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Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission — November 2003

Fiscal Overview

— Allan Lundell

October brought good news for the national economy. Gross domestic product (GDP) grew at a 7.2% annualized rate during the third quarter, the fastest rate of growth since 1984. October marked the third straight month of growth in nonfarm payroll employment. Although the national economy appears to be moving from recovery into expansion, the expansion may take some time to reach Ohio. Some economists warn that the Great Lakes states (including Ohio) are likely to lag behind the national economy.

Through October, total General Revenue Fund (GRF) revenue is up 9.9% compared to FY 2003. The revenue growth stems from two sources: the increase in the state sales tax and an increase in federal grants. If revenue from the sales tax and federal grants is subtracted from total GRF revenue, the resulting state-source revenue other than the sales tax is down 1% compared to FY 2003. For the fiscal year to date, total GRF revenue is $61 million (0.8%) below estimate. The cumulative dollar variance in total revenue has grown each month but has remained less than 1%. Tax revenue is $80 million (1.5%) below estimate. Half of the shortfall in tax revenue is from the personal income tax.

Spending also continues to be less than estimated. Fiscal year-to-date disbursements are $231 million (2.7%) below estimate. Disbursements for primary and secondary education are $37 million (1.7%) below estimate and disbursements for higher education are $30 million (3.9%) below estimate. Disbursements for welfare and human services are $59 million (2.9%) below estimate.

As shown in Table 1, the GRF began October with a negative cash balance of -$385 million. Revenue, including transfers-in, for October was $2,163 million. Disbursements, including transfers-out, were $2,170 million. The monthly revenue shortfall brought the fiscal year-to-date cash balance to -$393 million. Compared to FY 2003, the cash balance is $423 million higher. Year-to-date encumbrances of $671 million contribute to an unobligated balance of -$1,064 million, which

Volume 27, Number 3

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

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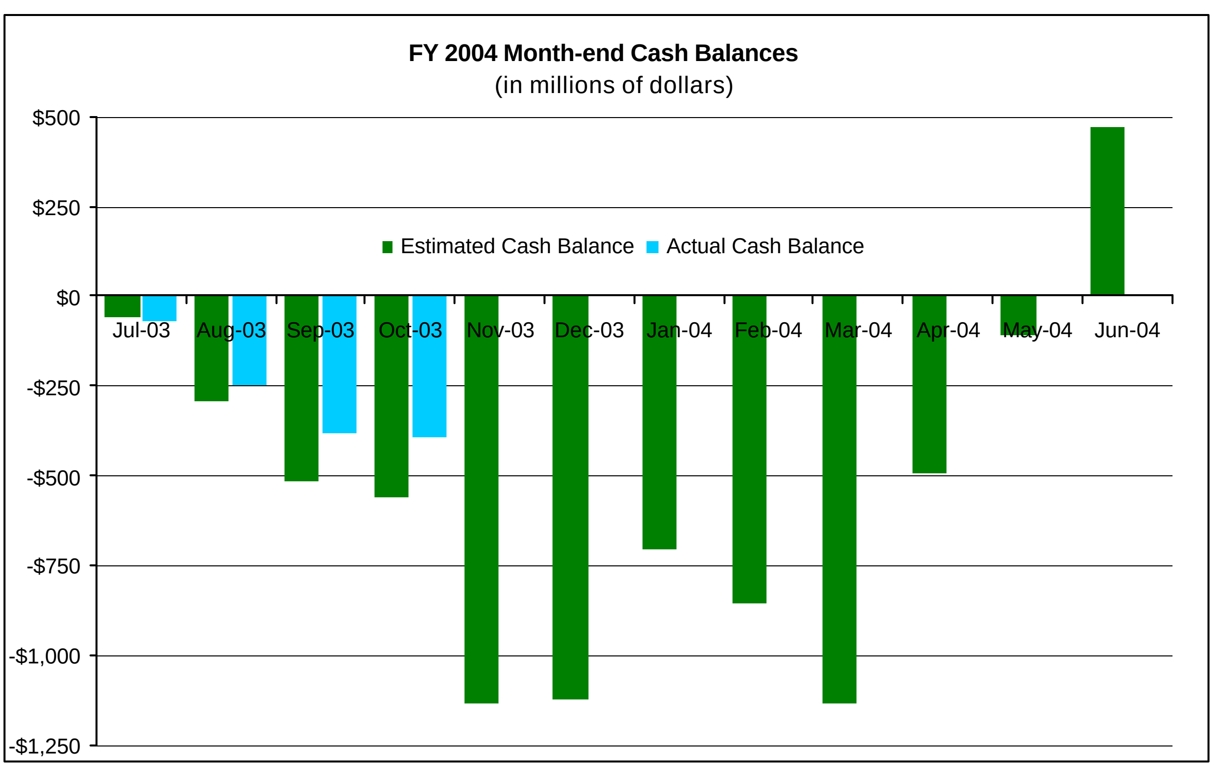
Table 1
General Revenue Fund
Simplified Cash Statement
($ in millions)

	Month of October	Fiscal Year 2004 to Date	Last Year	Difference
Beginning Cash Balance	-$385.2	$396.5		
Revenue + Transfers	$2,162.7	$7,503.7		
Available Resources	$1,777.5	$7,900.3		
Disbursements + Transfers	$2,170.0	$8,292.8		
Ending Cash Balances	-$392.5	-$392.5	-$815.2	$422.7
Encumbrances and Accts. Payable		$671.1	$862.2	-$191.1
Unobligated Balance		**-$1,063.7**	**-$1,677.4**	**$613.8**
BSF Balance		$180.7	$1,010.6	-$829.9
Combined GRF and BSF Balance		**-$883.0**	**-$666.8**	**-$216.1**

is $614 million higher than a year ago. Looking at just the unobligated balance indicates that the state's financial situation, although not exceptional, has improved compared to a year ago. However, the $181 million balance in the Budget Stabilization Fund (BSF) is $830 million less than a year ago, and the combined GRF and BSF balance is $216 million lower than it was at this time last year. Thus, if one looks at the combined GRF and BSF balance, the state's financial situation has deteriorated slightly from a year ago.



Although the negative cash balance of -$393 million may appear to be a cause for concern, if revenue and disbursements had met their estimates, the year-to-date cash balance would have been -$563 million, $170 million lower than the actual level. Because of the timing of revenues and disbursements, the cash balance is generally negative early in the fiscal year before turning positive later in the year. The accompanying chart presents the actual month-end cash balances and the cash balances that would have resulted if GRF revenues and disbursements had been equal to their monthly estimates.

TRACKING THE ECONOMY

¾ Phil Cummins

Recovery in the national economy, underway since late 2001, is beginning to be reflected in increased hiring. Nonfarm payroll employment rose in October for the third straight month. Production, orders, and order backlogs are rising. Gross domestic product expanded in the third quarter at the fastest rate in nearly 20 years, fueled by federal tax cuts and low interest rates. The third quarter pace could not be sustained, and production rose more slowly in October than in the third quarter. Retail sales fell in the latest two months, as motor vehicle sales slowed from a peak in August. Housing starts rose, supported by low mortgage interest rates. Inflation indicators were mixed in October, with prices for producer finished goods up sharply while consumer prices were unchanged. Rising commodity prices have so far had only limited effects on prices paid by consumers. Market interest rates for longer-term borrowings remain near four-decade lows reached in June. Short-term interest rates are anchored by central bank policy rates, which policymakers have repeatedly told market participants will be kept low because of concerns about the possibility, however remote, of deflation.

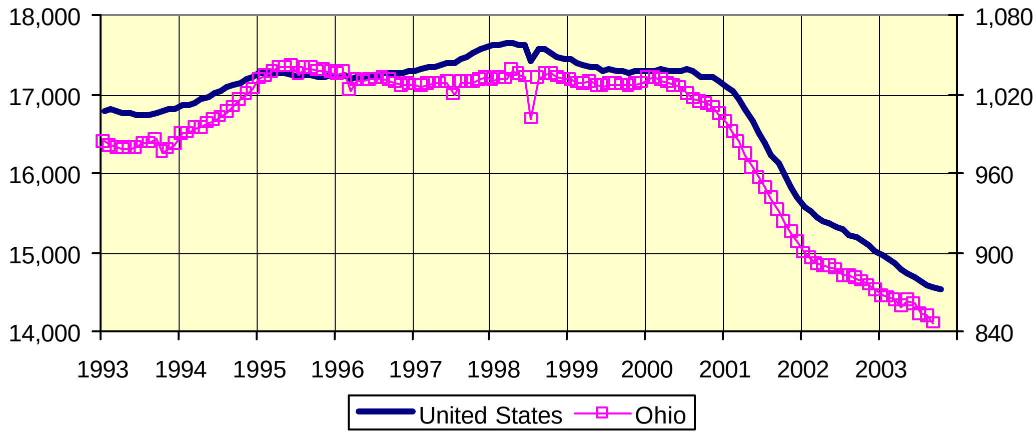
The initial report on United States gross domestic product (GDP) in this year's third quarter showed growth at a 7.2% annual rate, in real or inflation-adjusted terms, the economy's most rapid quarterly gain since 1984. Consumer spending increased strongly, supported by federal checks distributed in advance payment of child tax credits, and by reduced income tax withholding rates. Sales of motor vehicles, furniture and appliances, and other categories of durable and nondurable goods posted strong gains. Investment in housing expanded briskly, helped by low mortgage interest rates. Business investment in computers and other IT equipment and software continued to grow at a robust pace, and buying of industrial equipment and of business transportation equipment turned up from low levels.

