Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION FEBRUARY 2004

FISCAL OVERVIEW

— *Allan Lundell*

Reports of a national economic recovery continued in January. The advance estimate by the U.S. Bureau of Economic Analysis of real gross domestic product (GDP) growth for the fourth quarter of 2003 was 4.0%. This followed 8.2% growth in the third quarter and was the ninth consecutive quarter of growth. The U.S. Bureau of Labor Statistics reported that U.S. employment increased by 112,000 in January. Employment is up by 366,000 since last August but remains 2.4 million below its pre-recession peak. Ohio's economy continues to lag the national recovery. The most recent report on Ohio employment indicates that Ohio employment fell by 14,400 in December. It is now at its lowest level since 1996 and is down 290,000 from its May 2000 peak.

For the fiscal year to date, total General Revenue Fund (GRF) revenue is $98 million (0.7%) below estimate. Total tax revenue is $101 million (1.0%) below estimate and revenue from the major taxes is $65 million (0.7%) below estimate. Revenue from the "other" taxes, mostly the cigarette tax, the estate tax, and the foreign insurance tax, is $36 million (6.7%) below estimate.[1] Through the first seven months of FY 2004, total GRF revenue is up 9.4% compared to FY 2003. The revenue growth is due to the increase in the state sales tax rate 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 1.1% compared to FY 2003.

Although disbursements exceeded estimate for the second straight month, fiscal year-to-date total GRF disbursements remain $244 million (1.7%) below estimate. Disbursements for primary and secondary education are $61 million (1.6%) below estimate and disbursements for higher education are $1.5 million (0.1%) above estimate. Disbursements for welfare and human services are $126 million (1.9%) below estimate.

As shown in Table 1, the GRF began January with a negative cash balance of -$840 million. Revenue, including transfers-in, for January was $2,181 million. Disbursements, including

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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 January	Fiscal Year 2004 to Date	Last Year	Difference
Beginning Cash Balance	-$840.4	$396.5		
Revenue + Transfers	$2,181.4	$13,276.4		
Available Resources	$1,341.0	$13,673.0		
Disbursements + Transfers	$1,898.7	$14,230.6		
Ending Cash Balances	-$557.7	-$557.7	-$1,198.7	$641.0
Encumbrances and Accts. Payable		$460.5	$567.9	-$107.4
Unobligated Balance		**-$1,018.1**	**-$1,766.6**	**$748.4**
BSF Balance		$180.7	$1,010.6	-$829.9
Combined GRF and BSF Balance		**-$837.4**	**-$756.0**	**-$81.5**

transfers-out, were $1,899 million. The monthly surplus of $283 million thus brought the fiscal year-to-date cash balance to -$558 million. Although a 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 -$704 million, $146 million lower than the actual level. Chart 1 presents the monthly estimates of GRF revenues and disbursements for FY 2004 and the resulting month-end cash balances. Chart 2 compares actual month-end cash balances with the estimated month-end cash balances from Chart 1.

The fiscal year-to-date cash balance of -$558 million is $641 million higher (less negative) than a year ago. Year-to-date encumbrances of $461 million combine with the cash balance to yield an unobligated balance of -$1,018 million, which is $748 million higher than a year ago. Looking at just the unobligated balance indicates that the state's financial situation in terms of current-year performance, 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 $82 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 in terms of ability to withstand an economic shock has deteriorated slightly from a year ago.

[1] The "other" or "minor" taxes are the foreign insurance tax, the domestic insurance tax, the business and property tax, the cigarette tax, the alcoholic beverage tax, the liquor gallonage tax, and the estate tax.

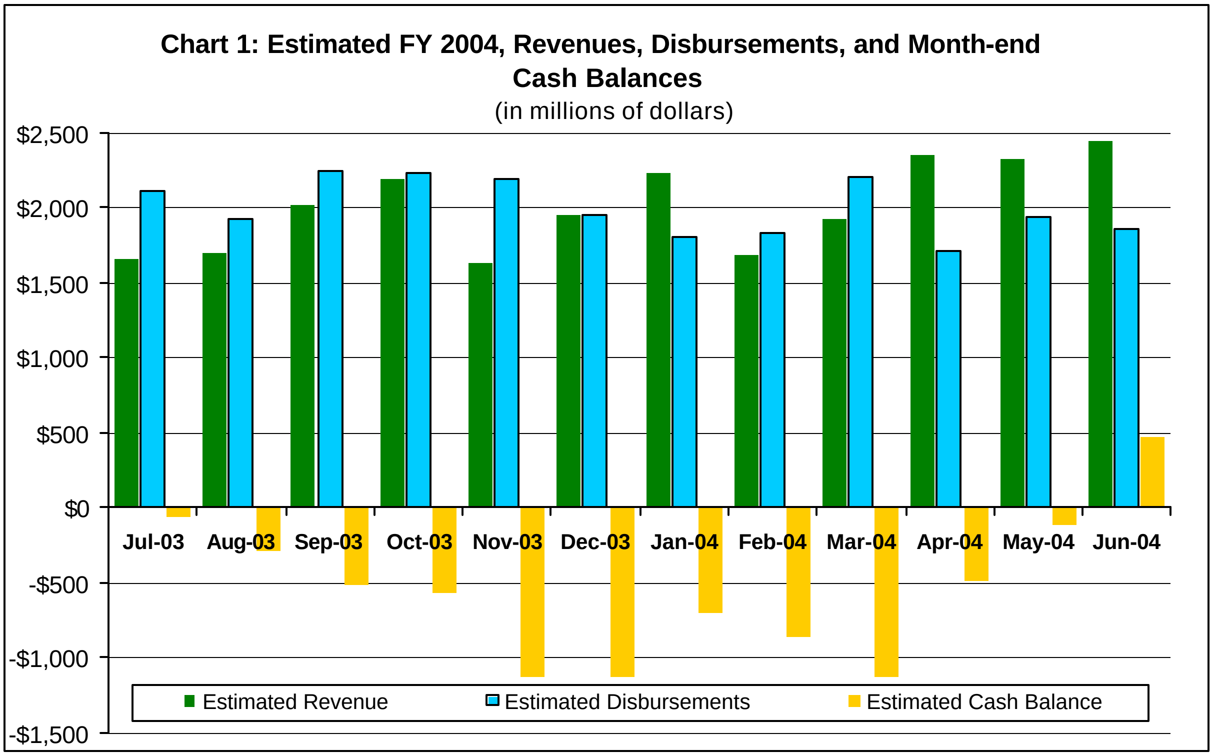


Chart 1: Estimated FY 2004, Revenues, Disbursements, and Month-end Cash Balances
(in millions of dollars)
$2,500
$2,000
$1,500
$1,000
$500
$0
-$500
-$1,000
-$1,500
Jul-03
Aug-03
Sep-03
Oct-03
Nov-03
Dec-03
Jan-04
Feb-04
Mar-04
Apr-04
May-04
Jun-04
Estimated Revenue
Estimated Disbursements
Estimated Cash Balance

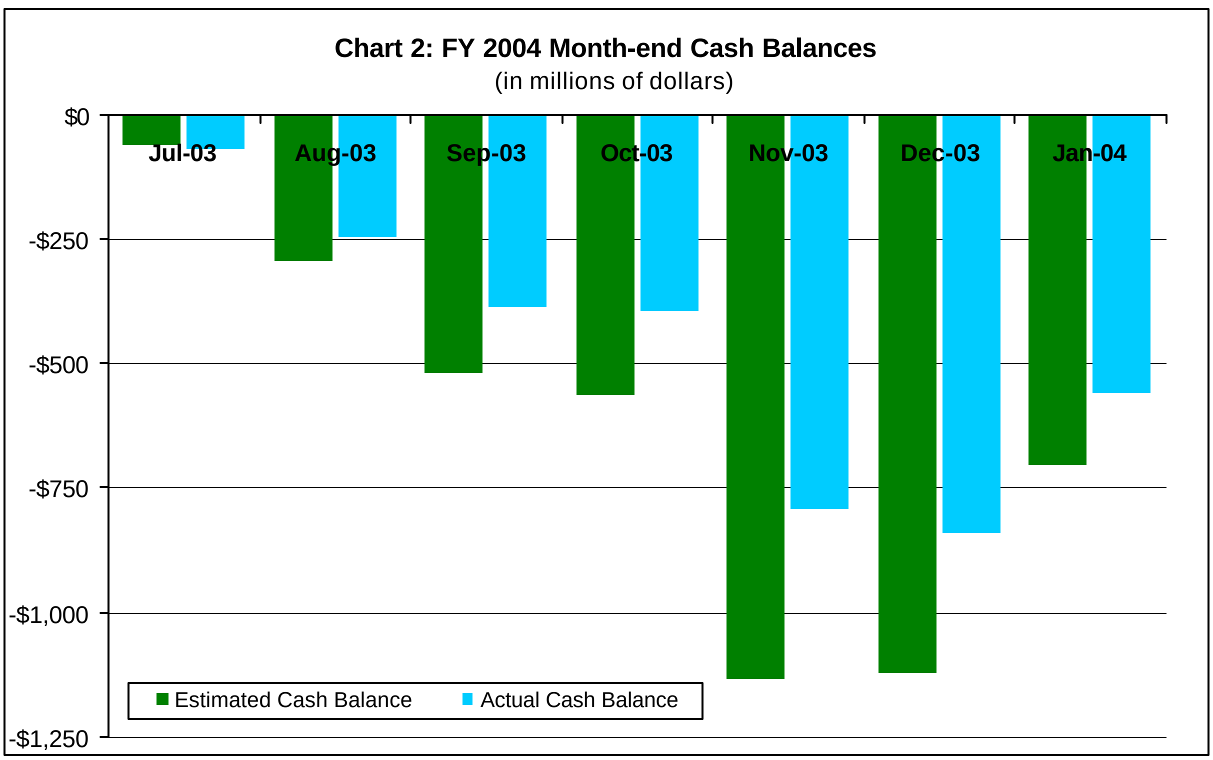


Chart 2: FY 2004 Month-end Cash Balances
(in millions of dollars)
$0
-$250
-$500
-$750
-$1,000
-$1,250
Jul-03
Aug-03
Sep-03
Oct-03
Nov-03
Dec-03
Jan-04
Estimated Cash Balance
Actual Cash Balance

TRACKING THE ECONOMY

¾ Phil Cummins

Following vigorous growth in last year's second half, the U.S. economy is continuing to expand in early 2004. Rapid productivity gains have held down employment. The modest rise in employment in January was nevertheless the largest one-month increase since before the last recession. Numerous purchasing managers at manufacturers as well as in the nonmanufacturing sector report increases in activity and orders. Industrial production rose 0.8% in January as factory output increased 0.3% and unusually cold weather sharply boosted demands on utilities. Retail sales slowed in January as the pace of motor vehicle buying fell back from strong levels the month before. Housing starts slowed in January but remained at a high level. In Ohio, employment, incomes, and new housing construction continue to underperform relative to the nation.

Robust National Economic Growth in Last Year's Second Half

Gross domestic product (GDP) in the United States rose at a 4.0% annual rate, adjusted for inflation, in last year's fourth quarter. This increase followed an unsustainably strong 8.2% rate of advance in the third quarter. Total U.S. economic output has been increasing each quarter since the third quarter of 2001. For all of 2003, real GDP rose 3.1%. Consumer spending and residential investment continued to expand. Business investment in equipment, which turned up in the second quarter of 2002, began to grow more rapidly last year, mainly for information processing equipment and software. Nonresidential construction shrank again, but not as rapidly as in 2001 and 2002. Military outlays rose sharply last year. Growth of state and local government spending was subdued. Exports began to rise in the second half of the year, reflecting expanding markets abroad. Inflation remained quite low. The GDP price deflator, one measure of inflation, rose 1.6% in 2003, little changed from a 1.5% rise the year before.

