

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

MAY 2003

## FISCAL OVERVIEW

— Allan Lundell

The national economy continued its slow expansion in April. Although the economy continues to grow, the pace of growth has not been sufficient to boost employment. The end of major hostilities in Iraq in mid-month boosted consumer sentiment and confidence indicators, but other statistics may be slower to bounce back. For a while, many economic statistics will be measuring the consequences of decisions made before or during the war. Economic growth is expected to pick up in the second half of the year, but similar expectations have been disappointed before. John Challenger, chief executive of Challenger, Gray & Christmas, the international outplacement firm, commented in early April, "It seems to me that the recovery's been six months away for two years running."

April revenues exceeded estimate for the first time since October. However, the excess was primarily due to changes made in House Bill 40 that were not incorporated into the original estimates. Revenues were boosted by the acceleration in sales tax payments by an estimated \$190.8 million and by a \$31.4 million transfer-in resulting from raids on non-GRF funds authorized by H.B. 40. OBM revised its estimates, starting with March 2003, to reflect the tax law and other revenue changes that were adopted in H.B. 40. Disbursement estimates were revised to take into account executive order cuts. Comparisons with the revised estimates are more relevant in evaluating the status of the budget for the remainder of the fiscal year than comparisons with the original estimates.

Total GRF revenue for April was \$17.1 million (0.7 percent) above the revised estimate. GRF revenue less federal grants (revenue from Ohio sources) was \$11.1 million (0.6 percent) below the revised estimate and tax revenues were \$28.7 million (1.5 percent) below the revised estimate. Revenues from the auto sales tax were \$26.5 million above estimate, but revenues from the personal income tax and corporate franchise tax were below estimate by \$37.8 million and \$25.5 million, respectively. April disbursements excluding transfers were \$60 million (3.1 percent) below the revised estimate. Primary and Secondary Education was \$40.4 million (7.9 percent) below the revised estimate. Higher Education was \$40.9 million (28.9 percent) above revised. Health Care/Medicaid was \$19.6 million (2.8 percent) below the revised estimate.

For the fiscal year to date, total GRF revenues are \$74.7 million (0.4 percent) below the revised estimate. Revenue from state sources is essentially equal to the revised estimate (\$14,000 above estimate).

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**Budget Footnotes** examines the fiscal position of the state General Revenue Fund on a periodic basis.

For questions or comments regarding specific sections:

GRF Revenue:  
Allan Lundell 644-7788

GRF Spending:  
Steve Mansfield 728-4815

Other Articles:  
Dave Brunson 644-7770

Legislative Service Commission  
77 South High Street, 9th Floor  
Columbus, Ohio 43215  
Telephone: (614)466-3615

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Tax revenues are \$6.9 million (0.1 percent) above the revised estimate. With two months left in the fiscal year, revenues appear to be on target with the revised estimates. Year-to-date total GRF disbursements are \$73.2 million (0.4 percent) below the revised estimate. Primary and Secondary Education is \$42.8 million (0.8 percent) below the revised estimate. By contrast, Higher Education is \$61.9 million (3.2 percent) above the revised estimate, and Health Care/Medicaid is \$8.9 million (0.1 percent) above the revised estimate. With two months left in the fiscal year, disbursements appear to be in line with the revised estimates.

	<b>Month of April</b>	<b>Fiscal Year 2003 to Date</b>	<b>Last Year</b>	<b>Difference</b>
Beginning Cash Balance	(1,596.25)	619.22		
Revenue + Transfers	<u>2,408.68</u>	<u>17,622.34</u>		
Available Resources	812.44	18,241.56		
Disbursements + Transfers	<u>1,848.72</u>	<u>19,277.85</u>		
Ending Cash Balances	(1,036.29)	(1,036.29)	(1,198.92)	162.63
Encumbrances and Accts. Payable		376.90	446.99	(70.09)
Unobligated Balance		<b>(1,413.19)</b>	<b>(1,645.91)</b>	<b>232.72</b>
BSF Balance		427.90	1,002.60	(574.69)
<b>Combined GRF and BSF Balance</b>		<b>(985.29)</b>	<b>(643.31)</b>	<b>(341.97)</b>

For April, total GRF revenues were \$2,408.7 million and total expenditures were \$1,847.7 million. The monthly surplus thus increased the ending cash balance to -\$1,036.3 million. The ending cash balance is \$162.6 million higher and encumbrances are \$70.1 million lower than at this time last year. As a result, the unobligated balance of -\$1,413.2 million is \$232.7 million higher than it was at the end of April last year. The balance in the Budget Stabilization Fund (BSF) is \$574.7 million less than a year ago, and the combined year-to-date GRF and BSF balance of -\$985.3 million is \$342 million lower than it was at this time last year. In order for the state to balance its budget, the unobligated balance must be brought to a positive number during the next two months. If necessary, OBM will use the amount needed from the BSF to accomplish this requirement.