However, private investment in structures fell during the third quarter, after a small rise in the second quarter, as reduced utility investment more than offset increases in nonresidential building construction and in other private investment in structures. Nonresidential construction has been weak since 2000. Exports expanded after falling for three quarters. Inventories were reduced for the second consecutive quarter, with declines widespread among manufacturing, trade, and other sectors of business. Rebuilding depleted inventories may contribute to expansion in future quarters. Subsequent to the GDP release, business inventories were reported to have risen in September, their first significant increase since the first quarter. Over 60% of the September inventory buildup was at motor vehicle dealers.

Government spending grew slowly in the third quarter, and federal defense outlays were unchanged following a huge war-related surge in the second quarter. State and local government spending rose at a 1.3% annual rate in the third quarter, after very little growth since early 2002.

The upturn in growth of the national economy is encouraging increased hiring. Earlier in this recovery, employment lagged other indicators of economic performance, which generally have portrayed an economy in recovery, at times halting and uncertain, since late 2001. Exceptional productivity gains allowed businesses to expand output while holding down staffing levels. However, the latest report on national employment, for October, showed a 126,000 increase in total nonfarm payrolls. The previous two months were revised upward, to a 125,000 increase in September and a small increase, instead of the

Chart 1: Manufacturing Employment
Thousands, Seasonally Adjusted



decrease previously reported, in August. From the peak in February 2001 through July of this year, total employment declined in most months, by a total of 2.7 million persons. Employment increases in October were mainly in services. Manufacturing continued to shed jobs but not as rapidly as earlier in the year. Unemployment nationwide fell to 6.0% of the labor force in October from 6.1% in September. The peak unemployment rate for this business cycle to date was 6.4% in June, up from a low of 3.8% in 2000.

The decline in manufacturing employment in the nation and in Ohio is evident in the accompanying chart. Factory employment nationwide has fallen more slowly in the latest three months, through October. No such slowdown is evident in the data for Ohio, shown through September in the chart. Ohio employment and unemployment for October, not available at the time that this report is being written, are to be released November 21.

Purchasing managers at manufacturers nationwide saw further improvement in their employers' business activity in October. For the sixth consecutive month, more purchasing managers reported rising production and orders than noted declines in the Institute of Supply Management's survey. Order backlogs again increased. However, manufacturers' inventories were reduced for the 45th consecutive month. Survey respondents regard their customers' inventories as too low, according to the monthly report, except at buyers from primary metals firms. Manufacturing employment shrank for the 37th consecutive month.

At nonmanufacturers across the country, purchasing managers also reported expansion in activity last month. A business activity index, the counterpart to the manufacturing survey's production index, rose in October to near its highest level in the history of the survey begun in 1997. New orders and backlogs increased. Inventories were reduced, for the fifth consecutive month. Employment at nonmanufacturers rose in October, in contrast with the manufacturing survey.

Industrial production rose 0.2% in October, and manufacturing output increased 0.1%, continuing the upturn begun in June. Also, in an annual revision, estimated output in earlier months and years was adjusted, raising the index for total manufacturing output in September by 0.8%. The general pattern shown by the revised data is similar to that prior to the revision, with factory output rising in the first half of last year from a recession low at the end of 2001, the upturn faltering in the second half of 2002, followed by a renewed recovery starting in this year's second quarter. Growth at the beginning of the fourth quarter has slowed from the rapid pace in the third quarter.

Retail sales declined 0.3% in October, following a 0.4% drop in September. Motor vehicle sales, particularly sales of light trucks, were exceptionally strong in August. Excluding motor vehicles, retail sales rose 0.2% in each of September and October. Total retail sales in the latest month were 6.1% above a year earlier, only a small portion of which represents higher prices (see comments on consumer prices, below). Building materials and garden equipment and supplies dealers, furniture and home furnishings stores, and electronics and appliance stores remain well above year earlier levels. Warehouse clubs and other discount general merchandisers continue to outperform traditional department stores. The slowing in retail sales in the latest two months, unless offset by strength elsewhere, portends a much smaller rise in GDP in the fourth quarter than in the third quarter.

Housing starts rose to a 1.96 million unit annual rate in October. Low mortgage interest rates continue to support sales of new and used homes. Year-to-date starts of new privately owned housing units, through ten months, were 7% above a year earlier.

The producer price index for finished goods rose sharply in October, increasing 0.8%, its largest increase since March. Sharply higher prices for beef and veal, and a rise in prices of light trucks and cars, contributed to the upturn. Energy prices registered a small decline. Compared with a year earlier, producer finished goods prices were 3.4% higher. At earlier stages of production, intermediate goods prices in October were also 3.4% higher than a year earlier, and crude goods prices were 23% above their October 2002 level. Prices for crude foodstuffs in October were 28% above a year earlier, and several crude nonfood categories were sharply higher, including raw cotton, +70%; natural gas, +39%; iron and steel scrap, +29%; copper scrap, +21%; and nonferrous metal ores, +19%.

In contrast with the jump in producer prices, the consumer price index for October was unchanged from September. Food prices rose, particularly those for meats, poultry, fish, and eggs. Energy prices were sharply lower, after large increases in August and September. Consumer prices for new vehicles fell, even as producer prices for cars and light trucks increased. This may be a short-term aberration related to the model-year (MY) changeover (most new model-year cars and light trucks were introduced into the producer price index in October, but MY 2004 vehicles were only 30% of the consumer price index new vehicle sample last month as dealers continued to clear MY 2003 vehicles from inventories). Compared with a year earlier, consumer prices in October were 2.0% higher. Consumer prices for goods were 0.5% above a year earlier, and services prices were 3.2% higher.

The Federal Reserve, the nation's central bank, again held its target short-term interest rate on federal funds unchanged at 1%, at its policy-setting meeting in late October. Fed decision-makers remain concerned about the possibility, however remote, that the general price level could begin to decline. To protect against the risk of deflation, the Fed has repeatedly signaled that it expects to keep monetary policy accommodative for "a considerable period." Even though the national economy is picking up, excess capacity in labor and product markets gives the Fed leeway to wait before raising short-term interest rates. Higher commodity prices, probably reflecting in part the fall in the dollar's value relative to other currencies, have had only a limited impact on prices paid by consumers. With money market interest rates low, longer-term borrowing rates have also been held down. Longer-term interest rates remain near lows reached in mid-June, their lowest levels since the late 1950s to mid-1960s.

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Status of the General Revenue Fund

REVENUE

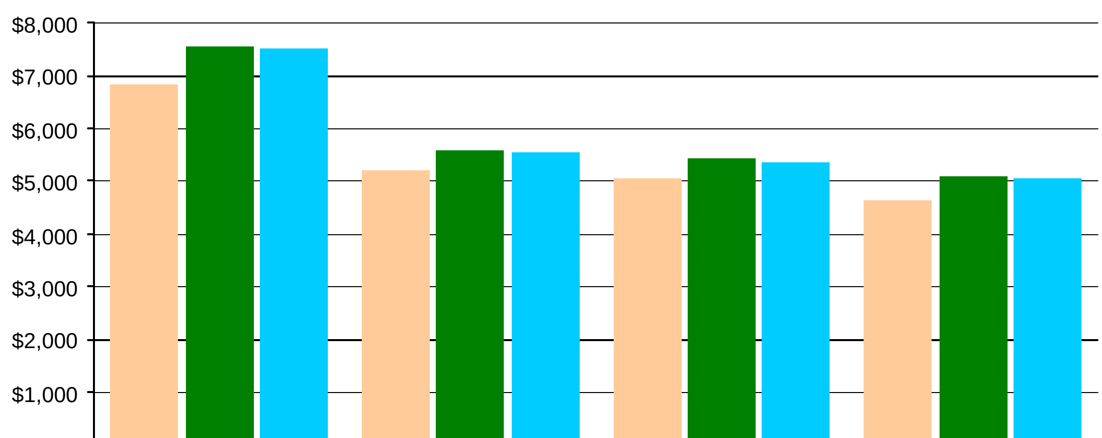
— *Allan Lundell and Jean Botomogno*

The good news about October revenue came from the nonauto sales tax. Revenue from the nonauto sales tax exceeded the estimate for the first time this fiscal year. However, bad news continues to come from the personal income and cigarette taxes. Revenues from both taxes continue to lag behind estimates. October General Revenue Fund (GRF) revenues of $2,162.7 million were $25.3 million (1.2%) below estimate. GRF revenue less federal grants (state-source revenue) was $33.3 million (2.1%) below estimate. Total tax revenue was $2.3 million (0.2%) below estimate, and revenue from the major taxes was $21.7 million (1.7%) above estimate.

