

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JUNE 2003

FISCAL OVERVIEW

— Allan Lundell

The national economy showed some signs of emerging from the “soft spot” in May. Although the economy (as measured by real GDP) has grown for the past six quarters, the pace of growth for the last two quarters has not been sufficient to generate employment growth and the feeling of recovery. The June 11 Federal Reserve *Beige Book* (based on information collected between April 15 and June 2) reported that although “conditions remained sluggish” in most districts, the economy had not deteriorated, and that there were “signs of increased economic activity in April and May.” The report noted “the unwinding of war-related concerns appears to have provided some lift to business and consumer confidence, but most reports suggested that the effect has not been dramatic.”

The Cleveland district reported mixed economic activity. On the plus side were manufacturing (“steady or improving production and sales, with the expectation that conditions would continue to improve in the near future”), residential construction (“strong year-over-year gains”), and banking (“improvement in commercial loan demand”). Weaknesses were reported by retailers (who described the retail environment as “soft”), auto dealers (who reported “slowing sales”), commercial builders (who reported continued “depressed economic activity”), and truckers and shippers (who noted a “downturn in activity”).

General Revenue Fund (GRF) revenues fell below both original and revised estimates in May. Comparisons with the revised estimates are more relevant in evaluating the status of the budget for the remainder of the fiscal year. Total GRF revenues were \$140 million (6.3%) below the revised estimate. Tax revenues were \$174.2 million below estimate. Revenues from the personal income tax were \$120.4 million below estimate and revenues from the corporate franchise tax were \$76.5 million below estimate. However, the negative monthly variance for the corporate franchise tax was due to a Saturday filing date and is not a cause for alarm. May disbursements were \$26.2 million above the revised estimate, but most categories of spending were under estimate. The major exception was property tax relief, which was \$112.6 million greater than estimated to make up for a low April amount.

For the fiscal year to date, total GRF revenues are \$249.1 million less than the revised estimate. Revenue from state sources is \$211.2 million below estimate and tax revenue is \$158.1 million below estimate. Even

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- The national economy continues soft but shows some signs of tentative improvement
- Low interest rates are supporting refinancing and the housing market
- Inflation is low and has been suppressed during the most recent two months by falling energy prices

STATUS OF THE GRF

Revenue 220

- Total GRF revenue falls below both original and revised estimates
- Weakness in income tax receipts continues
- Corporate franchise tax receipts affected by Saturday filing date

Disbursements 229

- Medicaid variance soars to over \$300 million but stays within BSF amount
- Tax Relief payments charge back toward estimate

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

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if the May shortfall in corporate franchise tax revenue is ignored because of the timing issue that caused it, the evidence suggests that revenues will not meet the revised estimate for FY 2003. Year-to-date GRF disbursements are \$47.1 million less than the revised estimate. Primary and Secondary Education is \$39.6 million below the revised estimate, but Higher Education is \$67.3 million above estimate. Health Care/Medicaid is \$3.2 million below the revised estimate. Disbursements appear likely to finish the fiscal year below the revised estimates, but not by a large enough amount to balance the probable shortfall in revenue.

	Month of May	Fiscal Year 2003 to Date	Last Year	Difference
Beginning Cash Balance	(1,036.3)	619.2		
Revenue + Transfers	<u>2,068.2</u>	<u>19,690.5</u>		
Available Resources	1,031.9	20,309.7		
Disbursements + Transfers	<u>1,891.5</u>	<u>21,169.4</u>		
Ending Cash Balances	(859.6)	(859.6)	(542.6)	(317.0)
Encumbrances and Accts. Payable		321.6	322.1	(0.6)
Unobligated Balance		(1,181.2)	(864.7)	(316.5)
BSF Balance		427.9	962.2	(534.3)
Combined GRF and BSF Balance		(753.3)	97.6	(850.8)

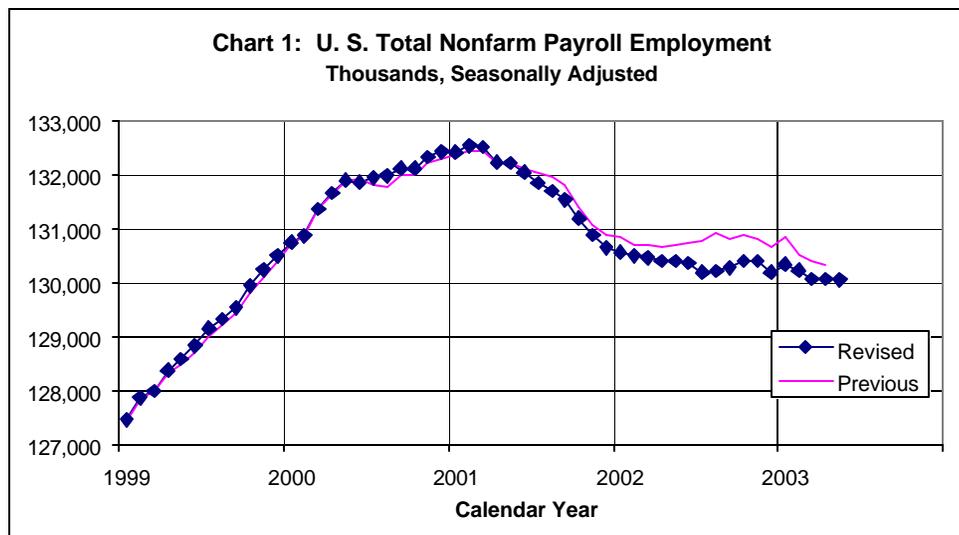
For May, GRF revenues were \$2,068.2 million and total expenditures were \$1,891.5 million. The monthly surplus increased the ending cash balance to -\$859.6 million. The ending cash balance is \$317 million lower than at this time last year. Encumbrances are approximately the same as a year ago, just \$0.6 million lower. The unobligated balance of -\$1,181.2 million is \$316.5 million lower than it was at the end of May last year. In order for the state to balance its budget, the unobligated balance must be brought to a positive number by the end of the fiscal year. If necessary, OBM will use money from the Budget Stabilization Fund (BSF) to accomplish this requirement. The current balance in the BSF is \$534.3 million less than a year ago, and the combined year-to-date GRF and BSF balance of -\$753.3 million indicates the amount by which June revenues will need to exceed June expenditures in order to achieve a balanced budget. The revised estimate for June revenues (\$2,755.1 million) exceeds the revised estimate for June disbursements (\$1,741.3 million) by \$1,013.8 million.

TRACKING THE ECONOMY

¾ Phil Cummins

Economic reports in the first half of June showed continued difficulties but some signs of tentative improvement. Total payroll employment appeared to be stabilizing in the latest two months, through May, after declines earlier in the year. However, unemployment nationwide in May, as a percentage of the labor force, rose to a nine-year high. Purchasing managers reported indications of increased activity – production, orders, backlogs – at their organizations in May. Manufacturing output rose slightly in May after declines in earlier months. Consumer spending appears lackluster, but housing markets continue to be supported by very low mortgage interest rates. Inflation reports this year have reflected the rise in energy prices ahead of the Iraq conflict and declines since. On a year-over-year basis, inflation remains low, but deflation is not widespread.

Total nonfarm payroll employment nationwide declined slightly in May, falling by 17,000 workers to the lowest level since 1999 (seasonally adjusted). Previous months were revised downward in an annual rebenchmarking of the employment statistics. Total nonfarm payrolls were reduced by 600,000 more workers in 2001 and 2002 than previously reported. Chart 1 illustrates the sharper decline shown by the new figures on total payroll employment.



The unemployment rate nationwide ticked up 0.1 percentage point in May to 6.1% (seasonally adjusted), or nine million people. The national unemployment rate last month was at its highest level since 1994. About half of those looking for work but still unemployed had been out of work for ten weeks or more, over one-third had been unemployed for 15 weeks or more, and more than one in five had been out of work for 27 weeks or more. These long-term unemployed have in recent months accounted for their highest share of total unemployment since 1992, when the national economy was beginning to recover from the 1990-1991 recession.

Ohio employment and unemployment data for May are not yet available. This information is expected to be published Friday, June 20.

