

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

SEPTEMBER 2003

## *FISCAL OVERVIEW*

— Allan Lundell

FY 2004 started with economists predicting, for the third straight year, a stronger economy in the second half of the calendar year. Through the first two months of the new fiscal year, the national economy, with the major exception of employment, appears to have picked up. The recovery, which always seemed to be “six months away,” may finally be here.

Total GRF revenue is up 5.8% compared to a year ago and state-source revenue is up 5.0%. The revenue growth is partly due to the recovering economy, but it is also due to the tax changes made in the recently passed budget bill for FY 2004-2005 (Am. Sub. H.B. 95). Although revenues are up compared to the previous year, they are slightly below estimate for the fiscal year. GRF revenue is \$27 million (0.8%) below estimate through the first two months of FY 2004 and state-source revenue is \$33 million (1.3%) below estimate. Even as revenues have failed to meet expectations, spending has also been less than expected through the first two months of the fiscal year. GRF disbursements are \$74 million (1.8%) below estimate and are down 2.3% compared to last year. Disbursements for education (primary and secondary education and higher education combined) are \$5 million (1.3%) above estimate and disbursements for welfare and human services are \$71 million (3.6%) below estimate.

As shown in Table 1, the GRF began FY 2004 with a cash balance of \$396.5 million. Comparing the FY 2004 starting balance with the \$619.2 million balance for FY 2003 and the \$817.1 million balance for FY 2002 provides an indication of how difficult the past two years have been. Revenues, including transfers, for July and August combined amounted to \$3,326.5 million. Disbursements, including transfers out, for the first two months of the fiscal year totaled \$3,970.3 million. The month-end cash balance of -\$247.3 million is \$342.9 million lower than the balance at the end of August 2002. Although a negative balance may appear to be a cause for concern, if revenues and disbursements had met their estimates for July and August, the cash balance would have been -\$294.7 million, \$47.4 million lower than the actual level. Year-to-date encumbrances of \$720.3 million contribute to an unobligated

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- National economic activity is rising
- Employment is still declining
- Inflation and interest rates remain low

### *STATUS OF THE GRF*

#### Revenue ..... 7

- Sales tax rate increase and base expansion takes effect
- Revenue up from FY 2003 but below FY 2004 estimates
- Weak income tax withholding a reflection of labor market

#### Disbursements ..... 13

- Year to date GRF disbursements are 2.3% below the pace of FY 2003
- Year to date Medicaid expenditures are 6.7% above the pace of FY 2003

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

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<b>Table 1</b> <b>General Revenue Fund</b> <b>Simplified Cash Statement</b> (\$ in millions)				
	<b>Month of August</b>	<b>Fiscal Year 2004 to Date</b>	<b>Last Year</b>	<b>Difference</b>
Beginning Cash Balance	-\$69.5	\$396.5		
Revenue + Transfers	<u>\$1,671.7</u>	<u>\$3,326.5</u>		
Available Resources	\$1,602.3	\$3,723.1		
Disbursements + Transfers	<u>\$1,849.5</u>	<u>\$3,970.3</u>		
Ending Cash Balances	-\$247.3	-\$247.3	\$95.7	-\$342.9
Encumbrances and Accts. Payable		\$720.3	\$870.7	-\$150.4
Unobligated Balance		<b>-\$967.6</b>	<b>-\$775.0</b>	<b>-\$192.6</b>
BSF Balance		\$180.7	\$1,010.6	-\$829.9
<b>Combined GRF and BSF Balance</b>		<b>-\$786.9</b>	<b>\$235.6</b>	<b>-\$1,022.5</b>

balance of -\$967.6 million. The \$180.7 million balance in the Budget Stabilization Fund (BSF) is \$829.9 million less than a year ago, and the combined GRF and BSF balance is \$1,022.5 million less than it was at this time last year.

## ***TRACKING THE ECONOMY***

*¾ Phil Cummins*

Spurred by tax cuts, continued low interest rates, military outlays, and perhaps also some easing of Iraq War jitters, the national economy has picked up but employment continues to lag. Consumer spending is growing at a brisk pace in the third quarter, although concerns about labor market weakness could erode consumer willingness to spend later this year and next year. Housing starts eased in August but remained at a high level. Purchasing managers report rising activity. Business investment is picking up. Inflation remains low. The Federal Reserve kept its federal funds rate target unchanged at a monetary policy meeting this month and signaled its willingness to keep policy accommodative for an extended period of time.

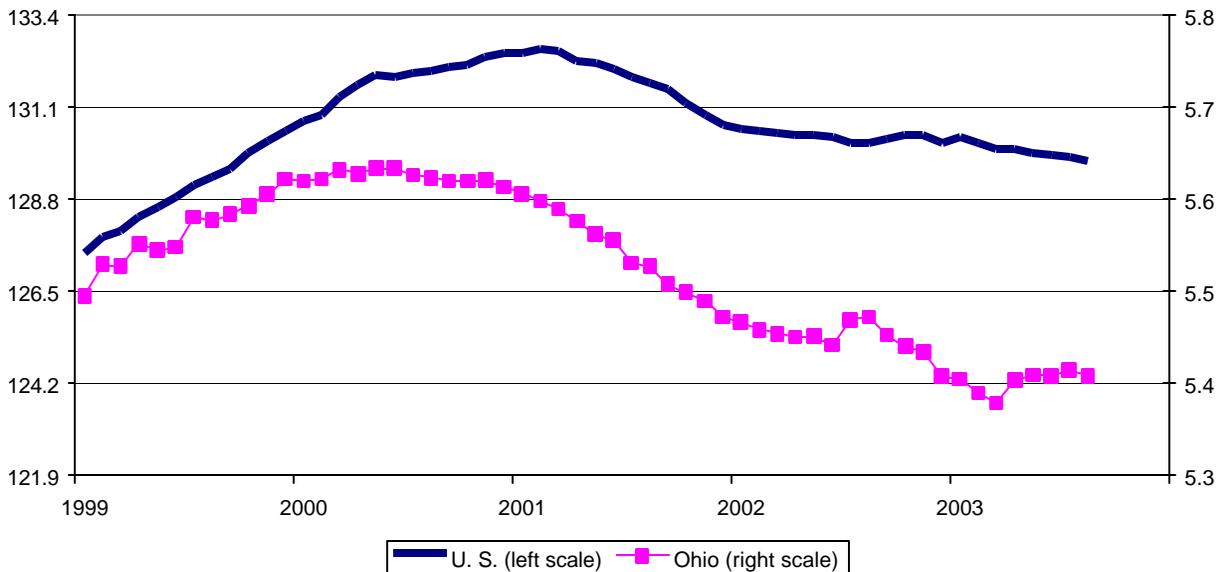
### ***Upturn in the Economy, Not in Employment***

