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Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission | December 2003

Fiscal Overview

— Allan Lundell

The stream of good news for the national economy continued in November. Third quarter real GDP growth was revised from 7.2% to 8.2%. Nonfarm payroll employment increased for the fourth consecutive month and industrial production increased for the fifth consecutive month. Not all the news was good. Goods-producing employment fell for the 37th consecutive month, manufacturing employment fell for the 40th consecutive month, and 24% of the unemployed have been out of a job for over half a year. The national economy appears to be moving into expansion, but Ohio, with its greater than average reliance on manufacturing, is likely to lag behind the national economy.

Through November, total General Revenue Fund (GRF) revenue is up 10.6% compared to FY 2003. Most of the increase is from the sales tax and federal grants. Sales tax revenue is up due to the temporary increase in the sales tax rate made in Am. Sub. H.B. 95. Revenue from federal grants is up compared to FY 2003 in part due to the second payment of federal aid to states provided in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. This one-time aid was received in October. 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 up just 0.4% compared to FY 2003. For the fiscal year to date, total GRF revenue is $29 million (0.3%) below estimate. Tax revenue is $50 million (0.8%) below estimate. Most of the shortfall in tax revenue is from the estate tax and the cigarette tax.

Spending continues to be less than estimated. Fiscal year-to-date disbursements are $367 million (3.4%) below estimate. Disbursements for primary and secondary education are $83 million (3.0%) below estimate and disbursements for higher education are $6 million (0.5%) below estimate. Disbursements for welfare and human services are $123 million (2.6%) below estimate.

As shown in Table 1, the GRF began November with a negative cash balance of -$393 million. Revenue, including transfers-in, for November was $1,659 million. Disbursements, including transfers-out, were $2,060 million. The monthly deficit of $401 million brought the fiscal year-to-date cash balance to -$794 million. Although a

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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 November	Fiscal Year 2004 to Date	Last Year	Difference
Beginning Cash Balance	-$392.5	$396.5		
Revenue + Transfers	$1,659.1	$9,162.8		
Available Resources	$1,266.5	$9,559.4		
Disbursements + Transfers	$2,060.4	$10,353.2		
Ending Cash Balances	-$793.9	-$793.9	-$1,053.2	$259.3
Encumbrances and Accts. Payable		$619.5	$676.2	-$56.7
Unobligated Balance		**-$1,413.4**	**-$1,729.4**	**$316.0**
BSF Balance		$180.7	$1,010.6	-$829.9
Combined GRF and BSF Balance		**-$1,232.7**	**-$718.8**	**-$513.9**

negative cash balance may appear to be a cause for concern, the cash balance, due to the timing of revenues and disbursements, is generally negative early in the fiscal year before turning positive later in the year. If revenues and disbursements had met their estimates, the fiscal year-to-date cash balance would have been -$1,132 million, $338 million lower than the actual level.

The fiscal year-to-date cash balance of -$794 million is $259 million higher than a year ago. Year-to-date encumbrances of $620 million combine with the cash balance to yield an unobligated balance of -$1,413 million, which is $306 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 $514 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.

TRACKING THE ECONOMY

¾ Phil Cummins

Expansion in the national economy is continuing, spurred by low interest rates and tax cuts earlier this year. Factory production, retail sales, and housing starts rose in November. Inventory rebuilding this fall, after cutbacks earlier in the year, is not keeping pace with expansion of sales. The stronger American economy is encouraging hiring, though the upturn in employment has not yet spread to Ohio. Inflation indicators are mixed, with producer and consumer prices for finished goods down in November but prices for industrial commodities up sharply.

Revised Profile of Recession and Recovery

Federal statisticians revised upward their estimate of total output of the United States economy in the third quarter, mainly reflecting much less inventory liquidation than in their initial report. The revised figures show inflation-adjusted gross domestic product (GDP) growing at an exceptionally strong 8.2% annual rate in the third quarter. Subsequently, they released a comprehensive or benchmark revision of the national income and product figures, covering 1929 through the second quarter of 2003. The pattern of the 2001 recession and the recovery since then is broadly similar to that shown by previous estimates. Gross domestic product declined in the first three quarters of 2001, turned up beginning in the 2001 fourth quarter, rose more slowly in late 2002 and early 2003, then expanded more rapidly in the 2003 second quarter. The new figures show a decline in the third quarter of 2000 rather than the small increase indicated previously. Third-quarter 2003 numbers are not yet available on the new basis. Growth in inflation-adjusted or real GDP is shown in Chart 1, which compares the benchmark revision with previously available figures.

Employment Gains in the Nation but Not in Ohio

Employment on nonfarm payrolls nationwide rose again in November, continuing the upturn underway since July. The increase, by 57,000 people, was smaller than in the previous two months, and September and October employment levels were revised downward. However, the rise in November was reduced by the temporary effects of labor strikes at food stores. Since July, total nonfarm payroll employment has increased 330,000, after falling 2.7 million from the peak in early 2001. Sectors gaining in recent months include health care and social services, temporary

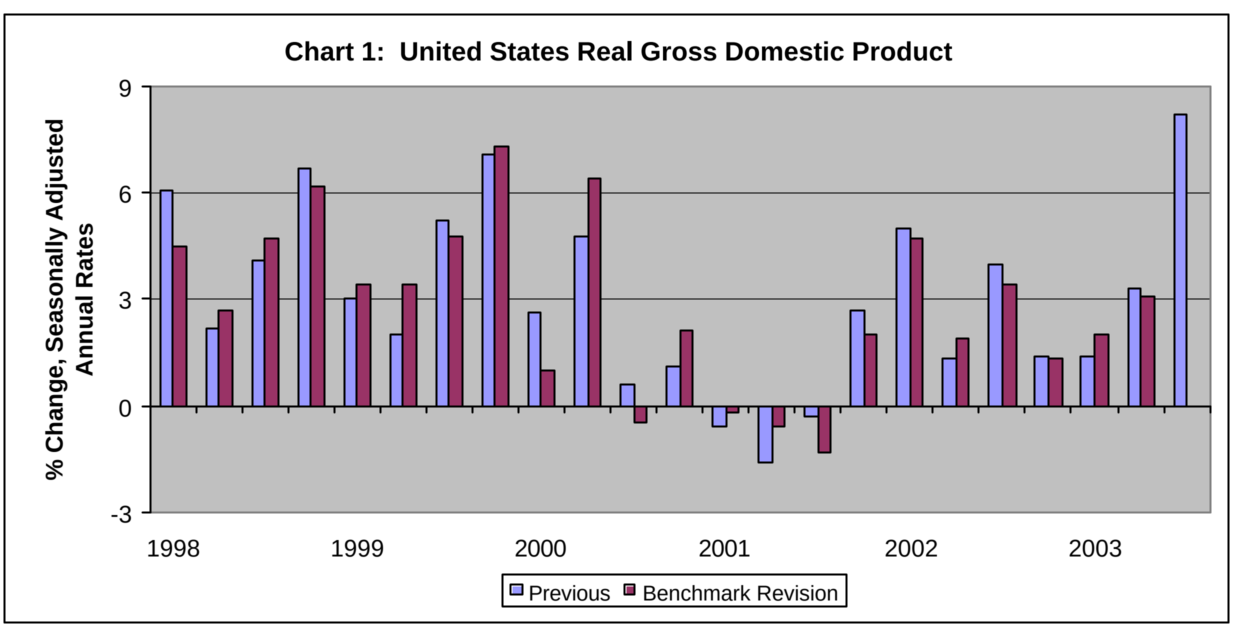

Chart 1: United States Real Gross Domestic Product

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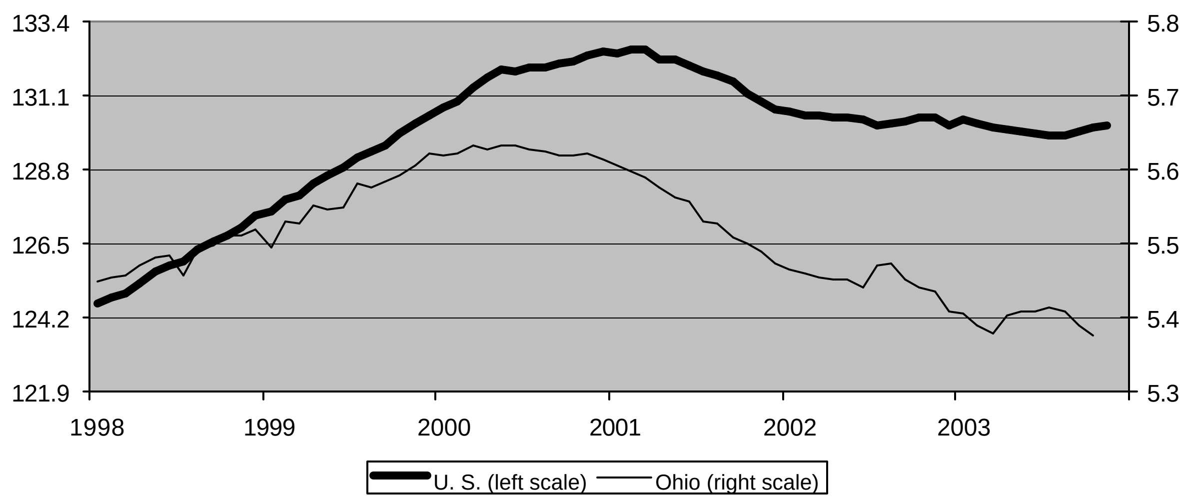
Chart 2: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



help, and construction. The drop in manufacturing employment in the nation has slowed, particularly for durable goods. Unemployment in the United States fell last month to 8.7 million people or 5.9% of the labor force, from 6.0% in October and a business cycle peak of 6.4% in June. Two million people, nearly one-fourth of the unemployed, have been out of work more than six months.

