Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION FEBRUARY 2003

FISCAL OVERVIEW

— Doris Mahaffey

The economy remains in a soft spot and is likely to continue to do so as long as the geopolitical uncertainties surrounding the potential war with Iraq are unresolved.

While consumers have little pent-up demand to jump-start an economic recovery, firms have been getting lean as they await a more opportune time to invest. Thus, once the situation with Iraq is resolved, business investment is likely to pick up substantially, and the economy is likely to follow suit.

Whenever that does happen, however, it will be too late for Ohio's current budget predicament. Revenue projections (made last spring) assumed a recovery in the second half of 2002. That did not come. The problem now is that much of the anticipated revenues for the balance of the fiscal year depend on how the economy did *last* year. This is particularly the case for corporate franchise tax payments, January quarterly estimated income tax payments, and income tax returns, which are due in April. While sales tax collections reflect more current economic conditions, most business purchases are exempt from the sales tax; therefore, increased business spending is unlikely to have much of an impact. Increased consumer spending will await increased employment, which is unlikely to happen any time soon. Of note is that revenues from the non-auto sales and use tax have been under estimate for the last four months in a row. At the end of January this revenue source was $87 million under estimate for the fiscal year to date. It was up only 2 percent from this time last year.

With these facts in mind, on February 4, 2003, in testimony before the House Finance and Appropriations Committee, the Office of Budget and Management (OBM) projected a $720 million budget gap for the balance of the fiscal year. Of that amount, $680 million was a projected revenue shortfall. The remainder was a mixture of Medicaid (state share only) and General and Disability Assistance (GA/DA) overspending. In later testimony the same day, LSC projected a $651 million budget deficit, which included a revenue shortfall of $638 million and Medicaid overspending of $13 million. The difference between these two estimates is roughly equivalent to the shortfall in total tax revenue for the month of January.

January revenue and disbursement numbers shed little light on the state's budget situation. Both were under estimate for the month.

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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 January	Fiscal Year 2003 to Date	Last Year	Difference
Beginning Cash Balance	($1,568.0)	$619.2		
Revenue + Transfers	$2,260.5	$12,134.1		
Available Resources	$692.4	$12,753.3		
Disbursements + Transfers	$1,801.1	$13,917.2		
Ending Cash Balances	($1,163.9)	($1,163.9)	($1,198.7)	$34.8
Encumbrances and Accts. Payable		$469.1	$567.9	($98.8)
Unobligated Balance		**($1,633.0)**	**($1,766.6)**	**$133.5**
BSF Balance		$427.9	$1,010.6	($582.7)
Combined GRF and BSF Balance		**($1,205.1)**	**($756.0)**	**($449.2)**

Revenues missed their mark by $38 million. Disbursements were under by $25 million.

January's revenue shortfall was largely due to personal income tax collections, which were $58 million under estimate. Withholding was the chief culprit, reflecting the poor employment picture. Quarterly estimated payments were nearly on target. Non-tax revenue sources also contributed to the revenue shortfall. An $8 million debit to the General Revenue Fund's earnings on investments account reflects the low account balances in the funds that contribute interest earnings to the GRF. On the other hand federal reimbursements were $36 million over estimate. Better than estimated revenues from the auto sales tax, the corporate franchise tax, and the estate tax also reduced the size of the shortfall.

The $38 million revenue shortfall increased the year-to-date shortfall to $183 million with nearly all revenue sources under estimate. Although most revenue sources are up from last year, they are not up by nearly enough to balance the budget. Total revenues (including federal grants) are up by 5.75 percent; however, the major tax revenues, which comprise 68.8 percent of total revenue estimates for the year, are up by only 2.9 percent.

The largest fiscal year-to-date shortfall was in non-auto sales tax collections ($87 million under), followed closely by personal income tax revenue collections ($62 million under) – due mainly to withholding. Other significant revenue shortfalls were in earnings on investments ($36 million under), federal reimbursements ($27 million under), public utility excise tax revenues ($30 million under), and corporate franchise tax revenues ($22 million under). The auto sales tax sported the biggest revenue overage ($45.8 million over estimate), followed by the cigarette tax, which was $28 million over estimate.

January disbursements were $25 million under estimate for the month. The welfare and human services category, which includes Medicaid and

Temporary Assistance for Needy Families (TANF), was under by $78 million for the month. Total education spending, which includes primary and secondary as well as higher education, was $12 million under. Property tax relief was another $8 million under. Offsetting this underspending were debt service, which was $49 million over estimate for the month, and spending in the total government operations category, which was $24 million over estimate. Much of the overage in total government operations was due to an $18 million overage in the justice and corrections category. However, year-to-date spending in this category remains under estimate by $26 million.

Year-to-date spending is $173 million under estimate, with spending in all four program categories under estimate. With the exception of spending for Medicaid, debt service, property tax relief, and development and other human services programs, spending by major program category is either flat (reflecting an increase of less than 1 percent) or down from spending a year ago.

For the fiscal year to date, spending on debt service is $47.5 million over estimate, TANF is $12.7 million over, and spending for GA/DA and Development are over by $1.4 million and $1.6 million, respectively. Spending on all other program areas is under estimate.

Of note is that spending on primary and secondary education is $68.6 million under estimate and Medicaid spending is $2.4 million under estimate. These negative variances are not expected to continue through the balance of the fiscal year. In the case of primary and secondary education, spending often lags estimates for the first half of the year, since disbursements to school districts do not typically incorporate current attendance data until the second half of the fiscal year. The reason for underspending in Medicaid is a little murkier, but it is due in large part to the fact that the federal funding of this mixed state-federal program had not been resolved by the end of January. Underspending in other categories may be linked in part to conservative spending strategies on the part of state agencies in anticipation of executive budget cuts.

At $2.26 billion, revenues for the month exceeded total expenditures ($1.8 billion) by over $400 million and thus reduced the negative ending fund balance by a like amount. The resulting ending cash balance (-$1,163.9 million) is $34.8 million higher than it was at this time last year. (See Table 1.) Moreover, encumbrances are nearly $100 million lower than last year, so that the unencumbered balance of -$1,633 million is $133.5 million larger than it was at the end of January of last year. However, the balance in the Budget Stabilization Fund (BSF) is only $427.9 million. Last year at this time it was $1,010.6 million. The difference of $582.7 million was transferred to the GRF in FY 2002 to balance the FY 2002 budget. That amount is not available to help balance this year's budget – nor to earn interest, which would ultimately be deposited into the GRF.

TRACKING THE ECONOMY

¾ Allan Lundell

The national economy began the new year in a "soft spot."

The modest economic recovery stalled in October. In its November 6 meeting, the Federal Open Market Committee (FOMC), acting for the first time in almost a year, reduced its target federal funds rate by 50 basis points to 1.25 percent. The committee noted that although greater 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 January 15 Federal Reserve "Beige Book" reported "subdued growth in economic activity from mid-November through early January, with little change in overall conditions relative to the last survey period." Districts reported "sluggish" growth and "soft" or "subdued" economic activity.

Real gross domestic product (GDP) grew at an annual rate of 0.7 percent in the final quarter of 2002. This followed 4.0 percent growth in the third quarter and continued the irregular pattern of growth during the recovery. This pattern is influenced by the volatility of auto sales (due to dealer incentives). Exhibit 1 presents real GDP growth on both a quarter-to-quarter annualized basis (QA) and a year-over-year basis (Y-o-Y). The erratic nature of the recovery is evident in the ups and downs of the QA series during 2002. The year-over-year series shows that the recovery is real, but modest. The Chicago Fed National Activity Index indicates that the economy is growing below trend.[1]

Exhibit 2 presents the GDP gap, another picture of the soft state of the economy. The GDP gap is defined as the percentage difference between actual GDP and potential GDP.[2] Also presented are the growth rates of actual GDP and potential GDP. In the late 1990s, the GDP gap was positive, meaning that the economy was producing above its "maximum sustainable level." This suggests that comparing the present situation to the late 1990s may not be a fair comparison, since the late 1990s was not a sustainable period. The recession shows up not just as the shrinking of the positive gap or even as a small negative gap. The recession shows up as a large negative GDP gap and an actual growth rate substantially less than the potential growth rate. The modest recovery is evident by positive actual growth. However, a recovery in which the economy grows slower than its potential does not feel like a recovery. A major reason for this is that the economy is not yet growing fast enough to generate new employment.

The soft spot is also evident in the Conference Board's Index of Coincident Economic Indicators. The Coincident Index, which describes where the economy is, was flat during the last quarter of 2002. Exhibit 3 shows the performance of the Coincident Index since January 1999. The index bottomed out in November 2001, suggesting that the recovery may have started then. The index slowly rose throughout 2002 until pausing in September. The four variables used in constructing the index (industrial production, real manufacturing and trade sales, real personal income less transfer payments, and nonagricultural employment) are the same variables used by the National Bureau of Economic Research (NBER) to date the business cycle. The performance of each of these variables is presented in Exhibit 4. Compared to March 2001, industrial production (IP) is down by 2.2 percent and nonagricultural employment (Emp) is down by 1.3 percent. Real personal income less transfers (Income) is up 0.9 percent and real manufacturing and trade sales are up 2.0 percent. The indicators suggest an economy that has stopped falling but is struggling to move forward.

The Conference Board's Index of Leading Economic Indicators, which describes where the economy is going, improved throughout the last quarter of 2002.[3] In December, eight of the ten variables used to calculate the leading index were up and two were down. Although the index often gives false signals, it generally turns down before a recession and up before an expansion. In its January 23 news release of the December index, the Conference Board noted "the leading index has improved for three straight months, suggesting a stronger economic recovery in the first half of 2003."

