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Budget Footnotes

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

Fiscal Overview

— Doris Mahaffey

For the first time in six months consumer confidence increased in November – but not because of any optimism about current employment prospects. In fact, consumers' assessment of "present" employment conditions deteriorated notably in the month and the percentage of those responding that jobs were "hard to get" reached an eight-year high. The November employment situation report revealed that the number of jobs nationwide fell by 40,000 (due in part to reduced hiring for the holiday season) and the unemployment rate increased to 6 percent – a much higher rate than had been anticipated. It was rather the assessment of future conditions – that is, six months hence – that produced the increase in consumer confidence.

Business activity also appeared to be in the doldrums throughout October and November. The November 27 Federal Reserve "Beige Book" for the Cleveland district noted a lack of consensus in economic activity throughout the region. (The fourth Federal Reserve district, centered in Cleveland, comprises all of Ohio plus eastern Kentucky, western Pennsylvania, and a small part of the northern panhandle of West Virginia.) While some manufacturers in the district expanded output, others contracted, and as some retailers increased sales, others saw sales decline. The only areas of consensus were in auto sales and homebuilding, and those areas, in turn, emitted mixed signals. On the one hand, auto retailers reported that sales had weakened in October and that the weakness continued into November. November's $12 million shortfall in auto sales tax revenues (the first shortfall in that revenue source this fiscal year) bears that out. On the other hand, homebuilding continued to grow more than expected. Over time this growth should lead to increased purchases of furniture and appliances (bolstering non-auto sales tax revenues). Much like consumers, the businesses in the fourth Federal Reserve district expect the economy to improve in the second quarter of 2003.

The lackluster economy did nothing to bolster the state's budget position, which deteriorated noticeably in November. General Revenue Fund (GRF) revenues were $76 million under estimate for the month while disbursements were $196 million over. As a result the state's unobligated balance fell to -$2,170 million, the lowest ever. While some of the variance in both revenues and expenditures may be due to timing issues, the generally weak economy in combination with the already tight budget make any such variance a cause for concern.

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

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

	Month of November	Fiscal Year 2003 to Date	Last Year	Difference
Beginning Cash Balance	($811.9)	$619.2		
Revenue + Transfers	$1,457.1	$8,284.4		
Available Resources	$645.2	$8,903.6		
Disbursements + Transfers	$2,213.2	$10,471.6		
Ending Cash Balances	($1,568.0)	($1,568.0)	($1,053.2)	($514.9)
Encumbrances and Accts. Payable		$602.3	$676.2	($73.8)
Unobligated Balance		**($2,170.4]**	**($1,729.4)**	**($441.0)**
BSF Balance		$427.9	$1,010.6	($582.7)
Combined GRF and BSF Balance		**($1,742.5]**	**($718.8)**	**($1,023.7)**

With the exception of federal reimbursements, revenues from all sources were either at or under estimate for the month. Total tax revenues were $82 million under estimate. "Timing" may have contributed a little to the revenue shortfall, because the month ended on the Thanksgiving holiday (virtually no revenue was credited on Friday, November 29). In addition, some revenue that might have been received at the end of November could have spilled over into the first week of December, although revenue reports from the first week of December do not provide evidence of much spillage.

The "timing" issue on the disbursements side is much more compelling. Disbursements for the tax relief program alone were $198 million over estimate for the month, exceeding the total GRF disbursements variance for November. The tax relief program reimburses school districts and other local governments for certain property tax relief programs provided by the state. These programs include the homestead exemption and the tax rollbacks that reduce property taxes paid by businesses and households. The state reimburses the local governments for the money that they otherwise would lose through these programs; however, the local governments must first apply for the money. Consequently, the disbursements are made in response to school district and local government applications, and this year the applications have been received earlier than expected. Hence the disbursements have been made earlier, resulting in a substantial – but temporary – overage in the property tax relief program.

For the fiscal year as of the end of November, total taxes are $17.7 million over estimate – due largely to tax law changes in S.B. 261. Federal reimbursements are another $20 million over estimate. A $31 million shortfall in non-tax revenue reduces the total GRF revenue variance to $10.5 million, but, at least, it's positive.

Total GRF spending for the fiscal year to date also registers a positive variance: it is $148.7 million over estimate. However, $160.7 million of that is in the property tax relief program. If that overage is, as suspected, a timing issue, then as it is resolved actual total spending is likely once again to fall within the estimates.

TRACKING THE ECONOMY

¾ Allan Lundell

The Federal Open Market Committee (FOMC), in its November 6 meeting, reduced its target federal funds rate by 50 basis points to 1.25 percent. This was the first change in the target rate in almost a year. The committee noted that although productivity growth was supporting economic activity, "incoming economic data have tended to confirm that greater uncertainty, in part attributable to heightened geopolitical risks, is currently inhibiting spending, production, and employment." In testimony before the Joint Economic Committee on November 13, Fed Chairman Alan Greenspan noted, "the evidence has accumulated that the economy has hit a soft spot." In its December 10 meeting, the FOMC left the target federal funds rate at 1.25 percent. The committee noted that economic activity was supported by accommodative monetary policy and productivity growth, but that "the limited number of incoming economic indicators since the November meeting, taken together, are not inconsistent with the economy working its way through its current soft spot."

The employment situation is a major reason that the economy can be described as in a soft spot. In November, the seasonally adjusted unemployment rate rose from 5.7 percent to 6.0 percent. In the Bureau of Labor Statistics (BLS) household survey, the seasonally adjusted number of people employed fell by 689,000 and the number counted as unemployed rose by 299,000.[1] The seasonally adjusted average duration of unemployment increased from 17.5 weeks to 17.7 weeks, while the median duration decreased from 9.6 weeks to 9.3 weeks. If seasonal adjustments are not made, the employment picture is just as discouraging. In the household survey, the number employed fell by 879,000 and the number unemployed rose by 407,000. The unemployment rate increased from 5.3 percent to 5.7 percent.

In the BLS establishment survey, seasonally adjusted total nonfarm payroll employment fell by 40,000 in November. Goods-producing employment fell by 51,000 and service-producing employment rose by 11,000. If seasonal adjustments are not made, total nonfarm payroll employment increased by 100,000. Goods-producing employment fell by 190,000 and service-producing employment increased by 290,000.

Consumer confidence rose slightly in November but remains low. The improvements in overall consumer confidence were mainly due to improvements in expectations. After falling for five straight months, the Conference Board's index of consumer confidence increased from 79.6 to 84.1. The present situation index rose slightly from 77.2 to 77.6 and the expectations index rose from 81.1 to 88.4. The University of Michigan's consumer sentiment index also ended a five-month string of decreases, increasing from 80.6 to 84.2. The current conditions component rose from 92.4 to 93.1 and the expectations component rose from 73.1 to 78.5.

The advance estimate of retail sales indicates that overall retail sales increased by 0.4 percent in November. "Core" retail sales (total sales excluding motor vehicle and parts dealers) rose by 0.5 percent. The increase in sales was led by home-related purchases. Sales of furniture and home furnishing stores increased by 2.3 percent, sales of building materials dealers increased by 1.2 percent, and sales at electronic and appliance stores increased by 0.9 percent. Sales of clothing and accessories stores, which had increased by 5.5 percent in October, fell by 1.3 percent in November. Compared to a year ago, total retail sales are up 2.1 percent and core retail sales are up 5.0 percent. Total retail sales for the first 11 months of 2002 are up 3.2 percent compared to 2001, and core retail sales are up 3.8 percent.

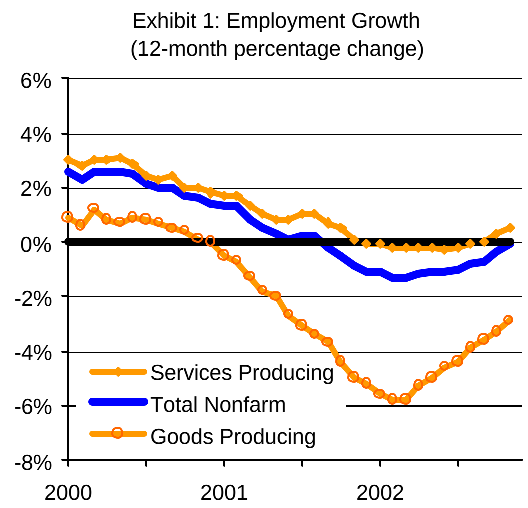
Although the Institute of Supply Management (ISM) purchasing managers index (PMI) for manufacturing rose slightly in November, from 48.5 to 49.2, a value less than 50 indicates that manufacturing is still contracting. The new orders component of the index fell below 50 and the employment component remained below 50 for the 26th consecutive month. One of the few bits of encouragement to be taken from the November ISM manufacturing report was that, based on the relationship between values of the PMI and the overall economy, real GDP grew at a faster rate in November than in October (2.4 percent compared to 2.1 percent).[2] The

Federal Reserve index of industrial production rose 0.1 percent in November. The index is up 1.8 percent compared to November 2001 but remains 2.0 percent below its March 2001 level of 113.1 and 4.6 percent below its prerecession peak of 116.2. The November increase was led by a 3.9 percent increase in the production of motor vehicles and parts. Industrial production, excluding motor vehicles and parts, fell by 0.6 percent in November. Capacity utilization rose slightly but remains low at 75.6 percent. The low level of capacity utilization helps keep inflation low but also acts to limit the need for business investment.

