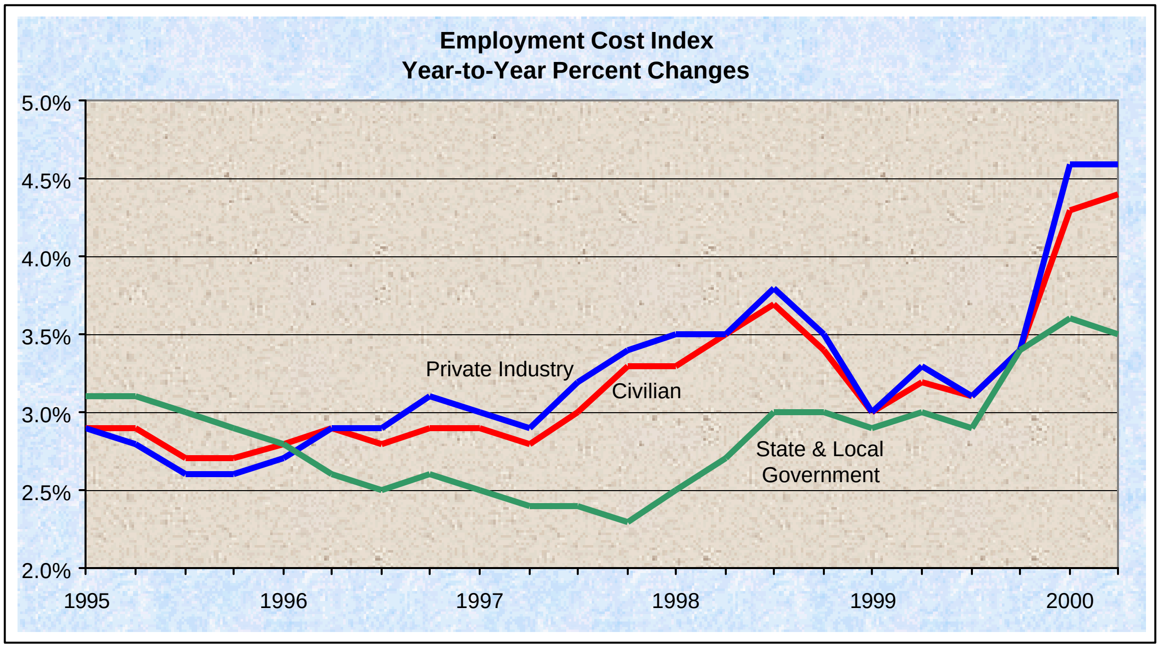
The seasonally adjusted Producer Price Index (PPI) for finished goods increased by 0.6 percent in June and is up 4.3 percent over June 1999. The core PPI (excluding food and energy) fell by 0.1 percent in June and is up just 1.3 percent from June 1999. The index for food fell by 0.3 percent in June and is up 1.6 percent from June 1999. The index for energy rose by 5.1 percent in June (led by an 11.8 percent increase for gasoline) and is up 23.4 percent compared with June 1999.

The Employment Cost Index (ECI), which measures changes in compensation costs including wages, salaries, and employer costs for employee benefits, increased by 1.0 percent during the second quarter. The June 2000 index value of 148.0 is 4.4 percent greater than in June 1999. The chart below presents a brief history of year-over-year percentage changes in employment costs. Acceleration in employer costs is evident over the past year.

Production

Industrial production increased by 0.2 percent in June. Manufacturing output increased by 0.3 percent and the output of utilities decreased by 2.6 percent. Industrial production is up 5.8 percent compared to June 1999. Manufacturing output is up 6.4 percent, while utility output is down by 2.3 percent.

Capacity utilization fell slightly to 82.1 percent from May's revised 82.2 percent. Capacity utilization in manufacturing remained at 81.3 percent — 80.9 percent for advanced processing and 82.8 for primary processing. Utilities were operating at 88.9 percent of capacity in June, down from 91.3 percent in May. Overall capacity growth from June 1999 is 3.8 percent — 4.2 percent for manufacturing (5.4 percent for advanced processing and 1.7 percent for primary processing) and 1.3 percent for utilities.



Seasonally adjusted new orders for manufactured durable goods increased by 10.0 percent in June, the largest one-month increase since July 1991. The largest increase was for transportation equipment, which increased by 43.0 percent mostly due to aircraft and parts. Orders for industrial equipment and machinery increased by 1.3 percent and orders for electronic and electrical equipment increased by 0.3 percent. New orders for the second quarter are up 4.3 percent from the first quarter and year-to-date new orders are 11.1 percent above orders for the first six months of 1999. The strength in orders may indicate that instead of slowing down, the economy may speed up.