In its January 29 meeting, the FOMC again left the target federal funds rate at 1.25 percent. The committee noted that "oil price premiums and other aspects of geopolitical uncertainty have reportedly fostered continued restraint on spending and hiring by businesses" but "that as those risks lift, as most analysts expect, the accommodative stance of monetary policy, coupled with ongoing growth in productivity, will provide support to an improving economic climate over time." In testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs on February 11, Fed Chairman Alan Greenspan noted that "the intensification of geopolitical risks makes discerning the economic path ahead especially difficult" and that policymakers "should be able to tell far better whether we are dealing with a business sector and an economy poised to grow more rapidly – our more probable expectation – or one that is still laboring under persisting strains and imbalances that have been misidentified as transitory."

As is generally the case around turning points in economic cycles, indicators are mixed. The housing market, helped by low mortgage rates, is healthy. Personal income continues to grow. Retail sales are strong, but not outstanding. Purchasing managers indices indicate increases in new orders, which should lead to increased production. Consumer confidence is down. Of course, it has been down for a while, but consumers have continued to spend. One worry is that low consumer confidence will finally lead to lower consumer spending. Industrial production has been flat since summer and capacity utilization is low. The employment situation has been dreary, with output growth insufficient to generate employment growth.

The National Bureau of Economic Research considers employment to be "the single most reliable indicator" of recessions. Seasonally adjusted U.S. payroll employment increased by 143,000 in January. However, this seemingly encouraging news is not as encouraging as it first appears. Revisions to the November and December estimates cut 48,000 additional jobs from those months. The seasonal adjustment process acted to deflate the December employment estimates and inflate the January employment estimates. Because fewer workers than normal were hired in December, the subtraction in order to adjust for the normal seasonal increase resulted in a large decrease for December. However, because fewer workers were hired in December, fewer workers were laid off in January. The addition in order to adjust for the normal seasonal decrease resulted in a large increase for January. If seasonal adjustments are not made, total payroll employment fell by 2,722,000 in January. January 2003 employment is 98,000 less than January 2002 employment. Exhibits 5 through 8 present seasonally adjusted U.S. and Ohio employment for the following classifications or industries: total non-farm, goods-producing, manufacturing, and services-producing. U.S. data for January 2003 is available, but due to the timing of the issuing of reports, Ohio data is available only through December 2002. The recent stagnant employment situation is evident in the downward slope or, at best, flatness of the lines in the charts.

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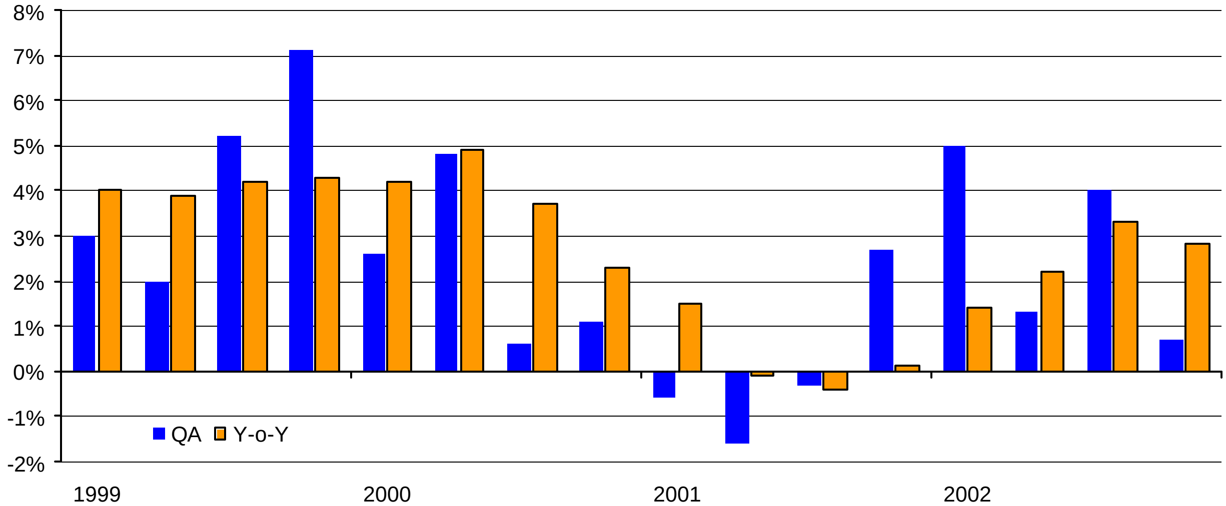
[1] The Chicago Fed National Activity Index, produced by the Federal Reserve Bank of Chicago, is a weighted average of 85 indicators of national economic activity. It is constructed so that a value of 0 indicates the economy is expanding at its historical trend rate of growth. Values less than 0 indicate below-trend growth and values greater than 0 indicate above-trend growth.

[2] Potential GDP is an estimate of an economy's maximum sustainable level of output. It is not the maximum level of output that can be produced but is instead the level of GDP attainable when the economy is operating at a high rate of resource use. If actual output rises above its potential level, then constraints on capacity begin to bind and inflationary pressures build; if output falls below potential, then resources are lying idle and inflationary pressures abate.

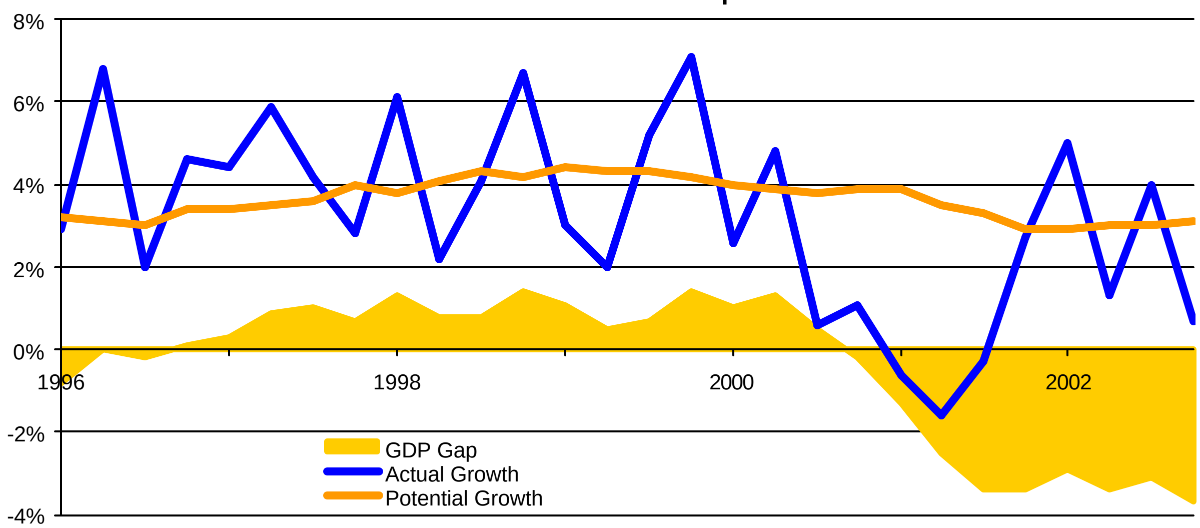
[3] The leading index is a weighted average of ten economic variables (average manufacturing workweek, jobless claims, new orders for consumer goods, new orders for capital goods, vendor performance, building permits, stock prices, money supply, interest rate spread, and consumer confidence) designed to predict near-term economic conditions.

Exhibit 1: Real GDP Growth



Source: U.S. Bureau of Economic Analysis

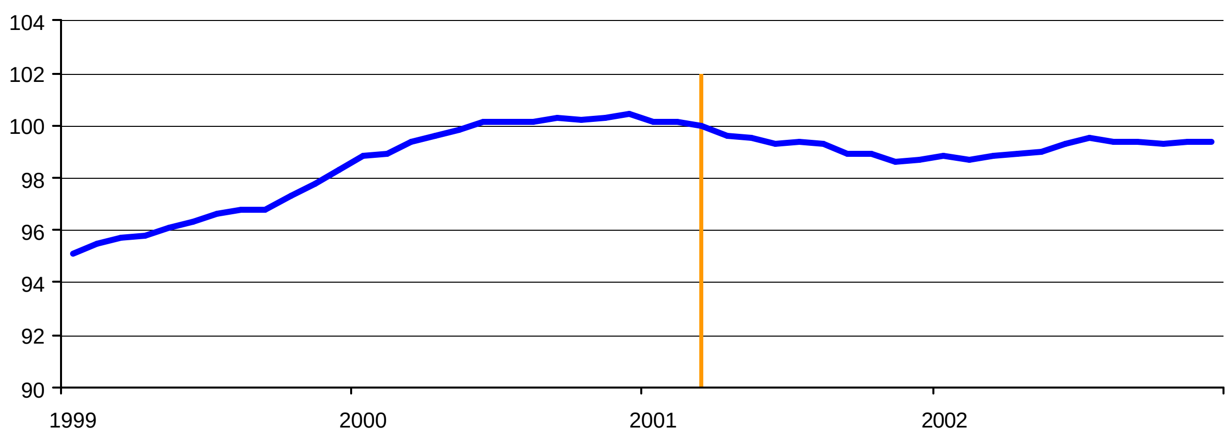
Exhibit 2: GDP Gap



Source: U.S. Bureau of Economic Analysis, Global Insight, and LSC calculations

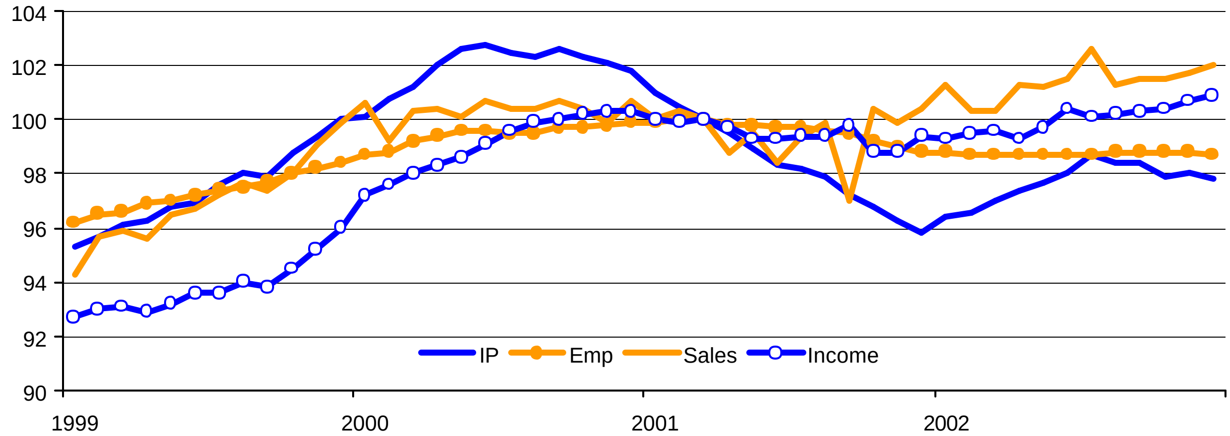
Exhibit 3: Index of Coincident Economic Indicators