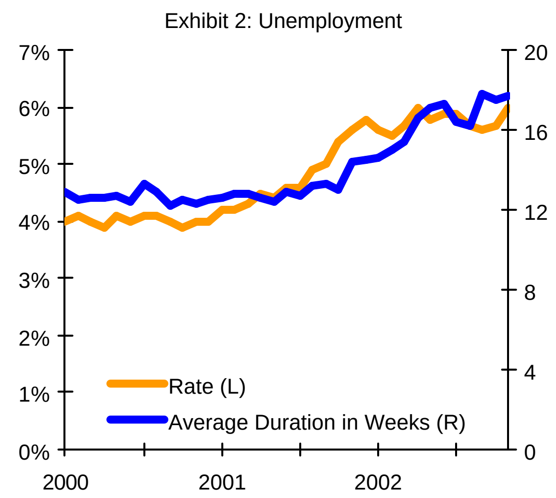
The consumer price index for all urban consumers (CPI-U) increased by 0.1 percent in November and is up 2.2 percent compared to November 2001. The index for energy fell by 0.2 percent in November but is up 8.0 percent compared to a year ago. The index for food rose by 0.2 percent in November and is up 1.3 percent compared to November 2001. The "core" CPI (all items less food and energy) rose by 0.2 percent in November and is up 2.0 percent compared to a year ago. Compared to November 2001, the price index for commodities is up by 0.7 percent. The index for nondurables is up 2.4 percent and the index for durables is down 3.0 percent. The index for services is up 3.3 percent compared to a year ago. The index for medical care services is up 5.5 percent

[1] The BLS monthly employment report contains statistics based on two monthly surveys, the Current Population Survey (the household survey) and the Current Employment Statistics Survey (the establishment survey). The household survey is a sample survey of about 60,000 households conducted by the U.S. Census Bureau for the BLS. The sample is selected to reflect the entire civilian noninstitutional population. The establishment survey uses information collected from payroll records in cooperation with state agencies. The sample establishments are drawn from private nonfarm businesses. The June 2002 sample included over 300,000 establishments.

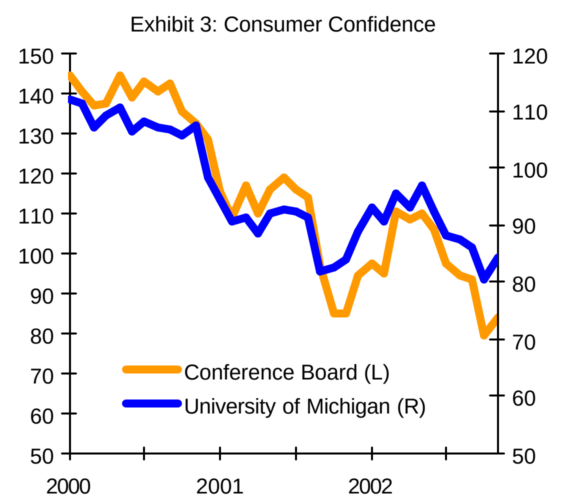
[2] Last month, *Budget Footnotes* commented on this relationship and erroneously reported that PMI values greater than 43.9 were associated with growth in the overall economy. The correct value is 42.7.



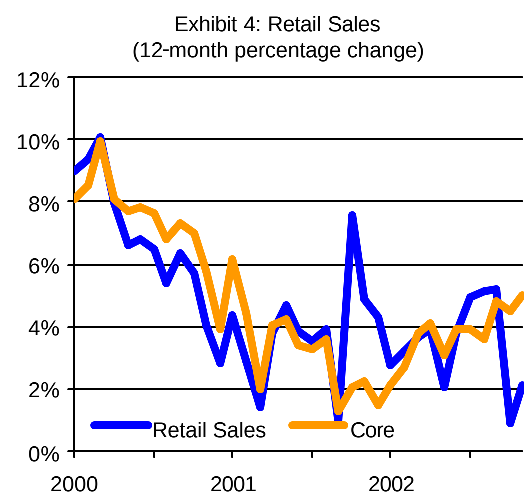
Source: U.S. Bureau of Labor Statistics



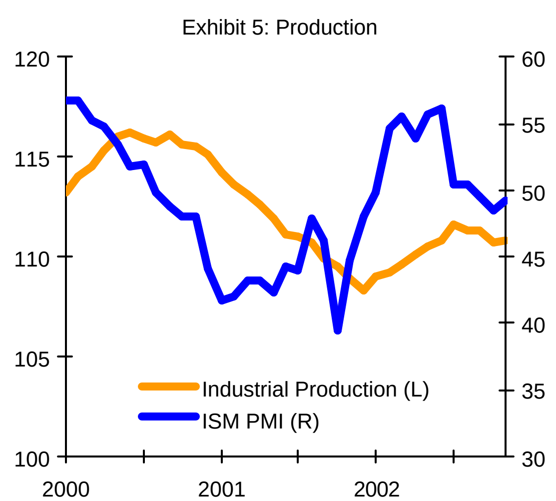
Source: U.S. Bureau of Labor Statistics



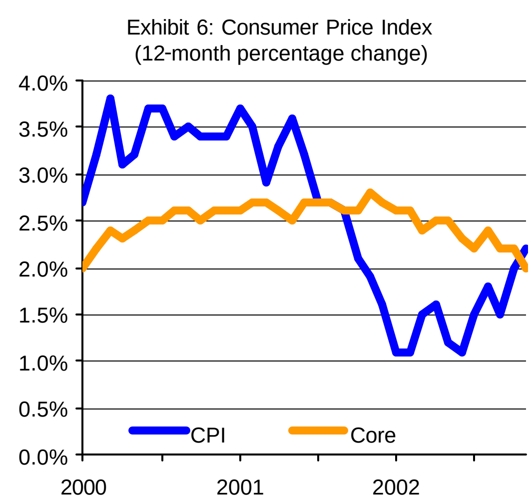
Sources: The Conference Board and University of Michigan



Source: U.S. Census Bureau



Sources: Federal Reserve Board and Institute of Supply Management



Source: Bureau of Labor Statistics

Status of the General Revenue Fund

REVENUES

— *Allan Lundell and Jean Botomogno*

Total GRF revenue was $76.0 million (5.0 percent) below estimate in November. Following a slow October and amid news of an economy stuck in a "soft spot," the November shortfall could be viewed as evidence of renewed revenue trouble. However, a portion of the reported shortfall may be attributed to the effect of the late Thanksgiving holiday on collections. December revenues may provide some answers — or may just create more questions. Total GRF revenue less federal grants (revenue from Ohio sources) was $89.6 million (7.8 percent) below estimate. Tax revenues were $82.1 million (7.4 percent) below estimate and revenues from the major taxes (personal income, sales and use, corporate franchise, public utility, and kilowatt hour) were $75.1 million (7.1 percent) below estimate. Income tax revenues were $22.4 million below estimate. Sales and use tax revenues were $32.7 million below estimate. Revenues from the cigarette tax were $4.8 million below estimate. November was the first time this fiscal year that cigarette tax revenues failed to meet expectations.

For the fiscal year to date, total GRF revenue is $10.5 million (0.13 percent) above estimate and up 6.2 percent compared to FY 2002. Total GRF revenue less federal grants is $9.3 million (0.15 percent) below estimate but up 5.1 percent compared to FY 2002. Tax revenues are $17.7 million (0.29 percent) above estimate and up 4.9 percent compared to FY 2002. Almost half of the increase from last year is due to the cigarette tax. Revenues from the major taxes are $11.3 million (0.20 percent) below estimate for FY 2003 and are up just 2.8 percent compared to FY 2002. Thus, even with the poor November revenue results, revenues for the first five months of the fiscal year are just about matching estimates. The next couple of months could confirm a trend or show that there is no trend yet this fiscal year.

Personal Income Tax

November personal income tax revenues of $493.0 million were $22.4 million (4.3 percent) below estimate. Withholding was $27.1 million (4.6 percent) below estimate, quarterly estimated payments were $3.1 million (40.6 percent) above estimate, and refunds were $0.2 million less than estimated. The shortfall in withholding may be due to the effect of the late Thanksgiving holiday on collections.

For the fiscal year to date, personal income tax revenues are $18.9 million (0.7 percent) greater than estimated. Withholding is $12.3 million (0.4 percent) below estimate, quarterly estimated payments are $12.3 million (4.0 percent) above estimate, and refunds are $5.0 million (3.7 percent) greater than estimated.

Compared to the first five months of FY 2002, personal income tax revenues are up 3.9 percent. Withholding is up 2.8 percent, but quarterly estimated payments are down 5.5 percent. Refunds are down 9.0 percent and payments to the local government funds supported by the personal income tax are down 1.7 percent.

Non-Auto Sales and Use Tax

A mild downturn in non-auto sales and use tax revenues was confirmed in November 2002, even when accounting for this year's late Thanksgiving and potential delay in tax collections into December. Non-auto sales and use tax receipts generally reflect retail sales activity in the prior month. For the third time this fiscal year, non-auto sales and use tax revenues were below estimates. At $410.3 million, non-auto sales tax revenues were $20.5 million or 4.8 percent below estimates. Receipts were also $7.1 million or 1.7 percent below revenues in November 2001. In October 2002, the non-auto sales and use tax was 9.1 percent below estimates and 8.0 percent below prior year revenues. Therefore, taxable retail activity in Ohio, as reflected in non-auto sales tax revenues, has been sluggish in the last couple of months.