More purchasing managers at manufacturers nationwide reported increased production, new orders, and backlogs in May at their companies than saw declines. This upturn follows declines in April and March. Growth was reported for 11 of 20 industry groups last month. Inventories continued to shrink. Purchasing managers at

nonmanufacturing organizations said orders rose more rapidly in May than in April, and backlogs increased for the first time since December 2002. Of 18 industry groups, 12 indicated expansion. Inventories rose for the second straight month after declining for eight months.

Industrial production rose 0.1% in May after declining 0.6% in each of April and March. Manufacturing output was 0.2% higher in May after declines in the previous two months. The latest small upturn, after a generally downward trend in factory output since mid-2002, is consistent with other tentative indications of modest improvement in the economy. Production of defense and space equipment has been rising strongly since last year, while output of consumer durables has fallen this year and business equipment has trended lower for nearly three years.

Total retail sales rose only 0.1% in May after declining 0.3% in April. The small increase in May and the decline in April in part reflected lower sales at gasoline stations, probably due mainly to lower prices. Nevertheless, overall consumer spending remained soft in May. Unit car sales in May were lower than a year earlier and fell about 3.0% from April, seasonally adjusted. Inventories have risen above desired levels at some dealers, and consumers appear to be less responsive to dealer incentives. Sales at general merchandisers, including department stores, rose 0.7% in May after falling 0.7% in April.

During the past month, interest rates have continued to ease, with the yield on the benchmark U.S. Treasury ten-year bond declining to 45-year lows before rising slightly to 3.24%. Financial markets, responding in part to Federal Reserve Bank concerns about deflation, appear to expect the Fed's Open Market Committee to lower its federal funds target from the current 1.25% when it meets on Tuesday and Wednesday, June 24-25. The Fed's latest *Beige Book*, a report based primarily on qualitative or anecdotal information from various regions of the nation, indicated signs of improvement in economic activity in four Federal Reserve districts (Dallas, Kansas City, Minneapolis, and New York – Ohio is in the Cleveland district).

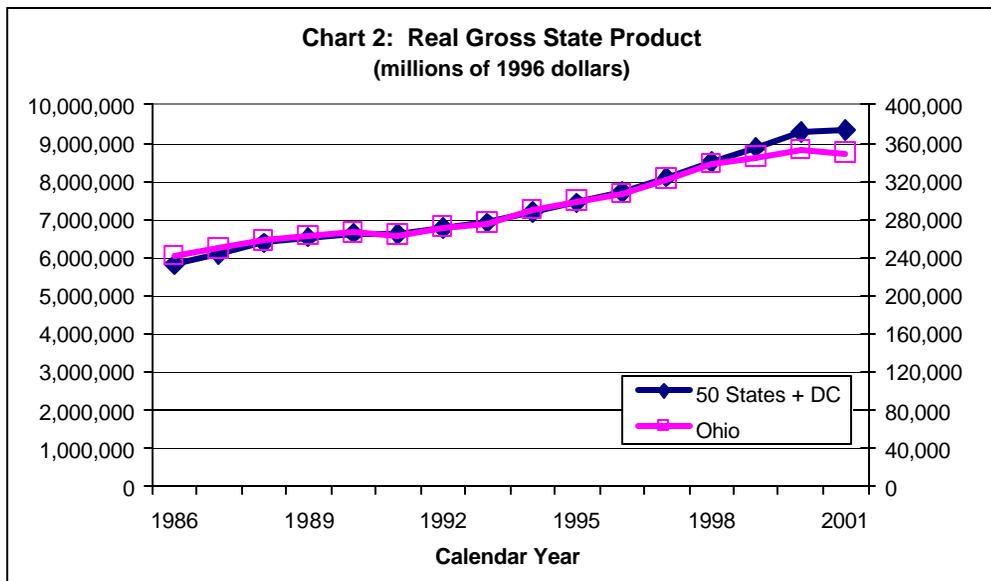
Housing starts rose 6% in May to a 1.73 million unit annual rate. Year-to-date starts are 1% ahead of a year earlier. Starts for all of last year totaled 1.70 million units, up from 1.60 million units in 2001. The housing market, new and used, continues to be supported by low mortgage interest rates. Mortgage lending activity has continued very strong, both for home purchases and for refinancing.

The producer price index for finished goods declined again in May, falling 0.3% after dropping a record 1.9% in April. The decline in both months was mainly due to lower energy prices. Compared with a year earlier, total finished goods prices in May were 2.5% higher. At earlier stages of production, prices also were higher than a year ago, by 4.2% for the intermediate goods price index and by 19.1% for the crude goods price index. The increase in prices from a year ago was only partly attributable to higher energy prices, particularly for natural gas. The index for crude materials less energy, for example, was 10.9% higher in May than a year earlier.

The consumer price index (CPI) for May was unchanged from April, when it declined 0.3%. Consumer energy prices have fallen for the last two months, after rising earlier in the year. Compared with its year-earlier level, the consumer price index was 2.1% higher in May. Energy prices, after recent declines, remained 9% above a year earlier. Excluding energy, the CPI in May was 1.5% above a year earlier. A few sectors showed price declines during the past year, including computers, communication services, motor vehicles, apparel, and dairy products. But deflation was not widespread. Sectors with above-average price increases, in addition to energy, included medical services, insurance, and education.

In late May, estimates of gross state product were released for 2001. These data show that the real or inflation-adjusted gross state product for Ohio declined 0.9% in that year, in contrast with an increase of 0.4% in the average for the nation. Recession nationwide began after a business cycle peak in March 2001. No comparable business cycle dating is done for the state's economy. As is clear from Chart 2, the pace of economic activity here lagged the nation during 1999-2001, after about keeping pace with the national economic expansion through most of the 1990s. Ohio's share of nationwide gross state product (50 states plus the District

of Columbia) declined to 3.7% in 2001 from 4.2% in 1986, and 4.9% in 1977, the earliest year for which these estimates are available. (Ohio also declined in its U.S. population share over this time period.) In 2001, manufacturing declined more sharply in Ohio than nationwide, but several other industry groups also were weaker here, including agriculture, construction, transportation and public utilities, and wholesale trade.



Status of the General Revenue Fund

REVENUE

— Allan Lundell and Jean Botomogno

In May, GRF revenues continued on their downward path. Total GRF revenue was \$139.7 million (6.3%) below estimate in May. Total GRF revenue less federal grants (revenue from Ohio sources) was \$247.4 million (12.9%) below estimate. Tax revenues were \$254.5 million (13.6%) below estimate and revenues from the major taxes (personal income, sales and use, corporate franchise, public utility, and kilowatt hour) were \$223.5 million (14.23%) below estimate.

For the fiscal year to date, total GRF revenue is \$333.4 million (1.7%) below original estimate. Total GRF revenue less federal grants is \$547.7 million (2.9%) below estimate. Tax revenues are \$427.3 million (2.8%) below estimate and revenues from the major taxes are \$437.7 million (3.1%) below estimate. If the estimated \$238 million in additional

FY 2003 non-auto sales and use tax revenue due to the acceleration in payments is not included, then tax revenues are \$665.3 million (4.4%) below original estimate and revenues from the major taxes are \$675.7 million (4.8%) 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 4.5%, total revenue less federal grants is up by 3.4%, tax revenues are up 4.5%, and revenues from the major taxes are up by 2.3%.