## TRACKING THE ECONOMY

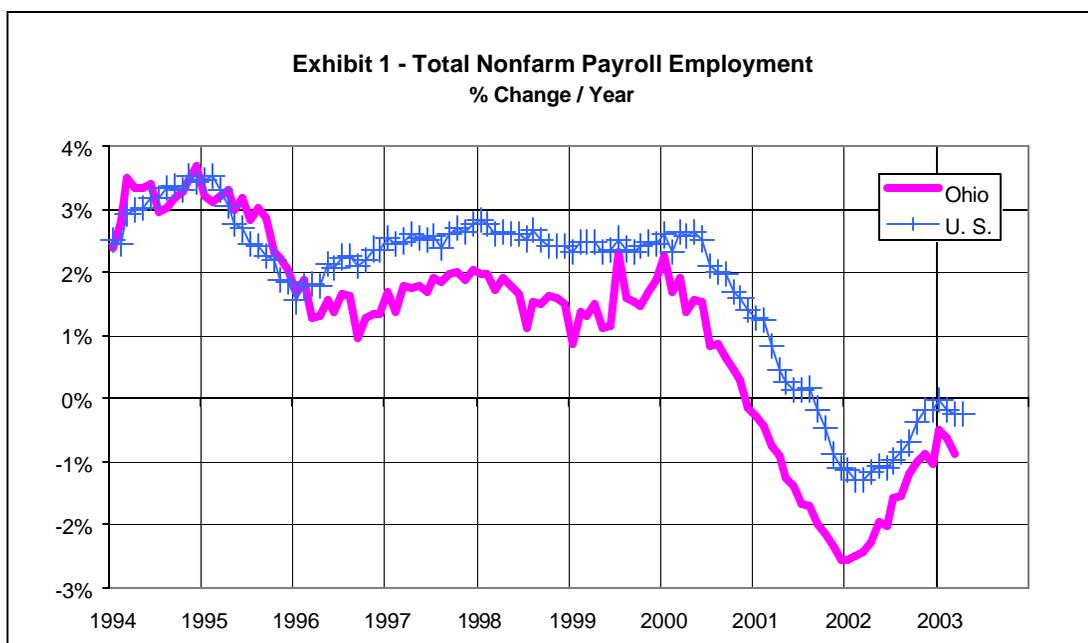
¾ Phil Cummins

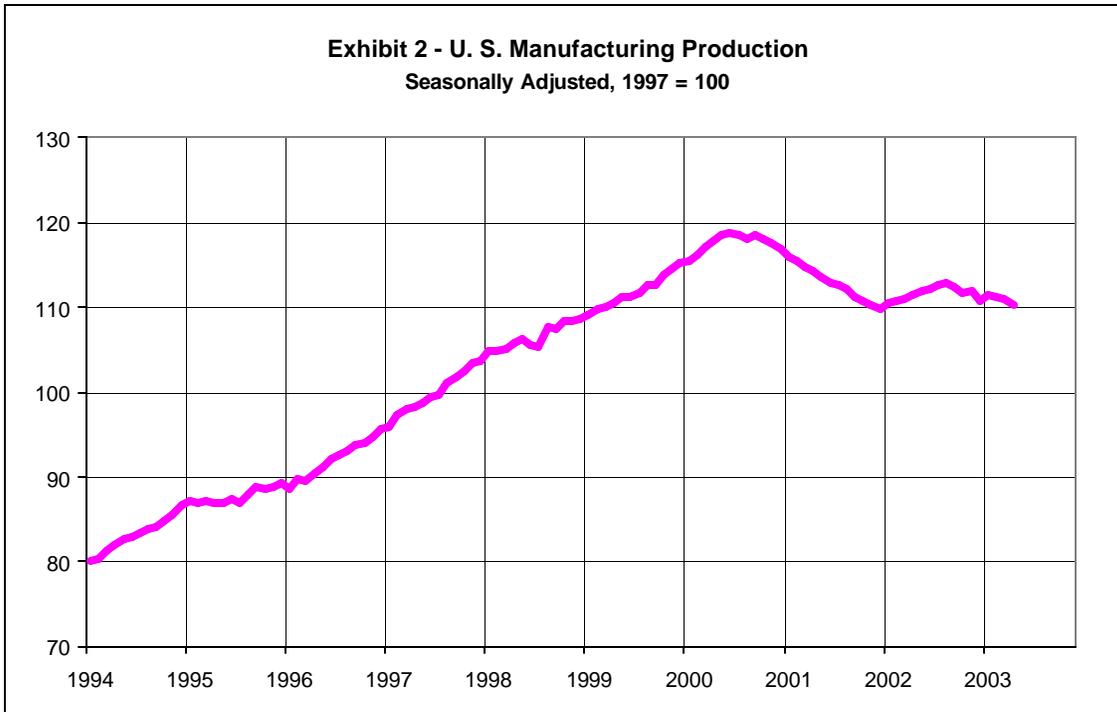
Initial reports on national economic activity in April show a further decline in total employment, continued weakness in production and orders at manufacturers but higher output and orders at nonmanufacturing firms, and a decline in retail sales attributable mainly to sharply lower gasoline prices. Producer prices for finished goods registered the largest monthly decline on record, and consumer prices also fell, due mainly to sharply lower energy prices. The decline in the cost of imported crude oil and petroleum products lessens the drag that high prices for these imports exert on U. S. economic activity. First quarter GDP growth was slow, at a 1.6 percent annual rate. The end of most hostilities in Iraq by mid-April initially brought an upturn in consumer sentiment. High mortgage refinancing, in response to low interest rates, has supported consumer spending. But consumers remain worried about job prospects. Job losses have totaled over 2 million since the business cycle peak in March 2001, and business investment and hiring continue to be restrained.

U. S. gross domestic product, the total output of goods and services by the economy, rose at a 1.6 percent annual rate in the first quarter of 2003, in real or inflation-adjusted terms. This was the sixth consecutive quarterly increase, following declines in

2001. But GDP growth since the end of the downturn has been weak by historical standards, averaging less than a 3 percent annual rate. In past recoveries, the economy has often grown at twice this rate. The upturn in GDP has not been strong enough to raise employment, as improving productivity has allowed business to grow output while shrinking the number of workers. Economic activity appeared weaker toward the end of the first quarter, reflecting the effects of weather and of the war in Iraq. Beyond these transitory effects, uncertainties about the business outlook and excess capacity have led businesses to delay investment and hiring.

In April, total nonfarm payroll employment in the U. S. fell 48,000, following larger declines in February and March. The unemployment rate nationwide rose to 6 percent, the high to date for this business cycle. Job losses occurred in transportation and travel-related sectors, including motor vehicle manufacturers and dealers, airlines, amusement parks, and hotels. Employment at retailers fell for the third straight month. Employment rose in some other parts of the service sector, including health care and financial services. Since the end of last year, nonfarm payrolls nationwide have fallen about 320,000, seasonally adjusted, after declining 220,000 in 2002, and





1.6 million from March 2001, the business cycle peak, through the end of that year.

Weakness in Ohio employment has been more pronounced over the past three years than nationwide. Unemployment statewide was 6.2 percent of the labor force in March and April, the highest since 1993. The downturn began earlier in Ohio and has been deeper, as illustrated in Exhibit 1.

Purchasing managers at manufacturers reported that production and orders fell again in April after declining in March. Order backlogs and inventories shrank. Employment declined for the 31st consecutive month. In contrast, purchasing managers at nonmanufacturing companies said that production and orders rose in April, after falling in March. Inventories increased for the first time in nine months, with less concern about excess inventories. Employment fell for the third straight month.

At its May 6 meeting, following release of the purchasing managers and employment reports for April, the Federal Open Market Committee held its federal funds target unchanged at 1.25 percent, the level to which it was reduced last November. In announcing this decision, the central bank's key decision making group cited lower oil prices, increased consumer optimism since the end of the war in Iraq, higher stock prices, low business borrowing costs,

accommodative monetary policy, and growing productivity as reasons for optimism about the economic outlook. But the FOMC viewed the timing and magnitude of this improvement as uncertain, and expressed concern about the possibility of a substantial drop in inflation during the next few quarters from its recent low level.

Financial markets responded to lackluster economic reports and the FOMC's worries about deflation by pushing market interest rates down, particularly note and bond yields. Government bond yields fell to their lowest levels since the late 1950s. The dollar declined relative to the Euro and other currencies.

Retail sales fell 0.1 percent in April, following a 2.3 percent increase in March. The decline in April reflected sharply lower sales at gasoline stations, a result of a sharp fall in gasoline prices. Retail sales excluding gasoline stations were up 0.4 percent in April. Motor vehicle dealers, whose sales were boosted by incentives, more than accounted for this increase. Sales at department stores declined despite a late Easter and the postwar upturn in consumer confidence.

Industrial production fell 0.5 percent in April. Manufacturing production dropped 0.6 percent after 0.1 percent declines in February and March. The

decline in April was led by motor vehicle assemblies, but output of numerous other industries also declined. As shown in Exhibit 2, manufacturing production recovered from the recession low reached at the end of 2001, to a peak in August 2002, but has generally trended lower since then.

Housing starts nationwide fell 7 percent in April but remained at a high level. At a 1.63 million unit annual rate, April housing starts were below the total for all of 2002, 1.70 million, but above 2001's 1.60 million. Year-to-date housing starts are 2 percent ahead of a year earlier.

Producer prices for finished goods fell 1.9 percent in April, the largest monthly decline in this index on record, mainly attributable to sharply lower energy

prices. Wholesale gasoline prices dropped 22 percent, reflecting lower crude oil prices as markets became convinced that the war in Iraq would not substantially disrupt supplies. The April decline in finished goods prices at wholesale followed increases in January through March and put this price index 2.4 percent above a year earlier.

The consumer price index declined 0.3 percent in April, reflecting a 4.6 percent drop in energy prices, following increases in the first quarter of 2003 in consumer energy prices and in the index for all items. Compared with a year earlier, consumer prices in April were 2.2 percent higher. Excluding energy costs, the CPI was unchanged in April and 1.5 percent above a year earlier.

# Status of the General Revenue Fund

## REVENUE

— Allan Lundell and Jean Botomogno

April revenues exceeded estimate, but the excess was largely due to changes made in House Bill 40 that were not incorporated into the original estimates.<sup>1</sup> Total GRF revenue was \$166.2 million (7.4 percent) above estimate in April. Total GRF revenue less federal grants (revenue from Ohio sources) was \$68.3 million (3.7 percent) above estimate. Tax revenues were \$68.6 million (2.1 percent) above estimate and revenues from the major taxes (personal income, sales and use, corporate franchise, public utility, and kilowatt hour) were \$39.7 million (2.3 percent) above estimate.

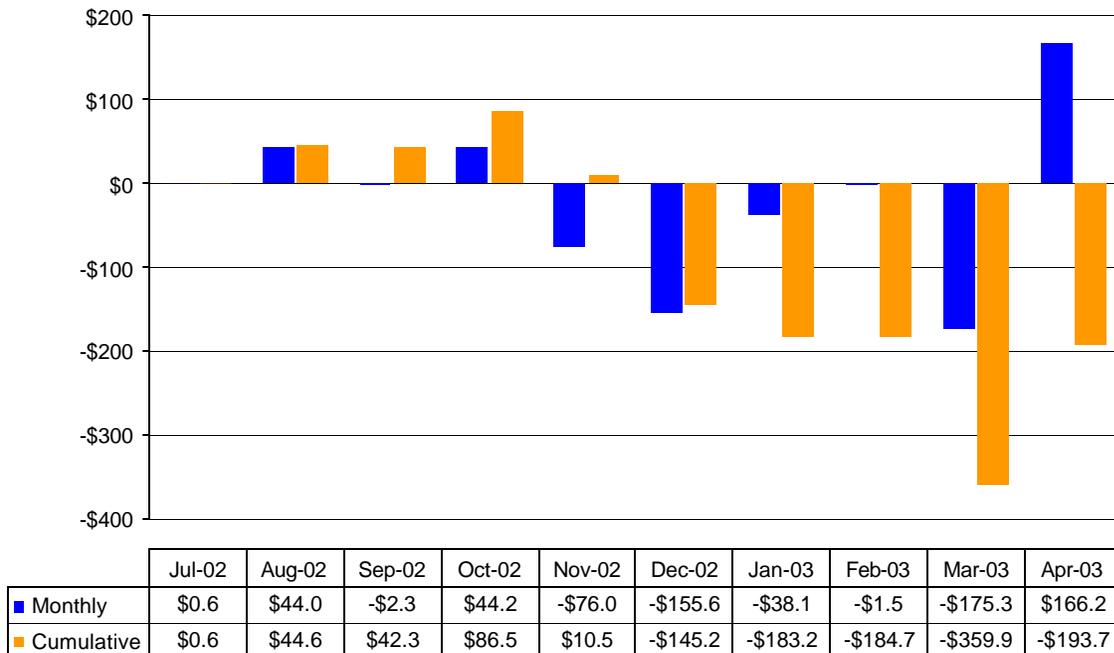
Compared to revised estimates that take into account changes made in H.B. 40 and more recent economic forecasts, total GRF revenue for April was 0.7 percent above estimate. Total GRF revenue less federal grants was 0.6 percent below estimate. Tax revenues were 1.5 percent below estimate and revenues from the major taxes were 2.0 percent below estimate. For the revised estimates, sales tax

