Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION MARCH 2004

FISCAL OVERVIEW

— *Allan Lundell*

The national economic recovery continued in February. The Federal Reserve's "Beige Book" reported that economic activity continued to expand with rising consumer spending and increases in manufacturing output. Employment was reported to be growing slowly with slight increases in wages and salaries and substantial increases in employee health-care costs. Business conditions in the Cleveland district were reported to be improving "slowly and steadily" with few firms reporting any near-term plans to increase payrolls. Employment continues to be the major disappointment with the recovery, consistently underperforming expectations and frustrating forecasters.

Through February, total General Revenue Fund (GRF) revenue is $92 million (0.6%) below estimate. Total tax revenue is $98 million (0.9%) below estimate and revenue from the major taxes is $55 million (0.5%) below estimate. Revenue from the "other" taxes, mostly the cigarette tax, the estate tax, and the foreign insurance tax, is $43 million (6.7%) below estimate.[1] Through the first eight months of FY 2004, total GRF revenue is up 10.0% 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 essentially flat, down $1.9 million (0.03%) compared to FY 2003.

Fiscal year-to-date total GRF disbursements are $270 million (1.7%) below estimate. Disbursements for primary and secondary education are $64 million (1.5%) below estimate and disbursements for higher education are $3 million (0.2%) above estimate. Disbursements for welfare and human services are $131 million (1.7%) below estimate.

As shown in Table 1, the GRF began February with a negative cash balance of -$558 million. Revenue, including transfers-in, for February was $1,687 million. Disbursements, including transfers-out, were $1,808 million. The monthly deficit of $121 million brought the fiscal year-to-date cash balance to -$679 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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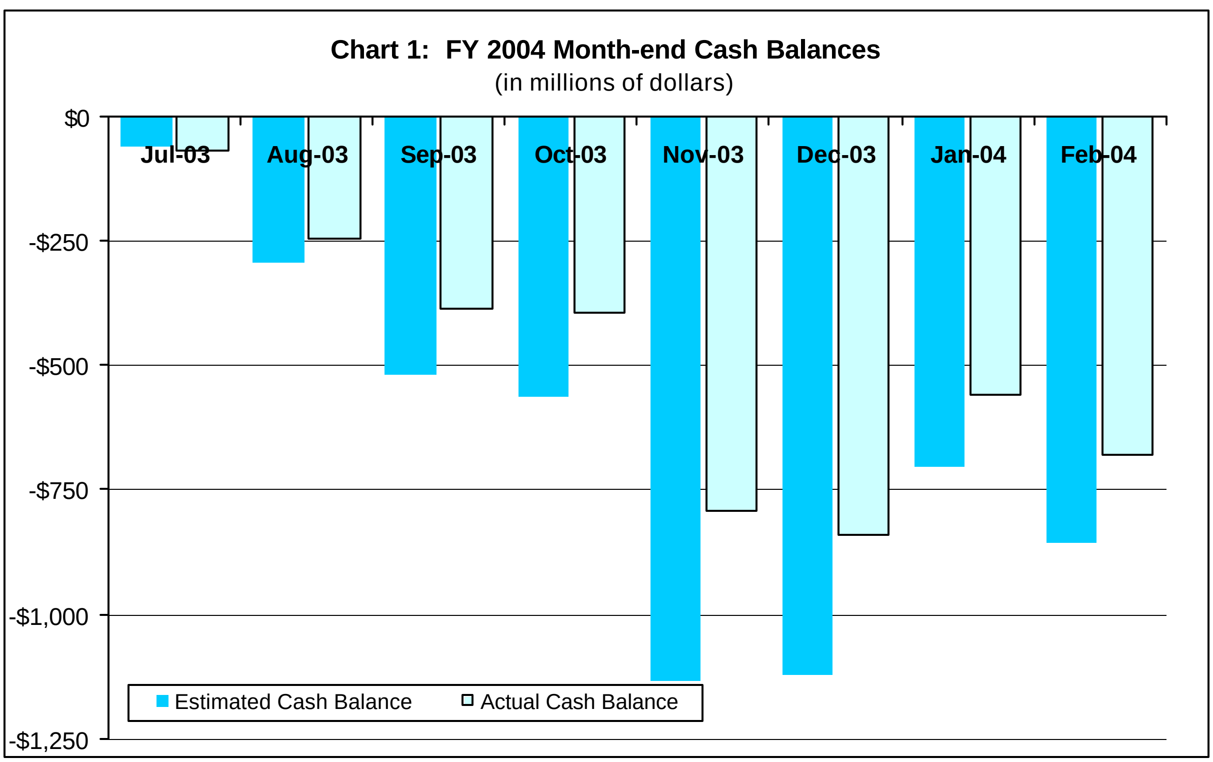
Table 1
General Revenue Fund
Simplified Cash Statement
($ in millions)

	Month of February	Fiscal Year 2004 to Date	Last Year	Difference
Beginning Cash Balance	-$557.7	$396.5		
Revenue + Transfers	$1,687.0	$14,963.5		
Available Resources	$1,129.4	$15,360.0		
Disbursements + Transfers	$1,808.3	$16,039.0		
Ending Cash Balances	-$678.9	-$678.9	-$1,406.1	$727.1
Encumbrances and Accts. Payable		$428.1	$549.0	-$120.9
Unobligated Balance		**-$1,107.0**	**-$1,955.1**	**$848.1**
BSF Balance		$180.7	$1,002.5	-$821.8
Combined GRF and BSF Balance		**-$926.3**	**-$952.6**	**$26.3**

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 -$857 million, $178 million lower than the actual level. Chart 1 compares actual month-end cash balances with the month-end cash balances that would have occurred if revenues and disbursements had been equal to their estimates.

The fiscal year-to-date cash balance of -$679 million is $727 million higher (less negative) than a year ago. Year-to-date encumbrances of



$428 million combine with the cash balance to yield an unobligated balance of -$1,107 million, which is $848 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. Although the $181 million balance in the Budget Stabilization Fund (BSF) is $822 million less than a year ago, the combined GRF and BSF balance is $26 million higher than it was at this time last year. 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 improved slightly from a year ago, but remains far from robust.

Exhibit 1 presents tracking information on total GRF revenues and disbursements. GRF revenue has exceeded estimate only twice during this fiscal year and has been cumulatively below estimate for the entire year to date. The percentage variances may be thought of as the error in forecasting and estimating. The -0.6% year-to-date variance for the GRF may be interpreted as indicating that the forecast/estimate is 99.4% accurate. Although the percentage variance is relatively small, the associated dollar amount is too large to be ignored. Disbursements have been below estimate for five of the eight months of the fiscal year and have been cumulatively below estimate since the end of August. The monthly balance is the difference between revenues and disbursements.

Although revenues have been below estimate, disbursements have been below estimate by an even greater amount, helping to minimize any problems caused by lackluster revenues. However, this may not continue for the rest of the fiscal year. Revenues, especially from the income tax, are likely to remain below estimate and the percentage variance may increase. The trend in disbursements is more likely to reverse itself than to continue. The outlook for the remainder of the fiscal year is revenues below estimate and spending above estimate. This indicates potential difficulties in achieving a balanced budget at the end of the fiscal year.

Exhibit 1: Total GRF Revenues and Disbursements (dollar amounts in millions)

	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04
Revenues								
Estimate	$1,654.8	$1,698.7	$2,023.1	$2,187.9	$1,626.9	$1,955.1	$2,228.1	$1,681.0
Actual	$1,654.8	$1,671.7	$2,014.6	$2,162.7	$1,659.1	$1,932.2	$2,181.4	$1,687.0
Variance	$0.0	-$27.0	-$8.5	-$25.3	$32.1	-$22.9	-$46.7	$6.0
Percent Variance	0.0%	-1.6%	-0.4%	-1.2%	2.0%	-1.2%	-2.1%	0.4%
Cumulative Variance	$0.0	-$27.0	-$35.5	-$60.7	-$28.6	-$51.5	-$98.2	-$92.2
Cumulative Percent Variance	0.0%	-0.8%	-0.7%	-0.8%	-0.3%	-0.5%	-0.7%	-0.6%
Disbursements								
Estimate	$2,111.8	$1,932.8	$2,247.0	$2,231.9	$2,196.4	$1,946.9	$1,807.7	$1,834.4
Actual	$2,120.8	$1,849.5	$2,152.5	$2,170.0	$2,060.4	$1,978.8	$1,898.7	$1,808.3
Variance	$9.0	-$83.3	-$94.6	-$61.9	-$136.0	$31.8	$90.9	-$26.0
Percent Variance	0.4%	-4.3%	-4.2%	-2.8%	-6.2%	1.6%	5.0%	-1.4%
Cumulative Variance	$9.0	-$74.3	-$168.9	-$230.8	-$366.8	-$335.0	-$244.0	-$270.1
Cumulative Percent Variance	0.4%	-1.8%	-2.7%	-2.7%	-3.4%	-2.6%	-1.7%	-1.7%
Monthly Balance								
Estimate	-$457.0	-$234.1	-$224.0	-$44.0	-$569.5	$8.2	$420.4	-$153.3
Actual	-$466.0	-$177.8	-$137.9	-$7.4	-$401.3	-$46.5	$282.7	-$121.3
Variance	-$9.0	$56.3	$86.1	$36.6	$168.1	-$54.7	-$137.6	$32.1
Cumulative Variance	-$9.0	$47.3	$133.4	$170.0	$338.2	$283.5	$145.8	$177.9

[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.

