Next

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JANUARY 2002

FISCAL OVERVIEW

— *Doris Mahaffey*

The first half of FY 2002 is over. It has been a difficult six months. Between July and December manufacturing employment fell by 21,800. (That was on top of the 24,700 manufacturing jobs lost between November 2000 and July 2001.) Ohio's unemployment rate increased from 4.2 percent in July to 4.8 percent in November and December.

State revenues have been similarly disappointing. They have come in under estimate in five of the last six months. Year-to-date revenues are $319 million under estimate.

To help alleviate the looming budget deficit, the legislature passed H.B. 405 on December 5, 2001. The governor signed it on December 13, and it became effective immediately. The bill implicitly accepted the revised revenue estimates made by the Office of Budget and Management (OBM) in October. It provided additional revenues to the state GRF – largely from transfers from the state's rainy day fund and the tobacco settlement fund. (Officially the two funds affected are, respectively, the Budget Stabilization Fund [BSF] and the Tobacco Use Prevention and Cessation Trust Fund [Fund H87].) Changes to the local government fund freeze language, the sales tax on auto leases, and the tobacco tax discount were also expected to increase FY 2002 revenues. H.B. 405 also reduced the appropriations of some judicial and legislative agencies. The governor had already ordered cuts to executive branch agencies in October (Executive Order 2001-22T).

OBM has already incorporated its revised revenue estimates into its Central Accounting System (CAS), and subsequent OBM analyses will be based on the new numbers. For methodological reasons LSC does not plan to incorporate these changes into the *Budget Footnotes* tables. Thus, the tables in this document will continue to compare actual revenues to OBM's estimates as of July 2001. Consequently, there will be months when OBM's *Monthly Financial Reports* will show that revenues have come in over estimate, but when *Budget Footnotes* will show that revenues have come in under estimate. December is one such month. *Budget Footnotes* will regularly address this disparity.

December revenues to the GRF came in at $1.5 billion. Compared to July 2001 revenue estimates, December revenues were $98.7 million under estimate. The non-auto sales and use tax accounted for nearly half of the underage. The corporate franchise tax, federal reimbursements, and state investments also made substantial contributions to the

Volume 25, Number 4

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.

For questions or comments regarding specific sections:

GRF Revenue:
Doris Mahaffey 644-7762

GRF Spending:
Steve Mansfield 728-4815

Other Articles:
Dave Brunson 644-7770

Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio
43215-6136

Telephone: 614/466-3615

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

	Month of December	Fiscal Year 2002 to Date	Last Year	Difference
Beginning Cash Balance	($1,053.2)	$817.1		
Revenue + Transfers	$1,546.2	$9,347.8		
Available Resources	$493.0	$10,164.8		
Disbursements + Transfers	$1,896.2	$11,568.1		
Ending Cash Balances	($1,403.2)	($1,403.2)	($1,152.6)	($250.6)
Encumbrances and Accts. Payable		$640.4	$720.3	($79.9)
Unobligated Balance		**($2,043.7)**	**($1,873.0)**	**($170.7)**
BSF Balance		$1,010.6	$1,002.5	$8.1
Combined GRF and BSF Balance		**($1,033.1)**	**($870.5)**	**($162.6)**

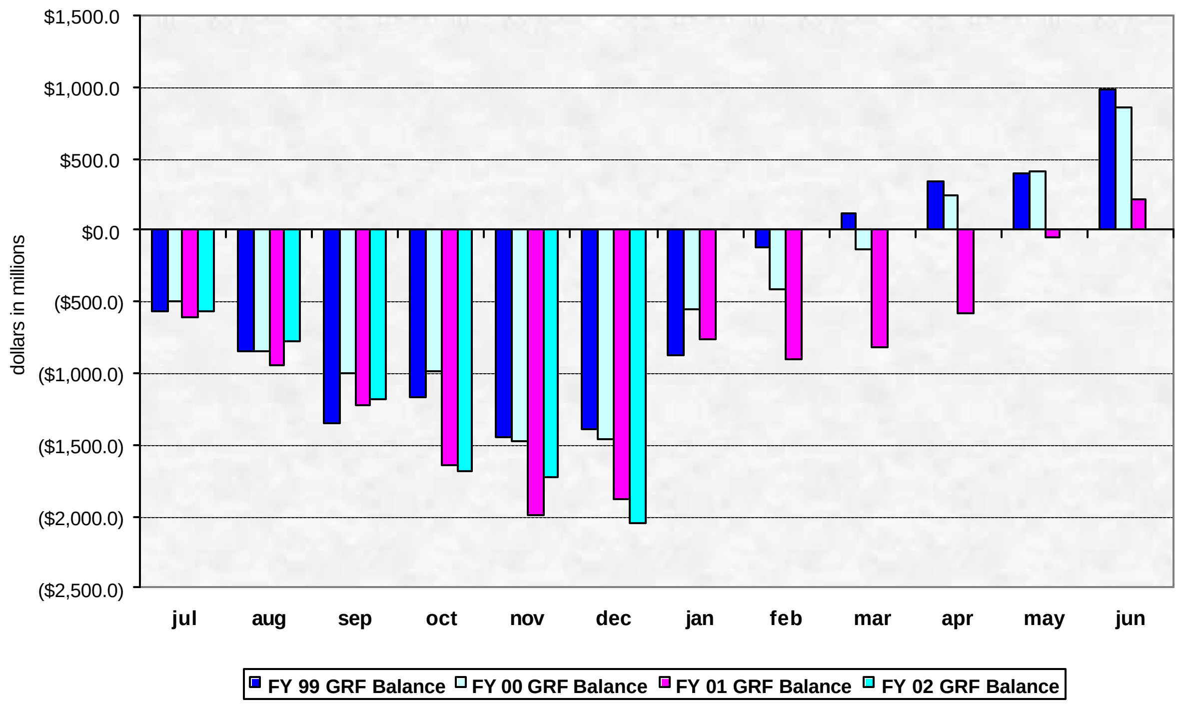
revenue shortfall; they were under estimate by $26 million, $20 million, and $16.6 million, respectively. The auto sales tax was over again, as it has been in five of the last six months. The personal income tax was also slightly over estimate, which is at least a hopeful sign. Both withholding and quarterly estimated payments came in slightly over estimate.

Comparing December revenues to OBM's revised estimates, the picture is much more sanguine. December revenues were $10 million above the revised estimate. The non-auto sales and use tax was still $21 million under estimate, but corporate franchise tax receipts, federal reimbursements, and earnings on investment were, not surprisingly, all much closer to the revisions. The personal income tax came in $16 million over estimate, and the auto sales tax was only $13 million over estimate.

OBM has not yet revised the disbursement estimates to reflect the executive budget cuts or the changes made by H.B. 405. Thus the observation that expenditures were $13.7 million under estimate is much more straightforward. Spending in nearly all program areas was under estimate for the month. Property tax relief and Medicaid – at $85 million and $31 million over estimate, respectively – were the notable exceptions. The property tax overage was a timing issue; and year-to-date property tax disbursements remained slightly under estimate. Medicaid was the only program area significantly over estimate on a year-to-date basis. The weakening economy, along with significant price increases, continues to increase program costs.

The state's fund balance continues to grow – albeit in the wrong direction. As Table 1 shows, December disbursements exceeded December revenues by $350 million, thereby reducing the negative ending cash balance from slightly over $1 billion to $1.4 billion. Encumbrances were reduced by $35 million since November, so the unobligated fund balance was reduced by only $315 million. Still at -$2.04 billion, the fund balance is the lowest the state has yet witnessed. Previously, that dubious distinction went to November 2000's unobligated balance of -$1.998.9 million. Chart 1 shows the behavior of the state's unobligated balance over the past four fiscal years. Generally speaking, for the first half of the year disbursements exceed revenues, so the size of the negative fund balance grows. Starting in January, revenues exceed disbursements, and the negative fund balance shrinks. At some point – by June at the latest – the fund balance turns positive, and the state's constitutional requirement for a balanced budget is met.

Chart 1 - Ohio's Unobligated GRF Balance by Month
FY 1999 to FY 2002



TRACKING THE ECONOMY, JANUARY 2002

— *Ross Miller*

As reported in previous issues of *Budget Footnotes*, on November 26 the National Bureau of Economic Research (NBER) ended the speculation and debate about whether we are in a recession—we are. The NBER selected March of 2001 as the peak of the last business cycle expansion, and consequently the beginning of the current recession. With that question settled, economic analysts have turned to scrutinizing the data for indications of when the recovery will begin.

The pessimists among those analysts would not find it hard to justify their concerns. The situation with Enron, which *Fortune* magazine refers to as "the Enron disaster," is sufficiently serious to overshadow news closer to home, such as the thousands of jobs at risk at LTV Steel in Cleveland, or Ford's announcement of its intent to close five factories in North America, including one in Brook Park, Ohio. The unemployment rate increased from 5.6 percent nationally in November to 5.8 percent in December, according to seasonally adjusted data from the Bureau of Labor Statistics, while the number of workers on U.S. payrolls fell by 124,000 (also seasonally adjusted). The Department of Commerce reported in its advance estimate that retail sales were down 0.1 percent from November after adjusting for seasonal (largely holiday-related) differences.

But optimists have their case as well. The December retail sales figure can be viewed positively, as retail sales increased 4.1 percent over the December 2000 figure. Even excluding motor vehicles, and thus the effects of manufacturers' incentive programs, retail trade sales increased by 3.8 percent from December 2000 to December 2001. Many economists had expected worse numbers. The Index of Leading Economic Indicators rose by 1.2 percent in December, the third straight month in which the index rose. The same survey that found that employment decreased in December found that average hourly earnings increased that month by a healthy 0.5 percent, and by the same percentage in November. New claims for unemployment insurance fell by 14,000 to a seasonally adjusted 384,000 in the week ending January 12, after falling sharply by 53,000 in the week ending January 5. The four-week moving average of initial claims has been more stable, though, falling by just 250 in the week ending January 12, after rising by 500 in the prior week; it now stands at a seasonally adjusted 411,000.

The January 2002 forecast from DRI-WEFA[1] continues to project that the economy will begin to expand in the second quarter of 2002. One fairly optimistic bit of trivia is provided by the NBER itself—according to its records the average length of recessions occurring since World War II has been 11 months. If the length of the current recession were the same as that average length, recovery would begin in February 2002.

