Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION NOVEMBER 2004

FISCAL OVERVIEW

— *Allan Lundell*

October saw a continuation of the U.S. economic expansion and the largest employment increase since March. General Revenue Fund (GRF) receipts and disbursements were below estimate for the month. For the fiscal year to date, total GRF receipts are slightly below estimate, total program disbursements are below estimate, and the cash balance is above its expected level.

Tracking the Economy

The U.S. economic expansion continued in October. Nonfarm payroll employment nationwide increased by 337,000 and the estimates for August and September were revised higher. Retail sales increased by 0.2% (a 2.4% annualized rate) in October and sales excluding autos rose by 0.9% (an 11.4% annualized rate). According to the advance estimate, real gross domestic product grew at a 3.7% annualized rate in the third quarter, up from a 3.3% rate during the second quarter.

Receipts

The revenue picture for October was dreary. Total GRF receipts for the month were $50 million (2.5%) below estimate, state-source receipts were $45 million (3.0%) below estimate, tax revenue was $42 million (2.9%) below estimate, and revenues from the "major" taxes were $28 million (2.2%) below estimate.[1]

Four months into the fiscal year, the overall revenue picture remains mildly encouraging. Total GRF receipts are $6 million (0.1%) below estimate but state-source receipts are $29 million (0.5%) above estimate. Total GRF tax revenue is $30 million (0.5%) above estimate and GRF revenues from the "major taxes" are $49 million (0.9%) above estimate. Revenue from the personal income tax is 2.1% above estimate and revenue from the nonauto sales tax is 1.6% above estimate.

Disbursements

October total GRF program disbursements were $52 million (2.2%) below estimate. Disbursements for primary and secondary

Volume 28, Number 3

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

For questions or comments regarding specific sections:

GRF Revenue:
Allan Lundell 644-7788

GRF Spending:
Steve Mansfield 728-4815

Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: (614)466-3615

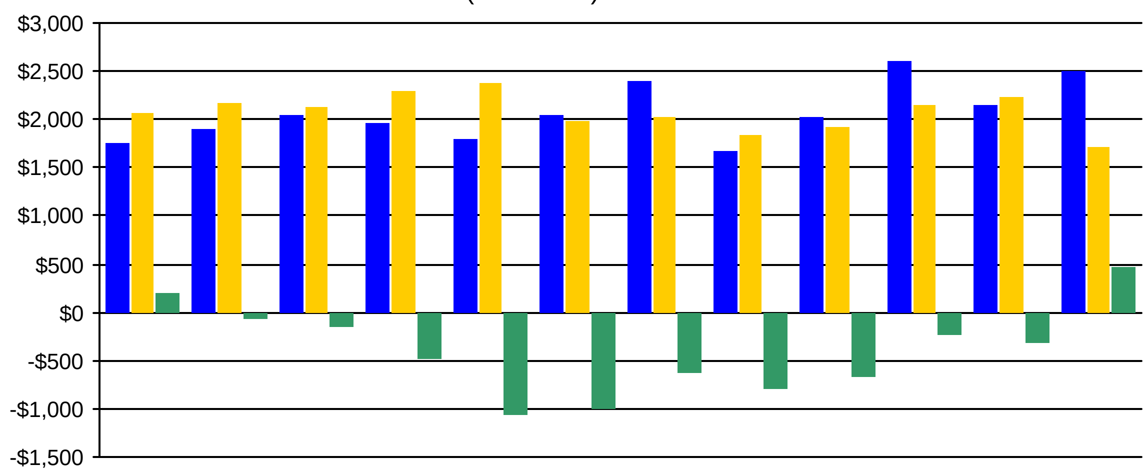
Table 1
General Revenue Fund
Simplified Cash Statement
($ in millions)

	Month of October	Fiscal Year 2005 to Date	Last Year	Difference
Beginning Cash Balance	**-$125.7**	**$533.1**		
Plus Revenue and Transfers In	$1,909.3	$7,649.2		
Available Resources	**$1,783.6**	**$8,182.3**		
Less Disbursements and Transfers Out	$2,249.7	$8,648.4		
Ending Cash Balances	**-$466.1**	**-$466.1**	**-$392.5**	**-$73.6**
Less Encumbrances and Accts. Payable		$692.0	$671.1	$20.9
Unobligated Balance		**-$1,158.1**	**-$1,063.7**	**-$94.5**
Plus BSF Balance		$180.7	$180.7	$0.0
Combined GRF and BSF Balance		**-$977.4**	**-$883.0**	**-$94.5**

education were $30 million (5.5%) below estimate and disbursements for justice and corrections were $15 million (8.5%) below estimate. Disbursements for property tax relief were $17 million (7.3%) below estimate and disbursements for debt service were $9 million (30.9%) below estimate. Disbursements for health care/Medicaid were $46 million (6.1%) above estimate.

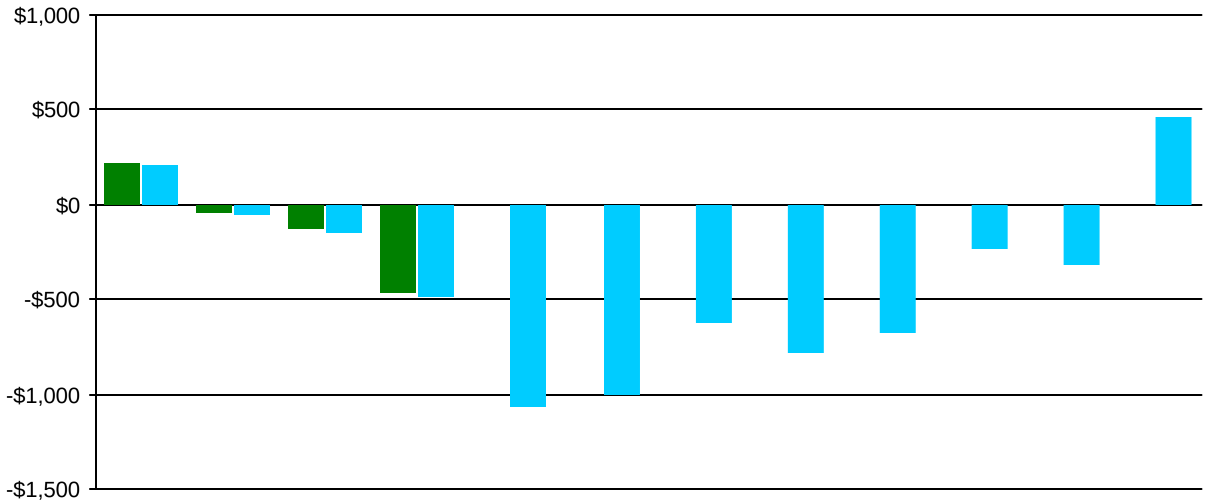
Year-to-date total program disbursements are $53 million (0.6%) below estimate. Disbursements for primary and secondary education are $102 million (4.3%) below estimate and disbursements for higher education are $32 million (4.1%) below estimate. Disbursements for welfare and human services are $11 million (0.3%) above estimate. Disbursements for

Chart 1: Estimated FY 2005 Receipts, Disbursements, and Ending Cash Balances
(in millions)



	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
Revenues	$1,748	$1,905	$2,044	$1,959	$1,791	$2,047	$2,403	$1,676	$2,033	$2,606	$2,151	$2,501
Disbursements	$2,074	$2,172	$2,129	$2,298	$2,375	$1,985	$2,022	$1,835	$1,928	$2,156	$2,243	$1,717
Cash Balance	$208	-$60	-$145	-$485	-$1,069	-$1,007	-$626	-$785	-$680	-$230	-$321	$463

Chart 2: Actual and Estimated Ending Cash Balances
(in millions)



	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
Actual	$224	-$43	-$126	-$466								
Estimate	$208	-$60	-$145	-$485	-$1,069	-$1,007	-$626	-$785	-$680	-$230	-$321	$463

property tax relief are $88 million (26.9%) above estimate.

Cash Balance

As shown in Table 1, the GRF began October with a negative cash balance of -$126 million. Monthly revenues plus transfers in totaled $1,909 million and disbursements plus transfers out totaled $2,250 million. The monthly deficit of $340 million reduced the month-end cash balance to -$466 million.[2] This amount is $74 million lower (more negative) than a year ago, but $19 million higher than the balance that would have resulted if receipts and disbursements had equaled their estimates for the first four months of the fiscal year. Although a negative cash balance may appear to be a cause for concern, the cash balance, due to the timing of revenues and disbursements, is generally negative early in the fiscal year before turning positive later in the year. The expected pattern for FY 2005 is shown in Chart 1, which presents the monthly estimates of receipts and disbursements for FY 2005 and the estimated monthly ending cash balances based on those estimates. Chart 2 presents a comparison of actual monthly ending cash balances and the estimated monthly ending cash balances based on the monthly estimates of receipts and disbursements. The ending cash balance is tracking the estimate thus far this fiscal year.

Encumbrances of $692 million combine with the cash balance to yield an unobligated balance of -$1,158 million. This amount is $95 million lower (more negative) than a year ago. The $181 million balance in the Budget Stabilization Fund (BSF) is the same as a year ago, so the combined GRF and BSF balance of -$977 million is $95 million lower than it was a year ago.

[1] The "major taxes" are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the kilowatt-hour tax. In addition to providing revenue for the GRF, these taxes contribute to the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF). For FY 2005, the major taxes are expected to account for approximately 70% of total GRF receipts and 90% of state-source GRF receipts.

[2] The GRF began FY 2005 with a $533 million cash balance. This was $137 million higher than the cash balance at the start of FY 2004 but was much lower than the balances during the years before the most recent recession. Through October, FY 2005 revenues plus transfers in totaled $7,649 million and disbursements plus transfers out totaled $8,648 million. The year-to-date deficit of $999 million reduced the month-end cash balance to -$466 million.