TRACKING THE ECONOMY

¾ Phil Cummins

National economic growth continued through February, but employment gains were very small. Employment rose in Ohio in January, perhaps due mainly to one-time seasonal influences. Inflation-adjusted gross domestic product (GDP) in the 2003 fourth quarter was revised upward slightly, to a 4.1% annual rate of growth following expansion at an 8.2% rate in the third quarter. Manufacturing output rose last month, with production increases widespread among consumer goods and business equipment. Corporations have ample funds for investment. Retail sales growth picked up in February after a slower rise in January, probably held down by adverse weather. Housing starts slowed in February but may be reinvigorated by a drop in mortgage rates this month. Inflation was higher in early 2004 mainly because of energy price increases.

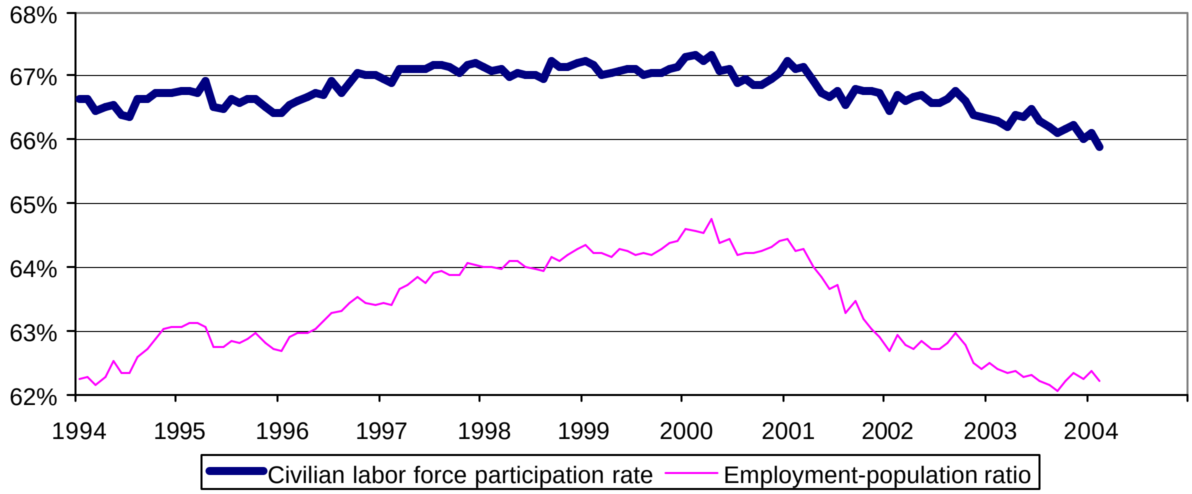
Employment Lackluster

Nonfarm payroll employment nationwide rose only 21,000 in February, and the previous two months' gains were revised downward. Employment continues to underperform expectations substantially. If payroll employment had risen with inflation-adjusted GDP in the four quarters of 2003 as it did on average in the past half century, GDP growth in excess of 4% would have required average monthly employment gains greater than 300,000. Instead, payroll employment fell through August, and in the six months since then has risen only 364,000 (about 60,000 per month). Strong, though not unprecedented, productivity gains have allowed economic activity to expand since 2001 while employment has stagnated. Manufacturing employment continued to decline through February, though the rate of decline has slowed, with jobs rising in some durable goods industries including wood products and fabricated metal products. Increases in employment at temporary help firms since August have totaled 112,000, nearly one-third of the increase in total payroll employment. Use of temporary help has been on the rise since early 2002, though most of the increase has taken place within the past year and may be a prelude to increased full-time hiring. A Manpower Inc. survey of second-quarter hiring plans showed the most favorable outlook in over three years.

Unemployment in February, at 8.2 million persons or 5.6% of the labor force, was down from the cyclical peak of 6.3% in June 2003 but well above the low point of 3.8% reached in the booming economy of April 2000 when 5.5 million people were unemployed. Some amount of unemployment is normal, even when job markets are robust, as people search for work. When jobs are hard to find, not only does the number of people actively looking for employment rise, but other people choose not to look for work, opting instead to go to school, pursue other activities, retire, or stay at home until demand for their services improves. In Chart 1, the lower line shows employment as a percentage of the population age 16 and older, sometimes referred to as the working age population. This definition includes students in school and the entire elderly population. The upper line shows the labor force, the sum of the employed and those looking for work, as a percentage of working-age population. Rising unemployment from 2000 to 2003 is reflected in the widening of the gap between the two lines. Civilian labor force participation, the upper line, has fallen about one and one-half percentage points or more than 3 million people since early 2000, reflecting decisions to spend time in ways other than working or actively seeking employment.

Long-term unemployment, persons actively seeking work for over six months, more than tripled between November 2000 and September 2003, to 2.1 million people. The number has since declined somewhat, to 1.9 million, but still accounts for 23% of the unemployed, up from 11% in 2000. Among those no longer in the labor force, the

Chart 1: Share of U.S. Population Aged 16 and Over
Seasonally Adjusted



number of so-called discouraged workers, who are not working and have stopped looking for work because of discouragement over their job prospects, totaled nearly 0.5 million in February. This is almost double the level four years earlier, but the rise in the number of discouraged workers has slowed in recent months.

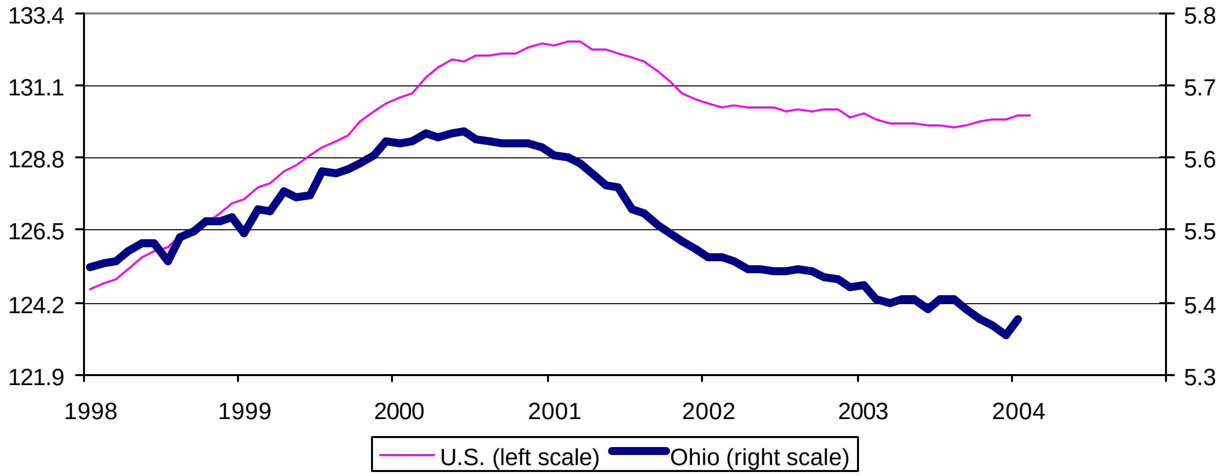
Some portion of those employed could be described as underemployed. Persons working part-time for economic reasons rose more than 1.7 million from July 2000 to last September, though the number has since declined nearly 0.5 million. Those working part-time for economic reasons include people who cited slack work or business conditions and those who could find only part-time work. The number of people counted as self-employed, after trending downward for years, has risen nearly 0.8 million since early 2002. This number may be biased low, as some independent contractors are known to be erroneously reported as wage and salary workers rather than self-employed, according to the U.S. Bureau of Labor Statistics. The self-employed include an unknown number of persons who lost jobs with companies and began self-employment ventures after they were unable to find positions comparable to those they had previously held.

Ohio's unemployment in January totaled 367,000, or 6.2% of the labor force, unchanged from December. The state's unemployment rate varied in 2003 between 6.0% and a cyclical high of 6.3%, up from a low of 3.6% in early 2001. Nonfarm payroll employment in Ohio rose 23,600 in January, the largest one-month increase in this seasonally adjusted measure since 1999. However, seasonal hiring by retailers in November and December was unusually low; consequently there were fewer temporary workers at stores to be laid off in January. This variation from the usual seasonal pattern probably resulted in exaggerated fluctuations in seasonally adjusted employment recently, contributing to declines in late 2003 and to the rebound in January. Recent changes in U.S. and Ohio total payroll employment are shown in Chart 2.

