

Introduction

The Legislative Service Commission prepares this document for the members of the General Assembly. It reviews selected budget issues in the operating budgets adopted by the 126th General Assembly – Am. Sub. H.B. 66 (the General Operating Budget); Am. Sub. H.B. 68 (the Transportation Budget); Am. H.B. 67 (the Workers' Compensation Budget); and H.B. 65 (the Industrial Commission Budget). These bills were all passed by June 30, 2005. An executive summary of the main appropriations act is followed by an analysis of each agency's budget and a spreadsheet showing actual appropriations for all line items for the agency. Additional sections include: Tax Provisions, Fee Increases, and Local Government Provisions. The Tax Provisions section provides estimates of the impact of the substantive tax changes included in the operating budgets. The Fee Increases section summarizes all the new and changed fees included in the operating budgets. The section titled Local Government Provisions includes the enacted provisions from the operating budgets that affect local government.

For more detail on agency line items, please refer to the LSC publication, *The Catalog of Budget Line Items*, where each line is described by its legal basis, revenue source, and use. LSC also produces *The Comparison Document*, which compares budget provisions as the various budget bills move through the legislative process, as well as final analyses for all of the separate bills, describing all of the substantive provisions in those bills. These and other budget related documents are accessible on the Internet at: <http://www.lsc.state.oh.us/budgetdocuments.html>.

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Enacted Operating Budgets

Steve Mansfield, Chief of Fiscal Analysis
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 and other LSC staff

- New commercial activities tax adopted
- Cigarette tax increased from 55 cents to \$1.25 per pack
- Purchasing power of total GRF plus LPEF appropriations for the biennium expected to fall by 0.8%

OVERVIEW

The *LSC Final Fiscal Analyses* focuses on the funding for each state agency that was appropriated in the budget acts. The introductory section presents an overview of the main operating budget, along with information that cuts across all state agencies, and provides highlights of all the budget acts. Other LSC fiscal documents that provide additional information on the budget process include the *Analysis of the Executive Budget as Introduced by Agency* (also known as the agency "Redbooks"), and the *Catalog of Budget Line Items (COBLI)*, the *LSC Comparison Document ("Compare Doc")*, and the *Budget in Detail* (spreadsheets).

Appropriations by Budget

This section contains a summary of the four operating budget acts of the FY 2006-2007 biennium: Am. Sub. H.B. 66 (the Main Operating Budget), Am. Sub. H.B. 68 (the Transportation Budget), Am. H.B. 67 (the Workers' Compensation Budget), and H.B. 65 (the Industrial Commission Budget). Table 1 shows the funding for each of the budget acts. The column on the right, labeled "Share," shows the portion of total state appropriations funded through each of the appropriation acts.

Budget	FY 2006	FY 2007	Biennium Total	Share
Main Operating (H.B. 66)	\$49,616,818,142	\$51,198,851,371	\$100,815,669,513	92.7%
Transportation (H.B. 68)	3,559,511,704	3,605,968,197	7,165,479,901	6.6%
Workers Compensation (H.B. 67)	321,561,811	322,027,501	643,589,312	0.6%
Industrial Commission (H.B. 65)	59,999,383	59,999,383	119,998,766	0.1%
Total	\$53,557,891,040	\$55,186,846,452	\$108,744,737,492	100.0%

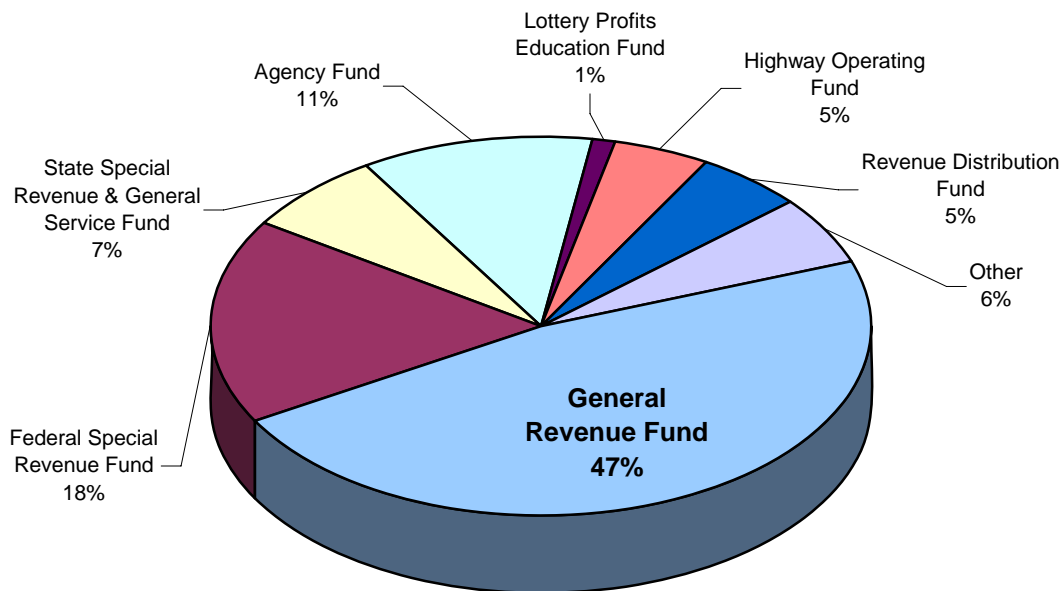
Total appropriations for all budgets and all fund groups in FY 2006 exceed actual FY 2005 expenditures by 8.4%. (The largest factors behind this increase are found in the appropriations of federal funds in the Department of Job and Family Services and in the Department of Education.) Fiscal year 2007 appropriations exceed FY 2006 appropriations by 3.0%. The Main Operating Budget, with over 92% of all appropriations, obviously governs these rates of increase.

Appropriations by Fund Group

Chart 1 shows the portion of total state appropriation funded by each of the state fund groups for the FY 2006-2007 biennium. See the *Budget in Detail* for information on funding by agency, by line item, and by fund group within each agency for FYs 2003 through FY 2007.

The state General Revenue Fund (GRF) is the largest source for current appropriations. For the FY 2006-2007 biennium, GRF appropriations are 47% of total appropriations. In the previous biennium appropriations to the GRF were 49% of the total. The rest of this section provides an historical context to the current appropriation levels of state GRF, along with the Lottery Profits Education Fund (LPEF). Following this are sections that provide highlights of the operating budget acts.

Chart 1. FY 2006-2007 Appropriations by Fund Group



State GRF and LPEF Funding

This section places in historical context the funding levels of the state's General Revenue Fund (GRF) and Lottery Profits Education Fund (LPEF). The two are considered together since in most uses the state GRF is broadly defined to include the LPEF due the fact that at one time lottery profits were deposited into the GRF and then transferred to the LPEF.

Total GRF funding for the biennium increases by 5.3% over actual expenditures for the prior FY 2004-2005 biennium. Fiscal year 2006 GRF appropriations exceed FY 2005 expenditures by 1.9%, while FY 2007 GRF appropriations exceed FY 2006 appropriations by 2.6%.

The purchasing power of total GRF plus LPEF appropriations for the biennium is expected to fall by 0.8% over actual FY 2004-2005 expenditures. Chart 2 shows the state GRF and LPEF expenditures for FYs 1985 through 2005, along with the appropriations for FYs 2006 and 2007 in both nominal amounts and amounts adjusted for inflation using the Consumer Price Index. Between 1985 and 2005,

expenditures have grown by 186% in nominal dollars – or by 58% after inflation is taken into account. During the same period, expenditures as a percent of Ohio's gross state product (GSP) have risen from 4.0% to 4.6%, but are expected to fall back to 4.4% in the FY 2006-2007 biennium (see Chart 3).

