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Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission

November 2001

Fiscal Overview

— Doris Mahaffey

The September 11 terrorist attacks appear to have nudged the U.S. economy into recession. It had been teetering on the brink of recession for most of calendar year 2001 and the repercussions from the attacks seem to have finally answered the question of which way the economy was going to go. Looking back on the August and early September economic data, it seems likely that the economy was headed into recession anyway, but much of the uncertainty around that question has now been resolved. The new questions are: How deep will the recession be and how long will it last?

By all accounts the Ohio economy was already in recession. As a consequence of the September 11 attacks, it now appears that it will remain there longer than had been anticipated. This does not bode well for the state budget.

At the end of September, state GRF revenues for the first quarter of FY 2002 were only $4.5 billion – already $215.5 million under estimate. Disbursements (including transfers) were under as well, by $129.2 million, but much of that was due to matters of timing. This cannot be said for the main underlying causes of the revenue shortfall.

The sales tax and the personal income tax contributed nearly equally to the revenue shortfall. The personal income tax registered the largest negative variance – it was $102.3 million under estimate (year-to-date); the sales tax was $92 million under. Excluding auto sales tax revenues (which were $7.4 million over estimate as of the end of September), non-auto sales tax revenues were $99.5 million under.

Variances in the other tax revenue sources just about cancelled each other out. Negative variances in the corporate franchise tax ($10.3 million under), the estate tax ($9 million under) and the foreign insurance tax ($5.8 million under) were slightly offset by positive variances in the public utility excise tax ($30.6 million over), and the cigarette tax ($2.5 million over).

In contrast to the experience of FY 2001, some of the non-tax revenue sources added to the revenue shortfall. Notably federal grants were $24 million under for the year and earnings on investments were $7.6 million under for both the month of September and the year. (At this time last year federal grants were $97.7 million over, and earnings on investments were $15.4 million over.)

Volume 25, Number 1

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

	Month of September	Fiscal Year 2002 to Date	Last Year	Difference
Beginning Cash Balance	$95.7	$817.1		
Revenue + Transfers	$1,622.1	$4,532.6		
Available Resources	$1,717.8	$5,349.6		
Disbursements + Transfers	$1,990.3	$5,622.2		
Ending Cash Balances	($272.5)	($272.5)	($263.0)	($9.6)
Encumbrances and Accts. Payable		$904.8	$959.2	($54.3)
Unobligated Balance		**($1,177.4)**	**($1,222.2)**	**$44.8**
BSF Balance		$1,010.6	$1,002.5	$8.1

The shortfalls in the corporate franchise tax, the estate tax and the foreign insurance tax are very likely timing related. The bulk of the corporate franchise tax is not due until the second half of FY 2002, the first payment of the foreign insurance tax is due October 15, and estate tax remittances depend on local administrative actions. The shortfalls in the personal income tax, the non-auto sales and use tax, and earnings on investments are, however, indicative of real weaknesses in the revenue base. Employment has been falling since July, and wages and salary income has fallen along with it. Faltering consumer confidence – largely due to falling employment – has stifled consumption; and reduced state revenues, along with substantially lower interest rates, have reduced earnings on investments. The events of September 11 and the response to them are only likely to exacerbate these problems.

On the disbursement side, most program categories were under estimate. Medicaid had the largest underage ($47.5 million underestimate). Primary and secondary education and other welfare also had substantial negative variances ($23.6 million and $25 million under estimate, respectively). The justice and corrections category was another $20.2 million under. Higher education, other human services, other government, and property tax relief all ended the quarter with disbursements at least $12 million under estimate. Temporary Assistance for Needy Families (TANF) had the largest overage. With total GRF spending of $37.8 million, TANF was $32.6 million over estimate.

For the most part timing accounts for these variances (both positive and negative). For example, the September overage in TANF is due to the speeding up of payments to meet the state's minimum-effort requirement before the end of the federal fiscal year. In some cases, however, the reduced spending does reflect underlying economic realities. For example, part of the underage in the justice and corrections program area can be attributed to not filling certain positions in the anticipation of budget cuts. Part may also be attributed to lower debt service payments due to the Federal Reserve's actions over the past year to substantially lower the interest rate.

Budget Footnotes is issued periodically by the fiscal staff of the Legislative Service Commission (LSC), a nonpartisan agency serving the Ohio General Assembly.

Budget Footnotes examines the fiscal position of the state GRF on a periodic basis.

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The first quarter had an ending cash balance of -$272.5 million. As Table 1 shows, this negative cash balance is only slightly worse than the balance at this time last year (although last year, at the end of September both revenues and disbursements were over rather than under estimate). Last year, the state had slightly more encumbrances and outstanding accounts payable, as well, so that this year the state is in slightly better shape with regard to its unobligated balance.

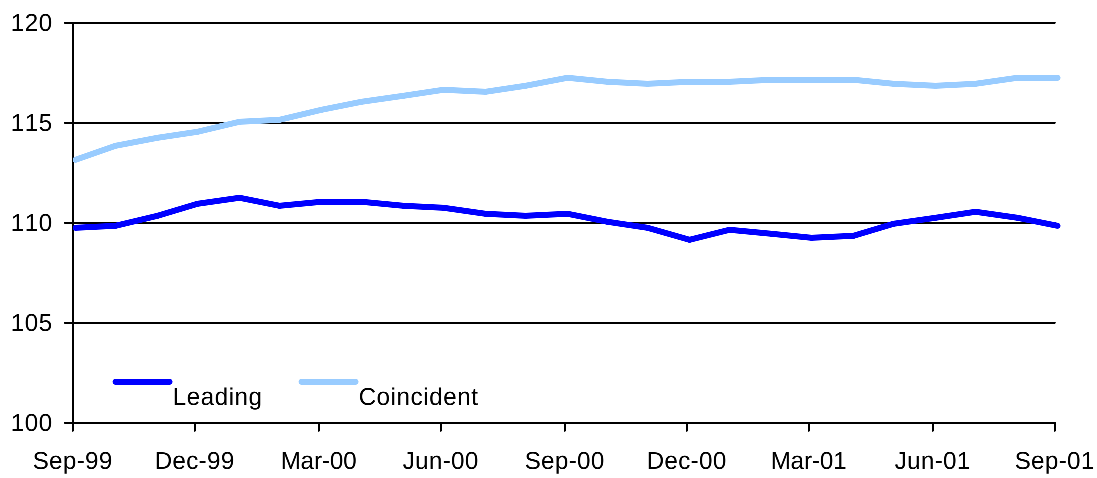
TRACKING THE ECONOMY

— Allan Lundell

Before September 11, the U.S. economy was experiencing low growth, but the prospects for stabilization and accelerated growth were promising. Consumers were surprisingly persistent in their spending. Inventories had been reduced to close to normal levels and factory production was stabilizing. Interest rates were low. Tax rebate checks were arriving daily. Near-term growth prospects were low, but positive. A recession would be avoided. The economy was still relatively weak and shaky, but regaining its balance.

The terrorist attacks of September 11 tipped the shaky economy into recession. Many economists feel that the economy's long-term prospects will suffer little, if any, from the attacks. The short term, however, is full of uncertainty. In the days following the attacks, economic activity slowed significantly. The economy did not come to a complete stop, but activity was sharply reduced. Economic activity has since picked up, but in most sectors remains lower than before the attacks. The increased uncertainty and the responses to uncertainty have kept activity down. The typical response to uncertainty is caution, and caution generally expresses itself economically through reduced spending.

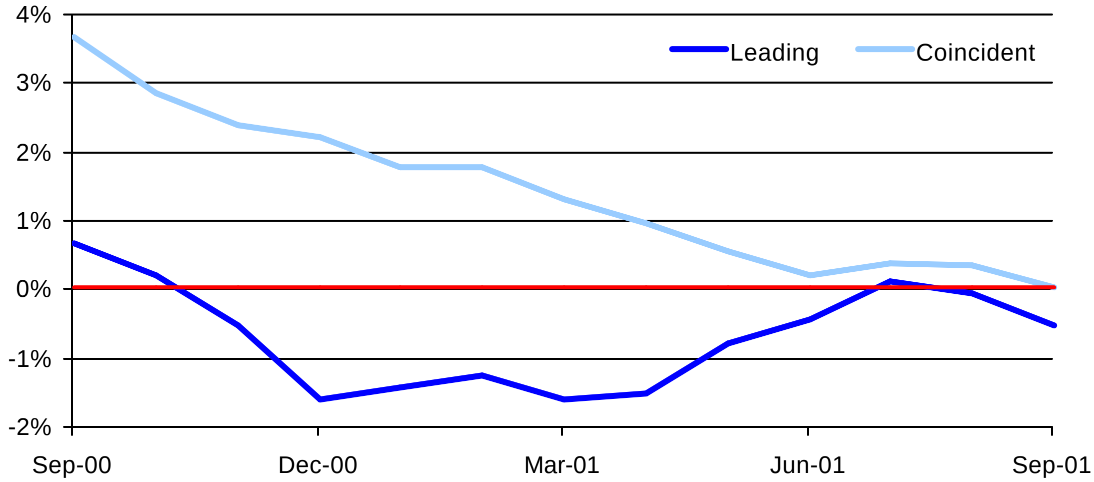
Exhibit 1: Indices of Economic Indicators



The Conference Board's indices of economic indicators provide a summary of economic conditions. Exhibits 1 and 2 are based on the coincident and leading indices. The coincident index gives an indication of the economy's current performance, or "where it is." The leading index gives an indication of the economy's future performance, or "where it is going." Exhibit 1 depicts the levels of the leading index and the coincident index. Although it did some falling and rising in between, the coincident index was 116.6 in both September 2000 and September 2001.[1] The behavior of the leading index was similar. The leading index stood at 109.8 in September 2000. It fell, rose, and fell again and stood at 109.2 in September 2001.