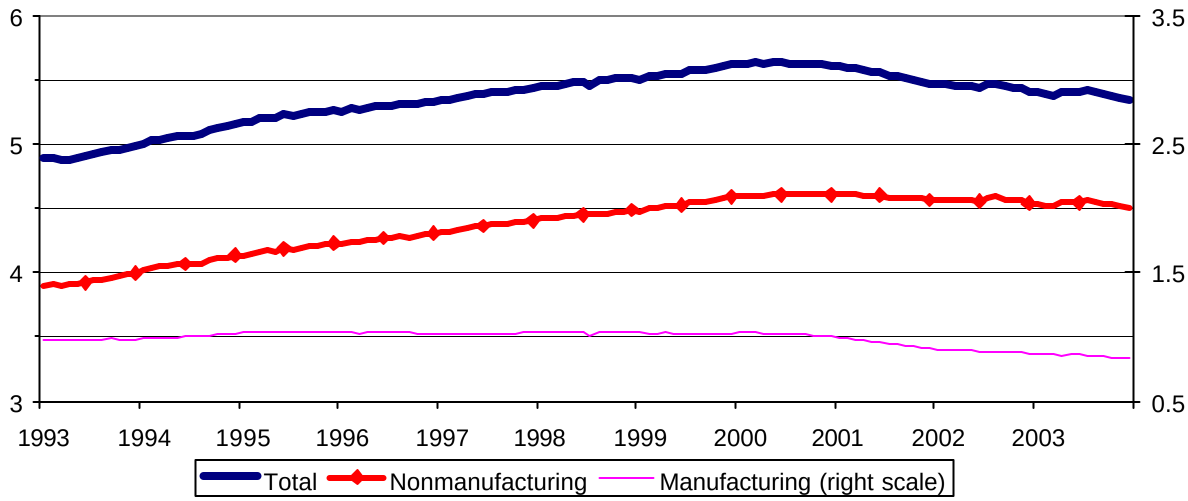
Modest Employment Gains for the Nation, but not Ohio

Employment on nonfarm payrolls nationwide rose 112,000 in January from a downward revised December level. The January increase was the largest one-month rise since 2000, before the 2001 recession, but was disappointingly small compared with past experience. For example, monthly increases in employment averaged more than twice this many workers throughout the second half of the 1990s. All U.S. payroll employment statistics were revised back to April 2002 in an annual "benchmark" revision based on a count of total payroll employment in March 2003.[1] As a result of the revision, the number of employees in December 2003 is now estimated to have been 81,000 fewer than previously reported, and the low point for payroll employment in this business cycle was shifted from July to August 2003. Since August, total nonfarm payroll employment has risen 366,000, but remains nearly 2.4 million people or 1.8% below the cyclical peak in March 2001. The decline since March 2001 is concentrated in manufacturing, where employment has fallen 2.6 million.[2] Nonmanufacturing employment nationwide was at a new all-time high last month.

In Ohio, total nonfarm payroll employment fell 14,400 in December (the latest month for which figures are available) to the lowest level since 1996. Since reaching a peak in May 2000, total nonfarm payrolls in Ohio have fallen 290,000 or 5.2%. About two-thirds of the decline since then has been in manufacturing and one-third in nonmanufacturing jobs. These developments are shown in Chart 1.

U.S. unemployment declined in January to 5.6% of the labor force, from 5.7% in December and a cyclical peak of 6.3% in June 2003. Unemployment estimates are based on a survey of 60,000 households, separate from the survey of firms and government agencies that is the basis for the payroll employment figures. The household

Chart 1: Ohio Nonfarm Payroll Employment
Millions, Seasonally Adjusted



survey results are combined with population estimates to create the labor force, unemployment, and total employment figures reported each month. These population estimates were updated this month. Employment and unemployment were revised downward, mainly reflecting changes in estimated international migration. The unemployment rate was unaffected. Total employment was reduced 409,000 by the revision.

Despite this downward revision, employment based on the household survey has grown since the end of the 2001 recession, while employment based on the survey of firms and government agencies (payroll employment) has declined. The divergence between the two measures is partly a result of differing definitions. For example, the household survey includes, and payroll employment excludes, self-employed people and farm workers. Adjusted for measured definitional differences, household employment has grown about 1.7 million since the end of the recession versus a 0.7 million decline in payroll employment. In Congressional testimony, the Commissioner of the Bureau of Labor Statistics indicated that this divergence may result from misclassification of workers by household survey respondents, or from difficulties in estimating the population, particularly immigration, but said that these potential explanations are difficult to quantify.

Ohio unemployment rose in December to 6.0% of the labor force from 5.7% in November. The recent peak in Ohio unemployment was 6.3% in April, June, and July of last year. Ohio's unemployment rate has fluctuated around 6% since early 2002, after rising sharply from a low of 3.6% in March 2001. January employment and unemployment data for Ohio are scheduled to be released on February 27.

Rising Production and Orders

Purchasing managers at manufacturers nationwide who reported increased production and orders in January in the Institute for Supply Management's monthly survey substantially outnumbered those who noted declines. Both production and orders rose for the ninth consecutive month. Order backlogs increased and lead times lengthened. Manufacturers reported paying higher prices for the 23rd consecutive month. The upturn remains uneven, however, with some respondents still not seeing recovery in their businesses. In the nonmanufacturing sector, purchasing managers also reported strong expansion, with increases in business activity and orders widespread among survey respondents.

Industrial production jumped 0.8% in December as output at natural gas and electric utilities surged more than 5% in response to severe cold weather. Manufacturing output rose 0.3% last month, and has recovered to 3.9% above the 2001 recession low. Most of this increase has taken place since last spring. Factory output remains 3.1% below the all-time peak in 2000. Consumer products manufacturing has been trending upward since last June, particularly of durable goods. Business equipment production also has been rising since the second quarter. Output of defense and space equipment has slowed in the last few months. Production of construction supplies, of other business supplies, and of industrial materials has been climbing since last year's second quarter.

January Slowdown in Sales Concentrated in Motor Vehicles and Other Hard Goods

Retail sales in January fell 0.3% as sales of motor vehicles slowed following a strong performance in December and as sales of some other durable goods also fell, perhaps adversely affected by severe weather. Excluding motor vehicles and parts, retail sales in January increased 0.9%. Total retail sales in January were 5% above those a year earlier. Abstracting from one-month fluctuations, sectors doing well on a three-month-average basis include appliances, building materials, and consumer electronics, as well as health and personal care retailers and food service and drinking establishments. General merchandise discount stores continue to outperform department stores. Total motor vehicle unit sales fell for the third consecutive year in 2003, as increased buying of trucks did not fully offset the decline in the number of cars sold.

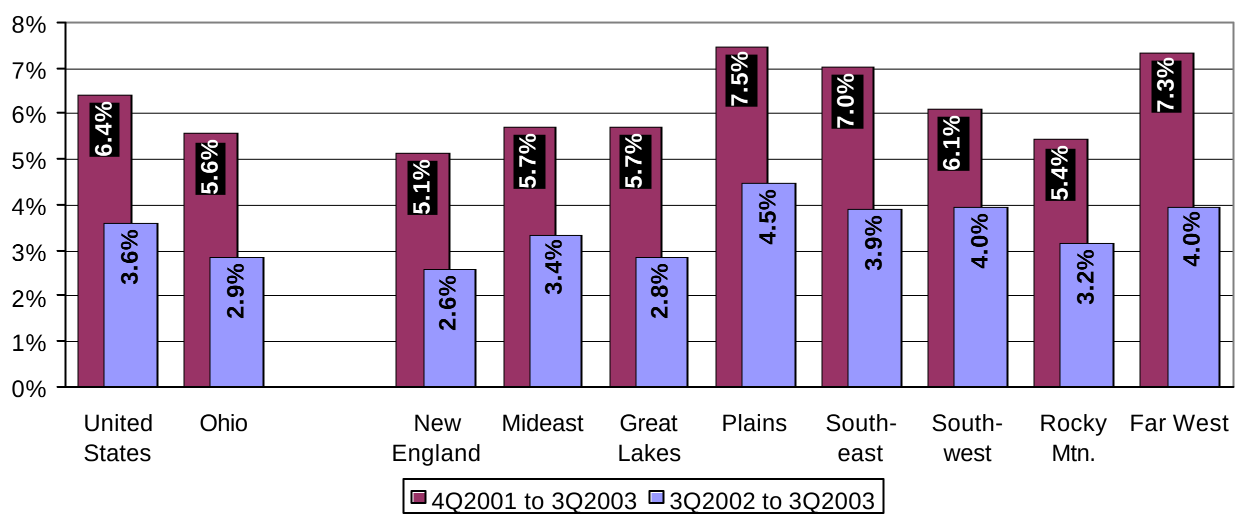
Ohio Income Growth Lags Other Regions

State personal income figures, available only with a long lag, were recently released for the third quarter of 2003. The numbers give an indication of where growth has been taking place in the current recovery. As Chart 2 shows, during the year from the third quarter of 2002 to the third quarter of 2003, personal income rose 3.6% nationwide and 2.9% in Ohio. (See the light shaded bars in Chart 2.) Among eight Census regions, Ohio's growth was about in line with the 2.8% growth of the Great Lakes region, of which Ohio is a part. Only New England's personal income rose more slowly. The strongest growth was in the Plains states, stretching from Missouri to North Dakota, followed by the Far West, the Southwest, and the Southeast. During the seven quarters from the recession trough quarter, in the fourth quarter of 2001, to the third quarter of 2003, Ohio's personal income rose 5.6%, trailing the U.S. at 6.4%. (See the dark shaded bars in Chart 2.) Strongest growth was again in the Plains region, followed by western and southern states.

Housing Slows but Remains at a High Level

U.S. housing starts fell 8% from December to January, to a 1.90 million unit rate, still strong

Chart 2: Personal Income Growth



relative to historical levels and above the 1.85 million units started in all of 2003. The January slowing was sharpest in the Midwest and Northeast, and may have been due in part to effects of severe weather. Single-family starts in January were 8% lower than the all-time high last November. The pace of home sales nationwide through December has remained at a high level but has slowed from peaks earlier in 2003.

Although the housing starts report does not provide information on individual states, data on permits authorizing new housing construction are available by state.[3] Through the end of last year, permit issuance for new housing construction increased 2% in Ohio to about 52,000 units. Nationwide, permit issuance rose 7% in 2003 to 1,860,000. Since the recent low for housing permits in 2000, the number of units authorized has climbed 5% in Ohio and 17% nationwide. Trends in permit issuance in Ohio and the nation are shown in Chart 3.

