Fiscal Note & Local Impact Statement

124 th General Assembly of Ohio

Ohio Legislative Service Commission
77 South High Street, 9th Floor, Columbus, OH 43215-6136 ✧ Phone: (614) 466-3615
✧ *Internet Web Site:* http://www.lsc.state.oh.us/

BILL:	**Am. Sub. S.B. 261**	DATE:	**May 29, 2002**
STATUS:	**As Passed by the House**	SPONSOR:	**Sen. Carnes**

LOCAL IMPACT STATEMENT REQUIRED: **No — Not required for budget bills**

CONTENTS: **Increases the rate of tax on cigarettes, makes other tax modifications, provides authorization and conditions for the operation of state programs, makes other budgetary and program modifications, and makes operating appropriations for the period ending June 30, 2003, and capital appropriations for the period ending June 30, 2004**

State Fiscal Highlights

STATE FUND	FY 2002	FY 2003	FUTURE YEARS
General Revenue Fund			
Revenues	Net total = up to $845.4 million gain over the FY 2002 – FY 2003 biennium (remainder not transferred in FY 2002 could be transferred in FY 2003) (1) Up to $604.6 million gain from BSF transfers over FY 2002-2003 biennium; (2) Up to $50.8 million gain from Unclaimed Funds transfer over FY 2002-2003 biennium; (3) Potential $10 million or more gain in transfers from non-federal, non-GRF funds over FY 2002-2003 biennium; (4) $180 million gain from Tobacco Master Settlement Agreement Fund transfer	Net total = $708.9 million gain (plus remainder of transfers not made in FY 2002) (1) $175 million gain from depreciation bonus; (2) Around $259.7 million gain from increased cigarette and inventory tax; (3) Up to $50.8 million gain from Unclaimed Funds transfer over FY 2002-2003 biennium; (4) Up to $18 million gain in federal Reed Act reimbursement; (5) Potential $10 million or more gain in transfers from non-federal, non-GRF funds over FY 2002-2003 biennium;	Net total = $479.5 million gain in FY 2004, $441.7 million gain in FY 2005, decreasing gains in subsequent fiscal years (1) Around $235.5 million annual gain from increased cigarette tax, followed by gradual decline in the amount of the increase over time; (2) $125 million gain in FY 2004 and $99 million gain in FY 2005 from depreciation bonus; (3) $104 million gain from taxation of trust income through FY 2005; (4) Loss of $70 million in FY 2006 due to indexation of income tax brackets; loss of $151 million in FY 2007 and $250 million in FY 2008, increasing annually;
		(6) $165 million gain from Tobacco Master Settlement Agreement; (7) $104 million gain from tax on trust income; (8) Up to $27 million loss in BSF investment earnings; (9) Up to $1.5 million potential loss in GRF investment earnings due to deferred payment for cigarette stamps; (10) $0.7 million increase in federal Medicaid reimbursement as a result of an increase in Medicaid	(5) $15 million gain from changes in tax treatment of Qualified Subchapter S Subsidiaries (QSSS)

		costs; (11) $15 million gain from changes in tax treatment of Qualified Subchapter S Subsidiaries (QSSS)	
Expenditures	Total = Up to $6 million in savings Up to $6 million savings in State Security funds	Net total = $36.3 million decrease (1) Potential debt service increase for Higher Education Improvement Fund and for School Facilities debt; (2) $10 million decrease in DRC prison spending; (3) $1,499,245 decrease in DAS MARCS spending; (4) $177,000 increase for prescription drug discount program; (5) $30 million decrease in certain Department of Education spending; (6) $1.7 million decrease from surplus FY 2002 Board of Regents debt service; (7) Up to $6.2 million decrease from surplus FY 2002 Board of Regents OIG funds; (8) $7.8 million increase for PASSPORT; (9) $3.0 million increase for Eminent Scholars program; (10) Up to $910,000 or more increase depending on the number of National Guard eligible applicants; (11) Potential $1.2 million increase in Medicaid costs related to increase in nursing home mean total per diem rate	Net total = $102 million decrease (1) Potential debt service increase for Higher Education Improvement Fund of $5 million per year for 20 years, and for School Facilities debt service of $33.8 million per year for 15 years; (2) Potential annual increase of up to $116,000 for prescription drug discount program; (3) Potential cost avoidance of up to $142 million annually for the Medicaid program; (4) Up to $1,000,000 or more increase in FY 2004 depending on the number of eligible National Guard applicants and any tuition increases effected by colleges and universities, followed by uncertain future annual increases depending on level of call-ups and depending on the number of eligible National Guard applicants and any tuition increases effected by colleges and universities
Budget Stabilization Fund (Fund 013)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	(1) Up to $604.6 million transferred to GRF over FY 2002-2003 biennium; (2) Up to $5 million potential LTV Steel loan savings	- 0 -	- 0 -
Federal Unemployment Programs (Fund 3V4)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Up to $51 million increase	- 0 -
Financial Responsibility Compliance Fund (Fund 835)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	$2,261,821 transferred to Fund 036	- 0 -
State Highway Safety Fund (Fund 036)			
Revenues	- 0 -	$2,261,821 gain from Fund 835 transfer	- 0 -
Expenditures	- 0 -	Up to $2,261,821 increase	- 0 -
State Special Revenue Fund (Fund 5P5)			
Revenues	- 0 -	Potential $14 million gain*	Potential $26 million annual gain*
Expenditures	- 0 -	- 0 -	- 0 -
State Special Revenue Fund (Fund 5R2)			

Revenues	- 0 -	$25,853,224 gain	Approximately $113.8 million gain in FYs 2004 and 2005
Expenditures	- 0 -	$25,853,224 increase	$52.4 million increase in FYs 2004 and 2005

Federal Special Revenue Fund (Fund 3F0)			
Revenues	- 0 -	$37,203,420 gain	(1) Approximately $162.3 million gain in FYs 2004 and 2005; (2) Unknown gain for Health Care Services Administration; (3) Potential gain of up to $82 million annually from new federal resources for state and local health related programs
Expenditures	- 0 -	$40,362,450 increase	$75.5 million increase in FYs 2004 and 2005
Health Services Administration Fund (Fund 5U3)			
Revenues	- 0 -	$3,419,405 gain from various non-GRF sources	Unknown gain
Expenditures	- 0 -	$3,419,405 increase	- 0 -
Higher Education Improvement Fund (Fund 034)			
Revenues	- 0 -	$50 million gain over FYs 2003-2004	
Expenditures	- 0 -	$50 million related increase over FYs 2003-2004	
Unclaimed Funds Trust Fund and Related Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Up to $50.8 million transferred to GRF over FY 2002-2003 biennium		- 0 -
Other Non-Federal, Non-GRF State Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potentially $10 million or more transferred to GRF over FY 2002-2003 biennium		- 0 -
Tobacco Master Settlement Agreement Fund (Fund 087)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Transfer of $180 million to GRF	Transfer of $165 million to GRF	- 0 -
Educational Facilities Trust Fund (Fund N87)			
Revenues	$180 million loss from Fund 087 transfer to GRF	$165 million loss from Fund 087 transfer to GRF	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -
Lottery Profits Education Fund (Fund 017)			
Revenues	- 0 -	$10 million gain	- 0 -
Expenditures	- 0 -	$10 million related increase	- 0 -
School Building Program Assistance Fund (Fund 032)			
Revenues	- 0 -	$345 million gain over FYs 2003-2004	
Expenditures	- 0 -	$345 million related increase over FYs 2003-2004	
Credentialing Fund (Fund 5P1)			
Revenues	Approximately $500,000 gain	- 0 -	- 0 -
Expenditures	Up to $500,000 increase	- 0 -	- 0 -

Federal Special Revenue Fund (Fund 3C4)			
Revenues	- 0 -	Approximately $11.1 million gain in federal Medicaid reimbursement	- 0 -
Expenditures	- 0 -	Potential increase commensurate with revenue gain	- 0 -
Armory Improvements Fund (Fund 534)			
Revenues	- 0 -	Potential decrease of up to $325,000	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2003 is July 1, 2002 – June 30, 2003.

*Represents the state share of supplemental drug rebate revenue. If the Department of Job and Family Services receives the appropriation authority to spend these moneys for the Medicaid program, the state will receive federal reimbursement in the amount of $21 million in FY 2003 and $39 million in FY 2004 and future years.

Revenue and Expenditure Summary

- ***Revenue Summary for the Current Biennium.*** Total revenues generated by this bill for the FY 2002-FY 2003 biennium are estimated up to $1.55 billion. Of this amount, up to $845.4 million is authorized for transfer starting in FY 2002. Whatever is not transferred in FY 2002 could be transferred in FY 2003. Moreover, additional revenues generated by the bill in FY 2003 are estimated at $708.9 million.

- ***Revenue Summary for FY 2004 and Beyond.*** For FY 2004, total revenue gains resulting from this bill of $479.5 million are estimated. For FY 2005, $441.7 million is estimated. For subsequent years, the revenue gains would decline each year.

- ***Expenditure Summary.*** Net expenditure decreases resulting from the bill are estimated at $42.3 million for the FY 2002-FY 2003 biennium. This is comprised of $6 million savings for FY 2002 and a net decrease of $36.3 million in FY 2003. In FY 2004 and future years, approximately $102 million of net expenditure decreases are estimated.

- ***Reductions Outside this Bill.*** Further expenditure reductions are made by Executive Order and are not a part of this bill.

Fiscal Effects of the Provisions of the Bill

- ***BSF Transfer to GRF.*** The appropriation of funds from the Budget Stabilization Fund (BSF) would provide up to $604.6 million to the General Revenue Fund (GRF) in FYs 2002 and 2003. This would leave the BSF with a near-zero balance and would reduce investment earnings to the GRF in future years.

- ***Cigarette Tax.*** The increase in the tax on cigarettes along with the increase in retailers mark-up would decrease consumption of cigarettes. However, the increase in tax (including the tax on those currently in inventory) would increase revenues to the GRF by around $259.7 million in FY 2003 and $235.5 million in FY 2004, followed by a gradual decline in the amount of the increase over time. Deferral of payment for stamps purchased by cigarette dealers could reduce GRF interest earnings by up to $1.5 million in FY 2003.