Employment

The seasonally adjusted national unemployment rate fell slightly in June from 4.1 percent to 4.0 percent. Private sector employment increased by 206,000 but May's loss was revised down from 116,000 to 165,000. These gains were offset by the layoffs of 190,000 Census workers. Most of the new jobs were in services and retail trade. Although there are signs of a mild slowdown in the job market, it remains tight.

The Ohio unemployment rate rose slightly from 4.0 percent to 4.1 percent. Nonagricultural wage and salary employment fell by 11,200. Census layoffs reduced government employment by 12,700. Compared to June 1999, Ohio's unemployment rate is down from 4.5 percent, employment has increased by 153,000 and the number unemployed has decreased by 15,000.

Nationally, average hourly earnings for workers in manufacturing rose by 0.42 percent to $14.32 and average hourly earnings for workers in construction rose by 0.23 percent to $17.75. Average hourly earnings for workers in wholesale trade fell by 0.13 percent to 14.99 and average hourly earnings for workers in retail trade fell by 0.11 percent to $9.38. Compared to June 1999, average hourly earnings are up 3.02 percent in manufacturing, 3.62 percent in construction, 3.74 percent in wholesale trade, and 3.99 percent in retail trade.

In Ohio, average hourly earnings for workers in manufacturing rose by 0.78 percent to $16.72 and average hourly earnings for workers in construction fell by 0.64 percent to $20.15. Average hourly earnings for workers in wholesale trade increased by 0.13 percent to $15.46 and average hourly earnings for workers in retail trade fell by 0.44 percent to $9.12. Compared to June 1999, average hourly earnings are up 2.51 percent in manufacturing, 3.87 percent in construction, 5.31 percent in wholesale trade, and 1.56 percent in retail trade. ❑

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS FOURTH QUARTER, FY 2000

— Jean Botomogno

Table 1 summarizes fiscal year 2000 Lottery ticket sales per game. Total ticket sales were $2,151 million. On-line sales were $1,023.9 million (47.6 percent of total sales) and sales of instant tickets were $1,127.1 million (52.4 percent of total sales). Total ticket sales for the fourth quarter of fiscal year 2000 were $520.8 million, 3.5 percent lower than third quarter sales, and 8.8 percent lower than second quarter sales, which was the best quarter in FY 2000.

Instant ticket games showed a marked decline when compared to sales in the third and second quarters. Sales of instant ticket games fell 15.9 percent compared to third quarter sales, and decreased 21.2 percent when compared to second quarter sales, possibly due to high Super Lotto jackpots in the fourth quarter. Players shifted some of their spending substituting Super Lotto ticket purchases for instant tickets.

Compared to fourth quarter results a year ago in fiscal year 1999, ticket sales in the fourth quarter this year were up less than one percent. Except for sales of instant tickets and Buckeye Five, which experienced declines of 8.8 and 12.9 percent, sales were higher for the other games in the fourth quarter FY 2000 when compared to FY 1999. Super Lotto sales were 19 percent higher this year in the fourth quarter as compared to the same period last year because of several higher jackpots in year 2000. For example, in April 2000 and June 2000, the jackpot reached $32 million and generated high monthly sales.

A look at FY 2000 and FY 1999 shows a modest increase in total sales of about 0.3 percent, halting the decline in game sales. Instant ticket sales were higher than on-line sales by 10 percent both in FY 2000 and FY 1999. However, compared to FY 1999, instant tickets sales were slightly lower in FY 2000 by about $1.6 million (0.4 percent). This marked the first time instant tickets sales were lower compared to the previous year.

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

	Pick 3	Pick 4	Buckeye Five	Super Lotto	Kicker	On-Line	Instant Tickets	Total Sales
Q1	$103.7	$33.4	$16.3	$75.8	$12.4	$241.6	$277.9	$519.5
Q2	$107.2	$37.2	$15.8	$86.0	$13.3	$259.5	$311.6	$571.1
Q3	$104.6	$36.4	$15.4	$78.5	$12.7	$247.6	$292.0	$539.6
Q4	$111.8	$37.7	$14.8	$96.5	$14.4	$275.2	$245.6	$520.8
Total	**$427.3**	**$144.7**	**$62.3**	**$336.8**	**$52.8**	**$1,023.9**	**$1,127.1**	**$2,151.0**

Table 2: Lottery Ticket Sales by Games, FY 2000 and FY 1999								
	Pick 3	Pick 4	Buckeye Five	Super Lotto	Kicker	On Line	Instant Tickets	Total Sales
FY1999	$399.4	$125.1	$69.9	$364.4	$57.2	$1,016.0	$1,128.7	$2,144.7
FY2000	$427.3	$144.7	$62.3	$336.8	$52.8	$1,023.9	$1,127.1	$2,151.0

