Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission

April 2002

Fiscal Overview

— Doris Mahaffey

Every day the newspapers carry additional evidence that the recession is over. On April 16, the Federal Reserve Board released its index of industrial production for March. The index, which measures the change in output in U.S. manufacturing, mining, and electric and gas utilities, was up for the third consecutive month. The gains were both stronger and more widespread than had been anticipated. On April 18 the Conference Board announced that the index of U.S. leading indicators increased in March, with the strongest contributor being average weekly manufacturing hours. The coincident indicator index increased on the strength of industrial production and employment gains.

At the same time the revenue reports issued by State Accounting provide daily evidence that the fiscal condition of the state is not about to be affected by such glowing forecasts. Further analysis adds "any time soon" to the preceding statement. The impact of the last year on corporate balance sheets, as well as the fact that employment is one of the last factors to recover after a recession, will ensure an equally slow recovery of state coffers.

With three quarters down in FY 2002 and one to go, the state budget outlook is not good. Revenue woes continue to plague the state. Nine months of FY 2002 are now history, and in all but one (November), revenues have fallen short of estimates. In January, and then in March, revenues were woefully – more than $200 million – short. March revenues were $214 million under estimate, bringing the year-to-date revenue shortfall to $854 million under estimate.

Even compared to OBM's revised estimates, which take into consideration the budget fixes of H.B. 405, revenues excluding transfers are $412 million under estimate. This hole in the budget is only likely to continue to grow through the final quarter of FY 2002. According to the Governor's press release of April 4, 2002, the executive is projecting a budget deficit of $500 million for FY 2002.

The outlook for FY 2003 is no better. OBM projects a shortfall of $750 million, due in part to the continuing effects of the recession on income and profits and, in part, to the changes that Congress made to the corporate and personal income taxes in the Job Creation and Worker Assistance Act of 2002.

Volume 25, Number 7

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 March	**Fiscal Year 2002 to Date**	**Last Year**	**Difference**
Beginning Cash Balance	($1,406.1)	$817.1		
Revenue + Transfers	$1,482.1	$14,314.3		
Available Resources	$76.0	$15,131.4		
Disbursements + Transfers	$1,525.6	$16,580.9		
Ending Cash Balances	($1,449.5)	($1,449.5)	($322.5)	($1,127.0)
Encumbrances and Accts. Payable		$498.2	$494.9	$3.3
Unobligated Balance		**($1,947.7]**	**($817.4)**	**($1,130.3)**
BSF Balance		$1,002.6	$1,002.5	$0.1
Combined GRF and BSF Balance		**($945.2)**	**$185.1**	**($1,130.2)**

Ohio is not alone with its budget woes. According to a report issued by the National Conference of State Legislatures (NCSL),[1] state tax revenues are sufficiently depressed nationwide that 39 states have made revised revenue estimates for the current fiscal year. Revenues of nine of the 11states that did not revise their estimates are below estimates; no states project revenue surpluses. Ohio is one of the 23 states that are not meeting even their revised revenue estimates.

Ohio's March corporate franchise tax receipts were especially disappointing. Revenues were $117 million under estimate. Part of the problem may have been timing. The second payment of the franchise tax is due March 31, and this year March 31 fell on a Sunday, so it is likely that more of the receipts spilled over into April than had been anticipated. Nevertheless, it is unlikely that April receipts will make up the entire shortfall.

Personal income tax revenues were also substantially under estimate. Withholding accounted for much of the shortfall, but annual returns were under estimate, as well, and refunds were over estimate.

Revenues were not the only problem highlighted by the March reports. March disbursements were $99 million over estimate. The largest overages for the month were for Medicaid ($64.5 million over estimate), primary and secondary education ($47 million over estimate), and property tax relief ($16.6 million over estimate).

Year-to-date disbursements (including transfers) remain under estimate, but by only $292 million – nowhere near enough to offset the revenue shortfall.

The underage in spending is largely attributable to (1) timing issues and (2) the October executive budget cuts.

Timing is the main reason for the spending underage in primary and secondary education. In fact, education typically ends the year with a substantial negative variance, due to some of the complexities of the various school funding formulae. Another timing issue involves the processing of subsidy payments to residential facilities. This issue significantly affects disbursements for the Departments of Mental Health and Mental Retardation and Developmental Disabilities, both of which are included in the "human services" program category.

Disbursements in most program categories are expected to end the year under estimate due to the executive budget cuts. These effects are already evident in the disbursements for the higher education and the justice and corrections categories.

Spending for Medicaid, however, is expected to end the year over estimate. Year-to-date spending for Medicaid is already $89 million over estimate. This overage is expected to grow through the final quarter of FY 2002, due to cost pressures and growth in caseloads. The cost pressures were somewhat anticipated by H.B. 94, which provided that, with Controlling Board approval, funds from the Budget Stabilization Fund (BSF), along with matching federal funds, could be appropriated to meet a likely growth in Medicaid entitlement spending. What was not anticipated was the growth in caseloads that was due, in part, to the recession. In any case, the transfers permitted by H.B. 94 were not included in the August 2001 disbursement estimates because the funds were not actually appropriated in H.B. 94.

Ohio's unobligated General Revenue Fund (GRF) balance at the end of March barely budged from its February level. As Table 1 shows, the unobligated balance was -$1,947.7 million. The slight improvement over February's -$1,955.1 million was due to a $50.8 million decrease in encumbrances. Since disbursements exceeded revenues, the state's negative cash balance grew. It now stands at -6.8 percent of total FY 2001 revenues. In March of 1992, when revenues were similarly stressed by the recession of 1991, the state's cash balance was only -2.3 percent of prior year revenues. Even after the addition of the full $368 million transfer into the GRF from the BSF and the Tobacco Trust Fund as allowed by H.B. 405, the cash balance would still be -5.1 percent of FY 2001 revenues. Bringing that figure into positive territory in the next three months will not be easy.

[1] National Conference of State Legislatures, *State Fiscal Update April 2002,* April 16, 2002.

TRACKING THE ECONOMY

— *Ross Miller*

If you gauge the state of the economy by reading only headlines, you may be feeling a little schizophrenic right now. Most headlines about the state of the economy sound optimistic. Bloomberg.com carried an article on April 10 with the headline "U.S. Economy is Recovering Faster Than Anticipated." Other such positive headlines include "Fed Sees Rebound Under Way" (April 4 *Cincinnati Enquirer*) and "Forget the Double Dip – This Recovery Has Legs" (April 15 *Business Week*). On the other hand, there are still headlines about layoffs, like the 7,000 at the accounting firm Andersen, and plenty of unpleasant surprises when corporations announce quarterly profits (IBM's stock price fell by over 10 percent on April 8 after the company issued an earnings warning). And, oh yes, oil prices are heading up again due to a variety of factors, not least the tension in the Persian Gulf.

As at most turning points in the business cycle, it is hard to tell at this stage what the story that accompanies these headlines ought to say. The data on production, which are detailed below, support the widespread view among forecasters and headline writers that the recession is over. However, official determinations about the beginnings and ends of recessions are made by the Business Cycle Dating Committee of the National Bureau of Economic Research. As recently as April 10, the committee declined to declare the recession over. The committee's statement did explain, though, that its determinations about business cycle turning points are often retroactive, leaving open the possibility that it may decide later that the recession ended in, for example, January or February. Such lags in determining turning points in the cycle are deliberate – the committee wants to make sure that the data that form the basis for such a determination are not revised, and that the downturn does not resume. Some analysts may view the committee as overcautious regarding the latter point, but the indications that the recovery is underway are still a bit tentative. The labor market, for one, is still sending mixed signals about its direction. And there are several widely recognized threats to the economic recovery, as described below.

Production is Definitely Increasing

The Bureau of Economic Analysis of the U.S. Department of Commerce (BEA) announced that real (i.e., inflation-adjusted) gross domestic product (GDP) grew by 1.7 percent in the fourth quarter of 2001 (2001 Q4).[1] This is the final estimate of GDP growth that quarter; the growth rate was revised upward from the 1.4 percent figure reported in the last issue of *Budget Footnotes*. The BEA also reports that real disposable personal income increased in each of the four months leading up to February, with a total increase of 2.8 percent from the low point in October. That would be equivalent to an 8.6 percent annual rate of increase.[2]

Our first look at GDP growth in 2002 will come when first-quarter figures are released, which is scheduled to occur on April 26. Many commentators, including the economic forecasting firm DRI-WEFA, are expecting an annualized growth rate in excess of 4 percent for the first quarter. Such expectations are fed by recent substantial increases in the Conference Board's Index of Consumer Confidence (which in March hit its highest level since August), the Institute for Supply Management's Purchasing Managers' Index (55.6 percent in March, the highest level in over two years), and the number of new orders for manufactured durable goods (up 1.8 percent in February). Moreover, inventories of manufactured goods have fallen for 13 consecutive months as of February, according to the U.S. Census Bureau; this is true both of all manufactured goods and of manufactured durable goods. These inventory reductions have left inventories of manufactured durable goods at their lowest level since July 1997. The effect of businesses reducing their inventories has been a very serious drag on the economy, contributing over two *negative* percentage points toward real GDP growth in three quarters of the last eight. With inventories currently at such low levels, the expectation is that businesses have to begin restocking soon, which will begin contributing toward the growth of the economy rather than toward its contraction. DRI-WEFA attributes a substantial share of its projected 4.6 percent growth in real GDP in the first quarter to an upswing in inventory accumulation alone.

The one cautionary fact about production worth noting is that the Department of Commerce reported a sharp drop in both housing starts and building permits issued in March. Housing starts fell by 7.8 percent from February to March, the largest percentage fall in two years, while building permits issued fell by 9.9 percent, the sharpest fall since 1990. These dramatic drops are due mainly to very high figures for February; compared with the year before (March 2001), building permits are down only 1.7 percent, and housing starts are actually higher. The high figures for February are in turn due mainly to mild winter weather. But there is little doubt that construction industry executives will be checking the April figures carefully to make sure that we are not seeing the beginning of a trend.