- ***Depreciation Bonus.*** Abstracting from cash flow and timing issues resulting from changes in the treatment of depreciation expenses, the Department of Taxation estimates that the bill's depreciation bonus provision will increase state revenues to the GRF by $175 million in FY 2003, $125 million in FY 2004, and $99 million in FY 2005.

- ***Taxation of Qualified Subchapter S Subsidiaries (QSSS).*** The change in the taxation of QSSS will increase GRF revenues by $15 million in FY 2003 and future years.

- ***Taxation of Certain Trusts.*** The taxation of trust income would increase personal income tax revenues deposited into the GRF by $104 million per year starting in FY 2003 and ending in FY 2006.

- ***Indexation of Income Tax Brackets.*** The indexing of personal income tax brackets starting in tax year 2005 will reduce income tax revenues. The initial revenue loss for tax year 2005 will be felt largely in FY 2006. Losses to the GRF are estimated to be $70 million in FY 2006, $151 million in FY 2007, and $250 million in FY 2008. The estimated revenue losses will grow in proportion to the cumulative increase in the GDP deflator.

- ***Federal Reed Act Distributions.*** The bill: (1) increases the FY 2003 appropriation authority of Fund 3V4, line item 600-678, Federal Unemployment Programs, by $51 million, and (2) contains temporary law requiring the transfer of up to $18 million in FY 2003 from the foregoing line item 600-678 to be used by the Department of Job and Family Services to reimburse the GRF for allowable expenditures for the Unemployment Insurance Program, employment services, and Section 903(d) of the federal Social Security Act.

- ***Unclaimed Funds Transfer to GRF.*** Amended Substitute House Bill 94 of the 124th General Assembly contains temporary law authorizing the transfer of up to $30 million in unclaimed funds to the GRF over the course of the FY 2002-2003 biennium. The bill increases the authorized amount of unclaimed funds to be transferred to the GRF by $50.8 million (thus "up to $80.8 million"). This would also effectively decrease the amount available to the Minority Business Bonding Fund, the Housing Guarantee Fund, and the Housing Development Fund. The Mortgage Insurance Fund will not be affected by this increase in the maximum amount of unclaimed funds to be transferred to the GRF.

- ***Transfers to the GRF.*** The bill eliminates an existing $31,794,657 cap on cash transfers from non-federal, non-GRF funds that are not constitutionally restricted to the GRF. It appears that, by eliminating this "cap," at least $10 million or more in additional cash could be transferred to the GRF over the course of FYs 2002 and 2003. The bill specifically excludes funds created in Chapter 5747. of the Revised Code (such as the local government funds and the property tax replacement funds) from any such transfer.

- ***Emergency Purposes-State Security GRF Funds.*** The bill reduces the amount in GRF line item 911-415, Emergency Purposes-State Security, that may be disbursed in FY 2002 from $8.0 million to $2.0 million. The practical effect of this is to ensure that the difference – $6.0 million – will not be disbursed and instead become part of the GRF's FY 2002 unobligated and unencumbered ending cash balance. Under existing temporary law, (1) any of the $2.0 million that is unspent in FY 2002 is automatically transferred to FY 2003 for the same purpose, and (2) any of the $2.0 million that remains unobligated and unencumbered at the end of FY 2003 is transferred to the BSF.

- ***LTV Steel Loan.*** By eliminating existing temporary law that would have permitted the Director of OBM to provide a loan of up to $5 million in FY 2002 from the BSF to LTV Steel Company, Incorporated, the bill presumably saves the BSF up to $5 million that might otherwise have been committed to assisting LTV Steel Company, Incorporated.

- ***Department of Public Safety.*** The Director of OBM is required to transfer an additional $2,261,821 (from $192,411 to $2,454,232) in cash in FY 2003 from the Bureau of Motor Vehicle's Financial Responsibility Compliance Fund (Fund 835) to the State Highway Safety Fund (Fund 036). The transfer will permit the patrol to maintain operations of its Motor Carrier Assistance Program.

- ***Third Frontier Project.*** The bill authorizes the Ohio Public Facilities Commission to issue $50 million of obligations to the credit of the Higher Education Improvement Fund (Fund 034) under Section 2n of Article VIII of the Ohio Constitution. These funds, appropriated to CAP-068, Third Frontier Project, within the Board of Regents, will be used to make grants to state-supported and state-assisted institutions of higher education. No provision for debt service has been included in the bill. Based on a bond with a 20-year maturity and a semi-annual debt service payment, the first debt service payment will be approximately $1.6 million and the second payment will be $5 million; these amounts would vary with different interest rates. Depending on the date of issuance, the first debt service payment could fall in FY 2003 or FY 2004.

- ***Prescription Drug Discount Program.*** The bill creates the GRF-funded Prescription Drug Discount Program in the Department of Aging's (ODA) budget and appropriates $177,000 in the newly created line item 490-419, Prescription Drug Discount Program, for FY 2003 to administer the program. If it is necessary for ODA to hire one administrative position to manage the ongoing responsibilities associated with the prescription drug discount contract, then the cost to the department could be up to $82,000 in FY 2003, and up to $81,000 in FY 2004. This cost estimate includes salary, benefits, travel expenses, and one-time costs associated with computer and office equipment purchases. If the bill results in an increase in Golden Buckeye Card (GBC) activity, the department may also experience some non-staff related costs. Non-staff related costs include: data entry contracts, travel expenses, telephone calls (long distance and 800 phone number costs), printing, and promotional items. For example, if it is assumed that GBC program activity increases by 30 percent, non-staff related costs could increase by up to $35,000 annually.

- ***Department of Rehabilitation and Correction.*** The bill reduces the appropriation authority in the Department of Rehabilitation and Correction's GRF line item 501-321, Institutional Operations, by $10 million in FY 2003.

- ***Nursing Home Franchise Permit Fees.*** The bill raises the nursing home franchise permit fee to $4.30 for FYs 2003 through 2005, which amounts to a $1 per bed per day increase for FY 2003, and a $3.30 per bed per day increase for FYs 2004 and 2005. The additional one dollar franchise permit fee will generate a total of $63,056,644 in franchise permit fee revenues in FY 2003: $25,853,224 in state share and $37,203,420 in federal share. Furthermore, the additional $3.30 franchise permit fee would generate a total of approximately $276 million per year in franchise permit fee revenues in FYs 2004 and 2005: approximately $113.8 million in state share and $162.3 million in federal share. Payments to nursing facilities for FY 2004 and FY 2005 are estimated at $127.9 million per year: $52.4 million state share (Fund 5R2) and $75.5 million federal share (Fund 3F0).

  The bill also increases appropriation authority in line item 600-608, Medicaid-Nursing Facilities, by $25,853,224 in FY 2003 and increases appropriation authority in line item 600-623, Health Care Federal, by $40,362,450 in FY 2003 to allow the Department of Job and Family Services to spend the franchise fee revenue to fund the Medicaid program.

- ***Maximum Mean Total Per Diem Rate for Nursing Facilities.*** The bill raises the nursing home mean total per diem rate from $152.66 to $153.41 in FY 2003. Assuming approximately 20 million Medicaid bed days in FY 2003 and LSC's forecasted per diem rates, the increase in the Medicaid costs for nursing home reimbursement for FY 2003 would be approximately $1.2 million: $0.5 million in state share and $0.7 million in federal share.

- ***Multi-Agency Radio Communications System (MARCS).*** The bill reduces the appropriation authority in the Department of Administrative Services's GRF line item 100-417, MARCS, by $1,499,245 million in FY 2003.

- ***Supplemental Drug Rebate Program.*** The bill authorizes the Department of Job and Family Services (JFS) to establish a supplemental drug rebate program related to the Medicaid program and allows the Director of Job and Family Services to apply for a federal Medicaid waiver, if necessary, to establish the program. At the discretion of the Director of Job and Family Services, a supplemental rebate may be one or more cash payments by a drug manufacturer to the department or one or more services a drug manufacturer performs that are guaranteed to produce savings to the Medicaid program within one year of the date the director enters into a supplemental drug rebate contract or some other negotiated date. The Director of Job and Family Services is prohibited from requiring a drug manufacturer to pay a supplemental drug rebate under Medicaid as a condition of having a drug approved for the treatment of mental illness, HIV, or AIDS covered under Medicaid without prior authorization. According to preliminary estimates by JFS, the program could save the state approximately $35 million in FY 2003: $14 million state share and $21 million federal share. Future year savings to the Medicaid program are estimated at approximately $65 million per year: $26 million state share and $39 million federal share.

- ***Health Care Services Administration Fund.*** The bill creates the Health Care Services Administration Fund, specifies sources of funding for the fund, and provides that money in the fund is to be used to pay for costs associated with the administration of the Medicaid program. The bill provides $3,419,405 in appropriation authority for FY 2003 to line item 600-623, Health Care Federal, and $3,419,405 in appropriation authority for FY 2003 to line item 600-654, Health Care Services Administration, which is newly created in the bill. The appropriation for line item 600-654 is to be used to pay for costs associated with the administration of the Medicaid program. Once the administrative initiatives to be funded by these appropriations are fully functioning, it is estimated that they will generate $82 million annually in new federal resources for state and local health related programs and avoid up to $142 million annually in additional future Medicaid costs to the GRF.

- ***Tobacco Master Settlement Agreement Trust Fund Transfer.*** The bill requires the Director of Budget and Management (OBM) to transfer $180 million in FY 2002 and $165 million in FY 2003 from the Tobacco Master Settlement Agreement Fund to the GRF that would have otherwise been distributed to the Education Facilities Trust Fund, and authorizes in a related provision the School Facilities Commission to issue $345 million in bonds over the FY 2003 – FY 2004 biennium for the School Building Assistance Program.

- ***Unclaimed Prizes Trust Fund Transfer to the Lottery Profits Education Fund.*** In FY 2003, unclaimed lottery prize transfers are increased under the bill by $10 million to a total of $35 million. The additional revenue is appropriated for debt service in Lottery Profits Education Fund line item 200-682, Lease Rental Payment Reimbursement. This increase will fund more of the School Facilities Commission debt service cost under the GRF.

- ***Department of Education GRF Appropriations Reductions.*** The bill requires the Director of OBM to reduce FY 2003 GRF appropriations for the Department of Education by $30 million. The foundation program related line items and a few other specified line items are exempt from the appropriations reductions. The appropriations reductions would mainly affect the department's operating budget and state grant programs that are outside the foundation program.

