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Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE OF THE LEGISLATIVE SERVICE COMMISSION

SEPTEMBER/OCTOBER, 2000

FISCAL OVERVIEW

— *Doris Mahaffey*

Consumers, it appears, have taken a breather. By all accounts retail sales were slow or "moderate" throughout the summer months, and Ohio's sales tax revenues show it. At the end of September total sales tax revenue for FY 2001 was about a half a percentage point less than it was for the same time last year. Granted, last summer, consumers were spending like there was no tomorrow, but the estimates for this year assumed a 5 percent increase in non-auto sales tax revenue over last year – both for the first quarter and for the year as a whole. We didn't get it this quarter. Whether that portends the beginning of a trend that will carry through for the rest of the year is unclear at this time.

Although the sales tax was down, most other revenue sources were over estimate for the month, as well as for the year to date. In particular, the personal income tax was over estimate by $7 million for the month; $22 million year-to-date. Earnings on investments was over by $15 million for the month and year-to-date. And – on the good news/bad news front – federal reimbursement were over estimate by $8 million for the month and $97 million year-to-date. The generally stalwart performance of the other revenue categories – particularly the non-tax revenue sources – offset the disappointing performance of the non-auto sales tax but not by much.

While September revenues at $1,649 million were a mere $13 million over the month's estimate, total expenditures for the month came in at $1,938 million – a whopping $292 million over estimate. This is the first time since 1995 that September disbursements were over estimate by any amount and is another potentially inauspicious feature of this month's accounts.

Fortunately, a good chunk of the disbursement overage was timing related. Debt service payments that were included in October estimates were made in September instead. This accounts for much of the overage in the Justice and Corrections and General Government categories. It does not, however, account for the overage in the Health Care/Medicaid line, which echoed the overage in federal reimbursements on the revenue side. For the month of September, Medicaid added an overage of $61 million to the pre-existing $10.5 million overage in that category. Problems began brewing in this program in FY 2000, reflecting the mounting concerns about health care costs being felt throughout the economy. These concerns show no

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STATUS OF THE GRF

LOTTERY PROFITS QUARTERLY REPORT

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

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

	Month of September	Fiscal Year 2001 to Date	Last Year	Difference
Beginning Cash Balance	$24.6	$1,506.2		
Revenue + Transfers	$1,649.1	$4,528.1		
Available Resources	$1,673.7	$6,034.3		
Disbursements + Transfers	$1,938.1	$6,298.7		
Ending Cash Balances	**($264.4)**	**($264.4)**	**($137.0)**	**($127.4))**
Encumbrances and Accts. Payable		$959.2	$861.3	$97.9
Unobligated Balance		**($1,223.6)**	**($844.3)**	**($379.2)**
BSF Balance		$1,002.5	$953.3	$49.2
Combined GRF and BSF Balance		**($221.1)**	**$45.0**	**($176.1)**

signs of abating now. The rising cost of health care is expected to be an important player in the upcoming budget discussions.

The September overages put most spending categories over estimate on the year-to-date basis, as well. In addition to the Medicaid overage, Justice and Corrections chalked up a $68.5 million overage, Other Government registered a $46.8 million overage; and Development rang up a $21.3 million overage. Again, these can be attributed to the early debt-service payments (specifically for the Departments of Rehabilitation and Corrections and Youth Services, the Department of Administration, and the Arts and Sports Facilities Commission, respectively).

Notable underages were recorded in the Primary and Secondary Education, Temporary Assistance to Needy Families (TANF), and Other Welfare categories. The $66 million underage in K through 12 Education reflects, in part, the perennial problem of calculating the appropriate amount of state basic aid payments to go to each of the state's 612 school districts. The TANF underage may have been illusory. TANF is only partially funded by the GRF. Apparently funding from all sources was slightly over estimate for the month. Finally, the underage in the Other Welfare category is due in part to the delay in getting computer systems up and running. This was an ongoing problem with the Department of Human Services and one that its reorganization (along with the Bureau of Employment Services) as the Department of Job and Family Services does not seem to have resolved.

As of the end of September, transfers out were overestimate by $158 million. The bulk of that was due to the August transfers of $10 million to the Highway Operating Fund (on 8/14) and $120 million to the Public School Building Fund on (8/24). Both of these transfers were authorized by H.B. 640, the FY 2000-2001 capital appropriations bill, which was signed into law on June 15, 2000. It is not clear why they were not included in OBM's estimated disbursements.

As Table 1 shows, both the GRF cash balance and the unobligated fund balance are lower than they were at the same time last year. The reason may be attributed to the early debt service payments mentioned above along with the higher encumbrances and accounts payable. At the end of September, encumbrances and accounts payable were $959 million compared to $861 million in September 1999. This increase is not unusual. The state often carries higher encumbrances in the second year of Ohio's two-year budget cycle.

Interestingly enough, transfers were not an important source of the differential. Year-to-date transfers out totaled $829 million in September 2000 – a mere 2.4 percent increase over last September's year-to-date transfers of $810 million. This year's transfers included a $610 million transfer to the income tax reduction fund (ITRF), a $49 million transfer to the budget stabilization fund, and the $130 million transfer to the public school building fund and the highway operating fund, noted above. The transfer to the ITRF, in particular, accounted for 74 percent of total transfers. In September 1999, year-to-date transfers included transfers of $293 million to the ITRF, $46 million to the budget stabilization fund, and $416 million to various funds for aid to school buildings and school computerization. The transfer to the ITRF accounted for 36 percent of total transfers. ❑

TRACKING THE ECONOMY

— *Allan Lundell*

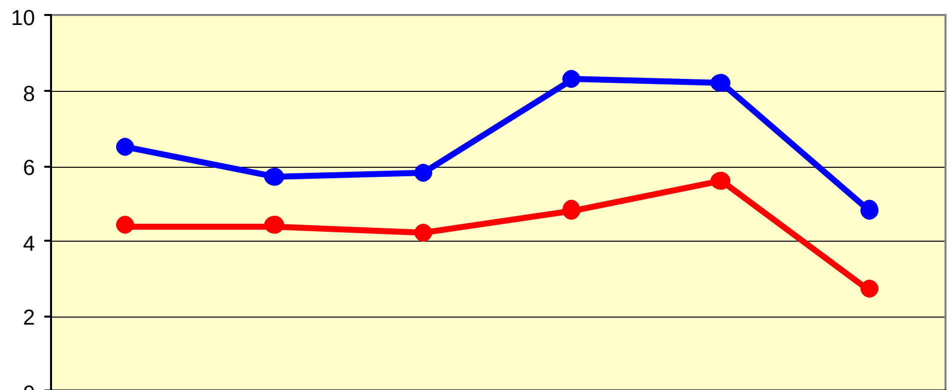
The economy is finally slowing down. However, even after slowing down a bit, the economy is still moving at a healthy pace. The economy may be slowing down, but it is not weakening.

Gross Domestic Product

Advance estimates indicate that real (adjusted for inflation) gross domestic product increased at an annual rate of 2.7 percent during the third quarter of 2000. This is down from the 5.6 percent growth rate for the second quarter. Growth in nominal GDP slowed to 4.8 percent in the third quarter, down from 8.2 percent for the second quarter. The implicit GDP deflator grew at a 2.0 percent seasonally adjusted annualized rate (SAAR) during the third quarter, down from 2.4 percent for the second quarter and 3.3 percent for the first quarter.

Gross Domestic Product

Annualized Growth Rates



	1997	1998	1999	2000-1	2000-2	2000-3
Nominal	6.5	5.7	5.8	8.3	8.2	4.8
Real	4.4	4.4	4.2	4.8	5.6	2.7
GDP Deflator	1.9	1.3	1.5	3.3	2.4	2.0

Major contributors to the increase in real GDP in the third quarter were personal consumption expenditures, exports, and nonresidential fixed investment. Real personal consumption expenditures increased 4.5 percent, real nonresidential fixed investment increased 6.9 percent, and real exports of goods and services increased 16.2 percent. These contributions to growth were partially offset by an increase in imports (which are subtracted in the calculation of GDP), and decreases in government spending and in residential investment. Real imports of goods and services increased 13.8 percent, real federal government consumption expenditures and gross investment decreased 10.1 percent, and real residential fixed investment decreased 9.2 percent.

