Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JUNE, 2002

FISCAL OVERVIEW

— Doris Mahaffey

On May 29, 2002, the House passed Am. Sub. S.B. 261, the second budget corrective bill of the fiscal year. On May 30, the Senate concurred in the House's changes. The Governor signed the bill on June 5, and it became effective immediately.

S.B. 261 provided the state General Revenue Fund (GRF) with a little over $1.5 billion over the balance of the biennium, of which up to $845 million is to come from transfers from the Budget Stabilization Fund (BSF), Unclaimed Funds, the Tobacco Trust Fund, and other nonfederal, nonconstitutionally restricted state general operating funds.

The legislation passed without much time remaining in the fiscal year. While May GRF revenue (including transfers) exceeded disbursements by $656 million, at the end of the month the unobligated fund balance was still -$865 million. (See Table 1.) Under any reasonable scenario for June, the state will need a substantial part of the newly authorized transfers to attain a positive ending fund balance by the end of the fiscal year.

At the beginning of May the Legislative Service Commission (LSC) provided revenue estimates to the House and Senate during hearings held on S.B. 261. The revised estimates projected revenue shortfalls of over $750 million for FY 2002 and $1 billion for FY 2003. These shortfalls are on top of OBM's revised estimates of December 2001 (and took into consideration OBM's October 2001 revised revenue estimates and the revenue enhancements of H.B. 405, as well as the concurrent spending and appropriations reductions, which lowered the amount of money needed to end FY 2002 with a balanced budget). The $1 billion shortfall for FY 2003 could be restated at $1.175 billion by including the effects of the recent change in the federal law on depreciation. A tax law change in S.B. 261 essentially reversed the federal change in the calculation of Ohio taxes, in order to avoid this loss.

For the most part, May revenues track the revised LSC estimates, although LSC's estimates of revenues from the personal income tax and the corporate franchise tax may still be a little optimistic.

May revenues and expenditures generally continue the patterns they have been following for most of the fiscal year. Tax revenues – with the notable exception of auto sales tax revenues – continue to underwhelm.

Volume 25, Number 9

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 May	Fiscal Year 2002 to Date	Last Year	Difference
Beginning Cash Balance	($1,198.9)	$817.1		
Revenue + Transfers	$2,304.4	$18,847.4		
Available Resources	$1,105.4	$19,664.5		
Disbursements + Transfers	$1,648.0	$20,207.1		
Ending Cash Balances	($542.6)	($542.6)	$331.3	($873.9)
Encumbrances and Accts. Payable		$322.1	$381.6	($59.5)
Unobligated Balance		**($864.7)**	**($50.3)**	**($814.4)**
BSF Balance		$962.2	$1,002.5	($40.2)
Combined GRF and BSF Balance		**$97.6**	**$952.2**	**($854.7)**

Even public utility excise tax revenues, which have provided some sunshine over the year, were under estimate for the month (compared to July 2001 estimates[1]). Personal income tax revenues were particularly disappointing—$228 million under estimate for the month (again compared to July 2001 estimates). This was the largest monthly shortfall for the income tax to date. All major components of the income tax contributed to the shortfall, but annual returns, providing revenue at $211 million under estimate, were by far the biggest contributor. Annual-return revenues for May 2002 were 21 percent under annual-return revenues for May 2001. Combined April and May 2002 annual-return revenues were still 12 percent under annual-return revenues for April and May of 2001. And this decline comes in spite of the fact that Ohio taxpayers did not benefit from the tax cut this year, as they did on last year's tax returns.

Spending in most program areas was under estimate for the month. Even Medicaid spending was $1.5 million under estimate. Timing, processing delays, and Executive Order 2001-22T continued to be the main reasons for the spending variances. The only program area with a significant overage for the month was Primary and Secondary Education. The $27 million overage reduced the kindergarten through 12th grade (K-through-12) year-to-date underage to -$87.2 million.

As of the end of May, year-to-date revenues excluding transfers were $1,189.6 million under estimate, with personal income tax revenues, followed by corporate franchise tax and non-auto sales tax revenues as the most significant sources of the revenue shortfall. Year-to-date program expenditures were $285.2 million under estimate. Higher education, at $114 million under estimate, had the largest negative variance, followed by spending in the justice and corrections, and K-through-12 categories. However, the $110 million overage in the Medicaid area nearly offset the entire underage in the Government Operations category.

Year-to-date net transfers through May were only $5.6 million over estimate. Net transfers in May consisted entirely of $214.8 million in transfers in. Of this amount, $40.35 million was a transfer in from the BSF to fund the state's share of increased Medicaid expenses. This transfer was authorized by H.B. 94. As of the end of May, on net, essentially none of the $1.2 billion in added transfer authority authorized by H.B. 405 or S.B. 261 had yet been used.

[1] The July 2001 revenue estimates (and the August 2001 disbursement estimates) are based on the revenue and expenditure assumptions used in the Conference Committee for Am. Sub. H.B. 94, the main appropriations bill for the FY 2002-2003 biennium. Unless otherwise indicated, this document continues to base comparisons on these estimates and retains these estimates in *Budget Footnotes* Tables 2 through 5 in the Revenues and Disbursements articles below.

TRACKING THE ECONOMY

- *Allan Lundell*

The recovery may be here, but it may be described as sluggish at best. First quarter real GDP grew at a healthy 5.6 percent annualized rate, but this was driven largely by the change from decreasing inventories to increasing inventories. "Core" GDP, defined as consumption plus investment less inventories, grew by just 2.0 percent during the first quarter. Core GDP tracks the GDP due to the spending of the two major drivers of the economy, consumers and businesses. The long-term prospects for growth depend on continued increased spending by these two sectors. Exhibit 1 depicts the growth in GDP and core GDP since 1999. The growth rates are seasonally adjusted annualized rates (SAAR).

Production – there is a recovery

In May, the Federal Reserve's index of industrial production increased by 0.2 percent to a value of 139.3. This was the fifth consecutive monthly improvement in the index. Although five months of increases is encouraging news, industrial production is best described as recovering but not recovered. After peaking at a value of 147.2 in June 2000, the index fell in 15 of the next 18 months before reaching bottom in December 2001 at a value of 136.7. Exhibit 2 depicts the decline and partial recovery from the June 2000 peak.

The Institute for Supply Management's May Report on Business contained encouraging news. The purchasing managers' index was above 50 for the fourth consecutive month in May. An index value greater than 50 indicates that the manufacturing sector of the economy is expanding, and a value less than 50 indicates that the sector is contracting. The report also indicated that new orders and production were growing at faster rates than earlier and that employment was contracting at a slower rate than before. The nonmanufacturing Report on Business indicated that business activity in the nonmanufacturing sector increased in May. As with the manufacturing sector, both production and new orders grew at faster rates than before and employment contracted at a slower rate than before.

