Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION SEPTEMBER 2004

FISCAL OVERVIEW

— Allan Lundell

The new fiscal year is off to a promising start, but recent years have exemplified the saying that "it's not how you start, it's how you finish"; therefore, the attitude toward the remainder of FY 2005 should be cautious optimism. The economy continues to expand, but not uniformly and at a slower pace than before. State-source revenues are above estimate, spending is below estimate, and the cash balance is above its expected level for this point in the fiscal year.

Tracking the Economy

The pace of U.S. economic activity appears to have picked back up in August after decelerating in June and July. U.S. employment grew more rapidly in August than in June or July, but additions to payrolls remained below the pace of March through May. According to the Federal Reserve's "Beige Book," economic expansion continued in July and August. The Cleveland district, which includes all of Ohio, reported mixed changes in economic activity. Activity continued to slow in some sectors while other sectors saw improvements in sales and production. The economy seems to be off to a steady but unspectacular start to FY 2005.

Revenues

Two months into the new fiscal year, the revenue picture shows signs of brightening. Total General Revenue Fund (GRF) revenues from the "major taxes" are $89 million (3.5%) above estimate and total tax revenue is $87 million (3.3%) above estimate.[1] The major taxes are expected to account for approximately 70% of total GRF receipts and 90% of state-source GRF receipts in FY 2005, so their healthy performance is an encouraging sign. State-source receipts as a whole are $48 million (1.8%) above estimate. The relatively poor performance of this financial indicator is due to the timing of a transfer. A $45 million transfer from the School District Property Tax Replacement Fund to the GRF expected to be made in August was not made. If this transfer had been made, state-source receipts would have been $93 million (3.5%) above estimate.

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Budget Footnotes examines the fiscal position of the state General Revenue Fund on a periodic basis.

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

	Month of August	Fiscal Year 2005 to Date	Last Year	Difference
Beginning Cash Balance	**$224.1**	**$533.1**		
Plus Revenue and Transfers In	$1,843.3	$3,620.5		
Available Resources	**$2,067.3**	**$4,153.7**		
Less Disbursements and Transfers Out	$2,110.2	$4,196.5		
Ending Cash Balances	**-$42.8**	**-$42.8**	**-$247.3**	**$204.4**
Less Encumbrances and Accts. Payable		$819.7	$720.3	$99.4
Unobligated Balance		**-$862.5**	**-$967.6**	**$105.1**
Plus BSF Balance		$180.7	$180.7	$0.0
Combined GRF and BSF Balance		**-$681.8**	**-$786.9**	**$105.1**

Disbursements

Year-to-date total disbursements plus transfers-out are $45 million (1.1%) below estimate. Program disbursements are $69 million (1.6%) below estimate and transfers-out are $24 million above estimate. Disbursements for primary and secondary education are $81 million (6.6%) below estimate and disbursements for welfare and human services are $35 million (1.7%) below estimate. Disbursements for justice and corrections are $48 million (15.3%) above estimate.

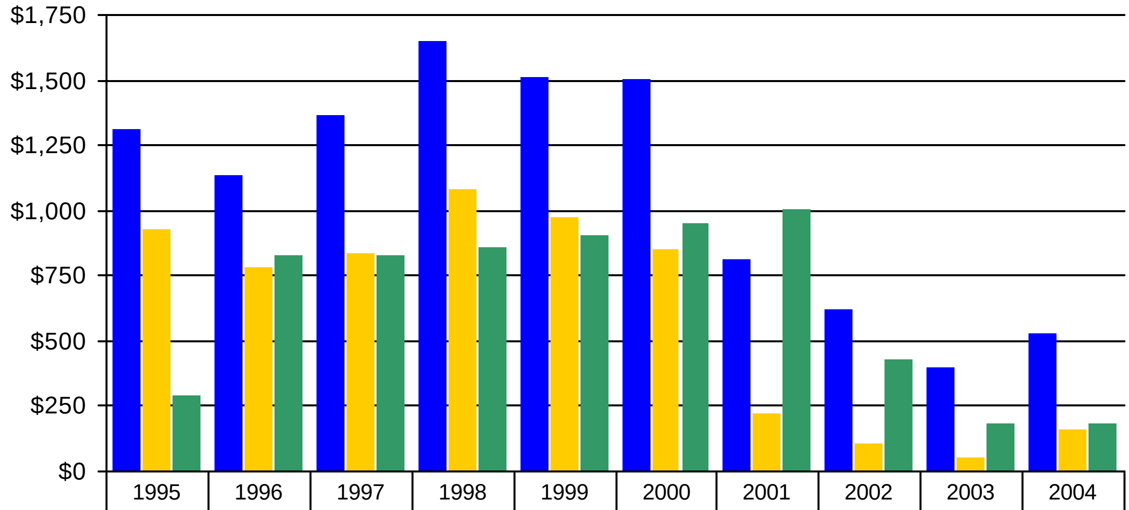
Cash Balance

As shown in Table 1, the GRF began FY 2005 with a $533 million cash balance. This is $137 million higher than the cash balance at the start of FY 2004 but is much lower than the balances enjoyed during the years before the most recent recession. Chart 1 presents the year-end GRF cash, GRF unobligated, and Budget Stabilization Fund (BSF) balances for the past ten fiscal years. The ending balance for one fiscal year is the beginning balance for the next. The improvement in the state's financial situation during FY 2004 is evident, but also evident is how weak the state's current financial situation looks in comparison to the years before the 2001 recession.

Through August, FY 2005 revenues plus transfers-in totaled $3,621 million and disbursements plus transfers-out totaled $4,197 million. The year-to-date deficit of $576 million reduced the month-end cash balance to -$43 million. If FY 2005 revenues and disbursements had met their estimates, the fiscal year-to-date cash balance would have been -$381 million, $338 million lower than the actual level. Although a negative cash balance may appear to be a cause for concern, the cash balance, due to the timing of revenues and disbursements, is generally negative early in the fiscal year before turning positive later in the year. This pattern is shown in Chart 2, which presents the month-end cash balances from FYs 2000, 2002, and 2004. During FY 2000 the cash balance turned positive earlier than usual due to unexpectedly strong revenues.

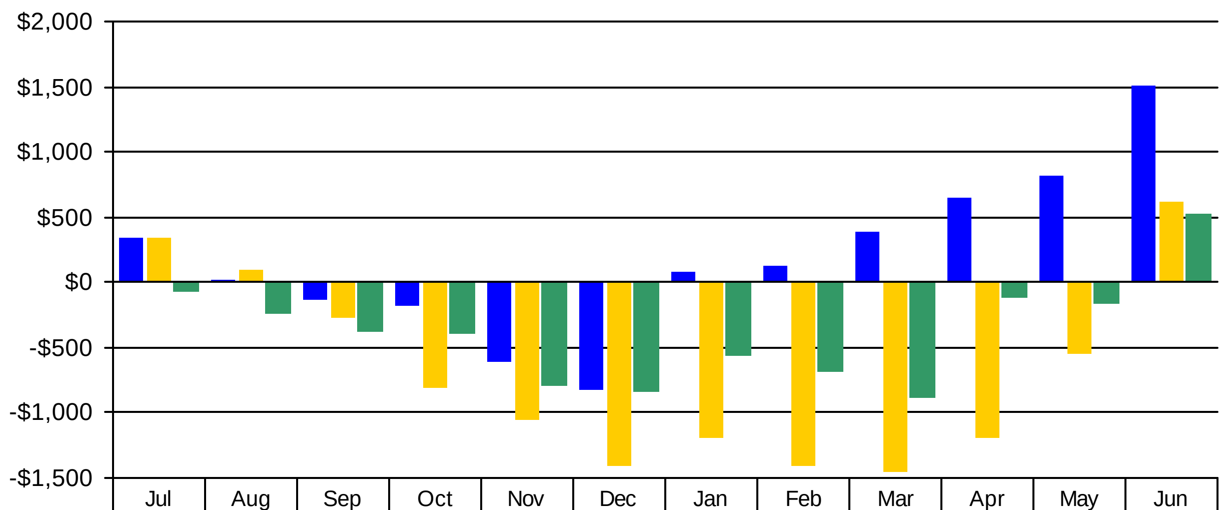
Encumbrances of $820 million combine with the cash balance to yield an unobligated balance of -$863 million. This amount is $105 million higher (less negative) than a year ago. Looking at the ending cash balance and the unobligated balance indicates that the state's financial situation in terms of current-year performance has improved slightly compared to a year ago. The $181 million balance in the BSF is the same as a year ago, so the combined GRF and BSF balance of -$682 million is $105 million

Chart 1: Fiscal Year-End Balances
(in millions)



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cash	$1,312.2	$1,138.5	$1,367.7	$1,649.0	$1,512.5	$1,506.2	$817.1	$619.2	$396.5	$533.1
Unobligated	$928.0	$781.3	$834.9	$1,084.4	$976.8	$855.8	$219.4	$108.3	$52.3	$157.5
BSF	$293.1	$828.3	$828.3	$862.7	$906.9	$953.3	$1,002.5	$427.9	$180.7	$180.7

Chart 2: Month-End Cash Balances
(in millions)



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 2000	$344	$22	-$137	-$186	-$604	-$827	$86	$124	$383	$656	$824	$1,506
FY 2002	$346	$96	-$273	-$815	-$1,053	-$1,403	-$1,199	-$1,406	-$1,450	-$1,199	-$543	$619
FY 2004	-$70	-$247	-$385	-$393	-$794	-$840	-$558	-$679	-$893	-$123	-$169	$533

higher than it was a year ago. If one looks at the combined GRF and BSF balance, the state's financial situation in terms of ability to withstand an economic shock is also improved from a year ago but remains far from robust.