Through October, GRF revenue is up 9.9% compared to the first four months of FY 2003. State-source revenue is up 6.0%, total tax revenue is up 6.3%, and revenue from the major taxes is up 8.3%.[1] Although GRF revenues are up $676.5 million compared to the previous year, the increase is due to federal grants (up $365.3 million) and the sales tax (up $340.4 million). State-source revenue other than the sales tax is down $29.3 million (0.95%) compared to FY 2003. Part of the increase in federal grants is the $193 million received in October as the second payment of the federal aid to states provided in the Jobs and Growth Tax Relief Reconciliation Act of 2003. The federal aid is expected to be one-time aid. The increase in sales tax revenue is due to the 20% increase in the state sales tax rate, from 5% to 6%.

Although revenues are up compared to the previous year, they are below estimate for the fiscal year. Total GRF revenue is $60.7 million (0.8%) below estimate through the first four months of FY 2004. The cumulative dollar variance in total revenue has grown each month but has remained less than 1%. State-source revenue is $68.2 million (1.2%) below estimate, total tax revenue is $80.0 million (1.5%) below estimate, and revenue from the

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



	Total GRF Revenue	Total GRF Revenue less Federal Grants	Revenues from Total Taxes	Revenues from Major Taxes
FY 2003	$6,827.3	$5,225.4	$5,052.8	$4,657.0
FY 2004 Estimate	$7,564.5	$5,604.8	$5,452.3	$5,078.1
FY 2004 Actual	$7,503.7	$5,536.6	$5,372.3	$5,043.2

major taxes is $35.0 million (0.7%) below estimate. Chart 1 compares FY 2004 revenues with FY 2003 revenues and FY 2004 estimates.

Personal Income Tax

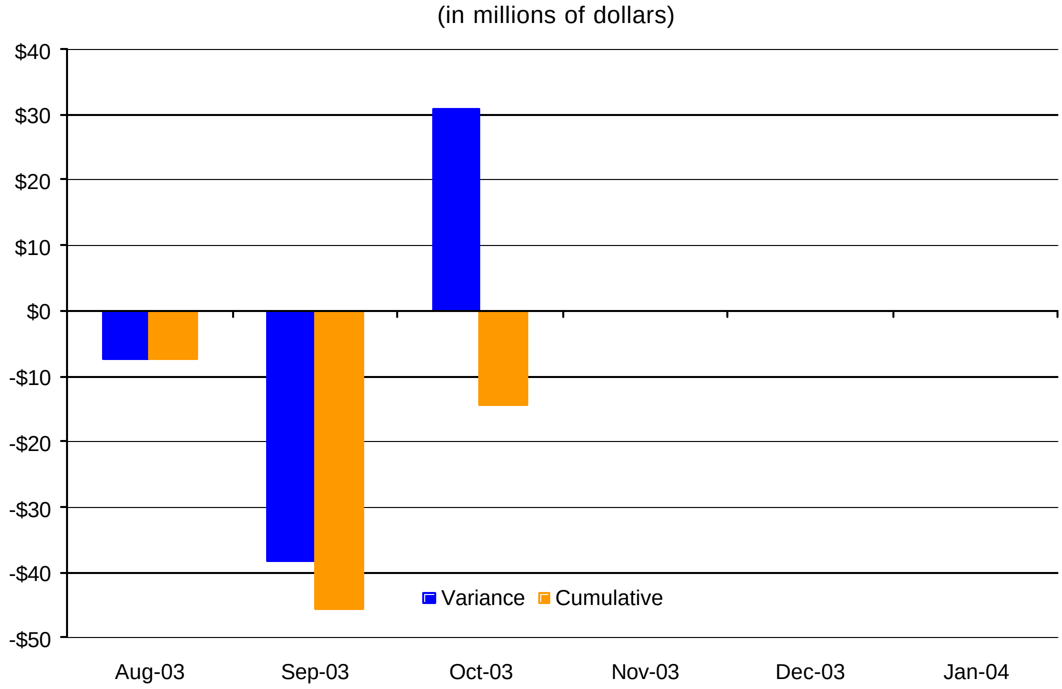
For October, the GRF received $571.3 million in revenue from the personal income tax. This amount was $16.3 million (2.8%) below estimate. The $588.1 million in revenue collected through withholding was $33.7 million (5.4%) below estimate. Withholding will continue to perform weakly until Ohio's labor market improves. Although the national economy appears finally to be moving from recovery into expansion, some economists warn that the Great Lakes states (including Ohio) are likely to lag behind the national economy. Quarterly estimated payments of $18.6 million were $2.6 million (16.5%) above estimate.[2] Refunds totaled $24.3 million. This total was $4.3 million (21.3%) greater than estimate.

Through the first four months of FY 2004, GRF revenue from the personal income tax totals $2,338.6 million. The total is $39.9 million (1.7%) below estimate. Withholding is $66.5 million (2.8%) below estimate, quarterly estimated payments are $1.1 million (0.4%) above estimate, and revenue from the tax on trusts is $8.0 million (50.1%) below estimate. The poor collection performance is slightly offset by lower than expected refunds. Refunds are $2.8 million (2.5%) below estimate. The income tax is essentially flat compared to a year ago. GRF revenue from the personal income tax is down by 0.02%. Gross collections are up by 0.01% and withholding is down by 0.24%. Quarterly estimated payments are down by 4.66% and refunds are up by 0.63%.

Sales and Use Tax

For the first time in FY 2004, revenues from the sales and use tax exceeded estimates, and the positive monthly variance was large enough to eliminate the cumulative negative variance from the months of August and September. Sales and use tax revenues in October were $666.8 million, $38.2 million or 6.1% above estimate. Receipts were $163.7 million or 32.5% above October 2002 tax revenues. As of October 2003, year-to-date total sales and use tax revenues were $2,466.3 million, $7.9 million or 0.3% above estimates. Sales and use tax receipts were $340.4 million or 16.0% higher than year-to-date tax receipts in October 2002.

Chart 2: Non-auto Sales Tax Variance from July 2003 Estimates
(in millions of dollars)



The Nonauto Sales and Use Tax

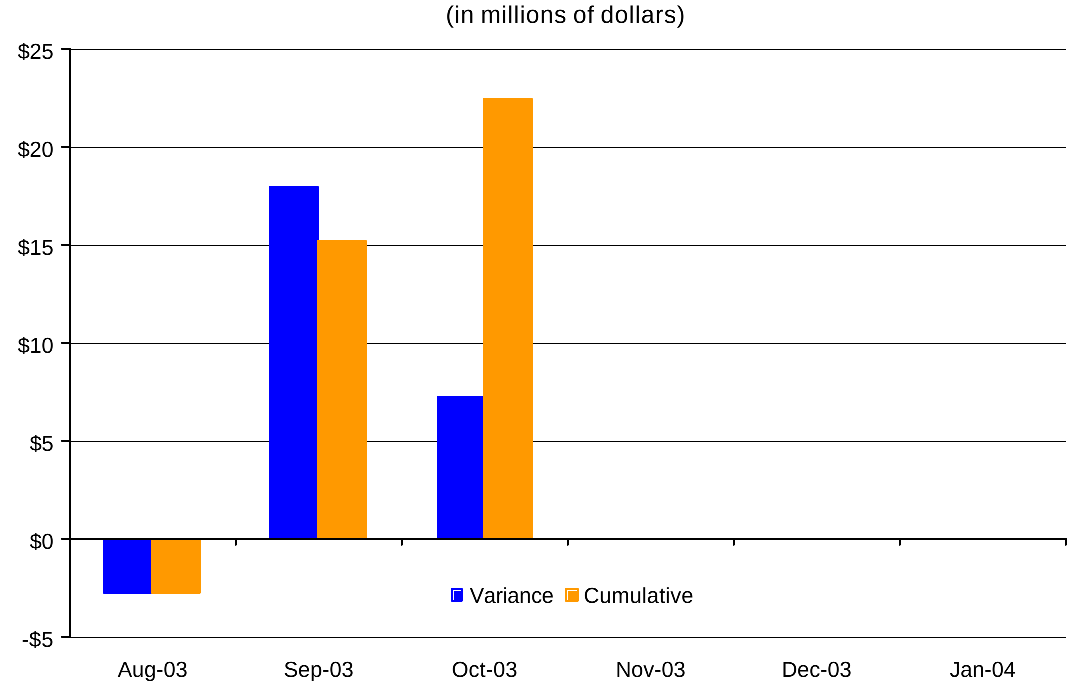
The nonauto sales and use tax provided $557.1 million in October. Nonauto sales and use tax receipts were $31.0 million or 5.9% above estimates. Tax receipts largely reflect taxable retail sales activity in the prior month. Compared to nonauto sales tax revenues a year ago, tax receipts for the month were $141.1 million, or 33.9% higher than revenues in October 2002.

As of October 2003, year-to-date nonauto sales and use tax receipts were $2,040.1 million, $14.5 million or 0.7% below estimates. Compared to receipts a year ago, year-to-date nonauto sales tax receipts as of October 2003 were up $274.2 million or 15.5%. The performance of the sales and use tax improved somewhat in the month of October. Year-to-date nonauto sales and use tax receipts in September 2003 were $45.5 million or 3.0% below estimates. This month, that negative variance was reduced to $14.5 million or 0.7%.

