Next

Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission — October, 2002

Fiscal Overview

— Doris Mahaffey

Three months into FY 2003, revenues are largely on track. Total General Revenue Fund (GRF) income for the fiscal year to date is $42.3 million over estimate. Tax revenues are $121.6 million over estimate; while non-tax revenues are $79.3 million under estimate. This is a definite improvement over the first quarter of FY 2002. At this time last year, revenues were $215.6 million under estimate, with tax revenues accounting for $189.6 million of the shortfall and non-tax revenues accounting for the remaining $25.9 million. The comparison is not strictly valid, though, since last year's revenues were adversely affected by the events of September 11. Still, the FY 2003 revenue numbers suggest that the worst of the state's revenue woes may be behind us.

Revenues for the month of September were a mere $2.8 million under estimate. The shortfall was largely due to federal grants and other non-tax revenue sources, which were under estimate by $71.1 million and $13.9 million, respectively. Tax revenues were $81.4 million over estimate for the month. Personal income tax, sales tax, and cigarette tax revenues were over estimate by $39.5 million, $32.8 million, and $14.2 million, respectively. The tax revenue overages resulted, in part, from tax law changes made by S.B. 261, which increased the tax rate on cigarettes and temporarily subjected trust income to the personal income tax. The only significant shortfall was in corporate franchise tax revenues, which were $13.2 million under estimate. This shortfall resulted from even greater than expected refunds.

At first sight the disbursement numbers for the first quarter of FY 2003 are a little more unsettling than the revenue numbers. For the fiscal year to date total GRF uses are $134.6 million over estimate. However, the overage largely stems from accelerated property tax relief payments to local governments, which are $138.7 million over estimate. Much of the variance is due to the timing and processing of payment requests. Due to budget problems of their own, counties are requesting reimbursements more quickly than usual. As a result actual property tax relief payments for this quarter alone amount to nearly 30 percent of the total appropriation; in previous years first quarter payments have typically amounted to between 11 and 17 percent of the total appropriation. Since property tax reimbursements are not expected to exceed estimates (which are based on this year's appropriation plus prior year encumbrances), the variance is expected to be eliminated over time.

Volume 26, Number 2

(continued, next page)

(continued from previous page)

ISSUES OF INTEREST

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.

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

	Month of September	**Fiscal Year 2002 to Date**	**Last Year**	**Difference**
Beginning Cash Balance	($298.0)	$619.2		
Revenue + Transfers	$1,823.0	$4,968.5		
Available Resources	$1,525.0	$5,587.7		
Disbursements + Transfers	$2,308.2	$6,370.9		
Ending Cash Balances	($783.2)	($783.2)	($272.5)	($510.7)
Encumbrances and Accts. Payable		$765.2	$904.8	($139.7)
Unobligated Balance		**($1,548.4)**	**($1,177.4)**	**($371.0)**
BSF Balance		$427.9	$1,010.6	($582.7)
Combined GRF and BSF Balance		**($1,120.5)**	**($166.8)**	**($953.7)**

Spending for the Medicaid and Temporary Assistance to Needy Families (TANF) programs was also over estimate for the quarter, but spending in most other program areas was under estimate. While the TANF overage appears to be largely a timing matter, Medicaid spending has been over estimate each month of the fiscal year thus far and could create problems as the year progresses. H.B. 94, the general appropriations act for the current biennium, did reserve $150 million of Budget Stabilization Fund (BSF) money to be used – if needed – to fund the state share of Medicaid spending in excess of original estimates; $109.8 million of the amount reserved is still available for this purpose in FY 2003.

At $2.3 billion, total GRF spending for the month of September exceeded total revenues (including transfers in) of $1.8 billion by nearly $0.5 billion, bringing the ending cash balance to -$783.2 million – roughly $510.7 million lower than September 2001. (See Table 1 for details.) Subtracting encumbrances of $765.2 million results in an unobligated balance of -$1.5 billion. The current balance in the BSF of $427.9 million remains unchanged from the end of August 2002.

TRACKING THE ECONOMY

¾ Allan Lundell

The modest recovery slowed further in September. Most economic indicators failed to meet expectations. Industrial production, which fell by 0.3 percent in August, fell by 0.1 percent in September. Manufacturing production fell by 0.3 percent in September after falling by 0.2 percent in August. Exhibits 1 and 3 show the performances of indices of overall industrial production and manufacturing production. The indices were transformed to have a value of 100 in March 2001 (the month designated by the National Bureau of Economic Research as the start of the current recession). Industrial production began to decline in advance of the "official" start of the recession and has yet to fully recover. Exhibits 2 and 4 show the performances of indices of capacity and capacity utilization for both overall industrial production and manufacturing. The indices of capacity were constructed to have a value of 100 in March 2001. The indices of utilized capacity are the product of the reported capacity utilization rates and the indices of capacity. Although capacity has continued to grow since the start of the recession, the rate of growth has slowed. The larger than normal gap between capacity and utilized capacity indicates the amount of slack in the economy.

NBER considers employment to be the "single most reliable indicator" of recessions. In September, seasonally adjusted employment fell by 43,000 according to preliminary estimates. The Bureau of Labor Statistics describes the September employment level of 130.9 million as "essentially unchanged" from August. Private employment fell by 47,000 while government employment rose by 4,000. Private goods producing employment fell by 38,000 and private services producing employment fell by 9,000. Manufacturing employment fell by 35,000. The estimates of employment are subject to revision. The preliminary estimate for August had an increase of 39,000. This has been revised to an increase of 107,000. For the last three months, the revisions have been upward.

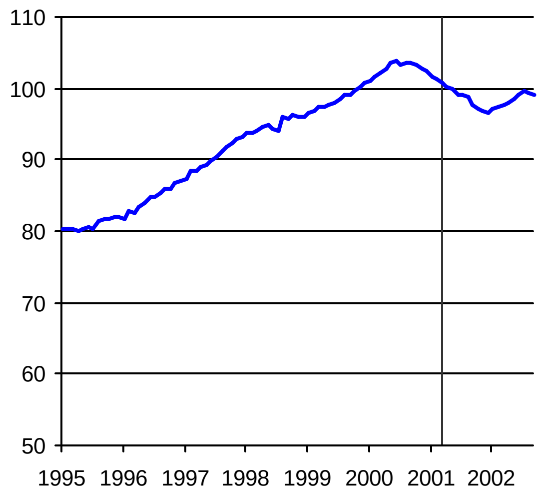
Exhibits 5, 6, 7, and 8 present employment data for both the U.S. and Ohio. The data presented are the levels of employment. The numbers on the left axis of the charts are for U.S. data, and the numbers on the right axis are for Ohio data. Ohio employment has moved roughly in line with U.S. employment. Exhibits 5a, 6a, 7a, and 8a present the same employment data in index form. The indices were constructed so as to have a value of 100 in January 1995. The indices indicate that although Ohio employment has moved roughly in line with U.S. employment, Ohio employment tends to lag U.S. employment. The vertical line toward the right side of exhibits 5a, 6a, 7a, and 8a indicates March 2001, the start of the most recent recession. With the exception of services, employment remains below its prerecession levels. This indicates that although it may be ***recovering***, the economy has not ***recovered***.

Exhibits 11 and 12 present additional information on labor markets. Exhibit 11 shows the U.S. and Ohio seasonally adjusted unemployment rates. Although the unemployment rates have fallen recently, they remain well above prerecession levels. Exhibit 12 shows the mean and median duration of unemployment. After falling in August, both measures of duration rose in September. Compared to the values for February 2001 (the last month before the recession), mean duration is up 39 percent and median duration is up 58 percent.

Retail sales fell 1.2 percent in September. Although the drop was led by a 4.8 percent decrease in sales of motor vehicle and parts dealers, decreases in sales were widespread. Sales also fell in the following areas: clothing and accessories (-0.9 percent), furniture and home furnishing (-0.5 percent), food and beverage (-0.4 percent), and electronic and appliance (-0.3 percent). The decreases may be viewed as reductions in discretionary spending in response to both the current slow economy and uncertainty about future economic conditions. Consumer confidence, as measured by both the Conference Board index of consumer confidence and the University of Michigan consumer sentiment index, fell in September. The Conference Board index fell for the fourth consecutive month to its lowest level since last November. The index of present situation (a component of the Conference Board index that measures consumer perceptions of the current state of the economy) fell to its lowest level since 1994. The University of Michigan index also fell for the fourth consecutive month and is at its lowest level since last November.

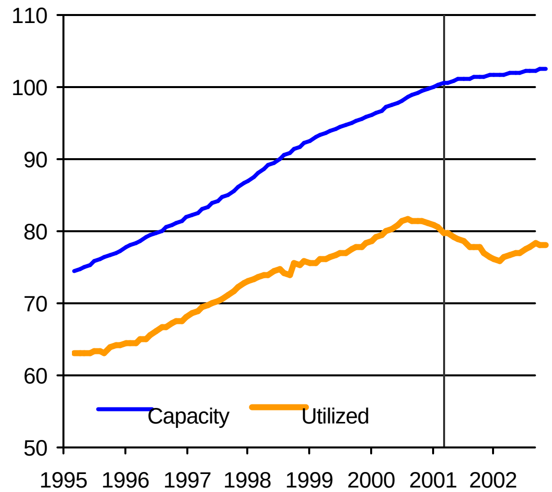
Consumer spending may be finally weakening. Confidence is low. After an extended period of spending, there is little pent-up demand. Labor markets are still weak. Consumer debt is high. However, interest rates are low, some equity remains to be extracted through mortgage refinancing, aggregate income is still growing, and sellers are still discounting.

Exhibit 1: Industrial Production



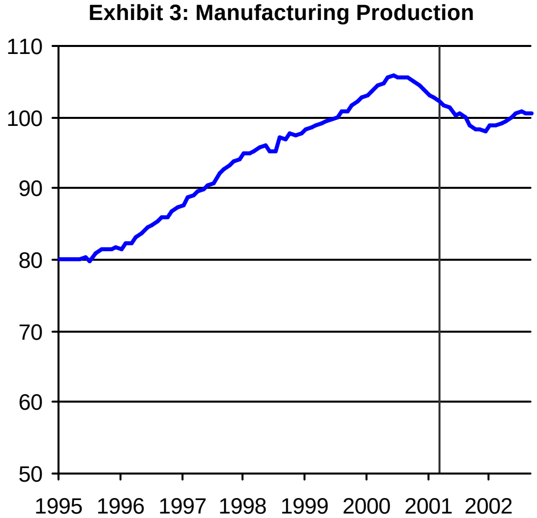
Source: Federal Reserve Board and LSC calculations

Exhibit 2: Industrial Capacity



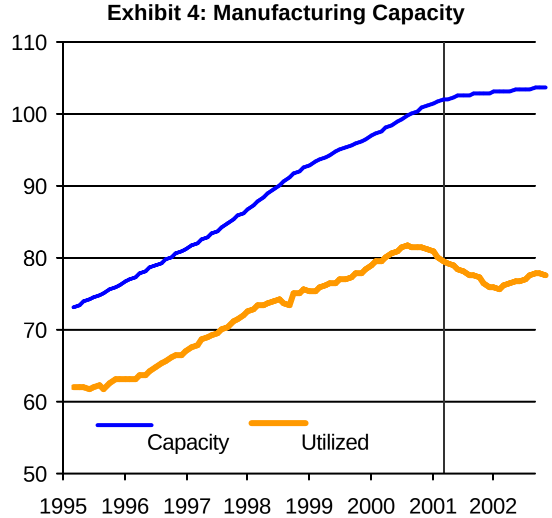
Source: Federal Reserve Board and LSC calculations

Exhibit 3: Manufacturing Production



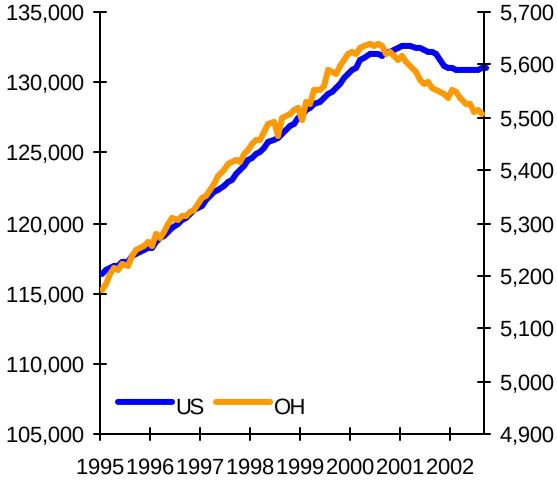
Source: Federal Reserve Board and LSC calculations

Exhibit 4: Manufacturing Capacity



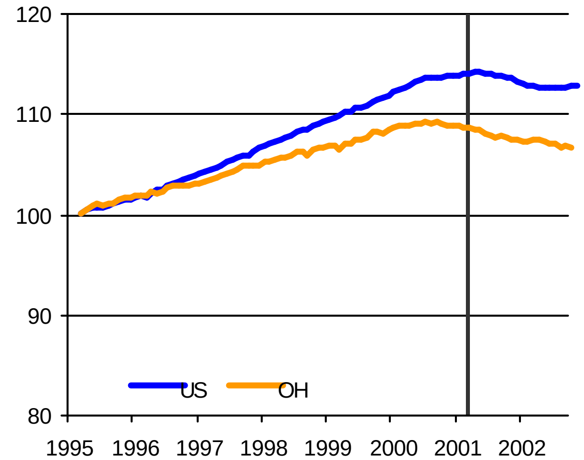
Source: Federal Reserve Board and LSC calculations