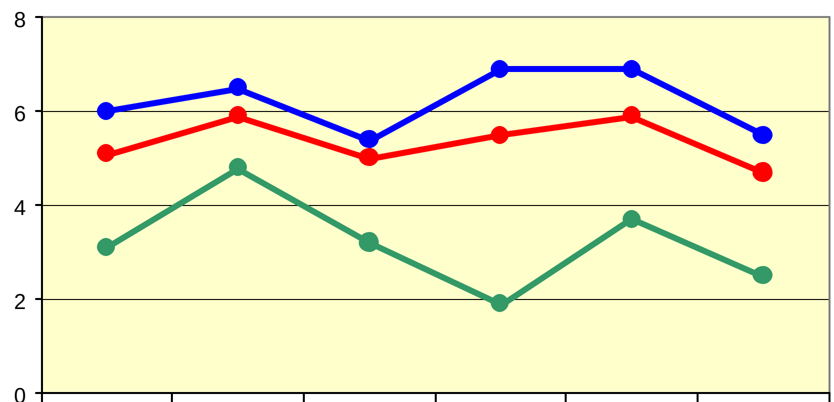
Real gross domestic purchases (purchases by U.S. residents of goods and services wherever produced) increased 2.9 percent in the third quarter. The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 2.4 percent in the third quarter. Excluding food and energy prices, the price index for gross domestic purchases increased 1.9 percent in the third quarter. The price index for personal consumption expenditures increased 2.2 percent for the third quarter.

Consumers

Personal income increased by 5.5 percent SAAR during the third quarter. Wages and salaries grew 5.6 percent, dividends grew 7.4 percent, interest income grew 5.6 percent, and transfers grew 3.1 percent. Disposable income grew 4.7 percent. Real (inflation adjusted) disposable income grew 2.5 percent. The personal saving rate (saving as a percentage of disposable personal income) decreased from 0.3 percent in the second quarter to a negative 0.2 percent in the third.

Personal Income

Annualized Growth Rates



	1997	1998	1999	2000-1	2000-2	2000-3
Personal Income	6.0	6.5	5.4	6.9	6.9	5.5
Disposable Income	5.1	5.9	5.0	5.5	5.9	4.7
Real Disposable Income	3.1	4.8	3.2	1.9	3.7	2.5

Personal consumption expenditures grew by 6.8 percent SAAR during the third quarter to $6,817.4 billion SAAR. Spending on durable goods grew by 5.0 percent, spending on nondurable goods increased by 7.2 percent, and spending on services increased by 6.9 percent. Real personal consumption expenditures increased 4.5 percent in the third quarter, real durable goods purchases increased 7.5 percent, real nondurable goods purchases increased 4.9 percent, and real spending on services increased 3.7 percent. Spending on durable goods accounted for 12 percent of consumer spending, spending on nondurable goods accounted for 30 percent, and spending on services accounted for 58 percent.

Compared to the third quarter of 1999, retail sales are up 7.6 percent. Sales of nondurable goods are up 9.3 percent and sales of durable goods are up 5.1 percent. Sales of auto dealers were up 4.9 percent. In the third quarter, sales grew at a 6.0 percent annualized rate compared to a 2.0 percent rate for the second quarter and a 13.5 percent rate for the first quarter.

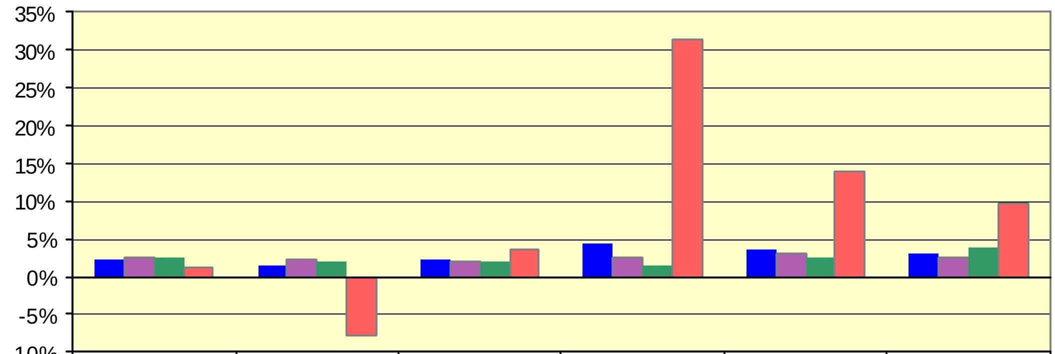
Consumer confidence remained high, but it bounced around during the quarter, rising in July, falling back in August, then rising again in September. The month-to-month changes were small and the overall index for September 2000 is 6.2 percent higher than in September 1999. However, the index is down 1.5 percent from its high in May.

Prices

The seasonally adjusted CPI-U rose by 0.8 percent during the third quarter, an annualized rate of 3.1 percent. The CPI-U for the third quarter of 2000 was 3.5 percent greater than for the third quarter of 1999. The index for food rose at an annualized rate of 4.0 percent during the quarter, the index for energy rose at a 9.8 percent annualized rate, and the core index (excluding food and energy) rose at a 2.5 percent annualized rate. The chart below presents a recent history of annual or annualized percent changes in the indices. With the exception of energy, relatively mild and steady inflation is evident for the years depicted.

Consumer Price Indices

Annualized Growth Rates



	1997	1998	1999	2000-1	2000-2	2000-3
All Items	2.3%	1.6%	2.2%	4.3%	3.7%	3.1%
Core	2.4%	2.3%	2.1%	2.5%	3.0%	2.4%
Food	2.6%	2.1%	2.1%	1.5%	2.6%	4.0%
Energy	1.3%	-7.9%	3.6%	31.5%	13.8%	9.8%

The seasonally adjusted Producer Price Index (PPI) for finished goods increased by 0.7 percent during the third quarter, an annualized rate of 2.6 percent, and is up 3.5 over the third quarter of 1999. The core PPI (excluding food and energy) increased by 0.3 percent during the quarter, an annualized rate of 1.4 percent, and is up 1.4 percent over the third quarter of 1999.

The Employment Cost Index, which measures changes in compensation costs including wages, salaries, and employer costs for employee benefits, increased at an annualized rate of 4.1 percent during the third quarter and is up 4.3 percent compared to the third quarter of 1999. The index for wages and salaries increased at a 4.5 percent annualized rate and is up 4.0 percent compared to the third quarter of 1999. The index for benefits increased at a 4.0 percent annualized rate and is up 5.3 percent compared to the third quarter of 1999.

Production

Industrial production increased by 0.7 percent during the third quarter, an annualized rate of 2.8 percent, and is up 5.7 percent over the third quarter of 1999. Manufacturing output increased 0.8 percent during the quarter, 3.2 percent annualized, and is up 6.2 percent from the third quarter of 1999. Manufacturing of durable goods increased 1.5 percent during the quarter, 6.1 percent annualized. Durable goods production is up 9.9 percent compared to the third quarter of 1999. Manufacturing of nondurable goods fell 0.2 percent during the third quarter, and annualized decrease of 0.7 percent. However, nondurable goods production is 1.5 percent compared to the third quarter of 1999.

Capacity utilization fell slightly during the third quarter. The rate of utilization for total industry dropped from 82.3 percent in the second quarter to 82.2 percent in the third. The utilization rate for manufacturing fell from 81.5 percent to 81.3 percent and the rate for utilities fell from 91.1 percent to 90.7 percent. Although capacity utilization fell, capacity grew. Overall capacity grew at a 3.6 percent annualized rate for the third quarter and is up 3.7 percent compared to the third quarter of 1999. Manufacturing capacity grew at a 4.1 percent annualized rate during the third quarter and is up 4.2 percent compared to the third quarter of 1999. Utilities capacity grew at a 1.2 percent annualized rate for the quarter and is up 1.2 percent compared to the third quarter of 1999.

Productivity, measured by output per hour of all persons, grew by 3.8 percent SAAR in the nonfarm business sector during the third quarter, slowing from 6.1 percent for the second quarter. In manufacturing, productivity growth was 6.4 percent SAAR. Productivity growth was 9.6 percent SAAR in durable goods manufacturing and 2.0 percent SAAR in nondurable goods manufacturing. Compared to the third quarter of 1999, productivity is up 5.0 percent in the nonfarm business sector, 7.5 percent in manufacturing, 10.9 percent in durable goods manufacturing, and 3.2 percent in nondurable goods manufacturing.

