Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

SEPTEMBER, 2002

FISCAL OVERVIEW

— Doris Mahaffey

The first two months of FY 2003 have been fairly uneventful. A flurry of budget-related activity occurred at the end of June and the beginning of July, as the Office of Budget and Management (OBM) struggled to eke out a positive General Revenue Fund (GRF) ending balance for FY 2002 and then hurried to make certain payments – largely Medicaid reimbursements and tax relief payments to local governments – that had been delayed from FY 2002. Also, early in July executive budget cuts totaling $372.3 million for FY 2003 were announced, and agencies worked to figure out how to deal with them. There was no transfer to the Budget Stabilization Fund (BSF) and no transfer to the income tax reduction fund in July. For the second year in a row there was no announcement in July about this year's income tax cut due to the prior year budget surplus, as there was no prior year budget surplus, because the ending cash balance of $95.7 million fell short of the statutory definition of "surplus revenue."

Due to the executive cuts, OBM did not complete its monthly disbursement estimates for FY 2003 until September. Thus, this somewhat abbreviated issue of *Budget Footnotes* – covering activity in both July and August – will focus more on year-over-year comparisons (that is, comparisons of revenue and disbursements for FY 2003 through the end of August 2002 with revenue and disbursements for FY 2002 through the end of August 2001), especially with respect to disbursements. However, even year-over-year disbursement comparisons are problematic. For example, certain payments made in July that were delayed from FY 2002 increased year-to-date spending in certain categories (specifically tax relief and Medicaid) vis-à-vis FY 2002. At the same time, however, the executive cuts were implemented in July this year, whereas they were implemented in October last year. Thus, year-to-date spending in other categories (Higher Education and Other Government, for example) is substantially below spending in the same categories through this time last year.

Year-over-year revenue comparisons are a little more straightforward. Revenue for FY 2003 from all sources was up 8 percent compared to revenue received through August 2001. Revenue from the cigarette tax provided a significant boost. Due to the tax increase enacted in S.B. 261 in May of this year, cigarette tax revenues for the months of July and August were up $44.7 million over the same two months of last year.

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

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

	Month of August	**Fiscal Year 2002 to Date**	**Last Year**	**Difference**
Beginning Cash Balance	($41.9)	$619.2		
Revenue + Transfers	$1,606.0	$3,145.5		
Available Resources	$1,564.2	$3,764.8		
Disbursements + Transfers	$1,862.1	$4,062.7		
Ending Cash Balances	($298.0)	($298.0)	$95.7	($393.6)
Encumbrances and Accts. Payable		$721.5	$870.7	($149.2)
Unobligated Balance		**($1,019.5)**	**($775.0)**	**($244.5)**
BSF Balance		$427.9	$1,010.6	($582.7)

The auto sales tax continued its strong performance from last year: Tax revenues from auto sales were up 10.6 percent for the year to date. Non-auto sales tax revenues were up 5.6 percent, as well – although sales tax revenues during the comparison period (July and August of 2001) were depressed, so a 5.6 percent growth rate is not particularly impressive. Consumer spending was stronger in June (the basis for July sales tax revenues) but declined in July. Consumer confidence, which was shaken by continued weakness in the labor markets and continued unease in the financial markets, declined over the period, as well. The weak labor markets, in turn, contributed to a lackluster growth in personal income tax revenue, which was up just 1.7 percent over last year.

As shown in Table 1, the GRF began FY 2003 with a cash balance of $619.2 million, which was nearly $200 million less than the FY 2002 beginning cash balance of $817.1 million. Revenues, including transfers, for July and August combined amounted to $3,764.8 million. This was $917.2 million short of total disbursements (including transfer out) for the same time period of $4,062.7 million. The resulting cash balance (-$298 million at the end of August) was $393.6 million less than the cash balance at the end of August 2001. At the same time the unobligated balance was only $244.5 million less due to this year's lower amount of encumbrances. However, the combined GRF and BSF balance on August 30 of this year was substantially lower than the same time last year, due to the transfer of $582.7 million from the BSF to the GRF during FY 2002.

TRACKING THE ECONOMY

— Allan Lundell

The modest recovery slowed during July and August. The Conference Board's index of coincident economic indicators was unchanged in July and grew by 0.1 percent in August. The four variables used in constructing this index are the same variables used by the National Bureau of Economic Research (NBER) to date recessions and recoveries. Employees on nonagricultural payrolls increased in both July and August. Real personal income less transfer payments fell in July but rose in August. Industrial production rose in July but fell in August. Real manufacturing and trade sales rose in both July and August. The performance of the variables is presented in Exhibits 1-4. The data series were transformed to have a value of 100 in March 2001 (the month designated by NBER as the start of the current recession). The exhibits show that real income and real sales have rebounded from recession lows and now exceed pre-recession highs. Industrial production has rebounded modestly and is still well below its pre-recession high. Employment, which NBER considers the "single most reliable indicator" of recessions, remains well below its pre-recession peak.

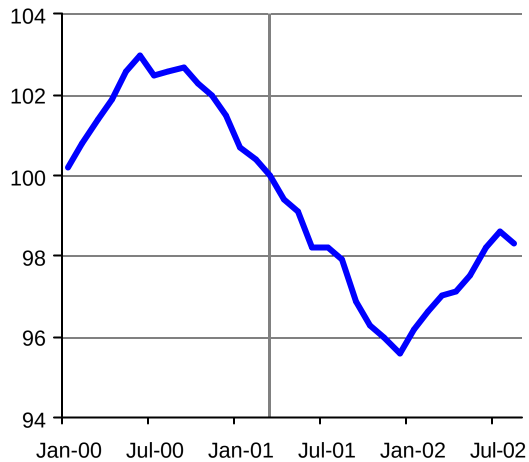
Consumers continued to spend and support the economy. Retail sales rose 1.1 percent in July and 0.8 percent in August. Spending on motor vehicles and parts, driven by dealer incentive programs, increased by 4.0 percent in July and 1.9 percent in August. Total vehicle sales were at an 18.1 million SAAR (seasonally adjusted annualized rate) in July and 18.7 million SAAR in August. Retail sales excluding motor vehicle and parts dealers ("core" retail sales) increased by 0.2 percent in July and 0.4 percent in August. Compared to August 2001, retail sales are up 5.2 percent, sales of motor vehicle and parts dealers are up 9.8 percent, and core retail sales are up 3.7 percent. The continued strength in consumer spending is somewhat surprising. Personal income did not grow in July. Consumer confidence (as measured by the Conference Board) fell in both July and August. However, low mortgage rates continue to encourage refinancing which provides money to spend.

The unadjusted Consumer Price Index for Urban Consumers (CPI-U) rose by 0.1 percent in July and 0.3 percent in August. The index for energy rose by 0.4 percent in July and 0.6 percent in August. The index for food increased by 0.2 percent in July and decreased by 0.1 percent in August. The core index (less food and energy) rose by 0.2 percent in July and 0.3 percent in August. Compared to a year ago, the CPI-U is up 1.7 percent, the energy index is down 3.0 percent, the index for food is up 1.3 percent, and the core index is up 2.4 percent. The index for medical care rose by 0.7 percent in July and 0.2 percent in August and is up 4.7 percent compared to a year ago.