Exhibit 5: Total Non-Farm Employment



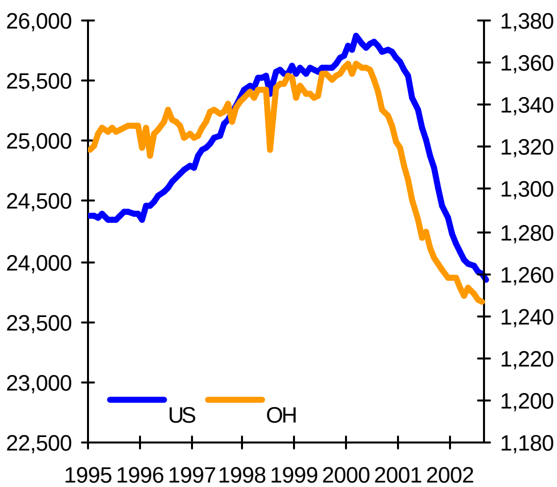
Source: U.S. Bureau of Labor Statistics

Exhibit 5a: Employment Indices Total Non-Farm Employment



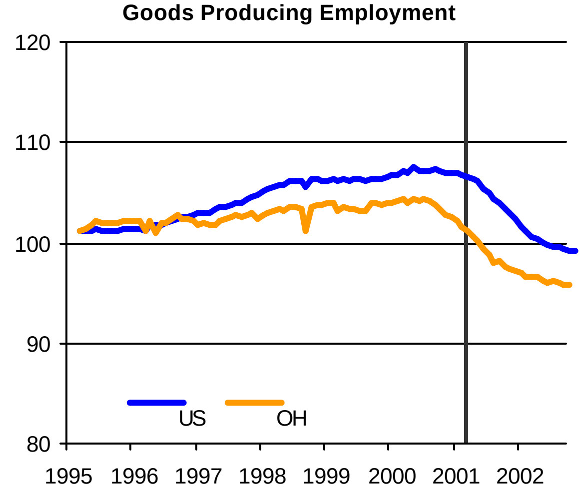
Source: U.S. Bureau of Labor Statistics and LSC calculations

Exhibit 6: Goods Producing Employment



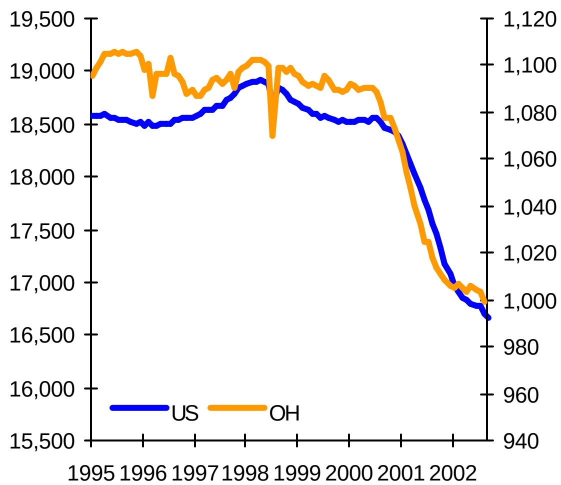
Source: U.S. Bureau of Labor Statistics

Exhibit 6a: Employment Indices Goods Producing Employment



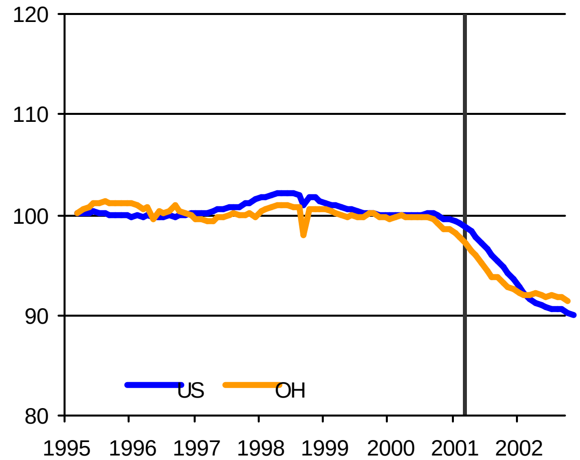
Source: U.S. Bureau of Labor Statistics and LSC calculations

Exhibit 7: Manufacturing Employment



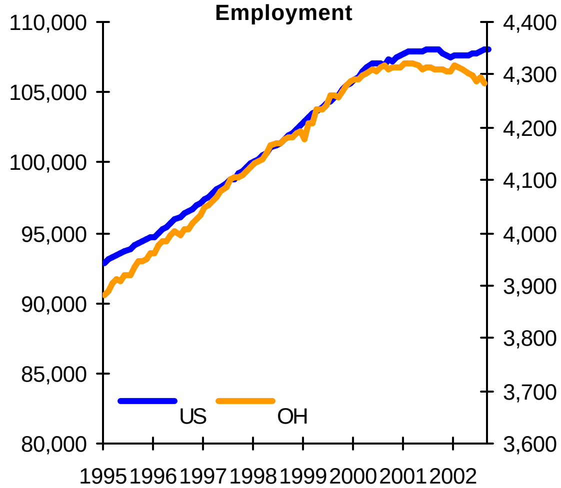
Source: U.S. Bureau of LaborStatistics

Exhibit 7a: Employment Indices
Manufacturing Employment



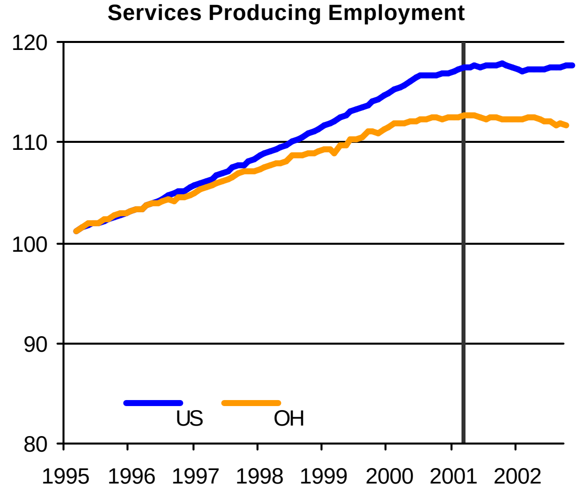
Source: U.S. Bureau of Labor Statistics and LSC calculations

Exhibit 8: Services Producing
Employment

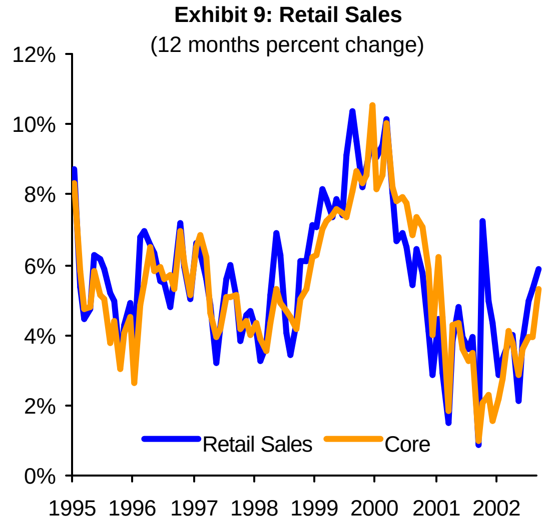


Source: U.S. Bureau of LaborStatistics

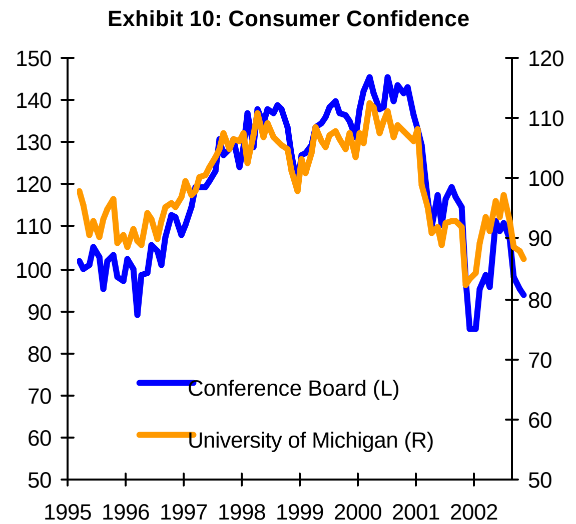
Exhibit 8a: Employment Indices
Services Producing Employment



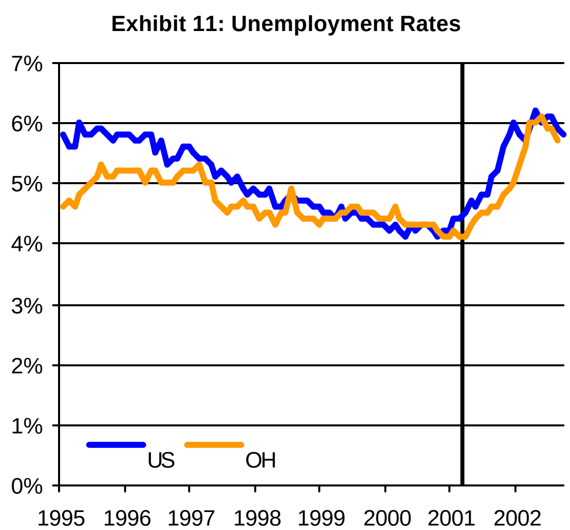
Source: U.S. Bureau of Labor Statistics and LSC calculations



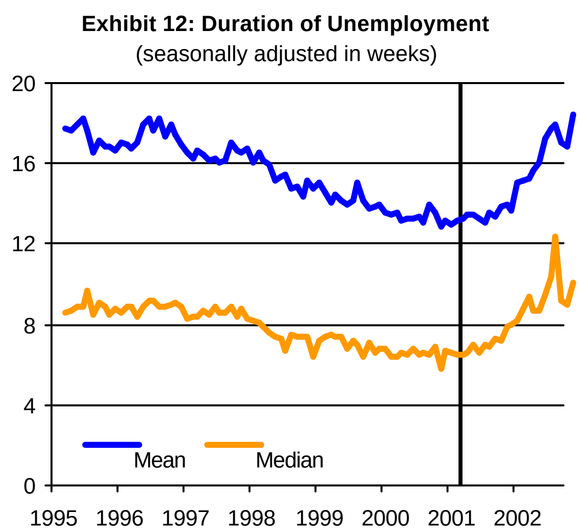
Source: U.S. Census Bureau



Source: The Conference Board and University of Michigan



Source: U.S. Bureau of Labor Statistics



Source: U.S. Bureau of Labor Statistics

Previous Next

Status of the General Revenue Fund

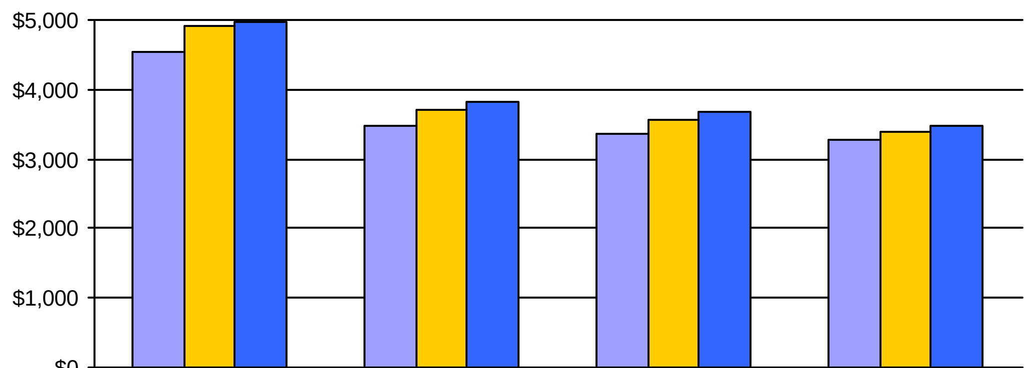
REVENUES

— Allan Lundell and Jean Botomogno

September brought the first quarter of FY 2003 to a surprisingly pleasant end. For the fiscal year to date, total GRF income is $42.3 million (0.9 percent) greater than estimated. Total income less federal grants is $111.6 million (3.0 percent) above estimate. Tax revenues are $121.6 million (3.4 percent) above estimate and revenues from the major taxes (personal income, sales and use, corporate franchise, public utility, and kilowatt hour) are $88.6 million (2.6 percent) greater than estimated. Compared to the first quarter of FY 2002, total GRF income is up 9.6 percent, total income less federal grants is up 9.7 percent, total tax revenues are up 9.0 percent, and revenues from the major taxes are up 6.1 percent.

Year-to-Date General Revenue Fund Income

in millions of dollars



	Total GRF Income	Total GRF Income less Federal Grants	Revenues from Total Taxes	Revenues from Major Taxes
FY 2002	$4,532.6	$3,479.7	$3,368.8	$3,268.0
FY 2003 Estimated	$4,926.2	$3,706.7	$3,550.3	$3,379.6
FY 2003 Actual	$4,968.5	$3,818.3	$3,671.9	$3,468.2

Personal Income Tax

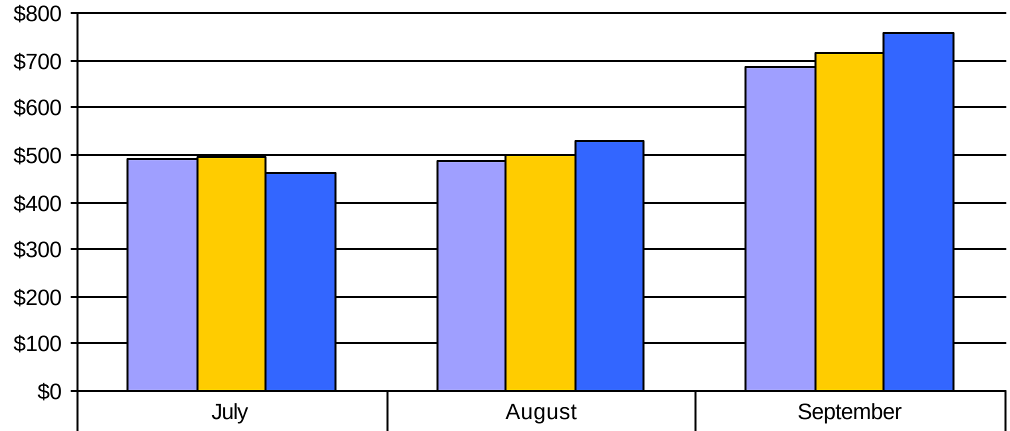
September personal income tax revenues of $756.2 million were $40.5 million (5.5 percent) over estimate. Withholding was $20.6 million (3.8 percent) over estimate, quarterly estimated payments were $4.4 million (1.7 percent) over estimate, and refunds were $4.6 million (23.4 percent) under estimate. The first quarterly estimated payments of the new tax on trusts imposed by S.B. 261 were received in September. The tax on trusts contributed $20 million to revenues. This amount was $10 million more than estimated.

For the first quarter of the fiscal year, personal income tax revenues were $38.3 million (2.1 percent) greater than estimated. Withholding was $19.3 million (1.2 percent) over estimate, quarterly estimated payments were $6.8 million (2.4 percent) over estimate, and annual returns were $4.7 million (15.1 percent) over estimate. Refunds were $8.5 million (10.1 percent) greater than estimated. First quarter revenues from the tax on trusts were $10 million greater than estimated.