Federal Reserve (or "Fed") officials are still cautious, however. Fed Chairman Alan Greenspan expressed his views on this subject in passing in a speech given January 11 in San Francisco: "...arguably, our economy has not been weakening cumulatively in recent weeks. In fact, indications of stabilization, similar in many respects to those observed in the period immediately preceding September 11, have been appearing with greater frequency. A possible significant contributor to this emergence of stability—if that is what it is—may be the very technologies that have fostered coincident global weakness.…" Once again the Fed Chairman successfully avoids accusations of irrational exuberance.

The concerns of Fed officials are clearly reflected in the monetary policy actions they have taken. At its December 11 meeting the Federal Open Market Committee, which decides monetary policy, reduced its target federal funds rate to 1.75 percent. It has reduced this target rate in several stages from 6.5 percent starting in January of 2001. Given this decisive loosening of monetary policy, one might question why we have not yet seen clear signs of an economic recovery. The next section of this article discusses the fact that monetary policy takes time to make an impact on the economy, illustrating this by showing its effects on bank lending. The section after that examines the effect of consumer spending on gross domestic product (GDP) growth, and compares it to the effects of growth in other components of GDP. The article ends by updating key state and national economic data.

Monetary Policy—Why No Results Yet?

Interest rates have fallen dramatically, so the economy should have taken off like a rocket. Why hasn't it? There are a number of possible responses to this question, but perhaps the most accurate is that the Fed does not control all interest rates. In fact, it controls very few, and it does not actually "set" the federal funds rate—it merely chooses a target rate and uses its authority to buy and/or sell government securities to manipulate the federal funds rate. The federal funds rate plays a relatively modest role in the broader economy—I cannot borrow at that rate to purchase a house or car, for example. The federal funds rate is the interest rate banks charge each other when lending among themselves for very short periods (primarily for a single day).

The following table shows what has happened to a small sample of market interest rates since December 2000. The table demonstrates the importance of the distinction between the federal funds rate and other interest rates. While the federal funds rate has fallen from 6.40 percent to 1.82 percent over that period, to just over one-fourth its starting value, the prime lending rate, the rate banks charge their best business customers on short-term loans, has fallen by not quite half, from 9.50 percent to 4.84 percent. Many banks base interest rates they charge on consumer loans of all sorts and loans to small businesses on the prime lending rate. The other, longer-term interest rates shown in the table reveal an even more dramatic tale—fixed-rate 30-year mortgage rates and the yield on ten-year Treasury bonds have fallen only slightly, from 7.38 percent to 7.07 percent over the period for mortgages, and from 5.24 percent to 5.09 percent for Treasury bonds. The yield on corporate bonds rated Baa, a low investment grade, has actually increased, if just barely. Both the mortgage rates and the corporate bond yields reflect greater credit risk than the Treasury bonds, which are usually considered to have no credit risk, and a longer term to maturity. The long-term borrowing costs of the most creditworthy U.S. companies would fall somewhere between the yield on Treasury bonds and the corporate bond yield shown.

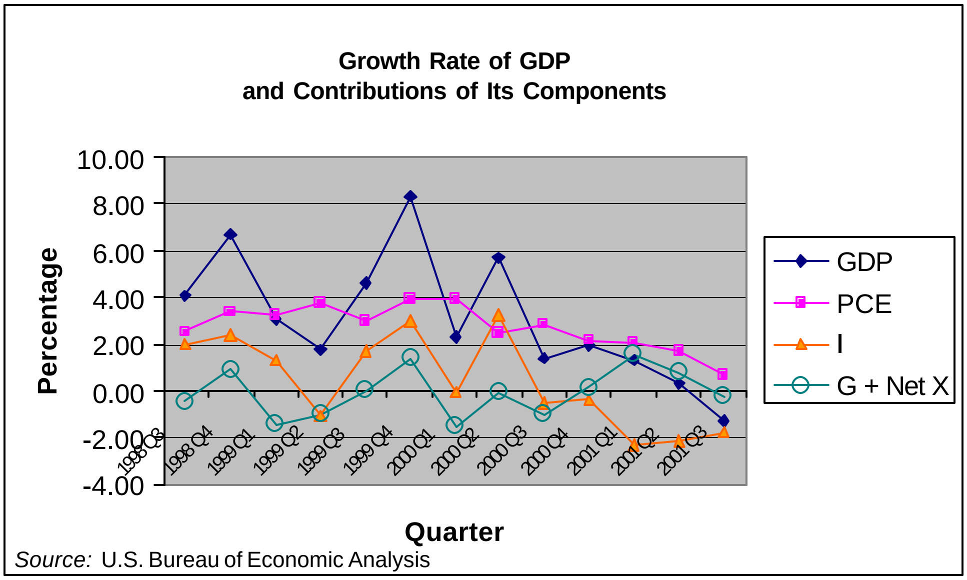
Interest rate	December 2000	March 2001	June 2001	September 2001	December 2001
Federal funds	6.40percent	5.31percent	3.97percent	3.07percent	1.82percent
Prime	9.50percent	8.32percent	6.98percent	6.28percent	4.84percent
10-year Treasuries	5.24percent	4.89percent	5.28percent	4.73percent	5.09percent
Conventional mortgage loans	7.38percent	6.95percent	7.16percent	6.82percent	7.07percent
Corporate Baa-rated bonds	8.02percent	7.84percent	7.97percent	8.03percent	8.05percent

Source: Federal Reserve

The table therefore provides one reason why business and consumer spending has shown little response so far: the longer-term borrowing rates, which would represent both the explicit cost and the opportunity cost to firms of investment, have fallen modestly or even risen over the year ending in December. Similarly, mortgage rates fell modestly over this period, reducing households' costs of purchasing a new home only modestly. These circumstances hold true despite the undeniably dramatic decrease in the federal funds rate.

A second (and related) indication of why monetary policy has shown little effect to date can be found by looking directly at bank lending. The Fed moves the federal funds rate around by increasing (or decreasing) the amount of reserves in the banking system through "open market operations"—the buying (or selling) of government securities. The Fed lowers the federal funds rate by providing more reserves, and reserves are the raw materials that banks can turn into loans. But, while the Fed may make more reserves available, it cannot require banks to lend them, nor can it require businesses or consumers to borrow.

According to Federal Reserve data, overall bank lending grew by just 1.3 percent from December 2000 to December 2001 after having grown at a compound annual rate of 8.2 percent per year from December 1995 to December 2000. Even more dramatically, bank lending to commercial and industrial firms actually *fell* by 5.7 percent from December 2000 to December 2001, after having grown at a compound annual rate of 8.5 percent per year over the previous five-year period. Evidence from the Fed's most recent Senior Loan Officer Opinion Survey on Bank Lending Practices suggests that these changes in loan volumes reflect both weak loan demand on the part of businesses and consumers, and a tightening of lending guidelines by banks. The survey of loan



officers at 57 large domestic banks and 22 U.S. branches and agencies of foreign banks, conducted in October 2001, reveals both possibilities at work.

The Fed has done its part, though, by decreasing the federal funds rate so sharply. If history is a reliable guide, such a decisive monetary response should begin to have an expansionary effect on the economy sometime in the coming months.

How Did We Get Where We Are Today? A Look at the Sources of Economic Growth

Personal consumption expenditures, often loosely referred to as consumer spending, account for a little over two-thirds of GDP, so whether consumers are spending or not is clearly important to the economy. As a component of GDP *growth*, though, consumer spending has been even more important in recent years. Fueled by consumer debt, low unemployment, and capital gains from the stock market, growth in consumer spending accounts for almost three-fourths of growth in GDP from the first quarter of 1995 (1995 Q1) to the third quarter of 2001 (2001 Q3). And indeed, the slowdown in consumer spending has reduced GDP growth by three full percentage points from 1999 Q4 to 2001 Q3. But we have lost over *nine* percentage points of growth over that period, so there is more to the story than just consumer fatigue.

The information in the preceding paragraph came from Bureau of Economic Analysis (BEA) data. The BEA publishes a data series showing the contributions to GDP growth of each of its major components, which helps analysts figure out the reasons for changes in GDP growth rates. The series is reproduced in the accompanying graph.

GDP has four components: Personal consumption expenditures (PCE); gross private domestic investment (I), which includes business spending and spending on newly built residential housing; net exports of goods and services (Net X); and government consumption expenditures and gross investment (G), which includes spending by the federal, state, and local levels of government. The contributions of Net X and of G are added together in the graph, since their joint contribution to GDP growth fluctuates only moderately around zero percent.

The GDP growth rate shown in the graph jumps around a lot, before dropping steadily after 2000 Q2. Certainly the recent drop is accompanied by a noticeable drop in the growth rate of PCE. But the influence of business spending (the I, for Investment, series) on GDP is quite definite as well. The volatility exhibited by GDP growth prior to 2000 Q2 appears to be due largely to a similar volatility in the Investment series. And in fact business spending is responsible for more of the drop in GDP growth since 1999 Q4 than consumer spending: PCE went from contributing 4.0 of the 8.3 percentage points of GDP growth in 1999 Q4 to contributing 0.7 percentage points of growth to the 1.3 percentage points of GDP *decline* in 2001 Q3. The swing of 3.3 percentage points (from 4.0 down to 0.7) represents a significant decline in contribution to GDP growth, yet PCE is still contributing to GDP growth. In contrast, Investment went from contributing 3.0 percentage points of growth in the earlier quarter to contributing a 1.8 percentage point *decline* in GDP growth, a swing of 4.8 percentage points. The biggest contributor to GDP decline in 2001 Q3 was, in fact, due to the Investment component.

If you are thinking to yourself at this point that economists like numbers just a little too much, there is a practical implication of that last point. Business spending includes spending to build up inventories. In six of the seven most recent quarters business spending on inventories has contributed negatively to GDP growth as firms have sought to reduce their inventories. Should businesses begin to replenish their inventories, that would replace a contractionary economic force with an expansionary force. Helped along by the monetary policy conducted by the Fed, this could be the factor that helps the economy turn the corner. DRI-WEFA projects that inventory restocking will be an early contributor to recovery, contributing 0.6 percentage points toward GDP growth in 2002. That would be a healthy boost, given that inventories contributed a 0.8 percent decline in GDP in 2001 Q3.

Update of National Economic Data

As of this writing, GDP figures have not been updated since the last issue of *Budget Footnotes*; the most recent release is the final figure for 2001 Q3, which showed real GDP decreasing by an annualized 1.3 percent. Likewise Personal Income figures have not yet been updated; the most recent release is a decrease of 0.1 percent in November.