Compared to revised OBM estimates from March 2003, which take into account changes made in H.B. 40 and more recent economic forecasts, total GRF revenue for May was \$140 million (6.3%) below estimate. Total GRF revenue less federal grants was \$176.7 million (9.6%) below estimate. Tax revenues

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

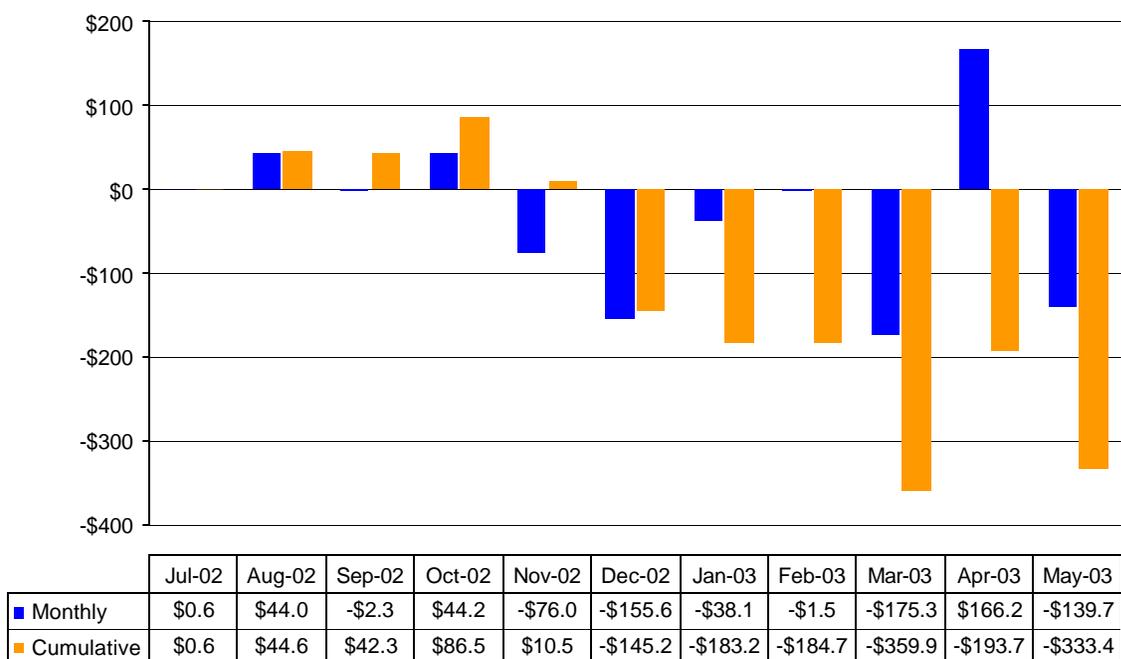
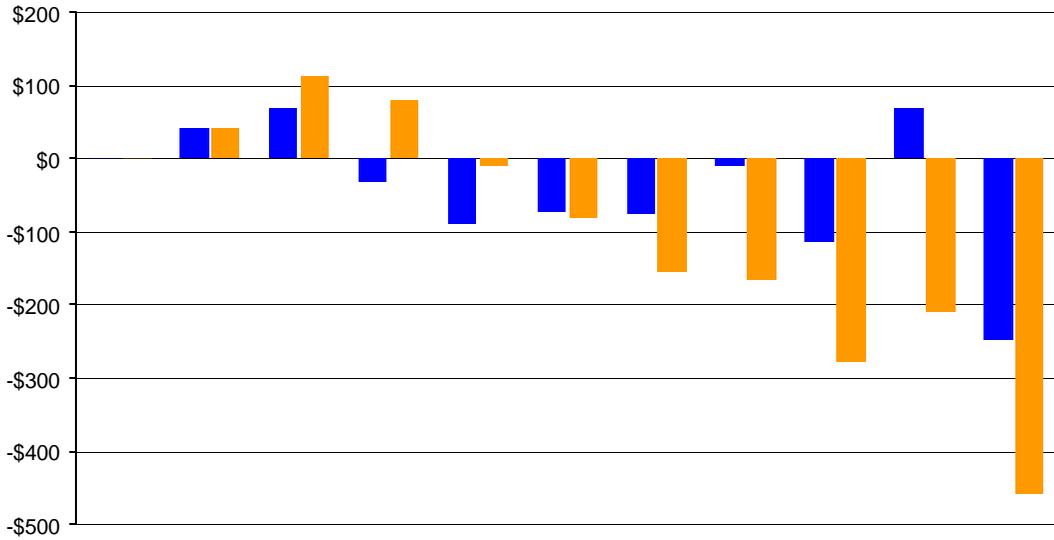
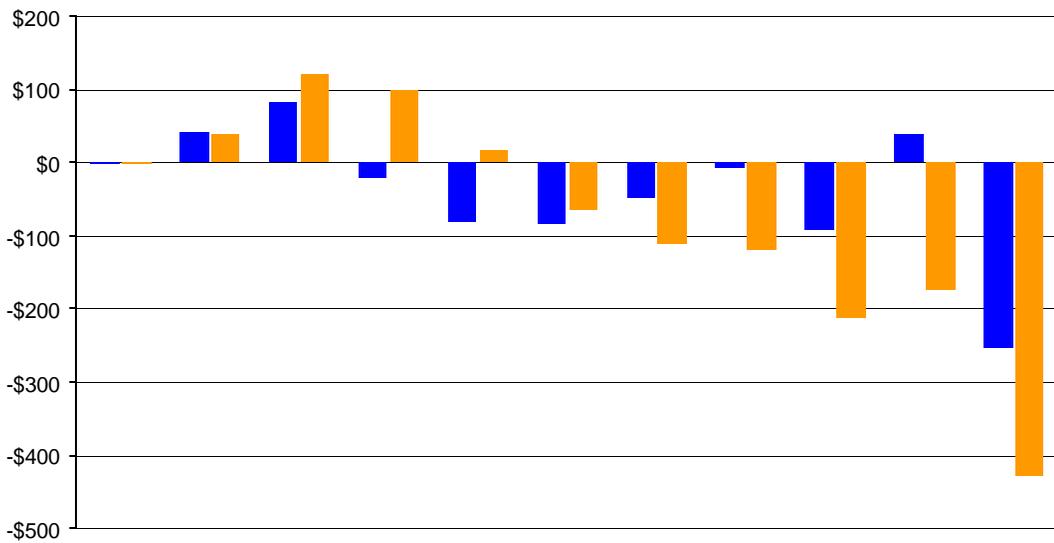


Exhibit 2: Total GRF Revenue less Federal Grants
(variance from original estimate, in millions)



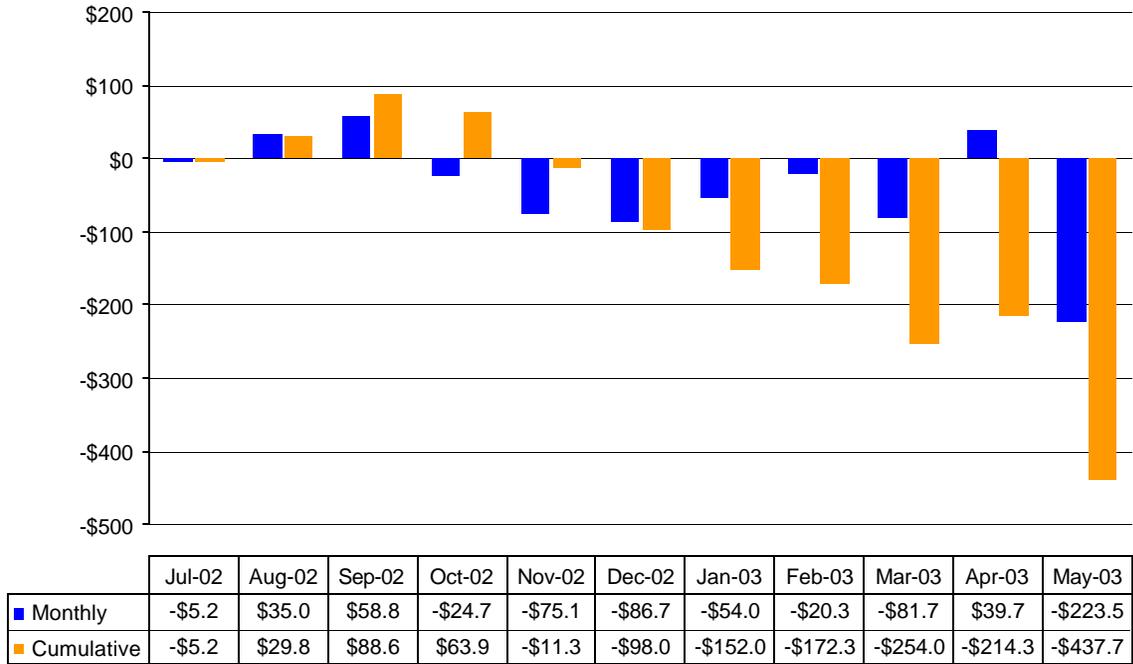
	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03
Monthly	\$0.6	\$42.3	\$68.8	-\$31.4	-\$89.6	-\$72.7	-\$74.2	-\$9.1	-\$113.3	\$68.3	-\$247.4
Cumulative	\$0.6	\$42.8	\$111.6	\$80.3	-\$9.3	-\$82.0	-\$156.2	-\$165.3	-\$278.5	-\$210.3	-\$457.7

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	May-03
Monthly	-\$2.5	\$42.6	\$81.4	-\$21.7	-\$82.2	-\$82.6	-\$47.6	-\$8.1	-\$90.9	\$38.6	-\$254.5
Cumulative	-\$2.5	\$40.2	\$121.6	\$99.9	\$17.7	-\$64.8	-\$112.4	-\$120.5	-\$211.4	-\$172.8	-\$427.3

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



were \$174.2 million (9.8%) below estimate and revenues from the major taxes were \$152.9 million (10.2%) below estimate.