In Ohio, total nonfarm payrolls fell in October (latest figures available) to the lowest level since 1997. Unemployment in the state declined to 326,000 people in October or 5.6% of the labor force, from 5.8% the previous month and 6.3% earlier this year, the highest since 1993. The drop in the state's unemployment rate appears to be due mainly to fewer people looking for work here rather than to improvement in the state's labor market. November's employment and unemployment report for the state is due December 19.

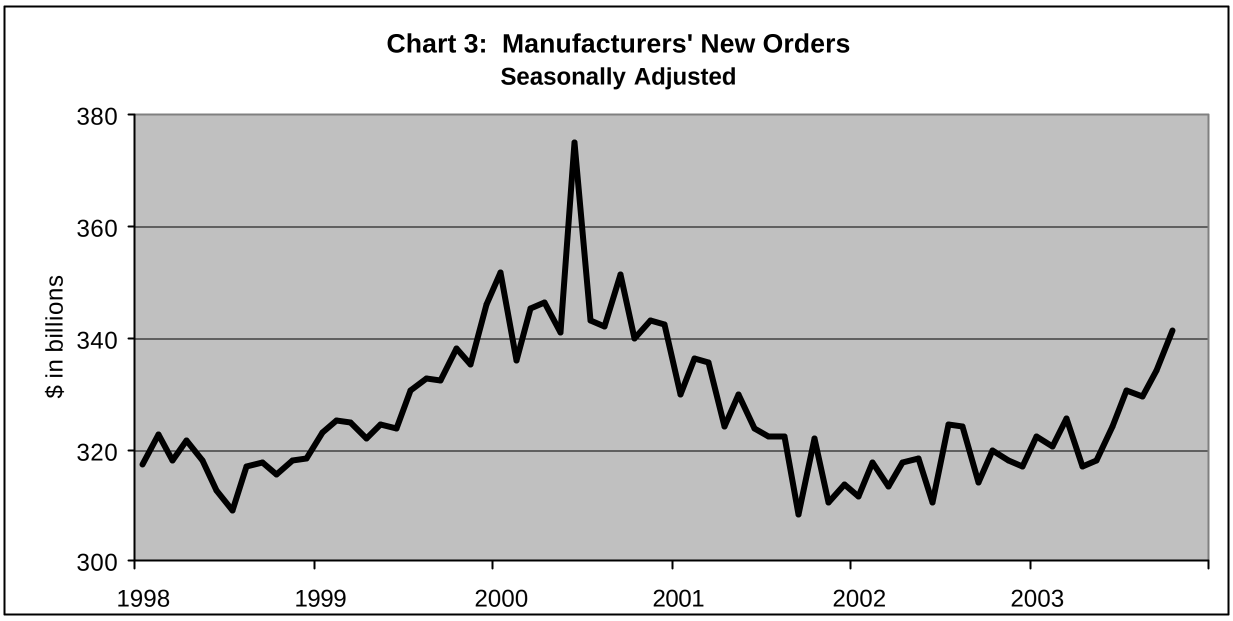
The modest upturn in total employment in the nation, and the continued weakness in Ohio, are shown in Chart 2.

National Recovery Continuing

Purchasing managers at manufacturers nationwide reported further improvement in business conditions in November. Production and orders rose for the seventh consecutive month, and reports of increases were very widespread among respondents to the Institute for Supply Management's survey. Order backlogs increased. Inventories of surveyed manufacturers were unchanged in November after declines in the preceding 45 consecutive months. The manufacturing employment index showed an increase last month after 37 consecutive months of decline.

Separately, for the month of October, a government report showed that manufacturers' new orders rose to the highest level since late 2000, seasonally adjusted. Orders in October were 11% above the 2001 low. Total United States factory orders have risen in five of the last six months. The upturn in orders is shown in Chart 3.

Purchasing managers in the nonmanufacturing sector reported that business activity, the counterpart to the manufacturing sector's production index, increased in November. Nonmanufacturing business activity has expanded in most months since early 2002. Orders, order backlogs, inventories, and employment also rose last month, according to the survey. In contrast with the manufacturing report, increases in nonmanufacturing business activity, orders, and backlogs were less widespread in November than in October.



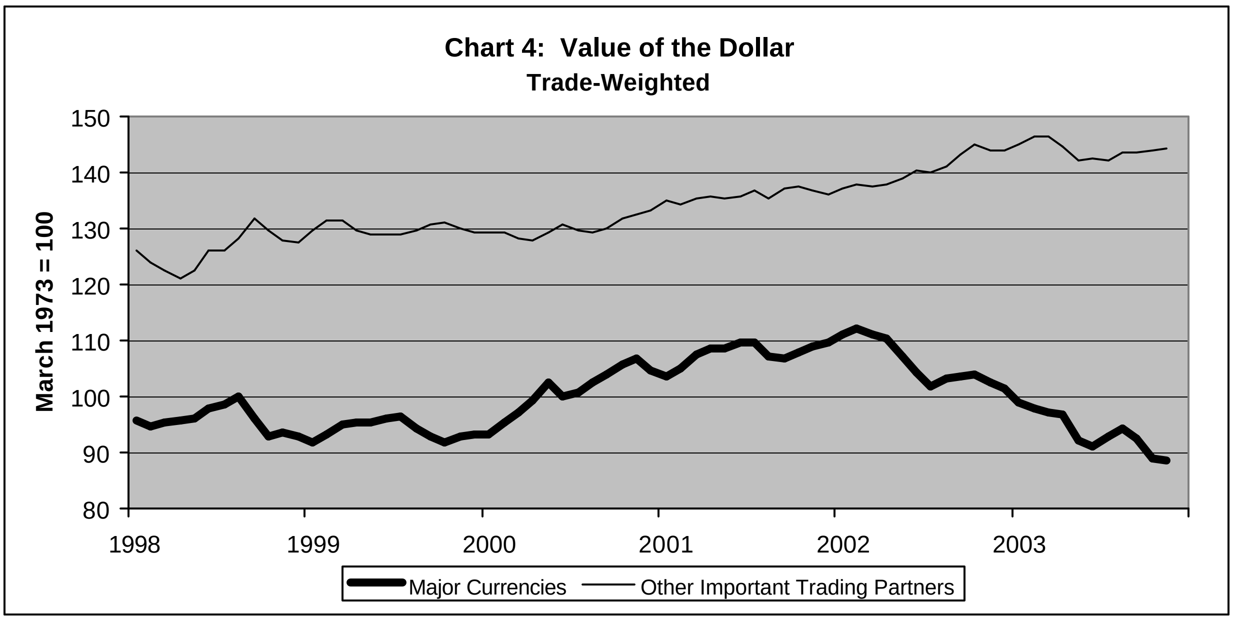
Total industrial production and the manufacturing component of that index both rose 0.9% in November, the largest monthly increases since 1999. Output by these measures has now recovered to levels of early 2001 but remains short of peaks reached in mid-2000. Gains in factory output were widespread among durable and nondurable goods producers, with the notable exception of motor vehicle makers. Production of business equipment and construction materials has turned up this year after declining since 2000. Output of defense and space equipment continues to grow. Industrial materials production has been rising vigorously in recent months.

Inventories at manufacturers, wholesalers, and retailers rose 0.4% in October and in September, after generally declining since early 2003. Sales have risen faster than inventories, and aggregate inventories appear to be quite lean based on their ratio to sales. For the economy as a whole, part of the rise in final demand in this year's second and third quarters was met by reductions in business inventories rather than by stronger GDP growth. Inventory restocking will likely add to GDP in the fourth quarter.

Retail sales turned up in November after slipping in October and September. Total retail and food service sales rose 0.9% in November to 6.9% above a year earlier. October sales were revised upward. Motor vehicle sales strengthened in November after slowing in October. Other lines of business continuing to show good gains include furniture and home furnishings, electronics and appliances, and health and personal care. Among general merchandise retailers, warehouse clubs and other discounters continue to outperform department stores.

Housing starts in November rose to a 2.07 million unit seasonally adjusted annual rate, the first time starts have exceeded a 2 million unit rate since 1984. Year-to-date starts are 8% higher than last year, reflecting increased single-family housing construction and a small decline in multi-unit building. Sales of new and used homes, through October, were at high levels but down from all-time peaks earlier in the year.