Chart 2. Total State GRF and LPEF Expenditures
(in millions)

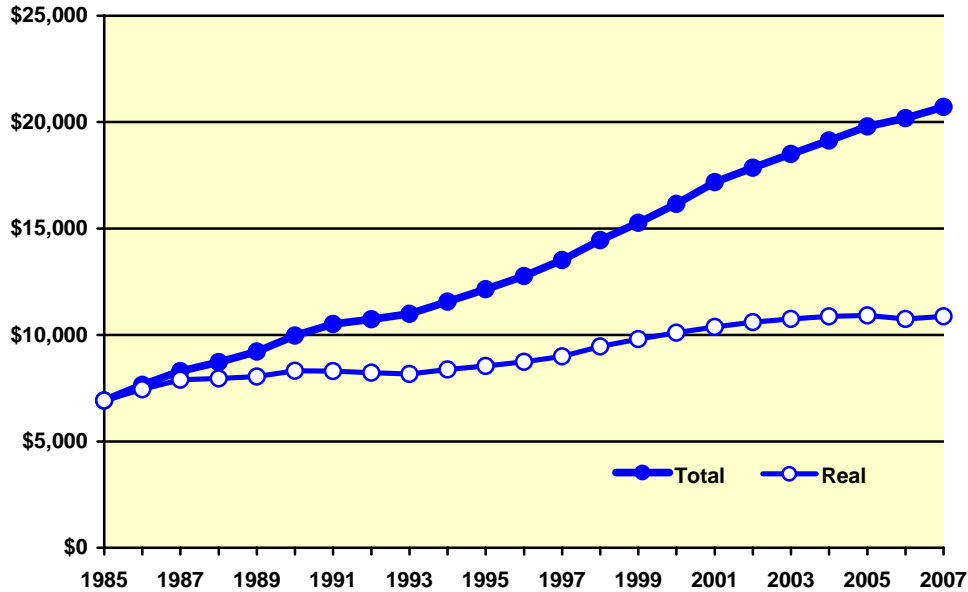
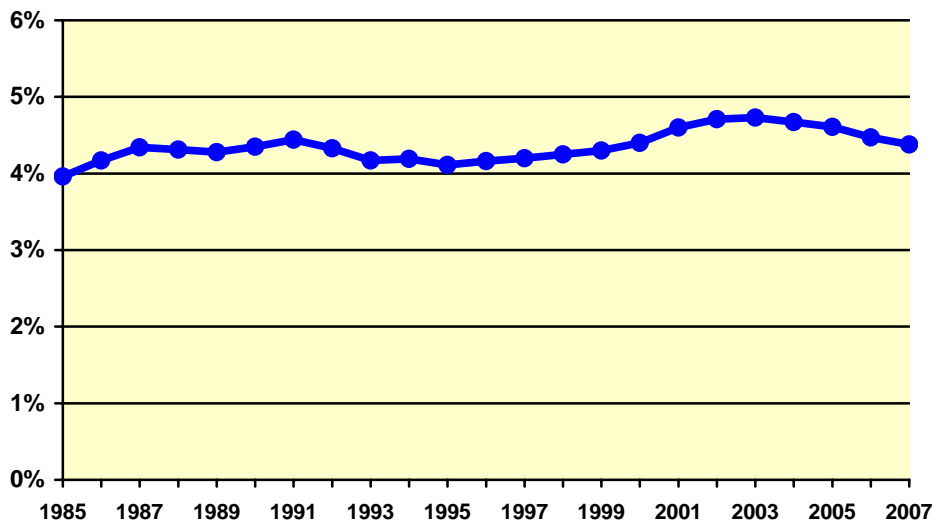


Chart 3. State GRF and LPEF Appropriations as a percentage of Ohio GSP



As depicted in Charts 4 and 5, Primary and Secondary Education continues to receive the largest share of GRF appropriations (\$16.8 billion over the biennium, or 41.2% of total state GRF plus LPEF funding, and excluding the Local Government Funds), followed by Human Services (\$12.3 billion, or

30.0%), Higher Education (\$5.0 billion, or 12.3%), and Corrections (\$3.5 billion, or 8.5%). Histories of expenditure amounts (and appropriation amounts for the FY 2006-2007 biennium) are included in the charts, below. Chart 4 presents the history of spending in four of the state's major program categories, plus the "Other Government" category, while Chart 5 presents the historical share of the four major program areas (here the "Other Government" category is included in the calculations, but omitted from the chart). Individual agency appropriations and policy changes along with a brief discussion of revenues and taxation are presented in the highlights section below.

Chart 4: Total State GRF and LPEF Expenditures by Major Category
(in millions)

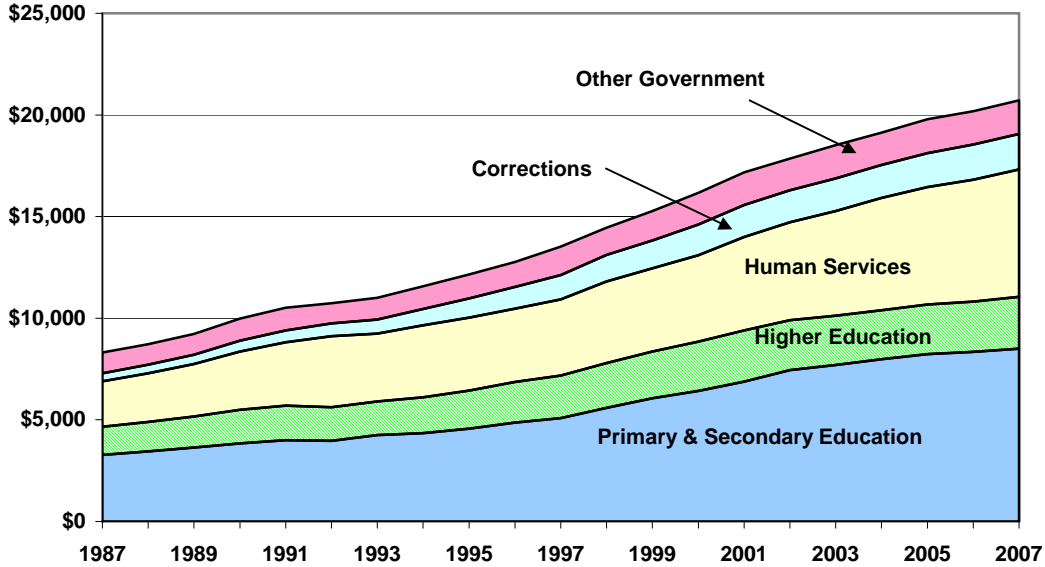
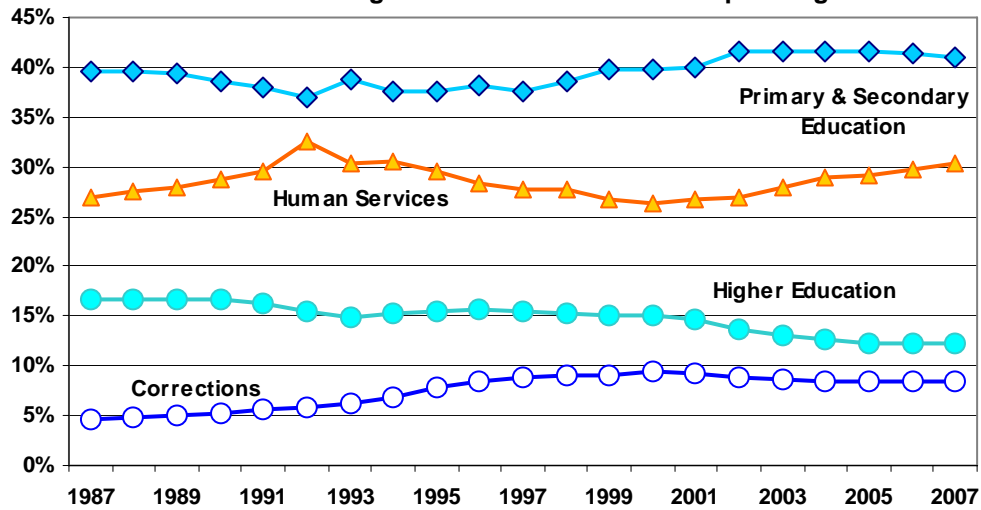