Higher Benefit Costs Push Up Total Compensation

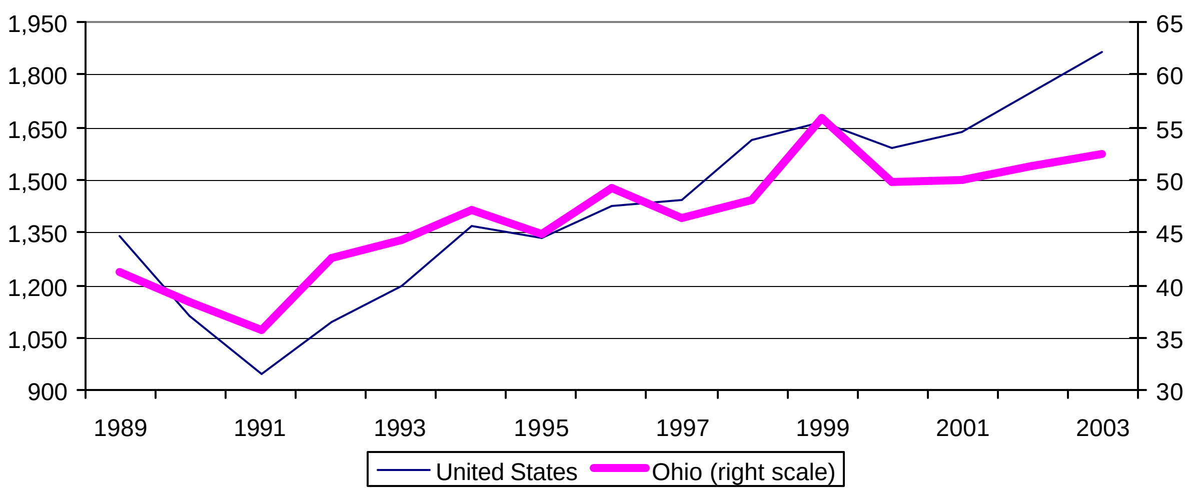
Rapidly rising benefit costs, particularly for health insurance and defined benefit retirement contributions, continue to push up total compensation. In the year to December 2003, wages and salaries for an average civilian worker rose 2.9%,[4] the same as the previous year. Employers' benefit costs for that average worker rose 6.3% in the latest year, up from 5.0% the year before. Most of the rise in benefit costs last year resulted from higher health insurance costs to employers and increased payments into defined benefit retirement programs. For state and local governments, wage and salary increases averaged 2.1% in the latest year, the smallest rise in more than 20 years. Benefit costs increased 6.1%, down from 6.2% the previous year, which was the largest increase since 1990.

Interest Rates Stay Low

Market interest rates have remained low this year. Ten-year U.S. Treasury note yields have fluctuated just above 4%, the low end of the range in which these yields have varied since last July, and corporate bond yields have also stayed low. The nation's central bank has held its key interest rate, the overnight federal funds rate, unchanged at 1% since June 2003, keeping short-term market interest rates low.

In its recent public statements, the Federal Reserve has emphasized very low inflation and slack utilization of economic resources, justifying continued deferral of an eventual increase in short-term interest rates. But the wording has been changed from "policy accommodation can be maintained for a considerable period" to "the Federal Reserve can be patient in removing its current policy accommodation." This subtle shift presumably reflects a perception that the previous

Chart 3: New Privately Owned Housing Units Authorized by Building Permits, in Thousands



statement suggested a longer period of unchanged short-term interest rates than is likely to be appropriate. In its semiannual report to Congress, the Federal Reserve predicted a healthy rate of economic growth this year with falling unemployment and low inflation. Specifically, the central bank expects 4.5% to 5% real GDP growth during the four quarters of 2004, inflation of 1% to 1.25% during this period, and an unemployment rate averaging 5.25% to 5.5% in the fourth quarter.

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[1] Between benchmark revisions, monthly reports are based on a sample of 160,000 businesses and government agencies rather than an all-inclusive count. Seasonal adjustment factors were also revised; numbers reported above are seasonally adjusted.

[2] These figures are not adjusted for manufacturers' use of workers supplied by temporary help firms and counted as service sector employees.

[3] These housing permit numbers are from a survey conducted by the U.S. Bureau of the Census. Most housing nationwide (more than 97%) is built in areas requiring permits. Construction is frequently started in the month when the permit is issued, and most other construction starts occur within the following few months.

[4] Figures cited in this paragraph, from a Bureau of Labor Statistics release, are for straight-time work and exclude overtime pay, shift differentials, and lump-sum bonuses.

Status of the General Revenue Fund

REVENUE

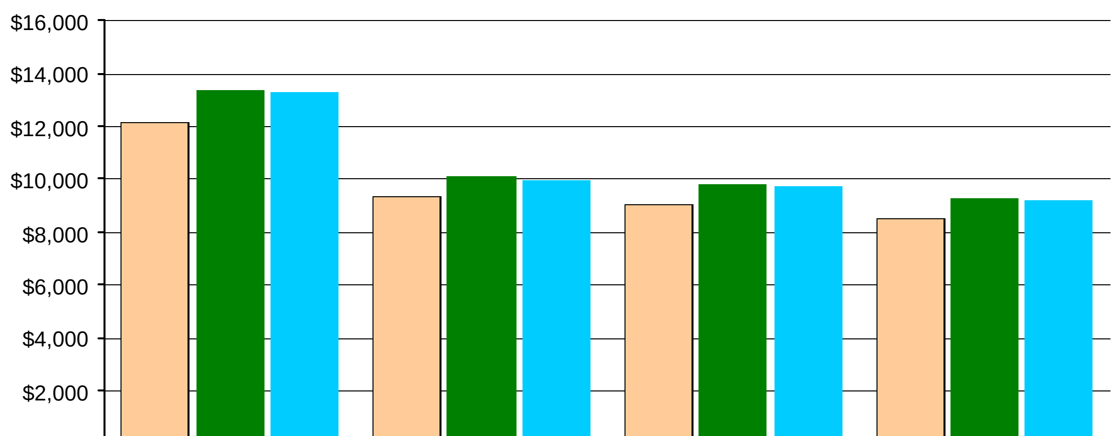
— *Allan Lundell and Jean Botomogno*

The second half of FY 2004 got off to a less than inspiring start in January as the state's two main sources of GRF revenue fell below estimate. After exceeding estimate in November and December, revenue from the personal income tax fell below estimate by $69.6 million (7.9%) in January. Revenue from both the auto and nonauto sales taxes came in under estimate. Nonauto revenue was $11.0 million (1.7%) below estimate and auto revenue was $2.6 million (3.5%) below estimate. January total GRF revenue of $2,181.4 million was $46.7 million (2.1%) below estimate and GRF revenue less federal grants (state-source revenue) was $71.6 million (4.0%) below estimate. Revenue from federal grants was $24.9 million (6.0%) below estimate in December. Total tax revenue was $75.7 million (4.2%) below estimate and revenue from the major taxes was $81.7 million (4.7%) below estimate.[1]

Through January, GRF revenue was up 9.4% compared to FY 2003. State-source revenue was up 6.8% and revenue from federal grants was up 18.1%. Federal grants were up partly due to one-time revenue. Total tax revenue was up 6.9% and revenue from the major taxes was up 8.2%. Total GRF revenue was up $1,142.3 million compared to FY 2003, but if the sales tax (up $701.7 million) and federal grants (up $502.3 million) are not counted, state-source revenue other than the sales tax was down $61.7 million (1.1%). Compared to FY 2003, revenue from the cigarette tax was down by $39.7 million (11.7%), revenue from the estate tax was down $31.7 million (45.9%), and revenue from the corporate franchise tax was down $24.9 million (15.6%). Revenue from the personal income tax was up $16.5 million (0.4%) compared to FY 2003.

Although revenues were up compared to FY 2003, they remained slightly below FY 2004 estimates. Total GRF revenue was $98.2 million (0.7%) below estimate through the first seven

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	$12,134.1	$9,353.3	$9,080.7	$8,504.5
FY 2004 Estimate	$13,374.7	$10,080.5	$9,808.6	$9,268.2
FY 2004 Actual	$13,276.4	$9,993.2	$9,707.3	$9,203.1

months of this fiscal year. State-source revenue was $87.2 million (0.9%) below estimate, and total tax revenue was $101.3 million (1.0%) below estimate. Revenue from the major taxes, which is expected to account for 69% of total GRF revenue and 89% of state-source revenue for the fiscal year, was $65.1 million (0.7%) below estimate. Chart 1 compares FY 2004 revenues with FY 2003 revenues and FY 2004 estimates.

Personal Income Tax

After exceeding estimate for two months, revenue from the personal income tax fell below estimate in January. The GRF received $816.6 million in revenue from the personal income tax. This amount was $69.6 million (7.9%) below estimate. The $718.6 million in revenue collected through withholding was $4.3 million (0.6%) above estimate. Quarterly estimated payments of $346.1 million were $63.4 million (15.5%) below estimate.[2] Refunds totaled $80.8 million. This total was $773,000 (1.0%) less than estimate.

Through January, GRF revenue from the personal income tax totaled $4,358.9 million. The total was $52.8 million (1.2%) below estimate. Withholding was $13.5 million (0.3%) below estimate, quarterly estimated payments were $28.1 million (3.6%) below estimate, revenue from the tax on trusts was $11.1 million (40.1%) below estimate, and refunds were $12.1 million (4.9%) below estimate.

The income tax continued to show just slight growth compared to a year ago. GRF revenue from the personal income tax was up by 0.4%. Gross collections were up by 0.3% and withholding was up by 2.2%. Withholding, which is expected to account for 77% of gross income tax collections, reflects the condition of Ohio's labor market and will not strengthen until the labor market strengthens and employment increases. The most recent Ohio forecast from Global Insight indicates that nonfarm employment will increase throughout 2004 but will not reach the earlier (second quarter of 2000) peak until the fourth quarter of 2007.[3] Quarterly estimated payments were down by 5.8% and revenue from the tax on trusts was down 57.6%.

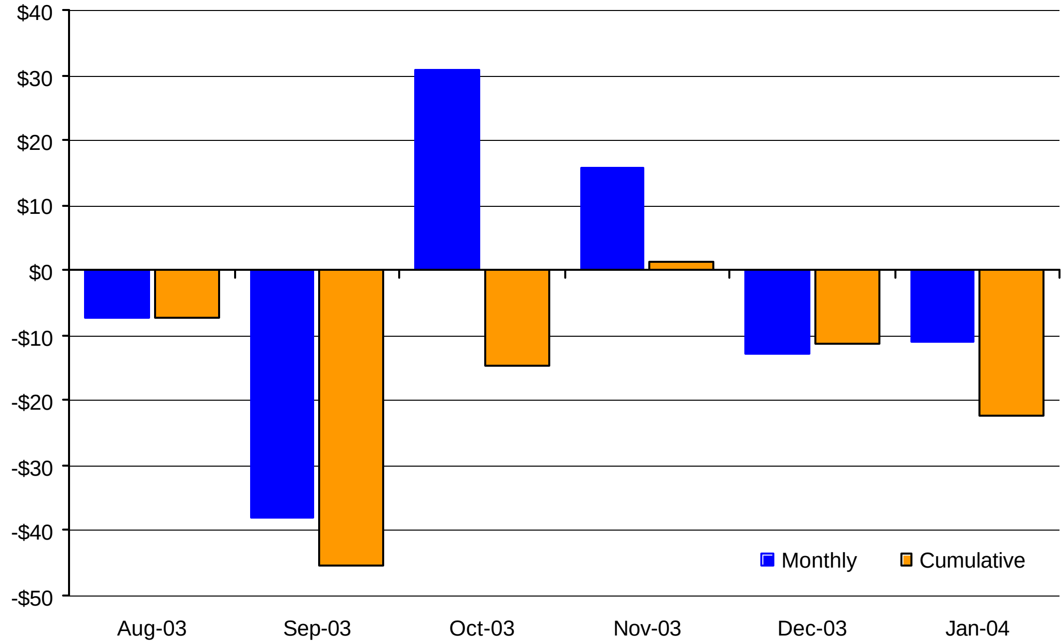
The Sales and Use Tax

In January 2004, revenues from the sales and use tax were below estimates. Nonauto sales and use tax receipts were $10.9 million (1.7%) below estimates while those from the auto sales and use tax were short of projections by $2.6 million (3.5%). Total sales and use tax revenues in the month were $690.5 million, $13.6 million (1.9%) below projected revenues. Total receipts were $37.6 million (5.8%) above January 2003 sales and use tax revenues. As of January 2004, year-to-date total sales and use tax revenues were $4,429.4 million (0.3%) below estimates. Sales and use tax receipts were $701.8 million (18.8%) higher than year-to-date tax receipts in January 2003. The increase in sales and use tax revenue is due to a 20% increase in tax rates, as the tax increased from 5% to 6% of the purchase price in July 2003.