Compared to the first quarter of FY 2002, personal income tax revenues are up 5.3 percent. Withholding is up 4.3 percent, but quarterly estimated

Personal income Tax Revenue

in millions of dollars



	July	August	September
FY 2002	$489.9	$485.1	$684.5
FY 2003 Estimated	$494.6	$500.4	$716.7
FY 2003 Actual	$462.1	$529.7	$756.2

payments and annual returns are down 4.9 percent and 6.3 percent respectively. Refunds are down 8.4 percent.

Non-auto Sales and Use Tax

The non-auto sales and use tax provided $430.3 million in September 2002. This amount was $21.0 million (or 5.1 percent) above estimates, and $48.6 million (or 12.7 percent) above non-auto sales tax in the same period last year. 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 a modest 0.3 percent in August. The index of same-stores sales (BTM Index)[1] was up 1.5 percent in August, after a decline in July of 7.3 percent. Generally, retail sales are relatively weak in July, and rebound in August with "back-to-school" sales. However, "back-to-school" sales were lackluster, and nationwide, retail sales (excluding autos) grew just 0.1 percent in September 2002. Clearly, there are still some concerns about the strength of retail sales.

As of September 2002, year-to-date non-auto sales and use tax receipts were $1,349.8 million, $30.5 million or 2.3 percent above estimates. Compared to receipts a year ago in September 2001, year-to-date non-auto sales tax receipts were up $97.6 million or 7.8 percent.

Auto Sales Tax

The auto sales tax continued its strong performance in the third month of FY 2003. Auto sales tax receipts were $84.2 million in September, $11.7 million or 16.2 percent above estimates. Compared to receipts a year ago, September 2002 auto sales tax receipts were up $22.6 million, 36.7 percent higher than in September 2001. However, the comparison is not useful because auto sales were substantially lower in the second half of September 2001, following the September 11 terrorist attacks. Comparing tax receipts in September 2002 and September 2000, auto sales tax receipts this year were $8.6 million or 11.4 percent above auto sales tax revenues in the same period in 2000. Thus, auto sales tax receipts remain outstanding. However, sales were down 5.2 percent nationwide at auto and vehicle dealers in September, and auto unit sales were the lowest since January 2002. Therefore, despite the incentives, consumers might be retrenching and auto sales may be slowing.

As of September 2002, year-to-date auto sales tax receipts were $272.9 million, $33.1 million or 13.8 percent above estimates. Auto sales tax receipts were $40.8 million, or 17.6 percent above September 2001 receipts.

The Sales and Use Tax

Total sales and use tax revenues in September 2002 were $514.5 million, $32.8 million or 6.8 per-

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

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$84,152	$72,400	$11,752
Non-Auto Sales & Use	$430,306	$409,260	$21,046
Total Sales	$514,458	$481,660	$32,798
Personal Income	$756,235	$716,700	$39,535
Corporate Franchise	($9,324)	$3,872	($13,196)
Public Utility	$136	$0	$136
Kilowatt Hour Excise Tax	$32,085	$32,545	($460)
Total Major Taxes	**$1,293,591**	**$1,234,777**	**$58,814**
Foreign Insurance	$5,669	$6,750	($1,081)
Domestic Insurance	$0	$0	$0
Business & Property	$256	$285	($29)
Cigarette	$62,482	$48,297	$14,185
Alcoholic Beverage	$4,857	$4,756	$101
Liquor Gallonage	$2,586	$2,550	$36
Estate	$16,226	$6,825	$9,401
Total Other Taxes	$92,075	$69,463	$22,612
Total Taxes	**$1,385,665**	**$1,304,239**	**$81,426**
NON-TAX INCOME			
Earnings on Investments	$22,810	$29,750	($6,940)
Licenses and Fees	$1,387	$825	$562
Other Income	$12,309	$19,814	($7,505)
Non-Tax Receipts	$36,506	$50,389	($13,883)
TRANSFERS			
Liquor Transfers	$9,000	$8,000	$1,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$45,745	$45,500	$245
Total Transfers In	$54,745	$53,500	$1,245
TOTAL INCOME less Federal Grants	**$1,476,917**	**$1,408,128**	**$68,789**
Federal Grants	$346,050	$417,118	($71,068)
TOTAL GRF INCOME	**$1,822,967**	**$1,825,246**	**($2,279)**

* July, 2002 estimates of the Office of Budget and Management.
Detail may not add up to total due to rounding.

cent higher than projected receipts. Revenues in September 2002 were $71.1 million or 16.0 percent above tax receipts in the same period a year ago.

As of September 2002, year-to-date total sales and use tax revenues were $1,622.8 million, $63.6 million (or 4.1 percent) above estimates. Also, total sales and use tax receipts as of September 2002 were $138.4 million (or 9.3 percent) higher than year-to-date receipts in September 2001.

The chart below shows first-quarter sales and use tax receipts in FY 2003 and the previous three years. As illustrated in the chart, the trend of declining sales and use tax receipts may have reversed. Even with discounting the overage in auto sales (particularly in

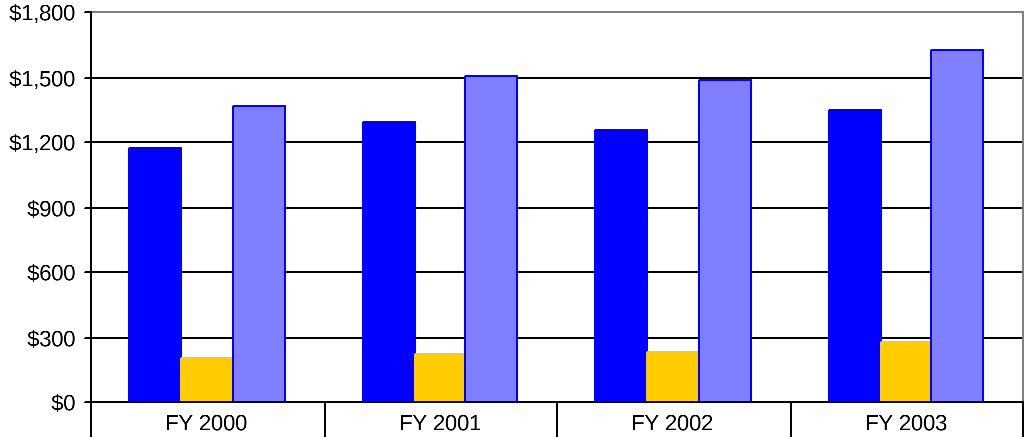
Table 3
General Revenue Fund Income
Actual vs. Estimate
FY 2003 To Date as of September 2002
($ in thousands)

REVENUE SOURCE					Percent
TAX INCOME	**Actual**	**Estimate***	**Variance**	**FY 2002**	**Change**
Auto Sales	$272,965	$239,825	$33,140	$232,180	17.57%
Non-Auto Sales & Use	$1,349,831	$1,319,325	$30,506	$1,252,199	7.80%
Total Sales	$1,622,796	$1,559,150	$63,646	$1,484,379	9.32%
Personal Income	$1,748,037	$1,711,700	$36,337	$1,659,469	5.34%
Corporate Franchise	-$19,175	-$12,001	($7,174)	($7,777)	146.55%
Public Utility	$26,525	$31,300	($4,775)	$45,146	-41.25%
Kilowatt Hour Excise Tax	$90,023	$89,445	$578	$86,806	3.71%
Total Major Taxes	**$3,468,207**	**$3,379,594**	**$88,613**	**$3,268,023**	**6.13%**
Foreign Insurance	$5,723	$6,750	($1,027)	$6,371	-10.18%
Domestic Insurance	$1,284	$0	$1,284	$3,013	-57.40%
Business & Property	$1,001	$285	$716	$413	142.44%
Cigarette	$143,505	$123,299	$20,206	$59,880	139.65%
Alcoholic Beverage	$15,137	$15,283	($146)	$14,621	3.53%
Liquor Gallonage	$7,422	$7,440	($18)	$7,337	1.16%
Estate	$29,637	$17,685	$11,952	$9,100	226%
Total Other Taxes	$203,708	$170,742	$32,966	$100,734	102.22%
Total Taxes	**$3,671,915**	**$3,550,335**	**$121,580**	**$3,368,757**	**9.00%**
NON-TAX INCOME					
Earnings on Investments	$22,810	$29,750	($6,940)	$35,620	-35.96%
Licenses and Fees	$9,263	$7,755	$1,508	$8,779	5.52%
Other Income	$36,886	$45,645	($8,759)	$32,502	13.49%
Non-Tax Receipts	$68,959	$83,150	($14,191)	$76,900	-10.33%
TRANSFERS					
Liquor Transfers	$28,000	$24,000	$4,000	$26,000	7.69%
Budget Stabilization	$0	$0	$0	$0	#N/A
Other Transfers In	$49,440	$49,195	$245	$7,996	518.28%
Total Transfers In	$77,440	$73,195	$4,245	$33,996	127.79%
TOTAL INCOME less Federal Grants	**$3,818,314**	**$3,706,680**	**$111,634**	**$3,479,654**	**9.73%**
Federal Grants	$1,150,191	$1,219,541	($69,350)	$1,052,922	9.24%
TOTAL GRF INCOME	**$4,968,505**	**$4,926,221**	**$42,284**	**$4,532,577**	**9.62%**

* July, 2002 estimates of the Office of Budget and Management.
Detail may not add to total due to rounding.

September), sales and use tax receipts are off to a decent start this fiscal year. After declining 2.9 percent in the first quarter of FY 2002, the non-auto sales and use tax receipts in the first quarter of FY 2003 grew 7.8 percent. More importantly, when compared to FY 2001 tax receipts (which were for a period before the latest downturn), first-quarter non-auto sales and use tax receipts in FY 2003 grew 4.7 percent, and total sales and use tax revenues grew 7.6 percent. Also, in the period from March 2002 through August 2002, year-over-year retail sales growth as measured by the U.S. Department of Commerce was 3.6 percent on average each month. Month-to-month retail sales growth also has improved. During the period from March 2002 to August 2002, monthly growth averaged 0.34 percent, compared

First-Quarter Sales and Use Tax Receipts
in millions of dollars



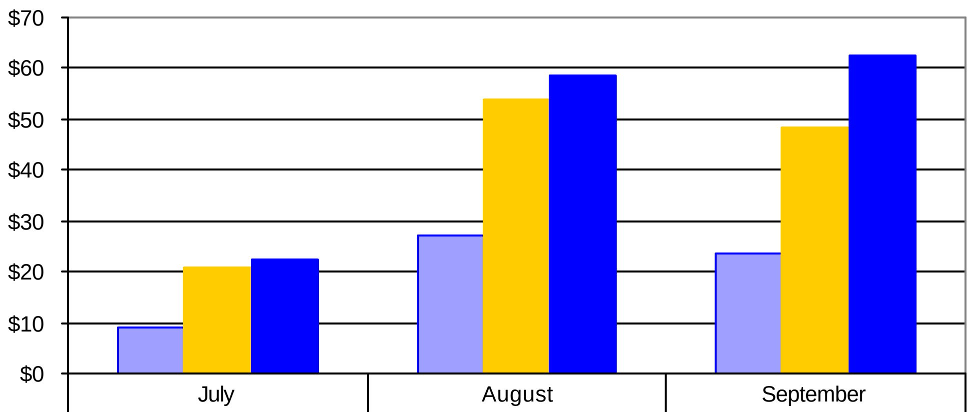
	FY 2000	FY 2001	FY 2002	FY 2003
Non-Auto Sales Tax	$1,172	$1,289	$1,252	$1,350
Auto Sales Tax	$199	$219	$232	$273
Total Sales and Use Tax	$1,371	$1,508	$1,484	$1,623

to 0.16 percent in the same period last year. Thus, retail sales have been modest due to the weak economy, but they are growing nonetheless.

Corporate Franchise Tax

Major tax receipts from the corporate franchise tax are due in the second half of the fiscal year, with the first major payment in January 2003. 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. Refunds exceeded collections by $9.3 million in September 2002. Franchise tax receipts were $13.2 million below estimates, and $12.5 million lower than September 2001 revenues. As of September 2002, year-to-date corporate franchise tax receipts were below estimates by $7.2 million. Compared to receipts a year ago, year-to-date franchise tax revenues were down $11.4 million from FY 2002 receipts.

Cigarette and Other Tobacco Products Tax Revenues
in millions of dollars



	July	August	September
FY 2002	$9.2	$27.2	$23.5
FY 2003 Estimate	$21.0	$54.0	$48.3
FY2003	$22.3	$58.7	$62.5

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts were $62.5 million in September 2002. These amounts were higher than estimates by $14.2 million or 29.4 percent. Compared to cigarette tax receipts a year ago, revenues were up $38.9 million, or 165.4 percent. As of September, year-to-date receipts from the tax on cigarette and other tobacco products were above estimates by $20.2 million or 16.4 percent. Year-to-date cigarette tax receipts were also $83.6 million ahead of tax receipts in the same period a year ago. S.B. 261, which increased the cigarette tax from 22 cents to 55 cents July 1, 2002, allowed the payment of the additional tax on cigarettes already in stock to be paid in three installments, July 31, August 31, and September 20, 2002. Thus, cigarette tax receipts from current sales the first quarter were increased by payments from the "floor" or "inventory" additional tax. These revenues from the floor tax are one-time revenues. Also, consumers will continue to adjust to higher prices by substituting lower-priced tobacco products, reducing their consumption of taxed cigarettes, or even quitting smoking. Therefore, cigarette tax receipts may likely decline in the next few months. The chart below illustrates cigarette and tobacco tax receipts in the first quarters of FY 2002 and FY 2003.

[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.

DISBURSEMENTS

— *Steve Mansfield*

Disbursements for September (excluding transfers) were $134.6 million above estimate, with the Tax Relief program contributing a positive disbursement variance of $138.7 million. For the year to date, there was at the end of September a positive disbursement variance of $156.1 million, the September disbursement variance in the Tax Relief program providing by far the largest part. The Health Care/Medicaid program also posted another positive disbursement variance in September, to stand at $54.4 million over the year-to-date estimate. We will look at disbursements in these and other programs in more detail below.