revenues for April were increased by an estimated \$190.8 million due to the H.B. 40 payment acceleration.

For the fiscal year to date, total GRF revenue is \$193.7 million (0.9 percent) below original estimate. Total GRF revenue less federal grants is \$210.3 million (1.5 percent) below estimate. Tax revenues are \$172.8 million (1.3 percent) below estimate and revenues from the major taxes are \$214.3 million (1.7 percent) below estimate. The monthly and cumulative variances (differences from estimates) are presented in Exhibits 1-4. Compared to FY 2002, total GRF revenues are up by 6.5 percent, total revenue less federal grants is up by 6.7 percent, tax revenues are up by 6.2 percent, and revenues from the major taxes are up by 4.3 percent.

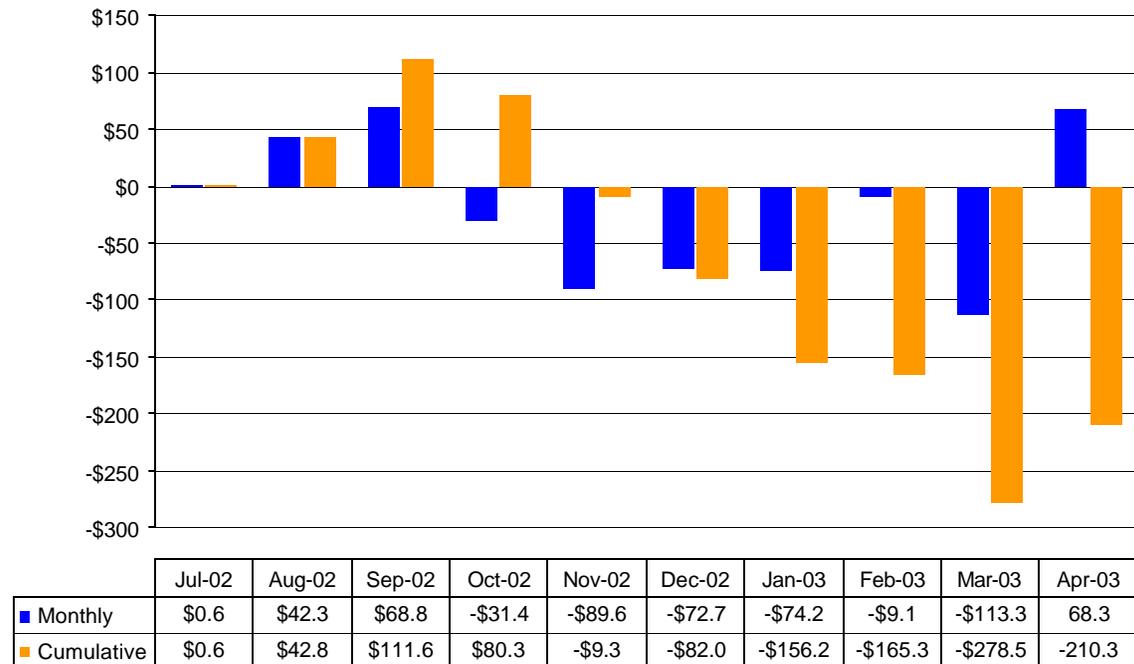
A year-to-date comparison with the revised estimates must be made with care. Estimates for the final four months of the fiscal year (March-June)

**Exhibit 1: Total GRF Revenue**  
(variance from original estimate, in millions)



**Exhibit 2: Total GRF Revenue less Federal Grants**

(variance from original estimate, in millions)



were revised. For the first eight months the “revised estimate” is the actual amount for the month, so there is no variance for those months. Comparing combined March and April actual amounts with revised estimates indicates that total GRF revenue is \$74.7 million (1.82 percent) below estimate. The shortfall is due to federal grants. Total GRF revenue less federal grants is \$14,000 above estimate. Tax revenues are \$16.1 million (0.53 percent) above estimate and revenues from the major taxes are \$6.9 million (0.24 percent) above estimate.

**Personal Income Tax**

April personal income tax revenues of \$940 million were \$137.5 million (12.8 percent) below estimate. Tax withholding was \$24.6 million (4.0 percent) below estimate. Withholding, which accounts for over 80 percent of gross income tax collections, is sensitive to the employment situation. The ongoing weak employment situation continues to generate weak withholding. Quarterly estimated payments were \$54.9 million (26.0 percent) below estimate. Refunds were \$19.7 million (9.7 percent) above estimate.

Compared to the revised estimates, April personal income tax revenues were \$37.8 million below estimate. Withholding was \$7.6 million (1.3 percent) below estimate, quarterly estimated payments were

\$44.2 million (22.0 percent) below estimate, and refunds were \$16.7 million (8.1 percent) above estimate.

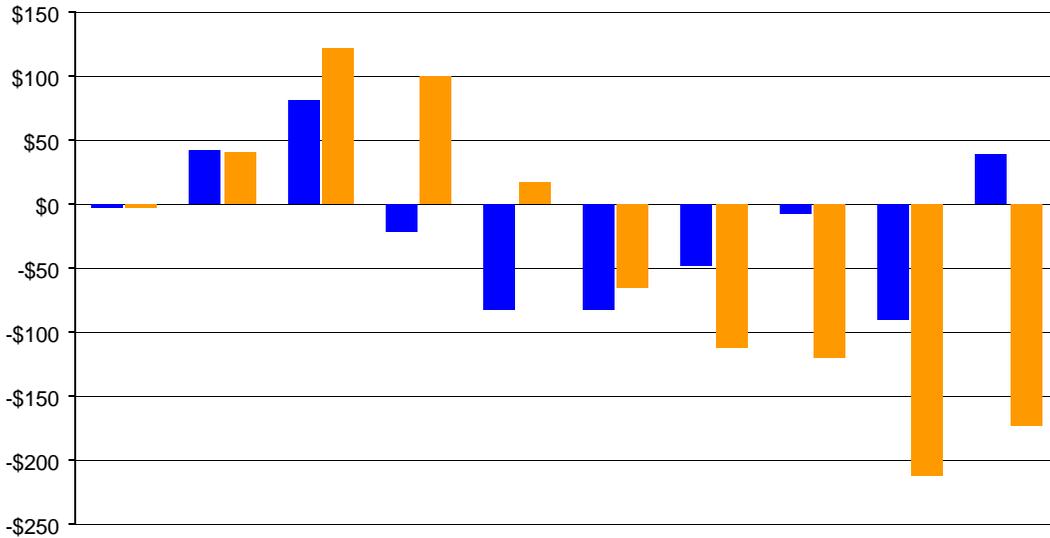
For the fiscal year to date, personal income tax revenues are \$258.9 million (4.1 percent) below estimate. Withholding is \$155 million (2.6 percent) below estimate, quarterly estimated payments are \$18.8 million (1.8 percent) below estimate, and refunds are \$48.5 million (6.0 percent) greater than estimated.

Combined March and April (“post-estimate revision”) personal income tax revenues are \$163,000 (0.01 percent) below estimate. Withholding is \$4.4 million (0.4 percent) above estimate. Quarterly estimated payments are \$7.7 million (3.7 percent) below estimate. Refunds are \$20.9 million (5.2 percent) above estimate.