[1] The "major taxes" are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the kilowatt-hour tax. In addition to providing revenue for the GRF, these taxes contribute to the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF).

Tracking the Economy

¾ Phil Cummins

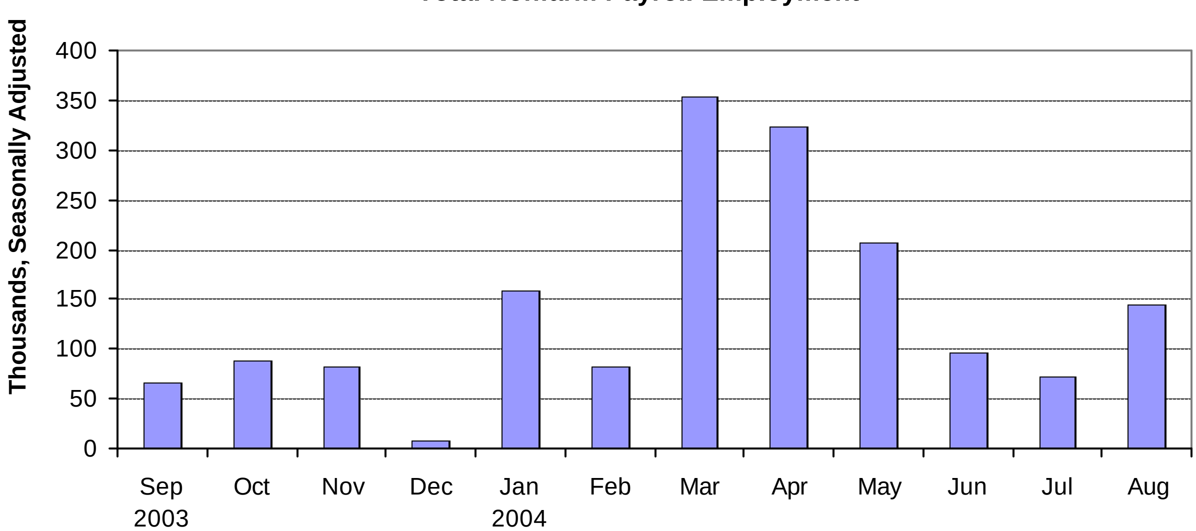
Employment nationwide grew more rapidly in August than in June or July, but additions to payrolls remained below the pace from March through May. In Ohio, payroll employment fell in August and unemployment rose. Hiring plans indicate that additions to payrolls, in the nation and in the Midwest, are likely in this year's fourth quarter. Factory output rose in August, and rising orders support expectations of further gains. Purchasing managers' reports show continued economic expansion, though increases were less widespread than in earlier reports. Retail sales fell in August, reflecting slower motor vehicle buying and disappointing back-to-school sales. The hurricanes in August and September are unambiguously adverse for the economy, destroying property and disrupting retail sales, tourism, and other endeavors, but repair and rebuilding in the wake of the storms will tend to boost measured economic activity. Residential demand and construction activity are at high levels. Inflation is low at the finished goods and services level, but reports of cost increases remain widespread at earlier stages of production. High energy prices are diverting purchasing power from consumers to producers.

The latest report on United States gross domestic product (GDP) shows continued expansion in total economic activity in this year's second quarter, but at a slower pace than earlier. Inflation-adjusted GDP rose at a 2.8% seasonally adjusted annual rate, down from a 4.5% rate of growth in the first quarter, 4.2% in last year's fourth quarter, and 7.4% in the third quarter. Personal consumption expenditures in this year's second quarter increased at the slowest rate since recession year 2001, but housing investment again expanded briskly. Businesses added further to capital outlays and inventory building. The growth of imports continued to outpace exports, as the country's external imbalance widened to the largest trade and current account deficits on record.

Labor Market Gains

The nation's labor market performance improved in August. Payroll employment growth increased and the unemployment rate fell slightly to 5.4%, its lowest level in nearly three years. Total nonfarm payroll employment in the United States rose by 144,000 in August, after slower gains in June and July. That slowdown, in turn, followed more rapid increases during March, April, and May. Though total output,

Chart 1: Monthly Change in United States Total Nonfarm Payroll Employment



measured by the country's gross domestic product, has been growing since late 2001, nonfarm payroll employment reached a low for the current business cycle in August 2003 and initially rose only slowly. Monthly changes since the cyclical low for this measure of employment are shown in Chart 1.

Total nonfarm payroll employment in Ohio fell 11,800 in August and was only about 12,000 higher than the cyclical low reached in December 2003. Statewide unemployment rose in August to 6.3% of the labor force, matching the business cycle peak rate of unemployment in the state reached in March and July of last year. Declines in employment were widespread among industries. Employment in service-providing industries fell 6,400, and employment in goods-producing industries declined 5,400, including a drop in factory payrolls of 4,100. Total nonfarm payroll employment levels for the nation and state are shown in Chart 2.

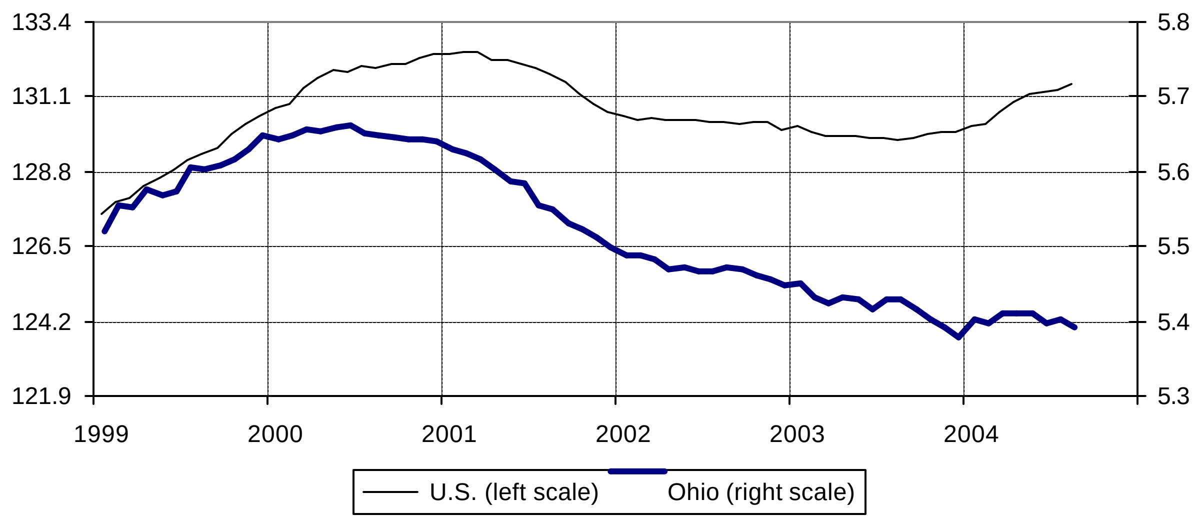
A survey of hiring intentions at employers nationwide, conducted by Manpower Inc., showed that 28% plan to add employees at their locations in this year's fourth quarter while 7% plan reductions in employment. Net hiring plans for the quarter are at their highest level since 2000. In the Midwest, including Ohio, 26% of surveyed employers plan to add to employment in the fourth quarter while 7% plan cutbacks. Net hiring plans in the region are also highest for the quarter since 2000.

Business Expansion Continues, Less Widespread Than Earlier

Purchasing managers for the nation's manufacturers indicated that activity at their employers expanded in August, the 15th consecutive rise, in the Institute for Supply Management's monthly survey. However, expansion was less widespread among survey participants than earlier this year and late last year. More of the survey respondents reported increases than noted decreases in production, new orders, backlogs of orders, inventories, and employment. Upward pressures on prices paid remained very widespread, and various types of steel and steel products, aluminum, chemicals, and semiconductors were reported in short supply. Purchasing managers surveyed at nonmanufacturing organizations generally reported expanding activity coupled with continued widespread price increases.

Economic expansion continued in July and August, but growth slowed in parts of the country, according to the Federal Reserve's "Beige Book," a summary based largely on anecdotal reports from business contacts. Indications on consumer spending were mixed. Back-to-school sales in several regions were disappointing. Auto sales were sluggish or vehicle inventories were elevated in some Federal Reserve districts, but others noted improved sales. Manufacturing activity continued to expand,

Chart 2: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



particularly durable goods output, and demand for freight transportation was strong. Residential sales and construction continued at high levels, but several regions reported slowing in home price appreciation or sales. Commercial real estate remained beset by high vacancies and low rents, though improvement was noted in some local markets. In the Cleveland Federal Reserve District, which includes all of Ohio, retail sales were characterized as weaker and short of expectations. Manufacturing output in the region was well ahead of last year, though increases recently were mainly at durable goods producers. Steel demand remained strong but growth was expected to slacken. Motor vehicle output in the region was thought to be below last year's pace. Residential construction slowed somewhat in the region, and builders contacted thought sales this year would at best match those in 2003. Nonresidential construction has slowed recently, except for some smaller projects.

Factory Production at New High

Industrial production rose 0.1% in August, as manufacturing output increased 0.5%, while utility and mining output decreased. The estimate of factory output in July and earlier months was revised upward, though the latest numbers still show a slowdown in the industrial sector in June. Total factory production in August was 6.8% above a year earlier and was at a new all-time peak, above the previous peak reached in 2000, prior to the 2001 recession. These latest figures are evidence that the industrial sector is expanding again following a slowdown early in the summer.

Factory orders continued to grow rapidly through July. Year-to-date new orders were 12% higher than a year earlier. Orders for nondefense capital goods, an indicator of future business capital investment, were 15% higher in this year's first seven months than a year earlier.

