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Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION DECEMBER, 2000

FISCAL OVERVIEW

— Doris Mahaffey

Revenues continued to slide in November with total revenues coming in under estimate for the first time this fiscal year. Disbursements were also under estimate for the month – also for the first time this year. Nevertheless, with revenues at $1.4 billion and disbursements at $1.9 billion, the $470 million difference helped lower the unobligated balance to a negative $2 billion – $520 million lower than November 1999. (See Table 1.) The unobligated balance is typically lowest in November and then begins to creep back up as revenues increase and encumbrances decrease in the second half of the year. Chart 1, which illustrates the behavior of the GRF fund balance and encumbrances for the current biennium, shows the unobligated balance falling through the first five months of FY 2000, then rising in the second half of the fiscal year. The cash balance was positive throughout the second half of FY 2000 while the unobligated balance was positive throughout the fourth quarter. Still, November's unobligated balance is 35 percent lower than this time last year – the cash balance is 90 percent lower – so the balances merit continued scrutiny.

Total revenues were $23 million under estimate for the month of November. Total tax revenues were $74 million under estimate for the month. Transfers and federal reimbursements came in over estimate, but not by enough to offset the shortfall in tax revenues. With the exception of the public utility excise tax, all the major tax sources were under estimate for the month. The sales and use tax was $32.6 million under estimate; the personal income tax was another $31 million under estimate and the corporate franchise tax was $36 million under estimate. The estate tax was another $7 million under estimate.

The $15.5 million overage in the transfer line was due to the repayment of a lump sum loan from the GRF to the higher education improvement fund. That loan was recorded as a "transfer out" in the September disbursement tables. Together the two actions cancel each other out (from the point of view of the GRF) and have no net impact on the GRF fund balance.

Disbursements posted a $120 million underage for the month reducing the year-to-date overage to $248 million. $159 million of that is in the transfers out column – largely due to August transfers to the public school building fund and the highway operating fund. The overage in program spending is only $89 million.

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STATUS OF THE GRF

Budget Footnotes is issued monthly by the Legislative Budget Office (LBO), a non-partisan fiscal research agency serving the Ohio General Assembly.

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

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

	Month of November	Fiscal Year 2001 to Date	Last Year	Difference
Beginning Cash Balance	($668.0)	$1,506.2		
Revenue + Transfers	$1,429.3	$7,760.7		
Available Resources	$761.3	$9,267.0		
Disbursements + Transfers	$1,901.7	$10,407.3		
Ending Cash Balances	**($1,140.3)**	**($1,140.3)**	**($603.6)**	**($536.8)**
Encumbrances and Accts. Payable		$860.0	$874.9	($14.9)
Unobligated Balance		**($2,000.3)**	**($1,478.5)**	**($521.9)**
BSF Balance		$1,002.5	$953.3	$49.2
Combined GRF and BSF Balance		**($997.8)**	**($525.2)**	**($472.7)**

The November underage is mostly due to the self-correction of previous timing-related overages. In particular, higher education came in $108 million under estimate for the month, but its year-to-date position is just about even. On the other hand, property tax relief came in $57 million under estimate resulting in a year-to-date underage of the same amount.

Medicaid was another $39 million over for the month, ratcheting the year-to-date overage in that program up to $187.8 million – 7.4 percent over estimate. The usual suspects – i.e., higher than expected caseloads and health care cost growth – continue to account for the spending increases. ❑

Status of the General Revenue Fund

REVENUES

—Doris Mahaffey

November revenues were on the slim side. With the exception of the public utility excise tax all the major taxes came in under estimate, and the underages were substantial. Total taxes were $74 million under; the major taxes were $68 million under – notwithstanding a $31 million overage recorded in the public utility excise tax. The non-auto sales tax recorded its fifth consecutive month under estimate (at $32 million under) and the corporate franchise tax recorded its fourth consecutive month under (at $36 million under). The personal income tax joined this month, coming in at $31 million under. Even the auto sales tax was a half a million under.

The "bright spots" in the revenue picture – federal reimbursements $33.5 million over, public utility excise tax revenues - $31 million over, and transfers in category - $16.5 million over have a "good news/bad news" quality about them. The overage in federal reimbursements is a result of higher than estimated Medicaid expenditures – largely due to rising health care costs. The overage in the public utility excise tax – due largely to natural gas tax revenues – is partly due to timing and partly due to increasing natural gas costs.

Personal income tax

Personal income tax revenues were $31 million under for the month. Most of the shortfall was in withholding – it was $26 million or 4.5 percent under estimate for the month. Other components (quarterly estimated payments and annual returns) were also under and refunds were slightly over. However, November estimates of these components comprise a very small percent of the annual revenues.

Although some of the November underage in withholding could be attributed to timing – withholding in October was $40 million over estimate – some of the shortfall could also be attributed to the slowing economy. Nationwide, total employment increased in November. However, the gain was largely in the service sectors. Employment in the goods producing sectors (i.e., manufacturing and construction) fell slightly – as did the average workweek, the manufacturing workweek, and manufacturing overtime – all of which could have had a dampening impact on Ohio's personal income tax withholding in November. Average hourly earnings were up slightly in November, but that could be due as much to the fact that employment cut backs would first affect the lower paid and temporary workers.

The December 6, 2000, Federal Reserve *Beige Book* for the Cleveland district confirmed this picture of slackening labor markets, noting "The construction trades have reported that shortages of skilled labor have disappeared as firms have begun to lay off workers, such as pipe fitters and electricians; who have previously been kept on the payroll as home building flattened out." The Beige Book also reported that automobile and truck manufacturers were scaling back production. Steel production has also been cut back due to both the high dollar and the reduction in demand by auto manufacturers. Companies have laid off workers or given others extended vacations.

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

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$61,609	$62,250	($641)
Non-Auto Sales & Use	$409,024	$440,963	($31,939)
Total Sales	$470,634	$503,213	($32,579)
Personal Income	$504,478	$535,478	($31,000)
Corporate Franchise	($24,853)	$11,400	($36,253)
Public Utility	$23,703	($7,475)	$31,178
Total Major Taxes	**$973,961**	**$1,042,616**	**($68,655)**
Foreign Insurance	$168	$0	$168
Domestic Insurance	$0	$0	$0
Business & Property	$41	$38	$3
Cigarette	$23,086	$22,400	$686
Soft Drink	$0	$0	$0
Alcoholic Beverage	$4,653	$4,538	$115
Liquor Gallonage	$2,305	$2,310	($5)
Estate	$20,421	$27,200	($6,779)
Racing	$0	$0	$0
Total Other Taxes	$50,673	$56,486	($5,813)
Total Taxes	**$1,024,634**	**$1,099,102**	**($74,468)**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	$2,975	$3,150	($175)
Other Income	$9,680	$8,513	$1,167
Non-Tax Receipts	$12,655	$11,663	$992
TRANSFERS			
Liquor Transfers	$9,000	$8,000	$1,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$15,537	$0	$15,537
Total Transfers In	$24,537	$8,000	$16,537
TOTAL INCOME less Federal Grants	**$1,061,827**	**$1,118,765**	**($56,938)**
Federal Grants	$367,464	$333,957	$33,507
TOTAL GRF INCOME	**$1,429,291**	**$1,452,722**	**($23,431)**

* July, 2000 estimates of the Office of Budget and Management.
Detail may not add to total due to rounding.