The "Beige Book," a survey by the 12 federal reserve banks of economic developments in their regions of the country, reported that the nation's economy continued to expand in October and into November. In the Cleveland Federal Reserve District, which includes all of Ohio, business conditions appeared to improve during this period, with auto and steel producers as well as nondurable goods manufacturers reporting increases in production. Retail sales reports in the Cleveland District were diverse, with sales at some retailers below a year earlier, and expectations for the holiday selling season were similarly varied. Residential construction was



described as strong and commercial building weak but showing signs of improvement. Trucking and shipping activity in this region rose significantly this fall.

Finished Goods Prices Decline; Commodity Prices Rise

The producer price index for finished goods fell 0.3% in November to 3.4% above a year earlier. November's drop in wholesale prices follows a 0.8% jump in October. Finished goods for which prices declined last month include beef and veal (after a large increase in October), passenger cars, gasoline and some other fuels, and several categories of capital equipment. The index of intermediate goods prices fell 0.2% last month, to 3.3% above a year earlier, and the index for crude goods rose 0.2%, to 18% higher than in November 2002. Basic industrial materials rose 4.3% in November, continuing the sharp upturn of the past five months and reflecting further sizable increases in prices for iron and steel scrap, copper scrap, raw cotton, and leaf tobacco.

Rising economic activity around the world is adding to demand for industrial commodities and placing upward pressure on commodity prices. *The Economist* newspaper estimates that growth in the world economy in the third quarter was probably the strongest in two decades.[1] China's robust economy is placing demands on commodity markets. Economic recovery is strengthening in various other parts of the world.

Also, the fall in the foreign exchange value of the dollar, particularly relative to European currencies, implies that a sharp rise in commodity prices measured in dollars translates into a much smaller rise or even a decline in prices measured in other currencies. The drop in the dollar's value during the past two years relative to currencies of other major industrialized countries is illustrated in Chart 4. The chart shows Federal Reserve Bank indexes of the dollar's foreign exchange value.[2] No comparable depreciation has taken place in the dollar's value versus the currencies of less developed countries (labeled Other Important Trading Partners in the chart).

The consumer price index fell 0.2% in November to 1.8% above a year earlier. Energy prices fell 3%, to 6.2% above November 2002. Other prices were mixed. Beef and other meat prices rose sharply last month at the retail level, and medical care services and education were higher in price, while prices for used cars and trucks, airline fares, women's and girls' apparel, medical care commodities, and personal computers and peripherals fell in November.

Monetary Policy on Hold

The Federal Open Market Committee, the key policymaking group at the nation's central bank, chose at its December meeting to keep its target for short-term interest rates unchanged. The target for federal funds has been 1% since June. Previously, weekly average federal funds had not been this low since 1961. In its statement following the meeting, as in other recent statements, the Committee said that it expects its accommodative monetary policy to continue "for a considerable period" but indicated that the risk of deflation has declined. Minutes of the group's October meeting, recently released, note that Committee members expected "prospects for persisting slack in labor and other resources in combination with substantial further increases in productivity were likely to hold inflation to very low levels over the next year or two."

[1]"The world economy: Boom or gloom?" *The Economist*, November 22, 2003, page 13.

[2] The indexes in the chart are trade-weighted combinations of bilateral foreign exchange rates between the United States and 36 other countries.

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Status of the General Revenue Fund

REVENUE

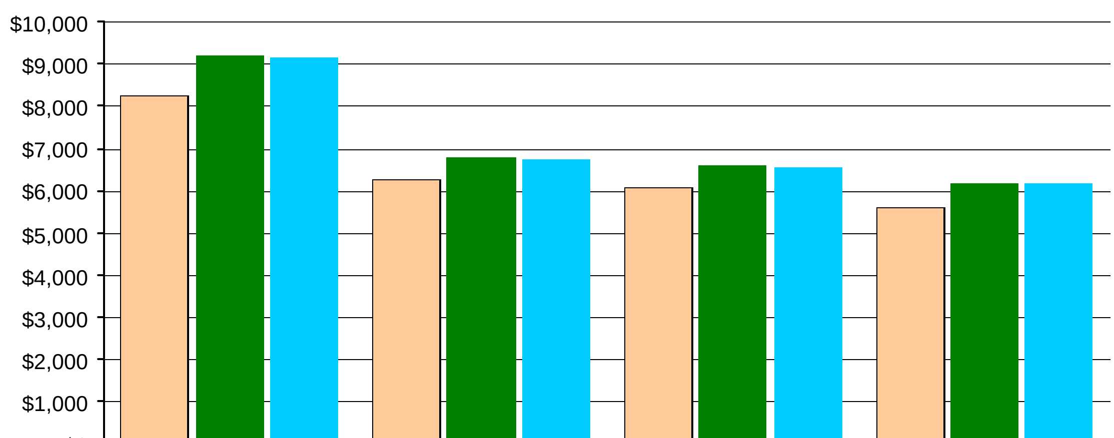
— Allan Lundell and Jean Botomogno

November was a mostly encouraging month for state revenues. Revenue from the personal income tax exceeded estimate for the first time this fiscal year and revenue from the nonauto sales tax exceeded estimate for the second straight month. These two revenue sources are expected to account for over 75% of state-source GRF revenue in FY 2004, so any improvement in their performance is good news. Not all the news was encouraging, however. Revenues from the cigarette tax and the estate tax continued to lag behind estimates. November GRF revenues of $1,659.1 million were $32.1 million (2.0%) above estimate. GRF revenue less federal grants (state-source revenue) was $36.6 million (3.1%) above estimate. Total tax revenue was $30.1 million (2.6%) above estimate and revenue from the major taxes was $38.2 million (3.4%) above estimate.[1]

Through November, GRF revenue is up 10.6% compared to the first five months of FY 2003. State-source revenue is up 7.7% and revenue from federal grants is up 19.6%. Total tax revenue is up 8.0% and revenue from the major taxes is up 9.9%. Total GRF revenue is up $878.4 million compared to FY 2003, but most of the increase (98%) is from the sales tax (up $470.6 million) and federal grants (up $392.7 million). State-source revenue other than the sales tax is up just $15.1 million (0.4%) compared to FY 2003, reflecting the slow growth in the Ohio economy.

Although revenues are up compared to FY 2003, they remain below FY 2004 estimates. Total GRF revenue is $28.6 million (0.3%) below estimate through the first five months of this fiscal year. State-source revenue is $31.7 million (0.5%) below estimate, and total tax revenue is $49.9 million (0.8%) below estimate. Revenue from the major taxes is $3.2 million (0.1%) above estimate. Chart 1 compares FY 2004 revenues with FY 2003 revenues and FY 2004 estimates.

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	$8,284.4	$6,284.2	$6,087.4	$5,633.3
FY 2004 Estimate	$9,191.4	$6,801.6	$6,622.4	$6,187.3
FY 2004 Actual	$9,162.8	$6,769.9	$6,572.5	$6,190.5

Personal Income Tax

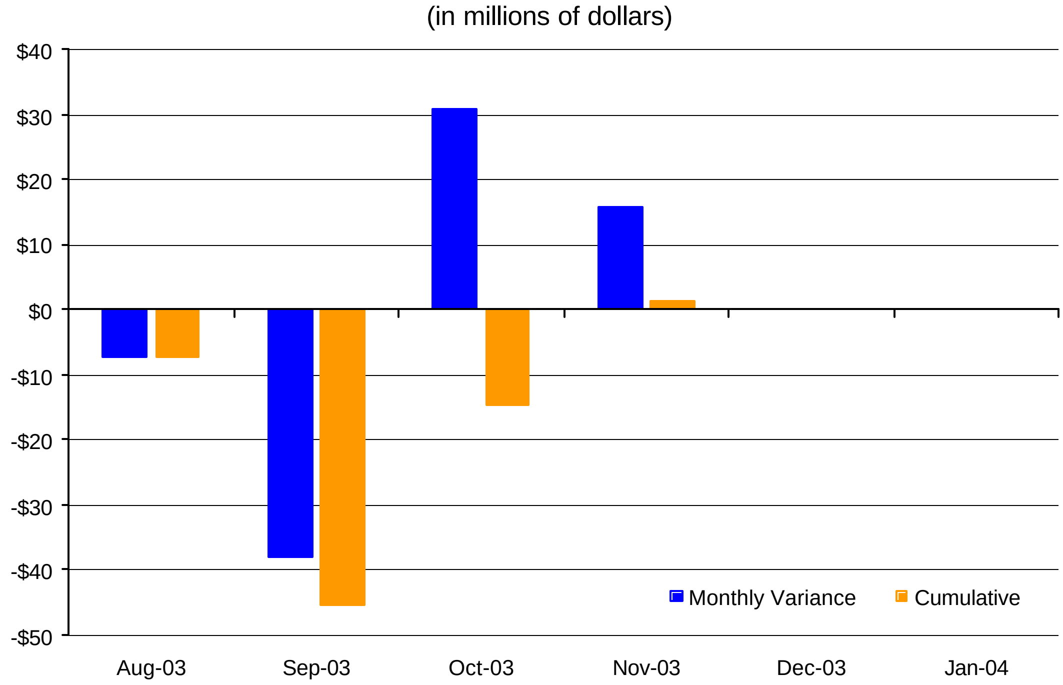
November was the first month of FY 2004 in which personal income tax receipts exceeded estimate. The GRF received $522.3 million in revenue from the personal income tax. This amount was $29.7 million (6.0%) above estimate. The $596.8 million in revenue collected through tax withholding was $34.0 million (6.0%) above estimate. The improvement in withholding hints that Ohio's labor market may be improving, but one month does not provide sufficient evidence to reach a conclusion. Quarterly estimated payments of $8.4 million were $1.6 million (16.3%) below estimate.[2] Refunds totaled $35.2 million. This total was $223,000 (0.6%) greater than estimate.

