Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION FEBRUARY 2002

FISCAL OVERVIEW

— Doris Mahaffey

January is an important month for budget prognosticators. It is the month that sees the first big corporate franchise tax payment for the fiscal year and the last big quarterly estimated payment for the personal income tax before annual returns are due in April. The non-auto sales tax includes the receipts from December retail sales (the biggest retail month of the year), and income tax withholding often receives a "bump" from end-of-year bonuses. January revenues take on particular significance this year due to the impact of the economic recession on the state's coffers. January revenues are looked to as an indicator of the possible severity and duration of Ohio's budget problems. In this regard January revenues do not bode well for the state's fiscal well-being.

January revenues were disappointing by any standard of comparison. January tax revenues were down 6.4 percent from last January; total revenues excluding transfers were down 4 percent.[1] Compared to OBM's July 2001 estimates, revenues were $221 million under estimate. They were $113 million under estimate compared to OBM's revised estimates of December 2001. The year-to-date shortfall stands at $540.4 million.[2]

The personal income tax was the real disappointment. Not only was it under estimate (by $182 million compared to the July estimates and by $120 million compared to the December estimates), it was also substantially below last January's revenues. Personal income tax revenues to the General Revenue Fund (GRF) in January 2002 were 15 percent below January 2001 revenues. Part of this deficit was an artifact of the local government fund freeze implemented by Am. Sub. H.B. 94, the main appropriations act for the current biennium. Essentially, in each month of both FY 2002 and 2003 revenue distributed to the local government funds is to equal the amount that each fund received in the corresponding month in FY 2001 from state sources. However, in January 2001, in addition to receiving revenue from the major state taxes, the local government funds received $64.1 million from the income tax reduction fund (ITRF). This year there is no money forthcoming from the ITRF. The $64.1 million was instead taken from the personal income tax. However, that explains only a small part of the decline in the personal income tax. Even accounting for the $64 million transfer, January personal income tax revenues were 8.7 percent lower than last year. The recession in the guise of falling employment and falling stock market values is the underlying cause.

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

	Month of January	Fiscal Year 2002 to Date	Last Year	Difference
Beginning Cash Balance	($1,403.2)	$817.1		
Revenue + Transfers	$2,126.6	$11,474.4		
Available Resources	$723.4	$12,291.5		
Disbursements + Transfers	$1,922.1	$13,490.2		
Ending Cash Balances	($1,198.7)	($1,198.7)	($93.3)	($1,105.4)
Encumbrances and Accts. Payable		$567.9	$674.6	($106.7)
Unobligated Balance		**($1,766.6)**	**($767.9)**	**($998.6)**
BSF Balance		$1,010.6	$1,002.5	$8.1
Combined GRF and BSF Balance		**($756.0)**	**$234.6**	**($990.5)**

Corporate franchise tax revenues were also disappointing. Not only were they $50 million under estimate for the month, receipts were also 11 percent lower than last January. And those receipts had been depressed by some major refunds that went out in January. No such explanation for this January's disappointing revenues appears to be forthcoming. Nor do early February receipts appear to have made up the difference. Since corporations are required to pay at least one-third of their expected liabilities on January 31 of each year, the shortfall may portend the shape of things to come over the next five months. The $168.6 million in January corporate franchise tax revenues barely covered the sizeable hole that had developed in the corporate franchise tax over the first half of the year. Year-to-date revenues are only $93.8 million.

Disbursements were also under estimate for the month. Actual disbursements (including transfers) fell short of estimates by $45.4 million. The reduced spending reflects the impact of the executive budget cuts made last October and the legislated budget cuts in Am. Sub. H.B. 405, passed in December. Although not all agencies were affected by the cuts (and appropriations to some actually increased), spending in nearly all program areas is under-estimate for the year. The chief exceptions are spending on Medicaid, which is nearly $5 million over, and capital, which is $5.2 million over estimate. The program areas with the greatest underages are primary and secondary education ($144 million under), temporary assistance for needy families (TANF) ($67.8 million or 17 percent under), and other welfare ($58.1 million or 15 percent under). Of these five spending categories, other welfare was the only one affected by the budget reductions.

This month OBM adjusted its disbursement estimates to take into account the executive cuts and the changes made by H.B. 405. However, as with revenue estimates, LSC will continue to base comparisons on the original August 2001 estimates. The rationale for this is discussed in this month's "Disbursements" article, below.

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

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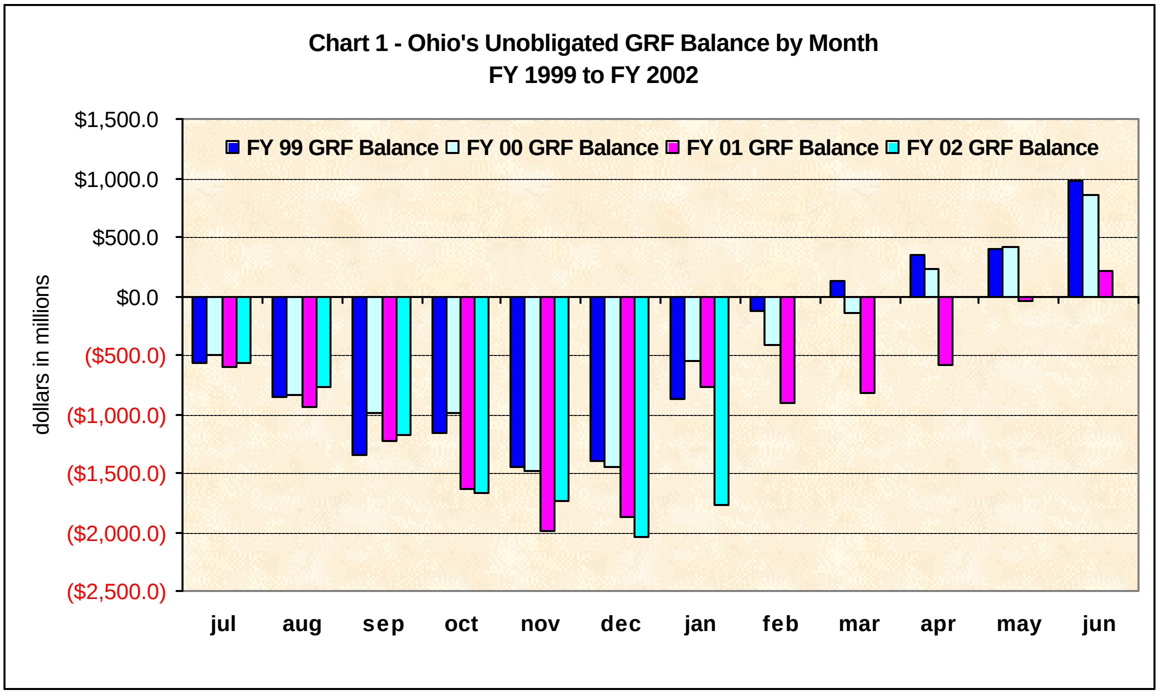
While the underage in disbursements was only one-fifth the size of the underage in revenues, revenues for the month exceeded disbursements by $200 million, leading to a slight improvement in the GRF balance over December 2001. Encumbrances were reduced by $72.5 million, providing additional assistance to the fund balance. However, the fund balance generally shows much greater improvement in January (see Chart 1, which shows the behavior of the state's unencumbered cash balance over the past four years). With an unobligated balance at -$1.8 billion, the fund balance is a full billion dollars less than it was at this time last year. Again, this year the GRF did not receive the transfer from the ITRF that it has received for the past five years. It is, however, scheduled to receive transfers of as much as $630 million later in the year (mostly in May and June) due to provisions in both H.B. 94 and H.B. 405.



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[1] Total revenues including transfers were down 23 percent because last January, the GRF received a hefty transfer from the income tax reduction fund (ITRF) to pay for the income tax cut. This year there is no tax cut and no January transfer.

[2] As stated in last month's *Budget Footnotes*, this report will continue to base its comparisons on OBM's July 2001 revenue estimates rather than the December 2001 revisions, although LSC will continue to refer to the December revisions, as appropriate. Thus, when no specific reference point is mentioned, the comparison relates to the July 2001 estimate.

TRACKING THE ECONOMY, FEBRUARY 2002

— Ross Miller

The U.S. Department of Commerce announced in its advance estimate for the fourth quarter of 2001 that real Gross Domestic Product (GDP) increased by 0.2 percent in the quarter, prompting expressions of surprise in business headlines. One may be tempted to see this announcement as evidence that the recession is already over, but the department did emphasize that advance estimates are subject to revision as additional data are reported. In fact, the February 2002 report from the economic forecasting firm DRI-WEFA indicates that its economists fully expect that fourth quarter GDP figures will be revised to show that GDP continued to decrease. On the other hand their forecast is for GDP to resume growing in the first quarter of 2002 (2002 Q1), led by larger government purchases. This suggests the possibility that the recession may end in the first quarter of this year even if it did not end last quarter.

The inflation rate, as measured by the Consumer Price Index for all Urban Consumers (CPI-U), remains quite moderate. The CPI-U rose by 0.2 percent in January and by just 1.1 percent during the year ending in January. Excluding food and energy does not change the picture significantly: the index excluding those items rose by 0.2 percent in January (matching the increase in overall CPI-U) and by 2.6 percent during the year ending in January.

