

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

DECEMBER 2004

FISCAL OVERVIEW

— Allan Lundell

November saw a continuation of the U.S. economic expansion with Ohio's recovery continuing to lag the nation's. General Revenue Fund (GRF) receipts and disbursements were below estimate for the month. For the fiscal year to date, total GRF receipts and 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 November. Nonfarm payroll employment increased by 112,000 and the unemployment rate declined to 5.4%. The estimate of growth in real gross domestic product for the third quarter was revised upward from 3.7% to 3.9%, compared to 3.3% for the second quarter. Retail sales rose 0.1% in November, following an upward-revised 0.8% increase in October, to 7.2% above a year earlier. Sales excluding autos rose by 0.5% to 8.6% above a year ago.

Receipts

The dreary revenue picture for October was followed by a gloomy one for November. Total GRF receipts for the month were \$91 million (5.1%) below estimate, state-source receipts were \$67 million (5.0%) below estimate, tax revenue was \$60 million (4.5%) below estimate, and revenues from the "major" taxes were \$62 million (4.9%) below estimate.¹

Five months into the fiscal year, the overall revenue picture has turned from mildly encouraging to mildly worrisome. Tax revenue has fallen below estimate for three consecutive months and total GRF receipts have been below estimate for the last two months. Through November, total GRF receipts are \$98 million (1.0%) below estimate and state-source receipts are \$38 million (0.5%) below estimate. Total GRF tax revenue is \$30 million (0.4%) below estimate and GRF revenues from the "major taxes" are \$12 million (0.2%) below estimate. Some encouragement is provided by the personal income tax (1.8% above estimate) and the nonauto sales tax (1.2% above estimate). At this point in FY 2004, revenue

Volume 28, Number 4

- Tracking the Economy81
- The national economy continues to grow, though employment gains remain slower than in past expansions
 - Ohio's economy is showing little if any forward momentum
 - Inflation, overall, remains mild for consumer goods and services despite higher energy and food prices

STATUS OF THE GRF

- Revenue86
- November revenue picture gloomy
 - Revenue shortfall led by corporate franchise and public utility taxes
 - Fiscal year-to-date revenue from state sources other than the sales tax up 1.9% compared to FY 2004
- Disbursements94
- Health Care/Medicaid disbursements show timing-related drop
 - Timing issues push Education year-to-date disbursements further under estimate
 - Total GRF disbursements nearly \$250 million under estimate

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

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

	Month of November	Fiscal Year 2005 to Date	Last Year	Difference
Beginning Cash Balance	-\$466.1	\$533.1		
Plus Revenue and Transfers In	\$1,699.6	\$9,348.8		
Available Resources	\$1,233.5	\$9,881.9		
Less Disbursements and Transfers Out	\$2,181.4	\$10,829.8		
Ending Cash Balances	-\$947.9	-\$947.9	-\$793.9	-\$154.0
Less Encumbrances and Accts. Payable		\$657.2	\$619.5	\$37.8
Unobligated Balance		-\$1,605.1	-\$1,413.4	-\$191.7
Plus BSF Balance		\$180.7	\$180.7	\$0.0
Combined GRF and BSF Balance		-\$1,424.4	-\$1,232.7	-\$191.7

from the personal income tax was 0.4% below estimate and revenue from the nonauto sales tax was 0.1% above estimate.

Disbursements

November total GRF program disbursements were \$193 million (8.1%) below estimate. Disbursements for health care/Medicaid were \$131 million (14.8%) below estimate. Disbursements for primary and secondary education were \$8 million (1.3%) below estimate and disbursements for property tax relief were \$49 million (27.0%) below estimate.

Year-to-date total program disbursements are \$246 million (2.2%) below estimate. Disbursements for primary and secondary education are \$110 million (3.7%) below estimate and disbursements for higher education are \$28 million (2.6%) below estimate. Disbursements for health care/Medicaid are \$83 million (2.0%) below estimate and disbursements for welfare and human services are \$132 million (2.6%) below estimate. Disbursements for property tax relief are \$39 million (7.7%) above estimate.

Cash Balance

As shown in Table 1, the GRF began November with a negative cash balance of -\$466 million. Monthly revenues plus transfers in totaled \$1,700 million and disbursements plus transfers out totaled \$2,181 million. The monthly deficit of \$482 million reduced the month-end cash balance to -\$948 million.² This amount is \$154 million lower (more negative) than a year ago, but \$121 million higher (less negative) than the balance would have been if receipts and disbursements had equaled their estimates for the first five 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.