Bureau of Labor Statistics data for Ohio indicate that the number of manufacturing jobs in Ohio fell by 1,700 between October and November; while the total number of jobs in the state increased by 4,600. The bulk of the increase was due to the services sector, where the number of jobs increased by 6,100.

Unfortunately, all this data is seasonally adjusted, while tax revenues are not, so that the link between revenues and changes in the number of jobs cannot be directly established.

Sales and Use tax

The sales and use tax was $32.6 million under estimate in November. The non-auto accounted for $32 million of that.

The non-auto sales tax has a perfect record for the fiscal year; so far it has come in under estimate each month. Its anemic performance reflects the cooling of the economy that began to set in last summer as higher gasoline prices, higher interest rates, and languishing equity markets combined to put a damper on consumer spending.

For the most part November's non-auto sales tax numbers reflect October retail sales (excluding automobiles). Two indices of retail sales both reported slowing growth in October. The Monthly Retail Trade Survey (MRTS), compiled by the U.S. Census Bureau, reported that retail sales grew by just one percent over September. However, the decline was largely due to automobile sales. Excluding motor vehicles, retail sales grew at a more moderate 0.4 percent month-over-month rate.

The Mitsubishi chain store sales index reported a 3.2 percent year-over-year growth rate in October. (This index compares sales in retail establishments with their sales at the same establishment in the same month the previous year.) This also reflects slowing but moderate growth. However, sales at drug stores continue to outpace other sales – especially apparel and other non-durables – suggesting that much of the spending growth could be on items not included in the sales tax base.

Other than drug store sales, fuel dealers, as well as hardware and building supply stores saw an increase in sales in October (according to the MRTS). Concerns about the high price of fuel oil and natural gas could have spurred sales of weatherproofing and household insulation materials. Sales at variety stores were also up – possibly picking up the seasonal Halloween sales of costumes and party paraphernalia. (Halloween is second only to Christmas in terms of the amount of retail sales generated by a holiday – a very distant second.)

High interest rates, high energy prices and falling stock market values have had a particularly dampening effect on motor vehicle sales in the second half of 2000. Light vehicle sales slowed sharply in November for the second month in a row. (The sharpest decline was in light truck sales – which includes sports utility vehicles (SUVs).) The November auto sales tax followed suit coming in just under estimate for the second month in a row. (The auto sales tax tends to track motor vehicle sales for the same month.)

Demand for motor vehicles is not expected to bounce back any time soon. Part of this pessimistic view is due to the fact that sales in 2000 were so strong that any recovery is likely to seem lackluster. In addition, the decline in auto sales growth is also expected to generate negative feedback in the economy – especially in the Midwest. Declining sales are linked to both cutbacks in auto production (and layoffs) and falling consumer confidence. According to the Conference Board consumer confidence survey, consumer plans to purchase an automobile in the next 6 months fell sharply in November. While consumer confidence remained strong through the fall, once it falls it takes a while to recover: Consumers generally respond more quickly to negative information than to positive information.

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

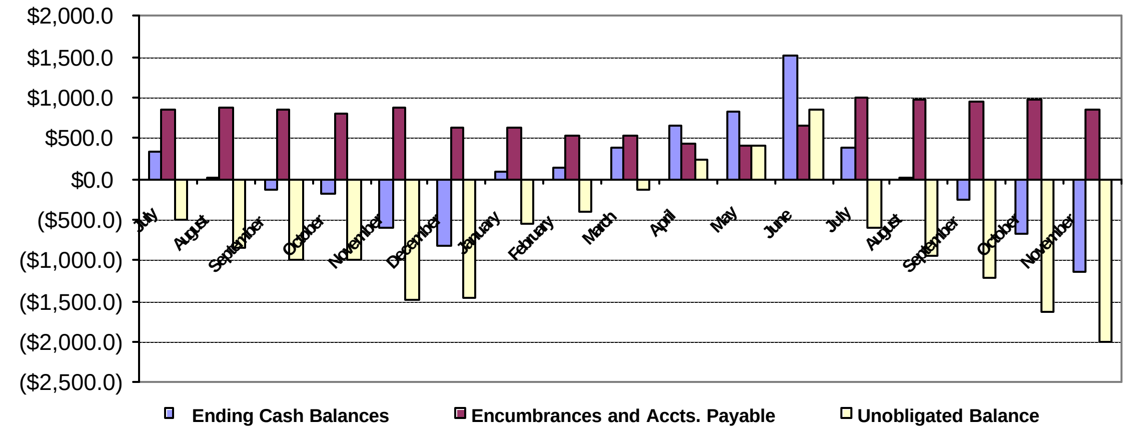
REVENUE SOURCE					
TAX INCOME	**Actual**	**Estimate***	**Variance**	**FY 2000**	**Percent Change**
Auto Sales	$350,683	$350,675	$8	$348,961	0.49%
Non-Auto Sales & Use	$2,122,137	$2,234,211	($112,074)	$2,102,879	0.92%
Total Sales	$2,472,820	$2,584,886	($112,066)	$2,451,840	0.86%
Personal Income	$2,758,736	$2,729,835	$28,901	$2,546,666	8.33%
Corporate Franchise	-$7,430	$46,550	($53,980)	$52,594	-114.13%
Public Utility	$202,072	$185,150	$16,922	$206,231	-2.02%
Total Major Taxes	**$5,426,199**	**$5,546,421**	**($120,222)**	**$5,257,330**	**3.21%**
Foreign Insurance	$134,694	$129,438	$5,256	$128,228	5.04%
Domestic Insurance	$1,366	$0	$1,366	$126	985.08%
Business & Property	$584	$864	($280)	$397	46.93%
Cigarette	$106,882	$105,000	$1,882	$110,607	-3.37%
Soft Drink	$0	$0	$0	$0	-100.00%
Alcoholic Beverage	$22,924	$23,376	($452)	$22,973	-0.21%
Liquor Gallonage	$11,984	$11,340	$644	$11,539	3.86%
Estate	$60,426	$86,400	($25,974)	$74,560	-18.96%
Racing	$0	$0	$0	$0	? ?
Total Other Taxes	$338,860	$356,418	($17,558)	$348,430	-2.75%
Total Taxes	**$5,765,058**	**$5,902,839**	**($137,781)**	**$5,605,761**	**2.84%**
NON-TAX INCOME					
Earnings on Investments	$44,189	$28,750	$15,439	$20,479	115.78%
Licenses and Fees	$12,942	$11,200	$1,742	$12,072	7.21%
Other Income	$81,559	$70,041	$11,518	$43,268	88.50%
Non-Tax Receipts	$138,690	$109,991	$28,699	$75,819	82.92%
TRANSFERS					
Liquor Transfers	$41,000	$35,000	$6,000	$35,000	17.14%
Budget Stabilization	$0	$0	$0	$0	—
Other Transfers In	$77,381	$0	$77,381	$28,915	167.62%
Total Transfers In	$118,381	$35,000	$83,381	$63,915	85.22%
TOTAL INCOME less Federal Grants	**$6,022,130**	**$6,047,830**	**($25,700)**	**$5,745,495**	**4.81%**
Federal Grants	$1,738,617	$1,618,708	$119,909	$1,499,784	15.92%
TOTAL GRF INCOME	**$7,760,746**	**$7,666,538**	**$94,208**	**$7,245,278**	**7.11%**

* July, 2000 estimates of the Office of Budget and Management.
Detail may not add to total due to rounding.