The unemployment rate in the U.S. fell to a seasonally adjusted 5.6 percent in January, according to the U.S. Bureau of Labor Statistics (BLS). This would suggest that the labor market is improving nationally, but as with the GDP numbers, such an optimistic interpretation is questionable. The same survey that generates unemployment statistics indicates that, while the number of persons unemployed nationally fell by 337,000 in January, the number employed fell by an even larger number – 587,000 (both numbers are seasonally adjusted). This does not necessarily imply that the Plague has returned – it may imply simply that a lot of people left the labor force. Indeed, the BLS reports that the number of persons classified as outside the labor force who say that they currently want a job increased by 163,000 after seasonal adjustment. Thus the evidence, taken as a whole, suggests that the labor market was still deteriorating in January. DRI-WEFA does not expect that the increase in output that it is projecting for 2002 Q1 will be accompanied by increasing employment; it does not expect employment to begin rising until early next year. Closer to home, the seasonally adjusted unemployment rate in Ohio rose from 4.8 percent in December to 5.0 percent in January. The rate increased in all 88 counties.

Both good and bad economic news continues to arrive. Optimists have a number of news items to support their expectations. The Index of Leading Economic Indicators increased by a healthy 0.6 percent in January. New orders for durable goods rose in December, and new orders for nondefense capital goods have risen for three months running. The advance estimate for January of retail and food service sales excluding motor vehicles and parts showed sales increasing by 1.2 percent compared with December, and by 2.5 percent compared with January 2001. And even though sales at auto and other motor vehicle dealers fell by 5.0 percent in January, this was from a high base, and sales were 3.8 percent higher than the year before.

Pessimists can support their beliefs with a number of other news items. The number of bankruptcies filed in calendar year 2001 set a new record of 1.49 million. Average hourly earnings of nonsupervisory workers on private nonfarm payrolls did not increase from December to January, and average weekly earnings decreased by 0.3 percent, reflecting the decrease in average hours worked per week. DRI-WEFA reports that corporate profits were down either 17 percent or 23 percent, depending on the measure used, in the year ending in the fourth quarter. Proprietors' income has fallen by 2.7 percent since August. Proprietors' income derived from farming has fallen much more sharply, dropping fully 42 percent from 2001 Q3 to 2001 Q4, due primarily to lower prices for agricultural products.

Despite the mixed news, DRI-WEFA economists are not alone in projecting that the economy will begin expanding in the near future. A survey of

Exhibit 1: BEA Estimates of Real GDP Growth
(annualized growth rates)

	1999	2000				2001		
Quarter	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Final	+7.3%	+5.5%	+5.6%	+2.2%	+1.0%	+1.2%	+0.3%	-1.3%
Preliminary	+6.9%	+5.4%	+5.3%	+2.4%	+1.1%	+1.3%	+0.2%	-1.1%
Advance	+5.8%	+5.4%	+5.2%	+2.7%	+1.4%	+2.0%	+0.7%	-0.4%
Final minus Advance	**+1.5%**	**+0.1%**	**+0.4%**	**-0.5%**	**-0.4%**	**-0.8%**	**-0.4%**	**-0.9%**

Source: Bureau of Economic Analysis, U.S. Department of Commerce

economists associated with the National Association of Business Economists finds that the vast majority of the 37 economists surveyed expect economic growth to resume no later than 2002 Q2; just two of the 37 economists expect that growth will resume only after that. The average forecast for the group is for real GDP to grow by 1.5 percent for 2002 as a whole.

Forecasting the direction the economy will take is always a very uncertain undertaking. Even saying what happened in the recent past is a bit uncertain. The next section of this article explains the process of revising GDP data, anticipating the possibility that the fourth quarter figures will be revised to show continuing contraction of the economy.

Revisions to Gross Domestic Product Data

The Bureau of Economic Analysis (BEA) in the U.S. Department of Commerce is the agency that produces GDP data. The data are published after a time lag – we got our first look at the GDP figure for 2001 Q4 on January 30, 2002. On that date the BEA published its "advance estimate" of GDP. The BEA will follow this up with a "preliminary estimate" of the very same number on February 28, and with a "final estimate" to be released on March 28.

The size of U.S. GDP surpassed $10 trillion for calendar year 2001 in spite of the recession. As you might imagine, it takes a while to compile reliable data on such an enormous volume of economic transactions. So the final estimate may very likely change from the advance estimate, and it may even differ from the preliminary estimate. If history is a reliable guide, the estimates *will* change. Exhibit 1 shows the three estimates for 1999 Q4 through 2001 Q3.

The preliminary estimate was revised downward in each of the five most recent quarters, and by almost one full percentage point in the latest quarter. This recent history supports the view of DRI-WEFA economists that the coming revisions to real GDP growth will indicate that GDP was still shrinking in the fourth quarter.

Exhibit 2: Industrial Capacity

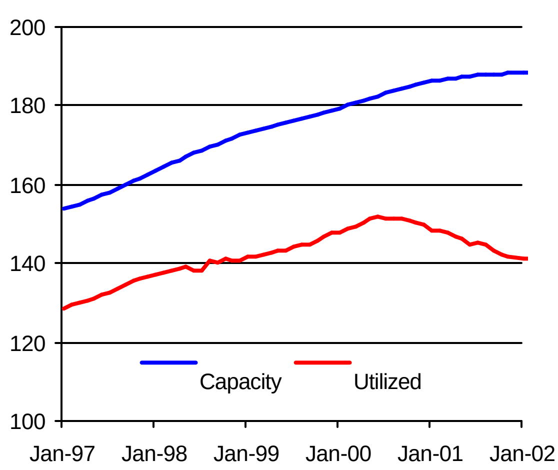


Exhibit 3: Consumer Price Indices
(percentage changes from one year earlier)

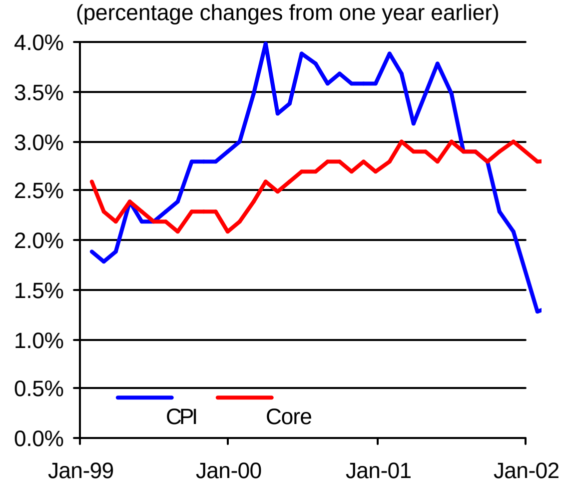


Exhibit 4: Midwest Manufacturing Index (Chicago Fed)
(percentage changes from one year earlier)

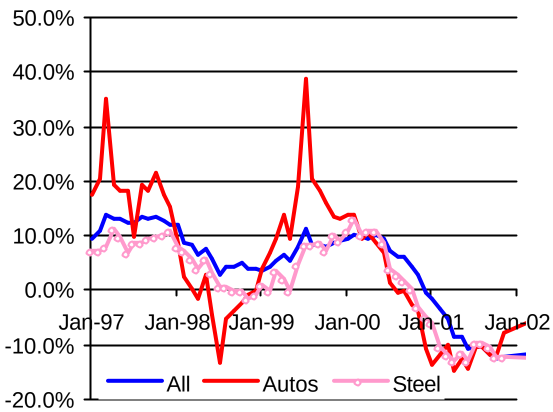
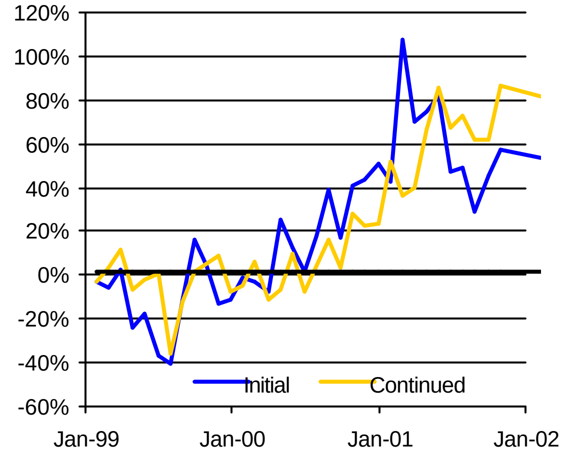


Exhibit 5: Ohio Unemployment Claims
(percentage changes from one year earlier)



Status of the General Revenue Fund

REVENUES

*— Doris Mahaffey**

January revenues – in comparison with either the July 2001 or the revised December 2001 estimates – were substantially under estimate. The shortfall was due largely to the income tax, which was $182.5 million under estimate (compared to the July estimates). The corporate franchise tax was another $53 million under estimate, and the non-auto sales tax was $29 million under. The auto sales tax once again bucked the trend by coming in $5.8 million over estimate.

Total taxes were $261 million under estimate while total GRF income was only $221 million under estimate. Nontax revenues, transfers in, and federal reimbursements all helped to slightly mitigate the revenue shortfall.

The January variances for each revenue source are shown in Table 2. As stated above, LSC will continue to compare actual revenues to the July 2001 estimates rather than December's revised estimates, making references to the revised numbers as appropriate.