The Consumer Price Index–All Urban Consumers (CPI-U) decreased by 0.4 percent in December, making the most recent twelve-month inflation rate 1.6 percent. The decline in December was due largely to food and energy prices, with the so-called "core" inflation rate showing a very slight increase of 0.1 percent in the price level. The Producer Price Index for Finished Goods, often interpreted as a barometer of future inflationary pressure, fell by 0.7 percent in December, after falling by 0.6 percent in November. Once again declines in food and energy prices played a very big role in determining movements in the overall index—excluding food and energy prices the index fell by 0.1 percent in December after increasing by 0.2 percent in November. By any of these measures, inflation seems to remain well under control.

Update of Ohio Economic Data

The unemployment rate in Ohio was 4.8 percent in December, unchanged from the November figure (which was revised up from the 4.7 percent figure reported in the last issue of *Budget Footnotes*). Although this number is below the national rate, the employment situation has clearly deteriorated in Ohio in recent months. The Bureau of Labor Statistics estimates that the Ohio economy lost almost 43,000 manufacturing jobs in the year ending December 2001, a fall of about 4 percent statewide. Over 11,000 of the jobs lost were in the Cleveland area, and over 7,000 were in the Dayton-Springfield area. These losses represent falls of 5.3 percent and 7.5 percent, respectively, in the number of local manufacturing jobs. Particularly hard-hit have been the Youngstown-

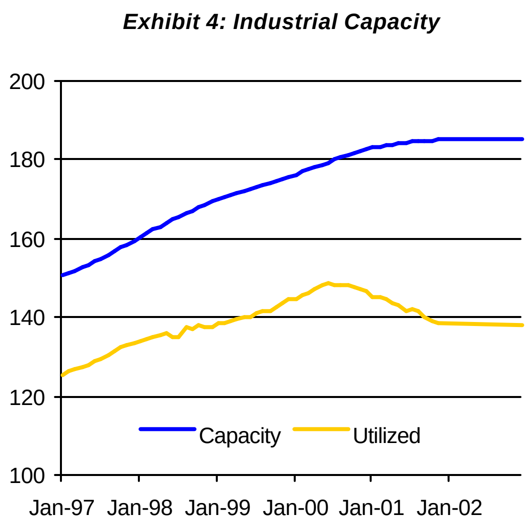
Exhibit 3: Employment Changes in Ohio by Industry, December 2000 to December 2001

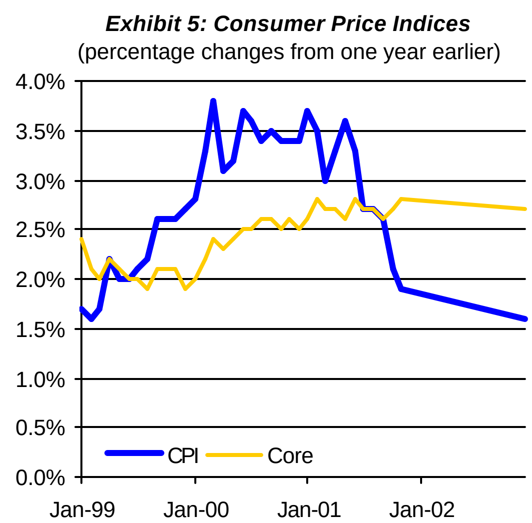
Economic Sector	Change in Employment	Percentage Change
Mining	0	0.0percent
Manufacturing	(42,900)	(4.0percent)
Construction	(3,000)	(1.2percent)
Transportation and Public Utilities	(4,100)	(1.6percent)
Wholesale Trade	(3,400)	(1.1percent)
Retail Trade	(1,800)	(0.2percent)
Finance, Insurance & Real Estate	400	0.1percent
Services	8,500	0.5percent
Government	11,500	1.5percent

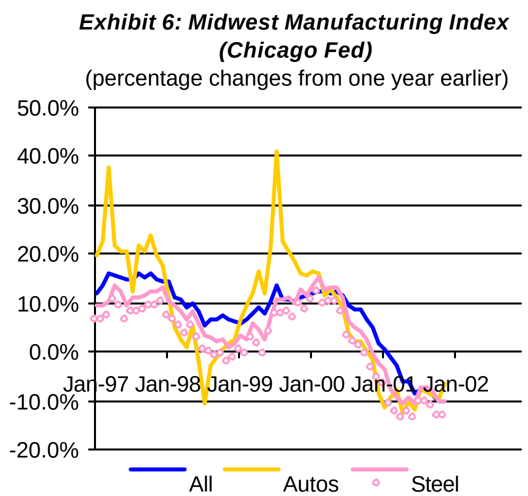
Source: U.S. Bureau of Labor Statistics

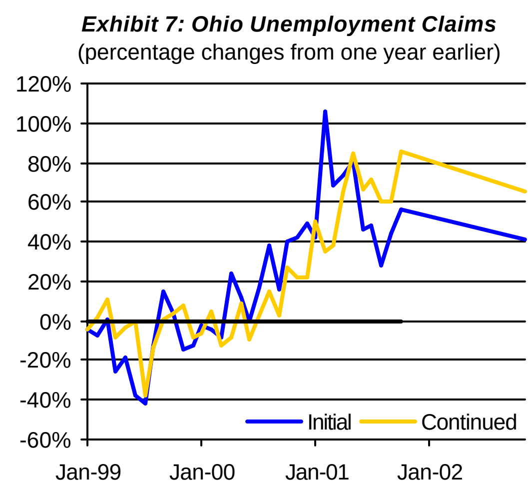
Warren area and the Lima area, both of which lost over 9 percent of their local manufacturing jobs over this period. As shown in the Exhibit 3, statewide employment in other sectors is holding up better.

Although construction, transportation and public utilities, and wholesale and retail trade have also lost jobs over the last year, the losses are significantly smaller, both in percentages and in numbers of jobs, than the losses in manufacturing. In contrast, the government, services, and finance, insurance, and real estate sectors have all added jobs in the last year. The increase in employment in the government sector is at the local level, primarily in education.









[1] DRI-WEFA is an economics forecasting firm with which the State of Ohio has contracted.

Status of the General Revenue Fund

REVENUES

*— Doris Mahaffey**

At $1,546.1 million, December revenues fell short of the original July 2001 OBM estimate by $98.7 million. However, they exceeded OBM's revised December estimate by $10 million. As noted in the Overview, *Budget Footnotes* will continue to make comparisons vis a vis the original estimates. These are the estimates included in Table 2, which shows receipts for the month of December, and Table 3, which shows the FY 2002 year-to-date receipts.

Nevertheless, a discussion of the OBM revision is in order.

OBM's revised estimates take into consideration certain revenue reductions, as well as revenue enhancements. The revenue reductions are based on OBM's revised revenue estimates as of October 2001. These revised estimates projected reduced revenues from the personal income tax, the sales and use tax (both the auto and non-auto portions), the corporate franchise tax, the estate tax, and earnings on investments. They projected small increases in the public utility excise tax and in liquor transfers. These projections are presented in Table 1A below. The net effect on the GRF is a reduction of $709 million in FY 2002 compared to the original Conference Committee estimates for H.B. 94.

The revenue enhancements are due to the provisions of H.B. 405 (effective December 13, 2001). H.B. 405 provided additional revenue to the GRF in FY 2002 in the form of transfers from the Budget Stabilization Fund (BSF) and the Tobacco Use Prevention and Cessation Trust Fund (Fund H87), from changes to the local government fund stabilization language in H.B. 94, and from changes in the cigarette tax and the sales and use tax. These changes to the GRF are somewhat offset by the refund of the

Table 1A – FY 2002 GRF Revenue Estimates
Dollars in millions

REVENUE SOURCE	May 2001 Conference estimate	Revisions to Conference estimate	October 2001 Revised Estimates	Changes made by H.B. 405	December 2001 Revised Estimates
Auto Sales & Use Tax	$825.0	-$31.0	$794.0	*	$794.0
Non-Auto Sales & Use Tax	$5,417.8	-$299.0	$5,118.8	*	$5,118.8
Total Sales & Use Tax	$6,242.8	-$330.0	$5,912.8	$79.0*	$5,991.8
Personal Income Tax	$8,215.1	-$335.0	$7,880.1	$10.0	$7,890.1
Corporate Franchise Tax	$1,007.0	-$47.0	$960.0	--	$960.0
Public Utility Excise Tax	$247.0	$19.0	$266.0	--	$266.0
Cigarette Tax	$280.0	--	$280.0	$3.5	$283.5
Estate Tax	$125.0	-$10.0	$115.0	--	$115.0
Other Taxes	$767.3	--	$767.3	--	$767.3
Total Taxes	**$16,884.2**	**-$703.0**	**$16,181.2**	**$92.5**	**$16,273.7**
Earnings on Investment	$135.0	-$10.0	$125.0	-$3.4	$121.6
Other Income	$188.0	--	$188.0	-$25.7	$162.3
Total Non-Tax Receipts	**$323.0**	**-$10.0**	**$313.0**	**-$29.1**	**$283.9**
Liquor Transfers	$98.0	$4.0	$102.0	--	$102.0
Transfers In - Other	$320.1	--	$320.1	$205.3	$525.4
Total Transfers In	**$418.1**	**$4.0**	**$422.1**	**$205.3**	**$627.4**
Total Sources Excluding Federal	**$17,625.3**	**-$709.0**	**$16,916.3**	**$268.7**	**$17,185.0**
Federal Grants	$4,306.1	--	$4,306.1	--	$4,306.1
Total All Sources	**$21,931.4**	**-$709.0**	**$21,222.4**	**$268.7**	**$21,491.1**

**It is not clear how this increase should be divided between auto and non-auto sales tax revenue.*

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

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$77,464	$55,688	$21,776
Non-Auto Sales & Use	$417,509	$471,349	($53,840)
Total Sales	$494,973	$527,037	($32,064)
Personal Income	$603,238	$600,152	$3,086
Corporate Franchise	($21,317)	$5,035	($26,352)
Public Utility	$463	$0	$463
Kilowatt Hour Excise	$24,376	$25,600	($1,224)
Total Major Taxes	**$1,101,733**	**$1,157,824**	**($56,091)**
Foreign Insurance	$60	$0	$60
Domestic Insurance	$0	$0	$0
Business & Property	$43	$83	($40)
Cigarette	$25,028	$22,400	$2,628
Alcoholic Beverage	$5,949	$4,480	$1,469
Liquor Gallonage	$2,516	$2,465	$51
Estate	$3,352	$12,500	($9,148)
Total Other Taxes	$36,949	$41,928	($4,979)
Total Taxes	**$1,138,682**	**$1,199,752**	**($61,070)**
NON-TAX INCOME			
Earnings on Investments	$21,164	$37,800	($16,636)
Licenses and Fees	$692	$1,400	($708)
Other Income	$5,702	$8,640	($2,938)
Non-Tax Receipts	$27,558	$47,840	($20,282)
TRANSFERS			
Liquor Transfers	$14,000	$14,000	$0
Budget Stabilization	$0	$0	$0
Other Transfers In	$2,853	$0	$2,853
Total Transfers In	$16,853	$14,000	$2,853
TOTAL INCOME less Federal Grants	**$1,183,093**	**$1,261,592**	**($78,499)**
Federal Grants	$363,057	$383,296	($20,239)
TOTAL GRF INCOME	**$1,546,150**	**$1,644,888**	**($98,738)**

* July 2001 estimates of the Office of Budget and Management.