Through the first five months of FY 2004, GRF revenue from the personal income tax totals $2,860.9 million. The total is $10.2 million (0.4%) below estimate. Withholding is $5.0 million (0.2%) above estimate. The withholding picture is brighter than earlier thought. Withholding through October was $37.4 million greater than previously reported. Withholding that came through the Ohio Business Gateway was not initially booked as withholding but was instead initially reported as "miscellaneous" or "other" income tax collections.[3] Bottom-line income tax revenue to the GRF is not changed, but the improvement in withholding provides hints of an improving labor market and improved revenue collections for the remainder of the fiscal year.[4] Quarterly estimated payments are $0.6 million (0.2%) below estimate, revenue from the tax on trusts is $6.9 million (43.7%) below estimate, and refunds are $2.5 million (1.7%) below estimate. The income tax remains essentially flat compared to a year ago. GRF revenue from the personal income tax is up by 1.0%. Gross collections are up by 0.9% and withholding is up by 2.4%. Quarterly estimated payments are down by 5.3% and refunds are up by 1.4%.

The Sales and Use Tax

In November 2003, revenues from the nonauto sales and use tax exceeded estimates, while those from the auto sales and use tax lagged estimates. Total sales and use tax revenues in the month were $596.1 million, $5.4 million or 0.9% below estimates. Total receipts were $130.2 million or 27.9% above November 2002 sales and use tax revenues. As of November 2003, year-to-date total sales and use tax revenues were $3,062.4 million, $2.5 million or 0.1% above estimates. Sales and use tax receipts were

Nonauto Sales Tax Variance from July 2003 Estimates
(in millions of dollars)



$470.6 million or 18.2% higher than year-to-date tax receipts in November 2002.

Nonauto Sales and Use Tax

For the second consecutive month, the nonauto sales and use tax yield was above estimates. The nonauto sales and use tax provided $535.4 million in November 2003, $15.8 million or 3.0% above estimates. Tax receipts partly reflect taxable retail sales activity in the prior month and also taxable retail sales during that month.[5] Compared to nonauto sales tax revenues a year ago, tax receipts for the month were $125.1 million, or 30.5% higher than revenues in November 2002.

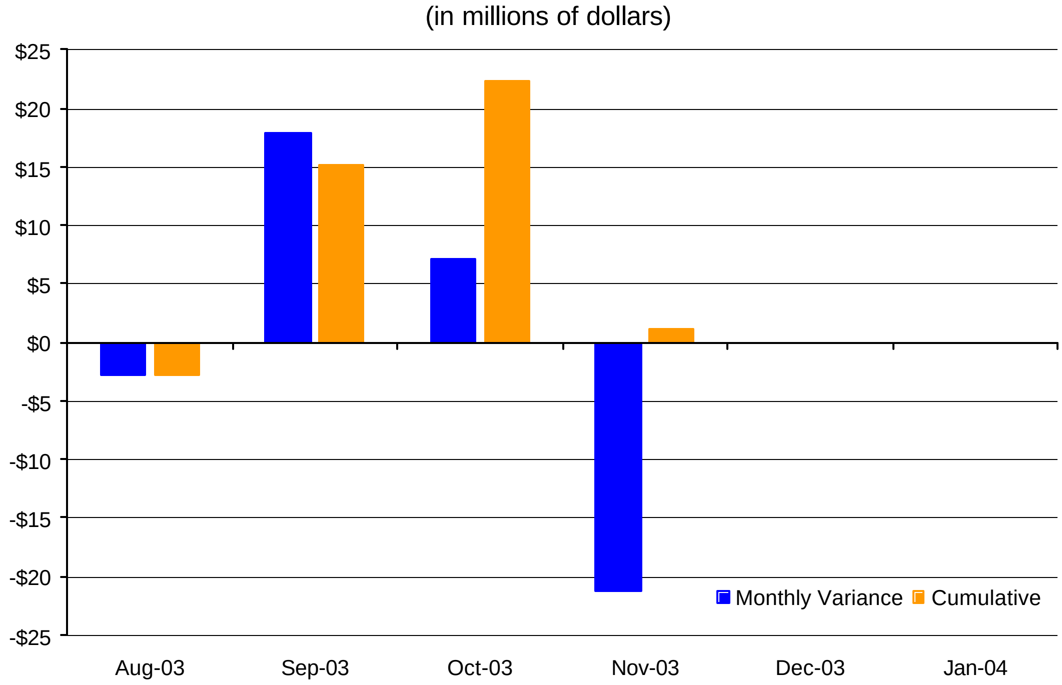
As of November 2003, year-to-date nonauto sales and use tax receipts were $2,575.5 million, $1.3 million or 0.1% above estimates. Compared to receipts a year ago, year-to-date nonauto sales tax receipts as of November 2003 were up $470.6 million or 18.3%. The performance of the sales and use tax improved in the last two months, and receipts have been large enough to reverse the cumulative variance from negative into positive territory. Year-to-date nonauto sales and use tax receipts in September 2003 were $45.5 million or 3.0% below estimates. In October 2003, that cumulative negative variance was reduced to $14.5 million or 0.7% below estimates. In November 2003, the year-to-date variance turned positive, $1.3 million above estimates.

In the last two months, the growth in nationwide retail sales (excluding autos) has been positive, but modest. After slowing 0.1% in September 2003, growth in retail sales in October and November 2003 averaged 0.4%. Comparisons with previous year retail sales are solid, but not spectacular. Compared to the same months in CY 2002, nationwide retail sales (excluding autos) grew 6.5% each in October 2003 and in November 2003. The Total Retail Chain Store Index of the Bank of Tokyo Mitsubishi reported year-over-year growth of 8.4% and 8.8% in October 2003 and November 2003, respectively.[6]

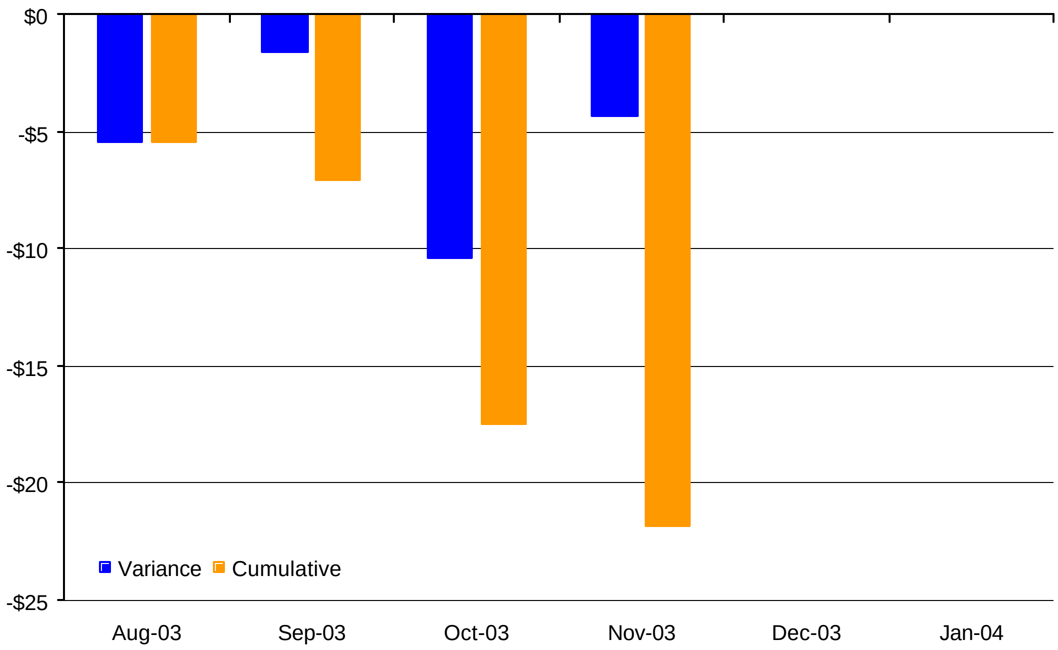
Auto Sales Tax

Auto sales tax receipts were $60.7 million in November 2003, $21.2 million or 25.9% 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, auto tax receipts largely reflect vehicles sold and

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



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



titled during the month. Compared to revenues a year ago in the same month, auto sales tax receipts in November 2003 were $5.1 million or 9.2% higher than receipts last year.[7] For the year to date, auto sales tax receipts were $486.9 million, $1.2 million or 0.2% above estimates. Year-to-date receipts as of November 2003 were also $71.3 million or 17.2% higher than receipts in the same period in November 2002.

