

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

MAY 2004

## FISCAL OVERVIEW

— Allan Lundell

Upbeat and encouraging economic news continued in April. Total U.S. nonfarm payroll employment increased by 288,000 in April and the March gain was revised up to 337,000. Employment has increased by 867,000 in 2004 and is up by 1.1 million since hitting a cyclical low in August 2003. The advance estimate of first-quarter real gross domestic product (GDP) growth came in at 4.2% and this estimate is likely to be revised upwards. GDP has been growing briskly since mid-2003 and the prospects are good for strong growth to continue. Although the national economy appears to be settled into an expansion mode, the concern over lack of employment growth has been replaced by concern over inflation and the effects of higher oil prices.

At first glance, April also had upbeat and encouraging news for state revenues. For April, total General Revenue Fund (GRF) revenue was \$193 million above the original estimate and \$290 million above the revised estimate. The monthly surpluses were almost completely due to the personal income tax. Revenue from the personal income tax was \$186 million above its original estimate and \$269 million above its revised estimate. This outstanding revenue performance for the personal income tax is thought to be due to the processing of a greater than expected number of returns in April. It is likely that income tax revenue for May will come in below estimate because fewer returns will be processed in that month. The accelerated processing distorts both the monthly and year-to-date revenue totals.

Through April, total GRF revenue is \$130 million (0.7%) above the original estimate. Total tax revenue is \$98 million (0.7%) above estimate and revenue from the major taxes is \$136 million (1.0%) above estimate. Revenue from the "other" taxes, mostly the cigarette tax and the estate tax, is \$38 million (4.6%) below estimate.<sup>1</sup> Compared to the revised estimates, total GRF revenue is \$332 million (1.7%) above estimate, state-source revenue is \$329 million (2.3%) above estimate, tax revenue is \$306 million (2.2%) above estimate, and revenue from the major taxes is \$305 million (2.3%) above estimate. Through the first ten months of FY 2004, total GRF revenue is up \$1,847 million (10.5%) compared to FY 2003. The revenue growth is almost entirely due to the increase in the state

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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 April	Fiscal Year 2004 to Date	Last Year	Difference
Beginning Cash Balance	-\$893.1	\$396.5		
Revenue + Transfers	<u>\$2,549.4</u>	<u>\$19,469.7</u>		
Available Resources	\$1,656.3	\$19,866.2		
Disbursements + Transfers	<u>\$1,779.4</u>	<u>\$19,989.4</u>		
Ending Cash Balances	-\$123.1	-\$123.1	-\$1,198.9	\$1,075.8
Encumbrances and Accts. Payable		\$322.3	\$447.0	-\$124.7
Unobligated Balance		<b>-\$445.4</b>	<b>-\$1,645.9</b>	<b>\$1,200.5</b>
BSF Balance		\$180.7	\$1,002.6	-\$821.9
<b>Combined GRF and BSF Balance</b>		<b>-\$264.7</b>	<b>-\$643.3</b>	<b>\$378.6</b>

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 from sources other than the sales tax is up \$245 million (2.9%) compared to FY 2003.

Fiscal year-to-date total GRF disbursements are \$242 million (1.2%) below estimate. Disbursements for primary and secondary education are \$25 million (0.5%) below estimate and disbursements for welfare and human services are \$131 million (1.4%) below estimate.

As shown in Table 1, the GRF began April with a negative cash balance of -\$893 million. Revenue, including transfers-in, for April was \$2,549 million. Disbursements, including transfers-out, were \$1,779 million. The monthly surplus of \$770 million brought the fiscal year-to-date cash balance to -\$123 million. Due to the timing of revenues and disbursements, the cash balance 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

-\$495 million, \$372 million lower than the actual level.

The fiscal year-to-date cash balance of -\$123 million is \$1,076 million higher (less negative) than a year ago. Year-to-date encumbrances of \$322 million combine with the cash balance to yield an unobligated balance of -\$445 million, which is \$1,201 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 has improved compared to a year ago. The \$181 million balance in the Budget Stabilization Fund (BSF) is \$822 million less than a year ago, so the combined GRF and BSF balance is \$379 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 appears to have improved from a year ago but remains far from robust. This comparison is also distorted by the April revenue bubble created by the accelerated processing of income tax returns.

<sup>1</sup> 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

Economic reports during the past month continue to show an economy in expansion mode. Total employment and factory output and orders nationwide rose in April. Business investment spending on equipment is rising vigorously. Retail sales fell in the latest month but this drop followed a large increase the month before. Residential building and purchases, at a high level, are likely to be restrained in the months ahead by increased borrowing costs. Commercial real estate remains soft in many parts of the country but is improving in some markets. Inflation-adjusted gross domestic product in the United States rose at a 4.2% annual rate in this year's first quarter and has been growing briskly since mid-2003, following slower recovery from the 2001 recession. Inflation has turned higher this year, though the latest month's consumer price report was tame. Upward pressures on prices are partly a result of economic expansion around the globe, notably in China, and partly a response to terrorist activities in the Middle East, which appear to have added to the rise in energy prices. Underutilized capital and labor resources in this country still seem ample, tending to limit the pass-through of higher producer costs to consumer prices. Nevertheless, a growing economy and increasing evidence of rising inflationary pressures are likely to encourage monetary policymakers to raise

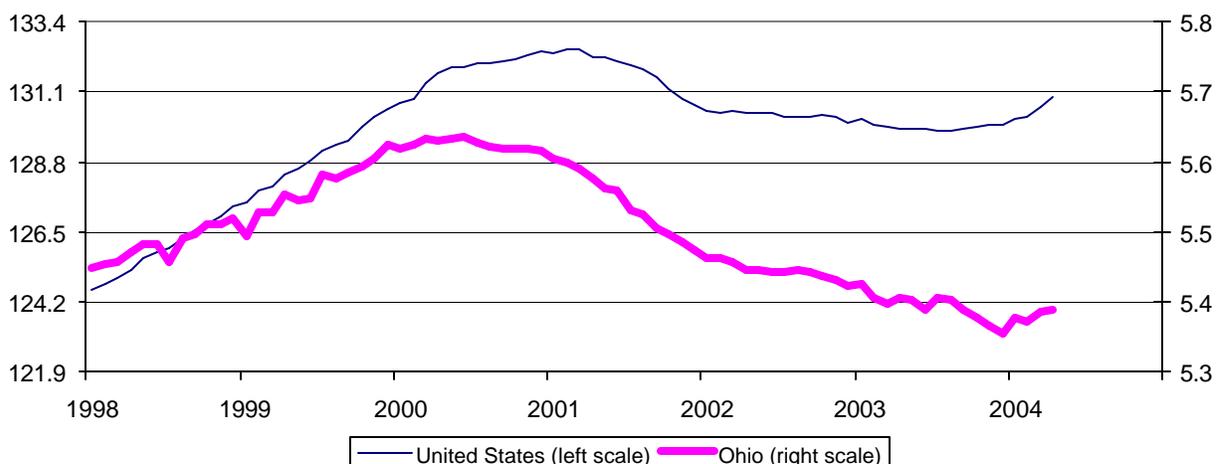
short-term interest rates, possibly as soon as next month.

## Growing Employment

Employment nationwide rose rapidly in April for the second consecutive month. Total nonfarm payrolls increased 288,000 last month following an upward revised 337,000 increase in March. Total payroll employment has risen 1.1 million (0.9%) since reaching a cyclical low in August 2003. Job gains this year have been widespread among industries, including manufacturing – which in the aggregate has been adding workers since January. Unemployment fell to 8.2 million or 5.6% of the labor force in April. The national unemployment rate has fluctuated between 5.6% and 5.7% since last December, down from the cyclical high of 6.3% reached in June 2003.

Ohio employment rose 4,300 in April. Several industry groups added employees, including manufacturing. Total employment in the state has risen 34,800 (0.6%) this year from a cyclical low in December 2003. Unemployment in Ohio rose from 5.7% of the labor force in March to 5.8% in April, down from the cyclical high of 6.3% reached last year but well above the low of 3.6% in 2001. The latest uptick in the unemployment

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



rate was attributed to a rise in the number of people looking for work. Trends in national and Ohio total nonfarm payroll employment are shown in Chart 1 on the previous page.

### ***Rising Production and Orders***

Industrial production rose 0.8% in April and manufacturing output increased 0.7%. Total factory output, as measured by the industrial production index, has not yet risen back to its peak in 2000, prior to the 2001 recession, but has recovered more than three-fourths of the decline, most of it in the past year. Production increases in recent months have been widespread among industries. Business equipment production has been growing at more than an 8% annual rate since mid-2003, with industrial equipment accounting for an increasing share of growth this year. Consumer goods output, both durables and nondurables, has been growing, as has production of construction supplies and of industrial materials.

Manufacturers' new orders have been rising strongly since mid-2003, as shown in Chart 2. Factory orders rose 4.3% in March. Increases were widespread among industries. Year-to-date manufacturers' orders are 10% higher than a year earlier, with orders higher by 22% at primary metals producers, 17% at machinery manufacturers, 14% for fabricated metal products, and 14% for computers and electronic products. Orders for nondefense capital goods, an aggregation often used as an indicator of business

capital spending, were 13% higher in the first three months of this year than a year earlier. All of these figures are based on current dollar measures and so include the effects of changes in prices as well as physical volumes.

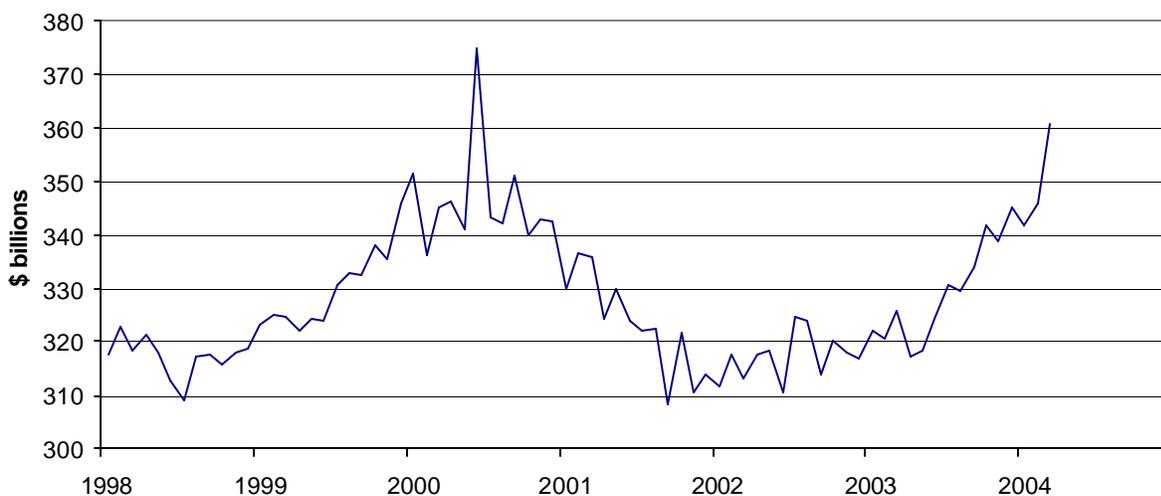
### ***Most Purchasing Managers Report Expansion***

Many purchasing managers at the nation's manufacturers saw continued expansion at their firms in April, according to the Institute for Supply Management's monthly report. Production and orders rose for the 12th consecutive month. Order backlogs increased and supplier deliveries slowed. Increases in prices paid were the most widespread since 1979, and ferrous and nonferrous metals and electronic components were in short supply. Factory as well as customer inventories continued to be reduced, however. Comments from those who submitted survey responses indicate that some companies in various industries have not benefited from the upturn. Purchasing executives in the nonmanufacturing sector reported widespread increases in business activity, orders, and other indicators of business conditions, along with rising prices and some shortages.