Employment

The seasonally adjusted national unemployment rate averaged 4.0 percent during the third quarter, unchanged from the second quarter, and down from a 4.2 percent average for the third quarter of 1999. The Ohio unemployment rate averaged 4.2 percent, up from a 4.0 percent average for the second quarter, but down compared to a 4.4 percent average for the third quarter of 1999.

Nationally, average hourly earnings for workers in manufacturing averaged $14.41 during the third quarter and average hourly earnings for workers in construction averaged $18.06. Average hourly earnings for workers in wholesale trade averaged $15.25 while average hourly earnings for workers in retail trade averaged $9.45. Compared to the third quarter of 1999, average hourly earnings are up 3.0 percent in manufacturing, 4.1 percent in construction, 4.2 percent in wholesale trade, and 3.9 percent in retail trade.

Nationally, average hourly earnings for workers in manufacturing averaged $16.67 during the third quarter and average hourly earnings for workers in construction averaged $20.53. Average hourly earnings for workers in wholesale trade averaged $15.60 while average hourly earnings for workers in retail trade averaged $9.13. Compared to the third quarter of 1999, average hourly earnings are up 2.8 percent in manufacturing, 3.8 percent in construction, 5.1 percent in wholesale trade, and 0.9 percent in retail trade. ❑

Status of the General Revenue Fund

REVENUES

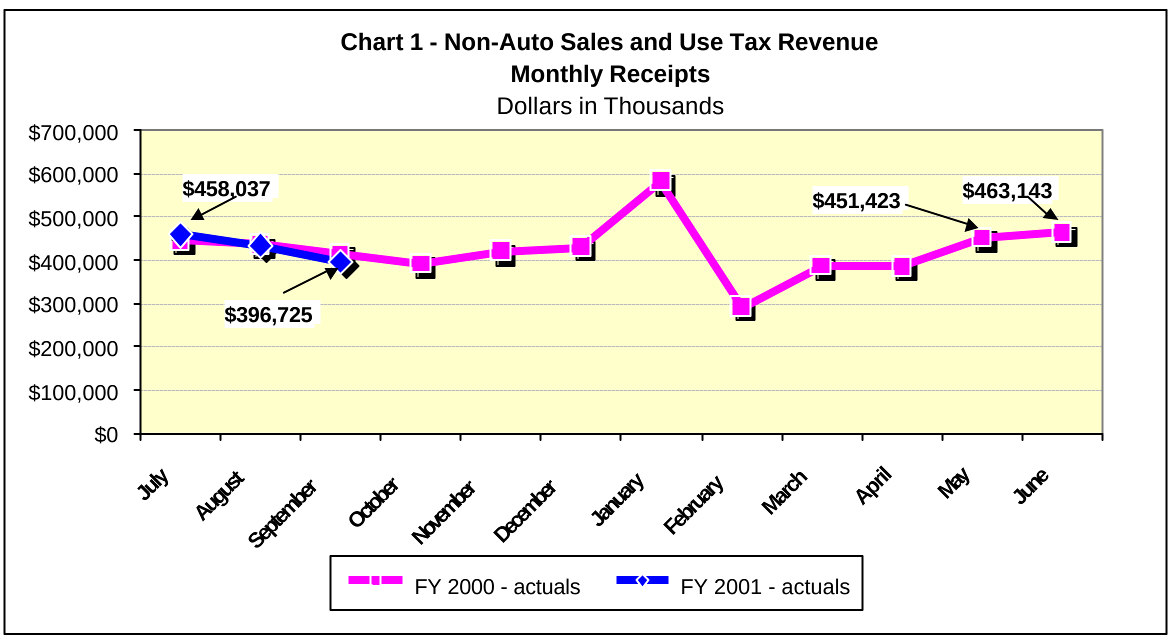
—Doris Mahaffey

A year ago, the sales tax was the big story for the first quarter of fiscal year 2000, with the non-auto sales and use tax posting a $70 million year-to-date overage – a 10 percent increase in revenue over the prior year. In the first quarter of fiscal year 2001, the sales and use tax once again grabs the headlines – but this time it's all about the underage. Year-to-date revenues are flat – just 0.3 percent under last year's revenues. But that translates into a $66 million underage. Chart 1 compares the non-auto sales tax revenue for the first three months of FY 2001 with the monthly receipts for FY 2000. July 2000 revenues came in just under June 2000 revenues and were higher than all but one other month in FY 2000; yet the July numbers are disappointing. What a difference a year makes! Of course, the downhill slide in August and September adds a disconcerting note.

September revenues came in just $13.6 million over estimate. This was largely due to the $31 million underage posted by the non-auto sales and use tax plus the $5.7 million underage in the corporate franchise tax. Otherwise, most revenue sources came in over estimate for the month (See Table 2).

Most notably, earnings on investment earned $15 million more for the GRF than had been anticipated. In addition, the personal income tax was $7 million over estimate; the estate tax was another 7 million over estimate; and the foreign insurance tax was $4 million over estimate. Federal grants added another $7.8 million.

For the first three months of FY 2001 total GRF income exceeded estimates by $91.7 million. The overage was largely due to federal reimbursements, which were over estimate by



$97.7 million. Tax revenues fell short of the estimate by $44 million. In particular, the non-auto sales tax was under estimate by $65.6 million. The corporate franchise tax contributed an additional $13.9 million to the underage. Table 3 compares the actual revenue thus far in FY 2001 with OBM's estimates as of July and with actual revenue for the first three months of FY 2000.

The better than expected performance of the economy in fiscal year 2000 led to a substantial revenue overage, which helped pave the way for a $610 million personal income tax cut in FY 2001. It also caused the executive branch in July to re-think their revenue estimates for FY 2001. The personal income tax, which came in $315 million over estimate in FY 2000, was revised up from $7,576.6 million to $7,845.0 million (an increase of four percent). The non-auto sales and use tax, which was $147 million over estimate in FY 2000, was revised up from $5,140 million to $5,345 million – another four percent

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

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$75,649	$70,550	$5,099
Non-Auto Sales & Use	$396,725	$427,600	($30,875)
Total Sales	$472,374	$498,150	($25,776)
Personal Income	$712,100	$705,079	$7,021
Corporate Franchise	$6,166	$11,875	($5,709)
Public Utility Taxes	$0	$0	$0
Total Major Taxes	**$1,190,639**	**$1,215,104**	**($24,465)**
Foreign Insurance	$12,213	$8,125	$4,088
Domestic Insurance	$0	$0	$0
Business & Property	$223	$38	$185
Cigarette	$22,558	$23,240	($682)
Soft Drink	$0	$0	$0
Alcoholic Beverage	$4,588	$4,675	($87)
Liquor Gallonage	$2,438	$2,240	$198
Estate	$22,959	$16,000	$6,959
Racing	$0	$0	$0
Total Other Taxes	$64,979	$54,318	$10,661
Total Taxes	**$1,255,618**	**$1,269,422**	**($13,804)**
NON-TAX INCOME			
Earnings on Investments	$44,189	$28,750	$15,439
Licenses and Fees	$1,296	$1,050	$246
Other Income	$9,978	$8,050	$1,928
Non-Tax Receipts	$55,463	$37,850	$17,613
TRANSFERS			
Liquor Transfers	$8,000	$6,000	$2,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$0	$0	$0
Total Transfers In	$8,000	$6,000	$2,000
TOTAL INCOME less Federal Grants	**$1,319,081**	**$1,313,272**	**$5,809**
Federal Grants	$330,012	$322,170	$7,842
TOTAL GRF INCOME	**$1,649,092**	**$1,635,442**	**$13,650**

* July, 2000 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

increase. The auto sales tax, at $821.7 million or $67 million over estimate in FY 2000 was revised up from $775 million to $830 million, a seven percent increase. At the same time the corporate franchise tax estimate, which came in $105 million under estimate in FY 2000, was reduced by $99.7 million. Numerous other small changes were also made to the estimates, so that the revised tax estimates exceeded the original estimates by $452.2 million. Revisions to the non-tax revenue sources added another $33 million to the revenue estimates. The federal reimbursements estimate was not changed.

The revenue estimates used in this analysis are based on the July 2000 revised estimates, not the original estimate from June 1999. So far, the personal income tax and the auto sales tax – not to mention the corporate franchise tax – appear to be living up to the revised expectations. Not so, the non-auto.