The December revisions include changes due to revised revenue estimates made in October 2001 and provisions in H.B. 405 passed in December 2001. Compared to the original estimates used in H.B. 94, the revised estimates are $329.1 million lower. The net changes in each revenue source are shown in Table 2A.[1]

For January, the revised estimates translate into a reduction of $62.5 million in the personal income tax and a reduction of $36 million in the non-auto sales and use tax, along with minor decreases in the auto sales tax, the estate tax, and other income and minor increases in the corporate franchise tax, the kilowatt-hour tax, the cigarette tax, the alcoholic beverage tax, and licenses and fees. Compared to the revised estimates, January revenues were only $116.9 million under. The personal income tax and the corporate franchise tax were under estimate by $120 million and $57 million, respectively; the auto and non-auto sales taxes were $11.9 million and $6.8 million over, respectively. The revised estimates provide a little brighter picture of the state's budget predicament, but highlight the fact that the personal income tax and the corporate franchise tax are – at least for now – major concerns.

January's revenue shortfall increased the year-to-date revenue shortfall to $540.5 million, over half of which was accounted for by the $353.3 million shortfall in the personal income tax. Table 3 shows the year-to-date variances (compared to July 2001 estimates) and growth rates from a year ago for each GRF revenue source. The revised estimates essentially "re-set" the year-to-date variances to zero at the end of November, so that year-to-date revenues are only $107 million under estimate. (See OBM's *Monthly Financial Report* for February 10, 2002, for an analysis of January revenues vis-à-vis the revised estimates.)

Personal Income Tax Revenue

At $858.3 million, January personal income tax revenues were $182.5 million or 17.5 percent under estimate. All major components of the personal income tax contributed to its sizeable shortfall. Withholding was $27 million under estimate, estimated payments were $105.2 million under, and annual returns were $8.1 million under, while refunds were $43.8 million over.[2]

Withholding, which comprises between 75 and 80 percent of income tax receipts, is highly dependent on the employment situation, and the employment situation in January continued to deteriorate. This is not surprising even if the economy is on the mend, as many economists think to be the case. Employment is a lagging indicator and will not recover until the economy is clearly beginning to recover. By all accounts this will probably be at a later date in Ohio than in much of the country.

Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of January 2002
($ in thousands)

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$59,467	$53,625	$5,842
Non-Auto Sales & Use	$566,727	$595,958	($29,231)
Total Sales	$626,193	$649,583	($23,390)
Personal Income	$858,278	$1,040,739	($182,461)
Corporate Franchise	$168,614	$221,540	($52,926)
Public Utility	$363	$0	$363
Kilowatt Hour Excise	$25,928	$27,700	($1,772)
Total Major Taxes	**$1,679,376**	**$1,939,562**	**($260,186)**
Foreign Insurance	$1	$0	$1
Domestic Insurance	$0	$0	$0
Business & Property	$93	$42	$51
Cigarette	$22,781	$22,400	$381
Alcoholic Beverage	$3,640	$3,920	($280)
Liquor Gallonage	$3,264	$3,190	$74
Estate	$133	$1,250	($1,117)
Total Other Taxes	$29,911	$30,802	($891)
Total Taxes	**$1,709,287**	**$1,970,364**	**($261,077)**
NONTAX INCOME			
Earnings on Investments	($202)	$0	($202)
Licenses and Fees	$4,332	$3,675	$657
Other Income	$18,488	$11,408	$7,080
Non-Tax Receipts	$22,618	$15,083	$7,535
TRANSFERS			
Liquor Transfers	$4,000	$3,000	$1,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$776	$0	$776
Total Transfers In	$4,776	$3,000	$1,776
TOTAL INCOME less Federal Grants	**$1,736,680**	**$1,988,447**	**($251,767)**
Federal Grants	$389,945	$359,383	$30,562
TOTAL GRF INCOME	**$2,126,625**	**$2,347,830**	**($221,205)**

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

Totals may not add up due to rounding.

Nevertheless, employment fell by more than expected in January – declining by 89,000 nationwide since December. Manufacturing employment declined by 145,000. (January employment data for the states are not yet available.) Average hourly earnings remained unchanged from December (up 4 percent from a year ago), while both the average workweek and the average manufacturing workweek slightly declined.

Although withholding was under estimate for the month, it exceeded January 2001 withholding by $17 million or 2 percent. This is notable, as Ohio employment – at least at the end of December – was 1.6 percent lower than a year ago, and is probably due to increases in wages and salaries.

Quarterly estimated payments accounted for the bulk of the shortfall in personal income tax revenues.

Table 2A – FY 2002 GRF Revenue Estimates
Dollars in millions

REVENUE SOURCE	May 2001 Conference estimate	December 2001 Revised Estimates	Difference
Auto Sales & Use Tax	$825.0	$794.0	*
Non-Auto Sales & Use Tax	$5,417.8	$5,118.8	*
Total Sales & Use Tax	$6,242.8	$5,991.8	($251.0)*
Personal Income Tax	$8,215.1	$7,890.1	($325.0)
Corporate Franchise Tax	$1,007.0	$960.0	($47.0)
Public Utility Excise Tax	$247.0	$266.0	$19.0
Cigarette Tax	$280.0	$283.5	$3.5
Estate Tax	$125.0	$115.0	($10.0)
Other Taxes	$767.3	$767.3	$0.0
Total Taxes	**$16,884.2**	**$16,273.7**	($610.5)
Earnings on Investment	$135.0	$121.6	($13.4)
Other Income	$188.0	$162.3	($25.7)
Total Non-Tax Receipts	**$323.0**	**$283.9**	($39.1)
Liquor Transfers	$98.0	$102.0	$4.0
Transfers In - Other	$320.1	$636.6	$316.5
Total Transfers In	**$418.1**	**$738.6**	$320.5
Total Sources Excluding Federal	**$17,625.3**	**$17,296.2**	($329.1)
Federal Grants	$4,306.1	$4,306.1	$0.0
Total All Sources	**$21,931.4**	**$21,602.3**	**($329.1)**

**It is not clear how the decrease should be divided between auto and non-auto sales tax revenue*

And the sluggish economy and the flagging stock market both contributed to the payments' dismal showing.

Quarterly estimated payments largely reflect proprietors' income on the one hand and individual capital gains on the other – both of which continued to deteriorate over calendar year 2001.

The soaring stock market of the late 1990's, which brought about double-digit growth in quarterly estimated payments in 1998, 1999, and 2000, has reversed course. Stock prices have fallen by one-third since early 2000, taking a $4.5 trillion bite out of household net worth. Moreover, the Enron scandal has made investors wary and helped keep stock prices down through the end of the year. No year-end rally occurred to beef up capital gains. Small investors retreated from stocks and turned to real estate. While increasing values in the housing market have offset some of the decline in stock-related net worth, increasing house values do not as a rule generate taxable capital gains.

The recession has also put a squeeze on profits and proprietors' income – dampening the other main source of quarterly estimated payments. According to the January survey of the National Association of Business Economists (NABE) regarding business activity in the fourth quarter of 2001, more firms reported falling profit margins than rising margins for the sixth quarter in a row.

Sales Tax Revenue

The Non-auto Sales and Use Tax. The non-auto sales and use tax provided $556.1 million in revenue in January 2002. Although receipts were below estimates by $29.2 million (or 4.9 percent), this tax rebounded somewhat in January due to holiday sales. The non-auto sales tax increased $149.2 million (or 35.74 percent) from December revenues. It was also up 5.4 percent from January of last year.

January sales tax revenues largely reflect December retail sales. After a delayed rush into the holiday season, Ohio customers finally came through in December, as they could not resist numerous "sales" and "discounts" offered by retailers trying to rescue their holiday season, albeit at the expense of profit margins. Nationwide, December 2001 retail sales came in slightly above admittedly low expectations. According to advanced retail sales estimates by the U.S. Department of Commerce for December, retail sales (excluding motor vehicles and parts) declined 0.1 percent from November. However, these numbers are seasonally adjusted, and economists were expecting a greater decline. As it was, retail sales

Table 3
General Revenue Fund Income
Actual vs. Estimate
Fiscal Year 2002 to Date through January 2002
($ in thousands)

