Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION MAY, 2002

FISCAL OVERVIEW

— Doris Mahaffey

April did very little to brighten the state's budget picture. Not only were April tax revenues significantly under estimate, their dismal performance led to yet another downward revision of revenue projections for both FY 2002 and 2003.

The first revision was projected by the Office of Budget and Management (OBM) in October 2001. At that time OBM reduced its revenue estimates for the biennium, projecting a $700 million revenue shortfall in FY 2002 and a $760 million shortfall in FY 2003. At the same time, the Governor issued Executive Order 2001-22T, calling for substantial reductions in spending. In December 2001, the legislature passed H.B. 405, which provided some revenue enhancements and some additional appropriation reductions in hopes of eliminating the emerging budget deficit. However, state revenues continued to erode, falling below the revised projections of October 2001. January personal income tax revenues were particularly disappointing with estimated payments coming in over $100 million or 22 percent below estimate. The shortfall was largely due to the anemic performance of the stock market for the last year and a half, which greatly reduced capital gains – the gravy that had been responsible for a significant chunk of the budget surpluses of the last half of the 1990s. The brief but bitter recession of 2001 aggravated the situation by dampening profits of individuals, partnerships, and other pass-through entities, further reducing estimated payments.

When in March it became clear that income tax and corporate franchise tax revenues were not going to meet the October revenue projections (and that no other revenue source was going to emerge to plug the new hole), OBM projected a new revenue shortfall of $500 million in FY 2002 and $750 million in FY 2003. At the beginning of May, LSC projected revenue shortfalls in FY 2002 and 2003 of $750 million and $1 billion, respectively. The Director of OBM testified before the House Finance Committee in support of the LSC revised estimates.

The main culprit behind the dismal revenue projection continues to be the personal income tax. In April alone personal income tax receipts came in $150 million under estimate (compared to original July 2001 OBM estimates). They are $676 million under for the year. All major components of personal income tax receipts (withholding, annual returns, quarterly estimated payments, and refunds) have contributed to the shortfall.

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Budget Footnotes is issued periodically by the fiscal staff of the Legislative Service Commission (LSC), a non-partisan 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 43266

Telephone: 614/466-3615

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

	Month of April	Fiscal Year 2002 to Date	Last Year	Difference
Beginning Cash Balance	($1,449.5)	$817.1		
Revenue + Transfers	$2,228.8	$16,543.1		
Available Resources	$779.2	$17,360.1		
Disbursements + Transfers	$1,978.1	$18,559.0		
Ending Cash Balances	($1,198.9)	($1,198.9)	($115.2)	($1,083.8)
Encumbrances and Accts. Payable		$447.0	$468.0	($21.0)
Unobligated Balance		**($1,645.9)**	**($583.2)**	**($1,062.7)**
BSF Balance		$1,002.6	$1,002.5	$0.1
Combined GRF and BSF Balance		**($643.3)**	**$419.3**	**($1,062.6)**

Receipts from the non-auto sales tax and the corporate franchise tax have both contributed to the revenue shortfall. Non-auto sales tax receipts were $8.8 million under for the month. They have been under estimate nearly every month this fiscal year, resulting in a year-to-date shortfall of $236 million. The good news is that the monthly shortfalls appear to be lessening. However, revenues from the non-auto sales tax are still likely to end the year lower than in FY 2001.

Corporate franchise tax receipts were $51 million over for the month, but the overage does not totally compensate for the $117 million shortfall last month. For the year to date, corporate franchise tax revenues are $201 million under estimate. Of the shortfall, $92 million is due to net refunds in the July-to-December period, and $109 million is largely due to payments on tax year 2001 liability.

Shortfalls in these three revenue sources have been partially offset by overages in revenues from the auto sales tax, the public utility excise tax, federal grants, and the transfers-in category. Year-to-date revenues from the auto sales tax are an astounding $100 million – or 15 percent – over estimate.

Federal reimbursements are finally catching up with the Medicaid overage. Am. Sub. H.B. 94, the general appropriations bill for the FY 2002-2003 biennium, created a separate non-General Revenue Fund (GRF) fund for federal Temporary Assistance for Needy Families (TANF) reimbursements, so that now nearly all the GRF federal reimbursements are for Medicaid. Even without the TANF money, year-to-date GRF federal revenues are 6.45 percent greater than they were over the same period last year.

April disbursements did nothing to improve the state's budget picture. Disbursements were $123 million over estimate for the month. Spending in all major program categories was over estimate. Overages in property tax relief, primary and secondary education, Medicaid, and justice and corrections were particularly significant. However, with the exception of Medicaid, most of these overages may be attributed to timing issues. On a year-to-date basis most program categories are under estimate.

At $114 million under estimate, primary and secondary education has the largest year-to-date underage. Even so, year-to-date spending is up 9 percent over year-to-date April 2001 spending. The current underage in primary and secondary education is largely in areas affected by calculations of student enrollment (also known as average daily membership or ADM). Until recently the Department was still basing payments to school districts on last year's ADM figures. It has now begun to use updated ADM numbers, so the current spending underage may be expected to decline.

Year-to-date spending on higher education – the other component of the education spending category – is $89 million under estimate; it is 5 percent less than April 2001 year-to-date spending.

The most significant overage is in the Medicaid program. Year-to-date spending is $112 million over estimate. It is also up 12.8 percent over April 2001 year-to-date spending. Increased costs and program expansion are driving the Medicaid overage. The rising costs are attributable to both medical inflation and increasing caseloads, due to the recession.

Spending in the property tax relief program is also significantly over estimate. This is most likely a timing issue. As local governments are feeling the pinch of reduced revenues, they are processing property tax relief claims more quickly.

Total GRF income for the month was $2.2 billion. That was $250 million over April disbursements, resulting in a slight improvement in the state's fund balance. However, the unobligated GRF balance is still in seriously negative territory. As Table 1 shows, there is not enough cash in the Budget Stabilization Fund (BSF) to eliminate the current deficit in the GRF. Thus, if revenues do not pick up, spending on nonessential items will have to be either curtailed or delayed.

If last year's experience is any guide, there may be some hope. In May and June of 2001 total revenues exceeded total disbursements by $932 million. (The surplus was largely due to federal reimbursements, which were $335 million over estimate in the last two months of FY 2001.) If revenues and expenditures in May and June of 2002 were to match last year's performance, then the state would have adequate reserves in the BSF to cover the remaining shortfall. Unfortunately, much of the state's revenue is received late in the month, so that it often is not possible to gauge how well the state is doing in any month until the month ends.

TRACKING THE ECONOMY

— Ross Miller

Production increased strongly in the first quarter nationally, despite weakness in the labor market that continues unabated. Real (i.e., inflation-adjusted) gross domestic product (GDP) increased by 5.6 percent[1] in the first quarter of 2002, according to the preliminary estimate of the U.S. Bureau of Economic Analysis. The biggest single contributor to this increase was the change in private inventories, which contributed 3.5 percentage points - i.e., over half - of the overall growth. The dramatic swing from businesses reducing inventories to increasing them is very welcome, but it is not a sustainable source of economic growth. Inventory swings like this may last for up to three or four quarters. After that, final demand from consumers, businesses, or governments (or some combination of these) is required to sustain sales, and therefore production.

Consumer spending (i.e., personal consumption expenditures) contributed another 2.3 percentage points of GDP growth. The growth in consumer spending was more moderate than in the fourth quarter (2001 Q4), but higher than in any of the four quarters preceding that. Should consumer spending continue to increase at similar rates, that would provide a firm basis for continued economic expansion in coming months. Recent "Tracking the Economy" articles have pointed out that household debt as a percentage of income is close to record levels, a fact that is likely to restrain consumer spending. Nevertheless, there is no indication yet of a slowdown in consumer spending. On the contrary, U.S. retail and food services sales in April were 4.0 percent higher than in April of 2001 according to the U.S. Department of Commerce, and in May the University of Michigan's consumer sentiment survey hit its highest level since December of 2000.

The Labor Market View

Unfortunately, growth in production has not yet been accompanied by significant employment growth. The unemployment rate rose to 6.0 percent in the U.S. in April after seasonal adjustment, according to the U.S. Bureau of Labor Statistics (BLS), up from 5.7 percent in March. Total nonfarm payroll employment did increase by 43,000 in April after seasonal adjustment, but given the size of the U.S. labor market (over 131 million employed workers), the BLS characterized payroll employment as "essentially flat" for the three-month period ending in April. This recent experience could be taken as an indication that the labor market has hit bottom and that employment may begin growing soon. This remains to be seen, of course, but that is in fact how economic forecasting firm DRI-WEFA takes it. DRI-WEFA forecasts that U.S. employment will grow slightly in 2002 Q2, and accelerate somewhat in the third and fourth quarters.

In Ohio, the unemployment rate was 5.8 percent in April after seasonal adjustment, according to the Ohio Department of Job and Family Services (JFS). The unemployment rate was unchanged from the rate for March (which was revised upward from an initial estimate of 5.7 percent). Ohio's total nonfarm payroll employment fell by 13,300 (approximately 0.2 percent of total payroll employment) in April after seasonal adjustment. During the 12 months ending in April 2002, Ohio payroll employment fell by 59,600 jobs, or about 1.1 percent. About 60 percent of these job losses were in manufacturing industries. Unfortunately, DRI-WEFA forecasts that employment in Ohio will lag behind the nation as a whole, with Ohio employment beginning to grow in 2002 Q3. Despite this pessimistic forecast for Ohio, the Cleveland Federal Reserve Bank has reported that the demand for temporary labor has increased in the bank's district (which includes all of Ohio, western Pennsylvania, and eastern Kentucky). This provides a reasonable basis for hope that a turnaround in the broader labor market is imminent.

Average weekly U.S. earnings increased by 3.1 percent during the year ending in April, according to the BLS. After adjusting for inflation using the CPI-W,[2] real weekly earnings increased by 1.8 percent during that period. Labor productivity shot up a remarkable 8.6 percent in the first quarter, providing a very solid basis for both future wage increases and future profit growth. This is a very sharp increase in productivity, even allowing for the fact that productivity typically rebounds during business cycle recoveries.