Sales Tax Revenue

The non-auto portion of the sales tax was almost $10 million under estimate in July, another $25 million under in August, and $31 million under estimate in September for a total first quarter underage of $66 million.

Receipts from the non-auto sales tax for the July through September period largely reflect retail sales in June, July and August. Over this time period, retail sales began to "moderate." That is, the pace of sales began to slow, although the sales themselves remained at a high level. Weakness (i.e., slowing growth) has begun to appear in all segments of the retail sector, and durable goods sales have actually fallen in every month but one (i.e., July) since last March. This is not surprising, as these items are sensitive to both higher interest rates and to fluctuations in the housing market. Interest rates are now as high as they have been at any time since 1995; and that, in turn, has put the breaks on the housing market.

Although the slowing sales are what the doctor (in this case Dr. Greenspan of the Federal Reserve) ordered, they are hurting retailers, as well as state coffers. However, consumer confidence remains high, and forecasters are not yet writing off the holiday buying season. Consumers could just be taking a breather before stepping out again into the retail jungle.

The auto sales tax did a little better over the quarter. Receipts from the sales and use tax on automobiles came in $3 million under estimate in July, were essentially on target in August, and exceeded the estimate by $5 million in September, resulting in a total overage of just over $1 million. The auto sales tax for the July through September period actually reflects auto purchases during that same time period. Auto sales remained steady over the time period – at an 8.8 million seasonally adjusted annual rate – but sales of light trucks (which includes SUVs) picked up in August and September – about the time the price of gasoline was moderating. (The price of gasoline began to climb again in September, which could mean that gasoline will once again command a larger portion of the consumer's dollar – and gasoline is, after all, not subject to the state sales tax.)

After last year's record year for automobile sales, it did not seem that consumers could continue to buy at such a rate. The current numbers are demonstrating that they can and do – as many households begin to replace cars purchased early in the current economic recovery and add to their motor vehicle inventory.

Table 3
General Revenue Fund Income
Actual vs. Estimate
Month of September, 2000/Fiscal Year-to-Date 2001
($ in thousands)

REVENUE SOURCE **TAX INCOME**	Actual	Estimate*	Variance	FY 2000	Percent Change
Auto Sales	$218,956	$217,875	$1,081	$221,610	-1.20%
Non-Auto Sales & Use	$1,289,327	$1,354,958	($65,631)	$1,293,078	-0.29%
Total Sales	$1,508,282	$1,572,833	($64,551)	$1,025,119	47.13%
Personal Income	$1,710,737	$1,688,772	$21,965	$1,564,030	9.38%
Corporate Franchise	-$5,310	$8,550	($13,860)	$17,114	-131.03%
Public Utility Taxes	$263	$0	$263	$254	3.61%
Total Major Taxes	**$3,213,973**	**$3,270,155**	**($56,182)**	**$2,606,517**	**23.31%**
Foreign Insurance	$12,338	$8,188	$4,150	($340)	-3725.09%
Domestic Insurance	$1,366	$0	$1,366	$83	1555.51%
Business & Property	$456	$788	($332)	$362	25.93%
Cigarette	$58,447	$58,800	($353)	$64,096	-8.81%
Soft Drink	$0	$0	$0	$0	-100.00%
Alcoholic Beverage	$14,374	$14,438	($64)	$14,383	-0.06%
Liquor Gallonage	$7,299	$6,930	$369	$6,942	5.14%
Estate	$37,474	$30,400	$7,074	$24,541	52.70%
Racing	$0	$0	$0	$0	—
Total Other Taxes	$131,755	$119,544	$12,211	$110,067	19.70%
Total Taxes	**$3,345,727**	**$3,389,699**	**($43,972)**	**$2,716,585**	**23.16%**
NON -TAX INCOME					
Earnings on Investments	$44,189	$28,750	$15,439	$20,479	115.78%
Licenses and Fees	$8,975	$4,375	$4,600	$5,100	75.98%
Other Income	$64,011	$53,610	$10,401	$30,989	106.56%
Non-Tax Receipts	$117,176	$86,735	$30,441	$56,568	107.14%
TRANSFERS					
Liquor Transfers	$23,000	$19,000	$4,000	$19,000	21.05%
Budget Stabilization	$0	$0	$0	$0	—
Other Transfers In	$3,497	$0	$3,497	$21,000	-83.35%
Total Transfers In	$26,497	$19,000	$7,497	$40,000	-33.76%
TOTAL INCOME less Federal Grants	**$3,489,400**	**$3,495,434**	**($6,034)**	**$2,813,153**	**24.04%**
Federal Grants	$1,038,660	$940,972	$97,688	$881,319	17.85%
TOTAL GRF INCOME	**$4,528,060**	**$4,436,406**	**$91,654**	**$3,694,471**	**22.56%**

* July, 2000 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

The Personal Income Tax

Personal income tax revenues exceeded estimates by $10 million in July, $5 million in August, and $7 million in September. Withholding started out strong in July – exceeding the estimate by $13 million, but then petered off, coming in $18.5 million under in September. A strong showing in September's quarterly estimated payments offset the shortfall in withholding. September quarterly estimated payments of $300.6 million were up $20.6 million over estimates and up 22 percent over September 1999 quarterly estimated payments. Delayed annual returns and employer assessments also contributed to the overage.

The July through September withholding behavior does a pretty good job of reflecting Ohio's labor market conditions during that time period. It was tight, especially at the beginning, but loosened somewhat as the summer progressed. Employers responded to the tightness at the beginning of the summer by offering signing bonuses. This would have been reflected in the June and July withholding numbers. However, August and September saw the loss of manufacturing jobs and the reduction of the average hourly workweek in manufacturing. This is consistent with the lower withholding numbers in those months. Elsewhere the loosening of the labor market has kept wage and salary growth to a minimum. While new union contracts have garnered average wage increases of around 4 percent, many recent negotiations are more concerned with securing stronger employment security provisions – a persuasive indicator of growing slack in the labor market.

Non –Tax Revenues

Unlike a year ago when the non-tax revenue sources were consistently under estimate, this year the non-tax revenues all made substantial positive contributions to the fund balance. Federal grants at $97.7 million over estimate for the year added the most. Federal grants are essentially reimbursements from the federal government for spending in certain programs administered by the Department of Job and Family Services (formerly the Department of Human Services) – most notably the Medicaid and TANF programs. Although the timing of the reimbursements is hard to predict, it is not surprising that federal reimbursements are over estimate for the year. FY 2000 ended with substantial overages in the TANF and Medicaid programs, and much of the reimbursement in September is probably linked to last year's expenditure. By the same token, the already substantial overage in the Medicaid line suggests that federal reimbursements are likely to continue to exceed the estimates.

Earnings on investment was another source of unanticipated revenue for the GRF, contributing $15 million more than the estimate for the September 2000 payment. (By contrast, the September 1999 payment came in at a dismal $15 million *under* estimate.) Last year's booming economy, which led to a large GRF fund balance at the end of FY 2000 and, incidentally, also led the Fed to raise interest rates throughout FY 2000, can take much of the credit for the improvement in our investment fortunes. ❑

DISBURSEMENTS

*— Jeffrey E. Golon with Steve Mansfield**

Timing heavily influenced the state's disbursements over the course of the first three months of FY 2001, first producing a $104.9 million August underage, then taking a dramatic reversal in September to generate a $264.4 million overage. We'd expect October to be similarly affected, as there will be a timing-based correction of at least $180.0 million related to the early posting of certain debt service payments.

The one interesting wrinkle to this "timing" scenario as it relates to FY 2001 disbursements may well turn out to be the state's $5-plus billion Medicaid program. As the reader may recall, the Medicaid program closed the curtains on FY 2000 with a bang. At its last meeting for the fiscal year in late June, a series of requests were approved by the Controlling Board that increased the Medicaid program's total all funds FY 2000 appropriation authority by $110.0 million to address a projected funding shortfall, which included adding $17.4 million in GRF revenue and $92.6 million in various non-GRF funding streams. In light of those FY 2000 appropriation changes, Medicaid's FY 2001 disbursements will bear close watching to detect signs that supplemental funding may be needed again.

This article takes three different looks at the state's FY 2001 disbursement activity. First, we examine the most notable departmental budgets and programs that came to bear on September's monthly disbursement variance. Second, we undertake a similar examination with respect to the state's year-to-date disbursement variance. Third, we close with an outline of the state's disbursement dynamics as they have unfolded over the fiscal year's first three months (July 2000 through September 2000).