(March 2001 = 100)



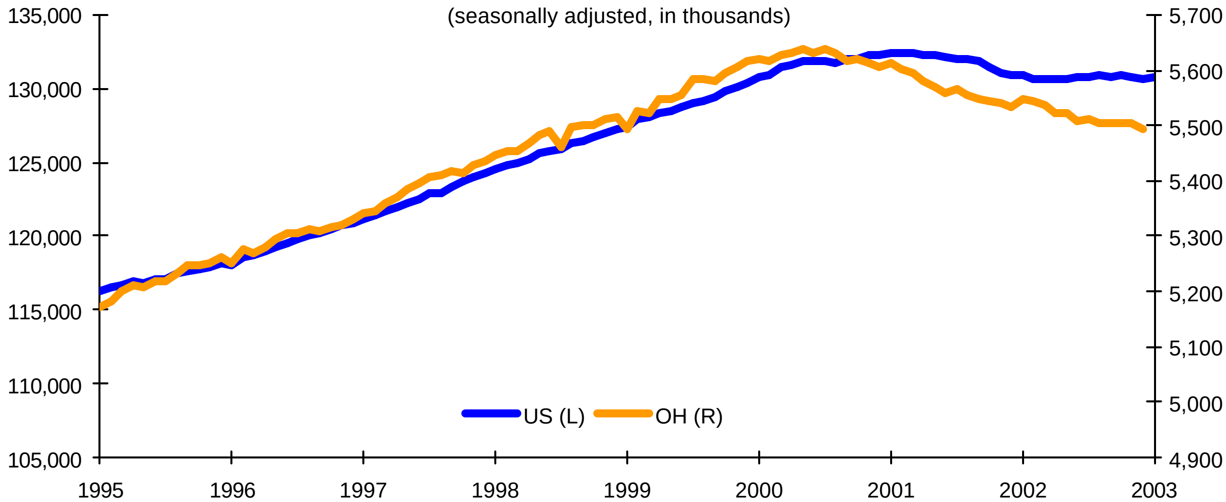
Source: NBER and LSC calculations

Exhibit 4: Coincident Economic Indicators
(March 2001 = 100)



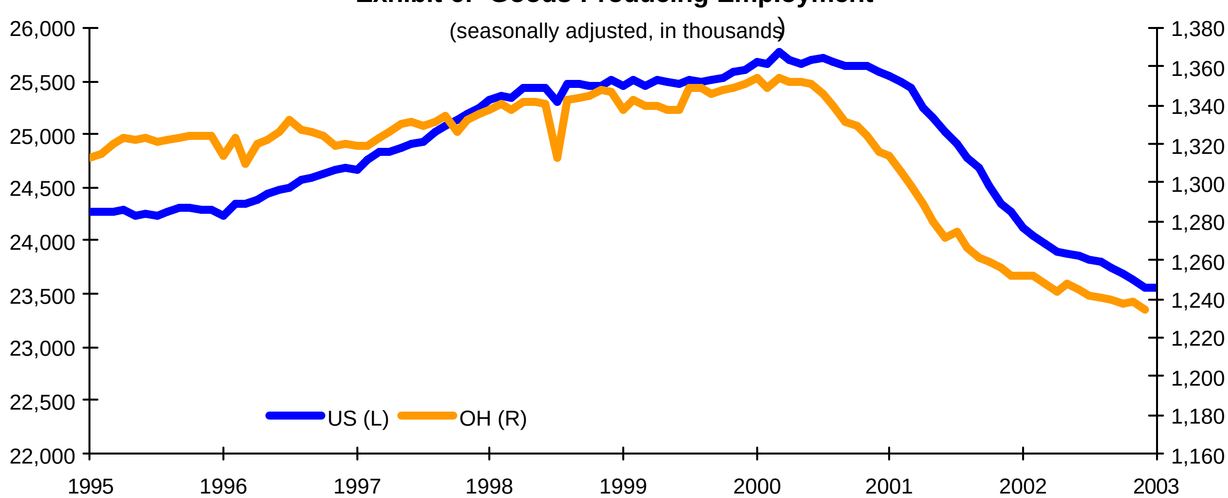
Source: NBER and LSC calculations

Exhibit 5: Total Non-Farm Employment
(seasonally adjusted, in thousands)



Source: U.S. Bureau of Labor Statistics

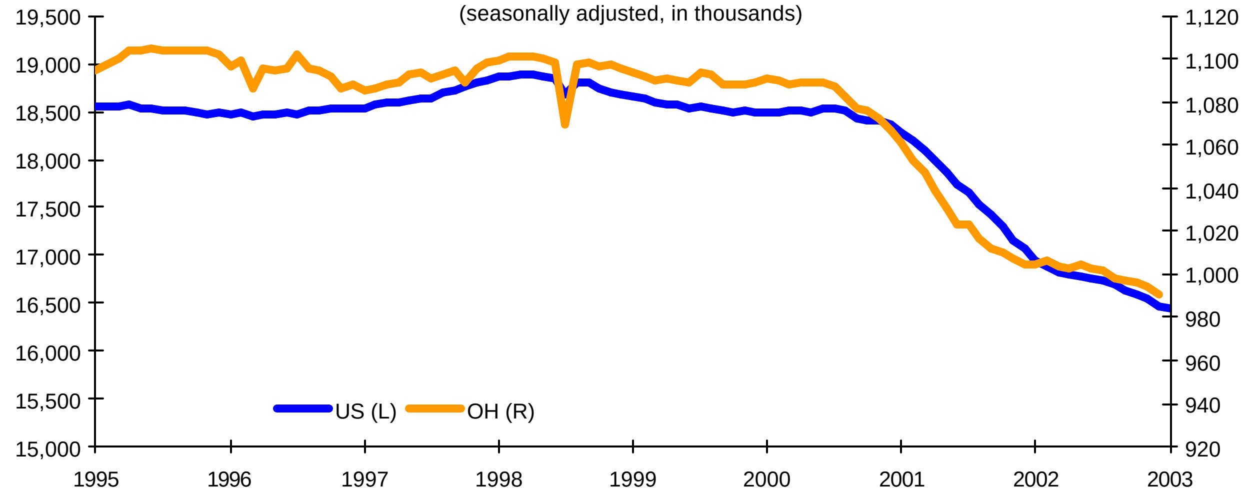
Exhibit 6: Goods-Producing Employment
(seasonally adjusted, in thousands)



Source: U.S. Bureau of Labor Statistics

Exhibit 7: Manufacturing Employment

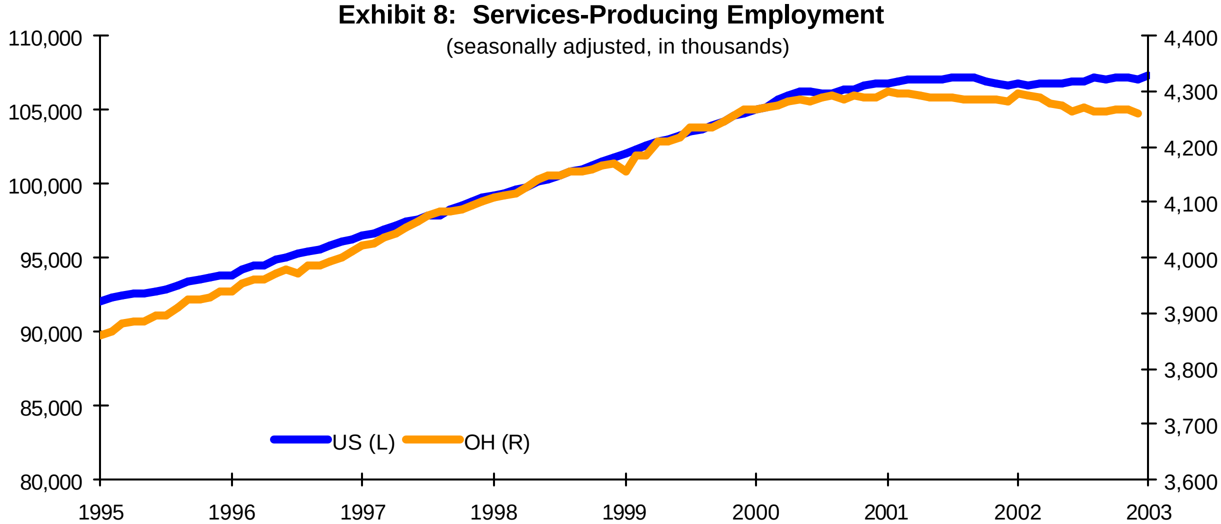
(seasonally adjusted, in thousands)



Source: U.S. Bureau of Labor Statistics

Exhibit 8: Services-Producing Employment

(seasonally adjusted, in thousands)