Inflation Still Moderate

The U.S. Bureau of Labor Statistics (BLS) recently released the inflation results for March, which gives us the complete view of inflation in the first quarter. With a seasonally adjusted increase in the Consumer Price Index for All Urban Consumers (CPI-U) of 0.3 percent in March, the (seasonally adjusted) annualized inflation rate for 2002 Q1 was 3.0 percent. Gasoline prices played a significant role in the overall movement in CPI-U – excluding food and energy, the CPI-U rose by an SAAR[3] of 2.1 percent during the first quarter. Although the overall rate of 3.0 percent is significantly higher than the rate for calendar year 2001 (which was 1.6 percent), the 2.1 percent rate is below the equivalent rate for 2001 (which was 2.7 percent). Bloomberg.com recently ran a headline proclaiming that “Inflation May Be 2002 Surprise, Some Economists Say,” above an article that highlighted higher gas prices and insurance costs. But DRI-WEFA forecasts inflation of just 1.9 percent in 2002, and the data currently available suggest that inflation remains moderate.

Mixed Signals from the Labor Market

The labor market, much like state tax receipts, tends to lag behind production measures when the economy begins to recover, and this recovery is no exception. One recent headline-grabbing statistic was a sharp increase in initial unemployment insurance claims during the week ending March 30 – initial claims increased by 64,000 according to the U.S. Department of Labor (DOL). As alarming as this seems, this is one of those cases when it pays to read beyond the headline – most analysts attributed the jump to claims for extended benefits (benefits for 13 weeks beyond the usual 26-week limit) following Congressional approval of such extension. Support for this interpretation comes from the fall in initial claims the following week (ending April 6), from a revised figure of 493,000 to 438,000, and from DOL figures on filings for extended benefits received during the week ending March 23 (over 680,000).

The BLS reports that the unemployment rate increased from 5.5 percent (after seasonal adjustment) in February to 5.7 percent in March. Schizophrenia appears again in the figures on the number of employed workers. The BLS reports that employment fell by 425,000 in March based on one survey (the household survey), and that payroll employment rose by 58,000 based on another (the establishment survey). (Both figures are seasonally adjusted). The establishment survey is the source of data on employment by industry, and the BLS reports that job gains in the service industry (+118,000 jobs nationally) more than offset significant job losses in manufacturing (-38,000) and construction (-37,000). The BLS also reports that average hourly earnings increased by 3.5 percent over the year ending in March.

Data from the Ohio Department of Job and Family Services indicate that there were 57,681 initial claims for unemployment compensation in Ohio in February, down from 119,295 in January. Continuing claims were also down, from over 844,000 in January to fewer than 700,000 in February. Despite these encouraging signs, there are as yet few other positive developments in the Ohio labor market. The seasonally adjusted unemployment rate in March rose sharply to 5.7 percent, from a revised 5.4 percent in February. BLS data indicate that manufacturing employment in Ohio decreased slightly from February to March, reversing the slight gains in employment experienced in February. After seasonal adjustment, manufacturing employment has barely changed since December – the March figure was less than 0.1 percent below that for December. BLS data indicate that total nonagricultural employment in Ohio remained approximately 5.5 million in March. The seasonally adjusted figure has fallen for two months in a row, but the unadjusted figure shows employment increasing each of the last two months. This final example of seeming schizophrenia is surely due to mild winter weather, allowing an unusual amount of construction work to continue. Despite the overall lack of improvement in the Ohio labor market, there are indications that we are coasting along the bottom.

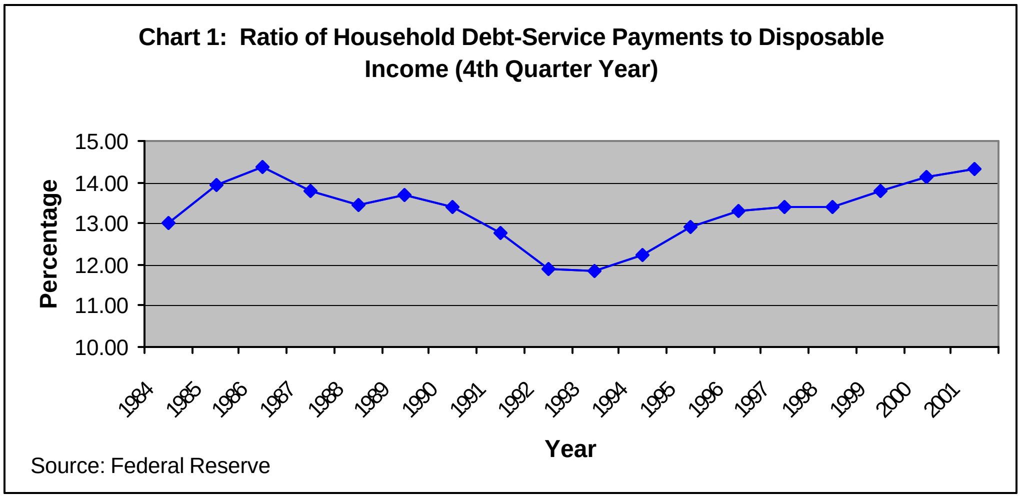
What Could Spoil the Recovery?

All but the most enthusiastic of forecasters acknowledge that there are several significant threats to the presumed recovery. The list of possible threats includes higher oil prices, a downturn in consumer spending due to debt burdens and the end of car manufacturers' incentive programs, another terrorist event, another accounting mess like the one at Enron – any of these things could transform the nascent recovery into a return to economic contraction.

DRI-WEFA devoted a section of its April issue of *U.S. Executive Summary* to the possibilities for, and the economic consequences of, higher oil prices. Recent oil price changes remind me of a roller coaster (Cedar Point and King's Island open soon), with the price falling gradually from over $29 per barrel in January 2001[4] to an average of $26.21 in September, then plummeting to under $20 in November and December, according to the Energy Information Agency. With violence worsening in the Middle East, a significant strike reducing Venezuelan exports, and the possibility of U.S. military action against Iraq, the price rose nearly as sharply in 2002, to over $27 per barrel on April 3 before falling a bit later that week. Higher oil prices can result in reductions in consumers' spending on nonfuel items (because of their reduced real incomes) and higher inflation, and have been associated with recessions in past academic economic research[5] (which is not surprising to those who remember the economic events of the mid-1970s and early 1980s).

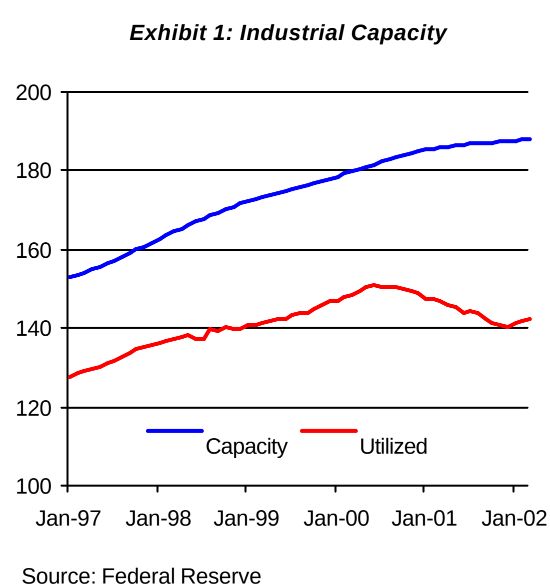
DRI-WEFA economists project that oil prices will remain in their current neighborhood, but ran a scenario through their forecasting model in which the price rose to $30 to $33 per barrel by late fall. They concluded that the higher oil prices under that scenario "would not be enough to derail the U.S. and world recoveries." More specifically, they concluded that oil prices at that level, with no other changes to their forecast assumptions, would reduce real GDP growth by 0.2 to 0.3 percentage points and add 0.5 to 0.7 percentage points to CPI inflation. Perhaps the biggest single reason for the plausibility of such a modest effect is that oil plays a smaller role in the economy today than it did several years ago – the value of oil imports is hovering around 1 percent of GDP today, down from over 3 percent in 1980. However, Federal Reserve Chairman Alan Greenspan pointed out in testimony before the Congressional Joint Economic Committee on April 17 that econometric models of the U.S. economy seem to do a poor job of capturing the effects on the economy of "sudden and sizable shifts in oil prices." This casts some doubt on the specific predictions of the DRI-WEFA model.

Similarly, DRI-WEFA does not foresee a significant change in consumer spending habits, despite high levels of consumer debt. Last month's "Tracking the Economy" article was able to point to Federal Reserve data showing a slight dip in the ratio of households' debt-service payments to their disposable income in 2001 Q3, after a reading in 2001 Q2 that was the second-highest since 1980. The Fed has since published data for 2001 Q4, and the ratio rose again, to a level higher than 2001 Q2 (see chart below). The most recent ratio is under the record (set in 1986 Q4) though, making it the new second-highest on record.[6] Alan Greenspan testified that Federal Reserve researchers attribute most of the recent rise in the ratio to higher-income households, which may suggest that the increase in the ratio will not create much stress on household budgets (and therefore not reduce household spending much). Further support for the position that current consumer debt levels should not cause a problem is the simple fact that the record high ratio was not followed closely by a recession – the recession came four years later (in 1990). But some analysts are concerned that the ratio did not fall during the last few quarters as it usually does during recessions, leaving us in uncharted territory. If consumers did not



retrench during the recent bad times, won't they have to at some point when unemployment is rising? DRI-WEFA economists do not believe so, but time will tell.

Whether DRI-WEFA is correct about the degree of economic danger posed in the medium term by the threats of higher oil prices and higher household debt burdens, these threats have not prevented the economy from staging a remarkable turnaround in the last few months. Greenspan's testimony indicated that Federal Reserve officials are reserving judgment about whether the recovery will continue beyond the current boost coming largely from restocking of inventories. However, the recent performance of the economy certainly provides support for optimism in anticipating economic developments during the remainder of 2002.