No Looming Threat of Inflation

Inflation still shows little sign of accelerating. The consumer price index for all urban consumers (CPI-U) increased by a seasonally adjusted 0.5 percent in April, after increasing by 0.3 percent in March. Annualizing the increase over these two months yields an inflation rate of 4.9 percent, which seems like a cause for concern. Yet a comparable calculation of the index excluding food and energy, which are the most volatile components of the index, yields an annualized inflation rate of 2.4 percent - a rate that most analysts would consider moderate. Moreover, the producer price index (PPI) actually fell in April. The PPI might be viewed as a barometer of inflationary pressure in the supply chain, and thus as a predictor of forthcoming changes in the CPI-U. Richard DeKaser, chief economist at National City Corp. in Cleveland, interprets the drop in PPI as giving the Federal Reserve "more latitude to forestall an inevitable rate hike," according to the Reuters news service.

The Federal Reserve Beige Book

On April 24, the Federal Reserve (Fed) published its Beige Book, a description of current economic conditions; the Cleveland Fed contributes an analysis of economic conditions in its district (described above). The Cleveland Fed reports that business conditions in the construction industry, both residential and commercial, are favorable and that industry contacts expect them to remain so in coming months. The trucking and shipping industry is shipping a greater volume of manufactured goods, but "improvements in volumes shipped for most other goods were, at best, very modest." Business conditions in manufacturing are reported to be improving, especially in the southern part of the district. Conditions in the auto and steel industries in particular seem to be improving, with workers in the auto industry working more overtime. Rounding out this generally positive picture, bank lending is increasing, although this is apparently due more to strong demand for consumer loans and mortgage loans than to demand for commercial loans.

Exchange Rates May Give Manufacturers a Break

U.S. manufacturers have had a difficult couple of years. In addition to facing a recession that hit their sector particularly hard, they have been faced with a significant decline in their competitors' costs. Fed data show that the euro was about 17 percent weaker against the dollar in April than it had been three years earlier, while the yen was about 9 percent weaker than it had been three years earlier. To the extent that Japanese and U.S. manufacturers base production domestically, this means that the costs of Japanese firms fell by 9 percent relative to U.S. manufacturers. Similarly, the costs of manufacturers based in countries that adopted the euro as a currency fell by 17 percent relative to U.S. firms' costs.

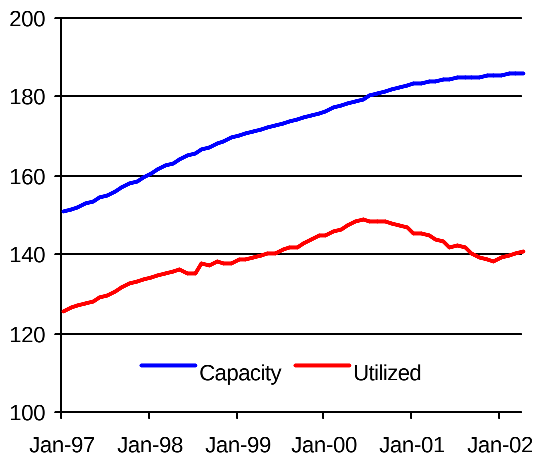
The dollar has fallen (a bit) in value already, though. The Fed's monthly data show that it reached a peak value in February; since then it has lost some value against the other two main world currencies.[3] This is not an unambiguously good thing for the U.S. economy: when the dollar loses value that makes inflation higher than it would otherwise be, for example. But if the trend continues, it will provide more relief for manufacturers, both nationally and here in Ohio. Economists on the Governor's Council of Economic Advisors are split on the question of whether the dollar will continue to decline or reverse course. The foreign exchange markets are similarly split: futures market prices quoted in the May 20 edition of *The Wall Street Journal* imply that the market expects the dollar to lose about 1.5 percent of its value against the yen by December, but that the dollar will gain about 1.4 percent in value against the euro over the same time period.

Oil Prices Are Still Worth Watching

The biggest single risk to the recovery is probably oil prices. The price of one grade of crude oil - West Texas Intermediate - rose above $29 per barrel on May 14. U.S. commercial inventories of oil are almost ten million barrels below their levels of one year ago, after having been 40 million barrels above their year-ago levels as recently as March 1. While gasoline prices have risen, the increases have probably been somewhat more moderate than oil price increases to date. Gasoline inventories are above their levels of a year ago. The U.S. Energy Information Administration speculated in its publication *This Week in Petroleum* that oil companies may cut refining production in order to boost inventories of crude oil. The result of such a business decision would likely be lower inventories of gasoline, which in turn could produce higher gasoline prices.

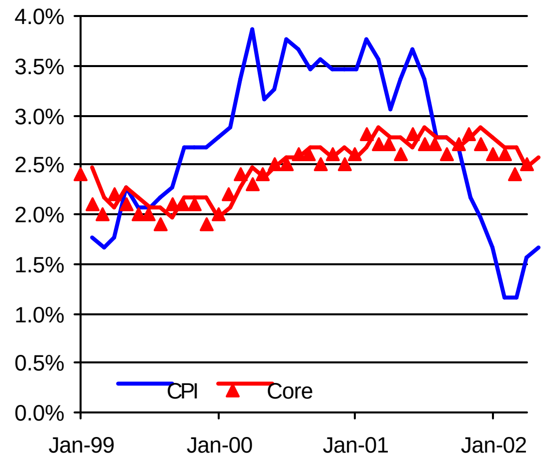
The DRI-WEFA economic forecast is based on oil prices "retreating" over the summer. Should that prove incorrect it may not be a major problem. Last month's "Tracking the Economy" article discussed the results of DRI-WEFA's simulation of the effect of oil prices reaching $30 to $33 per barrel, and the result was a slight reduction in economic growth, not a return to recession. Should oil prices break the $30 level and remain there for an extended period, we will have to hope that analysis is correct.

Exhibit 1: U.S. Industrial Capacity



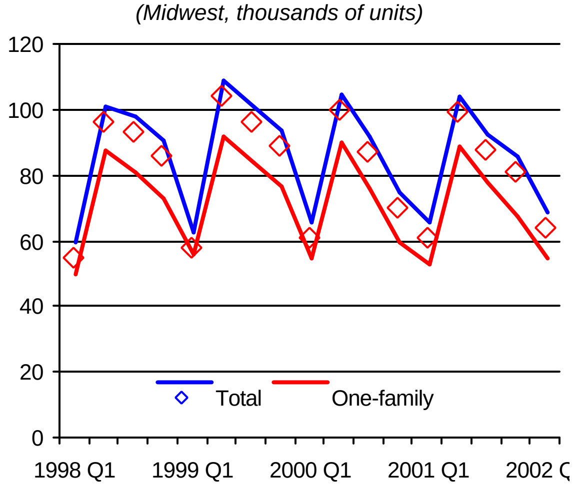
Source: Federal Reserve

Exhibit 2: Consumer Price Indices
(percentage changes from one year earlier)



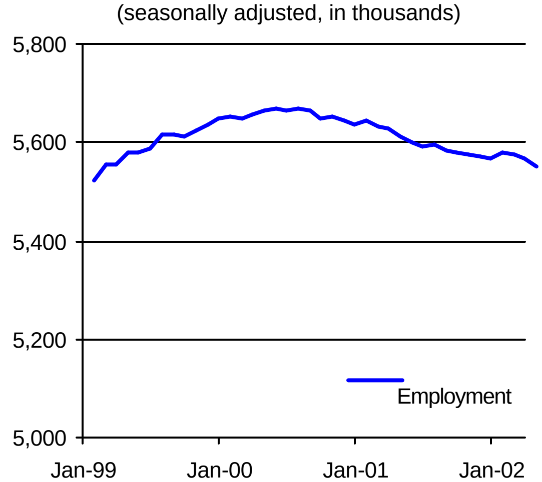
Source: U.S. Bureau of Labor Statistics

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



Source: U.S. Department of Commerce

Exhibit 4: Ohio Nonfarm Employment
(seasonally adjusted, in thousands)



Source: Ohio Department of Job and Family Services

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[1] This growth rate is an annualized rate, after seasonal adjustment. All other references to the growth rate of GDP or its components in this article will similarly be annualized and seasonally adjusted.

[2] CPI-W stands for consumer price index for urban wage earners and clerical workers.

[3] The dollar was over 11 percent higher in value in February than in April 1999 compared with the yen, and over 18 percent higher in value compared with the euro.

Status of the General Revenue Fund

REVENUES

— *Doris Mahaffey**

April is a big month for revenues. Annual income tax returns are due in April. The second payment of the corporate franchise tax is due March 31, so much of the payment falls into April. This effect was especially strong this April, since March ended on a Sunday. And, indeed, state revenues were greater in April than in any other month this fiscal year – and they were 9.8 percent greater than April 2001 revenues. Unfortunately, April 2002 revenues were not big enough.

Actually, total revenues were over estimate by nearly $7 million. But this was largely due to federal reimbursements, which were $91 million over estimate. Tax revenues were $102 million under estimate, largely because of the $150.5 million shortfall in personal income tax revenues. Overages in corporate franchise tax and auto sales tax revenues helped mitigate part of the tax revenue shortfall, while shortfalls in non-auto sales tax and estate tax revenues contributed to it. (See Table 2 for details regarding the actual and estimated revenues for April. Estimated revenues in both Tables 2 and 3 are based on the original May 2001 revenue estimates, which were taken into consideration in the passage of Am. Sub. H.B. 94, the general appropriations bill for the current biennium.) The personal income tax, the non-auto and the auto sales tax, and the corporate franchise tax are all discussed below. The shortfall in estate tax revenues, while notable, is probably a timing issue. It is likely that local governments, which are facing revenue shortfalls just as the state is, are hanging on to the total estate tax receipts a little longer than usual before turning the state's share over to the state.

Year-to-date revenues are $847 million under estimate. They are $431 million or 2.5 percent lower than revenues over the same period in FY 2001. See Table 3 for detailed information about the performance of the major GRF revenue sources. Only revenues from the auto sales tax and certain non-tax sources – such as federal reimbursements – have shown any significant growth. And, as usual, the growth in federal reimbursements is a good news-bad news item. It would not be significant if it weren't for the growth in Medicaid spending.