REVENUE SOURCE					
TAX INCOME	**Actual**	**Estimate***	**Variance**	**FY 2001**	**Percent Change**
Auto Sales	$556,105	$468,189	$87,916	$454,122	22.46%
Non-Auto Sales & Use	$3,106,080	$3,302,149	($196,069)	$3,118,937	-0.41%
Total Sales	$3,662,185	$3,770,338	($108,153)	$3,573,059	2.49%
Personal Income	$4,186,220	$4,539,521	($353,301)	$4,311,068	-2.90%
Corporate Franchise	$93,812	$239,163	($145,351)	$186,240	-49.63%
Public Utility	$130,621	$68,800	$61,821	$201,911	-35.31%
Kilowatt Hour Excise	$190,157	$199,620	($9,463)	$0	—
Total Major Taxes	**$8,262,996**	**$8,817,442**	**($554,446)**	**$8,272,278**	**-0.11%**
Foreign Insurance	$114,928	$127,190	($12,262)	$134,755	-14.71%
Domestic Insurance	$3,013	$2,300	$713	$1,369	119.99%
Business & Property	$1,029	$1,080	($51)	$1,122	-8.28%
Cigarette	$154,793	$151,200	$3,593	$151,656	2.07%
Alcoholic Beverage	$31,965	$32,060	($95)	$31,509	1.45%
Liquor Gallonage	$17,751	$17,546	$205	$17,694	0.32%
Estate	$63,337	$61,250	$2,087	$78,939	-19.77%
Total Other Taxes	$386,815	$392,626	($5,811)	$417,044	-7.25%
Total Taxes	**$8,649,810**	**$9,210,068**	**($560,258)**	**$8,689,323**	**-0.45%**
NON-TAX INCOME					
Earnings on Investments	$56,583	$81,000	($24,417)	$91,194	-37.95%
Licenses and Fees	$17,100	$19,163	($2,063)	$17,433	-1.91%
Other Income	$105,009	$70,838	$34,171	$98,584	6.52%
Non-Tax Receipts	$178,692	$171,001	$7,691	$207,211	-13.76%
TRANSFERS					
Liquor Transfers	$62,000	$57,000	$5,000	$58,000	6.90%
Budget Stabilization	$0	$0	$0	$0	—
Other Transfers In	$11,626	$6,237	$5,389	$627,022	-98.15%
Total Transfers In	$73,626	$63,237	$10,389	$685,022	-89.25%
TOTAL INCOME less Federal Grants	**$8,902,128**	**$9,444,306**	**($542,178)**	**$9,581,556**	**-7.09%**
Federal Grants	$2,572,278	$2,570,571	$1,707	$2,445,874	5.17%
TOTAL GRF INCOME	**$11,474,405**	**$12,014,877**	**($540,472)**	**$12,027,430**	**-4.60%**

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

Totals may not add up due to rounding.

(excluding motor vehicles and parts) grew only 1.6 percent from December 2000, the lowest growth rate in several years.

Although more people than ever reportedly bought more items from direct marketing and the Internet during the holiday season, January non-auto sales tax revenues were 35.7 percent higher than December revenues. The Ohio Tax Amnesty, which ended January 15, 2002, also provided a boost to non-auto sales tax revenues. So far, $14.4 million in sales and use taxes have been collected through the amnesty program, and the bulk of this was recorded in January.

Year-to-date revenues from the non-auto sales tax through January were $3,106.0 million, which was below estimate by $196.0 million or 6.3 percent. The tax was also lagging slightly behind FY 2001 revenues, which were $3,118.9 million at the end of January 2001.

The Auto Sales Tax. The auto sales tax is continuing an already spectacular year. Except for the month of September (and understandably so), this revenue source has been above estimates from the start of the fiscal year. Year-to-date auto sales tax revenues are above estimate by $87.9 million or 18.8 percent. They are almost $102 million (or 22.5 percent) above FY 2001 January year-to-date auto sales tax revenues.

Auto sales tax receipts in January were $59.4 million, or 10.9 percent above estimates. Receipts were $1.8 million above revenues for January 2001, which was also a good month for auto sales. However, receipts declined $18.1 million from $77.5 million in December. November auto sales tax revenues were a record $101.8 million. Finally, the torrid pace of sales in the last quarter of CY 2001 has started to decline. The "zero percent" and other huge incentives offered to car buyers tapered off or ended with the beginning of the New Year. Current auto incentives such as the "GM $2002 Cash Rebates" are just part of the now-normal car incentives offered by automakers who cannot wean themselves from the practice. The next few months will reveal whether the autumn incentives pulled sales into the fall of 2001 or whether consumers will continue to purchase vehicles at a healthy rate the rest of the fiscal year. At a pace of 15.8 million units (seasonally adjusted annual rates), January auto sales showed a surprising resilience. There was scant evidence yet of payback or softening of car sales from post-September-11 generous incentives. Resumption of economic growth, if indeed the recession is ending, will help auto sales and auto sales tax revenue. Unless a complete collapse occurs in the remaining five months, the auto sales tax revenue may likely end above projections this fiscal year.

Corporate Franchise Tax

The major activity prior to January for the corporate franchise tax is the processing of corporate refunds. Refunds and other negative cash flows have been higher than anticipated and drained state coffers in the first six months of the fiscal year. January provided the first real test for the corporate franchise tax. If January revenues are a harbinger of what will occur the remainder of this fiscal year, then corporate franchise tax receipts in FY 2002 are a concern
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Corporate franchise tax revenues were $168.6 million, $52.9 million or 23.9 percent below original estimates for the month. The corporate franchise tax revenues for January were also below last year's January receipts by about $20.1 million or 10.7 percent. Year-to-date corporate franchise tax receipts are a meager $93.8 million, $145.4 million or 61 percent below estimate.

Comparison of current franchise tax revenues with both FY 2001 revenues and FY 2002 estimates shows how poorly this tax is currently performing. FY 2001 revenues were $915.3 million. FY 2002 original estimates called for GRF revenue of $1,007 million. To realize last year's revenues, corporate franchise tax receipts would have to be about $821.5 million for the remainder of this fiscal year. According to OBM's estimates of July 2001, the tax is supposed to yield about $768 million during the next five months (February through June 2002). In order to achieve last year's $915.3 million in GRF revenue, the corporate franchise tax will have to exceed by about $54 million these original estimates during the remainder of this fiscal year. To match even the reduced expectations for this fiscal year of $960.0 million, the franchise tax needs to generate about $866 million for the remainder of the year, an even higher target.

** Jean Botomogno contributed to the development of this Revenues article.*

[1] The "Difference" column in Table 2A shows the December 2001 revenue estimates minus the May 2001 estimates. The December 2001 totals in this table are slightly different from the amounts presented in Table 1A of the previous month's edition of *Budget Footnotes*. Table 2A incorporates OBM's estimates of FY 2002 transfers in, as stated in OBM's *Monthly Financial Report* of February 10, 2002. H.B. 405 authorizes the transfer of up to $256 million from the Budget Stabilization Fund (BSF) to the GRF over the biennium. Last month's *Budget Footnotes* used LSC's assumption as to how that amount was to be divided over the ennium. Whereas LSC had assumed that $88.3 million of the $256 million was to be transferred in FY 2002, OBM estimates that $191.5 million will be transferred in FY 2002.

[2] Compared to the Tax Department's revised estimates, withholding was virtually on target, just $3.9 million under estimate; annual returns were $8.1 million under (no change), quarterly estimated payments were $77.2 million under, and refunds were $32 million over.

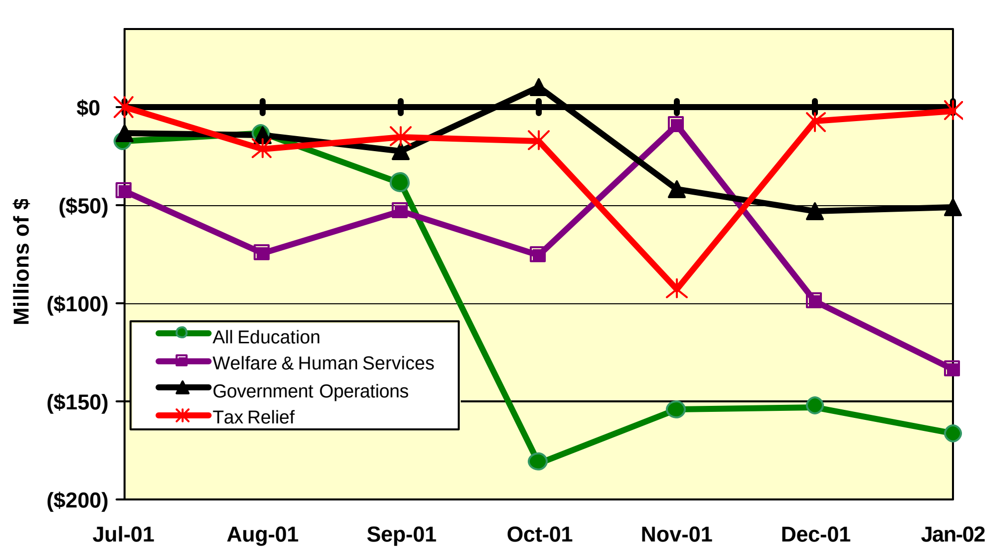
DISBURSEMENTS

— *Steve Mansfield**

Not surprisingly, January's General Revenue Fund disbursements continued to demonstrate the impact of the budget reductions that we have been reporting on in the last two monthly installments of the *Disbursements* report. For January, total GRF disbursements (excluding transfers) were $46.7 million below the original estimate, bringing total year-to-date disbursement activity to $361.9 million below the estimate.

The budget reductions caused the Office of Budget and Management (OBM) to revise its disbursement estimates for the remainder of FY 2002. The revised estimates have already been incorporated into reports produced by the state's Central Accounting System (CAS). For methodological reasons, as well as consistency of presentation, *Budget Footnotes* will, however, continue to analyze disbursements using the original OBM disbursement estimates produced in August 2001. To adopt the revised disbursement estimates would present a number of quandaries for the analyst. First, tracking of the disbursement variances over time, as is done in Figure 1, would be disrupted if a different standard of variance were adopted. Secondly, because state agencies are affected in different ways by the ordered budget cuts, the nature of revised disbursement estimates depends on the state agencies and programs in question. Of the changes in disbursement estimates for state agencies or programs detailed in the "General Revenue Fund Monthly Disbursement Variance Report" (excluding the Capital, Debt Service, and Reissued Warrants reporting categories), *39* state agencies and programs had their January disbursement estimates *decreased* from the original estimate, *27* agencies and programs had their January disbursement estimates *stay the same* as the original estimate, and *18* agencies and programs had their January disbursement estimates *increased* from the original estimate. Clearly, such differentials in the direction of the disbursement estimates present a fundamental problem of how to analyze and report expenditures. Indeed, largely because the CAS reports contained a faulty number for the revised estimate of the January disbursements for the Department of Rehabilitation and Correction ($12,600,746 instead of $133,606,631), the calculation of the monthly and year-to-date disbursement variances using the revised estimates was very wide of the mark. Thus for the sake of consistency, as well as to avoid the error contained in the revised disbursement estimates, we will be sticking with the original disbursement estimates. Consequently, the analysis contained in this *Disbursements* article will frequently diverge from OBM's *Monthly Financial Report*.