The Nonauto Sales and Use Tax

The nonauto sales and use tax was again below estimates last month, following a subpar December 2003. This tax source provided $619.1 million in January 2004, $10.9 million (1.7%) below estimates. Tax receipts partly reflect taxable retail sales activity in the prior month and also taxable retail sales during that month.[4] Compared to nonauto sales tax revenues a year ago, tax receipts for the month were $39.8 million (6.9%) higher than revenues in January 2003. Due to the tax rate increase from 5% to 6% in July 2003, monthly tax collections on a year-ago basis appear extremely weak. The paltry revenue growth in January 2004 was, in part, due to a difference in tax collection patterns created by H.B. 40, which will make year-over-year comparisons difficult at least until April 2004. Each year, monthly retail sales are highest in December. Due to H.B. 40, a large portion of revenue from December 2003 taxable sales were included in December 2003 tax receipts, while January 2003 revenue was due largely to December 2002 taxable sales, with sales and use tax collection in January 2003. Thus, the comparison of January 2004 revenues with year-ago revenues (January 2003) overstates the weakness of January 2004 tax collections.

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



As of January 2004, year-to-date nonauto sales and use tax receipts were $3,779.5 million, $22.4 million (0.6%) below estimates, due to less than stellar December and January taxable sales. Compared to receipts a year ago, year-to-date nonauto sales tax receipts as of January 2004 increased $608.9 million (19.2%). The performance of the nonauto sales and use tax in January 2004 increased the cumulative negative variance to $22.4 million, up from $11.4 million at the end of December. Although the cumulative negative variance is only 0.6%, the trend the last two months is not encouraging. August and September 2003 receipts were below estimates. Then, October and November 2003 came in above estimates. Finally, the last two months have been below estimates.

In the last four months, the growth in nationwide retail and food services sales (excluding autos) has been positive. The growth in retail sales in October and November 2003 was 0.4% and 0.7%, respectively. Growth in December 2003 came in at a weak 0.1%, and January 2004 's growth was stronger, at 0.9%. Comparisons with previous-year retail sales are in the 6% to 7% range. Compared to the same months in calendar year (CY) 2002, nationwide retail sales (excluding autos) were up 6.5% in October 2003, 6.9% in November 2003, and 6.7% in December 2003. Retail sales in January 2004 grew 6.6% from January 2003. The Total Retail Chain Store Index of the International Council of Shopping Centers reported year-over-year growth of 9.2% and 13.3% in December 2003 and January 2004, respectively.[5]

Retail sales data from the U.S. Census Bureau include items that are not in the sales and use tax base (e.g., sales of gasoline or sales of food for consumption off premises) and exclude some items that are included in the nonauto sales and use tax base (e.g., certain business services). The Census Bureau stopped publishing state-level data on retail sales in 1998, and the relationship between the growth in nationwide retail sales and the growth in Ohio sales and use tax receipts is not simple. Data from the Census Bureau also include retail sales from nonstore retailers such as catalogs and electronic shopping firms, including Internet sales. A good portion of the sales and use tax on taxable Internet sales is uncollected. Estimates of lost sales tax revenue from remote sales (including catalog and Internet sales) are between $500 million and $600 million per year.

The Auto Sales Tax

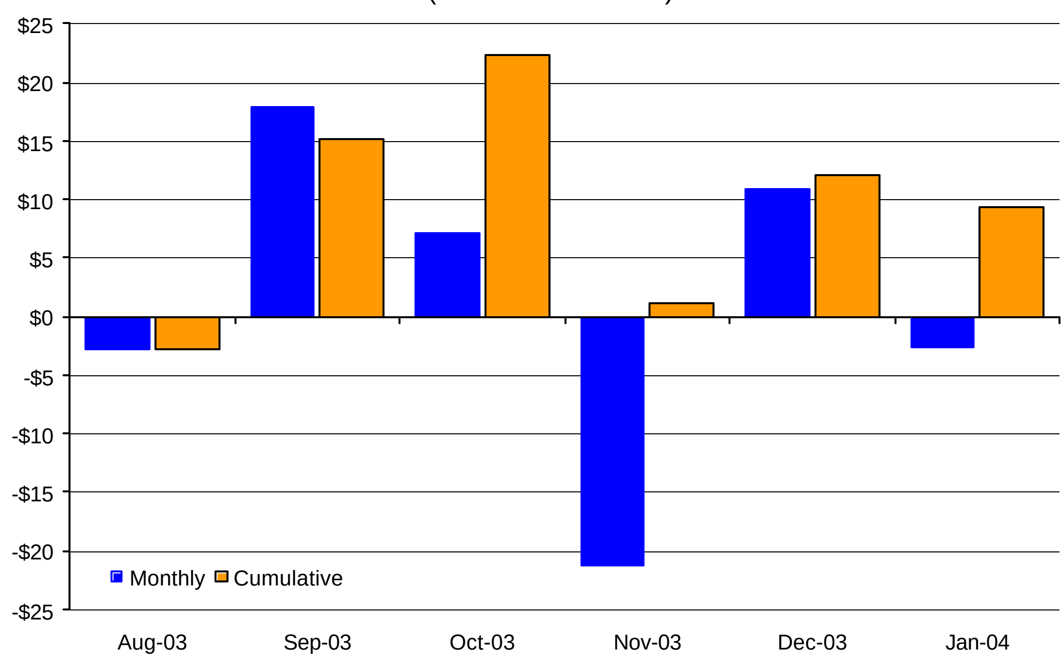
Auto sales tax receipts were $71.4 million in January 2004, $2.6 million (3.5%) below estimates. This weak performance could be attributed to strong sales ("forward buying") in December 2003, winter storms that limited auto shopping in January 2004, and no large push from manufacturers to move inventories during the month.

The clerks of court make auto tax payments 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 January 2004 were $2.3 million (3.1%) lower than receipts in January 2003. As of January 2004, year-to-date auto sales tax receipts were $650.0 million, $9.4 million (1.5%) above estimates. These receipts were also $92.9 million (16.7%) higher than receipts through the same period in January 2003. At the 5% sales tax rate, January auto sales tax revenue would have been about $59.5 million, $14.2 million (19%) less than FY 2003 receipts in the same month. Year-to-date revenues in January 2004 would have been $541.7 million, $15.4 million (2.8%) less than FY 2003 receipts. This amount is within the estimated revenue ($20 to $40 million) gained in FY 2003 when auto buyers pulled sales into FY 2003 from the first two months of FY 2004 ahead of the anticipated tax rate increase of July 2003. Therefore, taxable auto sales, based on tax collections, appear to be as good as last year's sales.

Nationwide auto sales, both in number of vehicles sold and in dollars, were weak in January 2004.[6] The U.S. Department of Commerce reported that sales at motor vehicle dealers grew 1.6% in December 2003 and fell 4.2% in January 2004.[7] Sales at auto dealers fell 0.6% from January 2003. Light vehicle unit sales were 16.1 million on an annualized basis, 10.5% less than vehicle sales in December 2003. The traditional end of calendar year discounting by automakers and hefty incentives pushed into December 2003 some of the sales that would have probably occurred in January 2004.[8] However, nationwide auto and light truck sales are still healthy.

Nationwide, 3% more vehicles were sold in January 2004 than in the same month last year. Most forecasts of CY 2004 nationwide auto sales

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



project at least the same number of unit sales as in CY 2003 (16.6 million autos and light trucks). Those forecasts generally point to an improving economy and several new automobile models entering the market this year. For example, CNW Marketing expects sales of 17.1 million units and the National Automobile Dealers Association (NADA), 16.8 million units. Global Insight projects sales of 17.2 million autos and light trucks. Economy.com forecasts a drop in sales to 16.3 million, 0.3 million less than CY 2003, and Gartner G2 Automotive Research predicts 16 million in unit sales, primarily because of a slow job market.

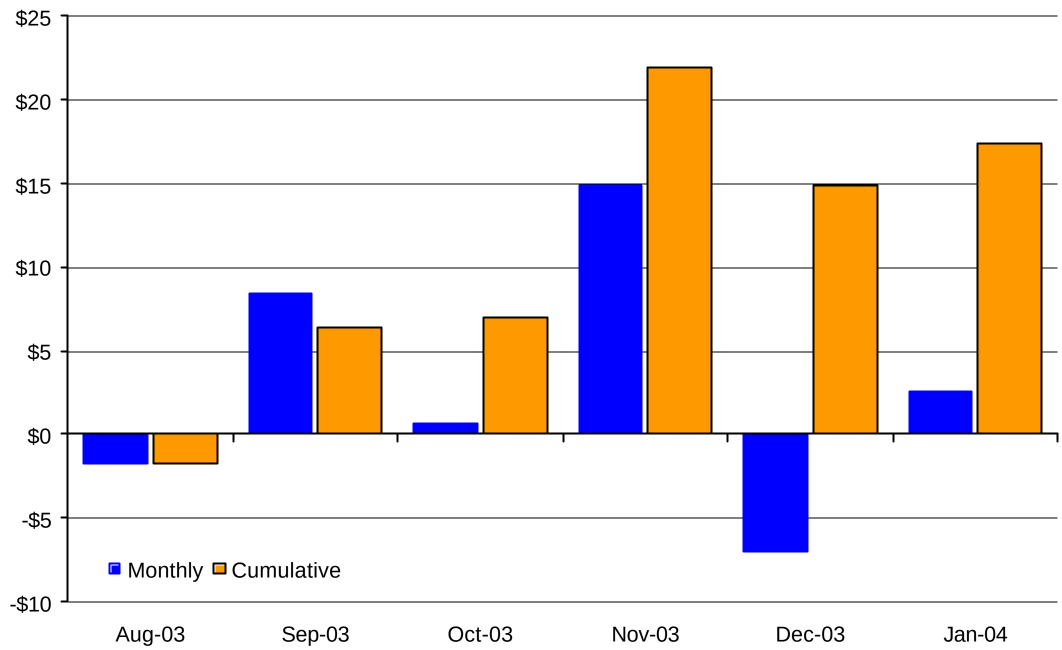
Low interest rate financing and the lengthening of loan periods, which bring down the monthly payments, continue to support the affordability of vehicle sales. Higher levels of incentives may continue to draw potential buyers to the showrooms. In particular, Japanese automakers appear to have increased the level of incentives in the hope of maintaining or increasing their market share. For example, a year ago, Toyota was offering on average $2,169 per vehicle. Last month, Toyota's incentives were about $2,900, up $731 per vehicle from January 2003 and $140 from December 2003. General Motors, the market leader, offered $4,431 per vehicle.

Corporate Franchise Tax

The corporate franchise tax is expected to continue to improve in FY 2004. The Office of Budget and Management estimates that FY 2004 corporate franchise tax GRF revenues will be $793.0 million, up from $747.3 million in FY 2003 and $721.3 million in FY 2002.[9] 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. By January 31 of each year, a corporation must file either the annual report and make full payment of tax due, or file an estimated report of its full tax and pay one-third of that estimated liability. By March 31 of each year, a corporation must pay the difference between its full tax liability and the first estimated payment, or it must file an extension request and pay another third of its estimated tax liability. By May 31 of each year, any corporation that received an extension of time for filing past March 31 must pay the difference between its full liability and any estimated payments made earlier.