When we look at the year-to-date disbursement variance in four of the state's major program categories, as depicted in Figure 1, we see that two (Property Tax Relief, and Welfare and Human Services) of the four program categories registered positive disbursement variances, and two (Education, and Government Operations) registered negative disbursement variances. In the sections that follow, we will examine the disbursement activity in each of these four major GRF program categories in the order of magnitude of their contribution to the year-to-date positive disbursement variance: (1) Property Tax Relief, (2) Welfare and Human Services, (3) Education, and (4) Government Operations. Within each program category, we then examine the state agency budgets and programs that have contributed most notably with either positive or negative disbursement variances. The reader's attention is directed to Tables 4 and 5 for summary information about GRF disbursement activity and to Tables 6 and 7 for a detailed presentation of disbursement activity in the Health Care/Medicaid program.

Tax Relief ($138.7 million)

The Property Tax Relief program, which carries an FY 2003 GRF appropriation of over $1.3 billion, reimburses school districts and local government for revenue that is lost due to tax relief provided by state law to property owners and businesses through the homestead exemption, the property tax rollbacks, and the $10,000 tangible tax exemption programs. Tax relief funds are disbursed to school districts and local governments by the Department of Education and the Department of Taxation, respectively. Each of these departments divides its property tax relief program into two components: real property tax credits/exemptions, and tangible tax exemptions.

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

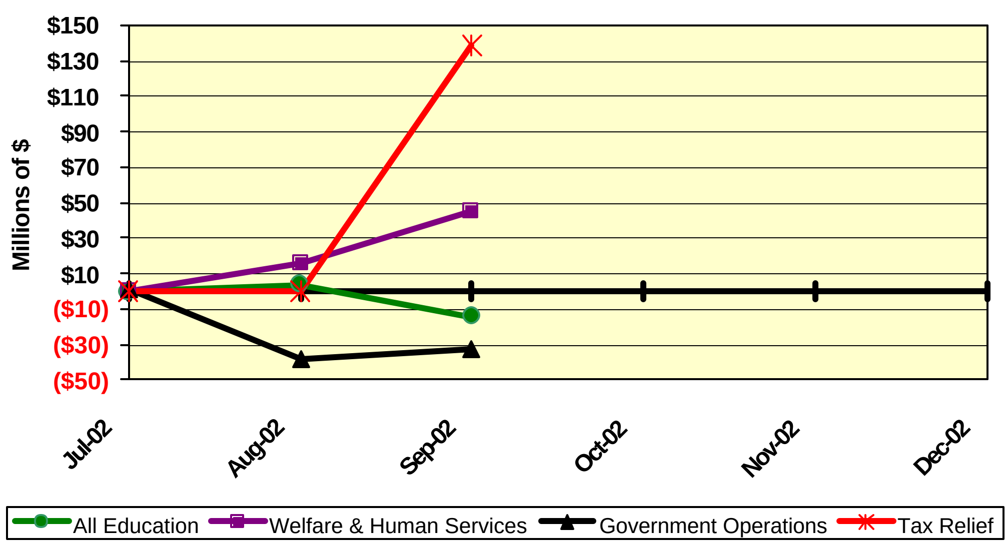


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of September 2002
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$562,999	$582,423	($19,424)
Higher Education	$181,866	$180,164	$1,702
Total Education	$744,865	$762,587	($17,722)
Health Care/Medicaid	$733,597	$697,463	$36,134
Temporary Assistance to Needy Families (TANF)	$45,516	$31,348	$14,168
General/Disability Assistance	$2,082	$1,884	$197
Other Welfare (2)	$32,969	$43,055	($10,086)
Human Services (3)	$89,744	$101,401	($11,657)
Total Welfare & Human Services	$903,908	$875,151	$28,757
Justice & Corrections	$224,732	$235,357	($10,626)
Environment & Natural Resources	$9,051	$9,860	($809)
Transportation	$3,756	$2,426	$1,330
Development	$52,248	$39,348	$12,900
Other Government	$96,159	$94,257	$1,903
Capital	$0	$0	$0
Total Government Operations	$385,946	$381,247	$4,698
Property Tax Relief (4)	$254,118	$115,427	$138,691
Debt Service	$19,342	$17,699	$1,643
Total Program Payments	**$2,308,178**	**$2,152,111**	**$156,067**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$2	$0	$2
Total Transfers Out	$2	$0	$2
TOTAL GRF USES	**$2,308,180**	**$2,152,111**	**$156,069**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes the Department of Job and Family Services, exclusive of Medicaid, TANF, and General/Disability A
(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services
(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

* August 2002 estimates of the Office of Budget and Management.

Totals may not add up due to rounding.

For the year to date, disbursements in the Tax Relief program stand at $138.7 million over the estimate, with the variance stemming solely from September's positive disbursement variance. The relatively large positive disbursement variance in the Tax Relief program is due to the timing of payment requests and the processing of the payments. Counties are requesting reimbursement more quickly than last year. Also, the disbursement estimates for the Tax Relief program that are used in the Central Accounting System (CAS) reports were revised in September. However, we will continue to compare actual expenditures to OBM's estimates as of August 2002. Consequently, the analysis contained in this *Disbursements* article regarding the Tax Relief program diverges frequently from OBM's *Monthly Financial Report*.

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

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance	FY 2002	Percent Change
Primary & Secondary Education (1)	$1,660,684	$1,676,699	($16,015)	$1,583,514	4.87%
Higher Education	$562,694	$560,719	$1,975	$561,906	0.14%
Total Education	$2,223,378	$2,237,418	($14,040)	$2,145,420	3.63%
Health Care/Medicaid	$2,202,981	$2,148,570	$54,411	$1,764,649	24.84%
Temporary Assistance to Needy Families (TANF	$61,879	$43,998	$17,881	$37,829	63.58%
General/Disability Assistance	$7,533	$7,011	$522	$20,606	-63.44%
Other Welfare (2)	$156,272	$169,973	($13,701)	$148,241	5.42%
Human Services (3)	$363,488	$377,394	($13,906)	$333,086	9.13%
Total Welfare & Human Services	$2,792,154	$2,746,946	$45,208	$2,304,411	21.17%
Justice & Corrections	$519,994	$544,315	($24,321)	$512,779	1.41%
Environment & Natural Resources	$41,763	$46,404	($4,642)	$48,275	-13.49%
Transportation	$15,029	$14,676	$353	$15,078	-0.33%
Development	$81,957	$83,193	($1,236)	$78,949	3.81%
Other Government	$162,749	$166,068	($3,319)	$166,624	-2.33%
Capital	$0	$1,535	($1,535)	$3,605	-100.00%
Total Government Operations	$821,491	$856,190	($34,699)	$825,310	-0.46%
Property Tax Relief (4)	$387,276	$248,585	$138,691	$206,820	87.25%
Debt Service	$130,788	$131,312	($524)	$111,597	17.20%
Total Program Payments	**$6,355,087**	**$6,220,451**	**$134,636**	**$5,593,557**	**13.61%**
TRANSFERS					
Local Govt Distribution	$0	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	$13,104	-100.00%
Other Transfers Out	$15,838	$15,836	$2	$15,530	1.98%
Total Transfers Out	$15,838	$15,836	$2	$28,634	-44.69%
TOTAL GRF USES	**$6,370,925**	**$6,236,287**	**$134,638**	**$5,622,191**	**13.32%**

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

* August 2002 estimates of the Office of Budget and Management.

Totals may not add up due to rounding.

Welfare/Human Services ($45.2 million)

Job and Family Services

TANF. Until the current biennium, most of the federal component of the Temporary Assistance for Needy Families (TANF) program was expended from GRF line item 600-411, TANF Block Grant. This line item, however, was eliminated and the federal funds began to be expended through three line items in the state's Federal Special Revenue Fund Group.

The state's portion of the TANF program that is expended from the GRF is composed of line item 600-410, TANF State, a portion of line item 600-413, Day Care Match/MOE, and a portion of a new line item 600-321, Support Services, which was recently created by Controlling Board action to facilitate the

Table 6
Health Care Spending in FY 2003
Medicaid, ALI 600-525
($ in thousands)

Service Category	Sept. Actual	Sept. Estimate	Sept. Variance	Sept. Percent Variance	Year-to-Date Actual thru' Sept.	Year-to-Date Estimate thru' Sept.	Year-to-Date Variance	Year-to-Date Percent Variance
Nursing Facilities	$204,969	$204,104	$866	0.4%	$616,417	$632,086	($15,669)	-2.5%
Payments	$216,686	$229,579	($12,893)	-5.6%	$638,519	$661,299	($22,780)	-3.4%
NF Franchise Fees Offset[1]	($11,717)	($25,475)	$13,759	-54.0%	($22,102)	($29,212)	$7,111	-24.3%
ICF/MR	$34,827	$35,526	($699)	-2.0%	$102,322	$103,472	($1,151)	-1.1%
Payments	$36,547	$37,273	($726)	-1.9%	$107,501	$108,667	($1,166)	-1.1%
ICF/MR Franchise Fees Offset	($1,720)	($1,747)	$27	-1.6%	($5,179)	($5,195)	$16	-0.3%
Inpatient Hospitals	$121,547	$119,946	$1,601	1.3%	$348,232	$346,252	$1,980	0.6%
Outpatient Hospitals	$49,538	$44,381	$5,157	11.6%	$143,565	$133,109	$10,456	7.9%
Physicians	$46,307	$46,780	($473)	-1.0%	$135,071	$134,189	$882	0.7%
Prescription Drugs	$135,507	$131,584	$3,924	3.0%	$395,894	$392,936	$2,958	0.8%
HMO	$56,140	$50,412	$5,728	11.4%	$166,471	$158,045	$8,426	5.3%
Medicare Buy-In	$11,693	$10,756	$936	8.7%	$35,145	$32,286	$2,860	8.9%
ODJFS Waiver[2]	$16,740	$17,721	($981)	-5.5%	$46,053	$47,599	($1,546)	-3.2%
All Other[3]	$69,800	$78,077	($8,276)	-10.6%	$194,753	$207,057	($12,304)	-5.9%
CHIP II[4]	$5,373	$4,933	$440	8.9%	$14,541	$13,964	$577	4.1%
DA Medical[5]	$8,048	$6,569	$1,479	22.5%	$25,521	$22,827	$2,694	11.8%
Total ALI 600-525	$760,488	$750,788	$9,701	1.3%	$2,223,984	$2,223,822	$162	0.0%
DSH Offset	$0	$0			$0	$0		
Drug Rebates	($30,470)	($31,070)			($30,470)	($32,073)		
FY 2002 Encumbrance	$0	$0			($83,539)	($82,208)		
Total Health Care (Net of Offsets)	**$730,018**	**$719,718**	**$10,300**	**1.4%**	**$2,109,975**	**$2,109,541**	**$435**	**0.0%**
Est. Federal Share[6]	$425,399	$420,155	$5,244		$1,228,080	$1,229,338	($1,258)	
Est. State Share	$304,619	$299,563	$5,056		$881,895	$880,202	$1,693	
Prior Period ALI 600-525	$0	$384			$84,470	$84,305		
BSF Shortfall[7]	$0	($22,639)			0	($45,278)		
Total Health Care w/o BSF	**$730,018**	**$697,463**	**$32,555**	**4.7%**	**$2,194,445**	**$2,148,568**	**$45,877**	**2.1%**

1. Some of the money generated from the Nursing Home Franchise Permit Fees is to be used to make payments to nursing facilities to offset GRF nursing facilities spending.
2. Waivers provide home care alternatives to consumers whose medical conditions/functional abilities would otherwise require Long-Term Care facility residence.
3. "All Other" includes all other health services funded by line item 600-525.
4. CHIP-II, effective July 1, 2000, provides health care coverage for children under age 19, with family incomes 150-200% of FPL. The state receives enhanced FMAP for CHIP II.
5. DA Medical is a state-only funded program.
6. The FMAP is 58.83% for FY 2003, and the enhanced FMAP is 71.18% for FY 2003.
7. The budget estimate assumed $110 million of the Budget Stabilization Fund (BSF) will be used to increase the appropriation in line item 600-525 by $266 million, all funds in SFY 2003.

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

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

department's program budgeting. A portion of the state's TANF expenditures that contribute to the TANF maintenance of effort (MOE) requirement is also met by expenditures through line item 600-658, Child Support Collection, in the General Services Fund Group, and by county expenditures for part of the program's administrative costs.

Year-to-date disbursement reports show a positive disbursement variance of $17.9 million. The bulk of the disbursement variance was produced by an overage of $13.7 million in line item 600-413, Day Care Match/MOE during the month of September, when a weekly disbursement that was scheduled for October actually posted in the last week of September. For a more detailed discussion of the status of spending activity in the TANF program, please see the "TANF Spending Update" article included in this issue of *Budget Footnotes*.

Health Care/Medicaid. At the end of the first quarter of FY 2003, the Health Care/Medicaid program (primarily line item 600-525) was cumulatively $45.9 million, or 2.1 percent, above the $21.1 billion spending estimate. For September, the program posted a $32.6 million overage.

Like last year, a discussion of the role that particular service categories had in producing these disbursement variances is complicated by the fact that OBM estimates for the service categories (see Table 6) assume the inclusion of $110 million that is to be transferred from the Budget Stabilization Fund (BSF), along with an additional federal contribution of $156 million. These funds have not yet been appropriated and the actual amount transferred will depend on what is needed at the end of the fiscal year. These additional state and federal funds are included in the service category estimates, but they are not included in the monthly estimate of total spending for the program that is prepared by OBM for use in the Central Accounting System (CAS) reports. In order for Table 6 to show total Health Care/Medicaid expenditures and compare that total with the monthly and year-to-date estimate, the portion of the expenditures and estimates attributable to the BSF and matching federal funds must be subtracted. Like last year, this "apples and oranges" problem will throughout the year present an obstacle to any analysis of the role that particular service categories play in producing disbursement variances.