### ***Housing Slips in April, but Still at High Level***

Housing starts fell in April but remained at a high level. New privately owned housing units started in April were at a 1.97-million unit rate,

**Chart 2: Manufacturers' New Orders**  
Seasonally Adjusted



2% lower than in March but above the 1.85 million units started in all of 2003, the highest yearly total since 1978. Year-to-date starts through April were 15% above a year earlier. New home sales jumped 9% from February to March, and in the first three months of this year were 19% above a year earlier. Rising mortgage interest rates since March probably will increasingly restrain housing market activity in future months.

### ***Retail Sales Lower in April after Large Increase in March***

Retail sales fell 0.5% in April, mainly reflecting slower car sales, but were 8% higher than a year earlier. The sizable increase in total retail sales previously reported for March was revised upward to 2.0%. Sectors registering large gains in the past year include furniture and home furnishings stores, electronics and appliances, building materials, gasoline stations, clothing, general merchandise discounters, restaurants and bars, and electronic shopping and mail order. The figures are not adjusted for inflation, and the higher sales at gasoline stations probably are mainly due to increased gasoline prices. Sales at department stores remained soft.

### ***Ohio Personal Income Growth Trails That of Other States***

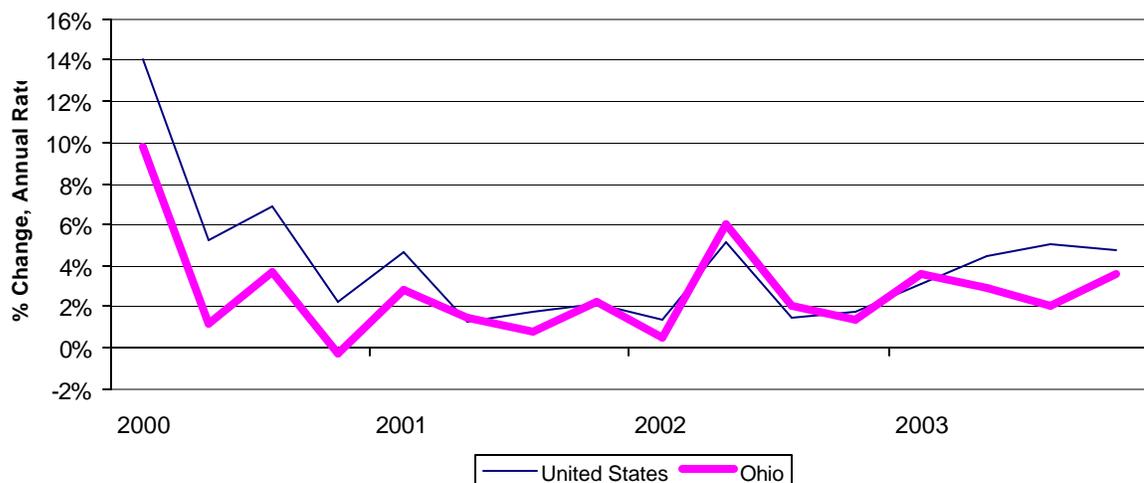
State personal income figures for the fourth quarter of 2003 were released by federal statisticians in late April, along with revisions for earlier quarters and years. Though available only

with a delay of several months, the personal income information provides, at the regional and state levels, a measure of activity across a broad segment of the economy. The personal income values are in current dollars and so include both changes in prices and in economic activity measured net of price changes. As shown in Chart 3, income growth nationwide picked up last year. Growth of personal income in Ohio, which had approximately kept pace with that of the nation from the second quarter of 2001 through the first quarter of 2003, fell short of growth elsewhere in the United States during the rest of last year. Ohio personal income growth in the year ending in the fourth quarter of 2003 was 3.0%, the slowest rise among the 50 states. Income growth nationwide during this period was 4.3%. Growth was strongest in the Plains states, the Southeast, and the Far West, though some states in these regions, notably West Virginia and Washington, fell well short of this above-average performance. The weakest regions were the Great Lakes states and New England.

### ***Economic Activity Growing in Ohio and the Nation***

The Federal Reserve's latest "Beige Book," summarizing information on economic developments from business and other contacts, reported rising economic activity across the country. Expansion was noted in various industries. However, vehicle sales were described as mixed, with excess inventories at some dealers. Also, commercial real estate construction

**Chart 3: Total Personal Income Growth  
Seasonally Adjusted**



remained slow in most metropolitan areas, though this sector was improving in New York and San Francisco. Modest increases were reported in prices paid by consumers and in wages, but input prices were up more substantially. Hiring has picked up in most parts of the country, with plans for additional hiring later in the year in some areas.

The “Beige Book” section from the Cleveland Federal Reserve District, which includes Ohio, also reported improving business conditions. Retailers noted increased sales, including sales at department stores, which previously had performed sluggishly. Some retailers saw less need for markdowns and promotions. Residential building remained at a high level, and commercial construction may be turning around in Cleveland and Pittsburgh after protracted weakness. Factory output was higher at a majority of firms contacted. Steel mills were operating near capacity. Trucking and shipping activity also was stronger, with some firms’ fleets running near capacity. Trucks are being replaced, partly in advance of scheduled tougher emission standards.

### ***Inflation Turns Higher, though Latest Consumer Price Report Stays Moderate***

Consumer prices rose only 0.2% in April, following larger increases in the first quarter, to 2.3% above a year earlier. In the first four months of 2004, the consumer price index rose at a 4.4% annual rate, up from 1.9% for all of 2003. The acceleration reflects sharply higher energy prices, particularly petroleum-based energy, partly offset by slower food price increases. Excluding energy and food, other consumer prices rose more rapidly than last year, at an annual rate of 3.0% in the first four months of 2004, up from a 1.1% increase in all of 2003.

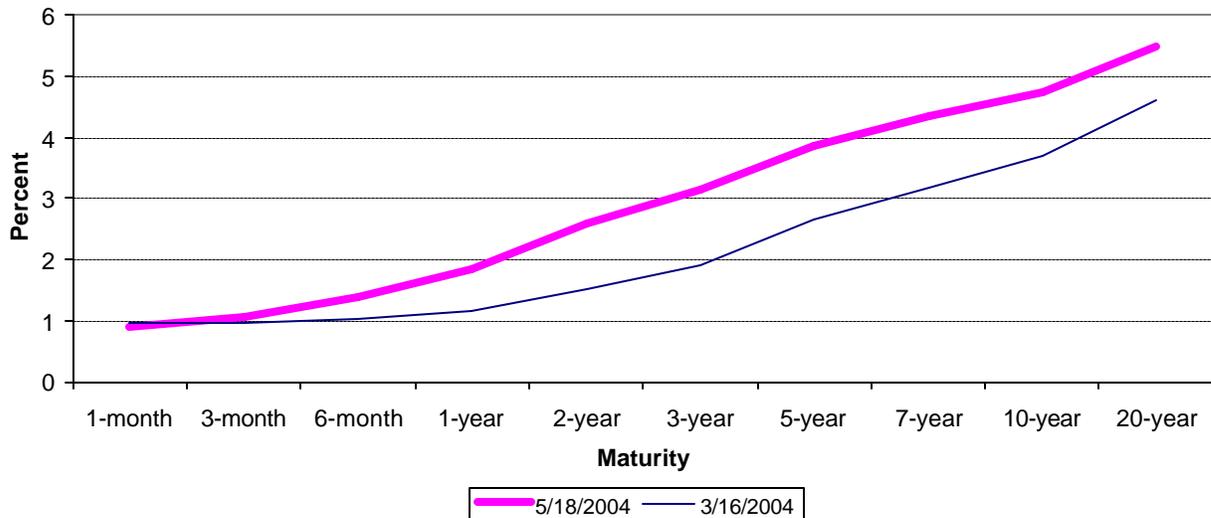
Producer prices jumped in March and April, primarily because of sharply higher energy and food prices. The producer price index for finished goods rose 0.5% in March and 0.7% in April, to 3.7% above a year earlier. Gasoline in April was 25% more expensive than a year earlier, and prices have continued to surge in May. Meat and dairy prices in April were up from year-earlier levels at double-digit rates. At earlier stages of production, prices have trended upward rapidly in the first four months of this year. Products and materials with price increases in excess of 10% in the past year include crude oil, petroleum products, meat animals, grains, lumber and some building materials, ferrous and nonferrous metals, metal products, and scrap metal.

### ***Labor Compensation Pushed Higher by Rising Benefit Costs***

The United States Bureau of Labor Statistics (BLS) reports quarterly on a survey of employment costs for civilian workers in private industry and with state and local governments. In the three months ending in March, total compensation of civilian workers rose 1.1% (4.6% at an annual rate), to 3.8% higher than a year earlier. Total compensation consists of wages and salaries plus benefits. Wages and salaries in the latest three months increased 0.6%, to 2.5% above March 2003. In contrast, benefit costs rose sharply by 2.4% in the latest three months, to 6.9% above a year earlier. The BLS report indicated that higher expenses for defined benefit retirement plans represented nearly half of the rise in private sector benefit costs in the latest three months. For state and local governments, more than half of the benefit rise from December to March resulted from increased employer costs for health insurance.