I. September

Excluding transfers, the state ended September with a rather sizeable $264.4 million overage, in excess of the $1.65 billion monthly estimate by 16.1 percent. By far, the dominant force in fueling September's disbursement variance was timing. Its fiscal effects were most pronounced on the Government Operations program category, which alone was responsible for just over 70.0 percent, or $189.1 million, of the total September overage. The common thread running through the bulk of the Government Operations monthly disbursement variance was the timing of debt service payments. Specifically, close to $180.0 million in debt service payments related to several capital improvements programs unexpectedly posted in September rather than in October as was forecast.

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

Rehabilitation & Correction. For September, the Department of Rehabilitation & Correction recorded a $73.7 million positive disbursement variance, primarily due to the timing of an $82.8 million debt service payment. The estimate assumed that the debt service payment would land in October; the reality was that it hit in September, a month earlier than expected. Somewhat mitigating the impact of this early debt service payment on the department's September disbursement variance was a collection of $9.9 million in timing-based underages traceable to the timing of various operational expenditures.

Administrative Services. For September, the Department of Administrative Services registered a $62.7 million overage, fueled by the timing of debt service payments made to the Ohio Building Authority for rent and operating costs on state-owned buildings. The estimate

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

USE OF FUNDS			
PROGRAM	**Actual**	**Estimate***	**Variance**
Primary & Secondary Education (1)	$503,112	$482,376	$20,736
Higher Education	$179,192	$164,617	$14,575
Total Education	$682,304	$646,992	$35,312
Health Care/Medicaid	$536,580	$475,302	$61,278
Temporary Assistance to Needy Families (TANF)	$59,682	$61,509	($1,827)
General/Disability Assistance	$5,038	$4,677	$361
Other Welfare (2)	$42,383	$56,723	($14,340)
Human Services (3)	$67,607	$83,365	($15,758)
Total Welfare & Human Services	$711,291	$681,578	$29,714
Justice & Corrections	$202,055	$126,151	$75,904
Environment & Natural Resources	$11,157	$10,922	$235
Transportation	$1,992	$1,867	$124
Development	$43,059	$15,686	$27,372
Other Government (4)	$108,569	$22,990	$85,579
Capital	$1,110	$1,223	($113)
Total Government Operations	$367,943	$178,840	$189,103
Property Tax Relief (5)	$142,135	$138,625	$3,510
Debt Service	$6,782	$0	$6,782
Total Program Payments	**$1,910,453**	**$1,646,034**	**$264,419**
TRANSFERS			
Capital Reserve	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$27,618	$0	$27,618
Total Transfers Out	$27,618	$0	$27,618
TOTAL GRF USES	**$1,938,072**	**$1,646,034**	**$292,038**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.
(3) Includes the Department of Job & Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.
(4) Includes Regulatory and Nonregulatory agencies, Pension Subsidies, and Reissued Warrants.
(5) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

* August, 2000 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

assumed that these debt service payments would hit in October; the reality was that they posted in September, a month earlier than expected.

Medicaid. The state's $5-plus billion Medicaid program closed September with a positive disbursement variance of $61.3 million, an overage of 12.9 percent relative to estimated monthly spending of $475.3 million. As of this writing, the details behind this disbursement variance remained a mystery, as we were still in the process of collecting information critical to understanding the dynamics of the program's multiple service categories.

Pensions. The pension component of the Treasurer of State's budget, which contains around $27.0 million in FY 2001 subsidies to all five of the state's retirement systems (PERS, STRS, SERS, Highway Patrol, and Police & Fire) that provide certain benefit enhancements, posted a $24.4 million overage for the month of September. This monthly disbursement variance was due entirely to the fact that the Board of Trustees of the Police and Firemen's Disability and Pension Fund requested their subsidy funding a little later than expected, which meant that, rather than being disbursed in August, it was disbursed in September.

Arts & Facilities. For September, the Arts & Sports Facilities Commission recorded a $23.0 million overage, due entirely to the timing of a debt service payment on capital arts and sports facilities projects. The estimate assumed that the debt service payment would land in October; the reality was that it hit in September, a month earlier than expected.

Education. The Department of Education recorded a $19.6 million positive disbursement variance for the month of September, over the estimate by 4.1 percent. The principal element behind the monthly disbursement variance was a $58.2 million overage posted in line item 200-511, Auxiliary Services, which holds subsidy funding for chartered nonpublic schools. Half of its $118.1 million FY 2001 appropriation was disbursed in early September rather than in August as planned. A very distant secondary contributor to the monthly overage was line item 200-534, Desegregation Costs, which provides assistance to school districts implementing federal court-ordered desegregation. Of the $9.0 million in FY 2001 desegregation funding earmarked for the Dayton City Schools, $6.9 million was released earlier than expected. The power of these two overages was in turn significantly diluted by underages of $25.0 million and $19.5 million thrown in from line items 200-406, Head Start, and 200-501, Base Cost Funding, respectively. The former reflected a month delay in the release of Head Start grants, as the necessary paperwork was not processed on time, while the latter reflected usual timing-based adjustments to the release of state basic aid funding to school districts.

Regents. For the month of September, the Board of Regents' disbursements landed over the estimate by $14.6 million, beyond the mark by 8.9 percent. There were two notable contributors to the overage: 1) Student Choice grants, with considerably more of this student financial assistance being disbursed early on in the new academic term to Ohio's independent nonprofit colleges and universities than was forecast ($9.8 million); and 2) Jobs Challenge funding, with the $4.2 million earmark to attract, develop, and retain companies strategically important to the state's economy through training and assessment services provided by OhioEnterprise Network campuses being disbursed two months ahead of schedule. Both of these disbursement variances were no more than matters of timing.

Alcohol & Drug Addiction. For the month of September, the Department of Alcohol & Drug Addiction Services posted an $8.2 million overage, which, though relatively large, was no more than an expected timing-based adjustment to the prior month's $8.8 million underage. The source of that August underage was the department's decision to temporarily withhold subsidy funding (which helps finance the local delivery of alcohol and drug addiction prevention, intervention, treatment, counseling, and residential and community support services) to around 20 county boards statewide, because they had not submitted their quarterly reports on time. Most of these tardy county boards were able to submit the necessary information in time to receive their quarterly subsidy in September, thus triggering the correction and the monthly overage.

Debt Service. The Commissioners of the Sinking Fund, whose role it is to issue and pay the debt service on certain capital improvements programs, closed September with a $6.8 million positive disbursement variance. This monthly overage was related entirely to the financing of debt that supports the Department of Natural Resources' NatureWorks program, which funds the maintenance and improvement of state and local parks, recreation, and natural resource facilities. The debt service payment was expected to hit in October, but simply landed a month earlier than was assumed.

Development. Timing was the key influence on the Department of Development's $3.9 million overage posted for the month of September. The primary driver was the transfer of $7.7 million earmarked for low- and moderate-income housing activities. The transfer was forecast to take place in July; it did not occur until September. Somewhat muting the impact of this late transfer on the department's monthly disbursement variance were several timing-based underages as follows: 1) Thomas Edison grants ($1.7 million); 2) Technology Action grants ($1.5 million); and 3) Project 100 funding ($1.0 million).

Property Tax Relief. The Property Tax Relief program, which reimburses local governments for revenue that is lost due to certain credits/exemptions provided by state law to property owners and businesses, posted a $3.5 million overage for the month of September. Upon closer inspection, two things were clear. First, all of the disbursement variance was related to real property tax relief, which was not surprising given that the other major part of the state's Property Tax Relief program — tangible tax relief — is not scheduled to initiate spending until November. Second, the departments of Education and Taxation, which reimburse school districts and local governments other than school districts, respectively, for lost revenue, closed the month with contrasting disbursement variances. The Department of Taxation posted a $10.7 million overage, while the Department of Education posted a $7.2 million underage, the net result being a $3.5 million September overage. That said, these disbursement variances were typical of the fashion in which timing affects the flow of tax relief funding to various local governments, including school districts.

Notable Underages. The two departmental budgets that produced notable monthly underages, arranged in order of magnitude, are commented on below.