Compared to FY 2002, personal income tax revenues through April are up 4.4 percent. If the new tax on trusts is not counted, gross revenues are up 3.2 percent. Withholding is up 2.9 percent and quarterly estimated payments are down 19.4 percent. Refunds are up 5.4 percent and payments to the local government funds supported by the income tax are down 0.7 percent.

**Exhibit 3: Total GRF Tax Revenue**

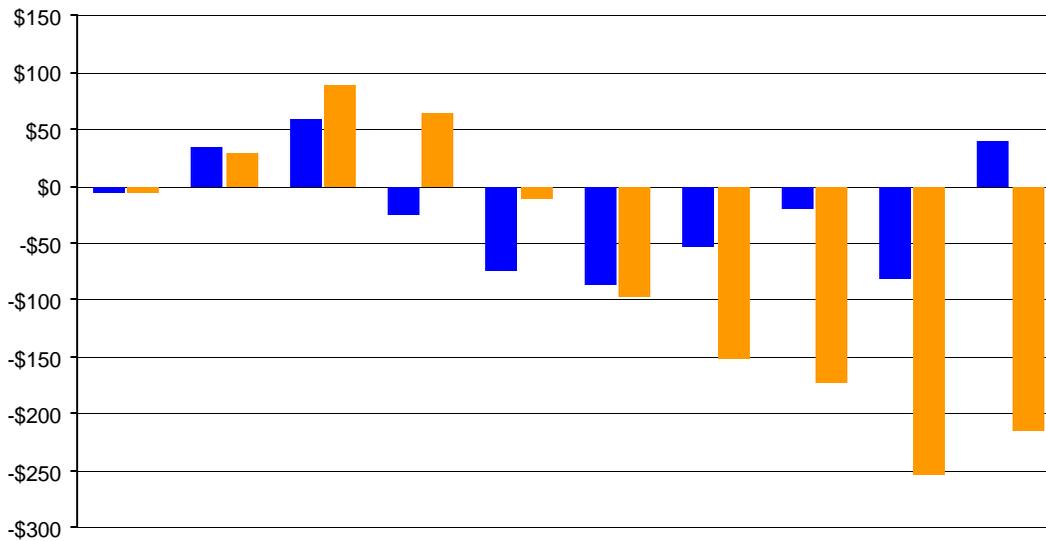
(variance from original estimate, in millions)



	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03
Monthly	-\$2.5	\$42.6	\$81.4	-\$21.7	-\$82.2	-\$82.6	-\$47.6	-\$8.1	-\$90.9	\$38.6
Cumulative	-\$2.5	\$40.2	\$121.6	\$99.9	\$17.7	-\$64.8	-\$112.4	-\$120.5	-\$211.4	-\$172.8

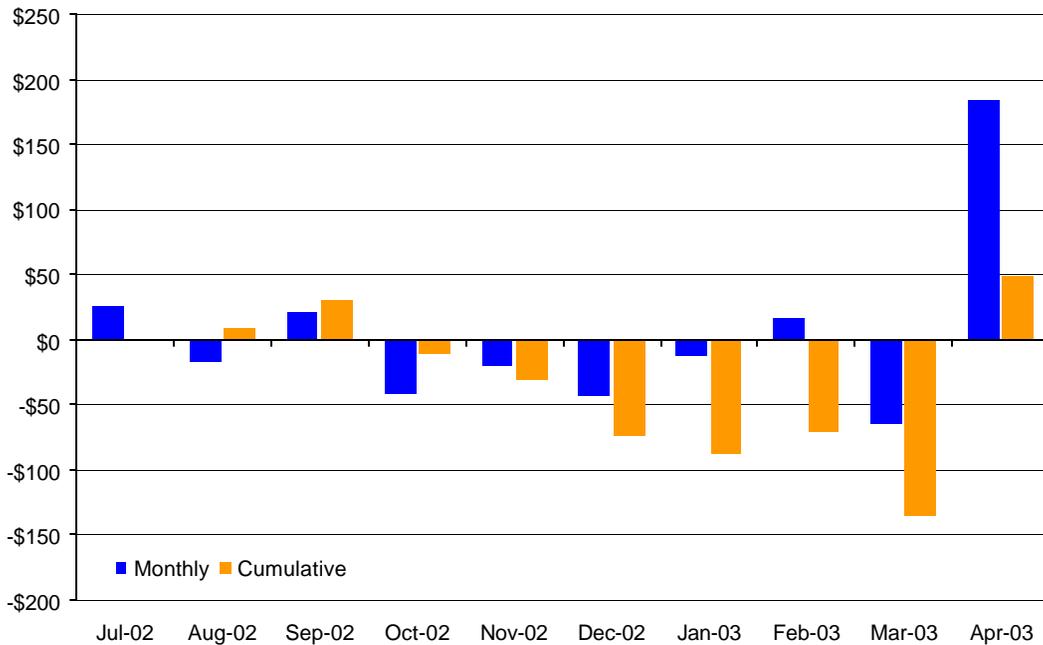
**Exhibit 4: Total GRF Revenue from Major Taxes**

(variance from original estimate, in millions)



	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03
Monthly	-\$5.2	\$35.0	\$58.8	-\$24.7	-\$75.1	-\$86.7	-\$54.0	-\$20.3	-\$81.7	\$39.7
Cumulative	-\$5.2	\$29.8	\$88.6	\$63.9	-\$11.3	-\$98.0	-\$152.0	-\$172.3	-\$254.0	-\$214.3

**Exhibit 5: Non-auto Sales Tax**  
(variance from original estimate, in millions)



### ***Non-Auto Sales and Use Tax***

April sales and use tax receipts received a boost from H.B. 40, which accelerated sales tax receipts from taxpayers that pay by electronic funds transfer. The act requires direct pay permit holders, vendors, and sellers that remit sales and use taxes by electronic funds transfer to make tax payments more often. Under previous law, most taxpayers remitted their sales tax payments on or before the 23rd day of each month for taxes due the previous month. Certain taxpayers must now pay each month one-fourth of their tax liability for the same month in the preceding calendar year on the 11th, 18th, and 25th days of each month; on the 23rd day of each month, the taxpayer must pay the taxes due for the previous month less any amounts already paid during the month.

Non-auto sales and use tax revenues in April 2003 were \$656.3 million, \$185.1 million or 39.3 percent above original estimates.<sup>2</sup> These revenues include an estimated \$190.8 million in additional receipts from the tax law change. Receipts were \$204.4 million or 45.2 percent above revenues in the same month last year (April 2002). Excluding the additional revenues from H.B. 40, April 2002 non-auto sales and use tax revenues would have been \$13.6 million or 3.0 percent above April 2002 revenues.

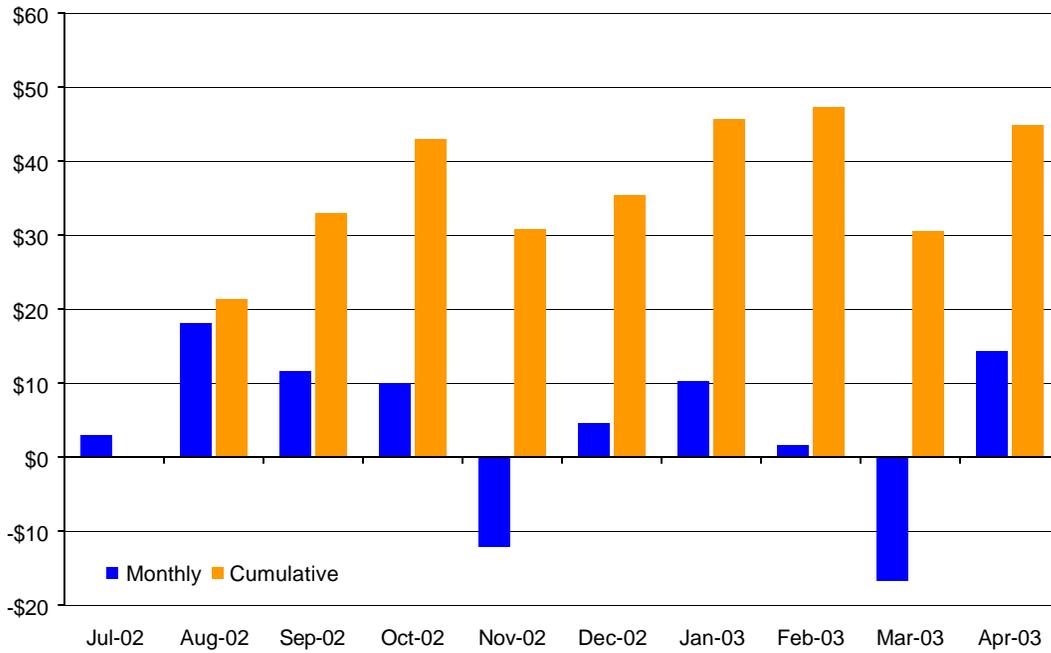
The year-to-date surplus in non-auto sales tax receipts in April 2003 was \$49.7 million when compared to original estimates.<sup>3</sup> Year-to-date non-auto sales and use tax receipts as of April 2003 were \$4,505.8 million, 1.1 percent above July 2002 estimates. Compared to receipts a year ago, year-to-date non-auto sales and use tax revenues through April 2003 were up \$261.4 million or 6.2 percent. Excluding the impact of H.B. 40, the year-over-year increase in year-to-date non-auto sales and use tax revenues would have been \$70.6 million, or 1.7 percent.