As of November 2002, year-to-date non-auto sales and use tax receipts were $2,176.2 million, $31.7

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

REVENUE SOURCE	Actual	Estimate*	Variance
TAX REVENUE			
Auto Sales	$55,618	$67,875	($12,257)
Non-Auto Sales & Use	$410,321	$430,800	($20,479)
Total Sales	$465,939	$498,675	($32,736)
Personal Income	$492,992	$515,400	($22,408)
Corporate Franchise	($21,836)	($11,615)	($10,221)
Public Utility	$12,976	$23,500	($10,524)
Kilowatt Hour Excise Tax	$26,210	$25,460	$750
Total Major Taxes	**$976,281**	**$1,051,420**	**($75,139)**
Foreign Insurance	$68	$0	$68
Domestic Insurance	$12	$0	$12
Business & Property	$28	$285	($257)
Cigarette	$41,777	$46,592	($4,815)
Alcoholic Beverage	$4,707	$4,640	$67
Liquor Gallonage	$2,473	$2,430	$43
Estate	$9,228	$11,375	($2,147)
Total Other Taxes	$58,294	$65,322	($7,028)
Total Taxes	**$1,034,575**	**$1,116,742**	**($82,167)**
NON-TAX REVENUE			
Earnings on Investments	$0	$0	$0
Licenses and Fees	$741	$3,300	($2,559)
Other Revenue	$15,456	$20,309	($4,853)
Non-Tax Receipts	$16,196	$23,609	($7,413)
TRANSFERS			
Liquor Transfers	$8,000	$8,000	$0
Budget Stabilization	$0	$0	$0
Other Transfers In	$0	$0	$0
Total Transfers In	$8,000	$8,000	$0
TOTAL REVENUE less Federal Grants	**$1,058,771**	**$1,148,351**	**($89,580)**
Federal Grants	$398,339	$384,754	$13,585
TOTAL GRF REVENUE	**$1,457,110**	**$1,533,105**	**($75,995)**

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

million or 1.4 percent below estimates. Compared to receipts a year ago in November 2002, year-to-date non-auto sales and use tax revenues were up $54.4 million or 2.5 percent. Although the year-over-year comparison is positive, the overage was built up in July and September in the first quarter of the fiscal year. Non-auto sales and use tax revenues have been poor of late.

A closer analysis of aggregate sales tax revenues in the last two months reveals that the non-auto sales tax is struggling. October and November non-auto sales tax receipts reflect September and October taxable retail sales, respectively. Chart 1 illustrates the variance in monthly non-auto sales and use tax revenue as a percentage of estimates in FY 2003. Chart 2 illustrates the variance in monthly non-auto

Chart 1. FY 2003 Monthly Sales and Use Tax Revenue Variance as a Percentage of Estimates

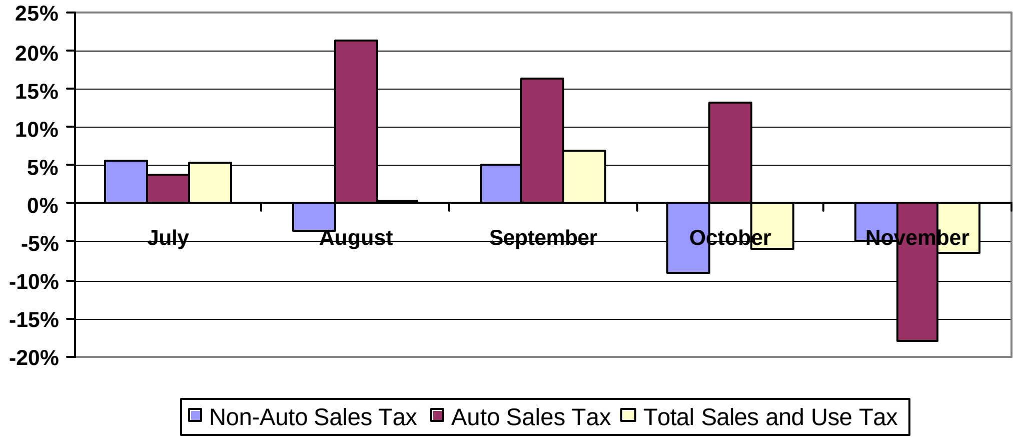
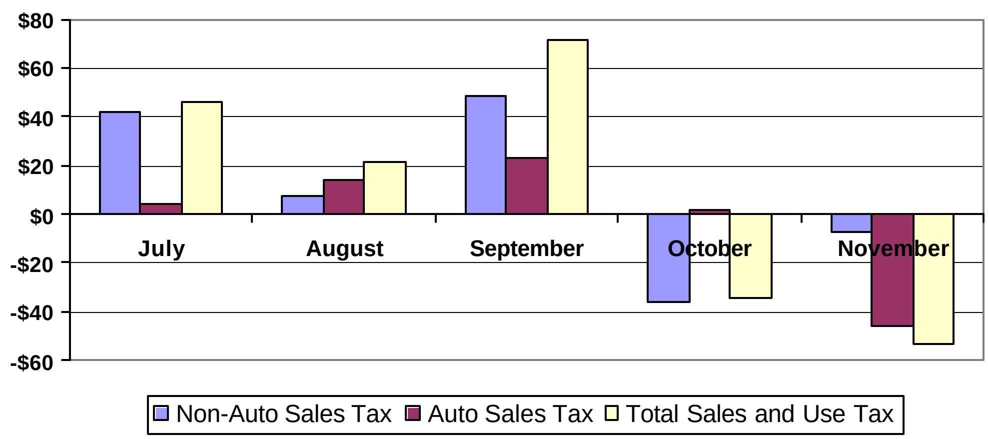


Chart 2. Variance in Monthly Sales and Use Tax Revenues FY 2003 vs. FY 2002 (Dollars in millions)



sales and use tax revenue between the current fiscal year and the previous fiscal year. In the two-month period of October and November 2002, non-auto sales and use tax revenues were $62.2 million or 13.8 percent below estimates. Non-auto sales tax revenues were also $43.3 million or 5.0 percent below aggregate sales tax revenues for October and November of 2001. However, data from the U.S. Department of Commerce indicates that retail sales (excluding motor vehicles) grew 0.5 percent in November, following an increase of 0.8 percent in October. Because of the importance of cyclical manufacturing in Ohio, consumers in Ohio may react more dramatically to economic slowdowns than U.S. consumers as a whole.

The slowdown in non-auto sales tax revenues makes the holiday season even more important if this tax is going to meet or beat estimates. Reports of lackluster November sales from major department stores and retailers were not very encouraging for December non-auto sales tax revenues. November and December sales are typically 20 to 25 percent of yearly sales for major retailers.[1]

Auto Sales Tax

The spectacular growth in auto sales tax revenues stopped in November 2002. Auto sales tax revenues were $55.6 million in November, $12.2 million or 18.0 percent below estimates. Receipts were $46.2 million or 45.4 percent below November 2001 tax revenues. (November 2001 auto sales tax revenues were the highest on record and artificially high from various incentive programs launched after the September 11, 2001 events.) A more reasonable comparison would

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

REVENUE SOURCE					
TAX REVENUE	**Actual**	**Estimate***	**Variance**	**FY 2002**	**Percent Change**
Auto Sales	$415,587	$384,625	$30,962	$419,174	-0.86%
Non-Auto Sales & Use	$2,176,191	$2,207,850	($31,659)	$2,121,844	2.56%
Total Sales	$2,591,778	$2,592,475	($697)	$2,541,019	2.00%
Personal Income	$2,832,120	$2,813,200	$18,920	$2,724,704	3.94%
Corporate Franchise	-$12,680	-$4,258	($8,422)	($53,485)	-76.29%
Public Utility	$74,935	$98,600	($23,665)	$129,796	-42.27%
Kilowatt Hour Excise Tax	$147,166	$144,553	$2,613	$139,854	5.23%
Total Major Taxes	**$5,633,320**	**$5,644,570**	**($11,250)**	**$5,481,887**	**2.76%**
Foreign Insurance	$115,365	$119,250	($3,885)	$114,867	0.43%
Domestic Insurance	$1,626	$0	$1,626	$3,013	-46.02%
Business & Property	$1,065	$570	$495	$893	19.23%
Cigarette	$242,716	$216,768	$25,948	$106,984	126.87%
Alcoholic Beverage	$24,504	$24,447	$57	$22,375	9.51%
Liquor Gallonage	$12,104	$12,210	($106)	$11,971	1.11%
Estate	$56,665	$51,810	$4,855	$59,851	-5.32%
Total Other Taxes	$454,045	$425,055	$28,990	$319,955	41.91%
Total Taxes	**$6,087,365**	**$6,069,622**	**$17,743**	**$5,801,842**	**4.92%**
NON-TAX REVENUE					
Earnings on Investments	$22,810	$29,750	($6,940)	$35,620	-35.96%
Licenses and Fees	$12,540	$14,025	($1,485)	$12,075	3.85%
Other Revenue	$67,031	$89,897	($22,866)	$80,820	-17.06%
Non-Tax Receipts	$102,382	$133,672	($31,290)	$128,516	-20.34%
TRANSFERS					
Liquor Transfers	$45,000	$41,000	$4,000	$44,000	2.27%
Budget Stabilization	$0	$0	$0	$0	---
Other Transfers In	$49,440	$49,195	$245	$7,996	518.28%
Total Transfers In	$94,440	$90,195	$4,245	$51,996	81.63%
TOTAL REVENUE less Federal Grants	**$6,284,187**	**$6,293,489**	**($9,302)**	**$5,982,354**	**5.05%**
Federal Grants	$2,000,186	$1,980,408	$19,778	$1,819,276	9.94%
TOTAL GRF REVENUE	**$8,284,372**	**$8,273,897**	**$10,475**	**$7,801,630**	**6.19%**

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

be against November 2000 tax revenues: Auto sales tax revenues in November 2002 were $6.0 million or 9.7 percent below November 2000 auto sales tax revenues. Thus, the decline in auto sales tax revenues in November was substantive, and finally the reported slowdown in auto sales has translated into lower auto sales tax revenues. The U.S. Department of Commerce reported declines in sales at auto dealers in September (5.2 percent), and in October (1.9 percent). Sales at auto and other motor vehicle dealers were flat in November.[2] Except for Honda and BMW, major automakers reported various levels of decline in sales in November.[3] The annualized unit sales rate in November 2002 was 16.0 million, up from 15.4 million in October. After a strong third quarter, during which unit sales vaulted to an annualized rate of 17.3 million, it appears that unit sales in the fourth quarter of 2002 may fall closer to 16.0 million units. Still, CY 2002 will be the fourth best sales year on record.[4] It is unclear whether the much-awaited retrenchment in auto sales will be permanent or if it is just a pause that brings auto sales to a moderate long-term trend between 16.0 million and 17.0 million units.