TRACKING THE ECONOMY

¾ Phil Cummins

Business activity continued to expand in October. Hiring nationwide rose at the fastest monthly pace since March, partly in response to hurricane damage. In Ohio, however, employment fell by 6,600 workers last month. Purchasing managers said business activity continued to grow, but at a more subdued pace than earlier. Industrial production recovered in October after the restraining effects of hurricanes in August and September. Housing starts rose in October to the third highest level in the last 20 years. Retail sales rose slowly in October after a large gain in September, as light vehicle sales dropped. Inflation jumped in October. The producer price index for finished goods and the consumer price index were up sharply. Gasoline and other energy prices rose rapidly and food prices also registered sizable increases. Crude oil and gasoline prices have declined since then. The Federal Reserve, as widely expected, again raised its target short-term interest rate. Longer-term interest rates remain low.

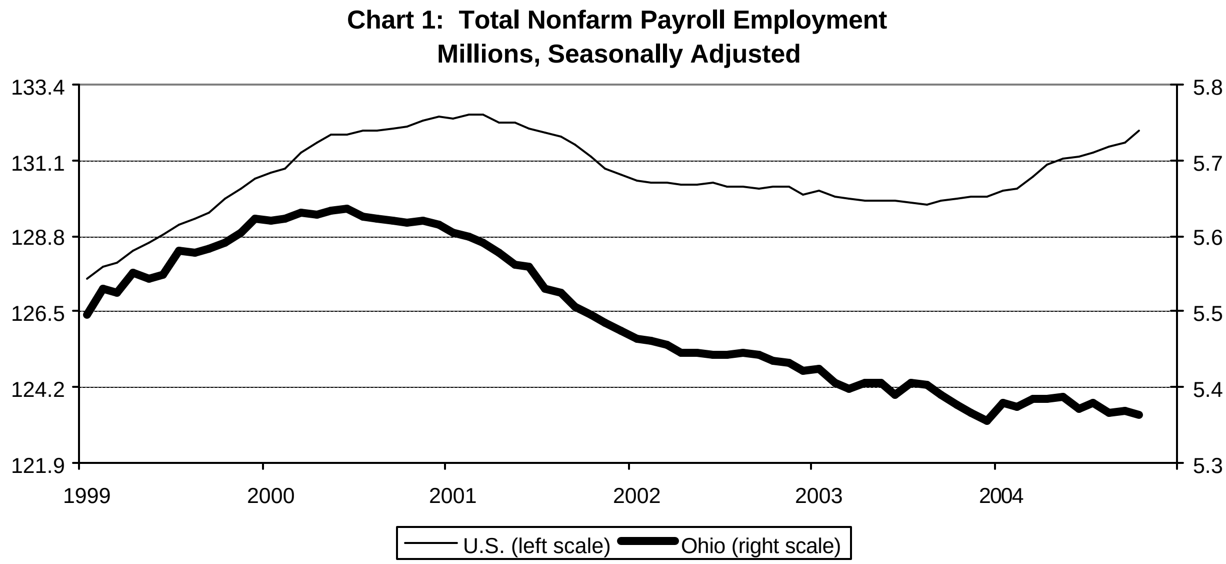
The government's initial estimate of gross domestic product in the third quarter showed inflation-adjusted GDP rising at a 3.7% annual rate, up from growth at a 3.3% rate in the second quarter. Consumer spending picked up, particularly for motor vehicles, after a second-quarter slowdown. Residential building continued to grow, but not as rapidly as earlier. Business fixed investment spending again powered ahead at a double-digit pace, reflecting strength in purchases of industrial and transportation equipment, slower growth than earlier in spending on information technology, and a small rise in the construction of buildings and other structures. Inventory accumulation slowed. Exports grew, but imports rose more rapidly. Government military outlays increased, while other federal government as well as state and local government spending fell.

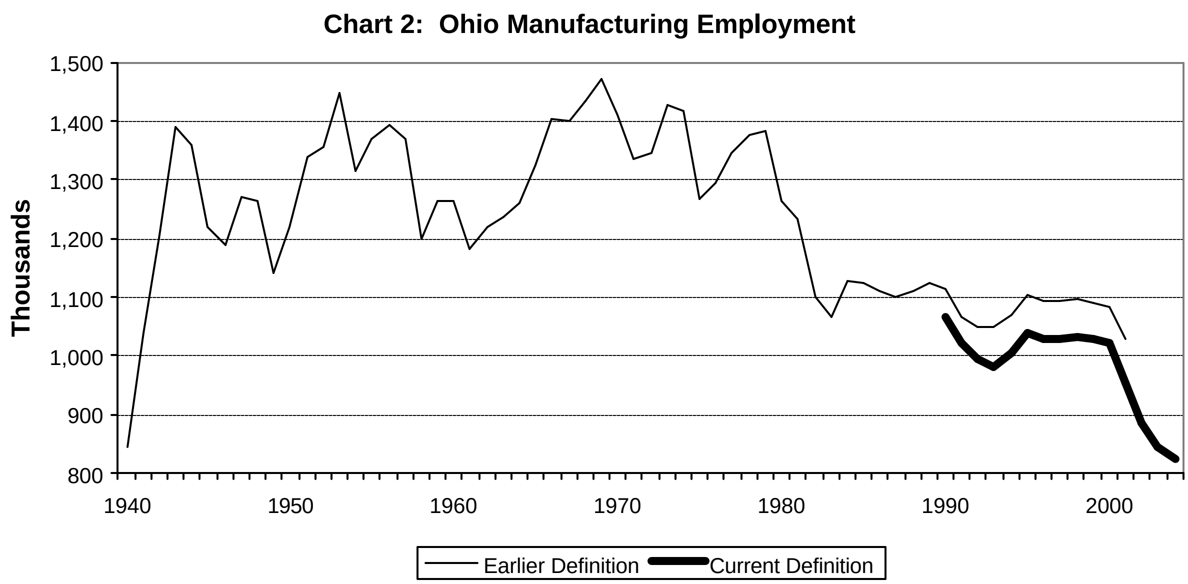
Large Employment Gain Nationwide in October, Decline in Ohio

Nonfarm payroll employment nationwide rose 337,000 in October. The unemployment rate in the United States ticked up 0.1 percentage point to 5.5%. Last month's addition to the number of people at work was the largest increase in nonfarm payrolls since March of this year. Prior to March, employment had not increased by this many people in one month since 2000. Employment in August and September was revised upward. Part of the rise in the number of workers last month was at construction firms, which added to their payrolls to handle rebuilding and cleanup activities in southeastern states hit hard by hurricanes. Other increases were in private service-sector jobs, including positions at temporary help firms, in health care, and elsewhere, and in state and local governments, particularly in education. Manufacturing employment fell slightly, for the second consecutive month. To the extent that the October rise in employment was in part a temporary response to the impact of the hurricanes, employment increases in future months are likely to be smaller.

Ohio nonfarm payroll employment fell 6,600 in October. Job losses were reported in a number of service industries. Unemployment rose to 6.3% of the labor force, matching the cyclical high reached in August and last year. After rising in the first five months of the year from the cyclical low reached in December 2003, employment in Ohio has fluctuated below its level in May and more than 250,000 workers below the peak reached in 2000. Manufacturing employment in the state rose by 800 in October but remained near its lowest level in decades, more than 200,000 below the level in early 2000. Factory employment in September may have been at its lowest level since 1940 (because of definitional changes, current data are not directly comparable with pre-1990 figures).

Trends in United States and Ohio total nonfarm payroll employment are shown in Chart 1. The long-term history of Ohio manufacturing employment is illustrated in Chart 2, which shows annual average data except that 2004 is represented by the number of employees in the latest month, October.



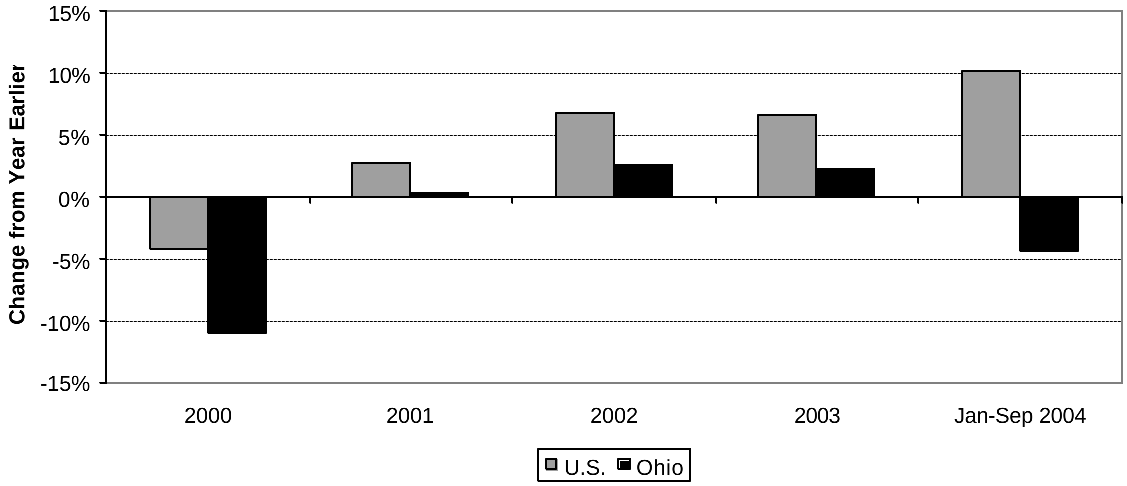


Business Activity Continues To Grow

Purchasing managers at the nation's manufacturers, in the Institute for Supply Management's monthly survey, reported "strong growth" in activity accompanied by further upward pressures on prices paid. However, expansion as indicated by several measures was less widespread than earlier this year and late last year. More purchasing managers said that backlogs of orders fell at their organizations than noted increases for the first time since April of last year. Numerous commodities purchased by manufacturers rose again in price, and few prices were lower. Some chemicals and types of steel were in short supply. A similar survey of purchasing managers at nonmanufacturing organizations showed business activity rising for the 19th consecutive month, accompanied by increases in new orders, employment, and order backlogs. Inflationary pressures remained a concern.