Output Expands Further; Business Investment Growing

Industrial production increased 0.7% in February. Manufacturing output, which accounts for most of industrial production, rose 1.0%. Gains were widespread among industries. Factory output has been trending upward since mid-2003. Production of consumer durables rose 0.7% in February, with large gains in motor vehicles and home electronics. Consumer nondurables production also rose 0.7% last month. Business equipment output climbed 1.1% in February and was up 5.7% from a cyclical low point reached last May. The information

Chart 2: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



processing component of business equipment has been recovering since late 2001. Output of other types of business equipment has been growing in recent months. Production of transit equipment, including motor vehicles and aircraft, has been rising since last July. Output of industrial equipment has expanded strongly since October.

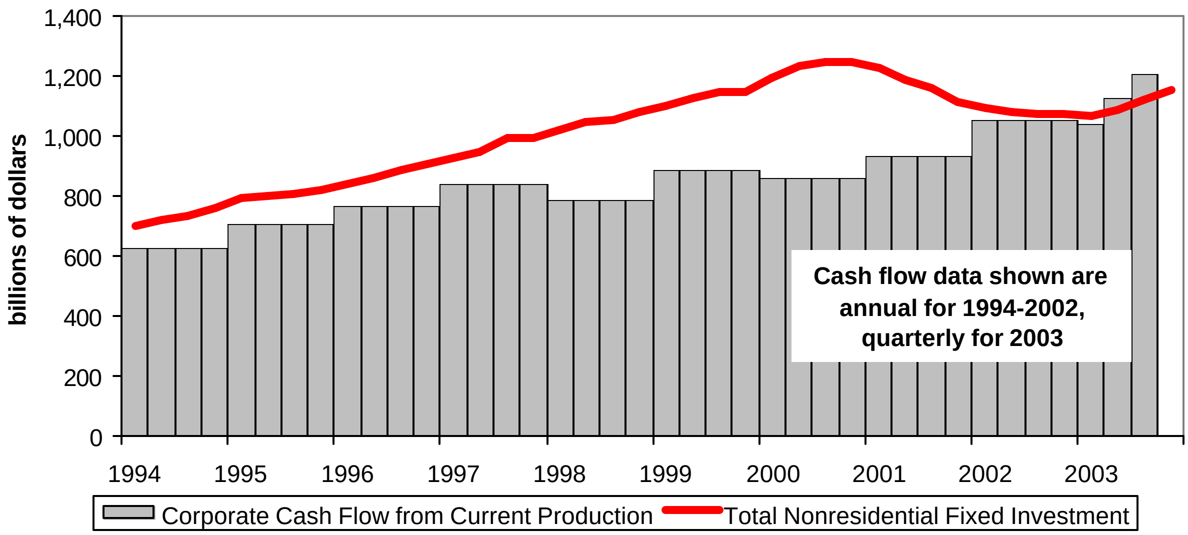
Manufacturers' new orders for nondefense capital goods, a measure of demand for business equipment, rose 18% through January (latest available data) from its cyclical low in 2002. Capital goods orders excluding aircraft were also up 18%. Most of the increase in both series has occurred in the past 11 months. Equipment orders are still well short of peaks reached in 2000.

Rising investment is supported by strongly growing business profitability and cash flow. Increases in sales, helped by tax cuts to individuals, and enhanced productivity have boosted profits. With interest rates low, numerous businesses and households have refinanced debts, supporting spending. Growth of net business borrowing, however, remained low through the end of last year.[1] Bonus depreciation, allowing 50% of qualifying investments to be expensed, has encouraged capital spending and cut business taxes. This provision of the 2003 tax act expires at the end of this year. Another provision of that act, allowing small businesses to expense the first $100,000 of qualifying investment, up from $25,000 previously, expires at the end of 2005. The upturn in corporate cash flow, as measured in the national income and product accounts (NIPAs), is shown in Chart 3. Though NIPA estimates of cash flow in the fourth quarter are not yet available, information from other sources indicates that profitability and cash flow continued strong.[2] Business investment in plant and equipment is also shown in the chart. The ratio of cash flow to investment spending, an indicator of business' ability to pay for current investment with internally generated funds, rose in the third quarter to its highest level on record.

Business Activity Growing

Manufacturing activity in the U.S. expanded again in February, according to the monthly survey of purchasing managers conducted by the Institute for Supply Management. The survey showed growth in all 20 manufacturing industry groups represented. Production and new orders rose for the tenth consecutive month. Order backlogs increased and lead times generally lengthened. Increases in prices paid were most widespread since 1995. Several grades of steel, as well as electronic components, were reported in short supply. However, factory inventories again declined, for the 49th consecutive month. Respondents saying customer inventories were too

Chart 3: Corporate Internally Generated Funds and Investment



low outnumbered those saying they were too high, for the 33rd straight month. In contrast with U.S. Department of Labor (DOL) figures indicating continued shrinkage in manufacturing employment, the survey of purchasing managers showed rising employment for the fourth straight month. Temporary manufacturing workers that are classified by the DOL as service workers might account at least in part for the difference between the two measures.

A separate survey of nonmanufacturing purchasing managers also showed expansion in activity, with orders and backlogs rising and deliveries slowing. Prices paid increased for the 23rd straight month, and shortages of some steel products were reported.

The latest Federal Reserve "Beige Book," a summary of economic conditions around the country gathered from business and other contacts, reported continued expansion in activity through late February. Consumer spending rose in most regions, except for auto sales which were adversely affected by winter weather. Apart from weather effects, residential building remained at a high level. Commercial real estate stayed soft in most regions, though a few markets are showing initial signs of recovery. Manufacturing output rose in much of the country. Increased business was reported in several service sector industries, and freight transport volume has been rising. The Cleveland Federal Reserve District, which includes Ohio, also reported improving business conditions. Retail contacts said sales were at or ahead of expectations, partly due to discounting, after somewhat disappointing holiday sales. Factory production in the region was generally described as flat in recent months, but up from a year ago, except that steel producers have seen robust orders and rising shipments. Demand for steel is up from industrial and construction markets, and to rebuild low inventories in the face of sharply higher steel prices. Shipping firms said demand for their services is up from customers in a range of industries. Trucking firms plan to add capacity, and sales of heavy-duty trucks have risen sharply.

Consumer Buying Stronger in February

Retail sales rose 0.6% in February to 7.9% above a year earlier. The February increase followed a 0.2% rise in January, as motor vehicle sales bounced back in February after slowing in January, probably in part as a result of severe weather. Apart from these month-to-month fluctuations, consumer spending so far this year appears to be expanding at a stronger pace than in the fourth quarter. This reflects above-average gains for general merchandisers, particularly discounters; clothing stores; restaurants and bars;

and electronic shopping. Gasoline station sales were up sharply in January probably due mainly to higher prices.

Housing Slows, but Still at High Level

Housing starts fell 4% in February, seasonally adjusted, after declining in January, but remained at a high level. Starts on new home and apartment construction in the first two months of this year were 9% above a year earlier. In all of 2003, 1.85 million housing units were started, the strongest market for new housing since 1978.

Higher Energy Prices Raise Inflation

Consumer prices rose 0.3% in February and 0.5% in January, after increasing 1.9% in all of 2003. This acceleration mainly reflects sharply higher energy prices. Consumer prices other than for energy rose 0.2% in this year's first two months. Gasoline prices rose 2.5% in February after increasing 8.1% in January. Beef and veal prices, which rose sharply in 2003, fell back in January and February. Over the past year, medical care, education, and utility costs have risen at above-average rates while prices for apparel, used cars and trucks, and computers and related equipment have fallen.

The producer price index for finished goods rose 0.6% in January. Energy prices increased 4.7%.

Longer-Term Interest Rates Fall; Monetary Policy on Hold

Bond yields dropped sharply in early March following release of the weaker-than-expected payroll employment numbers and fell again after announcement of no change in monetary policy. Federal Reserve policymakers at their meeting on March 16 left the target for overnight federal funds unchanged at 1%. Yields on the benchmark U.S. Treasury 10-year note fell to their lowest levels since July 2003, trading below 3.7%. Rates on new 30-year fixed-rate mortgages also fell to their lowest levels since July.

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[1] Federal Reserve flow of funds statistics show 3.9% growth of debt at nonfinancial businesses last year, up from 2.8% in 2002 but well below double-digit rates of increase in 1998 and 1999.

[2] See, for example, a summary of profit reports from 900 companies in *Business Week*, February 23, 2004, beginning on page 60.