As of November 2002, year-to-date auto sales tax revenues, at $415.6 million, were still $30.0 million or 8.0 percent above estimates. Compared to auto sales tax revenues a year ago, year-to-date receipts as of November 2002 were $3.6 million or 0.9 percent below November 2001 auto sales tax revenues.

Sales and Use Tax

Sales and use tax revenues are below estimates for the second consecutive month this fiscal year. Total sales and use tax revenues in November 2002 were $465.9 million, $32.7 million or 6.6 percent below estimates (with 63 percent of the shortfall from the non-auto sales and use tax portion of the tax). Revenues were also below November 2001 revenues by $53.2 million or 10.3 percent (with 86 percent of the shortfall coming from the auto sales tax portion of the tax). Charts 1 and 2 also illustrate variances of total sales and use tax revenues from estimates and from tax receipts in FY 2002.

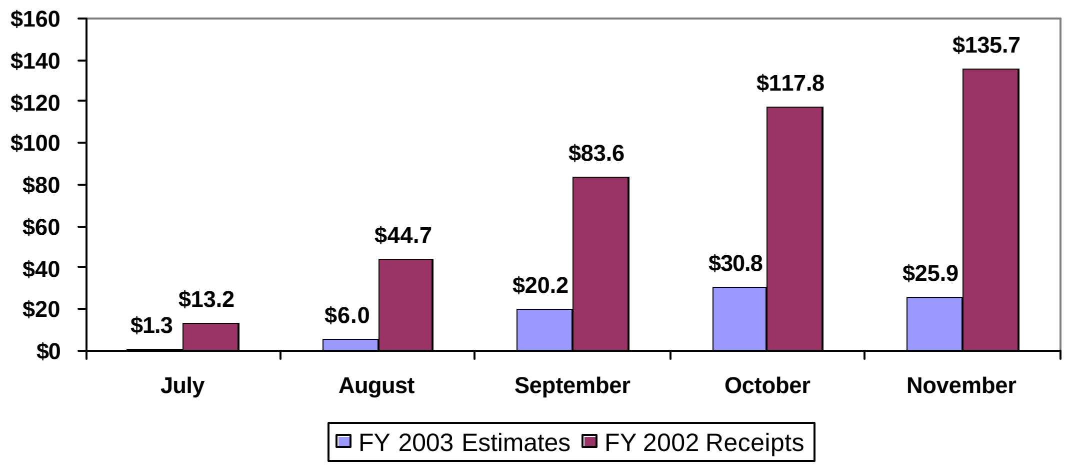
Due to the general weakness of the non-auto sales tax and to the more recent slump in auto sales tax revenues, the overage in sales and use tax receipts that had accumulated since the start of the fiscal year has been erased. As of November 2002, year-to-date sales and use tax revenues of $2,591.8 million were approximately matching estimated sales and use tax revenues this fiscal year. Interestingly, the shortfall in non-auto sales and use tax revenues ($31.6 million) was close to the overage in auto sales tax revenues ($30.9 million). Compared to year-to-date revenues in the same month a year ago, sales and use tax revenues this year were ahead by $50.7 million or 2 percent over last year. The growth in total sales and use tax revenues as of November 2002 was positive but still weak for an economy deemed "in recovery."

Corporate Franchise Tax

Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year, with the first major payment in January 2003. The second major payment will be due in March 2003, and the last major payment will be due in May 2003. Franchise tax payments will be primarily based on corporate book profits in CY 2002.

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. Franchise tax refunds in November were $21.8 million. As of November 2002, year-to-date corporate franchise tax refunds have exceeded receipts by $12.7 million. Compared to receipts a year ago, year-to-date corporate franchise tax revenues were up $40.8 million.

Chart 3. Cigarette Tax Cumulative Variances from Estimates and from Prior-Year Tax Receipts ($ in millions)



Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts were $41.8 million in November 2002. For the first time this fiscal year, the yield from this tax was below estimates. Receipts were below estimates by $4.8 million or 10.3 percent. Cigarette and other tobacco products tax revenues were $15.6 million or 27.3 percent below prior month revenues. Compared to cigarette tax receipts a year ago, revenues were up $17.8 million or 75.4 percent.

Chart 3 illustrates the cigarette tax cumulative variance from FY 2003 estimates and the cumulative variance from FY 2002 actual tax receipts. As of November 2002, year-to-date receipts from the tax on cigarette and other tobacco products were $242.7 million. These revenues were above estimates by $25.9 million or 11.9 percent. Year-to-date cigarette tax receipts were $135.7 million or 126.9 percent ahead of tax receipts in the same period a year ago.

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[1] In the data from the Department of Commerce, November and December retail sales (excluding motor vehicles) account for between 16 and 17 percent of yearly sales. "Retail sales" as defined by the Department of Commerce includes items that are not in the non-auto sales tax base (such as sales of gasoline or sales of food for consumption off premises) and excludes some items included in the non-auto sales tax base (certain business services).

[2] Sales at auto dealers include parts and services that may not be part of the auto sales tax base. Therefore, the relationship between sales at auto dealers and the auto sales tax is not simple.

[3] November new-vehicle sales fell 12.8 percent overall from strong year-ago sales, in part because of fewer sales of GM, Ford, and DaimlerChrysler models. GM's sales dropped 18 percent, Ford's (including its import brands) 16.6 percent, and Chrysler Group's 12 percent (http://www.autoexecmag.com/topnews.html#4). Toyota's sales dropped 5.2 percent (http://www.auto.com/industry/sales4_20021204.htm).

[4] Auto and light truck unit sales were 16.8 million in CY 1999, 17.2 million in CY 2000, and 17.0 million in CY 2001. The National Automobile Dealers Association (NADA) projects CY 2002 unit sales will be at par with CY 1999 unit sales.

DISBURSEMENTS

— *Steve Mansfield**

Disbursements for November (excluding transfers) were $195.8 million above estimate, with another dramatic swing in disbursements in the Tax Relief program accounting for most of the variance. In contrast to October's negative disbursement variance in the Tax Relief program of $175.7 million, in November the program posted a positive disbursement variance of $197.7 million. For disbursements from the General Revenue Fund (GRF) as a whole, there was at the end of November a positive disbursement variance of $148.7 million.

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 disbursements from the Tax Relief and Welfare and Human Services program categories are currently above the estimates, while the other two major GRF program categories (Education, and Government Operations) are posting disbursements below the estimates. 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. For 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 ($160.7 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.

November's positive disbursement variance of $197.7 million in the Tax Relief program as a whole continues a string of impressive variances from the estimates. While these variances are timing-related and will ultimately balance out, they are nonetheless impressive as variances from the expectations that were built into the estimates. Readers are reminded that the disbursement estimates for the Tax Relief program that are used in the Central Accounting System (CAS) reports were revised by the Office of Budget and Management (OBM) in September. We, however, continue to compare actual disbursements to OBM's estimates as of August 2002. Consequently, the analysis in this *Disbursements* article regarding the Tax Relief program diverges from OBM's *Monthly Financial Report*. As noted in our previous disbursements article, counties in the first few months of this fiscal year requested reimbursements much faster than the historical pattern of previous years, and it is this pattern that determines the disbursement estimates for this program that are produced by OBM. With counties sharply altering the timing of their requests, the result is wild swings away from the

Figure 1.
GRF Disbursement Variances
by Program Category, FY 2003, Q1&2

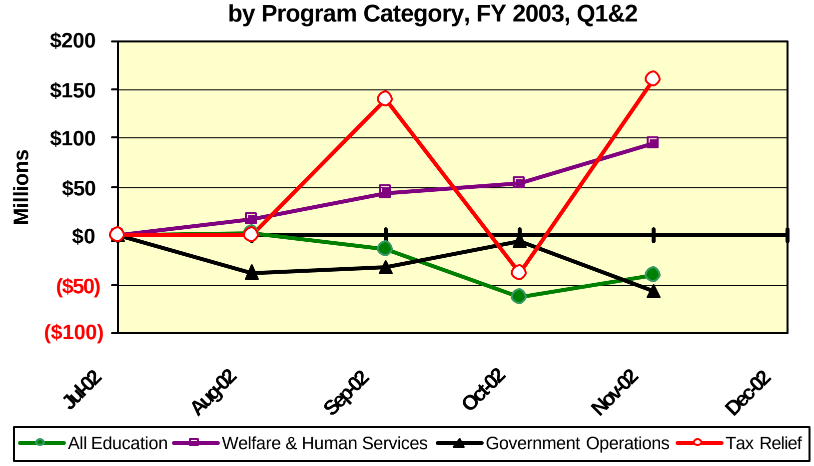


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of November 2002
($ in thousands)