Source: U.S. Bureau of Labor Statistics

Status of the General Revenue Fund

REVENUE

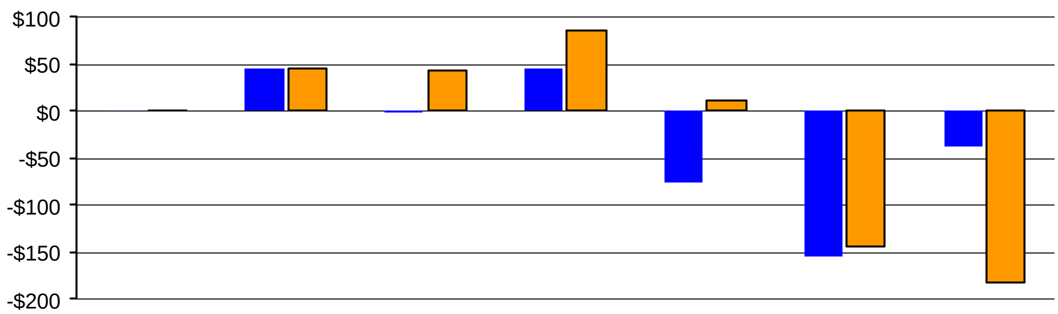
— *Allan Lundell and Jean Botomogno*

January started the second half of FY 2003 as weakly as December ended the first half. Total GRF revenue was $38.1 million (1.7 percent) below estimate in January. Total GRF revenue less federal grants (revenue from Ohio sources) was $74.2 million (3.9 percent) below estimate. Tax revenues were $47.6 million (2.5 percent) below estimate and revenues from the major taxes (personal income, sales and use, corporate franchise, public utility, and kilowatt hour) were $54.0 million (3.0 percent) below estimate.

For the fiscal year to date, total GRF revenue is $183.2 million (1.5 percent) below estimate. Total GRF revenue less federal grants is $156.2 million (1.6 percent) below estimate. Tax revenues are $112.4 million (1.2 percent) below estimate and revenues from the major taxes are $152.0 million (1.8 percent) below estimate. The monthly and cumulative variances (differences from estimates) are presented in Exhibits 1-4. The deterioration in the state's revenue picture that developed in the second quarter of the fiscal year continued in January. The

Exhibit 1: Total GRF Revenue

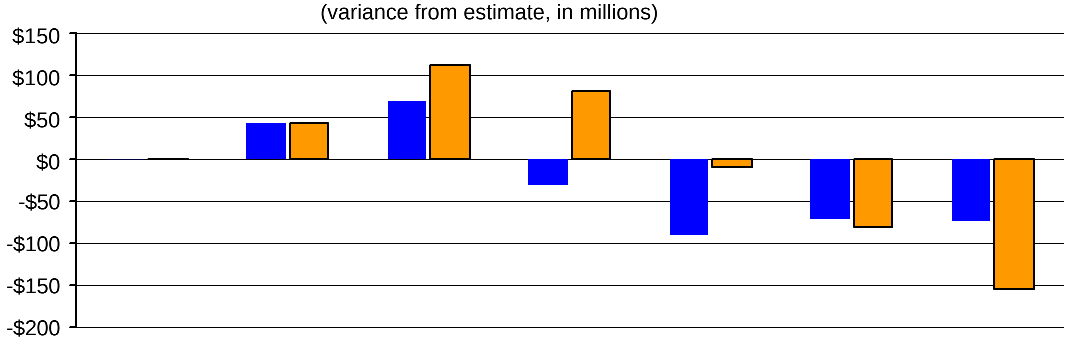
(variance from estimate, in millions)



	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03
Monthly	$0.6	$44.0	-$2.3	$44.2	-$76.0	-$155.6	-$38.1
Cumulative	$0.6	$44.6	$42.3	$86.5	$10.5	-$145.2	-$183.2

Exhibit 2: Total GRF Revenue less Federal Grants

(variance from estimate, in millions)



	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03
Monthly	$0.6	$42.3	$68.8	-$31.4	-$89.6	-$72.7	-$74.2
Cumulative	$0.6	$42.8	$111.6	$80.3	-$9.3	-$82.0	-$156.2

Table 2
General Revenue Fund Revenue
Actual vs. Estimate
Month of January 2003
($ in thousands)

REVENUE SOURCE			
TAX REVENUE	**Actual**	**Estimate***	**Variance**
Auto Sales	$73,660	$63,350	$10,310
Non-Auto Sales & Use	$579,267	$592,350	($13,083)
Total Sales	$652,927	$655,700	($2,773)
Personal Income	$880,393	$938,500	($58,107)
Corporate Franchise	$198,724	$193,575	$5,149
Public Utility	$15	$0	$15
Kilowatt Hour Excise Tax	$28,476	$26,800	$1,676
Total Major Taxes	**$1,760,536**	**$1,814,575**	**($54,039)**
Foreign Insurance	$1	$0	$1
Domestic Insurance	$0	$0	$0
Business & Property	$16	$0	$16
Cigarette	$42,975	$45,456	($2,481)
Alcoholic Beverage	$4,105	$4,060	$45
Liquor Gallonage	$3,278	$3,450	($172)
Estate	$9,017	$0	$9,017
Total Other Taxes	$59,391	$52,966	$6,425
Total Taxes	**$1,819,927**	**$1,867,541**	**($47,614)**
NON-TAX REVENUE			
Earnings on Investments	($8,060)	$0	($8,060)
Licenses and Fees	$5,511	$3,960	$1,551
Other Revenue	$8,235	$29,192	($20,957)
Non-Tax Receipts	$5,686	$33,152	($27,466)
TRANSFERS			
Liquor Transfers	$5,000	$4,000	$1,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$0	$105	($105)
Total Transfers In	$5,000	$4,105	$895
TOTAL REVENUE less Federal Grants	**$1,830,613**	**$1,904,798**	**($74,185)**
Federal Grants	$429,843	$393,718	$36,125
TOTAL GRF REVENUE	**$2,260,456**	**$2,298,516**	**($38,060)**

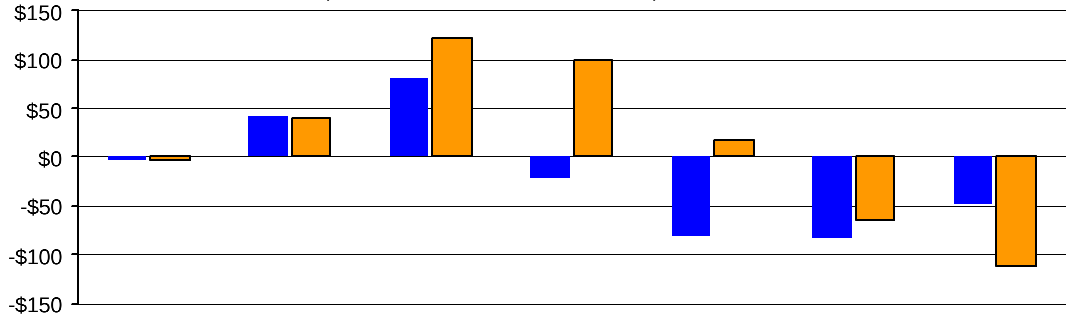
* July, 2002 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

deterioration is in comparison to the estimates for this fiscal year. Compared to FY 2002, total GRF revenues are up by 5.8 percent, total revenue less federal grants is up by 5.1 percent, tax revenues are up 5.0 percent, and revenues from the major taxes are up by 2.9 percent.

Personal Income Tax

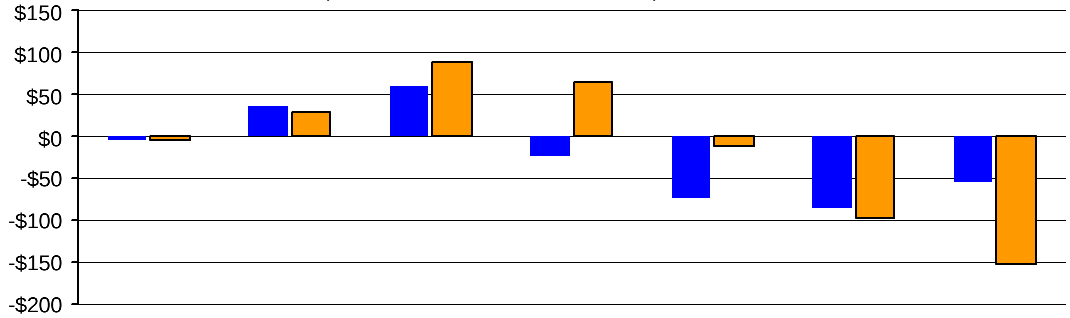
January personal income tax revenues of $880.4 million were $58.1 million (6.2 percent) below estimate. Withholding was $54.3 million (7.2 percent) below estimate, quarterly estimated payments were $6.4 million (1.5 percent) below estimate, and refunds were $1.9 million (2.4 percent)

Exhibit 3: Total GRF Tax Revenue
(variance from estimate, in millions)



	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03
Monthly	-$2.5	$42.6	$81.4	-$21.7	-$82.2	-$82.6	-$47.6
Cumulative	-$2.5	$40.2	$121.6	$99.9	$17.7	-$64.8	-$112.4

Exhibit 4: Total GRF Revenue from Major Taxes
(variance from estimate, in millions)



	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03
Monthly	-$5.2	$35.0	$58.8	-$24.7	-$75.1	-$86.7	-$54.0
Cumulative	-$5.2	$29.8	$88.6	$63.9	-$11.3	-$98.0	-$152.0

below estimate. Withholding, which accounts for over 80 percent of gross income tax collections, is sensitive to the employment situation. The growing weakness in withholding is due to the continuing weakness in employment. Estimates for the remainder of the fiscal year assumed an improvement in employment. If the economy remains in a "soft spot," income tax revenues can be expected to continue to soften. January revenues of $11.2 million from the new tax on trusts were $3.8 million below estimate.