Retail Sales Slip

Retail sales fell 0.3% in August, and sales in earlier months were revised downward. Total retail sales last month were 4.9% above a year earlier. Part of the softness in August may have been a result of Hurricane Charley, but the slowdown appears to have been more widespread among regions (see the "Beige Book" summary above) than can be explained by hurricane effects. Car and light truck sales slowed in August, and sales incentives from vehicle manufacturers were raised to high levels after efforts earlier in the year to reduce them. Excluding motor vehicles, retail sales rose 0.2% last month to 7% above August 2003. Lines of business with above-average year-over-year gains in recent months include gasoline stations, reflecting higher gasoline prices; nonstore retailers (including mail-order and Internet shopping); building materials dealers; restaurants and bars; electronics and appliance stores; and furniture and home furnishings stores. Among general merchandiser stores, sales of warehouse clubs and superstores are well ahead of last year's pace while department store sales are lower.

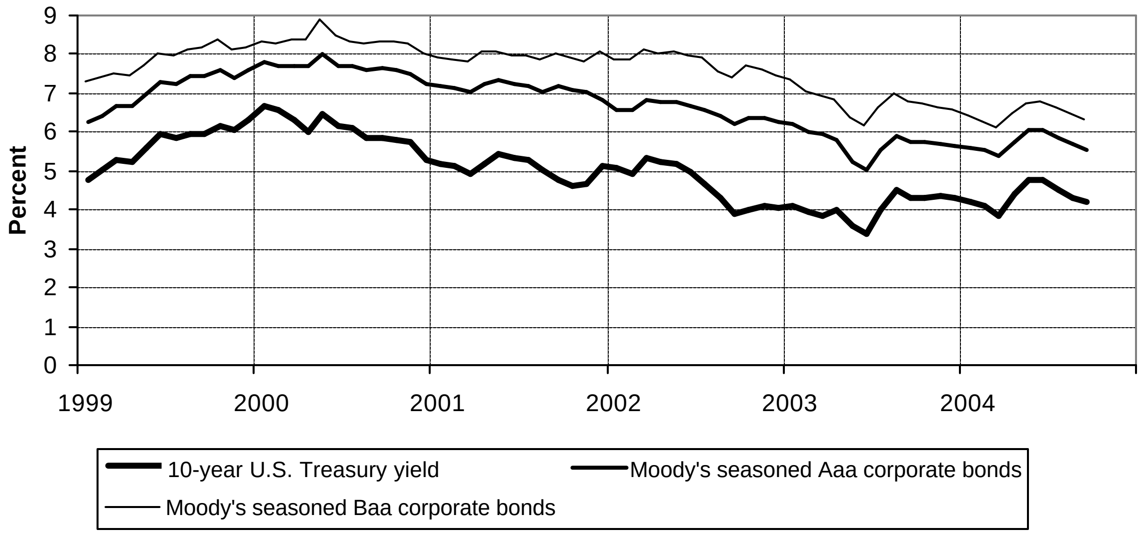
Inventory Building

Total inventories of manufacturers, wholesalers, and retailers rose a relatively rapid 0.9% in July, an indication that the rebuilding of business inventories continued to add to demand in the third quarter. Businesses accumulated inventories in the prior three quarters. Despite the upturn in inventory building, inventories remain lean relative to sales.

Residential Construction Still at High Level

Housing starts nationwide rebounded in July after slowing in June and remain at a high level. Year-to-date housing starts are 10% above the pace last year, when starts were the strongest since 1978. Single-family housing starts last year were the highest ever, in statistics available starting in 1959.[1] In the Midwest, housing starts in the first seven months of 2004 were less than 1% higher than a year earlier, when starts were also the highest since 1978. Interest rates on fixed-rate mortgages have trended lower since June and remain near their lowest levels in decades. New home sales in the United States fell in June and July, seasonally adjusted, from the all-time peak for sales last May. Through seven months, year-to-date sales were 15% above a year earlier. In the Midwest, new home sales in July were the

Chart 3: Long-Term Interest Rates



strongest ever, in statistics begun in 1973. Year-to-date sales were 17% above a year earlier. Sales of used homes nationwide fell 3% in July from the all-time peak, seasonally adjusted, in June.

Finished Goods and Services Inflation Tame

The producer price index for finished goods fell 0.1% in August, to 3.4% above a year earlier. Last month's drop in this inflation measure followed a small 0.1% increase in July and a 0.3% fall in June. Earlier in 2004, producer finished goods prices rose rapidly, mainly because of sharply higher energy and food prices. At earlier stages of production, the producer price index for intermediate goods rose 1.0% in August to 8% above a year earlier. The index for crude materials fell 0.7% but nevertheless was 22% higher than in August 2003.

The consumer price index rose 0.1% in August, after falling 0.1% in July, to 2.7% above a year earlier. Excluding food and energy, consumer prices were also 0.1% higher in August than in July and were 1.7% above August 2003. Energy prices fell for the second consecutive month in August, after rising sharply in this year's first half. Food prices rose 0.1% following more rapid increases earlier in the year.

Financial Markets

As had been widely expected, the Federal Reserve raised its federal funds target on August 10 by 0.25 percentage point to 1.5%. Further increases are anticipated by market participants at the September 21 meeting of the central bank's Federal Open Market Committee and in the fourth quarter. The pace of economic expansion appears to be somewhat slower than in early 2004 and in last year's second half, and inflation is well-contained for finished goods and services. Nevertheless, the present low level of short-term interest rates is viewed by central bank policymakers as quite accommodative, and the series of gradual increases in the federal funds target rate, to bring it to a more neutral level, is likely to continue. In the absence of more robust expansion or an upturn in inflation, bond yields have declined since June, as shown in Chart 3.[2]

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[1] More one-unit dwellings may have been started in 1950 than last year, but data for years prior to 1959 are not directly comparable to numbers currently published.

[2] Data plotted are monthly averages, except September 2004, for which interest rates as of September 13 are shown.

Status of the General Revenue Fund

REVENUE

— *Jean Botomogno and Allan Lundell*

Two months into the new fiscal year, the revenue picture is encouraging. Total General Revenue Fund (GRF) revenues from the "major taxes" are $89.2 million (3.5%) above estimate and total tax revenue is $86.8 million (3.3%) above estimate.[1] The major taxes are expected to account for approximately 70% of total GRF receipts and 90% of state-source GRF receipts in FY 2005. Their healthy performance is essential for a good revenue year and their year-to-date performance is a promising sign. State-source receipts (tax revenue plus nontax revenue plus transfers-in) are $48 million (1.8%) above estimate. The relatively poor performance of this financial indicator is due to the timing of a transfer. A $45.3 million transfer from the School District Property Tax Replacement Fund to the GRF expected to be made in August was not made.[2] If this transfer had been made, state-source receipts would have been $93.5 million (3.5%) above estimate. The transfer is now expected to be made in September.

For the fiscal year to date, total GRF receipts are up 8.8% compared to FY 2004. State-source receipts are up 12.0%, total tax revenue is up 12.6%, and revenue from the major taxes is up 13.8%. The year-over-year comparison is a bit misleading due to the timing of last year's sales tax rate increase and base expansion, which makes it a not quite "apples to apples" comparison. The improvement in receipts is better indicated by the 5.7% increase in state-source receipts from sources other than the sales tax. This improvement is largely due to the 8.9% year-over-year increase in revenue from the personal income tax. Chart 1 compares FY 2005 receipts with FY 2004 receipts and FY 2005 estimates.

Personal Income Tax

The GRF has received $1,108.6 million from the personal income tax thus far this fiscal year. This amount is $43.8 million (4.1%) above estimate. The $1,200.1 million in revenue collected through withholding is $11.0 million (0.9%) above estimate. Withholding is expected to account for 77% of gross income tax collections for FY 2005. Year-to-date quarterly estimated payments of $24.5 million are $1.5 million (6.6%) above estimate.[3] Refunds total $43.5 million. This total is $17.5 million (28.7%) less than estimate.

Compared to a year ago, GRF revenue from the personal income tax is up 8.9%. Withholding is up 5.7%. Withholding reflects the condition of Ohio's labor market, and the growth in withholding may be an indication of improvement in Ohio's economy. Gross collections are up 6.0 %, refunds are down 29.4%, and net collections are up 7.9%. Distributions to the local government funds supported by the income tax are down 0.2%.

Sales and Use Tax

In August 2004, revenues from the sales and use tax were below estimates. Total sales and use tax revenues in the month were $667.5 million, $19.2 million (2.8%) below estimate. Auto and nonauto sales and use tax receipts were $18.1 million (15.1%) and $1.1 million (0.2%) below estimates, respectively. Total sales and use tax receipts in August 2004 were $68.4 million (11.4%) above August 2003 sales and use tax revenues. Tax receipts partly reflect taxable retail sales activity in the prior month and also taxable retail sales during that month.[4] As of August 2004, year-to-date total sales and use tax revenues were $1,401.7 million, $35.6 million (2.6%) above estimate. Sales and use tax receipts were $221.3 million (18.7%) higher than year-to-date tax receipts in August 2003.