Inflation-adjusted gross domestic product (GDP) in the United States grew at a 3.1% annual rate in the second quarter, following a slowdown to a 1.4% annual rate of expansion in this year's first quarter and last year's fourth quarter. Growth of the economy in the April-June period is the seventh consecutive quarter of increasing production following the 2001 recession. Sectors of the economy growing in the second quarter included consumer spending, housing, business investment, and federal military outlays. The rise in business investment in structures, the first expansion in this GDP component since the recession, was mainly increased oil and gas well drilling, but some types of building construction also increased, including health care and educational buildings. Office building and industrial construction remain weak. Investment in information processing equipment and software has been rising since the end of the recession in 2001. Industrial and transportation equipment continued to decline through the second quarter. The rise in military outlays, associated with the war in Iraq, was the sharpest one-quarter increase in current dollars since the Korean War. Businesses pared their inventories in the second quarter, exports shrank for the third consecutive quarter, federal government spending other than for defense declined, and state and local government outlays fell.

Nonfarm payroll employment nationwide declined 93,000 in August, while unemployment fell to 6.1% of the labor force. Nonfarm payrolls have trended downward since early 2001, and in August were at their lowest level since 1999. Large productivity gains continue to allow business to expand while staffing is reduced. Stronger economic growth may slow or end the net reductions in employment later this year. Manufacturing employment fell 44,000 in August, with declines widespread among industries. Employment also continued to trend lower in telecommunications, wholesale trade, and transportation and warehousing. Partially offsetting the declines in these and a number of other industries, health care, construction, and temporary help employment rose in August. The unemployment rate fell from 6.2% in July and 6.4% in June, its highest level for this business cycle.

In addition to publishing nonfarm payroll employment, the federal Bureau of Labor Statistics (BLS) publishes a series on employment based on the survey of households used to estimate the unemployment rate. Both payroll and household employment show recession losses of about 2 million jobs. But nonfarm payrolls have continued to trend lower since early 2002, by 800,000 employees, while the household employment figures show a substantial recovery nearly to the pre-recession peak. Part of the difference in the performance of the two series since early 2002 reflects growth in self-employment, by 850,000, which is included in total household employment but not in payroll employment. Most of the difference is due to growth in nonfarm wage and salary employment in the household survey and its decline in the payroll survey. The BLS commissioner in Congressional testimony this month indicated that BLS regards the payroll survey as providing more reliable indications of current trends in wage and salary employment,

**Chart 1: Total Nonfarm Payroll Employment  
Millions, Seasonally Adjusted**



because of a much larger statistical sample as the basis for the monthly figures and annual adjustment of the numbers to match the actual total in unemployment insurance tax records.

Nonfarm payroll employment in Ohio declined 5,800 in August, seasonally adjusted. Declines were widespread among industries. Ohio nonfarm payrolls have fallen by nearly 64,000 during the most recent 12 months, and by 225,000 from the peak in 2000, as shown in Chart 1. The state’s unemployment rate fell to 5.8% of the labor force from 6.3% in July. Although the figures show fewer people unemployed in August than in July, the number employed and the labor force also fell last month.

More purchasing managers at manufacturers nationwide reported increased production in August than noted declines, the fourth consecutive month of growth. A seasonally adjusted index based on these survey responses rose to its highest level since 1999. Of 20 industry groups in manufacturing, 13 reported expansion. New orders also rose for the fourth straight month, and order backlogs increased. However, factory inventories were reduced for the forty-third consecutive month.

Purchasing managers at nonmanufacturing entities indicated that business activity increased in August for the fifth consecutive month. An index based on their responses was at its highest level in July and August since the inception of this survey in 1997. The new orders index rose strongly in July and increased further in August, to its highest level in the history of the survey. Backlogs increased for the fourth straight month. Inventories, however, were reduced for the third straight month.

Industrial production in August rose 0.1%, but manufacturing output fell 0.1% after recovering in May through July from the war-related slowdown in the spring. The index for all industrial production was 1% below a year earlier in August, and manufacturing was 1.4% lower. Motor vehicle output fell in August, seasonally adjusted, even though production not seasonally adjusted was up strongly, perhaps reflecting the difficulties in seasonally adjusting for summer factory changeovers to production of the next model year’s vehicles. Excluding motor vehicles, factory production rose 0.1% in August. Production of business equipment rose 0.5%, its fourth consecutive increase after a 2-1/2 year decline. Manufacturing accounts for 85% of total industrial production. Output of electric utilities, 8% of the index, rose sharply in July and August to its highest level ever. Heavy use of the electric transmission grid contributed to the widespread blackout at mid-month.

Retail sales rose 0.6% in August, down from increases of 1.3% in July and 0.9% in June, to 5.4% above a year earlier. Despite the slower advance in retail sales in August, consumer spending appears to be rising at a 6% or higher annual rate in the third quarter, net of inflation. General merchandise store sales in August grew 1.1%, to 6.1% above a year earlier. Unit motor vehicles sales strengthened in July and August.

Housing starts in August declined 4% from July, seasonally adjusted, to a strong 1.82 million unit annual rate. Year-to-date starts are 5% higher than a year earlier. For all of 2002, 1.7 million housing units were started, up from 1.6 million units the year before. The market for new and used housing continues to be supported by mortgage interest rates that remain low despite the rise in rates in July and August. In recent weeks, mortgage interest rates have eased somewhat, reversing part of their rise during the summer.