- ***The Federal "No Child Left Behind Act" Fund Spending Plan.*** The bill requires the Department of Education to submit a spending plan to the Controlling Board for any federal funds received through the federal "No Child Left Behind Act" that the department has discretionary authority to spend. The Controlling Board must approve the plan before the funds can be expended.

- ***Board of Regents Debt Service Funds Surplus.*** Temporary law in Am. Sub. H.B. 94 requires any surplus funds net of encumbrances from the appropriation in FY 2002 for GRF line items 235-401, Lease Rental Payments, and 235-909, General Obligation Debt Service, to be reappropriated to GRF line item 235-501, State Share of Instruction, for FY 2003. The bill repeals these provisions, thereby allowing any such surplus funds to be returned to the GRF. At this time, the repeal would appear to save an estimated $1.7 million in GRF funds in FY 2003 that would otherwise have been reappropriated to GRF line item 235-501.

- ***Board of Regents Ohio Instructional Grants Funds Surplus.*** Temporary law in Am. Sub. H.B. 94 requires any surplus funds net of encumbrances from the appropriation in FY 2002 for GRF line item 235-503, Ohio Instructional Grants, to be reappropriated to GRF line item 235-534, Student Workforce Development Grants, for FY 2003. The bill imposes an upper limit of $3.8 million on the amount of those surplus OIG funds that may be reappropriated for Student Workforce Development. At this time, the estimate of the amount of those surplus FY 2002 OIG GRF funds ranges from $3 million to $10 million. Thus, under the bill, the estimate of savings to the GRF in FY 2003 after reappropriating up to $3.8 million for Student Workforce Development would appear to range from zero to $6.2 million.

- ***Eminent Scholars Program.*** The bill recreates GRF line item 235-451, Eminent Scholars, in the Board of Regents budget and appropriates $3.0 million to the line item in FY 2003. Associated temporary law instructs the board to use those GRF funds to establish an Ohio Eminent Scholars program, the purpose of which is to invest educational resources to address problems that are of vital statewide significance while fostering the growth in eminence in Ohio's academic programs.

- ***PASSPORT.*** The bill increases the FY 2003 appropriation for the Department of Aging's GRF line item 490-403, PASSPORT, by $7.8 million. Funds appropriated to the line item are used to finance the PASSPORT Medicaid Waiver program. The program is both state and federally funded. For every dollar in Medicaid expenditures, the federal government will reimburse the state for 58.78 percent of the costs in federal fiscal year (FFY) 2002 and 58.83 percent in FFY 2003. If the Department of Aging spends the additional $7.8 million in appropriated GRF funds, the state will receive approximately $11.1 million in federal Medicaid reimbursement. The federal Medicaid reimbursement revenue is deposited in federal Fund 3C4 and then used to fund the PASSPORT program.

- ***Ohio National Guard Scholarship Program.*** The bill extends the period of eligibility under the Ohio National Guard Scholarship Program after the end of an individual's time with the National Guard for enlisted individuals assigned to active duty after September 11, 2001. Assuming that all National Guard members eligible, but not enrolled in school, take advantage of the program, the cost for three quarters of school for those members could be up to $910,000 or more in FY 2003. The FY 2004 cost could be even higher, with future year cost increases uncertain. The bill does not increase the appropriations for the scholarship program, but it does potentially increase the pool of applicants and demand for scholarships for a given academic term. Therefore, in a given academic term, a higher number of National Guard members than usual could apply for the scholarship, thereby increasing the cost or backlog for slots for that term. While the increased cost for the additional eligibility for the program may not be accommodated in FY 2003, future appropriation and expenditure levels may be affected by the increased eligibility.

- ***GRF Revenues in Excess of Target Growth.*** The bill establishes a new fund (Excess Tax Receipts Fund) as well as a target growth rate for GRF tax revenues, which would essentially limit GRF revenue growth to 3 percent per year.

- ***Chemical Dependency Counselors and Drug Abuse Prevention Specialists.*** Under current law, the Department of Alcohol and Drug Addiction Services role of certifying and credentialing chemical dependency counselors and drug abuse prevention specialists is to sunset July 1, 2002. The bill extends the sunset provision to July 1, 2003. Therefore, the department will continue to receive fee revenues and incur the costs associated with certifying and credentialing for an additional year. Extending the sunset date to July 1, 2003 will result in approximately

$500,000 in additional fee revenue and an expenditure increase of up to $500,000.

- ***GRF Appropriation Restrictions.*** With certain exceptions, the bill prohibits the aggregate amount of appropriations for FY 2004 and FY 2005 from the GRF from exceeding total GRF spending in FY 2002 and FY 2003. Appropriations (and spending) for higher education, primary and secondary education, Medicaid, debt service, and property tax relief are not included in the restrictions.

- ***Direct Deposit of State Employee Paychecks.*** The bill requires all state employees whose state employment begins after the effective date of the bill to receive pay via electronic funds transfer, or "direct deposit." This change affects the Auditor of State, who issues paychecks, and to a lesser extent, the Department of Administrative Services, which administrates the state payroll. This change will result in minimal cost savings to the GRF

- ***Land Conveyance.*** The bill permits the Adjutant General to sell a Summit County armory site appraised at $400,000 to Summit County for $75,000, instead of being auctioned. If this transaction occurs, this would result in a net loss of $325,000 to the Armory Improvements Fund (Fund 534).

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2002	FY 2003	FUTURE YEARS
Cuyahoga County			
Revenues	Loss of at least $200,000 in cigarette tax receipts	Loss of at least $400,000 in cigarette tax receipts	Loss of at least $400,000 in cigarette tax receipts
Expenditures	Up to $5 million potential savings	- 0 -	- 0 -
Summit County			
Revenues	-0-	-0-	-0-
Expenditures	- 0 -	At least $75,000 if they buy the property	- 0 -
Counties			
Revenues	Fiscal impact varies by county regarding MR/DD tax equity	Fiscal impact varies by county regarding MR/DD tax equity	Fiscal impact varies by county regarding MR/DD tax equity
Expenditures	- 0 -	- 0 -	- 0 -
Certain Counties (six with populations of more than 400,000)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential minimal increase	Potential minimal increase
City of Cleveland			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Up to $5 million potential savings	- 0 -	- 0 -
School Districts			
Revenues	- 0 -	Less than $30 million loss in state grant revenues	- 0 -
Expenditures	- 0 -	Potential decrease of a related magnitude	- 0 -
Local Government Funds			
Revenues	- 0 -	$9.5 million gain	$19.0 million gain in FY 2004 and FY 2005; Loss of $8 million in FY 2005, increasing annually
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- ***LTV Steel Loan.*** By eliminating existing temporary law that would have permitted the Director of OBM to provide a loan of up to $5 million in FY 2002 from the BSF to LTV Steel Company, Incorporated, and required the City of Cleveland and Cuyahoga County match the state loan with an equivalent amount, the bill presumably saves the equivalent amount of moneys that might otherwise have been committed by the City of Cleveland and Cuyahoga County to assisting LTV Steel Company, Incorporated.

- ***Cigarette Tax.*** The increase in the tax on cigarettes will lead to a reduced consumption of cigarettes. Consequently Cuyahoga County will receive reduced revenues from its tax on cigarettes as estimated in the Local Fiscal Highlights table above.

- ***Indexation of Income Tax Brackets.*** The indexing of personal income tax brackets starting in tax year 2005 will reduce income tax revenues to the LGF, LGRAF, and LLGSF by $8 million starting in 2005. The estimated revenue losses will grow in proportion to the cumulative increase in the GDP deflator.

- ***School Districts.*** The bill requires the Director of OBM to reduce FY 2003 GRF appropriations for the Department of Education by $30 million. The foundation program related line items and a few other specified line items are exempt from the appropriations reductions. The appropriations reductions would decrease state grants to school districts by less than $30 million in FY 2003.

- ***Certain Tax Changes.*** The tax changes related to the treatment of depreciation expenses and the taxation of certain trusts and Qualified Subchapter S Subsidiaries (QSSS) will increase annual revenues to the local government funds by $19 million, the full effect of which will not hit until FY 2004. In FY 2003, the local government funds will receive half that annual amount, or $9.5 million. Revenue from the taxation of certain trusts will end in FY 2005.

- ***County Veterans Service Commissions.*** The bill could affect the veterans service commissions that are situated in the following counties with a population of more than 400,000: Cuyahoga, Franklin, Hamilton, Montgomery, Summit, and Lucas. The bill specifies the conditions under which the board of county commissioners in a county with a population of more than 400,000 can create a veterans service commission composed of six members. If a board of county commissioners in one of these six counties opts to increase the membership of a veterans service commission from five to six persons, it seems unlikely that any associated annual increase in a veterans service commission's operating expenses would exceed minimal. This potential fiscal effect could not be triggered until the county fiscal year that begins January 1, 2003.

- ***MR/DD Tax Equity.*** The bill changes the mental retardation and developmental disabilities (MR/DD) tax equity formula. Am. Sub. H.B. 94 earmarks $6.5 million in FY 2002 and $13.0 million in FY 2003 to fund the MR/DD tax equity program. The tax equity formula is used to disburse these funds to county boards of MR/DD. The impact on each county can be found in the detailed fiscal analysis. Should the bill be enacted prior to the end of FY 2002, the $6.5 million earmarked for the tax equity program in FY 2002 would be disbursed using the new formula.

- ***Land Conveyance.*** The bill allows Summit County to purchase the land for $75,000 or the highest bid that is not accepted by the Adjutant General at an auction to be scheduled in the future. The greater of these two amounts would be the county's purchase price. Given that the property has been appraised at $400,000, the Armory Improvements Fund could lose up to $325,000.

Detailed Fiscal Analysis

The bill's various provisions are discussed below relative to their fiscal effects on the state and local governments.

Transfer from the Budget Stabilization Fund to the GRF

The bill appropriates the balance of the unobligated revenue in the Budget Stabilization Fund (BSF) to line item 001-601, GRF Shortfall Contingency, for the purpose of overcoming the current shortfall of revenues to the General Revenue Fund (GRF).