USE OF FUNDS			
PROGRAM	**Actual**	**Estimate***	**Variance**
Primary & Secondary Education (1)	$588,873	$549,888	$38,985
Higher Education	$289,914	$307,129	($17,215)
Total Education	$878,787	$857,017	$21,769
Health Care/Medicaid	$658,948	$634,724	$24,224
Temporary Assistance to Needy Families (TANF)	$102,436	$70,173	$32,263
General/Disability Assistance	$2,198	$1,928	$269
Other Welfare (2)	$26,896	$43,741	($16,845)
Human Services (3)	$108,710	$108,034	$676
Total Welfare & Human Services	$899,187	$858,599	$40,588
Justice & Corrections	$122,950	$162,171	($39,221)
Environment & Natural Resources	$14,094	$14,714	($620)
Transportation	$968	$3,909	($2,940)
Development	$9,261	$10,190	($929)
Other Government	$17,149	$24,503	($7,354)
Capital	$0	$0	$0
Total Government Operations	$164,422	$215,487	($51,065)
Property Tax Relief (4)	$270,763	$73,058	$197,705
Debt Service	$0	$13,221	($13,221)
Total Program Payments	**$2,213,159**	**$2,017,382**	**$195,777**
TRANSFERS			
Local Govt Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$50	$0	$50
Total Transfers Out	$50	$0	$50
TOTAL GRF USES	**$2,213,209**	**$2,017,382**	**$195,827**

(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.

estimated levels that assumed the historical pattern of disbursement.

For the year to date, the property tax program in the Department of Education stands at the end of November at $125.1 million over estimate and the program in the Department of Taxation stands at $35.6 million over estimate. The year-to-date figure in the Department of Taxation, however, includes a $37.0 million disbursement from *prior* year funds that was estimated to be disbursed from *current* year funds. This created a large variance for July that is carried through to the year-to-date figures. Adjusting for that July disbursement, the Department of Taxation's portion is actually $1.4 million under estimate (i.e., this is what would be the case if Taxation had disbursed $37.0 million in current year funds in July instead of doing so with prior year funds). For the program as a whole, but without that adjustment, the year-to-date disbursement variance at the end of November was $160.7 million over estimate.

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

USE OF FUNDS					
PROGRAM	**Actual**	**Estimate***	**Variance**	**FY 2002**	**Percent Change**
Primary & Secondary Education (1)	$2,767,727	$2,787,866	($20,139)	$2,599,886	6.46%
Higher Education	$1,086,789	$1,108,137	($21,348)	$1,125,700	-3.46%
Total Education	$3,854,517	$3,896,004	($41,487)	$3,725,585	3.46%
Health Care/Medicaid	$3,488,623	$3,402,234	$86,388	$3,061,881	13.94%
Temporary Assistance to Needy Families (TANF)	$237,555	$190,567	$46,988	$217,025	9.46%
General/Disability Assistance	$12,002	$10,846	$1,157	$35,261	-65.96%
Other Welfare (2)	$249,053	$272,669	($23,617)	$250,042	-0.40%
Human Services (3)	$584,118	$599,552	($15,434)	$557,826	4.71%
Total Welfare & Human Services	$4,571,350	$4,475,868	$95,482	$4,122,035	10.90%
Justice & Corrections	$836,806	$871,143	($34,337)	$835,435	0.16%
Environment & Natural Resources	$70,018	$72,555	($2,537)	$77,949	-10.17%
Transportation	$17,943	$21,852	($3,909)	$23,609	-24.00%
Development	$99,780	$103,466	($3,686)	$98,662	1.13%
Other Government	$201,777	$213,990	($12,213)	$218,829	-7.79%
Capital	$0	$1,535	($1,535)	$6,831	-100.00%
Total Government Operations	$1,226,324	$1,284,541	($58,217)	$1,261,315	-2.77%
Property Tax Relief (4)	$659,447	$498,740	$160,707	$418,921	57.42%
Debt Service	$144,108	$151,901	($7,793)	$115,399	24.88%
Total Program Payments	**$10,455,745**	**$10,307,053**	**$148,692**	**$9,643,255**	**8.43%**
TRANSFERS					
Local Govt Distribution	$0	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	$13,104	-100.00%
Other Transfers Out	$15,888	$15,836	$52	$15,530	2.30%
Total Transfers Out	$15,888	$15,836	$52	$28,634	-44.51%
TOTAL GRF USES	**$10,471,632**	**$10,322,889**	**$148,744**	**$9,671,889**	**8.27%**

(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 ($95.5 million)

Health Care/Medicaid. At the end of November the Health Care/Medicaid program (primarily line item 600-525) was cumulatively $86.4 million, or 2.5 percent, above the $3.4 billion spending estimate. For the month of November, the program posted a $24.2 million overage.

The number of Medicaid eligibles in November was 1,546,188. This was 152,670 more than had been forecast for the current biennium. Covered Families and Children (CFC) recipients make up the bulk of eligibles (1,142,859 in November), with Aged, Blind, and Disabled (ABD) recipients making up the balance (403,330). Although greatly outnumbered by the CFC population, the ABD population accounts for over 70 percent of all Medicaid expenditures.

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

Service Category	November Actual	November Estimate	November Variance	November Percent Variance	Year-to-Date Spending Actual thru Nov.	Year-to-Date Spending Estimate thru Nov.	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Facilities	$208,520	$225,581	($17,060)	-7.6%	$1,023,326	$1,075,378	($52,052)	-4.8%
Payments	$219,882	$237,369	($17,488)	-7.4%	$1,068,363	$1,128,380	($60,017)	-5.3%
NF Franchise Fees Offset[1]	($11,361)	($11,788)	$427	-3.6%	($45,037)	($53,003)	$7,966	-15.0%
ICF/MR	$35,035	$36,739	($1,703)	-4.6%	$170,862	$175,668	($4,805)	-2.7%
Payments	$36,696	$38,455	($1,758)	-4.6%	$179,425	$184,336	($4,911)	-2.7%
ICF/MR Franchise Fees Offset	($1,661)	($1,716)	$55	-3.2%	($8,563)	($8,668)	$105	-1.2%
Inpatient Hospitals	$98,606	$95,783	$2,823	2.9%	$540,880	$537,818	$3,061	0.6%
Outpatient Hospitals	$41,829	$35,238	$6,591	18.7%	$226,608	$203,585	$23,023	11.3%
Physicians	$39,492	$37,144	$2,348	6.3%	$212,577	$208,477	$4,101	2.0%
Prescription Drugs	$114,360	$108,863	$5,497	5.0%	$620,914	$610,663	$10,251	1.7%
HMO	$59,196	$50,941	$8,255	16.2%	$282,853	$259,926	$22,927	8.8%
Medicare Buy-In	$11,924	$10,745	$1,179	11.0%	$58,862	$53,782	$5,080	9.4%
ODJFS Waiver[2]	$13,306	$14,712	($1,406)	-9.6%	$72,411	$77,023	($4,612)	-6.0%
All Other[3]	$55,664	$62,600	($6,936)	-11.1%	$307,034	$331,280	($24,246)	-7.3%
CHIP II[4]	$4,693	$4,321	$372	8.6%	$23,744	$22,599	$1,145	5.1%
DA Medical[5]	$6,763	$5,381	$1,382	25.7%	$38,872	$33,588	$5,284	15.7%
Total ALI 600-525	$689,389	$688,049	$1,341	0.2%	$3,578,943	$3,589,786	($10,843)	-0.3%
DSH Offset	$0	$0			$0	$0		
Drug Rebates	($30,470)	($31,070)			($91,411)	($94,213)		
FY 2002 Encumbrance	$0	$0			($83,539)	($82,208)		
Total Health Care (Net of Offsets)	**$658,919**	**$656,978**	**$1,940**	**0.3%**	**$3,403,993**	**$3,413,364**	**($9,372)**	**-0.3%**
Est. Federal Share[6]	$384,243	$383,869	$374		$1,982,633	$1,991,113	($8,480)	
Est. State Share	$274,676	$273,110	$1,566		$1,421,360	$1,422,251	($891)	
Prior Period ALI 600-525	$29	$384			$84,630	$85,075		
BSF Shortfall[7]		($22,639)				($96,215)		
Total Hlth Care w/o BSF	**$658,948**	**$634,724**	**$24,224**	**3.8%**	**$3,488,623**	**$3,402,224**	**$86,399**	**2.5%**

1. Some of the money generated from the Nursing Home Franchise Permit Fees is 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 between 150% and 200% of FPL. The state receives enhanced FMAP for CHIP II.
5. DA Medical is a state-only funded program.
6. For FY 2003 the FMAP is 58.83% and the enhanced FMAP is 71.18%.
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.

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 that are presented in Table 6, 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.

That said, it is still possible to glean some useful information from Table 6. Of particular note are the positive disbursement variances in the Outpatient Hospitals, HMO, Medicare Buy-In, and DA Medical service categories. The increased spending in the Outpatient Hospitals, HMO, and DA Medical service categories is being driven mostly by unexpected caseload growth. In part, these caseload trends stem from continued weakness in the job market that has pushed up Medicaid and DA enrollments.

Certain program changes have also made an impact on costs, like the introduction of the "preferred option" program, under which new clients are being automatically enrolled in HMOs, as opposed to being enrolled on a fee-for-service basis, if they fail to select the fee-for-service option. The "preferred option" program exists in counties where there is voluntary enrollment in managed care plans. This change is producing higher spending in the HMO category and lower spending in the Physicians category than we would have observed otherwise. There is also strong growth in the Medicare Buy-In service category, which provides services to low-income Medicare beneficiaries who are eligible to buy into Medicaid. Much of the growth is traceable to federal outreach efforts to tell Social Security recipients about the availability of the program.