<b>Nonfarm Business</b>						
<b>% Change, Seasonally Adjusted Annual Rates</b>						
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>1Q - 2004</b>
Compensation per hour	4.7	7.0	3.9	2.3	3.4	4.0
Output per hour	2.8	2.8	2.1	5.0	4.4	3.5
Total output	5.2	3.8	0.1	2.3	3.7	4.9
Hours of all persons	2.3	1.0	-2.0	-2.6	-0.7	1.3
Unit labor costs	1.8	4.2	1.7	-2.5	-1.0	0.5

Chart 4: U. S. Treasury Yield Curve



With the upturn in United States labor markets since mid-2003 and rapid increases in employee benefit costs, the period appears to be drawing to an end when inflationary pressures were held down in part because businesses were able to increase output while employing fewer workers and in part because compensation gains were relatively modest. In the 2004 first quarter, output per hour of all persons in the nonfarm business sector rose at a 3.5% annual rate, a rapid rate of increase historically, but down from 4.4% for all of 2003 and 5.0% in 2002. Compensation per hour for nonfarm business rose at a 4.0% annual rate in the first quarter, up from 3.4% in 2003 and 2.3% in 2002. Consequently, labor costs to produce a unit of output rose at a 0.5% annual rate in the first quarter, after falling in 2003 and 2002. These trends, based on the latest BLS report on productivity and costs, are detailed in the accompanying table.

### ***Higher Interest Rates***

As evidence of stronger economic expansion has accumulated, financial market participants increasingly have anticipated firming of monetary policy by the Federal Reserve's Open Market

Committee (FOMC). Over time, an expanding economy also will bring heavier private sector borrowing demands, which will tend to push interest rates higher. Bond and note yields jumped in early May following the report of a large increase in payroll employment in April. Financial markets responded similarly in April to robust economic reports for March. In mid-May, some flight-to-safety buying in response to turmoil abroad pushed Treasury yields back down. On balance, since mid-March lows, U.S. Treasury yields on notes and bonds with maturities from 2 to 20 years have risen by 0.9 to 1.2 percentage points, as shown in Chart 4. Corporate borrowing costs on notes and bonds and interest rates on fixed-rate mortgages have also risen. Following its meeting on May 4, the FOMC announced that it would keep its federal funds rate target at 1%, a 42-year low. But the statement in the Committee's press release that the FOMC "can be patient" in shifting to a less accommodating monetary policy was eliminated. The central bank instead referred to a likely "measured" pace of tightening. Higher short-term interest rates, perhaps as soon as next month, are widely expected. This should not have much upward effect on long-term rates.

# Status of the General Revenue Fund

## REVENUE

— Allan Lundell and Jean Botomogno

At first glance, April appears to have been a great month for revenues. However, a closer look reveals that it was most likely just a good month. April total GRF revenue of \$2,549.4 million was \$193.4 million (8.2%) above original estimate and GRF revenue less federal grants (state-source revenue) was \$123.7 million (6.4%) above estimate. Revenue from federal grants was \$69.7 million (16.2%) above estimate in April. Total tax revenue was \$109.2 million (5.7%) above estimate and revenue from the major taxes was \$127.4 million (7.0%) above estimate.<sup>1</sup> Personal income tax revenue was above estimate by \$185.6 million (18.6%). This excess is thought to be mostly due to an accelerated processing of returns and may be short-lived, as revenue is now expected to fall below estimate in May. If the personal income tax and federal grants are not counted, state-source revenue from sources other than the income tax was \$61.9 million (6.7%) below estimate in April. This shortage was due to the corporate franchise tax (\$48.7 million below estimate) and the estate tax (\$17.5 million below estimate). The shortfall in April corporate franchise tax revenue was a “correction” of the March surplus, which occurred as returns filed in March were processed earlier than expected.

The April surge in revenue pushed year-to-date revenue above the original estimate for the first time this fiscal year. Total GRF revenue is \$130.1 million (0.7%) above estimate through the first ten months of this fiscal year. State-source revenue is \$130.4 million (0.9%) above estimate, and total tax revenue is \$97.6 million (0.7%) above 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, is \$136.0 million (1.0%) above the original estimate. State-source revenue from sources

other than the personal income tax is \$5.1 million (0.06%) above original estimate.

*Compared to the revised estimates*, total GRF revenue was \$289.5 million (12.8%) above estimate in April and state-source revenue was \$219.8 million (12.0%) above estimate. Total tax revenue was \$205.9 million (11.4%) above estimate and revenue from the major taxes was \$212.9 million (12.2%) above estimate. Personal income tax revenue exceeded its revised estimate by \$268.6 million (29.3%). State-source revenue from sources other than the income tax was \$48.8 million (5.3%) below estimate. Corporate franchise tax revenue was \$48.6 million below its revised estimate. Compared to the revised estimates, year-to-date total GRF revenue is \$332.3 million (1.7%) above estimate and state-source revenue is \$328.6 million (2.3%) above estimate. Total tax revenue is \$306.3 million (2.2%) above estimate and revenue from the major taxes is \$305.2 million (2.3%) above estimate. State-source revenue from sources other than the personal income tax is \$37.4 million (0.4%) above the revised estimate.

Through April, GRF revenue is up 10.5% compared to FY 2003. State-source revenue is up 8.8% and revenue from federal grants is up 16.3%, partly due to one-time revenue. Total tax revenue is up 9.3% and revenue from the major taxes is up 10.5%. Total GRF revenue is up \$1,847.3 million compared to FY 2003, but if the sales tax receipts (up \$950.6 million) and federal grants (up \$651.9 million) are not counted, state-source revenue from sources other than the sales tax is up just \$244.8 million (2.9%). Compared to FY 2003, revenue from the cigarette tax is down by \$47.0 million (9.9%) and revenue from the estate tax is down \$43.0 million (49.5%). Revenue from the personal income tax is up

\$271.3 million (4.5%) compared to FY 2003, and revenue from the corporate franchise tax is up \$66.7 million (12.6%). Chart 1 compares FY 2004 revenues with FY 2003 revenues and FY 2004 estimates, original and revised.

### Personal Income Tax

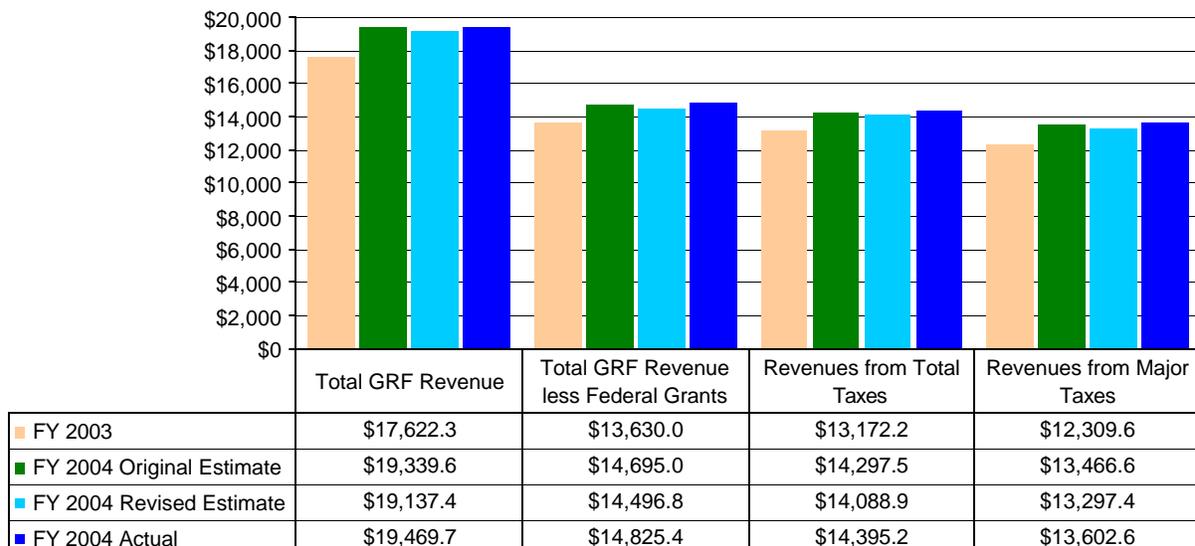
In April, revenue from the personal income tax rose above estimate for the second straight month. The GRF received \$1,185.2 million in revenue from the personal income tax. This amount was \$185.6 million (18.6%) above original estimate. Payments made by individuals filing their annual returns were \$119.2 million (53.0%) above estimate and payments made by individuals requesting a filing extension were \$38.5 million (12.2%) above estimate. These positive variances in the components related to the filing of annual returns may be due to an accelerated processing of returns and an unexpected increase in the number of returns filed electronically. The positive variances may be short-lived as revenue falls below estimate in May because returns originally expected to be processed in May were processed in April. The \$620.0 million in revenue collected through withholding was \$5.0 million (0.8%) above estimate. Quarterly estimated payments of \$174.8 million were \$10.8 million (6.6%) above estimate.<sup>2</sup> Revenue from the tax on trusts exceeded original estimate by

\$10.1 million (67.6%). Refunds totaled \$236.5 million in April. This total was \$0.5 million (0.2%) below estimate.

Through April, GRF revenue from the personal income tax totaled \$6,336.8 million. The total is \$125.3 million (2.0%) above estimate. Withholding is \$1.7 million (0.03%) above estimate. Quarterly estimated payments are \$16.6 million (1.7%) below estimate, revenue from the tax on trusts is \$8.4 million (19.6%) above estimate, and refunds are \$34.8 million (3.8%) above estimate.

Revenue from the personal income tax was \$268.8 million (29.3%) above the revised estimate for April. Reflecting faster processing, payments made by individuals filing their annual returns were \$148.0 million (75.5%) above revised estimate and payments made by taxpayers requesting a filing extension were \$75.6 million (27.3%) above estimate. Withholding was \$8.0 million (1.3%) above estimate, quarterly estimated payments were \$18.1 million (11.5%) above estimate, and refunds were \$8.3 million (3.4%) below estimate. For the fiscal year to date, revenue from the personal income tax is \$291.2 million (4.8%) above the revised estimate. Withholding is \$18.3 million (0.3%) above estimate, quarterly estimated payments are \$20.9 million (2.2%)

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



above estimate, and revenue from the tax on trusts is \$10.8 million (26.8%) above estimate. Year-to-date refunds are \$10.4 million (1.1%) below the revised estimate.

Income tax revenue continues to show just slight growth compared to a year ago. For the fiscal year through April, GRF revenue from the personal income tax is up by 4.5%, but this growth rate is boosted by the accelerated processing of returns. Fiscal year-to-date withholding is up by 3.4% compared to FY 2003. In a month-by-month comparison of year-to-date withholding to last year, withholding was up by 2.2% through January, 2.4% through February, 3.2% through March, and 3.4% through April. Withholding reflects the condition of Ohio's labor market, and the monthly acceleration in withholding growth provides some indication that Ohio's labor market may be improving. Quarterly estimated payments are down by 5.7% compared to FY 2003 and revenue from the tax on trusts is down 8.0%.