A year-to-date comparison with the revised OBM estimates must be made with care. Estimates for the final four months of the fiscal year (March-June) 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, April, and May actual amounts with revised estimates for those months indicates that total GRF revenue is \$249.1 million (3.9%) below estimate. Total GRF revenue less federal grants is \$211.2 million (4.2%) below estimate. Tax revenues are \$158.1 million (3.3%) below estimate and revenues from the major taxes are \$146.1 million (3.4%) below estimate. Exhibit 5 contains four charts that compare revenues to revised OBM estimates for March.

Personal Income Tax

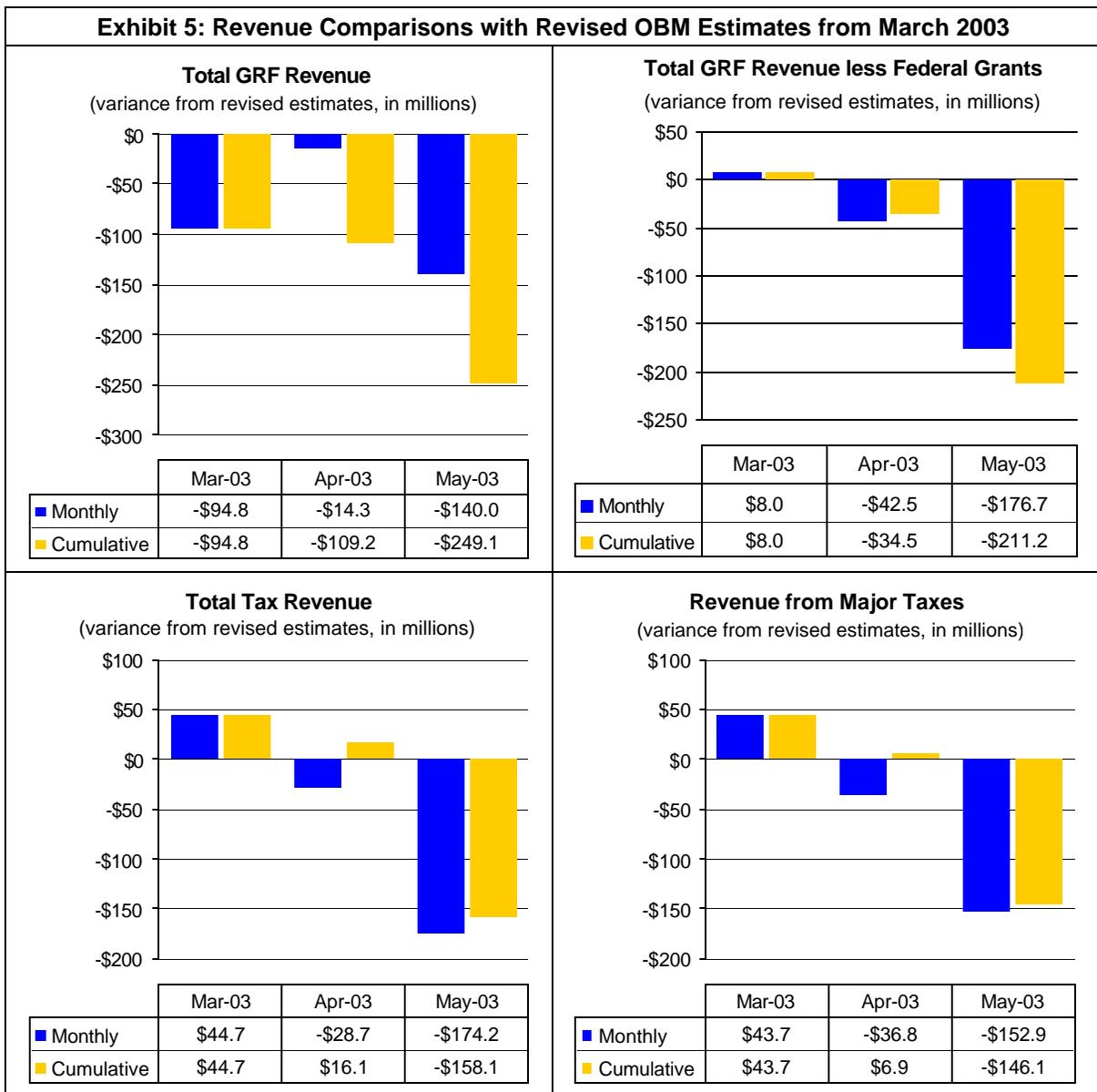
May GRF personal income tax revenues of \$600.3 million were \$186.6 million (23.7%) below estimate. Withholding was \$35.8 million (5.9 percent) below estimate. Withholding accounts for over 80% of gross income tax collections and is sensitive to the

employment situation. The ongoing weak employment situation continues to generate weak withholding. Revenues from annual returns were \$98.3 million (34.1%) below estimate and quarterly estimated payments were \$9.6 million (35.8%) below estimate. Refunds were \$44.2 million (75.0%) above estimate.

For the fiscal year to date, personal income tax revenues are \$445.5 million (6.3%) below estimate. Withholding is \$190.8 million (2.9%) below estimate, quarterly estimated payments are \$24.2 million (2.3%) below estimate, and refunds are \$92.7 million (10.6%) greater than estimated.

Compared to the revised estimates, May personal income tax revenues were \$120.4 million (16.7%) below estimate. Withholding was \$17.5 million (3.0%) below estimate, revenues from annual returns were \$58.3 million (23.5%) below estimate, and quarterly estimated payments were \$5.4 million (35.9%) below estimate. Refunds were \$41.2 million (66.6%) above estimate.

Combined March, April, and May (“post-estimate revision”) personal income tax revenues are \$120.6 million (5.8%) below estimate. Withholding is \$13.1 million (0.8%) below estimate. Revenues



from annual returns are \$46.8 million (9.7%) below estimate. Quarterly estimated payments are \$13.1 million (5.9%) below estimate. Refunds are \$62.1 million (13.4%) above estimate.

Compared to FY 2002, GRF personal income tax revenues through May are up 0.8%. If the new tax on trusts is not counted, GRF revenues are down 0.1%. Withholding is up 2.4% and quarterly estimated payments are down 21.8%. Refunds are up 10.0% and payments to the local government funds supported by the income tax are up 0.8%.

Non-Auto Sales and Use Tax

Non-auto sales and use tax revenues in May 2003 were \$465.0 million, \$7.3 million or 1.6% above original estimates.¹ Non-auto sales and use tax receipts generally reflect retail sales activity in the prior month. Receipts were also \$30.4 million or 7.0% above revenues in the same period last year (in May 2002), reflecting in part the effect of H.B. 40² and also possibly increased tax collections associated with Easter (which occurred in March in 2002 and in April this year).