For the fiscal year to date, personal income tax revenues are $62.5 million (1.4 percent) below estimate. Withholding is $70.1 million (1.7 percent) below estimate, quarterly estimated payments are $4.6 million (0.6 percent) below estimate, and refunds are $9.3 million (4.2 percent) greater than estimated. Year-to-date revenues from the tax on trusts are $14.2 million above estimate.

Compared to FY 2002, personal income tax revenues through January are up 3.7 percent. Withholding is up 2.5 percent, but quarterly estimated payments are down 0.7 percent. Refunds are down 4.8 percent and payments to the local government funds supported by the income tax are down 0.8 percent. If the new tax on trusts is not included in the comparison, gross revenues are up just 2.0 percent compared to FY 2002.

Non-Auto Sales and Use Tax

The downturn in non-auto sales and use tax revenues continued in January 2003. Non-auto sales and use tax receipts generally reflect retail sales activity in the prior month. For the fifth month in this fiscal year, non-auto sales and use tax revenues were below estimates. Revenues were below estimates in August, October, November, and December. At $579.3 million, non-auto sales tax revenues in January were $13.1 million or 2.2 percent below estimates. However, receipts were

Exhibit 5: Non-auto Sales Tax Variance from July 2002 Estimate
(in millions of dollars)

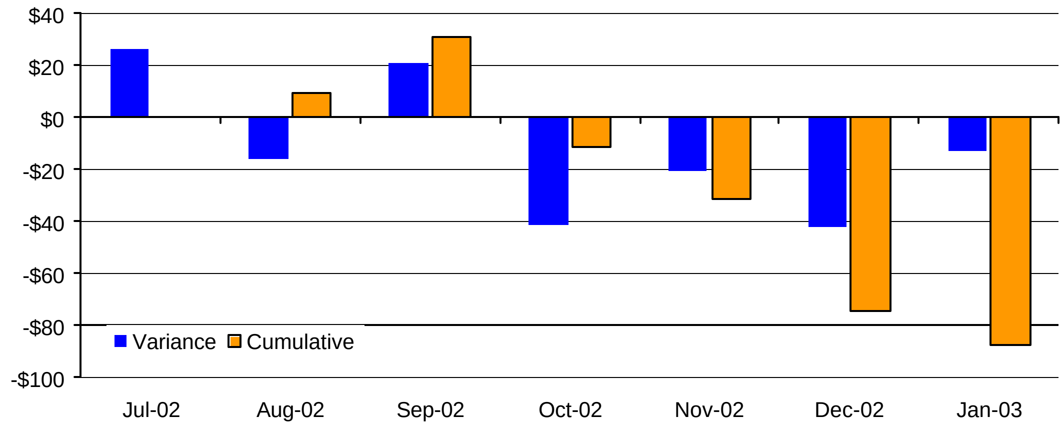
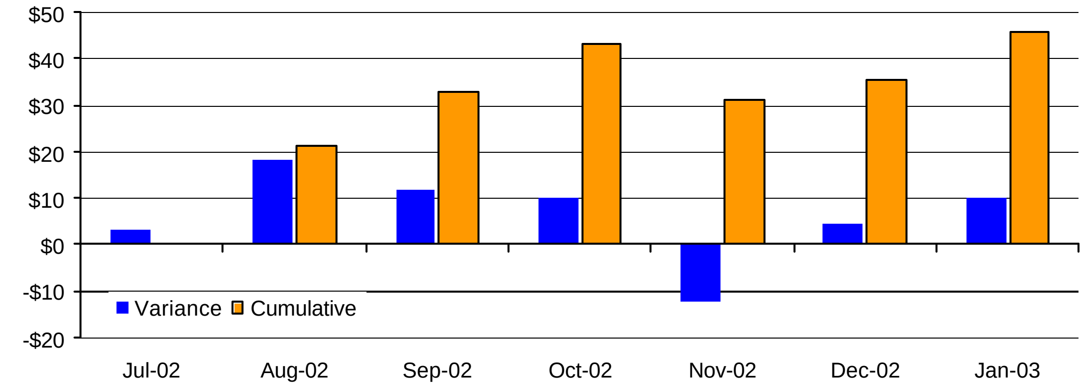


Exhibit 6: Auto Sales Tax Variance from July 2002 Estimate
(in millions of dollars)



$12.5 million or 2.2 percent above revenues in the same month last year (January 2002). Thus, taxable sales in December 2002 were a bit improved compared to taxable sales in December 2001.

The year-to-date shortfall in non-auto sales tax receipts increased from $74.3 million in December to $87.4 million this month. Year-to-date non-auto sales and use tax receipts as of January were $3,170.6 million, 2.7 percent below estimates. Compared to receipts a year ago, year-to-date non-auto sales and use tax revenues in January 2003 were up $64.5 million or 2.1 percent. However, this growth was due to the auto leasing tax change that was effective about February 2002.

Exhibit 5 above illustrates the pattern in revenues for the non-auto sales tax this fiscal year. Two out of the first three months had positive revenue results. Then, the months of October through January all had negative tax results.

Auto Sales Tax

The auto sales tax has continued to perform amazingly well so far this year. November 2002 was a down month as the auto industry tried to reduce incentives to purchase new cars and light trucks. Vehicle sales plunged. The incentives were reinstated in December 2002. December auto sales jumped 7.9 percent. It is clear that until the economy is more robust and consumer confidence is restored, this market is controlled by the level of automaker-provided incentives. Normally auto sales tax receipts have one or two years of significant decline during a recession period. Because of the auto manufacturers' strategy of offering massive incentives, this decline has not occurred during this recession. As long as automakers have significant overcapacity, various levels of incentives will continue.

Auto sales tax revenues were $73.7 million in January, $10.3 million or 16.3 percent above estimates. Auto tax receipts were $5.7 million or 8.5 percent higher than December revenues. Receipts

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

REVENUE SOURCE					Percent
TAX REVENUE	**Actual**	**Estimate***	**Variance**	**FY 2002**	**Change**
Auto Sales	$557,136	$511,325	$45,811	$556,105	0.19%
Non-Auto Sales & Use	$3,170,567	$3,257,925	($87,358)	$3,106,080	2.08%
Total Sales	$3,727,702	$3,769,250	($41,548)	$3,662,185	1.79%
Personal Income	$4,342,334	$4,404,800	($62,466)	$4,186,220	3.73%
Corporate Franchise	$159,162	$181,574	($22,412)	$93,812	69.66%
Public Utility	$74,238	$104,200	($29,962)	$130,621	-43.17%
Kilowatt Hour Excise Tax	$201,014	$196,646	$4,368	$190,157	5.71%
Total Major Taxes	**$8,504,450**	**$8,656,470**	**($152,020)**	**$8,262,996**	**2.92%**
Foreign Insurance	$115,366	$119,250	($3,884)	$114,928	0.38%
Domestic Insurance	$1,626	$0	$1,626	$3,013	-46.02%
Business & Property	$1,097	$855	$242	$1,029	6.58%
Cigarette	$338,472	$310,521	$27,951	$154,793	118.66%
Alcoholic Beverage	$32,818	$33,321	($503)	$31,965	2.67%
Liquor Gallonage	$17,955	$18,210	($255)	$17,751	1.15%
Estate	$68,947	$54,540	$14,407	$63,337	8.86%
Total Other Taxes	$576,281	$536,697	$39,584	$386,815	48.98%
Total Taxes	**$9,080,731**	**$9,193,167**	**($112,436)**	**$8,649,810**	**4.98%**
NON-TAX REVENUE					
Earnings on Investments	$14,750	$51,000	($36,250)	$56,583	-73.93%
Licenses and Fees	$18,757	$18,810	($53)	$17,100	9.69%
Other Revenue	$122,609	$138,140	($15,531)	$105,009	16.76%
Non-Tax Receipts	$156,116	$207,950	($51,834)	$178,692	-12.63%
TRANSFERS					
Liquor Transfers	$66,000	$59,000	$7,000	$62,000	6.45%
Budget Stabilization	$0	$0	$0	$0	---
Other Transfers In	$50,412	$49,300	$1,112	$11,626	333.63%
Total Transfers In	$116,412	$108,300	$8,112	$73,626	58.11%
TOTAL REVENUE less Federal Grants	**$9,353,260**	**$9,509,417**	**($156,157)**	**$8,902,128**	**5.07%**
Federal Grants	$2,780,855	$2,807,923	($27,068)	$2,572,278	8.11%
TOTAL GRF REVENUE	**$12,134,115**	**$12,317,340**	**($183,225)**	**$11,474,405**	**5.75%**

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

were about $14.2 million or 23.4 percent higher than January 2002 tax revenues.

As of January 2003, year-to-date auto sales tax revenues, at $557.1 million, were $45.8 million or 9.0 percent above estimates. The tax source is expected to finish above estimates for the rest of the year. However, the overage is expected to erode slowly. January auto sales were down 7.5 percent, and sales in the second half of the year may not be as strong as in the first half. Compared to auto sales tax revenues a year ago, year-to-date receipts as of January were $1.0 million or 0.2 percent above auto sales tax revenues in January 2002.