The first major corporate tax payment in the second half of FY 2004 occurred in January 2004. Corporate franchise tax receipts in the

Chart 4: Corporate Franchise Tax Variance from July 2003 Estimate
(in millions of dollars)



month were $117.5 million, 2.5 million (2.2%) above estimates. These receipts were $81.4 million (40.9%) less than January 2003 receipts. As of January 2004, year-to-date franchise tax revenues were $134.3 million, $17.3 million (14.8%) above estimates but $24.8 million (15.6%) less than receipts in the same period last year.

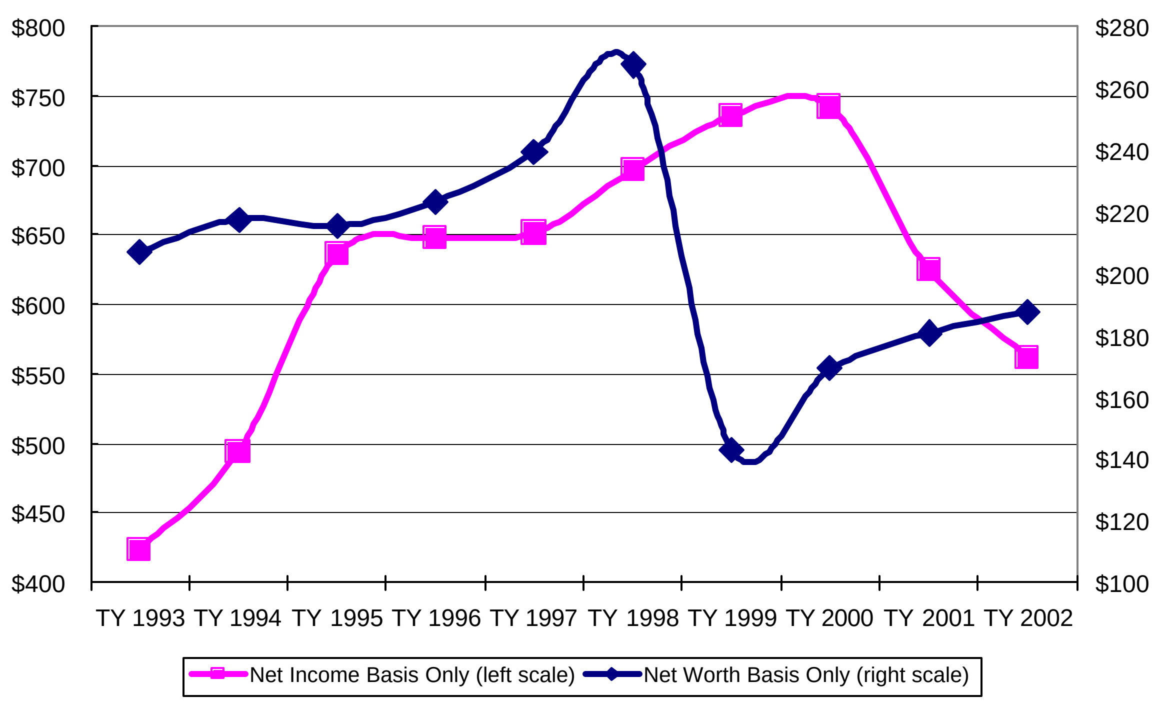
Because of the setup of franchise tax payments, month-to-month or year-ago comparisons of receipts from this tax may say little about the underlying trends. At the end of December 2003, revenues were $56.4 million higher than in the previous year. In January 2004, revenues were $81.4 million below revenues during the same month last year. This kind of swing makes interpreting monthly corporate franchise tax payments difficult.

For corporate franchise tax purposes, the second half of the fiscal year may be divided into three distinct periods: the January-February tax period, the March-April tax period, and the May-June tax period. January 2003 receipts were $198.7 million. In contrast, January 2004 receipts were only $117.5 million. It appears that corporate franchise tax receipts are doing poorly this year. They are ahead of estimates by $17.3 million (14.8%) but at the same time are lagging last year's receipts by $24.8 million (15.6%). Because of the payment date of January 31, there is usually a spillover of tax collections into February. Thus, it is too early to predict how the corporate franchise tax will fare this year. Adding January's take to February receipts would provide a better indication of franchise tax prospects in FY 2004. In the last four years, January-February receipts accounted for about 35% of the yearly franchise tax revenues.

Net Worth and Net Income Tax in Recent Years

Corporations paying the franchise tax calculate their tax liability under the net worth tax and the net income tax and pay the higher of the two. Chart 5 presents the tax liability of corporations paying the net worth or the net income tax of the corporate franchise tax (excluding the tax liabilities of financial institutions) from tax year (TY) 1993 through tax year 2002. The data are from the Department of Taxation's annual reports. The net worth portion of the franchise tax (before litter

Chart 5: Net Income and Net Worth Taxes, TY 1993 through TY 2002
(in millions; excludes credits and taxes on financial institutions)



taxes and credits) peaked at $267 million in TY 1998, the year before the provisions of H.B. 215 of the 122nd General Assembly that affected the corporate franchise tax became effective. Franchise tax revenues also peaked that year at $1,268.7 million. Effective in TY 1999, H.B. 215 lowered the net worth tax rate to 4 mills (down from 5.82 mills) of taxable value and capped the net worth tax at $150,000 per taxpayer. Corporate franchise tax liabilities from the net worth tax fell 46% in TY 1999 to $142 million and have been climbing slowly since that period. In TY 2002, the net worth tax liability was $187 million, almost 32% higher than the liability in TY 1999. Because of the recession, more corporations paid the net worth tax because their net income was negative or their income tax liability was lower than their net worth tax liability.

In addition to changes to the net worth tax, H.B. 215 decreased the top net income tax rate to 8.5%, down from 8.9% of Ohio taxable income over $50,000. The net income tax liability under the franchise tax increased in TY 1999 ($736 million, up from $696 million) and peaked in TY 2000 at $742 million. The net income tax liability declined 16% in TY 2001 to $624 million and another 10% in TY 2002 to $561 million.

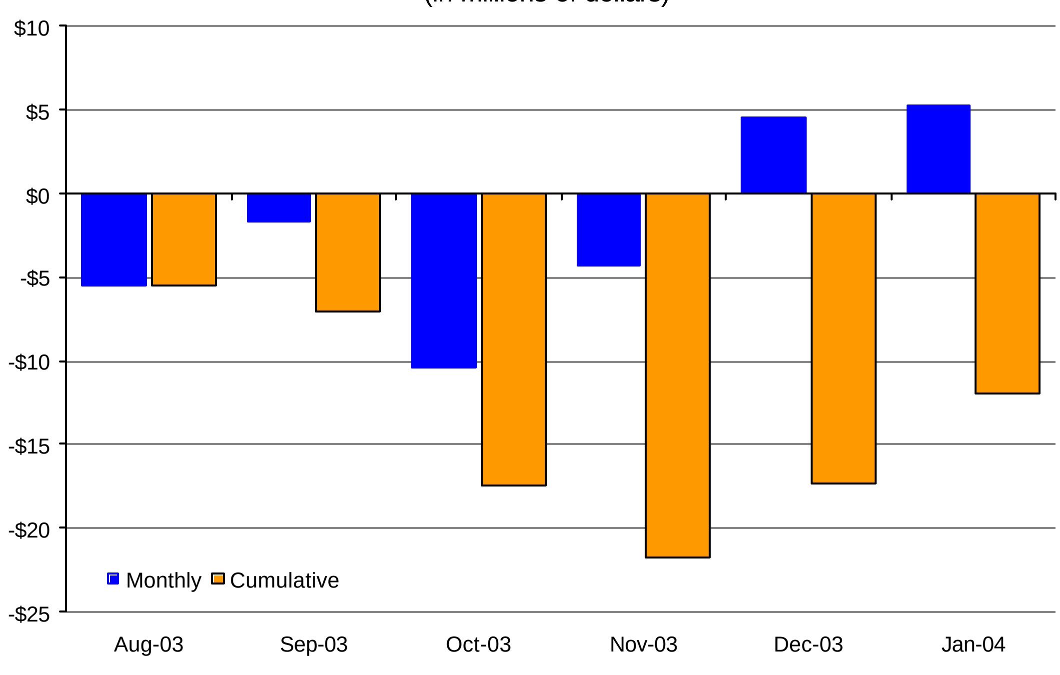
H.B. 215 also decreased the financial institutions tax rate from 15 mills to 14 mills in TY 1999 and 13 mills in TY 2000. The tax liability of financial institutions was $180 million in TY 1998, $182 million in TY 1999, and $190 million in TY 2000. As a result of H.B. 215, the corporate franchise tax liability of financial institutions declined from $190 million in TY 2000 to $177 million (6.8%) in TY 2001 and to $158 million (10.7%) in TY 2002. Previously, the peak in tax liability for financial institutions had been $209 million in TY 1997.

Corporate franchise tax revenues increased 3.6% in FY 2003. However, details of changes in net worth tax, net income tax, and financial institutions tax liabilities for TY 2003 are not yet available. TY 2003 also generally includes payments and refunds made during the first six months of FY 2004 (July through December 2003).

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts were above estimate for the second time this fiscal year. Receipts in January 2004 were $44.5 million, $5.3 million (13.5%) above

Chart 6: Cigarette Tax Variance from July 2003 Estimates
(in millions of dollars)



estimates. Compared to year-ago receipts, monthly revenues in January 2004 were higher than prior-year monthly revenue for the first time in FY 2004. January 2004 receipts were $1.5 million (3.5%) higher than January 2003 receipts. As of January 2004, year-to-date cigarette and other tobacco products receipts were $298.7 million, $12.0 million (3.9%) below estimates. As of January 2004, year-to-date revenues from this tax source were $39.7 million (11.7%) below revenues a year ago.

Receipts from the floor tax in FY 2003 and the change in the bonding requirements for cigarette dealers resulting from Am. Sub. H.B. 95 (the main operating appropriations act) skew comparisons of actual tax revenues in FY 2004 with current year estimates and also with year ago receipts. From July 2002 through January 2003, the floor tax[10] provided $31.8 million. Excluding amounts provided by the floor tax, year-to-date FY 2004 revenues as of January 2004 were $8.1 million (2.6%) below receipts in the same period in FY 2003. As of January 2004, stamp sales were approximately $317.1 million, based on data provided by the Department of Taxation, and cigarette and tobacco products tax receipts were only $298.7 million. Estimated receipts from this tax source were about $310.8 million, which is less than the amount of stamps sold. Thus, when taking into account the effect of the change in stamp purchases this year, which created a temporary revenue loss (mostly in October 2003), the "true" negative variance from estimates as of January 2004 may be small. Also, when taking into account both the change in stamp purchases and the floor tax revenues in FY 2003, the comparison with year-ago receipts does not appear as severe as calculated above.

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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] Global Insight is an economic and financial forecasting company.

[4] 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 month.

[5] The International Council of Shopping Centers' 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. One explanation for the strength in sales during January was the redemption of gift cards purchased during the holidays. Gift cards are not counted as sales until they are redeemed.

[6] Annualized sales of vehicles and light trucks were 18.9 million units in August 2003, 16.6 million in September 2003, 15.5 million in October 2003, 16.8 million in November 2003, and 17.4 million in December 2003.

[7] Sales at auto dealers include parts and services that may not be part of the auto sales tax base.