**Sales and Use Tax**

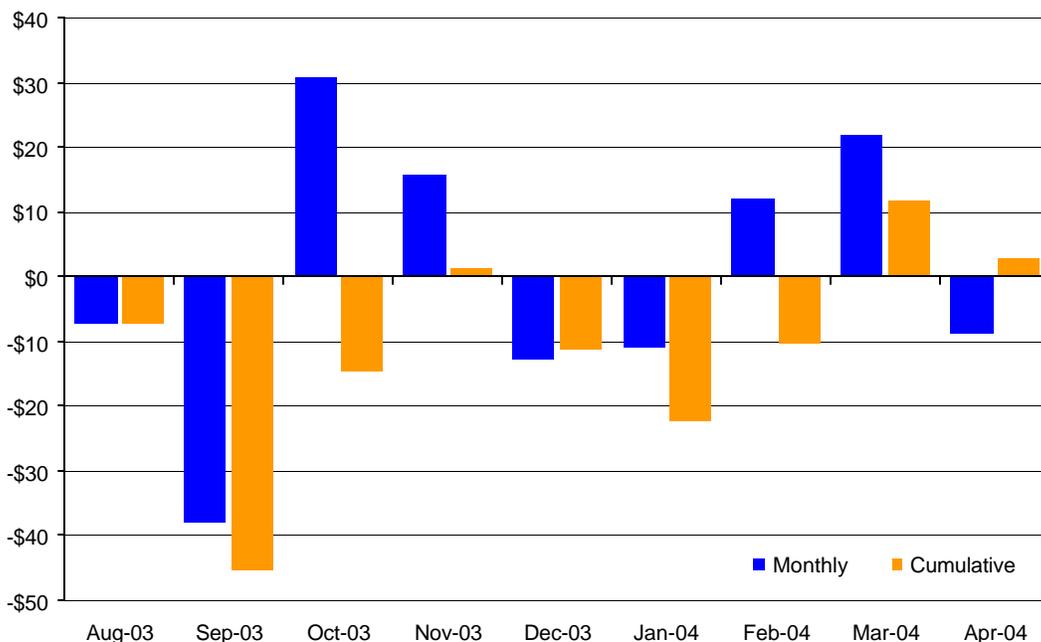
In April 2004, revenues from the sales and use tax were below estimates. Total sales and use tax revenues in the month were \$691.8 million, \$6.6 million (0.9%) below projected revenues.

Nonauto sales and use tax receipts were \$8.8 million (1.5%) below estimates while receipts from the auto sales and use tax were \$2.2 million (2.0%) better than estimates. Total sales and use tax receipts in April 2004 were \$64.7 million (8.6%) below April 2003 sales and use tax revenues. As of April 2004, year-to-date total sales and use tax revenues were \$6,239.0 million, \$8.8 million (0.1%) above July 2003 estimates. Compared to revised estimates of March 2004, year-to-date sales and use tax receipts in April 2004 were higher by \$7.5 million or 0.1%. With two months remaining in the fiscal year, this tax source is tracking estimates. Sales and use tax receipts were \$950.7 million (18.0%) higher than year-to-date tax receipts in April 2003. The increase in sales and use tax revenue is primarily due to a 20% increase in tax rates as the tax increased from 5% to 6% of the purchase price in July 2003.

**Nonauto Sales and Use Tax**

The nonauto sales and use tax in April 2004 was again below estimates, following two months in which this tax source was above projected revenues, thus repeating a pattern established since August 2003. In February and March 2004, this tax source was \$12.1 million (2.7%), and

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



\$22.0 million (4.6%) above estimates, respectively. In April 2004, nonauto sales and use tax revenues were \$575.7 million, \$8.9 million (1.5%) below projected revenues. Tax receipts partly reflect taxable retail sales activity in the prior month and also taxable retail sales during that month. Compared to nonauto sales tax revenues a year ago, tax receipts for the month were \$80.6 million (12.3%) below revenues in April 2003, despite the tax rate increase from 5% to 6% this fiscal year. After adjusting for the rate increase, the drop in tax receipts in April 2004 is larger. At the 5% sales tax rate, April 2004 nonauto sales and use tax receipts would have been about \$176.5 million or 26.8% lower than April 2003 tax receipts. The revenue speed-up of H.B. 40 on nonauto tax collections explains the drop in monthly sales tax revenues in April 2004 compared to year-ago receipts in the same month.

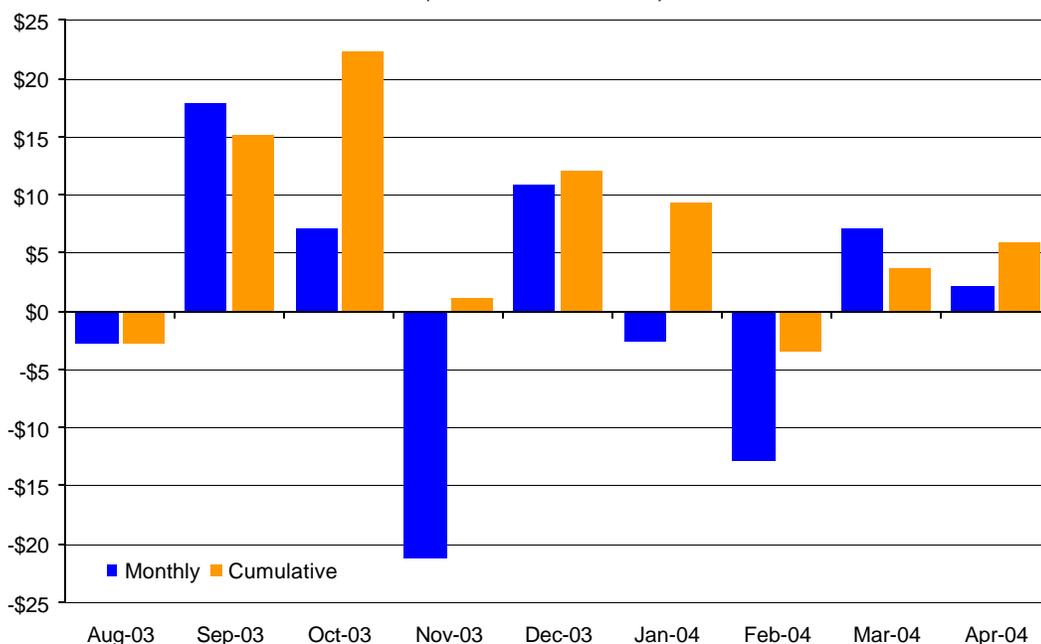
In the last quarter of FY 2003, H.B. 40 (effective March 7, 2003) accelerated sales tax receipts from taxpayers that pay by electronic funds transfer (EFT), increasing revenues during that quarter between \$230 million and \$250 million, with the first accelerated payment occurring in April 2003. Approximately 9,000 vendors are required by law to remit sales tax

receipts electronically every month because their sales tax liabilities exceed a certain annual threshold. These EFT vendors represent approximately 10% of monthly taxpayers,<sup>3</sup> but they generate up to 75% of nonauto sales tax revenues. H.B. 40 required direct-pay permit holders, vendors, and sellers that remit sales and use tax receipts by electronic funds transfer to make tax payments more often, twice or thrice a month for taxes collected in the previous weeks. Under previous law, most taxpayers made their sales tax payments once, on or before the twenty-third day of each month for taxes due the previous month. The Tax Department estimated last year that H.B. 40 would raise April 2003 tax receipts by about \$179 million.<sup>4</sup>

The impact of the change in the pattern of remittance of tax receipts in the monthly comparison of revenues with prior-year nonauto sales tax receipts will wane in the next two months. The impact of the increase in revenues from the tax rate increase and the base expansion, however, will remain.

As of April 2004, year-to-date nonauto sales and use tax receipts were \$5,305.1 million, \$2.8 million (0.1%) above July 2003 estimates. Compared to revised estimates, year-to-date

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



nonauto sales and use tax receipts were \$13.2 million (0.3%) above projected revenues. Compared to receipts a year ago, year-to-date nonauto sales tax receipts as of April 2004 increased \$799.3 million (17.7%).

The growth in nationwide retail and food services sales (excluding autos) had been positive until the trend reversed in April 2004. Growth in retail sales (excluding autos) averaged 1.1% in the first quarter of CY 2004. In April 2004, nationwide retail sales (excluding autos) declined 0.1%. Compared to retail sales in the same month a year ago, April retail sales (ex autos) were up 9.5%. In CY 2004, nationwide retail sales (ex autos) as of April 2004 grew 9.9% when compared to the similar period in CY 2003. The International Council of Shopping Centers (ICSC) computes another measure of health of the retail sector from data from approximately 72 retailers. The index of chain-store sales<sup>5</sup> grew 4.4% in April 2004 from the same month last year, below the average growth rate of 6.6% achieved in the first quarter of CY 2004. Most analysts believe that an “early” Easter holiday boosted sales in March 2004 and depressed sales the following month. Also, a rise in gasoline and food prices in April 2004 may have negatively affected certain shoppers at department stores and discount and clothing stores, although sales at high-end retailers such as Neiman Marcus and Nordstrom grew 10% to 15%.

### **Auto Sales Tax**

Auto sales and use tax receipts were \$116.1 million in April 2004, \$2.3 million (7.1%) above July 2003 estimates. 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. Due to the more frequent remittance of this tax, the impact of H.B. 40 on the auto sales and use tax was minimal.

Compared to revenues a year ago in the same month, auto sales tax receipts in April 2004 were \$15.8 million (15.8%) higher than receipts in FY 2003. At the 5% sales tax rate, April 2004

auto sales tax revenue would have been about \$96.7 million, \$3.5 million (3.5%) less than April 2003 receipts. As of April 2004, year-to-date auto sales tax receipts were \$934 million, \$6.0 million (0.6%) above July 2003 estimates. Year-to-date auto sales and use tax receipts were \$5.7 million (0.6%) lower than revised estimates of March 2004. These receipts were also \$151.4 million (19.3%) higher than receipts through the same period in FY 2003. Adjusted for the tax rate increase, year-to-date auto sales and use tax revenues in April 2004 would have been \$778.3 million, \$4.3 million (0.6%) less than April 2003 receipts. Auto sales and use tax receipts in the first two months in CY 2004 were below receipts in the same period last year (even with the rate increase from 5% to 6%). March and April 2004 auto sales and use tax revenues were above FY 2003 tax receipts.

Nationwide auto sales, both in number of vehicles sold and dollar sales, decreased in April 2004. The U.S. Department of Commerce reported that sales at motor vehicle dealers declined 1.8% in April 2004, after increases of 2.2% in March 2004 and 2.8% in February 2004. Unit sales of autos and light trucks were 16.4 million on an annualized basis, a decrease of 0.3 million from March 2004 sales. Compared to March 2004, light-truck sales in April 2004 increased to 9.0 million units, up from 8.9 million units in the previous month. Conversely, car sales fell to 7.4 million units, down from 7.7 million units in March 2004. Unit sales were up 0.8% and dollar sales were up 3.3% in April 2004 from April 2003 sales.