Chart 5. Major Program Spending as a Percentage of State GRF and LPEF Spending

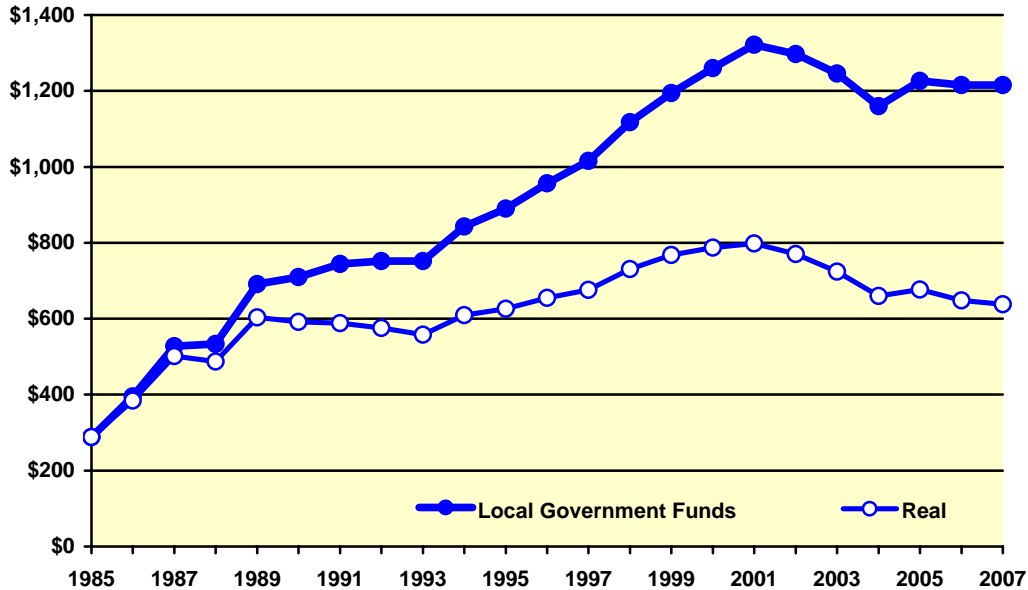


Highlights of the Main Appropriations Act (Am. Sub. H.B. 66)

Revenues and Taxation

The enacted main operating budget bill makes many changes to Ohio's tax structure. The changes are designed to improve the competitiveness of the Ohio economy by reducing disincentives for investment and employment. Tax reductions include a phased-in 21% cut in the personal income tax, the phase-out of the corporate franchise tax for general businesses, and the phase-out of the tangible personal property tax for general businesses and telecommunications companies. Tax increases include the new commercial activity tax (CAT), an increase in the sales tax rate from 5% to 5.5%, and an increase in the cigarette tax from 55 cents per pack to \$1.25 per pack. Once again, deposits into and distributions from the three local government funds were frozen at the levels of the most recent fiscal year (see Chart 6).

Chart 6. Distributions to the LGF, LGRAF, and LLGSF
(in millions)



Primary and Secondary Education

State GRF and Lottery (LPEF) appropriations over the biennium for primary and secondary education total \$16.8 billion, 38.9% of the \$43.3 billion biennial total of state GRF, LPEF, and LGF. Total GRF and LPEF appropriations for the Department of Education, disregarding tax reimbursements, grow by 1.9% in FY 2006 and 2.2% in FY 2007.

Base Cost Funding. The budget adopts a new inputs-based "building blocks" approach to determine the base cost formula amount and provides an increase in the formula amount of 2.2% in FY 2006 and 2.3% in FY 2007, resulting in \$5,283 per pupil in FY 2006 and \$5,403 per pupil in FY 2007. In addition, the budget provides base funding supplements amounting to \$40.00 per pupil in FY 2006 and \$47.99 per pupil in FY 2007. The budget also begins to phase out the cost-of-doing-business factor adjustment, providing a differential of 5% in FY 2006 and 2.5% in FY 2007.

Poverty-Based Assistance. The budget replaces disadvantaged pupil impact aid with poverty-based assistance, which distributes over \$800 million over the biennium to districts with high concentrations of poverty.

Tangible Personal Property Tax. The budget begins to phase out the tangible personal property tax and provides replacement revenues to school districts through higher state education aid and direct reimbursements. The budget appropriates \$49.4 million in FY 2006 and \$369.1 million in FY 2007 for direct reimbursements.

Educational Choice Scholarship Pilot Program. The budget establishes the Educational Choice Scholarship Pilot Program, which will begin to award up to 14,000 scholarships in FY 2007. Students in kindergarten through eighth grade who attend a school that has been in academic emergency for three or more consecutive years may apply for a scholarship to attend a chartered, nonpublic school. Scholarship students are counted in the ADM of their resident districts for the purpose of calculating base cost funding, then \$5,200 is deducted from the district and used to pay for the program.

Early Learning Initiative. The budget replaces state Head Start and Head Start Plus programs with the TANF-funded Early Learning Initiative. The budget appropriates \$106.6 million in FY 2006 for up to 10,000 slots and \$127.5 million in FY 2007 for up to 12,000 slots for this new program.

Student Assessments. The budget continues to fund the overhaul of the state's testing system mandated by Am. Sub. S.B. 1 of the 124th General Assembly and Am. Sub. H.B. 3 of the 125th General Assembly. The budget appropriates \$54.4 million in FY 2006 and \$60.0 million in FY 2007 for the testing program, increases of 72.1% and 10.2%, respectively.

Half-Mill Maintenance Equalization. The budget appropriates \$10.7 million in FY 2007 for a new program that equalizes to the state average valuation per pupil the one-half mill school districts with less than the state average valuation per pupil and participating in the Ohio School Facilities Commission's school building assistance program are required to levy to help pay for the maintenance of their new buildings.

eTech Ohio. The budget creates eTech Ohio to merge the functions of the Ohio Educational Telecommunications Network Commission and the Ohio SchoolNet Commission. This new agency is charged with advancing education through the use of technology. The budget appropriates \$31.2 million in FY 2006 and \$30.7 million in FY 2007 for eTech Ohio.

Higher Education

The enacted budget appropriates \$2.49 billion for the Board of Regents in FY 2006, a 1.3% (\$39.5 million) increase over the FY 2005 expenditure level, and \$2.57 billion in FY 2007, a 3.2% (\$79.1 million) increase over the FY 2006 appropriation level. For the FY 2006-2007 biennium, the total appropriations of \$5.06 billion represent a 3.6% (\$177.7 million) increase from the FY 2004-2005 biennium.