FY 2000 also was the first time in four years that on-line sales have increased. The increase is directly attributable to the Red Ball promotion and to mid-day drawings for Pick 3 and Pick 4 games. Only Pick 3 and Pick 4 games showed a marked increase (7 and 15 percent) over a year ago, while the remaining three on-line games had lower sales. Buckeye Five, Super Lotto and Kicker continue to experience difficulties. Buckeye Five fell about 11 percent and the Super Lotto and Kicker fell 8 percent each. Buckeye Five has experienced a decline in sales every year since its introduction in FY 1993. Despite several high jackpots for Super Lotto in FY 2000, huge jackpots in excess of $100 million for multi-state lotteries PowerBall and Big Game available in neighboring states contributed to reduce sales of Super Lotto tickets.

Table 3 summarizes transfers to the Lottery Profits Education Fund (LPEF). Transfers for the fourth quarter were $166.5 million, up 1.2 percent from $164.5 million in the third quarter and down 1.7 percent from $169.3 million in the second quarter.

Transfers to LPEF from operations in FY 2000 were $661 million, $100,000 below projection and $10.3 million less than in FY 1999. However, total fiscal year 2000 transfers, which include $25 million from non-operating sources, were $686 million. Transfers to LPEF from operations have declined steadily since a high of $713.5 million in FY 1996. FY 2000 transfers were down 6 percent from FY 1996 highs.

Concerns over sagging Super Lotto sales lead to the introduction of Super Lotto Plus in July 2001. Super Lotto had the smallest profit margin of all Lottery games. The new game, which promises players better odds of winning a prize, would “spread the wealth” by creating more winners by paying out smaller prizes. Super Lotto Plus slows jackpot growth when there were no winners, from $4 million increment to $1 million. It also increases the length of annual payments; now, jackpots will be paid over 30

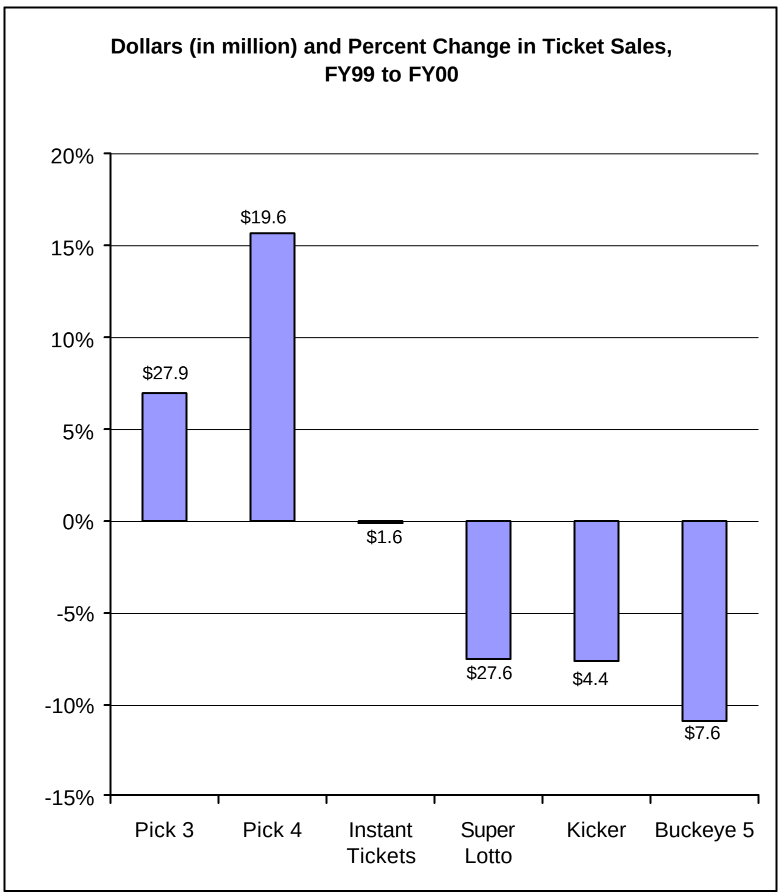


Table 3: FY 2000 Lottery Ticket Sales and Transfers to LPEF, millions of current dollars						
	Ticket Sales	**Actual Transfers**	**Projected Transfers**	**Dollars Variance**	**Percentage Variance**	**Transfer As a Percentage of Sales**
Q1	$519.5	$160.7	$158.7	$2.0	1.2%	30.9%
Q2	$571.1	$169.3	$170.5	-$1.2	-0.7%	29.6%
Q3	$539.6	$164.5	$165.6	-$1.1	-0.7%	30.5%
Q4	$520.8	$166.5	$166.3	$0.2	0.1%	32.0%
Total	**$2,151.0**	**$661.0**	**$661.1**	**-$0.1**	**-0.0%**	**30.7%**

annual payments instead of 26 annual payments. The Ohio Lottery is hoping that these changes will increase overall sales and profits. ❑

LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS OF FY 2000 PROFITS

— *Wendy Zhan*

Lottery Profits Education Fund (LPEF) disbursements in fiscal year 2000 totaled $664.5 million. Of this amount, $656.2.0 million (or 98.8 percent) occurred in appropriation item 200-612, Base Cost Funding. Lottery Profits Education Reserved Fund (LPERF) disbursements were $2.6 million in fiscal year 2000. Table 1 shows the LPEF and LPERF appropriation and disbursement summary as of June 30, 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 foundation aid 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) was to be transferred to GRF to support the GRF appropriation for line item 230-428, Lease Rental Payments, of the School Facilities Commission. Total appropriations for lease rental payments amounted to $55.4 million in fiscal year 2000, including $41,750,000 for GRF item 230-438, Lease Rental Payments, and $13,650,000 for GRF supported (Fund 078) item 155-900, Common School Capital Improvement Bond Service Fund, of the Commissioners of Sinking Fund. These moneys were used to pay bond service charges on obligations issued for the classroom facilities assistance programs. The fiscal year 2000 bond service charges for programs totaled $55.3 million, which were paid out of GRF moneys appropriated for the aforementioned two items. However, the originally planned lottery lease rental appropriation transfer did not occur and the entire amount of fiscal year 2000 appropriation was encumbered as of June 30, 2000. Since the fiscal year 2000 bond service charges have been paid off, it appears that the encumbrance may not be necessary. According to the Office and Budget and Management, the encumbrance will be transferred into the GRF in July. These lottery moneys will therefore become part of GRF revenues in fiscal year 2001.

Table 1: FY 2000 LPEF (017) and LPERF (018) Appropriation/Disbursement Summary
As of June 30, 2000

Agency	Fund	Line Item	Line Item Name	FY 2000 Appropriation	FY 2000 Disbursement	Appropriation Encumbrance	Appropriation Balance
EDU	017	200-612	Base Cost Funding	$ 656,247,000	$ 656,247,000	$ 0	$ 0
EDU	017	200-682	Lease Rental	$ 29,753,000	$ 0	$ 29,753,000	$ 0
EDU	017	200-694	Bus Purchase One Time Supplement	$ 1,769,621	$ 1,659,086	$ 110,535	$ 0
NET	017	228-690	SchoolNet Electrical Infrastructure	$ 20,070,379	$ 6,564,124	$ 44,369	$ 13,461,886
			Total LPEF	$ 707,840,000	$ 664,470,210	$ 29,907,904	$ 13,461,886
SFC	018	230-649	Disability Access Project	$ 2,632,826	$ 2,563,080		$ 69,749

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. The SchoolNet Commission 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. Approximately $20.0 million appropriation was transferred into fiscal year 2000. Of this amount, $6.7 million was disbursed (including an encumbered amount of $0.1 million). Once again, the remaining balance of $13.5 million was transferred into fiscal year 2001 per the Controlling Board's action.

The program's disbursement activities appear to be relatively slow on surface. This is primarily due to the program's capital project nature. Eligible school districts first need to submit applications to the SchoolNet Commission. Once they are awarded initial grants, school districts have to go through the actual bidding process. The final grant awards are based on the actual bidding prices instead of initial estimated amounts made by school districts. According to the SchoolNet Commission's spokesperson, on average the final grant awards are 20 percent less than the initial award amounts. This allows more school districts to receive grants under the program.

Bus Purchase One Time Supplement. In addition to the GRF appropriation for the bus purchase allowance program (item 200-503, Bus Purchase Allowance), the 122nd General Assembly appropriated $10.0 million in LPEF moneys in fiscal year 1998 to provide additional one time bus purchase supplement to school districts and educational service centers. Of 1.8 million encumbered funds, $1.7 million was disbursed in fiscal year 2000. The remaining 0.1 million encumbered funds will be carried into fiscal year 2001. School buses used to transport special education and non-public school students are eligible for full cost reimbursements from the state. State payments generally will not be made until buses are actually delivered to school districts or educational service centers. ❑

TANF Spending Update

FY 2000 YEAR-END TANF REPORT

— Steve Mansfield

The Temporary Assistance to Needy Families (TANF) program was created by federal legislation known as the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) passed in August 1996. PRWORA abolished the entitlement-oriented Aid to Families with Dependent Children (AFDC) program, the Job Opportunity and Basic Skills (JOBS) program, and the Emergency Assistance (EA) program. PRWORA was implemented in Ohio with the passage in 1997 of Am. Sub. H.B. 408, which created the Ohio Works First (OWF) program and the Prevention, Retention, and Contingency (PRC) program.