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

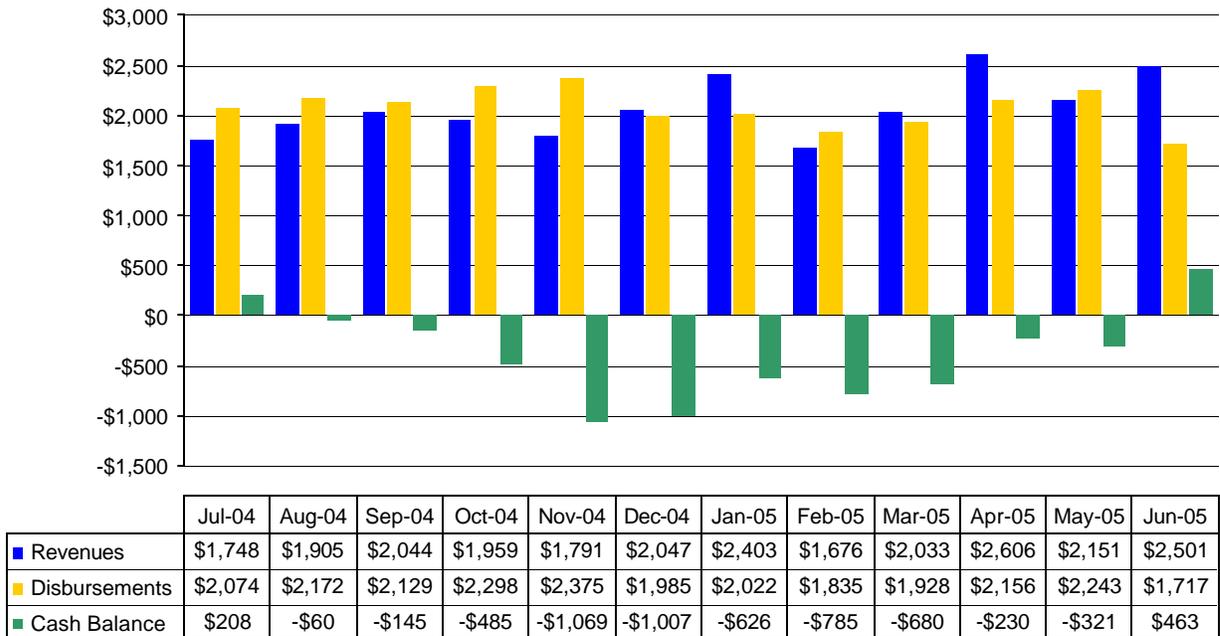
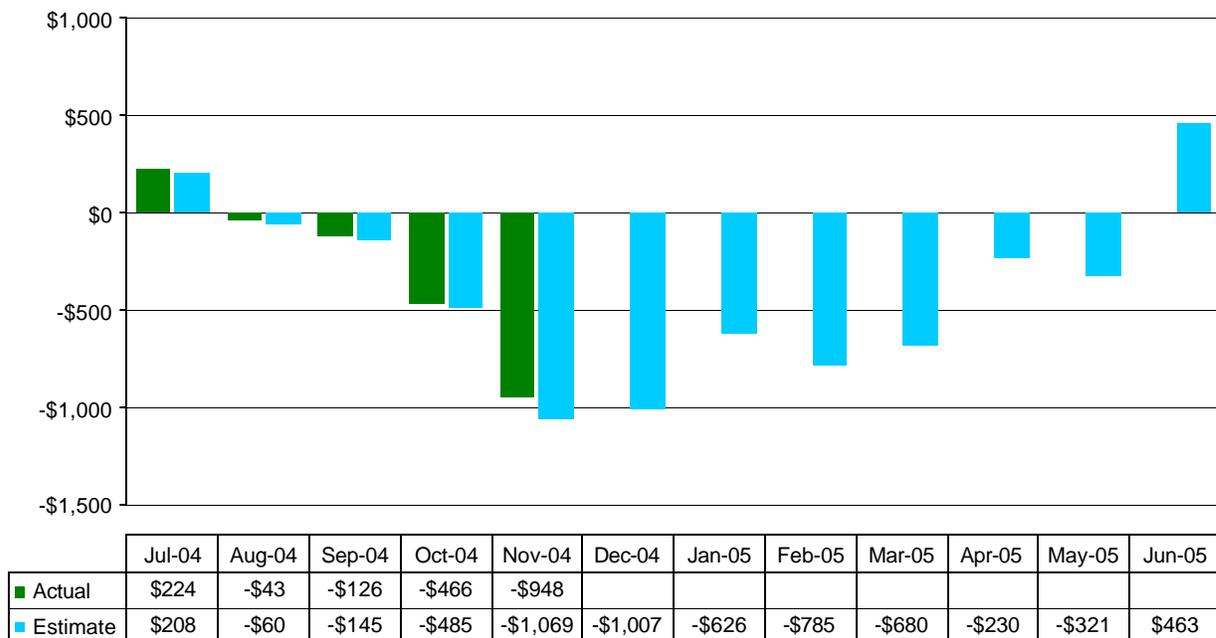