### ***Auto Sales Tax***

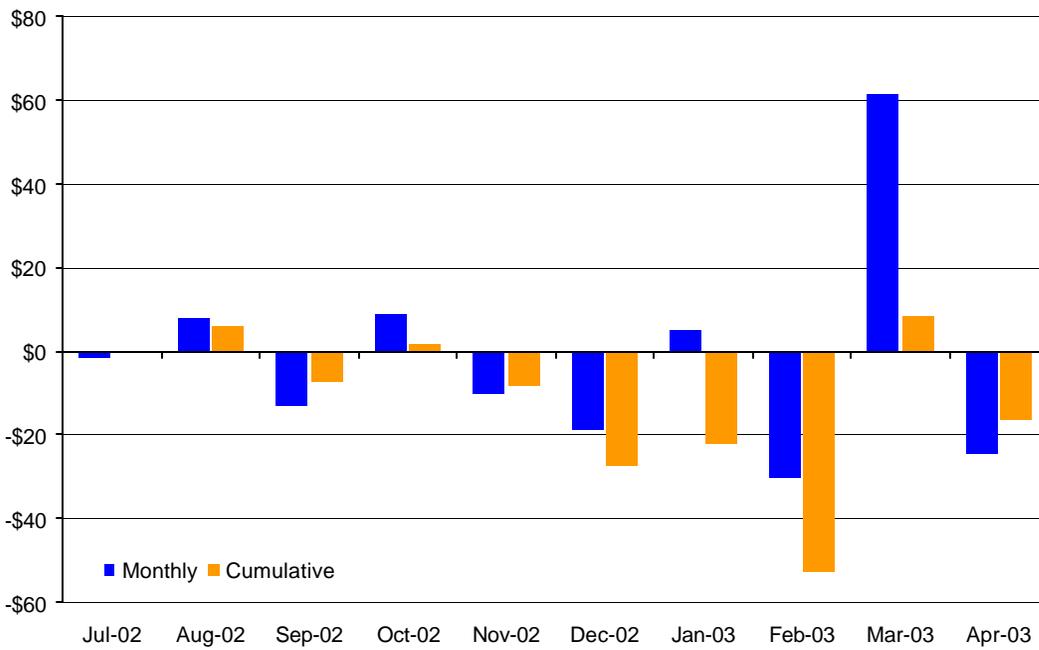
Auto sales were again incredibly high after a recent new round of manufacturers' incentives. April 2003 was the fourth time since September 11 that "zero percent" financing was widely available from domestic manufacturers. At \$100.3 million, April auto sales tax receipts were \$35.5 million or 54.8 percent higher than March 2003 tax revenues. Auto sales tax revenues in April 2003 were \$14.3 million or 16.7 percent above July 2002 estimates.<sup>4</sup>

As of April 2003, year-to-date auto sales tax revenues, at \$782.6 million, were \$45.0 million or 6.1 percent above the July 2002 estimate.<sup>5</sup> This tax

**Exhibit 6: Auto Sales Tax**  
(variance from original estimate, in millions)



**Exhibit 7: Corporate Franchise Tax**  
(variance from original estimate, in millions)



source is expected to finish above estimate for the rest of the year. Year-to-date auto sales tax revenues were \$10.3 million or 1.3 percent above FY 2002 revenue during the same period. Auto sales declined in the first two months in CY 2003 and then rebounded in March and April. At 16.4 million units, national

vehicle sales in April were higher than sales in March and January (16.2 million unit pace each) and February (15.4 million unit pace). The level of auto sales has continuously confounded analysts, who have awaited a drop in sales that has not occurred this fiscal year.

**Table 2**  
**General Revenue Fund Income**  
**Actual vs. Estimate**  
**Month of April 2003**  
(\$ in thousands)

<b>REVENUE SOURCE</b>			
<b>TAX REVENUE</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>
Auto Sales	\$100,291	\$85,975	\$14,316
Non-Auto Sales & Use	\$656,269	\$471,188	\$185,081
Total Sales	\$756,560	\$557,163	\$199,397
Personal Income	\$939,987	\$1,077,500	(\$137,513)
Corporate Franchise	\$68,131	\$92,916	(\$24,785)
Public Utility	\$746	\$0	\$746
Kilowatt Hour Excise Tax	\$28,991	\$27,135	\$1,856
<b>Total Major Taxes</b>	<b>\$1,794,414</b>	<b>\$1,754,714</b>	<b>\$39,700</b>
Foreign Insurance	\$41	\$0	\$41
Domestic Insurance	\$0	\$620	(\$620)
Business & Property	\$71	\$0	\$71
Cigarette	\$48,423	\$48,297	\$126
Alcoholic Beverage	\$4,758	\$4,959	(\$201)
Liquor Gallonage	\$2,323	\$2,460	(\$137)
Estate	\$16,101	\$16,440	(\$339)
Total Other Taxes	\$71,718	\$72,776	(\$1,058)
<b>Total Taxes</b>	<b>\$1,866,132</b>	<b>\$1,827,490</b>	<b>\$38,642</b>
<b>NON-TAX REVENUE</b>			
Earnings on Investments	(\$1,084)	\$0	(\$1,084)
Licenses and Fees	\$2,897	\$2,475	\$422
Other Revenue	\$22,565	\$26,676	(\$4,111)
Non-Tax Receipts	\$24,378	\$29,151	(\$4,773)
<b>TRANSFERS</b>			
Liquor Transfers	\$10,000	\$9,000	\$1,000
Budget Stabilization	\$0	\$0	\$0
Other Transfers In	\$33,403	\$0	\$33,403
Total Transfers In	\$43,403	\$9,000	\$34,403
<b>TOTAL REVENUE less Federal Grants</b>	<b>\$1,933,913</b>	<b>\$1,865,641</b>	<b>\$68,272</b>
Federal Grants	\$474,771	\$376,804	\$97,967
<b>TOTAL GRF REVENUE</b>	<b>\$2,408,684</b>	<b>\$2,242,445</b>	<b>\$166,239</b>

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

### Corporate Franchise Tax

Corporate franchise tax receipts in April 2003 were \$68.1 million, \$24.8 million or 26.7 percent below original estimate. Year-to-date corporate franchise tax receipts were \$529.2 million, \$16.3 million or 3.0 percent below original estimates.<sup>6</sup> Year-to-date revenues in April 2003 were \$22.2 million or

4.4 percent above corporate franchise tax receipts at the end of April 2002.

The last major corporate franchise tax payment is due in May and June 2003. The U.S. Bureau of Economic Analysis recently published preliminary data for corporate profits in CY 2002. Nationally, before-tax profits declined 0.7 percent in CY 2002, after a