Employment – the "recovery" is modest

There are signs of recovery, at least in terms of current production and new orders that will drive future production, but, at least so far, the recovery has not been strong enough to increase employment. Employment is generally slower to recover than production. Businesses may be reluctant to hire new employees (or recall old employees) until they are sure that these employees are needed. Until then, current employees may work overtime to meet production needs. Any new employees may be temporary hires.

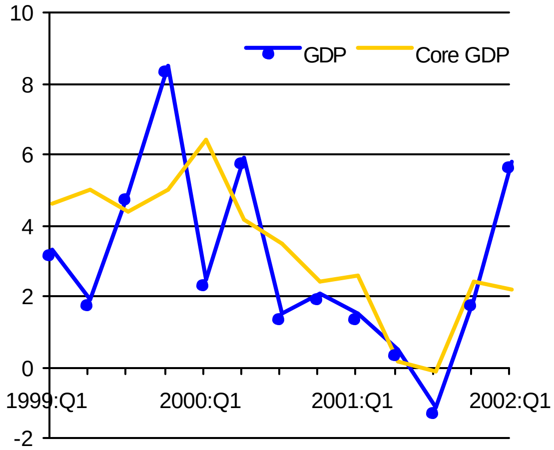
Nationally, total private employment peaked in March 2001 and employment in personnel supply services peaked in September 2000. Exhibit 3 depicts recent employment history for total private employment and for personnel supply services using indices equal to 100 in the peak month. Although personnel supply services employment fell earlier and farther than total private employment, it has also increased earlier and to a greater extent than total private employment.

The limited ability of the recovery to generate job growth is apparent in the unemployment statistics. Exhibit 4 presents information on the U.S. average and median duration of unemployment. Even as the economy recovers (as indicated by increases in production), the duration of unemployment continues to increase. Production is being increased without increasing the number of workers. The slowness of the recovery also shows up in statistics describing claims for unemployment insurance. Exhibit 5 presents levels of Ohio unemployment claims. Continued claims remain high even as the economy recovers.

Inflation – no need to worry

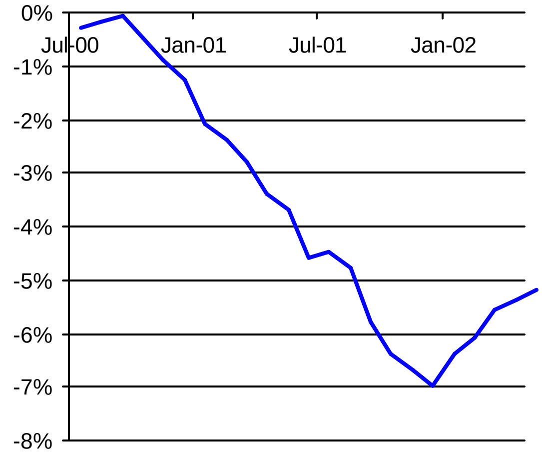
The seasonally adjusted Consumer Price Index for Urban Consumers (CPI-U) was unchanged in May, after increasing 0.5 percent in April. The food index fell by 0.2 percent in May and the energy index fell by 0.7 percent. The core CPI-U, excluding food and energy, rose by 0.2 percent in May. Compared to May 2001, the CPI-U is up by 1.2 percent. The food index is up by 1.9 percent, the energy index is down by 12.3 percent, and the core index is up by 2.5 percent. The index for commodities is down 1.6 percent compared to May 2001 and the index for services is up 3.1 percent compared to the same time.

Exhibit 1: Real GDP Growth
(SAAR percentage changes)



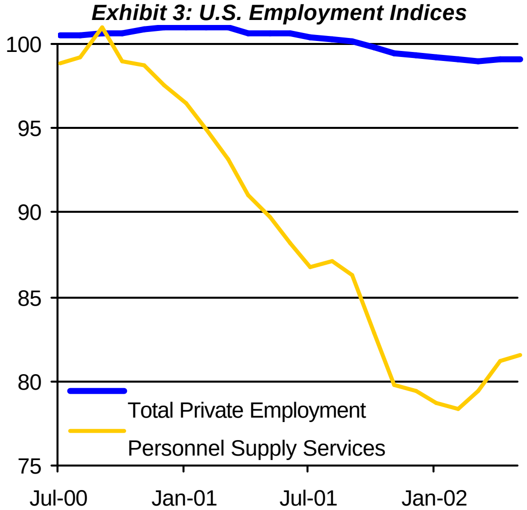
Source: U.S. Bureau of Economic Analysis

Exhibit 2: U.S. Industrial Production
(percentage changes since June 2000)



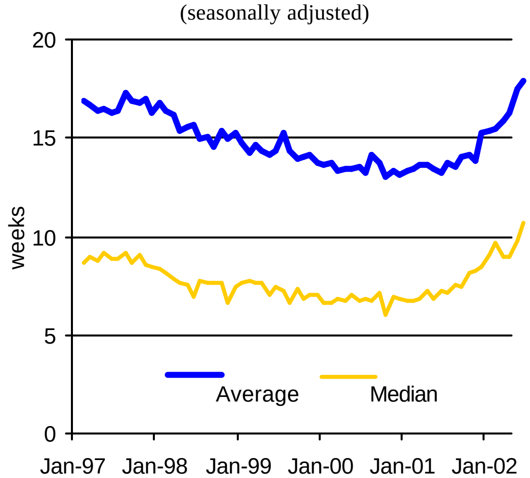
Source: Federal Reserve

Exhibit 3: U.S. Employment Indices



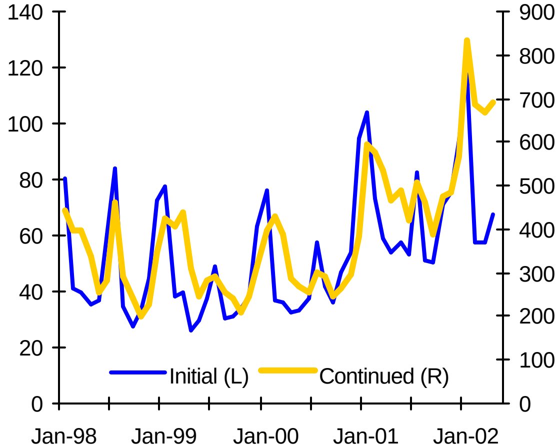
Source: U.S. Bureaur of Labor Statistics

Exhibit 4: U.S. Duration of Unemployment
(seasonally adjusted)