Industrial production increased 0.7% in October. The Federal Reserve, which produces the industrial production statistics, attributed the October rise in part to recovery from restraining effects of recent hurricanes. Manufacturing output also rose 0.7% last month, to 6% above a year earlier, with increases in most major industry

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



groups. Output of business equipment has been trending briskly upward, as has production of defense and space equipment. Production of consumer nondurables also has been growing, but output of vehicles and other consumer durable goods appears to have leveled out during the past few quarters, declining in some months.

The "Beige Book," a summary of primarily anecdotal reports from business and other contacts gathered by the 12 Federal Reserve banks, indicated that economic activity continued to expand into October, with faster growth in some parts of the country and a more moderate pace in others (including this region). Retailers in the district covered by the Cleveland Federal Reserve Bank, which includes Ohio, generally indicated that sales were sluggish. Some other regions noted modest improvement in retail sales. Unseasonably warm weather or hurricane disruptions were cited as factors in areas where sales were slow. In the manufacturing sector, prospects for some producers in this region have turned less favorable as a result of announced production cuts by domestic automakers. Reports on manufacturing activity in other regions ranged from solid expansion to mixed. Residential building and new home sales in this region have slowed, across various price levels. Two other districts reported slower sales of higher priced homes, and only one reported a general increase in housing market activity. Nonresidential building, though generally still at low levels, has turned up in this region and elsewhere.

Housing Starts Gain Nationwide, but Residential Building Slows in Ohio

Total construction spending nationwide in September was about unchanged from August and 9% above a year earlier. Year-to-date building activity was 9% higher than a year earlier, including a 15% rise in private residential construction; a 4% increase in private nonresidential building, with larger increases in construction of lodging, amusement and recreation facilities, health care buildings, offices, and commercial space; and a 4% rise in public construction, including increased activity on power facilities, sewage and waste disposal, health care, highways and streets, and office space. The rise in total private nonresidential building follows three years of declines.

Housing starts in October rose 6% nationwide and 9% in the Midwest. Year-to-date housing starts were 8% above last year for the country as a whole but 2% below a year ago in the Midwest. Construction continues to be supported by low mortgage interest rates. Home sales rose in September, to the third highest rate on record. New home sales in the first nine months of 2004 were 10% above a year earlier nationwide and 9% higher in the Midwest. Year-to-date sales of used homes, reported by the National Association of Realtors, were also 10% higher for the United States and 4% higher in the Midwest.

Building permits data indicate that residential construction activity in Ohio has slowed this year, in contrast with the nation. Year-to-date changes in residential building permits for the United States and Ohio, through the first nine months of this year, are shown in Chart 3. Residential building permits in Ohio were ahead of a year earlier through this year's first half but then turned lower. The decline was particularly pronounced in multifamily construction. These figures, from the U.S. Bureau of the Census, are not updated for late reports and so are subject to greater uncertainty than some other economic statistics.

Consumer Spending Rises More Slowly in October

Retail sales increased only 0.2% from September to October after rising 1.6% the month before. Sales of retailers last month were 7.6% above a year earlier. The slower rate of increase in October reflected lower motor vehicle sales at the start of the new model year. Vehicle sales fluctuate from month to month with changes in sales incentive programs offered by the major manufacturers. Excluding motor vehicles, retail sales rose 0.9% last month after increasing 0.8% in September. Gasoline station sales rose sharply in October, probably mainly due to the increase in gasoline prices.

Inflation Jumps as Energy and Food Prices Rise

Producer prices for finished goods rose 1.7% from September to October, the largest one-month increase in this index since 1990, and were 4.4% above a year earlier. Prices for finished energy goods rose 6.8%, including a 17% increase in gasoline prices. Food prices at the producer level rose 1.6%, including a 34% rise in vegetable prices. Excluding foods and energy, finished producer prices rose 0.3% in October, matching the previous month's increase, to 1.8% above the year-earlier level. Price increases continued sizable at earlier stages of production. Intermediate goods prices rose 0.9% last month to 9% above a year earlier. Crude materials prices increased 4.3% during the month to 16% above a year earlier.

Consumer prices rose 0.6% in October, the largest increase in this index since May, to 3.2% above a year earlier. Higher energy prices, up 4.2% in October, accounted for more than half of last month's increase. Gasoline prices jumped 9% to just under the peak reached in June. Food prices rose 0.6%. Excluding food and energy, consumer prices rose 0.2%, less than the 0.3% increase the month before, to 2.0% above a year earlier.

Short-Term Interest Rates Increase Again

The nation's central bank again tightened monetary policy. Following a meeting of its Open Market Committee on November 10, the bank raised its target for overnight interbank borrowings, the federal funds rate, from 1.75% to 2%. This increase was widely expected, and further increases next month and next year appear to be anticipated by many financial market participants. Longer-term borrowing rates ticked upward following the report of the large employment increase in October but have since fallen back and remain low.

Status of the General Revenue Fund

REVENUE

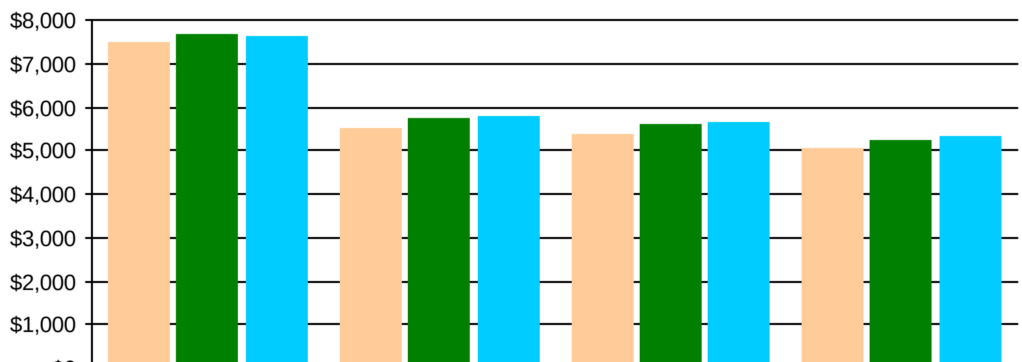
— *Jean Botomogno and Allan Lundell*

The revenue picture for October was dreary. Total General Revenue Fund (GRF) receipts for the month were $49.5 million (2.5%) below estimate. State-source receipts (tax revenue plus nontax revenue plus transfers in) were $45.2 million (3.0%) below estimate, total tax revenue was $41.8 million (2.9%) below estimate, and revenue from the "major taxes" was $27.6 million (2.2%) below estimate.[1] Revenue from the corporate franchise tax was $25.6 million (68.6%) below estimate, revenue from the cigarette tax was $8.9 million (16.2%) less than expected, revenue from the estate tax was $4.6 million (38.9%) less than expected, and revenue from the nonauto sales and use tax was below estimate by $2.3 million (0.4%).

Four months into the fiscal year, the revenue picture remains mildly promising in spite of the results for October. Although total GRF receipts are $6.3 million (0.1%) below estimate for the fiscal year to date, state-source receipts are $29.1 million (0.5%) above estimate, GRF tax revenue is $30.4 million (0.5%) above estimate, and total GRF revenues from the major taxes are $49.3 million (0.9%) above estimate. The major taxes are expected to account for approximately 70% of total GRF revenue and 90% of state-source GRF revenue in FY 2005. Their healthy performance is essential for a good revenue year, and their year-to-date performance remains an encouraging sign.

For the fiscal year to date, total GRF receipts are up 1.9% compared to FY 2004. State-source receipts are up 4.5%, total tax revenue is up 4.9%, and revenue from the major taxes is up 5.3%. The year-over-year comparisons are a bit misleading due to the timing of last year's sales tax rate increase and base expansion, which make them not quite "apples to apples" comparisons. The improvement in receipts is better indicated by the not quite as robust 1.8% increase in receipts from state sources other than the sales tax. This improvement is largely due to the 5.8% year-over-year increase in revenue from the personal income tax. Chart 1 compares FY 2005 receipts with FY 2004 receipts and FY 2005 estimates.

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



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Revenues from Total Taxes	Revenues from Major Taxes
FY 2004	$7,503.7	$5,536.6	$5,372.3	$5,043.2
FY 2005 Estimate	$7,655.5	$5,757.4	$5,603.5	$5,263.6
FY 2005 Actual	$7,649.2	$5,786.5	$5,634.0	$5,312.9

Personal Income Tax

The GRF received $565.2 million from the personal income tax in October. Receipts were $45,000 greater than estimated. Withholding was $17.3 million (2.9%) below estimate. The following components were above estimate for October: tax dues ($2.3 million), 40P payments ($6.3 million), and miscellaneous ($5.8 million).[2] Refunds were $2.3 million less than expected.

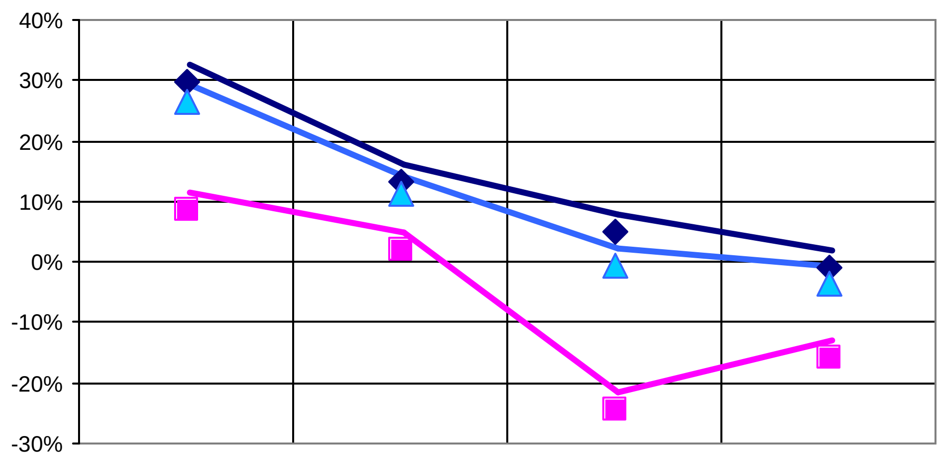
For the fiscal year to date, the GRF has received $2,474.5 million from the personal income tax. This amount is $50.1 million (2.1%) above estimate. The $2,394.1 million in revenue collected through withholding is $11.0 million (0.5%) below estimate. Year-to-date quarterly estimated payments of $314.9 million are $10.8 million (3.6%) above estimate.[3] Refunds total $87.4 million. This total is $19.6 million (18.3%) less than estimated.