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

REVENUE SOURCE						Percent
TAX REVENUE	Actual	Estimate*	Variance	FY 2002	Change	
Auto Sales	\$782,621	\$737,575	\$45,046	\$772,302	1.34%	
Non-Auto Sales & Use	\$4,505,794	\$4,456,088	\$49,706	\$4,244,411	6.16%	
Total Sales	\$5,288,415	\$5,193,663	\$94,752	\$5,016,713	5.42%	
Personal Income	\$6,065,443	\$6,324,300	(258,857)	\$5,812,581	4.35%	
Corporate Franchise	\$529,166	\$545,495	(16,329)	\$506,273	4.52%	
Public Utility	\$135,472	\$177,300	(41,828)	\$190,867	-29.02%	
Kilowatt Hour Excise Tax	\$291,075	\$283,076	7,999	\$273,375	6.47%	
<b>Total Major Taxes</b>	<b>\$12,309,571</b>	<b>\$12,523,834</b>	<b>(214,263)</b>	<b>\$11,799,809</b>	<b>4.32%</b>	
Foreign Insurance	\$227,528	\$229,500	(1,972)	\$224,839	1.20%	
Domestic Insurance	\$2,031	\$1,550	481	\$3,529	-42.44%	
Business & Property	\$1,254	\$1,140	114	\$1,438	-12.79%	
Cigarette	\$473,866	\$445,469	28,397	\$221,174	114.25%	
Alcoholic Beverage	\$46,353	\$47,386	(1,033)	\$45,647	1.55%	
Liquor Gallonage	\$24,700	\$25,080	(380)	\$24,445	1.04%	
Estate	\$86,876	\$70,980	15,896	\$80,665	7.70%	
Total Other Taxes	\$862,607	\$821,105	41,502	\$601,737	43.35%	
<b>Total Taxes</b>	<b>\$13,172,178</b>	<b>\$13,344,939</b>	<b>(172,761)</b>	<b>\$12,401,546</b>	<b>6.21%</b>	
<b>NON-TAX REVENUE</b>						
Earnings on Investments	\$13,780	\$69,700	(55,920)	\$71,732	-80.79%	
Licenses and Fees	\$31,108	\$30,855	253	\$26,834	15.93%	
Other Revenue	\$177,539	\$212,426	(34,887)	\$144,536	22.83%	
Non-Tax Receipts	\$222,427	\$312,981	(90,554)	\$243,102	-8.50%	
<b>TRANSFERS</b>						
Liquor Transfers	\$96,000	\$87,000	9,000	\$92,000	4.35%	
Budget Stabilization	\$0	\$0	0	\$8,000	-100.00%	
Other Transfers In	\$139,347	\$95,300	44,047	\$33,912	310.91%	
Total Transfers In	\$235,347	\$182,300	53,047	\$133,912	75.75%	
<b>TOTAL REVENUE less Federal Grants</b>	<b>\$13,629,952</b>	<b>\$13,840,220</b>	<b>(210,268)</b>	<b>\$12,778,559</b>	<b>6.66%</b>	
Federal Grants	\$3,992,392	\$3,975,831	16,561	\$3,764,504	6.05%	
<b>TOTAL GRF REVENUE</b>	<b>\$17,622,344</b>	<b>\$17,816,051</b>	<b>(193,707)</b>	<b>\$16,543,063</b>	<b>6.52%</b>	

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

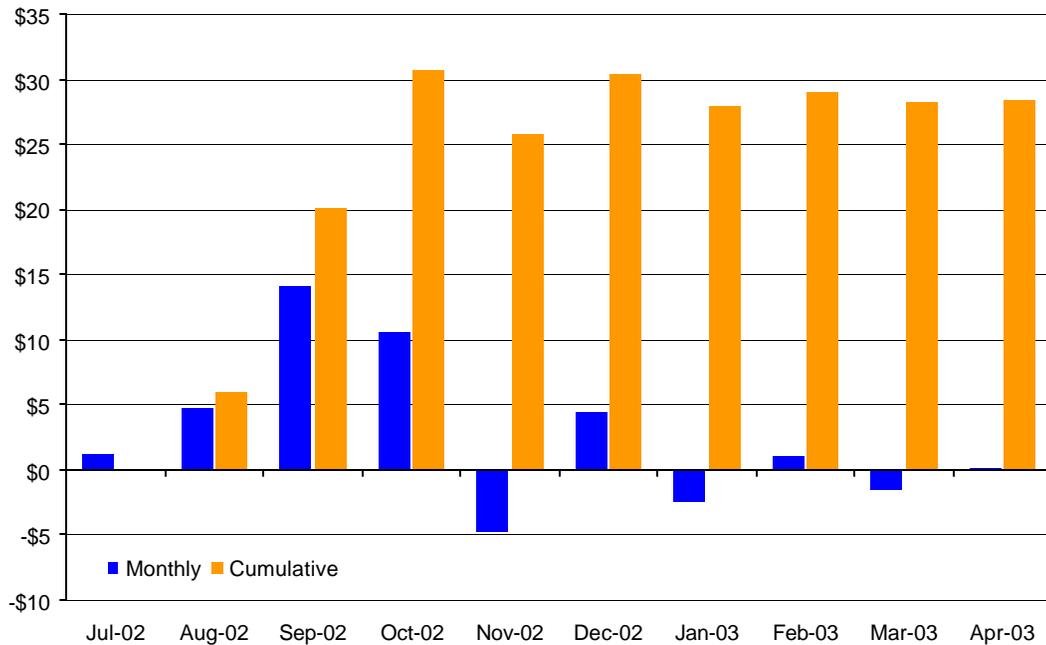
decrease of 14.3 percent in CY 2001. However, profits from current production (which do not reflect depreciation accounting for federal income tax purposes) increased 7.6 percent in CY 2002, compared to a decrease of 7.2 percent in CY 2001. In CY 2003, the Governor's Council of Economic Advisors forecasts a year-over-year growth of 10 percent in U.S. before-tax profits. The improvement in corporate federal net income in

CY 2003 may enhance the net income tax base of the Ohio corporate franchise tax in FY 2004.

#### ***Cigarette and Other Tobacco Products Tax***

Cigarette and other tobacco products tax receipts in April 2003 were \$48.4 million, \$0.1 million or 0.3 percent above estimates.<sup>7</sup> As of April 2003, year-to-date receipts from the tax on cigarette and other

**Exhibit 8: Cigarette and Other Tobacco Products Tax**  
(variance from original estimate, in millions)



tobacco products were \$473.9 million. These revenues were above estimate by \$28.4 million or 6.4 percent. Year-to-date cigarette tax receipts were

also \$252.7 million or 114.3 percent ahead of tax receipts in the same period a year ago.

<sup>1</sup> Unless stated otherwise, all comparisons are to the July 2002 estimates of the Office of Budget and Management.

<sup>2</sup> The Office of Budget and Management published revised estimates for FY 2003 in March 2003. April 2003 non-auto sales and use tax revenues were \$5.8 million or 0.9 percent below revised estimates.

<sup>3</sup> Year-to-date non-auto sales tax receipts in April were \$39.2 million or 0.9 percent below revised estimates.

<sup>4</sup> Auto sales tax receipts in April were \$26.5 million or 35.9 percent above March 2003 revised estimates.

<sup>5</sup> Year-to-date auto sales tax revenues in April 2003 were \$21.4 million or 2.8 percent above revised estimates.

<sup>6</sup> Year-to-date corporate franchise tax receipts in April 2003 were \$34.7 million or 7.0 percent above revised estimates.

<sup>7</sup> April 2003 cigarette and other tobacco products revenues were \$3.1 million (or 6.7 percent) above revised estimates. As of April 2003, year-to-date cigarette receipts were \$5.2 million (or 1.1 percent) above revised estimates.

# DISBURSEMENTS

— Steve Mansfield\*

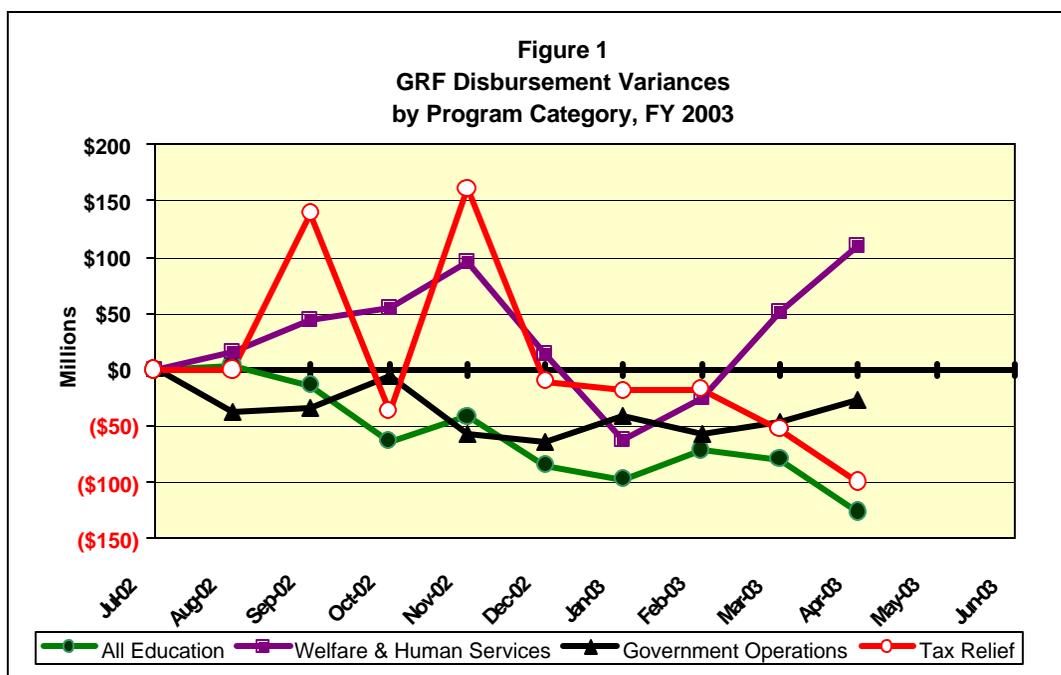
Despite a significant positive disbursement variance in the Welfare and Human Services category, total General Revenue Fund (GRF) program payments in April (excluding transfers) were \$6.3 million under the estimate, pushing the negative year-to-date GRF disbursement variance to \$144.8 million. When 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 negative disbursement variances in Education (-\$126.1 million), Tax Relief (-\$99.5 million), and Government Operations (-\$28.5 million) substantially outweigh the positive disbursement variance in Welfare and Human Services (\$109.9 million).