With regard to the lower than anticipated spending in the Nursing Facilities service category, there are a number of possible factors that could provide an explanation. These possible factors include lower utilization rates than initially forecast, as well as certain rule changes and an overestimate of their impacts. At the present time, however, it is not clear how to weigh any of the possible factors to understand the situation with this service category. We will continue to gather information on this point.

Also standing out in Table 7 are the large year-to-year increases in most of the service category expenditures. These large percentage increases continue to reflect in part 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 11.3 percent—a figure more in line with the inflation rate in the medical and pharmaceutical sector.

TANF. 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 line

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 Nov. '02	FY 2002 Yr.-to-Date as of Nov. '01	Dollar Change	Percent Increase
Nursing Facilities	$1,075,378	$1,016,679	$58,698	5.77%
Payments	$1,128,380	$1,022,168	$106,212	10.39%
NF Franchise Fees Offset[1]	($53,003)	($5,489)	($47,514)	865.61%
ICF/MR	$175,668	$168,508	$7,160	4.25%
Payments	$184,336	$174,957	$9,379	5.36%
ICF/MR Franchise Fees Offset)	($8,668)	($6,449)	($2,219)	34.41%
Inpatient Hospitals	$537,818	$457,080	$80,738	17.66%
Outpatient Hospitals	$203,585	$184,549	$19,036	10.31%
Physicians	$208,477	$181,904	$26,572	14.61%
Prescription Drugs	$610,663	$505,241	$105,422	20.87%
HMO	$259,926	$224,262	$35,664	15.90%
Medicare Buy-In	$53,782	$53,427	$355	0.67%
ODJFS Waiver[2]	$77,023	$66,281	$10,743	16.21%
All Other[3]	$331,280	$227,327	$103,953	45.73%
CHIP II[4]	$22,599	$16,698	$5,900	35.33%
DA Medical[5]	$33,588	$26,320	$7,268	27.62%
Total Health Care	**$3,589,786**	**$3,128,275**	**$461,511**	**14.75%**
DSH Offset	$0	$0	$0	
Drug Rebates	($94,213)	($63,447)	($30,766)	
Prior Year Encumbrance	($82,208)	$1,400	($83,608)	
Total Health Care (Net of Offsets)	**$3,413,364**	**$3,066,228**	**$347,137**	**11.32%**
Est. Federal Share[6]	$1,991,113	$1,788,923	$202,190	
Est. State Share	$1,422,251	$1,277,304	$144,947	

1. Some of the money generated from the Nursing Home Franchise Permit Fees is 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 between 150% and 200% of FPL. The state receives enhanced FMAP for CHIP II.
5. DA Medical is a state-only funded program.
6. For FY 2003 the FMAP is 58.83% and the enhanced FMAP is 71.18%. For FY 2002 the FMAP is 58.78% and the enhanced FMAP is 71.15%.

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

item 600-321, Support Services, which was recently created by Controlling Board action to facilitate the 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.

At the end of November, year-to-date disbursement reports in the GRF portion of TANF show a positive disbursement variance of $47.0 million. The year-to-date positive disbursement variance was produced by an overage of $63.8 million in line item 600-413, Day Care Match/MOE. In November, this line item posted a $32.2 million overage. The disbursement variance can be attributed to the department not receiving from the federal Child Care and Development Fund (CCDF) the amount that had been estimated. The U.S. Congress has not yet reauthorized the CCDF for FFY 2003 and is instead operating with a continuing resolution. This has required the department to adopt a different schedule in posting child care expenses against the 600-413 line item. Line item 600-413 has now been fully expended and the department will begin in December to post child care expenditures against line item 600-617, Day Care Federal.

The number of TANF cash assistance cases increased slightly in November to stand at about 86,500, and the number of recipients increased slightly to stand at about 195,400. In November of 2001, these same figures were 85,300 and 197,800, respectively. For a more detailed discussion on the status of the TANF program, please see the accompanying "TANF Update" article in this issue of *Budget Footnotes*.

Job and Family Services. Disbursement activity in the Department of Job and Family Services' operating expenses and subsidy programs, which is captured in the "Other Welfare" subcategory in Tables 4 and 5 and which excludes Medicaid, TANF, and Disability Assistance (which are tracked as separate components of the Welfare and Human Services program category) fell $16.8 million short of the estimate for November. For the year to date, disbursements in the "Other Welfare" subcategory were $23.6 million under estimate.

Accounting for a little over half of the negative year-to-date disbursement variance was line item 600-416, Computer Projects, with $12.8 million in underspending ($7.7 million of which was traceable to an encumbrance of prior year funds). This line item was also the largest single contributor to November's negative variance in the subcategory, with a total negative variance of $5.6 million, counting both current and prior year funds. The department has indicated that not as much money has been expended on various computer projects as had been estimated and vendor payments have been slower than anticipated.

Partially offsetting the year-to-date negative disbursement variance in this subcategory is line item 600-521, Family Stability Subsidy. At the end of November, disbursements from line item 600-521 stood at $7.7 million over estimate. By and large, this line item, which was recently created by Controlling Board action to facilitate the department's move to program budgeting, provides subsidies to counties for the administration of non-TANF services. Counties are provided with a total allocation for the year against which they can draw. The positive disbursement variance is the result of the timing of county requests and should balance out in the coming months.

Education (-$41.5 million)

Regents. For November, the Board of Regents posted a $17.2 million negative disbursement variance, which resulted in a $21.4 million negative disbursement variance for the year to date. This variance was largely the product of one relatively large negative disbursement variance in one line item that was partially offset by another. In November, line item 235-420, Success Challenge, posted a $32.4 million negative disbursement variance due to the slower than anticipated receipt of data necessary to determine allocations in the program. The Success Challenge program supports universities' efforts to promote successful degree completion by at-risk baccalaureate students and timely degree completion by all baccalaureate students. Partially offsetting was a timing-related positive disbursement variance of $12.5 million in line item 235-503, Ohio Instructional Grants.

Department of Education. In November, the Department of Education reduced the size of its year-to-date negative disbursement variance to $32.8

million by posting a positive disbursement variance of $21.0 million for the month. The November positive disbursement variance can be traced to line item 200-532, Nonpublic Administrative Cost Reimbursement, which posted a $41.2 million payment that had been scheduled for October. Partially offsetting the positive disbursement variance in line item 200-532 was a negative disbursement variance of $14.8 million in November's expenditures from line item 200-513, Student Intervention Services. This appropriation item is used to partially reimburse school districts for general fund expenditures on state-mandated intervention services. These services include summer and regular school year interventions for third-graders reading below grade level, as well as fourth-, sixth-, and ninth-graders who have failed three or more of the five proficiency tests for their grade level. The disbursement variance in line item 200-513 is entirely from encumbered FY 2002 funds and is traceable to a payment that was anticipated to post in November but had already been made.

Another notable item contributing to the year-to-date negative disbursement variance was line item 200-410, Professional Development. This appropriation item is used to fund a variety of professional development programs for teachers and school administrators. The disbursement variance in this line item stems largely from delayed payments for a program that helps prepare new teachers to pass a required examination. Also notable, though smaller in its impact on the year-to-date negative disbursement variance, is line item 200-433, Reading/Writing Improvement program, which continues at nearly the same point as last month at $7.6 million under estimate. This is a timing-related variance that stems from a delayed payment that was expected to occur in September.

Government Operations (-$56.6 million)

In the Government Operations category for the month of November, the Department of Rehabilitation and Correction (DRC) posted a disbursement variance of $34.5 million under the estimate, thus comprising the bulk of the category's total negative disbursement variance in November of $39.2 million. For the year to date, disbursements for the Government Operations category as a whole stand at $34.3 million under the estimate, with DRC contributing $30.2 million of that figure.

Rehabilitation & Correction. DRC's November $34.5 million negative disbursement variance was composed primarily of a $27.6 million underage in line item 501-321, Institutional Operations, from which a payroll payment scheduled for November was actually posted during the last week of October. While this underage in November corrects for October's overage, DRC's year-to-date disbursements were $30.2 million below estimate at the end of November. The year-to-date underage's largest component is also line item 501-321 (which was $18.6 million under the year-to-date estimate), with several other GRF line items making up the remainder.