Exhibit 2 presents the percentage changes from a year earlier (year-over-year growth rate) for the two indices. The slowdown in the economy is evident in the downward trend of each line. The upward trend in the

Exhibit 2: Indices of Economic Indicators
(Percentage changes from one year earlier)



leading indicators during the spring and early summer provided some indication of possible stabilization and growth during the second half of the year.

As the economy slowed throughout the year, expectations of future performance were adjusted. Exhibit 3 contains forecasts of real GDP growth made by the economic consulting and forecasting company DRI-WEFA. Forecasts were revised as information about the state of the economy became available and as policy actions (both monetary and fiscal) were anticipated and taken. In January, expectations were that the slowdown would be mild and last through the first two quarters of 2001 and that economic activity would pick up midyear. As the year progressed and economists fully realized what was happening, both the length and depth of the forecasted slowdown increased. Even though the forecasted length and depth of the slowdown increased, it remained a slowdown. Forecasted real GDP growth stayed positive. Forecasters noted that the economy was relatively weak, but that barring any outside shock, a recession could be avoided. The events of September 11 changed that. The weak, shaky economy was shocked into a recession.

Prices

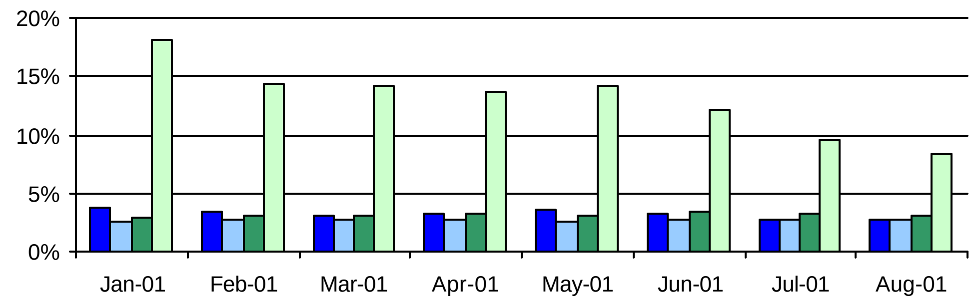
The seasonally adjusted Consumer Price Index for Urban Consumers (CPI-U) fell by 0.3 percent in July, rose by 0.1 percent in August, and rose by 0.4 percent in September. The index for food rose by 0.3 percent in July and by 0.2 percent in both August and September. The index for energy fell by 0.9 percent in July, 1.0 per-

Exhibit 3: Forecasts of Real GDP Growth

	2001		2002				2003			
Forecast Month	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
January 2001	2.9%	3.3%	3.4%	3.7%	3.9%	2.9%	3.8%	2.9%	3.9%	3.7%
February 2001	2.7%	3.5%	3.0%	3.6%	3.8%	2.7%	4.3%	3.4%	3.5%	3.9%
March 2001	2.6%	2.9%	3.2%	3.7%	3.9%	3.1%	4.0%	3.3%	3.5%	3.9%
April 2001	2.3%	2.6%	2.9%	3.3%	3.7%	3.3%	3.9%	3.1%	3.2%	3.7%
May 2001	1.3%	2.0%	2.8%	3.4%	3.6%	3.4%	3.9%	2.9%	3.1%	3.4%
June 2001	1.1%	2.2%	2.2%	3.0%	3.6%	3.5%	4.2%	3.4%	3.7%	3.9%
July 2001	1.9%	1.4%	3.1%	3.1%	3.8%	3.3%	3.0%	4.0%	3.8%	3.9%
August 2001	1.4%	1.9%	3.2%	2.7%	3.8%	4.2%	4.0%	3.1%	2.2%	2.5%
October 2001	-0.8%	-2.5%	1.4%	3.4%	4.4%	4.9%	5.1%	4.1%	3.0%	3.3%

cent in August, and 1.6 percent in September. The core CPI-U (excluding food and energy) rose by 0.2 percent in July, August, and September. Compared to a year ago, the CPI is up by 2.6 percent, the index for food is up 3.1 percent, the index for energy is up 4.6 percent, and the core CPI is up 2.6 percent. Inflation seems to be under control. This makes the implementation of expansionary monetary and fiscal policy less worrisome.

Exhibit 4: Consumer Price Indices
(Percentage changes from one year earlier)



	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01
All Items	3.70%	3.50%	3.00%	3.30%	3.60%	3.30%	2.70%	2.70%
Core	2.60%	2.80%	2.70%	2.70%	2.60%	2.80%	2.70%	2.70%
Food	2.90%	3.00%	3.10%	3.20%	3.00%	3.40%	3.20%	3.10%
Energy	18.10%	14.30%	14.20%	13.60%	14.20%	12.20%	9.50%	8.40%

Ohio Employment

Ohio total nonagricultural employment (not seasonally adjusted) was an estimated 5,662,500 in September 2001. This is down 12,600 from September 2000. The Ohio economy, with its dependence on manufacturing, slowed before the national economy. The slowdown is reflected in employment. The slowdown is also reflected in the increase in Ohio's unemployment rate. The not seasonally adjusted rate has increased from 4.0 percent in September 2000 to 4.3 percent in September 2001. The number of unemployed increased by 9.2 percent, from an average of 230,792 to 252,087.

Exhibit 5 contains the percent change from a year earlier in Ohio employment. Manufacturing employment has declined throughout the year and growth in other sectors has been minimal.

Exhibit 5: Percent Changes from One Year Earlier in Ohio Employment (NSA)

Industry	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01
Mining	-2.4%	-2.4%	-2.4%	-1.6%	-2.3%	-0.8%	-0.8%	0.8%	0.8%
Construction	4.0%	4.5%	2.6%	2.5%	2.4%	1.7%	1.2%	0.4%	-0.3%
Manufacturing	-1.3%	-1.8%	-2.1%	-2.1%	-2.6%	-2.9%	-2.6%	-3.1%	-3.5%
Trade	0.5%	0.6%	0.3%	0.4%	0.4%	0.2%	0.3%	0.0%	-0.1%
Transportation & Public Utilities	0.3%	0.2%	0.2%	-0.2%	-0.1%	0.1%	-0.2%	-0.8%	-0.8%
Finance, Insurance, & Real Estate	0.6%	0.5%	0.7%	0.7%	0.7%	0.8%	0.9%	0.9%	0.8%
Services	1.9%	1.8%	1.5%	1.5%	1.4%	1.3%	1.3%	1.5%	1.2%
Government	1.0%	1.3%	1.3%	1.0%	-0.7%	0.5%	0.7%	1.1%	1.2%
Total	0.7%	0.7%	0.4%	0.4%	0.0%	0.1%	0.2%	0.0%	-0.2%

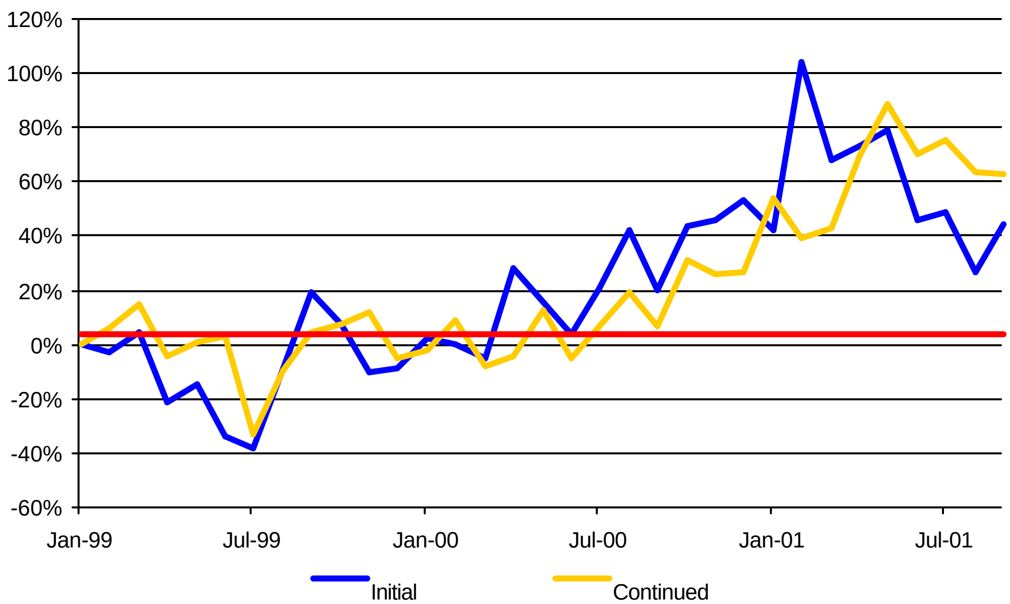
Low or negative growth in employment leads to low or negative growth in payroll. As payroll growth lags, household spending lags as do tax revenues (from both income and sales taxes). Exhibit 6 was constructed using information on employment and average weekly earnings from the U.S. Bureau of Labor Statistics. Information on earnings was available for the following sectors: mining, construction, manufacturing, trade, and FIRE (finance, insurance, and real estate). These sectors account for over half of Ohio employment.