Exhibit 6: Non-auto Sales Tax Revenue
(variance from original estimate, in millions)

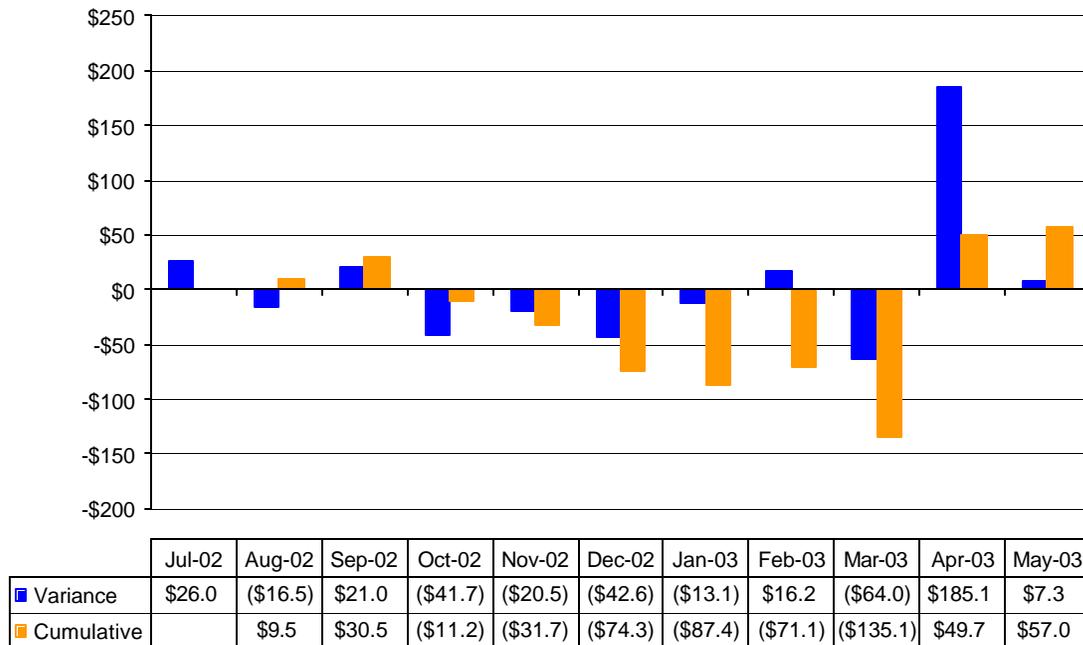
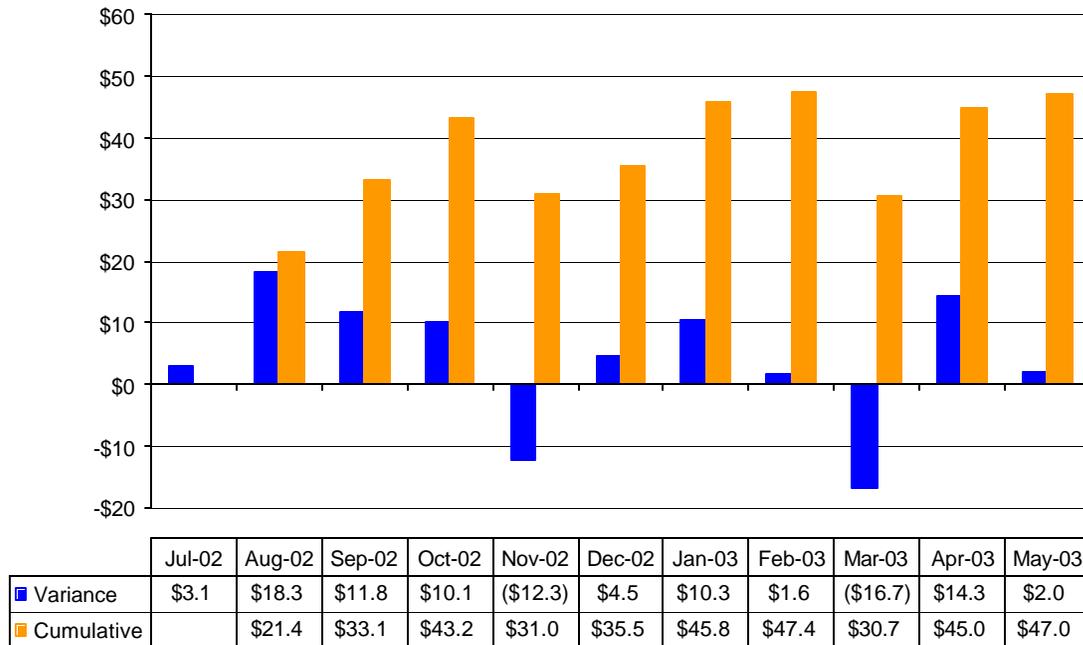


Exhibit 7: Auto Sales Tax Revenue
(variance from original estimate, in millions)



The year-to-date surplus in the non-auto sales tax in May 2003 was \$57.0 million when compared to original estimates.³ Year-to-date non-auto sales and use tax receipts as of May 2003 were \$4,970.8 million, 1.2% above July 2002 estimates. Compared to

receipts a year ago, year-to-date non-auto sales and use tax revenues in May 2003 were up \$291.7 million or 6.2%. Abstracting the tax changes from H.B. 40, there has been a weak growth in non-auto sales tax revenues from a year ago. Adjusting further for the

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

REVENUE SOURCE			
TAX REVENUE	Actual	Estimate*	Variance
Auto Sales	\$83,445	\$81,450	\$1,995
Non-Auto Sales & Use	\$465,000	\$457,725	\$7,275
Total Sales	\$548,445	\$539,175	\$9,270
Personal Income	\$600,261	\$786,900	(\$186,639)
Corporate Franchise	\$95,092	\$170,346	(\$75,254)
Public Utility	\$76,175	\$46,700	\$29,475
Kilowatt Hour Excise Tax	\$26,495	\$26,800	(\$305)
Total Major Taxes	\$1,346,468	\$1,569,921	(\$223,453)
Foreign Insurance	(\$2,394)	(\$4,500)	\$2,106
Domestic Insurance	\$157,216	\$149,575	\$7,641
Business & Property	\$26,998	\$51,210	(\$24,212)
Cigarette	\$74,352	\$74,434	(\$82)
Alcoholic Beverage	\$5,231	\$5,104	\$127
Liquor Gallonage	\$2,377	\$2,310	\$67
Estate	\$1,484	\$18,200	(\$16,716)
Total Other Taxes	\$265,264	\$296,333	(\$31,069)
Total Taxes	\$1,611,732	\$1,866,254	(\$254,522)
NON-TAX REVENUE			
Earnings on Investments	\$0	\$0	\$0
Licenses and Fees	\$1,210	\$825	\$385
Other Revenue	\$22,493	\$30,073	(\$7,580)
Non-Tax Receipts	\$23,703	\$30,898	(\$7,195)
TRANSFERS			
Liquor Transfers	\$10,000	\$9,000	\$1,000
Budget Stabilization	\$0	\$0	\$0
Other Transfers In	\$19,296	\$6,000	\$13,296
Total Transfers In	\$29,296	\$15,000	\$14,296
TOTAL REVENUE less Federal Grants	\$1,664,731	\$1,912,152	(\$247,421)
Federal Grants	\$403,454	\$295,690	\$107,764
TOTAL GRF REVENUE	\$2,068,186	\$2,207,842	(\$139,656)

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

law change in auto lease taxes implies that there is no growth in the tax revenues compared to FY 2002.

Nationwide, U.S. retail sales have been growing. Total retail and food services sales for the March through May 2003 period were up 4.2% from the same period a year ago. U.S. retail sales (excluding motor vehicles and parts)⁴ grew about 4.0% from June 2002 through April 2003 when compared to June 2001 through April 2002. While the Ohio non-auto sales tax base is somewhat different from this U.S.

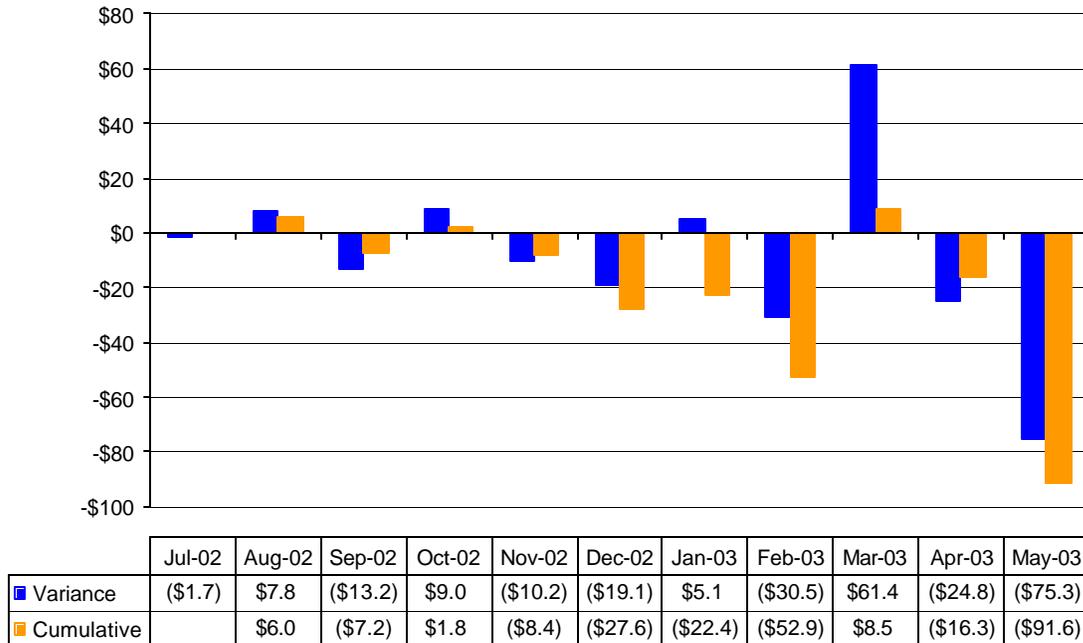
measure, it is apparent that the Ohio sales tax base has been much weaker than the national measure.