Totals may not add up due to rounding.

Support Enforcement Tracking System (SETS) penalty[1] and a potential additional loss in investment earnings. The bill also made changes to the corporate franchise tax, but these changes will not affect the GRF until FY 2003. Table 1A also shows the impact of these changes on projected FY 2002 GRF revenues.

Several of the estimates contained in Table 1A are taken from the LSC fiscal note for H.B. 405 and do not necessarily match OBM's estimates. For example, the table shows that the gain from transfers in is $205.3 million. This includes a transfer in of $120 from Fund H87, leaving an estimated transfer from the BSF of $85.3 million. H.B. 405 actually permits the transfer of $256 million over the biennium. LSC assumes that one-third of that transfer will occur in FY 2002.

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

REVENUE SOURCE					Percent
TAX INCOME	**Actual**	**Estimate***	**Variance**	**FY 2001**	**Change**
Auto Sales	$496,638	$414,564	$82,074	$396,427	25.28%
Non-Auto Sales & Use	$2,539,353	$2,706,191	($166,838)	$2,581,454	-1.63%
Total Sales	$3,035,991	$3,120,755	($84,764)	$2,977,881	1.95%
Personal Income	$3,327,942	$3,498,782	($170,840)	$3,300,408	0.83%
Corporate Franchise	-$74,802	$17,623	($92,425)	($2,482)	2914.12%
Public Utility	$130,259	$68,800	$61,459	$201,907	-35.49%
Kilowatt Hour Excise	$164,230	$171,920	($7,690)	$0	—
Total Major Taxes	**$6,583,620**	**$6,877,880**	**($294,260)**	**$6,477,714**	**1.63%**
Foreign Insurance	$114,927	$127,190	($12,263)	$134,755	-14.71%
Domestic Insurance	$3,013	$2,300	$713	$1,369	119.99%
Business & Property	$936	$1,038	($102)	$1,101	-14.95%
Cigarette	$132,012	$128,800	$3,212	$129,013	2.33%
Alcoholic Beverage	$28,325	$28,140	$185	$0	—
Liquor Gallonage	$14,487	$14,356	$131	$27,360	-47.05%
Estate	$63,203	$60,000	$3,203	$14,422	338.25%
Total Other Taxes	$356,904	$361,824	($4,920)	$308,020	15.87%
Total Taxes	**$6,940,524**	**$7,239,704**	**($299,180)**	**$6,785,735**	**2.28%**
NON-TAX INCOME					
Earnings on Investments	$56,784	$81,000	($24,216)	$91,194	-37.73%
Licenses and Fees	$12,768	$15,488	($2,720)	$13,953	-8.49%
Other Income	$86,521	$59,430	$27,091	$89,309	-3.12%
Non-Tax Receipts	$156,074	$155,918	$156	$194,455	-19.74%
TRANSFERS					
Liquor Transfers	$58,000	$54,000	$4,000	$55,000	5.45%
Budget Stabilization	$0	$0	$0	$0	—
Other Transfers In	$10,850	$6,237	$4,613	$78,165	-86.12%
Total Transfers In	$68,850	$60,237	$8,613	$133,165	-48.30%
TOTAL INCOME less Federal Grants	**$7,165,447**	**$7,455,859**	**($290,412)**	**$7,113,355**	**0.73%**
Federal Grants	$2,182,333	$2,211,188	($28,855)	$2,079,176	4.96%
TOTAL GRF INCOME	**$9,347,780**	**$9,667,047**	**($319,267)**	**$9,192,531**	**1.69%**

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

Totals may not add up due to rounding.

Three changes affect GRF tax revenues in FY 2002. The change to the calculation of the local government fund freeze is projected to increase GRF revenue by $10 million in FY 2002. That provision will translate into a $10 million increase in February personal income tax revenue. The change in the cigarette tax is a reduction in the discount in the tax liability that wholesale dealers in cigarettes receive for affixing and canceling stamps or meter impressions on cigarette packages. This change is already in effect. The change in the sales tax involves a change in how the sales tax on automobile leases is collected. Previously, the sales tax was paid on a monthly basis as a portion of the monthly lease payment. H.B. 405 requires that the total tax be paid at the time the lease is entered into. This change is expected to gain the GRF $79 million in FY 2002. It is not clear to what extent this gain will be due to people continuing to lease cars and paying the tax in advance and to what extent the gain will be due to people deciding to buy instead of lease. The latter would still increase current tax revenues. However, taxes on leases are part of the non-auto sales tax base, whereas taxes on vehicle sales are part of the auto tax base. Thus, the impact of the change on those two components of the sales tax is unclear.

In sum, the revised revenue estimates and the H.B. 405 changes yield FY 2002 revenues that are $270 to $440 million lower than the original OBM estimates. (Appropriation reductions are expected to offset the loss in revenue.) Thus, by continuing to use the original numbers in our comparison tables, we can anticipate continued revenue shortfalls throughout the fiscal year. As long as the "shortfall" is less than $440 million by the end of June the state should be doing all right in this area. Furthermore, OBM is likely to delay the revenue transfers as long as possible, so that the shortfall is likely to be even larger than that through May.

Currently, year-to-date revenues are $319 million below estimate. They are up 1.7 percent from a year ago. (See Table 3 for specific details on the performance of the major revenue categories.)

The biggest disappointment in December – by any comparison – was the non-auto sales tax. At only $417.5 million, its receipts were 1.7 percent lower than December 2000 non-auto tax receipts. By contrast the personal income tax provided a pleasant surprise. For the first time this year it was over estimate – if only slightly. (It was $16 million over OBM's revised estimates.) It was up from last December's receipts by 11.4 percent. Notably, both withholding and quarterly estimated payments met their estimates.

The auto sales tax, the corporate franchise tax, and earnings on investments provided no real surprises. The auto sales tax continued to exceed estimates ($21.8 million over) while the other two fell short. The corporate franchise tax was $26.4 million under and earnings on investments were $16.6 million under. OBM's revised estimates adequately anticipated the corporate franchise tax shortfall but did not quite anticipate the shortfall in earnings on investments.

Corporate franchise tax refunds continued their drain on the state coffers, subtracting another $21.3 million from state revenues. Year-to-date corporate franchise tax revenues were -$74.8 million. At this time last year, they were only -$2.5 million. The real test for the corporate franchise tax comes in the next few months.

Lower interest rates, – particularly on short-term securities and lower-than-expected fund balances, have dampened revenues from earnings on investments. At $21.2 million, December 2001 investment revenues were nearly 40 percent less than December 2000 revenues. Year-to-date investment revenues were down 38 percent.

Personal Income Tax Revenue

Personal income tax revenues were $3 million over estimate for the month of December. Although the overage is less than half a percent of the estimate, it is noteworthy because revenues came in over estimate for the first time this fiscal year. The modest overage was mostly due to quarterly estimated payments, which were $2.2 million more than estimated, and withholding, which was $1.2 million greater than estimated. Refunds were $500,000 less than originally estimated. Annual returns were $1.1 million under estimate and distributions to local governments were $300,000 greater than estimated.

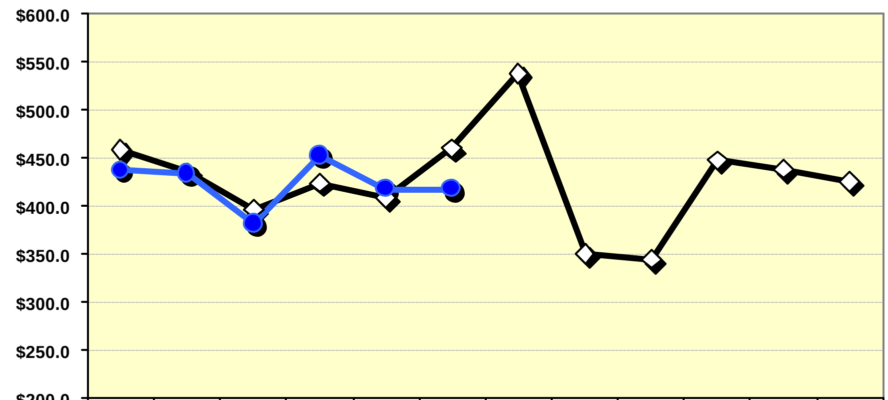
Year-to-date personal income tax revenues through December were $170.8 million less than estimated. Withholding was $110.4 million below estimate and accounted for 65 percent of the shortfall. Quarterly estimated payments were $2.7 million below estimate and annual returns were $5.2 million under estimate. Refunds were $50.9 million greater than estimated and accounted for 30 percent of the year-to-date shortfall. Distributions to local governments have been $3.6 million greater than estimated.

Although withholding, which accounts for over 85 percent of gross income tax collections, came in over estimate for the first time since July 2001, it remains far from healthy. The health of withholding depends on employment conditions: the level of employment, hours worked, and wage paid. As the economy recovers and these factors improve, withholding will grow. Moreover, December withholding can be somewhat tricky, as it may reflect bonuses and other one-time payments unrelated to employment growth.

Sales Tax Revenue

The Non-auto Sales and Use Tax. The non-auto sales and use tax was truly disappointing in December. It was $53.8 million under estimate and was down 1.7 percent from last December. (Last December's sales tax revenues were disappointing as well, so a 1.7 percent decline from that level is a reason for concern.)