Public Utility Excise Tax

The public utility excise tax is the one tax that was significantly over estimate for the month. As mentioned in last month's *Budget Footnotes*, the overage was due largely to the change in the application of the public utility excise tax (also known as the gross receipts tax)

Chart 1 - GRF Fund Balance and Encumbrances
FY 2000-2001
Dollars in millions



to natural gas utilities. H.B. 283 changed the taxation of natural gas companies from an annual basis to a quarterly basis beginning in fiscal year 2001. The change also resulted in a change in the timing of payments. Rather than make three payments in a fiscal year (in October, March, and June) with a reconciliation payment in November, natural gas companies are to make four payments a year – in August, November, February and May. The first payment under the new regime was due in November. So, part of the November overage was due to timing – natural gas payments that were included in the estimates for October were received in November instead. However, revenue from the natural gas companies exceeded estimates by approximately $10 million. This was largely due to the increased price of natural gas. Between May and October of 2000, the price of natural gas purchased by Ohio utility consumers increased by as much as 32 percent – with more increases coming later in the year.

Part of the overage may also have been due to the fact that participation in the natural gas choice program was not growing as fast as predicted. Participation by customers of Columbia Gas and Cincinnati Gas and Electric appears to have leveled out. Participation by East Ohio Gas customers has increased in the last quarter of 2000, but the November revenues (which cover the companies' gross receipts generated between May and September 2000) will not have picked that up yet. Households and businesses that purchase natural gas from a non public utility pay the sales and use tax on the purchase rather than the public utility excise tax. Unfortunately, we do not currently have the data to determine how the choice program is affecting the sales tax revenue. At this point any increase in sales tax revenue from natural gas sales due either to the increase in sales from the choice program or from the higher natural gas prices does not appear to be large enough to offset the decline in tax revenue from other sources.

Year-to-Date Revenue

At the end of November, the snapshot of state revenues (presented in Table 3) puts total GRF income $94 million over estimate. The overage was due primarily to non-tax revenues, especially federal reimbursements and transfers in, as year-to-date tax revenue was $138 million under estimate. Only the personal income tax, the public utility excise tax, and the foreign insurance tax have significant positive variances at this time. The non-auto sales tax, the corporate franchise tax, and the estate tax are posting significant shortfalls. The auto sales tax is virtually on target. The non-auto sales tax is under estimate by $112 million or 3 percent. The underage has been growing steadily since the start of the fiscal year and is unlikely to dissipate before FY 2001 ends.

The overage in the personal income tax is largely due to quarterly estimated payments, which is 7 percent over estimate; withholding is a mere 0.2 percent over estimate. Quarterly estimated payments reflect the gains of non-incorporated businesses and other non wage and salary income – a growing source of which has been the capital gains generated by an exuberant stock market. Needless to say, the stock market is no longer exuberant and has not been so since last spring. However, there are still a lot of profits to be taken in the market, so that as individuals sell stock – even stock that is falling in value – they still incur capital gains and owe personal income tax on those gains. This source of revenue is likely to continue through the year, but without substantial growth in the stock market it is likely to be less of a factor over time. ❑

DISBURSEMENTS

*— Jeffrey E. Golon with Steve Mansfield**

In the world of state spending during the month of November, two things occurred. First, many previous timing-based disbursement variances self-corrected, as was expected, to produce a $120-plus million monthly underage. That in turn dragged the state's pre-existing year-to-date overage from its high water mark of $218.0 million down to $89.2 million. Second, the Health Care program posted yet another monthly overage, which propelled its positive year-to-date disbursement variance up to $187.8 million. This confirmed concerns that the program's Medicaid component was headed for a fiscal problem considerably larger than the $110 million budgetary shortfall faced the year before.

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 November'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 five months (July 2000 through November 2000).

I. November

Excluding transfers, the state posted a $128.8 million underage for November, short of the $2.03 billion monthly disbursement estimate by 6.3 percent. Timing was by far the dominant factor in producing the November disbursement variance, with its effects most noticeable in the rather large monthly underages that emanated from the Board of Regents budget ($107.6 million) and the state's Property Tax Relief program ($57.0 million). The Health Care program was, however, another story. It continued to be dogged by higher than expected caseloads and health care cost growth, and as a result, posted yet another sizeable monthly overage.

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

Regents. In November, the Board of Regents posted what was initially a somewhat startling monthly underage of $107.6 million, short of the $322.3 million monthly estimate by 33.4 percent. Upon closer scrutiny, however, it quickly became evident that the November underage was more or less just an adjustment to the prior month's $96.8 million overage. The core of the November underage was the timing of a $106.9 million debt service payment. The estimate assumed that the debt service payment would land in November; instead it hit in October, a month earlier than forecast, setting up the expectation for a large November correction. Also contributing to the underage was the board's Jobs Challenge funding, which supports the non-credit job-related training activities of public higher education campuses that comprise the EnterpriseOhio Network. Essentially, $7-plus million in funding earmarked for two of Jobs Challenge's three components — performance contracts and targeted industries training — planned for disbursement in November had already been released, roughly a month or so ahead of schedule.

Somewhat mitigating the impact of these twin timing-based underages on the board's

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

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$686,571	$658,146	$28,425
Higher Education	$214,707	$322,335	($107,629)
Total Education	$901,278	$980,482	($79,204)
Health Care/Medicaid	$511,645	$472,301	$39,344
Temporary Assistance to Needy Families (TANF)	$106,928	$106,625	$302
General/Disability Assistance	$5,131	$4,671	$460
Other Welfare (2)	$39,686	$43,729	($4,043)
Human Services (3)	$92,155	$102,451	($10,296)
Total Welfare & Human Services	$755,545	$729,778	$25,767
Justice & Corrections	$120,524	$137,137	($16,614)
Environment & Natural Resources	$17,295	$20,169	($2,874)
Transportation	$5,887	$4,988	$899
Development	$7,629	$11,673	($4,043)
Other Government (4)	$21,087	$27,794	($6,707)
Capital	$12,486	$1,491	$10,995
Total Government Operations	$184,910	$203,252	($18,343)
Property Tax Relief (5)	$59,939	$116,973	($57,034)
Debt Service	$0	$0	$0
Total Program Payments	**$1,901,670**	**$2,030,485**	**($128,815)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$2	$0	$2
Total Transfers Out	$2	$0	$2
TOTAL GRF USES	**$1,901,671**	**$2,030,485**	**($128,814)**

(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.

November disbursement variance was one factor: the Ohio Student Choice Grant program which disbursed $7.1 million more than forecast in student financial assistance to Ohio's independent nonprofit colleges and universities. Although no more than a timing issue as well, this overage also seemed to reflect the speed with which the board could now receive and process student financial assistance information following its implementation of a new web-based data submission system.