Exhibit 6: Percentage Changes from One Year Earlier in Estimated Payroll (NSA)

Industry	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01
Mining	3.2%	1.3%	2.1%	-2.0%	3.5%	3.0%	6.6%	5.3%	4.0%
Construction	5.6%	2.8%	0.0%	-1.4%	0.8%	2.6%	-3.6%	1.2%	1.7%
Manufacturing	-3.0%	-3.5%	-4.1%	-5.5%	-2.6%	-3.1%	-0.7%	-1.5%	-4.6%
Trade	2.2%	2.2%	1.9%	2.0%	2.6%	2.1%	2.7%	2.0%	0.7%
Finance, Insurance, & Real Estate	2.4%	5.9%	8.3%	6.7%	7.0%	5.2%	2.8%	5.7%	4.2%
Total	0.0%	-0.2%	-0.7%	-1.7%	0.2%	-0.1%	0.2%	0.6%	-1.4%

The economic slowdown is also reflected in claims for unemployment compensation. Exhibit 7 shows trends in Ohio unemployment compensation claims. As the economy slowed, unemployment claims grew.

Exhibit 7: Ohio Unemployment Claims
(Percentage changes from one year earlier)



Although rising claims are an indicator of a slowing economy and a weakening labor market, they may understate the extent of slowing and weakness. According to the National Employment Law Project, in 1999, 36 percent of unemployed workers collected unemployment benefits and the percentage was lower for low-wage workers. Claims may be filed only by eligible workers. In Ohio, workers must have at least 20 qualifying weeks of covered employment at a weekly wage of at least $169.

[1] Based on the Conference Board's release dated October 22, 2001.

Status of the General Revenue Fund

REVENUES

— *Doris Mahaffey*

September revenues did nothing to alter Ohio's gloomy budget situation. Tax revenues for the month of September were $120 million under estimate. Non-tax revenues were an additional $8 million under. Federal grants did come in $12.5 million over for the month. With a $1 million assist from liquor transfers, September's revenue shortfall was reduced to $115 million. (See Table 2 for a breakdown of the performance of September state GRF revenues by source.)

September sales tax revenues were particularly disappointing with both the auto and the non-auto components coming in under estimate. The non-auto sales and use tax was $52.7 million under for the month, and the auto sales tax was $8.6 million under. For the first three months of the year the sales tax was down 1.6 percent from last year and was $92 million under estimate. The non-auto sales tax was $99.5 million under estimate and the auto portion of the sales tax was $7.4 million over estimate. In the week following the terrorist attacks, auto sales (along with the sales of other large-ticket items) came to a virtual standstill, but because of tax collection cycles this only marginally affected September receipts. Full effects should be visible in October and November revenues.

September personal income tax revenues were $39.6 million under estimate. The personal income tax was $102 million under estimate for the year. It was also 3 percent lower than at the same time last year.

Together the sales tax and the personal income tax, which are under estimate by $194 million for the year thus far, account for more than the total variance in all tax revenues ($189.6 million under). The $30.6 million overage in the public utility excise tax, along with a slight assist from the cigarette tax ($2.5 million over estimate), more than offsets the negative variances in most other tax sources. Earnings on investments posted a notable shortfall in September, further increasing the underage as measured by total income less federal grants, which ended the quarter $191.5 million under estimate. Overages in the licenses-and-fees and transfers-in categories did not quite offset the shortfalls in earnings on investments and the other-income category. Federal grants ended the quarter $24 million under estimate, adding to the revenue shortfall. The resulting $215.6 million underage in year-to-date revenues underscores the state's current budgetary problems. This shortfall is only expected to grow throughout the rest of the fiscal year.

Table 3 provides more detail regarding the state's year-to-date revenue performance. A caveat should be noted here with respect to the year-over-year comparisons presented in the table. Since 1996 the temporary income tax cut funded by the Income Tax Reduction Fund (ITRF) has made year-over-year comparisons of Ohio personal income tax revenue problematic. The varying percentage tax cuts result in widely differing income tax revenue growth rates on a year-over-year basis. The problem is reduced for annual comparisons because one can add the transfer to the ITRF to total personal income tax revenue and compare the growth of the sums over time. This does not work so well in the year-over-year comparisons we make here because the tax cuts affect the different components differently. Generally speaking, prior-year tax cuts would affect annual returns and refunds, while quarterly estimated payments should be affected by the current-year tax cut and withholding should not be affected at all.

While there is no tax cut for the 2001 tax year, the fact that there was one for tax year 2000 still complicates matters. Moreover, a feature of H.B. 94, the general appropriations bill for the 124th General Assembly, complicates year-over-year comparisons. The stabilization of revenues to the three local government distribution funds, known as the local government fund freeze, tends to complicate year-over-year comparisons of GRF revenues not only from the personal income tax, but also from the sales tax, the corporate franchise tax, and the public utility excise tax. Historically, a fixed portion of the

Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of September 2001
($ in thousands)

REVENUE SOURCE	Actual	Estimate*	Variance
TAX INCOME			
Auto Sales	$61,547	$70,125	($8,578)
Non-Auto Sales & Use	$381,771	$434,461	($52,690)
Total Sales	$443,317	$504,586	($61,269)
Personal Income	$684,537	$724,158	($39,621)
Corporate Franchise	$3,191	$8,560	($5,369)
Public Utility	$1	$0	$1
Kilowatt Hour Excise Tax	$31,656	$32,200	($544)
Total Major Taxes	**$1,162,703**	**$1,269,504**	**($106,801)**
Foreign Insurance	$6,049	$11,500	($5,451)
Domestic Insurance	$2	$0	$2
Business & Property	$209	$166	$43
Cigarette	$23,542	$22,400	$1,142
Alcoholic Beverage	$4,557	$4,620	($63)
Liquor Gallonage	$2,514	$2,393	$121
Estate	$8,735	$17,500	($8,765)
Total Other Taxes	$45,608	$58,579	($12,971)
Total Taxes	**$1,208,311**	**$1,328,083**	**($119,772)**
NON-TAX INCOME			
Earnings on Investments	$35,620	$43,200	($7,580)
Licenses and Fees	$828	$1,400	($572)
Other Income	$10,331	$10,470	($139)
Non-Tax Receipts	$46,778	$55,070	($8,292)
TRANSFERS			
Liquor Transfers	$9,000	$8,000	$1,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$0	$0	$0
Total Transfers In	$9,000	$8,000	$1,000
TOTAL INCOME less Federal Grants	**$1,264,089**	**$1,391,153**	**($127,064)**
Federal Grants	$358,013	$345,562	$12,451
TOTAL GRF INCOME	**$1,622,102**	**$1,736,715**	**($114,613)**

* July 2001 estimates of the Office of Budget and Management.
Totals may not add up due to rounding.

revenues from these taxes has gone to the local government funds as well as to the state GRF. (The GRF receives the bulk of the funds.) For FY 2002 and 2003, the freeze provides that each of the local government funds receives the same amount of revenue from each of these taxes as it did during FY 2001. To the extent that total revenues from the tax in FY 2002 exceed revenues from the same tax in FY 2001, the GRF will benefit; to the extent that the opposite is the case, the GRF will lose. In any case, the change in formula creates problems for year-over-year comparisons by exaggerating the percentage change. That is, to the extent that FY 2002 revenue exceeds revenue from last year, the growth rate of revenues to the GRF will be a little higher than if the comparison were based on total revenues. If revenue falls short of last year's revenue, the percentage decline in the GRF will seem greater. Currently, only revenues from the auto sales tax and the public utility excise tax are higher than they were at this time last year.

With the slight exception of the September auto sales tax revenues, the brunt of the impact of the

Table 3
General Revenue Fund Income
Actual vs. Estimate
Month of September 2001/Fiscal Year-to-Date 2002
($ in thousands)

REVENUE SOURCE *TAX INCOME*	Actual	Estimate*	Variance	FY 2001	Percent Change
Auto Sales	$232,180	$224,813	$7,367	$218,956	6.04%
Non-Auto Sales & Use	$1,252,199	$1,351,741	($99,542)	$1,289,327	-2.88%
Total Sales	$1,484,379	$1,576,554	($92,175)	$1,508,282	-1.58%
Personal Income	$1,659,469	$1,761,780	($102,311)	$1,710,737	-3.00%
Corporate Franchise	-$7,777	$2,518	($10,295)	($5,310)	46.46%
Public Utility	$45,146	$14,500	$30,646	$263	17053.04%
Kilowatt Hour Excise Tax	$86,806	$90,120	($3,314)	$0	—
Total Major Taxes	**$3,268,023**	**$3,445,472**	**($177,449)**	**$3,213,973**	**1.68%**
Foreign Insurance	$6,371	$12,190	($5,819)	$12,338	-48.36%
Domestic Insurance	$3,013	$2,300	$713	$1,366	120.55%
Business & Property	$413	$789	($376)	$456	-9.46%
Cigarette	$59,880	$57,400	$2,480	$58,447	2.45%
Alcoholic Beverage	$14,621	$14,840	($219)	$14,374	1.71%
Liquor Gallonage	$7,337	$7,251	$86	$7,299	0.51%
Estate	$9,100	$18,125	($9,025)	$37,474	-75.72%
Total Other Taxes	$100,734	$112,895	($12,161)	$131,755	-23.54%
Total Taxes	**$3,368,757**	**$3,558,367**	**($189,610)**	**$3,345,728**	**0.69%**
NON-TAX INCOME					
Earnings on Investments	$35,620	$43,200	($7,580)	$44,189	-19.39%
Licenses and Fees	$8,779	$7,438	$1,341	$8,975	-2.19%
Other Income	$32,502	$33,900	($1,398)	$64,011	-49.22%
Non-Tax Receipts	$76,900	$84,538	($7,638)	$117,176	-34.37%
TRANSFERS					
Liquor Transfers	$26,000	$22,000	$4,000	$23,000	13.04%
Budget Stabilization	$0	$0	$0	$0	—
Other Transfers In	$7,996	$6,237	$1,759	$3,497	128.65%
Total Transfers In	$33,996	$28,237	$5,759	$26,497	28.30%
TOTAL INCOME less Federal Grants	**$3,479,654**	**$3,671,142**	**($191,488)**	**$3,489,401**	**-0.28%**
Federal Grants	$1,052,922	$1,076,990	($24,068)	$1,038,660	1.37%
TOTAL GRF INCOME	**$4,532,577**	**$4,748,132**	**($215,555)**	**$4,528,061**	**0.10%**

* July 2000 estimates of the Office of Budget and Management.
Totals may not add up due to rounding.