Subsidies. The State Share of Instruction (SSI) supports all of Ohio's state institutions of higher education, and is by far the largest of several subsidy items that are intended to partially offset the cost of a college education for Ohio residents attending Ohio's public institutions. SSI appropriations total \$1.56 billion in FY 2006, approximately the same as FY 2005, and \$1.59 billion in FY 2007, a 1.9% (\$30 million) increase over FY 2006. The disbursement of the additional \$30 million in FY 2007 is contingent on the approval of the Controlling Board following the issuance of the report by the Higher

Education Funding Study Council. The four main Challenges (Jobs, Access, Success, and Research) provide additional subsidies to campuses for specific purposes that are not directly funded by the SSI. The budget appropriates \$155.8 million in FY 2006 for these four items, an increase of 9.6% (\$13.6 million) over FY 2005. In FY 2007, the budget appropriates \$158.1 million, a 1.5% (\$2.3 million) increase over FY 2006.

Higher Education Funding Study Council. The enacted budget creates the Higher Education Funding Study Council, which is to review all aspects of higher education funding, including appropriation items, instructional and general fees, and room-and-board charges at the 13 state universities, as well as receive the results of three other studies that will be conducted by the Board of Regents. The Council is to report its findings to the Governor, the Speaker of the House of Representatives, and the President of the Senate by May 31, 2006.

Tuition Caps. The enacted budget sets the limitations on increases in in-state undergraduate instructional and general fees (known as the tuition caps) at state institutions of higher education. For each academic year of the biennium the limitation is the lesser of 6% of the amount charged in the prior academic year or \$500 per full-time student.

Ohio College Opportunity Grant. The enacted budget creates a new state need-based financial aid program, the Ohio College Opportunity Grant (OCOG) program, which will eventually replace the Ohio Instructional Grant and Part-time Instructional Grant programs. The OCOG will use the federally determined "Expected Family Contribution" as the basis for determining the grant awards. The enacted budget appropriates \$58.1 million to OCOG in FY 2007 to begin the phase-in of the program. The phase-in of OCOG will begin in FY 2007; only students who have not received college credit (excluding post-secondary enrollment option and early college high school students) prior to the start of the 2006-2007 academic year will be eligible to receive an Ohio College Opportunity Grant.

Human Services

Department of Job and Family Services

For FY 2006, the budget appropriates \$17.1 billion in all funds for the Department. This exceeds FY 2005 spending by \$1.7 billion, or 10.8%. The budget also appropriates \$17.4 billion in all funds for the Department in FY 2007. This is an increase of \$334.5 million, or 2.0%, over the amount appropriated for FY 2006. An increase of 26.2% for FY 2006 in appropriations over FY 2005 actual expenditures occurs in federal funding. When looking solely at GRF appropriations, we see that the FY 2006 appropriation of \$10.5 billion is an increase of \$251.7 million, or 2.5%, over the FY 2005 actual expenditure level. Looking further into the composition of the Department's GRF appropriation, we see that several GRF line items include a federal portion. The federal portion of the GRF appropriation for JFS amounts to over \$5.7 billion in FY 2006, and over \$5.8 billion in FY 2007. As a portion of the Department's total budget, federal funds make up 61.9% in FY 2006 and 62.8% in FY 2007 of the total. The federal component of GRF funds combined with federal special revenues totals approximately \$10.6 billion in FY 2006 and \$10.9 billion in FY 2007.

Early Learning Initiative. The FY 2006-2007 budget includes plans for the Early Learning Initiative, which will replace state-funded Head Start and Head Start Plus. This initiative is a full day, full year early learning/child care program. The Ohio Department of Education is creating school readiness program guidelines, which this program will follow. The Early Learning Initiative will allow for the enrollment of up to 10,000 eligible children in FY 2006 and up to 12,000 eligible children in FY 2007. Family copayments for the Early Learning Initiative will be the same as for the publicly funded child day

care program. The budget bill earmarks up to \$104.4 million in FY 2006 and \$125.3 million in FY 2007 from the Temporary Assistance for Needy Families (TANF) Block Grant, appropriation item 600-689, for the Early Learning Initiative. (According to the Department's spending plan for TANF dollars, of the earmark that was authorized by the budget bill, the Department plans to spend \$94.4 million in FY 2006 and \$113.3 million in FY 2007 on reimbursement for early learning initiative providers.) An additional amount, up to \$3.0 million per fiscal year, may be used by the Department of Job and Family Services (\$800,000) and by the Department of Education (\$2.2 million) for administration of the program.

TANF Block Grant. The budget appropriates \$767.1 million for FY 2006 and \$792.5 million for FY 2007 to appropriation item 600-689, TANF Block Grant. These appropriations exceed the annual TANF Block Grant award by \$39.1 million in FY 2006 and \$64.5 million in FY 2007. The expenditure of the full appropriation in each year will have the effect of reducing the amount of unspent TANF grant funds that have accumulated from previous years.

Due to some issues regarding the county consolidated allocation method, it became apparent at the beginning of FY 2005 that the Department would have to reimburse the TANF Block Grant for misspent dollars. For the period FYs 2000 through 2003, repayment (\$133.0 million) has already been made. The Department estimates that the repayment for FY 2004 will total \$150.0 million. The bill authorizes the transfer of up to \$60.0 million in FY 2005 surplus revenue and up to a total of \$96.0 million in FYs 2006 and 2007 surplus revenue to Fund 5AX, Public Reconciliation Fund, to pay the state's TANF liability to the federal government.

Medicaid. The budget appropriates \$9.36 billion in combined federal and state GRF funds in FY 2006 and \$9.53 billion in FY 2007 for the line item that funds most Medicaid programs. The enacted budget makes many changes to the Medicaid program. Major policy changes include, but are not limited to the following. The budget act:

- Requires the Department to seek federal approval to reduce to 90% of the federal poverty guideline the family income the parent of a child under age 19 may have and remain eligible for Medicaid.
- Requires that the Department establish copayments for dental, vision, nonemergency emergency department services, and prescription drugs other than generic drugs, to the extent permitted by federal law.
- Provides half funding for adult dental care.
- Allows freezing of inpatient hospital reimbursement rates in FYs 2006 and 2007 at the FY 2005 level.
- Requires the care management system to be implemented in all counties and requires the Department to designate the Covered Families and Children population for participation.
- Requires the Department to implement in all counties the care management system for certain aged, blind, and disabled Medicaid recipients.
- Revises substantially the statutory formula used to determine the Medicaid reimbursement rate for nursing facilities. However, because the uncodified sections of the act override the new statutory formula for FYs 2006 and 2007, the revisions will not fully take effect until FY 2008.

- Requires the Department's Director to seek federal approval for a Medicaid waiver authorizing the Intermediate Care Facilities for the Mentally Retarded (ICF/MR) Conversion Pilot Program under which no more than 200 individuals are to receive home and community-based services in lieu of the ICF/MR service.
- Gives authority to the Department to seek federal approval for an Assisted Living Medicaid waiver.
- Creates the Medicaid Administrative Study Council to study the administration of the Medicaid program under the assumption that the General Assembly will enact by July 1, 2007, a law establishing a new cabinet level department to administer the program.
- Creates the Joint Legislative Committee on Medicaid Technology and Reform, with five members of the Senate and five members of the House of Representatives, and permits the committee to employ an executive director.
- Includes funding to develop the new Medicaid Information Technology System (MITS) to replace the Medicaid Management Information System. If approved by the federal Centers for Medicare and Medicaid Services, the federal government will provide federal matching funds for up to 90% of the cost of the project.