Personal Income Tax

April had no surprise this year. Although personal income tax revenues to the GRF were the highest of the fiscal year at $905.4 million, this amount was

CHART 1: Cumulative Shortfall of Income Tax Revenue - FY 2002
(variance from original estimates, $ in millions)

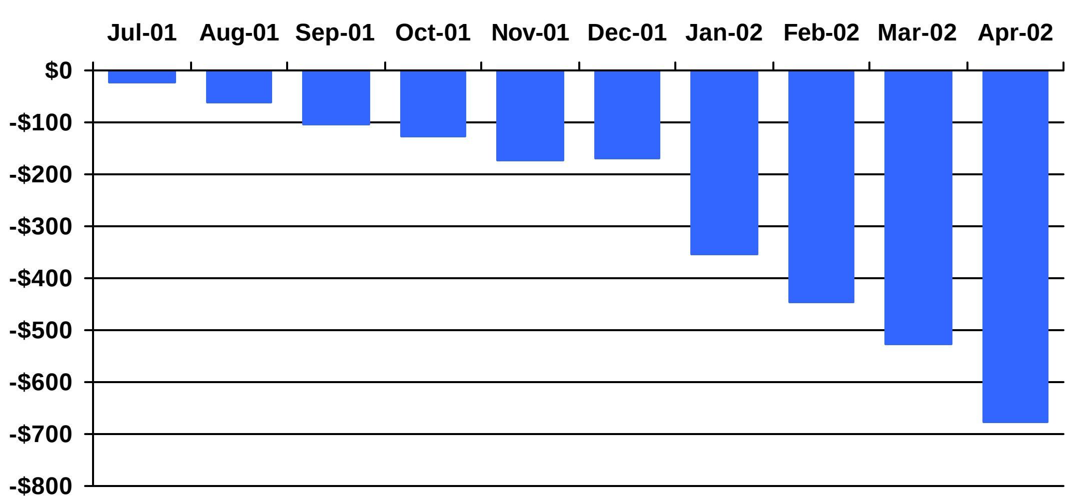


Table 2
General Revenue Fund Income
Actual vs. Estimate
Month of April 2002
($ in thousands)

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$97,857	$78,375	$19,482
Non-Auto Sales & Use	$451,835	$460,513	($8,678)
Total Sales	$549,691	$538,888	$10,803
Personal Income	$905,362	$1,055,895	($150,533)
Corporate Franchise	$156,741	$105,735	$51,006
Public Utility	$50	$0	$50
Kilowatt Hour Excise	$26,226	$25,600	$626
Total Major Taxes	**$1,638,071**	**$1,726,118**	**($88,047)**
Foreign Insurance	$230	$0	$230
Domestic Insurance	$0	$0	$0
Business & Property	$21	$83	($62)
Cigarette	$25,196	$23,800	$1,396
Alcoholic Beverage	$4,877	$4,760	$117
Liquor Gallonage	$2,376	$2,393	($17)
Estate	$15,123	$31,250	($16,127)
Total Other Taxes	$47,823	$62,286	($14,463)
Total Taxes	**$1,685,894**	**$1,788,404**	**($102,510)**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	$871	$3,500	($2,629)
Other Income	$19,019	$11,040	$7,979
Non-Tax Receipts	$19,890	$14,540	$5,350
TRANSFERS			
Liquor Transfers	$10,000	$7,000	$3,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$10,187	$0	$10,187
Total Transfers In	$20,187	$7,000	$13,187
TOTAL INCOME less Federal Grants	**$1,725,972**	**$1,809,944**	**($83,972)**
Federal Grants	$502,794	$411,920	$90,874
TOTAL GRF INCOME	**$2,228,765**	**$2,221,864**	**$6,901**

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

Totals may not add up due to rounding.

$150.5 million (14.3 percent) below estimate.[1] Combined withholding was under estimate by $17.9 million (3.0 percent), quarterly estimated payments were under estimate by $36.6 million (8.1 percent), and annual returns were under estimate by $50.8 million (19.9 percent). Refunds were over estimate by $43.6 million (28.8 percent), and therefore contributed to the shortfall in revenues.

April 2002 revenues were $65 million – or 7.7 percent greater than April 2001 revenues – which was the least that could be expected, since last year taxpayers benefited from a 6.96 percent tax cut financed by transfers from the income tax reduction fund (ITRF). No such tax cut was forthcoming this year. In addition, April 15, 2001, fell on a Saturday, and tax returns were due on April 17. As a result, a substantial portion of annual returns was received in May 2001. Annual returns were $90 million over estimate in May 2001. We are not likely to be so lucky this year.

Table 3
General Revenue Fund Income
Actual vs. Estimate
FY 2002 to Date through April 2002
($ in thousands)

REVENUE SOURCE	Actual	Estimate*	Variance	FY 2001	Percent Change
TAX INCOME					
Auto Sales	$772,302	$672,377	$99,925	$656,936	17.56%
Non-Auto Sales & Use	$4,244,411	$4,480,521	($236,110)	$4,260,846	-0.39%
Total Sales	$5,016,713	$5,152,898	($136,185)	$4,917,782	2.01%
Personal Income	$5,812,581	$6,488,245	($675,664)	$5,822,135	-0.16%
Corporate Franchise	$506,273	$707,418	($201,145)	$659,122	-23.19%
Public Utility	$190,867	$136,300	$54,567	$414,389	-53.94%
Kilowatt Hour Excise	$273,375	$279,020	($5,645)	$0	—
Total Major Taxes	**$11,799,809**	**$12,763,881**	**($964,072)**	**$11,813,427**	**-0.12%**
Foreign Insurance	$224,839	$234,140	($9,301)	$231,107	-2.71%
Domestic Insurance	$3,529	$3,565	($36)	$2,612	35.10%
Business & Property	$1,438	$1,329	$109	$1,300	10.61%
Cigarette	$221,174	$217,000	$4,174	$217,918	1.49%
Alcoholic Beverage	$45,647	$45,780	($133)	$44,914	1.63%
Liquor Gallonage	$24,445	$24,217	$228	$24,372	0.30%
Estate	$80,665	$92,500	($11,835)	$115,952	-30.43%
Total Other Taxes	$601,737	$618,531	($16,794)	$638,175	-5.71%
Total Taxes	**$12,401,546**	**$13,382,412**	**($980,866)**	**$12,451,604**	**-0.40%**
NON-TAX INCOME					
Earnings on Investments	$71,732	$101,250	($29,518)	$118,541	-39.49%
Licenses and Fees	$26,834	$32,201	($5,367)	$30,582	-12.26%
Other Income	$144,536	$98,461	$46,075	$125,945	14.76%
Non-Tax Receipts	$243,102	$231,912	$11,190	$275,068	-11.62%
TRANSFERS					
Liquor Transfers	$92,000	$81,000	$11,000	$84,000	9.52%
Budget Stabilization	$8,000	$0	$8,000	$0	—
Other Transfers In	$33,912	$6,237	$27,675	$627,133	-94.59%
Total Transfers In	$133,912	$87,237	$46,675	$711,133	-81.17%
TOTAL INCOME less Federal Grants	**$12,778,559**	**$13,701,561**	**($923,002)**	**$13,437,805**	**-4.91%**
Federal Grants	$3,764,504	$3,688,705	$75,799	$3,536,420	6.45%
TOTAL GRF INCOME	**$16,543,063**	**$17,390,266**	**($847,203)**	**$16,974,225**	**-2.54%**

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

Totals may not add up due to rounding.

Year-to-date personal income tax revenues are $675.7 million (10.4 percent) below estimate. Withholding is $255.2 million (4.3 percent) below estimate. Quarterly estimated payments are $135.4 million (9.7 percent) below estimate. Annual returns are $74.3 million (17.2 percent) below estimate. Refunds are $213.4 million (35.3 percent) above estimate.

With the exception of a brief pause in December, the revenue shortfall has gotten larger each month. The growth in the shortfall is presented in Chart 1. Near-term prospects for improvement are few. Although Ohio nonfarm wage and salary employment (not seasonally adjusted) rose by 31,300 in April, employment remains 50,500 (or about 1 percent) below its year-ago level. In the statement accompanying the release of the April employment and unemployment estimates, the Ohio Department of Job and Family Services noted that "Ohio continues to experience a sluggish labor market," and that "despite signs of an improved economy, employers appear to remain cautious in hiring."

Non-auto Sales and Use Tax

Non-auto sales and use tax receipts were again below estimate in April. Receipts were $451.8 million. This was $8.7 million or 1.9 percent below the original estimate for the month. April receipts were, however, $83.8 million or 22.8 percent higher than March receipts. April sales tax revenues largely reflect March sales. This year they picked up additional revenue from "the Easter shift," since Easter fell in March this year.[2]

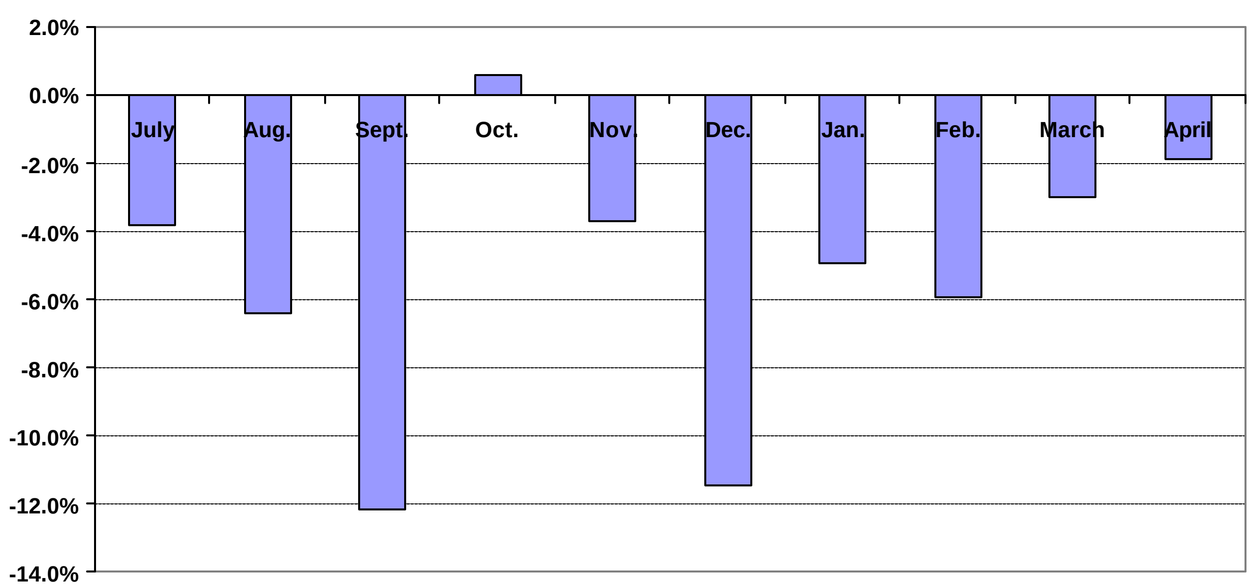
According to estimates by the U.S. Department of Commerce, March retail sales, excluding autos, grew 0.3 percent over February sales. This makes the April increase in non-auto sales tax receipts somewhat remarkable. The weekend factor may partially account for the increase – that is, the fact that March ended on a Sunday, so that some of sales tax revenue that the state should have received in March came in April instead. Also, H.B. 405's change in the tax treatment of car leases may also have contributed to the increase in non-auto sales tax revenues – this change adds about $15 million per month to revenues.