[8] According to CNW Marketing/Research, among the major automakers, General Motors' average incentive in December 2003 was $4,395. Ford's and Chrysler's incentives were $4,271 and $4,394, respectively. Toyota's and Honda's incentives were lower, $2,766 and $1,371, respectively.

[9] Total corporate franchise tax collections would be about $833 million in FY 2004. FY 2003 and FY 2002 franchise tax collections were $785 million and $758 million, respectively.

[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 January 2004
($ in thousands)

REVENUE SOURCE				
TAX REVENUE	**Actual**	**Estimate***	**Variance**	**Percent**
Auto Sales	$71,377	$73,990	-$2,613	-3.5%
Nonauto Sales & Use	$619,086	$630,054	-$10,968	-1.7%
Total Sales	$690,463	$704,044	-$13,581	-1.9%
Personal Income	$816,578	$886,198	-$69,620	-7.9%
Corporate Franchise	$117,488	$114,985	$2,503	2.2%
Public Utility	$578	$0	$578	---
Kilowatt Hour Excise Tax	$29,008	$30,578	-$1,570	-5.1%
Total Major Taxes	**$1,654,115**	**$1,735,805**	**-$81,690**	**-4.7%**
Foreign Insurance	$35	$0	$35	---
Domestic Insurance	$0	$0	$0	---
Business & Property	$150	$155	-$5	-3.0%
Cigarette	$44,495	$39,200	$5,295	13.5%
Alcoholic Beverage	$4,650	$4,260	$390	9.2%
Liquor Gallonage	$3,463	$3,300	$163	4.9%
Estate	$108	$0	$108	---
Total Other Taxes	$52,902	$46,915	$5,987	12.8%
Total Taxes	**$1,707,017**	**$1,782,720**	**-$75,703**	**-4.2%**
NONTAX REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$7,580	$7,056	$524	7.4%
Other Revenue	$16,556	$12,500	$4,056	32.4%
Nontax Receipts	$24,136	$19,556	$4,580	23.4%
TRANSFERS				
Liquor Transfers	$5,000	$4,000	$1,000	25.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$2,000	$3,500	-$1,500	-42.9%
Total Transfers In	$7,000	$7,500	-$500	-6.7%
TOTAL REVENUE less Federal Grants	**$1,738,153**	**$1,809,776**	**-$71,623**	**-4.0%**
Federal Grants	$443,250	$418,337	$24,913	6.0%
TOTAL GRF REVENUE	**$2,181,403**	**$2,228,113**	**-$46,710**	**-2.1%**

* 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 January 2004
($ in thousands)

REVENUE SOURCE	Actual	Estimate*	Variance	Percent	FY 2003	Percent Change
TAX REVENUE						
Auto Sales	$649,972	$640,545	$9,427	1.5%	$557,136	16.7%
Nonauto Sales & Use	$3,779,462	$3,801,813	-$22,351	-0.6%	$3,170,567	19.2%
Total Sales	$4,429,434	$4,442,358	-$12,924	-0.3%	$3,727,702	18.8%
Personal Income	$4,358,861	$4,411,617	-$52,756	-1.2%	$4,342,334	0.4%
Corporate Franchise	$134,270	$116,968	$17,302	14.8%	$159,162	-15.6%
Public Utility	$83,513	$79,677	$3,836	4.8%	$74,238	12.5%
Kilowatt Hour Excise Tax	$197,004	$217,550	-$20,546	-9.4%	$201,014	-2.0%
Total Major Taxes	**$9,203,081**	**$9,268,170**	**-$65,089**	**-0.7%**	**$8,504,450**	**8.2%**
Foreign Insurance	$114,772	$122,566	-$7,794	-6.4%	$115,366	-0.5%
Domestic Insurance	$147	$200	-$53	-26.3%	$1,626	-90.9%
Business & Property	$1,405	$1,676	-$271	-16.2%	$1,097	28.1%
Cigarette	$298,759	$310,819	-$12,060	-3.9%	$338,472	-11.7%
Alcoholic Beverage	$33,191	$34,528	-$1,337	-3.9%	$32,818	1.1%
Liquor Gallonage	$18,687	$18,114	$573	3.2%	$17,955	4.1%
Estate	$37,272	$52,500	-$15,228	-29.0%	$68,947	-45.9%
Total Other Taxes	$504,234	$540,403	-$36,169	-6.7%	$576,281	-12.5%
Total Taxes	**$9,707,314**	**$9,808,573**	**-$101,259**	**-1.0%**	**$9,080,731**	**6.9%**
NONTAX REVENUE						
Earnings on Investments	$14,768	$13,250	$1,518	11.5%	$14,750	0.1%
Licenses and Fees	$23,767	$25,971	-$2,204	-8.5%	$18,757	26.7%
Other Revenue	$102,719	$106,731	-$4,012	-3.8%	$122,609	-16.2%
Nontax Receipts	$141,255	$145,952	-$4,697	-3.2%	$156,116	-9.5%
TRANSFERS						
Liquor Transfers	$67,000	$60,000	$7,000	11.7%	$66,000	1.5%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$77,681	$65,962	$11,719	17.8%	$50,412	54.1%
Total Transfers In	$144,681	$125,962	$18,719	14.9%	$116,412	24.3%
TOTAL REVENUE less Federal Grants	**$9,993,250**	**$10,080,487**	**-$87,237**	**-0.9%**	**$9,353,260**	**6.8%**
Federal Grants	$3,283,193	$3,294,179	-$10,986	-0.3%	$2,780,855	18.1%
TOTAL GRF REVENUE	**$13,276,442**	**$13,374,666**	**-$98,224**	**-0.7%**	**$12,134,115**	**9.4%**

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

Detail may not sum to total due to rounding.

DISBURSEMENTS

— *Steve Mansfield**

Disbursements from the General Revenue Fund (GRF) (excluding transfers) in January were $87.0 million above the estimate for the month. January's outlays reduced the overall negative disbursement variance for the year to date to $259.2 million. Each of the state's four major GRF program categories posted positive disbursement variances in January (see Figure 1). With a January positive variance of $50.2 million, the Welfare and Human Services category reduced its year-to-date negative disbursement variance to $126.3 million; the Government Operations category reduced the size of its negative year-to-date disbursement variance in January by $13.6 million to stand at $67.3 million below the year-to-date estimate; the Education category posted a positive variance of $25.6 million from the estimate of its outlays for the month to stand at $59.8 million under the year-to-date estimate; and outlays in the Property Tax Relief category were a mere $350,000 above the estimate, reducing its year-to-date negative disbursement variance to $1.9 million. In order of magnitude, the three largest program subcategories contributing to the $259.2 million year-to-date negative disbursement variance are Primary and Secondary Education (-$61.3 million), Health Care/Medicaid (-$50.1 million), and Other Welfare (-$46.3 million). As can be seen in Table 5, all but two program subcategories still show 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.

Figure 1
GRF Disbursement Variances
by Program Category, FY 2004

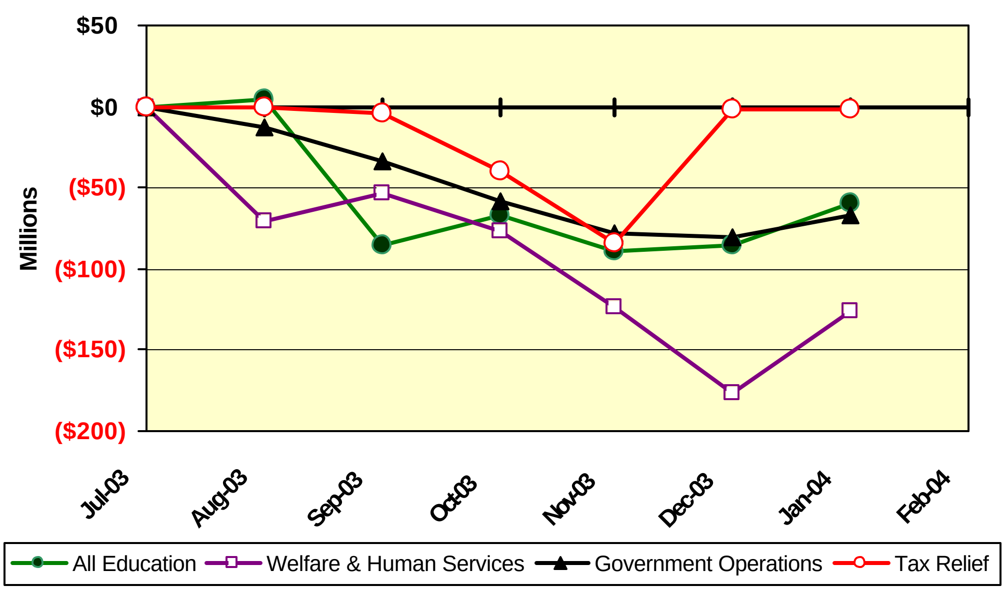

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of January 2004
($ in thousands)

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$509,249	$496,961	$12,288	2.5%
Higher Education	$168,861	$155,544	$13,317	8.6%
Total Education	$678,110	$652,505	$25,605	3.9%
Health Care/Medicaid	$743,348	$688,887	$54,462	7.9%
TANF	$36,527	$41,511	-$4,984	-12.0%
General/Disability Assistance	$1,666	$1,881	-$215	-11.4%
Other Welfare (2)	$25,085	$30,641	-$5,557	-18.1%
Human Services (3)	$133,988	$127,508	$6,479	5.1%
Total Welfare & Human Services	$940,614	$890,429	$50,185	5.6%
Justice & Corrections	$168,005	$156,295	$11,710	7.5%
Environment & Natural Resources	$6,096	$6,269	-$173	-2.8%
Transportation	$6,528	$3,012	$3,516	116.7%
Development	$7,352	$8,731	-$1,379	-15.8%
Other Government	$19,466	$19,162	$303	1.6%
Capital	$0	$412	-$412	-100.0%
Total Government Operations	$207,446	$193,881	$13,565	7.0%
Property Tax Relief (4)	$11,650	$11,300	$350	3.1%
Debt Service	$56,874	$59,610	-$2,736	-4.6%
Total Program Payments	**$1,894,694**	**$1,807,724**	**$86,970**	**4.8%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$3,961	$0	$3,961	---
Total Transfers Out	$3,961	$0	$3,961	---
TOTAL GRF USES	**$1,898,655**	**$1,807,724**	**$90,931**	**5.0%**

(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 January 2004
($ in thousands)

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2003**	**Percent Change**
Primary & Secondary Education (1)	$3,742,328	$3,803,667	-$61,339	-1.6%	$3,757,397	-0.4%
Higher Education	$1,410,857	$1,409,315	$1,542	0.1%	$1,458,128	-3.2%
Total Education	$5,153,185	$5,212,982	-$59,797	-1.1%	$5,215,524	-1.2%
Health Care/Medicaid	$5,236,885	$5,287,023	-$50,138	-0.9%	$4,758,867	10.0%
TANF	$263,535	$280,910	-$17,376	-6.2%	$322,379	-18.3%
General/Disability Assistance	$13,620	$14,941	-$1,320	-8.8%	$16,195	-15.9%
Other Welfare (2)	$307,147	$353,417	-$46,270	-13.1%	$322,030	-4.6%
Human Services (3)	$747,762	$758,945	-$11,183	-1.5%	$775,591	-3.6%
Total Welfare & Human Services	$6,568,949	$6,695,235	-$126,286	-1.9%	$6,195,062	6.0%
Justice & Corrections	$1,124,945	$1,169,869	-$44,924	-3.8%	$1,121,503	0.3%
Environment & Natural Resources	$73,696	$75,737	-$2,041	-2.7%	$85,275	-13.6%
Transportation	$20,273	$19,529	$744	3.8%	$24,287	-16.5%
Development	$88,522	$99,705	-$11,183	-11.2%	$123,468	-28.3%
Other Government	$236,482	$244,194	-$7,712	-3.2%	$243,799	-3.0%
Capital	$0	$2,152	-$2,152	-100.0%	$0	---
Total Government Operations	$1,543,918	$1,611,186	-$67,268	-4.2%	$1,598,331	-3.4%
Property Tax Relief (4)	$685,702	$687,600	-$1,898	-0.3%	$691,500	-0.8%
Debt Service	$243,946	$247,925	-$3,979	-1.6%	$200,832	21.5%
Total Program Payments	**$14,195,699**	**$14,454,927**	**-$259,229**	**-1.8%**	**$13,901,250**	**2.1%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$34,936	$19,750	$15,186	76.9%	$15,990	118.5%
Total Transfers Out	$34,936	$19,750	$15,186	76.9%	$15,990	118.5%
TOTAL GRF USES	**$14,230,635**	**$14,474,677**	**-$244,042**	**-1.7%**	**$13,917,239**	**2.3%**

(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.