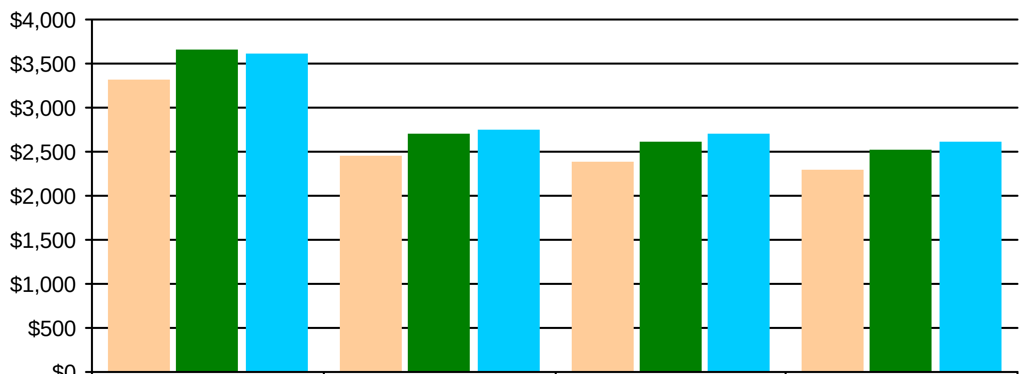
The increase in sales and use tax revenue in the first two months of FY 2005 over FY 2004 revenues is due largely to the timing of the collection of additional revenues from the sales tax rate increase (July 1, 2003) and the base expansion (August 1, 2003). A portion of the sales and use tax remittance in July 2003 was for taxed sales that occurred in June 2003, when the sales tax rate was still at 5%. July 2004 receipts fully reflect taxed sales that were charged the 6% rate. Similarly, August 2003 sales and use tax receipts contained little of the additional revenues from the base expansion. Receipts from the base expansion were mostly recorded later, beginning in September 2003.[5] August 2004 revenues include additional revenues from the base expansion. Thus, although year-to-date FY 2005 sales and use tax revenues are higher than FY 2004 revenues, the growth in receipts is not reflective of a strong growth in the sales and use tax base.

Nonauto Sales and Use Tax

In the first two months of FY 2005, nonauto sales and use tax revenues were $1,193.0 million, $38.7 million (3.4%) above estimates. Revenues were also $211 million (21.5%) above revenues in the first two months of FY 2004. Due largely to the effect of the timing of receipts explained in the previous section, the performance of this tax source was different in the two months. In July 2004, revenues from the nonauto sales and use tax were $39.4 million (6.8%) above estimates. Nonauto sales and use tax revenues were $144.4 million (29.9%) above revenues in July 2003. The following month, nonauto sales and use tax receipts were $1.1 million (0.2%) below estimates. Tax receipts in August 2004 were also $66.6 million (13.3%) above receipts in August 2003.

The slowdown in retail sales affected nonauto sales and use tax receipts at the start of FY 2005. Nationwide retail sales (excluding autos) grew 0.3% in July 2004 and 0.2 % in August 2004, less than a third of the average growth recorded in the first six months of 2004. Back-to-school sales were lackluster. The index of chain-stores sales[6] of the International Council of Shopping Centers (ICSC) rose 1.1% in August 2004, its smallest growth in 17 months. This indicator has trended downward since March 2004. Wage gains, tax refunds, and cash from refinancing, which helped fuel sales a year ago, have all waned. The increases in gasoline and food prices seem to have dampened consumer spending in the last two months.

Chart 1: Year-to-Date GRF Receipts
(dollars in millions)



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Revenues from Total Taxes	Revenues from Major Taxes
FY 2004	$3,326.5	$2,457.5	$2,397.0	$2,297.7
FY 2005 Estimate	$3,652.9	$2,703.3	$2,611.2	$2,525.0
FY 2005 Actual	$3,620.5	$2,751.5	$2,698.0	$2,614.2

Auto Sales Tax

Auto sales and use tax receipts were $107.1 million in July 2004, $15.0 million (16.2%) above estimates. In August, auto sales tax receipts were $101.6 million, $18.1 million (15.1%) below estimates. The clerks of court generally make auto tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales tax receipts largely reflect vehicles sold and titled during the month. Compared to revenues a year ago, auto sales tax receipts in July 2004 were $8.4 million (8.5%) higher than receipts in July 2003. Auto sales tax receipts in August 2004 were $1.8 million (1.9%) higher than receipts in the same month in FY 2003. As of August 2004, year-to-date auto sales tax receipts were $208.7 million, $3.1 million (1.5%) below estimates. Year-to-date auto sales and use tax receipts were $10.3 million (5.2%) higher than receipts through the same period a year ago. This increase in receipts compared to year-ago revenues may be a misleading measure of growth in the tax base because auto sales in July 2003 were probably negatively affected by the tax rate increase (from 5% to 6% on July 1, 2003).

Nationwide auto sales have been volatile. Sales grew in July and declined in August. The U.S. Department of Commerce reported that sales at motor vehicle dealers grew 2.4% in July 2004, after falling 3.0% in June 2004. Light vehicle unit sales in July 2004 jumped 12%. In August 2004, sales at motor vehicle dealers fell 1.9%, and unit sales declined 3.5%. The swings in nationwide auto sales are correlated to the incentives provided by dealers, although the effectiveness of those incentives may be weakening. Automakers are responding to weaker sales in August by both cutting production targets and offering higher incentives in September 2004.

Corporate Franchise Tax

Activities under the corporate franchise tax in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations.[7] Corporate franchise tax receipts were $12.8 million in August 2004. In the previous month, corporations received $3.1 million in tax overpayments (refunds). As of August 2004, year-to-date corporate franchise tax receipts were $9.7 million above estimates. These receipts were also $7.3 million above FY 2003 receipts.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts in July 2004 were $15.4 million, $2.7 million (21.3%) above estimates. Revenues from this tax source in August 2004 were $51.0 million, $3.1 million (5.7%) below estimates. In the first two months of FY 2005, revenues from the cigarettes and other tobacco products tax were $0.4 million (0.6%) below estimates. Compared to year-ago receipts in the same month, revenues in July 2004 were $14.0 million (47.7%) lower. August 2004 tax receipts were $3.8 million (8.1%) higher than August 2003 tax receipts. As of August 2004, year-to-date cigarette and other tobacco products receipts were $66.4 million, $0.4 million (0.6%) below estimates. Revenues from this tax source were also $10.2 million (13.3%) below revenues a year ago. The large dip in cigarette tax revenues compared to year-ago revenues is due, in part, to changes in Am. Sub. H.B. 95 regarding the purchase of bonds and stamps on credit by cigarette dealers. Those changes decreased monthly receipts at the beginning of FY 2003.

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[1] The "major taxes" are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the kilowatt-hour tax. In addition to providing revenue for the GRF, these taxes contribute to the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF).

[2] The purpose of the transfer is to offset increases in the state school foundation program as a result of lower utility property valuations due to electric deregulation.

[3] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. These payments are usually made by taxpayers with significant nonwage income. This income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

[4] Am. Sub. H.B. 40 changed the historical patterns of remittance of sales and use tax receipts starting in April 2003. Under prior law, monthly sales and use tax receipts reflected taxable transactions in the prior month. Under current law, certain large taxpayers must remit sales tax payments in the same month the transactions occur. Thus, monthly sales tax receipts reflect taxable transactions in both the current and the prior month.

[5] The bulk of receipts from the base expansion were from the taxation of local phone calls (which became effective on January 1, 2004).

[6] Sales at stores of about 72 major discounters, department stores, and specialty retailers that have been open at least a year.

[7] Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year. Corporate franchise tax estimated payments are due January 31, March 31, and May 31. By May 31 each year, a corporation must pay the difference between its full tax liability and the first two estimated payments.

Table 2
General Revenue Fund Sources
Actual vs. Estimate
Month of August 2004
($ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$101,545	$119,647	-$18,102	-15.1%
Nonauto Sales & Use	$565,912	$567,000	-$1,088	-0.2%
Total Sales & Use Taxes	$667,456	$686,647	-$19,191	-2.8%
Personal Income	$584,555	$539,000	$45,555	8.5%
Corporate Franchise	$12,819	$0	$12,819	---
Public Utility	$35,790	$35,500	$290	0.8%
Kilowatt Hour Excise	$29,749	$30,100	-$351	-1.2%
Total Major Taxes	**$1,330,369**	**$1,291,247**	**$39,122**	**3.0%**
Foreign Insurance	$88	$47	$41	85.7%
Domestic Insurance	$0	$680	-$680	-100.0%
Business & Property	$135	$150	-$15	-10.3%
Cigarette	$50,992	$54,100	-$3,108	-5.7%
Alcoholic Beverage	$4,997	$5,130	-$133	-2.6%
Liquor Gallonage	$2,843	$2,604	$239	9.2%
Estate	$0	$700	-$700	-100.0%
Total Other Taxes	$59,054	$63,411	-$4,357	-6.9%
Total Tax Revenue	**$1,389,423**	**$1,354,658**	**$34,764**	**2.6%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$9,378	$4,469	$4,909	109.8%
Other Revenue	$10,950	$8,743	$2,207	25.2%
Nontax State-Source Revenue	$20,328	$13,212	$7,116	53.9%
TRANSFERS				
Liquor Transfers	$10,000	$9,000	$1,000	11.1%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$45,300	-$45,300	-100.0%
Total Transfers In	$10,000	$54,300	-$44,300	-81.6%
TOTAL GRF before Federal Grants	**$1,419,751**	**$1,422,170**	**-$2,420**	**-0.2%**
Federal Grants	$423,503	$482,394	-$58,891	-12.2%
TOTAL GRF SOURCES	**$1,843,254**	**$1,904,564**	**-$61,310**	**-3.2%**