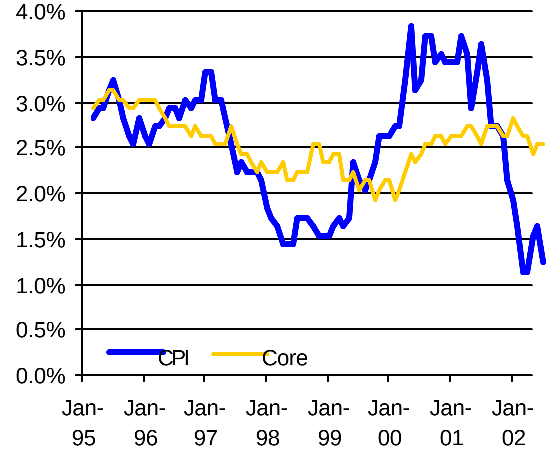
Source: U.S. Bureaur of Labor Statistics

Exhibit 5: Ohio Unemployment Claims
(in thousands)



Source: Ohio Department of Job and Family Services

Exhibit 6: Consumer Price Index
(percentage changes from one year earlier)



Source: U.S. Bureau of Labor Statistics

Status of the General Revenue Fund

REVENUES

*— Doris Mahaffey**

In spite of the fact that May revenues to the General Revenue Fund (GRF) were higher than in any other month in FY 2002 thus far, they did not fail to disappoint. They were $319.9 million under estimate (compared to monthly estimates prepared by OBM in July 2001 and based on revenue assumptions used by the conference committee for H.B. 94). They were 1.4 percent lower than revenues in May 2001.

Tax revenues for May were $322 million under estimate. Personal income tax revenues were particularly disappointing, due largely to receipts from annual returns, which were significantly below estimate. Generally, the Department of Taxation continues to process income tax returns well into the middle of May. This year it had pretty much finished processing returns by the end of the first full week of May.

As Table 2 shows, most other tax revenue sources were at or below estimate, as well. The main exceptions were the auto sales tax, the domestic insurance tax, the estate tax, and the kilowatt-hour tax. The combined overages in tax revenues from these sources amounted to $45 million, which hardly made a dent in the $368 million shortfall in revenue from the remaining tax sources.

In the nontax income categories the variances pretty much balanced each other out, as the combined positive variances in the "other income" and "federal reimbursements" categories offset the negative variance in the "transfers in" category. Although the "transfers in" category shows a negative variance for the month, it accounts for a significant chunk (9.3 percent) of May revenue. May transfers in amounted to $214.8 million, which includes a $30.35 million transfer from the Budget Stabilization Fund (BSF) to support increased Medicaid spending. While May transfers were the largest so far this fiscal year, they are sure to be dwarfed in June, when OBM will make significant transfers to the GRF from the BSF, the tobacco trust fund, and other nonfederal, nonconstitutionally restricted funds in order to balance the state's budget. Such transfers have been authorized by Am. Sub. H.B. 94, Am. Sub. H.B. 405, and Am. Sub. S.B. 261, all of the 124th General Assembly. (Actually, some of the transfers may be made by intrastate vouchers (ISTVs) and so will appear in the state accounts and consequently in the *Budget Footnotes* tables in the "other income" category, rather than as transfers per se.)

Year-to-date revenues of $18,847.4 million are 2.4 percent under FY 2001 revenue through May 2001. They are $1,167.1 million or 5.8 percent under the July 2001 revenue estimates (based on the conference committee estimates for H.B. 94) and $610 million or 3.1 percent under the December 2001 revised estimates. It is unclear whether state revenues will even meet LSC's revised estimates made May 8, 2000. Table 3 compares the year-to-date revenues by major revenue source to the July 2001 estimates.

The shortfall in tax revenues is even greater than the total revenue shortfall, and personal income tax revenues account for 63 percent of the tax revenue shortfall. Income tax revenues are 12 percent under estimate for the year, so far. Non-auto sales tax revenues and corporate franchise tax revenues each account for another 19 percent of the tax revenue shortfall. Non-auto sales tax revenues are only 5 percent under estimate for the month,

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

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$87,137	$74,250	$12,887
Non-Auto Sales & Use	$434,631	$465,931	($31,300)
Total Sales	$521,769	$540,181	($18,412)
Personal Income	$799,090	$1,027,706	($228,616)
Corporate Franchise	$159,445	$226,575	($67,130)
Public Utility	$41,195	$71,400	($30,205)
Kilowatt Hour Excise	$25,888	$24,300	$1,588
Total Major Taxes	**$1,547,388**	**$1,890,162**	**($342,774)**
Foreign Insurance	($11,392)	($4,600)	($6,792)
Domestic Insurance	$126,941	$109,250	$17,691
Business & Property	$3,799	$6,640	($2,841)
Cigarette	$37,695	$37,800	($105)
Alcoholic Beverage	$4,913	$4,900	$13
Liquor Gallonage	$2,279	$2,320	($41)
Estate	$34,156	$21,250	$12,906
Total Other Taxes	$198,392	$177,560	$20,832
Total Taxes	**$1,745,779**	**$2,067,722**	**($321,943)**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	$2,916	$1,400	$1,516
Other Income	$46,386	$15,240	$31,146
Non-Tax Receipts	$49,302	$16,640	$32,662
TRANSFERS			
Liquor Transfers	$10,000	$7,000	$3,000
Budget Stabilization	$40,352	$0	$40,352
Other Transfers In	$164,456	$242,063	($77,607)
Total Transfers In	$214,808	$249,063	($34,255)
TOTAL INCOME less Federal Grants	**$2,009,890**	**$2,333,425**	**($323,535)**
Federal Grants	$294,466	$290,861	$3,605
TOTAL GRF INCOME	**$2,304,356**	**$2,624,286**	**($319,930)**

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

Totals may not add up due to rounding.

though, while corporate franchise tax revenues are 29 percent under estimate.

Ohio is hardly alone in its lackluster revenue predicament. The Rockefeller Institute reports that total state tax revenues for the January-March 2002 quarter posted the third drop in a row compared to revenues one year earlier.[1] What is more, the decline was growing, largely due to a 14.4 percent drop in personal income tax revenues over the same time period, although all major tax sources were weak.