Nationwide auto sales, both in number of vehicles sold and dollar sales, rebounded in November.[8] The U.S. Department of Commerce reported that sales at motor vehicle dealers increased 2.6%, after a decline of 2.1% in October 2003.[9] Unit sales improved to 16.8 million in light-vehicle sales on an annualized basis (the October sales rate was 15.5 million units). This improvement in nationwide auto sales was at odds with the performance of the auto sales tax in November 2003. Compared to sales in November 2002 in the previous year, sales at auto dealers (nationwide) were up 4.4% in November 2003. At the 5% rate, November 2003 auto sales tax receipts would have been about $50.6 million, or approximately $5 million less than receipts in the same month last year, reflecting a potential decrease in auto sales in Ohio. In the absence of specific Ohio auto sales data, it is difficult to ascertain the true relationship between nationwide auto sales and the Ohio auto sales tax. The timing of receipts might be a factor in the relatively low level of auto sales tax receipts in November 2003. Some of the tax receipts from auto sales during the month were probably recorded in December 2003. With the traditional discounting by automakers at the end of the calendar year, auto sales tax receipts in December might be much better than November 2003 auto tax receipts.

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 payment tax in January 2004. Corporate franchise tax refunds were higher than receipts by $8.9 million in November 2003. As of November 2003, year-to-date receipts were $39.7 million, $21.9 million above estimates. For the year to date as of November 2003, corporate franchise tax revenues were $52.5 million above receipts in the same period last year.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts were again below estimates this month, as they have been throughout FY 2004. Receipts in November 2003 were $37.7 million, $4.3 million or 10.3% below estimates. Revenues from this tax source were $4.1 million or 9.8% lower than receipts in November 2002.

As of November 2003, year-to-date cigarette and other tobacco product receipts were $202.2 million, $21.8 million or 9.7% below estimates. As of November 2003, year-to-date revenues from this tax source were $40.5 million or 16.7% below revenue a year ago. Revenues from the floor tax[10] in FY 2003 skew comparisons with year-ago receipts. In the first five months of FY 2003, the floor tax provided $31.7 million. Excluding amounts provided by the floor tax, year-to-date FY 2004 revenues as of November 2003 would have been $8.8 million or 4.2% below receipts in the same period in FY 2003. The amount corresponds to about 16 million (taxed) packs of 20 cigarettes at 55 cents per pack. The Office of Budget and Management believes that the dip in cigarette tax revenues 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, probably in the final quarter of the fiscal year. However, the impact of the cigarette rate increase of July 1, 2002 on consumers may potentially be stronger this year as smokers continue to adjust to the new rate. Some smokers may have switched some of their cigarette consumption from taxed cigarettes toward non-taxed cigarettes (such as purchasing cigarettes in other states or on the Internet), or some smokers may have quit or consumed fewer cigarettes.

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[1] The "major taxes" are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the 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. This income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

[3] The Ohio business Gateway is the state's online filing and payment system for businesses. Its purpose is to simplify the tax reporting and payment relationship between Ohio businesses and the following state agencies: the Ohio Department of Taxation, Bureau of Workers' Compensation, Department of Job and Family Services, and Department of Commerce. Businesses are able to use the system to report and pay liabilities associated with Employer Withholding Tax, Sales Tax, Workers' Compensation, Unemployment Tax, and Unclaimed Funds.

[4] Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and because it is less volatile than other components of income tax revenue.

[5] Am. Sub. H.B. 40 changed the historical patterns of remittance of sales and use tax receipts. Under prior law, monthly sales and use tax receipts reflected taxable transactions in the prior month. Under current law, certain large taxpayers must remit sales tax payments in the same month the transactions occur. Thus, monthly sales tax receipts reflect taxable transactions in both the current and the prior months. Generally, receipts from up to 60% of taxable activity in the month are received during that month, with the remainder collected the following month.

[6] The Bank of Tokyo Mitsubishi Total Retail Chain Store Index measures sales at about 80 major retailers. Sales are from all stores, including sales from store expansions, relocations, and mergers.

[7] At the 5% rate, this would have been about $50.6 million, or $5 million less than FY 2003 receipts in the same month.

[8] Annualized sales of vehicles and light trucks were 18.9 million in August 2003, 16.6 million in September, 15.5 million in October, and 16.8 million units in November.

[9] Sales are adjusted for seasonal variations and trading day differences but not for price changes.

[10] 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.

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

REVENUE SOURCE				
TAX REVENUE	**Actual**	**Estimate***	**Variance**	**Percent**
Auto Sales	$60,740	$81,958	-$21,218	-25.9%
Non-Auto Sales & Use	$535,413	$519,632	$15,781	3.0%
Total Sales	$596,153	$601,590	-$5,437	-0.9%
Personal Income	$522,252	$492,585	$29,667	6.0%
Corporate Franchise	-$8,964	-$23,790	$14,826	-62.3%
Public Utility	$12,111	$10,800	$1,311	12.1%
Kilowatt Hour Excise Tax	$25,765	$27,968	-$2,203	-7.9%
Total Major Taxes	**$1,147,316**	**$1,109,153**	**$38,163**	**3.4%**
Foreign Insurance	$14	$0	$14	---
Domestic Insurance	$0	$0	$0	---
Business & Property	$26	$155	-$129	-83.4%
Cigarette	$37,669	$42,000	-$4,331	-10.3%
Alcoholic Beverage	$4,285	$4,800	-$515	-10.7%
Liquor Gallonage	$2,642	$2,460	$182	7.4%
Estate	$8,216	$11,550	-$3,334	-28.9%
Total Other Taxes	$52,852	$60,965	-$8,113	-13.3%
Total Taxes	**$1,200,168**	**$1,170,118**	**$30,050**	**2.6%**
NON-TAX REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$551	$2,646	-$2,095	-79.2%
Other Revenue	$9,000	$10,000	-$1,000	-10.0%
Non-Tax Receipts	$9,552	$12,646	-$3,094	-24.5%
TRANSFERS				
Liquor Transfers	$8,000	$8,000	$0	0.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$15,626	$6,000	$9,626	160.4%
Total Transfers In	$23,626	$14,000	$9,626	68.8%
TOTAL REVENUE less Federal Grants	**$1,233,345**	**$1,196,764**	**$36,581**	**3.1%**
Federal Grants	$425,718	$430,180	-$4,462	-1.0%
TOTAL GRF REVENUE	**$1,659,063**	**$1,626,944**	**$32,119**	**2.0%**

* 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 November 2003
($ in thousands)

REVENUE SOURCE						
TAX REVENUE	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2003**	**Percent Change**
Auto Sales	$486,928	$485,736	$1,192	0.2%	$415,587	17.2%
Non-Auto Sales & Use	$2,575,496	$2,574,182	$1,314	0.1%	$2,176,191	18.3%
Total Sales	$3,062,424	$3,059,918	$2,506	0.1%	$2,591,778	18.2%
Personal Income	$2,860,898	$2,871,143	-$10,245	-0.4%	$2,832,120	1.0%
Corporate Franchise	$39,710	$17,843	$21,867	122.6%	-$12,680	-413.2%
Public Utility	$84,270	$79,377	$4,893	6.2%	$74,935	12.5%
Kilowatt Hour Excise Tax	$143,171	$159,004	-$15,833	-10.0%	$147,166	-2.7%
Total Major Taxes	**$6,190,473**	**$6,187,285**	**$3,188**	**0.1%**	**$5,633,320**	**9.9%**
Foreign Insurance	$114,701	$122,566	-$7,865	-6.4%	$115,365	-0.6%
Domestic Insurance	$147	$200	-$53	-26.3%	$1,626	-90.9%
Business & Property	$1,165	$1,366	-$201	-14.7%	$1,065	9.4%
Cigarette	$202,180	$224,019	-$21,839	-9.7%	$242,716	-16.7%
Alcoholic Beverage	$23,691	$25,348	-$1,657	-6.5%	$24,504	-3.3%
Liquor Gallonage	$12,732	$12,234	$498	4.1%	$12,104	5.2%
Estate	$27,375	$49,350	-$21,975	-44.5%	$56,665	-51.7%
Total Other Taxes	$381,990	$435,083	-$53,093	-12.2%	$454,045	-15.9%
Total Taxes	**$6,572,463**	**$6,622,368**	**-$49,905**	**-0.8%**	**$6,087,365**	**8.0%**
NON-TAX REVENUE						
Earnings on Investments	$8,065	$7,000	$1,065	15.2%	$22,810	-64.6%
Licenses and Fees	$15,549	$17,592	-$2,043	-11.6%	$12,540	24.0%
Other Revenue	$53,943	$55,231	-$1,288	-2.3%	$67,031	-19.5%
Non-Tax Receipts	$77,558	$79,823	-$2,265	-2.8%	$102,382	-24.2%
TRANSFERS						
Liquor Transfers	$46,000	$41,000	$5,000	12.2%	$45,000	2.2%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$73,879	$58,362	$15,517	26.6%	$49,440	49.4%
Total Transfers In	$119,879	$99,362	$20,517	20.6%	$94,440	26.9%
TOTAL REVENUE less Federal Grants	**$6,769,899**	**$6,801,553**	**-$31,654**	**-0.5%**	**$6,284,187**	**7.7%**
Federal Grants	$2,392,913	$2,389,872	$3,041	0.1%	$2,000,186	19.6%
TOTAL GRF REVENUE	**$9,162,812**	**$9,191,425**	**-$28,613**	**-0.3%**	**$8,284,372**	**10.6%**

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

Detail may not sum to total due to rounding.