Status of the General Revenue Fund

REVENUE

— *Allan Lundell and Jean Botomogno*

Although total General Revenue Fund (GRF) revenue, total tax revenue, and combined revenues from the major taxes all exceeded estimate, some troubling trends continued. Revenue from the personal income tax and the sales tax were once again below estimate. Through February, revenue from the income tax is $65.8 million below estimate and the tax has exceeded estimate in just two of the seven months for which estimates are available.[1] Sales tax revenues are $13.8 million below estimate for the year to date, have been below estimate for the last four months, and have been below estimate for six of the seven months for which estimates were available. These two taxes are expected to account for over 63% of GRF revenue for the year, so their continued weakness is a cause for concern as Ohio heads into the last four months of the fiscal year.

February total GRF revenue of $1,687.0 million was $6.0 million (0.4%) above estimate and GRF revenue less federal grants (state-source revenue) was $1.0 million (0.1%) below estimate. Revenue from federal grants was $7.0 million (1.6%) above estimate in February. Total tax revenue was $3.6 million (0.3%) above estimate and revenue from the major taxes was $10.6 million (0.9%) above estimate.[2]

Through February, GRF revenue is up 10.0% compared to FY 2003. State-source revenue is up 7.6% and revenue from federal grants is up 17.7%. Federal grants are up partly due to one-time revenue. Total tax revenue is up 7.9% and revenue from the major taxes is up 9.3%. Total GRF revenue is up $1,357.4 million compared to FY 2003, but if the sales tax (up $799.0 million) and federal grants (up $560.4 million) are not counted, state-source revenue other than the sales tax is down $1.9 million (0.03%). Compared to FY 2003, revenue from the cigarette tax is down by $45.4 million (11.7%) and revenue from the estate tax is down $31.8 million (45.9%). Revenue from the personal income tax is up $22.0 million (0.5%) compared to FY 2003, and revenue from the corporate franchise tax is up $58.6 million (24.7%).

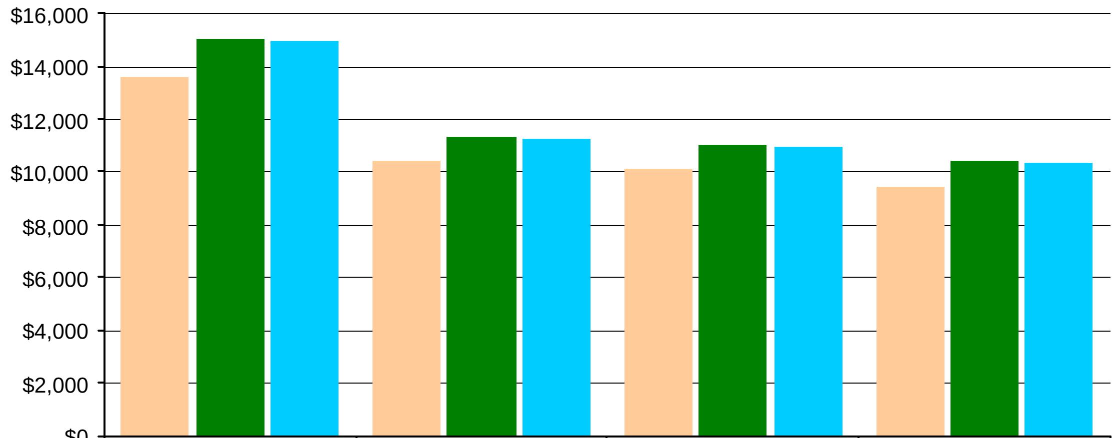
Although revenues are up compared to FY 2003, they remain slightly below FY 2004 estimates. Total GRF revenue is $92.2 million (0.6%) below estimate through the first eight months of this fiscal year. State-source revenue is $88.2 million (0.8%) below estimate, and total tax revenue is $97.6 million (0.9%) below estimate. Revenue from the major taxes, which are expected to account for 69% of total GRF revenue and 89% of state-source revenue for the fiscal year, is $54.5 million (0.5%) below estimate. Chart 1 compares FY 2004 revenues with FY 2003 revenues and FY 2004 estimates.

Personal Income Tax

In February, revenue from the personal income tax fell below estimate for the second straight month. The GRF received $371.5 million in revenue from the personal income tax. This amount was $13.1 million (3.4%) below estimate. The $606.8 million in revenue collected through withholding was $1.1 million (0.2%) below estimate. Quarterly estimated payments of $8.8 million were $2.2 million (20.4%) below estimate.[3] Refunds totaled $231.5 million. This total was $22.5 million (10.8%) above estimate. The tax on trusts brought in an unexpected $8.7 million in February.

Through February, GRF revenue from the personal income tax totaled $4,730.4 million. The total is $65.8 million (1.4%) below estimate. Withholding is $14.6 million (0.3%) below estimate. Quarterly estimated payments are $30.3 million (3.8%) below estimate, revenue

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	$13,606.1	$10,442.7	$10,135.4	$9,447.5
FY 2004 Estimate	$15,055.7	$11,328.0	$11,031.0	$10,385.1
FY 2004 Actual	$14,963.5	$11,239.7	$10,933.4	$10,330.5

from the tax on trusts is $2.4 million (8.7%) below estimate, and refunds are $10.3 million (2.3%) above estimate.

The performance of quarterly estimated payments may be a cause for concern. Through December 2003, quarterly estimated payments were $35.3 million (9.5%) above estimate but have since fallen to $30.3 million (3.8%) below estimate. The sudden drop-off may be due to a carryover from the recent fall in the stock market and the capital losses created by that fall. The excess of capital losses over capital gains may be subtracted from other income on a taxpayer's tax return, up to an annual limit of $3,000 ($1,500 for married taxpayers filing separately). Losses in excess of this limit may be carried forward to later years to reduce capital gains or ordinary income until the balance of these losses is used up. Similarly, losses that offset gains may be carried forward within mutual funds.

Income tax revenue continues to show just slight growth compared to a year ago. GRF revenue from the personal income tax is up by 0.5%. Gross collections are up by 0.8% and withholding is up by 2.4%. 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.[4] Quarterly estimated payments are down by 6.1% and revenue from the tax on trusts is down 36.3%.

The Sales and Use Tax

In February 2004, revenues from the sales and use tax were below estimates for a second consecutive month as a result of a disappointing performance from the auto sales tax. Nonauto sales and use tax receipts were $12.1 million (2.7%) above estimates, while those from the auto sales and use tax were short of projections by $12.9 million (17.9%). Total sales and use tax revenues in the month were $513.1 million, $0.8 million (0.2%) below projected revenues. Total receipts were $97.2 million (23.4%) above February 2003 sales and use tax revenues. As of February 2004, year-to-date total sales and use tax revenues are $4,942.5 million, $13.8 million (0.3%) below estimates. Sales and use tax receipts are $799.0 million (19.3%) higher than year-to-date tax receipts in February 2003. The increase in sales and use tax revenue is due to a 20% increase in tax rates from 5% to 6% of the purchase price in July 2003.

The Nonauto Sales and Use Tax

The nonauto sales and use tax was above estimates in February, following a sub-par January 2004. In January 2004, nonauto sales and use tax receipts were 1.7% below estimates. In February 2004, this tax source provided $453.7 million, $12.1 million (2.7%) 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 $98.3 million (6.9%) higher than revenues in February 2003. As of February 2004, year-to-date nonauto sales and use tax receipts are $4,233.2 million, $10.3 million (0.2%) 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 February 2004 increased $707.2 million (20.1%). The performance of the nonauto sales and use tax in February 2004 decreased the cumulative negative variance to $10.3 million, down from $22.4 million in January 2004.

The growth in nationwide retail and food services sales (excluding autos) has been positive in the last few months until that momentum was lost in February 2004. Growth in retail sales (excluding autos) in December 2003 came in at a weak 0.3%. January 2004's growth was stronger, at 1.2%. February nationwide retail sales (ex autos), at $249.8 billion, were unchanged from January 2004 sales. The softness in retail sales (ex autos) in February is surprising because January sales are usually weaker. This year, January sales may have been helped by the redemption of a record amount of gift certificates purchased during the holiday season. Retail sales in January and February 2004 grew 6.6% and 7.3%, respectively, from January and February 2003.