* August 2004 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 3
General Revenue Fund Sources
Actual vs. Estimate
FY 2005 as of August 2004
($ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
TAX REVENUE						
Auto Sales	$208,685	$211,822	-$3,137	-1.5%	$198,413	5.2%
Nonauto Sales & Use	$1,192,991	$1,154,250	$38,741	3.4%	$981,980	21.5%
Total Sales & Use Taxes	$1,401,676	$1,366,072	$35,604	2.6%	$1,180,393	18.7%
Personal Income	$1,108,615	$1,064,800	$43,815	4.1%	$1,018,146	8.9%
Corporate Franchise	$9,677	$0	$9,677	---	$2,279	324.6%
Public Utility	$35,817	$35,500	$317	0.9%	$39,139	-8.5%
Kilowatt Hour Excise	$58,406	$58,600	-$194	-0.3%	$57,789	1.1%
Total Major Taxes	**$2,614,192**	**$2,524,972**	**$89,220**	**3.5%**	**$2,297,747**	**13.8%**
Foreign Insurance	$117	$47	$69	146.4%	$129	-9.2%
Domestic Insurance	$3	$1,020	-$1,017	-99.7%	$147	-97.9%
Business & Property	$796	$600	$196	32.7%	$623	27.8%
Cigarette	$66,422	$66,800	-$378	-0.6%	$76,605	-13.3%
Alcoholic Beverage	$10,787	$10,545	$242	2.3%	$10,373	4.0%
Liquor Gallonage	$5,466	$5,084	$382	7.5%	$5,073	7.7%
Estate	$214	$2,100	-$1,886	-89.8%	$6,306	-96.6%
Total Other Taxes	$83,805	$86,196	-$2,391	-2.8%	$99,256	-15.6%
Total Tax Revenue	**$2,697,997**	**$2,611,168**	**$86,829**	**3.3%**	**$2,397,003**	**12.6%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	-$168	$0	-$168	---	$0	---
Licenses and Fees	$9,981	$8,213	$1,768	21.5%	$7,645	30.6%
Other Revenue	$23,643	$20,578	$3,065	14.9%	$23,469	0.7%
Nontax State-Source Revenue	$33,455	$28,791	$4,664	16.2%	$31,114	7.5%
TRANSFERS						
Liquor Transfers	$20,000	$18,000	$2,000	11.1%	$19,000	5.3%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$0	$45,300	-$45,300	-100.0%	$10,363	-100.0%
Total Transfers In	$20,000	$63,300	-$43,300	-68.4%	$29,363	-31.9%
TOTAL GRF before Federal Grants	**$2,751,452**	**$2,703,259**	**$48,193**	**1.8%**	**$2,457,480**	**12.0%**
Federal Grants	$869,071	$949,610	-$80,538	-8.5%	$869,051	0.0%
TOTAL GRF SOURCES	**$3,620,524**	**$3,652,869**	**-$32,345**	**-0.9%**	**$3,326,531**	**8.8%**

* August 2004 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

DISBURSEMENTS

— *Steve Mansfield*

Since this is the first issue of *Budget Footnotes* of the fiscal year, it may be helpful to start with a brief explanation of the nature and purpose of this monthly report on General Revenue Fund (GRF) disbursements. Typically, this report is the combined effort of several fiscal analysts who examine state spending data for departures from the monthly disbursement estimates that are produced at the beginning of each fiscal year by the Office of Budget and Management (OBM). The goal of the report is to inform legislators and other readers about significant departures, or "variances," from those GRF disbursement estimates.

Figure 2 and Tables 4 and 5, below, are based on a comparison of actual disbursements and the estimates. The variances that result from *more* than the estimate being disbursed are presented with positive numbers, and variances that result from *less* than the estimate being disbursed are presented with negative numbers. For example, we see in Figure 2 that three of the state's largest GRF program categories have disbursement variances through the first two months of the fiscal year that register below the estimate and are thus in negative territory. (One of these – Tax Relief – has a relatively small variance and thus is very close to zero.) The fourth program category (Government Operations) has a disbursement variance that is above the estimate for the year to date and thus registers in positive territory. This use of positive and negative signs is consistent with the disbursement tables contained in OBM's *Monthly Financial Report*.

There will be in this fiscal year, as in every other fiscal year, "garden variety" monthly variances whose explanation is solely timing, that is, the release of payments earlier or later than expected. For example, monthly variances may be due to the timing at which the Office of State Accounting posts payroll amounts for paydays that land very early or very late in a month. Significant monthly variances may then be observed, especially in spending by the agencies with large payrolls, if the timing of the posting departs from the timing that was assumed in the estimate of disbursements. These timing-related variances, if indeed they really are timing-related, should self-correct by the end of the fiscal year, thus

Figure 1
Monthly Outlays in Ohio's Four Major GRF Programs, FY 2004 and 2005

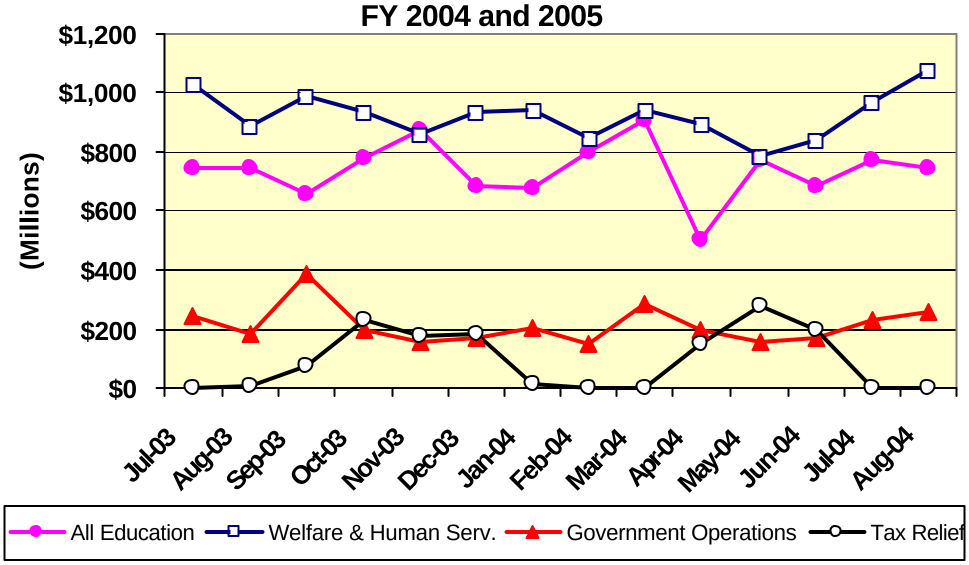
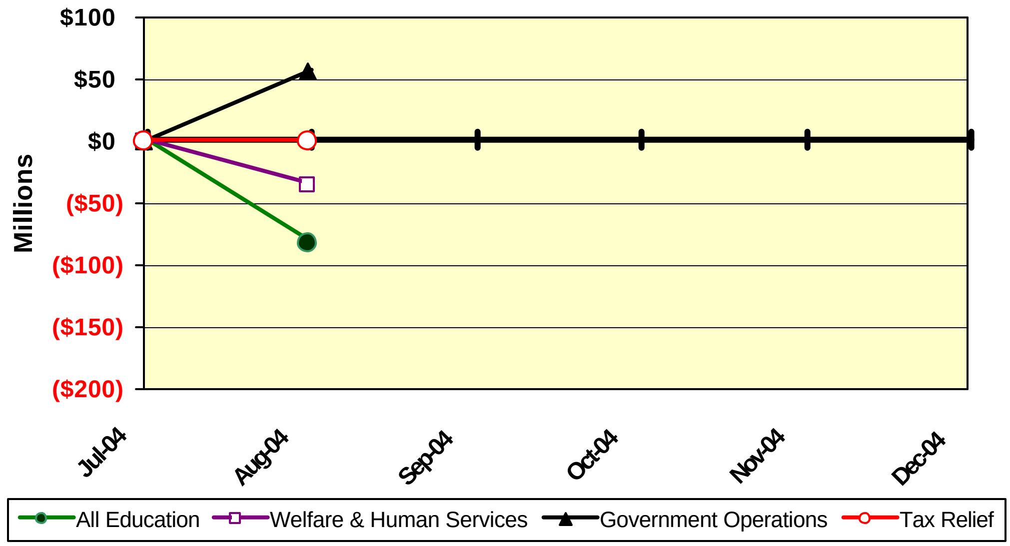


Figure 2
GRF Disbursement Variances
by Program Category, FY 2005



reducing the variance. In other words, the actual spending would move closer to the estimate, thus reducing the variance closer to zero.

More interesting for purposes of this report are less common kinds of variances, those that might have a sustained impact, either positive or negative, on GRF spending. These sustained disbursement variances could result from implementation problems, changes in state policy, or changes in economic climate that trigger changes in spending, thus impacting future policy decisions. For example, larger than anticipated average daily membership (ADM) counts that influence Primary and Secondary Education spending from formula-funding line items, or larger than anticipated growth in the Medicaid caseload, both of which have happened in recent years, could produce significant disbursement variances. Hopefully, our regular scanning of GRF spending across state government will uncover these less common disbursement variances to the benefit of our readers.

As sometimes happens at the beginning of a fiscal year, the OBM estimates were not received in time to produce a detailed disbursement report for September. This disbursement report will thus be limited to discussing briefly some aspects of Figure 2 and Tables 4 and 5, which present disbursement variance data in each of the state's four major GRF program categories, commenting on a few of the items that stand out. Our next issue will contain the usual discussion of disbursement variances at the more detailed level of agency programs.