Chart 2: Actual and Estimated Ending Cash Balances
(in millions)



The \$657 million in encumbrances plus accounts and payrolls payable combine with the cash balance to yield an unobligated balance of -\$1,605 million. This amount is \$192 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 -\$1,424 million is \$192 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 (LGRA), 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 November, FY 2005 revenues plus transfers in totaled \$9,349 million and disbursements plus transfers out totaled \$10,830 million. The year-to-date deficit of \$1481 million reduced the month-end cash balance to -\$466 million.

TRACKING THE ECONOMY

¾ Phil Cummins

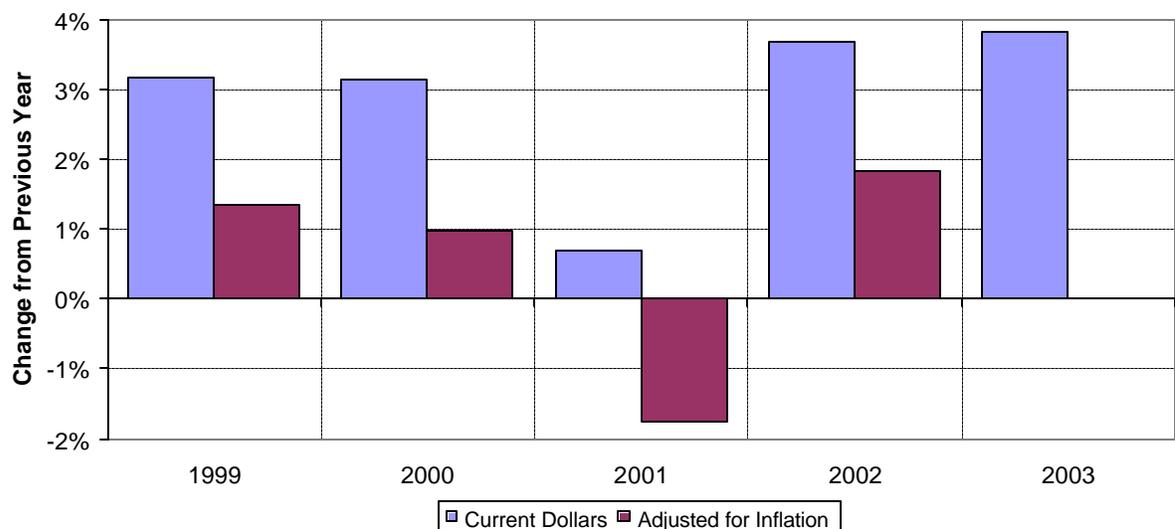
Economic expansion continues in much of the nation, though recent indicators suggest that Ohio is not sharing in this growth. In November, nonfarm payroll employment rose 112,000 nationwide but fell 2,500 in Ohio. Factory production rose last month, and higher orders support expectations for further gains. Purchasing managers around the country continue to report expansion accompanied by cost pressures and some shortages, but those seeing declines in order backlogs last month outnumbered those noting increases for the second consecutive month. A Federal Reserve report on comments from business and other contacts showed a growing economy, except in this region. Retail sales rose slightly last month, reflecting lower motor vehicle sales. Higher consumer spending has been outpacing incomes, pushing saving as a share of aftertax incomes down to one of the lowest rates on record. Housing starts fell sharply, but the issuance of new permits for housing construction declined much less. The U.S. trade and current account deficits widened to record levels. America's payments imbalance with the rest of the world has exerted downward pressure on the value of the dollar relative to other currencies during the past two to three years, and the dollar's fall accelerated in the past two months. Producer

prices rose 0.5% in November, mainly reflecting energy and food price increases. Consumer prices rose 0.2% in November after a 0.6% increase in October, when energy and food price increases pushed up the overall index. Short-term interest rates rose again as the central bank raised its target interest rate for the fifth time this year.