Property Tax Relief. One of the key forces in November's spending picture was a huge, largely timing-based $57.0 million underage tossed in from the Property Tax Relief program, signaling that the departments of Education and Taxation had disbursed significantly less property tax relief funding than forecast. Specifically, the Department of Education's disbursements to school districts landed under their November estimate by $44.0 million and the Department of Taxation's disbursements to all other taxing districts hit $13.0 million short of their November estimate.

Most interesting, albeit not unusual nor problematic, were the contrasting monthly disbursement variances posted by the Property Tax Relief program's two principal components: real property tax credits/exemptions and tangible tax credits. In November, the amount of real property tax credits/exemptions funding disbursed was $82.1 million less than forecast. Working in the opposite direction were disbursements of tangible tax credits funding, which registered in excess of their monthly estimate by $25.1 million. These contrasting disbursement variances, however, were simply creatures of timing that typically self-correct within a month or two of their appearance.

Rehabilitation & Correction. The Department of Rehabilitation & Correction recorded an $11.6 million, or 12.0 percent, negative disbursement variance for the month of November. Most of this monthly disbursement variance was traceable to a collection of timing-based underages associated with the daily operating expenses of various programs related to the care and custody of inmates confined in the state's prison system.

Alcohol & Drug Addiction. For the month of November, the Department of Alcohol & Drug Addiction Services posted an $11.5 million underage, short of the estimate by 95.3 percent. The source of that November 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 15 county boards statewide, because they had not submitted their quarterly reports on time.

Health. The Department of Health closed November with a monthly underage of $4.3 million, short of the estimate by 48.6 percent. While a variety of factors acted as constraints on the department's November disbursements, the most discernible effects were those related to the timing of grants. Noticeably affected by issues of timing were a variety of grants related to the department's disease prevention and community-based health care services programs that were not released as forecast. In addition, purchases of immunization vaccines, which are distributed for use by local health departments and public health clinics, were slower than expected. These underages related to the release of grants and the purchase of vaccines were best viewed as temporary conditions that should rectify themselves in the next few months.

Job & Family Services. In November, 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 $4.0 million, or 9.2 percent, under the estimate. Three line items accounted for the monthly underage as follows: 1) 600-504, Non-TANF County Administration ($2.7 million); 2) 600-502, Child Support Match ($1.7 million); and 3) 600-100, Personal Services ($1.5 million). In order, these underages were tied to: 1) a delay in the release of some county subsidy payments for costs incurred in administration of the DA, Medicaid, and Food Stamp programs, apparently a timing issue; 2) a delay in the final FY 2001 county subsidy payments for costs incurred in administration of the Child Support Enforcement program, due to a revised disbursement schedule; and 3) a two-week departmental payroll that posted in late October, rather than in early November as forecast.

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Fiscal Year-to-Date 2001
($ in thousands)

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 2000	Percent Change
Primary & Secondary Education (1)	$2,686,677	$2,676,936	$9,741	$2,240,291	19.93%
Higher Education	$1,174,644	$1,172,777	$1,867	$1,116,204	5.24%
Total Education	$3,861,320	$3,849,713	$11,608	$3,356,495	15.04%
Health Care/Medicaid	$2,715,150	$2,527,359	$187,791	$2,309,999	17.54%
Temporary Assistance to Needy Families (TANF)	$396,803	$436,472	($39,669)	$333,599	18.95%
General/Disability Assistance	$30,587	$28,895	$1,692	$25,895	18.12%
Other Welfare (2)	$276,610	$299,542	($22,932)	$243,343	13.67%
Human Services (3)	$537,273	$551,469	($14,196)	$586,471	-8.39%
Total Welfare & Human Services	$3,956,423	$3,843,737	$112,686	$3,499,307	13.06%
Justice & Corrections	$821,861	$808,744	$13,116	$810,271	1.43%
Environment & Natural Resources	$80,861	$78,294	$2,567	$78,931	2.45%
Transportation	$17,462	$17,990	($528)	$20,030	-12.82%
Development	$91,720	$89,232	$2,488	$69,148	32.64%
Other Government (4)	$199,676	$224,500	($24,824)	$201,654	-0.98%
Capital	$41,931	$12,617	$29,314	$8,440	396.79%
Total Government Operations	$1,253,510	$1,231,378	$22,132	$1,188,475	5.47%
Property Tax Relief (5)	$402,091	$459,434	($57,344)	$411,206	-2.22%
Debt Service	$104,303	$104,203	$100	$95,676	9.02%
Total Program Payments	**$9,577,647**	**$9,488,464**	**$89,182**	**$8,551,159**	**12.00%**
TRANSFERS					
Local Govt Distribution	$0	$0	$0	$0	—
Budget Stabilization	$49,200	$49,200	$0	$46,400	6.03%
Other Transfers Out	$780,457	$621,692	$158,765	$763,841	2.18%
Total Transfers Out	$829,657	$670,892	$158,765	$810,241	2.40%
TOTAL GRF USES	**$10,407,303**	**$10,159,356**	**$247,947**	**$9,361,400**	**11.17%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes the Department of Job & Family Services, exclusive of Medicaid, TANF, and General/Disability Services.
(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.

The size of the November underage was somewhat muted by a collection of line item overages, most noticeably in two disbursement areas: maintenance and adoption services spending. The latter overage represented the residual effects of a decision to change from a monthly to a quarterly schedule in the matter of reimbursing counties for state-funded adoptions and one-time special adoption payments.

Development. Timing was the key influence on the Department of Development's $3.8 million underage posted for the month of November. The primary factor in this disbursement variance was that the scheduled release of $2.2 million in Business Development grant funding encumbered from prior fiscal years did not occur. This underage was not all that surprising, however, as it seemed to represent no more than an expected correction to previous overages in the release of Business Development grant funding that had been posted for the months of August and September.

Mental Retardation. For November, the Department of Mental Retardation & Developmental Disabilities posted a negative disbursement variance of $3.6 million, under the $40.8 million monthly spending estimate by 8.9 percent. The three key contributors to the monthly underage were: 1) line item 323-321, Residential Facilities Operations ($5.6 million); 2) line item 322-501, County Boards Subsidies ($8.1 million); and 3) line item 322-452, Case Management Services ($3.3 million). The first of these line item underages was tied to the timing of payroll for the department's 12 developmental centers. The estimate was built around the assumption that the developmental centers would post two pay periods in October, followed by three pay periods in November. The reality was exactly the opposite: three pay periods posted in October, and only two pay periods posted in the following month, thus producing the November payroll underage. The latter two of these three line item underages were also no more than victims of timing. Both were simply products of temporary delays in the scheduled release of subsidies to county boards for the provision of early childhood and adult programs, as well as case management services.

Also in the monthly disbursement mix were two line items with overages that, in combination, significantly reduced the size of the department's November underage. Those two line items, and their associated overages, were: 1) 320-415, Rent Payments-OPFC ($10.0 million); and 2) 322-413, Residential & Support Services ($3.4 million). Line item 320-415's overage was due to the timing of a debt service payment. The estimate assumed that the $10.0 million debt service payment would land in December; the reality was that it hit in November, a month earlier than expected. The overage in the Residential & Support Services line item, which carries funding to cover service provider payments, was also related to a timing issue, reminding us, once again, of the difficulty in precisely predicting how long it will take the department to review and settle service provider payment requests.