Disability Assistance. The bill would have terminated the Disability Medical Assistance (DMA) program; however, the Governor vetoed this provision. Under continuing law, however, the Department has authority to modify the program. The budget act provides funding of \$19.5 million in FY 2006 and \$25.5 million in FY 2007 for the DMA program through GRF appropriation item 600-513, Disability Medical Assistance, in the Department's budget. In addition, appropriation item GRF 335-419, Community Subsidy Medication, under the Department of Mental Health is increased by \$4.3 million in FY 2006 over FY 2005, and by \$5.7 million in FY 2007, to provide funding for DMA. Under the Disability Financial Assistance program, the enacted funding level will be sufficient to provide a subsidy of \$115 per month to approximately 14,600 individuals per month in the upcoming biennium, regardless of the number of eligible individuals applying for the program.

Department of Health

For FY 2006, the Department received a total appropriation of \$568.2 million, an increase of 4.9% over FY 2005 actual expenditures. For FY 2007, the total appropriation is \$575.2 million, which amounts to a 1.2% increase over FY 2006 appropriations. GRF appropriations represent 13.2% of the Department's total funding for the biennium. Federal appropriations make up 72.3% of total funding, while general service funds and state special revenue funds are 14.5% of the total funding.

In FY 2006, up to \$5 million will be transferred to the Department's Healthy Ohioans Fund (Fund 5BL) from the Tobacco Master Settlement Agreement Fund. The program will focus on promoting healthy lifestyle choices for Ohioans to reduce chronic disease.

In FY 2007, 12 independent occupational licensing boards are to be consolidated into the Department – 8 others are to be consolidated into either the Department of Commerce or the Department of Public Safety. The specifics of this transfer will be addressed during FY 2006 by a task force consisting of the departments of Commerce, Health, Public Safety, and Administrative Services, the Office of Budget and Management (OBM), and three representatives selected by the affected boards.

The budget act appropriates \$275,000 in FY 2006 and \$325,000 in FY 2007 in GRF appropriation item 440-431, Free Clinic Liability Insurance. Up to \$20,000 in each fiscal year may be used for administrative expenses related to the Medical Liability Insurance Reimbursement Program. The remainder in each fiscal year shall be used to pay for medical liability insurance for free clinics, including the clinics' staff and volunteer health care professionals and volunteer health care workers.

The budget act specifies that the Public Health Council is to return financial eligibility requirements to the Bureau for Children with Medical Handicaps Program for FYs 2006 and 2007 to pre-October 13, 2003 levels (there was a change in financial eligibility requirements that made approximately 5,000 families ineligible for services). The act also eliminates a provision that provides that a medically handicapped child is not required to apply for Medicaid as a condition of eligibility for the program if applying for or receiving Medicaid violates a religious belief of the child or child's parent or guardian. The act creates the Legislative Committee on the Future Funding of the Bureau for Children with Medical Handicaps to examine issues involving the program's operation, services, and funding. The Committee is required to make recommendations on December 1, 2006.

Department of Aging

The enacted budget increases the Department's budget by 18.1% from FY 2005 actual spending and then by 7.8% from FY 2006 appropriations. General Revenue Fund appropriations represent approximately 31.1% of the Department's budget, with 73.9% of the GRF funding appropriated for PASSPORT. The GRF portion of the Department's budget increases by 14.6% in FY 2006 and by 5.2% in FY 2007. Growth in the PASSPORT program and the addition of the PACE program account for the majority of the GRF increase.

GRF funding for PASSPORT is increased by \$8.4 million (8.1%) in FY 2006 and by \$9.0 million in FY 2007 (8.0%). According to the Department, the funding will not meet the projected demand for PASSPORT services. According to the Department, additional GRF funding of \$6.0 million in FY 2006 and \$23.7 million in FY 2007 would be needed to fully fund PASSPORT. Thus, the Department expects to institute a waiting list during the biennium based on the level of funding.

The enacted budget authorizes the Ohio Department of Job and Family Services to seek an Assisted Living Medicaid waiver for eligible individuals residing in residential care facilities. The enacted budget limits participation to 1,800 individuals and specifically permits any residential care facility to participate in the program.

The enacted budget allows an individual admitted to a nursing facility, while on a waiting list for the PASSPORT program, to be enrolled in PASSPORT if (1) it is determined that the PASSPORT program is appropriate for the individual and (2) the individual would rather participate in the PASSPORT program than continue residing in the nursing facility. The bill requires that individuals enrolled in PASSPORT because of this provision are to be in addition to the individuals enrolled in PASSPORT during FYs 2006-2007 based on the program's appropriations.

Department of Mental Retardation and Developmental Disabilities

In FY 2006, the enacted budget provides \$1.12 billion for the Department, a 1.4% decrease from FY 2005 estimates. In FY 2007, this figure decreases to \$1.10 billion, a 2.0% decrease from FY 2006 appropriations. GRF appropriations for FY 2006 total \$352.9 million, an increase of 0.4% over FY 2005 estimates. For FY 2007, GRF appropriations increase by 0.2% to \$353.4 million. In total, GRF funds

make up approximately 32% of the Department's budget. For the most part, the enacted budget provides for level GRF funding.

The enacted budget repeals all statutes regarding the Community Alternative Funding System (CAFS) and certified habilitation centers, effectively terminating the program at the end of FY 2005. The enacted budget includes appropriations in FY 2006 and FY 2007 to account for residual claiming that will occur during the biennium. According to the Department, making CAFS compliant with CMS requirements is not fiscally possible.

The enacted budget creates an Intermediate Care Facilities for the Mentally Retarded (ICF/MR) Conversion Pilot Program. Ultimately, the goal of the pilot program is to study the effects and feasibility of converting the current state ICF/MR entitlement program to a facility-based Medicaid waiver. The bill mandates that the pilot program be implemented for no less than three years and limits participation to 200 voluntary individuals. According to the Department, services for individuals participating in the program will not be interrupted.

Department of Alcohol and Drug Addiction Services

This enacted budget provides a 3% increase over FY 2005 actual spending. The Department plans to direct a portion of the increased funding to treatment services for adolescents, which has been consistently identified by the alcohol and drug field as the highest treatment need. The remaining funds will be distributed to local ADAMHS/ADAS boards for the state share of Medicaid funding for additional alcohol and other drug services. The increase in the Prevention Services appropriation item will allow the agency to continue to provide resources at the local level, as well as place greater emphasis on initiatives such as Fetal Alcohol Spectrum Disorder. Other highlights of the budget include the following:

- **Medicaid Business Plan.** The Department of Job and Family Services, the Department of Mental Health and the Department of Alcohol and Drug Addiction Services will work in conjunction with the behavioral health providers and boards to specify procedures that are consistent with federal law for implementation of the State of Ohio Community Behavioral Health Medicaid Business Plan. A report on the progress of the Plan will be submitted to the Speaker of the House, President of the Senate, and Minority Leader of the House and Senate on the first day of March and the first day of October until all components of the plan have been implemented.
- **Disability Medical Assistance.** The budget provides \$60.0 million over the biennium for Disability Medical Assistance, a program that serves the medical needs of indigents in treatment programs. The funding break-out is as follows: Department of Mental Health, \$4.3 million in FY 2006, \$5.7 million in FY 2007; Department of Alcohol and Drug Addiction Services, \$2.2 million in FY 2006, \$2.8 million in FY 2007; and Department of Job and Family Services, \$19.5 million in FY 2006, \$25.5 million in FY 2007.
- **Ohio Use Prevention and Control Foundation Grant.** The Department received an additional \$470,000 in FY 2006 and FY 2007 in grant funds.