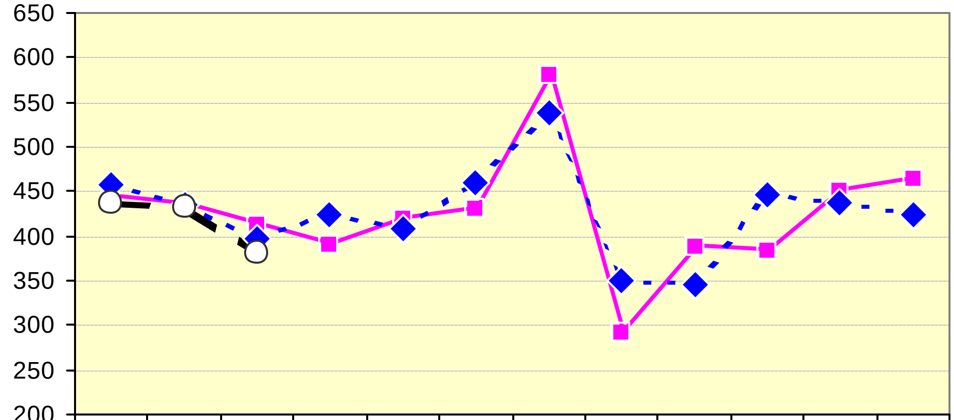
September 11 attacks on state revenues will not be felt until October. For the most part, the first quarter's revenue shortfall arises from fundamental weaknesses in the state's economy that predate the terrorist attacks. Even without the attacks, the impact of these weaknesses on state revenues appeared to be growing.

Personal Income Tax Revenue

The personal income tax has come in under estimate each month of the first quarter of FY 2002, but the reasons for the underages have not remained the same.

Personal income tax revenues came in $24 million under estimate in July. However, the fundamentals looked all right. Total receipts were on target – up 9 percent over the previous July – and withholding was on target. The revenue shortfall was due to refunds, which were over estimate by $26 million. Since FY 2001 ended with refunds $64 million under estimate, it is likely that some of the refunds spilled over into FY 2002.

Chart 1
Non-Auto Sales and Use Tax Revenue
Monthly Receipts
Dollars in Million



	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
FY 2000	444.42	435.6	413.05	390.42	419.38	430.37	581.37	291.29	387.57	383.98	451.42	463.14
FY 2001	458.04	434.56	396.72	423.79	409.02	459.32	537.48	350.29	344.64	446.98	438.41	424.86
FY 2002	436.75	433.68	381.77									

In August, withholding accounted for the bulk of the $38.6 million shortfall in the personal income tax with monthly withholding coming in at $32.6 million under estimate. Annual withholding added $3.8 million to the shortfall and refunds were another $7 million over estimate.

In September, withholding and quarterly estimated payments contributed jointly to the underages; monthly withholding was $14.6 million under estimate and estimated payments were $15.5 million under. Refunds were another $3.8 million over estimate. Much of the shortfall in the personal income tax in August and September can be linked to declining employment, with declining profits and a declining stock market also contributing to September's $39.6 million shortfall.

Employment was relatively strong in July, but tumbled in August; personal income tax withholding fell with it. Nationwide, August saw the largest decrease in manufacturing employment of the year—a loss of 148,000 jobs for the month. The largest declines were in industrial machinery and electrical equipment. This was followed in September by a further loss of 97,000 manufacturing jobs and a loss of 199,000 jobs overall. According to the Bureau of Labor Statistics (BLS), total Ohio non-farm employment fell by 20,400 in August. Declining manufacturing employment accounted for a little more than half of that decline – indicating that the weakness had spread beyond the manufacturing sector.

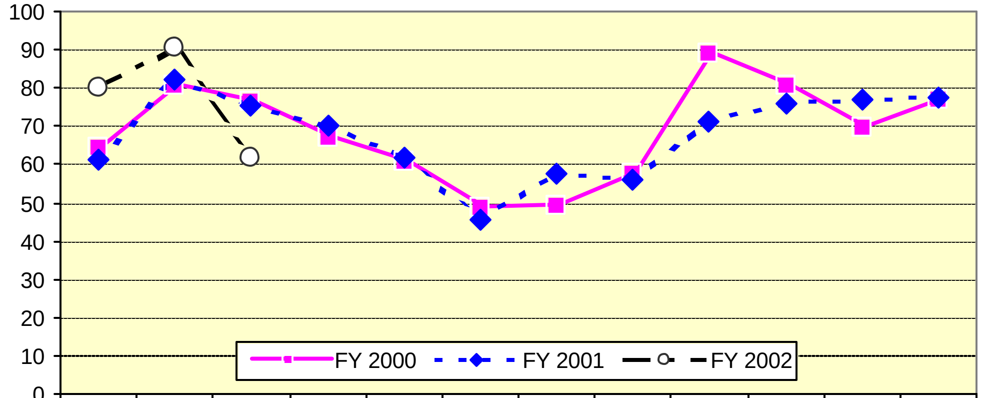
National personal income statistics for August similarly reflect a weakening of the economy in the second half of the summer. While income in July rose by 0.5 percent (on a month-over-month basis), including a 0.3 percent increase in wage and salary income, August income statistics were flat and wage and salary income fell by 0.1 percent. Average wages actually declined for all major private industry sectors.

Sales Tax Revenue

The Non-auto Sales and Use Tax. Underages in the non-auto sales tax have ballooned over the first three months of FY 2002. July revenues were $17.3 million under estimate, August revenues were $29.5 million under estimate, and September revenues were $52.7 million under estimate; and none of these revenue shortfalls reflect the impact of the terrorist attacks. (July revenues largely reflect June retail sales, August revenues reflect July sales, and September revenues reflect August sales.)

Disappointing non-auto sales tax revenues are nothing new. Non-auto sales tax revenues were under estimate for all but three months of FY 2001. As Chart 1 shows, FY 2002 non-auto sales tax revenues

Chart 2
Auto Sales and Use Tax Revenue
Monthly Receipts
Dollars in Million



	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
FY 2000	64.291	80.799	76.52	66.852	60.499	48.922	49.296	57.768	89.121	80.769	69.835	76.982
FY 2001	61.049	82.258	75.649	70.118	61.609	45.744	57.695	55.896	71.059	75.859	76.975	77.557
FY 2002	80.021	90.612	61.547									

are starting out in pretty much the same territory as in the last two fiscal years. But rather than growing at the predicted 4.6 percent rate, tax revenues have been worse than flat, with GRF revenues down by 2.9 percent from FY 2001 revenues as of the end of September.

Revenues for the month of September were particularly disappointing and most likely reflect August's significant employment losses. The shortfall remains puzzling, however, since nationwide, retail sales increased in August. Sales were up 0.3 percent month-over-month on a seasonally adjusted basis. Excluding automobiles, sales were up 0.5 percent. Much of this increase has been attributed to the tax rebate checks from the federal government. It appears that Ohioans who received their checks in August saved a disproportionate amount or spent the checks on gasoline. Gasoline fuel prices spiked in the Midwest at the end of August due to a refinery fire in Chicago. Gasoline is not in the sales tax base.

The Auto Sales Tax. The performance of the auto sales tax in the first quarter of FY 2002 previews the impact of the September terrorist attacks on the state budget. The auto sales tax was one of the few revenue sources that were outperforming estimates at the start of FY 2002. Auto sales tax revenues exceeded estimates in July and August by $7.9 million and $8.1 million, respectively, reflecting the strong automobile market. Nationwide, light vehicle sales continued apace at a 16.5 million seasonally adjusted annual rate (SAAR) for both July and August. At the end of August, Ohio tax revenue from sales of automobiles and light trucks was $15.9 million over estimate and 19.1 percent higher than at the same time last year. (See Chart 2.)

Sales fell dramatically in September. The declines in employment and consumer confidence were beginning to dampen sales, but the September 11 attacks all but halted sales for a few days. According to J.D. Powers, light vehicle sales fell by 40 percent during the week of the attacks. Price breaks and manufacturers' incentives – including zero financing and cash-back bonuses – helped to restore sales in the final two weeks of the month, resulting in an average rate of sales for the month of 15.9 million vehicles (SAAR). In Ohio, that translated into September auto sales tax revenues falling short of the estimate by $8.6 million, eroding the year-to-date overage to $7.4 million. Because of revenue flows, collections for the last week of September were probably affected by the attacks.