Notable Overages. Five departmental budgets and programs produced a set of notable monthly overages totaling $88.0 million. These five monthly overages, arranged in order of magnitude, are commented on below.

Health Care/Medicaid. November's disbursements in the Health Care program were $39.3 million, or 8.3 percent, above the estimated monthly spending of $472.3 million. This overspending, which marked the fourth consecutive monthly overage posted by the Health Care program since the fiscal year started five months ago, was primarily a function of two Medicaid service categories: 1) Nursing Homes ($17.3 million); and 2) Hospitals ($10.4 million). As has been the case in recent months, November's Health Care disbursements were largely influenced by higher than anticipated caseloads across all eligibility categories as well as higher than expected health care cost growth, the net result of which was higher than forecast spending across all service categories. The sole exception was the Prescription Drugs service category, which posted an overage, due to a larger than expected amount of monthly rebate activity. (We've provided a more detailed visual picture of November's Health Care disbursement activity in Table 6.)

Education. The Department of Education recorded a $28.5 million positive disbursement variance in November, over the $631.7 million monthly estimate by 4.5 percent. There were two principal components to the department's monthly overage: 1) the Nonpublic Administrative Cost Reimbursement program ($51.4 million); and 2) the Head Start program ($23.6 million). In the case of the former program, virtually all of the $51-plus million in

FY 2001 funding appropriated for the purpose of reimbursing chartered nonpublic schools for mandated administrative and clerical costs incurred for such things as filing reports and maintaining records, was released by the Controlling Board in November, a month earlier than forecast. And in the case of the latter program, second quarter subsidy payments to recipients of Head Start funding were also disbursed a month ahead of schedule. Both overages were no more than matters of timing.

The power of these two overages was in turn significantly diluted by underages of $31.7 million and $12.5 million thrown in from line items 200-503, Bus Purchase Allowance, and 200-501, Base Cost Funding, respectively. The former underage reflected the fact that the Controlling Board had approved the release of funds to assist school districts with bus purchases in October, a month earlier than forecast. The latter underage, while admittedly small in the context of a $3.8 billion line item, may have been related to the manner in which payments for community school students are being made, a factor that we discuss in more detail further on in this article as part of the state's year-to-date disbursement picture.

Capital. For the month of November, the

Table 6
Health Care Spending in FY 2001

Medicaid (600-525)*

	November '00				Year-to Date Spending			
Service Category	**Actual**	**Estimate**	**Variance**	**Percent Variance**	**Actual** thru' Nov.**	**Estimate** thru' Nov.**	**Variance**	**Percent Variance**
Nursing Homes	$198,590,116	$181,312,480	$17,277,636	9.5%	$955,726,992	$904,368,594	$51,358,398	5.7%
ICF/MR	$33,135,108	$29,989,877	$3,145,231	10.5%	$159,551,953	$149,812,229	$9,739,724	6.5%
Hospitals	$109,195,333	$98,833,929	$10,361,404	10.5%	$607,104,860	$580,907,360	$26,197,500	4.5%
Inpatient Hospitals	$78,815,658	$72,120,709	$6,694,949	9.3%	$442,349,382	$426,845,642	$15,503,740	3.6%
Outpatient Hospitals	$30,379,675	$26,713,220	$3,666,455	13.7%	$164,755,478	$154,061,718	$10,693,760	6.9%
Physicians	$30,114,301	$26,120,356	$3,993,945	15.3%	$167,276,196	$146,830,567	$20,445,629	13.9%
Prescription Drugs	$48,844,119	$54,313,546	($5,469,427)	-10.1%	$327,223,573	$303,081,828	$24,141,745	8.0%
Payments	$77,743,460	$70,343,699	$7,399,761	10.5%	$412,872,851	$387,469,455	$25,403,396	6.6%
Rebates	$28,899,341	$16,030,153	$12,869,188	80.3%	$85,649,278	$84,387,627	$1,261,651	1.5%
Waiver[1]	$10,780,239	$9,321,007	$1,459,232	15.7%	$56,450,623	$50,476,863	$5,973,760	11.8%
HMO	$35,711,809	$31,025,724	$4,686,085	15.1%	$170,348,611	$159,082,698	$11,265,913	7.1%
Medicare Buy-In	$9,744,249	$9,314,446	$429,803	4.6%	$47,757,027	$48,351,091	($594,064)	-1.2%
All Other***	$33,095,796	$31,472,356	$1,623,440	5.2%	$216,941,502	$182,925,657	$34,015,845	18.6%
Total (600-525)	$509,211,070	$471,703,721	$37,507,349	8.0%	$2,708,381,337	$2,525,836,887	$182,544,450	7.2%
CAS	$509,211,070		$37,507,349	8.0%	$2,708,381,337		$182,544,450	7.2%
Est. Federal Share	$299,365,188	$277,314,618	$22,050,571		$1,592,257,388	$1,484,939,506	$107,317,882	
Est. State Share	$209,845,882	$194,389,103	$15,456,779		$1,116,123,949	$1,040,897,381	$75,226,568	
Children's Health Insurance Plan (CHIP-II), (600-426)*[2]								
Total (600-426)	$2,434,233	$597,631	$1,836,602	307.3%	$6,770,172	$1,522,153	$5,248,019	344.8%
Est. Federal Share	$1,730,253	$424,796	$1,305,457		$4,812,238	$1,081,946	$3,730,292	
Est. State Share	$703,980	$172,835	$531,145		$1,957,934	$440,207	$1,517,727	
TOTAL Health Care	*$511,645,303*	*$472,301,352*	*$39,343,951*	*8.3%*	*$2,715,151,509*	*$2,527,359,040*	*$187,792,469*	*7.4%*

* This portion of the table only includes Medicaid spending through Job & Family Services' 600-525 line item.
** Includes spending from prior year encumbrances in the All Other category.
*** All Other, includes all other health services funded by 600-525.
1. Waivers provide home care alternatives to consumers whose medical conditions/functional abilities would otherwise require Long Term Care facility residence. Prior to FY 2001, reported in "All Other" category.
*[2] This portion of the table only includes CHIP-II spending through Job & Family Services' 600-426 line item. CHIP-II effective 7/1/2000, provides health care coverage for children under age 19, with family incomes between 150-200% of FPL.

Source: BOMC8300-R001, BOMC8350-R001&R002 Reports, Ohio Department of Job & Family Services.