However, it would be too early to conclude that the performance of the nonauto sales tax has turned upward. In the last two months, the growth in nationwide retail sales (excluding autos) has slowed noticeably. Following an average growth of 1.1% in July and August, nationwide retail sales (excluding autos) have slumped. Growth in retail sales in the last two months, September and October 2003, has crawled to an average of 0.2%. Data from the Bank of Tokyo Mitsubishi Comparable Stores Index[3] confirms that the growth in retail sales has slowed. That index declined 0.9% in October 2003, after exhibiting positive but weak growth in the previous two months, 0.4% in August, and 0.3% in September 2003. Calendar year (CY) 2003 third-quarter retail sales benefited from higher disposable income available to customers from the federal income tax cuts;[4] sales also benefited from spending for the back-to-school period. The growth in disposable income may be subdued this quarter due to the absence of stimuli, and the nonauto sales and use tax for the remainder of the calendar year will be highly dependent on holiday shopping. Any retrenchment in consumer spending on taxable items or lackluster holiday sales would negatively affect nonauto sales and use tax receipts.

Despite a slowdown in the month-to-month growth in retail sales, a comparison with the previous year's retail sales shows solid,

Chart 3: Auto Sales Tax Variance from July 2003 Estimate
(in millions of dollars)



although not spectacular, growth. Compared to the same month in CY 2002, nationwide retail sales (excluding autos) grew 7.1% in September 2003 and 6.2% in October 2003. The Bank of Tokyo Mitsubishi Comparable Stores Index shows similar growth in sales when compared to sales in the same month in the prior year of 5.9% and 3.2% in September 2003 and October 2003, respectively.[5]

The Auto Sales Tax

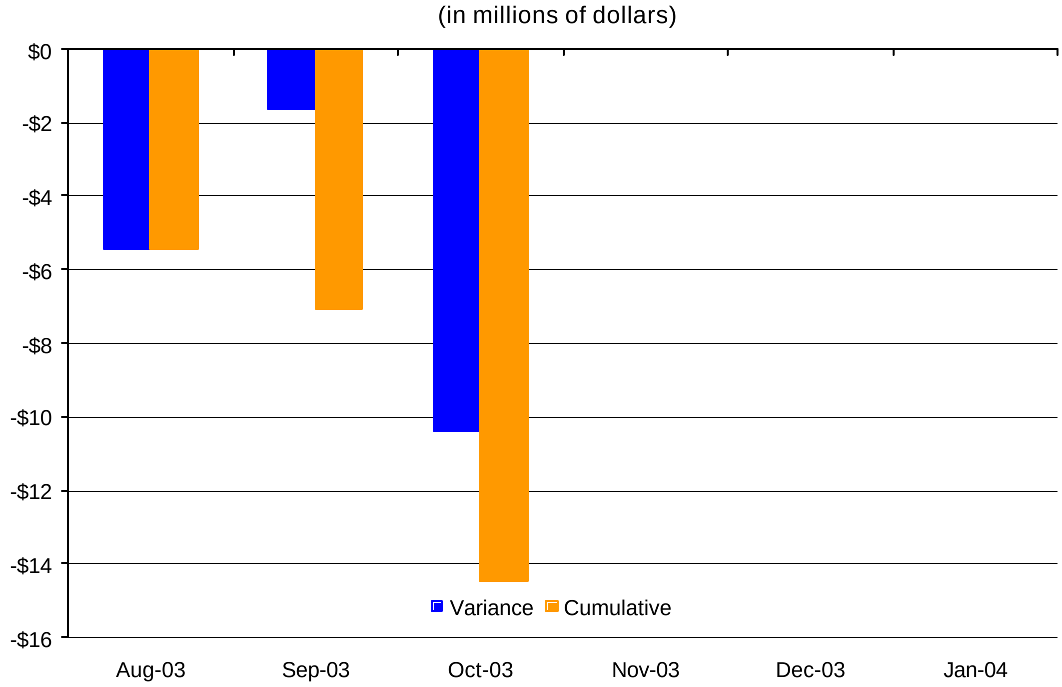
In spite of monthly ups and downs, auto sales continue to be strong. However, nationwide auto sales, both in number of vehicles and dollar sales, have slowed in the last two months, after a torrid pace in the July and August 2003 period.[6] Data from the U.S. Department of Commerce shows that sales at motor vehicle dealers declined 2.5% in September 2003 and declined again 2.2% in October 2003. This slowdown has not been reflected in auto sales tax revenues as of yet. Despite the latest slowdown, sales at motor vehicle dealers grew by an average of 5.6% in the first four months of FY 2004 compared to last year's sales.

Auto sales tax receipts were $109.6 million in October 2003, $7.2 million or 7.0% higher than 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, auto tax receipts largely reflect vehicles sold and titled during the month. Compared to revenues a year ago in the same month, auto sales tax receipts in October 2003 were $22.6 million or 26.0% higher than receipts last year. For the year to date, auto sales tax receipts were $426.2 million, $22.4 million or 5.5% above estimate. Year-to-date receipts as of October 2003 were $66.2 million or 18.4% higher than receipts in the same period in October 2002.

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 in January 2004. Corporate franchise tax receipts were $32.0 million in October 2003. As of October 2003, year-to-date receipts were $48.7 million. These receipts

Chart 4: Cigarette Tax Variance from July 2003 Estimates
(in millions of dollars)



were $7.0 million or 16.9% above estimates. For the year to date as of October 2003, corporate franchise tax revenues were $39.5 million above receipts in the same period last year.

Cigarette Tax

Cigarette and other tobacco products tax receipts were $40.5 million in October 2003, $10.4 million or 20.5% below estimates. Receipts were $16.9 million or 29.5% lower than receipts in October 2002. As of October 2003, year-to-date cigarette and other tobacco product receipts were $164.5 million, $17.5 million or 9.6% below estimates. As of October 2003, year-to-date cigarette and other tobacco product revenues were $36.4 million or 18.1% below revenue a year ago. Revenues from the floor tax[7] in FY 2003 skew comparisons with year-ago receipts. In the first four months of FY 2003, the floor tax provided $31.7 million. Excluding amounts provided by the floor tax, year-to-date FY 2004 revenues would be $4.7 million or 2.8% below receipts in the same period in FY 2003. The Office of Budget and Management believes that the dip in cigarette tax revenues in October is due, in part, to changes in H.B. 95 regarding the purchase of bonds and stamps by cigarette dealers. This timing issue will reverse during the fiscal year. However, it might also signal the start of a downward adjustment in the consumption of taxed cigarettes after a full year of a higher cigarette tax rate.

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[1] The "major taxes" are the personal income tax, sales and use tax, corporate franchise tax, public utility excise tax, and kilowatt-hour tax.

[2] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. These payments are usually made by taxpayers with significant nonwage income.

[3] The Bank of Tokyo Mitsubishi Comparable Stores 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 is broader and the information is often revised. However, both measures provide changes in trends in retail sales.

[4] Nationwide, disposable personal income increased $132.2 billion in July and $79.5 billion in August 2003 but then decreased $82.6 billion in September 2003.

[5] The Bank of Tokyo Mitsubishi Total Retail Chain Store Index, which includes store expansions, relocations, and mergers, shows stronger growth than the Comparable Stores Index: 10.8% and 8.4% in year-over-year growth for September and October 2003.

[6] Annualized sales of vehicles and light trucks were 18.9 million in August 2003, 16.6 million in September, and 15.5 million in October.

[7] The "floor" tax is the additional tax paid by dealers on cigarettes in inventory when the tax rate was increased from 22 cents to 55 cents on July 1, 2003. Excluding receipts from the floor tax in the same month last year, October 2003 cigarette tax receipts were $11.1 million or 21.5% below October 2002 revenues.

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

REVENUE SOURCE				
TAX REVENUE	**Actual**	**Estimate***	**Variance**	**Percent**
Auto Sales	$109,636	$102,447	$7,189	7.0%
Non-Auto Sales & Use	$557,130	$526,127	$31,003	5.9%
Total Sales	$666,767	$628,574	$38,193	6.1%
Personal Income	$571,292	$587,552	-$16,260	-2.8%
Corporate Franchise	$31,962	$31,720	$242	0.8%
Public Utility	$33,007	$30,000	$3,007	10.0%
Kilowatt Hour Excise Tax	$30,098	$33,561	-$3,463	-10.3%
Total Major Taxes	**$1,333,126**	**$1,311,407**	**$21,719**	**1.7%**
Foreign Insurance	$109,310	$116,150	-$6,840	-5.9%
Domestic Insurance	$0	$0	$0	---
Business & Property	$78	$296	-$218	-73.6%
Cigarette	$40,531	$50,960	-$10,429	-20.5%
Alcoholic Beverage	$4,517	$4,800	-$283	-5.9%
Liquor Gallonage	$2,388	$2,250	$138	6.1%
Estate	$12,507	$18,900	-$6,393	-33.8%
Total Other Taxes	$169,331	$193,356	-$24,025	-12.4%
Total Taxes	**$1,502,458**	**$1,504,763**	**-$2,305**	**-0.2%**
NON-TAX REVENUE				
Earnings on Investments	$92	$0	$92	---
Licenses and Fees	$5,255	$3,969	$1,286	32.4%
Other Revenue	$14,913	$10,800	$4,113	38.1%
Non-Tax Receipts	$20,260	$14,769	$5,491	37.2%
TRANSFERS				
Liquor Transfers	$10,000	$9,000	$1,000	11.1%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$2,036	$39,500	-$37,464	-94.8%
Total Transfers In	$12,036	$48,500	-$36,464	-75.2%
TOTAL REVENUE less Federal Grants	**$1,534,754**	**$1,568,032**	**-$33,278**	**-2.1%**
Federal Grants	$627,905	$619,904	$8,001	1.3%
TOTAL GRF REVENUE	**$2,162,659**	**$2,187,936**	**-$25,277**	**-1.2%**