Figure 1.
GRF Disbursement Variance by Program Category, FY 2002



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 (Government Operations and Tax Relief) registered small positive disbursement variances for the month of January. We begin the analysis of January 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 contributions to the year-to-date negative disbursement variance: (1) Education, (2) Welfare and Human Services, (3) Government Operations, and (4) Tax Relief. Within each program category we then examine the state agency budgets and programs that have contributed most notably to either positive or negative disbursement variances. The reader's attention is also directed to Tables 4 and 5, which provide a more detailed picture of the January and year-to-date disbursement variances, respectively, by program category.

Education (-$166.4 million)

Disbursements in the Education program category were under the January estimate by $13.8 million. This was the result of a $28.5 million negative disbursement variance in Primary and Secondary Education and a smaller offsetting positive variance of $14.7 million in Higher Education. For the year to date, Education program category spending through January stood at $166.4 million under the estimate.

Department of Education. January's negative disbursement variance of $26.2 million pushed the department's year-to-date disbursement variance to $143.4 million below the estimate. There were several notable contributors to the year-to-date disbursement variance. In order of magnitude, these were: line item 200-501, Base Cost Funding ($30.3 million), line item 200-503 Bus Purchase Allowance ($28.6 million), line item 200-513, Summer Intervention ($25.0 million), line item 200-406, Head Start ($14.0 million), and line item 200-520, Disadvantaged Pupil Impact Aid (DPIA) ($10.7 million). We will briefly comment on the issues of timing that have affected disbursements from these line items.

In January, the Base Cost Funding line item (200-501) began to reflect new data on average daily membership (ADM). These data registered an ADM that was about 5,100 lower than had been projected. This led to a lower-than-estimated payment in January. At this point, the ADM data are rough in certain aspects, and it usually takes a couple of months for the data to stabilize. Early indicators for February payments show the ADM count increasing.

The Bus Purchase Allowance line item (200-503) is still showing the effects of putting off a $28.0 million payment that was scheduled to be made in October. With the passage of Am. Sub. H.B. 405, the department plans on disbursing that payment in February.

The Summer Intervention program (line item 200-513, which provides certain school districts with funds to provide mandated intervention services for children at risk of not passing the fourth grade reading proficiency test) was scheduled to make a payment of $25.0 million to school districts in December. That payment did not take place. The department is currently planning to disburse approximately $10.0 million from this line item in February or March and the remaining $22.0 million in July or August.

Two large negative disbursement variances ($24.6 million in October and $12.4 million in November) continue to dominate the year-to-date disbursement variance in the Head Start program (line item 200-406). The year-to-date negative disbursement variance in this line item now stands at $14.0 million, having been reduced by a $15.5 million positive disbursement variance in January. As the Head Start program recovers from an initial slowness in utilizing Temporary Assistance for Needy Families (TANF) funds that have been transferred from the Department of Job and Family Services, this line item will likely be over the disbursement estimate for the remaining months of the fiscal year.

Line item 200-520, Disadvantaged Pupil Impact Aid (DPIA), is mainly used to compensate school districts with a high concentration of student poverty for their higher costs of providing an adequate education. Disbursements from this line item were under the estimate by $5.5 million in January and

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of January 2002
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$676,235	$704,758	($28,523)
Higher Education	$213,709	$198,977	$14,733
Total Education	$889,944	$903,735	($13,791)
Health Care/Medicaid	$560,032	$595,764	($35,732)
Temporary Assistance to Needy Families (TANF)	$55,341	$56,073	($732)
General/Disability Assistance	$6,640	$6,697	($57)
Other Welfare (2)	$45,944	$54,838	($8,894)
Human Services (3)	$93,687	$83,131	$10,556
Total Welfare & Human Services	$761,644	$796,502	($34,858)
Justice & Corrections	$161,540	$154,690	$6,850
Environment & Natural Resources	$6,309	$6,617	($308)
Transportation	$2,766	$4,045	($1,279)
Development	$7,340	$9,413	($2,074)
Other Government (4)	$17,868	$20,299	($2,431)
Capital	$954	$0	$954
Total Government Operations	$196,778	$195,064	$1,713
Property Tax Relief (5)	$11,416	$5,308	$6,108
Debt Service	$60,957	$66,825	($5,867)
Total Program Payments	**$1,920,739**	**$1,967,434**	**($46,695)**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$1,328	$0	$1,328
Total Transfers Out	$1,328	$0	$1,328
TOTAL GRF USES	**$1,922,067**	**$1,967,434**	**($45,367)**

(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.

now stand at $10.7 million under the year-to-date estimate. Disbursements for the DPIA program, like the Base Cost Funding program, depend on the ADM data, and this accounts for January's underage.

Regents. Year-to-date disbursement activity by the Board of Regents stood at $21.7 million under the estimate at the end of January. For the month of January, the board recorded an overage of $14.7 million, thus reducing the year-to-date figure.

January's positive disbursement variance was driven by two larger and partially offsetting disbursement variances. Line item 235-420, Success Challenge, posted a positive disbursement variance of $32.0 million that represented a correction for a payment that had been scheduled for November but was not made until January. Partially offsetting this was line item 235-501, State Share of Instruction, which posted a negative disbursement variance of $16.5 million. This underage was due to the fact that

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Fiscal Year 2002 to Date through January 2002
($ in thousands)

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 2001	Percent Change
Primary & Secondary Education (1)	$3,756,642	$3,901,348	($144,706)	$3,346,075	12.27%
Higher Education	$1,515,963	$1,537,668	($21,705)	$1,544,366	-1.84%
Total Education	$5,272,605	$5,439,015	($166,410)	$4,890,441	7.81%
Health Care/Medicaid	$4,287,146	$4,282,177	$4,969	$3,779,378	13.44%
Temporary Assistance to Needy Families (TANF	$320,160	$388,009	($67,849)	$570,600	-43.89%
General/Disability Assistance	$50,383	$49,828	$555	$41,943	20.12%
Other Welfare (2)	$331,873	$389,937	($58,064)	$366,742	-9.51%
Human Services (3)	$760,065	$773,128	($13,063)	$743,257	2.26%
Total Welfare & Human Services	$5,749,628	$5,883,080	($133,451)	$5,501,920	4.50%
Justice & Corrections	$1,112,322	$1,146,947	($34,624)	$1,092,832	1.78%
Environment & Natural Resources	$90,996	$94,146	($3,150)	$95,904	-5.12%
Transportation	$31,876	$29,922	$1,955	$26,227	21.54%
Development	$116,399	$125,354	($8,955)	$119,219	-2.37%
Other Government (4)	$261,573	$277,042	($15,469)	$249,147	4.99%
Capital	$8,949	$3,322	$5,627	$42,470	-78.93%
Total Government Operations	$1,622,115	$1,676,732	($54,617)	$1,625,800	-0.23%
Property Tax Relief (5)	$631,765	$633,396	($1,631)	$590,306	7.02%
Debt Service	$184,084	$189,898	($5,814)	$165,387	11.30%
Total Program Payments	**$13,460,197**	**$13,822,121**	**($361,924)**	**$12,773,855**	**5.37%**
TRANSFERS					
Local Govt Distribution	$0	$0	$0	$0	—
Budget Stabilization	$13,104	$13,104	$0	$49,200	-73.37%
Other Transfers Out	$16,858	$13,078	$3,780	$803,897	-97.90%
Total Transfers Out	$29,962	$26,182	$3,780	$853,097	-96.49%
TOTAL GRF USES	**$13,490,159**	**$13,848,303**	**($358,144)**	**$13,626,952**	**-1.00%**

(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.

the FY 2002 appropriation for line item 235-501 was reduced by $99.5 million under Executive Order 2001-22T.

Welfare/Human Services (-$133.5 million)

As we see in Table 4, disbursements in the Welfare and Human Services program category were below the January estimate by $34.9 million. Table 5 shows that, for the year to date through January, disbursements in the program stood at $133.5 million below the estimate. The following paragraphs in this section discuss the particular contributors to this result in order of their magnitude, going first to negative disbursement variances and then to positive disbursement variances.

TANF. After a relatively small negative disbursement variance ($0.7 million) from the January estimate, year-to-date GRF spending in the

Temporary Assistance for Needy Families (TANF) stood at $67.8 million below the estimate. The year-to-date underage is registered in two line items: 600-410, TANF State ($49.7 million), and 600-411, TANF Federal Block Grant ($18.1 million in prior year funds). As part of the GRF, line item 600-411 was replaced with line item 600-689, TANF Block Grant, by Sub. H.B. 94, and moved to the Federal Special Revenue Fund. Of the prior year funds that were encumbered, $9.5 million was canceled under Executive Order 2001-22T.