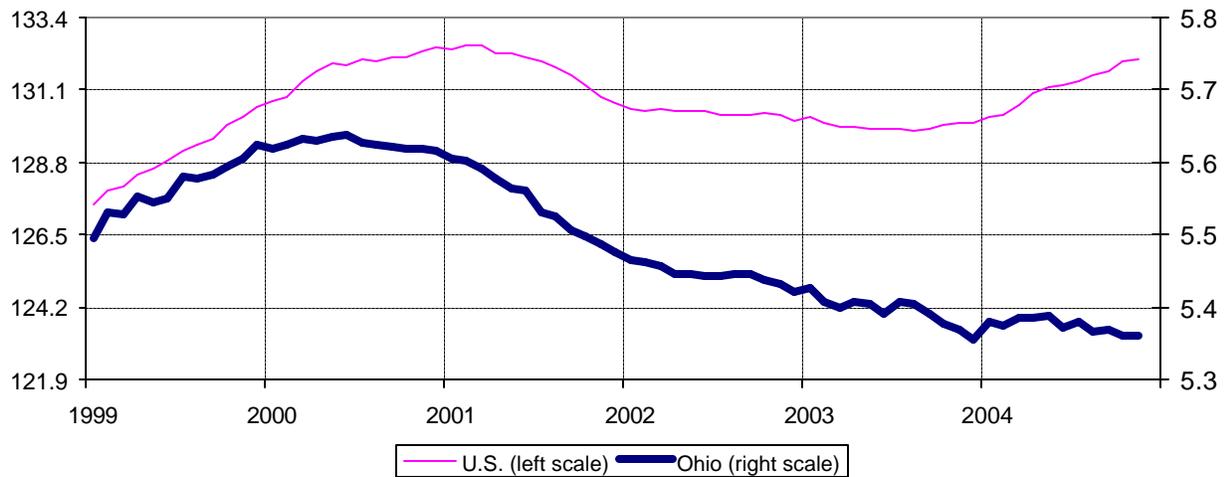
Growing Total Output in the Nation This Year and in Ohio Last Year

The national economy grew at a 3.9% annual rate in the third quarter. This estimate of inflation-adjusted gross domestic product (real GDP) was revised upward from a 3.7% rate of increase previously reported. The U.S. economy has now expanded for 12 consecutive quarters, after contracting in two quarters of 2001. In addition to revised GDP figures, the government released its initial estimate of third-quarter corporate profits, which shrank as a result of an estimated \$20 billion (not at an annual rate) in hurricane-related losses. These losses mainly consisted of insurance company settlements but also included uninsured losses, and reduced third quarter profits about 7%.¹ Apart from the hurricane effects, corporate profits have been growing more slowly this year, after surging last year.

Chart 1: Ohio Gross State Product



**Chart 2: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted**



Ohio gross state product (GSP) estimates, available only with a long delay, are now published through 2003 measured in current dollars, and through 2002 adjusted for inflation. The figures show that Ohio's economy is the seventh largest among the states, trailing only California, New York, Texas, Florida, Illinois, and Pennsylvania. Ohio's total GSP in 2003 was \$403 billion, accounting for 3.7% of the nation.² Inflation-adjusted GSP in Ohio fell 1.8% in recession year 2001, in contrast with a 0.6% increase nationwide. Real Ohio GSP rose 1.8% in 2002, less than the 2.1% growth in the national total. In 2003, Ohio GSP measured in current dollars rose by a percentage point less than the nation, increasing 3.8% versus a 4.8% rise nationwide. In inflation-adjusted terms, Ohio's economy probably expanded last year at about the same pace as in 2002. Changes in Ohio gross state product in recent years are shown in Chart 1.

Employment Higher Nationwide but Lower in Ohio

Nonfarm payroll employment nationwide rose 112,000 in November, well short of the pace in past business expansions. October's increase in nonfarm payrolls was revised downward to 303,000. Unemployment declined in November to 5.4% of the labor force from 5.5%, remaining in the range in which this ratio has fluctuated since July. Virtually all of November's rise in payroll employment was in services. Factory employment

fell slightly and has varied little for the past six months after gains earlier in the year.