The Auto Sales Tax

Auto sales tax receipts were $59.3 million in February 2004, $12.9 million (17.9%) below estimates. The clerks of court make auto tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft,

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

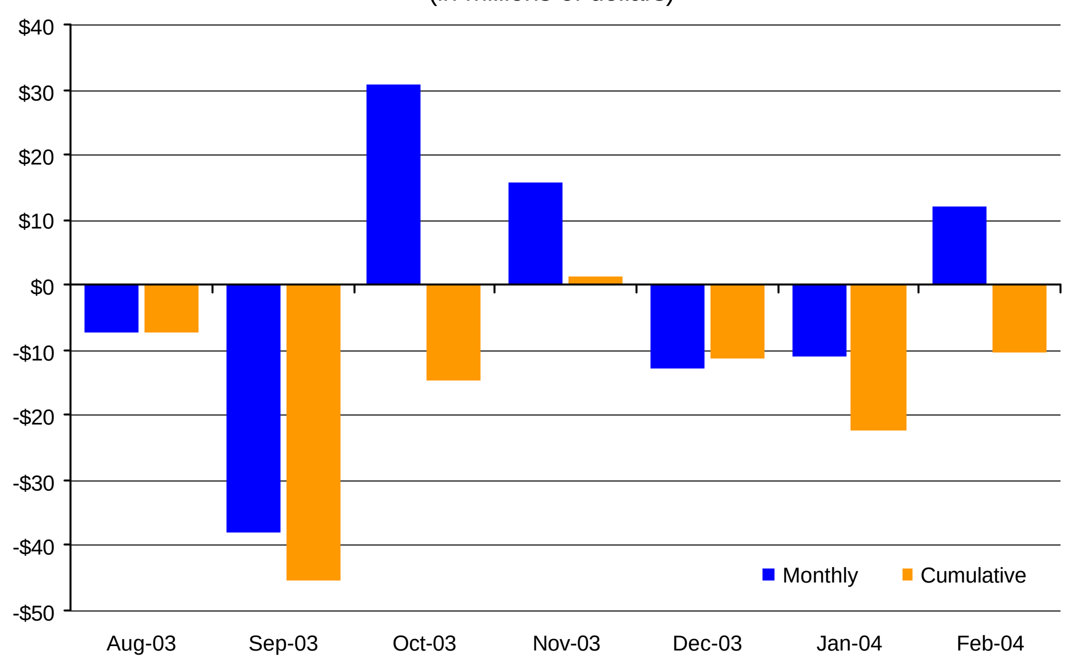
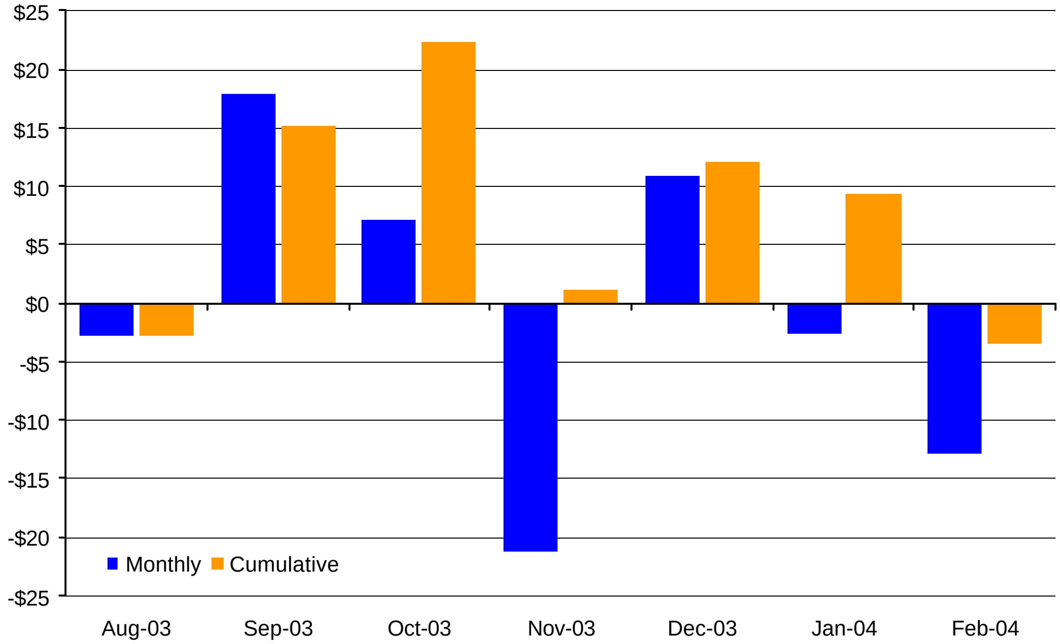


Chart 3: Auto Sales Tax Variance from July 2003 Estimate
(in millions of dollars)



and outboard motors titled. Therefore, auto tax receipts largely reflect vehicles sold and titled during the month. The second half of FY 2004 got off to a less than inspiring start for the auto sales tax. Receipts for the first two months in CY 2004 have been below receipts in the same period last year, despite the rate increase from 5% to 6%.

Compared to revenues a year ago in the same month, auto sales tax receipts in February 2004 were $1.1 million (1.7%) lower than receipts in February 2003. The performance of this tax source was not as weak as in January 2004 when tax receipts were $2.3 million (3.1%) below January 2003 receipts. Over the last two months, receipts have been $3.4 million below combined January and February 2003 auto tax receipts, despite a 20% increase in the tax rate. As of February 2004, year-to-date auto sales tax receipts are $709.3 million, $3.5 million (0.5%) below estimates. These receipts are also $91.8 million (14.9%) higher than receipts through the same period in February 2003. At the 5% sales tax rate, February auto sales tax revenue would have been about $49.4 million, $11.0 million (18.2%) less than FY 2003 receipts in the same month. Year-to-date revenues in February 2004 would have been $591.1 million, $26.4 million (4.3%) less than FY 2003 receipts. Despite the volatility associated with auto sales tax receipts, the trend in the last two months is not encouraging. It is possible that uncertainty about employment and job worries is overwhelming lower borrowing costs. Still another explanation could be that the market is tapped out after several strong years of auto sales. Another explanation may be delays in the remittance of auto sales tax payments from certain counties, as suggested by the Department of Taxation.

Nationwide auto sales, both in number of vehicles sold and dollar sales, improved in February 2004. The U.S. Department of Commerce reported that sales at motor vehicle dealers jumped 2.8% in February, reversing January's drop of 3.0%. Light-vehicle unit sales were 16.3 million on an annualized basis, better than 16.1 million in January 2004. So far in CY 2004, 4% more vehicles have been sold nationwide than in the first two months in CY 2003. On the basis of auto sales tax revenue in January and February, Ohio is not sharing in the improvement in light-vehicle sales.

Corporate Franchise Tax

Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year. February receipts are considered part of the first estimated payment of the corporate franchise tax, due on January 31. 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. The first major corporate tax payment occurred in January 2004. Corporate franchise tax receipts in February 2004 were $161.4 million, $0.8 million (0.5%) above estimates. These receipts were $83.5 million (107.2%) above February 2003 receipts. As of February 2004, year-to-date franchise tax revenues are $295.7 million, $18.1 million (6.5%) above estimates.

For the January-February tax period, FY 2004 receipts were $278.9 million, $2.3 million (0.8%) above the corresponding period last year. This indicates a modest gain for the year compared to last year, but the result is subject to considerable variation. Year-to-date corporate franchise tax revenues are $58.7 million (24.8%) higher than receipts in the same period last year. At the end of December 2003, revenues were $56.4 million higher than revenue a year earlier. The increase in corporate tax revenues this year is primarily due to fewer refunds paid out and higher late payments by corporations in the first half of FY 2004 (July to December).

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts were below estimates in February 2004, after two good months. December 2003 and January 2004 tax receipts were $52.0 million and $44.5 million, $9.8 million above estimates for the two months. Receipts in February 2004 were $35.9 million, $4.9 million (12.1%) below estimates. Compared to year-ago receipts, monthly revenues in February 2004 were $5.7 million (13.8%) lower than February 2003 receipts. As of February 2004, year-to-date cigarette and other tobacco products receipts are $334.7 million, $17 million (4.8%) below estimates. As of February 2003, year-to-date revenues from this tax source are $45.4 million (11.9%) below revenues a year ago. From July