For the year to date through January, 82.4 percent of the FY 2002 appropriation for line item 600-410, TANF State (the largest of the GRF components in the TANF program), had been disbursed. Also for the year to date, 100 percent of the appropriation for line item 600-413, Day Care Match/MOE, had been disbursed. With most of the GRF funds in TANF already disbursed, the bulk of spending in the program for the remainder of the fiscal year will be from federal funds.

Total TANF cash benefits paid out in January were $26.8 million, and total TANF spending from the GRF was $55.3 million. In addition, a total of $77.1 million was disbursed in January from federal, non-GRF TANF funds. For more detail on the TANF program, see the "TANF Spending Quarterly Report" in this issue of *Budget Footnotes*.

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 $8.9 million short of the estimate in January. For the year to date, the underage stood at $58.1 million.

The story about the largest contributors to the negative year-to-date disbursement variance in this segment of the department's budget has changed little from last month's report. The five line items that are the largest contributors are, in order of magnitude, 600-416, Computer Projects ($19.5 million), 600-504, Non-TANF county Administration ($8.1 million), 600-437, Temporary Heating Assistance ($6.8 million), 600-200, Maintenance ($5.5 million), and 600-528, Adoption Services ($5.1 million). Some of these underages reflect the impact of budget reductions imposed under Executive Order 2001-22T. This is particularly the case with line item 400-416, Computer Projects, and line item 600-200, Maintenance. The encumbrance of $6.8 million in prior-year funds in line item 600-437, Temporary Heating Assistance, was canceled since it was not needed. The negative disbursement variances in line item 600-504, Non-TANF County Administration, and in line item 600-528, Adoption Services, appear to be timing-related and should self-correct in the coming months (although it should be noted that the FY 2002 appropriation for line item 600-504 was reduced by $1.1 million under Executive Order 2001-22T).

Mental Retardation. The Department of Mental Retardation and Developmental Disabilities closed January with an $18.3 million negative year-to-date disbursement variance. This was under year-to-date estimated spending of $295.4 million by 6.2 percent. As has been the case in the last several months, the bulk of the negative disbursement variance ($10.3 million from current-year funds and $5.2 million from prior-year funds) stems from line item 322-413, Residential and Support Services, reflecting the amount of time that it can take to process payments to service providers. Another notable factor producing the negative year-to-date disbursement variance was a study required by Am. Sub. H.B. 405 and undertaken by the Joint Committee on Mental Retardation to examine the formula by which subsidies are distributed to the county boards. The disbursement of these subsidies (line item 322-501, County Boards Subsidies) was delayed until the study was completed and the formula finalized.

Health. The Department of Health closed January with a negative year-to-date disbursement variance of $10.1 million. Most of the department's GRF line items posted year-to-date underages as they had their appropriations reduced under Executive Order 2001-22T. In order to absorb the ordered reductions, the department has implemented a selective GRF hiring freeze. Much of the underspending is thus being registered in lower spending for payroll. Three GRF line items are the largest contributors to the negative disbursement variance: 440-505, Medically Handicapped Children ($2.0 million), 440-416, Hemophilia Services ($1.6 million, including both current and prior year funds), and 440-453, Health Care Facilities Protection and Safety ($1.2 million).

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

Service Category	January Actual	January Estimate	January Variance	January Percent Variance	Year-to-Date Spending Actual thru' January	Year-to-Date Spending Estimate thru' January	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Facilities	$183,769	$208,125	($24,356)	-11.7%	$1,395,714	$1,422,741	($27,028)	-1.9%
ICF/MR	$35,422	$34,874	$547	1.6%	$236,643	$238,310	($1,667)	-0.7%
Hospitals	$108,018	$129,605	($21,586)	-16.7%	$902,208	$980,542	($78,334)	-8.0%
Inpatient Hospitals	$74,128	$94,409	($20,281)	-21.5%	$640,042	$712,229	($72,186)	-10.1%
Outpatient Hospitals	$33,890	$35,196	($1,306)	-3.7%	$262,166	$268,313	($6,147)	-2.3%
Physicians	$31,718	$36,979	($5,260)	-14.2%	$264,171	$278,511	($14,341)	-5.1%
Prescription Drugs	$69,722	$77,679	($7,958)	-10.2%	$593,527	$601,831	($8,304)	-1.4%
Payments	$90,875	$98,828	($7,954)	-8.0%	$720,425	$728,725	($8,300)	-1.1%
Rebates	($21,153)	($21,149)	($4)	0.0%	($126,898)	($126,895)	($4)	0.0%
ODJFS Waivers[1]	$12,490	$12,375	$115	0.9%	$94,461	$91,563	$2,898	3.2%
HMO	$51,235	$46,980	$4,255	9.1%	$325,908	$304,146	$21,761	7.2%
Medicare Buy-In	$11,506	$10,800	$705	6.5%	$75,767	$73,827	$1,940	2.6%
All Other[2]	$52,287	$47,792	$4,495	9.4%	$373,545	$358,063	$15,481	4.3%
DSH offset	$0	$0	$0		$0	$0	$0	
Total ALI 600-525	**$556,167**	**$605,211**	**($49,044)**	**-8.1%**	**$4,261,943**	**$4,349,536**	**($87,593)**	**-2.0%**
FMAP	58.94%	58.94%			58.94%	58.94%		
Est. Federal Share	$327,805	$356,711	($28,906)		$2,511,989	$2,563,616	($51,627)	
Est. State Share	$228,362	$248,500	($20,137)		$1,749,954	$1,785,919	($35,966)	
BSF Shortfall[3]	$0	($13,216)			$0	($94,293)		
Total ALI 600-525 Disb.	**$556,167**	**$591,994**	**($35,827)**	**-6.1%**	**$4,261,943**	**$4,255,243**	**$6,700**	**0.2%**
Est. Federal Share	$327,805	$348,922	($21,117)		$2,511,989	$2,508,040	$3,949	
Est. State Share	$228,362	$243,073	($14,711)		$1,749,954	$1,747,203	$2,751	
Children's Health Insurance Plan (CHIP-II), ALI 600-426[4]								
Total ALI 600-426	**$3,865**	**$3,770**	**$95**	**2.5%**	**$25,203**	**$26,934**	**($1,731)**	**-6.4%**
Enhanced FMAP	71.19%	71.19%			71.19%	71.19%		
Est. Federal Share	$2,751	$2,684	$68		$17,942	$19,174	($1,232)	
Est. State Share	$1,113	$1,086	$27		$7,261	$7,760	($499)	
Total Health Care	**$560,032**	**$608,981**	**($48,949)**	**-8.0%**	**$4,287,146**	**$4,376,470**	**($89,323)**	**-2.0%**
Total Hlth Care w/o BSF	**$560,032**	**$595,764**	**($35,732)**	**-6.0%**	**$4,287,146**	**$4,282,177**	**$4,969**	**0.1%**

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.

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

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

The underages in the first two of these line items are partially explained by the timing of subsidy distributions, and are thus likely to self-correct to a degree in the months ahead.

Mental Health. In January, the Department of Mental Health departed from the pattern of the agencies that we have just reported on and registered a positive disbursement variance of $13.0 million. For the year to date through January, the department's disbursements were running $30.0 million above the estimate. Much of the monthly disbursement variance– 82.3 percent – is accounted for by the $10.7 million positive disbursement variance in line item 334-408, Community and Hospital Mental Health Services. Fully 95 percent of the department's positive year-to-date disbursement variance is accounted for by this same line item. Because county community mental health boards exercise discretion over the month within the quarter in which they submit their requests for subsidy payments, the timing of the payments can differ a great deal from the pattern of last fiscal year, on which this year's disbursement estimates are based.

Health Care/Medicaid. Year-to-date disbursement activity through January in the Health Care/Medicaid program (primarily line item 600-525) stood at $5.0 million above the estimate. In January, the program recorded a $35.7 million negative disbursement variance.

The role that particular service categories played in producing this result is difficult to determine because the total of the estimates for the service categories that were produced by the department differs from the original disbursement estimate developed in August 2001 by the department and the Office of Budget and Management (OBM). The disbursement estimates for the service categories that are included in Table 6 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 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 taken place and appropriation authority for those funds does not yet exist. Tables 4 and 5, therefore, reflect the original disbursement estimates that were based on the appropriation authority in Am. Sub. H.B. 94. The Department of Job and Family Services and OBM have chosen to produce "budgeted" service category estimates that include the BSF and federal funds since Am. Sub. H.B. 94 permits the department to access these funds and OBM expects the department to use approximately $158 million (total from federal and state funds) in this fiscal year.

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. We are still left, however, with a fundamental "apples and oranges" problem when trying to discuss disbursement variances from the service category estimates. We see in Table 6, for example, that January's total disbursement variance in the service categories plus the Children's Health Insurance Plan (CHIP) program is a negative $48.9 million, whereas, when the BSF and matching federal funds that are included in the service category estimates are factored out, the negative disbursement variance is reduced to $35.7 million.