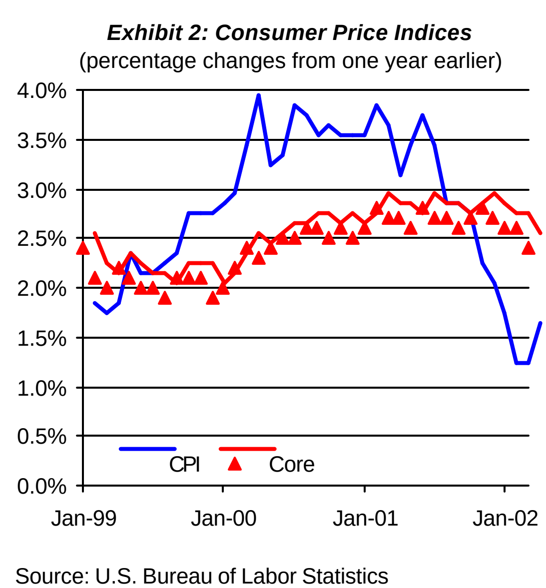
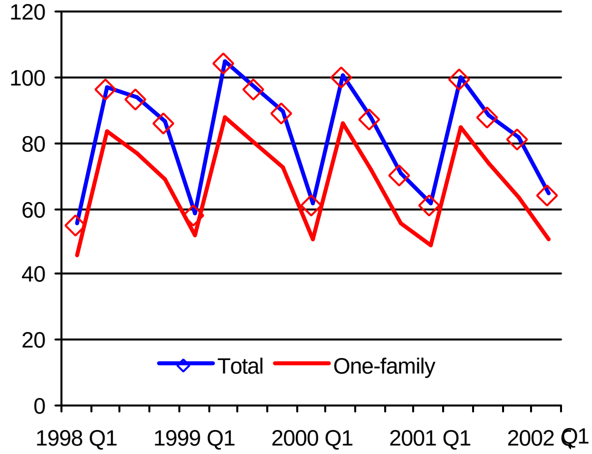
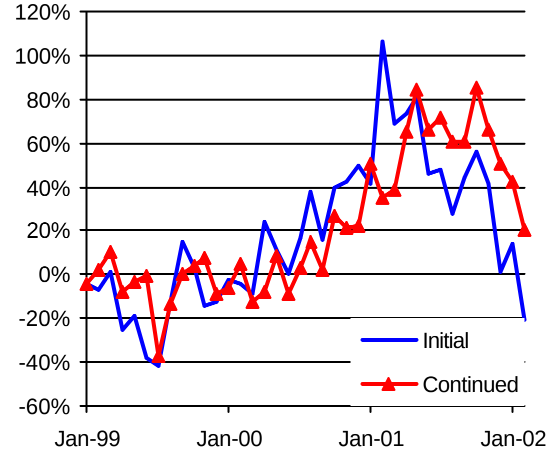


Exhibit 3: Housing Starts
(Midwest, thousands of units)



Source: U.S. Department of Commerce

Exhibit 4: Ohio Unemployment Claims
(percentage changes from one year earlier)



Source: Ohio Department of Job and Family Services

[1] The 1.7 percent figure is an annualized rate, after seasonal adjustment. All other references to real GDP growth in this article are also annualized rates.

[2] The increase in disposable personal income received an extra boost during this period from the annual cost-of-living adjustment in federal transfer payments (e.g., Social Security payments).

[3] SAAR stands for "seasonally adjusted annualized rate."

[4] This is the average spot price over the month for West Texas Intermediate grade crude oil reported by the Energy Information Agency.

[5] For example, research by James D. Hamilton, now Professor of Economics at the University of California, San Diego.

[6] A slight revision downward in the ratio for 2001 Q2 left that quarter's ratio at fourth-highest in the rankings, rather than third-highest.

Status of the General Revenue Fund

REVENUE

— *Doris Mahaffey**

March 2002 revenues to the GRF from all sources were $1,482 million. That was 12.6 percent lower than OBM's July 2001 estimates and 12.0 percent lower than the revised estimates from December 2001. It was also 7 percent lower than March 2001 revenues, although the changes made to the public utility excise taxes by S.B. 3 and H.B. 283 of the 123rd General Assembly caused some of the difference.

Total March GRF revenue was under estimate by $213 million. Most revenue sources were under estimate for the month, with corporate franchise tax revenues posting the largest shortfall. They were $117 million under estimate, and 27 percent lower than March 2001 revenues. Personal income tax revenues were another $81 million under estimate, although they exceeded March 2001 revenues by 10 percent. Sales tax revenues added another $15 million to the revenue shortfall. See Table 2 for a detailed comparison of actual March revenues and the July 2001 revenue estimates by major revenue category.[1]

Only a smattering of revenue sources were over estimate. Transfers in, kilowatt-hour tax receipts, and foreign insurance tax receipts all had small but significant overages. In the case of the kilowatt-hour tax and the foreign insurance tax, however, the overages were largely due to timing. Receipts from both taxes were under estimate the previous month, and year-to-date revenues remained under estimate.

March's dismal revenue performance pushed the year-to-date revenue shortfall to $854 million. Combined revenues from the three major taxes – the personal income tax, the non-auto sales tax, and the corporate franchise tax – are $1 billion under estimate. Personal income tax revenues accounted for $525 million of the shortfall, corporate franchise tax revenues were $252 million short of the estimate, and non-auto sales tax revenues were short by another $227 million. Table 3 provides a detailed look at year-to-date revenues for each of the major revenue categories.

Notable overages exist for revenues from the auto sales tax ($80 million over estimate for the year to date) and the public utility excise tax ($54.5 million over estimate). Unfortunately, their combined overages amount to a mere $134 million, compared to the $1 billion shortfall in revenues from the three major taxes.

Total revenues (including transfers) were $630 million or 4.2 percent less than revenues at this time last year. Of course, FY 2001 revenues included a substantial transfer in from the Income Tax Reduction Fund (ITRF) to finance last year's tax cut. Excluding transfers in, revenues through March 2002 were $888 million under estimate and 0.3 percent lower than those at the same time last year.

Total FY 2002 tax revenues are down 1.1 percent from FY 2001 revenues. With the exception of revenues from the auto sales tax, revenues from all of the major taxes are down compared to this time last year. Corporate franchise tax revenues exhibited the most significant decline. (While revenues from the public utility excise tax alone are down 54 percent from last year, this decline was largely due to base changes. By adjusting the figures for the base changes – that is, by adding receipts from the kilowatt-hour tax to those from the public utility tax – and comparing the adjusted amounts to last year's public utility excise tax revenues, the FY 2002 revenues from electric companies and other utilities are seen to have produced a modest 5.7 percent gain.)

Along with tax receipts, earnings on investments are also down so far this year, coming in both $30 million under estimate and almost 40 percent less than what they were this time last year. The poor showing is due to lower fund balances than had been anticipated and continued lower interest rates. According to the Treasurer of State, earnings on investment averaged 5.65 percent in FY 2001 compared to 3.48 percent so far this year.[2] The top priority of the state investments is to ensure the safety of the public funds rather than to maximize returns. Thus, not much can be done to increase the state's

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

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$70,665	$74,250	($3,585)
Non-Auto Sales & Use	$367,967	$379,246	($11,279)
Total Sales	$438,632	$453,496	($14,864)
Personal Income	$376,019	$456,734	($80,715)
Corporate Franchise	$134,564	$251,750	($117,186)
Public Utility	$29,766	$37,800	($8,034)
Kilowatt Hour Excise	$35,989	$25,700	$10,289
Total Major Taxes	**$1,014,970**	**$1,225,480**	**($210,510)**
Foreign Insurance	$55,227	$50,600	$4,627
Domestic Insurance	$513	$690	($177)
Business & Property	$0	$83	($83)
Cigarette	$21,350	$22,400	($1,050)
Alcoholic Beverage	$4,356	$4,760	($404)
Liquor Gallonage	$2,145	$2,103	$42
Estate	$2,138	$0	$2,138
Total Other Taxes	$85,730	$80,636	$5,094
Total Taxes	**$1,100,700**	**$1,306,116**	**($205,416)**
NON-TAX INCOME			
Earnings on Investments	$15,149	$20,250	($5,101)
Licenses and Fees	$7,102	$5,338	$1,764
Other Income	$6,643	$9,105	($2,462)
Non-Tax Receipts	$28,894	$34,693	($5,799)
TRANSFERS			
Liquor Transfers	$10,000	$8,000	$2,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$12,099	$0	$12,099
Total Transfers In	$22,099	$8,000	$14,099
TOTAL INCOME less Federal Grants	**$1,151,693**	**$1,348,809**	**($197,116)**
Federal Grants	$330,402	$347,151	($16,749)
TOTAL GRF INCOME	**$1,482,095**	**$1,695,960**	**($213,865)**

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

Totals may not add up due to rounding.

earnings on investments. Earnings on investments will continue to fall short of the estimates as long as the economy remains weak, state revenue collections falter, and interest rates remain low.

Personal Income Tax

News about the labor markets has been fairly upbeat in the last few weeks, but it will be some time before that translates into healthy state personal income tax revenues. Income tax receipts for March continued their lackluster performance from February 2002. Personal income tax revenues were $376 million for the month. Although this was a 10 percent increase over March FY 2001 revenues, it was still $81 million under estimate.[3] Withholding receipts, annual-return receipts, and refunds all made substantial contributions to the shortfall.

Withholding receipts were under estimate by $57.4 million or 9.9 percent. Annual-return receipts were $14 million or 26.8 percent under estimate, and refunds were $19.3 million or 12 percent over estimate. Quarterly estimated payments, however, were $7.2 million or 41 percent over estimate, which slightly reduced the shortfall.

Again, the same factors that caused February's shortfall appear to have been operating in March. The shortfall in withholding was directly related to the continued weakness in the employment situation, although timing issues may have exacerbated the shortfall. A full ten days in March fell on weekends, as opposed to the more typical eight weekend days in a month.

Withholding receipts generally reflect conditions in the labor market, and the labor market is still soft. Employment is still down from what it was a year ago, although hours of work per week and weekly earnings are beginning to creep up. While signs of life are starting to appear, it is unlikely that they will translate into higher withholding receipts in the remainder of the fiscal year.

Year-to-date personal income tax revenues are $525 million or 9.7 percent under estimate. Monthly withholding receipts account for nearly half of the shortfall. They are $240.6 million or 4.5 percent under estimate. They have been under estimate all but two months (July and December) so far this fiscal year. In fact, they have been under estimate in all but five months since March 2000.

Estimated payments account for another 19 percent of the shortfall. They are $98.9 million or 10.5 percent under estimate. Refunds account for 32 percent of the shortfall. They are $169.8 million or 37.5 percent over estimate. Refunds have been over estimate every month this fiscal year with the exception of October and December. They were substantially under estimate for most of FY 2001.