In the short run, the overall outlook for the automobile industry in the wake of the terrorist attacks is not bright. The attacks dealt a major blow to the airline industry and air traffic is down considerably. With the decline in air transportation comes a decline in demand for rental cars. Car rental companies account for a substantial part of the demand for automobiles. It is likely that fleet sales to car rental companies will decline substantially this fall, so that automobile sales are unlikely to recover to their pre-attack level any time soon. This, in turn, is likely to be a further drag on Ohio's economic recovery.

Public Utility Excise Tax Revenue

The public utility excise tax ended the quarter $30.6 million over estimate. This is largely due to the August payment of public utility excise taxes by natural gas distribution companies. This payment resulted in an overage of $33.7 million for August. This is the first such payment of the tax in August. The natural gas utilities were converted to a new quarterly schedule for payments in FY 2001, and the first such payment was made in November 2000. Thus, there is little information on which to base an analysis – just as OBM had little information on which to base its monthly estimates.

Nevertheless, it seems likely that at least part of the overage is real and not just the result of timing. The overage is most likely linked to the high natural gas prices and high consumption of natural gas due to the extremely cold weather in November and December of last year. For households paying on a "budget" payment plan, much of the cost of natural gas would have been postponed until the summer reconciliation payment. August's excise tax payments would include these reconciliation payments in their base.

Non –Tax Revenues

In FY 2001, non-tax revenues were a major source of revenue gain. This does not seem to be the case in FY 2002. In particular, September earnings on investment of $35.6 million were $7.6 million under estimate, and the estimate was already $1 million less than last September's earnings. This year's lower fund balances (including the absence of revenue in the income tax reduction fund), and the ever-declining interest rate will ensure that this revenue source continues to underperform.

Federal reimbursements for the most part track Medicaid payments. Medicaid payments were under estimate for both July and August, so the current year-to-date underage in federal reimbursements is to be expected. In prior years, federal reimbursements for TANF payments were also deposited into the state GRF. However, beginning with FY 2002, these federal funds are to be deposited into a federal special revenue fund, hence the overage in TANF disbursements in September should not be linked to September's $12.5 million overage in federal grants. ❑

DISBURSEMENTS

*— Steve Mansfield with Jeff Golon**

This being the first issue of *Budget Footnotes* of the fiscal year, it may be helpful to start with a brief comment on the purpose and nature of this report on GRF disbursements. This report is the combined effort of a number of fiscal analysts who provide information and assistance for its preparation. These analysts examine state spending data for departures from the monthly disbursement estimates that are produced at the beginning of each fiscal year by the Office of Budget and Management (OBM). The goal of the report is to inform legislators and other readers about significant departures, or "variances," from those GRF disbursement estimates. There will be in this fiscal year, as in every other fiscal year, "garden variety" variances whose explanation is solely timing, that is, the release of payments earlier or later than expected. These timing-related variances, if indeed they really are timing related, should self-correct by the end of the fiscal year, thus reducing the variance. In other words, the actual spending would move closer to the estimate, thus reducing the variance closer to zero. More interesting for purposes of this report are a rarer kind of variances, those that might have a sustained impact, either positive or negative, on GRF spending. These sustained disbursement variances could result from implementation problems, changes in state policy, or changes in economic climate that trigger changes in spending, thus impacting future policy decisions. Hopefully, our regular scanning of GRF spending across state government will uncover these rarer disbursement variances to the benefit of our readers.

In addition, the fact that continued downward pressure on state revenues will produce another round of budget cutting raises the issue of how we should gauge any subsequent disbursement variances. If such cuts are required, OBM may produce new disbursement estimates. If that happens, then to what estimates, original or revised, should an analysis of disbursement variances be pegged? When OBM revised its estimates in the past, this report always based its analysis of variances on the original estimates, and noted that the executive branch had revised its estimates. If, however, the expected budget cuts go into effect early in the current fiscal year it may be optimal for this report to deviate from its normal practice and develop its analysis with reference to the

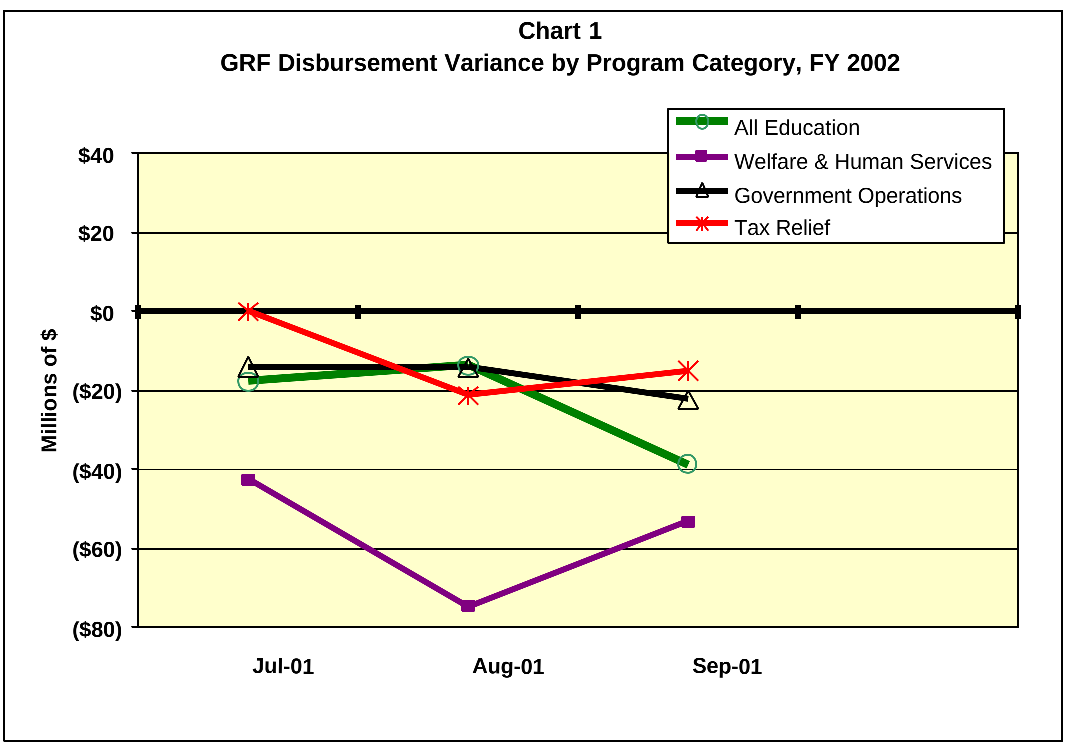


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of September, 2001
($ in thousands)

USE OF FUNDS			
PROGRAM	**Actual**	**Estimate***	**Variance**
Primary & Secondary Education (1)	$530,902	$536,979	($6,077)
Higher Education	$155,771	$174,735	($18,964)
Total Education	$686,673	$711,714	($25,041)
Health Care/Medicaid	$580,213	$572,932	$7,280
Temporary Aid to Needy Families (TANF)	$29,274	$5,271	$24,003
General/Disability Assistance	$6,158	$6,294	($136)
Other Welfare (2)	$38,489	$44,659	($6,170)
Human Services (3)	$79,640	$83,262	($3,622)
Total Welfare & Human Services	$733,774	$712,420	$21,354
Justice & Corrections	$218,045	$224,895	($6,850)
Environment & Natural Resources	$9,703	$10,523	($820)
Transportation	$2,728	$1,601	$1,127
Development	$39,807	$34,870	$4,937
Other Government (4)	$90,451	$97,206	($6,755)
Capital	$283	$0	$283
Total Government Operations	$361,018	$369,095	($8,077)
Property Tax Relief (5)	$201,522	$195,295	$6,227
Debt Service	$7,299	$7,293	$6
Total Program Payments	**$1,990,286**	**$1,995,817**	**($5,531)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$20	$0	$20
Total Transfers Out	$20	$0	$20
TOTAL GRF USES	**$1,990,306**	**$1,995,817**	**($5,511)**

(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.

Totals may not add up due to rounding.

revised disbursement estimates. This is, of course, a bridge that we will cross when, and if, we get to it.

This article tracks variances in the state's FY 2002 GRF disbursement activity by first looking at overall GRF spending and outlining the state's disbursement dynamics in the state's four major GRF program categories: (1) Welfare and Human Services, (2) Education, (3) Government Operations, and (4) Tax Relief. Within each category, we then examine the most notable departmental budgets and programs that have contributed either positively or negatively to the state's year-to-date disbursement variance. Included in the discussion are a few items in particular that produced significant variances in September. The reader's attention is also directed to Tables 4 and 5, which provide a more detailed picture of the September and year-to-date disbursement variances by program category.