Chart 2
Non-Auto Sales and Use Tax Revenue
Monthly Receipts
Dollars in millions



	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
FY 2001	$458.0	$434.6	$396.7	$423.8	$409.0	$459.3	$537.5	$350.3	$344.6	$447.0	$438.4	$424.9
FY 2002	$436.7	$433.7	$381.8	$452.3	$417.4	$417.5						

December sales tax revenues largely reflect November retail sales. According to the U.S. Department of Commerce, U.S. retail and food service sales for November were down 3.7 percent from October but were up 3.7 percent from the previous November.[2] The performance of Ohio's December sales tax revenues actually shows the opposite pattern. (See Chart 2.) Revenues were virtually flat between November and December (reflecting October and November sales) and were much lower than December 2000 (FY 2001) revenues.

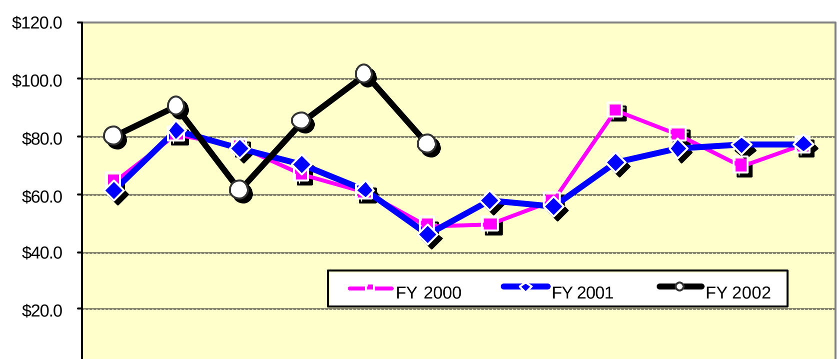
Of course, much of the growth in retail sales was for motor vehicles, which greatly impacted Ohio's auto sales tax revenue for November (discussed in last month's *Budget Footnotes*). Without motor vehicle sales, retail sales grew by a smaller 1.1 percent. Sales of apparel actually fell. Unseasonably warm weather was partially blamed for that. People were more interested in buying cars than winter coats.[3] It was also noted that after September 11, people took a lot longer this year to get into the holiday "buying" spirit. Then, too, more people bought more items from catalogs and via the Internet; much of the amount paid for these items would not have made it into the state's sales tax base.

Another point is that the Census Bureau's data was not adjusted for price changes, so that the substantial price breaks that retailers were offering not only cut into their profits, they also reduced state sales tax revenues. The Cleveland *Beige Book* for January reports that district retail sales seem to have improved in December, so January sales tax revenues should show an improvement, as well.

The Auto Sales Tax. The auto sales tax continued to do well in December – although not quite as well as in November (see Chart 3).

Auto sales tax revenues in December were above estimates by $21.8 million, or 39 percent. (They were 20 percent above OBM's revised estimate.) Year-to-date auto sales tax receipts were $82 million, or 20 percent, above estimate. Year-to-date FY 2002

Chart 3
Auto Sales and Use Tax Revenue
Monthly Receipts
Dollars in millions



	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
FY 2000	$64.3	$80.8	$76.5	$66.9	$60.5	$48.9	$49.3	$57.8	$89.1	$80.8	$69.8	$77.0
FY 2001	$61.0	$82.3	$75.6	$70.1	$61.6	$45.7	$57.7	$55.9	$71.1	$75.9	$77.0	$77.6
FY 2002	$80.0	$90.6	$61.5	$85.2	$101.8	$77.5						

auto sales tax receipts through December 2001 were $100.0 million, or 25 percent, higher than FY 2001 auto sales tax revenue in the same period.

Although December 2001 U.S. motor vehicle sales were down from November 2001 sales, they were up 11.7 percent from last December. In addition to the incentives that manufacturers and dealers have provided to increase sales this year, the motor vehicle market has benefited greatly from the relatively mild weather and low gas prices over the past two months – a complete turnaround from November and December 2000. (In both November and December, retail gasoline sales have been markedly lower than a year ago, as well.)

**Allan Lundell contributed material for this Revenues section.*

[1] H.B. 94 contained language requiring the Department of Job and Family Services to transfer any refunds of penalties associated with the SETS program to the GRF. H.B. 405 instead requires that any refund be deposited into Fund 2V6, the TANF Block Grant fund. The estimated amount of penalty refund is $25.7 million. This is reflected as a change in "other income" in the table, but could be reflected as a change in Federal Reimbursements.

[2] "Advance Monthly Sales for Retail and Food Services November 2001," U.S. Census Bureau, December 13, 2001.

[3] *Federal Reserve* Beige Book *for January 16, 2002.*

DISBURSEMENTS

— *Steve Mansfield**

December's GRF disbursement activity demonstrated a continuing revision of agency spending in light of changes required by Am. Sub. H.B. 405 and Executive Order 2001-22T, which together reduced the biennial appropriation authority for most state agencies. For December, total GRF disbursements (excluding transfers) were $13.7 million below the estimate, bringing total year-to-date disbursement activity to $315.2 million below the estimate.

When we look at the trajectory of the year-to-date disbursement variances of four of the state's major GRF program categories, as depicted in Figure 1, we see that all four program categories continue to reside in negative territory, although two of the categories (Tax Relief and Education) registered positive variances for the month of December. We begin the analysis of December and year-to-date disbursement activity by looking at these four major GRF program categories in the order of the magnitude of their year-to-date contribution to the year-to-date negative disbursement variance: (1) Education, (2) Welfare and Human Services, (3) Government Operations, and (4) Tax Relief. Within each category we then examine the departmental budgets and programs that have contributed most notably to either positive or negative variances. The reader's attention is also directed to Tables 4 and 5, which provide a more detailed picture of the December and year-to-date disbursement variances, respectively, by program category.

Education (-$152.6 million)

The Education program category stayed relatively close to the December estimate, with the Board of Regents recording a $1.9 million positive disbursement variance while the remainder of the program category posted a combined negative variance of just over $200,000. As a result, the program category's year-to-date disbursement report was largely unchanged at $152.6 million below the estimate.

Department of Education. While the overall result of December spending activity by the Department of Education was a relatively small positive disbursement variance of $1.2 million, it was actually composed of several significant but offsetting programmatic disbursement variances.

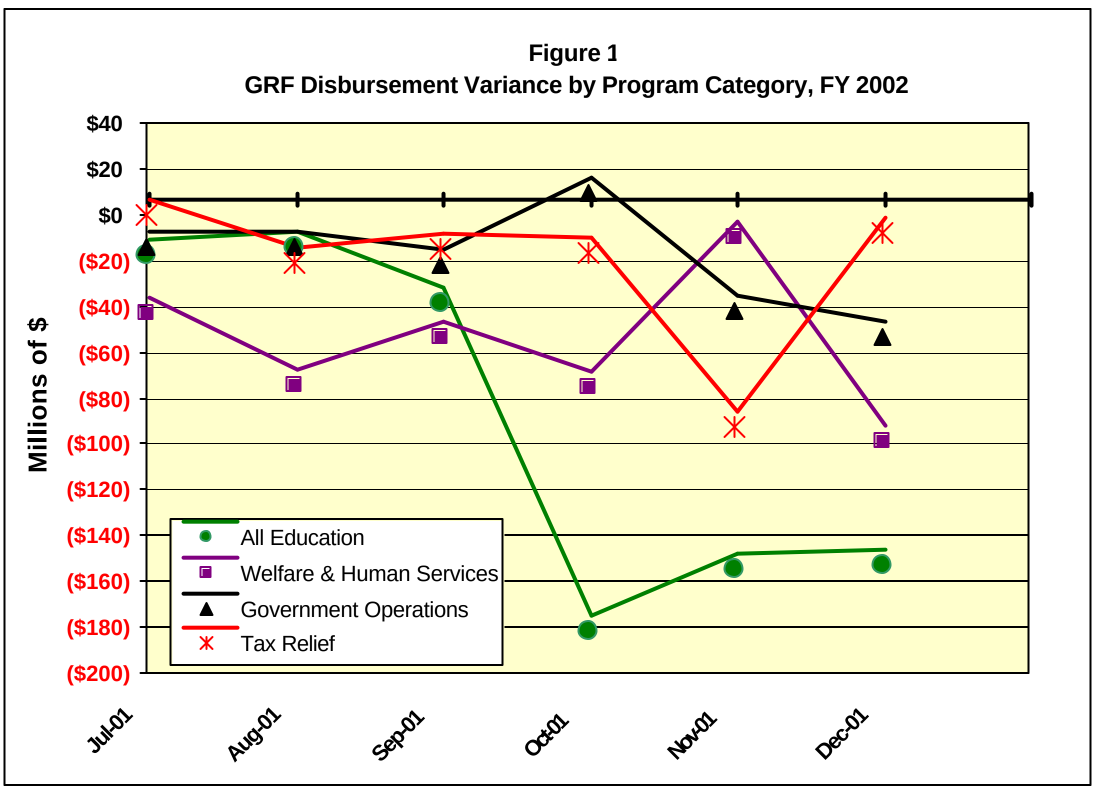


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of December 2001
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$480,521	$480,724	($203)
Higher Education	$176,554	$174,635	$1,919
Total Education	$657,075	$655,359	$1,716
Health Care/Medicaid	$665,234	$634,267	$30,967
Temporary Assistance to Needy Families (TANF)	$47,795	$124,096	($76,301)
General/Disability Assistance	$8,482	$7,730	$752
Other Welfare (2)	$35,887	$50,655	($14,768)
Human Services (3)	$108,552	$138,190	($29,638)
Total Welfare & Human Services	$865,950	$954,937	($88,987)
Justice & Corrections	$115,347	$119,064	($3,717)
Environment & Natural Resources	$6,738	$7,706	($969)
Transportation	$5,502	$5,660	($158)
Development	$10,397	$16,978	($6,581)
Other Government (4)	$24,875	$25,830	($955)
Capital	$1,163	$0	$1,163
Total Government Operations	$164,022	$175,238	($11,217)
Property Tax Relief (5)	$201,428	$116,453	$84,975
Debt Service	$7,728	$7,879	($151)
Total Program Payments	**$1,896,203**	**$1,909,866**	**($13,663)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$0	$0	$0
Total Transfers Out	$0	$0	$0
TOTAL GRF USES	**$1,896,203**	**$1,909,866**	**($13,663)**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes the Department of Job and 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 2001 estimates of the Office of Budget and Management.

Totals may not add up due to rounding.

Two programmatic line items stand out with positive variances in December: 200-532, Nonpublic Administration Cost Reimbursement ($13.4 million), and 200-566, OhioReads Grants ($12.2 million). The overage in line item 200-532 was timing-based, with the department disbursing funds that had been held back due to budget uncertainties. The overage in line item 200-566 resulted from the timing of the review of grant applications.