In the sections that follow, we examine in more detail the disbursement activity in each of the four major GRF program categories in the order of magnitude of its contribution to the year-to-date negative disbursement variance. Summary information about GRF disbursement activity is presented in Tables 4 and 5, and a detailed comparison of year-over-year disbursement activity in the Health Care/Medicaid program is presented in Table 6.

## Education (-\$126.1 million)

Disbursements in the Education category as a whole stand at \$126.1 million below the estimate for the year to date, with the Department of Education contributing \$117.0 million of that total.

**Department of Education.** The Department of Education’s year-to-date negative disbursement variance grew by \$27.7 million in April to stand at \$117.0 million. Line item 200-501, Base Cost Funding, is now \$40.4 million under estimate for the year to date; line item 200-520, Disadvantaged Pupil Impact Aid, accounts for \$16.2 million of the negative year-to-date variance; line item 200-513, Student Intervention Services, is \$15.5 million under estimate for the year to date; and line item 200-410, Professional Development, is \$10.8 million under estimate for the year to date. In the coming months we will see these and several other smaller appropriation items post further negative variances against the estimates, reflecting Executive-ordered reductions.



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

<b>USE OF FUNDS</b>			
<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>
Primary & Secondary Education (1)	\$474,536	\$501,457	(\$26,922)
Higher Education	\$182,619	\$202,567	(\$19,948)
<b>Total Education</b>	<b>\$657,155</b>	<b>\$704,025</b>	<b>(\$46,869)</b>
Health Care/Medicaid	\$672,237	\$618,349	\$53,888
Temporary Assistance to Needy Families (TANF)	\$730	\$10,835	(\$10,105)
General/Disability Assistance	\$1,610	\$2,043	(\$433)
Other Welfare (2)	\$41,135	\$51,052	(\$9,917)
Human Services (3)	\$109,889	\$84,706	\$25,183
<b>Total Welfare &amp; Human Services</b>	<b>\$825,602</b>	<b>\$766,985</b>	<b>\$58,617</b>
Justice & Corrections	\$182,902	\$162,895	\$20,007
Environment & Natural Resources	\$5,514	\$4,446	\$1,068
Transportation	\$2,300	\$2,924	(\$624)
Development	\$9,674	\$11,676	(\$2,003)
Other Government	\$23,103	\$22,407	\$696
Capital	\$0	\$0	\$0
<b>Total Government Operations</b>	<b>\$223,493</b>	<b>\$204,350</b>	<b>\$19,144</b>
Property Tax Relief (4)	\$121,919	\$168,819	(\$46,900)
Debt Service	\$20,555	\$10,877	\$9,678
<b>Total Program Payments</b>	<b>\$1,848,725</b>	<b>\$1,855,056</b>	<b>(\$6,331)</b>
<b>TRANSFERS</b>			
Local Govt Distribution	\$0	\$0	\$0
Budget Stabilization	\$0	\$0	\$0
Other Transfers Out	\$0	\$0	\$0
<b>Total Transfers Out</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL GRF USES</b>	<b>\$1,848,725</b>	<b>\$1,855,056</b>	<b>(\$6,331)</b>
(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.			
<i>Detail may not sum to total due to rounding.</i>			

**Regents.** In April, the Board of Regents disbursed \$19.9 million less than had been estimated, pushing its disbursement variance for the year to date back into negative territory by \$4.7 million. The bulk of the monthly variance is traceable to a \$12.3 million negative variance in line item 235-501, State Share of Instruction. Line item 235-501 supports all of Ohio's publicly assisted higher education institutions in their efforts to reduce the tuitions and fees charged to students. April's disbursements show the first

effect of the March budget reductions of \$39.2 million in this item.

#### ***Tax Relief (-\$99.5 million)***

The Property Tax Relief program, which carries an FY 2003 GRF appropriation of over \$1.3 billion, reimburses school districts and local governments for revenue that is lost due to tax relief provided by state law to property owners and businesses through the

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

<b>USE OF FUNDS</b>					
<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>FY 2002</b>	<b>Percent Change</b>
Primary & Secondary Education (1)	\$5,291,756	\$5,413,100	(\$121,344)	\$5,097,779	3.81%
Higher Education	\$2,015,371	\$2,020,086	(\$4,714)	\$2,038,142	-1.12%
<b>Total Education</b>	<b>\$7,307,128</b>	<b>\$7,433,186</b>	<b>(\$126,058)</b>	<b>\$7,135,921</b>	<b>2.40%</b>
Health Care/Medicaid	\$6,852,629	\$6,684,779	\$167,850	\$6,247,385	9.69%
Temporary Assistance to Needy Families (TANF)	\$352,158	\$341,718	\$10,440	\$365,891	-3.75%
General/Disability Assistance	\$22,159	\$20,854	\$1,305	\$75,783	-70.76%
Other Welfare (2)	\$416,632	\$469,628	(\$52,996)	\$427,886	-2.63%
Human Services (3)	\$1,009,598	\$1,026,255	(\$16,657)	\$986,029	2.39%
<b>Total Welfare &amp; Human Services</b>	<b>\$8,653,176</b>	<b>\$8,543,233</b>	<b>\$109,942</b>	<b>\$8,102,974</b>	<b>6.79%</b>
Justice & Corrections	\$1,594,636	\$1,599,509	(\$4,873)	\$1,583,074	0.73%
Environment & Natural Resources	\$103,202	\$103,105	\$96	\$108,585	-4.96%
Transportation	\$30,044	\$37,699	(\$7,654)	\$44,759	-32.87%
Development	\$155,716	\$166,394	(\$10,677)	\$161,538	-3.60%
Other Government	\$336,760	\$340,656	(\$3,896)	\$346,634	-2.85%
Capital	\$0	\$1,535	(\$1,535)	\$9,157	-100.00%
<b>Total Government Operations</b>	<b>\$2,220,359</b>	<b>\$2,248,898</b>	<b>(\$28,539)</b>	<b>\$2,253,747</b>	<b>-1.48%</b>
Property Tax Relief (4)	\$828,070	\$927,590	(\$99,520)	\$814,434	1.67%
Debt Service	\$250,527	\$251,157	(\$629)	\$219,011	14.39%
<b>Total Program Payments</b>	<b>\$19,259,260</b>	<b>\$19,404,064</b>	<b>(\$144,804)</b>	<b>\$18,526,088</b>	<b>3.96%</b>
<b>TRANSFERS</b>					
Local Govt Distribution	\$0	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	\$13,104	-100.00%
Other Transfers Out	\$18,587	\$15,836	\$2,752	\$19,858	-6.40%
<b>Total Transfers Out</b>	<b>\$18,587</b>	<b>\$15,836</b>	<b>\$2,752</b>	<b>\$32,962</b>	<b>-43.61%</b>
<b>TOTAL GRF USES</b>	<b>\$19,277,847</b>	<b>\$19,419,900</b>	<b>(\$142,052)</b>	<b>\$18,559,050</b>	<b>3.87%</b>

(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.

Detail may not sum to total due to rounding.

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. In April, the Education portion of tax relief was \$49.4 million under estimate due to the timing of the

submission of tax reports. For the year to date, the property tax program in the Department of Education stands at \$90.6 million under estimate, and the program in the Department of Taxation stands at \$8.9 million under estimate.