Mental Health. For September, the Department of Mental Health posted a negative disbursement variance of $20.5 million, under the estimate by 49.4 percent. Most of this monthly underage was traceable to the department's three largest GRF line items, all of which essentially provide subsidy payments to county mental health boards. The line items — 334-408, Community & Hospital Mental Health Services, 335-502, Community Mental Health Programs, and 335-508, Services for Severely Mentally Disabled — were $11.6 million, $2.7 million, and $4.7 million under their monthly estimates, respectively.

In FY 2000, county mental health boards submitted Medicaid bills through a new electronic system, known as the Multi-Agency Community Services Information System (MACSIS). Under the new system, county mental health boards were required to pay mental health providers for 100 percent of billed Medicaid services before they could draw down the federal financial participation (FFP). The department was concerned that this change could create cash flow problems for the county mental health boards. To prevent any such cash flow problems, the department allowed county mental health boards to draw down subsidy

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Month of September, 2000/Fiscal Year-to-Date 2001
($ in thousands)

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 2000	Percent Change
Primary & Secondary Education (1)	$1,494,782	$1,560,353	($65,571)	$1,411,052	5.93%
Higher Education	$570,597	$557,905	$12,692	$529,720	7.72%
Total Education	$2,065,379	$2,118,258	($52,879)	$1,940,772	6.42%
Health Care/Medicaid	$1,604,917	$1,533,135	$71,782	$1,375,186	16.71%
Temporary Assistance to Needy Families (TANF)	$197,732	$220,341	($22,609)	$184,351	7.26%
General/Disability Assistance	$18,906	$17,892	$1,015	$15,716	20.30%
Other Welfare (2)	$178,227	$194,138	($15,911)	$147,274	21.02%
Human Services (3)	$336,202	$340,894	($4,693)	$358,007	(6.09%)
Total Welfare & Human Services	$2,335,984	$2,306,399	$29,585	$2,080,534	12.28%
Justice & Corrections	$496,520	$428,017	$68,503	$506,834	(2.04%)
Environment & Natural Resources	$50,374	$48,659	$1,715	$49,819	1.11%
Transportation	$8,570	$10,593	($2,023)	$11,066	(22.55%)
Development	$68,432	$47,169	$21,263	$52,865	29.45%
Other Government (4)	$154,734	$107,918	$46,816	$158,142	(2.16%)
Capital	$8,364	$8,478	($113)	$5,635	48.42%
Total Government Operations	$786,994	$650,833	$136,161	$784,363	0.34%
Property Tax Relief (5)	$177,087	$173,577	$3,510	$122,460	44.61%
Debt Service	$104,303	$97,520	$6,782	$95,676	9.02%
Total Program Payments	**$5,469,746**	**$5,346,588**	**$123,158**	**$5,023,806**	**8.88%**
TRANSFERS					
Capital Reserve	$0	$0	$0	$0	—
Budget Stabilization	$49,200	$49,200	$0	$46,400	6.03%
Other Transfers Out	$779,710	$621,692	$158,018	$763,341	2.14%
Total Transfers Out	$828,910	$670,892	$158,018	$809,741	2.37%
TOTAL GRF USES	**$6,298,657**	**$5,395,788**	**$902,869**	**$5,833,547**	**7.97%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes the Department of Job & Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.
(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.
(4) Includes Regulatory and Nonregulatory agencies, Pension Subsidies, and Reissued Warrants.
(5) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

* August, 2000 estimates of the Office of Budget and Management.

Detail may not add to total due to rounding.

funds one quarter early during FY 2000. The department's disbursement estimates were adjusted to reflect this shift. Fewer county mental health boards than the department expected, however, chose to draw down funds early. As a result, actual monthly and year-to-date disbursements were well under the estimate for the first half of FY 2000 and well over the estimate for the second half of FY 2000.

In an attempt to more accurately reflect the department's subsidy spending pattern, the Office of Budget and Management based its FY 2001 monthly disbursement estimates on the FY 2000 spending history. It turned out, however, that September 2000 did not mirror the September 1999 experience; as county mental health boards no longer needed to draw down funds early in order to meet cash flow needs as they did last fiscal year. This break from the expected produced the September underage, which was no more than a timing-based phenomenon that will self-correct.

Job & Family Services. In September, disbursements for the Department of Job and Family Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF and General/Disability Assistance, which are tracked under separate components of the Welfare & Human Services program category, and inclusive of former Bureau of Employment Services programs — were $14.3 million, or 25.4 percent, under the estimate. Roughly three-quarters of the disbursement variance was traceable to the department's computer projects line item (600-416), which landed under the monthly estimate by $10.9 million. Four of the department's computer projects have experienced unexpected delays, including the Statewide Automated Child Welfare Information System (SACWIS) that hit a rather rocky road last fall, as noted in our November 1999 issue.

II. Year-to-Date

At September's end, excluding transfers, the state was holding a $123.2 million positive year-to-date disbursement variance, over the $5.35 billion estimate by 2.3 percent. The principal force at work on this year-to-date overage was timing, and its fiscal effects were most dramatic, as previously noted, in producing the September posting of around $180.0 million in debt service payments for various capital improvements programs, a month earlier than was forecast.

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

Medicaid. Year-to-date, the state's Medicaid program disbursements landed $71.8 million beyond the $1.53 billion estimate, a spending variance of 4.7 percent, largely traceable to the previously-noted $61.3 million September overage. As of this writing, our information on the spending dynamics within the program's various service categories — nursing homes, hospitals, prescription drugs, and so forth — was still very incomplete. Thus, we've opted to hold off until next month's report when the details of Medicaid's disbursements can be discussed with a great deal more accuracy and precision.

Rehabilitation & Correction. Year-to-date, the Department of Rehabilitation & Correction's disbursements registered $64.0 million, or 21.1 percent, higher than was forecast. At the forefront of this year-to-date overage was the September posting of an $82.8 million debt service payment that was forecast to occur in October. Also in the mix was a collection of $20.2 million in timing-based underages related to operational expenditures that combined to reduce the overall size of the department's year-to-date overage.

Administrative Services. The year-to-date disbursements of the Department of Administrative Services landed $55.6 million higher than was forecast. This overage was largely attributable to September's disbursement action in which the department posted $65.9 million of debt service payments related to the rent and operating costs on state-owned buildings a month earlier than expected.

Arts & Sports Facilities. The Arts & Sports Facilities Commission's year-to-date disbursements landed $22.9 million higher than was forecast. As previously noted in our discussion of September's disbursement variance, this year-to-date overage was directly tied to the posting of a debt service payment that was forecast to occur in October.

Mental Retardation. The Department of Mental Retardation & Developmental Disabilities closed September with a $14.1 million positive year-to-date disbursement variance, over estimated spending of $115.4 million by 12.2 percent. At the core of the overage was line item 322-413, Residential and Support Services ($17.9 million), which carries funding to pay for services delivered to individuals with mental retardation or developmental disabilities. The line item's overspending appeared to be related to the difficulty of precisely predicting how long it will take the department to review and settle service provider payment requests. (We feel compelled to remind the reader that the same phenomenon affected the line item last fiscal year, but with an opposite effect. In FY 2000, the claims settlement process with service providers moved considerably slower than was forecast, which caused an ongoing underage.)

Exerting somewhat of a braking effect on the size of the department's overall year-to-date was a $4.4 million underage tossed in from line item 323-321, Residential Facilities Operations, which supports the operating expenses of the state's 12 developmental centers. As of this writing, we saw no reason to ascribe this underspending to anything other than timing.

Regents. At the end of September, the Board of Regents was holding a positive year-to-date disbursement variance of $12.6 million, over the estimate by 2.3 percent. The core elements behind this spending story were identical to those previously noted in our discussion of the monthly disbursement for September: 1) Student Choice grants ($9.8 million); and 2) Jobs Challenge funding ($4.2 million). Both of these disbursement variances were related to timing, as larger amounts of this subsidy funding were released a month or two earlier than was forecast.

Debt Service. The year-to-date disbursements for the Commissioners of the Sinking Fund registered $6.8 million higher than was forecast. As previously noted in our discussion of September's disbursement variance, this year-to-date overage was directly tied to the posting of a debt service payment on the Department of Natural Resources' NatureWorks program that was forecast to occur in October.