DISBURSEMENTS

*— Steve Mansfield**

November's General Revenue Fund (GRF) disbursements (excluding transfers) added $132.8 million to the negative disbursement variance for the year to date, which is now $376.4 million below estimate. Of the state's four major GRF program categories, the Welfare and Human Services category is below the year-to-date estimate by $123.2 million, with the other categories also posting significant negative disbursement variances for the year to date (see in Figure 1). Each major program category posted a negative disbursement variance for November. And as can be seen in Table 5, with the exception of a small year-to-date positive disbursement variance in the Temporary Assistance for Needy Families (TANF) program, all other program subcategories registered negative year-to-date disbursement variances.

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 for the most recent month is presented in Table 4, and for the year to date is presented in Table 5. A detailed analysis of disbursement activity in the Health Care/Medicaid program is presented in Tables 6 and 7.

Welfare/Human Services (-$123.2 million)

The Welfare/Human Services category posted a negative disbursement variance of $46.7 million in November to stand at $123.2 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) still accounts for the largest part of the category's year-to-date negative variance. However, with a negative disbursement variance of $31.5 million in November, the Health Care/Medicaid subcategory is now a close second with a negative year-to-date variance of $42.2 million. The following paragraphs discuss the

Figure 1
GRF Disbursement Variances
by Program Category, FY 2004

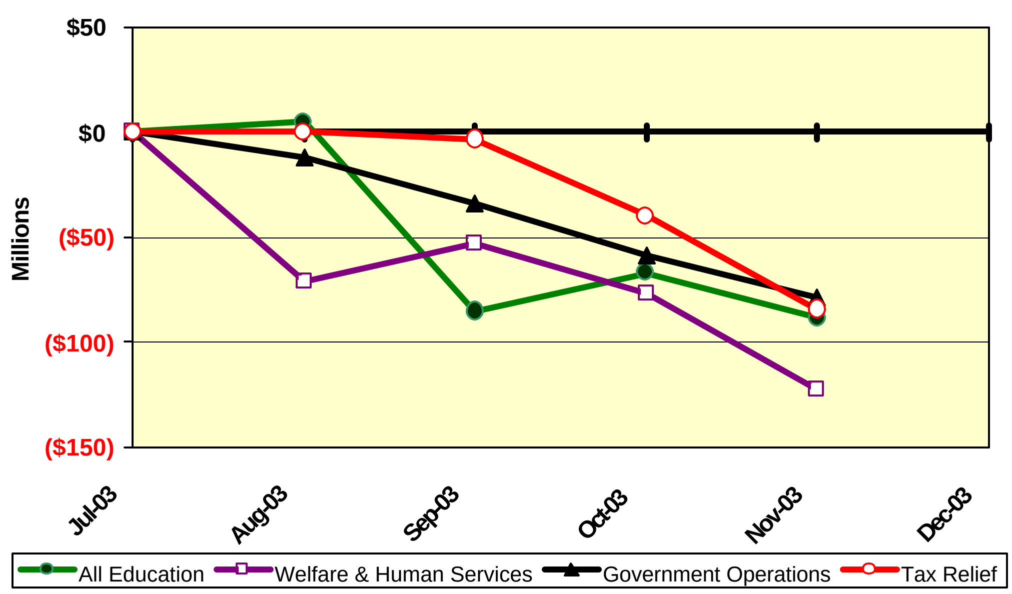


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of November 2003
($ in thousands)

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$544,759	$590,740	-$45,981	-7.8%
Higher Education	$327,134	$302,810	$24,324	8.0%
Total Education	$871,893	$893,550	-$21,657	-2.4%
Health Care/Medicaid	$679,962	$711,452	-$31,490	-4.4%
TANF	$61,292	$63,580	-$2,288	-3.6%
General/Disability Assistance	$1,675	$1,881	-$206	-11.0%
Other Welfare (2)	$26,755	$32,043	-$5,288	-16.5%
Human Services (3)	$88,802	$96,208	-$7,405	-7.7%
Total Welfare & Human Services	$858,486	$905,164	-$46,678	-5.2%
Justice & Corrections	$111,019	$127,664	-$16,645	-13.0%
Environment & Natural Resources	$18,863	$15,479	$3,384	21.9%
Transportation	$1,464	$2,734	-$1,270	-46.4%
Development	$6,167	$8,654	-$2,486	-28.7%
Other Government	$16,191	$18,532	-$2,341	-12.6%
Capital	$0	$412	-$412	-100.0%
Total Government Operations	$153,704	$173,474	-$19,769	-11.4%
Property Tax Relief (4)	$176,272	$221,000	-$44,728	-20.2%
Debt Service	$0	$0	$0	---
Total Program Payments	**$2,060,355**	**$2,193,187**	**-$132,832**	**-6.1%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$36	$3,225	$36	-98.9%
Total Transfers Out	$36	$3,225	-$3,189	-98.9%
TOTAL GRF USES	**$2,060,392**	**$2,196,412**	**-$136,020**	**-6.2%**

(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 November 2003
($ in thousands)

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2003**	**Percent Change**
Primary & Secondary Education (1)	$2,717,759	$2,800,775	-$83,016	-3.0%	$2,767,727	-1.8%
Higher Education	$1,076,375	$1,082,159	-$5,784	-0.5%	$1,086,789	-1.0%
Total Education	$3,794,134	$3,882,934	-$88,801	-2.3%	$3,854,517	-1.6%
Health Care/Medicaid	$3,747,087	$3,789,299	-$42,212	-1.1%	$3,488,623	7.4%
TANF	$176,138	$175,867	$271	0.2%	$237,555	-25.9%
General/Disability Assistance	$10,332	$11,179	-$846	-7.6%	$12,002	-13.9%
Other Welfare (2)	$236,797	$272,982	-$36,185	-13.3%	$249,053	-4.9%
Human Services (3)	$523,862	$568,080	-$44,218	-7.8%	$584,118	-10.3%
Total Welfare & Human Services	$4,694,217	$4,817,406	-$123,190	-2.6%	$4,571,350	2.7%
Justice & Corrections	$830,561	$884,943	-$54,382	-6.1%	$836,806	-0.7%
Environment & Natural Resources	$61,929	$62,101	-$172	-0.3%	$70,018	-11.6%
Transportation	$12,218	$14,140	-$1,922	-13.6%	$17,943	-31.9%
Development	$72,520	$82,031	-$9,510	-11.6%	$99,780	-27.3%
Other Government	$191,179	$202,323	-$11,145	-5.5%	$201,777	-5.3%
Capital	$0	$1,327	-$1,327	-100.0%	$0	---
Total Government Operations	$1,168,407	$1,246,865	-$78,458	-6.3%	$1,226,324	-4.7%
Property Tax Relief (4)	$490,698	$575,300	-$84,602	-14.7%	$659,447	-25.6%
Debt Service	$176,433	$177,766	-$1,334	-0.8%	$144,108	22.4%
Total Program Payments	**$10,323,888**	**$10,700,272**	**-$376,384**	**-3.5%**	**$10,455,745**	**-1.3%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$29,336	$19,750	$9,586	48.5%	$15,888	84.6%
Total Transfers Out	$29,336	$19,750	$9,586	48.5%	$15,888	84.6%
TOTAL GRF USES	**$10,353,223**	**$10,720,022**	**-$366,798**	**-3.4%**	**$10,471,632**	**-1.1%**

(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)