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

REVENUE SOURCE					Percent
TAX INCOME	**Actual**	**Estimate***	**Variance**	**FY 2001**	**Change**
Auto Sales	$859,439	$746,627	$112,812	$733,911	17.10%
Non-Auto Sales & Use	$4,679,043	$4,946,452	($267,409)	$4,699,257	-0.43%
Total Sales	$5,538,482	$5,693,079	($154,597)	$5,433,168	1.94%
Personal Income	$6,611,671	$7,515,951	($904,280)	$6,642,071	-0.46%
Corporate Franchise	$665,719	$933,993	($268,274)	$864,978	-23.04%
Public Utility	$232,062	$207,700	$24,362	$489,200	-52.56%
Kilowatt Hour Excise	$299,262	$303,320	($4,058)	$12	#N/A
Total Major Taxes	**$13,347,196**	**$14,654,043**	**($1,306,847)**	**$13,429,417**	**-0.61%**
Foreign Insurance	$213,447	$229,540	($16,093)	$219,530	-2.77%
Domestic Insurance	$130,471	$112,815	$17,656	$109,064	19.63%
Business & Property	$5,237	$7,969	($2,732)	$8,989	-41.74%
Cigarette	$258,869	$254,800	$4,069	$255,963	1.14%
Alcoholic Beverage	$50,559	$50,680	($121)	$49,720	1.69%
Liquor Gallonage	$26,725	$26,537	$188	$26,551	0.66%
Estate	$114,822	$113,750	$1,072	$144,174	-20.36%
Total Other Taxes	$800,129	$796,091	$4,038	$813,991	-1.70%
Total Taxes	**$14,147,325**	**$15,450,134**	**($1,302,809)**	**$14,243,409**	**-0.67%**
NON-TAX INCOME					
Earnings on Investments	$71,732	$101,250	($29,518)	$118,541	-39.49%
Licenses and Fees	$29,750	$33,601	($3,851)	$31,879	-6.68%
Other Income	$190,922	$113,701	$77,221	$137,411	38.94%
Non-Tax Receipts	$292,404	$248,552	$43,852	$287,831	1.59%
TRANSFERS					
Liquor Transfers	$102,000	$88,000	$14,000	$91,000	12.09%
Budget Stabilization	$48,352	$0	$48,352	$0	#N/A
Other Transfers In	$198,368	$248,300	($49,932)	$648,464	-69.41%
Total Transfers In	$348,720	$336,300	$12,420	$739,464	-52.84%
TOTAL INCOME less Federal Grants	**$14,788,449**	**$16,034,986**	**($1,246,537)**	**$15,270,703**	**-3.16%**
Federal Grants	$4,058,970	$3,979,566	$79,404	$4,041,447	0.43%
TOTAL GRF INCOME	**$18,847,419**	**$20,014,552**	**($1,167,133)**	**$19,312,150**	**-2.41%**

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

Totals may not add up due to rounding.

The Institute observed that the greatest decline has occurred at a time when the economy is by all accounts rebounding. However, much of the tax liability is based on economic activity in calendar year (CY) 2001 not 2002, and during much of CY 2001 the economy was in recession. Yet the Institute noted that sales tax revenues, which are based on more or less current conditions, are also down; so state revenue prospects still look murky.

Personal Income Tax

In May the personal income tax turned in its weakest performance of the fiscal year – a year that has

Previous Next

been notable for the weak performance of the personal income tax. Only two years ago the personal income tax was the darling of state budgets – producing seemingly ever-larger surpluses due to capital gains, stock options, and employee bonuses. Those days are gone. And each month this fiscal year personal income tax revenues provide more evidence of just how far gone those days are.

May personal income tax revenues to the GRF were $799.1 million, which was $228.6 million (22.2 percent) below estimate. This shortfall was the largest of the fiscal year. Combined withholding was under estimate by $19.3 million (3.2 percent), quarterly estimated payments were under estimate by $3.4 million (6.2 percent), and annual returns were under estimate by $211.4 million (40.9 percent). Refunds were over estimate by $11.3 million (23.3 percent).

For the year to date through May, personal income tax revenues were $904.3 million (12.0 percent) below estimate. Withholding was $274.5 million (4.2 percent) below estimate. Quarterly estimated payments were $138.8 million (9.6 percent) below estimate. Annual returns were $285.7 million (30.1 percent) below estimate. Refunds were $224.7 million (34.4 percent) above estimate.

With the exception of a brief pause in December, the cumulative revenue shortfall has gotten larger each month. The growth in the shortfall is presented in Chart 1. Near-term prospects for improvement are few.

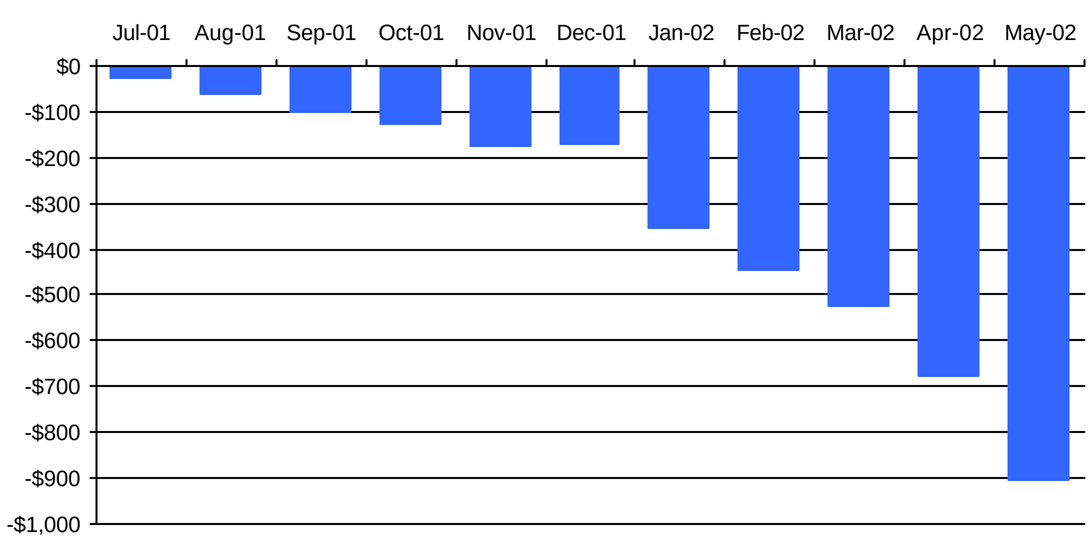
A recent report by the National Conference of State Legislatures (NCSL) provides a lot of evidence that Ohio is only one of 40 states with a similarly dismal personal income tax story to tell.[2] That is small comfort. (Most of the remaining ten states do not have a personal income tax.)

Sales Tax

The Non-auto Sales and Use Tax. Receipts from the non-auto sales and use tax were $434.6 million in May 2002, lagging estimates by $31.3 million or 6.7 percent. Revenues from this source have been below estimate every month this fiscal year except October 2001. May sales tax revenues largely reflect April retail sales. Excluding auto sales, estimated preliminary retail sales in April as reported by the U.S. Department of Commerce improved 1.1 percent relative to March sales. In contrast, non-auto sales tax revenues in May declined 3.8 percent from April non-auto sales tax receipts. Comparing May 2002 results with the same month a year ago, non-auto sales tax revenues this year decreased $3.8 million or 0.8 percent. The decrease in non-auto sales tax revenues partly reflects the Easter shift. Easter weekend fell in March this year, and increased sales

Chart 1 - Cumulative Shortfall of Income Tax Revenue--F FY 2002

(variance from original estimates, $ in millions)



during that holiday increased April sales tax revenues. Conversely, non-auto sales and use tax receipts in May 2002 suffered from the absence of the Easter weekend during the previous month.