The decrease in overall light-vehicle sales might be linked to a temporary pullback of incentives by automakers, after several months of increases. For example, spending by the Big Three (General Motors, Ford, and Chrysler) on rebates and no-interest loans declined \$72 or 1.8% per vehicle in April 2004 to \$3,961 per vehicle, according to Auto Data Corporation, an auto research firm. Sales dropped, and the inventory of unsold vehicles increased. This month, automakers are increasing cashback and financing deals on a wide range of models, hoping to slash inventories and increase sales. For instance, General Motors

started for the first time an interest-free loan program on its Hummer H2 trucks, which fell 16% in sales last month. As interest rates are set to increase in the near future, "0% financing" will become more costly to manufacturers, which hope that with an improving economy, they may decrease their reliance on such strategy to increase sales.

So far in CY 2004, about 3.1% more vehicles have been sold nationwide than in the first four months of CY 2003. The increase in unit sales is concentrated in the light-truck sector, where sales have soared 7.8%. Conversely, sales of cars have decreased 2.2% during the same period.

#### ***Estimated Taxable Sales in FY 2004***

The table above shows year-to-date estimated taxable sales as of April 2004 and a comparison with taxable sales in the same period in FY 2003. The sales and use tax rate was increased to 6% on July 1, 2003, up from 5%. Taxable sales were obtained by dividing sales and use tax receipts by the corresponding tax rate. The table illustrates, based on actual tax receipts, an estimate of the growth in the sales and use tax base on which sales tax is collected with two months remaining in the fiscal year. It shows the underlying sales and use tax taxable base so far in FY 2004 shrank 1.7% compared to taxable sales in the July-April period in FY 2003. Nonauto taxable sales and auto taxable sales declined 1.9% and 0.5%, respectively. Information in the table must be used with caution because it ignores the full effect of H.B. 40 on tax collections and the estimated taxable base. Also, it does not take into account the probable acceleration of purchases of big-ticket items (e.g., cars, furniture, appliances, etc.) in June 2003 ahead of the rate increase that occurred in July 1, 2003, which affected revenues at the start of FY 2004. This effect was most likely larger for the auto sales tax than for the nonauto sales tax. Based on research from the Department of Taxation, between \$20 and \$40 million in potential FY 2004 auto tax

<b>Sales and Use Tax Collections, July - April 2004 (\$ in millions)</b>			
	<b>Auto Sales Tax</b>	<b>Nonauto Sales Tax</b>	<b>Total</b>
FY 2003	\$782.6	\$4,505.8	\$5,288.4
FY 2004	\$934.0	\$5,305.1	\$6,239.1
<b>Growth</b>	<b>19.3%</b>	<b>17.7%</b>	<b>18.0%</b>
<b>Estimated Taxable Sales Based on Tax Collections (\$ in millions)</b>			
	<b>Auto Sales Tax</b>	<b>Nonauto Sales Tax</b>	<b>Total</b>
FY 2003	\$15,652.3	\$90,115.9	\$105,768.2
FY 2004	\$15,566.7	\$88,418.3	\$103,985.0
<b>Growth</b>	<b>-0.5%</b>	<b>-1.9%</b>	<b>-1.7%</b>

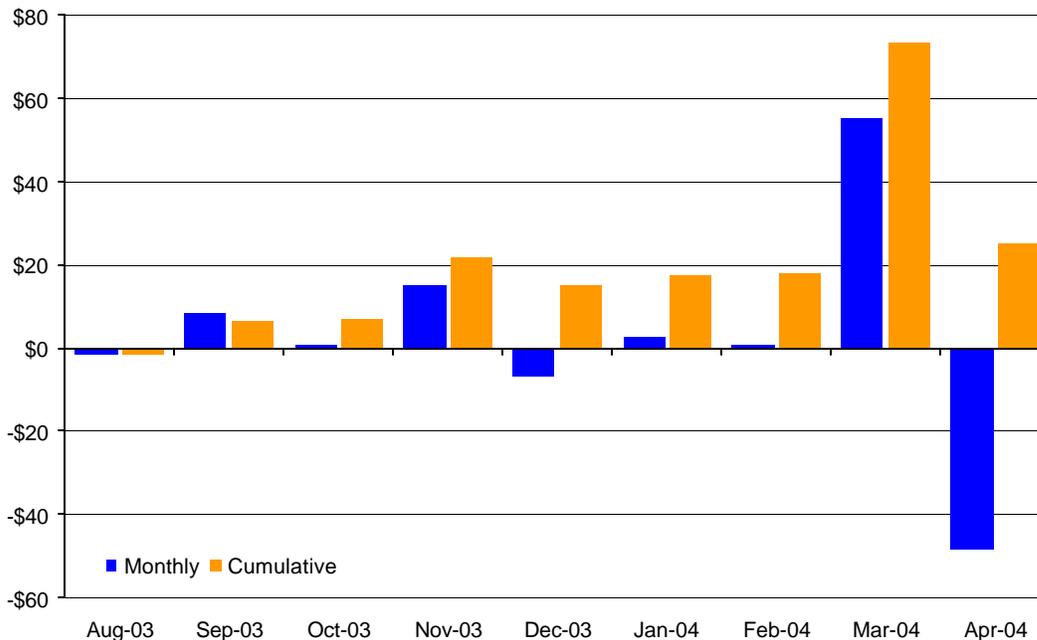
revenues were transferred due to the shifting of purchases of automobiles into FY 2003. Subtracting the effect of the shift in purchases of autos noted above, growth in auto taxable sales might be flat this fiscal year. The table also shows that the nonauto taxable base may have declined 1.9% as of April 2004, despite the sales tax base expansion in H.B. 95. Although the combination of tough economic conditions and the sales tax rate increase have restrained the growth of nonauto taxable sales, the magnitude of any actual decrease in taxable sales from FY 2003 levels is uncertain.

Two major forecasting firms, Economy.com and Global Insights, forecast a turnaround in employment in Ohio in CY 2004. In their latest releases (April 2004), both firms peg the second quarter in CY 2004 as the nadir in Ohio's employment growth, with a probable acceleration in Ohio personal income growth in the quarters to come. However, these two potentially favorable developments will not prevent a third straight year of subpar performance by the nonauto sales tax.

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

Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year. Corporate franchise tax payments are due January 31, March 31, and May 31. By May 31 of each year, a corporation must pay the difference between its full tax liability and the first two estimated payments that were due in January and March 31. April receipts are considered part of the second major payment for the March-April payment period.

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



Corporate franchise tax receipts in April 2004 were \$46.4 million, \$48.7 million (51.2%) below estimates. These receipts were \$21.7 million (31.8%) below April 2003 receipts. Looking at the two-month period of March and April 2004, combined receipts were \$300.2 million, \$6.8 million (2.3%) above combined estimates for the two months. Those combined receipts were also \$8.1 million (2.8%) above receipts in March and April of FY 2003.

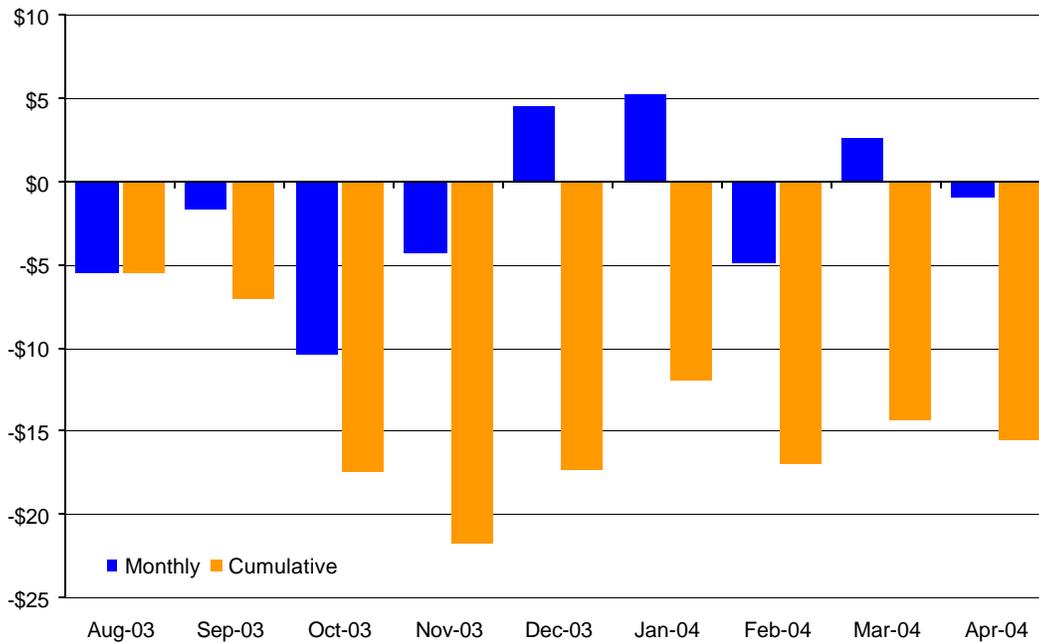
As of April 2004, year-to-date franchise tax revenues were \$595.9 million, \$25.0 (4.4%) million above July 2003 estimates<sup>6</sup> (In February 2004, at the end of the January-February payment period, year-to-date receipts were 6.5% above estimates.) Year-to-date franchise tax revenues were also \$41.8 million (12.6%) above FY 2003 revenues. Although monthly corporate franchise tax receipts are volatile, corporate franchise tax revenues will probably finish the year ahead of FY 2003 receipts. The Office of Budget and Management (OBM) increased the full-year GRF estimate for this tax source to \$810 million in FY 2004, up from \$793 million. Assuming this occurs, FY 2004 franchise tax revenue would be 8% above FY 2003 franchise tax revenues.

### ***Cigarette and Other Tobacco Products Tax***

Cigarette and other tobacco products tax receipts were below estimates in April 2004. At \$44.8 million, receipts from this tax source in April 2004 were \$1.1 million (2.4%) below both July 2003 and March 2004 estimates. Compared to year-ago receipts, monthly revenues in April 2004 were \$3.6 million (7.4%) lower than April 2003 receipts. If revenues from the floor tax<sup>7</sup> in April 2003 (\$2.9 million) were subtracted from April 2003 revenues, April 2004 cigarette and other tobacco products tax revenues would be \$0.6 million (1.3%) lower than tax revenues a year ago.

As of April 2004, year-to-date cigarette and other tobacco products receipts were \$426.8 million, \$15.5 million (3.5%) below July 2003 estimates. (Year-to-date tax receipts were 1.0% below revised estimates.) Year-to-date revenues from this tax source were also \$47.0 million (9.9%) below revenues a year ago. From July 2002 through April 2003, the floor tax provided \$41.9 million, and total cigarette and other tobacco products tax revenues were \$473.8 million. Excluding amounts provided by the floor tax, year-to-date FY 2004 revenues as of April 2004 would have been \$5.1 million

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



(1.2%) below receipts in the same period in FY 2003. A year-over-year decrease in cigarette tax receipts of this magnitude would be within historical trend decreases in estimated cigarette consumption of 1% to 2% per year. During May,

taxpayers who have received stamps on credit must make the required payments when filing their monthly returns. It is expected that a good portion of the current variance from estimate for this tax source will decrease.