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Month of September 2001/Fiscal Year-to-Date 2002
($ in thousands)

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 2001	Percent Change
Primary & Secondary Education (1)	$1,583,514	$1,607,108	($23,594)	$1,494,782	5.94%
Higher Education	$561,906	$577,084	($15,178)	$570,597	-1.52%
Total Education	$2,145,420	$2,184,192	($38,772)	$2,065,379	3.88%
Health Care/Medicaid	$1,764,649	$1,807,165	($42,516)	$1,604,917	9.95%
Temporary ssistance to Needy Families (TANF)	$37,829	$5,271	$32,558	$197,732	-80.87%
General/Disability Assistance	$20,606	$21,217	($611)	$18,906	8.99%
Other Welfare (2)	$148,241	$173,291	($25,051)	$178,227	-16.82%
Human Services (3)	$333,086	$350,655	($17,568)	$334,801	-0.51%
Total Welfare & Human Services	$2,304,411	$2,357,600	($53,189)	$2,334,583	-1.29%
Justice & Corrections	$512,779	$533,001	($20,222)	$496,520	3.27%
Environment & Natural Resources	$48,275	$48,761	($487)	$50,374	-4.17%
Transportation	$15,078	$9,723	$5,355	$8,570	75.94%
Development	$78,949	$75,989	$2,959	$68,432	15.37%
Other Government (4)	$166,624	$179,216	($12,592)	$154,734	7.68%
Capital	$3,605	$3,322	$283	$8,364	-56.90%
Total Government Operations	$825,310	$850,013	($24,703)	$786,994	4.87%
Property Tax Relief (5)	$206,820	$221,876	($15,056)	$177,087	16.79%
Debt Service	$111,597	$111,491	$106	$104,303	6.99%
Total Program Payments	**$5,593,557**	**$5,725,171**	**($131,614)**	**$5,468,346**	**2.29%**
TRANSFERS					
Local Govt Distribution	$0	$0	$0	$0	—
Budget Stabilization	$13,104	$13,104	$0	$49,200	-73.37%
Other Transfers Out	$15,530	$13,078	$2,452	$779,710	-98.01%
Total Transfers Out	$28,634	$26,182	$2,452	$828,910	-96.55%
TOTAL GRF USES	**$5,622,191**	**$5,751,353**	**($129,162)**	**$6,297,256**	**-10.72%**

(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.

Totals may not add up due to rounding.

After the first three months of FY 2002, disbursements, excluding transfers, are below the estimate by $129.2 million. This underspending is spread across all four of the state's major GRF categories, with Welfare and Human Services leading the way (see Chart 1). Part of the underspending appears to have been the result of a deliberate slowing of disbursement activity by many state agencies in anticipation of another round of budget cuts.

Welfare and Human Services (-$53.2 million)

Three components of the Welfare and Human Services program category essentially drove its $53.2 million year-to-date underage, while two other components threw in a total of close to $40 million in offsetting overages. First, we cover the notable negative variances in order of their magnitude.

Table 6
Health Care Spending in FY 2002

Medicaid, ALI 600-525

Service Category	September Actual	September Estimate	September Variance	September Percent Variance	Year-to-Date Spending Actual thru' Sept.	Year-to-Date Spending Estimate thru' Sept.	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Homes	$201,788,007	$207,519,507	($5,731,500)	-2.8%	$598,393,964	$615,825,018	($17,431,054)	-2.8%
ICF/MR	$34,203,115	$33,912,390	$290,725	0.9%	$100,742,200	$100,596,917	$145,283	0.1%
Hospitals	$126,925,651	$125,486,884	$1,438,767	1.1%	$367,045,387	$407,832,373	($40,786,986)	-10.0%
Inpatient Hospitals	$90,369,973	$90,987,224	($617,251)	-0.7%	$260,969,468	$295,708,478	($34,739,010)	-11.7%
Outpatient Hospitals	$36,555,678	$34,499,660	$2,056,018	6.0%	$106,075,920	$112,123,895	($6,047,975)	-5.4%
Physicians	$31,378,338	$35,649,074	($4,270,736)	-12.0%	$99,511,570	$115,859,490	($16,347,920)	-14.1%
Prescription Drugs	$67,119,262	$69,872,837	($2,753,575)	-3.9%	$249,014,227	$253,523,085	($4,508,858)	-1.8%
Payments	$88,268,354	$91,021,929	($2,753,575)	-3.0%	$291,312,411	$295,821,269	($4,508,858)	-1.5%
Rebates	($21,149,092)	($21,149,092)	$0	0.0%	($42,298,184)	($42,298,184)	$0	0.0%
ODJFS Waivers[1]	$11,412,100	$11,572,572	($160,472)	-1.4%	$36,889,910	$37,610,858	($720,948)	-1.9%
HMO	$43,430,834	$42,633,323	$797,511	1.9%	$130,669,647	$126,286,996	$4,382,651	3.5%
Medicare Buy-In	$10,738,653	$10,507,169	$231,484	2.2%	$32,012,982	$31,537,530	$475,452	1.5%
All Other[2]	$49,801,453	$44,689,636	$5,111,817	11.4%	$139,702,626	$145,014,911	($5,312,285)	-3.7%
DSH offset	$0	$0	$0		$0	$0	$0	
Total ALI 600-525	**$576,797,412**	**$581,843,392**	**($5,045,980)**	**-0.9%**	**$1,753,982,512**	**$1,834,087,178**	**($80,104,666)**	**-4.4%**
FMAP	58.94%	58.94%			58.94%	58.94%		
Est. Federal Share	$339,964,395	$342,938,495	($2,974,100)		$1,033,797,293	$1,081,010,983	($47,213,690)	
Est. State Share	$236,833,017	$238,904,897	($2,071,879)		$720,185,220	$753,076,195	($32,890,976)	
Prior Period Encumbrance					($29,100,662)	($29,100,662)		
BSF Shortfall[3]		($12,706,077)				($39,416,617)		
Total ALI 600-525 Disb.	**$576,797,412**	**$569,137,315**	**$7,660,097**	**1.3%**	**$1,724,881,850**	**$1,765,569,899**	**($40,688,049)**	**-2.3%**
Est. Federal Share	$339,964,395	$335,449,533	$4,514,861		$1,016,645,363	$1,040,626,898	($23,981,536)	
Est. State Share	$236,833,017	$233,687,782	$3,145,236		$708,236,488	$724,943,001	($16,706,513)	
Children's Health Insurance Plan (CHIP-II), ALI 600-426[4]								
Total ALI 600-426	**$3,415,456**	**$3,473,407**	**($57,951)**	**-1.7%**	**$9,298,953**	**$10,886,383**	**($1,587,430)**	**-14.6%**
Enhanced FMAP	71.19%	71.19%			71.19%	71.19%		
Est. Federal Share	$2,431,463	$2,472,718	($41,255)		$6,619,925	$7,750,016	($1,130,091)	
Est. State Share	$983,993	$1,000,689	($16,696)		$2,679,028	$3,136,367	($457,339)	
Total Health Care	**$580,212,868**	**$585,316,799**	**($5,103,931)**	**-0.9%**	**$1,763,281,465**	**$1,844,973,561**	**($81,692,096)**	**-4.4%**
Total Hlth Care w/o BSF	**$580,212,868**	**$572,610,722**	**$7,602,146**	**1.3%**	**$1,734,180,803**	**$1,776,456,282**	**($42,275,479)**	**-2.4%**

1. Waivers provide home care alternatives to consumers whose medical conditions/functional abilities would otherwise require Long Term Care facility residence.

2. "All Other" includes all other health services funded by 600-525.

3. The budget estimate assumed $65M of the Budget Stabilization Fund (BSF) will be used to increase appropriation in line item 525 by $158M, all funds in SFY02.

4. 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.

Note: Due to accounting differences, the total does not exactly match the amounts from Tables 4 and 5.

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

Health Care/Medicaid. Depicting spending in Health Care/Medicaid this fiscal year is complicated by the fact that $65 million from the Budget Stabilization Fund (BSF) will probably be transferred to the GRF for the purpose of increasing Medicaid line item 600-525's existing FY 2002 appropriation of $7.08 billion. This increase in state GRF will draw an additional federal contribution of $93 million. These state and federal funds totaling $158 million (or an additional 2.2 percent), however, were not included in OBM's original disbursement estimates but are included in the disbursement estimates that we have acquired for the purpose of analyzing the spending patterns of Medicaid's various service categories. Because the increase has not actually taken place, Tables 4 and 5 reflect the original disburse-

Table 7

FY 2002 to FY 2001 Comparison[1] of Year-to-Date Medicaid (600-525) Spending

Service Category	FY 2002[1] Yr.-to-Date as of Sep. '01	FY 2001[1] Yr.-to-Date as of Sep. '00	Dollar Change	Percent Increase
Nursing Homes	$598,393,964	$566,555,967	$31,837,997	5.6%
ICF/MR	$100,742,200	$94,612,644	$6,129,556	6.5%
Hospitals	$367,045,387	$351,677,475	$15,367,913	4.4%
Inpatient Hospitals	$260,969,468	$255,923,321	$5,046,147	2.0%
Outpatient Hospitals	$106,075,920	$95,754,154	$10,321,766	10.8%
Physicians	$99,511,570	$98,270,438	$1,241,131	1.3%
Prescription Drugs	$249,014,227	$196,007,437	$53,006,790	27.0%
Payments	$291,312,411	$236,405,610	$54,906,801	23.2%
Rebates	($42,298,184)	($40,398,173)	($1,900,011)	4.7%
ODJFS Waivers[2]	$36,889,910	$32,616,789	$4,273,121	13.1%
HMO	$130,669,647	$101,793,900	$28,875,748	28.4%
Medicare Buy-In	$32,012,982	$28,162,455	$3,850,527	13.7%
All Other[3]	$139,702,626	$132,032,870	$7,669,756	5.8%
DSH offset	$0	$0	$0	
Total (600-525)	**$1,753,982,512**	**$1,601,729,975**	**$152,252,538**	**9.5%**
Estimated Federal Share[4]	$1,033,797,293	$939,734,976	$94,062,317	10.0%
Estimated State Share	$720,185,220	$661,994,999	$58,190,221	8.8%

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.