When we look at the offsetting negative disbursement variances, two line items also stand out for December. The variances in these line items were also timing-based. Disbursements for line item 200-513, Summer Intervention, were under estimate by $25.0 million for December. This line item provides funds for mandatory intervention services to districts with at least 10 percent of their students falling below the 4th grade reading proficiency level. The $25.0 million payment scheduled for December has

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

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 2001	Percent Change
Primary & Secondary Education (1)	$3,080,407	$3,196,589	($116,182)	$2,934,622	4.97%
Higher Education	$1,302,254	$1,338,691	($36,437)	$1,346,469	-3.28%
Total Education	$4,382,661	$4,535,280	($152,619)	$4,281,090	2.37%
Health Care/Medicaid	$3,727,115	$3,686,413	$40,702	$3,236,068	15.17%
Temporary Assistance to Needy Families (TANF	$264,819	$331,937	($67,117)	$489,559	-45.91%
General/Disability Assistance	$43,743	$43,132	$611	$35,968	21.62%
Other Welfare (2)	$285,929	$335,099	($49,170)	$314,766	-9.16%
Human Services (3)	$666,378	$689,997	($23,619)	$654,660	1.79%
Total Welfare & Human Services	$4,987,984	$5,086,578	($98,593)	$4,731,020	5.43%
Justice & Corrections	$950,782	$992,257	($41,474)	$927,261	2.54%
Environment & Natural Resources	$84,686	$87,529	($2,842)	$89,023	-4.87%
Transportation	$29,110	$25,877	$3,233	$22,146	31.45%
Development	$109,059	$115,940	($6,881)	$110,075	-0.92%
Other Government (4)	$243,704	$256,743	($13,038)	$224,520	8.54%
Capital	$7,995	$3,322	$4,673	$42,493	-81.19%
Total Government Operations	$1,425,337	$1,481,668	($56,331)	$1,415,518	0.69%
Property Tax Relief (5)	$620,349	$628,088	($7,739)	$563,173	10.15%
Debt Service	$123,127	$123,074	$53	$107,959	14.05%
Total Program Payments	**$11,539,458**	**$11,854,687**	**($315,229)**	**$11,098,760**	**3.97%**
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	$780,494	-98.01%
Total Transfers Out	$28,634	$26,182	$2,452	$829,694	-96.55%
TOTAL GRF USES	**$11,568,092**	**$11,880,869**	**($312,777)**	**$11,928,455**	**-3.02%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes the Department of Job and 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 2001 estimates of the Office of Budget and Management.

Totals may not add up due to rounding.

not yet been made. In addition, line item 200-545, Career-Technical Education Enhancements, was under the December estimate by $10.1 million. This was the result of a payment that was anticipated in December actually posting in November.

Regents. Disbursement activity by the Board of Regents stands at $36.4 million, or 2.7 percent, under the year-to-date estimate. By and large, the negative year-to-date disbursement variance is traceable to a $35.5 million payment from line item 325-420, Success Challenge, that has not yet been made, although it was anticipated by the estimate to take place in November. The board prefers to reflect on its books beginning in January 2002 the reduced disbursements stemming from budget reductions; thus we will likely see a generally lower-than-estimated disbursement in January.

One other notable contributor to the negative year-to-date disbursement variance in the board's budget is prior-year funds in line item 235-590, Twelfthgrade Proficiency Stipend, which stand at $7.9 million, or 75.9 percent, below the estimate. This negative variance has been accumulating monthly due to delays in processing eligibility data. Since this is a matter of timing, however, this disbursement variance is expected to self-correct in the months ahead.

Welfare and Human Services (-$98.6 million)

Job & Family Services. Year-to-date disbursement activity in 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 – fell an additional $14.8 million short of the estimate in December, thus pushing the year-to-date disbursement variance to $49.2 million below the estimate. The most significant contributors to the negative year-to-date variance continue to be line items 600-416, Computer Projects (-$15.7 million); 600-528, Adoption Services (-$6.4 million); and 600-504, Non-TANF County Administration (-$5.3 million). These items, as noted in the following paragraph, were joined in December by line item 600-437, Temporary Heating Assistance, as the most significant contributors to the disbursement variance in this category.

Three noteworthy contributors to December's negative variance were the underages in the following line items: 600-416, Computer Projects (-$5.5 million); 600-528, Adoption Services (-$3.1 million); and 600-437, Temporary Heating Assistance (-$6.8 million). The underages in the first two of these line items are mostly due to the executive-ordered budget reductions. The underage in the third line item relates to prior-year funds that were encumbered in anticipation of counties reconciling payments they had made under project THAW (Temporary Heating Assistance for Warmth). Project THAW was created by Sub. H.B. 9 of the 124th General Assembly to provide assistance with payments of winter heating expenses experienced by persons not eligible for assistance under Title IV-A of the Social Security Act during the natural gas price spike of last winter, and whose gross monthly income did not exceed 200 percent of the poverty level established by the federal poverty guidelines. The counties, however, did not pay out under the program as much as the department had anticipated and the final reconciliation thus did not need to draw on these funds. As a result, the encumbrance has been canceled.

Mental Retardation. The Department of Mental Retardation and Developmental Disabilities closed December with a $20.7 million negative year-to-date disbursement variance, having added a $4.1 million underage in December. This places disbursements by the department 7.4 percent below the estimate for the year to date. The bulk of the variance is traceable to line item 322-413, Residential and Support Services. When we combine the line item's disbursements for both prior and current year funds, $16.2 million of the negative variance stems from slower than anticipated spending activity. As has been discussed in prior issues of *Budget Footnotes*, the driving force behind disbursements from this line item is the timing of payments to service providers, which is hard to predict. This disbursement variance should self-correct in the months ahead.

Mental Health. December disbursements in the budget of the Department of Mental Health were $19.0 million below the estimate. Issues of timing produced this result, with $10.4 million of the underage stemming from a payment from line item 333-415, Lease Rental Payments, posting in November rather than in December, as was anticipated. The rest of the month's underage is traceable to the timing of community board subsidy payments – particularly line item 334-408, Community and Hospital Mental Health – deviating from the FY 2001 disbursement pattern, on which the estimate is based.

Year-to-date disbursements for the department through December stood at $17.0 million over the estimate.

Health Care/Medicaid. In December, the Health Care/Medicaid program (primarily line item 600-525) recorded a positive disbursement variance of $31.0 million, thus pushing the year-to-date variance to $40.7 million, or 1.1 percent, over the estimate.

The role that particular service categories had in producing this result is depicted by the data in Table 6. The estimates for the service categories, however, assume the inclusion of $65 million that is to be transferred from the Budget Stabilization Fund (BSF) and an additional federal contribution of $93 million in

Table 6
Health Care Spending in FY 2002
Medicaid, ALI 600-525
($ in thousands)

	December				Year-to-Date Spending			
Service Category	Actual	Estimate	Variance	Percent Variance	Actual thru' December	Estimate thru' December	Variance	Percent Variance
Nursing Facilities	$195,265	$179,658	$15,608	8.7%	$1,211,944	$1,214,616	($2,672)	-0.2%
ICF/MR	$32,714	$33,887	($1,173)	-3.5%	$201,222	$203,436	($2,214)	-1.1%
Hospitals	$152,561	$158,771	($6,211)	-3.9%	$794,190	$850,937	($56,747)	-6.7%
Inpatient Hospitals	$108,834	$115,451	($6,617)	-5.7%	$565,914	$617,820	($51,906)	-8.4%
Outpatient Hospitals	$43,727	$43,320	$406	0.9%	$228,276	$233,117	($4,842)	-2.1%
Physicians	$50,548	$45,069	$5,479	12.2%	$232,452	$241,533	($9,081)	-3.8%
Prescription Drugs	$82,011	$98,748	($16,737)	-16.9%	$523,805	$524,152	($347)	-0.1%
Payments	$124,310	$119,897	$4,412	3.7%	$629,550	$629,897	($347)	-0.1%
Rebates	($42,298)	($21,149)	($21,149)	100.0%	($105,745)	($105,745)	$0	0.0%
ODJFS Waivers[1]	$15,690	$14,935	$755	5.1%	$81,971	$79,187	$2,783	3.5%
HMO	$50,412	$44,152	$6,259	14.2%	$274,673	$257,166	$17,507	6.8%
Medicare Buy-In	$10,835	$10,491	$344	3.3%	$64,262	$63,027	$1,235	2.0%
All Other[2]	$70,557	$58,250	$12,307	21.1%	$321,257	$310,271	$10,986	3.5%
DSH offset	$0	$0	$0		$0	$0	$0	
Total ALI 600-525	**$660,593**	**$643,962**	**$16,631**	**2.6%**	**$3,705,776**	**$3,744,325**	**($38,549)**	**-1.0%**
FMAP	58.94%	58.94%			58.94%	58.94%		
Est. Federal Share	$389,354	$379,551	$9,803		$2,184,184	$2,206,905	($22,721)	
Est. State Share	$271,240	$264,411	$6,829		$1,521,592	$1,537,420	($15,828)	
BSF Shortfall[3]	$0	($14,063)			$0	($81,076)		
Total ALI 600-525 Disb.	**$660,593**	**$629,899**	**$30,694**	**4.9%**	**$3,705,776**	**$3,663,249**	**$42,527**	**1.2%**
Est. Federal Share	$389,354	$371,263	$18,091		$2,184,184	$2,159,119	$25,065	
Est. State Share	$271,240	$258,637	$12,603		$1,521,592	$1,504,130	$17,462	
Children's Health Insurance Plan (CHIP-II), ALI 600-426[4]								
Total ALI 600-426	**$4,641**	**$4,367**	**$273**	**6.3%**	**$21,339**	**$23,164**	**($1,825)**	**-7.9%**
Enhanced FMAP	71.19%	71.19%			71.19%	71.19%		
Est. Federal Share	$3,304	$3,109	$195		$15,191	$16,491	($1,299)	
Est. State Share	$1,337	$1,258	$79		$6,148	$6,674	($526)	
Total Health Care	**$665,234**	**$648,329**	**$16,905**	**2.6%**	**$3,727,115**	**$3,767,489**	**($40,375)**	**-1.1%**
Total Hlth Care w/o BSF	**$665,234**	**$634,267**	**$30,967**	**4.9%**	**$3,727,115**	**$3,686,413**	**$40,702**	**1.1%**

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 and prior years encumbrance.
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.