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> There were about 87,000 vendors remitting sales tax receipts each month and about 122,000 remitting every six months (because their liabilities were less than \$1,200 each in the six-month period).

<sup>4</sup> This amount is within a few million dollars of \$176.5 million, the amount of the drop in nonauto sales and use tax receipts in April 2004 when the tax receipts are adjusted for the rate increase.

<sup>5</sup> Stores of major discounters, department stores, and specialty retailers open at least a year.

<sup>6</sup> Corporate franchise tax receipts were 1.2% above March 2004 revised estimates.

<sup>7</sup> 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 April 2004**  
(\$ in thousands)

<b>REVENUE SOURCE</b>				
<b>TAX REVENUE</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Auto Sales	\$116,099	\$113,830	\$2,269	2.0%
Nonauto Sales & Use	\$575,719	\$584,586	-\$8,867	-1.5%
Total Sales	\$691,818	\$698,416	-\$6,598	-0.9%
Personal Income	\$1,185,216	\$999,637	\$185,579	18.6%
Corporate Franchise	\$46,436	\$95,160	-\$48,724	-51.2%
Public Utility	\$529	\$0	\$529	---
Kilowatt Hour Excise Tax	\$28,284	\$31,697	-\$3,413	-10.8%
<b>Total Major Taxes</b>	<b>\$1,952,283</b>	<b>\$1,824,910</b>	<b>\$127,373</b>	<b>7.0%</b>
Foreign Insurance	\$580	\$0	\$580	---
Domestic Insurance	\$0	\$0	\$0	---
Business & Property	\$294	\$155	\$139	89.6%
Cigarette	\$44,822	\$45,920	-\$1,098	-2.4%
Alcoholic Beverage	\$4,707	\$5,100	-\$393	-7.7%
Liquor Gallonage	\$2,494	\$2,400	\$94	3.9%
Estate	\$5,827	\$23,300	-\$17,473	-75.0%
Total Other Taxes	\$58,724	\$76,875	-\$18,151	-23.6%
<b>Total Taxes</b>	<b>\$2,011,007</b>	<b>\$1,901,785</b>	<b>\$109,222</b>	<b>5.7%</b>
<b>NONTAX REVENUE</b>				
Earnings on Investments	\$0	\$0	\$0	---
Licenses and Fees	\$11,895	\$3,528	\$8,367	237.2%
Other Revenue	\$19,592	\$12,532	\$7,060	56.3%
Nontax Receipts	\$31,488	\$16,060	\$15,428	96.1%
<b>TRANSFERS</b>				
Liquor Transfers	\$8,000	\$9,000	-\$1,000	-11.1%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$8	\$0	\$8	---
Total Transfers In	\$8,008	\$9,000	-\$992	-11.0%
<b>TOTAL REVENUE less Federal Grants</b>	<b>\$2,050,503</b>	<b>\$1,926,845</b>	<b>\$123,658</b>	<b>6.4%</b>
Federal Grants	\$498,935	\$429,219	\$69,716	16.2%
<b>TOTAL GRF REVENUE</b>	<b>\$2,549,438</b>	<b>\$2,356,064</b>	<b>\$193,374</b>	<b>8.2%</b>

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

Detail may not sum to total due to rounding.

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

**REVENUE SOURCE**

<b>TAX REVENUE</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2003</b>	<b>Percent Change</b>
Auto Sales	\$933,945	\$927,966	\$5,979	0.6%	\$782,621	19.3%
Nonauto Sales & Use	\$5,305,098	\$5,302,250	\$2,848	0.1%	\$4,505,794	17.7%
<b>Total Sales</b>	<b>\$6,239,043</b>	<b>\$6,230,216</b>	<b>\$8,827</b>	<b>0.1%</b>	<b>\$5,288,415</b>	<b>18.0%</b>
Personal Income	\$6,336,784	\$6,211,451	\$125,333	2.0%	\$6,065,443	4.5%
Corporate Franchise	\$595,882	\$570,961	\$24,921	4.4%	\$529,166	12.6%
Public Utility	\$143,546	\$136,977	\$6,569	4.8%	\$135,472	6.0%
Kilowatt Hour Excise Tax	\$287,345	\$316,967	-\$29,622	-9.3%	\$291,075	-1.3%
<b>Total Major Taxes</b>	<b>\$13,602,600</b>	<b>\$13,466,572</b>	<b>\$136,028</b>	<b>1.0%</b>	<b>\$12,309,571</b>	<b>10.5%</b>
Foreign Insurance	\$247,488	\$234,600	\$12,888	5.5%	\$227,528	8.8%
Domestic Insurance	\$393	\$200	\$193	96.7%	\$2,031	-80.6%
Business & Property	\$1,763	\$1,986	-\$223	-11.3%	\$1,254	40.6%
Cigarette	\$426,842	\$442,400	-\$15,558	-3.5%	\$473,866	-9.9%
Alcoholic Beverage	\$46,428	\$48,928	-\$2,500	-5.1%	\$46,353	0.2%
Liquor Gallonage	\$25,780	\$24,954	\$826	3.3%	\$24,700	4.4%
Estate	\$43,883	\$77,900	-\$34,017	-43.7%	\$86,876	-49.5%
<b>Total Other Taxes</b>	<b>\$792,577</b>	<b>\$830,968</b>	<b>-\$38,391</b>	<b>-4.6%</b>	<b>\$862,607</b>	<b>-8.1%</b>
<b>Total Taxes</b>	<b>\$14,395,177</b>	<b>\$14,297,540</b>	<b>\$97,637</b>	<b>0.7%</b>	<b>\$13,172,178</b>	<b>9.3%</b>
<b>NONTAX REVENUE</b>						
Earnings on Investments	\$14,820	\$18,250	-\$3,430	-18.8%	\$13,780	7.5%
Licenses and Fees	\$45,205	\$40,572	\$4,633	11.4%	\$31,108	45.3%
Other Revenue	\$136,000	\$145,863	-\$9,863	-6.8%	\$177,539	-23.4%
<b>Nontax Receipts</b>	<b>\$196,025</b>	<b>\$204,685</b>	<b>-\$8,660</b>	<b>-4.2%</b>	<b>\$222,427</b>	<b>-11.9%</b>
<b>TRANSFERS</b>						
Liquor Transfers	\$99,000	\$87,000	\$12,000	13.8%	\$96,000	3.1%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$135,208	\$105,800	\$29,408	27.8%	\$139,347	-3.0%
<b>Total Transfers In</b>	<b>\$234,208</b>	<b>\$192,800</b>	<b>\$41,408</b>	<b>21.5%</b>	<b>\$235,347</b>	<b>-0.5%</b>
<b>TOTAL REVENUE less Federal Grants</b>	<b>\$14,825,411</b>	<b>\$14,695,025</b>	<b>\$130,386</b>	<b>0.9%</b>	<b>\$13,629,952</b>	<b>8.8%</b>
Federal Grants	\$4,644,280	\$4,644,586	-\$306	0.0%	\$3,992,392	16.3%
<b>TOTAL GRF REVENUE</b>	<b>\$19,469,691</b>	<b>\$19,339,611</b>	<b>\$130,080</b>	<b>0.7%</b>	<b>\$17,622,344</b>	<b>10.5%</b>

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

Detail may not sum to total due to rounding.

## DISBURSEMENTS

— Steve Mansfield\*

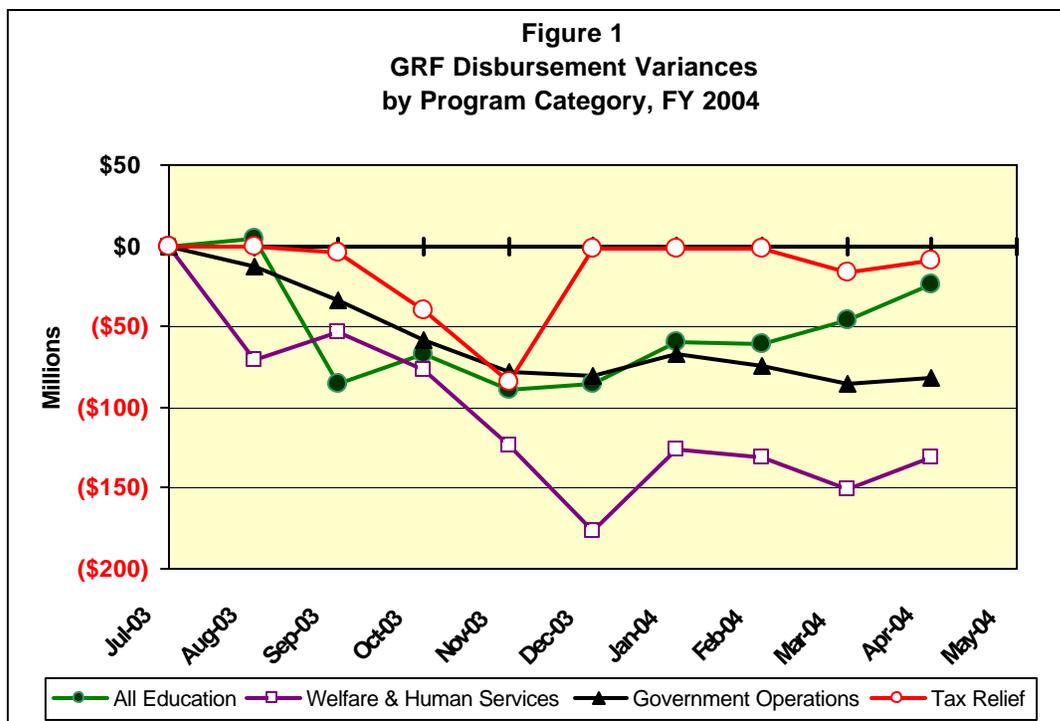
In April, disbursements from the General Revenue Fund (GRF) (excluding transfers) were \$48.1 million over the estimate for the month. This positive variance between actual outlays and the estimate for the month decreased the overall negative disbursement variance for the year to date to \$273.1 million. The year-to-date negative variance represents 1.4% of forecast outlays. Actual outlays for the year to date are 3.5% higher than at the same point in FY 2003.

About \$150 million of this year-to-date negative variance has been employed to compensate for a shortfall in revenues anticipated by the Office of Budget and Management to be approximately \$247 million. Also, a \$108 million shortfall in the state foundation program in the Department of Education will be made up with \$80 million from a projected year-end GRF surplus and with \$28 million in appropriation transfers within the Education Department.