* 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 October 2003
($ in thousands)

REVENUE SOURCE						
TAX REVENUE	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2003**	**Percent Change**
Auto Sales	$426,188	$403,778	$22,410	5.6%	$359,969	18.4%
Non-Auto Sales & Use	$2,040,083	$2,054,550	-$14,467	-0.7%	$1,765,870	15.5%
Total Sales	$2,466,271	$2,458,328	$7,943	0.3%	$2,125,839	16.0%
Personal Income	$2,338,646	$2,378,558	-$39,912	-1.7%	$2,339,128	0.0%
Corporate Franchise	$48,674	$41,633	$7,041	16.9%	$9,156	431.6%
Public Utility	$72,160	$68,577	$3,583	5.2%	$61,960	16.5%
Kilowatt Hour Excise Tax	$117,406	$131,036	-$13,630	-10.4%	$120,955	-2.9%
Total Major Taxes	**$5,043,156**	**$5,078,132**	**-$34,976**	**-0.7%**	**$4,657,039**	**8.3%**
Foreign Insurance	$114,687	$122,566	-$7,879	-6.4%	$115,297	-0.5%
Domestic Insurance	$147	$200	-$53	-26.3%	$1,614	-90.9%
Business & Property	$1,139	$1,211	-$72	-5.9%	$1,037	9.8%
Cigarette	$164,511	$182,019	-$17,508	-9.6%	$200,938	-18.1%
Alcoholic Beverage	$19,406	$20,548	-$1,142	-5.6%	$19,797	-2.0%
Liquor Gallonage	$10,090	$9,774	$316	3.2%	$9,631	4.8%
Estate	$19,158	$37,800	-$18,642	-49.3%	$47,436	-59.6%
Total Other Taxes	$329,139	$374,118	-$44,979	-12.0%	$395,751	-16.8%
Total Taxes	**$5,372,295**	**$5,452,250**	**-$79,955**	**-1.5%**	**$5,052,790**	**6.3%**
NON-TAX REVENUE						
Earnings on Investments	$8,065	$7,000	$1,065	15.2%	$22,810	-64.6%
Licenses and Fees	$14,998	$14,946	$52	0.3%	$11,800	27.1%
Other Revenue	$44,943	$45,231	-$288	-0.6%	$51,576	-12.9%
Non-Tax Receipts	$68,006	$67,177	$829	1.2%	$86,186	-21.1%
TRANSFERS						
Liquor Transfers	$38,000	$33,000	$5,000	15.2%	$37,000	2.7%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$58,253	$52,362	$5,891	11.3%	$49,440	17.8%
Total Transfers In	$96,253	$85,362	$10,891	12.8%	$86,440	11.4%
TOTAL REVENUE less Federal Grants	**$5,536,554**	**$5,604,789**	**-$68,235**	**-1.2%**	**$5,225,415**	**6.0%**
Federal Grants	$1,967,194	$1,959,692	$7,502	0.4%	$1,601,847	22.8%
TOTAL GRF REVENUE	**$7,503,748**	**$7,564,481**	**-$60,733**	**-0.8%**	**$6,827,262**	**9.9%**

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

Detail may not sum to total due to rounding.

DISBURSEMENTS

*— Steve Mansfield**

October's General Revenue Fund (GRF) disbursements (excluding transfers) were $65.4 million below estimate, with the Tax Relief, Government Operations, and Welfare and Human Services programs each contributing significant negative disbursement variances. For the year to date, there was at the end of October a negative disbursement variance of $243.6 million. As can be seen in Figure 1, each of the state's four major GRF program categories are under the estimate for the year to date, but one category (Education) registered a positive disbursement variance for the month of October.

In the sections that follow, we examine in more detail the disbursement activity in each of the four major GRF program categories in the order of magnitude of its contribution to the year-to-date negative disbursement variance. Summary information about GRF disbursement activity is presented in Tables 4 and 5, and a detailed analysis of disbursement activity in the Health Care/Medicaid program is presented in Tables 6 and 7.

Welfare/Human Services (-$76.5 million)

With a negative disbursement variance of $23.4 million in October, the Welfare/Human Services category as a whole stood at $76.5 million below the estimate for the year to date. The Human Services subcategory (which includes the Department of Mental Health, the Department of Mental Retardation and Developmental Disabilities, and other smaller human services agencies) again accounted for the largest part of the category's October's negative disbursement variance and the year-to-date negative variance. The following paragraphs discuss the disbursements in the components of this category in more detail.

MR/DD. At the end of October, the Department of Mental Retardation and Developmental Disabilities posted a year-to-date negative disbursement variance of $19.9 million, which stemmed largely from a slower than anticipated process of distributing Medicaid funds to the counties and which

Figure 1
GRF Disbursement Variances
by Program Category, FY 2004

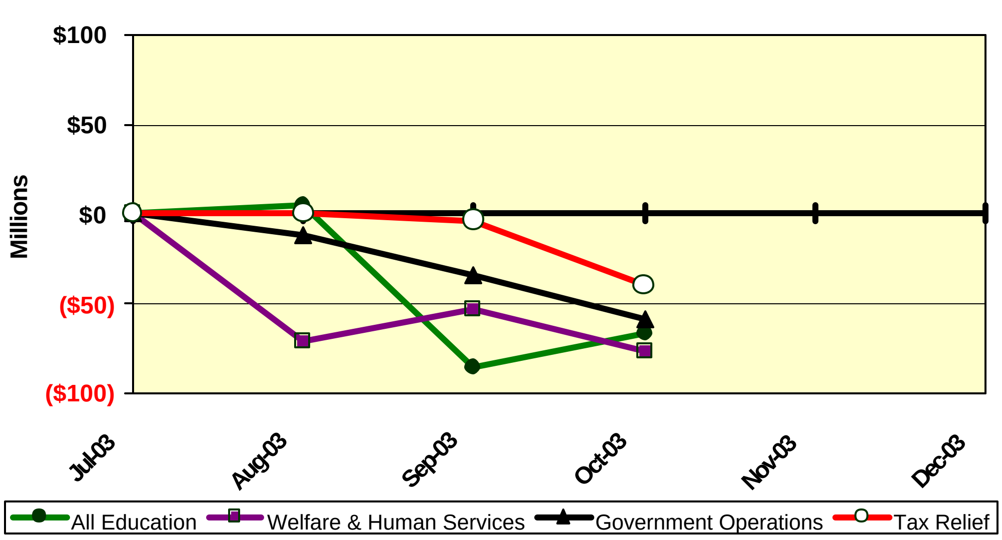


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of October 2003
($ in thousands)

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$540,330	$521,943	$18,386	3.5%
Higher Education	$238,958	$238,962	-$3	0.0%
Total Education	$779,288	$760,905	$18,383	2.4%
Health Care/Medicaid	$703,974	$702,126	$1,848	0.3%
TANF	$62,123	$63,563	-$1,439	-2.3%
General/Disability Assistance	$1,686	$1,881	-$195	-10.4%
Other Welfare (2)	$37,262	$48,337	-$11,075	-22.9%
Human Services (3)	$129,182	$141,704	-$12,523	-8.8%
Total Welfare & Human Services	$934,226	$957,611	-$23,385	-2.4%
Justice & Corrections	$164,477	$178,876	-$14,399	-8.0%
Environment & Natural Resources	$7,148	$11,580	-$4,432	-38.3%
Transportation	$1,721	$1,697	$23	1.4%
Development	$7,634	$7,891	-$257	-3.3%
Other Government	$16,743	$21,561	-$4,818	-22.3%
Capital	$0	$412	-$412	-100.0%
Total Government Operations	$197,722	$222,017	-$24,295	-10.9%
Property Tax Relief (4)	$228,784	$265,000	-$36,216	-13.7%
Debt Service	$26,491	$26,404	$87	0.3%
Total Program Payments	**$2,166,512**	**$2,231,937**	**-$65,425**	**-2.9%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$3,520	$0	$3,520	---
Total Transfers Out	$3,520	$0	$3,520	---
TOTAL GRF USES	**$2,170,032**	**$2,231,937**	**-$61,905**	**-2.8%**

(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 October 2003
($ in thousands)