Currently, the BSF contains a balance of $1,002.6 million. Of this total, Am. Sub. H.B 94 of the 124th General Assembly provides for the transfer of $150 million over the FY 2002-2003 biennium for the purpose of funding the state's share of Medicaid expenses in excess of the amount originally appropriated. Amended Substitute House Bill 405 of the 124th General Assembly provides for the transfer of an additional $261 million out of the BSF over the FY 2002-2003 biennium, of which $8 million has been transferred. Thus, only $599.6 million in the BSF is currently unobligated. The cancellation of the loan to LTV Steel, as discussed below, would leave $604.6 million in the fund's unobligated cash balance. This provision of the bill would allow this balance to be used to reduce the GRF shortfall in FYs 2002 and 2003.

In making the transfers, the Director of Budget and Management (OBM) is to ensure that the unobligated and unencumbered GRF balance is not more than $100 million at the end of FY 2002 or at the end of FY 2003.

Personal Income Tax

Taxation of Certain Trusts

The bill allows the treatment of certain trusts (those described in Subchapter J of the Internal Revenue Service and generally filing Federal Form 1041) as taxable entities and subjects them to the Ohio income tax beginning taxable year 2002. Amounts included in the adjusted gross income of a beneficiary would not be taxable. The bill defines taxable trust income (the sum of taxable income allocated and apportioned to the state) and provides the framework for allocation and apportionment of income and credits for certain trusts, including those trusts that are part residents of the state (or that include non-resident beneficiaries). Any trust exempt from federal tax under section 501 (c) (3) of the Internal Revenue Code is also exempt from taxation in Ohio. Further, the bill exempts from tax certain "qualified" farm income, as defined in the bill. The bill also codifies the taxation of Electing Small Business Trusts (ESBTs). The taxation of trusts will increase state GRF revenues by $104 million in FY 2003 through FY 2005.

Indexation of Income Tax Brackets

The bill indexes the personal income tax brackets using increases in the Gross Domestic Product deflator, beginning in July 2005. Indexing is a means of reducing the effects of "bracket creep." Bracket creep occurs in a progressive income tax system (such as Ohio's) when wage inflation pushes taxpayers into the higher income brackets resulting in increased tax liabilities, even though their real wages may not have increased at all. By indexing the brackets, the bill would cause the brackets to encompass increasingly higher income ranges, so that each year the GDP deflator increases, the higher tax rates would apply to a decreasing portion of taxpayers' incomes.

Indexing the personal income tax brackets starting in tax year 2005 is estimated to reduce tax year 2005 income tax revenues by $78 million. The revenue loss is estimated to grow to $169 million for tax year 2006 and $279 million for tax year 2007. Estimation made use of forecasts from DRI-WEFA of the percent change in the GDP deflator. The estimated revenue loss, calculated as the difference between estimated revenue without indexing and estimated revenue with indexing, will grow in proportion to the cumulative increase in the GDP deflator. The estimates of revenue losses by fiscal year presented elsewhere in this Fiscal Note were based on the simplifying assumption that losses from a given taxable year are felt entirely in the following fiscal year. This is probably not literally true, as taxpayers may adjust their behavior somewhat to reduce quarterly estimated payments or withholding payments, but most of the impact will probably be felt in lower annual returns and higher refunds than under current law.

Cigarette Tax

The bill increases the cigarette tax to 55 cents per pack, up from 24 cents. This change will reduce the cigarette tax differential between Ohio and Michigan, but will increase the cigarette tax differential with the other neighboring states.[1] Therefore, the bill is expected to decrease consumption and increase tax avoidance strategies by Ohio consumers. There are basically four ways consumers can avoid paying Ohio taxes on cigarettes. Consumers may: (1) purchase cigarettes in other states (legally or illegally, depending on the quantity), (2) purchase cigarettes from Ohio retailers who buy large quantities of smuggled cigarettes (and are able to offer lower prices), (3) purchase cigarettes directly from independent smugglers and middlemen, or (4) purchase cigarettes via the Internet. Cigarette stamping limits the amount of smuggling or bootlegging that occurs when prices are raised. Also most consumers purchase their cigarettes by the pack or the carton. If purchasing via the Internet, consumers still have to pay shipping and handling charges, which increases the cost of avoiding Ohio tax. Thus, tax avoidance by individual consumers may have a limited impact on revenues. However, the bill may increase the "profitability" of organized cigarette smuggling.

The tax change will increase cigarette prices by an amount at least equal to the increase in tax. Assuming an average weighted retail price of cigarettes in Ohio of $3.00 per pack, the tax increase will raise the average weighted retail price by 10.3 percent, to about $3.31 per pack. This price increase will decrease consumption of taxed cigarettes by about 6 percent.[2] Additional factors will create an even steeper decline in consumption of taxed cigarettes in future years. The long-term annual decline in cigarette consumption has been about 1.5 percent to 2.0 percent. Also, the tax change will boost the relative share of non-taxed cigarettes due to increased smuggling and Internet purchases. Finally, some consumers may switch to other tobacco products whose taxes are left unchanged.

LSC estimates that the decline in taxed cigarettes may be as high as 14 percent as a result of the bill.[3] From approximately 1,125 million taxed packs, consumption of taxed cigarettes may decrease to about 967 million packs or even lower. After subtracting the wholesaler dealer discount,[4] net cigarette tax receipts would be about $522.5 million, or $256.8 million above expected revenue on a yearly basis. However, due to timing issues and current inventory at wholesalers to which the 55 cents per pack would apply, LSC estimates that the bill will increase revenues by about $246.5 million in FY 2003 from cigarette sales. The bill allows the payment of the net additional tax for cigarettes in inventory as of July 1, 2003 from the change in the cigarette tax in three payments due July, August and September of calendar year 2002. The floor tax inventory will also result in a one-time FY 2003 pickup of GRF revenues totaling $13.2 million. The bill will increase state GRF revenues by $235.5 million in FY 2004, $224.0 million in FY 2005, followed by a gradual decline in the amount of the increase in future years.

Cuyahoga County imposes a 4.5 cent per pack levy on cigarette sales in that county. A decrease in cigarette consumption will also decrease cigarette tax receipts under the Cuyahoga County Cigarette Stamp Sales. The decrease in Cuyahoga County's cigarette tax receipts will be at least $0.2 million in FY 2002[5] and $0.4 million in FY 2003.

The bill requires a decrease of 5 cents per pack from the current cigarette tax once the balance in the BSF equals 5 percent of the GRF. Assuming that the balance in the BSF equals 5 percent of the GRF in FY 2008, the bill will decrease annual cigarette tax revenues anywhere between $30 million to $40 million. This revenue loss will decrease amounts available to the Income Tax Reduction Fund.

Cigarette Dealers Permitted to Defer Payment for Two-thirds of Stamp Purchases in FY 2003

The bill permits cigarette dealers to purchase cigarette tax stamps and meter impressions for one-third of face value between July 1, 2002 and May 1, 2003. The remaining two-thirds of the face value would be due within thirty days. If a dealer fails to pay the outstanding amount, the state may not sell that dealer any more stamps until the entire tax is paid, along with penalties and interest. The provision may reduce interest earned by the GRF by up to $1.5 million in FY 2003.

Depreciation Bonus

The bill modifies the treatment of depreciation expenses for Ohio corporate and individual taxpayers. Under current law and due to the federal Job Creation and Worker Assistance Act of 2002, corporate and individual taxpayers are to get a first-year depreciation deduction equal to 30 percent of the adjusted basis of a qualified property. After the first year, the remaining depreciable amount from the purchased asset will be deducted under the pre-existing depreciation rules.[6] Most tangible assets (except real property) purchased by Ohio taxpayers will be eligible for the depreciation "bonus."

Federal taxable income is the starting point of the Ohio corporate and individual tax returns. An Ohio taxpayer would use federal depreciation schedules, other deductions, and Net Operating Loss (NOL) rules to calculate the federal taxable income.[7] Then, various adjustments (additions and deductions) specific to Ohio are made to the reported federal taxable income. This results in the Ohio taxable income to which franchise and individual income tax rates are applied to calculate the tax on net income. To obtain federal taxable income in an individual income tax return, depreciation deductions are claimed through unincorporated businesses and in tax returns for a variety of pass-through entities before an individual's share of net income or loss is reported in the federal individual income tax return.[8]

The bill requires taxpayers who claim the "bonus" depreciation in their federal tax returns to add-back five-sixth of the amount of "bonus" depreciation (deducted in the federal tax returns) to their Ohio corporate or individual tax returns. The bill also allows such taxpayers to deduct one-fifth of that tax year's depreciation add-back for each of the next five consecutive years. In essence, the bill spreads out over six years any "bonus" depreciation claimed on the corresponding federal tax returns by Ohio taxpayers.

Abstracting from cash flow and timing issues resulting from these changes, the Department of Taxation estimates that the bill's depreciation bonus provision will increase state revenues to the GRF by $175 million in FY 2003, $125 million in FY 2004, and $99 million in FY 2005.

Franchise Tax: Changes in the Tax Treatment of Qualified Subchapter Subsidiaries (QSSS) and New Apportionment Rules on the Disposition of Certain Pass-Through Entities

The bill changes the Ohio tax treatment of Qualified Subchapter S Subsidiaries (QSSS) owned by a parent corporation, to reflect the federal tax treatment of such entities. If a subsidiary is not regarded as an entity separate from the parent for federal income tax purposes, the bill attributes income and other tax items of the subsidiary to the parent for purpose of the franchise tax. The bill modifies the apportionment rules for income, gain or loss for a pass-through entity investor that owns directly or indirectly at least twenty percent of another pass-through entity upon the sale, exchange or other disposition of a debt or equity interest in that pass-through entity. These changes will increase GRF revenues by about $15.0 million per year.

Federal Reed Act Distributions and Funds Transfer to the GRF

The bill: (1) increases the FY 2003 appropriation authority of Fund 3V4, line item 600-678, Federal Unemployment Programs, by $51 million, and (2) contains temporary law requiring the transfer of up to $18 million in FY 2003 from line item 600-678 to be used by the Department of Job and Family Services to reimburse the GRF for allowable expenditures for the Unemployment Insurance Program, employment services, and Section 903(d) of the federal Social Security Act.