Corporate Franchise Tax

Exhibit 7: Corporate Franchise Tax Variance from July 2002 Estimate
(in millions of dollars)

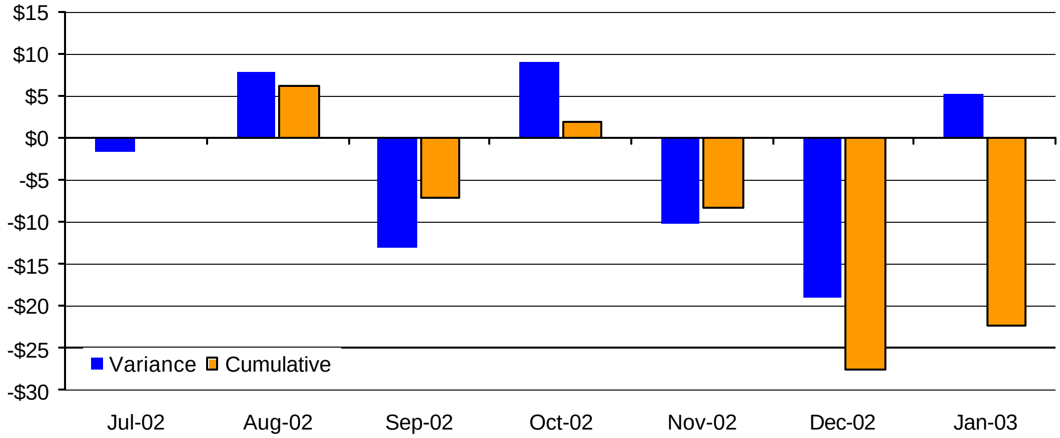
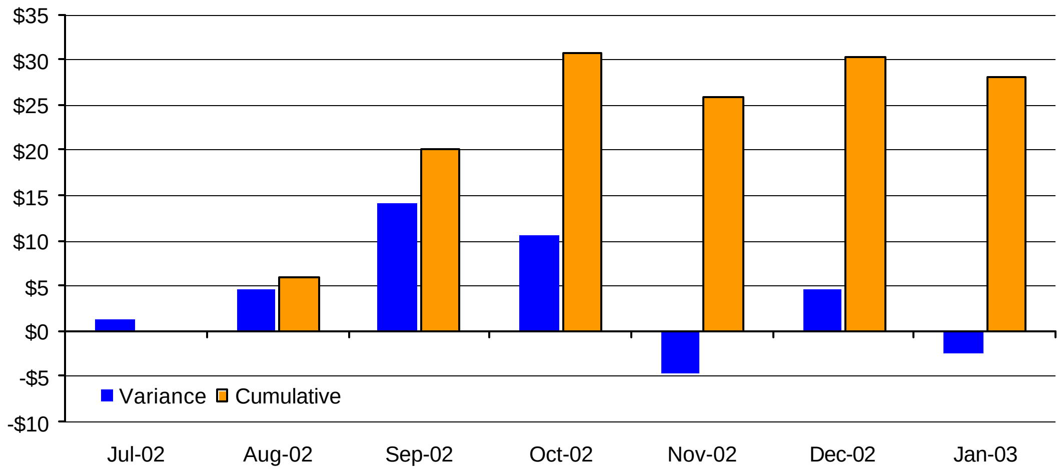


Exhibit 8: Cigarette Tax Variance from July 2002 Estimate
(in millions of dollars)



The first major payment under the corporate franchise tax was received in January 2003. Corporate franchise tax receipts were $198.7 million, $5.1 million or 2.7 percent above estimates. Receipts were $30.1 million or 17.8 percent higher than franchise tax receipts in January 2002. As of January 2003, year-to-date corporate franchise tax refunds were $159.1 million, $22.4 million or 12.3 percent below estimates, due to higher refunds in the first half of the fiscal year. Compared to year-to-date revenues in January 2002, corporate franchise tax revenues this year were $65.5 million or 69 percent higher. Revenues last year were low due to very high refunds.

Because corporate franchise tax returns were not due until the last day of January, with revenue spillover into February, it is too early to make a full assessment of the first major payment under this tax. The second major payment will be due in March 2003 and the last major payment due in May 2003. Franchise tax payments this fiscal year will be primarily based on corporate book profits in CY 2002. Corporate profits have been improving as of late, although profits for the full calendar year 2002 declined or were flat.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts in January 2003 were $42.9 million, $2.5 million or 5.5 percent below estimates. As of January 2003, year-to-date receipts from the tax on cigarette and other tobacco products were $338.5 million. These revenues were above estimates by $27.9 million or 9.0 percent. However, there is some possibility that consumption will continue falling during the second half of the year and that the overage will slip from this level. Year-to-date cigarette tax receipts were $183.7 million or 118.7 percent ahead of tax receipts in the same period a year ago.

DISBURSEMENTS

— *Steve Mansfield**

Disbursements for January (excluding transfers) were $25.0 million under the estimate, pushing the year-to-date General Revenue Fund (GRF) variance to $172.9 million below the estimate. The month's negative variance would have been larger save for a timing-based positive disbursement variance in the Debt Service category of $49.1 million. The Welfare and Human Services program category posted a $77.3 million negative disbursement variance in January, following a similar December variance.

When we look at the year-to-date disbursement variance in four of the state's major program categories, as depicted in Figure 1 (please note that Figure 1 does not include the Debt Service category), we see that disbursements from all four of the state's major GRF program categories are now below estimate. One of the major categories (Government Operations) posted a positive disbursement variance of $24.0 million in January. In the sections that follow, we examine the disbursement activity in each of these four major GRF program categories in the order of magnitude of its contribution to the year-to-date negative disbursement variance. 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.

Education (-$97.2 million)

Disbursements in the Education category as a whole stand at $97.2 million below the estimate for the year to date, with the Department of Education and the Board of Regents combined contributing $92.9 million of that total. January was relatively quiet in terms of the size of the month's disbursement variance, with the Board of Regents contributing the largest negative disbursement variance at $9.5 million.

Department of Education. In January, the Department of Education added a relatively small negative disbursement variance of $1.3 million to its year-to-date negative disbursement variance of $63.3 million. Little has changed since last month when we reported the two largest contributors to the year-to-date negative disbursement variance. Line item 200-501, Base Cost Funding, now stands at $50.2 million under estimate, and line item 200-513, Student Intervention Services, accounted for another $27.3 million of the negative year-to-date

Figure 1
GRF Disbursement Variances
by Program Category, FY 2003, Q1-3

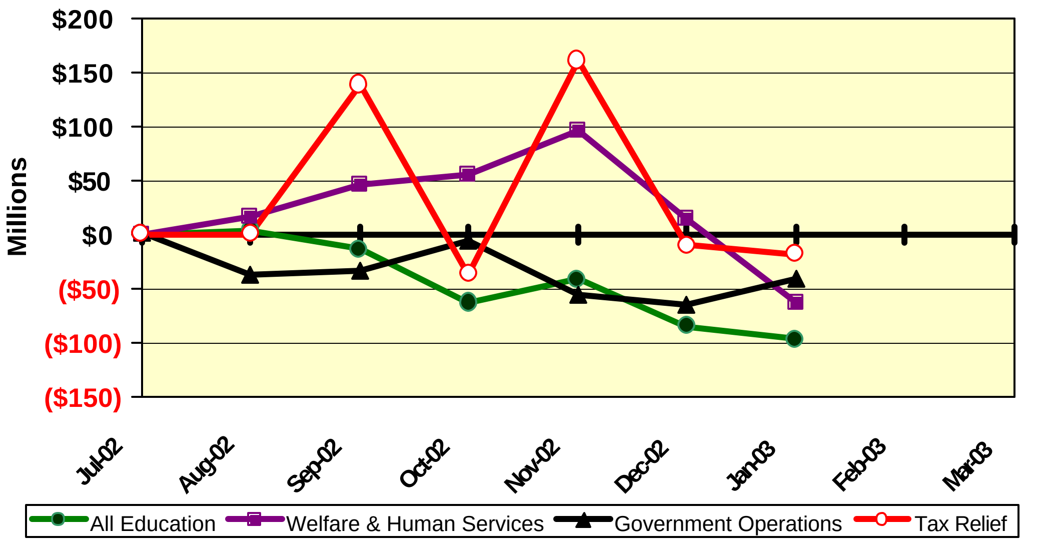


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of January 2003
($ in thousands)

USE OF FUNDS			
PROGRAM	**Actual**	**Estimate***	**Variance**
Primary & Secondary Education (1)	$504,057	$506,705	($2,648)
Higher Education	$212,921	$222,456	($9,536)
Total Education	$716,978	$729,161	($12,184)
Health Care/Medicaid	$625,832	$646,630	($20,798)
Temporary Assistance to Needy Families (TANF)	$41,914	$67,882	($25,968)
General/Disability Assistance	$2,239	$1,974	$265
Other Welfare (2)	$43,093	$49,107	($6,014)
Human Services (3)	$105,470	$130,244	($24,774)
Total Welfare & Human Services	$818,547	$895,837	($77,290)
Justice & Corrections	$168,900	$153,443	$15,456
Environment & Natural Resources	$6,976	$6,111	$865
Transportation	$5,357	$2,704	$2,653
Development	$12,763	$7,813	$4,951
Other Government	$19,279	$19,244	$35
Capital	$0	$0	$0
Total Government Operations	$213,275	$189,316	$23,959
Property Tax Relief (4)	$3,262	$11,819	($8,557)
Debt Service	$49,057	$0	$49,057
Total Program Payments	**$1,801,119**	**$1,826,132**	**($25,014)**
TRANSFERS			
Local Government Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$2	$0	$2
Total Transfers Out	$2	$0	$2
TOTAL GRF USES	**$1,801,121**	**$1,826,132**	**($25,012)**

(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.

disbursement variance. We expect that in the coming months both of these line items will begin to post expenditures that will bring the disbursement variance closer in line with the estimate.

Partially offsetting the year-to-date negative disbursement variance is a positive year-to-date disbursement variance of $24.7 million in line item 200-503, Bus Purchase Allowance. This appropriation item is used to reimburse school districts for purchases of public, nonpublic, and handicapped buses. Reimbursement for nonpublic and handicapped buses is at 100 percent; reimbursement for public buses is based on a formula. This positive disbursement variance stemmed from this year's payments being two months earlier than estimated.