Compared to a year ago, GRF revenue from the personal income tax is up 5.8%. Withholding, which reflects the condition of Ohio's labor market, is up 3.3%. The growth in withholding may be an indication of improvement in Ohio's economy. However, the fact that withholding is below estimate indicates that the economy is not improving at the expected pace. Quarterly estimated payments are up 7.3%. Gross collections are up 4.2%, refunds are down 18.9%, and net collections are up 5.2%.

Sales and Use Tax

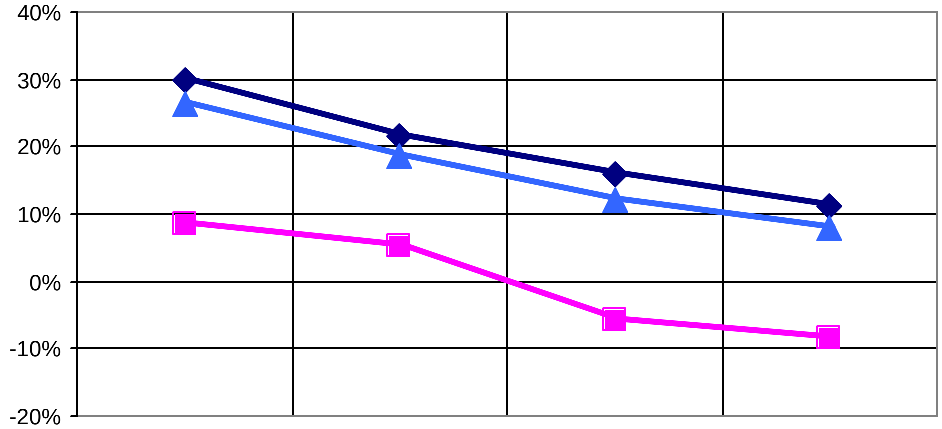
Following disappointing results in September, revenues from the sales and use tax were below estimates in October. Total sales and use tax revenues in October were $643.6 million, $1.3 million (0.2%) below projected revenues. The total was pulled down by the nonauto sales and use tax, which was $2.3 million below estimates. In the previous month, sales and use tax revenues were $12.3 million below estimate, and the auto sales tax accounted for $12.0 million of the negative variance. Sales and use tax receipts in October 2004 were $23.2 million (3.5%) below October 2003 revenues. Receipts from both the nonauto and the auto sales and use taxes were below October 2003 receipts for each tax. Tax receipts partly reflect taxable retail sales activity in the prior month and also taxable retail sales during that month.[4] As of October 2004, year-to-date total sales and use tax revenues were $2,660.9 million, $22.0 million (0.8%) above estimates. Sales and use tax receipts were $194.7 million (7.9%) higher than year-to-date tax receipts in October 2003.

Chart 2: FY 2005 Monthly Variance Versus Year-Ago Receipts



	Jul-04	Aug-04	Sep-04	Oct-04
Nonauto Tax Receipts	29.9%	13.3%	5.0%	-1.1%
Auto Tax Receipts	8.5%	1.9%	-24.3%	-15.7%
Total SUT Receipts	26.3%	11.4%	-0.6%	-3.5%

Chart 3: FY 2005 Year-to-Date Variance Versus Year-Ago Receipts



	Jul-04	Aug-04	Sep-04	Oct-04
Nonauto Tax Receipts	29.9%	21.5%	15.9%	11.3%
Auto Sales Receipts	8.5%	5.2%	-5.8%	-8.4%
Total SUT Receipts	26.3%	18.7%	12.1%	7.9%

October provided the second "true" read on the monthly comparison with year-ago receipts without the distortions created by the timing of tax collections in the first two months of FY 2004 (see *Budget Footnotes*, September 2004). The performance of the sales and use tax in the last two months has been disappointing and is in contrast with results of the first two months of FY 2005. At the end of August 2004, sales and use tax receipts were $221.3 million (18.7%) above revenues in the first two months of FY 2004. Combined revenues for September and October 2004 were $26.7 million (2.1%) below receipts in September and October 2003. Chart 2 shows the monthly variance (in percentage) in sales and use tax revenue in FY 2005 compared to year-ago receipts.

Chart 3 shows FY 2005 year-to-date sales and use tax revenues compared to year-to-date sales and use tax revenues in FY 2004. Both charts illustrate the recent trends in auto and nonauto sales and use tax receipts.

Nonauto Sales and Use Tax

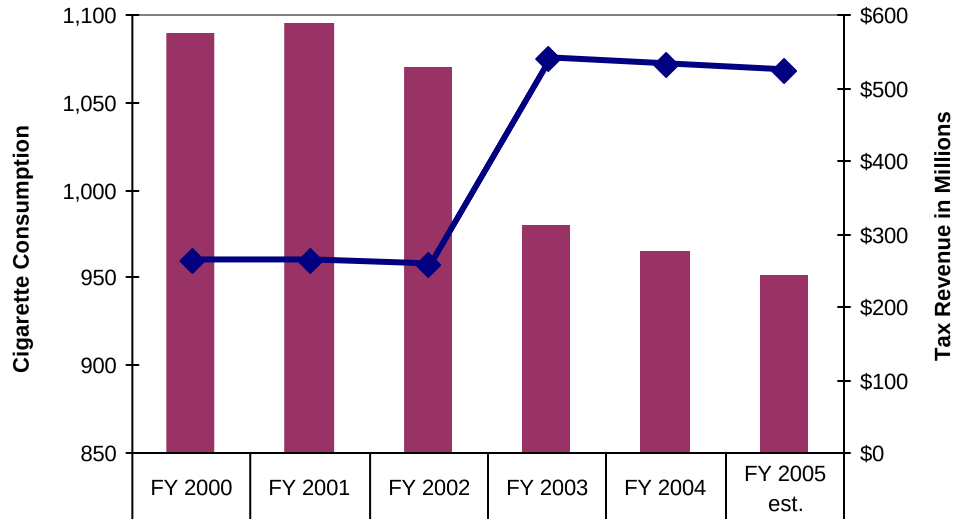
In October, nonauto sales and use tax revenues were $551.2 million, $2.3 million (0.4%) below estimate. Revenues were $5.9 million (1.1%) below revenues in the same month last year. Fiscal year-to-date nonauto sales and use tax revenues are $2,270.5 million, $36.2 million (1.6%) higher than estimate. Year-to-date receipts are $230.4 million (11.3%) above revenues in the same period in FY 2004. As shown in Chart 3, the year-to-date variance compared to revenues a year ago has been steadily declining as expected, down from almost 30% in July 2004 to about 11% in October 2004. Combined revenues in September and October 2004 were $19.4 million (1.8%) above combined revenues in September and October 2003. Also, combined revenues for the last two months were slightly below estimates (0.2%). Thus, revenue growth for the nonauto sales and use tax has weakened and is probably closer to 1.8% than 11.3%.

Auto Sales Tax

Auto sales and use tax receipts were $92.4 million in October, $1.0 million (1.1%) above estimates. October auto tax revenues benefited from a carryover of tax receipts from strong auto sales in the last week of September.[5] The clerks of court generally make auto tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales tax receipts largely reflect vehicles sold and titled during the month. Compared to revenues in the same month a year ago, auto sales tax receipts in October 2004 were $17.2 million (15.7%) lower.

Previous Next

Chart 4: Consumption of Taxed Cigarettes and Tax Revenues
FY 2000 to FY 2004 and FY 2005 estimates



	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 est.
Cigarette Consumption	1,089.6	1,094.9	1,070.0	979.8	965.2	952.0
Cigarette Tax Revenues	$262	$263	$257	$539	$531	$524

Through October, fiscal year-to-date auto sales tax receipts were $390.5 million, $14.2 million (3.5%) below estimates. FY 2005 year-to-date auto sales and use tax receipts were $37.5 million (8.4%) below receipts through the same period a year ago. Thus, this tax source has not performed as well as expected.

October was the first month in the last seven months for which auto tax revenues exceeded estimate. From April 2004 through September 2004, auto sales and use tax receipts were 5.4% below estimates. However, the trend in auto sales tax revenues is not encouraging. Combined auto tax revenues for September and October 2004 were $46.0 million (20.2%) below receipts in the same two-month period in CY 2003 and also were $11.0 million (5.7%) below current-year estimates. Auto sales and use tax revenues are about 15% of total sales and use tax receipts. As the large positive variance in the nonauto sales tax receipts diminishes over the next few months, the auto sales tax would have to improve for the sales and use tax to do as well as projected this fiscal year.

Corporate Franchise Tax

Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year. Activities under the franchise tax in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations. The timing of refunds and other tax reconciliations is unpredictable, so monthly negative or positive variances in corporate franchise tax revenues have little meaning in the first half of the fiscal year.