Recent federal legislation (H.R. 3090) intended to stimulate the economy provides for the immediate distribution of excess funds in the federal Unemployment Trust Fund (UTF) that are known as "Reed Act distributions." The Reed Act provides that, when federal accounts in the UTF reach their statutory limit at the end of a federal fiscal year, any excess funds are transferred to the individual state accounts in the UTF. Previous federal legislation placed an annual limit on the total amount that could be distributed. H.R. 3090 repeals that limitation and allows the states to use the funds for: (1) regular unemployment benefits, (2) extended unemployment benefits, (3) unemployment benefits for individuals not otherwise eligible for regular unemployment benefits under the law of the state (such as individuals seeking only part-time work), or (4) administration of public employment offices, including the provision of employment services needed to help individuals return to work.

Unclaimed Funds Transfer to the GRF

The Department of Commerce, Division of Unclaimed Funds, collects unclaimed funds and deposits them to the credit of the Unclaimed Funds Trust Fund. These unclaimed funds are then transferred to: (1) Fund 543, Unclaimed Funds – Operating, to be used for administrative costs of the division, and (2) Fund 543, Unclaimed Funds – Claims, to be used to pay the unclaimed fund owners who claim their funds. The remainder of the unclaimed funds is then made available to the following funds: (1) the Mortgage Insurance Fund, (2) the Minority Business Bonding Fund, (3) the Housing Guarantee Fund, and (4) the Housing Development Fund. The Housing Guarantee Fund and the Housing Development Fund are used to fund programs of the Ohio Housing Finance Agency (OHFA).

Amended Substitute House Bill 94 contains temporary law authorizing the transfer of up to $30 million in unclaimed funds to the GRF over the course of the FY 2002-2003 biennium. The bill increases the authorized amount of unclaimed funds to be transferred to the GRF by $50.8 million (thus "up to $80.8 million"). This would also effectively decrease the amount available to the Minority Business Bonding Fund, the Housing Guarantee Fund, and the Housing Development Fund. The Mortgage Insurance Fund will not be affected by this increase in the amount of unclaimed funds to be transferred to the GRF.

Table 1 below displays Division of Unclaimed Funds information regarding the disposition of unclaimed funds over the course of FYs 2000 and 2001.

Transfers to the GRF

Section 144 of Am. Sub. H.B. 94 authorizes, during FYs 2002 and 2003, the Director of OBM to transfer cash from non-federal, non-GRF funds that are not constitutionally restricted to the GRF, and restricts the total amount of cash transfers to $31,794,657. The bill essentially replaces the “cap” with language authorizing the Director of OBM to make such transfers of cash to the GRF from non-federal, non-GRF funds that are not constitutionally restricted as are necessary to ensure that expenditures from the GRF do not exceed amounts credited to it. It appears that, by revising the “cap” language, at least $10 million or more in additional cash could be transferred to the GRF over the course of FYs 2002 and 2003. The bill also contains a new section that would not authorize any such transfer from funds created in Chapter 5747 of the Revised Code. This includes the three local government funds (LGF, LGRAF, and LLGSF), as well as the property tax replacement funds created by S.B. 3 of the 123rd General Assembly.

Emergency Purposes – State Security GRF Funds

Section 29 of Am. Sub. H.B. 405 requires the Director of OBM transfer $8.0 million from the BSF to the GRF to be used for emergency purposes. These emergency purposes include, but are not limited to: (1) the Department of Health and the Department of Agriculture for anthrax and bioterrorism testing, (2) the Adjutant General for costs associated with the deployment of troops, armory maintenance, equipment costs, and capital needs, (3) the Department of Public Safety, (4) security, and (5) other emergency purpose expenses.

The Director of OBM subsequently transferred that amount to the GRF and appropriated the $8.0 million to line item 911-415, Emergency Purposes-State Security, in the Controlling Board’s budget. Prior to utilizing these funds, the appropriate state agency must receive approval of the Controlling Board. To date, none of these funds have been disbursed.

The bill reduces the amount of these funds that may be used from $8.0 million to $2.0 million. The practical effect of this is to ensure that the difference – $6.0 million – will not be disbursed and instead become part of the GRF’s FY 2002 unobligated and unencumbered ending cash balance. Under existing temporary law, (1) any of the $2.0 million that is unspent in FY 2002 is automatically transferred to FY 2003 for the same purpose, and (2) any of the $2.0 million that remains unobligated and unencumbered at the end of FY 2003 is transferred to the BSF.

Budget Stabilization Fund Loan to LTV Steel

The bill repeals Section 31 of Am. Sub. H.B. 405, which permits the Director of OBM to provide a loan of up to $5 million in FY 2002 from the BSF to LTV Steel Company, Incorporated, and requires the City of Cleveland and Cuyahoga County match the state loan with an equivalent amount. To date, no such state loan has been made. By eliminating this permissive authority, the BSF potentially saves up to $5 million that might otherwise have been loaned. Similarly, the City of Cleveland and Cuyahoga County also presumably save an equivalent amount that might otherwise have been committed to assisting LTV Steel Company, Incorporated.

Department of Public Safety

Under the bill, the Director of OBM is required to transfer an additional $2,261,821 (from $192,411 to $2,454,232) in cash in FY 2003 from the Bureau of Motor Vehicle’s Financial Responsibility Compliance Fund (Fund 835) to the State Highway Safety Fund (Fund 036). The transfer will permit the patrol to maintain operations of its Motor Carrier Assistance Program.

Third Frontier Project

The bill authorizes the Ohio Public Facilities Commission to issue $50 million of obligations to the credit of the Higher Education Improvement Fund (Fund 034) under Section 2n of Article VIII of the Ohio Constitution. These funds, appropriated to CAP-068, Third Frontier Project, within the Board of Regents, will be used to make grants to state-supported and state-assisted institutions of higher education. The grants will be awarded on a competitive basis and administered by the Department of Development with consultation from the Board of Regents, the

Governor's Science and Technology Advisor, and other interested parties. The grants will be used to acquire, renovate, or construct facilities and purchase equipment for research programs, technology development, product development, and commercialization programs at or involving state-supported and state-assisted institutions of higher education.

No provision for debt service has been included in the bill. In general, the first debt service payment is made between six months to one year after the date of issuance of the obligations; the amount of the debt service payment depends on several factors including the issue date of the obligations, the interest rate of the security, and the maturity of the bonds. Based on a bond with a 20-year maturity and a semi-annual debt service payment, the first debt service payment will be approximately $1.6 million and the second payment will be approximately $5 million; these amounts would vary with different interest rates. Depending on the date of issuance, the first debt service payment could fall in FY 2003 or FY 2004.

Prescription Drug Discount Program

The bill creates the GRF-funded Prescription Drug Discount Program in the Department of Aging (ODA). The appropriation of $177,000 in the newly created GRF line item 490-419, Prescription Drug Discount Program, for FY 2003 is to be used to administer this program.

The bill requires ODA to establish one or more prescription drug discount card programs that enable cardholders (persons age 60 and older, or disabled) to receive discounts on prescription drugs dispensed at participating pharmacies. ODA must establish rules for the administration of the program(s) and appoint an entity to act as the administrator. In order to accomplish this, ODA will contract with a vendor on the basis of the proposals submitted. According to ODA, the competitive proposal will take approximately six months for the advertisement and selection process to determine the successful responder.

As a result of the bill, ODA may experience an increase in administrative responsibilities. Several ongoing responsibilities will need to be added to the department's current workload, including the following:

- Monitoring the performance of successful responder, which includes a review of how complaints have been handled by the responder.
- Maintaining a capacity to respond to complaints about the program.
- Publicizing the program.
- Collecting card applications from "walk-in" sites.
- Collecting the data for the annual summary.
- Preparing and distributing the annual summary.

ODA may need to add one administrative position to manage the ongoing responsibilities associated with the prescription drug discount contract. According to the department, one additional administrative position will cost approximately $76,000 (salary plus benefits and travel expenses) in FY 2003, and approximately $81,000 (salary plus benefits and travel expenses) in FY 2004. In addition, the department could incur approximately $6,000 in one-time costs for computer and office equipment.

Lastly, if the bill results in an increase in Golden Buckeye Card (GBC) activity, the department may experience some non-staff related costs. Non-staff related costs include: data entry contracts, travel expenses, telephone calls (long distance and 800 number costs), printing, and promotional items. For example, if it is assumed that GBC program activity increases by 30 percent, non-staff related costs could increase by up to $35,000 annually.

Department of Rehabilitation and Correction

The bill reduces the appropriation authority in the Department of Rehabilitation and Correction's GRF line item 501-321, Institutional Operations, by $10 million in FY 2003.

Nursing Home Franchise Permit Fees

The Department of Job and Family Services is required to assess an annual franchise permit fee on each long-term care bed in a nursing home or hospital. The fee is applied to: (1) nursing home beds, (2) Medicare-certified skilled nursing facility beds, (3) Medicaid-certified nursing facility beds, and (4) beds in hospitals that are registered as skilled nursing facility beds or long-term care beds, or licensed as nursing home beds.

Prior to FY 2002, the amount of the fee was $1 per day for each such bed. Amended Substitute House Bill 94 raised the franchise permit fee to $3.30 for FYs 2002 and 2003. The bill raises the franchise permit fee to $4.30 for FYs 2003 through 2005; a $1 per bed per day increase for FY 2003, and a $3.30 per bed per day increase for FYs 2004 and 2005. The additional $1 franchise permit fee would generate a total of $63,056,644 in franchise permit fee revenues in FY 2003: $25,853,224 in state share and $36,943,045 in federal share. Furthermore, the additional $3.30 franchise permit fee would generate a total of approximately $276 million per year in franchise permit fee revenues in FYs 2004 and 2005: approximately $113.8 million in state share and $162.3 million in federal share.

In addition to the franchise permit fee raised by Amended Substitute House Bill 94 for FY 2003, the bill also specifies that the additional money generated from the increase for FYs 2003, 2004, and 2005 are to be deposited into the Nursing Facility Stabilization Fund. JFS is to use the money in the fund to do all of the following: (1) make payments to nursing facilities under the law governing Medicaid payments to nursing facilities; (2) beginning with payments made to nursing facilities in August 2002, make payments to each nursing facility for each Medicaid day in FYs 2003, 2004, and 2005 in an amount equal to 76.74 percent of the franchise permit fee the nursing facility pays for the fiscal year the department makes the payment divided by the nursing facility's inpatient days for the calendar year preceding the calendar year in which that fiscal year begins. In other words, reimburse nursing facilities for the increase in the franchise permit fee on the basis of "Medicaid days," and (3) make payments of $2.25 per Medicaid day to all nursing facilities for FYs 2003, 2004 and 2005, to enhance quality of care. Payments to nursing facilities for FY 2004 and FY 2005 are estimated at $127.9 million per year: $52.4 million state share (Fund 5R2) and $75.5 million federal share (Fund 3F0).