The “Beige Book,” the Federal Reserve Bank’s summary of primarily anecdotal reports from business and other contacts, indicated continued improvement in business activity in most areas of the country during July and August. Retail sales rose in most regions, though increases were small in some Federal Reserve districts. Manufacturing production or orders increased slightly or moderately in most districts. The report from the Cleveland district, which includes Ohio, also noted a rise in business activity but characterized growth as modest.

### ***Inflation Tame Overall, but Some Costs Rising Faster***

The producer price index for finished goods rose 0.4% from July to August and was 3.4% higher than in August 2002. Finished energy goods prices were 14% higher than a year earlier as a result of sharply higher natural gas, gasoline, and fuel oil prices than last year. Excluding energy, finished goods prices were 1.5% higher than a year earlier. At earlier stages of production, prices for intermediate materials, supplies, and components rose 0.5% in August to 4.4% above a year earlier, and crude materials prices fell 1.4% to 21% above a year earlier. Large increases in natural gas and other energy prices accounted in part for the sizable year-over-year changes in these intermediate and crude goods price indices, but prices for crude materials less energy were 11% higher.

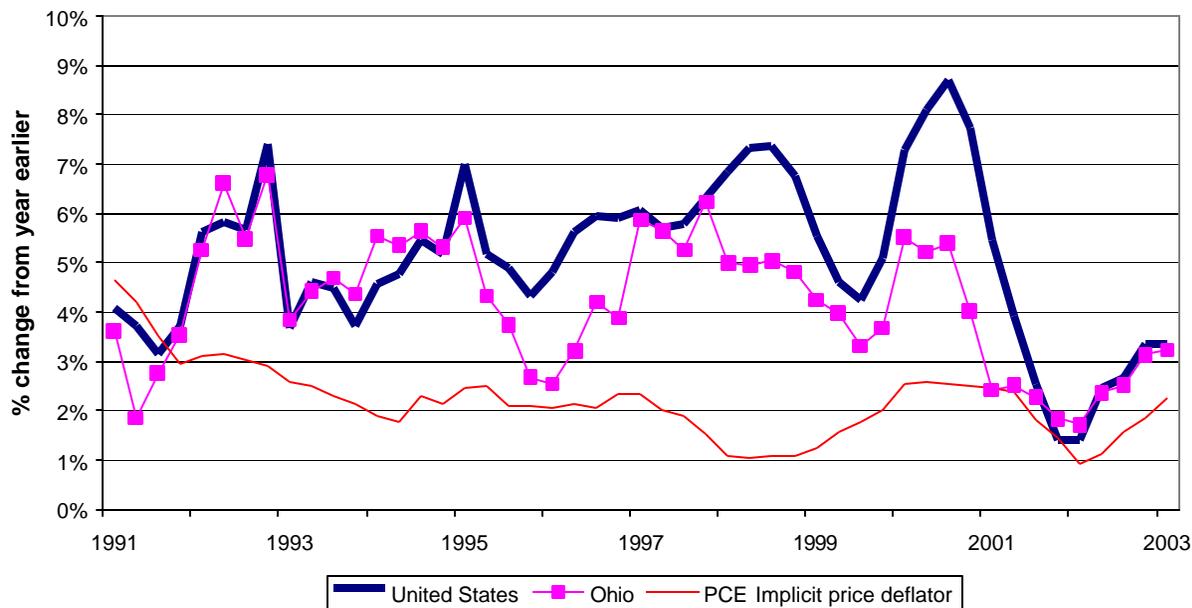
Consumer prices rose 0.3% in August to 2.2% higher than a year earlier. Energy prices jumped 2.7% in August, their biggest increase since March, reflecting a 6.2% increase in gasoline prices. Energy prices in August were 12% higher than a year earlier; excluding energy, consumer prices rose 0.1% to 1.4% higher than a year earlier.

A measure of total employment costs for all civilian workers, the Bureau of Labor Statistics’ Employment Cost Index, rose 3.7% in the year to June, down from a 4.0% increase in the previous year. Wages and salaries rose 2.7% in the latest year, matching the lowest year-over-year increase, in the early 1990s, in this series dating from 1982. But benefit costs accelerated to a 6.3% rise in the latest year, from 5.0% the previous year, mainly because of rising health insurance costs. For state and local governments, total compensation costs rose 4.1% in the year to June, reflecting a 3.1% increase in wages and salaries and a 6.8% increase in benefit costs.

### ***Monetary Policy Unchanged***

As expected, the Federal Reserve kept its primary target interest rate, for federal funds, unchanged at 1% following its regularly scheduled Open Market Committee meeting on September 16. In announcing this decision, it cited evidence that spending is firming, supported by accommodative monetary policy and robust productivity gains, but noted further weakening in labor markets and limited business pricing

Chart 2: Total Personal Income



power. The Fed continues to view deflation as its predominant concern and so appears unlikely to raise short-term interest rates any time soon. Longer-term market interest rates, after rising sharply by more than one percentage point from mid-June to early August, have eased somewhat.

***Rising Personal Income in Ohio and the Nation***

State personal income figures, available with a lag of several months, were released this summer for the first quarter. Personal income includes wages and salaries, proprietors’ earnings, transfer payments, dividends, interest, rent, and other income to individuals. The data show total personal income for the United States and Ohio recovering slowly from the 2001 recession. Personal income is reported in current dollars, with no adjustment for inflation. In Chart 2, changes from a year earlier in total personal income for the U. S. and the state are compared with year-over-year changes in the personal consumption expenditures price deflator, an indicator of inflation for this sector of the economy. Growth of personal income, nationwide and in Ohio, has exceeded this measure of price changes in 2002 and early 2003. Inflation-adjusted growth of personal income slowed to zero in 2001, with Ohio income growth falling to zero earlier than the nation, after generally trailing the nation during the second half of the 1990s. As a result, Ohio’s share of nationwide personal income has declined to 3.8% from 4.1% a decade ago.