Youth Services. Year-to-date, the Department of Youth Services' disbursements posted $6.7 million, or 10.2 percent, higher than was forecast. Key to this year-to-date overage was the September posting of a $9.9 million debt service payment that was forecast to occur in October. Also in the mix was a $3.3 million timing-based underage due to an unexpected delay in the distribution of youth services block grants to juvenile courts.

Property Tax Relief. At month's end, the state's Property Tax Relief program was holding a positive year-to-date disbursement variance of $3.5 million. This overage was attributable entirely to September's timing-influenced disbursement variances, as we previously noted in this report on state spending.

Notable Underages. There were five notable underages totaling $125.0 million in the state's year-to-date disbursement picture, all of which are discussed below.

Education. The Department of Education was a primary player in the state's year-to-date disbursement picture with a $65.7 million underage, short of the $1.53 billion first quarter estimate by 4.3 percent. Two line items — 200-501, Base Cost Funding, and 200-406, Head Start — totally dominated the department's year-to-date disbursement variance with underages of $49.6 million and $25.4 million, respectively. The lone discernible counterweight was the department's desegregation program, which posted a $6-plus million overage attributable to the early release of earmarked assistance for the Dayton City Schools. The disbursement variances in all three of these line items simply reflected the fiscal effects of timing on the distribution of various departmental subsidies

TANF. Year-to-date, Temporary Assistance to Needy Families (TANF) program disbursements were $22.6 million, or 10.3 percent, below estimated spending of $220.3 million. That figure, interestingly enough, concealed the reality that total TANF spending was actually over estimate and not below estimate, as an exclusive focus on GRF funding suggested. On the surface, the underage reflected the net effect of $31.9 million less than was forecast being disbursed from line item 600-411, TANF Federal Block Grant, combining with a $9.2 million overage in the state's Maintenance of Effort (MOE) spending tied to line item 600-410, TANF State.

The state's FY 2001 MOE plan, however, also included drawing on the non-GRF Child Support Collections Fund, with disbursements of this MOE component typically occurring later in the fiscal year. Over the course of August and September, the newly created Department of Job and Family Services broke from that FY 2001 plan and unexpectedly disbursed a total of $25.9 million in support of the state's MOE from the Child Support Collections Fund. Thus, if one took into account GRF and non-GRF sources of funding, TANF year-to-date disbursements were over the estimate by $3.2 million. Since these were mostly offsetting, timing-based disbursement variances (overages in state spending and underages in federal spending), we would anticipate correcting disbursement variances next spring (underages in state spending and overages in federal spending).

Not only was total TANF spending for the first quarter of FY 2001 in excess of the estimate, it was also above last year's first quarter spending levels as well. In performing that comparison, we noticed that total FY 2001 year-to-date TANF spending was $251.8 million, whereas first quarter FY 2000 TANF spending totaled $199.4 million. This increase in FY 2001 TANF spending was tied to two factors: 1) the unexpected acceleration in MOE-related disbursements from the Child Support Collections Fund; and 2) the disbursement of $28.3 million in reallocated TANF reserve funds for use in the Prevention, Retention, and Contingency Development Reserve (PRC-DR) program, as well as child care and incentive funding for counties.

The TANF cash benefit caseload has slowed its rate of decrease. Since September 1999, the number of cash benefit recipients declined by 4.2 percent, quite a contrast from the 22.5 percent drop in the cash benefit caseload that transpired in the one-year period that ran from September 1998 through September 1999. While the overall number of TANF recipients continued to decline, albeit slower, the number of children in "child only" cases continued to increase to the point that the latter constituted about 40 percent of all cases. In September 1999, there were 35,766 "child only" cases. By September 2000, this number had grown to 37,109, a 3.8 percent year-over-year increase. These are cases in which the children are typically living with a relative other than a parent. Some "child only" cases may also occur when the parent is receiving assistance from another program and thus is not eligible for a TANF cash benefit.

Mental Health. The Department of Mental Health ended the first quarter of FY 2001 with an underage of $16.9 million, off the estimate 11.8 percent. As usual, most of the underage was traceable to the department's three largest GRF subsidy line items: 334-408, Community & Hospital Mental Health Services; 335-502, Community Mental Health Programs; and 335-508, Services for Severely Mentally Disabled. As has been the department's practice, these subsidies are disbursed to county mental health boards on a quarterly basis. And, as was the case with the underage recorded in September, the source of the disbursement variance was that the department's FY 2001 first quarter disbursements had not mirrored the prior fiscal year's first quarter as expected. This was no more than a matter of timing that would self-correct in the months ahead. Also notable was the fact that approximately 9 county mental health boards had not drawn down any of their first quarter subsidy funding, accounting for roughly $10.5 million of the year-to-date underage.

Job & Family Services. Year-to-date, disbursements for the Department of Job and Family Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF and General/Disability Assistance, which are tracked under separate components of the Welfare & Human Services program category, and inclusive of former Bureau of Employment Services programs — fell $15.9 million, or 8.2 percent, under the estimate. There were two primary contributors to the department's year-to-date underage: 1) computer projects ($9.0 million); and 2) electronic benefits transfers ($5.8 million). The former was related to unexpected delays in several computer projects, including SACWIS, while the latter was fueled by a continued decline in food stamp caseload in combination with counties not billing the state as quickly as was forecast.

Taxation. The operating expenses portion of the Department of Taxation's budget closed September with a year-to-date underage of $3.9 million, off the estimate by 16.4 percent. The source of this disbursement variance appeared to lie in a key assumption used to build the department's FY 2001 disbursement estimates: that FY 2001 disbursements for its operating expenses would mirror their FY 2000 pattern. That has not been the case so far this fiscal year, as evidenced by the noticeable underage. This was most likely just the result of a timing issue that should self-correct in the months ahead.

III. Program Category Variances

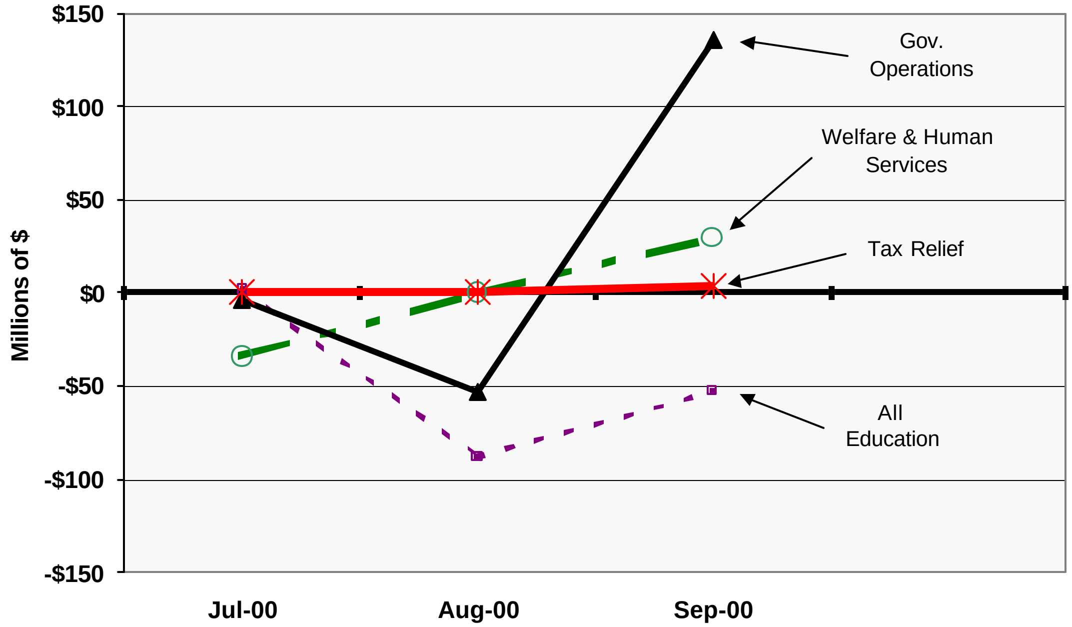
In Chart 1, we've visually mapped from July through September the trajectory of the year-to-date disbursement variances of four of the state's major GRF program categories. This is intended to help us see how the state came to be holding a $123.2 million year-to-date overage by September's end. In the narrative below, we've distilled the essence of the three-month disbursement patterns exhibited by those four major program categories.

Government Operations (+$136.2 million). Timing has played the key role in the Government Operations program category's year-to-date disbursements. It first constrained corrections and pension subsidy spending in August and then facilitated the early disbursement of close to $180.0 million in debt service payments that were forecast to hit in October.