The bill increases appropriation authority in line item 600-608, Medicaid-Nursing Facilities, by $25,853,224 in FY 2003 and increases appropriation authority in line item 600-623, Health Care Federal, by $40,362,450 in FY 2003 to allow the Department of Job and Family Services to spend the franchise fee revenue to fund the Medicaid program.

Maximum Mean Total Per Diem Rate for Nursing Facilities

The bill raises the nursing home mean total per diem rate from $152.66 to $153.41 in FY 2003, a $0.75 increase. Amended Substitute House Bill 94 established a maximum mean total per diem rate applicable to nursing facilities in FY 2002 and FY 2003. For FY 2002, the mean total per diem rate for all nursing facilities in the state, weighted by Medicaid days and calculated as of July 1, 2001, is not to exceed $143.92. For FY 2003, the mean total per diem rate for all nursing facilities in the state, weighted by Medicaid days and calculated as of July 1, 2002, is not to exceed $152.66, plus any difference between $143.92 and the mean total per diem rate for all nursing facilities in the state for FY 2002, weighted by Medicaid days and calculated as of July 1, 2001, under the law governing the calculation of Medicaid reimbursement rates. Assuming approximately 20 million Medicaid bed days in FY 2003 and LSC's forecasted per diem rates, the increase in the Medicaid costs for nursing home reimbursement for FY 2003 would be approximately $1.2 million: $0.5 million in state share and $0.7 million in federal share.

Multi-Agency Radio Communications System (MARCS)

The Department of Administrative Services is responsible for coordinating the development and rollout of the Multi-Agency Radio Communications System, also known as MARCS. These start-up expenses are covered by the department's GRF line item 100-417. The bill reduces the GRF line item's FY 2003 appropriations by $1,499,245. This FY 2003 appropriations reduction would be in addition to any other appropriations reductions applied to GRF line item 100-417 for FY 2003.

Supplemental Drug Rebate Program

The bill authorizes the Department of Job and Family Services (JFS) to establish a supplemental drug rebate program under which drug manufacturers may be required to provide JFS a supplemental rebate as a condition of having their products covered by Medicaid without prior approval and allows the Director of Job and Family Services to apply for a federal Medicaid waiver, if necessary, to establish the program. The bill also requires JFS to consult with drug manufacturers regarding the establishment of a supplemental drug rebate program under Medicaid, if one is established. At the discretion of the Director of Job and Family Services, a supplemental rebate may be one or more cash payments by a drug manufacturer to the department or one or more services a drug manufacturer performs that are guaranteed to produce savings to the Medicaid program within one year of the date the director enters into a supplemental drug rebate contract or some other negotiated date. The Director of Job and Family Services is prohibited from requiring a drug manufacturer to pay a supplemental drug rebate under Medicaid as a condition of having a drug approved for the treatment of mental illness, HIV, or AIDS covered under Medicaid without prior authorization. It will take JFS several months to establish the program and negotiate rebates with each of the drug manufacturers. The department expects to realize some savings in FY 2003. According to preliminary estimates by JFS, the program could save the state approximately $35 million in FY 2003: $14 million state share and $21 million federal share. Future year savings to the program are estimated at approximately $65 million per year: $26 million state share and $39 million federal share.

Health Care Services Administration Fund

The bill creates the Health Care Services Administration Fund and specifies its sources of funding. The bill also provides that money in the fund is to be used to pay for costs associated with the administration of the Medicaid program. All sources of revenue for this fund are non-GRF sources.

The bill provides $3,419,405 in appropriation authority for FY 2003 to line item 600-623, Health Care Federal, and $3,419,405 in appropriation authority for FY 2003 to line item 600-654, Health Care Services Administration, which is newly created in the bill. The bill specifies that line item 600-654 is to be used by JFS for costs associated with the administration of the Medicaid program. The bill permits the Director of JFS, for FY 2003, to deposit into the Health Care Services Administration Fund any revenue received from federal reimbursement for allowable Medicaid administrative expenditures made by state or local entities. The bill also specifies that, of the amount received during FY 2003, from the first installment of assessments on hospitals for the Hospital Care Assurance Program and intergovernmental transfers under the Hospital Care Assurance Program, $175,000 must be deposited into the state treasury to the credit of the Health Services Administration Fund (Fund 5U3).

JFS plans to use these funds to hire additional staff and pay for contracted services for various purposes that, according to JFS, will result in cost avoidance for the department. Those various purposes include:

- Safeguarding Medicaid funds that are distributed to other state agencies to ensure proper use of the funds, which could result in fewer audit findings by the federal government that result in revenue loss by the state for the Medicaid program.
- Hiring more auditors that can audit Medicaid providers to improve billing accuracy, when appropriate recovering overpayments of Medicaid, and reducing fraud and abuse.
- Refinancing services currently funded with GRF and/or local funds in the mental retardation and developmental disabilities, education, and public health systems.
- Developing care management strategies for Ohioans with higher medical needs.

As stated earlier, the bill increases the appropriation authority for JFS by approximately $6.8 million in FY 2003. JFS estimates that it will take almost two years to get to a point where these initiatives are fully functioning and generating cost savings and revenue. The bill allows JFS to retain a portion of new revenues or recoveries generated to support these initiatives and JFS expects to be able to do so toward the end of the two-year start up period. This will allow JFS to sustain these activities in the future. Once these initiatives are fully functioning, JFS estimates that they will generate $82 million annually in new federal resources for state and local health related programs and avoid up to $142 million annually in additional future Medicaid costs to the GRF.

Tobacco Master Settlement Agreement Trust Fund Transfer

The bill requires the Director of OBM to transfer $180 million in FY 2002 and $165 million in FY 2003 from the Tobacco Master Settlement Agreement Fund to the GRF that would have otherwise been distributed to the Education Facilities Trust Fund. In a related provision, the bill authorizes the School Facilities Commission to issue $345 million in bonds over the FY 2003 – FY 2004 biennium for the School Building Assistance Program that in a sense makes up for the loss of revenues from the Tobacco Master Settlement Agreement to the Education Facilities Trust Fund that are being transferred to the GRF. Future debt service costs to the GRF will increase over several years to about $33.8 million per year for 15 years due to the bond authorization.

Unclaimed Prizes Trust Fund Transfer to Lottery Profits Education Fund

In FY 2003, unclaimed lottery prize transfers are increased under the bill by $10 million to a total of $35 million. The additional revenue is appropriated for debt service in Lottery Profits Education Fund line item 200-682, Lease Rental Payment Reimbursement. This increase will fund more of the School Facilities Commission debt service cost under the GRF.

Department of Education

Appropriations Reductions and School Districts

The bill requires the Director of OBM to reduce FY 2003 GRF appropriations for the Department of Education by $30 million. The following GRF line items are exempt from the reductions: 200-406, Head Start; 200-500, School Finance Equity; 200-501, Base Cost Funding; 200-502, Pupil Transportation; 200-511, Auxiliary Services; 200-520, Disadvantaged Pupil Impact Aid; 200-521, Gifted Pupil Program; 200-525, Parity Aid; 200-532, Nonpublic Administration Cost Reimbursement; 200-534, Desegregation Costs; 200-540, Special Education Enhancements; 200-545, Career-Technical Education Enhancements; 200-546, Charge-Off Supplement; 200-553, County MR/DD Boards Transportation Operating; 200-901, Property Tax Allocation – Education; and 200-906, Tangible Tax Exemption – Education. The appropriations reductions would mainly affect the Department of Education's operating budget and state grant programs that are outside the foundation program. Most state grants are awarded on a competitive basis. It is therefore difficult to predict the impact of the appropriations reductions on individual school districts at this time.

The Federal "No Child Left Behind Act" Fund Spending Plan

The bill requires the Department of Education to submit a spending plan to the Controlling Board for any federal funds received through the federal "No Child Left Behind Act" that the department has discretionary authority to spend. The Controlling Board must approve the plan before the funds can be expended.

Board of Regents Debt Service Funds Surplus

Temporary law in Am. Sub. H.B. 94 requires any surplus funds net of encumbrances from the appropriation in FY 2002 for GRF line items 235-401, Lease Rental Payments, and 235-909, General Obligation Debt Service, to be reappropriated to GRF line item 235-501, State Share of Instruction, for FY 2003. The bill repeals these provisions, thereby allowing any such surplus funds to be returned to the GRF. At this time, the repeal would appear to save an estimated $1.7 million in GRF funds in FY 2003 that would otherwise have been reappropriated to GRF line item 235-501.

Board of Regents Ohio Instructional Grants Funds Surplus

Temporary law in Am. Sub. H.B. 94 requires any surplus funds net of encumbrances from the appropriation in FY 2002 for GRF line item 235-503, Ohio Instructional Grants, to be reappropriated to GRF line item 235-534, Student Workforce Development Grants, for FY 2003. The bill imposes an upper limit of $3.8 million on the amount of those surplus OIG funds that may be reappropriated for Student Workforce Development. At this time, the estimate of the amount of those surplus FY 2002 OIG GRF funds ranges from $3 million to $10 million. Thus, under the bill, the estimate of savings to the GRF in FY 2003 after reappropriating up to $3.8 million for Student Workforce Development would appear to range from zero to $6.2 million.

County Veterans Service Commissions

The bill could affect the veterans service commissions that are situated in the following counties with a population of more than 400,000: Cuyahoga, Franklin, Hamilton, Montgomery, Summit, and Lucas. Under current law, a veterans service commission can only be composed of five members. The bill specifies the conditions under which the board of county commissioners in a county with a population of more than 400,000 can create a veterans service commission composed of six members. If a board of county commissioners in one of these six counties opts to increase the membership of a veterans service commission from five to six persons, it seems unlikely that any associated annual increase in a veterans service commission's operating expenses would exceed minimal. This potential fiscal effect could not be triggered until the county fiscal year that begins January 1, 2003.