Nonetheless, the performance of the non-auto sales tax appears to be improving. While revenues have been under estimate every month this year except October, the underage has generally declined since December. (See Chart 2.) Sales tax revenues in April 2002 were higher than tax receipts a year earlier by $4.8 million (or 1.0 percent). March 2002 sales tax receipts were $23.3 million (or 6.8 percent) higher than sales tax receipts a year earlier. This performance may also suggest a steady improvement in taxable sales and sales tax revenues for the remainder of the fiscal year.

For the year to date through April 2002, non-auto sales tax revenues are at $4,244.4 million, $236.1 million (or 5.3 percent) below estimate. A month ago at $3,792.5 million, non-auto sales and use tax revenues were 5.6 percent below estimates. In January, year-to-date non-auto sales and use tax revenues were 6.3 percent below estimates. These numbers again suggest that the performance of the non-auto sales and use tax has been slowly improving. However, the revenues are still slightly lagging FY 2001 revenues. Year-to-date receipts were $16.4 million or 0.4 percent below receipts at this time last year.

The prospect for May revenues is generally positive. The U.S. Commerce Department has reported that retail sales (excluding autos) in April increased 1.0 percent from March levels, which bodes well for May sales tax revenues. However, based on comparisons to a year ago, revenue prospects are somewhat murky. Collectively, April sales at stores open at least a year, a key industry gauge known as same-

Chart 2: Monthly Shortfall of Non-Auto Sales Tax Revenues as % of Estimate - FY 2002



store sales, grew a weak 1.6 percent from a year earlier according to the Bank of Tokyo-Mitsubishi. In March, this gauge was 6.4 percent higher than a year earlier. The growth in same-store sales in April was the smallest since September 2001 when the index grew 0.9 percent. Averaging March and April same-store sales in 2002, the index grew about 4 percent. During the March-April period in 2001, a similar calculation shows 2.7 percent growth, indicating that sales are growing faster this year. From January to April 2002, sales at stores open at least a year grew at an average rate of 4.8 percent, higher than last year's 3.4 percent. Though still volatile, retail sales appear to be on the upswing.[3] Despite signs of improvement in non-auto sales and use tax revenues, it seems likely, with two months left in this fiscal year, that the 12-month total of these receipts in FY 2002 will be slightly lower than it was in FY 2001.

Auto Sales Tax

The underlying demand for autos remains strong. Auto sales tax receipts in March were $97.8 million, or $19.5 million above estimate. Receipts were $27.2 million or 38.5 percent higher than March receipts. April receipts were also higher than auto sales tax receipts a year ago (April 2001 auto sales tax receipts were $75.6 million). The stunning growth in auto sales tax receipts mirrors nationwide vehicle sales. In April 2002, U.S. sales of light vehicles (cars and light trucks) grew 7.1 percent compared to April 2001. It seems likely that the feared "payback" from the "zero percent" and other incentives in the first half of this fiscal year may not occur after all. Overall, U.S. light vehicle sales were down 1.9 percent compared to sales in the first four months of 2001. Still, the pace of light vehicle sales this year, at an annualized rate of around 17.2 million units, is astounding. Several factors may contribute to this incredible level of vehicle sales: (a) inflation-adjusted prices of new vehicles have decreased in the last few years, making them more affordable, (b) auto incentives have grown larger (up to $2,800 per unit for the domestic manufacturers), and (c) interest rates have remained low, allowing more buyers to purchase cars from cash available from the refinancing of mortgages. In such an environment, some auto analysts now believe that as long as interest rates remain low, sales of 17.0 million units per year may become the new standard. This level is 13.3 percent higher than sales in 1996 or 1997, which were approximately 15.0 million units per year. For the year to date through April, auto sales tax revenues were $772.3 million, $99.9 million or 14.8 percent above estimates. A year earlier, auto sales tax receipts were $656.9 million at the end of April.

With two months left in FY 2002, total sales and use tax receipts are $5,016.7 million or $136.2 million below estimate. A year earlier total sales and use tax receipts were $4,917.8 million. On the strength of auto sales tax receipts, sales and use tax receipts are $98.9 million or 2.0 percent above tax receipts a year earlier.

Corporate Franchise Tax

Corporate franchise tax receipts were $51.0 million or 48.2 percent above estimate in April. The overage was partly due to additional revenues in the first week of April from corporate returns submitted near the due date for the March payment, which fell on a Sunday. Processing of those tax returns was recorded in April. The combined March and April payments in FY 2002 were $291.3 million, versus $372.6 million in FY 2001. Franchise tax receipts in April 2002, at $156.7 million, were below April 2001 payments by $29.4 million or 15.8 percent. Therefore, despite the overage in franchise tax receipts in April 2002, corporate franchise tax receipts are still extremely disappointing. At the end of March 2002, the year-to-date underage in corporate franchise tax receipts was $252.1 million. The April payment reduced the year-to-date underage to $201.1 million.

With two months left in the fiscal year, year-to-date FY 2002 franchise tax receipts are lagging year-to-date FY 2001 receipts by $152.9 million. Judging from the pattern of franchise tax receipts through the end of April, FY 2002 franchise tax receipts will finish with a significant underage, well short of FY 2001 franchise tax revenues.

In recent weeks divers economists have offered conflicting estimates on the strength of the economic recovery, which will be reflected in potential corporate profits for CY 2002, which, in turn, will affect FY 2003 franchise tax revenues. In its May 2002 forecast, the economic forecasting firm DRI-WEFA projects that corporate profits growth (on a year-earlier basis) will be negative for the first three quarters of this calendar year before turning around in the fourth quarter of 2002. For the entire CY 2002, profit growth will be negative, with a potential decline of 3.9 percent in after-tax corporate profits, which may lead to lackluster corporate franchise tax receipts again next fiscal year. DRI-WEFA forecasts that after-tax corporate profits will grow by 5.1 percent in CY 2003.

The National Association of Business Economists (NABE) has a more optimistic forecast. NABE estimates that the profit recovery is already underway and its pace will accelerate in the next two quarters. The NABE survey of May 2, 2002, forecasts 2.2 percent and 10.9 percent growth in after-tax corporate profits for CY 2002 and CY 2003, respectively. The Governor's Council of Economic Advisors in its May meeting projected an even stronger profit recovery for CY 2002. The Council forecasts profit growth of 7.5 percent in CY 2002 and another 7.5 percent in CY 2003. If the latter two forecasts hold true, then corporate franchise tax revenues will improve in FY 2003.

LSC typically bases its corporate franchise tax revenue estimates on before-tax corporate profits, rather than after-tax profits. For comparison purposes, however, the above discussion focuses on after-tax profits, as this estimate is more readily available. Usually, this is not an issue because the two measures generally move in tandem. The percentage change might be a little different, but the two measures are usually moving in the same direction. That may not be the case over the next year, as federal changes in the treatment of depreciation and net operating losses for tax purposes will significantly affect after-tax profits. The changes would be expected to increase these profits and under most scenarios are likely to make the change in such profits positive for the year even if the change in before-tax profits is projected to be negative for CY 2002.

In any case, DRI-WEFA's before-tax estimate of corporate profit growth is in line with its after-tax projection. Profits before tax are estimated to decline by 6.5 percent in CY 2002 and to increase by 5.8 percent in CY 2003. It is not clear, however, how the federal tax changes affected the profit forecasts of NABE or the Governor's Council. It is hard enough to estimate corporate profits, but now we have big, temporary accounting changes further complicating matters.

**Jean Botomogno and Allan Lundell also contributed to this Revenue article.*

[1] Estimates are based on the original May 2001 revenue estimates used by the Conference Committee in the preparation of H.B. 94.

[2] Accordingly, May non-auto sales and use tax receipts will be impacted by the same effect. Last year Easter fell in April, and May benefited from the revenue impact.

[3] The average growth rate from January to April in 2000 was 5.4 percent, down from 7.5 percent in 1999.

DISBURSEMENTS

*— Steve Mansfield**

General Revenue Fund disbursements for the month of April were $123.3 million above the estimate, thus reducing the total year-to-date disbursement variance to $175.8 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 all four program categories registered positive disbursement variances in April. April's positive disbursement variance was led by the Property Tax Relief program, which posted an overage of $57.3 million. The Education program category remained the largest source of the total year-to-date negative disbursement variance by posting a $203.7 million negative disbursement variance as of the end of April. As anticipated, the Education program category's negative disbursement variance shrunk in April and will likely continue to do so until the end of the fiscal year. This is due in large part to the role of timing in explaining a significant portion of the variance. But because of the effects of the budget reductions required by Executive Order 2001-22T, we will likely see an overall negative disbursement variance in the Education category when the books close on FY 2002. There will not, however, be an across-the-board negative disbursement variance as we also anticipate seeing the Welfare and Human Services program series closing with an 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 for FYs 2002 and 2003), which provided that, with Controlling Board approval, funds from the Budget Stabilization Fund (BSF), along with matching federal Medicaid funds, could be appropriated to fund an anticipated overage. In its May 20 meeting, the Controlling Board approved a request from the Department of Job and Family Services to transfer $40.4 million from the BSF. These $40.4 million in state funds will earn a federal match of $57.9 million. Thus the Health Care/Medicaid program will likely end the fiscal year nearly $100 million above the spending estimate based on the original appropriation.