The employment situation is not encouraging. Although total nonfarm employment has increased monthly since May, the increases in total employment are the result of increases in some sectors and decreases in others. Total employment increased by 67,000 in July – a 108,000 increase in service producing industries combined with a 41,000 decrease in goods producing industries. Total employment increased by 39,000 in August – a 72,000 increase in service producing industries combined with a 33,000 decrease in goods producing industries. Manufacturing has suffered job losses for 25 consecutive months, totaling 1.86 million.

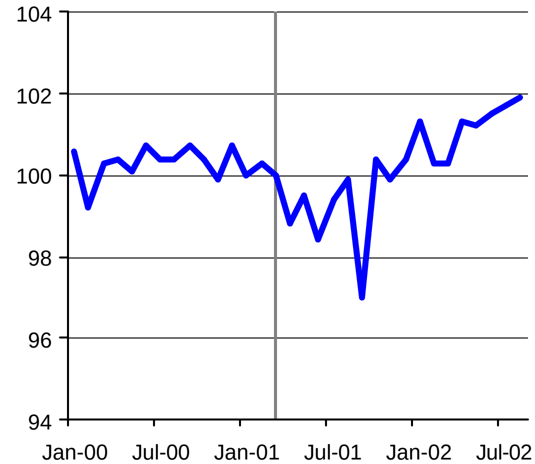
In Ohio, the seasonally adjusted unemployment rate was 5.7 percent in July and 5.5 percent in August. The decrease in the unemployment rate is deceptive. Between July and August, Ohio's labor force decreased by 23,400; employment fell by 9,400 and unemployment fell by 14,000. Although the Ohio unemployment rate fell, the employment situation in Ohio did not improve.

Exhibit 1
Industrial Production



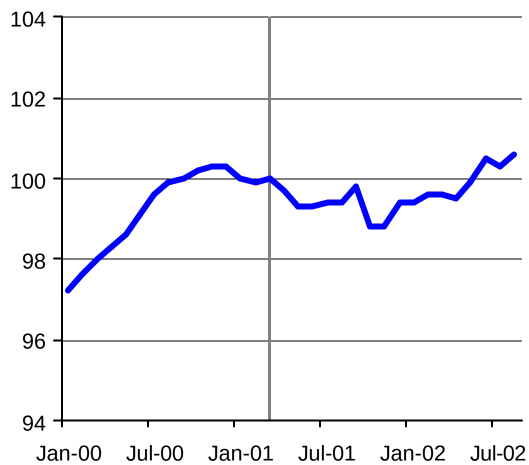
Source: National Bureau of Economic Research and LSC calculations

Exhibit 2
Real Manufacturing and Trade Sales



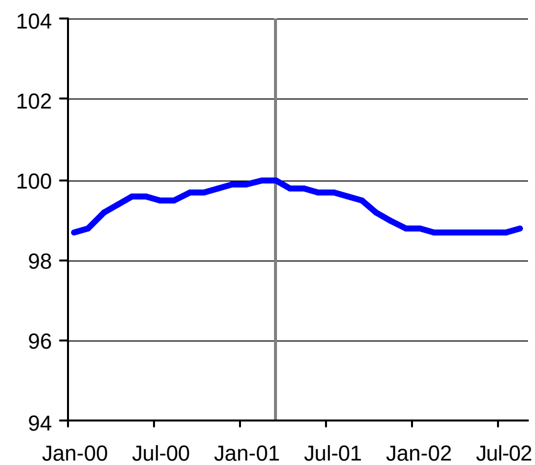
Source: National Bureau of Economic Research and LSC calculations

Exhibit 3
Real Personal Income less Transfers

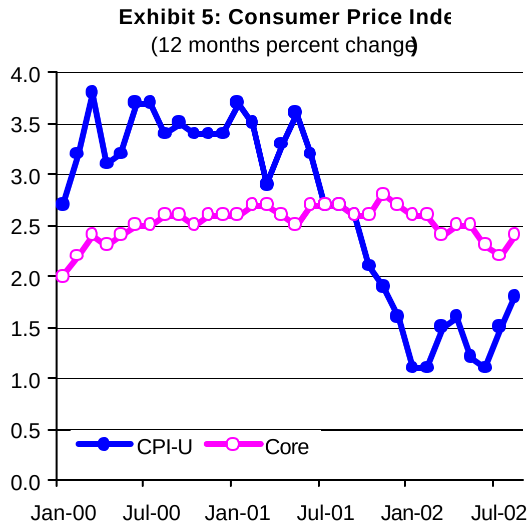


Source: National Bureau of Economic Research and LSC calculations

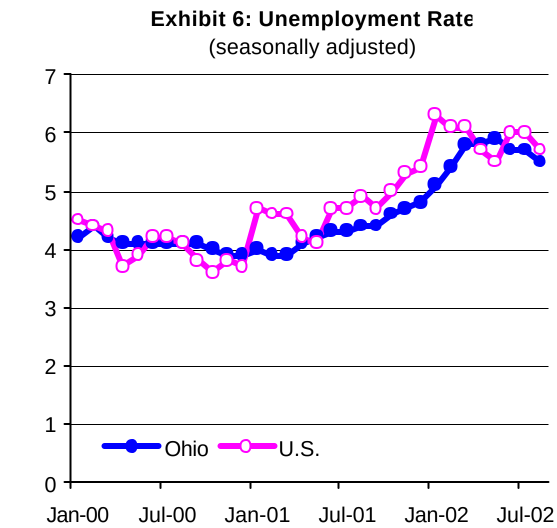
Exhibit 4
Nonagricultural Payroll Employment



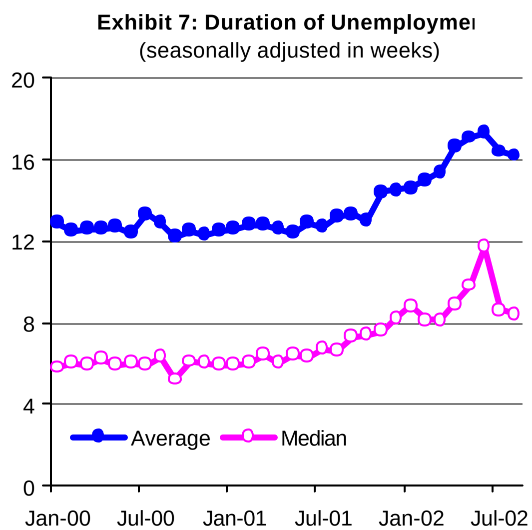
Source: National Bureau of Economic Research and LSC calculations