Eminent Scholars Program

The bill recreates GRF line item 235-451, Eminent Scholars, in the Board of Regents budget and appropriates $3.0 million to the line item in FY 2003. Associated temporary law instructs the board to use those GRF funds to establish an Ohio Eminent Scholars program, the purpose of which is to invest educational resources to address problems that are of vital statewide significance while fostering the growth in eminence in Ohio's academic programs.

PASSPORT

The bill increases the FY 2003 appropriation in the Department of Aging's GRF line item 490-403, PASSPORT, by $7,800,000. Funds appropriated to the line item are used to fund the PASSPORT program, which is a Medicaid Waiver program allowing persons who are Medicaid eligible to receive community-based in-home services as an alternative to nursing home placement. The federal government matches state spending for Medicaid programs. The match amount is 58.78 percent in federal fiscal year (FFY) 2002 and 58.83 percent in FFY 2003. If the Department of Aging spends the additional $7.8 million in appropriated GRF funds in FY 2003, the state will receive approximately $11.1 million in federal Medicaid reimbursement. The federal Medicaid reimbursement revenue is deposited in federal Fund 3C4 and then used to fund the PASSPORT program.

Certificate of Need (CON) for Nursing Home Beds

Ohio law prohibits building or expanding the capacity of a nursing home without a certificate of need (CON) issued by the Director of Health. However, with limited exceptions, a moratorium that has been in effect since 1993 and was most recently extended to June 30, 2003, prohibits the director from accepting for review an application of a CON permitting an increase in beds in an existing health care facility if the beds are proposed to be licensed as nursing home beds. The bill authorizes the director to accept for review a transfer of up to 24 nursing home beds from Jackson County to Gallia County.

Quarterly Medicaid Cost Control Reports

The bill requires the Director of Job and Family Services to submit a quarterly report to the General Assembly on the establishment and implementation of programs designed to control the increase in Medicaid costs. The Department of Job and Family Services will incur a minimal increase in costs to compile, duplicate, and distribute the reports each quarter.

Medicaid Copayments

The bill requires the Director of Job and Family Services to examine instituting a copayment program under Medicaid. As part of the examination, the director must determine which groups of Medicaid recipients may be subjected to a copayment requirement under federal statutes and regulations and which of those groups are appropriate for a copayment program designed to reduce inappropriate and excessive use of medical goods and services. If on completion of the examination, the director determines such a copayment program is feasible, the director may seek federal approval to institute the program. The Department of Job and Family Services will incur a minimal increase in costs associated with examining the feasibility of a copayment program. However, implementation of such a program is permissive under the bill. Therefore, any costs incurred in implementing a new program (i.e., copayment collection) and any copayment revenue received would be contingent on the department deciding to move forward with a program. Moreover, federal approval may also be required.

According to the Centers for Medicare and Medicaid Services (CMS), "states may impose nominal deductibles, coinsurance, or copayments on some Medicaid recipients for certain services. Emergency services and family planning services must be exempt from such copayments. Certain Medicaid recipients must be excluded from this cost sharing: pregnant women, children under age 18, hospital or nursing home patients who are expected to contribute most of their income to institutional care, and categorically needy HMO enrollees." (http://www.hcfa.gov/medicaid/mservice.htm)

Mahoning Valley Education and Training Institute

The bill requires the Director of Job and Family Services, on or before October 1, 2002, to establish the Mahoning Valley Education and Training Institute at Youngstown State University. The purpose of the institute will be to retrain existing workers and provide education and training for new entrants into the regional labor market. The bill is silent regarding funding. Therefore, the amount of funding to be provided to pay the cost of establishing the institute will be at the discretion of the Director of Job and Family Services.

Ohio National Guard Scholarship Program

The bill extends the period of eligibility under the Ohio National Guard Scholarship Program after the end of an individual's time with the National Guard for enlisted individuals assigned to active duty after September 11, 2001. This extension applies to all enlisted National Guard members, without a bachelor's degree or the maximum number of eligibility units, called to active duty. Thus, those not in school during their call up would also receive the time extension. The extension of eligibility depends on the number of academic terms that overlap with the individual's active duty period.

The total number of National Guard enlisted members in Ohio is approximately 14,500 (this excludes the 1,500 officers). The portion of the National Guard that is enrolled in the scholarship program is 5,150, or 35.5 percent, of the enlisted total. However, additional National Guard members not currently enrolled would also potentially have their eligibility extended. Of the 16,000 National Guard members, approximately 2,200 (14 percent) were called to active duty between September 11, 2001 and May 15, 2002. For a full year, this would equate to about 3,200 (20 percent) that might be called to duty in the first year after September 11. These guard members (except for officers, those with a bachelor of arts degree, and those having used their maximum number of units) would be eligible for the extension, but only a portion of them will probably take advantage of the opportunity. The portion most likely to take advantage of the extension is the one-third of guard members involved with the scholarship program. This portion would equal about 1,000 members (0.9 x 0.35 x 3,200) for the first year after September 11. Many of the remaining 1,900 enlisted guard members called to active duty would also have their eligibility extended, but they are less likely to take advantage of the opportunity.

According to the Adjutant General, 413 scholarship eligible National Guard members were called to active duty as a result of September 11. Of those 413 members, 232 were actually enrolled in school during the Fall of 2001 and had to withdraw as a result of being called to active duty. In Fall quarter 2001, 3,001 students were approved for scholarships. The number of students who had to withdraw for active duty is approximately 8 percent of the number of students approved for scholarships.

To determine the approximate cost of the bill, the difference between the number of eligible National Guard members called to active duty and the number of National Guard members actually enrolled in school (181) is multiplied by the average cost of tuition for the fall term ($1,672). Assuming that all National Guard members eligible, but not enrolled in school, take advantage of the program, the cost for three quarters of school for those members is approximately $910,000. For the following fiscal year, the estimate is increased to account for the tuition increases at Ohio colleges and universities.

While current law caps the number of scholarship participants each school term, the eligibility expansion of this proposal will increase the future demand for scholarship slots. This increase in demand will be reflected in increased program cost or increased backlogs for slots. While this increased demand may not be accommodated in FY 2003, future appropriation levels may be affected because of the increased program eligibility.

Future call-up levels are not known, but might continue at current levels. (This is assumed for the FY 2004 and future years cost estimates.) Call-ups for state disasters such as flooding or tornados will also contribute to increased eligibility under the bill; although, due to their short duration, such call-ups do not generally require a student to drop out of school for the quarter.

Committee to Study State and Local Taxes

The bill creates the Committee to Study State and Local Taxes. The committee will consist of nine members: the Tax Commissioner, the Director of OBM, the Director of Development, and three members each from the House of Representatives and the Senate. The committee will make a study to determine how the current tax structure affects various sectors of the economy with particular attention to the following factors: equity, simplicity, stability, neutrality, competitiveness, and ease of administration. The committee must submit a report on or before March 1, 2003 to the Governor, the Speaker and the Minority Leader of the House of Representatives, the President and the Minority leader of the Senate. The Legislative Service Commission and other agencies will incur some costs related to the study, although the expenditures may not be readily quantifiable.

The Economic Development Study Committee

The bill creates a seven-member Economic Development Study Committee which will (1) study the needs of the economy of the state, (2) address the challenges of ongoing revenue shortfall, and (3) make recommendations to improve the vitality of the state's economy. The committee will submit a written report by January 31, 2003 to the President and the Minority Leader of the Senate, and to the Speaker and the Minority Leader of the House.

Excess GRF Receipts Fund

The bill establishes a target growth in GRF tax revenues each fiscal year equal to the Consumer Price Index or 3 percent, whichever is greater. The base of the target growth is set equal to $16,195.8 million, which equals total GRF tax revenues in FY 2001 plus the GRF portion of the transfer from the Income Tax Reduction Fund (ITRF) in that year. In subsequent years, total GRF tax revenues (including the transfers made to the GRF from the ITRF that year) are compared to the target revenues (essentially 103 percent of target revenues in the previous year). To the extent that total GRF tax revenues exceed target revenues, the excess is deposited into the Excess Tax Receipts Fund, which is created by the bill. Thus, the effect of the provision is to limit GRF tax revenue growth (and, subsequently GRF revenue growth) to roughly 3 percent per year.

The amount transferred into the Excess Tax Receipts Fund is then included in the definition of the surplus revenue that, pursuant to section 131.44 of the Revised Code, is calculated in July of each year based on the GRF fund balance at the end of the preceding fiscal year. This surplus revenue is distributed as follows:

(1) 0.5 percent of prior year GRF revenues is retained by the GRF to maintain an adequate cash-flow balance.

(2) Sufficient funds are transferred to the BSF to bring the balance of the fund up to 5 percent of prior year revenues.

(3) Sufficient funds are maintained in the GRF to meet capital obligations.

(4) Sufficient funds are maintained in the GRF to cover the delayed impact of the prior year's tax cut.

Based on current revenue estimates, it is unlikely that any revenues will be deposited into the Excess Tax Receipts Fund – and thus, the BSF – before FY 2006. Moreover, based on the above distribution formula, it is unlikely that revenues will be transferred to the ITRF before FY 2009. However, because of the type of projection involved, these dates could be off by several years in either direction.

GRF Appropriation Restrictions

With certain exceptions, the bill prohibits the aggregate amount of appropriations for FY 2004 and FY 2005 from the GRF from exceeding the aggregate amount of expenditures from the GRF in FY 2002 and FY 2003. Expenditures and appropriations for the following purposes are not included in the restrictions:

(1) Higher education;
(2) Primary and secondary education;
(3) Medicaid;
(4) Debt service;
(5) Property Tax Relief.

The bill also creates the Budget Study Committee consisting of ten legislators. The committee is to conduct a comprehensive study of the five areas of spending listed above for the purpose of making recommendations that, if implemented, will improve efficiency and maintain or exceed current levels of service in those areas. In FY 2001, these five areas constituted 72 percent of total state GRF spending. The Committee must issue a report to the General Assembly with its recommendations not later than March 31, 2003.