Table 7
FY 2001 to FY 2000 Comparison* of Year-to-Date Medicaid (600-525)Spending

Service Category	FY 2001[1,4] Yr.-to-Date as of Nov. '00	FY 2000[1,3,4] Yr.-to-Date as of Nov. '99	Variance	Percent Variance
Nursing Homes	$955,726,992	$865,026,873	$90,700,119	10.5%
ICF/MR	$159,551,953	$146,037,771	$13,514,182	9.3%
Hospitals	$607,104,860	$511,511,087	$95,593,773	18.7%
Inpatient Hospitals	$442,349,382	$380,607,995	$61,741,387	16.2%
Outpatient Hospitals	$164,755,478	$130,903,092	$33,852,386	25.9%
Physicians	$167,276,196	$117,129,480	$50,146,716	42.8%
Prescription Drugs	$327,223,573	$265,241,381	$61,982,192	23.4%
Payments	$412,872,851	$345,504,256	$67,368,595	19.5%
Rebates	$85,649,278	$80,262,875	$5,386,404	6.7%
Waiver[2]	$56,450,623	$47,088,411	$9,362,212	19.9%
HMO	$170,348,611	$151,141,553	$19,207,058	12.7%
Medicare Buy-In	$47,757,027	$61,222,062	($13,465,035)	-22.0%
All Other***	$216,941,502	$145,600,293	$71,341,209	49.0%
TOTAL (600-525)	$2,708,381,337	$2,309,998,912	$398,382,425	17.2%
Est. Federal Share	$1,592,257,388	$1,347,510,145	$244,747,243	18.2%
Est. State Share	$1,116,123,949	$962,488,766	$153,635,182	16.0%

* This table only includes Medicaid spending through Job & Family/Human Services' 600/400-525 line item[3].
*** All Other, includes all other health services funded by 600-525.

1. Includes spending from prior year encumbrances in the "All Other" category.
2. Waivers provide home care alternatives to consumers whose medical conditions/functional abilities would otherwise require Long Term Care facility residence. Prior to FY 2001, reported in "All Other" category.
3. FY 2000 and all prior years' spending occurred through the Human Services' 400-525 line item.
4. CHIP/HS Phase I service payments are rolled into the 600-525 account for FY 2001. For FY 2000, total CHIP/HS-I spending of $66.6 million occurred through the Human Services' 400-671/623 line items.

Note: For comparison purposes, this table does not include CHIP-II, since it was implemented in FY 2001.

Capital program produced a rather large overage totaling $11.0 million. The monthly estimate was $1.5 million, while the monthly actual checked in at $12.5 million. This marked the program's second consecutive monthly overage of note, as it followed right on the heels of an $18.4 million overage posted for the month of October. In both instances, the key factor was a sizeable amount of unanticipated spending by the Department of Administrative Services, attributable to the Controlling Board's release of capital funding earmarked for various rural and urban community assistance projects earlier than forecast.

Mental Health. The Department of Mental Health posted November disbursements in excess of the monthly estimate by $8.9 million, or 30.0 percent, mainly due to the timing of a $10.0 million debt service payment. The estimate assumed that the debt service payment would fall in the month of December; instead the payment was disbursed in November, a month earlier than expected. Slightly offsetting the impact of the debt service overage on the department's monthly disbursement variance was a collection of smaller underages largely related to the timing of county mental health board subsidy payments.

TANF. November's disbursements in the Temporary Assistance to Needy Families (TANF) program were a mere $302,494, or 0.3 percent, over the estimated monthly spending of $106.6 million. That miniscule overage, however, masked significant offsetting disbursement variances between TANF's state and federal GRF components. For the month, TANF's two state GRF components — line item 600-410, TANF State, and line item 600-413, Day Care Match/MOE — posted overages of $5.8 million and $1.8 million, respectively. The former overage, while surprising in light of a declining cash assistance caseload, was perhaps best viewed as a spike that corrected for prior delays in spending on computer project contracts. The latter overage simply indicated that slightly more state Day Care Match/MOE dollars were disbursed to counties in support of child care than forecast for the month of November.

Almost completely offsetting the impact of those twin state GRF overages was TANF's federal GRF component — line item 600-411, TANF Federal Block Grant — with a monthly underage of $7.4 million. This underage was related to lower than forecast disbursements in federal GRF funding allocated for computer project contracts and county advances.

Our review of TANF's monthly disbursements would not be complete without at least some mention of the program's cash assistance component known as Ohio Works First (OWF). Relative to October, the number of cash assistance cases declined by 2,800 from 91,944 to 89,144. The decline in the cash assistance caseload was strongly affected by the 36-month time limit on the receipt of cash benefits. As a result, total cash benefit payments for the month went from $28.6 million in October to $27.3 million in November, a drop of $1.3 million.

II. Year-to-Date

At November's end, excluding transfers, the state was in possession of an $89.2 million positive year-to-date disbursement variance, over the $9.49 billion estimate by 0.9 percent. This disbursement variance was largely the work of timing, with the clear exceptions to this generalization being the Medicaid and Disability Assistance programs where caseloads and related costs were rising, monthly overages had become the norm, and budgetary shortfalls loomed on the horizon.

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 eight 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.

Health Care/Medicaid. Year-to-date, disbursements from the Health Care program were $187.8 million, or 7.4 percent, above estimated spending of $2.53 billion. With the exception of the Medicare Buy-In payment, all of the Health Care service categories contributed to pushing the program's year-to-date disbursements above the estimate. In order of magnitude, the most important contributors were as follows: 1) Nursing Homes ($51.4 million); 2) All Other ($34.0 million); 3) Hospitals ($26.2 million); 4) Prescription Drugs ($24.1 million); and 5) Physicians ($20.4 million). As was the case with its November disbursements, Health Care's year-to-date disbursements have been largely influenced by higher than anticipated caseloads across all eligibility categories as well as higher than expected health care cost growth, the net result of which was higher than forecast spending across all service categories. (A more detailed visual picture of year-to-date Health Care disbursement activity, as well as a spending comparison with FY 2000, is contained in Tables 6 and 7, respectively.)

The significance of the Medicaid program's ongoing pattern of monthly overages has not been lost on state budget watchers; it's steadily sailing towards a fiscal crisis. In light of that fact, the state legislature, at the close of November, was deliberating over S.B. 346 of the 123rd General Assembly, which, among other things, included supplemental funding designed to fix the Medicaid program's projected budgetary shortfall. The proposed fix totaled $634.8 million in additional FY 2001 GRF appropriation authority. The state share of that total was $236.9 million, with the remainder, or $397.9 million, being covered by federal reimbursement.

Capital. Year-to-date, the Capital program posted disbursements that were in excess of the estimate by $29.3 million. The estimate assumed that $12.6 million would have been disbursed to this point in time, while the actual amount disbursed was noticeably larger at $41.9 million. This year-to-date overage was largely attributable to an earlier than expected release from the Department of Administrative Services budget of $29-plus million in earmarked funds for various rural and urban community assistance projects.

Mental Retardation. The Department of Mental Retardation & Developmental Disabilities closed November with a $16.0 million positive year-to-date disbursement variance, over estimated spending of $180.1 million by 8.9 percent. The primary piece in the overage, with an $18.8 million contribution, was line item 322-413, Residential & Support Services, simply indicating that service provider payments were being processed faster than forecast. A more distant secondary piece in the overage was line item 320-415, Rent Payments-OPFC, with a $10.0 million contribution that resulted from the November posting of a debt service payment forecast to occur in December.

Exerting a strong braking effect on the size of the department's year-to-date overage was a trio of line items that collectively posted an underage totaling $13.6 million. That trio included line item 323-321, Residential Facilities Operations ($3.0 million), line item 322-501, County Boards Subsidies ($7.4 million), and 3) line item 322-452, Case Management Services ($3.2 million). The underage in the Residential Facilities Operations line item was traceable to the fact that the GRF operating expenses of the state's 12 developmental centers have been lower than forecast. The latter two line item underages were products of temporary delays in the scheduled release of subsidies to county boards for the provision of early childhood and adult programs, as well as case management services. The culprit behind all three of these line item underages, however, was essentially no more than timing.