# Status of the General Revenue Fund

## REVENUE

— Allan Lundell and Jean Botomogno

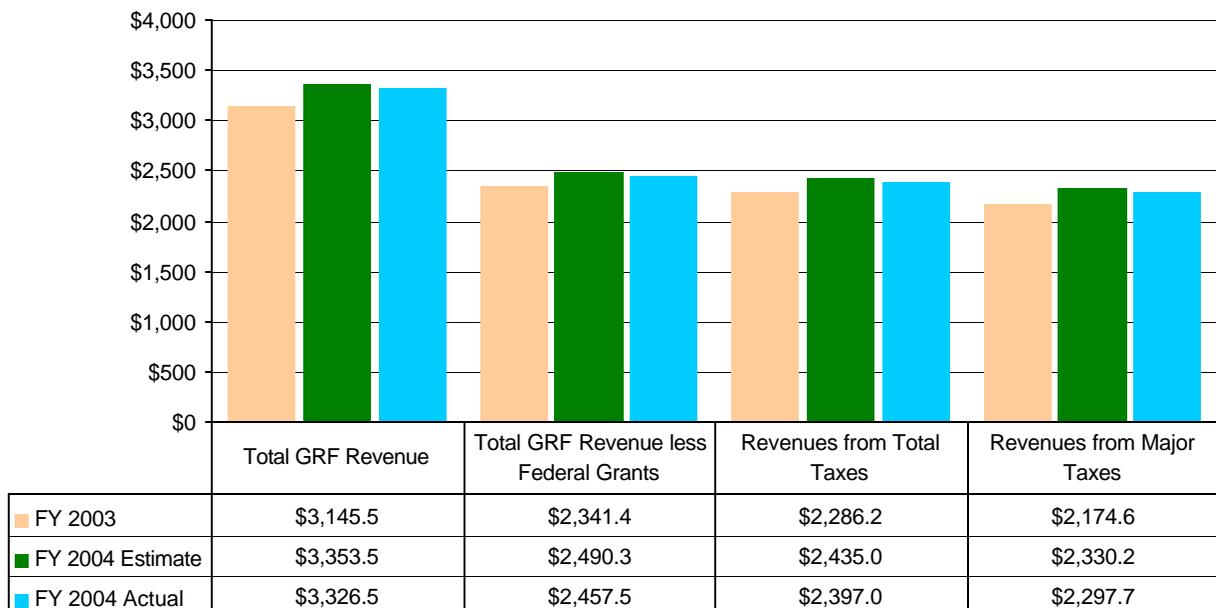
Two months into the fiscal year, GRF revenue is up 5.8% compared to the first two months of FY 2003. GRF revenue less federal grants (state-source revenue) is up 5.0%. Although some of the increase in revenue is the result of growth in the economy, a significant portion of the growth in revenue is due to the changes made to the sales tax in Am. Sub. H.B. 95 (the main operating budget for FY 2004-2005). The change in revenue from the sales and use tax accounts for 40% of the increase in total GRF revenue over FY 2003 and 62% of the increase in state-source revenue.

Although revenues are up compared to the previous year, they are slightly below estimate for the fiscal year. GRF revenues are 0.8% below estimate through the first two months of FY 2004. Revenues from the major taxes are 1.4% below estimate. Chart 1 compares FY 2004 revenues with FY 2003 revenues and FY 2004 estimates.

### Sales and Use Tax

Am. Sub. H.B. 95 temporarily increased the sales and use tax rate from 5% to 6%. The rate increase applies to taxable sales occurring between July 1, 2003, and June 30, 2005. On July 1, 2005, the sales and use tax rate is scheduled to return to 5%. Am. Sub. H.B. 95 also expanded the sales and use tax base by imposing the sales tax to various services effective August 1, 2003. Sales and use tax revenues in this fiscal year will include additional revenue from both the tax rate increase and the base expansion. Therefore, comparisons with sales and use tax revenues a year ago must be interpreted with caution. Due to the timing of sales and use tax payments by various sellers and vendors,<sup>1</sup> sales and use tax revenues in August 2003 reflect more fully the effect of the sales tax rate increase on sales tax revenue. Some additional revenue from the sales

**Chart 1: Year-to-Date GRF Revenue**  
(in millions of dollars)



tax base expansion, also part of H.B. 95, will be recorded starting with September 2003 sales and use tax revenues. As of August 2003, year-to-date sales and use tax revenues were \$1,180.4 million, \$10.1 million (or 0.8%) below estimate. Sales and use tax receipts were \$72.1 million or 6.5% higher than year-to-date tax receipts in August 2002 in FY 2003.

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

The non-auto sales and use tax provided \$482.7 million in July 2003. (Revenue estimates were not published by the Office of Budget and Management for the month.) Non-auto sales and use tax receipts were \$499.3 million in August 2003, \$7.3 million or 1.3% below estimates. Tax receipts largely reflect taxable retail sales activity in the prior month. However, due to Am. Sub. H.B. 40, which accelerated sales and use tax payments for certain taxpayers, non-auto monthly sales and use tax payments also reflect in part taxable retail sales during the same month. Vendors and direct-pay permit holders who are required to pay by electronic funds transfers (EFT) must remit up to three payments during the month in which their taxable transactions occur, as well as a "reconciliation" payment by the 23rd of the following month for the remainder of their tax liability. Sales and use tax payments on certain taxable sales occurring in August will be made in the same month by EFT taxpayers,<sup>2</sup> and the remainder of their August tax liability will be paid by the 23rd of September. EFT taxpayers contribute between 75% to 80% of non-auto sales and use tax revenue in a fiscal year.

Compared to non-auto sales tax revenues a year ago, July 2003 non-auto sales tax receipts were \$4.3 million or 0.9% higher than revenues in July 2002. August 2003 non-auto tax receipts were \$58.1 million or 13.2% higher than tax receipts in the same month last year.

As of August 2003, year-to-date non-auto sales and use tax receipts were \$982.0 million, \$7.3 million or 0.7% below estimates. Compared to year-to-date receipts a year ago, year-to-date non-auto sales tax receipts as of August 2003 were up \$62.5 million or 6.8%.