Through the first two months of FY 2005, total GRF disbursements (excluding transfers) were $68.7 million below the estimate but were 5.7% greater than at the same point in FY 2004. Because OBM's disbursement estimates are not finalized until August, what was actually spent in July is typically entered as the estimate for July and no variances occur until the disbursements are entered for August. While there are sometimes exceptions, what we usually see is that each program reports a zero variance for July. In August, as we see from Figure 2 and Table 5, the Government Operations category had a year-to-date variance of $56.5 million above estimate. Pushing the overall disbursement variance in the opposite direction were a variance of $82.8 million below estimate in the Education category, a variance of $35.3 million below estimate in the Welfare and Human Services category, and a variance of $6.8 million below estimate in the Tax Relief category.

There are a couple of stand-out items in Tables 4 and 5 that have significant variances and thus merit a brief comment. These are, however, mostly timing-related variances. The disbursement variance of $81.2 million below estimate in the Primary and Secondary Education subcategory resulted largely from a $31.6 million payment from line item 200-511 being paid in September as opposed August, and from a disbursement variance of $18.7 million below estimate in line item 200-501, Base Cost Funding, which is typical for this line item with its large formula-based disbursements. More than half of the $47.9 million above estimate disbursement variance in the Justice and Corrections category resulted from the posting of payroll for the Department of Rehabilitation and Correction and for the Department of Youth Services in August rather than September, and also from the delay of some payments from July to August, including those for food transfers, halfway house contracts, and insurance. The other large disbursement variances in terms of percentage of the variance from the estimates stemmed from anomalies and peculiarities in the disbursement estimates either for this year or for last year.

Next month's edition of the Disbursements report will contain the usual tables on Medicaid and a detailed analysis of the largest contributors to variances from the GRF estimates.

Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of August 2004
($ in thousands)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$562,409	$643,611	-$81,202	-12.6%
Higher Education	$181,581	$183,220	-$1,639	-0.9%
Total Education	$743,990	$826,831	-$82,841	-10.0%
Health Care/Medicaid	$930,028	$945,373	-$15,345	-1.6%
Temporary Assistance to Needy Families (TANF)	$1,527	$0	$1,527	---
General/Disability Assistance	$1,820	$1,908	-$87	-4.6%
Other Welfare (2)	$42,459	$53,878	-$11,419	-21.2%
Human Services (3)	$104,501	$114,522	-$10,021	-8.8%
Total Welfare & Human Services	$1,080,335	$1,115,681	-$35,346	-3.2%
Justice & Corrections	$180,154	$132,299	$47,856	36.2%
Environment & Natural Resources	$12,370	$10,710	$1,660	15.5%
Transportation	$3,162	$2,587	$575	22.2%
Development	$14,551	$11,214	$3,337	29.8%
Other Government	$49,170	$45,960	$3,211	7.0%
Capital	$0	$137	-$137	-100.0%
Total Government Operations	$259,408	$202,906	$56,502	27.8%
Property Tax Relief (4)	$350	$7,155	-$6,805	-95.1%
Debt Service	$15,149	$15,313	-$164	-1.1%
Total Other Disbursements	$15,500	$22,469	-$6,969	-31.0%
Total Program Disbursements	**$2,099,233**	**$2,167,887**	**-$68,654**	**-3.2%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$10,959	$0	$10,959	---
Total Transfers Out	$10,959	$0	$10,959	---
TOTAL GRF USES	**$2,110,193**	**$2,167,887**	**-$57,695**	**-2.7%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes Department of Job and Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.
(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.
(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

* August 2004 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

Table 5
General Revenue Fund Uses
Actual vs. Estimate
FY 2005 as of August 2004
($ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
Primary & Secondary Education (1)	$1,152,044	$1,233,246	-$81,202	-6.6%	$1,123,436	2.5%
Higher Education	$365,265	$366,904	-$1,639	-0.4%	$362,198	0.8%
Total Education	$1,517,309	$1,600,150	-$82,841	-5.2%	$1,485,635	2.1%
Health Care/Medicaid	$1,665,069	$1,680,414	-$15,345	-0.9%	$1,562,598	6.6%
Temporary Assistance to Needy Families (TANF)	$26,929	$25,402	$1,527	6.0%	$24,117	11.7%
General/Disability Assistance	$4,921	$5,008	-$87	-1.7%	$5,339	-7.8%
Other Welfare (2)	$110,528	$121,947	-$11,419	-9.4%	$121,457	-9.0%
Human Services (3)	$240,299	$250,320	-$10,021	-4.0%	$199,898	20.2%
Total Welfare & Human Services	$2,047,745	$2,083,091	-$35,346	-1.7%	$1,913,409	7.0%
Justice & Corrections	$359,978	$312,122	$47,856	15.3%	$308,582	16.7%
Environment & Natural Resources	$29,299	$27,639	$1,660	6.0%	$25,315	15.7%
Transportation	$6,253	$5,678	$575	10.1%	$6,305	-0.8%
Development	$23,706	$20,369	$3,337	16.4%	$21,011	12.8%
Other Government	$72,656	$69,360	$3,296	4.8%	$70,441	3.1%
Capital	$0	$220	-$220	-100.0%	$0	---
Total Government Operations	$491,893	$435,389	$56,504	13.0%	$431,654	14.0%
Property Tax Relief (4)	$3,042	$9,847	-$6,805	-69.1%	$9,301	-67.3%
Debt Service	$112,996	$113,160	-$164	-0.1%	$108,046	4.6%
Total Other Disbursements	$116,038	$123,007	-$6,969	-5.7%	$117,348	-1.1%
Total Program Disbursements	**$4,172,984**	**$4,241,636**	**-$68,652**	**-1.6%**	**$3,948,045**	**5.7%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$23,522	$0	$23,522	---	$22,300	5.5%
Total Transfers Out	$23,522	$0	$23,522	---	$22,300	5.5%
TOTAL GRF USES	**$4,196,506**	**$4,241,636**	**-$45,131**	**-1.1%**	**$3,970,345**	**5.7%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes Department of Job and Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.
(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.
(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

* August 2004 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

Issues of Interest

CLEAN OHIO PROGRAM: LINKING THE "GREEN" AND "BROWN" SIDES OF ENVIRONMENTAL PROTECTION

¾ Jonathan Lee, Wendy Risner, Kerry Sullivan, and Allison Thomas

Through an amendment to the Ohio Constitution in November 2000, Ohio voters approved the creation of what is commonly known as the Clean Ohio program. The program authorizes the issuance of bonds, not more than $400 million of which may be outstanding at any one time, to provide local communities with grant and loan money for the preservation of open spaces and sensitive ecological areas, the permanent preservation of Ohio farmland, the improvement of outdoor recreational opportunities, and the revitalization of urban brownfields. Implementing legislation, in the form of Am. Sub. H.B. 3, was enacted by the 124th General Assembly in June 2001. Ohio's linkage of conservation and revitalization policy and rural and urban interests may be unique in the nation.

Under the Clean Ohio program, $200 million is reserved for conservation initiatives (the "green" side) and $200 million for revitalization initiatives (the "brown" side). Bonds issued for conservation projects are general obligation bonds, backed by the full faith and credit of the state. Tax revenues are used to pay debt service on these bonds. Every two years, under the biennial capital appropriations act, $50 million of general obligation bonds are issued. The proceeds are credited as follows: $37.5 million to the Ohio Public Works Commission's Clean Ohio Conservation Fund; $6.25 million to the Department of Natural Resources' Clean Ohio Trail Fund; and $6.25 million to the Department of Agriculture's Clean Ohio Agricultural Easement Fund.

Bonds issued for revitalization projects are revenue bonds. Payments of debt service for these bonds are derived from liquor profits. Similar to conservation bonds, $50 million of revenue bonds are issued biennially under the capital appropriations act. Proceeds are divided so that $40 million is used for Clean Ohio Revitalization projects and $10 million is used for Clean Ohio Assistance projects, which are administered by the Department of Development.

The "Green" Side

The Clean Ohio Conservation Fund

The Public Works Commission (PWC) is responsible for the administration of the Clean Ohio Conservation Fund (COCF). This fund provides grants for open space acquisition and riparian corridor enhancement. The Public Works Commission receives approximately $37.5 million every two years from the proceeds of general obligation bonds issued by the Ohio Public Facilities Commission. Authority for PWC to spend the proceeds (i.e., award the grants) is provided in the biennial capital bill, while debt service and operating dollars are provided in the biennial appropriations bill. The General Revenue Fund (GRF) supports the bond's debt service, and bond investment income supports PWC's administrative expenses.

To date, the COCF has completed two rounds of funding and has provided approximately $70 million in grants to local political subdivisions and nonprofit organizations. Applications for the third round of funding are currently being accepted and grants are likely to be awarded between July 2004 and March 2005 (pending the enactment of the FY 2005-2006 biennial capital bill, sometime in calendar year 2004).

Eligible Organizations and Projects

Eligible grant applicants include counties, townships, municipalities, park districts, similar park authorities, conservancy districts, soil and water conservation districts, joint recreation districts, and nonprofit organizations. Each applicant is expected to provide a minimum match of 25% of the project's total estimated cost, with PWC providing the remaining 75%. Funds provided by PWC may be used for planning, design, engineering, appraisals, environmental assessments, and archaeological surveys.

Each project must be for the acquisition of open space or for the protection or enhancement of a riparian corridor. Open space acquisition projects include developing parks, preserving forests and wetlands, protecting endangered species, and connecting natural area corridors. Riparian corridor projects include preserving headwater streams, restoring or improving water quality, preserving natural features, and restoring natural stream channels.

Selection Process and Funds Distribution

The act that established PWC divided the state into 19 public works districts. Each district contains a district public works integrating committee (DPWIC) governed by appointed members who are responsible for reviewing and selecting projects. In some cases, a DPWIC committee may cover only a single county (for example, Franklin County is the only county that makes up District 3), or several counties. Figure 1 displays the 19 public works districts.