Some useful information, however, can still be derived from the disbursement variances that are based on "budgeted" service category estimates including anticipated BSF and matching federal funds, as opposed to estimates based on appropriated amounts. We see in Table 6 that the Nursing Facilities, Hospitals, Physicians, and Prescription Drugs service categories all recorded negative disbursement variances when compared to the "budgeted" service category estimates for January. The same observation can also be made for year-to-date spending. If we were able to factor out the BSF and matching federal funds, this would produce smaller negative disbursement variances in each of these service categories. But whether we employ the estimates based on the appropriation, or the "budgeted" estimates that include BSF and matching federal funds that are not yet appropriated, we see a significant change in per person utilization patterns as explaining the underages in those service categories.

Table 7
FY 2002 to FY 2001 Comparison[1] of Year-to-Date Medicaid (600-525) Spending
($ in thousands)

Service Category	FY 2002[1] Yr.-to-Date as of Jan. '01	FY 2001[1] Yr.-to-Date as of Jan. '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%.
Note: Due to accounting differences, the totals do not exactly match the amounts from Table 5.

At the same time, factoring out the BSF and matching funds from the service category estimates would result in larger positive disbursement variances than those recorded in Table 6 for the ODJFS Waivers, HMO, Medicare Buy-In, and All Other categories. Indeed, comparing actual expenditures by service categories from year to year, as is done in Table 7, we see that the Prescription Drugs, ODJFS Waivers, HMO, and All Other service categories have each increased at fairly strong rates. And while the strong growth rate for prescription drugs was anticipated and built into the Medicaid appropriation and the monthly disbursement estimates, spending for the ODJFS Waivers, HMO, and All Other service categories exceeds the estimates. (Within the "All Other" service category, home health services and hospice services are the driving forces in the year-to-date overage.)

As noted above, overages in these service categories are nearly offset by underspending in other service categories. Nevertheless, some concern for future spending may be warranted. Medicaid caseloads for eligible groups of Covered Families and Children (CFC), and Aged, Blind, or Disabled (ABD) have been growing steadily. January's caseload grew by more than 21,000 eligibles, marking the fourth month in a row that CFCs have exceeded the projection. The CFC caseload is now 41,200 persons above the projection for this point in the fiscal year. The ABD caseload has exceeded the projection for each month so far this fiscal year. ABDs are now about 4,750 persons above the caseload projection.

The department states regarding the increasing caseload that it is now "cautiously optimistic that Medicaid will be able to complete the biennium without incurring an unmanageable shortfall."

Government Operations (-$54.6 million)

Rehabilitation & Correction. The Department of Rehabilitation and Correction recorded an $8.8 million positive disbursement variance in January, bringing the year-to-date disbursement variance to $29.3 million, or 3.4 percent, below the estimate of $859.0 million. The bulk ($17.3 million) of the negative year-to-date disbursement variance is traceable to line item 501-321, Institutional Operations. Executive Order 2001-22T reduced the FY 2002 appropriation authority in line item 501-321 by $16.8 million. Most of the department's other GRF line items are also spending under their disbursement estimates.

Administrative Services. Through January, the Department of Administrative Services (DAS) posted a $10.2 million negative year-to-date disbursement variance, shy of the estimate by 8.7 percent. About $4.2 million of the year-to-date underage is attributable to the component line items with the department's Computer Services series. Within that series, a significant portion of the negative disbursement variance is traceable to a slower-than-anticipated reconciliation of contractor billings. Another, and perhaps more interesting, source of underspending in this program series occurs in line item 100-418, E-Government Development, where the year-to-date disbursements of $397,000 are 67.4 percent below the year-to-date estimate of $1.2 million. A slow start-up in this program and uncertainty about budget reductions account for most of the slow spending here.

Another $3.0 million of the department's negative year-to-date disbursement variance can be explained by less-than-expected debt service or "rental payments" from line item 100-447, OBA Building Rent Payments, which are made on behalf of agencies occupying buildings managed by the Ohio Building Authority.

Another DAS project, noteworthy not because of its disbursement activity but because of its significance as a new budget initiative, is ERP Project Implementation (line item 100-421), which is getting underway this fiscal year. ERP stands for Enterprise Resource Planning. The project will integrate central accounting, human resources and payroll, capital improvement projects, and a fixed assets management system all in one database with a common set of business analysis tools. The Treasurer of State, the Auditor of State, the Office of Budget and Management, and the Department of Administrative Services are involved with this joint effort.

Tax Relief (-$1.6 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 that is 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. Each of these departments divides its property tax relief program into two components: real property tax credits/exemptions, and tangible tax exemptions. In the real property tax relief category, line item 200-901, Property Tax Allocation, in the Department of Education, stands at 49 percent disbursed, and line item 110-901, Property Tax Allocation, in the Department of Taxation, stands at 50 percent disbursed. For the tangible tax exemption category, line item 200-906, Tangible Tax Exemption, stands at 90 percent disbursed, and line item 110-906, Tangible Tax Exemption, stands at 93 percent disbursed. Through January, $631.8 million had been disbursed. This was $1.6 million below the year-to-date estimate.

**LSC colleagues who contributed to the development of this disbursements article included, in alphabetical order, Melaney Carter, Ivy Chen, Sara Doddy, Nelson Fox, Chris Murphy, Joseph Rogers, Jeffrey Rosa, Maria Seaman, and Holly Simpkins.*

TANF Update

TANF Spending Update, FFY 1997 - FFY 2002 First Quarter

— Steve Manfield

The Temporary Assistance for Needy Families (TANF) program replaced a matching grant system with a flat-funded block grant that required the states to maintain a historical level of spending (called the Maintenance of Effort, or MOE, requirement). Compared to the programs that TANF replaced, there is a great deal of flexibility for states in how the use both federal and state funds. These moneys can be used to support a wide range of activities in support of low-income families, and some of the moneys can be transferred into other programs that serve low-income recipients. Qualified expenditures must meet at least one of the four broad purposes of the TANF program. These are:

1. Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
2. End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
3. Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
4. Encourage the formation and maintenance of two-parent families.

Under TANF, Ohio's annual TANF grant from the federal government is $727,968,260. Ohio's MOE requirement may be met with a minimum state expenditure of $390.8 million (with certain conditions being met first). In each of the last five years, Ohio's MOE expenditures have been a little over $400 million. The TANF program will face reauthorization for the federal fiscal year (FFY) beginning October 1, 2002.

TANF Expenditures, FFY 1997 – FFY 2002 - Q1

Ohio's expenditures of federal and state TANF funds are reported to the federal government on a quarterly basis. Within certain limits imposed by the rules of the TANF program, quarterly expenditures from federal funds can be posted against any of the annual TANF awards. Thus in a particular quarter, expenditures from federal funds may be filed simultaneously against the awards that were made in different years. In contrast to expenditures of federal dollars, expenditures from state TANF funds are reported against the state's MOE requirement for the current period, so that what is spent in a particular federal fiscal year counts toward that year's MOE requirement.

Table 1 shows what has been spent from each year's TANF award, beginning with the first award in FFY 1997 and breaking the expenditures out by reporting category. Table 2 shows what has been spent in each FFY in each category to reach Ohio's MOE requirement. The right-hand column in both tables shows each category's share of total spending to date from the TANF block grant (Table 1) or the state's MOE (Table 2).

Here are several key points about the information in these two tables:

- By the completion of the first quarter of FFY 2002, Ohio had spent a total of $4,847.0 million in both federal and state funds in the TANF program.
- Ohio reported $93,292,648 in spending from federal TANF funds during the first quarter of FFY 2002. This spending was posted against the

TABLE 1. How Ohio Has Used TANF Federal Funds

	FFY 1997 Award	FFY 1998 Award	FFY 1999 Award	FFY 2000 Award	FFY 2001 Award	FFY 2002 Award To Date	Expenditures To Date	% of Total To Date
Basic Assistance	$444,489,099	$197,819,005	$65,943,862	$152,647,088	$19,916,361	($854,672)	$879,960,743	33.17%
Work Activities	3,792,305	22,377,250	26,688,339	81,114,726	93,697,986	19,794,160	$247,464,766	9.33%
Child Care	5,245,155	29,416,442	143,567,324	0	0	0	$178,228,921	6.72%
Transportation	--	--	9,130,805	7,096,385	11,197,295	0	$27,424,485	1.03%
Indiv. Development Accounts	--	--	--	14,925	0	0	$14,925	0.00%
Diversion Payments	--	--	71,662,730	18,001,749	51,788,744	0	$141,453,223	5.33%
Pregnancy Prevention	--	--	--	563,257	1,987,510	948,102	$3,498,869	0.13%
2 Parent Formation	--	--	--	296,162	423,942	57,283	$777,387	0.03%
Administration	46,902,800	38,048,953	50,389,802	86,657,691	77,719,507	176,688	$299,895,441	11.31%
Information Systems	0	14,562,288	32,150,129	44,825,621	42,945,829	6,192,735	$140,676,602	5.30%
Other Nonassistance	154,742,075	180,963,610	227,602,050	72,258,307	86,911,579	10,873,861	$733,351,482	27.64%
TOTAL EXPEND.	$655,171,434	$483,187,548	$627,135,041	$463,475,911	$386,588,753	$37,188,157	**$2,652,746,844**	100.00%
Federal Grant Award	$727,968,260	$727,968,260	$727,968,260	$727,968,260	$727,968,260	$145,593,652	**$3,785,434,952**	
Transfer to Title XX	$72,796,826	$72,796,826	$72,796,826	$72,796,826	$72,796,826	$0	**$363,984,130**	
Transfer to CCDF	$0	$0	$0	$77,453,492	$136,654,269	$0	**$214,107,761**	
RESERVE	$0	$171,983,886	$28,036,393	$114,242,031	$131,928,412	$108,405,495	**$554,596,217**	