For the year to date through May, non-auto sales tax revenues were $4,679.0 million, which was below estimate by $267.4 million or 5.4 percent. May 2002 revenues were also $20.2 million or 0.4 percent below sales and use tax receipts in May last year. Receipts from the non-auto sales tax are down despite a boost in the second half of FY 2002 from changes in the tax treatment of car leases from H.B. 405. H.B. 405 has added an estimated $75.0 million to the non-auto sales tax revenue so far this fiscal year. Put another way, without the additional $75.0 million in revenue, receipts from the non-auto sales tax might have been about $342 million or 7.3 percent below FY 2002 estimates and about 2.0 percent below FY 2001 receipts. (Car leases are included in the non-auto sales tax base rather than the auto sales tax base. Thus, the change in H.B. 405 dealing with the treatment of auto leases is expected to affect non-auto rather than the auto sales tax revenue. It is possible that consumers have been shifting away from auto leases – with or without the H.B. 405 change – which would help explain the relatively slow growth in non-auto sales tax revenues, as well as part of the otherwise phenomenal performance of the auto sales tax.)

Lackluster non-auto sales tax revenues reflect continued consumer caution in retail taxable spending in most areas except autos and housing. Revenue prospects also continue to be murky. Excluding autos, May retail sales, according to advanced estimates from the U.S. Commerce Department, declined 0.4 percent from sales in April. The May same-store sales retail index declined 1.0 percent from the April same-store sales index. Therefore, anticipated non-auto sales tax revenues in June are likely to be weak.

The Auto Sales Tax. Auto sales tax receipts in May were $87.1 million, or $12.8 million above estimate. Consumer spending on automobiles is still strong, and yet car buyers were restrained in May compared to April. Auto sales tax receipts were $10.7 million or 11.0 percent below April tax receipts. This decline tracks somewhat the nationwide decline in auto sales. May 2002 auto sales (in dollars) declined 2.6 percent nationwide from April sales. May 2002 dollar sales also declined 1.5 percent from sales in the same month a year ago. However, the decline in monthly unit sales from the previous year was more pronounced. Light vehicle and truck unit sales in May were almost 6 percent below unit sales in May 2001.

Nationwide auto unit sales so far in CY 2002 are 2.5 percent below last year's sales. The decline in unit sales is strictly confined to autos, which fell 6.2 percent. Compared to a year ago, light truck unit sales have actually improved 1.2 percent to date in CY 2002.

Unit sales of motor vehicles clearly decelerated in May. In the first four months of 2002, total auto and light truck sales were 16.1 million units in January, 16.9 million in February, 17.2 million in March, and 17.6 million in April. In May the seasonally adjusted annual rate of total automobile and light truck unit sales slowed to 16.0 million units. Incentives have been scaled back at the same time automakers are increasing prices. These factors and a weak economic recovery may have contributed to consumers taking a pause from what had been very strong auto sales this year.

For the fiscal year to date through May, Ohio auto sales tax revenues were $859.4 million. Revenues were $112.8 million or 15.4 percent above estimate and $125.5 million or 17.1 percent above receipts through May 2001.

Corporate Franchise Tax

May 2002 corporate franchise tax receipts were $159.4 million. This was $67.1 million or 29.6 percent below estimate and $46.4 million or 22.5 percent below receipts a year ago. For the fiscal year to date, franchise tax revenues through May were $665.7 million. After a brief overage in April, the corporate franchise tax returned to the underperformance that has characterized it throughout this fiscal year. The underage in May increased the year-to-date deficit to $268.3 million, which is 28.4 percent below estimate. FY 2002 corporate franchise tax revenues through May were $199.2 million below FY 2001 revenues through May 2001. After a high of $1,196.6 million in FY 1998, corporate franchise tax receipts have steadily decreased. Franchise tax revenues to the GRF were $1,084.1 million in FY 1999, $969.4 million in FY 2000, and $915.3 million in FY 2001. Corporate franchise tax revenues will likely end below $750.0 million this fiscal year, which will be at least 37 percent below FY 1998 corporation franchise tax receipts to the GRF.

During May, the Ohio Legislature passed and the Governor signed into law Am. Sub. S.B. 261, which will affect franchise tax revenue starting next fiscal year. S.B. 261 modifies the treatment of depreciation expenses for Ohio corporate and individual taxpayers. Due to a recent change in federal depreciation rules, corporate taxpayers can claim a first-year depreciation deduction equal to 30 percent of the adjusted basis of a qualified property. After the first year, the remaining depreciable amount from the purchased asset would be deducted under the preexisting depreciation rules.

Federal taxable income is the starting point of the Ohio corporate returns. An Ohio taxpayer first uses federal depreciation schedules, other deductions, and net operating loss (NOL) rules to calculate federal taxable income. Then, various adjustments (additions and deductions) specific to Ohio are made to reported federal taxable income to find Ohio tax liability. S.B. 261 requires Ohio taxpayers who claim the "bonus" depreciation in their federal tax returns to add back five-sixths of the amount of "bonus" depreciation (deducted in the federal tax returns) to their Ohio corporate tax returns. The bill also allows such taxpayers to deduct one-fifth of that tax year's depreciation add-back for each of the next five consecutive years. In essence, the bill spreads out over six years any "bonus" depreciation claimed on the corresponding federal tax returns by Ohio taxpayers.

Abstracting from cash flow and timing issues resulting from these modifications, S.B. 261 prevents a substantial decrease of up to $90 million in FY 2003 and $78 million in FY 2004 in corporate franchise tax revenues. Similarly, it prevents a somewhat smaller decrease in FY 2003 personal income tax revenues.

Insurance Taxes

May is the big month for domestic insurance tax revenues, and May receipts were $17 million over estimate. Year-to-date revenues are over estimate by the same amount. May is also the big month for foreign insurance tax refunds, which were $6.8 million over estimate. Year-to-date revenues are $16.1 million under estimate, so the variances in the two insurance taxes nearly cancel each other out.

Domestic and foreign insurance tax revenues have mostly been received for FY 2002, and the changes in those revenues as compared with FY 2001 seem at first sight inconsistent. The foreign tax raised $213.4 million during the first 11 months of FY 2002, compared to $219.5 million during the same period in FY 2001— a decrease of 2.8 percent. In contrast the domestic tax raised $130.5 million during the first 11 months of the current fiscal year, compared to $109.1 million during the same period in FY 2001— an increase of 19.6 percent. Both taxes are levied on insurance premiums, so why the disparity?