Ohio nonfarm payroll employment fell 2,500 in November to 8,400 below a year earlier. Unemployment in the state rose to 6.5% of the labor force last month, from an upward-revised 6.4% in October. Total nonfarm payroll employment in the United States and Ohio are shown in Chart 2.

Economic Expansion, except in This Region

Manufacturing activity increased in October, according to the Institute for Supply Management's monthly survey of purchasing managers. More reported increases than noted declines in production, orders, employment, and inventories, again accompanied by widespread commodity price increases and shortages of some chemicals and metals. However, those seeing declines in order backlogs outnumbered those saying backlogs rose, for the second consecutive month. A comparable survey of nonmanufacturers showed rising business activity, orders, order backlogs, inventories, and employment, also accompanied by generally rising prices with some commodities in short supply.

The Federal Reserve System's latest "Beige Book," a summary of observations on economic conditions gathered from business contacts and others outside the central bank, continued to show

a growing economy in much of the nation. The exception was in the Cleveland Federal Reserve District, which includes Ohio. Factory output and retail sales in this region were characterized as about unchanged in recent weeks through mid-November. However, demand for transport services was said to be strong, supporting rising shipping rates and wages and a high level of capital spending. Nearly half of contacts at manufacturers in this region said output was lower than a year ago, due partly to cuts in auto industry assembly schedules. Among retailers, small sales gains were noted at discounters and specialty stores, while lower sales were reported at department stores and auto dealers. Residential building was described as slowing in the region. This comment from builders is supported by Ohio housing permits data, which showed a 15% decline in the number of units in January-October, compared with a year earlier. Nonresidential builders were said to be optimistic about construction activity in 2005. Around the nation, increased cost pressures were noted by companies, and several reports indicated that some businesses were succeeding in passing through cost increases to customers.

Industrial production rose 0.3% in November, to 4.2% above a year earlier. Output in September and October was revised downward. Manufacturing output also rose 0.3% last month, from a downward-revised October level, to 4.9% above November 2003. Both indexes were at new all-time highs. Production of business equipment and of defense and space equipment have trended strongly upward this year. Consumer nondurable goods output has been growing in 2004, but consumer durables production has been essentially flat after rising from 2001 lows. Industrial materials output—including parts and other manufactured inputs—has trended upward since mid-2003.

A strong uptrend in manufacturers' orders this year points to further increases in factory production. The value of manufacturers' new orders in the first ten months of 2004 was 11% higher than a year earlier. Unlike the industrial production figures, these numbers include increases resulting from higher prices as well as

from more units.³ Orders in some sectors have risen more strongly, including iron and steel mills, +29% so far this year compared with a year earlier; industrial machinery, +21%; metalworking machinery, +23%; construction machinery, +43%; material handling equipment, +14%; turbines, generators, and other power transmission equipment, +34%; fabricated metal products, +14%; and electromedical, measuring, and control instruments, +14%. In contrast with the manufacturing purchasing managers' reports suggesting declining order backlogs in October and November, the Census Bureau's October report on manufacturers' order backlogs (latest available) showed continued growth.