Education. Year-to-date, the Department of Education posted a positive disbursement variance of $12.7 million, or 0.5 percent, a microscopic overage when compared to the estimate of $2.61 billion. In light of this overage, the most intriguing aspect of the department's year-to-date spending picture was the fact that the largest component of its disbursement variance was actually a $78.2 million underage located in line item 200-501, Base Cost Funding, which supports the core of the state's funding for K-12 education.

The Base Cost Funding underage was composed of two pieces: $52.2 million in current year funding plus $26.0 million in funding encumbered from prior fiscal years. The first piece of this underage was largely due to the manner in which the state makes basic aid payments for students of community schools. In order to qualify for state aid, a community school student is included in his or her resident school district's October ADM (average daily membership) count. During the first half of FY 2000, the department simply made basic aid payments directly to each school district and made no reductions in their funding to reflect the fact that some of their students were attending community schools. As a result, a pattern of monthly overages developed, because school districts were receiving basic aid funding for students attending community schools and community schools were simultaneously receiving basic aid funding directly from the state for the same students. In the second half of FY 2000, the department started making the appropriate reductions to each school district's monthly basic aid funding and the result was a pattern of monthly underages. The FY 2001 disbursement estimate was based on this FY 2000 history.

The department, however, altered its course in FY 2001 relative to the handling of basic aid payments for students who attend community schools. Last fiscal year's practice was clearly more retrospective in nature. Under current practice, basic aid payments for these types of students are prospectively deducted from their resident school district's monthly funding and then paid directly to the community schools they are attending. Mainly as a result of this change in accounting for community school students, which the FY 2001 disbursements estimate did not anticipate, the Base Cost Funding line item has underspent its current year appropriation. At this point in the fiscal year, community school payments total around $98.8 million.

The second piece of the Base Cost Funding underage — $26.0 million in encumbered prior years' funding — carried a more straightforward explanation. We have been led to believe that this was simply related to the fact that the department had yet to make its final FY 2000 payment adjustments. Such adjustments, should they occur, would most likely happen in December 2000 or January 2001.

This large Base Cost Funding underage was in turn offset by a bunch of more or less timing-based overages posted in various areas of the department's budget, the two most notable of which involved the Nonpublic Administrative Cost Reimbursement and Head Start programs. The former recorded an overage of $51.4 million, due essentially to the fact that funding appropriated for the purpose of reimbursing chartered nonpublic schools for mandated administrative and clerical duties was released by the Controlling Board earlier than forecast. The latter registered an overage of $24.2 million, attributable to the disbursement of second quarter Head Start subsidy payments a month ahead of schedule.

Rehabilitation & Correction. At the close of November, the Department of Rehabilitation & Correction (DRC) posted a positive year-to-date disbursement variance of $6.5 million, in excess of the estimate by 1.1 percent. The department's year-to-date overage was basically propelled by the spending of operating expenses funding that had been encumbered from prior fiscal years for disbursement in FY 2001. Upon closer inspection, it became clear that DRC will spend more of its funding encumbered from prior fiscal years than was anticipated, and that as a result, the total amount of departmental funding that will lapse and be returned to the GRF's FY 2001 ending cash balance may be smaller than forecast.

Youth Services. Year-to-date, the Department of Youth Services' disbursements posted $5.7 million, or 5.1 percent, higher than forecast. This disbursement variance was primarily traceable to a roughly $4.4 million overage in the Care & Custody line item, which supports RECLAIM Ohio, a program that allows juvenile courts to purchase services that sanction and treat offenders under their jurisdiction, including certain services provided in youth institutions operated by the department. There was no reason to believe that the source of this disbursement variance was anything more than timing.

GA/DA. At the end of November, the state's General/Disability Assistance program was holding a $1.7 million overage, in excess of the estimate by 5.9 percent. The driving force in the disbursement variance was the Department of Job & Family Services' $63-plus million Disability Assistance (DA) program, a state- and county-funded effort that provides cash and/or medical assistance to persons ineligible for public assistance programs that are supported in whole or in part by federal funds.

Since the fall of 1999, the cash assistance caseload has consistently exceeded the forecast on which the current biennial budget for the DA program was based. At the end of November, the cash assistance caseload stood at 10,810, which was approximately 1,400 above the monthly cash assistance caseload estimate. Roughly one-third of the DA program overage was attributable to the higher than forecast cash assistance caseload.

Conversely, the medical assistance caseload has tended to track slightly below the monthly medical assistance caseload estimate, and thus has behaved pretty much as forecast. Medical cost inflation, however, has been higher than forecast, most notably in the area of prescription drugs. About two-thirds of the DA program overage was traceable to these higher than expected medical costs.

As a result of these twin overages in its cash assistance and medical assistance components, the DA program is headed for a FY 2001 budgetary shortfall. The program experienced a similar fate in FY 2000 that was addressed by a $2.1 million cash infusion as well as by postponing some expenditures until the start of FY 2001. The Department of Job & Family Services estimates the size of the DA's program projected FY 2001 budgetary shortfall at $10.7 million. At the close of November, the state legislature was deliberating over S.B. 346 of the 123rd General Assembly, which, among other things, included supplemental funding designed to fix the DA program's projected budgetary shortfall.

Notable Underages. There were eight notable underages totaling $172.3 million in the state's year-to-date disbursement picture, all of which are discussed below.

Property Tax Relief. Year-to-date, the Property Tax Relief program recorded a negative disbursement variance of $57.3 million, short of the estimate by 12.5 percent. This year-to-date underage was almost entirely a product of November's timing-influenced spending activity, which, as we previously noted, developed from two contrasting disbursement ingredients: a huge underage in the release of real property tax credits/exemptions funding mixed with a moderately-sized overage in the release of tangible tax credits funding.

Over the course of FY 2001, the Property Tax Relief program will disburse approximately $1.14 billion back to school districts, counties, municipalities, townships, and other special taxing districts as compensation for credits or exemptions provided to taxpayers under existing state law. The timing of the state's distribution of this funding depends heavily on how quickly the settlement process goes at the local level and when county auditors apply to the state for relief payments. As a result, large negative or positive disbursement variances in the property tax relief program are not uncommon timing-based phenomena that come and go from one month to the next.

TANF. Year-to-date, Temporary Assistance to Needy Families (TANF) program disbursements were $39.7 million, or 9.1 percent, below estimated spending of $436.5 million. This disbursement variance was primarily propelled by the program's federal GRF line item 600-411, TANF Federal Block Grant, with an underage of $51.5 million. Partially offsetting the impact of this line item's underage on TANF's disbursement variance was the program's two state GRF components — line item 600-410, TANF State, and line item 600-413, Day Care Match/MOE — which posted overages of $8.7 million and $3.1 million, respectively. In general, TANF's overall year-to-date underage was tied to at least three factors: 1) decisions to change the mix of funding streams available at any given time to cover the program's varied cost components; 2) delays in computer projects and related contractor payments; and 3) declining numbers of cash assistance recipients.