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

matching funds. These additional state and federal funds totaling $158 million (or an additional 2.2 percent) were not included in OBM's original disbursement estimates for the program as a whole. Moreover, the transfer has not yet actually taken place, and Tables 4 and 5 reflect the original disbursement estimates. In order to reconcile Tables 4, 5, and 6, Table 6 includes an adjustment for these differences by subtracting from the bottom line the portion that is attributable to the BSF and matching federal funds. Any discussion of the service category estimates, however, contains a fundamental "apples and oranges" problem. Nevertheless, a comparison of actual spending with the category estimates, which include the BSF funds, can still provide some useful information. We see, for instance, that the Nursing Facilities and Physicians service categories both posted positive disbursement variances for the month of December when compared to the estimates, whereas disbursement activity in earlier months was below the estimates. December's positive disbursement variances in these two service categories result from the department clearing up a claims processing backlog.

In addition to the data in Table 6, we have in Table 7 provided a detailed comparison of FY 2002 to FY 2001 spending by service categories. In

Table 7 we see that through December, overall year-to-date FY 2002 spending from line item 600-525, Health Care/Medicaid, was 14.9 percent higher than at the same point in FY 2001. HMO payments represent the highest increase from a year ago, registering a 34.3 percent increase this fiscal year. While a portion of the difference for HMO payments can be explained by a 4.6 percent rate increase that took effect in July 2001, as well as by a weakening economy that has pushed up enrollments, the bulk of the difference is the result of an increase in the number of participants who, under the "preferred option" program, are being automatically enrolled in HMOs, as opposed to being enrolled on a fee-for-service basis. The "preferred option" program exists in counties where there is voluntary enrollment in managed care plans. This program automatically enrolls recipients in managed care if they fail to select the traditional fee-for-service option. Managed care enrollment has increased from 251,079 enrollees in December 2000 to 334,400 enrollees in December 2001, representing a 33.2 percent increase. This shift in enrollment to HMOs should tend to lower costs (or produce lower increases) in fee-for-service categories such as physicians, hospitals, and drugs.

Table 7

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

($ in thousands)

	FY 2002[1]	FY 2001[1]		
Service Category	**Yr.-to-Date as of Dec. '01**	**Yr.-to-Date as of Dec. '00**	**Dollar Change**	**Percent Increase**
Nursing Facilities	$1,211,944	$1,140,015	$71,929	6.3%
ICF/MR	$201,222	$191,199	$10,023	5.2%
Hospitals	$794,190	$704,374	$89,816	12.8%
Inpatient Hospitals	$565,914	$511,238	$54,677	10.7%
Outpatient Hospitals	$228,276	$193,137	$35,139	18.2%
Physicians	$232,452	$197,044	$35,408	18.0%
Prescription Drugs	$523,805	$405,348	$118,457	29.2%
Payments	$629,550	$493,695	$135,856	27.5%
Rebates	($105,745)	($88,347)	($17,399)	19.7%
ODJFS Waivers[2]	$81,971	$67,000	$14,971	22.3%
HMO	$274,673	$204,572	$70,102	34.3%
Medicare Buy-In	$64,262	$57,478	$6,784	11.8%
All Other[3]	$321,257	$258,061	$63,197	24.5%
DSH offset	$0	$0	$0	
Total (600-525)	**$3,705,776**	**$3,225,090**	**$480,686**	**14.9%**
Estimated Federal Share[4]	$2,184,184	$1,892,160	$292,024	15.4%
Estimated State Share	$1,521,592	$1,332,930	$188,662	14.2%

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 and prior year encumbrance.
4. The FMAP rate for SFY 2001 is 58.67%. The FMAP rate for SFY 2002 is 58.94%.

TANF. Beginning 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, TANF Federal Block Grant, was eliminated and moved to the state's Federal Special Revenue Fund Group (Fund 3V6). The disbursement estimates for FY 2002 appropriations thus do not include TANF's federal component. There are, however, encumbered funds remaining from the FY 2001 appropriation for line item 600-411 that will be spent during the current fiscal year.

Part of December's relatively large negative disbursement variance was the result of $27.3 million in current-year funds from the federal TANF Block Grant being substituted for state TANF dollars in order to make advances to counties. The department's December TANF GRF disbursement activity can be summed up as follows: disbursements from line item 600-410, TANF State, the largest of the two remaining GRF components in the TANF program, were $34.2 million below the estimate of $78.1 million, thus representing a 43.8 percent negative disbursement variance. December disbursements from line item 600-413, Day Care Match/MOE, were $9.3 million below the estimate of $13.2 million. No disbursements were made from prior-year funds encumbered in line item 600-411, TANF Federal Block Grant, whereas $32.8 million had been encumbered and was scheduled according to the estimate for disbursement in December. With regard to the latter line item, $14.7 million had already been disbursed in previous months, and $9.5 million of the encumbered amount was canceled. Combined, these negative disbursement variances totaled $76.3 million for the month.

In December there were 86,424 TANF assistance groups composed of 200,739 recipients. This marked an increase in the TANF caseload from November, with about 1,900 cases and 3,000 recipients being added. December's numbers represent the sixth increase in the last 12 months. Despite the increases, the caseload still remains below the December 2000 number of assistance groups (89,309).

Total TANF cash benefits paid out in December were $26.9 million, and total TANF spending from the GRF was $47.8 million. In addition, a total of $44.9 million was disbursed in December from non-GRF TANF funds.

The year-to-date disbursement variance in the TANF program through December stood at $67.1 million below the estimate. Most of the variance is traceable to the timing of the use of federal and state funds; cancellation of $9.5 million in prior-year encumbrances accounts for the remainder.

Government Operations (-$56.3 million)

Rehabilitation & Correction. As a result of a negative disbursement variance of $5.1 million posting in December, the year-to-date disbursement variance for the Department of Rehabilitation and Correction stood at the end of that month at $38.1 million under the estimate of $741.0 million. Roughly two-thirds of the negative variance stemmed from line item 501-321, Institutional Operations. There were, however, negative year-to-date disbursement variances in virtually all of the department's GRF line items.

Administrative Services. Disbursement activity in the Department of Administrative Services (DAS) stood $11.4 million under the estimate for the year through December. As reported in previous months, the year-to-date disbursement variance can largely be attributed to slower-than-expected spending in the Computer Services program series.

Tax Relief (-$7.7 million)

The Property Tax Relief program, which carries a FY 2002 GRF appropriation of nearly $1.2 billion, reimburses school districts and local governments for revenue lost due to tax relief provided by state law to property owners and businesses. Tax relief funds are disbursed to school districts and local governments by the Department of Education and the Department of Taxation, respectively. Through December, $620.3 million had been disbursed. This was $7.7 million, or 1.2 percent, below the $628 million estimate. Almost all of December's $85.0 million positive disbursement variance was traceable to the Department of Education's distributions to school districts. Disbursements from line item 200-901, Property Tax Allocation, were $56.2 million over the estimate for December, while disbursements for line item 200-906, Tangible Tax Exemption-Education, were $22.0 million over the estimate for December. These disbursement variances are entirely due to timing and bring the program closer to the year-to-date estimate.

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

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS SECOND QUARTER, FY 2002

— *Jean Botomogno*

Ticket Sales

Super Lotto Plus sales are the main story in the second quarter of FY 2002. Ticket sales for this game fell about 29 percent from the first to the second quarter. Concerns over sagging Super Lotto Plus sales resumed after a splendid first quarter. Super Lotto Plus has a higher profit margin than the old version of Super Lotto but after 6 quarters of play, there is no defined sales trend for this game. Sales show great variance from quarter to quarter.

In the second quarter of FY 2002, total ticket sales were $490.2 million, or 2.2 percent higher than in the previous quarter. Instant ticket sales were $264.5 million, $38.8 million (or 17.2 percent) higher than On-line ticket sales in the second quarter. This is a reversal, as On-line games sales were $14.9 million (6.4 percent) higher than Instant games in the previous quarter. While On-line ticket sales decreased 8.7 percent from the first quarter, Instants sales rose 13.9 percent. Lower Super Lotto Plus jackpots during the second quarter hurt On-line sales. Buckeye 5 quarterly sales have gradually decreased from $15.4 million in March 2000 to about $14.2 million at the end of December 2001.

Table 1 compares first- and second-quarter sales per game in FY 2002. Among On-line games, sales increased for Pick 3 ($2.7 million increase), Pick 4 ($2.3 million), and Buckeye 5 ($0.3 million). However, the declines in Kicker and Super Lotto Plus sales were substantial — $2.5 million (or 20.1 percent) and $24.3 million (or 28.9 percent), respectively.

Compared to second-quarter results a year ago in FY 2001, total ticket sales were up 1.7 percent in the second quarter of FY 2002. Second-quarter Instants sales declined slightly over the same period, by $0.9 million (down 0.3 percent), and On-line sales increased by $8.9 million (up 4.1 percent). Super Lotto Plus had the largest sales increase, $6.8 million or 12.9 percent (even though sales declined from the first quarter of this year, as mentioned before). Pick 4 was up $2.1 million or 5.5 percent. Buckeye 5 sales were about the same as in the second quarter in FY 2001. Pick 3 sales were down $0.6 million or 0.6 percent. Kicker sales improved $0.6 million or 6.0 percent.

Mid-Year Summary

Table 2 summarizes midyear ticket sales by game, and compares FY 2002 and FY 2001 results. Compared to the same period a year ago, first-half results in FY 2002 show an increase of $23.0 million (or 2.4 percent) in total sales. Instants sales increased slightly ($2.8 million or 0.6 percent). Although total On-line sales increased $19.9 million (or 4.4 percent), games sales were mixed. Pick 4 and Kicker improved by $3.1 million and $1.3 million, respectively. Pick 3 and Buckeye 5 declined by $4.3 million and $0.2 million, respectively. Super Lotto Plus sales were up $19.9 million or 16.2 percent. Super Lotto Plus contributed most of the increase from one year earlier in On-line sales.

Table 1: Quarterly Lottery Ticket Sales by Games in FY2002, in millions of dollars

	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Instants	On-line	Total
Q1	$99.6	$37.2	$12.3	$13.9	$84.2	$232.3	$247.2	$479.5
Q2	$102.3	$39.5	$9.8	$14.2	$59.9	$264.5	$225.7	$490.2
$ Change	$2.7	$2.3	($2.5)	$0.3	($24.3)	$32.2	($21.5)	$10.7
% Change	2.7	6.2	-20.1	2.2	-28.9	13.9	-8.7	2.2

Totals may not add up due to rounding.