Service Category	November Actual	November Estimate	November Variance	November Percent Variance	Year-to-Date Spending Actual thru Nov.	Year-to-Date Spending Estimate thru Nov.	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Facilities	$217,890	$215,956	$1,934	0.9%	$1,086,278	$1,046,620	$39,658	3.8%
Payments	$227,741	$225,751	$1,990	0.9%	$1,135,625	$1,096,108	$39,517	3.6%
NF Franchise Fees Offset[1]	($9,851)	($9,795)	($57)	0.6%	($49,347)	($49,489)	$141	-0.3%
ICF/MR	$12,966	$36,154	($23,188)	-64.1%	$175,535	$175,747	($213)	-0.1%
Payments	$14,624	$37,860	($23,236)	-61.4%	$184,013	$184,326	($313)	-0.2%
ICF/MR Franchise Fees Offset	($1,657)	($1,706)	$48	-2.8%	($8,479)	($8,579)	$101	-1.2%
Inpatient Hospitals	$102,923	$100,368	$2,555	2.5%	$531,898	$554,397	($22,500)	-4.1%
Outpatient Hospitals	$40,957	$43,466	($2,509)	-5.8%	$235,173	$238,308	($3,134)	-1.3%
Physicians	$41,987	$43,412	($1,426)	-3.3%	$223,513	$236,958	($13,445)	-5.7%
Prescription Drugs	$126,381	$131,105	($4,724)	-3.6%	$682,581	$697,954	($15,373)	-2.2%
HMO	$75,618	$72,477	$3,141	4.3%	$430,214	$422,783	$7,431	1.8%
Medicare Buy-In	$12,595	$12,892	($297)	-2.3%	$63,171	$64,235	($1,064)	-1.7%
ODJFS Waiver[2]	$13,544	$16,552	($3,007)	-18.2%	$75,934	$86,855	($10,922)	-12.6%
All Other[3]	$64,859	$69,072	($4,213)	-6.1%	$336,525	$364,363	($27,838)	-7.6%
CHIP II[4]	$5,628	$5,115	$513	10.0%	$29,199	$26,438	$2,761	10.4%
DA Medical[5]	$6,491	$6,862	($371)	-5.4%	$39,493	$41,524	($2,031)	-4.9%
Total ALI 600-525	$721,839	$753,431	($31,591)	-4.2%	$3,909,514	$3,956,182	($46,669)	-1.2%
DSH Offset	$0	$0			$0	$0		
Drug Rebates	($41,891)	($41,978)			($125,499)	($127,102)		
FY 2002 Encumbrance	$0	$0			($71,000)	($39,781)		
Prior Period ALI 600-525	$14	$0			$34,073	$0		
Total Health Care (Net of Offsets	**$679,962**	**$711,452**	**($31,490)**	**-4.4%**	**$3,747,087**	**$3,789,299**	**($42,212)**	**-1.1%**
Est. Federal Share[6]	$399,109	$417,592	($18,483)		$2,199,379	$2,224,155	($24,777)	
Est. State Share	$280,854	$293,860	($13,007)		$1,547,708	$1,565,143	($17,435)	

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.

disbursements in the components of the Welfare/ Human Services category in more detail.

MR/DD. At the end of November, the Department of Mental Retardation and Developmental Disabilities posted a $20.4 million year-to-date negative disbursement variance. This variance, as we have noted in previous months, stems largely from two factors. One factor is the timing of Medicaid payments to providers. The second factor is the slower than anticipated process of distributing Medicaid funds to the counties, which impacted several line items. The largest contributor to the negative year-to-date variance was line item 322-417, Supported Living, which is under estimate by $16.5 million.

Mental Health. In November, the Department of Mental Health posted a negative disbursement variance of $8.2 million, thus pushing the Department's year-to-date disbursement activity to $17.9 million below the estimate. As is typical for the Department, the year-to-date variance is traceable to its two largest GRF subsidy line items: line item 334-408, Community and Hospital Mental Health Services (-$11.8 million), and line item 335-505, Local Mental Health Systems (-$5.8 million). These variances were due to the timing of local boards' requests for funds.

Health Care/Medicaid. In November, the Health Care/Medicaid program (primarily line item 600-525) posted a negative disbursement variance of $31.5 million. For the year to date, the program is $42.2 million below estimate. As we see in Table 6, the largest component of the November negative variance was a negative disbursement variance in the Intermediate Care Facilities for the Mentally Retarded (ICF/MR) category, which resulted from an error in payments being corrected.

Another notable variance is the Nursing Facilities category, which is over the year-to-date estimate by $39.7 million. The Department of Job and Family Services (JFS) reports that "bed days" in Nursing Facilities are higher than expected, while per diems have behaved as expected.

Disbursements in the Inpatient Hospitals category are $22.5 million under the year-to-date estimate at the end of October. This is due, in part, to the fact that mandated rate adjustments to children's hospitals have not yet been implemented. The Department of Job and Family Services has indicated that when these adjustments are implemented, they will be retroactive. Also significantly under estimate is the Physicians category ($13.4 million under estimate). This can be explained in part by a higher than projected growth in managed care enrollment, and thus lower than anticipated growth in the Physicians category.

As noted in Table 7, the HMO category has posted a year-over-year growth rate of 52% so far this fiscal year. While HMO enrollment has been higher than expected (and this is reflected in the $7.4 million positive year-to-date variance noted in Table 6), 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 they 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.

Job and Family Services. Through the end of November, disbursements for the Department of Job and Family Services' operating and subsidy programs now stand at $36.2 million under the estimate for the year to date. These disbursements are captured in the Other Welfare subcategory in Tables 4 and 5, which excludes the separately tracked Medicaid, TANF, and Disability Assistance programs.

Little has changed in this subcategory since last month's report. Line item 600-416, Computer Projects, accounted for $15.0 million of this negative year-to-date disbursement variance.

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 Nov. '03	FY 2003 Yr.-to-Date as of Nov. '02	Dollar Change	Percent Increase
Nursing Facilities	$1,086,278	$1,023,326	$62,952	6.15%
Payments	$1,135,625	$1,068,363	$67,262	6.30%
NF Franchise Fees Offset[1]	($49,347)	($45,037)	($4,310)	9.57%
ICF/MR	$175,535	$170,862	$4,673	2.73%
Payments	$184,013	$179,425	$4,588	2.56%
ICF/MR Franchise Fees Offset)	($8,479)	($8,563)	$84	-0.99%
Inpatient Hospitals	$531,898	$540,880	($8,982)	-1.66%
Outpatient Hospitals	$235,173	$226,608	$8,565	3.78%
Physicians	$223,513	$212,577	$10,935	5.14%
Prescription Drugs	$682,581	$620,914	$61,667	9.93%
HMO	$430,214	$282,853	$147,362	52.10%
Medicare Buy-In	$63,171	$58,862	$4,309	7.32%
ODJFS Waiver[2]	$75,934	$72,411	$3,523	4.86%
All Other[3]	$336,525	$307,034	$29,491	9.61%
CHIP II[4]	$29,199	$23,744	$5,455	22.98%
DA Medical[5]	$39,493	$38,872	$621	1.60%
Total Health Care	**$3,909,514**	**$3,578,943**	**$330,571**	**9.24%**
DSH Offset	$0	$0	$0	
Drug Rebates	($125,499)	($91,411)	($34,088)	
Prior Year Encumbrance	($71,000)	($83,539)	$12,539	
Prior Period ALI 600-525	$34,073	$84,635		
Total Health Care (Net of Offset	**$3,747,087**	**$3,488,627**	**$258,460**	**7.41%**
Est. Federal Share[6]	$2,199,379	$2,047,674	$151,705	
Est. State Share	$1,547,708	$1,440,953	$106,755	

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.

While about a third of this variance can be traced to slower than anticipated billing and payments, it appears that the remainder of this variance stems from prior year appropriations to this line that will go unused and lapse to the GRF. Another $11.0 million of the negative year-to-date disbursement variance can be traced to line item 600-321, Support Services; a large portion ($5.4 million) of this variance stems 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 these funds until the end of FY 2004.

Education (-$88.8 million)

Through November, disbursements in the Education category for the year to date are $88.8 million below the estimate. The Department of Education accounted for $83.0 million of the category's negative disbursement variance and the Board of Regents for $5.8 million.

Department of Education. With a negative disbursement variance of $45.6 million in November, the Department of Education's disbursements for the year to date now stand at $77.2 million below estimate. As is typical for the Department, "timing" was again largely responsible for the individual variances that produced the result for this month.

Over a third of November's negative disbursement variance was traceable to line item 200-501, Base Cost Funding. As the largest item in the Department's budget, line item 200-501 routinely experiences significant disbursement variances because at this point in the year, payments are based on data that is still being gathered.

Through November, the three largest contributors to the negative year-to-date disbursement variance in the Department are line item 200-426, Ohio Education Computer Network ($18.3 million under estimate), line item 200-513, Student Intervention Services ($11.4 million under estimate), and line item 200-433, Reading/Writing/Math Improvement ($8.2 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 item 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 (200-513 and 200-433) appear to have diverged from the estimates due to the timing of payment processing.

Regents. In November, the Board of Regents posted a positive disbursement variance of $23.3 million, thus reducing its year-to-date negative variance to $5.8 million. A positive disbursement variance for the month in the amount of $28.0 million in line item 235-503, Ohio Instructional Grants, is foremost in explaining this result. The large payment in November stemmed from the arrival of summer and fall eligibility data. The year-to-date negative variance in this line item was reduced to $6.7 million.

Tax Relief (-$84.6 million)

The Property Tax Relief program, which carries a 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. In November, the tax relief program in the Department of Education posted a negative variance of $44.4 million. For the year to date, the property tax relief program of the Department of Taxation stood at $55.1 million under the estimate at the end of November, and the program of the Department of Education finished at $29.5 million below the estimate. Disbursement variances in the tax relief program are usually traceable to the timing of when county auditors submit requests for payment.