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

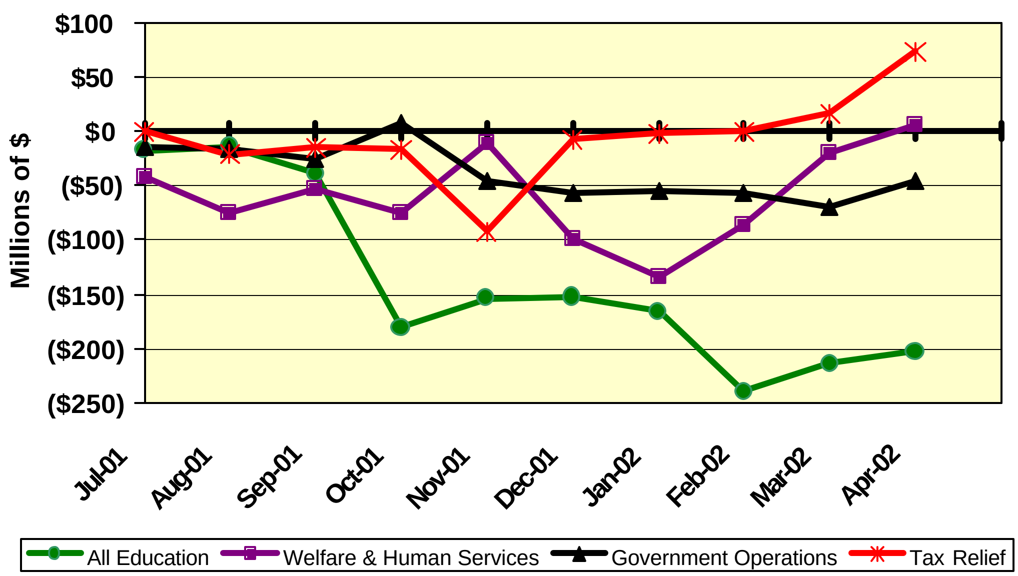


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of April 2002
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$521,430	$493,315	$28,115
Higher Education	$200,920	$218,662	($17,742)
Total Education	$722,350	$711,977	$10,373
Health Care/Medicaid	$707,325	$684,079	$23,246
Temporary Assistance to Needy Families (TANF)	($1,057)	$0	($1,057)
General/Disability Assistance	$9,547	$8,416	$1,131
Other Welfare (2)	$45,081	$48,370	($3,289)
Human Services (3)	$97,874	$92,107	$5,767
Total Welfare & Human Services	$858,771	$832,973	$25,798
Justice & Corrections	$190,921	$169,088	$21,833
Environment & Natural Resources	$4,610	$7,896	($3,286)
Transportation	$3,343	$2,151	$1,192
Development	$11,137	$6,989	$4,148
Other Government (4)	$24,144	$23,056	$1,088
Capital	$106	$0	$106
Total Government Operations	$234,261	$209,180	$25,082
Property Tax Relief (5)	$145,344	$88,086	$57,258
Debt Service	$17,411	$12,599	$4,812
Total Program Payments	**$1,978,137**	**$1,854,814**	**$123,323**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$0	$0	$0
Total Transfers Out	$0	$0	$0
TOTAL GRF USES	**$1,978,137**	**$1,854,814**	**$123,323**

(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.

As is our usual practice, we will examine the April and year-to-date disbursement activity by looking at these four major GRF program categories in the order of the magnitude of their contribution 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 April and year-to-date disbursement variances, respectively, by program category.

Education (-$203.7 million)

Disbursements in the Education program category were over the April estimate by $10.4 million. This was the result of a $28.1 million positive disbursement variance in Primary and Secondary Education and a partially offsetting $17.7 million negative disbursement variance in Higher Education. For the year to date, Education program category spending through April stood at $203.7 million under the estimate.

Department of Education. April's positive disbursement variance of $28.1 million reduced the department's year-to-date disbursement variance to $114.5 million below the estimate. The main reason for April's overage was the settlement of desegregation cases. The settlement enabled the release of $27.3 million, which offsets negative variances from previous months.

The notable contributors to the department's $114.5 million year-to-date negative disbursement variance include the following line items: (1) 200-501, Base Cost Funding ($29.0 million), (2) 200-513, Student Intervention Services ($19.5 million), (3) 200-520, Disadvantaged Pupil Impact Aid (DPIA) ($18.3 million), and (4) 200-406, Head Start ($13.6 million). The situation regarding the disbursement activity in these line items has not changed much since January's report. Yet because the Department is now employing updated (and generally larger) average daily membership (ADM) figures, disbursements to programs that rely on these line items are likely to increase in the remaining months of the fiscal year and reduce the negative year-to-date variance.

Regents. In April, the Board of Regents posted a $17.7 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 supports all of Ohio's publicly assisted institutions of higher education in their efforts to reduce the tuitions and fees charged to students. 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 $89.2 million below the estimate. The bulk of the year-to-date underage ($66.4 million, or 74.4 percent) is driven by the underspending posted in line item 235-501 (discussed above). The most notable contributer 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 $14.2 million under estimate at the end of April. 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.

Government Operations (-$45.1 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 the notable aspects of disbursement in those departments.

Rehabilitation & Correction. The Department of Rehabilitation and Correction recorded a $24.2 million positive disbursement variance in April, reducing its year-to-date disbursement variance to $25.3 million below the estimate. April's overage is traceable to line item 501-321, Institutional Operations, where a May payroll expenditure actually posted at the end of April. The bulk of the negative year-to-date disbursement variance is also 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.

Also contributing to the year-to-date negative disbursement variance is line item 501-406, Lease Rental Payments. For the year to date, disbursements from this debt service line item are $11.1 million below the estimate.

Administrative Services. Through April, the Department of Administrative Services (DAS) posted an $11.7 million negative year-to-date disbursement variance. Approximately $6.0 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.

A significant portion of the year-to-date underage ($3.9 million) 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 ($6.1 million)

As we see in Table 4, disbursements in the Welfare and Human Services program category were above the April estimate by $25.8 million. Table 5 shows that, for the year to date through April, disbursements in the program category stood at $6.1 million above 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 $3.3 million short of the estimate in April. This marks the ninth straight month of underages in this category. For the year to date, the underage stood at $75.4 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 four line items that are the largest contributors are, in order of magnitude, (1) 600-416, Computer Projects ($26.8 million), (2) 600-528, Adoption Services ($8.9 million), (3) 600-200, Maintenance ($9.5 million), and (4) 600-437, Temporary Heating Assistance ($6.8 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. Line item 600-504, Non-TANF County Administration - previously listed as a major contributor to the year-to-date underage - was taken off the list because of a $3.0 million overage for the month that offset earlier underspending.

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 increased slightly to $22.1 million in April. 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 ($103.8 million) in April was from non-GRF federal TANF funds.

Also in April, cash assistance benefits totaled $26.5 million. The number of TANF cash assistance recipients decreased by about 3,000 to stand at about 198,000. The average number of recipients per assistance group fell in April to 2.29 members per group. In the early 1990s this number peaked at 2.89 members per assistance group. The low number of recipients per assistance group reflects the increasing proportion of cases that are classified as "child only" cases. Typically, these are cases where the children are living with an adult relative other than a parent, who is not also a TANF recipient. These cases make up nearly 45 percent of all TANF cases. The number of "child only" cases has increased from approximately 25,000 in 1991 to over 38,000 at the present time.

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

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 2001	Percent Change
Primary & Secondary Education (1)	$5,097,779	$5,212,299	($114,520)	$4,676,760	9.00%
Higher Education	$2,038,142	$2,127,354	($89,212)	$2,145,332	-5.00%
Total Education	$7,135,921	$7,339,653	($203,732)	$6,822,092	4.60%
Health Care/Medicaid	$6,247,385	$6,135,573	$111,812	$5,538,295	12.80%
Temporary Assistance to Needy Families (TANF)	$365,891	$388,009	($22,118)	$759,918	-51.85%
General/Disability Assistance	$75,783	$71,663	$4,120	$60,565	25.13%
Other Welfare (2)	$427,886	$503,259	($75,373)	$479,128	-10.69%
Human Services (3)	$986,029	$998,321	($12,292)	$968,192	1.84%
Total Welfare & Human Services	$8,102,974	$8,096,825	$6,149	$7,806,097	3.80%
Justice & Corrections	$1,583,074	$1,619,321	($36,247)	$1,580,398	0.17%
Environment & Natural Resources	$108,585	$114,432	($5,846)	$117,397	-7.51%
Transportation	$44,759	$35,318	$9,440	$31,933	40.16%
Development	$161,538	$159,482	$2,057	$154,961	4.24%
Other Government (4)	$346,634	$366,999	($20,365)	$340,796	1.71%
Capital	$9,157	$3,322	$5,835	$48,461	-81.11%
Total Government Operations	$2,253,747	$2,298,874	($45,127)	$2,273,946	-0.89%
Property Tax Relief (5)	$814,434	$740,492	$73,942	$652,772	24.77%
Debt Service	$219,011	$226,083	($7,071)	$186,464	17.46%
Total Program Payments	**$18,526,088**	**$18,701,927**	**($175,839)**	**$17,741,371**	**4.42%**
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	**$18,559,050**	**$18,728,109**	**($169,059)**	**$18,595,596**	**-0.20%**

(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, the homestead exemption, and the tangible property tax exemption.

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

Totals may not add up due to rounding.

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 April with a $19.8 million negative year-to-date disbursement variance. As has been the case for several months, the bulk of the negative disbursement variance ($16.7 million) 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 April in the Health Care/Medicaid program (primarily line item 600-525) stood at $111.8 million, or 1.8 percent, over the estimate of $6.16 billion. In April, the program recorded a $23.2 million positive disbursement variance.