Department of Mental Health

A key provision of the budget for the Department of Mental Health is the increased funding for children's behavioral healthcare. The new funding for this priority in the Department's budget includes approximately \$8.3 million in FY 2006 (\$6.0 million in newly created line item 335-404, Behavioral

Health Services – Children, and \$2.3 million in newly created line item 335-405, Family and Children First) and approximately \$9.3 million in FY 2007 (\$7.0 million in line item 335-404 and \$2.3 million in line item 335-405). Most funds will be disbursed by local ADAMH/CMH/ADAS boards based on a plan developed by the local interagency Family and Children First Council. The funding will provide treatment services and other necessary supports to families who might otherwise have to relinquish custody of their children to obtain needed behavioral health services. Other highlights of the budget include the following:

- Transfer of Ohio Family and Children First resources (funds to local councils, and for statewide and regional coordinators) from the Department of Mental Retardation and Developmental Disabilities to the Department of Mental Health. Temporary language transfers the duties and responsibilities, staff, and the cash to the Department of Mental Health. Therefore, the fiscal effect to the General Services Fund will most likely be revenue neutral.
- Line item 335-419, Community Subsidy Medication, is increased by \$4.3 million in FY 2006, and by \$5.7 million in FY 2007. This increase is related to the phasing out of the Disability Medical Assistance program. This funding will provide indigent medication subsidy for individuals who would have previously been eligible for the Disability Medical Assistance program.
- Additional funds are included in line item 334-408, Community and Hospital Mental Health Services, to sustain current levels of hospital beds and staff (an increase of \$4.8 million in 2006 and \$14.7 million in 2007).

Justice and Corrections

Department of Rehabilitation and Correction

With respect to most of the major programs within the Department of Rehabilitation and Correction's program series, generally speaking the enacted budget does not quite provide sufficient funding to fully cover the future cost of delivering continuous FY 2005 levels of programs and services over the FY 2006-2007 biennium. Thus, the Department will likely have to trim certain expenditures related to institutional operations as well as parole and community service operations over the new biennium, which could mean some reductions in payroll, maintenance projects, equipment and other programmatic expenses. According to the Department, the exact number of staff positions to be eliminated in this program is unknown at this time. The Department's intention, if possible, is to incur the loss of staff via attrition so as to avoid the need for layoffs. In the first quarter of FY 2006, the Department has lost approximately 300 employees through natural attrition, and a limited hiring freeze has been instituted, thereby improving their ability to absorb the enacted funding levels.

The nature and size of the Department's institutional operations – composed of 32 correctional facilities, roughly 43,500 inmates, and 14,000-plus staff – make its payroll and maintenance costs especially sensitive to changes in the costs of doing business. And in the "prison business" the economic pressures are always pushing the costs associated with the delivery of essential goods and services upward (security, medical care, food, clothing, utilities, and so forth). Inflation has had a particularly notable impact on medical/healthcare services delivered in correctional institutions. The Department's inflation rate for medical/healthcare services over the previous biennium has been 10%, and is expected to continue at, or above, this level into FYs 2006 and 2007.

Department of Youth Services

The Department of Youth Services is using funding to hire 71 new staff for the Ohio River Valley Juvenile Correctional Facility, to open a housing unit that had been sitting empty for several fiscal years. This unit is intended to house certain sex-offending youth.

Given the level of funding provided under the enacted budget and the escalating costs of providing institutional services in general over the last several years, it may prove fiscally problematic to maintain the Department's current service levels in all of its facilities and parole services. However, at this time, the Department is waiting until at least mid-FY 2006 before making any determination on whether it will be necessary to eliminate any full-time equivalent (FTE) staff positions in order to stay within the available funding. During the previous two biennia, the Department has eliminated approximately 600 FTEs, two juvenile correctional facilities, and two juvenile court subsidies.

Office of the Attorney General

At the Attorney General's request during the legislature's biennial budget deliberations, the agency's total GRF appropriations were reduced by approximately \$10.5 million from the executive recommended FY 2006 funding level. The Office of the Attorney General's plan is to offset a significant portion of this voluntary reduction in total FY 2006 GRF appropriations by tapping into the agency's non-GRF funding streams. This non-GRF cash will largely be drawn from the Claims Section Fund (Fund 419), which has enhanced revenues due to an increase in the amount of delinquent debt collected by the Attorney General's Collections Enforcement Section over the last biennium. Although the FY 2006 increase in non-GRF appropriations does not fully offset the FY 2006 GRF appropriations decrease, staff of the Attorney General has indicated that the agency's existing service levels will not be affected. The Office of the Attorney General's GRF funding, as measured by spending group, from actual FY 2002 disbursements through enacted FY 2007 appropriations will have decreased by \$5.5 million, or 9.2%. During that same six-year period, the GRF portion of the Office of the Attorney General's budget will have dropped from 39.7% down to 31.5%. The Office of the Attorney General has filled that difference by tapping into other non-GRF funds, most noticeably the revenue-generating capability of its accounts lodged in the State Special Revenue Fund Group.

Judicial Agencies

The enacted Judiciary/Supreme Court annual operating budget, 95% of which is covered by moneys appropriated from the GRF, will essentially fund: (1) the salaries and fringe benefits of the judges of the Supreme Court of Ohio and the courts of appeals, (2) the state's share of the judge's salaries and fringe benefits in the courts of common pleas, municipal courts, and county courts, (3) the expenses of the state's judicial system, including supplements to the clerks of the courts of common pleas, (4) the operating expenses of the Supreme Court of Ohio, and (5) the operating expenses of the Ohio Criminal Sentencing Commission. The GRF component of the JSC annual operating budget is increased: (1) by \$8.3 million, or 7.4%, in FY 2006 relative to the total amount of GRF expended in FY 2005, and (2) by \$3.0 million, or 2.5%, in FY 2007 relative to the amount of GRF appropriated for FY 2006.

As of this writing, it appears that the total amount of funding appropriated in each of FYs 2006 and 2007 will be sufficient for Judiciary/Supreme Court to maintain current service levels. In addition, the enacted budget amends section 141.04 of the Revised Code to provide a \$500 vehicle allowance per month for the Chief Justice and six Justices of the Supreme Court. According to the Court, for over 30 years the Justices of the Supreme Court have been assigned Court-owned vehicles for travel purposes. By transitioning to a vehicle allowance method, the Court anticipates a cost savings of approximately

\$20,000 to \$25,000 per year based on eliminating the costs of buying, maintaining, and fueling vehicles, as well as staff time in performing those tasks. As for the Ohio Judicial Conference, the enacted budget provides GRF appropriations totaling \$957,000 in each of FYs 2006 and 2007, which is relative to actual FY 2005 GRF expenditures of \$956,998. With that amount of GRF funding, the Conference anticipates being able to maintain current service levels and cover the payroll costs associated with its existing 11 full-time staff positions.

Department of Public Safety

Under the enacted budget, the Office of Criminal Justice Services is merged into the Department of Public Safety as the Division of Criminal Justice Services. According to the Office of Criminal Justice Services, its merger within the Department of Public Safety as the Division of Criminal Justice Services will likely result in a reduction of 14 funded positions. Both the Office of Criminal Justice Services and the Department of Public Safety have indicated that an effort would be made to reassign Criminal Justice Services staff to other departmental programs. Also under the enacted budget, GRF line items and related funding for the Criminal Justice Information System (CJIS), the Center for Violence Prevention, and domestic violence shelter subsidies was eliminated. The enacted budget does, however, establish a replacement fee-driven revenue stream to continue support for those subsidies to domestic violence shelters.