Auto Sales Tax

At \$83.4 million, May 2003 auto sales tax receipts were \$16.9 million or 16.8% lower than April 2003 tax revenues. Auto sales tax receipts were \$3.7 million or 4.3% lower than May 2002 receipts, and they were \$2.0 million or 2.4% above July 2002 estimates.⁵

Exhibit 8: Corporate Franchise Tax Revenue

(variance from original estimate, in millions)



As of May 2003, year-to-date auto sales tax revenues, at \$866.1 million, were \$47.0 million or 5.7% above July 2002 estimates.⁶ Revenues from this tax source will finish the year above estimates. Year-to-date auto sales tax revenues were \$6.7 million or 0.8% above FY 2002 receipts during the same period. With one month to go in this fiscal year, it is likely that auto sales tax revenues will be higher in FY 2003 than in FY 2002. Nationwide, auto sales have averaged 16.1 million units in the first five months of CY 2003, or about 4.2% below the sales rate of 16.8 million units achieved in CY 2002. Although large incentives to purchase new cars continue, recent evidence seems to suggest that they are losing some of their effectiveness.⁷ From January to May 2003, nationwide vehicle sales were 2.1% below the unit sales rate during the same period last calendar year.⁸

Corporate Franchise Tax

The last major payment of the corporate franchise tax was due Saturday, May 31, 2003. Corporate franchise tax receipts in May 2003 were \$95.1 million, \$75.3 million or 44.2% below original estimate. At the end of May 2003, year-to-date corporate franchise tax receipts were \$624.3 million, \$91.6 million or 12.8% below July 2002 estimates.⁹ Compared to

year-to-date revenue in May 2002, receipts in May 2003 were \$41.5 million or 6.2% below receipts in the same period a year ago. However, because the due date fell on the last day of the month and a weekend, some of the tax returns were processed in June and recorded as June receipts. Therefore, some of the shortfall in corporate franchise tax receipts will be reversed in June. Also, based on revenue collected as of May 2003 and early June 2003, corporate franchise tax revenues this fiscal year will be higher than the receipts of \$712.0 million collected from this revenue source in FY 2002.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts in May 2003 were \$74.4 million, \$0.1 million or 0.1% below estimates.¹⁰ Cigarette and other tobacco products tax revenues in May 2003 were \$25.9 million or 53.5% above April tax receipts. As of May 2003, year-to-date receipts from the tax on cigarette and other tobacco products were \$548.2 million. These revenues were above estimates by \$28.3 million or 5.4%. Year-to-date cigarette tax receipts were also \$289.4 million or 111.8% ahead of tax receipts in the same period a year ago.

Exhibit 9: Cigarette Tax Revenue
(variance from original estimate, in millions)



¹ The Office of Budget and Management published revised estimates for FY 2003 in March 2003. May 2003 non-auto sales and use tax revenues were \$0.7 million or 0.1% above the revised estimates.

² H.B. 40 accelerated sales tax receipts by taxpayers that pay by electronic fund transfers, starting in April 2003. For the last quarter of FY 2003, H.B. 40 is expected to increase non-auto sales tax revenue by up to \$288 million.

³ Year-to-date non-auto sales tax receipts in May were \$38.5 million or 0.8% below revised estimates.

⁴ The relationship between non-auto sales tax revenues and retail sales is not so simple. The non-auto sales tax base does not include all the items counted as retail sales by the U.S. Department of Commerce. For example, it does not include sales of gasoline or sales of food for consumption off-premises. At the same time it does include some items – such as certain business services – that are not included in the definition of retail sales.

⁵ Auto sales tax receipts in May were \$13.5 million or 19.3% above March 2003 revised estimates for the month.

⁶ Year-to-date auto sales tax revenues in May 2003 were \$34.8 million or 4.2% above revised estimates.

⁷ The average incentive per vehicle in May will likely top the \$2,508 record from April, up substantially from \$1,691 per vehicle in May 2002, according to Autodata. Ford, for example, increased incentives to an average of about \$3,200 in April, while General Motors' average incentive levels were just shy of \$3,900 per vehicle. Meanwhile, sales of both brands declined by 7% compared to a year earlier.

⁸ "Ward's U.S. Light Vehicle Sales Summary." 17 Jun. 2003 <<http://images.wardsauto.com/files/1004/USSalesSummary0305.xls>>.

⁹ Year-to-date corporate franchise tax receipts in May 2003 were \$76.5 million or 44.6% below revised estimates.

¹⁰ May 2003 cigarette and other tobacco products revenues were \$6.1 million (or 8.9%) above revised estimates. As of May 2003, year-to-date cigarette receipts were \$10.3 million (or 1.9%) above revised estimates.

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

REVENUE SOURCE					
TAX REVENUE	Actual	Estimate*	Variance	FY 2002	Percent Change
Auto Sales	\$866,066	\$819,025	\$47,041	\$859,439	0.77%
Non-Auto Sales & Use	\$4,970,795	\$4,913,813	\$56,982	\$4,679,043	6.24%
Total Sales	\$5,836,860	\$5,732,838	\$104,022	\$5,538,482	5.39%
Personal Income	\$6,665,704	\$7,111,200	(\$445,496)	\$6,611,671	0.82%
Corporate Franchise	\$624,257	\$715,841	(\$91,584)	\$665,719	-6.23%
Public Utility	\$211,647	\$224,000	(\$12,353)	\$232,062	-8.80%
Kilowatt Hour Excise Tax	\$317,570	\$309,876	\$7,694	\$299,262	6.12%
Total Major Taxes	\$13,656,039	\$14,093,755	(\$437,716)	\$13,347,196	2.31%
Foreign Insurance	\$225,134	\$225,000	\$134	\$213,447	5.48%
Domestic Insurance	\$159,247	\$151,125	\$8,122	\$130,471	22.06%
Business & Property	\$28,252	\$52,350	(\$24,098)	\$5,237	439.50%
Cigarette	\$548,218	\$519,903	\$28,315	\$258,869	111.77%
Alcoholic Beverage	\$51,584	\$52,490	(\$906)	\$50,559	2.03%
Liquor Gallonage	\$27,076	\$27,390	(\$314)	\$26,725	1.32%
Estate	\$88,359	\$89,180	(\$821)	\$114,822	-23.05%
Total Other Taxes	\$1,127,871	\$1,117,438	\$10,433	\$800,129	40.96%
Total Taxes	\$14,783,910	\$15,211,193	(\$427,283)	\$14,147,325	4.50%
NON-TAX REVENUE					
Earnings on Investments	\$13,780	\$69,700	(\$55,920)	\$71,732	-80.79%
Licenses and Fees	\$32,318	\$31,680	\$638	\$29,750	8.63%
Other Revenue	\$200,032	\$242,499	(\$42,467)	\$190,922	4.77%
Non-Tax Receipts	\$246,130	\$343,879	(\$97,749)	\$292,404	-15.83%
TRANSFERS					
Liquor Transfers	\$106,000	\$96,000	\$10,000	\$102,000	3.92%
Budget Stabilization	\$0	\$0	\$0	\$48,352	-100.00%
Other Transfers In	\$158,643	\$101,300	\$57,343	\$198,368	-20.03%
Total Transfers In	\$264,643	\$197,300	\$67,343	\$348,720	-24.11%
TOTAL REVENUE less Federal Grants	\$15,294,684	\$15,752,372	(\$457,688)	\$14,788,449	3.42%
Federal Grants	\$4,395,846	\$4,271,521	\$124,325	\$4,058,970	8.30%
TOTAL GRF REVENUE	\$19,690,530	\$20,023,893	(\$333,363)	\$18,847,419	4.47%
* July, 2002 estimates of the Office of Budget and Management.					
Detail may not sum to total due to rounding.					