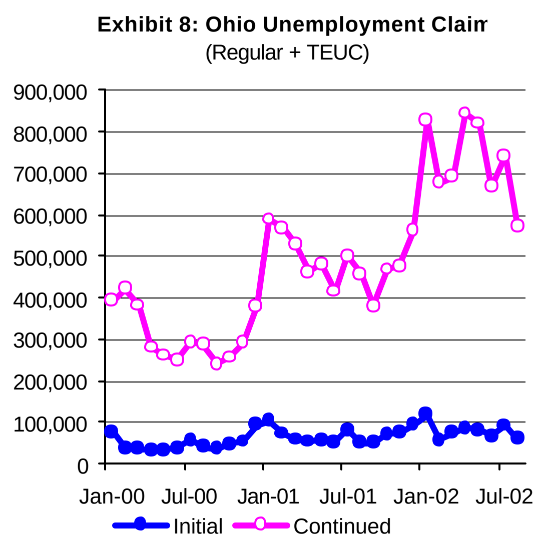
Source: U.S. Bureau of Labor Statistics



Source: U.S. Bureau of Labor Statistics



Source: U.S. Bureau of Labor Statistics



Source: Ohio Department of Job and Family Services

Status of the General Revenue Fund

REVENUES

—*Allan Lundell**

Two months into the fiscal year, GRF revenues are 1.4 percent above estimate. Of course, the estimates had been revised to take into account the slow economy and the changes made by H.B. 405 and S.B. 261, and drawing any conclusions after just two months is a bit risky, but it is nevertheless encouraging to be above estimate. GRF revenues are up 8.1 percent compared to last year. Sales and use tax revenues are up 6.5 percent, personal income tax revenues are up 1.7 percent, and cigarette tax revenues, thanks to the S.B. 261 rate increase, are up 123 percent. Although FY 2002 was disappointing and a simple comparison may be misleading, it is good to see growth in revenues.

Sales and Use Tax

Non-auto Sales and Use Tax. The non-auto sales and use tax provided $478.3 million and $441.2 million in July and August, respectively. These amounts were $25.9 million (or 5.7 percent) above estimates in July, and $16.5 million (or 3.6 percent) below estimates in August. Non-auto sales and use tax receipts generally reflect retail sales activity in the prior month. According to the U.S. Department of Commerce, retail sales (excluding autos) grew 0.5 percent in June, and a weak 0.2 percent in July. Looking at another measure of retail sales health, the Bank of Tokyo Mitsubishi Retail Chain Store Index[1] month-to-month percentage change was positive in June (+1.4 percent) and negative (-7.3 percent) in July. Generally, retail sales are relatively weak in July, and rebound in August with "back-to-school" sales. Thus, lower sales tax revenues in August were not unexpected. However, the magnitude of the decline in July and the level of sales tax revenues in August were not reassuring, raising the specter of continued lackluster non-auto sales and use tax revenues. Retail sales (excluding autos) grew a modest 0.4 percent in August 2002, and tax receipts may be better in September 2002.

Compared to non-auto sales and use tax revenues a year ago, July 2002 tax receipts were $41.6 million, or 9.5 percent higher than revenues in July 2001. Non-auto sales and use tax receipts in August 2002 were $7.5 million or 1.7 percent higher than tax receipts in the same month last year.

Year-to-date as of August 2002, non-auto sales and use tax receipts were $919.5 million, $9.5 million or 1.0 percent above estimates. Compared to receipts a year ago, in August 2001, year-to-date non-auto sales tax receipts were up $49.1 million or 5.6 percent.

Auto Sales Tax. The auto sales tax is continuing its strong performance in the first two months of FY 2003. Auto sales tax receipts were $84.6 million in July and $104.3 million in August. July tax receipts were above estimates by $3.1 million, or 3.8 percent. In August, auto sales tax revenues were also higher than projected by $18.3 million, or 21.3 percent. At a seasonally adjusted annual rate of 18.6 million units in August 2002, auto and light truck sales continue to confound analysts.[2]

Compared to receipts a year ago, auto sales tax receipts were $4.5 million or 5.7 percent higher in July 2002. August 2002 auto sales tax receipts were $13.7 million or 15.1 percent higher than receipts in August 2001. Year-to-date as of August 2002, the auto sales tax is already $21.4 million or 12.8 percent above estimates in FY 2003. Auto sales tax revenues in August were also $18.2 million or 10.7 percent higher than FY 2002 receipts.

The strength of the auto market is due to the various incentives offered to car buyers, and those show no signs of abating. For example, in addition to "zero percent" financing available for some of the 2003 models and the remaining 2002 models available for Ford and GM models, Ford announced a new deferred payment incentive program on all 2002 vehicles (no payment until January 2003). Manufacturer incentives have increased to an average of $3,229 per vehicle sold in July 2002 (excluding individual incentives by dealers), highest ever according to CNW Marketing Research.[3] With the continuation of such incentives, total sales of autos

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

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$104,267	$85,975	$18,292
Non-Auto Sales & Use	$441,213	$457,725	($16,512)
Total Sales	$545,480	$543,700	$1,780
Personal Income	$529,744	$500,400	$29,344
Corporate Franchise	$1,571	($6,194)	$7,765
Public Utility	$26,389	$31,300	($4,911)
Kilowatt Hour Excise Tax	$31,193	$30,150	$1,043
Total Major Taxes	**$1,134,376**	**$1,099,356**	**$35,020**
Foreign Insurance	$53	$0	$53
Domestic Insurance	$1,284	$0	$1,284
Business & Property	$739	$0	$739
Cigarette	$58,702	$53,979	$4,723
Alcoholic Beverage	$4,920	$5,162	($242)
Liquor Gallonage	$2,504	$2,490	$14
Estate	$1,033	$0	$1,033
Total Other Taxes	$69,233	$61,631	$7,602
Total Taxes	**$1,203,610**	**$1,160,987**	**$42,623**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	$4,814	$3,960	$854
Other Income	$10,002	$11,691	($1,689)
Non-Tax Receipts	$14,816	$15,651	($835)
TRANSFERS			
Liquor Transfers	$9,000	$8,500	$500
Budget Stabilization	$0	$0	$0
Other Transfers In	$0	$0	$0
Total Transfers In	$9,000	$8,500	$500
TOTAL INCOME less Federal Grants	**$1,227,425**	**$1,185,138**	**$42,287**
Federal Grants	$378,590	$376,872	$1,718
TOTAL GRF INCOME	**$1,606,015**	**$1,562,010**	**$44,005**

* July, 2002 estimates of the Office of Budget and Management.

Detail may not add up to total due to rounding.

and light trucks may again reach 17 million units in CY 2002,[4] which would make it another remarkable year, considering that the economy went through a recession.

Year-to-date as of August 2002, total sales and use tax revenues were $1,108.3 million, $30.9 million (or 2.9 percent) above estimates. Almost 70 percent of this total overage is due to the auto sales tax. Also, total sales and use tax receipts as of August 2002 were $67.3 million (or 6.5 percent) higher than year-to-date receipts in August 2001. Thus, despite lower than anticipated non-auto sales and use tax revenues in August, sales and use tax revenues are off to a good start this fiscal year.