Additional costs in the Health Care/Medicaid program were anticipated in Am. Sub. H.B. 94 of the

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

	April				Year-to-Date Spending			
Service Category	**Actual**	**Estimate**	**Variance**	**Percent Variance**	**Actual thru' April**	**Estimate thru' April**	**Variance**	**Percent Variance**
Nursing Facilities	$196,892	$206,348	($9,456)	-4.6%	$1,980,544	$2,024,351	($43,807)	-2.2%
ICF/MR	$33,337	$34,052	($714)	-2.1%	$332,955	$338,597	($5,642)	-1.7%
Hospitals	$169,238	$163,788	$5,450	3.3%	$1,331,424	$1,403,539	($72,115)	-5.1%
Inpatient Hospitals	$119,409	$119,354	$55	0.0%	$942,204	$1,020,400	($78,196)	-7.7%
Outpatient Hospitals	$49,829	$44,434	$5,395	12.1%	$389,220	$383,139	$6,081	1.6%
Physicians	$49,896	$47,231	$2,665	5.6%	$403,776	$399,699	$4,077	1.0%
Prescription Drugs	$107,970	$106,709	$1,261	1.2%	$869,216	$863,899	$5,317	0.6%
Payments	$129,119	$127,858	$1,261	1.0%	$1,059,561	$1,054,240	$5,321	0.5%
Rebates	($21,149)	($21,149)	$0	0.0%	($190,346)	($190,342)	($4)	0.0%
ODJFS Waivers[1]	$15,986	$16,336	($350)	-2.1%	$136,522	$132,649	$3,873	2.9%
HMO	$51,596	$48,576	$3,019	6.2%	$481,548	$448,323	$33,226	7.4%
Medicare Buy-In	$11,674	$10,784	$890	8.2%	$110,426	$106,195	$4,231	4.0%
All Other[2]	$65,388	$60,900	$4,489	7.4%	$561,904	$514,548	$47,356	9.2%
DSH offset	$0	$0	$0		$0	$0	$0	
Total ALI 600-525	**$701,976**	**$694,723**	**$7,253**	**1.0%**	**$6,208,315**	**$6,231,801**	**($23,486)**	**-0.4%**
FMAP	58.94%	58.94%			58.94%	58.94%		
Est. Federal Share	$413,745	$409,470	$4,275		$3,659,181	$3,673,024	($13,843)	
Est. State Share	$288,231	$285,253	$2,978		$2,549,134	$2,558,778	($9,643)	
BSF Shortfall[3]	$0	($15,171)			$0	($135,397)		
Total ALI 600-525 Disb.	**$701,976**	**$679,552**	**$22,424**	**3.3%**	**$6,208,315**	**$6,096,404**	**$111,911**	**1.8%**
Est. Federal Share	$413,745	$400,528	$13,217		$3,659,181	$3,593,221	$65,960	
Est. State Share	$288,231	$279,024	$9,207		$2,549,134	$2,503,184	$45,951	
Children's Health Insurance Plan (CHIP-II), ALI 600-426[4]								
Total ALI 600-426	**$5,349**	**$4,527**	**$822**	**18.1%**	**$39,069**	**$39,169**	**($99)**	**-0.3%**
Enhanced FMAP	71.19%	71.19%			71.19%	71.19%		
Est. Federal Share	$3,808	$3,223	$585		$27,813	$27,884	($71)	
Est. State Share	$1,541	$1,304	$237		$11,256	$11,284	($29)	
Total Health Care	**$707,325**	**$699,251**	**$8,074**	**1.2%**	**$6,247,385**	**$6,270,970**	**($23,585)**	**-0.4%**
Total Hlth Care w/o BSF	**$707,325**	**$684,079**	**$23,246**	**3.4%**	**$6,247,385**	**$6,135,573**	**$111,811**	**1.8%**

1. Waivers provide home care alternatives to consumers whose medical conditions/functional abilities would otherwise require Long Term
2. "All Other" includes all other health services funded by 600-525 and prior-year encumbrances.
3. The budget estimate assumed $65M of the Budget Stabilization Fund (BSF) will be used to increase the appropriation in line item 525 by
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.

124th General Assembly, which, as previously noted, provided 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 1,474,142, an increase of nearly 17,000 since March, and 147,000 since last June. The number of Covered Families and Children (CFC) recipients stands at 1,085,412, and the number of Aged, Blind, and Disabled (ABD) recipients stands at 388,730. Although greatly outnumbered by the CFC population, the ABD population accounts for over 70 percent 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 BSF and an additional federal contribution of $93 million in matching funds. These additional state and federal funds totaling $158 million were not included in OBM's original disbursement estimates for the program as a whole. In its meeting on May 20, 2002, the Controlling Board approved a request from the Department of Job and Family Services to transfer $40.4 million from the BSF. These $40.4 million in state funds will earn a federal match of $57.9 million. Thus the Health Care/Medicaid program will likely end the fiscal year about $98 million above the spending estimate based on the original appropriation. Tables 4 and 5, however, 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 chose to produce "budgeted" service category estimates that included $158 million from the BSF and matching federal funds, which exceeds the actual amount of additional funding by some $60 million.

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 Apr. '02	FY 2001[1] Yr.-to-Date as of Apr. '01	Dollar Change	Percent Increase
Nursing Facilities	$1,980,544	$1,887,078	$93,466	5.0%
ICF/MR	$332,955	$318,450	$14,505	4.6%
Hospitals	$1,331,424	$1,249,121	$82,303	6.6%
Inpatient Hospitals	$942,204	$903,928	$38,276	4.2%
Outpatient Hospitals	$389,220	$345,193	$44,027	12.8%
Physicians	$403,776	$349,978	$53,798	15.4%
Prescription Drugs	$869,216	$696,776	$172,440	24.7%
Payments	$1,059,561	$883,410	$176,152	19.9%
Rebates	($190,346)	($186,634)	($3,712)	2.0%
ODJFS Waivers[2]	$136,522	$117,911	$18,611	15.8%
HMO	$481,548	$345,097	$136,452	39.5%
Medicare Buy-In	$110,426	$99,268	$11,158	11.2%
All Other[3]	$561.904	$449.604	$112.300	25.0%
DSH offset	$0	$0	$0	
Total (600-525)	**$6,208,315**	**$5,513,282**	**$695,033**	**12.6%**
Estimated Federal Share	$3,659,181	$3,234,643	$424,538	13.1%
Estimated State Share	$2,549,134	$2,278,640	$270,495	11.9%

1. Includes spending from prior-year encumbrances in the "All Other" category.
2. Waivers provide home care alternatives to consumers whose medical otherwise require Long Term Care facility residence.
3. "All Other" includes all other health services funded by 600-525 and prior-year
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

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 the year-to-date total disbursement variance in the service categories plus the Children's Health Insurance Plan (CHIP) program is $23.6 million *under* the estimate, whereas when the BSF and matching federal funds are removed from consideration, the year-to-date disbursement variance is $111.8 million *over* the estimate.

Some useful information, however, can still be gleaned in Tables 6 and 7 with regard to the changing composition of Medicaid services and costs. The Nursing Home, Intermediate Care Facilities for the Mentally Retarded (ICF/MR), and Hospitals service categories have been consistently posting year-to-date negative disbursement variances against the "budgeted" estimates and running behind the overall growth rate since the same time in the preceding year, suggesting lower utilization rates.

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. April's disbursements from line item 334-408 were $6.4 million under the estimate, thus accounting for the bulk of the month's $8.3 million negative disbursement variance. This line item accounts for about 90 percent of the department's $18.7 million positive year-to-date variance.

Tax Relief ($73.9 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.

As we see in Figure 1, disbursement activity in March and April accounts for nearly all of the year-to-date disbursement variance in the Property Tax Relief program. The variance is traceable mainly to disbursements from line item 200-901, Property Tax Allocation, in the Department of Education, which were over the estimate by $52.8 million. This was offset slightly by small underages in other line items in the program. 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.*

TANF Udate

TANF SPENDING QUARTERLY REPORT
TANF SPENDING UPDATE, FFY 1997-FFY 2002-Q2

—Steve Mansfield

The Temporary Assistance for Needy Families (TANF) program replaced a matching grant system with a flat-funded block grant from the federal government and with a requirement that the states maintain a historical level of spending (called the Maintenance of Effort, or MOE, requirement). Compared to the programs that TANF replaced, it offers states a great deal of flexibility in how they use both federal and state funds. These funds can be used to support a wide range of activities in support of low-income families, and some of the funds 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:

- Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- 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
- Encourage the formation and maintenance of two-parent families.

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	$209,427,645	$65,943,862	$155,787,059	19,924,127	(854,672)	$894,717,120	32.84%
Work Activities	3,792,305	31,373,341	26,688,339	81,114,726	95,705,415	184,241	$238,858,367	8.77%
Child Care	5,245,155	29,416,442	144,232,424	0	0	0	$178,894,021	6.57%
Transportation	--	--	9,130,805	7,096,385	11,197,295	0	$27,424,485	1.01%
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	5.19%
Pregnancy Prevention	--	--	--	563,257	1,987,054	2,880,752	$5,431,063	0.20%
2 Parent Formation	--	--	--	296,162	423,942	347,426	$1,067,530	0.04%
Administration	46,902,800	38,048,953	50,389,802	86,657,691	73,182,696	596,165	$295,778,107	10.86%
Information Systems	0	14,562,288	31,370,732	44,825,621	42,866,240	15,849,753	$149,474,634	5.49%
Other Nonassistance	154,742,075	180,963,610	228,381,447	72,258,307	87,066,260	67,873,554	$791,285,253	29.04%
TOTAL EXPEND.	$655,171,434	$503,792,279	$627,800,141	$466,615,882	$384,141,773	$86,877,219	**$2,724,398,728**	100.00%
Federal Grant Award	$727,968,260	$727,968,260	$727,968,260	$727,968,260	$727,968,260	$291,187,304	**$3,931,028,604**	
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	$151,379,155	$27,371,293	$111,102,060	$134,375,392	$204,310,085	**$628,537,985**	

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	$169,492,162	$1,666,111,874	69.06%
Work Activities	8,912,399	624,678	408,315	7,820,019	7,171,556	16,012,485	$40,949,452	1.70%
Child Care	45,628,354	51,850,611	49,435,554	51,887,171	55,996,785	45,403,943	$300,202,418	12.44%
Transportation	--	--	--	--	--	4,649,351	$4,649,351	0.19%
Indiv. Development Accounts	--	--	--	--	--	16,775	$16,775	0.00%
Diversion Payments	--	--	--	--	--	16,225,596	$16,225,596	0.67%
Pregnancy Prevention	--	--	--	--	--	2,419,625	$2,419,625	0.10%
2 Parent Formation	--	--	--	--	--	1,984,203	$1,984,203	0.08%
Administration	22,251,847	16,614,890	14,091,560	19,877,036	34,586,261	36,846,587	$144,268,181	5.98%
Information Systems	2,702	5,068,027	3,295,806	3,944,712	2,810,372	1,748,544	$16,870,163	0.70%
Other Nonassistance	34,391,885	31,820,351	40,496,328	29,762,563	29,762,564	42,508,913	$208,742,604	8.65%
Expenditures in Separate State Programs	--	--	--	1,581,167	5,571,647	2,819,150	$9,971,964	0.41%
TOTAL MOE	**$416,777,084**	**$420,072,790**	**$422,352,862**	**$401,366,666**	**$411,715,470**	**$340,127,334**	**$2,412,412,206**	100.00%

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 beginning October 1, 2002 (FFY 2003). In a recent action, the U.S. House of Representatives passed a reauthorization bill and the issue has now moved to the U.S. Senate.