Table 7
FY 2003 to FY 2002 Comparison of Year-to-Date Health Care Spending
($ in thousands)

Service Category	FY 2003 Yr.-to-Date as of Sep. '02	FY 2002 Yr.-to-Date as of Sep. '01	Dollar Change	Percent Increase
Nursing Facilities	$616,417	$598,394	$18,023	3.0%
Payments	$638,519	$601,718	$36,800	6.1%
NF Franchise Fees Offset[1]	($22,102)	($3,324)	($18,777)	564.8%
ICF/MR	$102,322	$100,742	$1,580	1.6%
Payments	$107,501	$104,608	$2,893	2.8%
ICF/MR Franchise Fees Offset	($5,179)	($3,866)	($1,314)	34.0%
Inpatient Hospitals	$348,232	$260,969	$87,262	33.4%
Outpatient Hospitals	$143,565	$106,076	$37,489	35.3%
Physicians	$135,071	$99,512	$35,560	35.7%
Prescription Drugs	$395,894	$291,312	$104,581	35.9%
HMO	$166,471	$130,670	$35,801	27.4%
Medicare Buy-In	$35,145	$32,013	$3,132	9.8%
ODJFS Waiver[2]	$46,053	$36,890	$9,163	24.8%
All Other[3]	$194,753	$140,114	$54,639	39.0%
CHIP II[4]	$14,541	$9,299	$5,242	56.4%
DA Medical[5]	$25,521	$14,714	$10,807	73.4%
Total Health Care	**$2,223,984**	**$1,820,705**	**$403,279**	**22.1%**
DSH Offset	$0	$0	$0	
Drug Rebates	($30,470)	($42,298)	$11,828	
Prior Year Encumbrance	($83,539)	$1,367	($84,906)	
Total Health Care (Net of Offsets)	**$2,109,975**	**$1,779,774**	**$330,201**	**18.6%**
Est. Federal Share[6,7]	$1,228,080	$1,038,653	$189,428	
Est. State Share	$881,895	$741,122	$140,773	

1. Some of the money generated from the Nursing Home Franchise Permit Fees is to be used to make payments to nursing facilities to offset GRF nursing facilities spending. The NF franchise fee is $3.30 per bed per day in FY 2002, and is $4.30 per bed per day in FY 2003.
2. Waivers provide home care alternatives to consumers whose medical conditions/functional abilities would otherwise require Long Term Care facility residence.
3. "All Other" includes all other health services funded by line item 600-525.
4. CHIP-II, effective July 1, 2000, provides health care coverage for children under age 19, with family incomes 150-200% of FPL. The state receives enhanced FMAP for CHIP II.
5. DA Medical is a state-only funded program.
6. The FMAP is 58.83% for FY 2003, and the enhanced FMAP is 71.18% for FY 2003.
7. The FMAP is 58.78% for FY 2002, and the enhanced FMAP is 71.15% for FY 2002.

Included in Table 6 are two non-GRF Franchise Fee Offsets that are used to make payments to nursing and intermediate care facilities. Of particular interest is increase in the Nursing Home Franchise Permit fees. The Department of Job and Family Services is required to assess an annual franchise permit fee on each long-term care bed in a nursing facility or hospital. Until July 1, 2001, the amount of the fee was $1 for each such bed multiplied by the number of days in the fiscal year for which the fee is assessed. Am. Sub. H.B. 94 of the 124th General Assembly (the main budget bill for the current biennium) raised the fee to $3.30 per bed. S.B. 261 of the 124th General Assembly raised the fee to $4.30 for FY 2003 through FY 2005. This increase is reflected in Table 6 as a partial offset to GRF payments to Nursing Facilities and in Table 7 in the year-to-year comparison that shows over a five-fold increase in the offset.

Also standing out in Table 7 are the large year-to-year increases in most of the service category expenditures. These stem in part from the disbursement in FY 2003 of $82.2 million that was encumbered at the end of FY 2002. As Table 7 shows, subtracting FY 2002 funds from the total disbursed yields an overall rate of increase of 18.6 percent. At the end of the first quarter of FY 2002, the year-over-year rate of increase, which compared the first three months of FY 2001 to the same period in FY 2002, was 9.5 percent. For FY 2002 as a whole, excluding the month of June when there was a delay of payments, the overall rate of increase compared to the same time period of FY 2001 was 12.9 percent.

The large percentage increase in the Disability Assistance (DA) Medical program also merits special comment. The number of DA medical recipients has increased by over 5,000 since July 2001, an increase of 25.9 percent in just over a year. While the amounts budgeted for the DA program anticipated a significant increase in the number of recipients, actual growth has been stronger, and disbursements in the DA program as a whole are over the year-to-date estimate by about $325,000, or 6.3 percent.

Education (-$14.0 million)

Department of Education. The Department of Education posted a negative disbursement variance of $16.8 million in September to stand at $14.5 million below the estimate for the year to date, thus accounting for all of the negative disbursement variance for the Education category. The source of the variance is traceable to several programs within the department. Most notable is the Reading/Writing Improvement program, which is supported with funds appropriated in line item 200-433. Line item 200-433 posted a $7.8 million negative variance from the estimate in September, and also stands at $7.8 million under the estimate for the year to date. This appropriation item is used to fund various initiatives aimed at improving literacy. One major program is the Summer Institute for Reading Intervention (SIRI), an intensive professional development program for reading teachers. The appropriation for FY 2003 is $19.4 million, approximately half of which was scheduled to be disbursed in September. The September negative variance in line item 200-433 was due to the delay of the disbursement for SIRI.

Also notable as a source of the department's negative year-to-date variance is the Base Cost Funding program, which is supported by line item 200-501. Line item 200-501 was under the estimate in September by $7.9 million and stands at $5.0 million below the estimate for the year to date. This appropriation item is the largest in the department's budget, and distributes funds to the state's school districts, according to the "base cost" formula developed by the General Assembly, which are used to provide educational services to Ohio public school students. The appropriation for this item for FY 2003 is $4,417.9 million out of the department's total GRF appropriation of $6,367.3 million. Base cost funding depends on several factors including the Average Daily Membership (ADM) count for the first week of October and other data. This data will not be available until early next year. The estimates, therefore, are rough and it is generally expected that there will be variances.

Government Operations (-$34.7 million)

Rehabilitation & Correction. The Department of Rehabilitation and Correction was the source of most of the negative disbursement variance in the government operations category, having posted an $11.4 million negative disbursement variance in September and tallying for the year to date a negative disbursement variance of $21.1 million. Both the monthly and the year-to-date disbursement variances are traceable to line item 501-321, Institutional Operations; however, smaller negative year-to-date variances are present in virtually all of the operational line items in the department's budget. The underestimate of spending in the 501-321 line item, in particular, stems from staff reductions. As of June 2002, the department had experienced a staff reduction of about 1,850 employees since July 2001.

**LSC colleagues who contributed to the development of this disbursement report include, in alphabetical order, Melaney Carter, Ivy Chen, Nicole Ringer, Joseph Rogers, and Maria Seaman.*

TANF Update

TANF SPENDING QUARTERLY REPORT FFY 1997 - 2002, Q3

—Steve Mansfield

This year, the U.S. Congress has been considering reauthorization of the legislation that created the Temporary Assistance for Needy Families (TANF) program. In May, the U.S. House of Representatives passed the "Personal Responsibility, Work, and Family Promotion Act of 2002." The House bill largely reflects the principles and policies outlined in President Bush's proposal for welfare reform reauthorization, "Working Toward Independence." In June, the Senate Finance Committee passed a substitute bill, the "Work, Opportunity, and Responsibility for Kids Act of 2002."

In late September, with only a few days left before authorization and funding expired for the TANF program, the U.S. Congress approved a three-month extension, giving federal lawmakers more time to work out an agreement on how to extend the program for the long term. With a crowded legislative calendar that prevented the Senate from taking floor action, a temporary extension was required to keep the program operating. When Congress does act to reauthorize the TANF program, the decisions that it makes are likely to impact significantly the shape of the benefits and services delivered to low-income families by the states.

Both bills make substantial changes to the existing TANF program. While there are a number of significant differences that must be worked out for a final bill to go to the President, both bills continue the funding for the TANF program at the current level of $16.5 billion, both bills retain the five-year time limit on the receipt of federal cash benefits, both bills increase the overall percentage of those on assistance who must be in work activities from 50 percent to 70 percent, and both bills eliminate the separate two-parent work participation rate.

The issues of contention between the House and Senate versions revolve around such things as the requirements for hours of work and what is a creditable work activity, funding and rules for child care, eligibility issues for legal immigrants, new federal rules on sanctioning participants for noncompliance, funding for the Social Services Block Grant (SSBG) and Transitional Medical Assistance programs, how best to promote healthy marriages, and other matters.

Ohio's TANF Expenditures, FFY 1997 – FFY 2002-Q3

At the current funding level, Ohio's annual TANF grant from the federal government is $727,968,260. A categorical breakout of expenditures of federal TANF funds is presented in Table 1. Because of their nature as a block grant award, and within the limits imposed, expenditures reported from federal funds can be posted against any of the annual TANF awards. Thus in a particular quarter, expenditures from federal TANF funds may be reported against the awards that were made in different years. Table 1 also tracks transfers to Title XX (the Social Services Block Grant) and to the Child Care and Development Fund (CCDF).

In order to receive this grant, Ohio must also meet a "maintenance of effort" (MOE) spending requirement. In each of the last five years, Ohio's MOE expenditures have been a little over $400 million. A categorical breakout of state funds is presented in Table 2. Because, however, of the MOE requirement for particular periods, MOE expenditures are reported and count toward the current year's MOE requirement.

TABLE 1. How Ohio Has Used TANF Federal Funds	FFY 1997 Award	FFY 1998 Award	FFY 1999 Award	FFY 2000 Award	FFY 2001 Award	FFY 2002 Award to Date	Expenditures to Date	% of Total to Date
Basic Assistance	$444,489,099	$208,701,772	$65,943,862	$236,325,460	$19,962,934	$1,315,438	$976,738,565	33.13%
Work Activities	3,792,305	38,564,565	26,688,339	81,114,726	95,705,415	17,720,831	$263,586,181	8.94%
Child Care	5,245,155	29,416,442	149,209,034	0	0	30,652,634	$214,523,265	7.28%
Transportation	--	–	9,130,805	7,096,385	11,197,295	1,753,970	$29,178,455	0.99%
Indiv. Development Accounts	--	–	–	14,925	0	11,024	$25,949	0.00%
Diversion Payments	--	–	71,662,730	18,001,749	51,788,744	4,665,633	$146,118,856	4.96%
Pregnancy Prevention	--	–	–	563,257	1,987,054	9,209,413	$11,759,724	0.40%
2-Parent Formation	--	–	–	296,162	423,942	6,523,995	$7,244,099	0.25%
Administration	46,902,800	38,048,953	50,389,802	86,657,691	75,544,918	13,169,852	$310,714,016	10.54%
Information Systems	0	14,562,288	31,370,732	44,825,621	42,822,492	20,727,532	$154,308,665	5.23%
Other Nonassistance	154,742,075	180,963,610	228,381,447	72,258,307	87,066,170	110,779,761	$834,191,370	28.29%
TOTAL EXPEND.	$655,171,434	$510,257,630	$632,776,751	$547,154,283	$386,498,964	$216,530,083	**$2,948,389,145**	100.00%
Federal Grant Award	$727,968,260	$727,968,260	$727,968,260	$727,968,260	$727,968,260	$509,577,782	**$4,149,419,082**	
Transfer to Title XX	$72,796,826	$72,796,826	$72,796,826	$72,796,826	$72,796,826	$72,796,826	**$436,780,956**	
Transfer to CCDF	$0	$0	$0	$77,453,492	$136,654,269	$129,593,552	**$343,701,313**	
RESERVE	$0	$144,913,804	$22,394,683	$30,563,659	$132,018,201	$90,657,321	**$420,547,668**	

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

ITEMS	FFY 1997	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002 to Date	Expenditures to Date	% of Total to Date
Basic Assistance	$305,589,897	$314,094,233	$314,625,299	$286,493,998	$275,816,285	$169,298,494	$1,665,918,206	68.53%
Work Activities	8,912,399	624,678	408,315	7,820,019	7,171,556	23,975,430	$48,912,397	2.01%
Child Care	45,628,354	51,850,611	49,435,554	51,887,171	55,996,785	45,403,943	$300,202,418	12.35%
Transportation	--	–	--	–	–	5,797,328	$5,797,328	0.24%
Indiv. Development Accounts	--	–	--	–	–	23,990	$23,990	0.00%
Diversion Payments	--	–	--	–	–	19,401,322	$19,401,322	0.80%
Pregnancy Prevention	--	–	--	–	–	4,005,473	$4,005,473	0.16%
2-Parent Formation	--	–	--	–	–	12,137,073	$12,137,073	0.50%
Administration	22,251,847	16,614,890	14,091,560	19,877,036	34,586,261	50,404,525	$157,826,119	6.49%
Information Systems	2,702	5,068,027	3,295,806	3,944,712	2,810,372	1,864,140	$16,985,759	0.70%
Other Nonassistance	34,391,885	31,820,351	40,496,328	29,762,563	29,762,564	22,697,830	$188,931,521	7.77%
Expenditures in Separate State Programs	--	–	--	1,581,167	5,571,647	3,806,338	$10,959,152	0.45%
TOTAL MOE	**$416,777,084**	**$420,072,790**	**$422,352,862**	**$401,366,666**	**$411,715,470**	**$358,815,886**	**$2,431,100,758**	**100.00%**

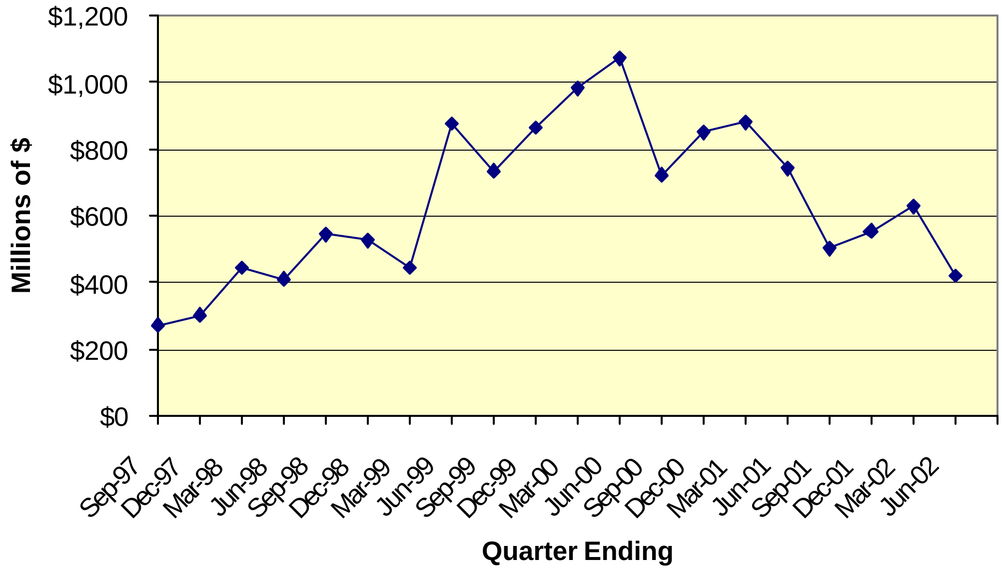
Figure 1 tracks by quarter the cumulative reserve of unspent TANF funds. The quarterly data shows a pattern of reduction of the reserve in the spring and summer quarters and an overall reduction in the size of the reserve since the spring of 2000.