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

USE OF FUNDS PROGRAM	Actual	Estimate*	Variance	FY 2002	Percent Change
Primary & Secondary Education (1)	$3,757,397	$3,825,955	($68,559)	$3,756,642	0.02%
Higher Education	$1,458,128	$1,486,753	($28,625)	$1,515,963	-3.82%
Total Education	$5,215,524	$5,312,708	($97,184)	$5,272,605	-1.08%
Health Care/Medicaid	$4,758,867	$4,761,271	($2,404)	$4,287,146	11.00%
Temporary Assistance to Needy Families (TANF)	$322,379	$309,683	$12,696	$320,160	0.69%
General/Disability Assistance	$16,195	$14,770	$1,425	$50,383	-67.86%
Other Welfare (2)	$322,030	$357,576	($35,546)	$331,873	-2.97%
Human Services (3)	$775,591	$814,078	($38,487)	$760,065	2.04%
Total Welfare & Human Services	$6,195,062	$6,257,377	($62,315)	$5,749,628	7.75%
Justice & Corrections	$1,121,503	$1,147,333	($25,830)	$1,112,322	0.83%
Environment & Natural Resources	$85,275	$85,518	($244)	$90,996	-6.29%
Transportation	$24,287	$28,108	($3,821)	$31,876	-23.81%
Development	$123,468	$121,850	$1,618	$116,399	6.07%
Other Government	$243,799	$256,374	($12,575)	$261,573	-6.79%
Capital	$0	$1,535	($1,535)	$8,949	-100.00%
Total Government Operations	$1,598,331	$1,640,718	($42,387)	$1,622,115	-1.47%
Property Tax Relief (4)	$691,500	$710,065	($18,565)	$631,765	9.46%
Debt Service	$200,832	$153,321	$47,511	$184,084	9.10%
Total Program Payments	**$13,901,250**	**$14,074,190**	**($172,940)**	**$13,460,197**	**3.28%**
TRANSFERS					
Local Government Distribution	$0	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	$13,104	-100.00%
Other Transfers Out	$15,990	$15,836	$154	$16,858	-5.15%
Total Transfers Out	$15,990	$15,836	$154	$29,962	-46.63%
TOTAL GRF USES	**$13,917,239**	**$14,090,025**	**($172,786)**	**$13,490,159**	**3.17%**

(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.

Regents. For January, the Board of Regents posted a $9.5 million negative disbursement variance, thus pushing up its negative disbursement variance for the year to date to $24.6 million. This year-to-date variance is traceable to the effects of a $32.4 million negative disbursement variance in November from line item 235-420, Success Challenge, which was 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. This payment was expected to be made in February.

Welfare/Human Services (-$62.3 million)

Disbursements in the Welfare/Human Services category as a whole stand at $62.3 million below the estimate for the year to date. January's negative disbursement variance pushed the category's overage down by $77.3 million, thus moving the category into negative territory for the first time this fiscal year. This was the result of significant negative disbursement variances in the Medicaid program and the TANF program and in the Department of Mental Retardation and Developmental Disabilities. The following paragraphs discuss the disbursements in the components of this category in more detail.

Health Care/Medicaid. At the end of January, after six months of being above the estimates on a cumulative basis, the Health Care/Medicaid program (primarily line item 600-525) was cumulatively $2.4 million below the spending estimate. For the month of January, the program was $20.8 million under the estimate. The negative disbursement variance for January was largely the result of a negative variance in payments to Nursing Facilities and Inpatient Hospitals.

Like last year, however, 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

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

Service Category	December Actual	December Estimate	December Variance	December Percent Variance	Year-to-Date Spending Actual thru Dec.	Year-to-Date Spending Estimate thru Dec.	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Facilities	$203,347	$217,531	($14,184)	-6.5%	$1,226,673	$1,292,908	($66,236)	-5.1%
Payments	$214,613	$229,712	($15,099)	-6.6%	$1,282,976	$1,358,092	($75,117)	-5.5%
NF Franchise Fees Offset[1]	($11,266)	($12,181)	$915	-7.5%	($56,303)	($65,184)	$8,881	-13.6%
ICF/MR	$33,614	$35,441	($1,827)	-5.2%	$204,476	$211,108	($6,633)	-3.1%
Payments	$35,333	$37,214	($1,881)	-5.1%	$214,758	$221,550	($6,792)	-3.1%
ICF/MR Franchise Fees Offset	($1,719)	($1,773)	$54	-3.0%	($10,282)	($10,441)	$159	-1.5%
Inpatient Hospitals	$108,045	$120,524	($12,479)	-10.4%	$648,924	$658,342	($9,418)	-1.4%
Outpatient Hospitals	$48,214	$44,221	$3,993	9.0%	$274,822	$247,806	$27,016	10.9%
Physicians	$49,461	$46,712	$2,749	5.9%	$262,038	$255,189	$6,849	2.7%
Prescription Drugs	$145,639	$137,034	$8,605	6.3%	$766,553	$747,697	$18,856	2.5%
HMO	$58,077	$50,943	$7,134	14.0%	$340,929	$310,869	$30,061	9.7%
Medicare Buy-In	$12,002	$10,740	$1,262	11.8%	$70,864	$64,522	$6,342	9.8%
ODJFS Waiver[2]	$16,691	$18,496	($1,805)	-9.8%	$89,102	$95,519	($6,417)	-6.7%
All Other[3]	$75,349	$78,316	($2,967)	-3.8%	$382,384	$409,596	($27,213)	-6.6%
CHIP II[4]	$4,691	$5,031	($340)	-6.8%	$28,435	$27,629	$806	2.9%
DA Medical[5]	$8,786	$6,787	$1,999	29.4%	$47,658	$40,375	$7,282	18.0%
Total ALI 600-525	$763,915	$771,776	($7,860)	-1.0%	$4,342,858	$4,361,562	($18,703)	-0.4%
DSH Offset	($89,037)	$0			($89,037)	$0		
Drug Rebates	($30,470)	($31,070)			($121,881)	($125,283)		
FY 2002 Encumbrance	$0	$0			($83,539)	($82,208)		
Total Health Care (Net of Offsets)	**$644,409**	**$740,705**	**($96,297)**	**-13.0%**	**$4,048,401**	**$4,154,070**	**($105,668)**	**-2.5%**
Est. Federal Share[6]	$374,516	$432,386	($57,869)		$2,357,149	$2,423,499	($66,349)	
Est. State Share	$269,892	$308,320	($38,428)		$1,691,252	$1,730,571	($39,319)	
Prior Period ALI 600-525	$4	$0			$84,635	$85,075		
BSF Shortfall[7]	$0	($28,299)			0	($124,514)		
Total Health Care w/o BSF	**$644,413**	**$712,407**	**($67,994)**	**-9.5%**	**$4,133,036**	**$4,114,631**	**$18,405**	**0.4%**

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.

(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 estimates, 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 Dec. '02	FY 2002 Yr.-to-Date as of Dec. '01	Dollar Change	Percent Increase
Nursing Facilities	$1,226,673	$1,211,944	$14,728	1.22%
Payments	$1,282,976	$1,231,722	$51,254	4.16%
NF Franchise Fees Offset[1]	($56,303)	($19,777)	($36,526)	184.68%
ICF/MR	$204,476	$201,222	$3,254	1.62%
Payments	$214,758	$208,912	$5,846	2.80%
ICF/MR Franchise Fees Offset)	($10,282)	($7,690)	($2,592)	33.71%
Inpatient Hospitals	$648,924	$565,914	$83,010	14.67%
Outpatient Hospitals	$274,822	$228,276	$46,547	20.39%
Physicians	$262,038	$232,452	$29,586	12.73%
Prescription Drugs	$766,553	$629,550	$137,002	21.76%
HMO	$340,929	$274,673	$66,256	24.12%
Medicare Buy-In	$70,864	$64,262	$6,603	10.27%
ODJFS Waiver[2]	$89,102	$81,971	$7,132	8.70%
All Other[3]	$382,384	$271,008	$111,375	41.10%
CHIP II[4]	$28,435	$21,339	$7,096	33.25%
DA Medical[5]	$47,658	$31,915	$15,743	49.33%
Total Health Care	**$4,342,858**	**$3,814,525**	**$528,333**	**13.85%**
DSH Offset	($89,037)	$0	($89,037)	
Drug Rebates	($121,881)	($105,745)	($16,136)	
Prior Year Encumbrance	($83,539)	$1,547	($85,086)	
Total Health Care (Net of Offsets)	**$4,048,401**	**$3,710,327**	**$338,074**	**9.11%**
Est. Federal Share[6]	$2,357,149	$2,164,811	$192,339	
Est. State Share	$1,691,252	$1,545,517	$145,736	

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.

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 costing less than estimated. 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.

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 item 600-321, Support Services, which was recently created by Controlling Board action to facilitate the Department of Job and Family Services' 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, and by county expenditures for part of the program's administrative costs.

At the end of January, year-to-date disbursement reports on the GRF portion of TANF show a positive disbursement variance of $23.1 million. The year-to-date positive disbursement variance was produced by an overage of $53.5 million in line item 600-413, Day Care Match/MOE, with smaller offsetting negative disbursement variances. In January, like December, this line item was $10.3 million under estimate. 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 has begun posting child care expenses against line item 600-617, Day Care Federal. In the coming months, this positive disbursement variance will be reduced as the estimates catch up.

In January, the number of TANF cash assistance cases decreased slightly from December to stand at 87,275, and the number of recipients also decreased to stand at 197,502. In January of 2002, these same figures were 87,459 and 202,955, respectively.

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 (and are tracked as separate components of the Welfare and Human Services program category), fell $6.0 million short of the estimate for January. For the year to date, disbursements in the "Other Welfare" subcategory were $35.5 million under estimate.

Accounting for a large part of the negative year-to-date disbursement variance was line item 600-416, Computer Projects, with $11.8 million in underspending, $7.7 million of which was traceable to an encumbrance of prior year funds. The department has indicated that all contracts for work performed in FY 2002 have been paid and the encumbrance of the $7.7 million will be canceled.