In October, corporate franchise tax receipts were $11.7 million, $25.6 million (68.6%) below estimates. Through October, fiscal year-to-date corporate franchise tax receipts were $31.0 million, $22.3 million (41.9%) below estimates. These receipts were also $17.7 million (36.4%) below FY 2004 receipts. Actual corporate franchise tax receipts have been $77.8 million so far in FY 2005. However, $43.9 million was returned to corporate taxpayers as tax refunds. Litter prevention and recycling programs received $2.0 million, and there were distributions to the Local Government Fund (LGF) and the Local Government Revenue Assistance Fund (LGRAF).

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts in October were $45.9 million, $8.9 million (16.2%) below estimates. However, revenues from this tax source were $5.4 million (13.3%) higher than October 2003 receipts. In the first four months of FY 2005, revenues from the cigarette and other tobacco products tax were $159.3 million, $9.8 million (5.8%) below estimates. Compared to FY 2004, year-to-date revenues as of October 2004 were $5.2 million (3.2%) lower. Chart 4 shows consumption of taxed cigarettes[6] and revenues from the cigarette excise tax in the last five fiscal years, and estimated FY 2005 cigarette tax revenues. Cigarette consumption is in packs of 20 cigarettes. Revenues in Chart 4 exclude receipts from the tax on other tobacco products. Also, FY 2003 revenues exclude $35.3 million from the tax on cigarettes in inventory when the rate was raised from 24 cents to 55 cents on July 1, 2002. Total cigarette tax revenues, including inventory tax revenues, were $574.2 million in FY 2003.

[1] The "major taxes" are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the kilowatt-hour tax. In addition to providing revenue for the GRF, these taxes contribute to the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF).

[2] "Tax dues" are payments associated with annual returns, and "40P payments" are payments made by taxpayers requesting a filing extension.

[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] Am. Sub. H.B. 40 changed the historical pattern of remittance of sales and use tax receipts starting in April 2003. 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.

[5] Automakers unleashed greater incentives in the second half of September to help clear dealers' lots of unsold 2004 model year inventories and make room for the 2005 model year autos. The last week's rush did little to help September 2004 auto tax revenues. Auto sales and use tax receipts in September were $89.4 million, $12.0 million (11.8%) below estimates.

[6] Consumption of taxed cigarettes is usually less than actual cigarette consumption. An unknown amount of nontaxed cigarettes is from smuggling activities, Internet and cross-border purchases, and purchases at Indian reservations.

Table 2
General Revenue Fund Sources
Actual vs. Estimate
Month of October 2004
($ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$92,397	$91,420	$977	1.1%
Nonauto Sales & Use	$551,206	$553,500	-$2,294	-0.4%
Total Sales & Use Taxes	$643,604	$644,920	-$1,316	-0.2%
Personal Income	$565,245	$565,200	$45	0.0%
Corporate Franchise	$11,724	$37,299	-$25,575	-68.6%
Public Utility	-$7,369	-$7,600	$231	-3.0%
Kilowatt Hour Excise	$29,537	$30,500	-$963	-3.2%
Total Major Taxes	**$1,242,741**	**$1,270,319**	**-$27,578**	**-2.2%**
Foreign Insurance	$114,974	$116,130	-$1,156	-1.0%
Domestic Insurance	$162	$34	$128	376.9%
Business & Property	$21	$75	-$54	-72.5%
Cigarette	$45,920	$54,800	-$8,880	-16.2%
Alcoholic Beverage	$4,526	$4,389	$137	3.1%
Liquor Gallonage	$2,567	$2,325	$242	10.4%
Estate	$7,276	$11,900	-$4,624	-38.9%
Total Other Taxes	$175,447	$189,653	-$14,206	-7.5%
Total Tax Revenue	**$1,418,187**	**$1,459,972**	**-$41,785**	**-2.9%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$5,016	$3,974	$1,042	26.2%
Other Revenue	$7,929	$13,303	-$5,375	-40.4%
Nontax State-Source Revenue	$12,945	$17,277	-$4,332	-25.1%
TRANSFERS				
Liquor Transfers	$10,000	$9,000	$1,000	11.1%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$6,300	$6,400	-$100	-1.6%
Total Transfers In	$16,300	$15,400	$900	5.8%
TOTAL GRF before Federal Grants	**$1,447,432**	**$1,492,649**	**-$45,217**	**-3.0%**
Federal Grants	$461,824	$466,141	-$4,317	-0.9%
TOTAL GRF SOURCES	**$1,909,255**	**$1,958,790**	**-$49,534**	**-2.5%**

* August 2004 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 3
General Revenue Fund Sources
Actual vs. Estimate
FY 2005 as of October 2004
($ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
TAX REVENUE						
Auto Sales	$390,486	$404,662	-$14,176	-3.5%	$426,188	-8.4%
Nonauto Sales & Use	$2,270,463	$2,234,250	$36,213	1.6%	$2,040,083	11.3%
Total Sales & Use Taxes	$2,660,949	$2,638,912	$22,037	0.8%	$2,466,271	7.9%
Personal Income	$2,474,467	$2,424,400	$50,067	2.1%	$2,338,646	5.8%
Corporate Franchise	$30,968	$53,284	-$22,316	-41.9%	$48,674	-36.4%
Public Utility	$28,548	$27,900	$648	2.3%	$72,160	-60.4%
Kilowatt Hour Excise	$117,984	$119,100	-$1,116	-0.9%	$117,406	0.5%
Total Major Taxes	**$5,312,916**	**$5,263,596**	**$49,320**	**0.9%**	**$5,043,156**	**5.3%**
Foreign Insurance	$122,249	$122,813	-$564	-0.5%	$114,687	6.6%
Domestic Insurance	$170	$1,071	-$901	-84.1%	$147	15.1%
Business & Property	$820	$1,125	-$305	-27.1%	$1,139	-28.0%
Cigarette	$159,285	$169,100	-$9,815	-5.8%	$164,511	-3.2%
Alcoholic Beverage	$19,925	$19,722	$203	1.0%	$19,406	2.7%
Liquor Gallonage	$10,610	$9,982	$628	6.3%	$10,090	5.1%
Estate	$7,977	$16,100	-$8,123	-50.5%	$19,158	-58.4%
Total Other Taxes	$321,036	$339,913	-$18,877	-5.6%	$329,139	-2.5%
Total Tax Revenue	**$5,633,953**	**$5,603,509**	**$30,443**	**0.5%**	**$5,372,295**	**4.9%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$6,319	$10,560	-$4,241	-40.2%	$8,065	-21.7%
Licenses and Fees	$17,709	$13,551	$4,158	30.7%	$14,998	18.1%
Other Revenue	$39,710	$41,991	-$2,281	-5.4%	$44,943	-11.6%
Nontax State-Source Revenue	$63,738	$66,102	-$2,364	-3.6%	$68,006	-6.3%
TRANSFERS						
Liquor Transfers	$39,000	$36,000	$3,000	8.3%	$38,000	2.6%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$49,795	$51,800	-$2,005	-3.9%	$58,253	-14.5%
Total Transfers In	$88,795	$87,800	$995	1.1%	$96,253	-7.7%
TOTAL GRF before Federal Grants	**$5,786,486**	**$5,757,411**	**$29,075**	**0.5%**	**$5,536,554**	**4.5%**
Federal Grants	$1,862,668	$1,898,043	-$35,375	-1.9%	$1,967,194	-5.3%
TOTAL GRF SOURCES	**$7,649,154**	**$7,655,454**	**-$6,300**	**-0.1%**	**$7,503,748**	**1.9%**

* August 2004 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

DISBURSEMENTS

— *Steve Mansfield**

In October $2,246.6 million was disbursed from the General Revenue Fund (GRF), excluding transfers. This was $51.7 million under the estimate for the month, moving outlays for the year to date to $53.0 million under the estimate. Actual outlays for FY 2005 to date are 4.3% higher than at the same point in FY 2004.

As we see in Figure 1, in October, three of the state's four major GRF program categories had disbursement variances below the estimates, thus pushing down the year-to-date variance for those categories, while one (Welfare and Human Services) posted a variance above the estimate. With October's variance of $11.3 million over the estimate, the year-to date disbursements for the Welfare and Human Services category moved into "positive" disbursement territory for the first time in the fiscal year. This resulted particularly from the variance in the Health Care/Medicaid subcategory.

As Table 5 indicates, the three program subcategories with the largest disbursement variances for the year to date are Primary and Secondary Education ($101.9 million below estimate), Property Tax Relief ($88.2 million above estimate), and Health Care/Medicaid ($48.7 million above estimate).

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 $51.7 million in year-to-date underspending. Summary information about GRF disbursement activity for the most recent month is presented in Table 4. Fiscal year spending data are presented in Table 5. A detailed analysis of disbursement activity in the Health Care/Medicaid program is presented in Tables 6 and 7.