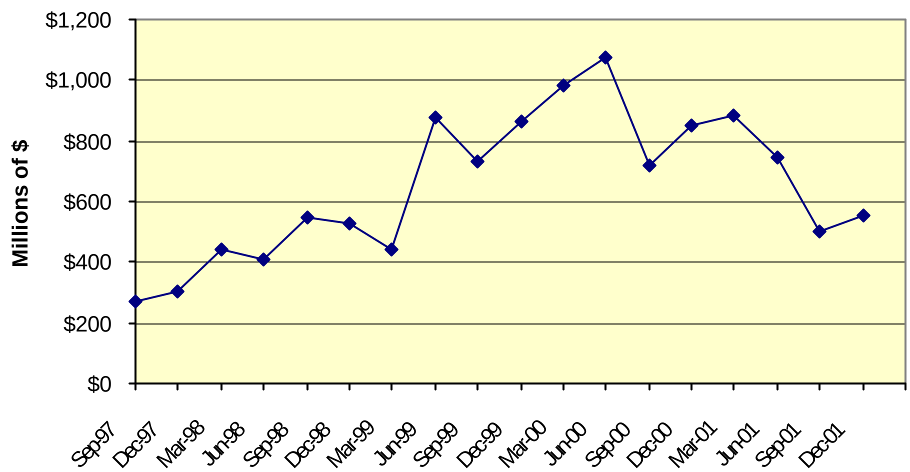
TABLE 2: How Ohio Has Spent TANF Maintenance of Effort Funds

ITEMS	FFY 1997	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002 To Date	Expenditures To Date	% of Total To Date
Basic Assistance	$305,589,897	$314,094,233	$314,625,299	$286,493,998	$275,816,285	$80,522,887	$1,577,142,599	71.88%
Work Activities	8,912,399	624,678	408,315	7,820,019	7,171,556	7,557,659	$32,494,626	1.48%
Child Care	45,628,354	51,850,611	49,435,554	51,887,171	55,996,785	0	$254,798,475	11.61%
Transportation	--	--	--	--	--	1,883,373	$1,883,373	0.09%
Indiv. Development Accounts	--	--	--	--	--	5,532	$5,532	0.00%
Diversion Payments	--	--	--	--	--	7,128,205	$7,128,205	0.32%
Pregnancy Prevention	--	--	--	--	--	398,461	$398,461	0.02%
2 Parent Formation	--	--	--	--	--	166,970	$166,970	0.01%
Administration	22,251,847	16,614,890	14,091,560	19,877,036	34,586,261	14,669,495	$122,091,089	5.56%
Information Systems	2,702	5,068,027	3,295,806	3,944,712	2,810,372	839,075	$15,960,694	0.73%
Other Nonassistance	34,391,885	31,820,351	40,496,328	29,762,563	29,762,564	7,440,641	$173,674,332	7.91%
Expenditures in Separate State Programs	--	--	--	1,581,167	5,571,647	1,368,634	$8,521,448	0.39%
TOTAL MOE	**$416,777,084**	**$420,072,790**	**$422,352,862**	**$401,366,666**	**$411,715,470**	**$121,980,932**	**$2,194,265,804**	100.00%

awards for FFY 1998, FFY 1999, FFY 2001, and FFY 2002 (and this information is not evident in Table 1, but is rather derived from the reports for individual awards).

- In the first quarter of FFY 2002, Ohio reported $121,980,932 as being expended from state MOE funds.
- As of December 31, 2001, the amount of federal TANF funds remaining from all federal TANF awards stood at $554,596,217 (see Figure 1). Department of Job and Family Services (JFS) budget plans indicate that the reserve will be reduced in the quarters ahead. Of these reserve funds, $184,382,062 are reported as unliquidated obligations, and $370,214,148 are reported as the unobligated balance.
- TANF rules permit states to transfer federal TANF funds to the Title XX Social Services Block Grant, and to the Child Care and Development Fund (CCDF). So far during the life of the block grant, Ohio has transferred $364.0 million to pay for Title XX services, and $214.1 million to pay for CCDF services. The $578.1 million transferred represents 15.3 percent of the Total TANF award that the state has received so far.
- The most common use of both federal and state TANF funds is for basic assistance (i.e., cash, payments, and vouchers designed to meet ongo-

Figure 1. Cumulative TANF Reserve Funds as of December 31, 2001



ing, basic needs). Since the state must ensure that it meets its MOE each year, JFS has opted to pay a higher share of basic assistance expenditures with MOE funds.

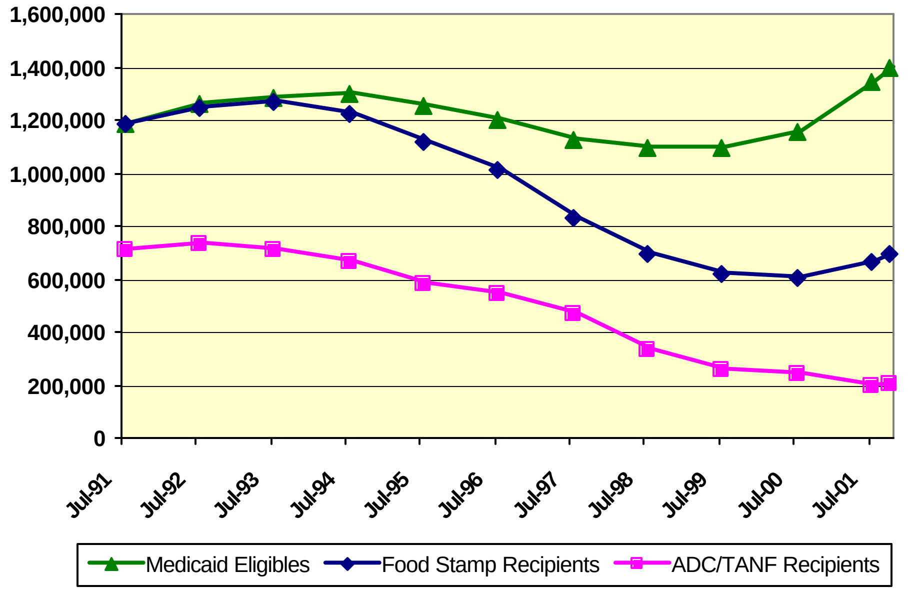
- While still the most common form of expenditure, basic assistance has been declining as a proportion of expenditures from both federal and state TANF funds.
- The second most common use of funds for a specific form of service is for child care, with $433.0 million in both state and federal TANF funds being spent so far during the life of the block grant.
- The catchall category "other nonassistance" is larger than child care, with $907.1 million in federal and state TANF funds having been spent to date; it includes a variety of supportive services and case management costs.

TANF Cash Assistance Caseload

From the recession peak of the caseload in March 1992, the number of recipients of cash benefits has declined from 748,717 to 202,955 in January 2002. As illustrated in Figure 2, the TANF caseload has held steady or had a slight decrease over the last two years. This stands in contrast to the number of persons eligible for Medicaid and the number of food stamp recipients, both of which have increased. (Figure 2 presents each program's caseload for July and updates the last year with the figures for October.) The Medicaid and Food Stamp caseloads both appear responsive to the recent economic slowdown and recession. In addition, the contrast may be accounted for by the fact they have different program rules. First, the Medicaid and Food Stamp programs (with certain exceptions) are both entitlements and thus highly responsive to recessionary conditions. Second, in the case of the Medicaid program, the federal government has required Ohio to engage in outreach efforts to reenroll families who lost Medicaid coverage when they left the TANF rolls even though they remained qualified to receive Medicaid services. Finally, the Medicaid program in Ohio has introduced expansions of coverage under the Healthy Start and Children's Health Insurance Program (CHIP) that have increased the number of individuals eligible for Medicaid coverage.

TANF is not an entitlement. The TANF program requires cash recipients to sign a "self-sufficiency contract" that specifies certain responsibilities and requirements. Failure to meet any of these responsibilities or requirements (for example, missing an appointment) may result in an assistance group being sanctioned and denied benefits for up to six months or until the failure to comply with the terms of the contract ceases, whichever is longer. In addition, the federal TANF law limits an assistance group to receiving benefits for no more than 60 months. Under the Ohio Works First program, an assistance group is ineligible to participate in Ohio Works First if the group includes an adult who has participated in the program for 36 months, regardless of whether the 36 months are consecutive. An additional 24 months of benefits may be received after 24 months have passed since the last of the 36 months in the first period if a county department of job and family

Figure 2. Medicaid Eligibles, Food Stamp Recipients, and TANF Recipients, July 1991 to October 2001



services is satisfied that good cause exists. Examples of good cause include loss of a job, inability to find employment, divorce, and domestic violence considerations. The removal of assistance groups from the caseload due to the 36-month time limit on the receipt of cash benefits has played a significant role in the decline of cases since October 2000. There is, however, no such time limit for individuals in assistance groups in which there is no adult (typically these are cases in which children live with an adult relative other than their parent). These children may receive cash assistance until the age of 18. In January, there were 38,043 "child only" cases, composed of nearly 60,000 children and representing about 44 percent of all cases.