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

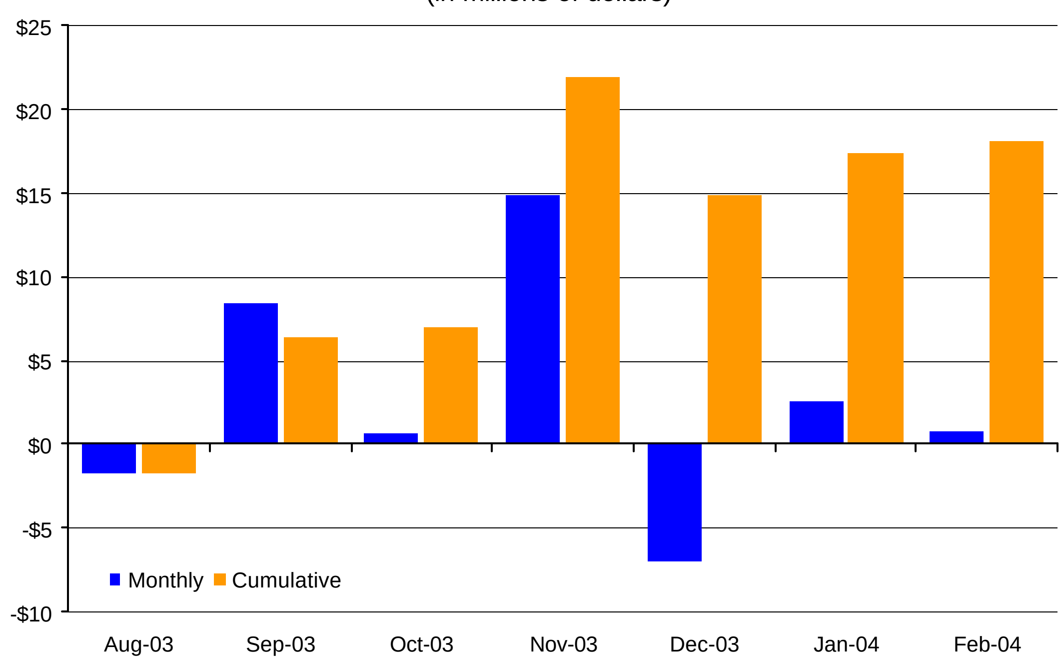
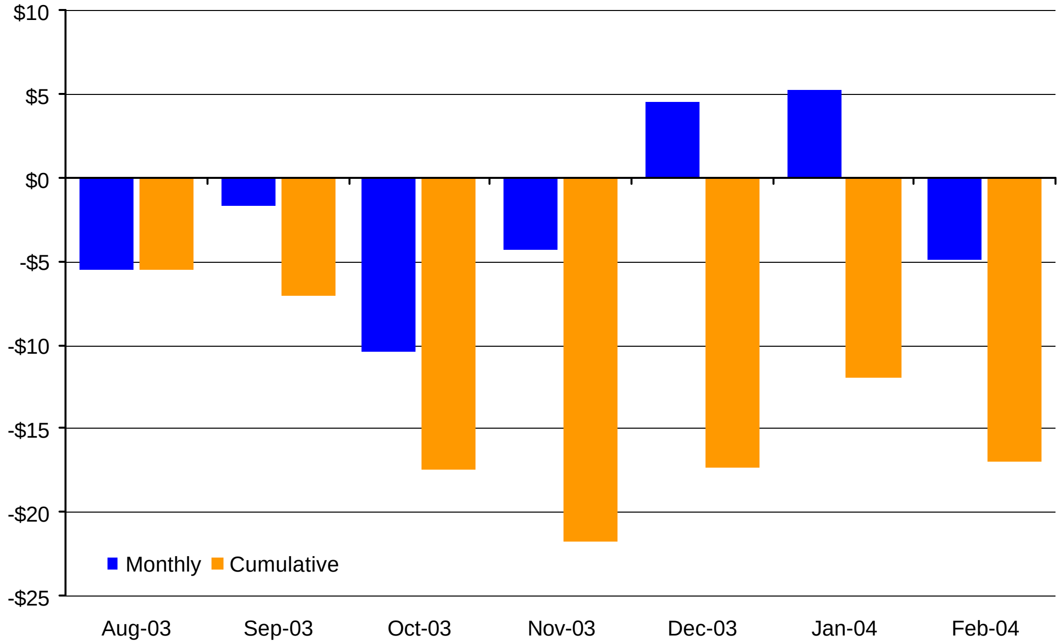


Chart 5: Cigarette Tax Variance from July 2003 Estimates
(in millions of dollars)



2002 through February 2003, the floor tax[6] provided $33.5 million. Excluding amounts provided by the floor tax, year-to-date FY 2004 revenues as of February 2004 would have been $11.9 million (3.5%) below receipts in the same period in FY 2003.

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[1] Revenue estimates were not available for July 2003. Income tax revenue exceeded estimate in November and December, but fell below estimate in August, September, October, January, and February.

[2] 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.

[3] 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.

[4] Global Insight is an economic and financial forecasting company.

[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.

[6] 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 Revenue
Actual vs. Estimate
Month of February 2004
($ in thousands)

REVENUE SOURCE

TAX REVENUE	**Actual**	**Estimate***	**Variance**	**Percent**
Auto Sales	$59,348	$72,282	-$12,934	-17.9%
Nonauto Sales & Use	$453,746	$441,687	$12,059	2.7%
Total Sales	$513,094	$513,969	-$875	-0.2%
Personal Income	$371,527	$384,609	-$13,082	-3.4%
Corporate Franchise	$161,422	$160,583	$839	0.5%
Public Utility	$49,944	$27,300	$22,644	82.9%
Kilowatt Hour Excise Tax	$31,456	$30,430	$1,026	3.4%
Total Major Taxes	**$1,127,441**	**$1,116,891**	**$10,550**	**0.9%**
Foreign Insurance	$56,339	$57,500	-$1,161	-2.0%
Domestic Insurance	$1	$0	$1	---
Business & Property	$6	$155	-$149	-96.4%
Cigarette	$35,902	$40,861	-$4,959	-12.1%
Alcoholic Beverage	$4,068	$4,800	-$732	-15.2%
Liquor Gallonage	$2,340	$2,250	$90	4.0%
Estate	$0	$0	$0	---
Total Other Taxes	$98,656	$105,566	-$6,910	-6.5%
Total Taxes	**$1,226,097**	**$1,222,457**	**$3,640**	**0.3%**
NONTAX REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$2,921	$4,410	-$1,489	-33.8%
Other Revenue	$7,444	$11,100	-$3,656	-32.9%
Nontax Receipts	$10,364	$15,510	-$5,146	-33.2%
TRANSFERS				
Liquor Transfers	$10,000	$9,000	$1,000	11.1%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$500	-$500	-100.0%
Total Transfers In	$10,000	$9,500	$500	5.3%
TOTAL REVENUE less Federal Grants	**$1,246,461**	**$1,247,467**	**-$1,006**	**-0.1%**
Federal Grants	$440,586	$433,545	$7,041	1.6%
TOTAL GRF REVENUE	**$1,687,048**	**$1,681,012**	**$6,036**	**0.4%**

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

Detail may not sum to total due to rounding.

Table 3
General Revenue Fund Revenue
Actual vs. Estimate
FY 2004 to Date as of February 2004
($ in thousands)

REVENUE SOURCE						
TAX REVENUE	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2003**	**Percent Change**
Auto Sales	$709,319	$712,827	-$3,508	-0.5%	$617,533	14.9%
Nonauto Sales & Use	$4,233,208	$4,243,500	-$10,292	-0.2%	$3,526,037	20.1%
Total Sales	$4,942,528	$4,956,327	-$13,799	-0.3%	$4,143,570	19.3%
Personal Income	$4,730,387	$4,796,226	-$65,839	-1.4%	$4,708,352	0.5%
Corporate Franchise	$295,691	$277,551	$18,140	6.5%	$237,062	24.7%
Public Utility	$133,456	$106,977	$26,479	24.8%	$126,756	5.3%
Kilowatt Hour Excise Tax	$228,459	$247,980	-$19,521	-7.9%	$231,781	-1.4%
Total Major Taxes	**$10,330,522**	**$10,385,061**	**-$54,539**	**-0.5%**	**$9,447,521**	**9.3%**
Foreign Insurance	$171,111	$180,066	-$8,955	-5.0%	$177,608	-3.7%
Domestic Insurance	$148	$200	-$52	-25.9%	$2,031	-92.7%
Business & Property	$1,410	$1,831	-$421	-23.0%	$1,194	18.1%
Cigarette	$334,662	$351,680	-$17,018	-4.8%	$380,107	-12.0%
Alcoholic Beverage	$37,260	$39,328	-$2,068	-5.3%	$37,645	-1.0%
Liquor Gallonage	$21,027	$20,364	$663	3.3%	$20,200	4.1%
Estate	$37,272	$52,500	-$15,228	-29.0%	$69,114	-46.1%
Total Other Taxes	$602,889	$645,969	-$43,080	-6.7%	$687,901	-12.4%
Total Taxes	**$10,933,411**	**$11,031,030**	**-$97,619**	**-0.9%**	**$10,135,422**	**7.9%**
NONTAX REVENUE						
Earnings on Investments	$14,768	$13,250	$1,518	11.5%	$14,760	0.1%
Licenses and Fees	$26,688	$30,381	-$3,693	-12.2%	$22,534	18.4%
Other Revenue	$110,163	$117,831	-$7,668	-6.5%	$140,476	-21.6%
Nontax Receipts	$151,619	$161,462	-$9,843	-6.1%	$177,769	-14.7%
TRANSFERS						
Liquor Transfers	$77,000	$69,000	$8,000	11.6%	$76,000	1.3%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$77,681	$66,462	$11,219	16.9%	$53,505	45.2%
Total Transfers In	$154,681	$135,462	$19,219	14.2%	$129,505	19.4%
TOTAL REVENUE less Federal Grants	**$11,239,711**	**$11,327,954**	**-$88,243**	**-0.8%**	**$10,442,696**	**7.6%**
Federal Grants	$3,723,779	$3,727,724	-$3,945	-0.1%	$3,163,358	17.7%
TOTAL GRF REVENUE	**$14,963,490**	**$15,055,678**	**-$92,188**	**-0.6%**	**$13,606,054**	**10.0%**

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

Detail may not sum to total due to rounding.