According to the U.S. Department of Commerce, nationwide retail sales (excluding autos) grew 1.0% in June, 0.8% in July, and a modest 0.5% in August 2003. Compared to retail sales in the same month in calendar year (CY) 2002, nationwide retail sales grew 4.8% in June 2003, 5.2% in July 2003, and 5.1% in August 2003. Looking at another national measure of retail sales health, the Bank of Tokyo Mitsubishi Retail Chain Store Index<sup>3</sup> month-to-month percentage change was positive for three straight months (2.3% in June, 0.4% in July, and 0.4% in August). The same index shows healthy growth compared to the same month in the prior year of 2.4%, 4.2%, and 5.1% in June 2003, July 2003, and August 2003, respectively. It appears that nationwide retail sales have been increasing compared to sales in the previous year, although the monthly gains seem to have decreased of late.

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

The auto sales tax is continuing a strong performance in the first two months of FY 2004. Auto sales tax receipts were \$98.7 million in July 2003. In August 2003, auto sales tax receipts were \$99.7 million, \$2.7 million or 2.7% below estimates. Auto tax payments are made by the clerks of court on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, they largely reflect vehicles sold and titled during the month.

Compared to revenues a year ago, auto sales tax receipts in July 2003 were \$14.2 million or 16.7% higher than receipts in July 2002. August 2003 auto sales tax receipts were \$4.6 million or 4.4% lower than receipts in August 2002. As of August 2003, year-to-date auto sales tax receipts were \$198.4 million, \$2.7 million or 1.4% below estimates in FY 2004. Auto sales tax revenues for August 2003 were also \$9.6 million or 5.1% higher than revenues for August 2002.

Nationwide, unit sales of light vehicles (autos and light trucks) in August 2003 were 4.5% below overall unit sales in the same month last year (with an 11% decline in unit sales for autos, and 14% increase for trucks). The annual sales pace in

August 2003 was about 19 million vehicles, higher than July's pace of 17.2 million units. However, in the first two months of FY 2004, nationwide unit sales were about 2.7% below unit sales at this time last year.<sup>4</sup> Also, for CY 2003, unit sales were 2.6% below last year's unit sales (with a 7.0% decline for auto unit sales, and 1.7% increase for unit sales for light trucks). High levels of vehicle sales are maintained with the help of higher incentives. Industrywide, the average incentive per vehicle was \$3,004 in August 2003, 52% higher than in August 2002, according to Autodata Corporation. Although incentives are increasing every year, they are more available for cars than for trucks. The share of light trucks in total unit sales has been increasing. From 43.3% of unit sales in 1996, light truck sales were 51.6% of unit sales in 2002. So far in CY 2003, light truck sales are approximately 53.0% of sales. Auto sales tax revenues have also been helped by vehicle price increases. Despite the auto rebates and cash backs, new-vehicle average selling prices have increased 3.6%, 2.0%, 3.5%, and 1.4% in CY 1999, CY 2000, CY 2001, and CY 2002, respectively.<sup>5</sup>

### ***Personal Income Tax***

Through the first two months of FY 2004, GRF revenues from the personal income tax are \$1,018 million. This total is \$17 million (1.6%) below estimate. Gross collections are \$24 million below estimate. Combined withholding is \$29 million (2.5%) below estimate. Despite the recent improvement in many economic indicators, employment remains down. Until employment joins the recovery, tax withholding will remain weak. The poor collection performance is partially offset by lower than expected refunds. Refunds are \$7 million (10.1%) below estimate. Compared to a year ago, GRF revenue from the personal income tax is up by 2.7%. Gross collections are up by 0.9%, but withholding is down by 0.6%.

### ***Corporate Franchise Tax***

Activities under the franchise tax in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations. Major tax receipts under this tax are due in the second half of the fiscal year, with the first major tax payment due in January 2004. Corporate franchise tax receipts were \$3.6 million in July 2003. Corporations received \$1.3 million in tax overpayments (refunds) in August 2003. For the fiscal year to date as of August 2003, franchise tax receipts were below estimates by \$1.7 million or 42.5%, but \$12.1 million above receipts through August 2002.

### ***Cigarette Tax***

Cigarette and other tobacco products tax receipts were \$29.4 million in July 2003 and \$47.2 million in August 2003. August receipts were \$5.5 million or 10.2% lower than estimates. Compared to receipts a year ago in the same period, cigarette and other tobacco products tax receipts were lower by \$11.5 million or 19.6% this year.

As of August 2003, year-to-date cigarette and other tobacco product receipts were \$76.6 million, \$5.5 million or 6.6% below estimates. As of August 2003, year-to-date cigarette and other tobacco product revenues were \$4.4 million or 5.5% below revenue a year ago. S.B. 261, which increased the tax rate from 22 cents to 55 cents per pack of 20 cigarettes, required taxpayers to pay a "floor" tax for cigarettes that were in inventory when the excise tax rate was increased. In the first two months of FY 2003 (July and August 2002), the floor tax provided \$14.9 million. Excluding amounts provided by the floor tax, year-to-date FY 2004 revenues were \$10.5 million or 15.9% above receipts in the same period in FY 2003.

<sup>1</sup> Payments for sales and use tax vary by type of accounts (vendors, direct-pay holders, sellers use taxpayers, consumers use taxpayers, etc.) and by schedule (monthly, semiannual, quarterly).

<sup>2</sup> EFT taxpayers contribute up to 80% of non-auto sales and use tax collections during the fiscal year.