Year-to-date revenues are down 1.5 percent from FY 2001. This is notable since there is no temporary tax cut this year, so the effective tax rate is 7 percent higher than it was last year. Of course, the temporary tax cut of prior years did not affect withholding, so the true impact of no tax cut this year will be gauged only when the annual returns that were due April 15 have been processed.

Corporate Franchise Tax

Corporate franchise tax receipts are still in a deep hole after the second major payment of the year. The first major payment occurred in January and the last major payment will be in May. The March payment did nothing to reduce the underage accumulated thus far this fiscal year. Worse, March 2002 franchise tax receipts were $134.5 million, which was $117.1 million or 46.5 percent below estimate. Even with the possibility of additional revenues in the first week of April because Sunday, March 31, was the due date, the March payment confirmed that the underage in corporate franchise tax receipts for this fiscal year would be substantial. Compared to March 2001, franchise tax revenues in March 2002 decreased by $51.8 million or 27.8 percent.

For the fiscal year to date through March, corporate franchise tax receipts at $349.5 million were $252.1 million or 41.9 percent below estimate. A year ago, corporate franchise tax revenues were at $472.9 million. At the end of March 2002, franchise tax receipts were $123.3 million or 26.0 percent below March 2001 receipts.

Lower franchise tax revenues in a given fiscal year generally reflect poor corporate profits in the prior calendar year. The franchise tax for tax year 2002 (generally FY 2002) is based upon the taxpayer's activity during its taxable year ending in 2001. Corporate profits before tax in calendar year 2001, as measured by the Bureau of Economic Analysis (BEA), were 17.4 percent below profits recorded in 2000. CY 2001 profits were also 10.0 percent below profits in CY 1999. In the manufacturing sector, the profit decline was even more pronounced. Profits in the manufacturing industry in CY 2001 were 48.8 percent lower than in CY 2000 and 51.4 percent lower than in CY 1999.

The decline in franchise tax receipts appears to have been exacerbated by the net worth tax changes in H.B. 215 (the general appropriations bill for FY 1998-1999). The franchise tax has two bases: the net worth base (generally determined as net book value of assets minus the net carrying value of liability) and the net income base (generally, the Ohio portion of federal taxable income with exclusions and additions as required by statute). Differing tax rates apply to each tax base. The corporate taxpayer calculates its Ohio tax liability under the two bases

Table 3
General Revenue Fund Income
Actual vs. Estimate
FY 2002 To Date as of March 2002
($ in thousands)

REVENUE SOURCE					
TAX INCOME	**Actual**	**Estimate***	**Variance**	**FY 2001**	**Percent Change**
Auto Sales	$674,445	$594,002	$80,443	$581,077	16.07%
Non-Auto Sales & Use	$3,792,576	$4,020,008	($227,432)	$3,813,864	-0.56%
Total Sales	$4,467,022	$4,614,010	($146,988)	$4,394,941	1.64%
Personal Income	$4,907,218	$5,432,350	($525,132)	$4,981,642	-1.49%
Corporate Franchise	$349,532	$601,683	($252,151)	$472,926	-26.09%
Public Utility	$190,816	$136,300	$54,516	$414,366	-53.95%
Kilowatt Hour Excise	$247,149	$253,420	($6,271)	$0	—
Total Major Taxes	**$10,161,738**	**$11,037,763**	**($876,025)**	**$10,263,875**	**-1.00%**
Foreign Insurance	$224,609	$234,140	($9,531)	$230,933	-2.74%
Domestic Insurance	$3,529	$3,565	($36)	$2,612	35.09%
Business & Property	$1,417	$1,246	$171	$1,265	12.02%
Cigarette	$195,978	$193,200	$2,778	$196,191	-0.11%
Alcoholic Beverage	$40,770	$41,020	($250)	$40,277	1.22%
Liquor Gallonage	$22,069	$21,824	$245	$21,948	0.55%
Estate	$65,543	$61,250	$4,293	$78,939	-16.97%
Total Other Taxes	$553,914	$556,245	($2,331)	$572,166	-3.19%
Total Taxes	**$10,715,651**	**$11,594,008**	**($878,357)**	**$10,836,042**	**-1.11%**
NON-TAX INCOME					
Earnings on Investments	$71,732	$101,250	($29,518)	$118,541	-39.49%
Licenses and Fees	$25,963	$28,701	($2,738)	$27,310	-4.93%
Other Income	$125,517	$87,421	$38,096	$116,388	7.84%
Non-Tax Receipts	$223,212	$217,372	$5,840	$262,238	-14.88%
TRANSFERS					
Liquor Transfers	$82,000	$74,000	$8,000	$77,000	6.49%
Budget Stabilization	$8,000	$0	$8,000	$0	—
Other Transfers In	$23,724	$6,237	$17,487	$627,022	-96.22%
Total Transfers In	$113,724	$80,237	$33,487	$704,022	-83.85%
TOTAL INCOME less Federal Grants	**$11,052,587**	**$11,891,617**	**($839,030)**	**$11,802,303**	**-6.35%**
Federal Grants	$3,261,710	$3,276,785	($15,075)	$3,142,451	3.80%
TOTAL GRF INCOME	**$14,314,298**	**$15,168,402**	**($854,104)**	**$14,944,754**	**-4.22%**

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

Totals may not add up due to rounding.

and pays the higher of the two tax liabilities. H.B. 215 decreased the net worth tax rate from 5.82 mills to 4 mills and capped the net worth tax at $150,000 for each corporation. The timing of the full impact of those net worth tax changes on franchise tax revenues was unfortunate. In prior years the net worth base has often cushioned the impact of an economic downturn on the state's tax receipts. The cap on net worth now pretty much removes this cushioning effect and exposes the state more directly to swings in corporate profits.

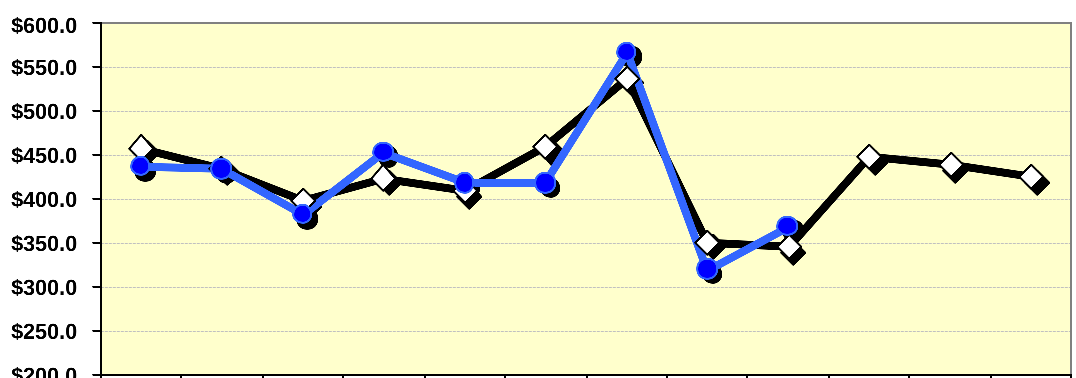
The troubles with franchise tax receipts will not be confined to FY 2002. The recession's effect on this revenue source will carry on into next fiscal year's receipts. DRI-WEFA, a forecasting firm, projects that corporate profits growth (on a year-earlier basis) will be negative the first two quarters of this calendar year before possibly turning around in the third quarter of 2002. For the entire CY 2002, profit growth will be muted, which may lead again to lackluster corporate franchise tax revenues in FY 2003. To compound the problem, net operating losses (NOL) accumulated during the lean corporate years would be used to reduce taxable income should corporate profits rapidly increase. The depreciation change in the Job Creation and Worker Assistance Act of 2002 is another looming threat to corporate franchise tax receipts. This federal legislation allows a first-year 30 percent bonus depreciation for qualified assets placed in service after September 10, 2001, and before September 11, 2004. The remaining 70 percent of the depreciable asset would be depreciated according to existing depreciation rules. The excess depreciation decreases corporate income and will reduce franchise tax receipts. Unless Ohio decides to "decouple" the depreciation deduction on Ohio tax returns from the federal treatment in the calculation of its franchise net income tax, FY 2003 receipts will be reduced. The Tax Department estimates that the depreciation change in the federal economic stimulus bill may decrease revenue by $150 million in FY 2003.

Sales and Use Tax

The Non-auto Sales and Use tax. Receipts from the non-auto sales and use tax were again disappointing in March. March sales tax revenues largely reflect February sales. Receipts in March 2002 were $367.9 million, $11.2 million or 2.9 percent below original estimates for the month. March revenues were $49.5 million or 15.5 percent higher than February receipts. (See Chart 1.) February retail sales are usually higher than January retail sales (which are reflected in February tax receipts). Interestingly, the underage in March was smaller than the underage in February when receipts were below estimate by $20.1 million, or 5.9 percent. Excluding autos, February retail sales, according to advance estimates by the U.S. Department of Commerce, grew only 0.2 percent over January sales. This makes the March increase in non-auto sales tax receipts much more remarkable. Also, revenues in March 2002 were higher than tax receipts a year earlier by $23.4 million (or 6.7 percent), which suggests a possible turnaround in taxable sales and sales tax revenues for the last quarter of the fiscal year. A quarterly comparison of non-auto sales tax receipts supports this suggestion. First-quarter non-auto tax receipts in FY 2002 were $37.1 million or 2.9 percent below receipts a year earlier. Second quarter receipts lagged receipts in FY 2001 by $5.0 million or 0.4 percent. Third-quarter receipts were higher by $20.8 million or 11.7 percent than receipts in the previous fiscal year.