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

TANF Udate

TANF SPENDING QUARTERLY REPORT FFY 1997-FFY 2002

— *Steve Mansfield*

During the past year, the U.S. Congress considered reauthorization of the legislation that created the Temporary Assistance for Needy Families (TANF) program. In February, the President submitted a plan to Congress. 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. A further extension, carrying the program through March 31, 2003 was approved in November. At the time of this writing, it seems unlikely that the Congress will act on TANF reauthorization prior to the time that Ohio begins to consider a budget bill for

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	Expenditures to Date	% of Total to Date
Basic Assistance	$444,489,099	$226,754,477	$65,943,862	$261,004,712	19,962,934	7,240,368	$1,025,395,452	33.62%
Work Activities	3,792,305	42,080,928	26,688,339	81,114,726	95,714,093	35,240,647	$284,631,038	9.33%
Child Care	5,245,155	29,416,442	149,209,034	0	0	64,558,085	$248,428,716	8.14%
Transportation	--	--	9,130,805	7,096,385	11,197,295	4,603,526	$32,028,011	1.05%
Individual Development Accounts	--	--	--	14,925	0	19,482	$34,407	0.00%
Diversion Payments	--	--	71,662,730	18,001,749	51,788,744	11,770,751	$153,223,974	5.02%
Pregnancy Prevention	--	--	--	563,257	1,987,054	16,883,381	$19,433,692	0.64%
2-Parent Formation	--	--	--	296,162	452,479	11,067,562	$11,816,203	0.39%
Administration	46,902,800	38,048,953	49,776,721	82,442,060	68,364,981	29,005,296	$314,540,811	10.31%
Information Systems	0	14,562,288	27,660,357	44,825,621	42,822,492	24,979,239	$154,849,997	5.08%
Other Non-assistance	154,742,075	180,963,610	228,381,447	50,665,449	61,967,341	129,300,895	$806,020,817	26.42%
TOTAL EXPEND.	$655,171,434	$531,826,698	$628,453,295	$546,025,046	$354,257,413	$334,669,232	**$3,050,403,118**	100.00%
Federal Grant Award	$727,968,260	$727,968,260	$727,968,260	$727,968,260	$727,968,260	$727,968,260	**$4,367,809,560**	
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	$145,593,652	**$359,701,413**	
RESERVE	$0	$123,344,736	$26,718,139	$31,692,896	$164,259,752	$174,908,550	**$520,924,073**	

Table 2. **How Ohio Has Spent TANF Maintenance of Effort Funds**

ITEMS	FFY 1997	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002	Total Expenditures to Date	% of Total to Date
Basic Assistance	$305,589,897	$314,094,233	$314,625,299	$286,493,998	$275,816,285	$205,174,177	$1,701,793,889	68.56%
Work Activities	8,912,399	624,678	408,315	7,820,019	7,171,556	24,186,087	$49,123,054	1.98%
Child Care	45,628,354	51,850,611	49,435,554	51,887,171	55,996,785	45,403,943	$300,202,418	12.09%
Transportation	--	--	--	--	--	5,797,328	$5,797,328	0.23%
Individual Development Accounts	--	--	--	--	--	23,990	$23,990	0.00%
Diversion Payments	--	--	--	--	--	19,401,322	$19,401,322	0.78%
Pregnancy Prevention	--	--	--	--	--	4,086,674	$4,086,674	0.16%
2-Parent Formation	--	--	--	--	--	12,137,073	$12,137,073	0.49%
Administration	22,251,847	16,614,890	14,091,560	19,877,036	34,586,261	56,601,637	$164,023,231	6.61%
Information Systems	2,702	5,068,027	3,295,806	3,944,712	2,810,372	2,228,315	$17,349,934	0.70%
Other Non-assistance	34,391,885	31,820,351	40,496,328	29,762,563	29,762,564	30,138,471	$196,372,162	7.91%
Expenditures in Separate State Programs	--	--	--	1,581,167	5,571,647	4,628,084	$11,780,898	0.47%
TOTAL MOE	**$416,777,084**	**$420,072,790**	**$422,352,862**	**$401,366,666**	**$411,715,470**	**$409,807,101**	**$2,482,091,973**	100.00%

the next biennium. 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 that emerged in the current 107th Congress 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 continued the funding for the TANF program at the current level of $16.5 billion, both bills retained the five-year time limit on the receipt of federal cash benefits, both bills increased the overall percentage of those on assistance who must be in work activities from 50 percent to 70 percent, and both bills eliminated the separate two-parent work participation rate.

The issues of contention that need to be worked out in further Congressional debate revolve around 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 and Transitional Medical Assistance programs, how best to promote healthy marriages, and other matters.

Ohio's TANF Expenditures, FFY 1997 – FFY 2002

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, but 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 simultaneously 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 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 in and count toward the current year's MOE requirement.

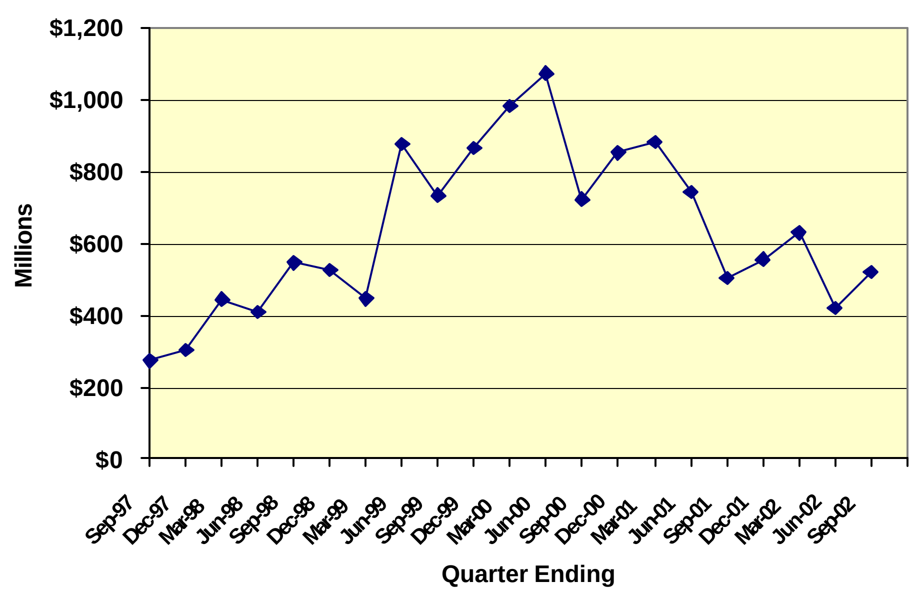
Table 3 shows the combined total of expenditures during FFY 2002 – both federal and state – with each category's percentage of the total. The "Expenditures in Separate State Programs" category reflects expenditures in the Alcohol/Drug Treatment and Mentoring Programs operated by the Department of Alcohol and Drug Addiction Services. For a detailed discussion of the services provided under the "Other Nonassistance" category, please see the "TANF Update" article in the May 2002 issue of *Budget Footnotes*.

Table 3. **Combined Federal and State TANF Expenditures, FFY 2002**

	Expenditure	Percentage of Total Expenditures
Basic Assistance	$353,282,783	39.2%
Work Activities	$90,310,023	10.0%
Child Care	$116,663,042	13.0%
Transportation	$11,114,197	1.2%
Indiv. Development Accounts	$43,472	0.0%
Diversion Payments	$35,416,373	3.9%
Pregnancy Prevention	$21,177,238	2.4%
2 Parent Formation	$23,353,859	2.6%
Administration	$73,396,810	8.1%
Information Systems	$23,373,842	2.6%
Other Nonassistance	$147,996,300	16.4%
Expenditures in Separate State Programs	$4,628,084	0.5%
TOTAL EXPENDITURES	**$900,756,023**	**100.0%**
TOTAL TRANSFERS	**$218,390,478**	
TOTAL EXPENDITURES AND TRANSFERS	**$1,119,247,301**	

Figure 1 tracks the cumulative reserve of unspent TANF funds by quarter. Because of the state's need to time the expenditure of state MOE funds in a way that ensures meeting the MOE requirement, the expenditure of federal funds also shows a pattern of expenditure through each fiscal year. The quarterly data for the most part 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. Because federal fiscal years end on the last day of September, the data point for each September represents the size of the reserve for each federal fiscal year.

Figure 1. **Cumulative Federal TANF Reserve Funds through September 2002**



Here are a few key points about the information in *Tables 1, 2,* and *3* and *Figure 1:*

- Ohio spent or transferred $947.3 million in federal TANF funds in FFY 2001. This exceeded the annual block grant award of $728.0 million by $219.3 million and reduced the size of the TANF reserve to just over $500 million.
- In FFY 2002, Ohio spent or transferred $709.3 million in federal TANF funds, which was $18.7 million less than the grant award for FFY 2002, thus increasing the TANF reserve for the year by that $18.7 million. At the end of FFY 2002, Ohio's TANF reserve stands at $520.9 million, with $278.9 million reported as

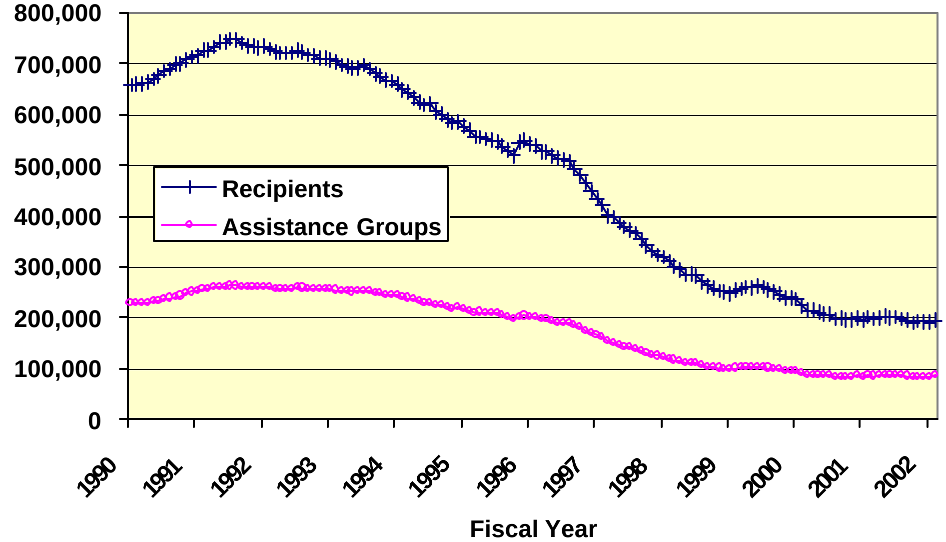
unliquidated obligations, and $242.0 million reported as the unobligated balance.