Welfare/Human Services (-$126.3 million)

The Welfare/Human Services category posted a positive disbursement variance of $50.2 million in January, thus making up for nearly all of the negative variance recorded in December. For the year to date, outlays in this category stand at $126.3 million below the estimate. The Health Care/Medicaid and Other Welfare subcategories together account for three-quarters of the category's overall year-to-date negative variance. The following paragraphs discuss the disbursements in the components of the Welfare/Human Services category in more detail.

Health Care/Medicaid. In January, the Health Care/Medicaid program (primarily line item 600-525) posted a positive disbursement variance of $54.5 million, but for the year to date the variance is $50.1 million below estimate. January's positive variance is largely a timing issue, making up for the low level of payments during the December holiday period. This is particularly noticeable in the Inpatient Hospitals category (see Table 6). In addition, the Medicare Buy-In subcategory was significantly above the estimate as a result of posting two payments in January rather than the expected one payment. As we see in Table 6, large year-to-date negative disbursement variances have occurred in the Inpatient Hospitals and All Other service

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

Service Category	January Actual	January Estimate	January Variance	January Percent Variance	YTD Actual thru Dec.	YTD Estimate thru Dec.	YTD Variance	YTD Percent Variance
Nursing Facilities	$216,685	$213,460	$3,225	1.5%	$1,508,905	$1,468,427	$40,478	2.8%
Payments	$225,859	$223,255	$2,604	1.2%	$1,577,449	$1,537,831	$39,618	2.6%
NF Franchise Fees Offset[1]	($9,174)	($9,795)	$621	-6.3%	($68,544)	($69,405)	$860	-1.2%
ICF/MR	$35,655	$35,892	($236)	-0.7%	$245,307	$246,515	($1,207)	-0.5%
Payments	$37,309	$37,597	($289)	-0.8%	$257,160	$258,562	($1,402)	-0.5%
ICF/MR Franchise Fees Offset	($1,654)	($1,706)	$52	-3.1%	($11,853)	($12,048)	$195	-1.6%
Inpatient Hospitals	$103,040	$89,497	$13,543	15.1%	$730,535	$769,355	($38,820)	-5.0%
Outpatient Hospitals	$47,506	$41,269	$6,237	15.1%	$329,801	$333,909	($4,108)	-1.2%
Physicians	$46,316	$39,345	$6,971	17.7%	$319,650	$330,569	($10,919)	-3.3%
Prescription Drugs	$134,695	$125,973	$8,723	6.9%	$985,740	$987,808	($2,068)	-0.2%
HMO	$84,611	$75,928	$8,682	11.4%	$588,699	$574,045	$14,654	2.6%
Medicare Buy-In	$29,356	$13,878	$15,478	111.5%	$104,374	$91,027	$13,348	14.7%
ODJFS Waiver[2]	$14,410	$17,642	($3,232)	-18.3%	$108,727	$125,187	($16,460)	-13.1%
All Other[3]	$64,911	$65,094	($183)	-0.3%	$471,045	$515,559	($44,513)	-8.6%
CHIP II[4]	$5,739	$5,410	$329	6.1%	$41,076	$37,885	$3,191	8.4%
DA Medical[5]	$5,830	$7,477	($1,647)	-22.0%	$52,864	$57,579	($4,715)	-8.2%
Total ALI 600-525	$788,755	$730,865	$57,890	7.9%	$5,486,723	$5,537,863	($109,030)	-2.0%
DSH Offset	$0	$0	$0		$0	$0	$0	
Drug Rebates	($45,407)	($41,978)	($3,429)		($212,911)	($211,059)	($1,852)	
FY 2002 Encumbrance	$0	$0	$0		($71,000)	($39,781)	($31,219)	
Prior Period ALI 600-525	$0	$0	$0		$34,073	$0	$34,073	
Total Health Care (Net of Offset	**$743,348**	**$688,887**	**$54,462**	**7.9%**	**$5,236,885**	**$5,287,023**	**($50,137)**	**-0.9%**
Est. Federal Share[6]	$436,313	$404,347	$31,967		$3,073,826	$3,103,255	($29,428)	
Est. State Share	$307,035	$284,540	$22,495		$2,163,059	$2,183,768	($20,709)	

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 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 medical assistance percentage (FMAP) used in this table is a blended rate of 58.70%.
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.

categories, with smaller negative variances in the other fee-for-service categories. This pattern of negative disbursement variances can be largely traced to higher than projected growth in managed care enrollment (which tends to push down fee-for-service expenditures), to lower than expected overall caseload growth, and to some matters involving the timing of payments.

Partially offsetting these negative disbursement variances is the Nursing Facilities service category, which is over the year-to-date estimate by $40.5 million. As we noted in previous months, the Department of Job and Family Services (JFS) reports that "bed days" in nursing facilities are higher than expected, while per diems for Nursing Facilities have behaved as expected.

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 Jan. '04	FY 2003 Yr.-to-Date as of Jan. '03	Dollar Change	Percent Increase
Nursing Facilities	$1,508,905	$1,432,887	$76,018	5.31%
Payments	$1,577,449	$1,499,818	$77,632	5.18%
NF Franchise Fees Offset[1]	($68,544)	($66,930)	($1,614)	2.41%
ICF/MR	$245,307	$239,365	$5,942	2.48%
Payments	$257,160	$251,292	$5,868	2.34%
ICF/MR Franchise Fees Offset)	($11,853)	($11,927)	$75	-0.63%
Inpatient Hospitals	$730,535	$731,446	($911)	-0.12%
Outpatient Hospitals	$329,801	$311,222	$18,579	5.97%
Physicians	$319,650	$297,856	$21,794	7.32%
Prescription Drugs	$985,740	$877,200	$108,540	12.37%
HMO	$588,699	$401,180	$187,519	46.74%
Medicare Buy-In	$104,374	$83,589	$20,785	24.87%
ODJFS Waiver[2]	$108,727	$101,649	$7,078	6.96%
All Other[3]	$471,045	$435,681	$35,365	8.12%
CHIP II[4]	$41,076	$32,927	$8,149	24.75%
DA Medical[5]	$52,864	$54,158	($1,294)	-2.39%
Total Health Care	**$5,486,723**	**$4,999,160**	**$487,563**	**9.75%**
DSH Offset	$0	($89,037)	$89,037	
Drug Rebates	($212,911)	($152,352)	($60,559)	
Prior Year Encumbrance	($71,000)	($83,539)	$12,539	
Prior Period ALI 600-525	$34,073	$84,635	($50,562)	
Total Health Care (Net of Offset	**$5,236,885**	**$4,758,868**	**$478,018**	**10.04%**
Est. Federal Share[6]	$3,073,826	$2,793,251	$280,576	
Est. State Share	$2,163,059	$1,965,617	$197,442	

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 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 medical assistance percentage (FMAP) used in this table is a blended rate of 58.70%.

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

Job and Family Services. Through the end of January, disbursements for the Department of Job and Family Services' operating and subsidy programs now stand at $46.3 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 what is driving the year-to-date negative disbursement variance in this subcategory since last month's report. Two items are noteworthy. Line item 600-416, Computer Projects, accounted for $17.7 million of the negative year-to-date disbursement variance. About half of this variance can be traced to slower than anticipated billing and payments, while the remainder stems from $8.9 million in prior-year appropriations to this line item that have now lapsed. Another $10.7 million of the negative year-to-date disbursement variance can be traced to line item 600-321, Support Services (which we reported on in previous months).

TANF. In January, GRF outlays in the Temporary Assistance for Needy Families (TANF) program were $5.0 million under estimate, putting the program below estimate for the year to date by a net of $17.4 million. This negative disbursement variance can be traced to line item 600-413, Child Care Match/MOE, which is now under estimate for the year to date by $20.2 million. So far this fiscal year, utilization of child care has been lower than anticipated by the estimates. If the caseload does not take up this slack as the fiscal year winds down, the Department reports that it will begin using the remaining balance to fund nonguaranteed cases to meet the state's maintenance of effort (MOE) requirement.

At the end of January, the number of TANF recipients was just over 193,000, a decline of almost 2% from December, but even with one year ago. The number of assistance groups (cases) was 86,527. The trend toward a smaller ratio of recipients to assistance groups continues with the average TANF assistance group at 2.23 members, down from December's 2.24 members. The reduction in the average size of assistance groups is connected to the greater share of the caseload composed of "child only" assistance groups.

Mental Health. In January, the Department of Mental Health posted a positive disbursement variance of $11.2 million, thus pushing the Department's year-to-date disbursement variance to $9.0 million above the estimate. The year-to-date variance is attributable to two line items: 334-408, Community and Hospital Mental Health Services, and 335-505, Local Mental Health Systems of Care. The variance in both line items is due to the timing of requests for funds from the local boards.

Government Operations (-$67.3 million)

After posting a positive disbursement variance of $13.6 million in January, outlays in the Government Operations category stand at $67.3 million under the estimate for the year to date. The Department of Rehabilitation and Correction contributed $38.0 million of the year-to-date figure and will be discussed in more detail below. The Department of Youth Services' (DYS) disbursements were over estimate in January by $7.1 million, decreasing its year-to-date negative variance to $10.1 million. The bulk of the DYS disbursement variance is traceable to changes in the pattern of disbursements required by the operating budget. Those changes were not reflected in the estimates.

Rehabilitation & Correction. The disbursement picture in the Department of Rehabilitation and Correction is much the same as last month, with only a relatively small positive variance from the estimate for January.

As we reported in previous months, the Department's year-to-date negative disbursement variance of $38.0 million is traceable primarily 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. With the closure delayed in the courts, personnel adjustments in the northern institutions did not occur. The courts have now cleared the way for the ultimate closure of Lima, so expenditures related to staff will likely begin to increase in the coming months. In addition, the Department had delayed some equipment purchases from line item 501-321 to ensure that there were sufficient funds. These types of purchases are now beginning to be made, thus leading to the increase in 501-321, Institutional Operations, expenditures.

Education (-$59.8 million)

In January, the Education category posted a positive disbursement variance of $25.6 million, reducing the negative year-to-date variance to $59.8 million. The Department of Education accounted for $56.6 million of the category's year-to-date negative disbursement variance.

Department of Education. With a positive disbursement variance of $13.5 million in January, the Department of Education's disbursements for the year to date now stand at $56.6 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. As with December, a large part of January's positive disbursement variance was compensation for negative variances in earlier months.