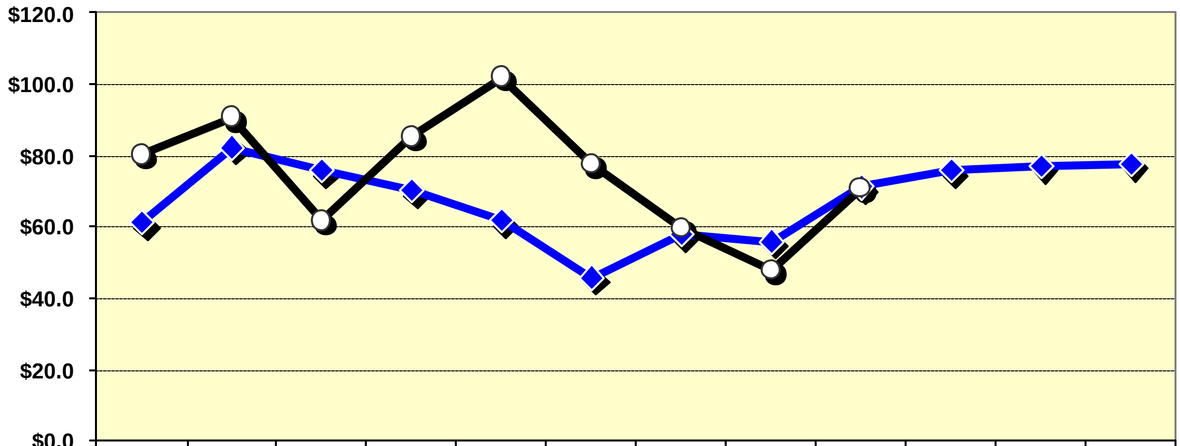
For the year to date through March 2002, non-auto sales tax receipts were at $3,792.5 million, $227.4 million (or 5.6 percent) below estimate. A month ago in February these receipts were at $3,424.6 million, 5.9 percent below estimate, and in

Chart 1
- 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	$566.7	$318.5	$368.0			

Chart 2
- 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	$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	$59.5	$47.7	$70.7			

January they were at 6.3 percent below estimate. Therefore, non-auto sales and use tax revenues may be slowly improving. Some of the improvement in the third quarter may be due to the change in tax treatment of auto leases included in H.B. 405. However, revenues from this source are still slightly lagging FY 2001 revenues. Year-to-date receipts were $21.2 million or 0.5 percent below receipts at this time last year. The U.S. Commerce Department reported that retail sales in March increased 0.3 percent from February levels. Collectively, March sales at stores open at least a year, a key industry gauge known as same-store sales, increased about 6.4 percent from a year earlier according to the Bank of Tokyo-Mitsubishi. In February, this gauge was 6.2 percent greater than a year earlier. Although these advances are tepid compared to higher retail sales growth during the previous economic boom, with three months left in this fiscal year, there is a good chance that non-auto sales tax revenues will match or surpass last year's results.

The Auto Sales Tax. Auto sales tax receipts in March were $70.7 million, or $3.6 million below estimate. Receipts were, however, 48.6 percent higher than February receipts and slightly less than auto sales tax receipts a year ago. (See Chart 2.) The mild decline tracks nationwide vehicle sales. March 2002 U.S. vehicle sales declined by 1 percent compared to March 2001. This offers encouragement that demand in the last quarter of the fiscal year may strengthen as the economy improves, as long as the strong auto incentives continue. Overall, U.S. vehicle sales in the first three months of 2002 were down 3 percent compared to the first three months of 2001. Still, the first-quarter pace of light vehicle sales this year at an annualized rate of around 16.5 million units is stunning, particularly after the record-setting previous quarter. In the year to date through March, auto sales tax revenues were $603.7 million, $80.4 million or 13.5 percent above estimate. A year earlier, auto sales tax receipts were $581.0 million at the end of March.

With one quarter left in FY 2002, total sales and use tax receipts are $4,467.0 million or $147.0 million below estimate. On the strength of auto sales tax receipts, sales and use tax receipts are $72.0 million or 1.6 percent above tax receipts a year earlier.

**Jean Botomogno also contributed to this Revenue article.*

[1] OBM derived the revenue estimates used in Tables 2 and 3 from the FY 2002 revenue projections used in the final version of H.B. 94. The state's budget has since been revised by the passage of H.B. 405 in December 2001. OBM has subsequently developed new revenue estimates incorporating the assumptions and revenue provisions of H.B. 405. These assumptions include the October 2001 revised revenue projections. The revenue changes in H.B. 405 that affect FY 2002 revenues for the most part involved a gain of $82.5 million from tax changes and up to $376 million in transfers into the GRF. The tax changes involved the sales and use tax on auto leases and the vendor discount on tobacco sales. The transfers entailed a transfer of $120 million from the Tobacco Trust Fund in FY 2002 and transfers of up to $256 million from the BSF over the biennium. In spite of these revisions, *Budget Footnotes* will continue to make comparisons vis-à-vis the original (July 2001) estimates and to use these estimates in Tables 2 and 3, making references to the revised (December 2001) estimates as appropriate.

[2] These are unofficial estimates.

[3] These variances are based on comparisons to the July 2001 estimates. Compared to the December 2001 revised estimates, March revenues were $72 million under estimate.

DISBURSEMENTS

*— Steve Mansfield**

After three quarters of a fiscal year that has involved a round of budget reductions, and with further spending cuts likely looming, the disbursement picture suggests that a few more wrinkles may develop. General Revenue Fund disbursements for the month of March (excluding transfers) were $96.2 million above the estimate, thus reducing the total year-to-date disbursement variance to $299.2 million below the estimate. When we unpack this aggregate number to 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 three of the four program categories registered negative overall disbursement variances, and that three of the four program categories posted positive disbursement variances in March. March's positive disbursement variance was led by the Welfare and Human Services program category, with virtually all of the variance being accounted for by its Health Care/Medicaid component. Of the total year-to-date negative disbursement variance of $299.2 million, $214.1 million, or 71.6 percent, is from the Education program category. Since, as we reported in our last issue, matters of timing explain a significant portion of the Education program category's year-to-date disbursement variance, we anticipate that the variance will decrease as the end of the fiscal year closes in. At the same time, we expect to see the full effect of the budget reductions required by Executive Order 2001-22T. But we will not likely end the fiscal year with an across-the-board negative disbursement variance as we also anticipate seeing the Welfare and Human Services program series closing with a relatively large overage because of higher costs in the Health Care/Medicaid program. These additional Health Care/Medicaid costs were anticipated in Am. Sub. H.B. 94 of the 124th General Assembly (the Education and Main Operating Budget bill for FYs 2002 and 2003), which provided that, with Controlling Board approval, funds from the Budget Stabilization Fund, along with matching federal Medicaid funds, could be appropriated to fund an anticipated overage.

As is our usual practice, we will examine the March and year-to-date disbursement activity by looking at these four major GRF program categories in the order of the magnitude of their contributions to the year-to-date negative disbursement variance: (1) Education, (2) Government Operations, (3) Welfare and Human Services, 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 March and year-to-date disbursement variances, respectively, by program category.

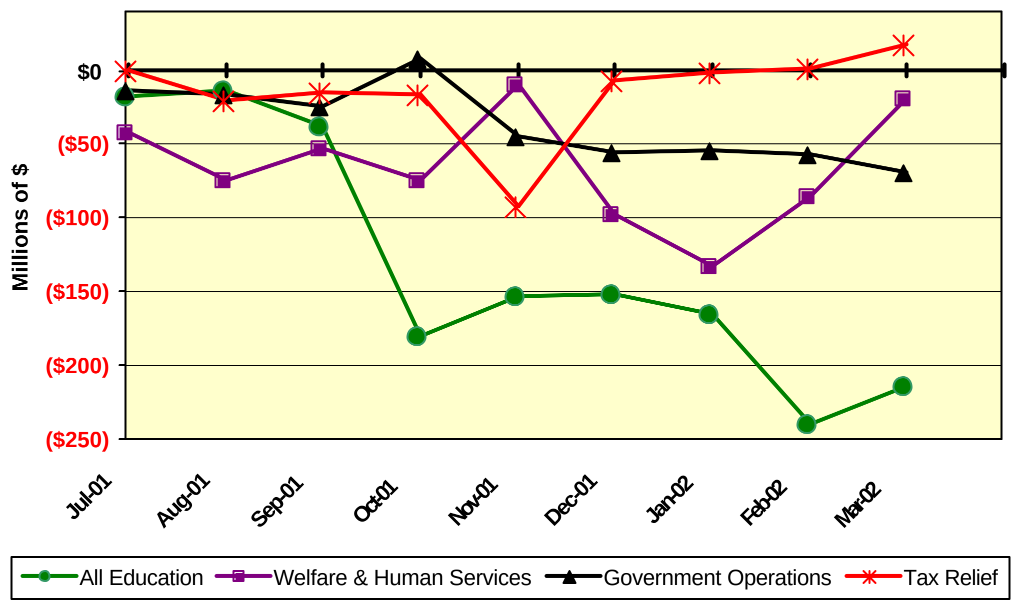
Education (-$214.1 million)

Disbursements in the Education program category were over the March estimate by $26.4 million. This was the result of a $46.7 million positive disbursement variance in Primary and Secondary Education and a partially offsetting $20.3 million negative disbursement variance in Higher Education. For the year to date, Education program category spending through March stood at $214.1 million under the estimate.

Department of Education. March's positive disbursement variance of $48.3 million reduced the department's year-to-date disbursement variance to $140.0 million below the estimate. The timing of payments was the main reason for March's overage. Last month we reported that the principal source of February's negative disbursement variance was a scheduled $61.1 million payment from line item 200-511, Auxiliary Services, that was not made in February, but rather was posted in early March. With that payment being made, line item 200-511 posted a $61.0 million overage in March. Line item 200-511 is used to provide assistance to chartered nonpublic elementary and secondary schools for nonreligious activities, including the purchase of secular textbooks, health services, programs for the handicapped, and transportation to services offered off-site. The month's overage in line item 200-511 was partially offset by a number of smaller negative disbursement variances posted in the department's budget.

When we look at the department's disbursement activity for the year to date, line item 200-511 (dis-

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



cussed above) is no longer a significant contributor to the year-to-date negative disbursement variance. The notable contributors to the department's $140.0 million year-to-date negative disbursement variance now include the following line items: (1) 200-501, Base Cost Funding ($31.3 million), (2) 200-513, Student Intervention Services ($25.1 million), (3) 200-406, Head Start ($19.2 million), and (4) 200-520, Disadvantaged Pupil Impact Aid (DPIA) ($15.7 million). The situation regarding the disbursement activity in these line items has not changed much since January's report.