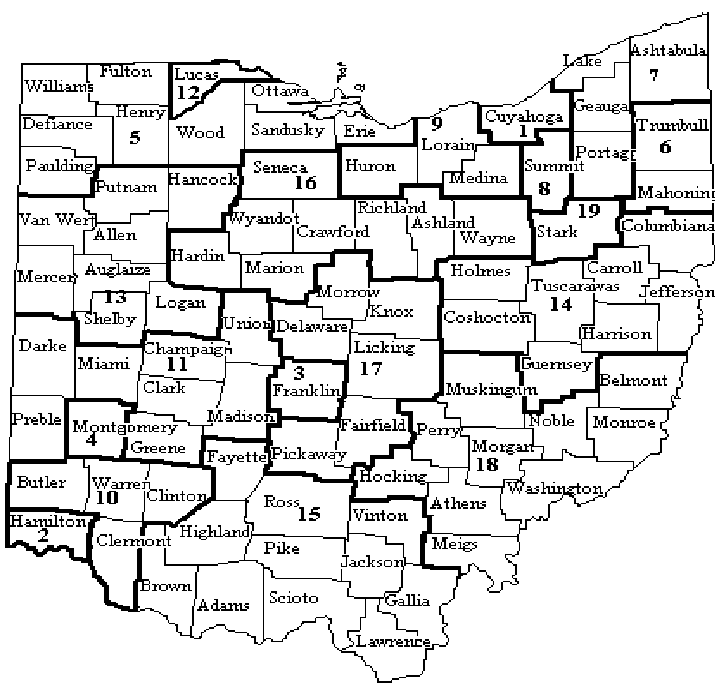
Each DPWIC appoints an 11-member Natural Resources Assistance Council (NRAC) to administer COCF projects. Each NRAC is required to develop its own project selection methodology and to approve or disapprove all COCF project applications. Selection methodologies consider factors such as the percentage of matching funds needed to complete a project; coordination between the state, local governments, and the community; overall community benefits; how a project will be maintained once completed; and how easily accessible a project is to the public. Councils also consider and compare COCF projects with regional and community development plans and local watershed plans.

As a base amount, each public works district is eligible to receive $93,750 each program year (which is equal to one-fourth of one percent of the total $37.5 million available). The remaining money is allocated to each district on a per capita basis. From these allocations, the district NRACs award grants to political subdivisions whose project and grant applications are approved by both the district NRAC and PWC's central office. District allocations range from $1.1 million to $3.7 million.

COCF Awards

As noted above, the COCF has so far provided two rounds of funding over two years. In round one, 128 grants were disbursed totaling $32.9 million. In round two, 132 were disbursed totaling

Figure 1. Map of 19 Public Works Districts



$36.9 million. Most grants were awarded to municipalities, nonprofit organizations, and park districts. The average amount of a single grant was $268,000.

Administrative Expenses

Section 164.27 of the Revised Code authorizes PWC to use investment earnings of the COCF for agency operating expenses. As of December 30, 2003, over $1.8 million in investment income had been credited to Fund 056, the Clean Ohio Conservation Fund.

In rounds one and two of funding, respectively, PWC incurred $8,200 and $206,200 in operating expenses. The agency estimates it will incur an additional $298,200 in operating expenses during the third year. Although operating expenses are gradually increasing, PWC expects investment income to decline slightly in future years due to the program's declining cash balance, program awareness, and lower interest rates.

The Public Works Commission hired a loan examiner during the FY 2002-2003 biennium to manage the program's loan portfolio. The loan examiner assists in application processing and disbursement review and provides technical assistance to local governments and NRACs. This position is funded through investment earnings. Members of the NRACs are not compensated for their duties and are not provided funding for any administrative expenses.

The Clean Ohio Trail Fund

The Clean Ohio Trail Fund (COTF) is administered by the Department of Natural Resources (DNR) and is used to provide grants for the expansion and improvement of outdoor recreational opportunities, primarily through the purchase and development of trails. The Department receives approximately $6.25 million every two years from the proceeds of general obligation bonds issued by the Ohio Public Facilities Commission. The initial appropriation for the COTF was provided under Am. Sub. H.B. 3 of the 124th General Assembly. Subsequent appropriations are provided in biennial capital bills, most recently, H.B. 675 of the 124th General Assembly.

Eligible Organizations and Projects

A variety of organizations are eligible to receive COTF grants. These include local governments, park and joint recreation districts, conservancy districts, soil and water conservation districts, and nonprofit organizations. A requirement of the grant process is that each organization or applicant provide a 25% local match. Items of value, such as in-kind contributions of land, easements or other interests in land, labor, or materials, may contribute toward this local match. Because the COTF grant is a reimbursement grant, grant recipients must provide evidence of actual expenditures before DNR will reimburse the agreed upon percentage.

The following types of projects are eligible for COTF funding: construction or development of recreational trails; purchase of land or interests in land for recreational trails; construction or development of trailhead facilities and water, sanitary, and access facilities; and planning, support, or certain nonconstruction costs associated with a specific recreational trail project. Grants may *not* be used toward the appropriation of land, rights, rights-of-way, franchises, easements, or other property through the use of eminent domain. Grants also may not be used for noncapital costs associated with a trail project, maintenance costs, or the purchase or lease of recreational trail construction and maintenance equipment.

Selection Process

Applications for COTF grants are due on February 1 each year. The public is informed of the application process and important dates through annual news releases, announcements of recommended projects, public engagements, and notices in various publications, as well as regular postings on the DNR website. The Clean Ohio Trail Advisory Board recommends to the Director those projects that should receive grants. The Board consists of nine members who have local government and nonprofit experience, as well as interests in recreation and environmental issues. Grant applications are competitively ranked based on a wide range of criteria that emphasize: (1) synchronization with the statewide trail plan, (2) complete regional systems and links to the statewide trails system, (3) a combination of funds from various state agencies, (4) the provision of links in urban areas that support commuter access and show economic impact on local communities, (5) the linkage of population centers with public outdoor recreation areas and facilities, (6) the purchase of rail lines that are linked to the statewide trail plan, and (7) the preservation of natural corridors.

COTF Awards

In September 2002, $6.25 million in COTF grants were announced for the program's first round of funding. From a total of 79 applications, 24 Ohio communities was awarded grants. Grants ranged in size from $20,000 to $500,000 and were primarily awarded for the construction of trails. In October 2003, an additional $6.25 million in grants were awarded for the program's second year. Twenty-two communities received grants ranging from $140,000 to $420,000. A majority of those projects were for the design and construction of recreational trails. Round three grant applications were due February 1, 2004, and grant award announcements will be made later this year.

Administrative Expenses

Under section 1519.05 of the Revised Code, DNR is permitted to use investment earnings of the COTF for agency operating expenses. Over the FY 2002-2003 biennium, DNR expended a total of $84,363 from bond investment earnings. During FY 2004, the agency expended a total of $149,293. These funds pay for costs incurred by DNR while administering the agency's responsibilities under the Clean Ohio Trails Fund program.

The Clean Ohio Agricultural Easement Fund

The Clean Ohio Agricultural Easement Fund (COAEF) is administered by the Ohio Department of Agriculture (ODA) and is used to purchase agricultural easements. Agricultural easements limit the use of agricultural land to agriculture-related purposes. Landowners retain ownership of the land; however, the rights to develop the land for nonagricultural activities are permanently surrendered. The Ohio Department of Agriculture receives approximately $6.25 million every two years from the proceeds of general obligation bonds issued by the Public Facilities Commission, which is then credited to the COAEF. The initial appropriation for the COAEF was made by Am. Sub. H.B. 3 of the 124th General Assembly. Subsequent appropriations are provided in biennial capital bills, most recently, H.B. 675 of the 124th General Assembly. The Ohio Department of Agriculture also receives funds from the United States Department of Agriculture Natural Resources Conservation Service for the purchase of agricultural easements. The amount of federal funding varies from year to year. In FYs 2002 and 2003, respectively, the Ohio Department of Agriculture was awarded $1.6 million and $1.7 million in federal funds.

Eligible Organizations and Projects

Rather than farmland owners applying directly for grant funding, counties, townships, municipalities, or charitable organizations apply on their behalf. Grants from the COAEF may be awarded for up to 75% of the value of the easement, with the remaining 25% matched by interested local governmental entities, nonprofit organizations, or, as a donation, from the landowner. Payment caps for the program's third year of funding specify that only one award will be made per landowner, that the maximum award per acre is $2,000, that the maximum award per funding round per landowner is $500,000, and that the maximum award to any one county is $750,000.

In order to receive COAEF funding, the following requirements must be met: (1) the land must be enrolled in the Current Agriculture Use Value (CAUV) program (which permits farmland owners to value land on its ability to produce income rather than on its market value, a benefit that can provide significant tax savings to agricultural producers) (2) applications must be signed by all owners of the property, (3) parcels must be contiguous, (4) land must be located within one county (if located in more than one county, separate applications must be received from each county), (5) the sponsor must confirm the 25% match or donation and local governments must agree to monitor and enforce the easement, and (6) the land must include 40 or more acres.

Selection Process

Grant applications for easement fund grants are due around March 31 each year. The Ohio Department of Agriculture advertises the program through a series of press releases and local and regional meetings. Application forms are distributed to all county commissioners' offices, local soil and water conservation districts, and land trusts throughout the state.

The 12-member Farmland Preservation Advisory Board advises the Director of Agriculture with respect to applications that should be awarded grant funding. The Board consists of eight members who represent various farmland conservation and local government interests, and four farmers from each of the four quadrants of Ohio. The methodology used to rank and prioritize grant applications is two-tiered. Tier I ranks the land itself by taking the following factors into consideration: soil type, location of the farm in relation to other protected areas, the use of best management practices, imminent development pressures, areas identified for protection under local comprehensive land use plans, and other criteria determined to be necessary by the Director, such as historical designations and the percentage of the local match. The highest scoring applicants in Tier I are submitted for Tier II evaluation.