TANF Expenditures, FFY 1997 – FFY 2002-Q2

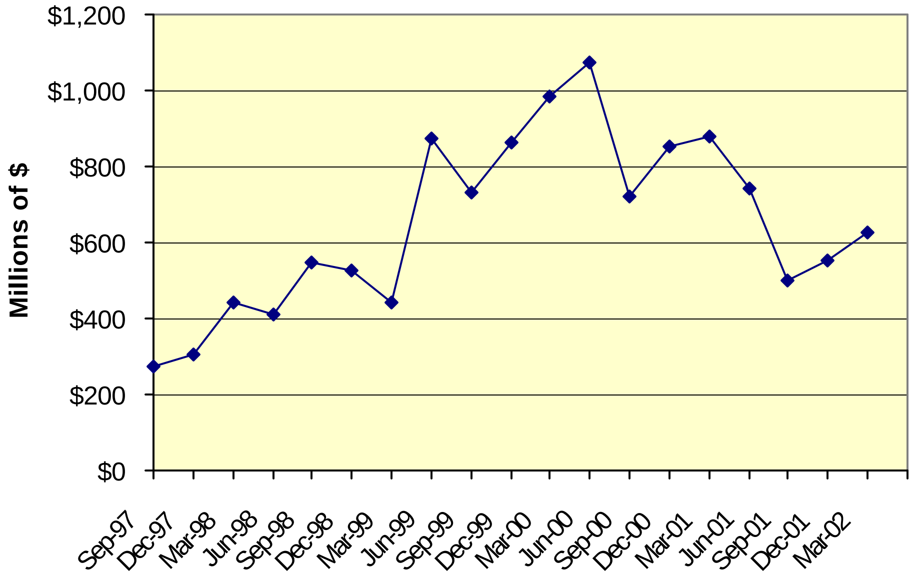
Ohio's expenditures of federal and state TANF funds are reported to the federal government on a quarterly basis. Quarterly expenditures from federal funds, within certain limits imposed by the rules of the TANF program, can be posted against any of the annual TANF awards. Thus in a particular quarter, 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 ending March 31, 2002, and breaks 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 each table shows each category's share of total spending to date from the TANF block grant (*Table 1*) or the state's MOE (*Table 2*). *Figure 1* tracks by quarter the cumulative reserve of unspent TANF funds.

Here are several key points about the information in the two tables and *Figure 1*:

- Ohio used $943.3 million in federal TANF funds in FFY 2001. This exceeded the annual block grant award of $728.0 million by $215.3 million, and reduced the size of the TANF reserve to just over $500 million.
- Ohio reported $164.9 million in spending from federal TANF funds during the first two quarters of FFY 2002. This spending was posted against the awards for FFY 1998, FFY 1999, FFY 2001, and FFY 2002. During this same period, Ohio was awarded $291.2 million from the federal block grant for FFY 2002.
- As of March 31, 2002, the amount of federal

Figure 1. **Cumulative TANF Reserve Funds through March 2002**



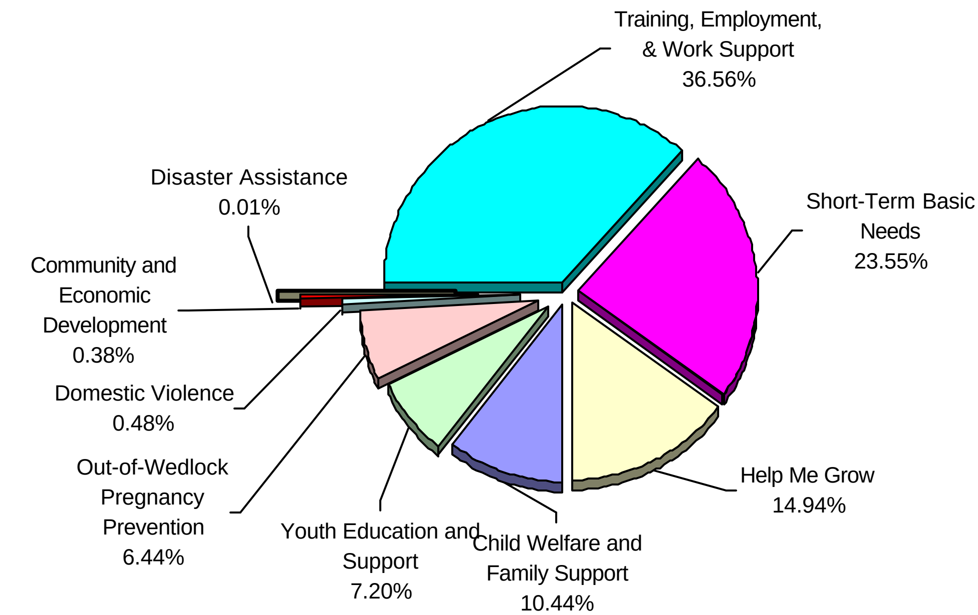
TANF funds remaining from all federal TANF awards stood at $628.5 million (see Figure 1). Of the total reserve funds, $158,077,930 are reported as unliquidated obligations, and $470,460,055 are reported as the unobligated balance. Department of Job and Family Services (JFS) budget plans indicate that the reserve will be reduced in the quarters ahead. In particular, transfers to the Child Care and Development Fund (CCDF) and to the Title XX Social Services Block Grant will probably be made in the third quarter of FFY 2002, substantially reducing the reserve total.

- In the first two quarters of FFY 2002, Ohio reported $340.1 million as expended from state MOE funds. Judging from history, this amount will represent over three-fourths of MOE expenditures for the federal fiscal year.
- The most common use of both federal and state TANF funds is for basic assistance (i.e., cash, payments and vouchers designed to meet ongoing, basic needs). In order to ensure that Ohio meets its MOE each year, JFS has opted to pay a higher share of basic assistance expenditures with MOE.
- While still the most common form of expenditure, the share of 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 $479.1 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, and includes a variety of supportive and case management services that are designed to meet short-term needs, rather than ongoing basic needs like income, food, clothing, or shelter. These services, along with other "nonassistance" services in categories that are reported in the two tables (work activity, child care, transportation, diversion payments, out-of-wedlock pregnancy prevention, two-parent family formation and maintenance, administration, and information systems), constituted 70 percent of Ohio's combined federal and state TANF expenditures in FFY 2001. Other than child care, these nonassistance services are provided under Ohio's Prevention, Retention, and Contingency (PRC) program. A more detailed look at PRC expenditures follows.

PRC Services

The PRC program is designed to "divert" families from public assistance by providing one-time, short-term customized assistance to overcome immediate problems or barriers that could, if not addressed, result in a situation that requires long-term cash assis-

***Figure2.* Distribution of Expenditures among PRC Service Categories, Oct. -- Dec. 2001**



tance. The PRC program was implemented by H.B. 408 of the 122nd General Assembly, replacing the Family Emergency Assistance (FEA) program. The objective of the PRC program is to provide a mixture of cash and nonmonetary services that will enable a family to retain or obtain employment and thereby stay off public assistance.

The old FEA program focused on such contingency benefits as rent payments, help regarding utility shutoffs, and household appliance repair or replacement. Along with these same contingency benefits, PRC emphasizes prevention and retention benefits that are oriented to helping clients achieve or maintain self-sufficiency. To participate in the PRC program, an assistance group must include at least one minor child. Additional PRC program eligibility criteria are established in each county's partnership agreement. Counties are given considerable latitude regarding the types and amounts of assistance to be provided. The policies that counties develop must be consistent with state and federal l-aw. The PRC program provides cash assistance for such things as shelter, job-required clothing, home repair, transportation, and household necessities like the repair of a furnace or a major appliance. Nonmonetary services include such things as counseling, employment services, and short-term training.

In the FY 2000 – FY 2001 biennium, JFS increased funding to county departments of job and family services in order to expand PRC services, especially services provided through contracts with other service providers. JFS made available $300 million in funds from the TANF reserve to counties from January 1, 2000, through June 30, 2001, for expanded PRC services. A cap for each county's spending from these reserve funds was based on the county's share of population at or below 200 percent of poverty.

JFS reports activity in the PRC program on a quarterly basis. The most recent report (October through December 2001) shows that Ohio spent $44.4 million through the PRC program during the quarter and served 395,834 individuals. These are not necessarily unduplicated individuals since the reported number of individuals could reflect duplicate numbers served across multiple categories or months, or both, within the quarter. Figure 2 illustrates the proportions of this expenditure going to the several different service categories within the PRC program during the October-December quarter.

With the exception of Disaster Assistance, each of these service categories includes a number of subcategories. The largest service category in terms of expenditures — Training, Employment, and Work Support — includes such things as employment and placement services, education and training services, transportation, wage subsidies, and work-related expenses such as buying uniforms. The Short-Term Basic Needs category includes clothing and shelter and repair or replacement of essential household appliances and the like. The Help Me Grow service category includes home visits for newborns, early start visits and intervention services, and community outreach efforts. The Child Welfare and Family Support category includes family preservation and reunification services, kinship care and kinship navigator services, visitation centers, mediation services, and community outreach. The Youth Education and Support category includes before- and after-school programs, intervention services, and youth workforce programs. The Out-of-Wedlock Pregnancy Prevention service category includes family planning services, mentoring services, and community outreach efforts. The Domestic Violence service category includes shelter services, personal and family support services, and community outreach efforts. The Community and Economic Development service category includes development planning and employer recruitment activities.

Issues of Interest

Testimony to the House Finance & Appropriations Committee

— David Brunson

The following testimony was presented to the House Finance and Appropriations Committee on May 19, 2002, by David Brunson, Division Chief for Education and Taxes for the fiscal staff of the Legislative Service Commission. The testimony was presented to the Senate Finance and Financial Institutions Committee on May 8, 2002.

Good morning, Chairman Carey and Members of the Committee.

LSC's revised GRF revenue forecast for fiscal year 2002 (excluding federal grants) is $16.6 billion. This is $750 million less than the revenue estimates used in H.B. 405 (including the tax changes). It is $220 million or 1.3 percent less than FY 2001 GRF revenues excluding federal grants.

Our revised GRF revenue forecast for FY 2003 (excluding federal grants) is $17.1 billion. This number is $1 billion less than the revenue estimates used in H.B. 405 (including the tax changes). It represents a 3.3 percent growth in tax revenues from the FY 2002 estimates.