That said, there are at least four elements of the TANF environment whose effects on disbursements will be difficult to untangle, thus making problematic one's ability to pose more precise statements about TANF's disbursements. First, timing exerts temporary effects that constrain or accelerate disbursements, sometimes simultaneously slowing down and speeding up different programmatic areas. Second, as the size and composition of the TANF's program population changes, including the cash assistance recipients, spending plans need to be changed accordingly. Third, the Department of Job & Family Services has a great deal of latitude, which it appears to frequently exercise, in shifting TANF's various cost components across a mixed pool of state and federal GRF and non-GRF revenue streams. Thus, an expenditure planned to show up as a

GRF disbursement could easily be covered by a non-GRF revenue stream instead. Fourth, in November, the state's Controlling Board approved a TANF-related request from the Department of Job & Family Services that increased the FY 2001 appropriation in the program's federal GRF share by $161.1 million.

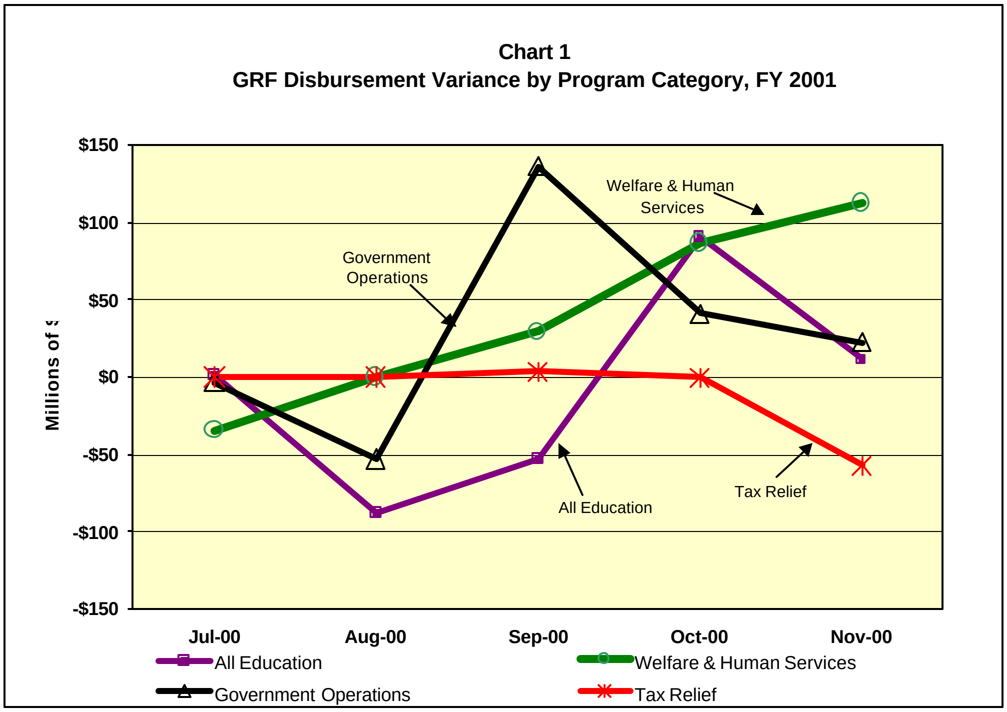
Job & Family Services. Year-to-date, disbursements for the Department of Job and Family Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF and General/Disability Assistance, which are tracked under separate components of the Welfare & Human Services program category, and inclusive of former Bureau of Employment Services programs — were $22.9 million, or 7.7 percent, under the estimate, largely owing to the timing of various subsidy and contractor payments. Areas of the departmental budget that played notable roles in the year-to-date underage included, in order of magnitude: 1) electronic benefits transfer ($4.7 million); 2) county social services ($3.0 million); 3) child support administration ($2.5 million); 4) adoption services ($2.1 million); 5) non-TANF administration ($2.0 million); 6) burial claims ($1.7 million); 7) adult protective services ($1.7 million); and 8) personal services ($1.5 million).

Mental Health. Through November, the Department of Mental Health registered a year-to-date underage of $16.4 million, shy of the estimate by 6.9 percent. Similar to last month's report, most of the underage was traceable to the department's three largest GRF county mental health board subsidy line items: 1) 334-408, Community & Hospital Mental Health Services ($19.6 million); 2) 335-502, Community Mental Health Programs ($4.1 million); and 3) 335-508, Services for Severely Mentally Disabled ($2.3 million). The source of these three disbursement variances was that the department's pattern of spending current year subsidy funding had not mirrored the prior fiscal year's as was assumed would be the case when the FY 2001 estimates were completed. Noticeably offsetting the impact of these subsidy underages on the department's year-to-date disbursment variance was a $10.0 million overage related to the early posting of a debt service payment. That said, the source of this mix of disbursement variances in the department's budget was no more than a matter of timing that will self-correct in the months ahead.

Administrative Services. Year-to-date, the Department of Administrative Services posted a $14.1 million negative disbursement variance, shy of the estimate by 14.8 percent. Just over 60 percent of the underage was attributable to the department's computer services programs, which provide computing and communications services to other state agencies. Most notably, the development Multi-Agency Radio Communications System (MARCS) along with various Strategic Technology projects have not progressed as quickly as had been assumed would be the case when the estimates were assembled last August.

Alcohol & Drug Addiction. The Department of Alcohol & Drug Addiction Services' year-to-date disbursements landed $11.6 million, or 37.8 percent, lower than forecast. As previously noted in our discussion of November's disbursement variance, this year-to-date underage was directly related to a delay in the distribution of second quarter subsidy payments to approximately 15 county boards. Apparently, these county boards had not submitted a required quarterly report in time for their second quarter subsidy payments to be processed and disbursed during the month of November as scheduled.

Health. Timing was the principal force that constrained the Department of Health's year-to-date spending and produced the resulting $5.2 million negative disbursement variance, which was under the $42.8 million spending estimate by 12.9 percent. Two areas of the department's budget that featured sluggish spending due to timing issues included: 1) subsidy funding to local health departments; and 2) payments for services rendered to certain medically handicapped children. Given the source of the department's year-to-date disbursement variance was largely timing-based, many of the underages



littered throughout its budget should disappear as the pace of spending picks up.

Taxation. The operating expenses portion of the Department of Taxation's budget closed November with a year-to-date underage of $5.1 million, off the estimate by 12.6 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 November 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 an $89.2 million year-to-date overage by November's end. In the narrative below, we've distilled the essence of the five-month disbursement patterns exhibited by those four major program categories.

Welfare/Human Serv. (+$112.7 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 were victims of something other than timing — the Medicaid and Disability Assistance programs. Both programs featured a mounting overage that showed no signs of abating, and as a result, were creating fiscal turmoil that was going to require a legislative response.

Government Operations (+$22.1 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 million in debt service payments that were forecast to hit in October. As expected, the program then self-corrected in October by posting several large debt-service driven underages. November followed with a largely mixed bag of timing-based underages.

Education (+$11.6 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. In October and November, the program category's disbursement variance was dominated by the Board of Regents, essentially due to the timing of a $100-plus million debt service payment.

Tax Relief (-$57.3 million). Prior to November, the state's Property Tax Relief program played virtually no role in the year-to-date disbursement picture. In November, that dramatically changed as the program posted a large $57.0 million underage. Quite simply, timing was at work once again, with self-correcting adjustments most likely lying only a month or so away. ❑

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