Table 3
General Revenue Fund Income
Actual vs. Estimate
FY 2003 to Date as of August 2002
($ in thousands)

REVENUE SOURCE					
TAX INCOME	**Actual**	**Estimate***	**Variance**	**FY 2002**	**Percent Change**
Auto Sales	$188,813	$167,425	$21,388	$170,633	10.65%
Non-Auto Sales & Use	$919,526	$910,065	$9,461	$870,429	5.64%
Total Sales	$1,108,339	$1,077,490	$30,849	$1,041,062	6.46%
Personal Income	$991,802	$995,000	($3,198)	$974,933	1.73%
Corporate Franchise	-$9,851	-$15,873	$6,022	($10,969)	-10.19%
Public Utility	$26,389	$31,300	($4,911)	$45,145	-41.55%
Kilowatt Hour Excise Tax	$57,938	$56,900	$1,038	$55,150	5.05%
Total Major Taxes	**$2,174,616**	**$2,144,817**	**$29,799**	**$2,105,321**	**3.29%**
Foreign Insurance	$54	$0	$54	$322	-83.37%
Domestic Insurance	$1,284	$0	$1,284	$3,010	-57.36%
Business & Property	$745	$0	$745	$204	264.76%
Cigarette	$81,023	$75,002	$6,021	$36,338	122.97%
Alcoholic Beverage	$10,281	$10,527	($246)	$10,064	2.16%
Liquor Gallonage	$4,836	$4,890	($54)	$4,823	0.27%
Estate	$13,411	$10,860	$2,551	$365	3,576.75%
Total Other Taxes	$111,633	$101,279	$10,354	$55,126	102.51%
Total Taxes	**$2,286,250**	**$2,246,096**	**$40,154**	**$2,160,447**	**5.82%**
NON-TAX INCOME					
Earnings on Investments	$0	$0	$0	$0	—
Licenses and Fees	$7,876	$6,930	$946	$7,951	-0.95%
Other Income	$24,577	$25,831	($1,254)	$22,171	10.85%
Non-Tax Receipts	$32,453	$32,761	($308)	$30,122	7.74%
TRANSFERS					
Liquor Transfers	$19,000	$16,000	$3,000	$17,000	11.76%
Budget Stabilization	$0	$0	$0	$0	—
Other Transfers In	$3,695	$3,695	$0	$7,996	-53.79%
Total Transfers In	$22,695	$19,695	$3,000	$24,996	-9.21%
TOTAL INCOME less Federal Grants	**$2,341,397**	**$2,298,552**	**$42,845**	**$2,215,565**	**5.68%**
Federal Grants	$804,141	$802,423	$1,718	$694,910	15.72%
TOTAL GRF INCOME	**$3,145,539**	**$3,100,975**	**$44,564**	**$2,910,475**	**8.08%**

* July, 2002 estimates of the Office of Budget and Management.

Detail may not add up to total due to rounding.

Personal Income Tax

Personal income tax revenues were $32.5 million (6.6 percent) under estimate in July and $29.3 million (5.9 percent) over estimate in August. The variances were largely due to withholding, which was $27.0 million (4.8 percent) under estimate in July and $26.1 million (4.7 percent) over estimate in August. Refunds were $7.3 million (19.7 percent) greater than estimated in July and $5.8 million (21.2 percent) greater than estimated in August.

Personal income tax revenues are $3.2 million (0.3 percent) below estimate for the fiscal year.

Combined withholding is just $900,000 (0.1 percent) below estimate but is up 1.2 percent compared to FY 2002. Refunds are $13.1 million (21.2 percent) greater than estimated.

Corporate Franchise Tax

Corporate franchise tax receipts were $1.6 million, or $7.8 million above estimates in August. Corporate taxpayers received $11.4 million in refunds of tax overpayments in July. Activities under the franchise tax in the first half of the fiscal year are generally tax refunds, or tax collections due to audit findings or late payments. Major tax receipts under this tax are due in the second half of the fiscal year, with the first major tax payment in January 2003. Year-to-date as of August 2002, corporate franchise tax receipts were above estimates by $6.0 million or 37.9 percent.

Cigarette and Other Tobacco Products Tax

S.B. 261, which passed in May, included a cigarette tax increase starting July 1, 2002. The new tax in FY 2003 is 55 cents per pack of 20 cigarettes, up from 24 cents. S.B. 261 also allowed the payment of the additional tax on cigarette inventories to be paid in three installments – July 31, August 31, and September 20, 2002. The tax on other tobacco products was unchanged.

Cigarette and other tobacco products tax receipts were $22.3 million in July and $58.7 million in August. These amounts were higher than estimates by $1.3 million or 6.2 percent in July, and $4.7 million or 8.7 percent in August. Compared to receipts a year ago, revenues were higher by $13.2 million (or 143.6 percent) in July and $31.5 million (or 116.1 percent) in August. Year-to-date, receipts from the tax on cigarette and other tobacco products were above estimates by $6.0 million or 8.0 percent. Cigarette tax receipts in August 2002 were $44.7 million ahead of tax receipts a year ago.

Seventeen other states have increased their cigarette tax rates in 2002. Among our neighbors, Indiana increased its rate by 21 cents to 55.5 cents, Pennsylvania by 69 cents to $1.00, and Michigan by 50 cents to $1.25 per pack. Kentucky and West Virginia cigarette tax rates were unchanged at 3 cents and 17 cents per pack, respectively. Kentucky charges among the lowest state cigarette taxes in the country. Virginia levies a tax rate of 2.5 cents per pack. Conversely, the highest tax rate, $1.51 per pack of 20 cigarettes, is levied by Massachusetts.

Public Utility Excise Tax

Public utility excise tax revenue was down by 42 percent from this time last year. This was due to the August payment of public utility excise taxes by natural gas distribution companies. The year-over-year decline is most likely due to the relatively mild winter last year and the correspondingly low prices of natural gas. For households paying on a "budget" payment plan, the summer reconciliation payment covers the difference between what households owe for their natural gas usage for the year compared to their cumulative budget payments. August's excise tax payments typically include these reconciliation payments in their base. This year's mild winter and low natural gas prices would have resulted in relatively low reconciliation payments – a sharp contrast from the high reconciliation payments made last summer because of the high natural gas prices and high consumption of natural gas especially during the brutally cold months of November and December 2000.

**Jean Botomogno and Doris Mahaffey also contributed to this Revenue article.*

[1] The Bank of Tokyo Mitsubishi Retail Chain Store Index measures sales at locations open at least a year. It does not represent all retail sales and does not include privately held companies. The U.S. Department of Commerce data is much broader and the information is often revised. However, both measures provide changes in trends in retail sales.

[2] This auto and light truck monthly sales rate in August 2002 is the second highest on record. A record 21.1 million autos and light trucks were sold in October 2001.

[3] http://www.nvo.com/cnwbyweb/julysalesanalysis. CNW Marketing/Research estimates that if an average of $1,300 per dealer is added to the manufacturers' incentives, the average incentive per vehicle may be as high as $4,529. Less than 10 percent of consumers end up getting the "zero %" deals because many do not qualify. However, potential buyers are drawn into the showrooms and may eventually purchase new vehicles.

[4] Auto and light truck sales reached 16.7 million units in 1999, 17.2 million units in 2000, and 17.0 million units in 2001.