- In FFY 2002, Ohio reported $409.8 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 obligation each year, JFS has opted to pay a higher share of basic assistance expenditures with MOE funds. The total cash benefits paid during FFY 2002 was $394.2 million.

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

Figure 2. **ADC/OWM Caseload**
July 1990 - October 2002



TANF Caseload

Since reaching a peak of about 750,000 recipients in 1992, the number of Ohioans receiving cash assistance (either in the Ohio Works First program or in its predecessor program, Aid to Dependent Children, or ADC) has declined to about 195,000. The number of assistance groups has, in the same period, gone from about 263,000 to about 86,000 (see *Figure 2*). At the same time that the caseload was declining, the characteristics of those receiving assistance have also undergone some significant changes.

The Changing Characteristics of Recipients

To be eligible to receive OWF cash benefits, one must (1) have a child living with a parent or other adult (or be expecting a child) and (2) be needy under the income standards established by the state. In some cases, there are members of the household unit who do not receive benefits. In these cases, nonrecipients may receive benefits in other programs (for example, Supplemental Security Income) or may not qualify for or seek benefits (for example, a child who has reached the age of 18). In another type of case with a nonrecipient in the household unit, an adult has caretaker custody of children who qualify for assistance (for example, a grandparent who has become a caretaker to recipient children, whose parent(s) have left the assistance group). Such cases are called "child only" cases.

The number of "child only" cases has increased from 36,297 in June 1998 to 38,875 in October 2002. The number of children in such cases has increased from 58,176 to 60,832 in the same period. As a share of the overall OWF caseload, "child only" cases have increased in this period from 28.2 percent to 46.0 percent. Because the children in these cases remain eligible until age 18 and they are not subject to adult participation requirements, they form a stable core of the OWF caseload.

Since June 1998, the average age of recipient children has increased slightly. In June 1998, 44 percent of recipient children were under six years old. In October 2002, this had declined to 42.2 percent. Prior to the implementation of OWF, the trend in the data was in the opposite direction.

Among adult recipients, women make up a large majority. The general trend, found over the course of nearly 20 years of data, has been for the percentage of female adult recipients to increase. In 1983, for example, women constituted 77.5 percent of all adult recipients, and by June 1998 this figure had increased to 89 percent. Since June 1998 the

Table 4. Marital Status of Adult OWF Recipients		
	June 1998	October 2002
Single	62.8%	67.4%
Divorced	10.9%	7.4%
Widowed	0.5%	0.3%
Separated	10.4%	8.8%
Married	15.4%	16.0%
N =	100,204	49,815

female portion of the adult caseload has declined to 85.7 percent. This recent interruption in the general trend may be related to a tightening in the job market for males. During the recession of the early 1990s, the percentage of adult females receiving cash benefits also decreased.

The size of the average assistance group (or AG) has declined significantly since the early 1990s. In 1992, at the peak of the recession, the average-sized AG was 2.9. This size has steadily declined to the point in October 2002 where the average-sized AG was 2.3. This trend is strongly related to the increasing number of "child only" cases, discussed above.

Likewise, the proportion of the total caseload comprising adult recipients has declined from 36.6 percent in 1983 to 26.3 percent in October 2002.

The marital status of adult recipients has also shifted somewhat. In *Table 4*, we see that in the recent past the proportion of single adults has shown a small increase, while the proportion of adult recipients who were divorced or separated has shown a small decline. Earlier data shows that this is a continuation of a long-standing trend.

The educational level of adult recipients has changed relatively little. During the recession of the early 1990s, with a higher proportion of recipients having experienced economic deprivation from unemployment and exhaustion of unemployment benefits, the proportion of the adult recipients who had completed high school or passed a GED test peaked at about 57 percent and declined after that. In June 1998, 49.3 percent of adult recipients had completed high school or passed a GED test. In October 2002 that figure had risen slightly to 50.1 percent.

Geographic Distribution of Recipients

As the OWF caseload declined after the recession of the early 1990s, the proportion of recipients living in urban areas tended to increase. In 1992, residents of the six largest counties made up 54.6 percent of the total OWF caseload. In 1997, they had increased to 59.0 percent, and they peaked at 66.1 percent in August 1999. In October 2002, residents in the "big 6" counties made up 62.5 percent of all recipients.

This concentration of OWF recipients is taking place in all the large counties except Cuyahoga County. The share of the OWF caseload in Cuyahoga County, the most populous of the counties, has declined, while the share of other urban counties has increased. Residents of Cuyahoga County made up 18.9 percent of all OWF recipients in July 1992, 22.8 percent in July 1997, and 17.8 percent in October 2002. As Cuyahoga County's share of the overall caseload decreased, the other large counties saw their shares of the caseload increase (see *Table 5*).

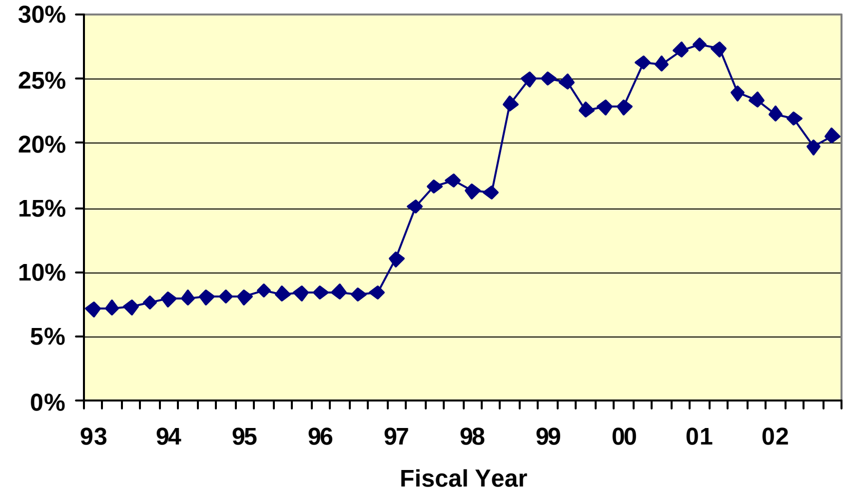
Table 5. Share of OWF Recipients in "Big 6" Counties			
	July 1992	July 1997	October 2002
Cuyahoga	18.9%	22.8%	17.8%
Franklin	10.0%	9.7%	13.7%
Hamilton	8.8%	8.3%	10.6%
Lucas	6.3%	6.8%	7.4%
Montgomery	5.6%	5.5%	6.7%
Summit	4.9%	6.0%	6.4%

Appalachian counties have experienced a decrease in their share of the OWF caseload. In looking at the caseloads of the ten Ohio counties in Appalachia designated as distressed by the Appalachian Regional Commission, we find that in July 1992 these counties combined held 5.2 percent of all recipients, in July 1997 they held 7.8 percent, and in October 2002 they held 3.9 percent.[1]

Duration of Receipt and Earned Income

One of the most significant program changes that was part of the OWF reform was a lifetime limit of 36 months for the receipt of cash benefits (except that if a just cause need is demonstrated, benefits can be received for an additional period of 24 months after a minimum period of 24 months when no cash benefits are received). Consequently, a change in the duration of the receipt of benefits was to be expected, as the assistance provided under the program became much more temporary in nature. The data shows a dramatic reduction in the number of months that adult recipients have been on cash assistance. For example, in September 1996, 16.4 percent of Ohio's welfare clients receiving cash assistance at that time had received benefits for a total of 12 months or less. In June 1998, the proportion of current adult clients who had received cash assistance for 12 months or less had climbed to 31.4 percent, and in October 2002 that figure had risen to 50.9 percent.

Figure 3. **Percentage of ADC/OWF Adults with Earned Income**



What the data indicates is that long-term recipients left Ohio's welfare rolls leading up to October 2000, when the 36-month time limit was first enforced. But what the figures above for duration of receipt of cash benefits miss is the amount of "churning" that has always been characteristic of the majority of welfare cases. In assistance programs there are always a lot of cases that come onto the caseload and leave in a relatively short period. A point-in-time, or "snapshot," picture of the caseload thus overrepresents the proportion of cases made up by longer-term recipients. For example, a March 1997 study by the Ohio Department of Human Services and Andersen Consulting found that in September 1996, of those clients who had left the caseload in the previous six years, 42.1 percent had received cash benefits for 12 months or less. So "churning" was present before and after the OWF reform, and this has most likely increased since the introduction of OWF. But, to the author's knowledge, no recent comparable data on Ohio recipients is available for the period since the introduction of OWF.

Another significant program change introduced by OWF was a stricter work or participation requirement. At the time of application, each assistance group is assessed and assigned to a work activity, an alternative work activity, or to a developmental activity (there are some limited exemptions).

In addition to stricter participation requirements, there were also changes in the amount of recipient earnings that are disregarded in calculating the amount of the monthly benefit. In the course of three different legislative acts (H.B. 167 of the 121st General Assembly, H.B. 408 of the 122nd General Assembly, and H.B. 283 of the 123rd General Assembly), the "earned-income disregard" was increased from exempting the first $30 and one-third of the remainder of monthly earnings for a maximum of four months, to disregarding the first $250 and one-half of the remainder, without time limit (of course, the case itself was time-limited). The change in the disregard has prompted more recipients to engage in work, and has allowed some recipients to stay on the caseload longer as their incomes have increased, than they would have under the earlier limit. Together, the stricter work requirements and the increase in the earned-income disregard have resulted in a higher percentage of OWF recipients with earned income (see *Figure 3*).

[1] The ten counties designated by the Appalachian Regional Commission are Adams, Athens, Gallia, Jackson, Meigs, Monroe, Morgan, Pike, Scioto, and Vinton.