The enacted budget also includes two new funds to be used by the Division of Criminal Justice Services for grants. The Public Safety Services Fund (Fund 5CC) is earmarked for distribution to certain cities for the purpose of assisting in the provision of essential public safety services. The Federal Justice Programs Fund (Fund 3AY) is to be used to provide funding to local criminal justice programs.

General Government

Department of Commerce

The enacted budget reduces the minimum price discount for wholesale purchases of spirituous liquor from 12.5% to 6% of the retail price. This provision is expected to result in a revenue gain of \$16.0 million in FY 2006 and \$16.3 million in FY 2007 to the Liquor Control Fund (Fund 043), which will increase the transfer of excess liquor profits to the GRF to approximately \$127.9 million in FY 2006 and \$124.9 million in FY 2007.

The enacted budget provides for the transfer of \$100 million in Unclaimed Funds to the GRF over the course of the biennium and for transfers of \$1.7 million and \$1.6 million in FY 2006 and FY 2007, respectively, from the State Fire Marshal's Fund (Fund 546) to the Budget Stabilization Fund.

According to the consolidation proposal included in the enacted budget, the Department of Commerce is to absorb the Ohio Athletic Commission, the Barber Board, the State Board of Cosmetology, the Board of Embalmers and Funeral Directors, the Manufactured Homes Commission, the Board of Motor Vehicle Collision Repair Registration, and the State Board of Sanitation Registration. The enacted budget includes no funding in FY 2007 for these boards and commissions. The specifics of the consolidation plan will be addressed during FY 2006 by a task force consisting of the agencies acquiring the boards, as well as the Department of Administrative Services, the Office of Budget and Management, and representatives from the boards involved in the consolidation.

Two provisions reduce the Department of Commerce's reliance on the GRF by almost 50% to \$2.1 million in FY 2006 and \$2.0 million in FY 2007. A grant program for volunteer fire departments is

moved from the GRF to the State Fire Marshal's Fund, which is funded through a surcharge on the total value of fire insurance premiums sold statewide, retaliatory taxes, and fees from fireworks licenses and building inspections. Also, the Bureau of Workers' Compensation budget moved the Public Employer Risk Reduction Program (PERRP) and the OSHA On-site Consultation program from the partially GRF-funded Division of Labor and Worker Safety to the Bureau of Workers' Compensation.

Department of Agriculture

The enacted budget includes several fee increases for the Department of Agriculture, which are estimated to bring in an additional \$1.8 million to the Department's rotary funds. These increases in fees are used to offset a reduction in GRF funding. In addition, the enacted budget also includes several fund mergers.

Ohio Expositions Commission

The enacted budget reduced the Expositions Commission's GRF funding for the Junior Fair, a part of the Ohio State Fair, by approximately 7.5%. The GRF funding received is less than what is needed to fully support the Junior Fair program. As a result, the Commission plans to use a portion of the State Fair operating expenses rotary fund in an effort to maintain the Junior Fair at current levels.

Liquor Control Commission

The enacted budget does not allow the Liquor Control Commission to fund one of its six administrative staff positions, which is currently a vacant hearings bailiff position. While the Commission is not able to afford to fill the vacant position, it is attempting to reclassify the remaining three bargaining unit staff members to a slightly higher pay range in order to replace the vacant hearing bailiff position's duties and to add other additional administrative tasks.

Office of Budget and Management

Along with the Department of Administrative Services, the Auditor of State, and the Treasurer of State, OBM continues to move forward with the implementation of the Ohio Administrative Knowledge System (OAKS), which will integrate the functions of five major statewide business functions. The financial modules, including budget and accounting, are scheduled for implementation in 2006. Procurement, fixed assets, capital improvement projects, and human resources modules are scheduled to go live in late 2006 or early 2007.

The enacted budget directs state payment card rebates, formerly deposited in the Accounting and Budgeting Fund (Fund 105), to the OAKS Project Implementation Fund (Fund 5N4). The rebate amount, approximately \$600,000 in each fiscal year, will help reduce OAKS' reliance on GRF transfers. While the enacted budget transfers \$675,000 in GRF each fiscal year, this amount is approximately \$575,000 less than the GRF transfer in each of FYs 2004 and 2005. In turn, the loss of payment card rebate revenue to Fund 105 will be offset by increased payroll check-off charges assessed by OBM.

The enacted budget supplements GRF funding in the Budget Development program with funding from Fund 105 in the coming biennium. Previously, the Budget Development program was funded entirely through GRF. This funding alone was not sufficient for OBM to maintain its current staff and continue to offer current services. Fund 105 consists of payments for accounting and budgeting services from each agency and is a fixed percentage of each agency's payroll, a so-called "check-off." Since the 4% pay increase required by collective bargaining will increase payroll, and because OBM intends to

collect this check-off for all 26 pay periods in FY 2006, the additional revenue will be sufficient to fund both the Budget Development and various Financial Accounting Services programs.

Finally, the enacted budget will allow OBM to hire up to four intermittent or part-time employees (the equivalent of two FTEs) to assist with the increased workload experienced by those involved in the Financial Planning and Supervision Commissions program from the increase in the number of school districts declared to be in fiscal emergency.

Occupational Licensing and Regulatory Boards

The enacted budget recommended that 20 independent occupational licensing boards be absorbed into the departments of Health, Commerce, and Public Safety. As such, the enacted budget does not appropriate funding in FY 2007 for the boards and commissions included in the consolidation proposal. The specifics of the consolidation plan will be addressed during FY 2006 by a task force consisting of the agencies acquiring the boards, the Department of Administrative Services, the Office of Budget and Management, and three individuals selected by the boards included in the consolidation proposal. According to the plan, current staff will be retained through FY 2006, and a hiring freeze and early retirement incentives will be offered to regulatory board staff. These incentives should result in staff reductions. The plan also calls for all remaining regulatory board staff to be transferred to the applicable agency effective July 1, 2006. However, board and commission members will be retained and continue to serve in the manner in which they were appointed.

Department of Transportation

The enacted budget is \$2.87 billion in FY 2006 and \$2.91 billion in FY 2007, for a total of \$5.78 billion over the biennium. These funding levels include those appropriated in the transportation budget as well as the main operating budget.

In FY 2006, funding to the Department's Highway Operating Fund increases 17.2%. These increases occur in planning, highway construction, and bond line items and are attributable to the final two-cent phase-in of the 28-cent state motor fuel tax, as well as new federal revenues from the new six-year federal transportation bill, otherwise known as the Safe, Accountable, Flexible, and Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU).

On the other hand, the Department's GRF funding continues to decline. In FY 2006, GRF funding levels decreases by 21.1% compared to FY 2005 levels. These decreases largely affect public transportation and aviation. Overall, the budget allows for expansion of the Department's major/new construction program and will continue current service and staffing levels in the planning, maintenance, administration, and rail programs. Public transportation and aviation will continue to see service level reductions.

Department of Natural Resources

The enacted budget provides \$331 million in FY 2006 and \$332 million in FY 2007, for a total of \$663 million over the biennium. Overall, the enacted funding levels will force the Department to continue implementing cost savings measures as staffing levels continue to decline while service demands continue to rise. Little program expansion will occur across all program areas over the biennium. As for staffing, the Division of Recycling and Litter Prevention will experience a 75% staff reduction, and the Division of Natural Areas and Preserves and the Division of Engineering will each layoff one current staff member.

The 75% staff reduction in the Division of Recycling and Litter Prevention is due to a 38.5% decrease in the Litter Control and Recycling Fund (Fund 532). The funding reduction is the result of changing the funding source from the corporate franchise tax on litter stream products to an additional \$1.00 per ton fee on the disposal of construction and demolition debris. The change in funding source will result in an overall decrease of approximately \$6.3 million in FY 2006 and \$6.2 million in FY 2007 in available grant money for local government recycling and litter prevention programs.