DISBURSEMENTS

— Steve Mansfield

Since this is the first issue of *Budget Footnotes* of the fiscal year, it may be helpful to start with a brief comment on the purpose and nature of this report on GRF disbursements. Typically, this report is the combined effort of a number of fiscal analysts who provide information and assistance for its preparation. These analysts examine state spending data for departures from the monthly disbursement estimates that are produced at the beginning of each fiscal year by the Office of Budget and Management (OBM). The goal of the report is to inform legislators and other readers about significant departures, or "variances," from those GRF disbursement estimates. There will be in this fiscal year, as in every other fiscal year, "garden variety" variances whose explanation is solely timing, that is, the release of payments earlier or later than expected. These timing-related variances, if indeed they really are timing related, should self-correct by the end of the fiscal year, thus reducing the variance. In other words, the actual spending would move closer to the estimate, thus reducing the variance closer to zero. More interesting for purposes of this report are a rarer kind of variances, those that might have a sustained impact, either positive or negative, on GRF spending. These sustained disbursement variances could result from implementation problems, changes in state policy, or changes in economic climate that trigger changes in spending, thus impacting future policy decisions. Hopefully, our regular scanning of GRF spending across state government will uncover these rarer disbursement variances to the benefit of our readers.

As sometimes happens at the beginning of a fiscal year, we have not yet assembled all the information necessary to produce a detailed disbursement report. This disbursement report will thus be limited to briefly discussing some aspects of Tables 4 and 5, which present disbursement variance data in each of the state's four major GRF program categories, commenting on a few of the items that stand out in the tables, and commenting on the restructuring of line items in the Department of Job and Family Services. Our next issue will contain the usual discussion of disbursement variances at the more detailed level of agency programs.

Through the first two months of the fiscal year, General Revenue Fund disbursements (excluding transfers) were $17.7 million below the estimate. As we see from Figure 1 and Table 5, the year-to-date negative disbursement variance is traceable completely to the Government Operations program category while variances in the other three major GRF program categories are either positive or zero.

Figure 1.
GRF Disbursement Variance by Program Category, FY 2003

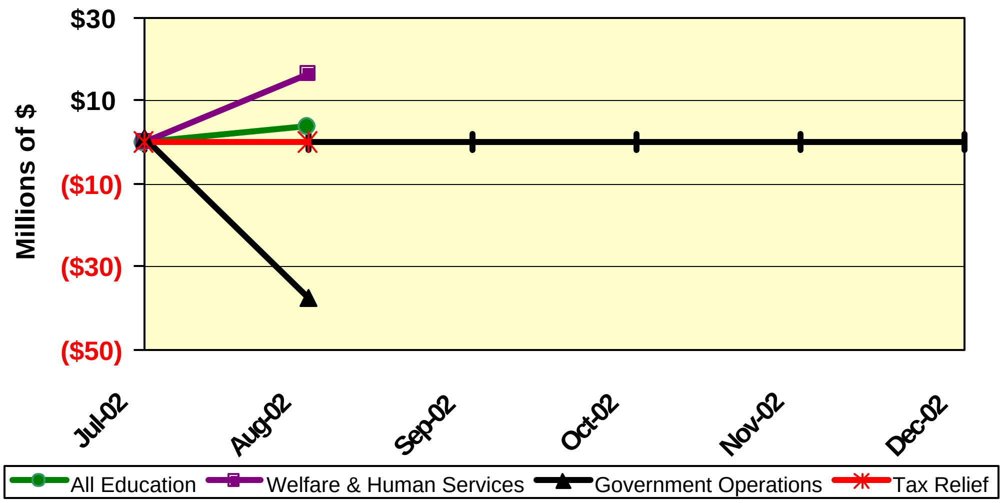


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of August 2002
($ in thousands)

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**
Primary & Secondary Education (1)	$544,800	$541,243	$3,557
Higher Education	$176,320	$176,019	$301
Total Education	$721,120	$717,262	$3,858
Health Care/Medicaid	$686,502	$670,512	$15,990
Temporary Assistance to Needy Families (TANF)	$16,110	$12,398	$3,713
General/Disability Assistance	$2,196	$1,863	$334
Other Welfare (2)	$40,886	$42,213	($1,327)
Human Services (3)	$97,254	$99,599	($2,345)
Total Welfare & Human Services	$842,948	$826,584	$16,364
Justice & Corrections	$134,655	$148,385	($13,730)
Environment & Natural Resources	$10,259	$14,094	($3,835)
Transportation	$3,403	$4,305	($902)
Development	$13,282	$27,030	($13,748)
Other Government (4)	$18,650	$23,539	($4,888)
Capital	$0	$1,500	($1,500)
Total Government Operations	$180,250	$218,853	($38,603)
Property Tax Relief (5)	$93,578	$93,578	$0
Debt Service	$24,250	$26,467	($2,217)
Total Program Payments	**$1,862,146**	**$1,882,744**	**($20,598)**
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	**$1,862,146**	**$1,882,744**	**($20,598)**

(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 2002 estimates of the Office of Budget and Management.

Detail may not add up to total due to rounding.

The largest contributors to the $39.4 million negative disbursement variance in the Government Operations category were the Development subcategory (- $14.1 million), and the Justice and Corrections subcategory (-$13.7 million).

A few stand-out items on Table 5 merit some brief comments that will be elaborated in more detail in next month's issue. In terms of year-over-year spending comparisons, three of the Welfare and Human Services subcategories, all in the Department Job and Family Services, merit comment. We see in Table 5 that year-to-date FY 2003 spending in the Medicaid program is $284.9 million, or 24.1 percent, higher than at the same point in FY 2002. In FY 2002 we witnessed a steady increase in the Medicaid caseload that increased the total number of Medicaid eligibles by more than 162,000, causing the Medicaid program to tap into the Budget Stabilization Fund. In addition, as part of a line item restructuring in the

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
FY 2003 to Date as of August 2002
($ in thousands)

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**	**FY 2002**	**Percent Change**
Primary & Secondary Education (1)	$1,097,685	$1,094,276	$3,409	$1,052,611	4.28%
Higher Education	$380,829	$380,555	$274	$406,136	-6.23%
Total Education	$1,478,514	$1,474,831	$3,683	$1,458,747	1.36%
Health Care/Medicaid	$1,469,385	$1,451,107	$18,277	$1,184,436	24.06%
Temporary Assistance to Needy Families (TANF	$16,363	$12,650	$3,713	$8,555	91.27%
General/Disability Assistance	$5,452	$5,126	$325	$14,448	-62.27%
Other Welfare (2)	$123,303	$126,918	($3,615)	$109,752	12.35%
Human Services (3)	$273,744	$275,993	($2,249)	$253,446	8.01%
Total Welfare & Human Services	$1,888,246	$1,871,795	$16,451	$1,570,637	20.22%
Justice & Corrections	$295,262	$308,957	($13,695)	$294,734	0.18%
Environment & Natural Resources	$32,712	$36,545	($3,833)	$38,571	-15.19%
Transportation	$11,273	$12,250	($977)	$12,351	-8.72%
Development	$29,709	$43,845	($14,137)	$39,142	-24.10%
Other Government (4)	$66,589	$71,811	($5,221)	$76,173	-12.58%
Capital	$0	$1,535	($1,535)	$3,322	-100.00%
Total Government Operations	$435,545	$474,943	($39,398)	$464,292	-6.19%
Property Tax Relief (5)	$133,158	$133,158	$0	$5,297	2,413.74%
Debt Service	$111,446	$113,613	($2,167)	$104,298	6.85%
Total Program Payments	**$4,046,909**	**$4,068,340**	**($21,431)**	**$3,603,271**	**12.31%**
TRANSFERS					
Local Govt Distribution	$0	$0	$0	$0	—
Budget Stabilization	$0	$0	$0	$13,104	-100.00%
Other Transfers Out	$15,836	$15,836	$0	$15,510	2.10%
Total Transfers Out	$15,836	$15,836	$0	$28,614	-44.66%
TOTAL GRF USES	**$4,062,745**	**$4,084,176**	**($21,431)**	**$3,631,885**	**11.86%**

(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 2002 estimates of the Office of Budget and Management.