Education (-$52.9 million). The Education program category cycled under and then over the estimate in the months of August and September, respectively, led by timing-based disbursement variances posted in various state subsidy programs administered by the Department of Education. A secondary factor in September's disbursement variance was a few timing-based overages related to the early release of Board of Regents subsidy funding.

Welfare/Human Services (+$29.6 million). The fiscal effects of timing on the Welfare & Human Services program category's year-to-date disbursement pattern were very evident, particularly with regard to the distribution of subsidy funding and service provider payments by the departments of Mental Retardation & Developmental Disabilities, Mental Health, and Alcohol & Drug Addiction Services. There were, however, two areas of spending handled by the newly created Department of Job & Family Services that appeared to be victims of something other than timing: computer projects and Medicaid. The former featured an underage due to unexpected delays in the development of several large departmental computer systems, while the latter showed a growing overage that, unabated, could signal a potential shortfall in Medicaid funding that will require legislative action.

Chart 1
GRF Disbursement Variance by Program Category, FY 2001



Tax Relief (+$3.5 million). As evidenced in Chart 1, the state's Property Tax Relief program has played virtually no role in the year-to-date disbursement picture. Year-to-date, it's posted a barely noticeable timing-based overage of $3.5 million. ❑

**LBO colleagues who contributed to the development of this disbursement story included, in alphabetical order, Sara Doddy, Sean Fouts, Nelson Fox, Amy Frankart, Eric Karolak, Laura Potts, David Price, Nicole Ringer, Joseph W. Rogers, Jeffrey M. Rosa, Katherine B. Schill, and Wendy Zhan.*

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS FIRST QUARTER, FY 2000

— Jean Botomongo

Table 1. First Quarter Lottery Ticket Sales by Games in FY 2001 and FY 2000 in millions of current dollars

	Pick 3	Pick 4	Instant Tickets	Super Lotto	Kicker	Buckeye 5	Total Sales
FY 2001	$103.22	$36.08	$228.06	$71.15	$11.57	$14.22	$464.32
FY 2000	$103.63	$33.37	$277.82	$75.78	$12.41	$16.30	$519.33

Concerns over sagging Super Lotto sales had the Ohio Lottery introduce the Super Lotto Plus game in July 2000. Super Lotto has the smallest profit margin of all Lottery games. The new game, which gives players better odds of winning a prize than the old Super Lotto, spreads the wealth by creating more winners while paying out smaller prizes. Super Lotto Plus slows jackpot growth when there are no winners to $1 million, down from a $4 million increment. It also increases the length of payments to 30 instead of 26 annual payments.

In the first quarter of FY 2001, total ticket sales were $464.32 million, and Instant ticket sales were $228.06 million. On-line ticket sales were 3.6 percent higher than Instant ticket sales at the end of September 2000. Total ticket sales for the first quarter of fiscal year 2001 were 10.8 percent lower than the previous quarter sales, and 13.9 percent lower than third quarter sales of FY 2000. Several huge Super Lotto jackpots drove sales higher during those quarters.

Instant ticket games showed a marked decline when compared to quarterly sales in the first half of calendar year 2000. Instant ticket games fell 7.1 percent compared to previous quarter sales, and decreased 21.9 percent when compared to third quarter sales of FY 2000. Quarterly Buckeye 5 sales have gradually decreased in this calendar year, from $15.4 million in March 2000 to $14.2 million at the end of September 2000.

Table 1 compares first quarter sales per game in fiscal years 2001 and 2000. Compared to first quarter results a year ago in fiscal year 2000, ticket sales in the first quarter this year were down 10.6 percent. Ticket sales were lower for all games in the first quarter FY 2001 when compared the same period in FY 2000, except for Pick 4, which experienced an 8 percent increase in sales. Instant tickets sales had the largest decline, 18 percent lower than during the same period a year ago.

Buckeye 5 sales were down 12.7 percent and Kicker sales were lower by 6.7 percent. Super Lotto sales were 6.1 percent lower this year in the first quarter as compared to the same period last year. So far, sales have not responded favorably to the changes brought by Super Lotto Plus.

Table 2 summarizes transfers to the Lottery Profits Education fund (LPEF). Transfers for

Table 2. First Quarter Lottery Ticket Sales and Transfers to LPEF in FY 2001 and FY 2000 in millions of current dollars						
	Ticket Sales	**Actual Transfers**	**Projected Transfers**	**Dollars Variance**	**Percentage Variance**	**Transfer As a Percentage of Sales**
FY 2001	$464.32	$152.3	$161.6	-$9.3	-5.75	32.8
FY 2000	$519.33	$160.7	$158.7	$2.0	1.26	30.9

the first quarter of FY 2001 were $152.3 million, down 8.5 percent from $166.5 million the previous quarter and down 7.4 percent from $164.5 million in the third quarter of FY 2000.

Transfers to LPEF from operations in FY 2001 were $152.3 million, or $8.4 million less than in the first quarter of FY 2000. ❑

LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS OF FY 2001 PROFITS

— *Wendy Zhan*

Lottery Profits Education Fund (LPEF) year-to-date disbursements in fiscal year 2001 totaled $105.9 million. Of this amount, $105.0 million (or 99.2 percent) occurred in appropriation item 200-612, Base Cost Funding. Lottery Profits Education Reserved Fund (LPERF) year-to-date disbursements were $0.6 million in fiscal year 2001. Table 1 shows the LPEF and LPERF appropriation and disbursement summary as of September 29, 2000.

Table 1: FY 2000 LPEF (017) and LPERF (018) Appropriation/Disbursement Summary
As of September 29, 2000

Agency	Fund	Line Item	Line Item Name	FY 2001 Appropriation	FY 2001 Disbursement	Appropriation Encumbrance	Appropriation Balance
EDU	017	200-612	Base Cost Funding	$ 660,467,000	$ 105,000,000	$ 0	$ 555,467,000
EDU	017	200-682	Lease Rental	$ 29,733,000	$ 0	$ 0	$ 29,733,000
NET	017	228-690	SchoolNet Electrical Infrastructure	$ 13,448,294	$ 899,874	$ 51,263	$ 12,497,157
			Total LPEF	***$ 703,648,294***	***$ 105,899,874***	***$ 51,263***	***$ 597,697,157***
SFC	018	230-649	Disability Access Project	$ 69,746	$ 63,966	$ 4,480	$ 1,300

*Base Cost Funding***.** The $660.5 million lottery profits appropriation blends with the General Revenue Fund (GRF) base cost funding (line item 200-501) appropriation ($3,794.8 million) to fund the state foundation aid program. Among other things, the program provides equalized subsidies to school districts (including joint vocational school districts) to guarantee $4,294 in per pupil funding with the cost of doing business factor adjustment at the combination of state and local revenues at 23 mills (the charge-off millage rate is 0.5 mills for the joint vocational school district funding formula) and to fund the state's share of additional special and vocational education costs. With the combination of GRF and LPEF moneys, base cost funding ($4,455.3 million), the biggest education subsidy item, represents about 64.8 percent of Department of Education's GRF and LPEF budget components.

*Lease Rental***.** The lease rental appropriation ($29.7 million) is to be transferred to GRF to support the GRF appropriation for line item 230-428, Lease Rental Payments, of the School Facilities Commission. Total appropriations for lease rental payments amounted to $57.5 million in fiscal year 2001, including $41.8 million for GRF item 230-438, Lease Rental Payments, and $15.7 million for GRF supported (Fund 078) item 155-900, Common School Capital Improvement Bond Service Fund, of the Commissioners of Sinking Fund. These moneys are to be used to pay bond service charges on obligations issued for the classroom facilities assistance programs.

SchoolNet Electrical Infrastructure – "Power-up For Technology." To help school districts implement SchoolNet and SchoolNet Plus initiatives, the 122nd General Assembly originally appropriated $27.0 million in LPEF moneys in fiscal year 1998 for electrical service upgrades. The SchoolNet Commission is to distribute the funding through a competitive grant application process. School districts with a valuation per pupil less than $200,000 are eligible for the funding. The maximum grant amount for a single district is $1 million. Approximately $13.6 million was disbursed by the end of fiscal year 2000. The remaining balance of $13.4 million was transferred into fiscal year 2001 per the Controlling Board's action. As of September 29, 2000, $0.9 million was disbursed.

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