In April, all of the state's four major GRF program categories posted positive disbursement variances (see Figure 1). The Welfare and Human

Services category reduced its year-to-date negative disbursement variance by \$20.0 million to \$130.9 million; the Government Operations category decreased the size of its negative year-to-date disbursement variance by \$2.4 million to \$82.6 million; the Education category posted a positive variance of \$22.8 million, which decreased its negative year-to-date disbursement variance to \$23.7 million; and the Property Tax Relief category posted a positive variance of \$7.4 million, decreasing its year-to-date negative disbursement variance to \$8.9 million. In order of magnitude, the three largest program subcategories contributing to the \$273.1 million year-to-date negative variance in disbursements from the GRF (excluding transfers) are Other Welfare (-\$61.0 million), Justice and Corrections (-\$51.4 million), and Human Services (-\$33.7 million). As can be seen in Table 5, all but one of the program subcategories show negative year-to-date disbursement variances, the exception being Higher Education.

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



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

**USE OF FUNDS**

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Primary & Secondary Education (1)	\$322,919	\$296,415	\$26,504	8.9%
Higher Education	\$180,360	\$184,025	-\$3,665	-2.0%
<b>Total Education</b>	<b>\$503,279</b>	<b>\$480,440</b>	<b>\$22,839</b>	<b>4.8%</b>
Health Care/Medicaid	\$725,682	\$706,587	\$19,095	2.7%
TANF	\$35,516	\$11,006	\$24,510	222.7%
General/Disability Assistance	\$1,783	\$1,881	-\$98	-5.2%
Other Welfare (2)	\$38,508	\$27,910	\$10,599	38.0%
Human Services (3)	\$92,356	\$126,428	-\$34,073	-27.0%
<b>Total Welfare &amp; Human Services</b>	<b>\$893,845</b>	<b>\$873,813</b>	<b>\$20,033</b>	<b>2.3%</b>
Justice & Corrections	\$164,147	\$157,968	\$6,178	3.9%
Environment & Natural Resources	\$5,720	\$5,920	-\$200	-3.4%
Transportation	\$974	\$2,257	-\$1,283	-56.8%
Development	\$7,384	\$7,160	\$224	3.1%
Other Government	\$17,175	\$19,241	-\$2,066	-10.7%
Capital	\$0	\$412	-\$412	-100.0%
<b>Total Government Operations</b>	<b>\$195,400</b>	<b>\$192,958</b>	<b>\$2,442</b>	<b>1.3%</b>
Property Tax Relief (4)	\$147,392	\$140,000	\$7,392	5.3%
Debt Service	\$24,546	\$29,195	-\$4,649	-15.9%
<b>Total Program Payments</b>	<b>\$1,764,462</b>	<b>\$1,716,405</b>	<b>\$48,056</b>	<b>2.8%</b>
<b>TRANSFERS</b>				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$14,985	\$0	\$14,985	---
<b>Total Transfers Out</b>	<b>\$14,985</b>	<b>\$0</b>	<b>\$14,985</b>	<b>---</b>
<b>TOTAL GRF USES</b>	<b>\$1,779,447</b>	<b>\$1,716,405</b>	<b>\$63,041</b>	<b>3.7%</b>

(1) Includes Primary, Secondary, and Other Education.

(2) Includes the Department of Job and Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.

(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.

(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

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

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

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

**USE OF FUNDS**

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2003</b>	<b>Percent Change</b>
Primary & Secondary Education (1)	\$5,396,485	\$5,421,055	-\$24,570	-0.5%	\$5,291,756	2.0%
Higher Education	\$1,961,509	\$1,960,668	\$842	0.0%	\$2,015,371	-2.7%
<b>Total Education</b>	<b>\$7,357,994</b>	<b>\$7,381,723</b>	<b>-\$23,729</b>	<b>-0.3%</b>	<b>\$7,307,128</b>	<b>0.7%</b>
Health Care/Medicaid	\$7,490,419	\$7,521,750	-\$31,331	-0.4%	\$6,852,629	9.3%
TANF	\$353,353	\$356,740	-\$3,387	-0.9%	\$352,158	0.3%
General/Disability Assistance	\$19,077	\$20,584	-\$1,507	-7.3%	\$22,159	-13.9%
Other Welfare (2)	\$395,562	\$456,545	-\$60,984	-13.4%	\$416,632	-5.1%
Human Services (3)	\$994,577	\$1,028,268	-\$33,691	-3.3%	\$1,009,598	-1.5%
<b>Total Welfare &amp; Human Services</b>	<b>\$9,252,987</b>	<b>\$9,383,888</b>	<b>-\$130,900</b>	<b>-1.4%</b>	<b>\$8,653,176</b>	<b>6.9%</b>
Justice & Corrections	\$1,617,005	\$1,668,370	-\$51,365	-3.1%	\$1,594,636	1.4%
Environment & Natural Resources	\$94,531	\$97,769	-\$3,238	-3.3%	\$103,202	-8.4%
Transportation	\$24,447	\$24,642	-\$195	-0.8%	\$30,044	-18.6%
Development	\$121,271	\$130,172	-\$8,901	-6.8%	\$155,716	-22.1%
Other Government	\$320,394	\$335,889	-\$15,495	-4.6%	\$336,760	-4.9%
Capital	\$0	\$3,389	-\$3,389	-100.0%	\$0	---
<b>Total Government Operations</b>	<b>\$2,177,647</b>	<b>\$2,260,229</b>	<b>-\$82,583</b>	<b>-3.7%</b>	<b>\$2,220,359</b>	<b>-1.9%</b>
Property Tax Relief (4)	\$833,663	\$842,600	-\$8,937	-1.1%	\$828,070	0.7%
Debt Service	\$313,039	\$339,950	-\$26,912	-7.9%	\$250,527	25.0%
<b>Total Program Payments</b>	<b>\$19,935,330</b>	<b>\$20,208,390</b>	<b>-\$273,060</b>	<b>-1.4%</b>	<b>\$19,259,260</b>	<b>3.5%</b>
<b>TRANSFERS</b>						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$54,043	\$22,975	\$31,068	135.2%	\$18,587	190.8%
<b>Total Transfers Out</b>	<b>\$54,043</b>	<b>\$22,975</b>	<b>\$31,068</b>	<b>135.2%</b>	<b>\$18,587</b>	<b>190.8%</b>
<b>TOTAL GRF USES</b>	<b>\$19,989,373</b>	<b>\$20,231,365</b>	<b>-\$241,992</b>	<b>-1.2%</b>	<b>\$19,277,847</b>	<b>3.7%</b>

(1) Includes Primary, Secondary, and Other Education.

(2) Includes the Department of Job and Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.

(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.

(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

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

Detail may not sum to total due to rounding.

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 (-\$130.9 million)**

The Welfare/Human Services category posted a positive disbursement variance of \$20.0 million in April. For the year to date, outlays in this category stand at \$130.9 million below the estimate. The Health Care/Medicaid and Other Welfare subcategories, which have been the largest factors in accounting for the broader category's overall year-to-date negative variance, are joined this month by a significant year-to-date negative variance of \$33.7 million in the Human Services program. The Human Services program includes Mental Health, Mental Retardation and Developmental Disabilities, and other Human Services. The following paragraphs discuss the disbursements in these subcategories in more detail.

**Health Care/Medicaid.** Year-to-date disbursements through April in the Health Care/Medicaid program (primarily line item 600-525) are \$31.3 million, or 0.4% below the estimate (see Table 6). For April, health care spending was \$19.1 million, or 2.7% over the estimate. As reported in previous months, the pattern of year-to-date negative disbursement variances in Inpatient Hospitals, Physicians, All Other, and other fee-for-service categories 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. Continuing partially to offset these negative disbursement variances is the Nursing Facilities service category, which is over the year-to-date estimate by \$65.2 million.

Separating the number of eligibles in the Covered Families and Children (CFC) category by service delivery system shows that at this point in the fiscal year enrollment for fee-for-service is

under the estimate by 19,000, whereas enrollment in managed care is over the estimate by nearly 28,000. The total number of eligibles in the Medicaid caseload stands at about 4,500 over the estimate.

**Update on FMAP Revenues.** The January 2004 issue of *Budget Footnotes* (Vol. 27, No. 5) discussed the temporary fiscal relief to states from the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (H.R. 2), which allocated \$384.0 million of federal funds to Ohio in flexible assistance for essential government services or federal mandates. This money has already been received and deposited into the GRF.

The federal act also increased the federal matching assistance percentage (FMAP) rate for Medicaid services from April 1, 2003 to June 30, 2004 by 2.95%. This equates to about \$386.1 million in increased federal Medicaid reimbursements for Ohio. These funds are being deposited into the Federal Fiscal Relief Fund (Fund FY9), which, as of May 11, 2004, had a balance of \$315.6 million. Ohio is on track to receive the estimated \$386.1 million of additional federal reimbursement.

Of the money deposited into the Federal Fiscal Relief Fund, the Director of Budget and Management will transfer \$18,611,156 toward the end of state fiscal year (SFY) 2004 and \$90,851,972 in SFY 2005 to the newly created Medicaid Reserve Fund (Fund FY8). The money in the Medicaid Reserve Fund will be used to purchase Medicaid services and to draw down additional federal funds. Any funds in the Federal Fiscal Relief Fund that are not transferred to the Medicaid Reserve Fund are to be deposited into the GRF.

**Job and Family Services.** April disbursements for the Department of Job and Family Services' operating and subsidy programs were \$10.6 million over estimate and stand at \$61.0 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.