Education (-$133.7 million)

In October, disbursements in the Education category were $29.7 million under estimate, pushing total outlays in the category for the year to date under the estimate by $133.7 million

Figure 1
GRF Disbursement Variances
by Program Category, FY 2005

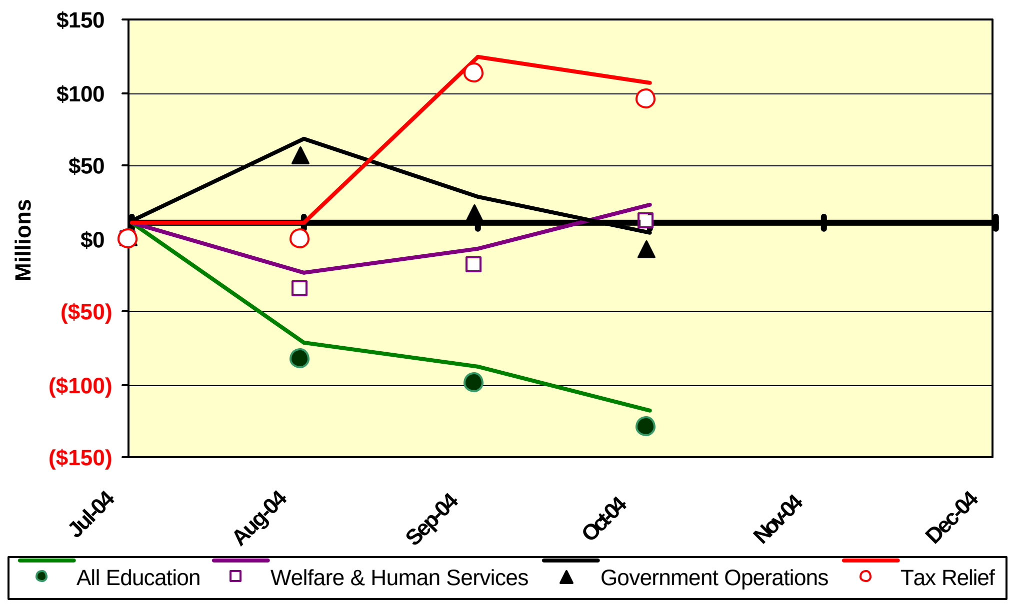


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of October 2004
($ in thousands)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$522,343	$552,468	-$30,125	-5.5%
Higher Education	$227,584	$227,193	$391	0.2%
Total Education	$749,927	$779,661	-$29,734	-3.8%
Health Care/Medicaid	$808,182	$762,067	$46,115	6.1%
Temporary Assistance to Needy Families (TANF)	$62,549	$62,799	-$251	-0.4%
General/Disability Assistance	$1,764	$1,908	-$143	-7.5%
Other Welfare (2)	$53,510	$63,061	-$9,551	-15.1%
Human Services (3)	$137,581	$144,076	-$6,495	-4.5%
Total Welfare & Human Services	$1,063,586	$1,033,911	$29,675	2.9%
Justice & Corrections	$160,561	$175,511	-$14,950	-8.5%
Environment & Natural Resources	$6,539	$7,150	-$611	-8.5%
Transportation	$1,662	$1,245	$417	33.5%
Development	$5,865	$8,464	-$2,599	-30.7%
Other Government	$16,432	$23,188	-$6,755	-29.1%
Capital	$0	$350	-$350	-100.0%
Total Government Operations	$191,059	$215,908	-$24,848	-11.5%
Property Tax Relief (4)	$220,982	$238,361	-$17,378	-7.3%
Debt Service	$21,020	$30,424	-$9,403	-30.9%
Total Other Disbursements	$242,003	$268,784	-$26,782	-10.0%
Total Program Disbursements	**$2,246,575**	**$2,298,264**	**-$51,690**	**-2.2%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$3,086	$0	$3,086	---
Total Transfers Out	$3,086	$0	$3,086	---
TOTAL GRF USES	**$2,249,661**	**$2,298,264**	**-$48,604**	**-2.1%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes 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 2004 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

(4.3%). Virtually all of the disbursement variance for the month was posted by the Department of Education.

Department of Education. October disbursements in the Department of Education were $522.3 million, which was $30.1 million (5.5%) below the estimate for the month. For the year to date, the Department's disbursements are $98.5 million (4.3%) under the estimate. October's variance is largely traceable to line item 200-501, Base Cost Funding, which was under estimate for the month by $22.3 million. This appropriation item is the largest item in the Department's budget, and with a total appropriation of $4,412.2 million for FY 2005,

Table 5
General Revenue Fund Uses
Actual vs. Estimate
FY 2005 as of October 2004
($ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
Primary & Secondary Education (1)	$2,242,469	$2,344,342	-$101,874	-4.3%	$2,173,000	3.2%
Higher Education	$752,167	$784,031	-$31,864	-4.1%	$749,241	0.4%
Total Education	$2,994,636	$3,128,374	-$133,738	-4.3%	$2,922,241	2.5%
Health Care/Medicaid	$3,236,638	$3,187,962	$48,676	1.5%	$3,067,124	5.5%
Temporary Assistance to Needy Families (TANF)	$89,456	$88,201	$1,255	1.4%	$114,846	-22.1%
General/Disability Assistance	$8,473	$8,823	-$350	-4.0%	$8,657	-2.1%
Other Welfare (2)	$200,637	$227,434	-$26,798	-11.8%	$210,042	-4.5%
Human Services (3)	$454,909	$466,403	-$11,494	-2.5%	$435,060	4.6%
Total Welfare & Human Services	$3,990,112	$3,978,824	$11,289	0.3%	$3,835,731	4.0%
Justice & Corrections	$734,149	$743,443	-$9,294	-1.3%	$719,542	2.0%
Environment & Natural Resources	$43,981	$45,223	-$1,242	-2.7%	$43,067	2.1%
Transportation	$9,891	$8,661	$1,230	14.2%	$10,754	-8.0%
Development	$77,068	$65,153	$11,916	18.3%	$66,353	16.1%
Other Government	$179,929	$189,293	-$9,364	-4.9%	$174,987	2.8%
Capital	$0	$730	-$730	-100.0%	$0	---
Total Government Operations	$1,045,017	$1,052,502	-$7,485	-0.7%	$1,014,703	3.0%
Property Tax Relief (4)	$416,392	$328,225	$88,166	26.9%	$314,425	32.4%
Debt Service	$174,370	$185,579	-$11,209	-6.0%	$176,433	-1.2%
Total Other Disbursements	$590,761	$513,804	$76,957	15.0%	$490,858	20.4%
Total Program Disbursements	**$8,620,526**	**$8,673,503**	**-$52,977**	**-0.6%**	**$8,263,532**	**4.3%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$27,857	$0	$27,857	---	$29,299	-4.9%
Total Transfers Out	$27,857	$0	$27,857	---	$29,299	-4.9%
TOTAL GRF USES	**$8,648,384**	**$8,673,503**	**-$25,120**	**-0.3%**	**$8,292,832**	**4.3%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes 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 2004 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

the variance is small in comparison. The disbursement of these funds is made according to base cost formula data, which in the fall months is still in the process of being finalized. Another relatively large contributor to the month's variance is line item 200-521, Gifted Pupil Program, which was under estimate by $5.1 million. A payment that was earmarked to help school districts pay for identifying gifted students was expected in October but has been delayed.

A large part of the Department's year-to-date underspending of $98.5 million is attributable to line item 200-501, Base Cost Funding

($45.8 million under the estimate). Included among other appropriation items with relatively large contributions to the year-to-date variance is line item 200-410, Professional Development ($9.1 million under the estimate), which experienced a delay in payments. Line item 200-437, Student Assessment, was $8.9 million under the estimate, due largely to invoices that were received slower than anticipated. And line item 200-513, Student Intervention Services, was $8.8 million under the estimate, due largely to district requests for these funds that were slower than anticipated.

Board of Regents. Disbursements by the Board of Regents were $0.3 million above the estimate for October and thus did little to alter the year-to-date underspending, which stands at $31.9 million below estimate. Like last month, two line items stand out as the source for the year-to-date variance. Disbursements for line item 235-531, Student Choice Grants, were over estimate in October by $8.7 million but remain under estimate by $8.8 million for the fiscal year. The disbursement variance in line item 235-531 is due to data coming in from campuses at a slower rate than was assumed in the estimate. Disbursements from line item 235-503, Ohio Instructional Grants, were under estimate in October by $4.4 million and stand at $15.9 million below estimate for the fiscal year. The variance in line item 235-503 is due in part to summer-term 2004 payment requests that were lower than expected. Some of the requests for spring 2004 were paid out of the Ohio Instructional Grant Reconciliation Fund after the start of the current fiscal year, which was not factored into the estimate for this line item.

Government Operations (-$7.5 million)

With a disbursement variance of $24.8 million under the estimate in October, outlays in the Government Operations category stand at $7.5 million (0.7%) under the estimate for the year to date. The Department of Rehabilitation and Correction is the largest contributor to the underspending for the month ($13.0 million under the estimate for October). The Department of Development is the largest contributor to the year-to-date variance ($11.8 million over the year-to-date estimate).

Development. The Department of Development's disbursements in October totaled $4.3 million, a variance of $2.5 million (36.5%) below the estimate. For the fiscal year, the Department's disbursements are $11.8 million (37.9%) above the estimate.

As reported in last month's "Disbursements" article, the Department's variance over estimate for the year to date stems from activity in previous months when grant money was released that had been anticipated in the last fiscal year. This variance stems largely from three line items: 195-515, Economic Development Contingency; 195-412, Business Development Grants; and 195-516, Shovel Ready Sites.

Rehabilitation & Correction. In October the Department of Rehabilitation and Correction posted disbursements that were $13.0 million below the estimate of $140.6 million. This variance reduced the year-to-date variance to less than $1 million under the estimate. The bulk of the October variance ($7.9 million) was located in line item 501-321, Institutional Operations. The variance is essentially an issue of timing with certain payments.

Welfare/Human Services ($11.3 million)

The Welfare/Human Services category posted a disbursement variance of $29.7 million over the estimate in October. For the year to date, outlays in this category stand at $11.3 million over the estimate. Two program subcategories (Health Care/Medicaid, and Other Welfare)—both in the Department of Job and Family Services—are the main contributors to the variance and are discussed in more detail in the following paragraphs.

Health Care/Medicaid. Year-to-date disbursements through October in the Health Care/Medicaid program (primarily line item 600-525) are $48.7 million (1.5%) above the estimate (see Table 6). For October, health care spending was $46.1 million (6.1%) above the estimate.