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

- Ohio used $943.3 million in federal TANF funds in FFY 2001. This exceeded the annual block grant award of $728.0 million by $215.3 million, and reduced the size of the TANF reserve to just over $500 million.

- Through three quarters of FFY 2002, Ohio's TANF reserve stands at $420.5 million. Of the total reserve funds, $134.0 million is reported as unliquidated obligations, and $285.6 million is reported as the unobligated balance. Transfers to the Child Care and Development Fund (CCDF) and to the Title XX Social Services Block Grant were made in the third quarter of FFY 2002, substantially reducing the reserve total.

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



- Department of Job and Family Services (JFS) budget plans indicate that the reserve will be reduced in the quarters ahead.

- In the first three quarters of FFY 2002, Ohio reported $358.8 million as expended from state MOE funds.

- The most common use of both federal and state TANF funds is for basic assistance (i.e., cash payments and vouchers designed to meet ongoing basic needs). In order to ensure that Ohio meets its MOE each year, JFS has opted to pay a higher share of basic assistance expenditures with MOE.

- While still the most common form of expenditure, the share of basic assistance has been declining as a proportion of expenditures from both federal and state TANF funds.

- The second most common use of funds for a specific form of service is for child care, with $514.7 million in both state and federal TANF funds being spent so far during the life of the block grant.

- The catchall category "other nonassistance" is larger than child care, and includes a variety of supportive and case management services that are designed to meet short-term needs, rather than ongoing basic needs like income, food, clothing, or shelter. These services, along with other "nonassistance" services in categories that are reported in the two tables (work activity, child care, transportation, diversion payments, out-of-wedlock pregnancy prevention, two-parent family formation and maintenance, administration, and information systems) constituted 70 percent of Ohio's combined federal and state TANF expenditures in FFY 2001. Other than child care, these nonassistance services are provided under Ohio's Prevention, Retention, and Contingency (PRC) program. (See the May 2002 issue of *Budget Footnotes* for a more detailed look at PRC expenditures.)

TANF Caseload

At the end of September, the number of TANF cash assistance recipients was 190,862, a decrease of about 4,000 recipients (or 2.1 percent) since September 2001. The average number of recipients per assistance group also continued to decline. In September, the average assistance group was composed of 2.26 members. At the peak of the recession in 1992, the average number of recipients per assistance group was 2.88.

This low ratio of recipients per assistance group reflects the increasing proportion of TANF 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 over 46 percent of all TANF cases.

Up until the last few years, unemployment was a very strong predictor of the receipt of cash assistance benefits Along with the changing composition of the TANF caseload toward "child only" cases, the introduction of TANF program rules regarding work requirements and time limits have significantly undercut unemployment as a predictor of the TANF caseload. In revising our methodology of forecasting the TANF caseload, LSC has substituted as one of the variables in a multiple-regression model the number of Ohioans employed in jobs classified as providing services. This number has a very strong negative correlation with the TANF caseload since the recession of the early 1990's ended. This new model will be used to forecast the number of TANF cases for the next state budget.

Quarterly Lottery Report

LOTTERY TICKET SALES AND PROFIT TRANSFERS FIRST QUARTER, FY 2003

Ticket Sales

The Ohio Lottery entered the multistate game Mega Millions in May 2002. As expected, higher jackpots for the Mega Millions game have decreased Super Lotto (and Kicker) sales.[1] Table 1 summarizes Lottery ticket sales by game in the first quarter of FY 2003.

The decrease in on-line ticket sales was directly linked to a slowdown in Mega Millions sales during the quarter. Mega Millions ticket sales decreased 21.3 percent in August, and 45.8 percent in September. Instant ticket sales fared better. They increased 3.3 percent in August and 0.6 percent in September.

Table 1: First-Quarter Lottery Ticket Sales by Games (millions of dollars)

	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Mega Millions	Instant Tickets	On-line Tickets	Total Sales
July	$32.7	$12.5	$2.3	$6.0	$12.5	$24.4	$75.6	$90.3	$165.9
August	$34.3	$13.0	$2.3	$6.0	$12.8	$19.2	$78.1	$87.6	$165.7
September	$31.5	$11.9	$2.4	$5.4	$14.8	$10.4	$78.6	$76.4	$155.0
Total	$98.5	$37.3	$7.0	$17.4	$40.1	$54.0	$232.3	$254.3	$486.6

Totals may not add up due to rounding

Ticket sales in September were substantially lower than sales in July and August. Monthly ticket sales were $165.9 million in July and $165.7 million in August. Then, monthly ticket sales fell 6.5 percent to $155.0 million in September. Except for Super Lotto and Kicker, sales for the other games fell in September from 8.1 percent for Pick 3 and Pick 4 to 45.7 percent for Mega Millions. Remarkably, Super Lotto sales were $4.4 million higher than Mega Millions in September.

Table 1 shows total ticket sales in the quarter were $486.6 million and Instant ticket sales were $232.3 million, or 47.7 percent of quarterly sales. On-line ticket sales were $254.3 million, 9.5 percent higher than Instant ticket sales. On-line ticket sales gradually decreased from $90.3 million in July to $87.6 million in August, and to $76.4 million in September.

Compared to sales in the same quarter a year ago, in FY 2002, total ticket sales increased $7.2 million, or 1.5 percent. On-line ticket sales were up $7.0 million or 2.8 percent. Instant ticket sales grew slightly, up $0.2 million or 0.1 percent. Super Lotto sales declined $44.2 million or 52.4 percent. Buckeye 5 sales increased $3.5 million or 24.8 percent. Pick 3 receipts declined $1.0 million or 1.0 percent. Pick 4 revenues increased $0.1 million or 0.5 percent. However, this year-over-year growth in sales in the first quarter was mediocre, because ticket sales in September 2001 were somewhat lower than normal. When first-quarter sales in FY 2003 are compared to sales in the fourth quarter of FY 2002, Lottery ticket sales in the first quarter were lackluster. Table 2 shows the growth in sales per game from the previous quarter (fourth quarter of FY 2002).

Table 2: Growth of Ticket Sales per Game from the Previous Quarter (in millions)									
	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Mega Millions	Instant Tickets	On-line Tickets	Total
Q4 FY 2002	$101.0	$38.1	$12.1	$20.2	$87.9	$16.5	$246.3	$275.9	$522.1
Q1 FY 2003	$98.5	$37.3	$7.0	$17.4	$40.1	$54.0	$232.3	$254.3	$486.6
$ Variance	-$2.5	-$0.7	-$5.2	-$2.9	-$47.8	$37.5	-$14.0	-$21.6	-$35.5
% Variance	-2.5%	-1.9%	-42.7%	-14.1%	-54.4%	227.4%	-5.7%	-7.8%	-6.8%

Totals may not add up due to rounding

Ticket sales for all established games - except for Mega Millions - declined from the previous quarter's sales. Instant tickets sales declined $14.0 million or 5.7 percent. Pick 3 and Pick 4 sales declined 2.5 percent and 1.9 percent, respectively. After an initial bounce from the addition of two weekly drawings in the last quarter (up 44.4 percent last quarter), receipts from Buckeye 5 declined strongly this quarter. Buckeye 5 sales were down $2.9 million or 14.1 percent. Not surprisingly, Super Lotto and Kicker sales fell during the quarter, as Mega Millions was expected to take sales away from these two games. Super Lotto sales dropped $47.8 million or 54.4 percent. Kicker sales were down $5.2 million or 42.7 percent. Mega Millions sales are projected to generate an increase in net total sales after subtracting the expected decline in ticket sales for Super Lotto and Kicker games. This did not occur in the first quarter of FY 2003. Mega Millions ticket sales increased $37.5 million in the first quarter, compared to a decline of $53.0 million for Super Lotto and Kicker sales. Thus, the net decline in sales was $15.5 million, or 43.7 percent of the decline in total sales for the first quarter of FY 2003.

Table 3: First-Quarter Ticket Sales and Transfers to LPEF (millions of dollars)						
	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfers as Percentage of Sales
July	$165.9	$48.8	$48.8	-$0.0	-0.0%	29.4%
Aug	$165.7	$49.9	$52.1	-$2.2	-4.3%	30.1%
Sept	$155.0	$46.8	$49.4	$2.6	-5.2%	30.2%
Total	$486.6	$145.5	$150.3	-$4.8	-3.2%	29.9%

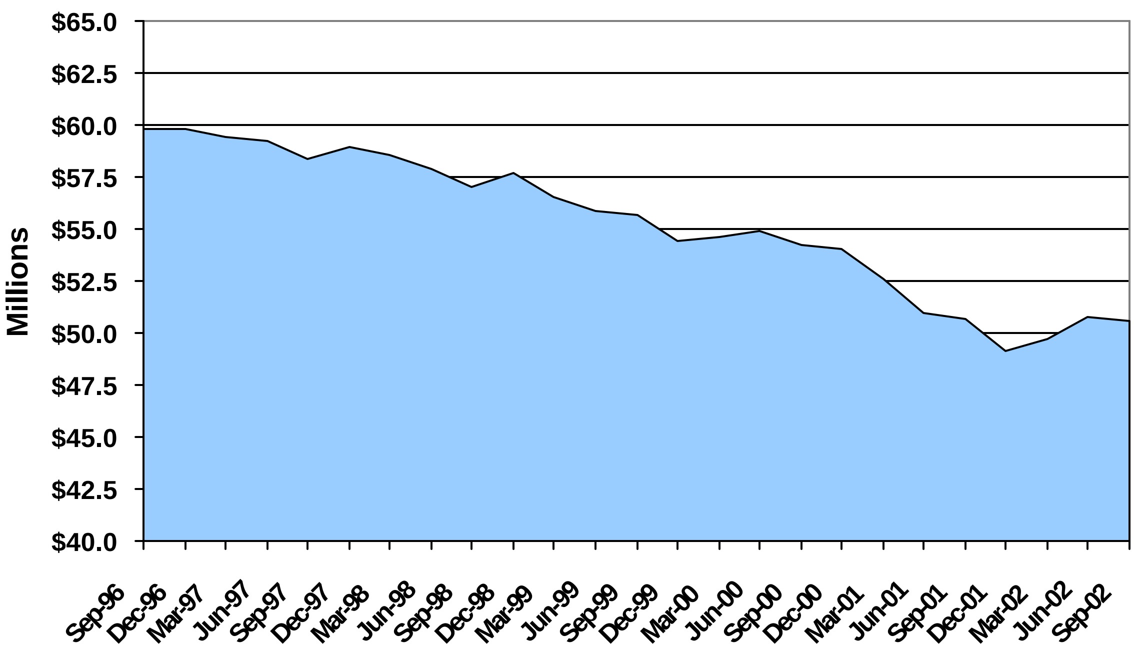
Totals may not add up due to rounding

Transfers to the Lottery Profits Education Fund (LPEF)

Table 3 summarizes transfers from operations to LPEF in the first quarter of FY 2003. First-quarter transfers were $145.5 million, down 10.0 percent from $161.7 million in the last quarter of FY 2002. Transfers were also down $2.9 million or 1.9 percent from a year ago in the first quarter of FY 2002. Transfers in the first quarter of FY 2003 were $4.8 million or 3.2 percent lower than projected transfers. Quarterly transfers were 29.9 percent of ticket sales.

The chart below shows monthly transfers from operations to LPEF since the first quarter of FY 1997. After reaching an apex of $2.3 billion in FY 1996, lottery ticket sales started falling. As ticket sales fell over the years, yearly transfers from operations to LPEF also declined. Transfers to education declined from a peak of $714 million in FY 1996 to $610 million in FY 2002. Profits transfers have a pattern that follows ticket sales. Ticket sales have a seasonal pattern of increases during December[2] and also rise with Super Lotto (or Mega Millions) jackpots. A 12-month average removes variations due to seasonal patterns and provides an indication of actual trends. Monthly profits transfers usually grow with higher monthly ticket sales. The growth in operating profits monthly transfers, which had been upward, has recently flattened. Total profits transfers declined 7.4 percent in FY 2001. Profits transfers in FY 2002 were slightly lower than transfers in FY 2001 (down 0.3 percent). Thus, unless ticket sales grow reasonably in FY 2003 with sales from Mega Millions, the decline in profits transfers may continue.

Monthly Transfers from Operations to LPEF (12-Month Averages)



[1] Generally, Super Lotto and Kicker sales follow the same patterns because purchases are usually made simultaneously.

[2] The Ohio Lottery offers a large number of Instant games during the holiday season, which generally generates higher sales in December.

LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS FIRST QUARTER, FY 2003

— Sara Doddy

Lottery Profits Education Fund (LPEF) disbursements so far in FY 2003 total $96.01 million. Nearly all of this amount came from appropriation item 200-612, Base Cost Funding. The Lottery Profits Education Reserve Fund (LPERF) had no disbursements in the first quarter of FY 2003.

Base Cost Funding

The $96.0 million of lottery profits spending is combined with GRF appropriation item 200-501, Base Cost Funding ($1,153.0 million), to fund the state foundation aid program. This program provides the state's share of per pupil funding that guarantees $4,949 per pupil in state and local funding for FY 2003. The program also provides the state's share of additional special and career-technical education costs, known as weight cost funding. With the combination of GRF and LPEF moneys, base cost funding ($1,249.0 million) represents 57.7 percent of the Department of Education's disbursements so far in FY 2003.

Lease Rental Payments

Moneys from this appropriation item are transferred to the School Facilities Commission to support GRF appropriation item 230-428, Lease Rental Payments. These funds are disbursed according to a schedule determined by the Director of Budget and Management.

SchoolNet Plus Supplement and SchoolNet Electrical Infrastructure

The projects contained in these appropriation items have been completed. The funding was completely disbursed in FY 2002, and there are no intentions to continue funding for FY 2003.