3. "All Other" includes all other health services funded by 600-525.

4. The FMAP rate for SFY 2001 is 58.67%. The FMAP rate for SFY 2002 is 58.94%.

Note: Due to accounting differences, the total does not exactly match the amount from Table 5.

ment estimates. The Department of Job and Family Services (JFS), however, has budgeted these state and federal funds and they are included in the disbursement estimates for spending from each service category reflected in Table 6. To cope with this "apples and oranges" problem, Table 6 includes an adjustment for these differences subtracting out the portion of the shortfall that is attributable to the BSF and matching federal funds.

In the year to date, disbursements for the Health Care/Medicaid program as a whole are $42.5 million, or 2.4 percent, below the estimated spending of $1.81 billion. Taking into account these future state and federal funds that were included in the service category estimates, disbursements were a much higher $80.1 million below the year-to-date estimate. With reference to the service category data in Table 6, we see that, except for the ICF/MR, HMO, and Medicare Buy-In service categories, the disbursements from all of the Health Care/Medicaid service categories were below the year-to-date estimate. In order of magnitude, the most important contributors to the service category underage were as follows: (1) Inpatient Hospitals ($34.7 million), (2) Nursing Homes ($17.4 million), and (3) Physicians ($16.3 million). These underages appear to stem from claims for services, specifically the fact that submissions of invoices to the department for payment were running slower than expected, a situation likely to right itself in the months ahead.

Job & Family Services. Year-to-date disbursement reports 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 and Human Services program category, and inclusive of former Bureau of Employment Services programs – show that spending fell $25.1 million, or 14.5 percent, under the estimate. The largest three contributors to the underage – Non-TANF County Administration ($9.0 million), Adoption Services ($5.4 million), and Computer Projects ($4.8 million) – all appear to be timing related, with invoicing activity and county reimbursements being lower than anticipated.

Mental Retardation. The Department of Mental Retardation and Developmental Disabilities closed September with its third consecutive monthly underage, thus creating a year-to-date negative variance of $11.6 million, or 8.3 percent. Roughly 90 percent of this underage was tied to one line item: 322-413, Residential and Support Services. Underages in this line item, which is used to pay providers for services delivered to individuals with mental retardation or developmental disabilities, are not unusual and have been commented on in numerous prior issues of *Budget Footnotes*. These service providers have up to 365 days to submit claims for payments to the state. Additionally, the department then must audit the claims to ensure proper payments to these service providers. This somewhat lengthy process makes predictions of disbursement activity very difficult and subject to the timing of payment requests and audits.

Within the Welfare and Human Services program category there were two notable positive disbursement variances that partially mitigated the degree of the overall underspending. These positive variances were in the TANF program and in the Department of Mental Health.

TANF. Beginning with this fiscal year, the federal component of spending in the Temporary Assistance for Needy Families (TANF) program that had resided in GRF line item 600-411 was eliminated and moved to the state's Federal Special Revenue Fund Group (Fund 3V6). Thus, the disbursement estimates no longer include TANF's federal component. Any year-over-year, "apples-to-apples" comparison will, however, require that we report the disbursements that are made from Fund 3V6, although these disbursements of federal funds will not enter into the discussion of variance from the estimate.

Year-to-date disbursement reports for line item 600-410, TANF State (the largest of the two remaining GRF components in the TANF program), show that spending was running $32.6 million over the estimate. The bulk of the disbursement variance was produced by an overage of $24.0 million in September when two months' worth of cash benefits were posted – JFS posted the October cash benefit payments in late September in order to meet the state's maintenance-of-effort requirement before the close of the federal fiscal year. The rest of the year-to-date overage was produced earlier in the quarter when unscheduled disbursements were made from prior-year federal TANF funds that had been encumbered and scheduled for disbursement in December. Both of these factors appeared to be timing related, suggesting that there should be adjustments in the months ahead.

So far there has been no apparent impact from the recent economic downturn on the TANF caseload: the TANF caseload continues to decline, albeit at a slower rate. At this point in FY 2001, the number of TANF assistance groups stood at 95,528. A year later, the number of assistance groups stood at 84,219, an 11.8 percent decline. The proportion of cases that are classified as "child only" cases, however, continued to increase, and now constitutes 45.3 percent of all cases. The number of "child only" cases increased from approximately 25,000 in 1991 to over 37,000 at the current time. These are cases where there is no time limit, and the children are typically living with an adult relative other than a parent.

Department of Mental Health. Year-to-date disbursements for the Department of Mental Health show that spending was running $7.0 million, or 7.2 percent, above the estimate. In the month of September, the department posted a positive disbursement variance of $10.3 million, exceeding the monthly estimate by 39.6 percent. The monthly overage was traceable to the department's three largest GRF subsidy line items: 334-408, Community and Hospital Mental Health Services ($8.1 million), 335-502, Community Mental Health Services ($1.6 million), and 335-508, Services for Severely Mentally Disabled ($0.8 million). The department disburses these subsidies to county mental health boards on a quarterly basis, and the timing of the requests for FY 2002 funds may not coincide with the monthly estimates which are based on the timing established by last year's disbursement pattern.

Education (-$38.8 million)

The Department of Education and the Board of Regents both posted notable year-to-date negative disbursement variances that combined to take the Education program category $38.8 million under the estimate.

Department of Education. Spending through the first three months of the fiscal year on K-12 education was $24.0 million below the estimate, thus accounting for the bulk of the underage in the Education program category. The largest contributors to the negative K-12 variance were Ohio Reads Grants (-$14.1 million), Professional Development (-$4.0 million), and Disadvantaged Pupil Impact Aid (DPIA) (-$3.4 million). The first two of these variances were attributable to timing and thus likely to self-correct within the next month or two. The negative variance in DPIA was a common phenomenon for this time of year and was simply related to when the department would be able to replace last year's Average Daily Membership (ADM, or enrollment) figures in the DPIA distribution formula with this year's ADM figures.

Regents. Higher education disbursements were also running below the estimate. Year-to-date reports show that disbursements for the Board of Regents stood at $15.2 million below the estimate, largely the result of a negative variance of $19.0 million posted in September. The bulk of the September variance was attributable to the timing of student financial aid grant funds from two line items: 235-531, Student Choice Grants ($14.7 million), and 235-549, Part-time Student Instructional Grants ($3.0 million). Also in the mix was the entire year's disbursement of funds in line item 235-588, Ohio Resource Center for Mathematics, Science, and Reading ($1.0 million), which was to have taken place in September.

Government Operations (-$22.3 million)

Two significant negative disbursement variances defined the $22.3 million year-to-date underage posted by the Government Operations program category. Numerous small overages were spread throughout the remainder of the program category. The negative variances of note were those of the Department of Rehabilitation and Correction and the Department of Administrative Services.

Rehabilitation & Correction. The Department of Rehabilitation & Correction accumulated three consecutive negative monthly disbursement variances that total $23.3 million, with $10.8 million of this underage being registered in September. The largest contributor to the negative variance was line item 501-321, Institutional Operations, which was $14.0 million below the year-to-date estimate and $6.4 million below the estimate for September. Timing accounted for part of the line item's variance; another part was traceable to a deliberate departmental decision to constrain day-to-day prison expenditures, which included slower full operation of the newly built Toledo Correctional Institution. In addition, over the past several months the number of authorized but vacant staff positions that are paid from this line has increased from around 200 to more than 550. Another factor accounting for some of the department's negative year-to-date disbursement variance ($4.4 million in September alone) was a lower than expected debt service payment, which resulted from changes in market conditions and lower interest rates.

Administrative Services. Another significant contributor to the negative year-to-date disbursement variance in the Government Operations program category was the Department of Administrative Services (DAS), which posted three consecutive monthly underages to wind up with a total year-to-date underage of $11.0 million. Like the Department of Rehabilitation & Correction, DAS has also made a lower than expected debt service payment, which accounted for $6.3 million of its year-to-date under spending. Some of the department's computer projects have also gotten off to a slow start, probably due to anticipated budget reductions.

Tax Relief (-$15.1 million)

The Property Tax Relief program, which reimburses local governments for revenue that is lost due to certain credits and exemptions provided by state law to proper owners and businesses, posted a year-to-date underage of $15.1 million. Virtually all of the disbursement variance ($14.1 million) was the remainder from a $21.8 million timing-based negative variance in real property tax relief in August. The other major part of the state's Property Tax Relief program – tangible tax relief – typically does not initiate spending until November. ❑

**LSC colleagues who contributed to the development of this disbursements article included, in alphabetical order, Melaney Carter, Ivy Chen, Nelson Fox, Amy Frankart, David Price, Nicole Ringer, Joseph Rogers, Jeffrey Rosa, and Maria Seaman.*

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS FIRST QUARTER, FY 2002

— Jean Botomogno

Am. Sub. H.B. 94, the current biennial budget bill, removed a provision of law requiring that at least 30 percent of ticket sales be transferred to the Lottery Profit Education Fund (LPEF). Thus, the Ohio Lottery will operate with greater flexibility in the design and the mix of games for FY 2002 and FY 2003. Instant ticket sales may benefit from these changes because the Ohio Lottery could offer Instant games with a higher payout ratio than in previous years. The percentage payout for Instant games was approximately 63 percent in FY 2001, lower than for certain non-Ohio Lottery products that may reach 75 to 90 percent payout. Increasing the payout ratio may in turn help the Ohio Lottery to better compete against other organizations' scratch-offs, pull-tabs, bingo, and "charitable" instant games. This new provision was not used during the first quarter of FY 2002 to alter the lottery games.