Table 6
Health Care Spending in FY 2005
Medicaid, ALI 600-525
($ in thousands)

Service Category	October Actual	October Estimate	October Variance	October Percent Variance	Year-to-Date Spending Actual thru Oct.	Year-to-Date Spending Estimate thru Oct.	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Facilities Payments	$222,473	$222,400	$73	0.0%	$903,420	$889,107	$14,313	1.6%
ICF/MR Payments	$36,868	$37,326	($457)	-1.2%	$148,642	$149,406	($764)	-0.5%
Inpatient Hospitals	$114,099	$111,612	$2,487	2.2%	$433,688	$472,412	($38,723)	-8.2%
Outpatient Hospitals	$50,942	$48,647	$2,296	4.7%	$207,895	$207,099	$796	0.4%
Physicians	$45,849	$43,813	$2,036	4.6%	$191,647	$187,677	$3,970	2.1%
Prescription Drugs	$158,418	$155,998	$2,420	1.6%	$634,274	$635,763	($1,489)	-0.2%
ODJFS Waiver	$17,366	$18,393	($1,027)	-5.6%	$71,266	$76,514	($5,247)	-6.9%
All Other	$68,011	$75,990	($7,979)	-10.5%	$292,835	$313,691	($20,856)	-6.6%
MCP	$85,380	$89,477	($4,096)	-4.6%	$340,284	$354,496	($14,212)	-4.0%
Medicare Buy-In	$14,585	$14,129	$457	3.2%	$58,151	$56,361	$1,790	3.2%
Total Medicaid Payments	**$813,993**	**$817,784**	**($3,791)**	**-0.5%**	**$3,282,101**	**$3,342,525**	**($60,424)**	**-1.8%**
DA Medical	$6,742	$5,446	$1,296	23.8%	$23,413	$21,463	$1,950	9.1%
Drug Rebates Offsets	($1,337)	($49,836)	$48,499	-97.3%	($26,741)	($125,309)	$98,569	-78.7%
ICF/MR Franchise Fee Offsets	($1,711)	($1,711)	$0	0.0%	($5,076)	($6,776)	$1,700	-25.1%
NF Franchise Fee Offsets	($9,505)	($9,616)	$111	-1.2%	($32,276)	($39,157)	$6,881	-17.6%
DSH Rebate Offsets	$0	$0	$0		($4,785)	($4,785)	$0	
Total Health Care (Net of Offsets)	**$808,182**	**$762,067**	**$46,115**	**6.1%**	**$3,236,638**	**$3,187,962**	**$48,675**	**1.5%**
Est. Federal Share	$474,468	$447,395	$27,073		$1,900,168	$1,871,592	$28,576	
Est. State Share	$333,714	$314,672	$19,042		$1,336,469	$1,316,370	$20,099	

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 $4.30 per bed per day for FYs 2004 and 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, and prior period contract.
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 58.71%.

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.

As we see in Table 6, the source of October's above-estimate variance was Drug Rebates Offsets (line item 600-692, Health Care Services, a non-GRF line item). Since this is a rebate, actual spending from this line item is shown in negative numbers. In October, spending was lower than anticipated, producing in this case a positive variance of $48.5 million. This is solely a timing issue and should reverse itself soon.

Several of the service categories show below-estimate spending. Notable among these are the Inpatient Hospitals and Managed Care Plan (MCP) categories. The Inpatient Hospitals category is under estimate by $38.7 million for the year to date. According to the Department, this is due to a lower than anticipated utilization rate; however, with the category being slightly above estimate for the month, this does not appear to be a trend. The MCP category is below the estimate for the year to date by $14.2 million. Enrollments for managed care are coming in a little lower than estimated.

One service category with a variance over estimate for the year to date is Nursing Facilities Payments, which is over the estimate by $14.3 million. Like last year, the Department reports that "bed days" in nursing facilities are higher than expected, while per diems for Nursing Facilities have behaved as expected. In addition, payments to third parties were higher than forecast.

Looking at the year-over-year comparisons in Table 7, we see a significant increase in Prescription Drugs payments. This is a continuation of the trend of a relatively high inflation rate in the cost of prescription drugs and higher utilization rates. We also see significantly lower payments for Intermediate Care Facilities for the Mentally Retarded (ICF/MR). The year-to-year difference for ICF/MR Payments is due largely to a mistake last fiscal year in the way payments to some developmental centers of the Department of Mental Retardation and Developmental Disabilities were posted.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs were $5.8 million under estimate in October and stand at $17.2 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.

Several line items contributed to the underspending for the year to date. Among these are line items 600-521, Family Stability Subsidy ($4.5 million under estimate); 600-523, Children and Families Subsidy ($2.5 million under estimate); and 600-321, Support Services ($2.5 million under estimate). For the two subsidy line items, counties have simply requested slightly less than in years past. Also, disbursements from line item 600-523 were affected by the fact that foster parent training funds were not disbursed as had been expected. Disbursements from line item 600-321 were affected by lower than anticipated rent and maintenance expenditures.

Table 7
FY 2005 to FY 2004 Comparison of Year-to-Date Health Care Spending
($ in thousands)

Service Category	FY 2005 Yr.-to-Date as of Oct. '04	FY 2004 Yr.-to-Date as of Oct. '03	Dollar Change	Percent Increase
Nursing Facilities Payments	$903,420	$907,884	($4,465)	-0.5%
ICF/MR Payments	$148,642	$169,396	($20,754)	-12.3%
Inpatient Hospitals	$433,688	$432,997	$691	0.2%
Outpatient Hospitals	$207,895	$196,906	$10,989	5.6%
Physicians	$191,647	$184,078	$7,569	4.1%
Prescription Drugs	$634,274	$559,553	$74,721	13.4%
ODJFS Waiver	$71,266	$62,398	$8,868	14.2%
All Other	$292,835	$308,211	($15,377)	-5.0%
MCP	$340,284	$363,049	($22,765)	-6.3%
Medicare Buy-In	$58,151	$50,576	$7,575	15.0%
Total Medicaid Payments	**$3,282,101**	**$3,235,048**	**$47,053**	**1.5%**
DA Medical	$23,413	$26,144	($2,731)	-10.4%
Drug Rebates Offsets	($26,741)	($83,609)	$56,868	-68.0%
ICF/MR Franchise Fee Offsets	($5,076)	($6,821)	$1,745	-25.6%
NF Franchise Fee Offsets	($32,266)	($39,496)	$7,229	-18.3%
DSH Rebate Offsets	($4,785)	$0	($4,785)	
Prior period encumbrance subsidy	$0	($71,000)	$71,000	-100.0%
Total Health Care (Net of Offsets)	**$3,236,647**	**$3,060,267**	**$176,380**	**5.8%**
Est. Federal Share	$1,900,174	$1,796,625	$103,549	
Est. State Share	$1,336,473	$1,263,643	$72,830	

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 $4.30 per bed per day for FYs 2004 and 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, and prior period
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 58.71%.

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

Tax Relief ($88.2 million)

Tax Relief payments totaled $221.0 million in October, $17.4 million (7.3%) under the estimate. Year-to-date total disbursements of $416.4 million are $88.2 million higher than the estimate and $102.0 million above a year ago. Disbursement variances in the Property Tax Relief program are usually traceable to the timing of county auditor requests for reimbursement. It appears that payments to school districts and other local governments merely began sooner than expected. Outlays for reimbursement of the $10,000 tangible personal property tax exemption are expected to begin in November.

**LSC colleagues who contributed to the development of this disbursement report included, in alphabetical order, Melaney Carter, Ivy Chen, Phil Cummins, David Price, Joseph Rogers, Kerry Sullivan, and Clay Weidner.*

Issues of Interest

TANF SPENDING ANNUAL REPORT

¾ Steve Mansfield and Erin Pettegrew

September 30, 2004 marked the eighth year of the operation of the federal Temporary Assistance for Needy Families (TANF) program and the seventh year of Ohio's operation of its two TANF programs: the Ohio Works First (OWF) program and the Prevention, Retention, and Contingency (PRC) program.

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

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

Along with a number of other federal programs, the TANF program had its funding extended for six months in late September 2004 by H.R. 5149. This was the eighth extension of the program since authorization was to have expired at the end of federal fiscal year (FFY) 2002. Negotiations over the stalled TANF reauthorization bill are continuing.

TANF and Consolidated Funding to Counties

The Ohio Department of Job and Family Services delivers human services through a state-supervised, county-administered system. Am. Sub. H. B. 215 of the 122nd General Assembly granted the Department of Job and Family Services (then the Department of Human Services) the authority to make a "consolidated" funding option available to the counties that would combine 10 different funding streams into a single allocation that could be used for any of the purposes authorized by the 10 funding sources. Counties could spend on services as needed without regard to the origin of the funds so long as they stayed within their total allocation. The Department of Job and Family Services would reconcile the county spending each year. (For a more detailed description of the consolidated funding system, see *Budget Footnotes*, April 2000, "Human Services Consolidated Funding to Counties.")

Earlier this year the Department of Job and Family Services discovered that it had not been performing a thorough reconciliation of the separate funding streams, only a reconciliation of the consolidated payment system as a whole to balance expenditures by counties that exceeded their allocation with those that had not. The failure to develop a system that would reconcile the different funding streams resulted in TANF funds being spent from state fiscal year (SFY) 2000 through the first months of SFY 2005 for administrative costs in the Medicaid and Food Stamp programs, when state funds should have been used instead. Estimates of the funds needed to repay the TANF block grant range up to $280 million. Part of the transfers and other adjustments proposed by the Department have already been accomplished through steps taken by the Department and through Controlling Board action. Other corrective steps remain to be taken in the capital appropriations bill and in the main operating appropriations bill for the next biennium. The consolidated allocation system that was in place has been replaced by a new system termed Public Assistance Fund Linkages, which retains some flexibility for counties but also limits the funds to more narrowly defined sets of purposes.