DISBURSEMENTS

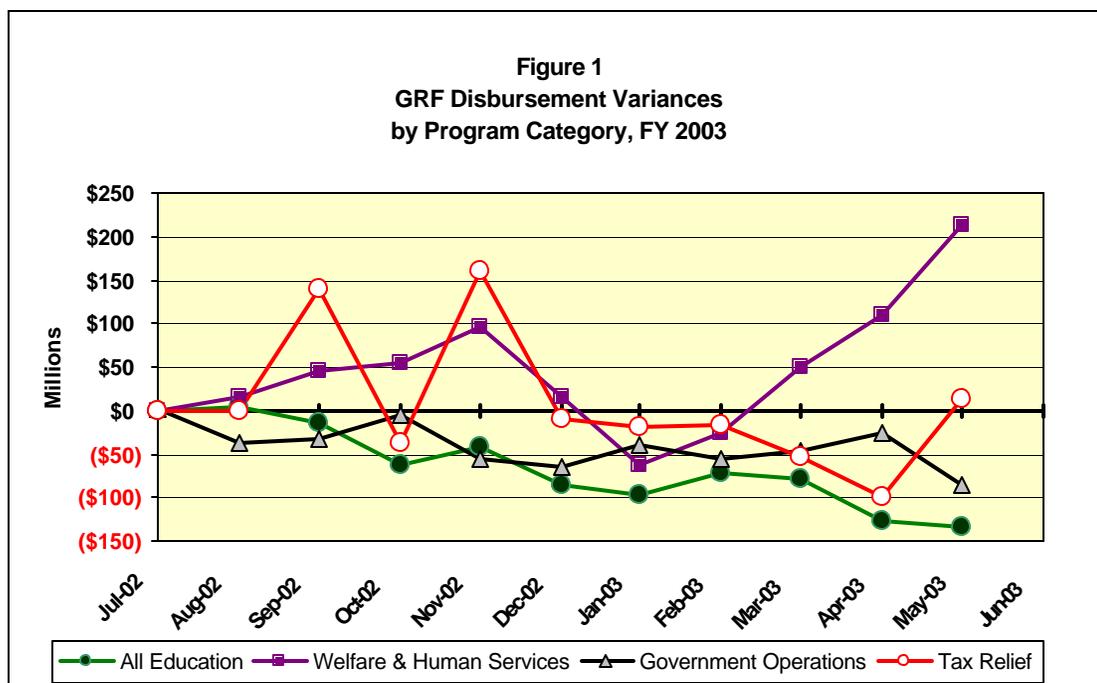
— Steve Mansfield*

With relatively large positive disbursement variances in the Welfare and Human Services program category and in the Tax Relief category, total General Revenue Fund (GRF) program payments in May (excluding transfers) were \$133.1 million over the estimate, reducing the negative year-to-date GRF disbursement variance to \$11.7 million. When we look at the year-to-date disbursement variance in four of the state's major program categories, as depicted in Figure 1, we see that the year-to-date positive disbursement variance in the Welfare and Human Services program category now exceeds \$200 million, while May's \$112.6 million positive variance in Tax Relief managed to push year-to-date disbursements in that program to just slightly above the estimate. Going in the opposite direction, the Government

major GRF program categories in the order of magnitude of its contribution to the \$11.7 million 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 (-\$133.0 million)

Disbursements in the Primary and Secondary Education category stand at \$133.0 million below the estimate for the year to date. The Department of Education has a year-to-date negative disbursement variance of \$119.2 million, with most of the offset coming from an \$18.3 million School Facilities



Operations program category posted a medium-sized negative variance of \$58.4 million that was largely the result of a May payroll that posted in April. The Education category posted a modest (\$6.9 million) negative disbursement variance.

In the sections that follow, we examine in more detail the disbursement activity in each of the four

Commission debt service payment that had originally been scheduled for June. The Board of Regents disbursements are \$26.1 million below estimate for the year.

Department of Education. The Department of Education's year-to-date negative disbursement variance grew by \$3.0 million in April to stand at

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

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	\$511,125	\$496,663	\$14,462
Higher Education	\$198,401	\$219,760	(\$21,359)
Total Education	\$709,526	\$716,423	(\$6,897)
Health Care/Medicaid	\$617,018	\$478,235	\$138,783
Temporary Assistance to Needy Families (TANF)	(\$99)	\$11,031	(\$11,130)
General/Disability Assistance	\$1,868	\$2,067	(\$199)
Other Welfare (2)	\$23,886	\$34,108	(\$10,222)
Human Services (3)	\$74,756	\$89,412	(\$14,655)
Total Welfare & Human Services	\$717,430	\$614,852	\$102,578
Justice & Corrections	\$112,978	\$159,273	(\$46,295)
Environment & Natural Resources	\$9,262	\$10,862	(\$1,600)
Transportation	\$1,283	\$1,105	\$178
Development	\$6,506	\$9,503	(\$2,998)
Other Government	\$18,376	\$26,040	(\$7,664)
Capital	\$0	\$0	\$0
Total Government Operations	\$148,405	\$206,783	(\$58,379)
Property Tax Relief (4)	\$316,142	\$203,551	\$112,591
Debt Service	\$0	\$16,767	(\$16,767)
Total Program Payments	\$1,891,503	\$1,758,377	\$133,126
TRANSFERS			
Local Govt Distribution	\$0	\$0	\$0
Budget Stabilization	\$0	\$0	\$0
Other Transfers Out	\$0	\$0	\$0
Total Transfers Out	\$0	\$0	\$0
TOTAL GRF USES	\$1,891,503	\$1,758,377	\$133,126
(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>			

\$119.9 million. Line item 200-501, Base Cost Funding, is now \$36.1 million under estimate for the year to date. It was reduced by \$63.7 million on March 5 by the Governor's expenditure reductions. Line item 200-520, Disadvantaged Pupil Impact Aid, accounts for \$22.1 million of the negative year-to-date variance, having been reduced by \$5.2 million on March 5; in addition, the Controlling Board approved the transfer of \$8.0 million from this line item to line item 200-546, Charge-Off Supplement (which has the largest year-to-date offsetting positive disbursement variance in the department – \$6.6 million). Line item 200-513, Student Intervention Services, stands at \$20.8 million

under estimate for the year to date after adding \$5.3 million to that total in May. Line item 200-410, Professional Development, is \$9.8 million under estimate for the year to date; it was reduced by \$8.8 million on March 5. Several other smaller items make up the balance of the negative variance.

Regents. In April, the Board of Regents disbursed \$21.3 million less than had been estimated, pushing its disbursement variance for the year to \$26.1 million below estimate. Virtually all of the year-to-date variance is traceable to a \$26.1 million negative variance in line item 235-501, State Share

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

USE OF FUNDS					
PROGRAM	Actual	Estimate*	Variance	FY 2002	Percent Change
Primary & Secondary Education (1)	\$5,802,881	\$5,909,764	(\$106,882)	\$5,614,484	3.36%
Higher Education	\$2,213,772	\$2,239,846	(\$26,073)	\$2,247,462	-1.50%
Total Education	\$8,016,654	\$8,149,610	(\$132,956)	\$7,861,946	1.97%
Health Care/Medicaid	\$7,469,647	\$7,163,014	\$306,633	\$6,725,995	11.06%
Temporary Assistance to Needy Families (TANF)	\$352,059	\$352,749	(\$690)	\$366,867	-4.04%
General/Disability Assistance	\$24,027	\$22,920	\$1,107	\$81,905	-70.66%
Other Welfare (2)	\$440,518	\$503,736	(\$63,218)	\$457,375	-3.69%
Human Services (3)	\$1,084,355	\$1,115,667	(\$31,312)	\$1,066,140	1.71%
Total Welfare & Human Services	\$9,370,606	\$9,158,086	\$212,520	\$8,698,282	7.73%
Justice & Corrections	\$1,707,614	\$1,758,782	(\$51,168)	\$1,696,564	0.65%
Environment & Natural Resources	\$112,464	\$113,967	(\$1,504)	\$116,870	-3.77%
Transportation	\$31,328	\$38,804	(\$7,476)	\$45,267	-30.79%
Development	\$162,222	\$175,897	(\$13,675)	\$168,286	-3.60%
Other Government	\$355,137	\$366,696	(\$11,559)	\$365,166	-2.75%
Capital	\$0	\$1,535	(\$1,535)	\$9,160	-100.00%
Total Government Operations	\$2,368,764	\$2,455,681	(\$86,918)	\$2,401,313	-1.36%
Property Tax Relief (4)	\$1,144,213	\$1,131,141	\$13,072	\$993,540	15.17%
Debt Service	\$250,527	\$267,923	(\$17,396)	\$219,011	14.39%
Total Program Payments	\$21,150,763	\$21,162,441	(\$11,678)	\$20,174,093	4.84%
TRANSFERS					
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%
Total Transfers Out	\$18,587	\$15,836	\$2,752	\$32,962	-43.61%
TOTAL GRF USES	\$21,169,351	\$21,178,277	(\$8,926)	\$20,207,055	4.76%