Under the AFDC, JOBS, and EA programs the states received matching funds from the federal government in exchange for state expenditures. In the largest of these programs, AFDC, Ohio received from the federal government about $1.50 for each dollar spent.

The TANF program replaced the matching grant system with a flat-funded block grant that required the states to maintain a historical level of spending (called the Maintenance of Effort, or MOE, requirement), increased the work requirements for adult recipients, established a five-year maximum lifetime limit on a family's receipt of federally-funded TANF benefits, and imposed on the states a requirement to meet a work activity participation rate. The TANF program will face reauthorization in the federal budget for the FFY beginning October 1, 2002.

Ohio's annual TANF grant from the federal government is $727,968,260. Of this amount, $75 million is left unappropriated each year at the request of the executive in order to build a caseload contingency reserve. Unlike previous years, and in light of a pattern of underspending of appropriated TANF funds, in SFY 2000 more that just the requested $75 million was left unappropriated. The SFY 2000 appropriation for ALI 400-411, TANF Federal Block Grant, was $417.2 million. In March, however, the Controlling Board approved a request to increase the appropriation by $156.8 million to a total of $574.0 million. From the total appropriation, $495.6 million was disbursed in SFY 2000, and $78.4 million was encumbered. This left $153.9 million of the annual grant unappropriated and on reserve with the federal government. Also in SFY 2000, $23.7 million was spent from encumbered funds that had been appropriated in SFY 1999. Another $1.8 million in outstanding encumbrances remain from SFY 1999 funds, while $5.4 million from SFY 1999 is unallotted and unassigned, and will presumably lapse.

TANF Expenditures by Component, FFY 1997 — 2000

Ohio's expenditures 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

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	$65,943,862	47,919,859	$747,404,209	46.12%
Work Activities	3,778,835	16,113,133	4,253,244	40,483,882	$64,629,094	3.99%
Child Care	5,121,038	29,416,442	73,762,807	0	$108,300,287	6.68%
Transportation	--	--	--	5,098,803	$5,098,803	0.31%
Individual Dev. Accounts	--	--	--	14,925	$14,925	0.00%
Diversion Payments	--	--	--	4,888,064	$4,888,064	0.30%
Prev. of Out-of-Wed. Preg.	--	--	--	7,054	$7,054	0.00%
Parent Family Form. & Maint.	--	--	--	3,765	$3,765	0.00%
Administration	46,787,207	38,048,953	48,530,383	47,310,573	$180,677,116	11.15%
Information Systems	0	14,562,288	31,370,732	37,827,031	$83,760,051	5.17%
Other Expenditures	154,426,582	152,550,753	58,070,268	60,896,886	$425,944,489	26.28%
TOTAL EXPENDITURES	$645,835,145	$448,510,574	$281,931,296	$244,450,842	$1,620,727,857	100.00%
Federal Grant Award	$727,968,260	$727,968,260	$727,968,260	$727,968,260	$2,911,873,040	
Transfer to Title XX	$72,796,826	$72,796,826	$72,796,826	$0	$218,390,478	
RESERVE	$14,457,327	$206,660,860	$375,059,335	$483,517,418	$1,072,754,705	

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, state TANF expenditures are reported against the state's maintenance of effort (MOE) requirement, so that what is spent in a particular federal fiscal year counts against that year's MOE requirement. Beginning with the current fiscal year, quarterly reports have been submitted on a new version of ACF196, which was revised to include several new components or subcomponents. For simplicity, Table 1 has added only five of the new components (transportation, individual development accounts, diversion payments, prevention of out-of-wedlock pregnancies, and parent family formation and maintenance), since not all the new components are in use in Ohio yet.

Table 1 shows what has been spent by federal reporting components from the federal TANF block grant awards that have been made beginning with the first TANF award in FFY 1997. *Table 2* shows what has been spent in each component to reach Ohio's MOE requirement. The right hand column in both tables shows each component's share of total spending to date from the TANF block grant (*Table 1*) or the state's MOE (*Table 2*). Because the composition of federal and state TANF spending is strongly influenced by certain timing issues, any partial year reports on shares of spending should be regarded as fairly fluid. For example, Ohio has already received its full annual grant with one quarter still left in the federal fiscal year. Last year's fourth quarter spending from the TANF Block Grant was a little in excess of $140 million. Taking this figure as a guide, we can expect the size of the TANF reserve to shrink by a similar amount. All TANF spending to date (both state and federal funds since FFY97) totals $3,225,901,188. Not counting whatever may remain of the funds transferred to the Title XX grant, the accumulated reserve of unspent TANF federal dollars totals $1,072,754,705. A recent study by the Center on Budget and Policy Priorities ranks Ohio as tied for fifth in the nation in terms of