Ohio's TANF Expenditures, FFY 1997 – FFY 2004

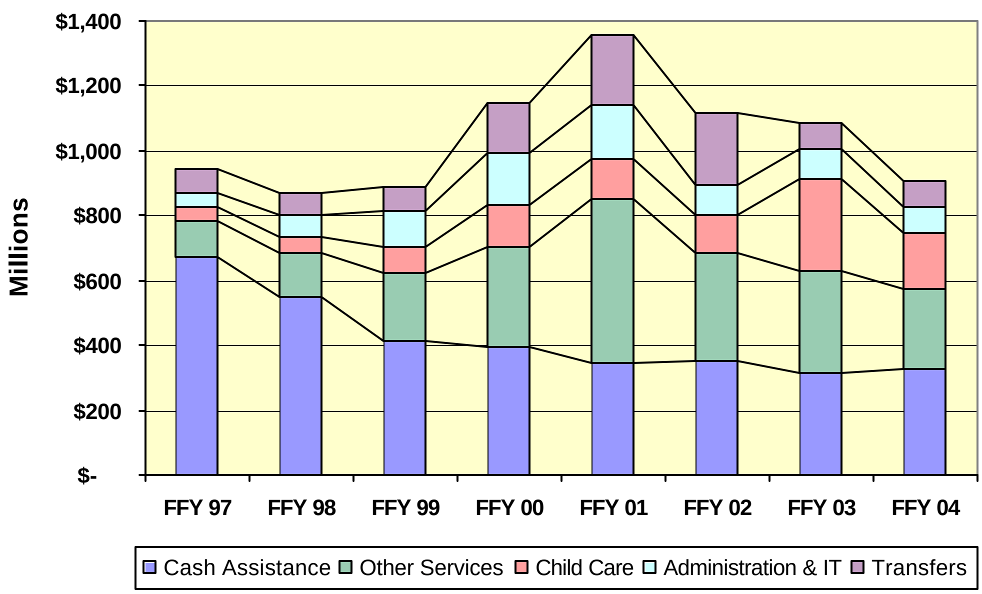
Figure 1 tracks by federal fiscal year the total expenditures (both federal and state MOE) in five categories: cash assistance, all other services (excluding child care), child care, administration and information technology, and transfers (which can be made to the Child Care and Development Fund or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

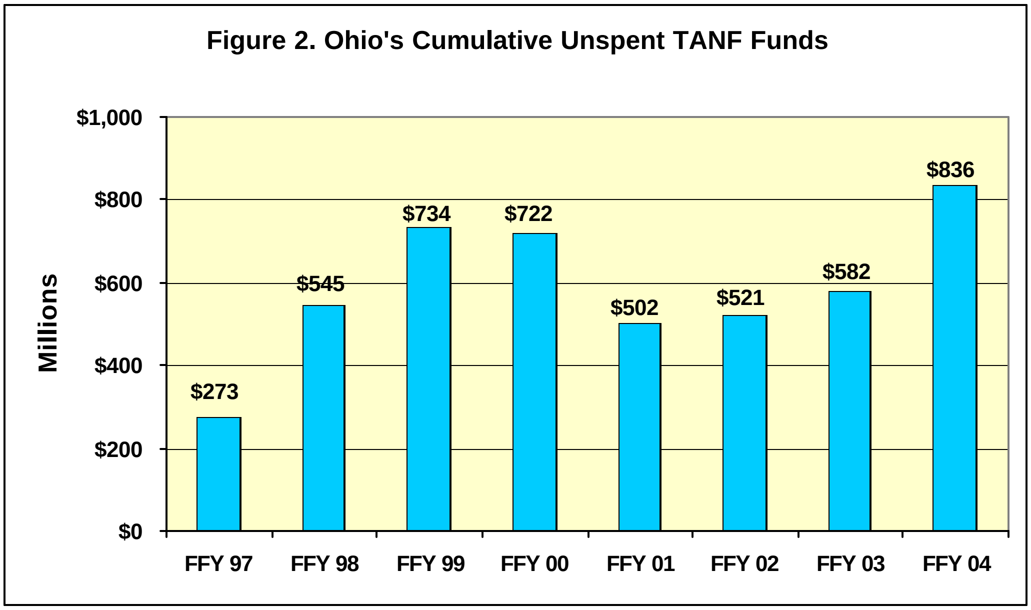
At the current funding level, Ohio's annual TANF grant from the federal government is $727,968,260. In FFY 2004 Ohio was awarded an additional $28,115,197 in high-performance bonus funds for performance in FFY 2003. In FFY 2003 Ohio was awarded $21,385,937 in high-performance bonus funds for performance in FFY 2002. In FFY 2004 Ohio spent or transferred $501.5 million in federal TANF funds. Thus the state's cumulative total of unspent TANF funds held in reserve in the federal account increased by about $254.5 million (see Figure 2).

In order to receive the federal TANF grant, Ohio must also meet an MOE spending requirement. In each of the federal fiscal years 1997 through 2004, Ohio's MOE expenditures were about $400 million.

We see in Figure 1 that overall expenditures declined by $176.8 million from FFY 2003 to FFY 2004. Expenditures for cash assistance have declined from $673.1 million in FFY 1997 to $325.5 million in FFY 2004 but are up slightly from FFY 2003. As a share of total TANF expenditures, cash assistance has declined from 71.3% of annual expenditures in FFY 1997 to 35.8% in FFY 2004. Expenditures for "other services" (which includes the array of services in Ohio's Prevention, Retention, and Contingency program, as well as work subsidies, transportation, prevention of out-of-wedlock

Figure 1. TANF Expenditures by Spending Category (includes state MOE and federal TANF funds)

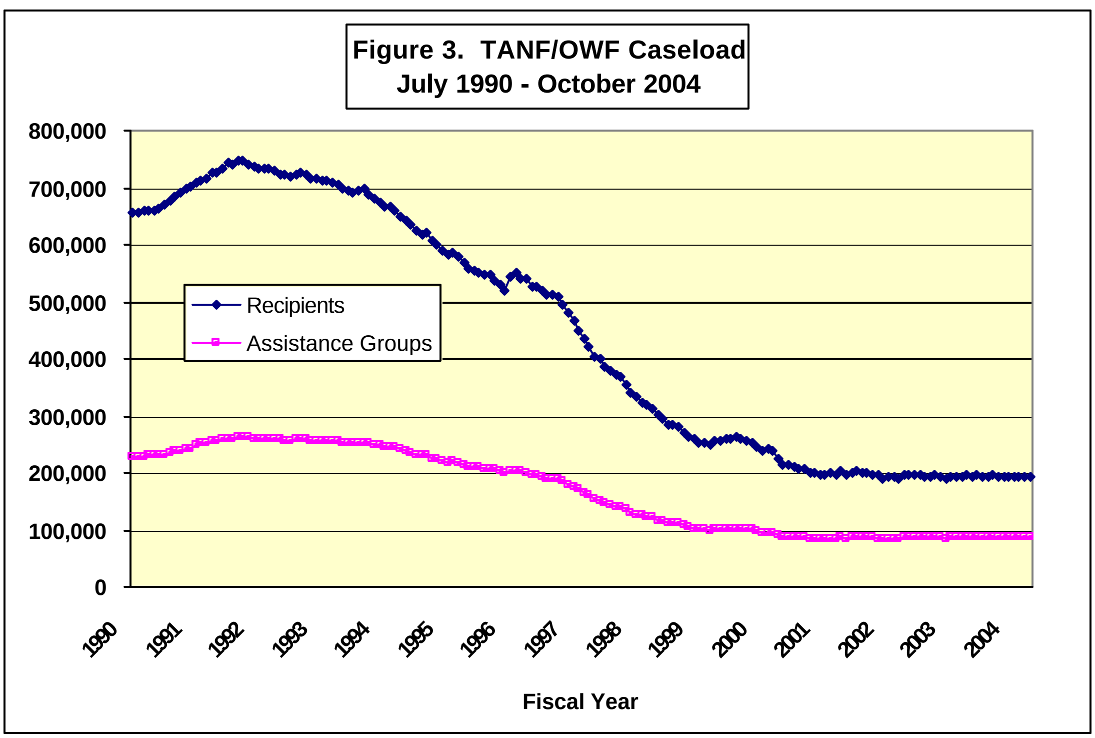




pregnancies, and services designed to help the formation and maintenance of two-parent families) were $250.7 million in FFY 2004, down from a peak of $506.0 million in FFY 2001.

We also see in Figure 1 that TANF spending for child day care decreased somewhat in FFY 2004 to $171.8 million, down from $280.2 million in FFY 2003. In FFY 2000 through FFY 2002, Ohio transferred TANF federal funds to the Child Care and Development Fund (CCDF). In FFY 2003 and FFY 2004, there were no transfers to the CCDF.

Figure 2 tracks the cumulative reserve of unspent TANF funds by federal fiscal year. At the end of FFY 2004, Ohio's cumulative unspent TANF funds totaled $836.1 million, with $505.2 million reported as unliquidated obligations and $330.9 million reported as the unobligated balance. A portion of the unliquidated obligations is in the form of allocations to counties. Any part of these allocations that goes unspent by the counties during the time frame in which the funds are available would revert to the unobligated balance. TANF rules permit



unobligated funds from previous fiscal years to be spent only on cash assistance.

TANF Cash Assistance Caseload

Since reaching a peak of about 750,000 recipients in 1992, the number of Ohioans receiving cash assistance (either in the Ohio Works First program or in its predecessor program, Aid to Dependent Children, or ADC) has declined to about 194,000 in October 2004. The number of assistance groups has, in the same period, gone from about 263,000 to about 87,500 (see Figure 3). The TANF caseload has been relatively stable for nearly the last four years.

PRC Caseload

In addition to the cash assistance caseload, TANF funds were used to provide support services to an average of 65,465 individuals per month during SFY 2004. This was down from 112,108 individuals per month in SFY 2003 and 163,615 individuals per month in SFY 2002. During SFY 2004 the state spent $112,915,549 on PRC services. This was down from $152,917,311 in SFY 2003 and $182,062,674 in SFY 2002.

The PRC program provides support services for needs such as short-term basic needs, transportation, job training and work support, disaster assistance, and several other family support services. A report on the services delivered through the PRC program during the fourth quarter of fiscal year 2004 can be found on the Department of Job and Family Services' web site at the following Internet address: http://jfs.ohio.gov/oraa/tanf_4q04summ.PDF.