(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.

of Instruction, with \$13.8 million being added to the variance in the line in May. 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. May's disbursements continue to reflect the impact of the March budget reductions of \$39.2 million in this line. May's disbursements to line item 235-503, Ohio Instructional Grants, exhausted the appropriation and for the year to date are \$9.0 million above estimate. While refunds to the item may help with June's payouts, a shortfall in the item is possible.

Government Operations (-\$86.9 million)

For the year to date, disbursements for the Government Operations category as a whole now stand at \$86.9 million under the estimate, with \$58.4 million of that total being added in May. May's disbursement variance is largely traceable to the timing of a payment in the Department of Rehabilitation and Correction (DRC). The Department of Rehabilitation and Correction accounted for \$39.0 million of the year-to-date variance, the Department of Development stands at

\$13.2 million under estimate for the year to date, and the Department of Administrative Services was in third place with a \$9.5 million year-to-date negative variance.

Rehabilitation & Correction. In May, DRC’s disbursement activity was \$36.9 million under the estimate. This reflects the posting of the payroll paid out of line item 501-321, Institutional Operations, in the final days of April rather than in May as had been assumed by the estimates. For the year to date, DRC has a negative disbursement variance of \$39.0 million.

Development. Disbursement activity in the Department of Development stands at \$13.7 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 \$4.4 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.

Welfare/Human Services (\$212.5 million)

With a positive disbursement variance of \$102.6 million in May, the Welfare/Human Services category as a whole stands at \$212.5 million above the estimate for the year to date. May’s variance is traceable to a \$138.8 million positive disbursement variance in the Health Care/Medicaid program, with smaller offsetting negative variances in the remainder of the category. The following paragraphs discuss the disbursements in the components of this category in more detail.

Health Care/Medicaid. In May, the Health Care/Medicaid program (primarily line item 600-525) posted a \$138.8 million positive disbursement variance, pushing the program’s year-to-date disbursement variance to \$306.6 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 Department of Job and Family Services received in May approval from the Controlling Board to transfer sufficient funds to line item 600-525. In addition, the Controlling Board approved an increase of \$45.0 million in the appropriation to line item 600-692, Health Care Services. This \$45.0 million is a

Table 6
FY 2003 to FY 2002 Comparison of Year-to-Date Health Care Spending
(\$ in thousands)

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	\$2,161,516	\$2,183,332	(\$21,816)	-1.00%
Payments	\$2,378,065	\$2,257,740	\$120,325	5.33%
NF Franchise Fees Offset ¹	(\$216,549)	(\$74,407)	(\$142,141)	191.03%
ICF/MR	\$374,676	\$365,426	\$9,249	2.53%
Payments	\$393,334	\$381,296	\$12,038	3.16%
ICF/MR Franchise Fees Offset)	(\$18,659)	(\$15,870)	(\$2,788)	17.57%
Inpatient Hospitals	\$1,165,339	\$1,014,644	\$150,695	14.85%
Outpatient Hospitals	\$494,926	\$419,459	\$75,467	17.99%
Physicians	\$483,647	\$441,593	\$42,054	9.52%
Prescription Drugs	\$1,399,994	\$1,165,519	\$234,474	20.12%
HMO	\$657,103	\$540,483	\$116,620	21.58%
Medicare Buy-In	\$134,197	\$121,865	\$12,332	10.12%
ODJFS Waiver ²	\$157,350	\$147,527	\$9,823	6.66%
All Other ³	\$709,794	\$560,318	\$149,476	26.68%
CHIP II ⁴	\$54,097	\$43,631	\$10,466	23.99%
DA Medical ⁵	\$86,503	\$62,948	\$23,554	37.42%
Total Health Care	\$7,879,139	\$7,066,746	\$812,393	11.50%
DSH Offset	(\$136,354)	(\$116,557)	(\$19,797)	
Drug Rebates	(\$274,233)	(\$211,495)	(\$62,739)	
Prior Year Encumbrance	(\$83,539)	\$1,547	(\$85,086)	
Total Health Care (Net of Offsets)	\$7,385,013	\$6,740,241	\$644,771	9.57%
Est. Federal Share ⁶	\$4,300,394	\$3,930,310	\$370,084	
Est. State Share	\$3,084,618	\$2,809,931	\$274,687	

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.

projected increase in drug rebates and third-party revenue and is used to offset expenditures in line item 600-525. According to a spokesperson from the Office of Budget and Management, the state does not expect to use the entire amount from the BSF.

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 just under 10%, once offsets are included. Service categories posting year-over-year percentage increases that exceed the average rate by large amounts are the DA Medical, All Other, CHIP II, 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.

The categories with large rates of growth 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.

TANF. The state's portion of the TANF 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 May, year-to-date disbursement reports on the GRF portion of TANF show a negative disbursement variance of \$0.7 million. This variance was produced by a negative disbursement variance in May 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.

In May, the number of TANF cash assistance cases decreased slightly from April to stand at 86,610. The number of recipients also decreased to stand at 193,932 (down about 1,800 from April). In May of 2002, these same figures were 85,790 and 195,559, respectively.

Job and Family Services. Disbursements in the month of May in the Department of Job and Family Services' operating expenses and subsidy programs (which are captured in the "Other Welfare" subcategory in Tables 4 and 5 and which exclude Medicaid, TANF, and Disability Assistance, all of which are tracked as separate components of the Welfare and Human Services program category) fell \$10.2 million under the estimate, pushing the year-to-date disbursement variance in this subcategory to \$63.2 million under estimate. Most of the variance for the month seems tied to timing issues that should be balanced out in June's disbursements.

For the year to date, line item 600-416, Computer Projects, with year-to-date underspending of \$21.0 million (\$13.3 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 \$2.8 million in appropriations was transferred from this line item by the Controlling Board to line item 600-525, Health Care/Medicaid, in early June.) Also contributing \$13.0 million to the year-to-date negative variance is line item 600-321, Support Services. The appropriation for this line item was reduced by an additional \$1.4 million since the initial round of budget reductions. (The Controlling Board also transferred \$9.0 million from line item 600-321 to line item 600-525.) And line item 600-528, Adoption Services, continues to be a significant contributor, with a year-to-date negative disbursement variance of \$9.7 million. The underspending in Adoption Services stems in large part from a lower than expected rate of growth in the program.

Mental Health. In May, the Department of Mental Health posted its largest disbursement variance for the year. Offsetting last month's positive variance of \$10.5 million was this month's \$20.6 million negative disbursement variance. The year-to-date variance now stands at \$20.3 million below estimate. The bulk of the 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).

Tax Relief (\$13.1 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 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 May, the Education portion of tax relief was \$99.2 million over estimate due to the timing of the submission of tax reports. Basically, this variance is the result of the program playing catch-up with earlier negative variances. For the year to date, the property tax program in the Department of Education stands at \$8.6 million over estimate, and the program in the Department of Taxation stands at \$4.5 million over estimate.

**LSC colleagues who contributed to the development of this disbursement report included, in alphabetical order, Melaney Carter, Ivy Chen, Phil Cummins, David Price, Joseph Rogers, Maria Seaman, Allison Thomas, and Holly Wilson.*