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2003**	**Percent Change**
Primary & Secondary Education (1)	$2,173,000	$2,210,035	-$37,035	-1.7%	$2,178,855	-0.3%
Higher Education	$749,241	$779,350	-$30,109	-3.9%	$796,875	-6.0%
Total Education	$2,922,241	$2,989,385	-$67,144	-2.2%	$2,975,730	-1.8%
Health Care/Medicaid	$3,067,124	$3,077,847	-$10,722	-0.3%	$2,829,675	8.4%
TANF	$114,846	$112,287	$2,559	2.3%	$135,119	-15.0%
General/Disability Assistance	$8,657	$9,297	-$640	-6.9%	$9,804	-11.7%
Other Welfare (2)	$210,042	$240,939	-$30,897	-12.8%	$222,157	-5.5%
Human Services (3)	$435,060	$471,872	-$36,812	-7.8%	$475,408	-8.5%
Total Welfare & Human Services	$3,835,731	$3,912,242	-$76,512	-2.0%	$3,672,163	4.5%
Justice & Corrections	$719,542	$757,279	-$37,737	-5.0%	$713,856	0.8%
Environment & Natural Resources	$43,067	$46,623	-$3,556	-7.6%	$55,924	-23.0%
Transportation	$10,754	$11,407	-$652	-5.7%	$16,975	-36.6%
Development	$66,353	$73,377	-$7,024	-9.6%	$90,519	-26.7%
Other Government	$174,987	$183,791	-$8,804	-4.8%	$184,628	-5.2%
Capital	$0	$915	-$915	-100.0%	$0	---
Total Government Operations	$1,014,703	$1,073,392	-$58,689	-5.5%	$1,061,902	-4.4%
Property Tax Relief (4)	$314,425	$354,300	-$39,875	-11.3%	$388,684	-19.1%
Debt Service	$176,433	$177,766	-$1,334	-0.8%	$144,108	22.4%
Total Program Payments	**$8,263,532**	**$8,507,085**	**-$243,552**	**-2.9%**	**$8,242,586**	**0.3%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$29,299	$16,525	$12,774	77.3%	$15,838	85.0%
Total Transfers Out	$29,299	$16,525	$12,774	77.3%	$15,838	85.0%
TOTAL GRF USES	**$8,292,832**	**$8,523,610**	**-$230,778**	**-2.7%**	**$8,258,424**	**0.4%**

(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 6
Health Care Spending in FY 2004
Medicaid, ALI 600-525
($ in thousands)

	Oct.				Year-to-Date Spending			
Service Category	**Actual**	**Estimate**	**Variance**	**Percent Variance**	**Actual thru Oct.**	**Estimate thru Oct.**	**Variance**	**Percent Variance**
Nursing Facilities	$215,788	$208,531	$7,257	3.5%	$868,388	$830,664	$37,724	4.5%
Payments	$225,756	$218,468	$7,288	3.3%	$907,884	$870,358	$37,526	4.3%
NF Franchise Fees Offset[1]	($9,968)	($9,937)	($31)	0.3%	($39,496)	($39,694)	$198	-0.5%
ICF/MR	$34,131	$34,901	($771)	-2.2%	$162,568	$139,593	$22,975	16.5%
Payments	$35,840	$36,639	($798)	-2.2%	$169,390	$146,467	$22,923	15.7%
ICF/MR Franchise Fees Offset	($1,710)	($1,737)	$27	-1.6%	($6,821)	($6,873)	$52	-0.8%
Inpatient Hospitals	$102,033	$100,368	$1,665	1.7%	$428,975	$454,029	($25,054)	-5.5%
Outpatient Hospitals	$45,067	$43,466	$1,601	3.7%	$194,216	$194,842	($626)	-0.3%
Physicians	$40,416	$43,412	($2,996)	-6.9%	$181,526	$193,545	($12,020)	-6.2%
Prescription Drugs	$127,533	$131,105	($3,572)	-2.7%	$556,201	$566,850	($10,649)	-1.9%
HMO	$77,110	$71,868	$5,242	7.3%	$354,596	$350,306	$4,290	1.2%
Medicare Buy-In	$12,152	$12,869	($718)	-5.6%	$50,576	$51,343	($767)	-1.5%
ODJFS Waiver[2]	$14,401	$16,552	($2,151)	-13.0%	$62,389	$70,303	($7,914)	-11.3%
All Other[3]	$64,715	$69,072	($4,357)	-6.3%	$271,694	$295,291	($23,597)	-8.0%
CHIP II[4]	$5,985	$5,098	$887	17.4%	$23,571	$21,323	$2,249	10.5%
DA Medical[5]	$6,857	$6,862	($4)	-0.1%	$33,002	$34,662	($1,661)	-4.8%
Total ALI 600-525	$746,187	$744,104	$2,083	0.3%	$3,187,702	$3,202,752	($15,049)	-0.5%
DSH Offset	$0	$0			$0	$0		
Drug Rebates	($42,213)	($41,978)			($83,609)	($85,124)		
FY 2002 Encumbrance	$0	$0			($71,000)	($39,781)		
Prior Period ALI 600-525	$0	$0			$34,031	$0		
Total Health Care (Net of Offsets)	**$703,974**	**$702,126**	**$1,848**	**0.3%**	**$3,067,125**	**$3,077,847**	**($10,722)**	**-0.3%**
Est. Federal Share[6]	$413,202	$412,118	$1,085		$1,800,270	$1,806,564	($6,293)	
Est. State Share	$290,771	$290,008	$763		$1,266,854	$1,271,283	($4,429)	

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 for FYs 2003 through 2005.
2. Waivers provide home-care alternatives to consumers whose medical conditions/functional abilities would otherwise require long-term care facility
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. The federal madical assistance percentage (FMAP) used in this table is a blended rate of 51.89%.
Note: Due to accounting differences, the totals do not exactly match the amounts from Tables 4 and 5.

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

impacted several line items. The largest contributor to the negative year-to-date variance was line item 322-417, Supported Living, which was under estimate by $14.1 million.

Mental Health. The Department of Mental Health posted a negative October disbursement variance of $12.3 million, which pushed the Department's year-to-date disbursement activity to $9.7 million below the estimate. Typical for the Department, the disbursement variance was traceable to its two largest GRF subsidy line items: line item 334-408, Community and Hospital Mental Health Services (-$11.5 million), and line item 335-505, Local Mental Health Systems (-$1.0 million). These variances were due to the timing of local boards' requests for funds.

Job and Family Services. At the end of October, disbursements for 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 but which excludes Medicaid, TANF, and Disability Assistance, since they are tracked as separate components of the Welfare and Human Services program category) stood at $30.9 million under the estimate for the year to date. Line item 600-416, Computer Projects, accounted for $13.6 million of this negative disbursement variance. While a little less than half of this can be traced to slower than

Previous Next

anticipated billing and payments, it appears that about $7.4 million in prior year appropriations in this line will go unused and lapse to the GRF. Another $10.9 million of the negative year-to-date disbursement variance can be traced to line item 600-321, Support Services. A large portion of this negative disbursement variance ($5.4 million) stemmed from a planned purchase of office furniture that is being made by Ohio Penal Industries. There was some delay in the delivery of this furniture, but it is now slowly being delivered and installed. The Department has received approval from the Office of Budget and Management to extend the encumbrance of the funds for the purchase until the end of FY 2004.

Table 7
FY 2004 to FY 2003 Comparison of Year-to-Date Health Care Spending
($ in thousands)

Service Category	FY 2004 Yr.-to-Date as of Oct. '03	FY 2003 Yr.-to-Date as of Oct. '02	Dollar Change	Percent Increase
Nursing Facilities	$868,388	$814,805	$53,583	6.58%
Payments	$907,884	$848,481	$59,403	7.00%
NF Franchise Fees Offset[1]	($39,496)	($33,676)	($5,820)	17.28%
ICF/MR	$162,568	$135,827	$26,742	19.69%
Payments	$169,390	$142,729	$26,661	18.68%
ICF/MR Franchise Fees Offset	($6,821)	($6,902)	$81	-1.17%
Inpatient Hospitals	$428,975	$442,273	($13,298)	-3.01%
Outpatient Hospitals	$194,216	$184,779	$9,437	5.11%
Physicians	$181,526	$173,085	$8,440	4.88%
Prescription Drugs	$556,201	$506,554	$49,647	9.80%
HMO	$354,596	$223,656	$130,940	58.55%
Medicare Buy-In	$50,576	$46,938	$3,638	7.75%
ODJFS Waiver[2]	$62,389	$59,105	$3,284	5.56%
All Other[3]	$271,694	$251,370	$20,324	8.09%
CHIP II[4]	$23,571	$19,051	$4,520	23.73%
DA Medical[5]	$33,002	$32,110	$892	2.78%
Total Health Care	**$3,187,702**	**$2,889,554**	**$298,148**	**10.32%**
DSH Offset	$0	$0	$0	
Drug Rebates	($83,609)	($60,941)	($22,668)	
Prior Year Encumbrance	($71,000)	($83,539)	$12,539	
Prior Period ALI 600-525	$34,031	$84,635		
Total Health Care (Net of Offsets)	**$3,067,125**	**$2,829,709**	**$237,416**	**8.39%**
Est. Federal Share[6]	$1,800,270	$1,660,917	$139,353	
Est. State Share	$1,266,854	$1,168,791	$98,063	

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 for FYs 2003 through 2005.
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. The federal madical assistance percentage (FMAP) used in this table is a blended rate of 51.89%.

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

Health Care/Medicaid. October seemed to be a placid month for disbursement activity in the Health Care/Medicaid program (primarily line item 600-525). For the month of October, health care disbursements were $4.5 million, or 0.6% above the estimate. Year-to-date disbursements through October were $10.7 million, or 0.3% below the estimate.