DISBURSEMENTS

— *Steve Mansfield**

In February, disbursements from the General Revenue Fund (GRF) (excluding transfers) were $26.6 million below the estimate for the month. February's negative variance between actual outlays and the estimate increased the overall negative disbursement variance for the year to date to $285.8 million. The year-to-date negative variance represents 1.8% of forecast outlays.

Part of this year-to-date negative variance will be employed to compensate for a shortfall in revenues anticipated by the Office of Budget and Management to be approximately $247 million. In early March, the Governor announced budget cuts for FY 2004, with about $150 million coming from agency negative variances and the remainder from cuts of about $100 million to most agency budgets for the remainder of the fiscal year. The Departments of Rehabilitation and Correction, Mental Health, and Mental Retardation and Developmental Disabilities will receive cuts at one-fourth the rate of other agencies. Basic aid to primary, secondary, and higher education programs, the student financial aid program in higher education, the Passport program in the Department of Aging, and certain job creation programs will be exempt from any cuts.

Three of the state's four major GRF program categories posted negative disbursement variances in February (see Figure 1), although these were relatively small variances. The Welfare and Human Services category increased its year-to-date negative disbursement variance by $5.1 million to $131.4 million; the Government Operations category increased the size of its negative year-to-date disbursement variance by $7.7 million to $75.0 million; the Education category's negative variance for the year-to-date estimate increased by $1.4 million to $61.2 million; and the Property Tax Relief category posted a small positive variance, reducing its year-to-date negative disbursement variance to $1.4 million. In order of magnitude, the three largest program subcategories contributing to the $285.8 million year-to-date negative disbursement variance for the state's four major GRF program categories are Health Care/Medicaid (-$64.4 million), Primary and Secondary Education (-$64.0 million), and Other Welfare

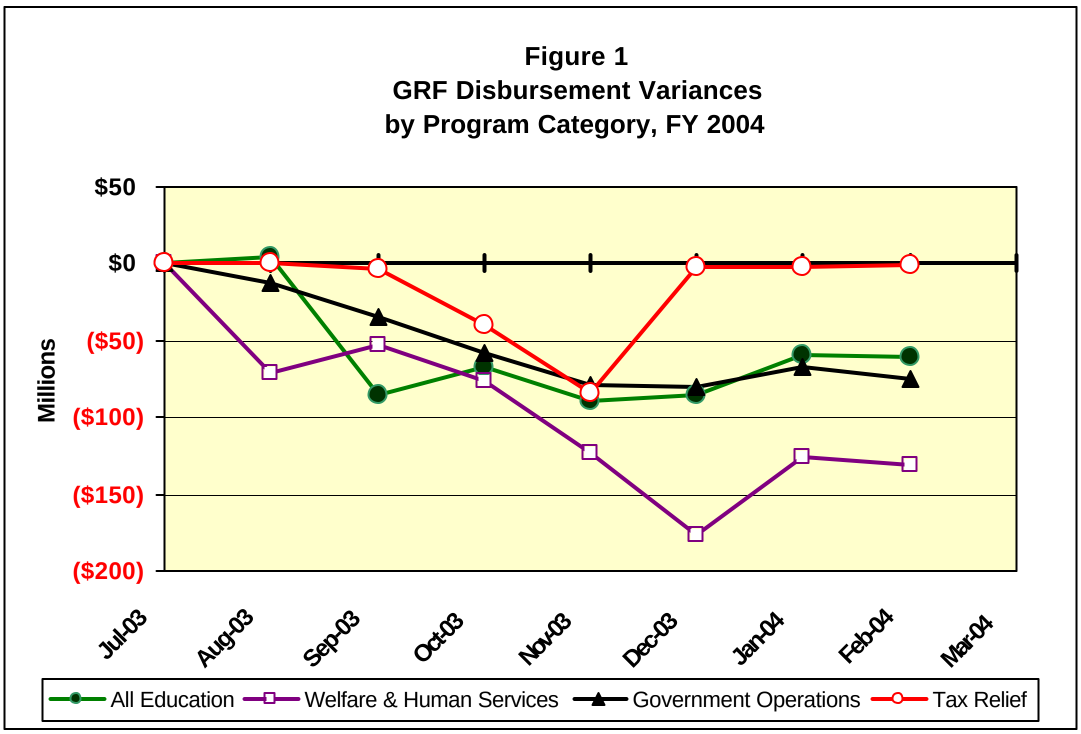

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of February 2004
($ in thousands)

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$588,138	$590,750	-$2,612	-0.4%
Higher Education	$208,965	$207,714	$1,250	0.6%
Total Education	$797,103	$798,464	-$1,362	-0.2%
Health Care/Medicaid	$702,020	$716,267	-$14,247	-2.0%
TANF	$47,972	$30,510	$17,462	57.2%
General/Disability Assistance	$1,799	$1,881	-$82	-4.4%
Other Welfare (2)	$25,831	$31,918	-$6,086	-19.1%
Human Services (3)	$71,132	$73,303	-$2,172	-3.0%
Total Welfare & Human Services	$848,753	$853,878	-$5,125	-0.6%
Justice & Corrections	$118,290	$121,143	-$2,853	-2.4%
Environment & Natural Resources	$6,163	$7,510	-$1,348	-17.9%
Transportation	$1,994	$1,478	$516	34.9%
Development	$6,992	$8,098	-$1,106	-13.7%
Other Government	$15,209	$17,716	-$2,507	-14.1%
Capital	$0	$412	-$412	-100.0%
Total Government Operations	$148,647	$156,358	-$7,711	-4.9%
Property Tax Relief (4)	$532	$0	$532	---
Debt Service	$9,513	$22,435	-$12,922	-57.6%
Total Program Payments	**$1,804,549**	**$1,831,135**	**-$26,587**	**-1.5%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$3,782	$3,225	$3,782	17.3%
Total Transfers Out	$3,782	$3,225	$557	17.3%
TOTAL GRF USES	**$1,808,331**	**$1,834,360**	**-$26,029**	**-1.4%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes the Department of Job and Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.
(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.
(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

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

Detail may not sum to total due to rounding.

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

USE OF FUNDS

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2003**	**Percent Change**
Primary & Secondary Education (1)	$4,330,466	$4,394,417	-$63,951	-1.5%	$4,322,002	0.2%
Higher Education	$1,619,821	$1,617,029	$2,792	0.2%	$1,670,855	-3.1%
Total Education	$5,950,287	$6,011,446	-$61,159	-1.0%	$5,992,857	-0.7%
Health Care/Medicaid	$5,938,905	$6,003,289	-$64,384	-1.1%	$5,410,447	9.8%
TANF	$311,506	$311,420	$87	0.0%	$337,719	-7.8%
General/Disability Assistance	$15,419	$16,822	-$1,403	-8.3%	$18,259	-15.6%
Other Welfare (2)	$332,978	$385,335	-$52,356	-13.6%	$350,683	-5.0%
Human Services (3)	$818,894	$832,248	-$13,354	-1.6%	$838,481	-2.3%
Total Welfare & Human Services	$7,417,702	$7,549,113	-$131,411	-1.7%	$6,955,590	6.6%
Justice & Corrections	$1,243,235	$1,291,012	-$47,778	-3.7%	$1,234,519	0.7%
Environment & Natural Resources	$79,859	$83,247	-$3,388	-4.1%	$91,435	-12.7%
Transportation	$22,267	$21,007	$1,260	6.0%	$26,000	-14.4%
Development	$95,513	$107,802	-$12,289	-11.4%	$132,247	-27.8%
Other Government	$251,691	$261,910	-$10,219	-3.9%	$261,302	-3.7%
Capital	$0	$2,564	-$2,564	-100.0%	$0	---
Total Government Operations	$1,692,565	$1,767,544	-$74,978	-4.2%	$1,745,503	-3.0%
Property Tax Relief (4)	$686,234	$687,600	-$1,366	-0.2%	$692,429	-0.9%
Debt Service	$253,459	$270,360	-$16,901	-6.3%	$219,089	15.7%
Total Program Payments	**$16,000,247**	**$16,286,063**	**-$285,815**	**-1.8%**	**$15,605,467**	**2.5%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$38,718	$22,975	$15,743	68.5%	$18,587	108.3%
Total Transfers Out	$38,718	$22,975	$15,743	68.5%	$18,587	108.3%
TOTAL GRF USES	**$16,038,966**	**$16,309,037**	**-$270,072**	**-1.7%**	**$15,624,054**	**2.7%**

(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.

(-$52.4 million). As can be seen in Table 5, all but three program subcategories 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.

Welfare/Human Services (-$131.4 million)

The Welfare/Human Services category posted a negative disbursement variance of $5.1 million in February. For the year to date, outlays in this category stand at $131.4 million below the estimate. Taken together, the Health Care/Medicaid and Other Welfare subcategories account for over three-quarters of the broader 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.