Detail may not add up to total due to rounding.

Department of Job and Family Services, the medical assistance portion of the Disability Assistance program has been consolidated into the Health Care/ Medicaid program and $76.6 million in FY 2003 appropriation authority transferred from line item 600-511, Disability Assistance, to line-item 600-525, Health Care/Medicaid. This accounts for the year-over-year decline of 62.3 percent in the General/ Disability Assistance subcategory seen in Table 5. Also noteworthy is the year-over-year increase of 91.3 percent in the Temporary Assistance to Needy Families (TANF) subcategory, which is traceable to the disbursement of an interagency transfer of funds to the Ohio Department of Alcohol and Drug Addiction Services in August instead of September, as had been anticipated. Finally, the large percentage difference between FY 2002 and FY 2003 disbursements in the Tax Relief program is due solely to the timing of payment requests and the processing of the payments. Counties are requesting reimbursement for second half property tax relief more quickly than last year, but about $39.1 million of July payments for cities, counties, and townships were for prior year requests.

Primary and Secondary Education payments were slightly over estimate and 4.3 percent above last year's amounts after August. Meanwhile, Higher Education's payments are slightly over estimate, but 6.2 percent below FY 2002 amounts. For the year, Higher Education spending should exceed last year's total. However, the executive order cuts for last year were not imposed until the second half of FY 2002, while this year's cuts are in place at the beginning of the year. This circumstance has temporarily depressed FY 2003 spending below last year's level; this situation will be corrected in the second half of the fiscal year.

Line Item Restructuring in the Department of Job and Family Services

In June, the Department of Job and Family Services received approval from the Controlling Board to create eight new GRF appropriation line items in order to align appropriations by program rather than by type of expenditure (this was especially the case with operating funds, i.e., personnel services, maintenance, and equipment). The Controlling Board also approved the transfer of $259.4 million to these new line items. In addition, two Medicaid funded programs (the medical assistance portion of the Disability Assistance program and the Phase Two portion of the Children's Health Insurance Program, or CHIP-II) were consolidated into the Health Care/ Medicaid program. Expenditures in these two programs will continue to be tracked separately as a component within the Health Care/Medicaid program. Also, a number of line items that carried funds supporting computer projects were consolidated into line item 600-416, Computer Projects. The goal of the realignment is to provide greater clarity about the program costs and thereby allow for greater accountability on the part of the agency for the management of resources. Funding for legislative earmarks and the single allocation to county departments of job and family services were unaffected by the realignment.

Issues of Interest

BIOTERRORISM FUNDING IN OHIO

— *Jeffrey M. Rosa*

Background on the Bioterrorism Grant

On January 10, 2002, President Bush signed into law the Department of Defense and Emergency Supplemental Appropriation for Recovery from and Response to Terrorist Attacks on the United States Act of 2002 (Pub. L. 107-117).[1] As part of this act, over $1 billion was made available from the "Public Health and Social Services Emergency Fund"[2] to cover emergency expenses necessary to support activities related to countering potential biological, disease, and chemical threats to civilian populations.

Ohio's share of this bioterrorism grant includes $30.3 million from the U.S. Centers for Disease Control and Prevention (CDC) and $4.6 million from the Health Resources and Services Administration (HRSA). Each state received 20 percent of its total award at the end of January 2002. Prior to receipt of the remaining grant dollars, each state was required to submit a plan to the federal government outlining the proposed use of the funds. The federal government required each state's plan to meet 17 critical benchmarks for bioterrorism preparedness planning. On June 6 of this year, the remaining funds were disbursed to the states, with some exceptions. Twenty-four states received the entire balance of their award. An additional 24 states, including Ohio, received most of their 80 percent balance. Two states received extensions for further work on their plans.

Breakdown of Ohio's Bioterrorism Award

	CDC	HRSA	Total
Total Award	$30,275,150 (86.7%)	$4,648,274 (13.3%)	$34,923,424
20% Initial Award	$6,055,030	$929,655	$6,984,685
Additional 6/6/2002 Award	$21,663,780	$0	$21,663,780
Amount Withheld	$2,556,340 (8.4% of total CDC portion)	$3,718,619 (80.0% of total HRSA portion)	$6,274,959 (18.0% of total)

Moneys were withheld from states if the federal government had any questions about components of a state's grant application.

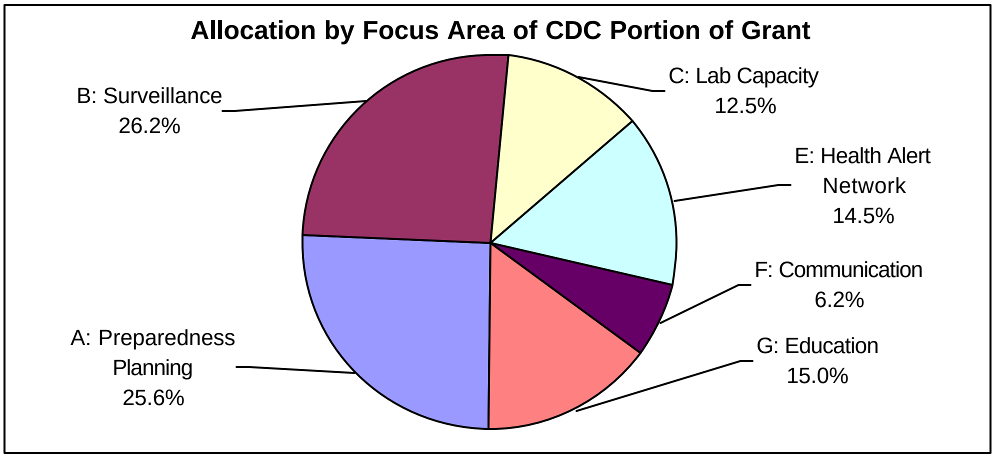
The HRSA funds will be used to develop plans and resources for coordination of mass care response in the event of a biologic event. The CDC funds, which the most of this article will concentrate on, include the following six focus areas, each of which has an alphabetic designation:

A. Preparedness Planning and Readiness Assessment (25.6 percent of total);
B. Surveillance and Epidemiology Capacity (26.2 percent);
C. Laboratory Capacity – Biologic Agents (12.5 percent);
D. Health Alert Network (HAN) Training (14.5 percent);
F. Risk Communication and Health Information Dissemination (6.2 percent);
G. Education and Training (15.0 percent).

Focus area D, is reserved by the CDC for future grants and is not part of this current bioterrorism grant.