Regents. In March, the Board of Regents posted a $20.3 million negative disbursement variance that was largely the result of a $16.6 million underage in line item 235-501, State Share of Instruction. Line item 235-501 provides all of Ohio's publicly assisted institutions of higher education with state support. An underage in line item 235-501 was expected since its FY 2002 appropriation authority was reduced by $99.5 million under Executive Order 2001-22T.

Year-to-date disbursement activity by the Board of Regents stands at $71.4 million below the estimate. The bulk of the year-to-date underage ($49.8 million, or 69.7 percent) is driven by the underspending posted in line item 235-501 (discussed above). The most notable item contributing to the $21.6 million remaining in the year-to-date negative disbursement variance is line item 235-590, Twelfth Grade Proficiency Stipend, which was $13.5 million under estimate at the end of March. This line item carries $19.2 million in FY 2001 encumbrances that were transferred from the Department of Education. It is used to provide a $500 scholarship to students who pass all five parts of the twelfth grade proficiency test and attend a college or university in Ohio. Amended Substitute Senate Bill 1 of the 124th General Assembly eliminated the twelfth grade proficiency test and the $500 scholarship for all students graduating after the 2000-2001 school year. Students who passed all five parts of the twelfth grade proficiency test in Spring 2001 are the last group of students who will be eligible for this scholarship. The scholarship will not be disbursed until an eligible student actually enrolls in a college or university in Ohio. Disbursement activity in this line item is slower than expected due partially to administrative problems.

Government Operations (-$70.2 million)

The Department of Rehabilitation and Correction and the Department of Administrative Services continue to be the most significant contributors to the disbursement variance in the Government Operations category. The following paragraphs briefly set out

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

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**
Primary & Secondary Education (1)	$328,423	$281,694	$46,729
Higher Education	$152,161	$172,459	($20,299)
Total Education	$480,584	$454,153	$26,430
Health Care/Medicaid	$637,457	$572,965	$64,492
Temporary Assistance to Needy Families (TANF)	$553	$0	$553
General/Disability Assistance	$8,294	$6,713	$1,581
Other Welfare (2)	$27,691	$34,479	($6,788)
Human Services (3)	$75,093	$68,128	$6,966
Total Welfare & Human Services	$749,089	$682,286	$66,803
Justice & Corrections	$164,433	$179,178	($14,745)
Environment & Natural Resources	$6,435	$6,494	($59)
Transportation	$5,945	$874	$5,071
Development	$20,000	$19,464	$535
Other Government (4)	$44,344	$48,112	($3,768)
Capital	$69	$0	$69
Total Government Operations	$241,226	$254,123	($12,897)
Property Tax Relief (5)	$35,593	$19,010	$16,583
Debt Service	$16,065	$16,801	($736)
Total Program Payments	**$1,522,556**	**$1,426,372**	**$96,184**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$3,000	$0	$3,000
Total Transfers Out	$3,000	$0	$3,000
TOTAL GRF USES	**$1,525,556**	**$1,426,372**	**$99,184**

(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 notable disbursement aspects in those respective departments.

Rehabilitation & Correction. The Department of Rehabilitation and Correction recorded a $13.3 million negative disbursement variance in March, bringing its year-to-date disbursement variance to $49.5 million below the estimate. As has been true for the last several months, the bulk of the negative year-to-date disbursement variance ($27.2 million, or 54.9 percent) 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. In March, line item 501-321 was under the estimate by $5.5 million.

Also contributing to March's negative disbursement variance was the fact that line item 501-406, Lease Rental Payments, posted a $6.7 million underage as a result of a scheduled bond sale not taking place, as had been expected. Consequently, the

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
FY 2002 To Date through March 2002
($ in thousands)

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 2001	Percent Change
Primary & Secondary Education (1)	$4,576,350	$4,718,984	($142,635)	$4,241,213	7.90%
Higher Education	$1,837,222	$1,908,692	($71,470)	$1,920,358	-4.33%
Total Education	$6,413,572	$6,627,677	($214,105)	$6,161,572	4.09%
Health Care/Medicaid	$5,540,060	$5,451,494	$88,566	$4,919,582	12.61%
Temporary Assistance to Needy Families (TANF)	$366,948	$388,009	($21,061)	$672,078	-45.40%
General/Disability Assistance	$66,236	$63,247	$2,990	$53,324	24.21%
Other Welfare (2)	$382,805	$454,889	($72,084)	$425,361	-10.00%
Human Services (3)	$888,155	$906,214	($18,059)	$874,083	1.61%
Total Welfare & Human Services	$7,244,203	$7,263,852	($19,649)	$6,944,428	4.32%
Justice & Corrections	$1,392,153	$1,450,233	($58,080)	$1,379,275	0.93%
Environment & Natural Resources	$103,975	$106,535	($2,560)	$109,231	-4.81%
Transportation	$41,416	$33,168	$8,249	$31,458	31.66%
Development	$150,401	$152,493	($2,092)	$147,353	2.07%
Other Government (4)	$322,490	$343,943	($21,453)	$314,234	2.63%
Capital	$9,050	$3,322	$5,729	$47,841	-81.08%
Total Government Operations	$2,019,485	$2,089,694	($70,208)	$2,029,391	-0.49%
Property Tax Relief (5)	$669,090	$652,406	$16,684	$608,043	10.04%
Debt Service	$201,600	$213,484	($11,883)	$175,820	14.66%
Total Program Payments	**$16,547,951**	**$16,847,113**	**($299,162)**	**$15,919,254**	**3.95%**
TRANSFERS					
Local Govt Distribution	$0	$0	$0	$0	—
Budget Stabilization	$13,104	$13,104	$0	$49,200	-73.37%
Other Transfers Out	$19,858	$13,078	$6,780	$805,025	-97.53%
Total Transfers Out	$32,962	$26,182	$6,780	$854,225	-96.14%
TOTAL GRF USES	**$16,580,913**	**$16,873,295**	**($292,382)**	**$16,773,480**	**-1.15%**

(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.

department did not owe a principal and interest payment. For the year to date, disbursements from this debt service line item are $11.1 million below the estimate.

Administrative Services. Through March, the Department of Administrative Services (DAS) posted a $12.8 million negative year-to-date disbursement variance. Approximately $7.8 million of the 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.

A significant portion of the year-to-date underage is also attributable to slower-than-anticipated reconciliation of contractor billings for several of the component line items within the department's Computer Services program series. Expenditures in this series frequently lag the estimate due to billing delays.

Welfare/Human Services (-$19.7 million)

As we see in Table 4, disbursements in the Welfare and Human Services program category were above the March estimate by $66.8 million. Table 5 shows that, for the year to date through March, disbursements in the program category stood at $19.6 million below the estimate. The following paragraphs in this section discuss the particular contributors to the year-to-date result in order of their magnitude, going first to negative disbursement variances and then to positive disbursement variances.

Job and 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 Disability Assistance, which are tracked under separate components of the Welfare and Human Services program category – fell an additional $6.8 million short of the estimate in March. This marks the eighth straight month of underages in this category. For the year to date, the underage stood at $72.1 million.

Very little has changed since last month's report regarding the largest contributors to the negative year-to-date disbursement variance in this segment of the department's budget. The five line items that are the largest contributors are, in order of magnitude, (1) 600-416, Computer Projects ($26.4 million), (2) 600-528, Adoption Services ($8.6 million), (3) 600-200, Maintenance ($7.6 million), (4) 600-437, Temporary Heating Assistance ($6.8 million), and (5) 600-504, Non-TANF County Administration ($6.6 million). Some of these underages reflect the impact of budget reductions imposed under Executive Order 2001-22T. This is particularly the case with line items 400-416, Computer Projects, and 600-620, Maintenance.

The appropriation for line item 600-528, Adoption Services, provides assistance to families that are adopting children. The amount expended from this line item depends in part on the rate of growth in adoptions in the state. The rate of growth has been lower than the department had forecast. Underlying the slower rate of growth are two factors. First, a federal policy change has impeded the use of private agencies for adoption by making families that adopted a child through a private adoption agency ineligible for an adoption subsidy. This federal policy has since been reversed. Second, the department was slower than anticipated in conducting public outreach and awareness activities. These activities tend to influence the adoption rate.

TANF. The year-to-date negative disbursement variance in GRF spending in the Temporary Assistance to Needy Families (TANF) program was reduced slightly to $21.1 million in March. The bulk of the year-to-date underage is registered in line item 600-411, TANF Federal Block Grant, with spending of prior-year funds being $18.1 million below the estimate. Of this amount, $9.5 million was canceled under Executive Order 2001-22T. Beginning with the current fiscal year, the TANF Block Grant is no longer a component of the GRF.

With the other GRF sources of TANF funds now nearly 100 percent disbursed, the bulk of TANF spending ($60.0 million) in March was from non-GRF federal TANF funds.

Also in March, cash assistance benefits totaled $27.0 million. The number of TANF cash assistance recipients increased by about 1,000 to stand at about 201,500. The lowest number of TANF recipients in Ohio was recorded in September 2001 at just under 195,000.

Mental Retardation. Very little has changed in the disbursements story for the Department of Mental Retardation and Developmental Disabilities – only the numbers have changed since last month's report. The department closed March with a $19.4 million negative year-to-date disbursement variance. As has been the case for several months, the bulk of the negative disbursement variance ($12.6 million from current-year funds and $5.1 million from prior-year funds) stems from line item 322-413, Residential and Support Services, reflecting factors that affect the processing of payments to service providers.

Health Care/Medicaid. Year-to-date disbursement activity through March in the Health Care/Medicaid program (primarily line item 600-525) stood at $88.6 million, or 1.6 percent, over the estimate of $5.45 billion. In March, the program recorded a $64.5 million positive disbursement variance.