Another significant contributor to the department's year-to-date negative disbursement variance is line item 600-321, Support Services. At the end of January, disbursements from line item 600-321 were $7.9 million under the estimate for the year to date. There are several expenses that are paid out of this line item, including lease payments, payroll, travel, utilities, maintenance, and other central administration costs. Timing is usually the culprit when this line item runs over or under the estimates. According to the information we have received, however, this disbursement variance seems to reflect a cutback on expenditures in anticipation of another round of budget cuts.

Also contributing $7.1 million to the year-to-date negative disbursement estimate in this subcategory was line item 600-528, Adoption Services. The appropriation for line item 600-528 provides assistance to families that are adopting children. The amount expended from this line item depends in part on the rate of growth in adoptions in the state. Like last year, the rate of growth has been lower than the department had forecast.

MR/DD. In January, the Department of Mental Retardation and Developmental Disabilities posted a $26.2 million negative disbursement variance, putting it for the year to date at $23.9 million below estimate. The bulk of the year-to-date negative disbursement variance is traceable to the department's largest GRF subsidy line item, 322-413, Residential and Support Services. This line item funds residential services including, among other things, the Supported Living program and the GRF share of two home and community-based Medicaid waivers. The negative variance in line item 322-413 stems from the timing of Medicaid waiver payments.

Government Operations (-$42.4 million)

For the year to date, disbursements for the Government Operations category as a whole stand at $42.4 million under the estimate, with the Department of Rehabilitation and Correction (DRC) contributing $21.5 million of that figure. For the month of January, the category as a whole posted a positive disbursement variance of $24.0 million, with DRC contributing $14.1 million of that figure.

Rehabilitation & Correction. DRC's year-to-date negative disbursement variance was reduced by a positive disbursement variance of $14.1 million in January to stand at $21.5 million. The monthly variance is traceable to a $12.5 million payment made from line item 501-321, Institutional Operations, which was not reflected in the estimate. Every quarter DRC makes a payment from the 501-321 line item into the non-GRF fund 148, Services and Agriculture. These payments were not included in the estimates; thus we will see a similar disbursement overage for the month of April.

Tax Relief (-$18.6 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.

January's negative disbursement variance of $8.6 million in the Tax Relief program as a whole ends the string of wild swings away from the estimates that we saw in the first half of the fiscal year. 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*.

For the year to date, the property tax program in the Department of Education stands at $8.7 million under estimate, and the program in the Department of Taxation stands at $9.9 million under estimate.

**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, Maria Seaman, and Clay Weidner.*

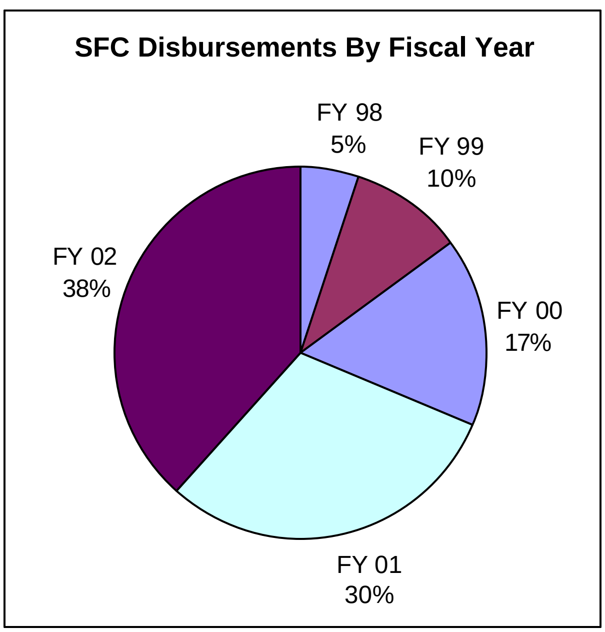
School Facilities Update

CFAP Progress Continues

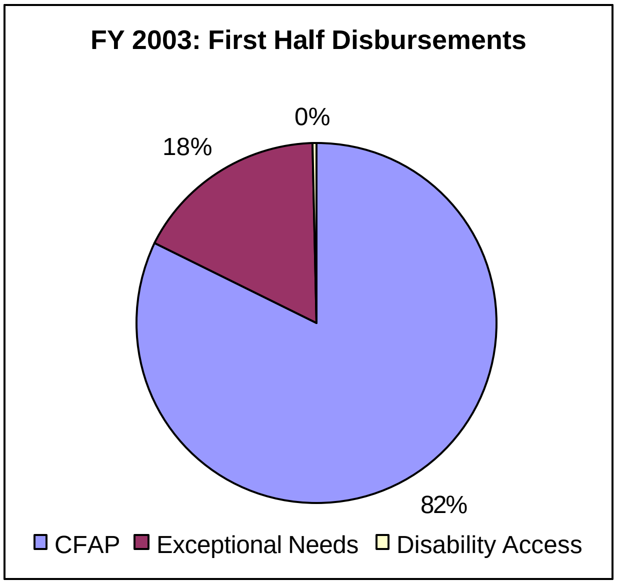
— *Meegan M. Michalek*

From the creation of the School Facilities Commission (SFC) in 1997 through the end of FY 2002, the General Assembly appropriated approximately $2.7 billion for school facilities programs. Of this amount, $1.07 billion was authorized to come from bond sales for school facilities. Altogether, $2.043 billion was appropriated for the Classroom Facilities Assistance Program (CFAP), $358 million for the Exceptional Needs Program, $120 million for the Big Eight Program (a repair program for the major urban school districts), and $130 million for the Emergency Repair Program.

As introduced, the tobacco settlement budget bill (S.B. 242 of the 124th General Assembly) appropriated $313.4 million from the Education Facilities Trust Fund to the School Facilities Commission. As passed, however, the bill appropriated only $148.4 million to the Commission. On the same day that the Senate concurred in S.B. 242, it also concurred in S.B. 261, which provided that $345 million of tobacco settlement payments that had been intended to be transferred to the Education Facilities Trust Fund in FY 2002 and FY 2003 should be transferred to the General Revenue Fund instead to help balance the state budget. To compensate for the transfer, S.B. 261 also authorized the issuance of $345 million of bonds for school facilities and appropriated the entire amount of the bond proceeds to the Commission. In December 2002, the Commission received an additional $314.2 million in appropriations from the capital budget bill (H.B. 675), which is available for spending in FY 2003 and FY 2004.



In the first half of FY 2003, the SFC spent $251 million on school improvement projects throughout the state. This is a decrease of $139 million over the $390 million spent in the same two-quarter period in FY 2002. Disbursements for CFAP were approximately $206 million, or 82 percent of the total disbursements. The program has emerged as the dominant school facilities funding program, while the Emergency Repair Program has gradually wound down. Spending for the CFAP is expected to continue to increase as projects in the Big Six school districts move forward. Part of the reason for the slower spending in FY 2003 is due to a change in the nature of the requests that have been coming in from school districts. SFC anticipates that the rate of disbursements will increase in the second half of the fiscal year. Beginning in this fiscal year there has also been a change in the way that the School Facilities Commission encumbers project funds. All new districts now have “phased funding,” which means that SFC will encumber only the money that is needed for a district for that fiscal year rather than encumber money for the entire project the first year of a district’s eligibility. The Exceptional Needs Program targets the health and safety needs of districts of below-average wealth. In the first half of FY 2003, $45 million (or 18 percent of total disbursements) was disbursed to districts as part of this program. Funds were also spent through the Disability Access Program. Approximately $363,000 was spent to help



districts deal with the need for disability access and to achieve compliance with the federal Americans with Disabilities Act.

Five of the Big Six school districts (Akron, Cincinnati, Columbus, Dayton, and Toledo) had school construction bond issues on the ballot in the November 2002 elections. Cleveland passed its bond issue in November 2001. Bond issues in the Akron city and Cincinnati city school districts both failed while bond issues were passed in the Columbus city, Dayton city, and Toledo city school districts. All of the Big Six districts were eligible to begin receiving funds under the Classroom Facilities Assistance Program at the beginning of this fiscal year.

The ballot issue for Akron City School District construction funds failed. Rather than use property taxes to raise the capital, the ballot issue sought to raise the Summit County sales tax from 5.75 percent to 6.25 percent for the next 30 years. The extra sales tax would have raised $32 million annually and would have been distributed on a per-pupil basis among 17 school districts in the county. The Cincinnati City School District's $480 million bond issue also failed. The plan had called for the construction of 35 schools and renovation of 31 others. However, Cincinnati will be able to proceed with the first phase of its school facilities projects with funds from its local sales tax.

The Columbus City School District received voter approval to issue $392 million in bonds to replace 26 schools and renovate 12 other buildings. This bond issue will fund two of seven planned phases of the district's projects. The Dayton City School District passed a $245 million bond issue to rebuild or renovate 34 neighborhood schools. Voters in the Toledo City School District approved a 4.9-mill levy to raise $821 million to replace 57 schools in the district and renovate several others.

DISTRICT	BALLOT PASSED	MILLAGE	STATE SHARE (in millions)	LOCAL SHARE (in millions)
Columbus	Yes	2.96[1]	$395	$943
Akron	No	6.9[2]	$409	$284
Dayton	Yes	8.97	$298	$190
Cincinnati	No	4.89[3]	$211	$705
Toledo	Yes	4.99	$614	$183
TOTAL			**$1927**	**$2305**

Note: State and local share amounts are for the entire state-approved project and do not necessarily match the proposed bond issue amounts.

[1]The levy passed is to fund the first two phases of the school facilities projects in Columbus.
[2]Millage equivalent of a 0.5 percent sales tax.
[3]Cincinnati will be able to proceed with the first phase of its projects with local funds raised through the local sales tax.