The disparity is not due to differences in premium growth between domestic and foreign companies; both types of company enjoyed healthy growth in premium revenue between calendar years 2000 and 2001, according to data from the Ohio Department of Insurance. The two lines of insurance that generate the most premium revenue are life insurance and fire and casualty insurance. These two lines account for just over 80 percent of domestic insurance taxes and over 97 percent of foreign insurance taxes. The growth in premium revenue for these two lines of insurance (combined) was 12.1 percent for domestic insurers and 31.0 percent for foreign insurers. Considering the premium data from the Department of Insurance, one would expect foreign insurance taxes to have increased more sharply than domestic insurance taxes, yet precisely the reverse is true. So we have added a puzzle to the disparity described above.

The reason for the disparity (and the answer to the puzzle) is, as many readers will have quickly realized, the insurance tax changes that were made in Am. Sub. H.B. 215, the budget bill of the 122nd General Assembly. FY 2002 is the final transition year to a new tax structure, for both domestic and foreign insurance taxes, that the bill created. Beginning in FY 2003, both foreign and domestic insurance companies will be taxed 1.4 percent of their gross premium revenues. Since the passage of H.B. 215, the premium tax rate has been reduced in stages for both types of insurance company, which accounts for the slight reduction in tax revenues from foreign insurance companies (despite the higher premium revenue received). The domestic insurance tax had a slightly more complicated structure historically, so there was no similarly straightforward reduction in tax revenues. Domestic insurers historically paid the lesser of 2.5 percent of gross premiums or 0.6 percent of their capital and surplus, meaning that many companies paid less than 2.5 percent of premiums (the rate that their foreign company competitors were paying). So even though the tax rate on premiums is being reduced, the phasing-out of the opportunity to pay a tax based on capital and surplus (if less than the tax on premiums) means that many domestic insurers are paying higher Ohio insurance taxes as a result of H.B. 215.[3] This reinforces the 12.1 percent increase in premium revenue mentioned above, leading to the very sharp 19.6 percent increase in tax revenues mentioned above.

Jean Botomogno, Allan Lundell, and Ross Miller also contributed to this revenue article.

Nicholas W. Jenny, "Third Quarter Has Worst State Tax Revenue Decline Yet," The Rockefeller Institute State Fiscal News: Vol. 2, No. 6, May 16, 2002. The information in this article was derived from a report jointly produced by the National Conference of State Legislatures, the Federation of Tax Administrators, the National Association of State Budget Officers, and the Nelson A. Rockefeller Institute of Government at the State University of New York at Albany.

[2] "State Fiscal Update June 2002," National Conference of State Legislatures, June 4, 2002. The report was jointly prepared by NCSL, the Federation of Tax Administrators, the National Association of State Budget Officers, and the Nelson A. Rockefeller Institute of Government at the State University of New York at Albany.

[3] Offsetting to some extent higher Ohio taxes for domestic insurers would be lower foreign (out-of-state) insurance taxes caused by the Ohio tax change under the complicated "retaliatory" tax structure that most states have.

DISBURSEMENTS

*— Steve Mansfield**

Bucking the short-lived trend of the previous two months in which positive General Revenue Fund disbursement variances reduced the state's year-to-date negative disbursement variance, May's General Revenue Fund disbursements were $109.4 million under the estimate; this sent the total year-to-date disbursement variance back to $285.2 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 program categories registered negative disbursement variances in May, while the other program category (Education) registered a relatively small positive disbursement variance. May's strong net negative disbursement variance was led by the Government Operations program, which posted an underage of $66.2 million. The bulk of May's negative disbursement variance in Government Operations was posted by the Department of Rehabilitation and Correction and is traceable to mandated spending reductions, and to the timing of a May payroll expenditure that actually posted during the last week of April. At the end of May, the Education program category remained the largest source of the total year-to-date negative disbursement variance at $201.1 million below the estimate.

As is our usual practice, we will examine the monthly 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 May and year-to-date disbursement variances, respectively, by program category.

Education (-$201.1 million)

Disbursements in the Education program category were over the May estimate by $2.6 million. This was the result of a $27.3 million positive disbursement variance in Primary and Secondary Education and a partially offsetting $24.7 million negative disbursement variance in Higher Education. For the year to date, Education program category spending

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

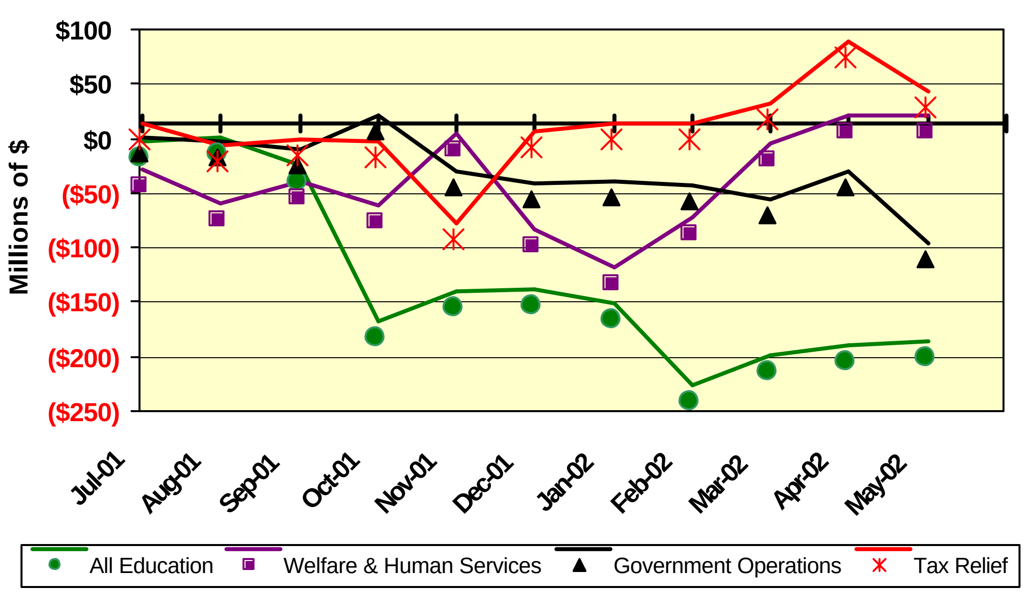


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of May 2002
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$516,705	$489,365	$27,340
Higher Education	$209,320	$234,039	($24,719)
Total Education	$726,025	$723,404	$2,621
Health Care/Medicaid	$478,611	$480,109	($1,498)
Temporary Assistance to Needy Families (TANF)	$976	$0	$976
General/Disability Assistance	$6,121	$7,045	($924)
Other Welfare (2)	$29,490	$29,973	($484)
Human Services (3)	$80,111	$78,410	$1,701
Total Welfare & Human Services	$595,308	$595,538	($229)
Justice & Corrections	$113,490	$163,564	($50,074)
Environment & Natural Resources	$8,285	$9,220	($936)
Transportation	$508	$5,772	($5,263)
Development	$6,748	$13,034	($6,287)
Other Government (4)	$18,532	$22,185	($3,653)
Capital	$4	$0	$4
Total Government Operations	$147,566	$213,776	($66,210)
Property Tax Relief (5)	$179,106	$224,657	($45,551)
Debt Service	$0	$0	$0
Total Program Payments	**$1,648,005**	**$1,757,374**	**($109,370)**
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	**$1,648,005**	**$1,757,374**	**($109,370)**

(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.

through May stood at $201.1 million under the estimate.