Ticket sales

Table 1 summarizes Lottery ticket sales by game in the first quarter of FY 2002. It shows that total ticket sales were $479.5 million and Instant ticket sales were $232.3 million. On-line ticket sales were $247.2 million or 6.4 percent higher than Instant ticket sales for the quarter.

Total ticket sales for the first quarter of FY 2002 were 1.4 percent higher than sales in the last quarter of FY 2001 and 4.1 percent lower than FY 2001 third quarter sales. On-line ticket sales were 3.7 percent higher than in the fourth quarter of FY 2001 and 3.0 percent higher than in the third quarter of FY 2001. For Instant tickets, sales were 1.0 percent lower than in the fourth quarter of FY 2001 and 10.7 percent lower than in the third quarter of FY 2001. Instant ticket sales have decreased during calendar year (CY) 2001, from $260.1 million in the first quarter to $234.6 million and $232.3 million in the second and third quarters, respectively.

Compared to first-quarter results a year ago in FY 2001, ticket sales in the first quarter of FY 2002 were up $14.8 million or 3.2 percent. On-line sales increased in the same year by $11.0 million or 4.6 percent. Instant ticket sales improved by $3.9 million or 1.7 percent. Except for Pick 3 and Buckeye 5, sales for all other games improved in the same period. Pick 3 sales declined $3.7 million or 3.6 percent. Buckeye 5 sales were down $0.3 million or 2.1 percent. Super Lotto Plus sales rose $13.1 million or 18.4 percent, Pick 4 sales were up $1.1 million or 3 percent, and Kicker sales were better by $0.8 million or 6.7 percent.

A closer analysis of the monthly results for each game shows that improvements in the first quarter of FY 2002 were due to strong sales in July, especially Super Lotto Plus sales. A long series of drawings without a winner helped sales of Super Lotto Plus reach $40.4 million in July 2001. August and

Table 1: FY 2002 First-Quarter Lottery Ticket Sales by Game (millions of current dollars)

	Pick 3	Pick 4	Buckeye 5	Kicker	Super Lotto	On-Line Tickets	Instant Tickets	Total Sales
July	$33.5	$12.4	$4.8	$5.2	$40.4	$96.3	$79.3	$175.6
Aug.	$34.5	$13.0	$4.9	$3.6	$22.4	$78.4	$78.8	$157.2
Sept.	$31.5	$11.8	$4.2	$3.5	$21.5	$72.5	$74.2	$146.7
Q1	**$99.6**	**$37.2**	**$13.9**	**$12.3**	**$84.2**	**$247.2**	**$232.3**	**$479.5**

Totals may not add up due to rounding.

Table 2: First-Quarter Lottery Ticket Sales by Game, FY 2002 and FY 2001 (millions of current dollars)								
	Pick 3	Pick 4	Buckeye 5	Kicker	Super Lotto	On-Line Tickets	Instant Tickets	Total Sales
FY 2002	$99.6	$37.2	$13.9	$12.3	$84.2	$247.2	$232.2	$479.5
FY 2001	$103.2	$36.1	$14.2	$11.6	$71.2	$236.3	$228.4	$464.7

Totals may not add up due to rounding.

September sales for Super Lotto Plus were $22.4 million and $21.5 million, or 44.6 percent and 46.8 percent lower than July sales. When compared to July sales, September sales of Kicker and Buckeye 5 declined about 32.7 percent and 12.5 percent, respectively. Decreases in sales for the remaining games were less dramatic. For example, September sales of Instant tickets declined 6.4 percent and Pick 3 sales decreased 6.0 percent, when compared to July sales for each game. Undoubtedly the events of September 11 reduced Lottery ticket sales for that month.

Transfers to the Lottery Profits Education Fund (LPEF)

Am. Sub. H.B. 94 changed the manner in which the Ohio Lottery transfers profits to the Lottery Profits Education Fund (LPEF). A target for such transfers will be determined for each biennium during the legislative budget process. The biennial budget for FYs 2002-2003 requires the Ohio Lottery Commission to transfer an amount greater than or equal to $633.7 million in FY 2002 and $621.7 million in FY 2003 to LPEF. Transfers will be from net income from operations and may be supplemented by the Unclaimed Prize Fund. In each of the last three fiscal years, transfers from the Unclaimed Prize Fund have been $25.0 million.

Table 3 summarizes transfers to LPEF in the first quarter of FY 2002. First-quarter transfers were $148.4 million, up 0.2 percent from $147.7 million in the fourth quarter of FY 2001 and were up 2.4 percent from $144.9 million in the second quarter of FY 2001. Transfers in July were $5.4 million higher than projected. In August and September, transfers were $3.6 million and $4.5 million lower than expected. Overall, first-quarter actual transfers were $2.7 million or 1.7 percent lower than projected.

Table 4 summarizes first-quarter transfers to LPEF in FYs 2002 and 2001. Compared to first-quarter transfers a year ago, FY 2002 transfers were down $3.9 million or 2.6 percent, despite higher ticket sales in the first quarter in FY 2002. ❑

Table 3: First-Quarter Lottery Ticket Sales and Transfers to LPEF (millions of current dollars)						
	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfer As a Percentage of Sales
July	$175.6	$56.4	$50.9	$5.4	10.7%	32.1%
Aug.	$157.2	$46.7	$50.3	-$3.6	-7.1%	29.7%
Sept.	$146.7	$45.3	$49.8	-$4.5	-9.0%	30.8%
Q1	**$479.5**	**$148.4**	**$151.0**	**-$2.7**	**-1.7%**	**30.9%**

Table 4: First-Quarter Transfers to LPEF, FY 2002 and FY 2001 (millions of current dollars)						
	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfer As a Percentage of Sales
FY 2002	$479.5	$148.4	$151.0	-$2.6	-1.7%	30.9%
FY 2001	$464.7	$152.3	$161.6	-$9.3	-5.7%	32.8%
Change	**$14.8**	**-$3.9**	**-$10.6**	-	-	-

LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS FIRST QUARTER, FY 2002

— Sara Doddy

Lottery Profits Education Fund (LPEF) disbursements so far in FY 2002 total $98.1 million. Nearly all of this amount (99.9 percent) came from appropriation item 200-612, Base Cost Funding. The Lottery Profits Education Reserve Fund (LPERF) has no disbursements yet in FY 2002.

Base Cost Funding

The $98.0 million of lottery profits spending is combined with GRF appropriation item 200-501, Base Cost Funding ($1,107.6 million), to fund the state foundation aid program. This program includes the state base cost funding, equity aid (which guarantees $4,814 in per pupil funding for FY 2002), other state grants outside the foundation program, and local revenues for general education from the first 23 mills and beyond (local enhancement funding). This funding is also used to fund the state's share of additional special and career-technical education costs. With the combination of GRF and LPEF moneys, base cost funding ($1,205.6 million) represents 62.7 percent of the Department of Education's disbursements for this quarter.

Lease Rental

The lease rental appropriation ($29.7 million) was transferred to the GRF to support the GRF appropriation for appropriation item 230-428, Lease Rental Payments, in the Ohio School Facilities Commission budget. Total appropriations for debt service amount to $78.0 million for FY 2002, including $41.6 million for GRF item 230-428, Lease Rental Payments, and $36.4 million for GRF item 230-908, Common Schools General Obligation Debt Service, Under the School Facilities Commission. These moneys are used to pay bond service charges on obligations issued for the classroom facilities assistance programs.

SchoolNet Plus Supplement

Moneys for this line item were transferred from appropriation item 228-690, SchoolNet Electrical Infrastructure. These funds are to be used to supplement moneys from the tobacco settlement. The funds will be used to implement the SchoolNet Plus program up to the 6th grade.

SchoolNet Electrical Infrastructure

To help school districts implement SchoolNet and SchoolNet Plus initiatives, the 122nd General Assembly originally appropriated $27.0 million in LPEF moneys in FY 1998 for electrical service upgrades. The SchoolNet Commission distributes 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 $1.0 million. Approximately $17.6 million was disbursed by the end of FY 2001. The remaining balance of $9.4 million was transferred into FY 2002 under Am. Sub. H.B. 94 of the 124th General Assembly. As noted above, $8.0 million of that balance was transferred to appropriation item 228-603, SchoolNet Plus Supplement, in FY 2002. ❑

Table 1: FY 2002 LPEF (017) and LPERF (018) Appropriation/Disbursement Summary
As of September 28, 2001

Agency	Fund	Line Item	Line Item Name	FY 2002 Appropriation	FY 2002 Disbursement	Appropriation Encumbrance	Appropriation Balance
EDU	017	200-612	Base Cost Funding	$ 604,000,000	$ 98,000,000	$ 0	$ 506,000,000
EDU	017	200-682	Lease Rental	$ 29,722,100	$ 0	$ 0	$ 29,722,100
NET	017	228-603	SchoolNet Plus Supplement	$ 8,000,000	$ 0	$ 0	$ 8,000,000
NET	017	228-690	SchoolNet Electrical Infrastructure	$ 1,343,621	$ 146,042	$ 15,000	$ 1,182,579
			Total LPEF	**$ 643,065,721**	**$ 98,146,042**	**$ 15,000**	**$ 544,904,679**
SFC	018	230-649	Disability Access Project	$ 5,780	$ 0	$ 4,480	$ 1,300