Through January, the two largest contributors to the negative year-to-date disbursement variance in the Department were line item 200-426, Ohio Education Computer Network ($13.0 million under estimate), and line item 200-503, Bus Purchase Allowances ($11.0 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. This activity just seems to be taking longer than was anticipated. Disbursements from line item 200-503 should catch up to the estimate as a result of a January approval by the Controlling Board to release funds for bus purchase allowances. These funds were paid out in early February. The remainder of the year-to-date negative variance is spread over several smaller items.

Regents. In January, the Board of Regents posted a positive disbursement variance of $13.3 million to stand at $1.5 million above the estimate for the year to date. Basically, January's outlays brought the grant programs discussed in previous months (line items 235-531, Student Choice Grants, 235-549, Part-time Student Instructional Grants, and 235-503, Ohio Instructional Grants) more in line with the estimates.

Tax Relief (-$1.9 million)

The Property Tax Relief program, which carries a FY 2004 GRF appropriation of over $1.3 billion, reimburses school districts and local governments for revenue that is lost due to tax relief provided by state law to property owners and businesses through the homestead exemption, the property tax rollbacks, and the $10,000 tangible tax exemption programs. Tax relief funds are disbursed to school districts and local governments by the Department of Education and the Department of Taxation, respectively. Each of these departments divides its property tax relief program into two components: real property tax credits/exemptions, and tangible tax exemptions. Total payments in the program were $350,000 over the estimate for January. This reduced the negative disbursement variance in the program to $1.9 million for the year to date. Disbursement variances in the tax relief program are usually traceable to the timing of when county auditors submit requests for reimbursement.

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

Issues of Interest

UPDATE ON FEDERAL REAUTHORIZATIONS

— Erin Jones and Katie Stenman

Authorization for three significant domestic federal programs expired on September 30, 2002. These are the Food Stamp program administered by the U.S. Department of Agriculture, the Temporary Assistance for Needy Families (TANF) program administered by the U.S. Department of Health and Human Services, and the Workforce Investment Act (WIA), which covers a set of employment and training programs administered by the U.S. Department of Labor. To date, only one of these programs – the Food Stamp program – has been reauthorized. This article summarizes key features of the legislation reauthorizing the Food Stamp program and provides an update on TANF and WIA reauthorization.

Food Stamps

President Bush signed the Farm Security and Rural Investment Act of 2002, commonly referred to as the Farm Bill, on May 13, 2002. The Farm Bill addressed multiple issues, including the reauthorization of the Food Stamp program for five years and modified certain aspects of the program. The implementation date for both the mandatory and state optional modifications of the Food Stamp program was October 1, 2002.

Three mandatory food stamp provisions were included in the bill:

(1) The standard deduction used in the calculation of income, previously set at $134 per household, is now a minimum deduction. Under the new deduction, to be phased in gradually, households will receive deductions at 8.31% of the federal poverty level or $134, whichever is greater. This means that the deduction varies according to family size and thus will increase the amount of benefits paid out to large families; smaller households will continue to receive the minimum deduction previously set at $134 until increases in the poverty level move the household off the minimum level. Additionally, the standard deduction will now adjust automatically with changes in the federal poverty level, which is adjusted annually. The Congressional Budget Office estimates a $1.9 billion increase in benefits nationally over ten years.

(2) The asset limit for disabled participants will be adjusted to $3,000, the same asset limit that is applied to elderly participants.

(3) Eligibility is provided for several groups of legal immigrants.

Many of the optional provisions of Food Stamp reauthorization were designed to simplify the reporting process for both participants and caseworkers. Some of the optional provisions Ohio has adopted include provisions to align asset limits with those of TANF, for example, excluding the value of vehicles when determining a household's assets. Also, Ohio now excludes income from educational loans, grants, and similar sources in the calculation of income and uses a Standard Utility Allowance (SUA). Although it is not mandatory, the SUA can be applied to all households that have utility costs, and grants a shelter cost deduction of $143 to homeless participants. Finally, semiannual recertification has been implemented in Ohio. Under this procedure, applicants recertify and report income changes every six months unless their income rises above the 130% of the poverty level cutoff. In that event a more frequent recertification is required. This provision assists working families, whose members are more likely than nonworking recipients to have frequent fluctuations in income and who, through time conflicts with work, may face additional barriers to recertification.

One of the optional provisions Ohio has not yet adopted allows for transitional food stamps for participants leaving TANF. Provisions in the Farm Bill allow states to provide up to five months of transitional food stamp benefits to participants leaving TANF at the benefit levels established at their last recertification. This innovation was adopted because research had shown that working TANF leavers may not recognize their continued eligibility for food stamp benefits or may fail to recertify given conflicts with their new employment schedules.

Quality control provisions in the Farm Bill were designed to offer states greater flexibility in administering the Food Stamp program, without the harsh penalties that were typical of quality control procedures. The optional programs can be implemented with a 120-day hold harmless window, during which the state will not incur quality control penalties for errors made in administering the new option. The new quality control procedures should reduce penalties paid by the states and relieve some of the complications of requiring households to report income changes constantly to protect the state from quality control violations.

The Food Stamp Education and Training (FSET) program was also modified in the Farm Bill. The FSET program grant was set at $90 million per year for federal FY 2002 through FY 2007, with unused funds carrying over to the next year to be redistributed throughout the states. This grant represents a reduction of $75 million per year from the previous level. An additional $20 million is available to be distributed to a group of states, including Ohio, that guarantee work slots to all able-bodied adults without dependents facing a three-month time limit.

On January 1, 2004 Ohio began implementing a waiver provision of the Food Stamp program, authorized in 1996, that allows the state to waive work requirements on residents of areas designated by the USDA as "labor surplus areas" from the three-month time limit that is placed on able-bodied adults without dependents (ABAWD). Labor surplus areas are designated by the U.S. Department of Labor where there has been high and sustained unemployment.[1] This option will allow ABAWD participants in high unemployment areas to continue receiving food stamps without first securing employment. In H.B. 95, the main operating appropriations act, Ohio designed this exemption to apply to counties that experience unemployment greater that 10% for four consecutive months. Counties currently exempted under the waiver are Adams, Meigs, Morgan, and Vinton.

On the national front, President Bush's proposed 2005 budget allots $26.3 billion in food stamp benefits and $4.1 billion for administration, job training, and other costs. The 2004 budget appropriated $21.6 billion for food stamp benefits and $3.9 billion for administrative and other costs. The President's 2005 budget also contains a proposal to exclude combat-related military pay from the calculation of food stamp eligibility.

TANF

On September 30, 2003, for the fifth time in two years, Congress extended the Temporary Assistance for Needy Families (TANF) block grant and related programs rather than reauthorize the welfare reform legislation passed in 1996 to replace the Aid to Families with Dependent Children (AFDC) program. The existing language was extended for six months, with March 31, 2004 the next deadline for Congressional action. Both the House and Senate have dealt with the reauthorization legislation, though action has been sporadic.

Two years ago, President Bush offered his proposal, *Working Toward Independence*, for the reauthorization of the TANF program.[2] Last February, the House approved H.R. 4, the Personal Responsibility, Work, and Family Promotion Act of 2003, which closely reflected the President's proposal. The Senate Finance Committee approved the legislation in September of 2003, making some changes but keeping many provisions and funding levels identical to the House version.[3] Observers immediately called attention to the legislation's elevated work participation requirements, reduced childcare funding, and stagnant TANF block grant funding.

H.R. 4 would increase the percentage of recipients who are required to be engaged in work or other activities and increase the hours each recipient must participate in those activities per week. The latest version of the bill, as reported by the Senate Finance Committee, would require each state to have 70% of its welfare caseload working 40 hours a week in five years. Currently, states are required to have 50% of adults in all families engaged in 30 hours of work participation activities a week; a minimum 90% participation rate is required in two-parent families.

As it passed the House, H.R. 4 would also change the composition of activities that qualify for work participation: the 40-hour week would have a minimum of 24 hours in work or work-related activities, as well as 16 hours in other activities to help adult recipients become self-sufficient. Current work participation activities must include 20 hours engaged in "core" activities such as employment, community service, job search, and training. The Senate Finance version uses a tiered approach to work participation, depending on the family structure and age of children. States not meeting the new requirements would suffer more severe penalties as well: a 5% reduction in the TANF block grant, which would require a matching 5% substitution of state funds, and a 5% increase in the amount of money required for the state's maintenance of effort requirement.

Childcare funding is another area in which the states have expressed concern. The bill increases the Child Care and Development Block Grant (CCDBG) by $1 billion over five years and would require a state match. For comparison, the current level of funding is $2.7 billion for mandatory and mandatory matching funds. Senator Olympia Snowe (R-Maine), concerned that the increased work participation requirements should be accompanied by additional childcare funding, is planning to propose an amendment which would increase the childcare appropriation by $5 billion over five years without a state match, or a delayed or reduced state match.

States are most concerned about the declining real value of the TANF block grant. Since welfare reform was authorized in 1996, the federal government has provided $16.5 billion to the states each year for TANF programs, with no increase for inflation. The current proposal in Congress maintains this level of funding through FY 2008.

As for the future, action on TANF reauthorization by the March 31 deadline seems doubtful. The National Conference of State Legislators (NCSL) reports that congressional leadership is wary of taking up reauthorization legislation with other pressing issues demanding limited floor time.

Workforce Investment Act (WIA)

Reauthorization of the Workforce Investment Act of 1998 is currently at a standstill in Congress. Both houses passed reauthorization language that would extend the program through 2009. However, leadership has yet to appoint members to the conference committee to work on differences in the two versions of the bill.

A major difference between the legislation passed by the two houses is in the separation of the funding sources. In the House, H.R. 1261, the Workforce Reinvestment and Adult Education Act of 2003, would consolidate three funding streams – WIA Adult, WIA Dislocated Workers, and Wagner-Peyser – into one funding stream called Comprehensive Employment and Training Activities for Adults. This is a change recommended by the administration to ease restrictions on the use of money for markedly similar programs targeting similar populations. In the Senate, S. 1261, the Workforce Investment Act Amendments of 2003, would leave the three funding streams intact.

Other changes proposed by one or both of the houses include:

(1) Altering the membership and responsibilities of the State Workforce Investment Board and local workforce boards;

(2) Requiring that efficiency and effectiveness be taken into account when a governor designates the geographic makeup of local workforce development areas;

(3) Adding TANF and eliminating Wagner-Peyser as required One-Stop partners;

(4) Altering the One-Stop infrastructure funding arrangements in favor of a state-determined mechanism (the Senate allows for a local mechanism option);

(5) Changing the term of state and local plans from five years to either two years (House) or four years with two-year review (Senate);

(6) Eliminating the $250 million Youth Opportunity Grants in favor of Youth Challenge Grants, capped at $250 million. Eligibility requirements for the challenge grants differ between the two versions.[4]

Unlike TANF and other program reauthorizations, WIA will continue to operate if action is not taken. As long as appropriations are in place, the program will be continued with no further changes to the operating structure.

[1] A definition of "Labor Surplus Areas" is available at: http://www.uses.doleta.gov/pdf/laborsurplus02.pdf.

[2] A copy of the proposal "Working Toward Independence" is available at: http://www.whitehouse.gov/news/releases/2002/02/welfare-reform-announcement-book.pdf.

[3] A side-by-side comparison of current law and the two pieces of reauthorization legislation currently in the House and Senate is available at: http://www.cbpp.org/9-22-03tanf.pdf.

[4] For a more exhaustive comparison of current law and the reauthorization legislation currently in the House and Senate, please see: http://www.clasp.org/DMS/Documents/1073926942.45/WIA_SBS_0104.pdf.