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

	February				Year-to-Date Spending			
Service Category	**Actual**	**Estimate**	**Variance**	**Percent Variance**	**Actual thru Feb.**	**Estimate thru Feb.**	**Variance**	**Percent Variance**
Nursing Facilities	$185,629	$180,990	$4,639	2.6%	$1,694,533	$1,649,416	$45,117	2.7%
Payments	$227,360	$223,255	$4,106	1.8%	$1,804,810	$1,761,086	$43,724	2.5%
NF Franchise Fees Offset[1]	($41,732)	($42,265)	$533	-1.3%	($110,276)	($111,670)	$1,394	-1.2%
ICF/MR	$36,483	$35,828	$656	1.8%	$281,791	$282,342	($552)	-0.2%
Payments	$38,204	$37,597	$607	1.6%	$295,364	$296,160	($796)	-0.3%
ICF/MR Franchise Fees Offset	($1,721)	($1,770)	$49	-2.8%	($13,573)	($13,817)	$244	-1.8%
Inpatient Hospitals	$106,777	$111,476	($4,699)	-4.2%	$837,312	$880,831	($43,519)	-4.9%
Outpatient Hospitals	$46,557	$46,490	$67	0.1%	$376,357	$380,399	($4,041)	-1.1%
Physicians	$47,058	$47,573	($515)	-1.1%	$366,708	$378,142	($11,434)	-3.0%
Prescription Drugs	$138,630	$139,497	($867)	-0.6%	$1,124,370	$1,127,305	($2,935)	-0.3%
HMO	$81,412	$76,509	$4,903	6.4%	$670,111	$650,554	$19,557	3.0%
Medicare Buy-In	$0	$13,903	($13,903)	-100.0%	$104,374	$104,930	($556)	-0.5%
ODJFS Waiver[2]	$15,415	$17,642	($2,227)	-12.6%	$124,142	$142,829	($18,686)	-13.1%
All Other[3]	$75,466	$75,440	$26	0.0%	$546,512	$590,998	($44,487)	-7.5%
CHIP II[4]	$5,748	$5,421	$327	6.0%	$46,824	$43,307	$3,518	8.1%
DA Medical[5]	$5,640	$7,477	($1,837)	-24.6%	$58,504	$65,056	($6,551)	-10.1%
Total ALI 600-525	$744,815	$758,245	($13,430)	-1.8%	$6,231,538	$6,296,108	($64,570)	-1.0%
DSH Offset	$0	$0	$0		$0	$0	$0	
Drug Rebates	($42,795)	($41,978)	($816)		($255,706)	($253,037)	($2,669)	
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 Offsets)	**$702,020**	**$716,267**	**($14,247)**	**-2.0%**	**$5,938,905**	**$6,003,289**	**($64,384)**	**-1.1%**
Est. Federal Share[6]	$412,056	$420,418	($8,362)		$3,485,882	$3,523,673	($37,791)	
Est. State Share	$289,964	$295,849	($5,884)		$2,453,023	$2,479,617	($26,593)	

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 madical 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.

Health Care/Medicaid. Year-to-date disbursements through February in the Health Care/Medicaid program (primarily line item 600-525) are $64.4 million, or 1.1% below the estimate (see Table 6). For the month of February, health care spending was $14.2 million, or 2.0% under the estimate. The Medicare Buy-In subcategory was under estimate for February by $13.9 million since the payment scheduled for February actually posted in late January. As we see in Table 6, large year-to-date negative disbursement variances have occurred in the Inpatient Hospitals and All Other service 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. The total number of Medicaid eligibles in February was 1,647,960. This was about 9,500 under the estimate for this point in the fiscal year, with most of the difference being in the number of Aged, Blind, and Disabled (ABD) eligibles. If this trend should continue, this would help hold down expenditures, especially since this is a high-cost category of Medicaid eligibles.

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 Feb. '04	FY 2003 Yr.-to-Date as of Feb. '03	Dollar Change	Percent Increase
Nursing Facilities	$1,694,533	$1,616,467	$78,066	4.8%
Payments	$1,804,810	$1,722,595	$82,215	4.8%
NF Franchise Fees Offset[1]	($110,276)	($106,128)	($4,149)	3.9%
ICF/MR	$281,791	$274,394	$7,397	2.7%
Payments	$295,364	$288,034	$7,330	2.5%
ICF/MR Franchise Fees Offset)	($13,573)	($13,640)	$67	-0.5%
Inpatient Hospitals	$837,312	$831,522	$5,790	0.7%
Outpatient Hospitals	$376,357	$353,480	$22,877	6.5%
Physicians	$366,708	$340,027	$26,680	7.8%
Prescription Drugs	$1,124,370	$997,767	$126,603	12.7%
HMO	$670,111	$462,447	$207,663	44.9%
Medicare Buy-In	$104,374	$96,265	$8,109	8.4%
ODJFS Waiver[2]	$124,142	$114,506	$9,636	8.4%
All Other[3]	$546,512	$495,243	$51,268	10.4%
CHIP II[4]	$46,824	$37,749	$9,076	24.0%
DA Medical[5]	$58,504	$61,343	($2,839)	-4.6%
Total Health Care	**$6,231,538**	**$5,681,211**	**$550,328**	**9.69%**
DSH Offset	$0	($89,037)	$89,037	
Drug Rebates	($255,706)	($182,822)	($72,884)	
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 Offsets)	**$5,938,905**	**$5,410,448**	**$528,457**	**9.77%**
Est. Federal Share[6]	$3,485,882	$3,175,700	$310,182	
Est. State Share	$2,453,023	$2,234,748	$218,276	

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 madical 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.

Partially offsetting these negative disbursement variances is the Nursing Facilities service category, which is over the year-to-date estimate by $45.1 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.

Job and Family Services. Through the end of February, disbursements for the Department of Job and Family Services' operating and subsidy programs stand at $52.4 million under the estimate for the year to date. In Tables 4 and 5, these disbursements are captured in the Other Welfare subcategory, 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 $22.2 million of the negative year-to-date disbursement variance. About $13.4 million of this variance can be traced to slower than anticipated billing and payments for computer projects, while the remainder stems from $8.9 million in prior-year appropriations for this item that have now lapsed. Another $12.3 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 February, GRF outlays in the Temporary Assistance for Needy Families (TANF) program were $17.5 million over estimate, eliminating the program's negative variance from previous months and moving the program just slightly to a positive variance. This positive disbursement variance can be traced to line item 600-410, TANF State, which is now over estimate for the year to date by $18.9 million and stems from payments to counties being made ahead of what was estimated. This year-to-date positive variance is almost completely offset by lower than anticipated expenditures in line item 600-413, Child Care Match/MOE (which we reported on in previous months).

Since January, the numbers of TANF recipients and assistance groups increased only marginally and are on a par with those of the same month last year.

Government Operations (-$75.0 million)

After posting a negative disbursement variance of $7.7 million in February, outlays in the Government Operations category stand at $75.0 million under the estimate for the year to date. The Department of Rehabilitation and Correction contributed $38.8 million of the year-to-date figure and will be discussed in more detail below. The Department of Youth Services' (DYS) disbursements were under estimate in February by $1.1 million to stand at $11.2 million below estimate for the year to date. The bulk of the DYS disbursement variance is traceable to changes in the pattern of disbursements to counties 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 negative variance from the estimate for February.

As we reported in previous months, the Department's year-to-date negative disbursement variance of $38.8 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 others, particularly corrections officer positions, 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 closure of Lima, so expenditures related to staff will likely begin to increase in the coming months. In addition, the Department has reported a nursing shortage, which has resulted in smaller than anticipated payrolls.

Education (-$61.2 million)

In February, the Education category posted a negative disbursement variance of $1.4 million, increasing the negative year-to-date variance to $61.2 million. The Department of Education accounted for $60.1 million of the category's year-to-date negative disbursement variance.

Department of Education. With a negative disbursement variance of $3.4 million in February, the Department of Education's disbursements for the year to date stand at $60.1 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.

Through February, the two largest contributors to the negative year-to-date disbursement variance in the Department were line item 200-426, Ohio Education Computer Network ($9.0 million under estimate), and line item 200-513, Student Intervention Services ($8.1 million under estimate). The remainder of the year-to-date negative variance is spread over several smaller items.

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.

Line item 200-513, Student Intervention Services, is distributed to school districts for providing such state-mandated services as extended day, extended year, after school, Saturday school, and summer school programs. This variance is largely a timing issue, since the time of disbursements depends on when districts complete the necessary paperwork.

Tax Relief (-$1.4 million)

The Property Tax Relief program, which carries an 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 for the program were $532,000 over the estimate for February. This reduced the negative disbursement variance in the program to $1.4 million for the year to date. Disbursement variances in the tax relief program are usually traceable to the timing of county auditor 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, Laura Potts, David Price, Joseph Rogers, and Maria Seaman.*