Table 1: FY 2002 LPEF (017) Appropriation/Disbursement Summary
As of September 30, 2002

Agency	Fund	Line Item	Line Item Name	FY 2003 Appropriation	FY 2003 Disbursement	Appropriation Encumbrance	Appropriation Balance
EDU	017	200-612	Base Cost Funding	$ 637,000,000	$ 96,000,000	$ 0	$ 541,000,000
EDU	017	200-682	Lease Rental	$ 35,722,600	$ 0	$ 0	$ 35,722,600
NET	017	228-603	SchoolNet Plus Supplement	$ 11,776	$ 10,676	$ 0	$ 1,100
NET	017	228-690	SchoolNet Electrical Infrastructure	$ 455,360	$ 0	$ 0	$ 455,360
			Total LPEF	**$ 673,189,736**	**$ 96,010,676**	**$ 0**	**$ 577,179,060**

Issues of Interest

TAKING THE PULSE OF THE FIVE STATE PENSION SYSTEMS: HEALTH CARE COSTS ON THE RISE

— Sean Fouts

This article provides an overview of health care costs associated with Ohio's public pension systems. Ohio has five public pension systems with over 700,000 active members, over 400,000 inactive members, and over 300,000 recipients and beneficiaries. The five public pension systems are the Public Employees Retirement System, the State Teachers Retirement System, the School Employees Retirement System, the Police and Fire Pension Fund, and the Highway Patrol Retirement System.

All five systems provide health care benefits to their beneficiaries. In the year 2000, the systems spent a total of $1.16 billion on health care costs. It is expected that these costs will continue to rise as national health care costs rise. The systems are preparing for this eventuality by discussing potential changes in health care benefits with their governing boards and their members.

At the outset, it should be noted that the systems are not statutorily mandated to provide health care coverage to retirees but are permitted to do so by the Ohio Revised Code. However, all of the systems wish to continue offering health care benefits. It has become an expectation of pension members that health care will be provided when they retire.

Public Employees Retirement System

The Public Employees Retirement System (PERS) is the largest public pension system in Ohio. In the year 2000, PERS had almost 400,000 active members, over 200,000 inactive members, and over 130,000 beneficiaries and recipients. PERS members are concentrated in state, city, township, and county governments.

Until recently, PERS provided full health care coverage for all PERS retirees with at least ten years of service credit. The cost of this plan rose by $133 million between the year 2000 and the year 2001. In 2000, PERS spent $559.6 million on health care benefits and in 2001, the cost rose to $693.5 million, an increase of 23.9 percent.

Another indicator of increased health care costs for PERS can be witnessed through changes in the allocation of employer contribution rates. Employers in PERS contribute to PERS based on a percentage of total salary. State employers contribute 13.31 percent, local employers contribute 13.55 percent, and law enforcement employers contribute 16.7 percent. PERS further breaks down these contributions and applies a certain percentage of employee salaries toward pensions and a certain percentage toward health care. Table 1 and Graph 1 show the changes since 1992 in the employer contribution rate allocated toward health care.

Between 1992 and 2001, the percentage of employee salaries allocated to health care increased in both the state division and the local government division. In the law enforcement division, the allocation decreased from 4.46 percent to 4.30 percent. However, at the December 2001 meeting of the Board of Trustees, the employer health care contribution level was increased to 5 percent for all divisions.

Furthermore, the Board made substantial changes to the health care plan that will affect only those members hired after January 1, 2003. The Board named the plan the ***PERS Choices Health Care Plan***. The stated reason for the changes is that resources will no longer be available to provide all retired members with ten years of service credit full health care coverage.

Under this plan, retirees will receive a fixed dollar amount in order to purchase health care from a range of choices offered by PERS. The dollar amount will depend upon the years of service credit obtained by the retiree. A person becomes eligible for the plan with ten years of service credit. For each year of service credit over ten years, the retiree's dollar amount will increase. PERS has designed the plan with the hope that retirees with thirty years of service credit will receive an allocation high enough to purchase the highest level of health care. In addition, PERS will give an amount equal to 50 percent of the monthly allocation for the benefit of dependents. Currently, a retiree may cover his or her dependents under the same plan he or she receives.

State Teachers Retirement System

The State Teachers Retirement System (STRS) has over 174,000 active members, over 120,000 inactive members, and over 99,000 beneficiaries and recipients. STRS members are primarily school district and university teachers. Between 2000 and 2001, there was an increase in health care costs from $343.5 million to $369.4 million, an increase of 7.4 percent.

Although STRS has not introduced changes as dramatic as those in PERS, changes have been made. The employer contribution rate in STRS is 14 percent. With information provided by a professional actuary,

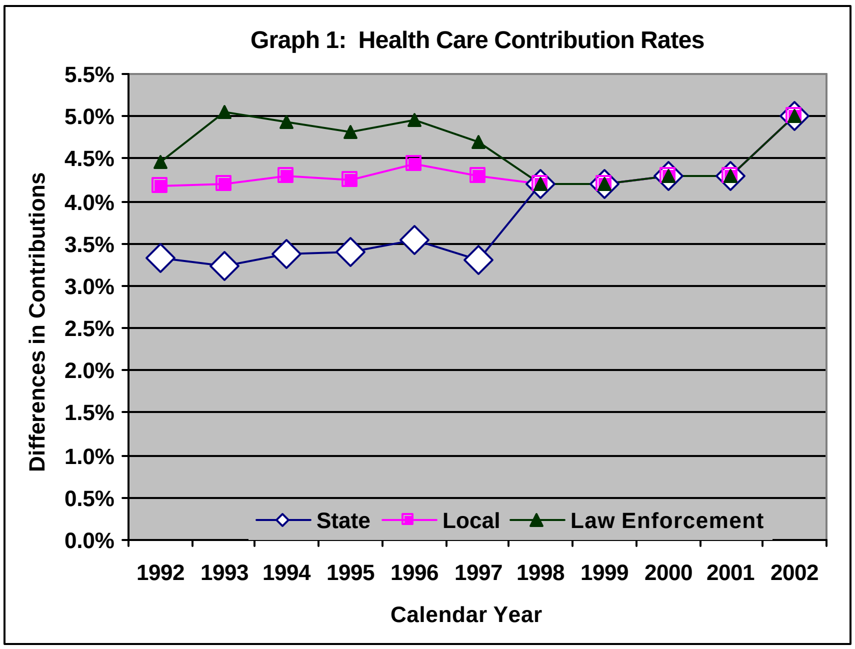


Table 1: Health Care Contribution Rates			
	State	**Local**	**Law Enforcement**
1992	3.34%	4.17%	4.46%
1993	3.24%	4.20%	5.06%
1994	3.37%	4.29%	4.93%
1995	3.39%	4.26%	4.82%
1996	3.54%	4.44%	4.95%
1997	3.31%	4.29%	4.70%
1998	4.20%	4.20%	4.20%
1999	4.20%	4.20%	4.20%
2000	4.30%	4.30%	4.30%
2001	4.30%	4.30%	4.30%
2002	5.00%	5.00%	5.00%

STRS reduced the allocation of employer contributions to its Health Care Reserve Fund, from 8.0 percent in 2000 to 4.5 percent in 2001.

Other changes directly affect health care recipients. The Board established what it terms "trigger points" in 2000 as a method to consider terminating certain health plans. The focus of these points is low market share and high administrative costs. Using these points, the Board eliminated seven HMO plans on January 1, 2002. Those plans had an STRS enrollment of 5,300, or about 5 percent of all recipients.

In addition, the STRS Board also changed the prescription drug benefit coordinator in an attempt to reduce costs. The Board anticipates that a savings of $27 million will be realized in three years due to the change. Furthermore, the Board made benefit changes to the Aetna U.S. Healthcare, Medical Mutual of Ohio PPO, and indemnity plans. Coverage for non-network providers was reduced to 60 percent and out-of-pocket maximums were increased. Proactive health care benefits were increased from $150 annually to $250 annually. Lastly, outpatient hospice services will be covered at 100 percent instead of 80 percent. All of these changes were made in an attempt to reduce health care costs. Besides these changes, STRS continues to monitor the rising costs of health care and will be considering other changes in the future.

School Employees Retirement System

The School Employees Retirement System has approximately 114,000 members and approximately 58,000 beneficiaries and recipients. The membership of SERS is unique compared to the other retirement systems in that the average annual salary is only $16,398. Most of these noncertificated school district employees are part-time and earn modest hourly rates of pay. This causes special problems for the funding of health care.

The low average salary does not affect the system's ability to fund pensions, because the amount of the pension paid takes into account the salary of the retirant. However, it costs the same amount to provide basic health care for a person with a low salary as it does for a person with a high salary. In essence, this means that higher-income members subsidize the health care benefits of lower-income members, as in all the systems. However, in SERS, high-income members are scarce. The high percentage of part-time employees adds another level of complication.

Coupling this with rising health care costs puts increased strain on the system. In FY 2001, SERS spent $161.5 million on health care. In FY 2002, the system spent $181 million. That is a 12.1 percent increase in costs in one year. SERS pays for health care on a pay-as-you-go basis and currently 8 percent of payroll contributions are used to fund health care.

In July 2002, the Board implemented some changes it hopes will help reduce health care costs. However, even more options will be considered in the future. The changes to be implemented primarily consist of increasing premiums and prescription drug co-payments across the board. Currently, SERS pays 91 percent for mail-order prescription drugs while the retirant pays 9 percent. SERS has a goal of eventually having the retiree pay 20 percent of the cost of prescription drugs while SERS would pay 80 percent.

Ohio Police and Fire Pension Fund (OP&F)

The Ohio Police and Fire Pension Fund has approximately 28,000 active members, over 22,000 beneficiaries and recipients, and approximately 150 inactive members. These members are uniformed employees of local government police and fire departments. Recently, an actuarial report prepared by Milliman USA highlighted potential problems with the OP&F Health Care Stabilization Fund. (The Executive Director of OP&F has asked the Fund's actuary to review the report by Milliman, as he believes that OP&F has begun to address some of the issues brought up by Milliman.)

Currently, the Board of Trustees allocates employer contributions equal to 7.5 percent of salary to the Health Care Stabilization Fund. That is up from 7.25 percent in the year 2000. As with the other pension systems, health care costs have increased in recent years. In the year 2000, the Fund expended $111.8 million on health care. In the year 2001, that increased to $129.2 million, an increase of 15.6 percent. Table 2 shows the amount spent on health care in the years 1996-2001. During this period the average annual compounded rate of increase was 12.6 percent.

Table 2: Amount Spent on Health Care 1996-2001	
Year	**Amount Spent on Health Care**
1996	$71,674,335
1997	$76,459,832
1998	$83,928,305
1999	$100,522,731
2000	$111,817,485
2001	$129,173,470

The above-mentioned report by Milliman concluded that the Health Care Stabilization Fund would be exhausted sometime during the year 2008 if there are no changes to health care at OP&F. Milliman presents three potential solutions to this problem. First, employer or employee contributions could be increased. Second, retirees' contributions to their own health care costs could be increased. Third, health care benefits could be decreased.

Recently, the Board made its first change to OP&F health care funding. Effective July 1, 2002, OP&F retirees are required to pay higher rates for health care than previously. The Board has plans to conduct a complete review of OP&F health care funding in the year 2003.

Ohio Highway Patrol Retirement System

The Ohio Highway Patrol Retirement System is composed of uniformed members of the Ohio State Highway Patrol. It has approximately 1,500 active members and approximately 1,200 beneficiaries and recipients, making it the smallest public retirement system in Ohio. However, it too has experienced a large increase in health care costs over time. In 1999, HPRS spent $5.5 million on health care. In 2000, that amount was reduced to $4.7 million, a 14.6 percent decrease. However, HPRS has experienced dramatic increases over the last decade. In 1991, HPRS spent $1.8 million on health care, compared to $4.7 million in the year 2000, a 161 percent increase. A large percentage of this increase is the result of an increase in prescription drug costs. In 1991, HPRS spent $251,000 on prescription drugs. In 2000, this increased to $1.7 million, an increase of 577 percent.

Currently, HPRS provides its benefit recipients with the choice of two health care networks. Recipients may elect to cover spouses and children, by paying a premium. In January 2002, HPRS implemented changes to its prescription drug benefit program, hoping to save 5 percent per year. These changes include a higher co-payment, fewer drugs on the formulary, generic drugs, and reduced mail-order prescriptions from 120 days to 90 days. In January 2003, HPRS will change its co-payment structure for health care and will require retirants to pay more for out-of-network providers. HPRS indicates that further changes will be considered in the future as costs require.

Conclusion

Ohio's five public pension systems are being forced to react to dramatically increasing health care costs and each system has made changes to reduce its own costs. Although health benefits are not statutorily required, they have become an expectation to Ohio's public retirants. Increasing health care costs is a problem that is not likely to go away soon. Rather, it is likely to continue as an active problem for the foreseeable future.

Table 3: Health Care Costs in Proportion to Pension Costs, 2001 ($ in Millions)

Pension System	*Pension Costs*	*Health Care Costs*	*Health Care as Percentage of Pension*
PERS	*$2,574.2*	*$693.5*	*26.9%*
STRS	*$2,480.0*	*$369.4*	*14.9%*
SERS	*$453.7*	*$161.4*	*35.6%*
OP&F	*$492.4*	*$129.2*	*26.2%*
HPRS	*$29.5*	*$6.2*	*21.0%*

Table 3 shows that SERS has the highest proportion of health care costs to pension costs while STRS has the lowest. Since each system has approximately the same level of health care benefits, systems with lower-salaried members pay more for health care in proportion to pension costs

OHIO 2000: INCOMES, GRADUATION RATES AND EMPLOYMENT – ALL UP

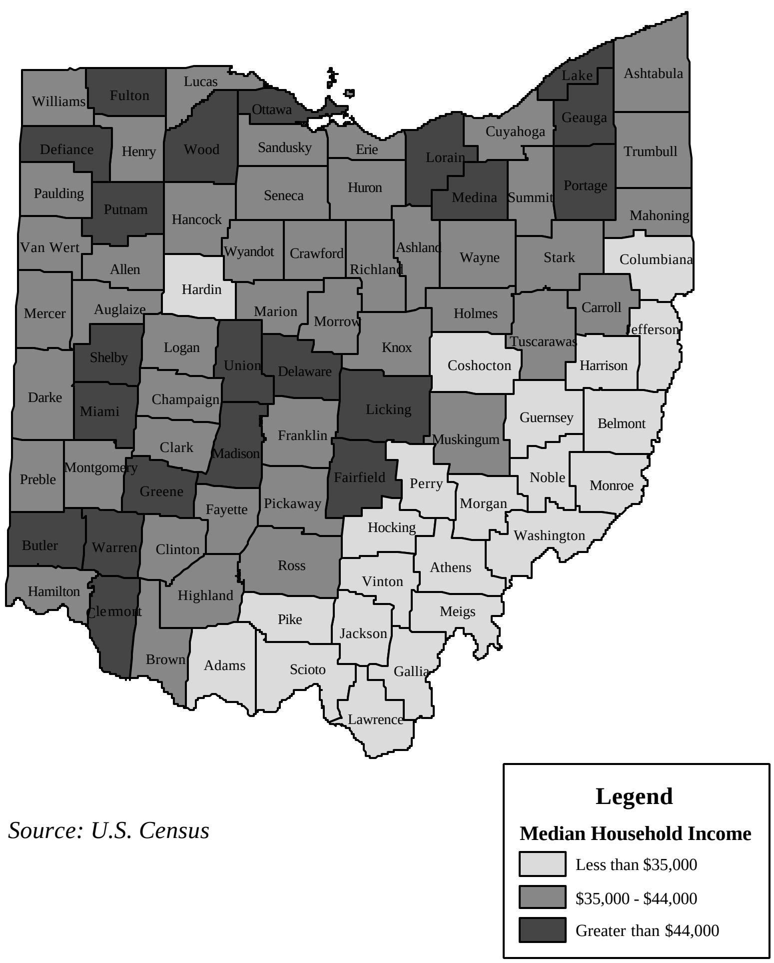
— Nickie Evans and Wendy Risner

Compared to ten years earlier, Ohioans in 2000 were making more money, were getting more education, and were more likely to be employed, according to U.S. Census Bureau figures released this summer.