Ohio's Grant Details

Of the $30.3 million CDC portion of the grant, about 10 percent of the award will be used to pay salaries and fringe benefits of Department of Health employees working on bioterrorism issues. This includes paying a portion of the salaries of some existing staff and hiring about 35 new employees. About 4 percent of the grant will be used to purchase equipment. For example, it is estimated that the Department will use grant dollars to purchase a fluorescent microscope with phase contrast to help observe the presence of spores and bacterial morphology in lab samples.



The largest portion of this grant, over 78 percent of the total, will be used to contract with various entities throughout the state. In many cases, these contracts will be made with local health districts that have a full-time administrative triad that consists of a health commissioner, a nursing director, and an environmental health director. The Department, in its grant proposal, estimates that there will be total contracts of about $11.5 million with these local entities. In areas where the health districts do not have a full-time administrative triad, entities will be encouraged to coordinate with neighbors. According to the Department of Health, "less than 20" health districts do not have the triad, and would not be eligible to receive grant dollars.[3] The lack of a triad is more common in southeast Ohio. However, the health districts in that region of the state are already collaborating to have a plan in place. Even if a local health district does not have a full-time administrative triad, the Department of Health will make every effort to ensure that all regions of the state are covered.

Other planned contracted services include developing an Ohio-specific software program for use with the National Pharmaceutical Stockpile (NPS), a contract with the Ohio Department of Administrative Services to establish Geographic Information Systems (GIS) boundaries files for local health jurisdictions, and a contractor to provide a T-1 or DSL network for local health departments.

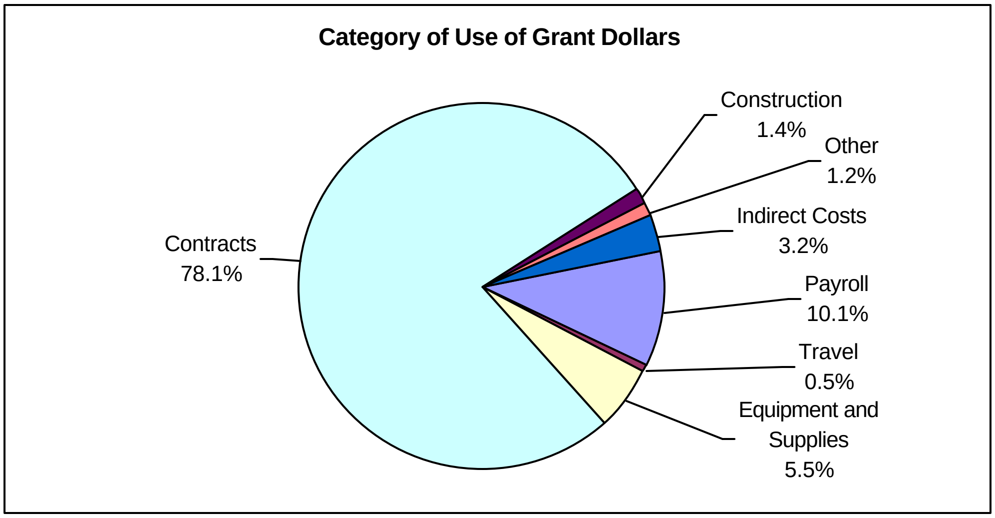
Focus Area A – Preparedness Planning and Readiness Assessment

A total of 6.92 full-time equivalents (FTEs) will work on Area A. Of this total, 6.3 FTEs will be new positions. The moneys in this focus area, which total $7.7 million, will be used to plan at local, regional, and state levels to address public health threats and emergencies, including bioterrorist activities and other outbreaks of infectious disease. Department of Health staff will coordinate statewide planning efforts with local health departments and other political subdivisions.

The largest component of this focus area ($6.7 million) covers contracts with various entities. Over $4.9 million from this focus area will be made available to local health districts to "meet the bioterrorism performance standards, outcome measures. . . and operations such as planning exercises, training of medical professionals, training of public health practitioners, and expansion of training of epidemiology staff designating staff to act as spokespersons."[4] In addition to Focus Area A dollars, moneys for this same purpose will be made available to the local health districts from Focus Areas B, F, and G.

National Pharmaceutical Stockpile

Another important component of this focus area is the National Pharmaceutical Stockpile (NPS), which is operated by the CDC. The NPS makes available "life-saving pharmaceuticals, antidotes, and other medical supplies and equipment necessary to counter the effects of nerve agents, biological pathogens, and chemical agents. The NPS Program stands ready for immediate deployment to any U.S. location in the event of a terrorist attack using a biological, toxin or chemical agent directed against a civilian population."[5] In times of outbreak, if resources in Ohio were close to being depleted, the NPS could be tapped for the needed pharmaceuticals within twelve hours.



The NPS recently purchased potassium iodide (KI) to be distributed free of charge to states for individuals within a ten-mile radius of a nuclear facility. According to the Department of Health, this includes three such areas in Ohio with a total population of 600,000. The Department, in its grant application, estimates there will be $15,000 contracts with the Ottawa Health Department, the East Liverpool Health Department, and the Lake County Health Department to disseminate the KI. The total amount of the contracts will be $45,000.

Local Coordination

Coordination at the local level of bioterrorism plans is an important outcome of this focus area. For this reason, the grant application includes contracts with seven Metropolitan Medical Response System (MMRS) cities and regions. Ohio's MMRS cities include Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo. In addition, the Department of Health plans to establish one MMRS region to serve southeast Ohio. Each MMRS entity will have a $100,000 contract to regionalize MMRS planning and assessment activities. Moneys will also be made available to ensure regional public health planning, which includes local health departments and hospitals.

Focus Area B – Surveillance and Epidemiology Capacity

This focus area covers activities associated with rapid identification of diseases to respond quickly to any infectious disease outbreaks or bioterrorism activities. This focus area will employ 17.13 FTEs, of which 13.5 FTEs will be new employees. The majority of these new staff will be epidemiologists and programmer analysts. The programmer analysts will be working on the Ohio Disease Reporting System (ODRS). The total amount of funding for this focus area is $7.9 million.

About $3.0 million will be used to contract with a vendor to expand the functionality of the ODRS. Phase 1 of the ODRS was implemented prior to the receipt of this federal grant. The Department of Health estimates that all implementation phases will be completed by 2004. According to the grant application, the vendor will "design, build and implement 'person-based' functionality, additional disease-specific screens, outbreak management, automated identification of outbreaks, HL-7 importing and exporting,[6] expanded help screens, and local systems administration management."

According to the National Association of County and City Health Officials (NACCHO), effective monitoring of diseases can be vital in the early identification of a bioterrorism attack. NACCHO reports that surveillance activities can help public health officials recognize "patterns of disease or death inconsistent with the natural course of a disease."[7] For example, New York City, on a daily basis, reviews key health data for unusual trends.

Focus Area C – Laboratory Capacity – Biologic Agents

Total funding for this focus area is $3.8 million. Only one existing FTE is assigned to work on this focus area. The main activities to be performed involve developing statewide laboratory capacity to analyze samples quickly and to establish a statewide centralized public health laboratory database.

The Department of Health plans to spend about $835,000 to purchase equipment for the state's public health laboratory. In addition to purchasing laboratory equipment, the Department plans to purchase a web server for the planned centralized public health laboratory database. This server will cost about $100,000. In addition to the server, various contracts will be entered into to create a centralized Public Health Laboratory Information Management System (LIMS) to facilitate communications between Level A and B labs in the state. These labs include the existing Ohio Department of Agriculture facilities.