Table 2: Midyear Ticket Sales by Games in FY 2002 and FY 2001, in millions of dollars								
Year	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Instants	On-line	Total
FY2002	$201.9	$76.6	$22.2	$28.1	$144.1	$496.8	$473.0	$969.7
FY2001	$206.2	$73.5	$20.9	$28.3	$124.2	$494.0	$453.1	$946.7
$ Change	($4.3)	$3.1	$1.3	($0.2)	$19.9	$2.8	$19.9	$23.0
% Change	-2.1	4.2	6.2	-0.7	16.2	0.6	4.4	2.4

Totals may not add up due to rounding.

Comparing On-line and Instant games, Instants ticket sales were $40.9 million (or 9.0 percent) higher than On-line sales in FY 2001. In FY 2002, Instants ticket sales are only $23.8 million ahead of On-line sales. The Instants' share of total ticket sales decreased 1 percent, from 52.2 to 51.2 percent in the first half of FY 2002.

Transfers to LPEF

Table 3 summarizes transfers to the Lottery Profits Education Fund (LPEF). Transfers for the second quarter of FY 2002 were $148.5 million, nearly unchanged from the previous quarter, despite increased ticket sales. The Ohio Lottery Commission had anticipated transfers of $151.0 million in the first quarter and $158.5 million in the second quarter. Actual transfers were $10.0 million or 6.3 percent below projected transfers in the second quarter. As of December 2001, year-to-date transfers in FY 2002 were $12.6 million below projected transfers.

Compared to transfers in the first half of FY 2001, transfers to LPEF from operations in FY 2002 were down $22.5 million or 7.0 percent. The variance between actual and projected transfers was $13.2 million at the end of December 2000. A similar analysis at the end of December 2001, reveals a variance of $12.6 million. Transfers from operations were $612 million in FY 2001. The Ohio Lottery Commission expects to transfer from operations about $608 million to LPEF in FY 2002. As of December 2001, total transfers from operations were $296.9 million.

Am. Sub. H.B. 405, the recent budget correction measure, gave legislative approval to the Governor's proposal to enter a multistate game. The Ohio Lottery Commission is considering the Big Game or Powerball and expects to start selling the new game by the start of FY 2003. No announcement has been made yet. Entry into either game is expected to cannibalize Super Lotto Plus sales. However, the Lottery Commission expects total sales to increase by at least $75.7 million in FY 2003. Further delays in choosing and implementing the multistate game may jeopardize the level of expected sales.

A provision in Am. Sub. H.B. 94 the budget bill for this biennium, allowed the Lottery Commission more flexibility to increase the payout ratio for Instant games to help compete against nonlottery products. These products generally have a higher payout ratio than lottery products. Second quarter Instant sales increased due in part to games with higher payout ratio such as *Jingle Bucks* and *Holiday Cash*, which have a 75 percent payout ratio. However, such a high payout ratio is typical of the holiday season. Year-to-date payout expense for Instant games in 2002 was not substantially different from the payout ratio in the first half of 2001. As of November 2001, the Instant payout percentage was 62.6 percent. A year before that, the payout expense was 62.2 percent. It appears that activity for the first half was based predominantly on products that were designed under the previous statutory requirements. All proposed Instant games for the second half of FY 2002 currently have a payout ratio under 70 percent. Until final approval, these proposed Instant games are subject to change. The vital question for the Lottery Commission remains: What Instants payout ratio maximizes net profits?

Table 3: Quarterly Lottery Ticket Sales and Transfers to LPEF in FY 2002, in millions of dollars						
Quarter	Tickets Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percent Variance	Transfers as a Percent of Sales
Q1	$479.5	$148.4	$151.0	-$2.6	-1.7%	30.9%
Q2	$490.2	$148.5	$158.5	-$10.0	-6.3%	30.3%
$ Change	$10.7	$0.1	$7.5	N/A	N/A	N/A
% Change	2.2	0.1	4.7	N/A	N/A	N/A

Totals may not add up due to rounding.

LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS SECOND QUARTER, FY 2002

— Sara Doddy

Lottery Profits Education Fund (LPEF) disbursements so far in FY 2002 total $250.9 million. Nearly all of this amount 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 $250.0 million of lottery profits spending is combined with GRF appropriation item 200-501, Base Cost Funding ($2,159.6 million), to fund the state foundation aid program. This program provides the state's share of per pupil funding that guarantees $4,814 per pupil in state and local funding for FY 2002. The program also provides the state's share of additional special and career-technical education costs, known as weight cost funding. With the combination of GRF and LPEF moneys, base cost funding ($2,409.6 million) represents 59.6 percent of the Department of Education's disbursements for this year.

Lease Rental

The lease rental appropriation ($29.7 million) will be transferred to the GRF to support the GRF appropriation for appropriation item 230-428, Lease Rental Payments, in the Ohio School Facilities Commission budget. The 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 prior amounts allocated to 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 December 31, 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	$ 250,000,000	$ 0	$ 354,000,000
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	$ 888,260	$ 0	$ 445,360
			Total LPEF	**$ 643,065,721**	**$ 250,888,260**	**$ 0**	**$ 392,167,460**
SFC	018	230-649	Disability Access Project	$ 1,300	$ 0	$ 0	$ 1,300

School Facilities Update

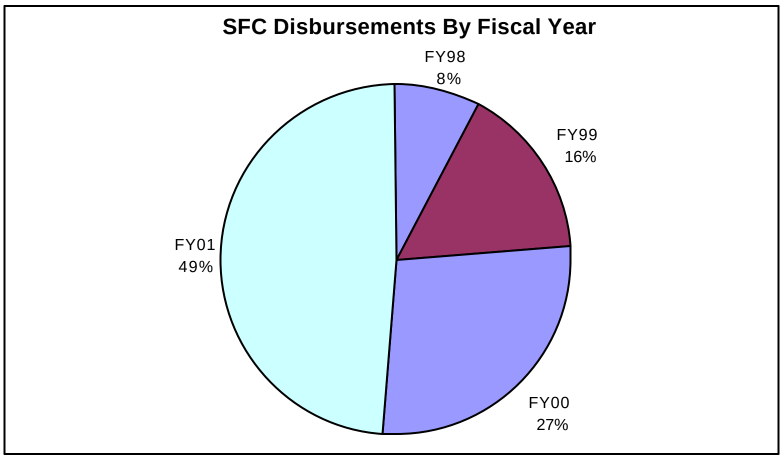
DISBURSEMENTS INCREASE OVER LAST YEAR

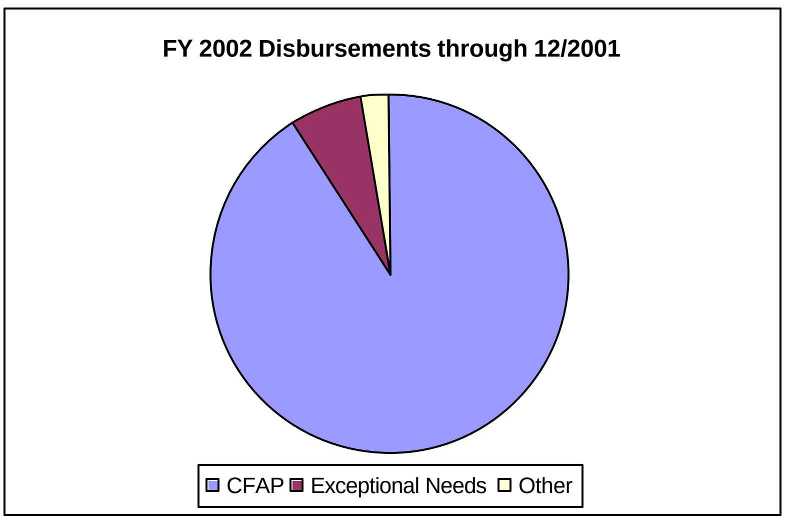
—Meegan Michalek

From the creation of the School Facilities Commission (SFC) in 1997, through the end of FY 2001, SFC has disbursed a total of $1.31 billion; half of that amount ($644 million or 49 percent) was spent in FY 2001. Of the $1.31 billion spent, 79 percent (or $1 billion) was disbursed as part of the Classroom Facilities Assistance program (CFAP). Every district in the state is eligible for CFAP funding, although eligibility order is based on the Department of Education Equity List. Since 1995, $1.6 billion in bonds has been authorized by the General Assembly to support the state share of funding of school construction. Of that amount, $873.6 million of debt has been issued, about half of what has been authorized. This is because for most projects, SFC encumbers the money at the beginning of a project, and bonds are sold shortly before the cash is needed by a school district.

In FY 2001, the School Facilities Commission spent $645 million on school improvement projects throughout the state. Spending continued to rise throughout the year, to almost double the amount spent in the previous year. Eighty-five percent of that spending went to the Classroom Facilities Assistance program. CFAP is emerging as the dominant school facilities program, while the Emergency Repair Program has gradually wound down. The Big 8 program (a repair program for the eight largest city school districts) spent almost $31 million, representing about five percent of total spending for the year.

For FY 2002, first-half disbursements have been approximately $390 million. This is an increase of $179 million over the $211 million spent during the same time last year. Expenditures in the first two quarters of FY 2002 have focused mainly on the CFAP. The School Facilities program has almost $355 million, or 90 percent of the disbursements so far, almost double the amount it had last year at this time. In contrast, the Emergency Repair program has only $836,000, or about 0.10 percent of total disbursements, down 85 percent from last year at this time. Part of the reason for the dramatic decline in spending for Emergency Repairs has been that the School Facilities Commission has finished most of the repair work and is moving forward with new school projects. The SFC expects to spend $750 million in FY 2002.





All ten CFAP and Exceptional Needs Program (ENP) districts that went to the ballot in November 2001 passed their funding initiatives. Three other school districts did not go to the ballot this November, as one district had previously passed its funding and three others found alternative sources of funding. In total, 14 districts are moving forward with their projects.

Some school districts have also made use of alternative funding options. Symmes Valley, Dawson-Bryant Local, Washington-Nile Local, and Valley Local have done this by using cash from their general funds to fund their local shares, and Southern Local funded its local share by shifting one half mill of its inside millage to permanent improvements and taking out a bank loan. All of these districts were "1990 Districts" and as a result they all had relatively low local shares. The use of alternative funding should continue as more urban districts with small local shares become eligible for assistance. Also, use of alternative funding for a portion of the local share is expected to grow.