Am. Sub. H.B. 94 of the 124th General Assembly anticipated additional costs in the Health Care/Medicaid program. As previously noted, the bill provided

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

Service Category	March Actual	March Estimate	March Variance	March Percent Variance	Year-to-Date Spending Actual thru' March	Year-to-Date Spending Estimate thru' March	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Facilities	$171,666	$187,136	($15,470)	-8.3%	$1,783,652	$1,818,003	($34,351)	-1.9%
ICF/MR	$29,686	$31,361	($1,675)	-5.3%	$299,617	$304,545	($4,928)	-1.6%
Hospitals	$158,878	$129,605	$29,273	22.6%	$1,162,186	$1,239,752	($77,565)	-6.3%
Inpatient Hospitals	$110,967	$94,409	$16,558	17.5%	$822,796	$901,046	($78,251)	-8.7%
Outpatient Hospitals	$47,912	$35,196	$12,716	36.1%	$339,391	$338,705	$685	0.2%
Physicians	$45,888	$36,979	$8,909	24.1%	$353,880	$352,469	$1,412	0.4%
Prescription Drugs	$85,840	$77,679	$8,161	10.5%	$761,246	$757,189	$4,056	0.5%
Payments	$106,990	$98,828	$8,161	8.3%	$930,442	$926,382	$4,060	0.4%
Rebates	($21,149)	($21,149)	$0	0.0%	($169,197)	($169,193)	($4)	0.0%
ODJFS Waivers[1]	$13,136	$12,375	$760	6.1%	$120,537	$116,314	$4,223	3.6%
HMO	$53,056	$48,072	$4,985	10.4%	$429,953	$399,746	$30,206	7.6%
Medicare Buy-In	$11,391	$10,789	$602	5.6%	$98,753	$95,412	$3,341	3.5%
All Other[2]	$63,220	$47,792	$15,427	32.3%	$496,515	$453,648	$42,867	9.4%
DSH offset	$0	$0	$0		$0	$0	$0	
Total ALI 600-525	**$632,762**	**$581,789**	**$50,973**	**8.8%**	**$5,506,339**	**$5,537,078**	**($30,739)**	**-0.6%**
FMAP	58.94%	58.94%			58.94%	58.94%		
Est. Federal Share	$372,950	$342,906	$30,043		$3,245,436	$3,263,554	($18,117)	
Est. State Share	$259,812	$238,882	$20,930		$2,260,903	$2,273,524	($12,621)	
BSF Shortfall[3]	$0	($12,705)			$0	($120,226)		
Total ALI 600-525 Disb.	**$632,762**	**$569,084**	**$63,678**	**11.2%**	**$5,506,339**	**$5,416,852**	**$89,487**	**1.7%**
Est. Federal Share	$372,950	$335,418	$37,532		$3,245,436	$3,192,693	$52,744	
Est. State Share	$259,812	$233,666	$26,146		$2,260,903	$2,224,160	$36,743	
Children's Health Insurance Plan (CHIP-II), ALI 600-426[4]								
Total ALI 600-426	**$4,696**	**$3,882**	**$814**	**21.0%**	**$33,720**	**$34,641**	**($921)**	**-2.7%**
Enhanced FMAP	71.19%	71.19%			71.19%	71.19%		
Est. Federal Share	$3,343	$2,763	$579		$24,005	$24,661	($656)	
Est. State Share	$1,353	$1,118	$234		$9,715	$9,980	($265)	
Total Health Care	**$637,457**	**$585,670**	**$51,787**	**8.8%**	**$5,540,060**	**$5,571,719**	**($31,660)**	**-0.6%**
Total Hlth Care w/o BSF	**$637,457**	**$572,965**	**$64,492**	**11.3%**	**$5,540,060**	**$5,451,494**	**$88,566**	**1.6%**

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-year encumbrances.
3. The budet estimate assumed $65 million of the Budget Stablilzation Fund (BSF) will be used to increase the appropriation in line item 525 by $158 million, all funds in SFY 2002.
4. This portion of the table only includes CHIP-II spending through Job & Famiily Services' 600-426 line item.

CHIP-II, effective 7/1/2000, provides helath care coverage for children under age 19, with family incomes between 150-200% of FPL.

Note: Due to accounting differences, 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.

a funding mechanism to meet an anticipated overage.

These concerns are now materializing. In addition to increased costs that can be traced to medical inflation and program expansions, the Medicaid caseload has also increased due to the economic recession. The total number of Medicaid eligibles now stands at 1,457,343, an increase of nearly 16,000 since February, and 130,000 since last June. The caseload figure is nearly 72,000 higher than was forecast for this point in the fiscal year. Recipients in the Covered Families and Children (CFC) category account for over 90 percent of the number exceeding the forecast. The number of CFC recipients stands at 1,069,790, and the number of Aged, Blind,

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 Mar. '02	FY 2001[1] Yr.-to-Date as of Mar. '01	Dollar Change	Percent Increase
Nursing Facilities	$1,783,652	$1,695,531	$88,120	5.2%
ICF/MR	$299,617	$285,849	$13,768	4.8%
Hospitals	$1,162,186	$1,091,049	$71,137	6.5%
Inpatient Hospitals	$822,796	$791,640	$31,156	3.9%
Outpatient Hospitals	$339,391	$299,409	$39,981	13.4%
Physicians	$353,880	$299,097	$54,783	18.3%
Prescription Drugs	$761,246	$630,680	$130,566	20.7%
Payments	$930,442	$771,323	$159,119	20.6%
Rebates	($169,197)	($140,643)	($28,554)	20.3%
ODJFS Waivers[2]	$120,537	$103,061	$17,476	17.0%
HMO	$429,953	$308,556	$121,397	39.3%
Medicare Buy-In	$98,753	$99,268	($515)	-0.5%
All Other[3]	$496,515	$385,858	$110,658	28.7%
DSH offset	$0	$0	$0	
Total (600-525)	**$5,506,339**	**$4,898,950**	**$607,389**	**12.4%**
Estimated Federal Share[4]	$3,245,436	$2,874,214	$371,222	12.9%
Estimated State Share	$2,260,903	$2,024,736	$236,167	11.7%

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

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

and Disabled (ABD) recipients stands at 387,553. Although the ABD population is smaller than the CFC population, it still accounts for over half of all Medicaid expenditures.

As we have stated in previous monthly reports, the role that particular service categories play in producing each month's disbursement variance is difficult to determine because the total estimate reached by adding all the service categories together differs from the original disbursements 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 program's 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 adjusts 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 the year-to-date total disbursement variance in the service categories plus the Children's Health Insurance Plan (CHIP) program is $31.7 million *under* the estimate, whereas when the BSF and matching federal funds are removed from consideration, the year-to-date disbursement variance is $88.6 million *over* the estimate.

Some useful information, however, can still be gleaned in Table 6 from the disbursement variances that are based on "budgeted" service category estimates, including anticipated BSF and matching federal funds, as opposed to the original estimates that were based on appropriated amounts. Whereas in previous months the Nursing Home, Intermediate Care Facilities for the Mentally Retarded (ICF/MR), Hospitals, Physicians, and Prescription Drugs service categories had been posting year-to-date negative disbursement variances against the "budgeted" estimates, the Physicians and Prescription Drugs service categories have now joined ranks with the remaining service categories that are posting year-to-date overages.

The year-to-year comparison data in Table 7 show that the Prescription Drugs, HMO, and All Other service categories continue to noticeably outpace spending at the same point in time during the previous year.

Mental Health. As noted in prior reports, the main source of disbursement variances in the budget of the Department of Mental Health seems to be the discretion that county mental health boards exercise in drawing down subsidy payments, particularly from line item 334-408, Community and Hospital Mental Health Services. The timing of current payments can differ a great deal from the prior-year pattern that served as the basis for the FY 2002 disbursement estimates. Also not accounted for in this year's estimates for the department was an innovation in the timing of GRF fund transfers from line item 334-408 related to its Multi-Agency Community Services Information System (MACSIS) billing system. March's disbursements from line item 334-408 were $4.3 million above the estimate. This line item accounts for $24.7 million, or 91.7 percent, of the department's $27.0 million positive year-to-date variance.

Tax Relief ($16.7 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 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 rollbacks/ exemptions, and tangible tax exemptions.

Disbursement activity in March accounts for nearly all of the year-to-date disbursement variance in the Property Tax Relief program. For March, disbursements from line item 200-901, Property Tax Allocation, in the Department of Education were over the estimate by $22.8 million, while disbursements from line item 110-091, Property Tax Allocation, were under the estimate by $6.2 million. These variances are solely the product of when counties submit their tax reports to the state.

**LSC colleagues who contributed to the development of this disbursement report included, in alphabetical order, Melaney Carter, Ivy Chen, Nelson Fox, Chris Murray, David Price, Nicole Ringer, Joseph Rogers, Maria Seaman, and Holly Simpkins.*

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS THIRD QUARTER, FY 2002

— Jean Botomogno

Ticket Sales

Super Lotto Plus sales were again the main story in the third quarter of FY 2002. This game ended the quarter with a five-week "roll" in which no one claimed the top prize,[1] helping boost overall ticket sales and profits. The Ohio Lottery also increased the number of weekly drawings for Buckeye 5 from four days to six days a week, hoping to slow declining sales in that game. From a high of $12.4 million in July 1992, this game has averaged monthly sales of $6.0 million in FY 1999, $5.5 million in FY 2000, and $4.9 million in FY 2001.

In the third quarter of FY 2002, total ticket sales were $493.8 million, or 1.1 percent higher than in the previous quarter. Instant ticket sales were $256.8 million, $19.9 million or 8.4 percent higher than On-line ticket sales in the third quarter. Instant ticket sales are traditionally the strongest in the second quarter of the fiscal year due to the large number of Instant games offered by the Ohio Lottery during the holiday season. Third-quarter Instant ticket sales were 2.2 percent lower than sales in the second quarter. Conversely, On-line ticket sales in the third quarter at $236.9 million were 5.0 percent higher than second-quarter sales.

Third-quarter On-line ticket sales were greatly helped by a long Super Lotto roll at the end of February and into March. There was no winner during the entire month of March from a roll that started February 27, 2002. Super Lotto ticket sales in the third quarter were $66.0 million, 10.2 percent higher than second-quarter Super Lotto ticket sales. However, this amount is well below sales that reached $84.2 million in the first quarter of FY 2002. The story is identical for Kicker. Kicker sales have somewhat rebounded in the third quarter to $10.7 million, 9.0 percent higher than second quarter Kicker sales of $9.8 million. First-quarter Kicker sales were $12.3 million.

Table 1 shows quarterly ticket sales per game in FY 2002. Total sales have increased each quarter. Total sales were $479.3 million in the first quarter, $488.4 million in the second, and $493.8 million in the third. Kicker, Buckeye 5, and Super Lotto have had seesawing sales, up one quarter and down the next. Only Pick 3 and Pick 4 sales have increased each quarter this fiscal year.