As for parks, the Department will not implement a parking fee as originally planned. Total combined GRF and non-GRF funding levels of approximately \$71 million in FY 2006 and \$73 million in FY 2007 will allow for basic updates to current facilities at large and medium-sized parks. The budget does not support any updates for smaller parks. Maintenance repairs will likely concentrate on critical needs with limited resources for preventive maintenance.

GRF and non-GRF funding for the Soil and Water Conservation District Program totals approximately \$12.8 million in both FY 2006 and in FY 2007. Despite these funding levels, the Department estimates funding will only allow for the Division to match 87% of district project costs in both FY 2006 and in FY 2007. This will result in fewer resources being available to the 88 Soil and Water Conservation Districts to provide technical and informational services to local landowners.

Environmental Protection Agency

Overall, the Agency's enacted budget is essentially a continuation budget. The enacted budget includes a new Environmental Protection Fee of \$1.50 on solid waste disposed in Ohio's landfills, which would replace all GRF that currently funds seven environmental programs by FY 2007. The new fee will also provide additional funding for the Division of Air Pollution Control's initiatives aimed at meeting new federal Clean Air Act requirements. The new fee is expected to generate \$22.1 million per year. The budget also includes a new Surface Water Protection Fee that will allow the Section 401 Certification/Wetlands Permitting program to become more self-sufficient. These fees include various wetland, stream, and lake review fees and range from \$3 up to \$500. Finally, the enacted budget includes a requirement that the Ohio Environmental Protection Agency continue to implement an enhanced motor vehicle inspection and maintenance (E-check) program in counties in which such a program is federally mandated.

Department of Administrative Services

Not accounting for roughly \$2.05 billion in the enacted budget for payroll deductions, the Department's budget each fiscal year is approximately \$379 million. Overall, the enacted budget will maintain FY 2005 service and staffing levels across the majority of program areas.

The budget makes several changes to the Fleet Management Law, including requiring state agencies subject to the State Fleet Management Law to acquire passenger motor vehicles by lease through the master-leasing program established by the Department; prohibiting reimbursement to state employees who use their own motor vehicles for any mileage incurred above an amount the Department determines annually, with exceptions; and requiring state institutions of higher education to use the Department's vehicle fleet management software system, its fuel card program to pay for fuel and vehicle maintenance, and its bulk fuel purchases contract to make bulk fuel purchases.

In other program areas, funding levels will not provide for a needed consultant to look at expanding the centralized insurance policies offered to state agencies, including collision insurance policies required when leasing vehicles. As for the State Architect, the budget will not provide funding to

fill four new positions needed by the office; however, the funding levels will help alleviate some of the current project management overload. As for information technology issues, the budget establishes the Office of Information Technology and provides approximately \$452,000 over the biennium for development and implementation of the fixed asset management components of the OAKS system.

Secretary of State

The enacted budget appropriates \$55.4 million in FY 2006 and \$18.0 million in FY 2007. The FY 2006 amount reflects an expected \$37.4 million for the purchase of Direct Recording Electronic or optical scan voting machines to comply with HAVA guidelines. This \$37.4 million in funding is in addition to the approximately \$79 million in FY 2005 for the purchase of voting machines as well.

The Secretary of State anticipates increased costs over the biennium as a result of H.B. 1 of the Special Session of the 125th General Assembly. The bill amended current campaign finance law. Several new filing requirements were created in the bill. In addition to these new filing requirements, the Secretary of State's office will also be required to make this information available to the general public on their web site. Additional staff will likely be needed as well as training, and hardware and software upgrades.

Auditor of State

Conducting financial audits will continue to be the Auditor of State's primary responsibility over the biennium. The enacted budget appropriates about \$55 million each fiscal year for this purpose. The Auditor of State will also be conducting several audits of the BWC over the biennium. The Auditor recently had three Controlling Board items approved to contract with several firms to conduct audits. The Auditor will contract with various entities to investigate the practices of Capital Coin Fund Limited & Capital Coin Fund Limited II and MDL Capital Management, to review inventories, appraisals, and internal policies and procedures.

As for the maintenance of accounting records, the budget will allow the Auditor of State to continue providing hardware, software, support, and training to political subdivisions across Ohio. However, enacted appropriations of \$6.5 million in each fiscal year for providing financial and accounting assistance to local governments may not be adequate due to the increasing demand for services needed by local governments and school districts that find themselves in a state of fiscal watch, caution, or emergency.

The enacted budget also includes an earmark of \$50,000 from line item 070-321, Operating Expenses for the purposes of conducting a pilot review of the billing practices of facilities licensed by the Department of Mental Health and the Department of Job and Family Services that serve children in a residential setting for whom mental health treatment services are provided. The Auditor must prepare a report on the conclusions of the pilot review by June 30, 2006.

Bureau of Workers' Compensation

The enacted budget contains numerous changes to investment practices and policies of the Bureau of Workers' Compensation. Highlights of these changes include: (1) hiring a Chief Investment Officer who must be designated by the CFA Institute as a Chartered Financial Analyst and who must be licensed by the Division of Securities within the Department of Commerce, (2) conducting criminal background checks on all employees of the Bureau's investment managers and all employees of business entities with whom investment managers enter into contract for the investment of Bureau of Workers'

Compensation assets, (3) increasing membership on the Workers' Compensation Oversight Commission by two members who are to be "investment expert members," (4) prohibiting the award of BWC contracts to persons or business entities who have contributed more than \$1,000 within the previous two years to the political campaigns of Governor, Lieutenant Governor, or to any candidate for Governor or Lieutenant Governor, (5) enacting protections against conflicts of interest with regard to the gains or profits of any investment of the Bureau, and (6) prohibiting the investment of the Bureau's assets in coins, artwork, horses, jewelry or gems, stamps, antiques, artifacts, collectibles, memorabilia, or "similar unregulated investments that are not commonly part of an institutional portfolio, that lack liquidity, and that lack readily determinable valuation."

Highlights of the Transportation Budget Act (Am. Sub. H.B. 68)

Department of Public Safety

Am. Sub. H.B. 68 was the primary funding act for the Department of Public Safety. Funding for the Department remains essentially flat for the biennium. As started in Am. Sub. H.B. 87 of the 125th General Assembly, the enacted budget continues the reduction of funds received by the Ohio State Highway Patrol from the motor vehicle fuel tax. It is anticipated that this phase-out will be complete by the end of FY 2007.

Highlights of the Bureau of Workers' Compensation and Industrial Commission Budget Acts (Am. H.B. 67 and H.B. 65)

Bureau of Workers' Compensation

Under Am. H.B. 67, the Public Employment Risk Reduction Program and Occupational Safety and Health Administration's on-site consultation program are transferred from the Department of Commerce to the Bureau. A pilot program known as Fast Response, or Auto Adjudication, is also codified under H.B. 67. The program provides for electronic review, processing, and approval of certain Bureau insurance claims. Also under H.B. 67, the Bureau must establish and administer a Long-Term Care Loan Fund program, the purpose of which is to make interest-free loans to nursing home employers to assist in purchasing "no-lift" equipment such as sit-to-stand floor lifts, ceiling lifts, and fast electric beds.

Ohio Industrial Commission

H.B. 65, the budget act for the Ohio Industrial Commission, contains a single codified section that precludes the Department of Administrative Services from operating, superintending, or making contracts on behalf of the Industrial Commission for telephone, other telecommunication, or computer services.