Despite the placid appearances, the Medicaid caseload experienced a significant spurt in growth in October. While the overall Medicaid caseload remains under the forecast, the Healthy Families component of Ohio's Medicaid program (i.e., the largest component, which provides coverage to low-income parents and children) has exceeded budget projections for the last four months. During the current recession, growth in this caseload has frequently outpaced the forecast. In addition, the Aged, Blind, and Disabled (ABD) caseload increased significantly in October as a result of the late reauthorization (by means of a continuing resolution) by the federal government of the Qualified Individual-1 program, in which Medicaid pays for Medicare premiums, coinsurance, and deductibles. A number of these cases had been terminated at the end of September. With continued funding, these cases are now being reopened.

As we see in Table 6, there are several service categories with disbursement variances that stand out either for the amount or the percentage of their variances. The Nursing Facilities category was over the year-to-date estimate by $37.7 million. The Department of

Job and Family Services (JFS) reports that "bed days" in nursing facilities are higher than expected. The year-to-date positive disbursement variance in the Intermediate Care Facilities for the Mentally Retarded (ICF/MR) category was $23.0 million at the end of October. The positive disbursement variance in the ICF/MR payments for the year to date can largely be traced to an error in paying the federal share of the expenditure for some of the developmental centers through line item 600-525. The federal share of the reimbursements for the developmental centers operated by the Department of Mental Retardation and Developmental Disabilities should have been paid out of line item 600-655, Interagency Reimbursement. According to the Department of Job and Family Services, a correction has been made and the appropriation will be restored to line item 600-525 soon.

Disbursements in the Inpatient Hospitals category were $25.1 million under the year-to-date estimate at the end of October. This was due, in part, to the fact that mandated rate adjustments to children's hospitals have not yet been implemented. JFS has indicated that when these adjustments are implemented, they will be retroactive. Also significantly under estimate was the Physicians category ($12.0 million under estimate). This can be explained in part by higher than projected growth in managed care enrollment, and thus lower than anticipated growth in the Physicians category.

We see in Table 7, which compares FY 2004 and FY 2003 actual Health Care/Medicaid spending by service category, that the overall rate of increase year over year was about 8.4 percent, once offsets and rebates are included. The HMO category has posted a year-over-year growth rate of nearly 59 percent so far this fiscal year. While HMO enrollment has been higher than expected, what explains the bulk of this large growth rate is the fact that some HMO payments from June were delayed at the request of the Office of Budget and Management so that the payments would be made in the new fiscal year. In addition, the first quarter of FY 2004 had 14 weeks in it, rather than the regular 13 weeks. The growth rate in the ICF/MR category reflects the problem discussed above.

Disability Assistance. The Disability Assistance (DA) program is a state and county-funded effort that provides cash and/or medical assistance to low-income individuals who are disabled and meet other program criteria and are ineligible for public assistance programs that are supported in whole or in part by federal funds. H.B. 95 made fundamental changes to the DA program by dividing the program's two components – medical assistance and financial assistance – into two separate programs, each with new eligibility rules designed to limit growth in the program. For the year to date, the Disability Financial Assistance program was under estimate by $640,000, and the Disability Medical Assistance program was under estimate by $1.7 million. At the end of October, the financial assistance caseload stood at 13,250, down by 3,925 (or 22.9%) from the peak set in May 2003. The medical assistance caseload stood at 19,600, down by 3,016 (or 13.3%) from the peak set in April. The Department of Job and Family Services has noted that, based on the initial data, "the impact of the eligibility changes appears to be sufficient to remain within the current appropriation level."

Education (-$67.1 million)

Disbursements in the Education category for the year to date through October were $67.1 million below the estimate. The Department of Education accounted for $31.7 million of the category's negative disbursement variance and the Board of Regents for $30.1 million. The remainder of the variance can be traced to the other, small agencies in the category.

Department of Education. The Department's $21.5 million positive disbursement variance in October reduced its negative year-to-date disbursement variance to $31.7 million. The "timing" of payments for several programs is the leading "usual suspect" for this variance. In particular, line item 200-501, Base Cost Funding—the largest item in the Department's budget—posted a positive variance of $14.4 million that was traceable to the incomplete process of gathering data on which payments from this item are based. With an October disbursement that exceeded the estimate by $5.1 million, line item 200-513, Student Intervention Services, was another significant contributor; its positive disbursement variance for October partially offsets the negative variance in September.

At the end of October, the three largest contributors to the negative year-to-date disbursement variance in the Department of Education were line item 200-426, Ohio Education Computer Network ($13.5 million under estimate), line item 200-520, Disadvantaged Pupil Impact Aid ($6.9 million under estimate), and line item 200-433, Reading/Writing/Math Improvement ($6.5 million under estimate). Line item 200-426, Ohio Education Computer Network, is used to maintain and provide technical assistance for a system of information technology throughout Ohio. The bulk of this line is used to support connecting public and state-chartered nonpublic schools to the state's education network, to each other, and to the Internet. Deadlines for connectivity have been extended and the Department expects to have all connectivity money disbursed by December. Disbursements from the other two line items (200-520 and 200-433) appear to have diverged from the estimates due to slowness in data processing and to other timing issues.

Regents. The year-to-date $30.1 million negative disbursement variance posted by the Board of Regents is now wholly traceable to one line item: line item 235-503, Ohio Instructional Grants ($35.6 million below estimate). The explanation for this disbursement variance is that processing of the grants had not yet taken place. New software is temporarily slowing the process. Last month line item 235-531, Student Choice Grants, was a contributor to the board's negative disbursement variance; however, activity in this line item reversed course with a positive disbursement variance of $18.8 million for the month of October that nearly eliminated its year-to-date variance in that line item.

Government Operations (-$58.7 million)

Rehabilitation & Correction. The disbursement picture in the Department of Rehabilitation and Correction is much the same as last month. However, an October positive disbursement variance of $5.4 million reduced the negative year-to-date disbursement variance to $28.8 million.

The year-to-date negative disbursement variance stemmed largely from line item 501-321, Institutional Operations, which reflects current shortages in staff primarily in the northern part of the state. When the Lima Correctional Institution closed in July of 2003, some staff positions were eliminated while other positions, particularly corrections officers, were to be moved to other northern institutions and paid for with funds saved from the closing. The estimates for this line item anticipated that part of the funding for staff that was freed up by the closing would be used elsewhere in the system. Since this closure is in litigation and the institution remains partially in operation, many of these other positions remain vacant. In addition, the Department has delayed some equipment purchases from line item 501-321 until later in the fiscal year to ensure that there are sufficient funds.

Youth Services. The Department of Youth Services posted a $16.3 million negative disbursement variance for the month of October, pushing its year-to-date disbursements to $3.1 million below the estimate. The bulk of the month's variance occurred in line item 470-401, Reclaim Ohio, which had its disbursement schedule altered by H.B. 95. This change was not taken into account by the estimates.

Tax Relief (-$39.9 million)

The Property Tax Relief program, which carries an FY 2004 GRF appropriation of over $1.3 billion, reimburses school districts and local government for revenue that is lost due to tax relief provided by state law to property owners and businesses through the homestead exemption, the property tax rollbacks, and the $10,000 tangible tax exemption programs. Tax relief funds are disbursed to school districts and local governments by the Department of Education and the Department of Taxation, respectively. Each of these departments divides its property tax relief program into two components: real property tax credits/exemptions, and tangible tax exemptions. For the year to date, the property tax relief program of the Department of Taxation stands at $54.8 million under the estimate, and the program of the Department of Education finished at $15.0 million above the estimate. Disbursement variances in the tax relief program are usually traceable to the timing of when county auditors submit for payment.

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

TANF Update

TANF SPENDING ANNUAL REPORT

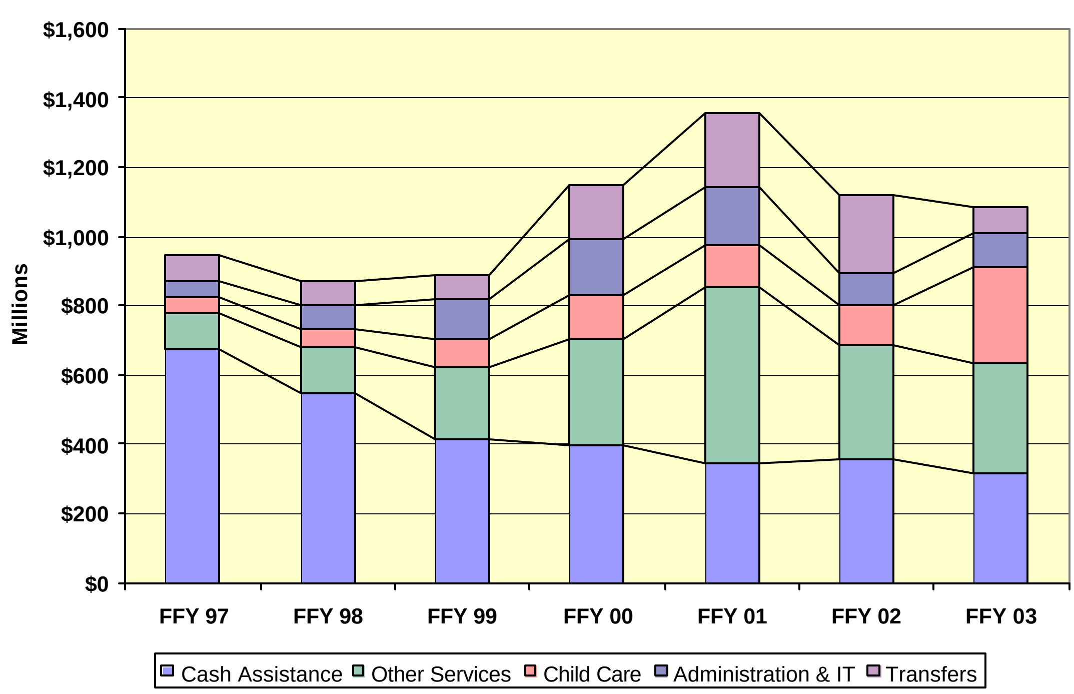
— Steve Mansfield and Erin Jones

September 30, 2003 marked the seventh year of the operation of the federal Temporary Assistance for Needy Families (TANF) program and the sixth year of Ohio's operation of its two TANF programs: the Ohio Works First (OWF) program and the Prevention, Retention, and Contingency (PRC) program.