(Endnotes continued on Page 12)

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

**REVENUE SOURCE**

<b>TAX REVENUE</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Auto Sales	\$99,699	\$102,447	-\$2,748	-2.7%
Non-Auto Sales & Use	\$499,316	\$506,641	-\$7,325	-1.4%
Total Sales	\$599,016	\$609,088	-\$10,072	-1.7%
Personal Income	\$501,336	\$518,293	-\$16,957	-3.3%
Corporate Franchise	-\$1,288	\$397	-\$1,685	-424.5%
Public Utility	\$39,063	\$38,500	\$563	1.5%
Kilowatt Hour Excise Tax	\$29,674	\$33,934	-\$4,260	-12.6%
<b>Total Major Taxes</b>	<b>\$1,167,801</b>	<b>\$1,200,212</b>	<b>-\$32,411</b>	<b>-2.7%</b>
Foreign Insurance	\$38	\$0	\$38	---
Domestic Insurance	\$147	\$200	-\$53	-26.4%
Business & Property	\$187	\$200	-\$13	-6.4%
Cigarette	\$47,187	\$52,640	-\$5,453	-10.4%
Alcoholic Beverage	\$5,124	\$5,400	-\$276	-5.1%
Liquor Gallonage	\$2,649	\$2,520	\$129	5.1%
Estate	\$6,306	\$6,300	\$6	0.1%
Total Other Taxes	\$61,638	\$67,260	-\$5,622	-8.4%
<b>Total Taxes</b>	<b>\$1,229,439</b>	<b>\$1,267,472</b>	<b>-\$38,033</b>	<b>-3.0%</b>
<b>NON-TAX REVENUE</b>				
Earnings on Investments	\$0	\$0	\$0	---
Licenses and Fees	\$4,606	\$6,174	-\$1,568	-25.4%
Other Revenue	\$13,838	\$10,100	\$3,738	37.0%
Non-Tax Receipts	\$18,444	\$16,274	\$2,170	13.3%
<b>TRANSFERS</b>				
Liquor Transfers	\$9,000	\$6,000	\$3,000	50.0%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$176	\$175	\$1	0.4%
Total Transfers In	\$9,176	\$6,175	\$3,001	48.6%
<b>TOTAL REVENUE less Federal Grants</b>	<b>\$1,257,059</b>	<b>\$1,289,921</b>	<b>-\$32,862</b>	<b>-2.5%</b>
Federal Grants	\$414,690	\$408,783	\$5,907	1.4%
<b>TOTAL GRF REVENUE</b>	<b>\$1,671,749</b>	<b>\$1,698,704</b>	<b>-\$26,955</b>	<b>-1.6%</b>

\* August 2003 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

**Table 3**  
**General Revenue Fund Income**  
**Actual vs. Estimate**  
**FY 2004 to Date as of August 2003**  
(\$ in thousands)

<b>REVENUE SOURCE</b>							<b>Percent</b>
<b>TAX REVENUE</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2003</b>	<b>Change</b>	
Auto Sales	\$198,413	\$201,161	-\$2,748	-1.4%	\$188,813		5.1%
Non-Auto Sales & Use	\$981,980	\$989,305	-\$7,325	-0.7%	\$919,526		6.8%
<b>Total Sales</b>	<b>\$1,180,393</b>	<b>\$1,190,466</b>	<b>-\$10,073</b>	<b>-0.8%</b>	<b>\$1,108,339</b>		<b>6.5%</b>
Personal Income	\$1,018,146	\$1,035,102	-\$16,956	-1.6%	\$991,802		2.7%
Corporate Franchise	\$2,279	\$3,965	-\$1,686	-42.5%	-\$9,851		-123.1%
Public Utility	\$39,139	\$38,577	\$562	1.5%	\$26,389		48.3%
Kilowatt Hour Excise Tax	\$57,789	\$62,049	-\$4,260	-6.9%	\$57,938		-0.3%
<b>Total Major Taxes</b>	<b>\$2,297,747</b>	<b>\$2,330,159</b>	<b>-\$32,412</b>	<b>-1.4%</b>	<b>\$2,174,616</b>		<b>5.7%</b>
Foreign Insurance	\$129	\$91	\$38	41.4%	\$54		140.2%
Domestic Insurance	\$147	\$200	-\$53	-26.4%	\$1,284		-88.5%
Business & Property	\$623	\$636	-\$13	-2.0%	\$745		-16.4%
Cigarette	\$76,605	\$82,059	-\$5,454	-6.6%	\$81,023		-5.5%
Alcoholic Beverage	\$10,373	\$10,648	-\$275	-2.6%	\$10,281		0.9%
Liquor Gallonage	\$5,073	\$4,944	\$129	2.6%	\$4,836		4.9%
Estate	\$6,306	\$6,300	\$6	0.1%	\$13,411		-53.0%
<b>Total Other Taxes</b>	<b>\$99,256</b>	<b>\$104,878</b>	<b>-\$5,622</b>	<b>-5.4%</b>	<b>\$111,633</b>		<b>-11.1%</b>
<b>Total Taxes</b>	<b>\$2,397,003</b>	<b>\$2,435,037</b>	<b>-\$38,034</b>	<b>-1.6%</b>	<b>\$2,286,250</b>		<b>4.8%</b>
<b>NON-TAX REVENUE</b>							
Earnings on Investments	\$0	\$0	\$0	---	\$0		---
Licenses and Fees	\$7,645	\$9,213	-\$1,568	-17.0%	\$7,876		-2.9%
Other Revenue	\$23,469	\$19,731	\$3,738	18.9%	\$24,577		-4.5%
<b>Non-Tax Receipts</b>	<b>\$31,114</b>	<b>\$28,944</b>	<b>\$2,170</b>	<b>7.5%</b>	<b>\$32,453</b>		<b>-4.1%</b>
<b>TRANSFERS</b>							
Liquor Transfers	\$19,000	\$16,000	\$3,000	18.8%	\$19,000		0.0%
Budget Stabilization	\$0	\$0	\$0	---	\$0		---
Other Transfers In	\$10,363	\$10,362	\$1	0.0%	\$3,695		180.4%
<b>Total Transfers In</b>	<b>\$29,363</b>	<b>\$26,362</b>	<b>\$3,001</b>	<b>11.4%</b>	<b>\$22,695</b>		<b>29.4%</b>
<b>TOTAL REVENUE less Federal Grants</b>	<b>\$2,457,480</b>	<b>\$2,490,343</b>	<b>-\$32,863</b>	<b>-1.3%</b>	<b>\$2,341,397</b>		<b>5.0%</b>
Federal Grants	\$869,051	\$863,144	\$5,907	0.7%	\$804,141		8.1%
<b>TOTAL GRF REVENUE</b>	<b>\$3,326,531</b>	<b>\$3,353,487</b>	<b>-\$26,956</b>	<b>-0.8%</b>	<b>\$3,145,539</b>		<b>5.8%</b>

\* August 2003 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

*(Endnotes continued from page 9)*

<sup>3</sup> The Bank of Tokyo Mitsubishi Retail Chain Store Index measures sales at locations open at least a year for between 74 to 94 retailers. The index does not include new business expansions, does not represent all retail sales, and does not include privately held companies. Government data are broader and the information is often revised. However, both measures provide changes in trends in retail sales.