Department of Education. May's positive disbursement variance of $27.3 million reduced the department's year-to-date disbursement variance to $87.2 million below the estimate. The timing of the distribution of state formula aid in Base Cost Funding (line item 200-501) and in Disadvantaged Pupil Impact Aid (DPIA) (line item 200-520) accounted for most of the positive disbursement variance in May.

The notable contributors to the department's $87.2 million year-to-date negative disbursement variance include the following line items: (1) 200-513, Student Intervention Services ($19.5 million), (2) 200-406, Head Start ($15.5 million), and (3) 200-520, DPIA ($13.3 million).

Regents. In May, the Board of Regents posted a $24.7 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 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 $113.9 million below the estimate. The bulk of the year-to-date underage ($82.9 million, or 72.8 percent) is driven by the underspending posted in line item 235-501 (discussed above). The most notable contributer to the $31 million remaining in the year-to-date negative disbursement variance is line item 235-590, Twelfth Grade Proficiency Stipend, which was $16.2 million under estimate at the end of May. 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. Disbursement activity in this line item is slower than expected due partially to administrative problems.

Government Operations (-$111.3 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 activity in these two departments.

Rehabilitation and Correction. The Department of Rehabilitation and Correction posted a $43.1 million negative disbursement variance in May, thus increasing its year-to-date disbursement variance to $68.4 million below the estimate. May's underage 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 May, the Department of Administrative Services (DAS) posted an $11.9 million negative year-to-date disbursement variance. Approximately $9.3 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 ($5.9 million)

As we see in Table 4, disbursements in the Welfare and Human Services program category were slightly below the May estimate, by $0.2 million. Table 5 shows that, for the year to date through May, disbursements in the program category stood at $5.9 million above the estimate. The following paragraphs in this section discuss the notable 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 $0.5 million short of the estimate in May. This marks the tenth straight month of underages in this category. For the year to date, the underage stood at $75.9 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,

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

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 2001	Percent Change
Primary & Secondary Education (1)	$5,614,484	$5,701,664	($87,180)	$5,337,895	5.18%
Higher Education	$2,247,462	$2,361,393	($113,931)	$2,375,226	-5.38%
Total Education	$7,861,946	$8,063,057	($201,111)	$7,713,120	1.93%
Health Care/Medicaid	$6,725,995	$6,615,682	$110,314	$5,943,840	13.16%
Temporary Assistance to Needy Families (TANF	$366,867	$388,009	($21,142)	$821,122	-55.32%
General/Disability Assistance	$81,905	$78,708	$3,197	$66,681	22.83%
Other Welfare (2)	$457,375	$533,232	($75,857)	$501,617	-8.82%
Human Services (3)	$1,066,140	$1,076,731	($10,592)	$1,069,837	-0.35%
Total Welfare & Human Services	$8,698,282	$8,692,363	$5,920	$8,403,097	3.51%
Justice & Corrections	$1,696,564	$1,782,885	($86,321)	$1,700,507	-0.23%
Environment & Natural Resources	$116,870	$123,652	($6,782)	$125,363	-6.77%
Transportation	$45,267	$41,090	$4,177	$35,246	28.43%
Development	$168,286	$172,516	($4,230)	$166,121	1.30%
Other Government (4)	$365,166	$389,184	($24,019)	$360,262	1.36%
Capital	$9,160	$3,322	$5,838	$49,813	-81.61%
Total Government Operations	$2,401,313	$2,512,650	($111,337)	$2,437,312	-1.48%
Property Tax Relief (5)	$993,540	$965,149	$28,391	$892,835	11.28%
Debt Service	$219,011	$226,083	($7,071)	$186,464	17.46%
Total Program Payments	**$20,174,093**	**$20,459,301**	**($285,209)**	**$19,632,828**	**2.76%**
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	**$20,207,055**	**$20,485,483**	**($278,429)**	**$20,487,053**	**-1.37%**

(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.

(1) 600-416, Computer Projects ($30.9 million), (2) 600-200, Maintenance ($10.3 million), (3) 600-528, Adoption Services ($7.6 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 600-200, 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

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

Service Category	May Actual	May Estimate	May Variance	May Percent Variance	Year-to-Date Spending Actual thru' May	Year-to-Date Spending Estimate thru' May	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Facilities	$202,788	$199,409	$3,379	1.7%	$2,183,332	$2,223,760	($40,428)	-1.8%
ICF/MR	$32,471	$32,907	($436)	-1.3%	$365,426	$371,504	($6,078)	-1.6%
Hospitals	$102,679	$131,030	($28,351)	-21.6%	$1,434,103	$1,534,570	($100,466)	-6.5%
Inpatient Hospitals	$72,440	$95,483	($23,043)	-24.1%	$1,014,644	$1,115,883	($101,239)	-9.1%
Outpatient Hospitals	$30,239	$35,547	($5,308)	-14.9%	$419,459	$418,686	$773	0.2%
Physicians	$37,817	$37,785	$33	0.1%	$441,593	$437,484	$4,109	0.9%
Prescription Drugs	$84,809	$81,137	$3,671	4.5%	$954,024	$945,036	$8,988	1.0%
Payments	$105,958	$102,287	$3,671	3.6%	$1,165,519	$1,156,527	$8,992	0.8%
Rebates	($21,149)	($21,149)	$0	0.0%	($211,495)	($211,491)	($4)	0.0%
ODJFS Waivers[1]	$11,005	$13,069	($2,064)	-15.8%	$147,527	$145,718	$1,809	1.2%
HMO	$58,935	$49,114	$9,820	20.0%	$540,483	$497,437	$43,046	8.7%
Medicare Buy-In	$11,439	$10,778	$660	6.1%	$121,865	$116,974	$4,891	4.2%
All Other[2]	$48,664	$48,901	($237)	-0.5%	$610,567	$563,449	$47,119	8.4%
DSH offset	($116,557)	($117,333)	$776		($116,557)	($117,333)	$776	
Total ALI 600-525	**$474,049**	**$486,798**	**($12,749)**	**-2.6%**	**$6,682,364**	**$6,718,599**	**($36,235)**	**-0.5%**
FMAP[3]	58.94%	58.94%			58.94%	58.94%		
Est. Federal Share	$279,404	$286,919	($7,514)		$3,938,585	$3,959,942	($21,357)	
Est. State Share	$194,644	$199,879	($5,235)		$2,743,779	$2,758,657	($14,878)	
BSF Shortfall[4]	$0	($10,631)			$0	($146,027)		
Total ALI 600-525 Disb.	**$474,049**	**$476,167**	**($2,119)**	**-0.4%**	**$6,682,364**	**$6,572,572**	**$109,792**	**1.7%**
Est. Federal Share	$279,404	$280,653	($1,249)		$3,938,585	$3,873,874	$64,712	
Est. State Share	$194,644	$195,514	($870)		$2,743,779	$2,698,698	$45,081	
Children's Health Insurance Plan (CHIP-II), ALI 600-426[5]								
Total ALI 600-426	**$4,562**	**$3,941**	**$621**	**15.7%**	**$43,631**	**$43,110**	**$521**	**1.2%**
Enhanced FMAP	71.19%	71.19%			71.19%	71.19%		
Est. Federal Share	$3,248	$2,806	$442		$31,061	$30,690	$371	
Est. State Share	$1,314	$1,135	$179		$12,570	$12,420	$150	
Total Health Care	**$478,611**	**$490,739**	**($12,128)**	**-2.5%**	**$6,725,995**	**$6,761,709**	**($35,714)**	**-0.5%**
Total Hlth Care w/o BSF	**$478,611**	**$480,109**	**($1,498)**	**-0.3%**	**$6,725,995**	**$6,615,682**	**$110,313**	**1.7%**