The personal income tax and the corporate franchise tax are the chief culprits in producing these dismal revenue projections. LSC puts the shortfall in tax revenues (compared to the H.B. 405 numbers) from these two sources alone at $820 million in FY 2002 and $900 million in FY 2003. And this assumes that the Governor's proposal on depreciation is adopted. If it is not, the shortfall will increase by another $175 million in FY 2003.

Personal income tax receipts in FY 2002 are estimated to be just one-half percent greater than last fiscal year. Next year revenues are estimated to increase 6.5 percent. Compared to the H.B. 405 estimates, these amounts are lower by $594 million this year and $650 million next year. These declines are a little over $200 million more each year than those projected by OBM in their recent revenue revisions.

Contributing to the slow personal income tax growth rate this year and last fiscal year is a decline in capital gains income. Huge growth in capital gains income helped fuel unanticipated personal income tax revenue increases in the late 1990's and contributed to ITRF (income tax reduction fund) funded tax cuts. The high capital gains realizations are now retreating. Our estimates for FY 2003 assume a stable stock market and stability for capital gains. However, capital gains are an odd value to forecast, so that it is possible for a stable stock market to lead to falling capital gains realizations. This could cut a percent or two off of the FY 2003 growth rate for the tax.

LSC projects that corporate franchise tax revenues will be $734 million this year based on the pattern of franchise tax receipts through the end of April. This estimate represents a twenty percent decline from FY 2001 revenues and reflects poor corporate profits in 2001. As measured by the Bureau of Economic Analysis (BEA), corporate profits before tax in calendar year 2001 were 17.4 percent below profits recorded in 2000. Corporate franchise tax revenues are assumed to be much more sensitive to changes in corporate profits than in the past, since H.B. 215 of the 122nd General Assembly capped the calculation of tax liability based on net worth.

LSC forecasts that corporate franchise tax receipts will be $690.6 million in FY 2003 – a 6 percent decline from FY 2002. This decline is based on the assumption that corporate profits will continue to decline this calendar year. The May 2002 forecast of the economic forecasting firm DRI-WEFA projects a further decline in corporate profits in calendar year 2002 of 7.4 percent. As previously mentioned, THE

ESTIMATE DOES NOT TAKE INTO CONSIDERATION THE FEDERAL CHANGE IN THE TREATMENT OF DEPRECIATION. Thus, our estimates assume that the Governor's proposal on depreciation is adopted. If it is not, LSC's combined estimates for the corporate franchise tax and the personal income tax for FY 2003 would be reduced by an additional $175 million.

The auto sales tax is one bright spot among the major taxes. Usually the auto sales tax declines by a double-digit percentage in a recession, but this year we are estimating a 14 percent increase in revenue to $925 million. We are expecting a slight fall off next year to $901.5 million, a 2.5 percent decrease.

The non-auto sales tax is performing true to form in a recession. LSC forecasts that the tax will end the current year slightly below last year's level. However, the auto leasing change added an estimated $70 million in revenues this year and is expected to add $180 million next year. If we had not had this tax change, the non-auto tax would have been down one percent this year.

A second bright spot is the domestic insurance tax. For this tax, mild premium growth and the phase-in to higher tax rates (due to changes to the tax also made by H.B. 215) are expected to boost tax revenue. As you may recall, tax rates are being equalized between out-of-state insurance companies (which are termed "foreign") and in-state insurance companies (which are called "domestic").

Medicaid

The updated LSC Medicaid forecast projects Medicaid spending (from line item 600-525) in both FY 2002 and FY 2003 to be somewhat lower than we forecasted in May of 2001. The updated forecast for FY 2002 is $7,755.3 million, a reduction of $22.1 million ($9.1 million in state share) from our prior forecast. The new forecast for FY 2003 is $8,406.5 million, a reduction of $103.3 million ($42.5 million in state share) from the prior forecast. After deducting revenues derived from drug rebates, DSH payments, and franchise fees paid by long-term care facilities, the forecast appropriation needs fall to $7,229.4 million (FY 2002) and $7,776.7 million (FY 2003).

The reduction in the forecast is due largely to a reduction in projected nursing facility expenditures and in projected inpatient hospital expenditures. Expenditures have also been restrained by a significant increase in HMO enrollments as a percentage of all Medicaid participants. This increase results in a significant increase in the HMO component of expenditures, but it restrains expenditures in most other categories.

Despite this favorable news, the updated forecast remains above the appropriations for both fiscal years. The appropriation need for FY 2002 is $146.6 million over the appropriation made in Am. Sub. H.B. 94 (the Budget Bill) and the additional need is $202.9 million in FY 2003. The General Assembly anticipated this possibility. The Budget Bill permits a transfer from the Budget Stabilization Fund of up to $150 million over the biennium. The LSC forecast numbers imply that the State would need to tap $60.4 million of the BSF earmark in FY 2002. If the forecast for FY 2003 matches experience, the remaining earmark would be used for FY 2003.

Temporary Assistance for Needy Families (TANF)

LSC's revised forecast of total cash grants for FY 2002 is about $8 million less than we forecast a year ago. We estimate that total cash grants for FY 2002 will be approximately $319.4 million. But with the effects of the recession being felt more strongly next year on TANF, our forecast indicates an average of 95,100 TANF cases per month in FY 2003—a 10 percent increase over the original forecast. The increased caseload will make total cash assistance grants for FY 2003 approximately $351 million—$32 million more than we forecast a year ago.

Disability Assistance

The DA medical caseload turned upward at the beginning of FY 2002 and has since added about 4,000 recipients. Particularly because of this strong growth in the DA medical caseload and the continuing effects of medical inflation on costs in the DA program, LSC now forecasts DA spending to be approximately $87.2 million in FY 2002 and $98.6 million in FY 2003, an increase of $9.5 million and $9.0 million, respectively, over the previous forecast. These forecast revisions imply a deficit for the account of $2.5 million in FY 2002 and $0.3 million in FY 2003.

Medicaid Spending Forecast Update, May 2002 (GRF 600-525 Only)

Service Category	2001 actual	FY 2002	% growth	FY 2003	% growth
Long Term Care	$2,670,240,669	$2,888,231,388	8.16%	$3,090,313,006	7.00%
Nursing Facilities	$2,270,932,046	$2,472,717,332	8.89%	$2,657,035,439	7.45%
ICF/MRs	$399,308,623	$415,514,056	4.06%	$433,277,567	4.28%
Hospitals	$1,468,410,114	$1,583,168,173	7.82%	$1,692,308,349	6.89%
Inpatient	$1,057,688,520	$1,122,560,152	6.13%	$1,220,989,683	8.77%
Outpatient	$410,721,594	$460,608,021	12.15%	$471,318,667	2.33%
Physicians	$423,769,739	$483,372,609	14.06%	$481,767,480	-0.33%
Prescription Drugs	$1,059,205,983	$1,266,005,965	19.52%	$1,444,148,091	14.07%
HMO	$422,855,548	$591,999,657	40.00%	$701,252,088	18.45%
Medicare Buy-In	$123,858,449	$138,506,049	11.83%	$152,447,868	10.07%
Waiver	$141,307,854	$167,895,420	18.82%	$175,383,556	4.46%
All Other Care	$546,884,481	$636,150,952	16.32%	$668,848,897	5.14%
Total	**$6,856,532,836**	**$7,755,330,212**	13.11%	**$8,406,469,336**	8.40%
ALI 692 Medical Services (Drug Rebates)	$195,867,861	$232,640,008		$268,424,025	
ALI 671 IMD/DSH Offsets (5C9)	$64,276,461	$48,071,239		$56,451,893	
ALI 623 IMD/DSH Offsets (Fed Share)	$92,610,190	$68,549,913		$80,667,109	
ALI 621 ICF/MR Franchise Fee (4K1)	$7,142,773	$7,142,773		$7,142,773	
ALI 623 ICF/MR Franchise Fee (Fed Share)	$10,082,305	$10,082,305		$10,082,305	
ALI 613 NF Franchise Fee (4J5)	$6,029,798	$6,029,798		$6,029,798	
ALI 623 NF Franchise Fee (Fed Share)	$8,599,086	$8,599,086		$8,599,086	
ALI 608 Medicaid Nursing Facilities (5R2)		$59,462,415		$79,283,220	
ALI 623 Fed Share ALI 608 Payments		$85,355,936		$113,058,410	
Total Net Expenditures	**$6,471,924,362**	**$7,229,396,739**		**$7,776,730,717**	
State Share	$2,658,019,336	$2,975,438,963		$3,202,652,127	
Federal Share	$3,813,905,027	$4,253,957,776		$4,574,078,589	
Effective FMAP	58.93%	58.84%		58.82%	

	FY 2002	FY 2003
ALI 600-525 Appropriation	**$7,082,761,191**	**$7,573,807,482**
Forecast Expenditures	**$7,229,396,739**	**$7,776,730,717**
Projected Shortfall	**($146,635,548)**	**($202,923,235)**
Budget Stabilization Fund Earmark (up to $150,000,000)		
State Share -- Needed from BSF	$ 60,351,526	$ 83,568,861
Federal Share -- Matched by BSF	$ 86,284,022	$ 119,354,374
Available Balance of BSF	$ 89,648,474	$ 6,079,613

GRF Revenue Forecasts - LSC Estimates as of May 2002

GRF Amounts by Source (dollar amounts in millions)

[redacted]

[redacted]	LSC estimate - May 2002	[redacted]	LSC estimate - May 2002
	$925.0		$901.5
	$5,121.9		$5,471.3
	$6,046.9		$6,372.8
	$7,296.2		$7,770.0 *
	$733.9		$690.6 *
	$263.7		$250.2
	$328.0		$335.0
	$220.2		$202.4
	$153.9		$189.4
	$8.3		$50.5
	$283.0		$280.0
	$56.0		$56.0
	$29.0		$29.0
	$115.0		$75.0
	$15,534.1		**$16,300.9** *
	$93.0		$84.0
	$35.0		$35.0
	$93.0		$95.0
	$60.0		$60.0
	$281.0		**$274.0**
	$102.0		$98.6
	$199.5		$56.5
	$445.1		$371.4
	$0.0		$0.0
	$746.6		**$526.5**
	$16,561.7		**$17,101.4**
	$4,306.1		$4,603.8
	$20,867.8		**$21,705.2**