<sup>4</sup> No data on unit sales for Ohio are readily available.

<sup>5</sup> National Automobile Dealers Association: *2003 NADA Data Report*.

## DISBURSEMENTS

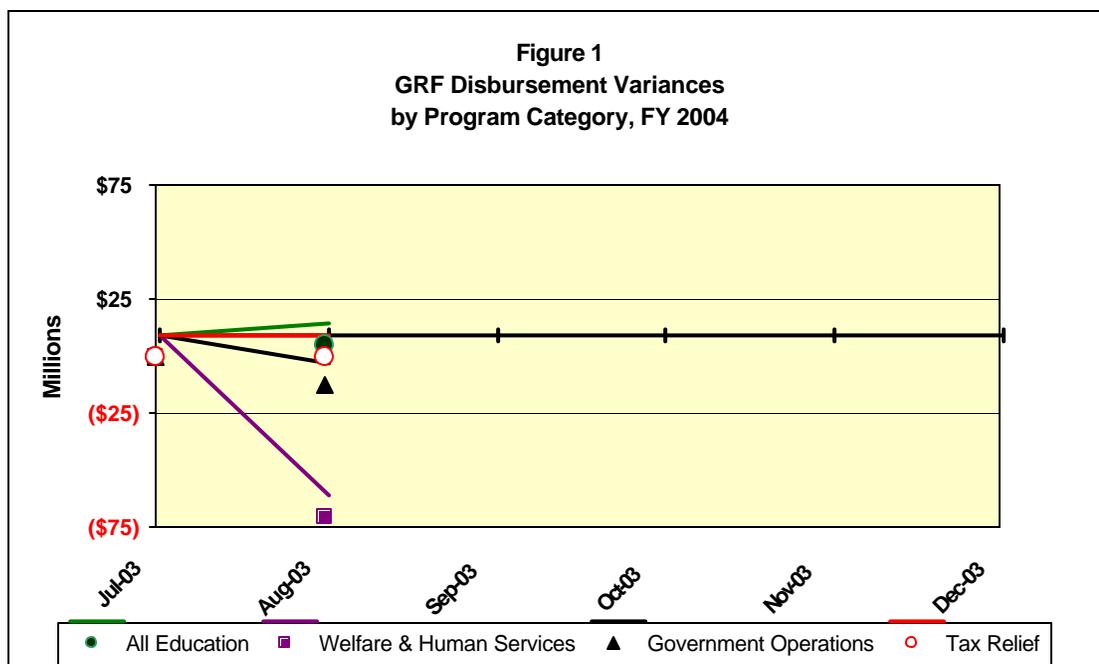
— Steve Mansfield

Since this is the first issue of *Budget Footnotes* of the fiscal year, it may be helpful to start with a brief comment on the purpose and nature of this report on GRF disbursements. Typically, this report is the combined effort of a number of fiscal analysts who provide information and assistance for its preparation. These analysts examine state spending data for departures from the monthly disbursement estimates that are produced at the beginning of each fiscal year by the Office of Budget and Management (OBM). The goal of the report is to inform legislators and other readers about significant departures, or “variances,” from those GRF disbursement estimates. There will be in this fiscal year, as in every other fiscal year, “garden variety” variances whose explanation is solely timing, that is, the release of payments earlier or later than expected. These timing-related variances, if indeed they really are timing-related, should self-correct by the end of the fiscal year, thus reducing the variance. In other words, the actual spending would move closer to the estimate, thus reducing the variance closer to zero. More interesting for purposes of this report are variances of a rarer kind, those that might have a sustained impact, either positive or negative, on GRF

spending. These sustained disbursement variances could result from implementation problems, changes in state policy, or changes in economic climate that trigger changes in spending, thus impacting future policy decisions. Hopefully, our regular scanning of GRF spending across state government will uncover these rarer disbursement variances to the benefit of our readers.

As sometimes happens at the beginning of a fiscal year, we have not yet assembled all the information necessary to produce a detailed disbursement report. This disbursement report will thus be limited to discussing briefly some aspects of Tables 4 and 5, which present disbursement variance data in each of the state’s four major GRF program categories, commenting on a few of the items that stand out in the tables. Our next issue will contain the usual discussion of disbursement variances at the more detailed level of agency programs.

Through the first two months of the fiscal year, General Revenue Fund disbursements (excluding transfers) were \$78.5 million below the estimate, and 2.3% below the pace of FY 2003. Medicaid



expenditures through the first two months of FY 2004 are 6.7% higher than at the same point in FY 2003. As we see from Figure 1 and Table 5, the bulk of the year-to-date negative disbursement variance is traceable to the Welfare and Human Services program category, with a small assist from the Government Operations category. The largest contributors to the \$70.9 million negative disbursement variance in the Welfare and Human Services category were the Human Services subcategory (-\$49.4 million), the Health Care/Medicaid subcategory (-\$17.1 million), and the Other Welfare subcategory (-\$9.0 million).

One standout item in Table 5 merits a brief comment. The year-over-year expenditure in the Property Tax Relief program shows disbursements

in FY 2004 are 93.0% less than in FY 2003. This is largely an artifact of an anomalous situation where some payments to counties were delayed from FY 2002 into FY 2003. The large percentage decrease occurred because this year's disbursements do not contain any such delay.