While still lower than the national median income of $41,994, the median household income in Ohio grew 10 percent to $40,956.[1] Not only were Ohioans making more money, but they were also more educated in 2000 than they were ten years ago. The percentage of Ohioans 25 years of age and older who were high school graduates[2] increased from 75.7 percent to 83.0 percent—above the national average of 80.4 percent. The percentage of Ohioans 25 years of age and older with a bachelor's degree or higher increased from 17.0 percent to 21.1 percent, compared to a national average of 24.4 percent. In the ten-year timespan, employment in Ohio rose by nearly 500,000 jobs, an increase of 9.5 percent. Ohio's working population, those 16 years of age and older, increased 4.7 percent over the ten years. With employment growing almost twice as much as population, the percentage of Ohioans employed increased by over two percentage points, from 59.1 percent to 61.5 percent.

The remainder of this article takes a closer look at Ohio incomes, graduation rates, and employment at the county level over the past decade.

Map 1: Median Household Income in 1999



Source: U.S. Census

Map 1: Median Household Income in 1999

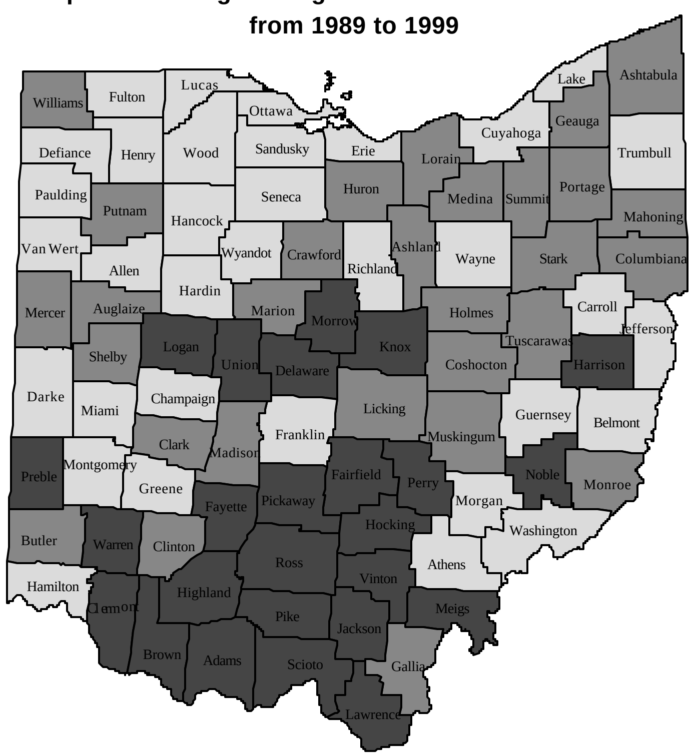
In 1999 Southeast Ohio reported the lowest median household incomes. This finding follows historical patterns. Generally referred to as Appalachian Ohio, this region of the state has struggled with both high unemployment and high poverty rates. Meigs County had the lowest median household income, $27,287, followed closely by Athens County with $27,322. Hardin County was the only non-southeastern county included in this income range. However, with a median household income of $34,440, it was well above the median household incomes of most other counties in the lowest median household income category.

Counties with the highest median household incomes tend to border metropolitan counties. Among the 21 counties with median incomes over $44,000, Delaware County had the highest median household income of $67,258 and Geauga County was second with $60,200. These counties border the Columbus and Cleveland metropolitan areas, respectively. In fact, with the exception of Defiance, Putnam, and Shelby counties, all of the counties with median household incomes over $44,000 bordered the metropolitan areas of Akron, Columbus, Cleveland, Cincinnati, Dayton, Toledo, or Youngstown.

Map 2: Percentage Change in Median Household Income from 1989 to 1999

The 26 counties with the largest increases in real median household income (15 percent or more) from 1989 to 1999 are in the south-central and central regions of the state. Adams County had the largest percentage change in real income with an increase of 38.4 percent – an increase of $8,137. Delaware County experienced the second highest percentage change of 36.7 percent, an increase of $18,074. Rounding out the rest of the top five were Jackson County with an increase of 29.1 percent, Highland County with an increase of 26.5 percent, and Pike County with an increase of 25.1 percent.

Map 2: Percentage Change in Median Household Income from 1989 to 1999



Source: U.S. Census

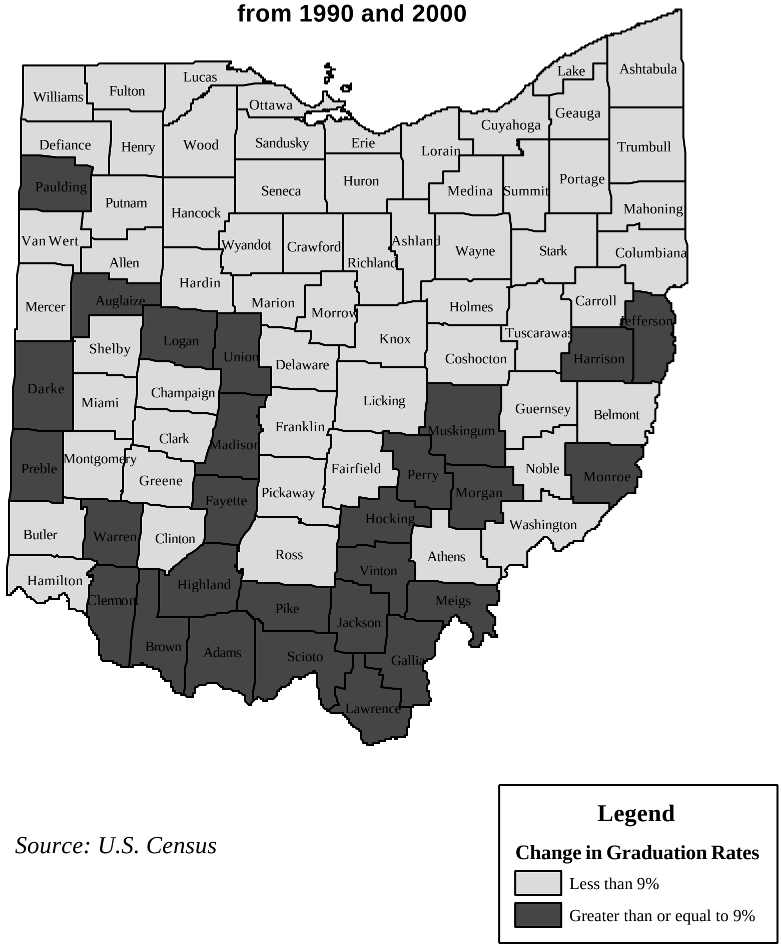
*Figures adjusted for Inflation:
CPI-U for 1989 (124.0) and 1999 (166.6)

Legend

Median Income Change

- Gain of less than 10%
- Gain of 10 to 15%
- Gain of more than 15%

Map 3: Percentage Change of High School Graduates from 1990 and 2000



Source: U.S. Census

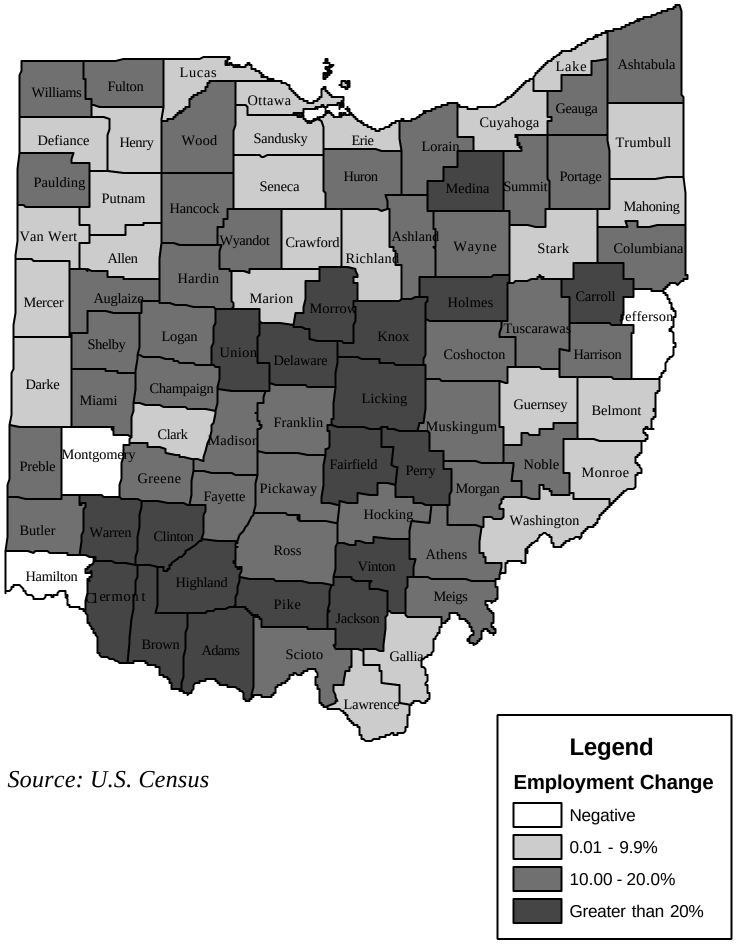
Growth in real median household income was lowest (at the state average increase or below) in metropolitan counties and counties located in the northwest and eastern regions of the state. Montgomery County had a median household income growth of 2.8 percent or an increase of $1,076 from 1989 to 1999. Lucas County had a growth of 3.7 percent or $1,346. These counties are home to the cities of Dayton and Toledo, respectively. Cuyahoga, Franklin, and Hamilton counties also had relatively low changes in real median household income compared to the other Ohio counties.

Map 3: Percentage Point Change of High School Graduates from 1990 to 2000

The counties with the highest percentage point change in high school graduation rates are mostly in southern Ohio. These 27 counties experienced increases in graduation rates of nine percentage points or higher. The statewide average increase was 7.3 percentage points. The counties of Fayette and Jackson had the highest percentage point increases with 13.4 and 12.6 percent, respectively. However, the counties' graduation rates in 1999 were still only 78.7 and 73.5 percent, respectively. In fact, most of the counties with the higher percentage increases in graduation rates had graduation rates below the state average of 83 percent.

The counties with changes in graduation rates of less than nine percentage points tended to be in the north, central, and metropolitan areas of Ohio. Most of these counties had graduation rates in the 80-percent range. With a relatively high graduation rate of 86.3 percent, Geauga County reported the smallest increase: 4.3 percentage points. However, Holmes County had the lowest graduation rate with only 51.5 percent of the eligible population graduating from high school and experienced only a 4.6 percent change in high school graduation rates. Delaware County reported the highest graduation rate with 92.9 percent.

Map 4: Percentage Change in Employment from 1990 to 2000



Source: U.S. Census

It is followed by Medina, Wood, and Hancock counties, which all had graduation rates ranging from 88 to 89 percent.

Map 4: Percentage Change in Employment from 1990 to 2000

The distribution of employment change in Ohio does not show clear spatial patterns for the lowest and middle growth ranges.

The 14 counties with the highest employment growth (growth rates above 20 percent) are concentrated in the southwest and central regions of the state. Medina County and Carroll County also experienced high employment growth. Generally employment growth follows population growth, but there are some exceptions. Adams County's employment grew 19 percentage points *more* than its working age population. Jackson and Harrison counties' employment grew faster than their working age populations by 18 and 16 percentage points, respectively. Delaware County had the highest employment growth with a change of 72.8 percent. The county went from having 33,902 people employed in 1990 to having 58,580 people employed in 2000. However, it is important to note that Delaware County also experienced a substantial working age population growth of 62.2 percent. The counties with the next highest employment growth were Warren County with a growth of 41.2 percent and Union County with a growth of 37.7 percent. These counties also experienced large population increases. There were three counties with negative employment growth: Montgomery (-1.3 percent), Jefferson (-0.5 percent), and Hamilton (-0.4 percent). Not surprisingly, these counties also had negative working age population growths of 1.7 to 5.9 percent.

Conclusion

Ohio's Southeast Region continues to lag behind the rest of the state. In general, the household median incomes, the percentage of the population with high school diplomas, and the percentage of the population employed continued to be among the lowest in the state. However, as the maps show, the area has made tremendous progress. When comparing the 88 Ohio counties' *growth rates* for these three statistics, two Appalachian counties, Adams and Jackson, ranked in the top ten of all three categories studied. Six other Appalachian counties, Brown, Fayette, Perry, Pike, Scioto, and Vinton, ranked in the top ten of two of the three categories. The region has experienced growth in the past decade. As a result, differences from the state average have shrunk.

Delaware County, located in the center of the state, has also seen tremendous growth. This county experienced the largest percentage change in employment and the largest percentage change in real income. Delaware also had the highest high school graduation rate in the state. Medina, Union, Warren, and other counties on the edge of Ohio's largest counties also had substantial growth.

[1] All income figures have been adjusted for inflation.
[2] High school graduates include those with equivalency.