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

Service Category	April				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Apr.	Estimate thru Apr.	Variance	Percent Variance
Nursing Facilities	\$194,657	\$177,285	\$17,372	9.8%	\$2,058,459	\$1,993,287	\$65,172	3.3%
Payments	\$236,002	\$218,570	\$17,432	8.0%	\$2,252,285	\$2,188,507	\$63,778	2.9%
NF Franchise Fees Offset <sup>1</sup>	(\$41,345)	(\$41,285)	(\$59)	0.1%	(\$193,826)	(\$195,220)	\$1,394	-0.7%
ICF/MR	\$35,630	\$35,479	\$151	0.4%	\$350,846	\$351,224	(\$378)	-0.1%
Payments	\$37,251	\$37,077	\$174	0.5%	\$367,792	\$368,409	(\$617)	-0.2%
ICF/MR Franchise Fees Offset	(\$1,621)	(\$1,598)	(\$23)	1.4%	(\$16,947)	(\$17,185)	\$239	-1.4%
Inpatient Hospitals	\$109,242	\$103,321	\$5,920	5.7%	\$1,087,636	\$1,115,404	(\$27,768)	-2.5%
Outpatient Hospitals	\$48,662	\$46,071	\$2,591	5.6%	\$486,882	\$484,945	\$1,938	0.4%
Physicians	\$42,565	\$46,857	(\$4,292)	-9.2%	\$469,236	\$485,888	(\$16,652)	-3.4%
Prescription Drugs	\$141,330	\$139,945	\$1,385	1.0%	\$1,450,082	\$1,443,202	\$6,880	0.5%
HMO	\$80,729	\$77,635	\$3,094	4.0%	\$831,911	\$805,268	\$26,644	3.3%
Medicare Buy-In	\$14,528	\$13,953	\$575	4.1%	\$132,726	\$132,811	(\$85)	-0.1%
ODJFS Waiver <sup>2</sup>	\$15,334	\$18,735	(\$3,401)	-18.2%	\$158,380	\$183,616	(\$25,237)	-13.7%
All Other <sup>3</sup>	\$74,496	\$75,823	(\$1,327)	-1.7%	\$710,488	\$765,365	(\$54,877)	-7.2%
CHIP II <sup>4</sup>	\$5,484	\$5,369	\$115	2.1%	\$59,359	\$55,022	\$4,337	7.9%
DA Medical <sup>5</sup>	\$5,028	\$8,091	(\$3,063)	-37.9%	\$70,408	\$82,493	(\$12,085)	-14.6%
<b>Total ALI 600-525</b>	<b>\$767,687</b>	<b>\$748,566</b>	<b>\$19,121</b>	<b>2.6%</b>	<b>\$7,866,414</b>	<b>\$7,898,526</b>	<b>(\$32,111)</b>	<b>-0.4%</b>
DSH Offset	\$0	\$0	\$0		\$0	\$0	\$0	
Drug Rebates	(\$42,005)	(\$41,978)	(\$27)		(\$339,068)	(\$336,994)	(\$2,074)	
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	
<b>Total Health Care (Net of Offsets)</b>	<b>\$725,682</b>	<b>\$706,587</b>	<b>\$19,095</b>	<b>2.7%</b>	<b>\$7,490,419</b>	<b>\$7,521,750</b>	<b>(\$31,331)</b>	<b>-0.4%</b>
Est. Federal Share <sup>6</sup>	\$425,944	\$414,736	\$11,208		\$4,396,554	\$4,414,944	(\$18,390)	
Est. State Share	\$299,738	\$291,851	\$7,887		\$3,093,865	\$3,106,806	(\$12,941)	

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.

Among the most significant contributors to this negative variance are line items 600-416, 600-321, and 600-528. Line item 600-416, Computer Projects, accounted for \$26.9 million of the negative year-to-date disbursement variance. About \$14.1 million of this variance can be traced to a budget reduction in the item and the lapsing of \$8.9 million in prior-year appropriations for this item. Another \$13.8 million of the negative year-to-date disbursement variance can be traced to line item 600-321, Support Services, with \$5.7 million of this stemming from the budget reduction. Another significant contributor to the negative year-to-date disbursement variance in this subcategory is line item 600-528, Adoption Services. For the year to date, outlays from this appropriation are \$8.3 million below estimate.

Like last year, the rate of adoption has grown slower than was forecast. In its state share of the appropriation, line item 600-528 was reduced by \$1.4 million.

Partially offsetting in April was a positive variance of \$14.2 million in line item 600-523, Child and Family Subsidy. This item accounts for the bulk of the positive variance for the month, which was due to a delay in the processing of the quarterly child protection allocation to the counties that was scheduled for March. The payments did not actually post until April.

**TANF.** Spending from line item 600-413, Child Care Match/MOE, jumped from \$3.7 million in March to \$35.3 million in April, increasing in order

to meet the state's maintenance of effort (MOE) requirement in the Temporary Assistance for Needy Families (TANF) program by the end of the fiscal year. This spending was \$24.5 million over estimate and reduced the year-to-date variance in GRF outlays in the TANF program to \$3.4 million.

Spending from line item 600-410, TANF State, has been all but exhausted, with disbursements within a few thousand dollars within departmental estimates. At the end of April, the number of TANF recipients was 193,678, a decline of 0.65% from March, 1.1% less than one year ago. The number of assistance groups was just over 87,000. The number of unemployed TANF recipients has increased over recent months, with 17,859 recipients in April, an increase of 2.3% since March and 3.0% since April 2003.

**MR/DD.** April's disbursements for the Department of Mental Retardation and Developmental Disabilities were \$28.4 million below estimate, accounting for nearly all of the Department's \$28.5 million negative year-to-date estimate. According to the Department, the main reason for this variance in April is a controversy over the Community Alternative Funding System (CAFS) program. Recent payments to CAFS providers were halted upon the filing of a lawsuit in Franklin County. The lawsuit centers on a recent emergency rule filed by the Department of Job and Family Services, which, among other things, modifies reimbursement rates for providers of CAFS services. As mandated by the court, the Department is not making any reimbursement payments to CAFS providers until allowed to do so by the court.

The Department collects a 4% fee on each CAFS claim paid. Since all CAFS payments are being held, the Department is not sending any

Service Category	FY 2004	FY 2003	Dollar Change	Percent Increase
	Yr.-to-Date as of Apr. '04	Yr.-to-Date as of Apr. '03		
Nursing Facilities	\$2,058,459	\$1,982,787	\$75,672	3.8%
Payments	\$2,252,285	\$2,166,830	\$85,456	3.9%
NF Franchise Fees Offset <sup>1</sup>	(\$193,826)	(\$184,042)	(\$9,784)	5.3%
ICF/MR	\$350,846	\$340,959	\$9,887	2.9%
Payments	\$367,792	\$357,893	\$9,899	2.8%
ICF/MR Franchise Fees Offset	(\$16,947)	(\$16,935)	(\$12)	0.1%
Inpatient Hospitals	\$1,087,636	\$1,051,223	\$36,413	3.5%
Outpatient Hospitals	\$486,882	\$443,602	\$43,280	9.8%
Physicians	\$469,236	\$442,425	\$26,811	6.1%
Prescription Drugs	\$1,450,082	\$1,277,332	\$172,750	13.5%
HMO	\$831,911	\$592,722	\$239,189	40.4%
Medicare Buy-In	\$132,726	\$134,197	(\$1,471)	-1.1%
ODJFS Waiver <sup>2</sup>	\$158,380	\$143,749	\$14,631	10.2%
All Other <sup>3</sup>	\$710,488	\$647,872	\$62,616	9.7%
CHIP II <sup>4</sup>	\$59,359	\$48,703	\$10,656	21.9%
DA Medical <sup>5</sup>	\$70,408	\$78,762	(\$8,354)	-10.6%
<b>Total Health Care</b>	<b>\$7,866,414</b>	<b>\$7,184,333</b>	<b>\$682,082</b>	<b>9.49%</b>
DSH Offset	\$0	(\$89,037)	\$89,037	
Drug Rebates	(\$339,068)	(\$243,763)	(\$95,305)	
Prior Year Encumbrance	(\$71,000)	(\$83,539)	\$12,539	
Prior Period ALI 600-525	\$34,073	\$84,635	(\$50,562)	
<b>Total Health Care (Net of Offsets)</b>	<b>\$7,490,419</b>	<b>\$6,852,629</b>	<b>\$637,790</b>	<b>9.31%</b>
Est. Federal Share <sup>6</sup>	\$4,396,554	\$4,022,199	\$374,355	
Est. State Share	\$3,093,865	\$2,830,430	\$263,435	

1. Some of the money generated from nursing home franchise permit fees is used to make payments to nursing facilities to offset GRF nursing facilities spending. The NF franchise fee is \$3.30 per bed per day in FY 2002 and is \$4.30 per bed per day for FYs 2003 through 2005.

2. Waivers provide home-care alternatives to consumers whose medical conditions/functional abilities would otherwise require long-term care facility 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.

subsidies to the county boards of mental retardation and developmental disabilities until the Department determines it can take the fees from these subsidies. The line items affected by this situation are 322-417, Supported Living; 322-451, Family Support Services; 322-452, Service and Support Administration; 322-502, County Board Subsidies; and 322-503, Tax Equity.

**Mental Health.** In April, the Department of Mental Health posted a negative disbursement variance of \$12.6 million. The Department's outlays for the year to date are above the estimate by \$4.1 million. Virtually all of the April and year-to-date variances are traceable to the timing of payments from the Department's largest GRF subsidy line item: 334-408, Community and Hospital Mental Health Services.

### ***Government Operations (-\$82.6 million)***

With a positive disbursement variance of \$2.4 million in April, outlays in the Government Operations category stand at \$82.6 million under the estimate for the year to date. The bulk of this negative year-to-date variance is accounted for by the disbursement activity for the Department of Rehabilitation and Correction (\$39.7 million under estimate) and the Department of Youth Services (\$12.0 million under estimate). The explanation for these variances has not changed since last month. The remaining \$30.9 million of the negative year-to-date variance is spread out in smaller amounts over the budgets of the other 35 state agencies in the category.

### ***Education (-\$23.7 million)***

In April, the Education category posted a positive disbursement variance of \$22.8 million, reducing the negative year-to-date variance to \$23.7 million. The Department of Education accounted for \$18.0 million of the category's year-to-date negative disbursement variance. Several smaller negative and positive variances within the category explain the category's total variance.

**Department of Education.** With a positive disbursement variance of \$29.5 million in April, the Department of Education's disbursements for the year to date now stand at \$18.0 million below estimate.

Line item 200-501, Base Cost Funding, posted a positive variance of \$30.3 million in April and accounts for more than the net disbursement variance for the month. This appropriation item is the largest one in the Department's budget. It funds school districts according to the base cost formula developed by the General Assembly to provide educational services to Ohio public school students. The total appropriation for FY 2004 is \$4,397.1 million. Average Daily Membership (ADM) figures for FY 2004 came in about 7,000 students above estimate. Special education ADM for FY 2004 came in about 10,000 students above estimate. Also, business personal tangible

property values fell more than had been anticipated. (When property values fall, state aid goes up.) For all these reasons, the Department estimates a shortfall for this item of about \$107.0 million.

In order to deal with the shortfall, a number of steps have been taken. The Department was granted "forgiveness and redirection" of \$12.5 million in spending cuts that had been ordered by the Governor. On May 17, the Controlling Board approved the transfer of \$28 million (including the forgiven spending cuts) to formula line items from nonformula line items. In addition, H.B. 434 (the Tobacco Settlement Appropriations Bill), as passed by the General Assembly, increased the GRF appropriation for line item 200-501 by \$80 million.

### ***Tax Relief (-\$8.9 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 paid 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 under the program were \$147.4 million in March. This was \$7.4 million over estimate for the month. This variance decreased the negative year-to-date disbursement variance in the program to a net of \$9.0 million for the year to date. The year-to-date variance is composed of partially offsetting variances of \$23.1 million under estimate in the Education portion of the program and \$30.5 million over the estimate in the Taxation portion of the program. 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, Chris Murray, Laura Potts, David Price, Joseph Rogers, Maria Seaman, Clay Weidner, and Holly Wilson.*