Government Operations (-$78.5 million)

For the year to date, disbursements for the Government Operations category as a whole stand at $78.5 million under the estimate. The Department of Rehabilitation and Correction (DRC) contributed $40.2 million of that figure. Along with the disbursement variances in DRC, an interesting, although relatively small, positive disbursement variance posted by the Court of Claims will be discussed below. Smaller contributions of note were the negative disbursement variances of the Department of Youth Services ($9.7 million), the Department of Development ($6.9 million), and the Department of Administrative Services ($6.8 million).

Rehabilitation and Correction. The disbursement picture in the Department of Rehabilitation and Correction is much the same as last month, although a November negative disbursement variance of $11.4 million increased the negative year-to-date disbursement variance to $40.2 million. The year-to-date negative disbursement variance is traceable largely to 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.

Court of Claims. In November, the Court of Claims posted a year-to-date positive disbursement variance of $1.5 million, or 130%. This variance, significant because it represents a disbursement more than double the year-to-date estimate, derives from payments that were provided to two individuals who won wrongful imprisonment lawsuits against Ohio. Since its inception, Ohio Wrongful Imprisonment Compensation (line item 015-402) has been paid through the Court of Claims. However, line item 015-402 never has funds appropriated to it in the budget bill. The line item's funds are transferred from the Controlling Board's budget on an as-needed basis.

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

Issues of Interest

ENROLLMENTS CONTINUE TO INCREASE AT OHIO'S STATE INSTITUTIONS OF HIGHER EDUCATION

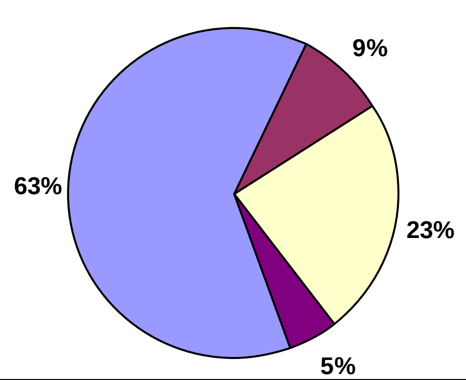
— *Zak Talarek*

The 62 state institutions of higher education continued to see an overall increase in enrollments during fiscal year (FY) 2003. Total enrollment increased to 361,108 full-time equivalent students (FTEs), an increase of 4.0% over the FY 2002 enrollment of 347,304 FTEs. Based on the projections made by the campuses in May 2003, total enrollments are expected to increase by an additional 2.0% in FY 2004, increasing to 368,300 FTEs. Enrollments are measured in FTEs in order to take into account both full-time and part-time enrollments. Therefore, an FTE is equal to one student taking 30 semester (45 quarter) hours, as well as five students each taking 6 semester (9 quarter) hours.

The enrollment growth varied by sector, with increases in enrollment at the two-year institutions outpacing those at the universities. Enrollments grew by 2.4% at the universities, from 221,703 FTEs in FY 2002 to 226,932 FTEs in FY 2003. During the same time, enrollments at the university branch campuses increased by 5.4%, from 30,420 FTEs to 32,057 FTEs; by 6.2% at the technical colleges, from 16,686 FTEs to 17,713 FTEs; and by 7.5% at the community colleges,[1] from 78,495 FTEs to 84,406 FTEs.

Eight institutions saw their enrollments increase by more than 10% in FY 2003. These were: Central Ohio Technical College (increase of 19.4%), Lorain County Community College (16.0%), the East Liverpool campus of Kent State University (15.8%), the Firelands campus of Bowling Green State University (15.7%), Stark State College of Technology (13.1%), the Marion campus of the Ohio State University (11.9%), Owens State Community College (11.6%), and Cuyahoga Community College (10.6%). None of the universities saw its enrollment increase by more than 10%. The university with the largest enrollment growth was Shawnee State University, with an increase of 7.0%, followed by Central State University, which had an increase of 5.6%.

Proportion of Total FY 2003 Enrollments by Sector



Smallest and Largest Institutions in Terms of Subsidy-Eligible FTEs by Sector				
	Smallest Institution		Largest Institution	
	Name	**Number of FTEs**	**Name**	**Number of FTEs**
University*	Central State	1,026	Ohio State	44,567
University Branch	East Liverpool (Kent State)	421	Raymond Walters (Cincinnati)	2,650
Community College	Jefferson	1,088	Columbus State	15,156
Technical College	Marion Tech	1,219	Hocking	4,064

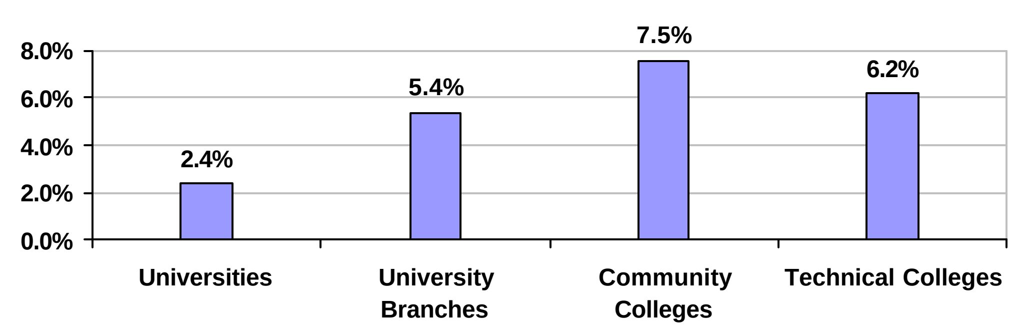
*Does not include the two stand-alone medical colleges (MCOT and NEOUCOM), each of which has a smaller enrollment than Central State.

However, enrollments at six institutions or about one in ten actually declined from FY 2002 to FY 2003. These were: Hocking College (decline of 0.5%), the Geauga campus of Kent State University (-0.7%), University of Cincinnati (-0.8%), Jefferson Community College (-1.3%), Northeast Ohio Universities College of Medicine or NEOUCOM (-2.4%), and the Agricultural Technical Institute (-7.2%).

While all graduate students are subsidized by the state share of instruction (SSI) formula, only those undergraduate students who are residents of the state of Ohio are eligible to be subsidized.[2] As a result, approximately 93.5% of the total enrollments in FY 2003 are eligible to receive SSI funding. The 337,500 subsidy-eligible FTEs in FY 2003 represent an increase of 4.4% above the 323,256 subsidy-eligible FTEs in FY 2002. Based on the projections made by the campuses in May 2003, subsidy-eligible FTE enrollments are projected to increase by 2.2% in FY 2004, to 344,900 subsidy-eligible FTEs. Except for the East Liverpool campus of Kent State University, the same institutions that are the smallest and largest in their respective sectors in terms of subsidy-eligible FTEs are also the smallest and largest in terms of total FTEs. The East Liverpool campus of Kent State University, the smallest university branch, is slightly smaller than the Geauga campus in terms of subsidy-eligible FTEs (421 vs. 433), though it is slightly larger in terms of total FTEs (447 vs. 434).

Enrollments in FY 2003 do not affect the allocation of the SSI until FY 2004, since the SSI funding formula uses either the previous two-year or five-year average enrollment figures in calculating the subsidy amount at each campus. Only 10 of the 62 institutions in FY 2004 will see an increase in the amount of SSI received over the FY 2003 level. Of the ten institutions receiving an increase in the SSI, seven are community colleges and three are technical colleges, meaning that none of the universities or university branches will see an increase in funding in FY 2004. On average the 10 institutions receiving an increase in the SSI saw their enrollments of subsidy-eligible

FY 2003 Enrollment Growth by Sector



Changes in SSI by Sector from FY 2003 to FY 2004				
	SSI in FY 2003	SSI in FY 2004	$ Increase / (Decrease)	% Increase / (Decrease)
Universities	$1,164,218,966	$1,163,844,856	($374,110)	(0.03%)
University Branches	$91,027,768	$90,905,264	($122,504)	(0.1%)
Community Colleges	$217,352,460	$221,499,894	$4,147,434	1.9%
Technical Colleges	$56,683,320	$57,572,848	$889,528	1.6%
All Institutions	$1,529,282,514	$1,534,189,277	$4,906,763	0.3%

FTEs increase by 9.4% from FY 2002 to FY 2003, while the 52 institutions not receiving an increase saw their enrollments of subsidy-eligible FTEs increase by only 3.3%.

The institutions that will see an increase in their SSI in FY 2004 are: Northwest State Community College (16.2%), Central Ohio Technical College (11.8%), Marion Technical College (9.1%), Southern State Community College (4.7%), Columbus State Community College (3.9%), Stark State College of Technology (3.3%), Cincinnati State Technical and Community College (3.3%), Lorain County Community College (3.1%), Cuyahoga Community College (1.4%), and Sinclair Community College (0.6%).

[1] The community colleges sector includes both community colleges and state community colleges.

[2] The two exceptions are students enrolled either through a reciprocal contract with educational institutions or agencies in a contiguous state (section 3333.17 of the Revised Code), or students from a contiguous state who are employed by an Ohio employer that has entered into a contract with an institution of higher education and pays all of the student's tuition and fees (section 3333.32).