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 line item 600-525 and prior-year encumbrances.
3. Federal Medical Assistance Percentage.
4. The budget estimate assumed $65 million of the Budget Stabilization Fund (BSF) will be used to increase the appropriation in line item 525 by $158 million, all funds in state fiscal year (SFY) 2002.
5. 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.

awareness activities. These activities tend to influence the adoption rate. In late May, the Controlling Board approved the transfer of $1.2 million from line item 600-528 to two line items supporting other administrative activity.

TANF. The year-to-date negative disbursement variance in GRF spending in the Temporary Assistance to Needy Families (TANF) program decreased slightly to $21.1 million in May. The bulk of the year-to-date underage is registered in line item 600-411, TANF Federal Block Grant, where spending of prior-year funds is $18.1 million below the estimate. Of

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 through May '02	FY 2001[1] Yr. to Date through May '01	Dollar Change	Percent Increase
Nursing Facilities	$2,183,332	$2,072,755	$110,578	5.3%
ICF/MR	$365,426	$350,267	$15,159	4.3%
Hospitals	$1,434,103	$1,365,131	$68,972	5.1%
Inpatient Hospitals	$1,014,644	$988,227	$26,417	2.7%
Outpatient Hospitals	$419,459	$376,904	$42,555	11.3%
Physicians	$441,593	$387,250	$54,343	14.0%
Prescription Drugs	$954,024	$782,727	$171,298	21.9%
Payments	$1,165,519	$970,461	$195,058	20.1%
Rebates	($211,495)	($187,734)	($23,761)	12.7%
ODJFS Waivers[2]	$147,527	$129,260	$18,267	14.1%
HMO	$540,483	$383,488	$156,995	40.9%
Medicare Buy-In	$121,865	$109,729	$12,136	11.1%
All Other[3]	$610.567	$493.781	$116.787	23.7%
DSH offset	($116,557)	($156,887)	$40,330	
Total (600-525)	**$6,682,364**	**$5,917,500**	**$764,864**	**12.9%**
Estimated Federal Share[4]	$3,938,585	$3,471,797	$466,788	13.4%
Estimated State Share	$2,743,779	$2,445,703	$298,076	12.2%

1. Includes spending from prior-year encumbrances in the "All Other" category.
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, the totals do not exactly match the amounts from Table 5.

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 ($71.0 million) in May was from non-GRF federal TANF funds.

Also in May, cash assistance benefits totaled $26.3 million. The number of TANF cash assistance recipients decreased by about 2,500 to stand at 195,559. The average number of recipients per assistance group fell in May to 2.28 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 now make up 45.6 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. These "child only" cases contain nearly 60,000 children.

Mental Retardation. The Department of Mental Retardation and Developmental Disabilities closed May with a $23.8 million negative year-to-date disbursement variance. As has been the case for several months, the bulk of the negative disbursement variance ($19.9 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 May in the Health Care/Medicaid program (primarily line item 600-525) stood at $110.3 million, or 1.7 percent, over the estimate of $6.62 billion. In May, the program recorded a $1.5 million negative disbursement variance.

The total number of Medicaid eligibles in May was 1,485,477, an increase of nearly 160,000 since the beginning of the state fiscal year, and nearly 100,000 higher than forecast. The number of Covered Families and Children (CFC) recipients has increased by nearly 145,000 since the beginning of the state fiscal year to stand at 1,095,000. The number of Aged, Blind, and Disabled (ABD) recipients has increased by almost 15,000 since the beginning of the state fiscal year to stand at a little over 390,000. Although greatly outnumbered by the CFC population, the ABD population accounts for over 70 percent of all Medicaid expenditures.

Additional costs in the Health Care/Medicaid program were anticipated in Am. Sub. H.B. 94 of the 124th General Assembly, 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 expected 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.

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 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. The Department of Job and Family Services and OBM chose to produce "budgeted" service category estimates that included the $158 million from the BSF and matching federal funds, which exceeds the actual amount of additional funding by some $60 million. In contrast, Tables 4 and 5 reflect the original disbursement estimates that were based on the program's appropriation authority in Am. Sub. H.B. 94.

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 $35.7 million under the estimate, whereas when the BSF and matching federal funds are removed from consideration, the year-to-date disbursement variance is $110.3 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. At the end of May, the Department of Mental Health registered a year-to-date positive disbursement variance of $28.4 million. 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. The year-to-date positive disbursement variance in line item 334-408 was reduced by $3.5 million in May to stand at $14.9 million.

Also entering the picture as a significant contributor to the department's positive disbursement variance was line item 333-415, Lease Rental Payments, which posted a $14.1 million overage in May. This line item, which supports debt service payments for long-term capital construction projects of the department, posted in May a payment that had originally been scheduled for June.

Tax Relief ($28.4 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.

For the month of May, disbursement activity in the Property Tax Relief Program was $45.6 million below the estimate. The Department of Education's line item 200-901, Property Tax Allocation, accounted for $29.8 million of the variance, with the Department of Taxation's line item 110-901 tossing in the remainder. The year-to-date disbursement variance of $28.4 million at the end of May was composed of partially offsetting variances: $42.6 million over the estimate for the Department of Education's Property Tax Relief program and $14.2 million under the estimate for the Department of Taxation's program.

**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.*