Next month's edition of the Disbursements report will contain the usual tables on Medicaid and detailed analysis of the largest contributors to variances from the GRF estimates.

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

**USE OF FUNDS**

<i>PROGRAM</i>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Primary & Secondary Education (1)	\$559,937	\$560,068	-\$130	0.0%
Higher Education	\$180,623	\$175,812	\$4,811	2.7%
<b>Total Education</b>	<b>\$740,560</b>	<b>\$735,879</b>	<b>\$4,681</b>	<b>0.6%</b>
Health Care/Medicaid	\$717,015	\$734,080	-\$17,064	-2.3%
TANF	\$24,117	\$22,290	\$1,827	8.2%
General/Disability Assistance	\$1,721	\$1,917	-\$196	-10.2%
Other Welfare (2)	\$47,407	\$56,451	-\$9,044	-16.0%
Human Services (3)	\$96,074	\$142,483	-\$46,408	-32.6%
<b>Total Welfare &amp; Human Services</b>	<b>\$886,334</b>	<b>\$957,221</b>	<b>-\$70,886</b>	<b>-7.4%</b>
Justice & Corrections	\$115,560	\$116,926	-\$1,366	-1.2%
Environment & Natural Resources	\$11,298	\$10,259	\$1,039	10.1%
Transportation	\$1,080	\$2,324	-\$1,244	-53.5%
Development	\$13,358	\$22,493	-\$9,135	-40.6%
Other Government	\$45,522	\$47,150	-\$1,628	-3.5%
Capital	\$0	\$89	-\$89	-100.0%
<b>Total Government Operations</b>	<b>\$186,818</b>	<b>\$199,242</b>	<b>-\$12,424</b>	<b>-6.2%</b>
Property Tax Relief (4)	\$6,865	\$6,865	\$0	0.0%
Debt Service	\$28,960	\$30,407	-\$1,447	-4.8%
<b>Total Program Payments</b>	<b>\$1,849,537</b>	<b>\$1,929,614</b>	<b>-\$80,077</b>	<b>-4.1%</b>
<b>TRANSFERS</b>				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$0	\$3,225	\$0	-100.0%
<b>Total Transfers Out</b>	<b>\$0</b>	<b>\$3,225</b>	<b>-\$3,225</b>	<b>-100.0%</b>
<b>TOTAL GRF USES</b>	<b>\$1,849,537</b>	<b>\$1,932,839</b>	<b>-\$83,302</b>	<b>-4.3%</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 2003 estimates of the Office of Budget and Management.

*Detail may not sum to total due to rounding.*

**Table 5**  
**General Revenue Fund Disbursements**  
**Actual vs. Estimate**  
**FY 2004 to Date as of August 2003**  
(\$ in thousands)

<b>USE OF FUNDS</b>						
<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2003</b>	<b>Percent Change</b>
Primary & Secondary Education (1)	\$1,123,436	\$1,123,567	-\$130	0.0%	\$1,097,685	2.3%
Higher Education	\$362,198	\$357,387	\$4,811	1.3%	\$380,829	-4.9%
<b>Total Education</b>	<b>\$1,485,635</b>	<b>\$1,480,954</b>	<b>\$4,681</b>	<b>0.3%</b>	<b>\$1,478,514</b>	<b>0.5%</b>
Health Care/Medicaid	\$1,562,598	\$1,579,662	-\$17,064	-1.1%	\$1,464,428	6.7%
TANF	\$24,117	\$22,290	\$1,827	8.2%	\$16,363	47.4%
General/Disability Assistance	\$5,339	\$5,535	-\$196	-3.5%	\$5,452	-2.1%
Other Welfare (2)	\$121,457	\$130,502	-\$9,044	-6.9%	\$128,260	-5.3%
Human Services (3)	\$199,898	\$246,306	-\$46,408	-18.8%	\$273,744	-27.0%
<b>Total Welfare &amp; Human Services</b>	<b>\$1,913,409</b>	<b>\$1,984,295</b>	<b>-\$70,886</b>	<b>-3.6%</b>	<b>\$1,888,246</b>	<b>1.3%</b>
Justice & Corrections	\$308,582	\$309,948	-\$1,366	-0.4%	\$295,262	4.5%
Environment & Natural Resources	\$25,315	\$24,276	\$1,039	4.3%	\$32,712	-22.6%
Transportation	\$6,305	\$7,549	-\$1,244	-16.5%	\$11,273	-44.1%
Development	\$21,011	\$30,147	-\$9,135	-30.3%	\$29,709	-29.3%
Other Government	\$70,441	\$72,069	-\$1,627	-2.3%	\$66,589	5.8%
Capital	\$0	\$90	-\$90	-100.0%	\$0	---
<b>Total Government Operations</b>	<b>\$431,654</b>	<b>\$444,078</b>	<b>-\$12,424</b>	<b>-2.8%</b>	<b>\$435,545</b>	<b>-0.9%</b>
Property Tax Relief (4)	\$9,301	\$9,301	\$0	0.0%	\$133,158	-93.0%
Debt Service	\$108,046	\$109,493	-\$1,447	-1.3%	\$111,446	-3.1%
<b>Total Program Payments</b>	<b>\$3,948,045</b>	<b>\$4,028,122</b>	<b>-\$80,077</b>	<b>-2.0%</b>	<b>\$4,046,909</b>	<b>-2.4%</b>
<b>TRANSFERS</b>						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$22,300	\$16,525	\$5,775	34.9%	\$15,836	40.8%
<b>Total Transfers Out</b>	<b>\$22,300</b>	<b>\$16,525</b>	<b>\$5,775</b>	<b>34.9%</b>	<b>\$15,836</b>	<b>40.8%</b>
<b>TOTAL GRF USES</b>	<b>\$3,970,345</b>	<b>\$4,044,647</b>	<b>-\$74,302</b>	<b>-1.8%</b>	<b>\$4,062,745</b>	<b>-2.3%</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 2003 estimates of the Office of Budget and Management.

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