Chemical Dependency Counselor and Drug Abuse Prevention Specialist Certification and Credentialing

Amended Substitute Senate Bill 172 of the 123rd General Assembly delegated responsibility of certifying and credentialing chemical dependency counselors and drug abuse prevention specialists to the Department of Alcohol and Drug Addiction Services (ODADAS). This responsibility was to sunset July 1, 2002. According to ODADAS, the termination date was included because ODADAS' acquisition of the credentialing function was viewed only as a temporary solution. The bill extends the sunset provision to July 1, 2003. Therefore, the department will continue to receive fee revenues and incur the costs associated with certifying and credentialing for an additional year. Currently, Ohio has approximately 8,700 credentialed counselors, prevention specialists, and candidates. The credentialing process currently generates approximately $500,000 per year in fee revenues, an amount that ODADAS considers more than sufficient to offset the administrative expenses associated with certifying and credentialing. Therefore, extending the sunset date to July 1, 2003 will result in approximately $500,000 in additional fee revenue and an expenditure increase of up to $500,000.

MR/DD Tax Equity

The bill changes the mental retardation and developmental disabilities (MR/DD) tax equity formula. Am. Sub. H.B. 94 earmarks $6.5 million in FY 2002 and $13.0 million in FY 2003 to fund the MR/DD tax equity program. The tax equity formula is used to disburse these funds to county boards of MR/DD. The bill would change how a set amount of funds are to be distributed among county MR/DD boards, therefore, there would be some counties that receive a greater subsidy under the new formula and others that would receive less of a subsidy under the new formula. The impact on each county can be found in the table below. This provision will go into immediate effect upon enactment. Should the bill be enacted prior to the end of FY 2002, the $6.5 million earmarked for the tax equity program in FY 2002 would be disbursed using the new formula.

	Disbursements		
County	2002 – Current	2002 – Proposed	Difference
Adams	$0	$0	$0
Allen	$0	$132,318	$132,318
Ashland	$81,450	$73,571	($7,879)
Ashtabula	$0	$149,426	$149,426
Athens	$167,882	$100,839	($67,043)
Auglaize	$0	$42,958	$42,958
Belmont	$169,379	$230,137	$60,758
Brown	$9,736	$66,500	$56,764
Butler	$0	$0	$0
Carroll	$70,952	$116,332	$45,380
Champaign	$129,893	$95,477	($34,416)
Clark	$355,990	$505,512	$149,522
Clermont	$0	$0	$0
Clinton	$0	$0	$0
Columbiana	$84,319	$135,949	$51,630

Coshocton	$185,861	$181,719	($4,142)
Crawford	$80,907	$79,677	($1,230)
Cuyahoga	$0	$0	$0
Darke	$167,096	$64,065	($103,031)
Defiance	$29,571	$0	($29,571)
Delaware	$0	$0	$0
Erie	$0	$0	$0
Fairfield	$0	$0	$0
Fayette	$36,941	$11,537	($25,404)

	Disbursements		
County	2002 – Current	2002 – Proposed	Difference
Franklin	$0	$0	$0
Fulton	$53,073	$0	($53,073)
Gallia	$0	$0	$0
Geauga	$0	$0	$0
Greene	$0	$0	$0
Guernsey	$86,722	$85,111	($1,611)
Hamilton	$0	$0	$0
Hancock	$0	$0	$0
Hardin	$106,350	$56,276	($50,074)
Harrison	$60,115	$23,350	($36,765)
Henry	$116,334	$81,131	($35,203)
Highland	$94,520	$78,229	($16,291)
Hocking	$5,673	$29,044	$23,371
Holmes	$198,448	$80,557	($117,891)
Huron	$0	$0	$0
Jackson	$12,487	$37,015	$24,528
Jefferson	$0	$77,109	$77,109
Knox	$116,497	$111,600	($4,897)
Lake	$0	$0	$0
Lawrence	$313,437	$150,905	($162,532)
Licking	$0	$93,333	$93,333
Logan	$112,755	$19,032	($93,723)
Lorain	$0	$106,201	$106,201
Lucas	$749,270	$724,852	($24,418)
Madison	$85,679	$77,383	($8,296)
Mahoning	$0	$191,234	$191,234
Marion	$31,587	$100,115	$68,528
Medina	$0	$0	$0
Meigs	$59,452	$48,832	($10,620)
Mercer	$174,803	$61,783	($113,020)
Miami	$15,463	$0	($15,463)
Monroe	$17,119	$17,868	$749
Montgomery	$215,535	$0	($215,535)
Morgan	$0	$15,297	$15,297
Morrow	$139,781	$77,386	($62,395)
Muskingum	$150,821	$0	($150,821)
Noble	$3,461	$0	($3,461)
Ottawa	$0	$0	$0

	Disbursements		
County	2002 – Current	2002 – Proposed	Difference
Paulding	$168,800	$80,481	($88,319)
Perry	$164,212	$150,058	($14,154)
Pickaway	$80,425	$0	($80,425)
Pike	$282,507	$240,134	($42,373)
Portage	$0	$0	$0
Preble	$72,060	$95,226	$23,166
Putnam	$100,312	$64,928	($35,384)
Richland	$69,113	$104,646	$35,533
Ross	$28,394	$40,660	$12,266
Sandusky	$118,611	$121,374	$2,763
Scioto	$360,767	$218,300	($142,467)
Seneca	$230,430	$178,791	($51,639)

Shelby	$0	$0	$0
Stark	$0	$356,277	$356,277
Summit	$0	$18,977	$18,977
Trumbull	$0	$208,592	$208,592
Tuscarawas	$0	$43,538	$43,538
Union	$0	$0	$0
Van Wert	$96,962	$62,210	($34,752)
Vinton	$188,454	$78,402	($110,052)
Warren	$0	$0	$0
Washington	$25,311	$29,136	$3,825
Wayne	$0	$15,038	$15,038
Williams	$0	$0	$0
Wood	$0	$0	$0
Wyandot	$24,282	$63,571	$39,289

All New State Employees Required to Use Direct Deposit

The bill requires all state employees—temporary, intermittent, and full time—paid by warrant issued by the Auditor of State whose employment begins after the effective date of the bill to receive their pay by direct deposit. This would result in minimal savings, as it is assumed that about 75 percent of new employees—the participation rate for current employees—would opt for direct deposit regardless. In the short term there would be no savings because of the hiring freeze now in effect. Eventually the Auditor of State would realize savings in two GRF appropriation items used to process state paychecks. The Department of Administrative Services would also realize some slight savings by not having to authorize the replacement of lost checks.

Land Conveyance to Summit County

The bill authorizes the conveyance of 16.28 acres of state-owned real estate located in Summit County to Summit County for $75,000 or the amount of the highest bid rejected by the Adjutant General at the auction, whichever is greater. The Adjutant General's Department currently owns this land. The value of the land has been reappraised at $400,000 (down from $595,000 in June 2001). Therefore, conveying the land to Summit County for at least $75,000 may cost the state up to $325,000 in lost revenues to the Armory Improvements Fund (Fund 534).

If the Adjutant General's Department accepts an auction bid then the property would be sold at the auction to the bidder. If the Adjutant General rejects the bids at the auction as inadequate, Summit County could obtain the property for the greater of $75,000 or the highest bid not accepted. This would prevent the Adjutant General's Department from holding another auction to obtain a better price.

Summit County intends to use the land for a county highway maintenance facility. According to county officials, this is a compatible utilization of the land within the confines of the requirements of the Cuyahoga Park Service. It is the county's contention that if a private purchaser were to use the land, then that use could be suspect under the Cuyahoga Park Service requirements.

LSC fiscal staff: Joseph Rogers, Budget Analyst
Jean Botomogno, Economist
Doris Mahaffey, Senior Economist
Lis Gorenstein, Senior Budget Analyst
Allison Thomas, Economist
Steve Mansfield, Senior Budget Analyst
Jeremie Newman, Budget Analyst
Chris Murray, Economist
Wendy Zhan, Senior Budget Analyst
Maria Seaman, Budget Analyst
Ivy Chen, Economist
Nelson Fox, Senior Budget Analyst
David Price, Senior Budget Analyst
Nickie Ringer, Economist
Wendy Risner, Budget Analyst
Sara Doddy, Budget Analyst
Holly Simpkins, Budget Analyst
Allan Lundell, Senior Economist
Ross Miller, Economist

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[1] Michigan tax rate is 75 cents per pack. Lower per pack tax rates are 31 cents in Pennsylvania, 17 cents in West Virginia, 15.5 cents in Indiana, and 3 cents in Kentucky.

[2] The average weighted price includes both generic and premium cigarettes. The price elasticity of demand for cigarettes is assumed to be at -0.6, i.e. a 10 percent price increase results in a 6 percent decrease in consumption. Accepted ranges of price elasticity of demand for cigarettes are between -0.4 and -0.6.

[3] When Michigan enacted a 50-cent increase in its tax in 1994, consumption of taxed cigarettes declined by 18 percent. However, Michigan did not have a stamping program. Therefore, LSC assumes that a decline of 18 percent may be a maximum decline in taxed consumption from the bill.

[4] Amended Substitute House Bill 405 decreased the wholesale/dealer discount to 1.8 percent, down from 3.6 percent.

[5] Cuyahoga County decline in tax receipts in FY 2002 is for half of the fiscal year. The county fiscal year is from January to December.

[6] To qualify, the property must: (1) be acquired after September 10, 2001 and before September 11, 2004, and (2) satisfy the general rules under the Modified Accelerated Cost Recovery System (MACRS). Eligible property includes: property with a recovery period of 20 years or less, water utility property, some computer software, and qualified leasehold improvements. Current first-year depreciation for a 5-year property, 7-year property, 10-year property, and 15-year property is 20 percent, 14.29 percent, 10 percent, and 5 percent, respectively.

[7] The federal Job Creation and Worker Assistance Act of 2002 also changed Net Operating Loss (NOL) carry back deductions. The bill does not change the treatment of net operation loss deduction in Ohio.

[8] The most common pass-through entities are Limited Liability Corporations, S-Corporations, and Partnerships. In federal corporate returns, depreciation expenses are a straightforward deduction to achieve federal taxable income. For Ohio corporate taxpayers, the Ohio franchise tax has two bases: the net worth base (generally determined as the net book value of assets minus the net carrying value of liabilities) and a net income base (generally the Ohio portion of the federal taxable income with exclusions and additions required by statute). For interstate corporations, income is allocated or apportioned to Ohio using a three-factor formula, which includes Ohio property, sales, and payroll data. Differing tax rates apply to each tax base. The corporate taxpayer calculates its Ohio tax liability under the two bases and pays the higher of the two tax liabilities.