The TANF program replaced a matching grant system with a flat-funded block grant that required the states to maintain a historical level of spending (called the Maintenance of Effort, or MOE, requirement). Compared to the programs that TANF replaced, there is a great deal of flexibility for states in how to use both federal and state funds. These funds can be used to support a wide range of activities in support of low-income families, and some of the funds can be transferred into other programs that serve low-income recipients. Qualified expenditures must meet at least one of the four broad purposes of the TANF program. These are:

(1) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
(2) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
(3) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and,

Figure 1. TANF Expenditures by Spending Category (includes State MOE and Federal TANF funds)



(4) Encourage the formation and maintenance of two-parent families.

Along with a number of other federal programs, the TANF program had its funding extended for six months in late September 2003 by H.R. 3164. Negotiations over the stalled TANF reauthorization bill are continuing.

Ohio's TANF Expenditures, FFY 1997 - FFY 2003

Figure 1 tracks by federal fiscal year (FFY) the total expenditures (both federal and state MOE) in five categories: cash assistance, all other services (excluding child care), child care, administration and information technology, and transfers (which can be made to the Child Care and Development Fund or to the Social Services Block Grant).

At the current funding level, Ohio's annual TANF grant from the federal government is $727,968,260. In FFY 2003 Ohio was awarded an additional $21,385,937 in high-performance bonus funds for performance in FFY 2002. This was Ohio's first high-performance bonus award. In FFY 2003 Ohio spent or transferred $688.7 million in federal TANF funds. Thus the state's cumulative total of unspent TANF funds held in reserve in the federal account increased by about $61 million (see Figure 2).

In order to receive the federal TANF grant, Ohio must also meet a "maintenance of effort" (MOE) spending requirement. In each of the federal fiscal years 1997 through 2002, Ohio's MOE expenditures were a little over $400 million. In FFY 2003 Ohio's MOE expenditures were $397.1 million, thus trimming state expenditures closer to the minimum MOE.

We see in Figure 1 that expenditures for cash assistance have declined from $673.1 million in FFY 1997 to $312.5 million in FFY 2003. As a share of total TANF expenditures, cash assistance has declined from 71.3% of annual expenditures in FFY 1997 to 28.8% in FFY 2003. Expenditures for "other services" (which includes the array of services in Ohio's Prevention, Retention, and Contingency program, as well as work subsidies, transportation, prevention of out-of-wedlock pregnancies, and services designed to help the formation and maintenance of two-parent families) have increased from $107.3 million in FFY 1997 to $319.6 million in FFY 2003 (with peak spending of $506.0 million in FFY 2001). The share of spending for "other services" increased from 11.4% in FFY 1997 to 29.4% in FFY 2003.

We also see in Figure 1 that TANF spending for child day care has increased significantly, going from $45.6 million in FFY 1997 to $280.2 million in FFY 2003. In FFY 2000 through FFY 2002, Ohio transferred TANF federal funds to the Child Care and Development Fund (CCDF). In FY 2003 there was no transfer to the CCDF. Counting the amount transferred to the CCDF, in FFY 2002 the state spent a total of $253.4 million in state and federal TANF funds for child day care.

Figure 2 tracks the cumulative unspent TANF funds by federal fiscal year. At the end of FFY 2003, Ohio's cumulative unspent TANF

Figure 2. Ohio's Cumulative Unspent TANF Funds

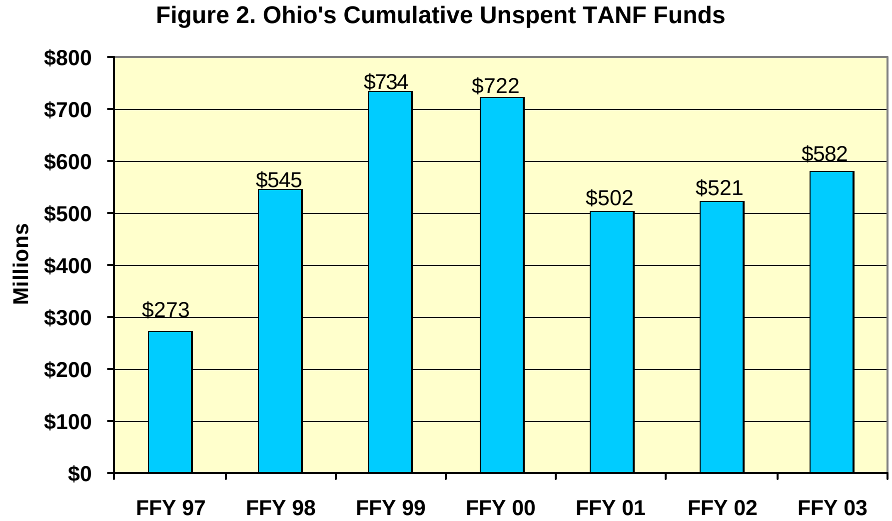
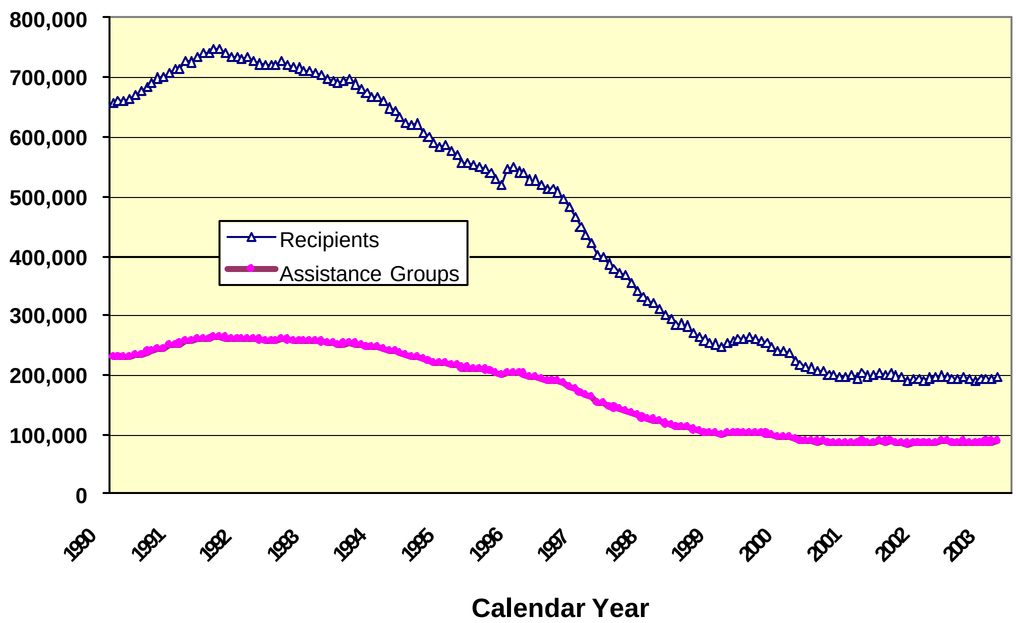


Figure 3. TANF Cash Assistance Caseload
July 1990 - October 2003



funds totaled $581.6 million, with $239.6 million reported as unliquidated obligations and $341.9 million reported as the unobligated balance. A portion of the unliquidated obligations is in the form of allocations to counties. Any part of these allocations that goes unspent by the counties during the timeframe in which the funds are available would revert to the unobligated balance.

TANF Cash Assistance Caseload

Since reaching a peak of about 750,000 recipients in 1992, the number of Ohioans receiving cash assistance (either in the Ohio Works First program or in its predecessor program, Aid to Dependent Children, or ADC) has declined to about 196,000 in October 2003. The number of assistance groups has, in the same period, gone from about 263,000 to about 88,000 (see Figure 3).

PRC Caseload

In addition to the cash assistance caseload, TANF funds were used to support PRC services to an average of 112,108 individuals per month during state fiscal year (SFY) 2003. During SFY 2003 the state spent $152.9 million on PRC services. A report on the services delivered through the PRC program during the fourth quarter of SFY 2003 can be found on the Department of Job and Family Services' Web site at the following Internet address: http://jfs.ohio.gov/oraa/tanf_4q2003.PDF.