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	$257,272,595	$1,191,582,024	74.37%
Work Activities	8,912,399	624,678	408,315	6,848,074	16,793,466	1.05%
Child Care	45,628,354	51,850,611	49,435,554	45,403,943	192,318,462	12.00%
Prev. of Out-of-Wed. Preg.	--	--	--	88,396	88,396	0.01%
Administration	22,452,646	16,614,890	13,189,648	10,918,315	63,175,499	3.94%
Information Systems	0	5,068,027	3,345,493	2,988,066	8,413,520	0.53%
Other Expenditures	34,391,885	31,820,351	40,496,328	23,105,334	129,813,898	8.10%
TOTAL MOE	$416,975,181	$420,072,790	$421,500,637	$346,624,723	$1,602,185,265	100.00%

unspent TANF funds as a percent of funds awarded since the inception of the grant.[1]

The composition of the expenditures seen in *Table 1* continues to shift in patterns that we observed in earlier reports. The proportion of federal funds going to cash assistance continues to decrease, dropping from 56.8 percent to 46.1 percent in the last three quarters alone. Corresponding increases have taken place in the proportion of federal funds going to work activities, child care, administration, and information systems. This pattern is to be expected in light of the decline of cash assistance and the type of supports being offered to those recipients who are working, as well as those who are assisted through the PRC program.

In *Table 2*, we see that the composition of Ohio's MOE expenditures has remained very stable, with nearly three quarters of state expenditures being dedicated to cash assistance.

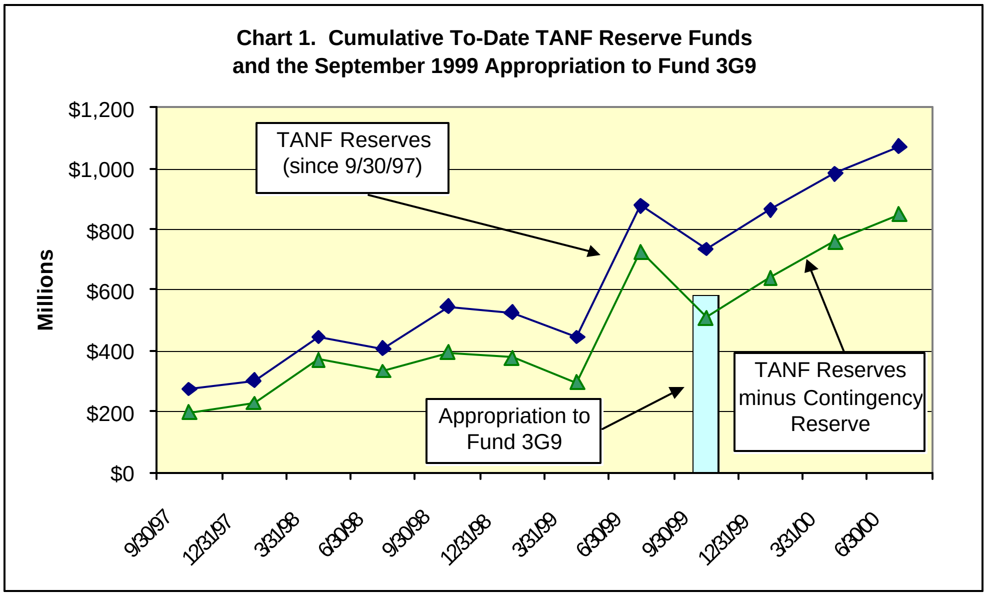
Appropriation to Federal Special Revenue Fund 3G9

In September 1999, pursuant to the authority provided by section 55.07 of Am. Sub. H.B. 283 (the main operating budget for the current biennium), the Department of Human Services (now the Department of Job and Family Services, or JFS) requested, and the Director of the Office of Budget and Management agreed to increase the appropriation authority of the department's Federal Special Revenue Fund 3G9, ALI 400-657, Special Activities/Self Sufficiency, by $584,362,817. These funds had already been appropriated during fiscal years 1997, 1998, and 1999 to the GRF line item 400-411, TANF Federal Block Grant, but went unused and authority for them had lapsed. Prior to this move the appropriation authority for SFY 2000 in line 400-657 was $498,600. The Controlling Board was notified of the appropriation on October 15.

This appropriation left the caseload contingency reserve under funded by $75,490,966 (see Chart 1). The caseload contingency reserve was supposed to be increasing by $75 million in each fiscal year, and thus should have totaled $225 million by the close of FFY 1999. Unspent funds remaining at the end of the next fiscal quarter made up for this shortfall.