Tier II evaluations are conducted by the Farmland Preservation Advisory Board and consider the following factors: (1) the adequacy of agricultural infrastructure, support services, and facilities, (2) long-term investments in agricultural operations that have been made, (3) how the land could become a showcase for the promotion of farmland preservation, (4) local government measures to protect farmland that have taken place, and (5) whether an estate plan, farm succession plan or business management plan has been put into place. The Director has final decision-making authority regarding grant awards, which is based on available funding.

COAEF Awards

Under the first round of COAEF funding, 24 applications (out of a total of 442) were awarded grants totaling $7.9 million (this figure includes $1.6 million in federal dollars). Easements were acquired on a total of 4,534 acres of land. Grants ranged in size from $82,000 to $1 million. Under the second round, approximately $4.9 million (including $1.7 million in federal dollars) was awarded to 13 applicants. These grants ranged from $87,000 to $899,000 and resulted in the acquisition of easements on approximately 2,900 acres of land. Under round three, $3.125 million will be available to purchase agricultural easements. Applications were due on March 31, 2004, and grant awards will be announced by ODA later this year.

Administrative Expenses

Under section 901.21 of the Revised Code, ODA is permitted to use investment earnings of the COAEF for agency operating expenses. Over the FY 2002-2003 biennium, ODA expended a total of $133,011 from bond investment earnings. During FY 2004, the agency expended a total of $33,738. These funds pay for costs incurred by ODA while administering the agency's responsibilities under the Clean Ohio Agricultural Easement Fund program.

The "Brown" Side

Clean Ohio Revitalization Projects

The Clean Ohio Revitalization Fund (CORF) is administered by the Department of Development (DOD) and is used for brownfield revitalization projects. A brownfield is an abandoned, idled, or underused industrial or commercial property where expansion or redevelopment is complicated by known or potential releases of hazardous substances or petroleum. Approximately $50 million each year is authorized to be credited to the CORF from the proceeds of revenue bonds issued by the Treasurer of State. Of this amount, $40 million is to be used for Clean Ohio Revitalization projects and $10 million is reserved for Clean Ohio Assistance projects. The appropriation for DOD to grant awards from the fund is provided in the biennial capital bill, while debt service and operating dollars are provided in the biennial appropriations bill. State liquor profits support the bond's debt service, and both GRF money and bond investment income supports DOD's and the Ohio Environmental Protection Agency's (Ohio EPA's) administrative expenses.

The Clean Ohio Council

The Clean Ohio Council oversees the Clean Ohio Revitalization Fund and its activities. This includes approving the selection methodology of projects and the policies and application materials developed by DOD, providing commentary on the administration of the fund to DOD and Ohio EPA, and recommending policies and procedures to govern the fund. In addition, the Council makes all determinations about all projects. Most importantly, the Council makes all funding decisions on applications submitted to district public works integrating committees.

Members of the Clean Ohio Council include the Director of Development (chair), the Director of Environmental Protection, two state senators (one each from the majority and minority parties), two state representatives (one each from the majority and minority parties), and seven representatives appointed by the Governor, including one person (each) representing counties, townships, and municipal corporations and two persons (each) representing business and development and environmental advocacy organizations. The Director of the Ohio Public Works Commission serves as a nonvoting member.

Eligible Organizations and Projects

Applicants eligible for grants and loans from the CORF include townships, municipal corporations, counties, port authorities, and conservancy districts.[1] Communities seeking funding must enter into a competitive application process, which includes approval on a local level by the board of township trustees or the legislative authority of the municipal corporation. The application and review process includes notice, comment on applications, and submissions to DPWICs for review and forwarding. DPWICs may forward no more than six applications to the Clean Ohio Council.

The Ohio EPA

Every project that receives funding from the CORF must employ a certified professional whose role is to verify that environmental cleanup standards, which are based upon a site's proposed future industrial, commercial, or residential use, have been met. A "no further action letter" is a letter prepared by a certified professional that is based on his or her best knowledge, information, and belief that the cleanup or remediation of a brownfield has met all applicable environmental standards. Once a certified professional submits a no further action letter, staff at the Ohio EPA review the completed project for compliance and the Director may then issue a covenant not to sue. The covenant protects property owners from being legally responsible for further investigation or cleanup.

In addition to this role, staff of the Ohio EPA provide technical assistance both to the Clean Ohio Council and to applicants as they assess a potential site for cleanup and submit their applications to a local DPWIC. The Director also sits on the Clean Ohio Council and provides input to project selection methodology and application development.

CORF Awards

Under the first round of CORF funding, $39.8 million was awarded to 16 projects in 12 communities for brownfield cleanup efforts. The grants ranged in size from $67,100 to $3 million (the maximum permissible by law) and are to be used to clean up contaminated and abandoned commercial and industrial properties with predetermined postcleanup uses. A total of 25 communities submitted applications requesting over $55.5 million for cleanup activities. In December 2003, the Clean Ohio Council announced the recipients for the second round of CORF grant awards, which consist of 18 cleanup grants totaling over $39.6 million. The Controlling Board approved the release of these grants in January 2004.

Clean Ohio Assistance Projects

Clean Ohio Assistance projects are also administered by DOD. Approximately $10 million per year from the proceeds of revenue bonds issued by the Treasurer of State may be used to provide grants to local communities for Phase I and Phase II assessments,[2] brownfield redevelopment, or public health projects. Projects must be in one of the state's priority investment areas, which include situational distressed cities and counties, distressed inner cities, distressed cities and counties, and labor surplus cities and counties. Award decisions are made by the Director of Development based on the following criteria: economic benefit, environmental improvement including a public health benefit, reasonableness of the proposed project, financial condition of the community, and other factors determined to be relevant by the Director of Development.

To date, $9,646,694 has been awarded for assistance projects. Of the $10 million appropriated by Am. Sub. H.B. 3 of the 124th General Assembly and the $10 million appropriated by H.B. 675 of the 124th General Assembly, $10.4 million is currently available for assistance awards.

Administrative Expenses

Under section 122.658 of the Revised Code, investment earnings credited to the CORF may be used to pay costs incurred by DOD and the Ohio EPA in their administration of the Clean Ohio Revitalization Fund program. GRF funding has also been made available to each agency. Over the FY 2002-2003 biennium, DOD expended a total of $673,496 in GRF money for administration of the program and the Ohio EPA spent a total of $783,543. Neither agency used investment earnings from the CORF to pay administrative expenses, though each agency had been appropriated certain amounts to do so. During FY 2004, the Ohio EPA expended $707,280 in GRF money, $45,612 in money from bond investment earnings, and $32,500 from other sources, and DOD expended $338,575 in GRF money and $96,053 in money from bond investment earnings.

Conclusion

To date, a total of approximately $180.7 million in Clean Ohio bond money has been awarded or disbursed in the form of 413 individual grant awards under two rounds of funding.[3] On the "green" side, $69.8 million has been awarded from the Clean Ohio Conservation Fund (260 grant awards), $12.5 million from the Clean Ohio Trail Fund (46 grant awards), and $9.5 million (with an additional $3.3 million in federal funding) from the Clean Ohio Agricultural Easement Fund (37 grant awards). On the "brown" side, $79.4 million has been awarded from the Clean Ohio Revitalization Fund (34 grant awards), and $9.6 million has been awarded for Clean Ohio Assistance projects (36 grant awards).

Funding rounds three and four are expected to take place over the next two capital biennia. The Ohio Constitution limits the total principal amount of obligations that may be outstanding for conservation and revitalization purposes under the Clean Ohio program to $400 million.

The Clean Ohio program appears to be unique, at least among the Great Lakes states, in its approach to statewide environmental and economic development initiatives. Other states in the region have passed legislation that addresses either brownfields remediation or land conservation separately. For example, in 1998, voters approved the Clean Michigan Initiative, which authorized the issuance of $675 million in general obligation bonds for the cleanup of contaminated sites and the promotion of redevelopment. New York voters approved the Clean Water/Clean Air Bond Act in

1996, which provided $1.75 billion for projects dealing with clean water, safe drinking water, solid waste, municipal environmental restoration, and air quality. And in Minnesota, the Metro Greenways program has been providing funds to preserve natural corridors in the Minneapolis – St. Paul area since 1998. Ohio's program differs from other state initiatives in its recognition of the link between brownfields revitalization and greenfields protection,[4] in essence representing a policy alignment between rural and urban interests.

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[1] In addition, nonprofit organizations, for-profit organizations, park districts, and similar park authorities may enter into agreement with one of these local entities to receive funding.

[2] Requirements for Phase I and Phase II property assessments are established by the Director of Environmental Protection and, under section 3746.04 of the Revised Code, include procedures necessary to demonstrate whether contamination exists on a property (Phase I), and if contamination does exist, that it does not exceed applicable standards or that remedial activities conducted at the property have achieved compliance with applicable standards (Phase II).

[3] To date, only $150 million in state obligations have been issued under the Clean Ohio program; $50 million in conservation bonds in January 2002, $50 million in revitalization bonds in October 2002, and another $50 million in conservation bonds in January 2004. The next issuance of $50 million in revitalization bonds will occur in January 2005 (although a second round of revitalization projects has already been awarded funding through the Department of Development).

[4] Great Lakes Commission. *Linking Brownfields Redevelopment and Greenfields Protection for Sustainable Development.* Ann Arbor, Michigan, 2001.