#### **Government Operations (-\$28.5 million)**

For the year to date, disbursements for the Government Operations category as a whole now

stand at \$28.5 million under the estimate. The category posted a positive disbursement variance in April, which is largely traceable to the timing of a payment by the Department of Rehabilitation and Correction (DRC). Taking over the top spot for variances within the category, the Department of Development posted a negative disbursement variance of \$2.0 million in April to stand at \$10.4 million under estimate for the year to date. The Department of Transportation took over the number two slot with a year-to-date negative variance of \$7.7 million, the Department of Administrative Services was in third place with a \$3.5 million year-to-date negative variance, and DRC slipped to number four with a year-to-date negative disbursement variance of \$2.1 million—a reduction that was the result of a positive disbursement variance of \$21.7 million in April.

**Development.** Disbursement activity in the Department of Development stands at \$10.4 million under the year-to-date estimate. The largest single contributor to this negative disbursement variance is line item 195-412, Business Development Grants, with disbursements \$4.1 million less than estimated for the year to date. Funding from this line item provides incentive grants for infrastructure financing that is used to attract and retain business and industry for Ohio. The variance is attributable to the timing of the award and processing of grants.

**Rehabilitation & Correction.** In April, DRC's disbursement activity was \$21.7 million over the estimate. This had the effect of reducing DRC's year-to-date disbursement variance to \$2.1 million below estimate. Virtually all of the positive variance can be attributed to a payment from line item 501-321, Institutional Operations, which inadvertently was excluded from the Office of Budget and Management's (OBM) calculation of the estimate for the month.

#### ***Welfare/Human Services (\$109.9 million)***

With a positive disbursement variance of \$58.6 million in April, the Welfare/Human Services category as a whole stands at \$109.9 million above the estimate for the year to date. April's variance was largely the result of a \$53.9 million positive disbursement variance in the Health Care/Medicaid program. The following paragraphs discuss the

disbursements in the components of this category in more detail.

**Health Care/Medicaid.** For April, the Health Care/Medicaid program (primarily line item 600-525) posted a \$53.9 million positive disbursement variance, pushing the program's year-to-date disbursement variance to \$167.9 million over the estimate for the year to date. In FY 2003, up to \$149.7 million can be drawn from the Budget Stabilization Fund (BSF) to cover overages in the Health Care/Medicaid program. If this amount of the state share is used, the federal funds that would be drawn would be \$213.8 million. Thus, in total, \$363.5 million might be available. The overage for the year to date represents 46 percent of this potential total amount available.

We see in Table 6, which compares FY 2003 with FY 2002 actual Health Care/Medicaid spending by service category, that the overall rate of increase year over year is a little more than 8 percent, once offsets are included. Service categories posting year-over-year percentage increases that exceed the average rate by large amounts are the DA Medical, CHIP II, All Other, Medicare Buy-In, HMO, and Prescription Drugs categories. Below the average rate of the year-over-year increase are expenditures in the Nursing Facilities and Intermediate Care Facilities for the Mentally Retarded (ICF/MR) categories.

With the exception of the Medicare Buy-In category, where May's payment posted on the last day of April and thus mostly represents the effects of timing, the categories with large rates of increase reflect an increase in the medical inflation rate (this is especially true for prescription drugs) and a strong rate of growth for the Medicaid and Disability Assistance (DA) caseloads.

In the presentation of detailed disbursement information in the Health Care/Medicaid program, we omit our regular table that compares actual expenditures against monthly and year-to-date spending estimates by service categories. Because OBM's estimates for the service categories assume the inclusion of funds that are to be transferred from the BSF, along with additional federal contributions, none of which have yet been appropriated, there exists a fundamental "apples and oranges" problem insofar as the estimate for the total expenditure in the program does not include these extra funds.

**TANF.** The state's portion of the TANF (Temporary Assistance for Needy Families) program that is expended from the GRF is composed of funds from line item 600-410, TANF State, a portion of line item 600-413, Day Care Match/MOE, a portion of line item 600-321, Support Services, line item 600-658, Child Support Collection, and county expenditures for part of the program's administrative costs.

At the end of April, year-to-date disbursement reports on the GRF portion of TANF show a positive disbursement variance of \$10.4 million. The year-to-date positive disbursement variance was produced by an overage of \$11.0 million in line item 600-413, Day Care Match/MOE, which resulted from a different pattern of disbursing child care funds than had been anticipated in the estimates. We have been watching the estimates catch up with the actual amounts for this item for several months now and should see them finally catch up or nearly so next month.

Expenditures by the Department of Job and Family Services from federal TANF funds was, at the end of April, \$187.0 million less than at the same point in FY 2002.

In April, the number of TANF cash assistance cases increased slightly from April to stand at 86,973. The number of recipients also increased slightly to stand at 195,740. In April of 2002, these same figures were 86,297 and 198,023, respectively.

**Job and Family Services.** March disbursement activity in the Department of Job and Family Services'

Service Category	FY 2003	FY 2002	Dollar Change	Percent Increase
	Yr.-to-Date as of Apr. '03	Yr.-to-Date as of Apr. '02		
Nursing Facilities	\$1,982,787	\$1,980,544	\$2,243	0.11%
Payments	\$2,166,830	\$2,047,298	\$119,532	5.84%
NF Franchise Fees Offset <sup>1</sup>	(\$184,042)	(\$66,754)	(\$117,288)	175.70%
ICF/MR	\$340,959	\$332,955	\$8,004	2.40%
Payments	\$357,893	\$347,088	\$10,806	3.11%
ICF/MR Franchise Fees Offset)	(\$16,935)	(\$14,133)	(\$2,802)	19.83%
Inpatient Hospitals	\$1,051,223	\$942,204	\$109,019	11.57%
Outpatient Hospitals	\$443,602	\$389,220	\$54,383	13.97%
Physicians	\$442,425	\$403,776	\$38,649	9.57%
Prescription Drugs	\$1,277,332	\$1,059,561	\$217,771	20.55%
HMO	\$592,722	\$481,548	\$111,174	23.09%
Medicare Buy-In	\$134,197	\$110,426	\$23,770	21.53%
ODJFS Waiver <sup>2</sup>	\$143,749	\$136,522	\$7,226	5.29%
All Other <sup>3</sup>	\$647,872	\$511,655	\$136,217	26.62%
CHIP II <sup>4</sup>	\$48,703	\$39,069	\$9,634	24.66%
DA Medical <sup>5</sup>	\$78,762	\$56,968	\$21,795	38.26%
<b>Total Health Care</b>	<b>\$7,184,333</b>	<b>\$6,444,449</b>	<b>\$739,884</b>	<b>11.48%</b>
DSH Offset	(\$89,037)	\$0	(\$89,037)	
Drug Rebates	(\$243,763)	(\$190,346)	(\$53,417)	
Prior Year Encumbrance	(\$83,539)	\$1,547	(\$85,086)	
<b>Total Health Care (Net of Offsets)</b>	<b>\$6,767,994</b>	<b>\$6,255,650</b>	<b>\$512,344</b>	<b>8.19%</b>
Est. Federal Share <sup>6</sup>	\$3,941,290	\$3,648,418	\$292,872	
Est. State Share	\$2,826,704	\$2,607,232	\$219,473	

1. Some of the money generated from 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 whose family incomes are 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.

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 \$9.9 million under the estimate. For the year to date, disbursements in the "Other Welfare" subcategory were \$53.0 million under estimate.

Line item 600-416, Computer Projects, with year-to-date underspending of \$17.9 million (\$10.2 million of this variance involves current year funds), is the largest single item contributing to the year-to-date negative disbursement variance. The spending under estimate in line item 600-416 is traceable to projects

being converted to state staff support only, equipment freezes, and changes in timelines and rollout schedules. These steps are the result of a reduction in the appropriation for line item 600-416 by an additional \$7.8 million in the January and March rounds of budget reductions. Another significant contributor is line item 600-321, Support Services, which accounts for \$12.8 million of the year-to-date negative variance. The appropriation for line item 600-321 has been reduced by an additional \$1.4 million since the initial round of budget reductions. And line item 600-528, Adoption Services, continues to be a significant contributor with a year-to-date negative disbursement variance of \$5.1 million. The underspending in Adoption Services stems in large part from a lower than expected rate of growth in the program.

**Mental Health.** In April, the Department of Mental Health posted a positive disbursement variance of \$10.5 million, pushing the year-to-date disbursement variance into positive territory by a little over \$250,000. The month's positive disbursement variance is traceable to the department's two largest subsidy line items: 334-408, Community and Hospital Mental Health Services, and 335-508, Services for the Severely Mentally Disabled. The department disburses these subsidies to community mental health boards on a quarterly basis. Depending on when the boards submit their requests for funds, disbursements can occur anytime in the course of three months (which may or may not be consistent with monthly disbursement estimates).

*\*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 Holly Wilson.*