The appropriation increase in Fund 3G9, line 400-657, enabled the Department of Human Services to encumber the $584.4 million in federal TANF surplus funds to support the award of incentives to counties, for child care, and for the Prevention, Retention, and Contingency Development Reserve (PRC-DR)

[1] Ed Lazere, "Unspent TANF Funds in the Middle of Federal Fiscal Year 2000," Center on Budget and Policy Priorities, August 2, 2000, http://www.cbpp.org/8-2-00wel.htm.



program. The three encumbrances are as follows:

Prevention, Retention, and Contingency Reserves	$300,000,000
County Performance and Caseload Reduction Incentives	$134,662,817
Child Care from TANF Funds—Reserve	$149,700,000

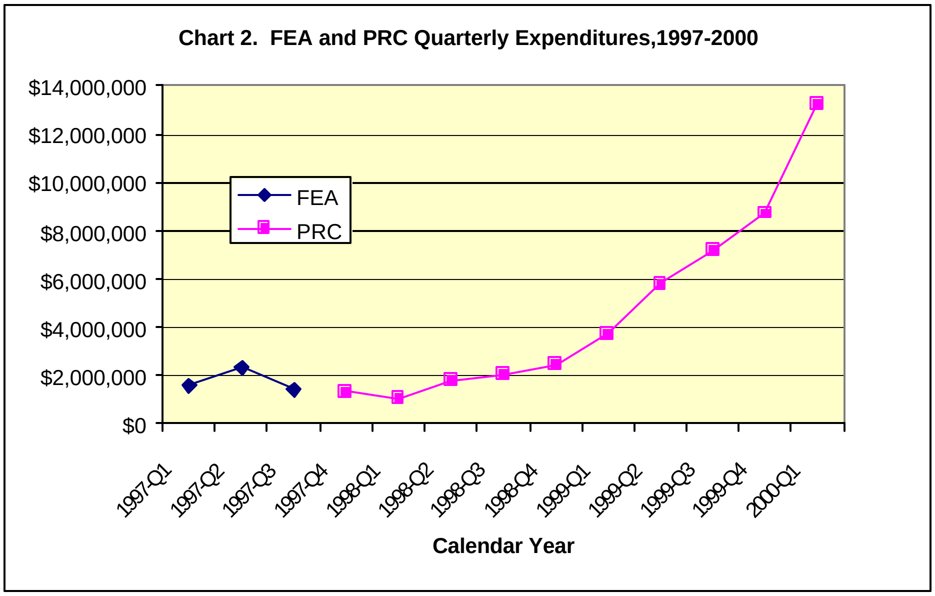
According to JFS, the PRC-DR initiative does not represent any change in planned spending for the overall TANF program but is designed to "provide equal access to all counties seeking additional resources" in the effort to increase PRC services as the need for OWF benefits declines. ODHS planned to make available an additional $100 million in PRC funds for SFY 2000, and $200 million for SFY 2001, but revised these figures as implementation was slower than expected. A spending cap based on the county's population with income below 200 percent of poverty was determined for each county. Each county was to submit a project request that meets specific criteria in order for the PRC funds to be accessed.

Expenditures posted against ALI 440-657 in SFY 2000 totaled $94.0 million. As of early July, county expenditures of PRC-DR in FY 2000 totaled $16.8 million, spending on child care from reserves totaled $74.5, and $2.6 million had been disbursed for county incentives.

Regular PRC

The PRC program replaced and expanded the Ohio's Family Emergency Assistance program. As the name implies, the PRC program is a special category of assistance designed to help families with one-time urgent needs that could, if left unattended, could result in the family entering the cash assistance caseload. Ohio House Bill 408, of the 122nd G.A., provided that each county develop a PRC program designed to meet the needs of the county or adopt the state model. Examples of assistance and services provided under PRC include such things as shelter and utility expenses, transportation and car repair, counseling/mentoring services, job-related expenses, household expenses, and job support and job retention services.

In SFY 2000, expenditures reported to date in the regular PRC program show a dramatic increase. Chart 1 displays the extent of the increase up to the end of March 2000, and includes the last three quarters of spending under



the now defunct Family Emergency Assistance program.

TANF Employment & Training (TANF E&T)

The TANF E&T program originated in April 1998 when the executive branch withdrew its application for a Welfare-to-Work (WtW) matching grant from the federal Department of Labor. WtW grant moneys are available to provide more intensive job preparation services for "hard to serve" welfare clients. In place of a program based on a WtW grant, the executive designed a program that would serve much the same population and would be funded out of federal TANF reserves. In SFY 2000 the funding for this program shifted from TANF reserves to the current-year TANF grant moneys. In both SFY 1999 and SFY 2000, $44.0 million was designated for distribution to the counties for this program. Showing evidence of a slow start up, counties spent only $2.7 million in SFY 1999, and only $8.5 million has so far been reported for SFY 2000.