According to the CDC, "Level A laboratories are public health and hospital laboratories with a certified biological safety cabinet as a minimum. These laboratories have the ability to rule out specific agents and to forward organisms or specimens to higher-level laboratories for further testing."[8] Level B laboratories "are state and local public health laboratories with Biosafety Level (BSL) 2 facilities that incorporate BSL-3 practices and maintain the proficiency to process environmental samples adequately, rule in specific agents, and perform confirmatory and antibiotic susceptibility testing."[9]

Bioterrorism Testing Labs

In addition to the database activities described above, this focus area will ensure that multiple laboratories in the state can perform bioterrorism testing. Therefore, existing laboratory space in two laboratories will be renovated to create Bio Safety Level 3 (BSL-3) capacity. This renovation will ensure expanded capacity and redundancy in cases of potential biological outbreaks. Facilities with BSL-3 capabilities are classified as Level C laboratories.

Moneys will also be used to renovate existing space at the Department of Health's Public Health Laboratory into a BSL-3 space. Currently, the only BSL-3 laboratory space at the Department's laboratory is used for the tuberculosis program. During the anthrax scares of late 2001, the Department was inundated with samples to test, which greatly strained the resources of the existing BSL-3 space. It should be noted, however, that the Department is planning on building a new laboratory facility to replace the existing facility on the grounds of the Ohio Department of Agriculture's laboratories. This move is contingent on the availability of capital funds. According to the Department, the renovated BSL-3 space is needed as soon as possible and cannot wait until a new laboratory is constructed in a few years.

Focus Area E – Health Alert Network (HAN)/ Communications and Information Technology

The total budget for this focus area is $4.4 million, which includes a total of 12.3 FTEs, of which 10.3 FTEs would be new employees. The goal of this focus area is the development of a secure communications infrastructure among state and local entities, including local health departments and hospitals.

The CDC is currently developing the Health Alert Network (HAN) to serve as "a nationwide, integrated information and communications system serving as a platform for distribution of health alerts, dissemination of prevention guidelines. . . as well as for CDC's bioterrorism and related initiatives to strengthen preparedness at the local and state levels."[10] To utilize fully the functionality of the HAN, local health departments need to have continuous access to the Internet. Currently, many health departments in Ohio access the Internet via a dial-up modem. As part of this focus area, the Department of Health plans to spend over $2.3 million to purchase either T-1 or DSL access to the Internet for local health departments.

Information technology (IT) staff with the Ohio Department of Health is currently working with the local health departments to assess their IT capacities. This information will be used to develop plans to ensure continuous Internet access for all local health departments in Ohio. The costs for these services will be paid for by the Department of Health, and local health departments would not incur costs to upgrade their systems. Although bioterrorism is the initial impetus for this action, over time, Internet communications between local health departments and the state health department will not be limited to bioterrorism activities.

In addition to continuous Internet access, Ohio's plans for this focus area include installing MARCS antenna systems in all local health departments and hospitals within three years. The Department of Health has been working with MARCS staff on this issue and reports that there are no problems associated with the inclusion of these entities in the MARCS system. The Department of Health will use these grant dollars to pay the initial user fees for MARCS access. It is unclear how these costs will be paid for in the future.

Focus Area F – Risk Communication and Health Information Dissemination

This focus area, at $1.9 million, is the smallest component of the CDC-funded grant. The Department of Health plans to employ two new FTEs to help communicate health/risk information to the public in the event of a bioterrorism attack. These two employees will work with public information officers, health commissioners, and medical providers and will translate materials into foreign languages commonly spoken by immigrant communities in Ohio.

Focus Area G – Education and Training

The final focus area comprises 15.0 percent of the grant award. There will be 3.87 FTEs working in this area, with 3.3 FTEs being new staff. The staff in this focus area will coordinate activities that improve the professional development of public health staff in their ability to respond to bioterrorism threats. Department of Health staff will provide distance learning activities for these public health employees in the state and will also provide "just-in-time" training to local partners.

Hospital Bioterrorism Preparedness (HRSA Grant Component)

In addition to the moneys granted by the CDC, 13.3 percent of the $34.9 million grant to the state comes from the Health Resources and Services Administration (HRSA) for hospital bioterrorism preparedness activities. About 50 percent of this piece of the grant will be used by individual hospitals in the state to conduct emergency preparedness assessments of their individual hospitals and of all the hospitals within a given region. Additionally, hospitals are going to use these funds to develop and participate in emergency drills. The other components of the HRSA grant include contracts for various services associated with hospital preparedness and salaries and benefits for 3.2 FTEs to operate the hospital preparedness program within the Department of Health.

Conclusion

On September 23, 2002 the Controlling Board approved a $32.8 million increase in appropriation authority in line item 440-618, General Operations, in the Department of Health's budget to allow the Department to spend the federal grant moneys. (The Department did not need to request the full $34.9 million in additional appropriation authority, because $2.1 million of existing appropriation authority was available.) In addition, the Controlling Board approved a waiver of competitive selection allowing the Department to enter into a $120,000 contract with the Research and Educational Foundation of the Ohio Hospital Association to establish a response plan for the state's Hospital Bioterrorism Preparedness Program consistent with federal requirements and guidance. There is no long-term guarantee that the federal government will continue to award sizable bioterrorism grants to the states after this initial award. Unless this change in federal policy in favor of bioterrorism funding continues, it is unclear how Ohio would continue to pay for many of the activities that will be implemented as a result of this $34.9 million grant.

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[1] 115 Stat. 2313-2314

[2] This fund is established in the U.S. Code at 42 U.S.C. 247d.

[3] Wagner, Steven A. (Chief, Bureau of Environmental Health and Toxicology, Ohio Department of Health). Personal interview, 15 July 2002.

[4] Ohio Department of Health. *Focus A – Preparedness Planning and Readiness Assessment, Public Health Preparedness and Response for Bioterrorism Cooperative Agreement, U90/CCU516983-03-2 – Ohio, August 31, 2001 – August 30, 2003*, page 5.

[5] U.S. Centers for Disease Control and Prevention. *CDC's National Center for Environmental Health – NPS Synopsis*. 22 July 2002. <http://www.cdc.gov/nceh/nps/synopses.htm>.

[6] HL-7 is an application protocol for electronic data exchange in healthcare environments and is the selected standard for the interfacing of clinical data for most institutions.

[7] National Association of County and City Health Officials. *Elements of Effective Bioterrorism Preparedness: A Planning Primer for Local Public Health Agencies*. January 2001. 18 June 2002. <http://www.naccho.org/files/documents/Final_Effective_Bioterrorism.pdf>, page 6.

[8] U.S. Department of Health and Human Services. Centers for Disease Control and Prevention. *The Public Health Response to Biological and Chemical Terrorism: Interim Planning Guidance for State Public Health Officials*. July 2001, page 46.

[9] *Ibid.*

[10] U.S. Centers for Disease Control and Prevention. *Health Alert Network Fact Sheet.* 23 July 2002. <http://www.phppo.cdc.gov/han/FactSheet.asp>.