Compared to third-quarter results a year ago, total sales in FY 2002 declined $6.4 million or 1.3 percent. On-line and Instant games both contributed to the decline by about the same amount (approximately $3.2 million). Upon closer analysis of On-line games, Pick 3 was responsible for the decrease in third-quarter On-line and total ticket sales when compared to third-quarter sales a year earlier. Pick 3 declined $3.5 million or more than half the decline in total sales. Super Lotto and Pick 4 sales increased $0.4 million and $0.5 million, respectively. Kicker sales lagged $0.1 million and Buckeye 5 sales declined $0.4 million.

Table 1: FY 2002 Quarterly Lottery Ticket Sales by Games, in Millions of Current Dollars

Quarter	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Instants	On-line	Total
Q1	$99.6	$37.2	$12.3	$13.9	$84.2	$232.1	$247.2	$479.3
Q2	$102.3	$39.5	$9.8	$14.2	$59.9	$262.6	$225.7	$488.4
Q3	$106.4	$39.9	$10.7	$14.0	$66.0	$256.8	$236.9	$493.8
Total	$308.3	$116.5	$32.9	$42.1	$210.1	$751.6	$709.9	$1,461.5

Totals may not add up due to rounding.

Table 2: FY 2002 Quarterly Lottery Ticket Sales and Transfers to LPEF, In Millions of Dollars						
Quarter	Ticket Sales	Projected Transfers	Actual Transfers	Dollars Variance	Percent Variance	Transfers as a Percent of Sales
Q1	$479.3	$151.0	$148.4	-$2.7	-1.8%	31.0%
Q2	$488.4	$158.5	$148.5	-$10.0	-6.3%	30.4%
Q3	$493.8	$150.6	$151.5	$1.0	0.6%	30.7%
Total	$1,461.5	$460.1	$448.4	-$11.7	-2.5%	30.7%

For the year to date through March, total lottery ticket sales were $1,461.5 million, $14.4 million or 0.8 percent higher than sales through March in FY 2001. On-line ticket sales were $16.7 million (or 1.8 percent) higher while Instant ticket sales were $2.3 million (0.2 percent) lower. Super Lotto ticket sales were ahead of sales a year ago by $20.3 million or 7.7 percent. The increase in total ticket sales from quarter to quarter in FY 2002 does not necessarily portend an increase in sales over FY 2001. After a strong first quarter when both types of games (On-line and Instants) grew compared to FY 2001 sales, lottery ticket sales have trended lower in the second quarter and again in the third quarter of FY 2002. First-quarter FY 2002 sales were 3.2 percent higher than first-quarter FY 2001 sales. Second-quarter sales were higher as well, by 1.3 percent. However, third-quarter sales were 1.3 percent lower than sales in the same period in FY 2001. With one quarter to go, Lottery ticket sales are struggling to keep pace with last year's sales. The last quarter of the fiscal year started on a good note, with brisk Super Lotto sales from huge jackpots of up to $75.0 million (April 14, 2002), and the addition of the Big Game will add to ticket sales.

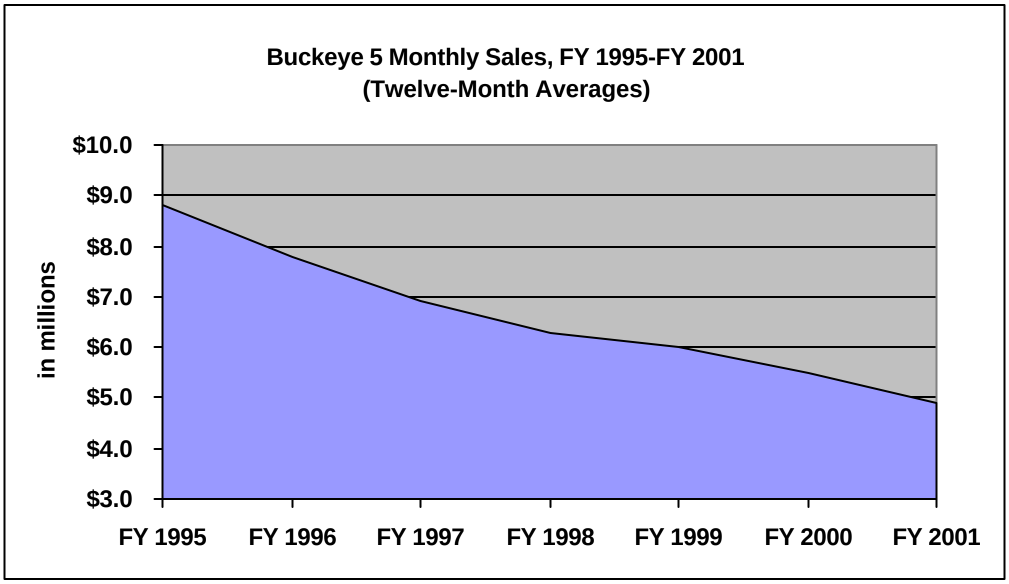
Transfers to LPEF

Table 2 summarizes transfers from operations to the Lottery Profits Education Fund (LPEF). Transfers for the third quarter of FY 2002 were $151.5 million, up $3.0 million or 2.0 percent from second-quarter transfers. Transfers were also slightly higher than projected, due to a profitable month of March, which had no winners in the Super Lotto drawings. The Ohio Lottery had anticipated transferring $150.5 million in the third quarter. Compared to transfers in the third quarter of FY 2001, transfers to LPEF from operations in the third quarter were up $6.6 million or 4.6 percent.

For the year to date through March 2002, transfers from operations to LPEF were $448.4 million, $11.7 million or 2.5 percent below projected transfers from operations. Current transfers are 73.7 percent of total transfers expected for FY 2002. Transfers through March 2002 were also $15.9 million or 3.4 percent below transfers during the same period last year.

The Ohio Lottery is expecting to join the Big Game (which will become Mega Millions) on May 15, 2002. This participation is dependent on the other eight participating states[2] accepting Ohio's application, and on the outcome of a legal challenge against the state's participation in multijurisdictional games. The entry of additional states into the Big Game modifies its matrix, which almost doubles the odds of winning the top prize to 135 million-to-one from about 76 million-to-one. The Big Game/Mega Millions will require a ticket purchaser to match five balls out of a group of 52, and to draw a single "Gold Mega Ball" from a separate batch of 52 balls. The entry of Ohio into the Big Game/Mega Millions will impact Lottery sales in several ways. Super Lotto ticket sales are expected to decline by 10 to 15 percent because its top prize will be relatively unexciting to players.[3] This loss in Super Lotto sales will be more than compensated by ticket sales for the Big Game. Other games could also be affected positively or negatively by the new game. Total ticket sales will increase with the addition of a new game within the state. Also, large jackpots from the Big Game will help recapture some of the gaming dollars currently leaking into Powerball states (Kentucky, Indiana, West Virginia, and Pennsylvania) due to existing cross-border sales. Also depending on the jackpot level in the Big Game/Mega Millions, the Ohio Lottery will benefit from sales to out-of-state players. The Big Game/Mega Millions is expected to increase Ohio Lottery ticket sales by at least $20 million this fiscal year and $240 million in FY 2003.

The next chart illustrates the decline in Buckeye 5 monthly sales in the last few fiscal years. To eliminate monthly variations, the chart uses 12-month averages.



From average monthly sales of $12.0 or $11.0 million at the start of this game in FY 1992, sales gradually declined to an average of $4.9 million in FY 2001. Sales have been about $4.7 million per month for the first nine months of FY 2002. By increasing the number of drawings from four to six per week, the Ohio Lottery is hoping to stabilize Buckeye 5 sales between $4.7 and $5.0 million in the next few fiscal years. Changes such as those implemented for Buckeye 5 reflect the need for "mature" lotteries to regularly modify "old" On-line games to maintain interest in the games or profit levels. This is usually done by increasing the number of weekly or daily drawings to improve total sales, or by increasing the odds of winning the top prizes, which improves profits. Super Lotto was the last On-line game to be substantially changed by the Ohio Lottery. It became Super Lotto Plus in July 2000.

---

[1] A roll is a period of continuous drawings without a winner for the top prize.

[2] The current participating states are Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, and Virginia. Washington is also applying to the Big Game/Mega Millions, which will give the multistate game a total of ten states.

[3] Some of the players who currently purchase Super Lotto tickets will buy instead the multistate game because of the larger jackpot in the Big Game. Also, players who were occasionally lured by high Super Lotto prizes will be lost due to the introduction of the Big Game. The Ohio Lottery will also probably make some changes to the Super Lotto matrix following the probable entry into the Big Game/Mega Millions.

LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS THIRD QUARTER, FY 2002

¾ *Sara Doddy*

Lottery Profits Education Fund (LPEF) disbursements so far in FY 2002 total $403.6 million. Nearly all of this amount ($399.0 million) 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 $399.0 million of lottery profits spending is combined with GRF appropriation item 200-501, Base Cost Funding ($3,189.9 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 ($3,588.9 million) represents 58.9 percent of the Department of Education's disbursements for this year.

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 sixth grade. So far in FY 2002, approximately $3.7 million (46 percent) has been disbursed from this appropriation item.

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. Of that balance, $8.0 million was transferred, in the manner noted above, to appropriation item 228-603, SchoolNet Plus Supplement, in FY 2002. Nearly $1 million has been disbursed from this appropriation item this fiscal year.

Table 1: FY 2002 LPEF (017) and LPERF (018) Appropriation/Disbursement Summary
As of March 29, 2002

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	$ 399,000,000	$ 0	$ 205,000,000
EDU	017	200-682	Lease Rental	$ 29,722,100	$ 0	$ 0	$ 29,722,100
NET	017	228-603	SchoolNet Plus Supplement	$ 8,000,000	$ 3,684,511	$ 0	$ 4,315,489
NET	017	228-690	SchoolNet Electrical Infrastructure	$ 1,343,621	$ 888,260	$ 0	$ 445,360
			Total LPEF	**$ 643,065,721**	**$ 403,573,131**	**$ 0**	**$ 239,492,590**
SFC	018	230-649	Disability Access Project	$ 1,300	$ 0	$ 0	$ 1,300