TANF Cash Assistance Caseload

From the recession peak of the caseload in March 1992, the number of recipients of cash benefits has declined from 748,717 to 246,706 in June, 2000. This represents a decline of 67.0 percent. For fiscal year 2000 (from June 30, 1999 to June 30, 2000) the rate of decline has slowed considerable, going from 258,773 recipients to 246,706, a decline of only 4.7 percent. Fiscal years 1998 and 1999 exhibited 28.9 percent and 24.3 percent declines, respectively (see *Chart 3*).

Cash assistance expenditures for SFY 2000 were $377.2 million, a decrease of $46.0 million, or 10.9 percent, from cash assistance expenditures in SFY 1999. Total monthly cash assistance payments have been hovering just above the $30 million mark for a little over a year (see *Chart 4*). The department's just-released TANF spending plan for SFY 2001 indicates that the department expects cash benefit expenditures for SFY 2001 to decrease by only $600,000, or 0.16 percent, from the amount for SFY 2000.

Even though expenditures for cash assistance benefits have declined, overall TANF spending increased from SFY 1999 to SFY 2000. Whereas in SFY 1999 total TANF spending was $787.8 million, in SFY 2000 it was $863.7 million. Deducting expenditures for cash benefits in each year shows that all other expenditures went from $364.6 million in SFY 1999 to $486.5 million in SFY 2000. These other expenditures include a variety of activities that support welfare reform from, for example,

Chart 3. Annual OWF/ADC Recipient Decline, FY 1993 -- FY 2000*

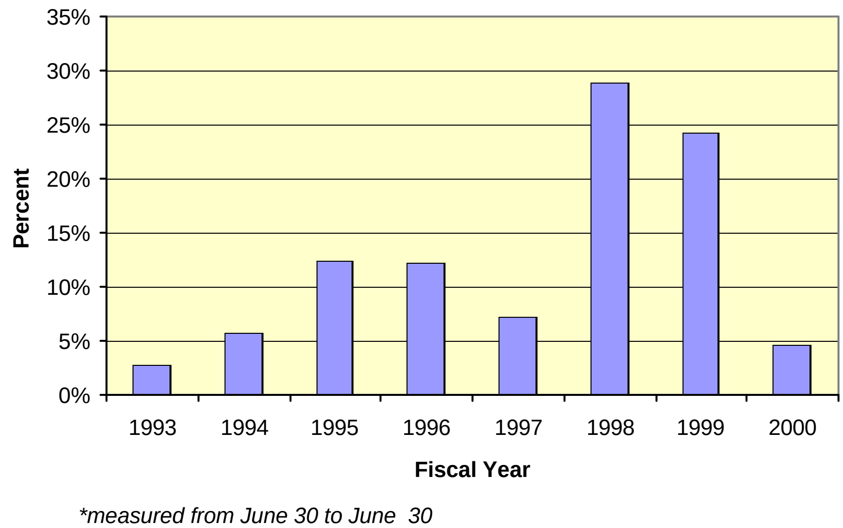
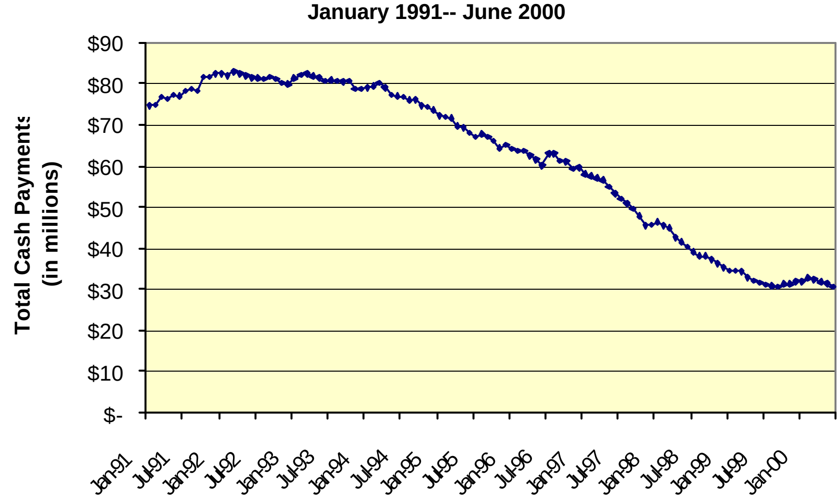


Chart 4. Monthly ADC/OWF Cash Payments January 1991-- June 2000



services like child care, PRC, TANF E& T, transportation, and the Early Start program, to things like administrative costs, county incentives, supplemental funding to Workforce Investment Act activities, and department computer projects. ❑