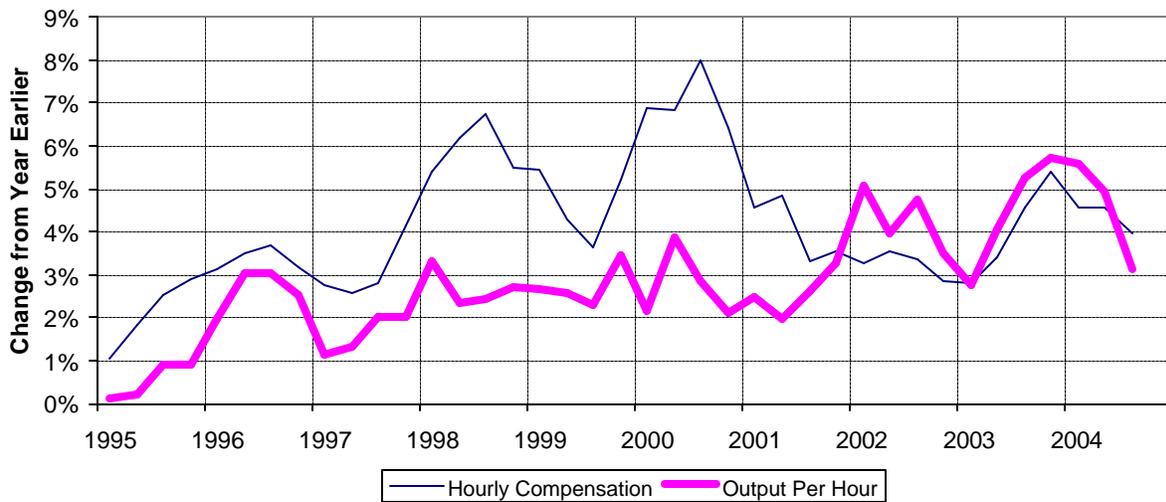
Consumer Outlays Rising

Retail sales rose 0.1% in November, following an upward-revised 0.8% increase in October, to 7.2% above a year earlier. Sales at motor vehicle dealers fell last month, as unit sales of light vehicles slowed for the second consecutive month. At stores other than motor vehicle dealers, retail sales were 0.5% higher than in October and 8.6% above a year earlier. The dollar amount of gasoline station sales was boosted by high prices. Nonstore retailers, including catalog and Internet sales, continued to do well. General merchandise store sales in November were 6.7% higher than a year earlier; within this group, department store sales were only 0.9% higher than in November 2003. Separately, in a survey of 70 large retail chains by the International Council of Shopping Centers, sales in November at retail stores open a year or more were reported to be 1.7% higher than a year earlier. This rise in comparable store sales was the smallest since August and a disappointing start to the holiday gift-buying season. High-end retailers generally outperformed discounters.

Housing Starts Drop in November

Construction starts on new homes and apartments fell sharply in November, declining 13% after adjustment for the typical seasonal decline. Housing starts fell for both single-family and multifamily housing and in all regions of the country. Starts in the Midwest tumbled 19% last

**Chart 3: Labor Productivity and Compensation
Nonfarm Business**



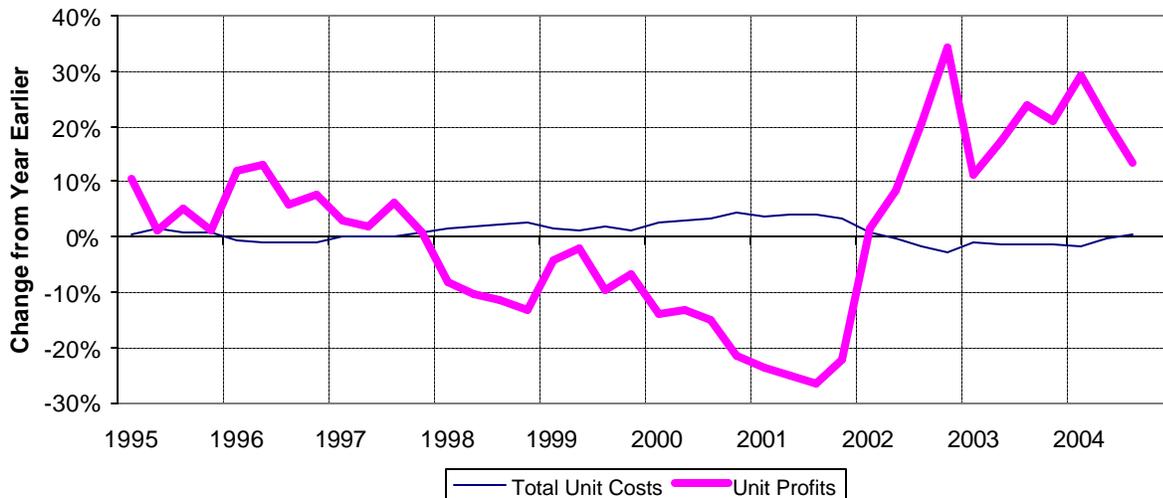
month. However, permits authorizing starts fell only 1% nationwide and 4% in the Midwest, and the backlog of housing units authorized by permits but not yet started increased. Residential building has been supported by mortgage interest rates near four-decade lows and by growing household incomes. With mortgage interest rates up from lows in mid-2003, analysts have been expecting some slowing in the housing market. But the magnitude of the one-month drop in housing starts may overstate the weakness in this sector. For the year to date, through 11 months, starts nationwide were 6% higher than a year earlier, while starts in the Midwest were 5% below last year.

Nationwide sales of new and used homes were little changed in October from the strong September pace. Through ten months, sales of new homes in the United States were 10% higher than a year earlier, and new home sales in the Midwest were 8% higher. Sales of used homes were 9% higher nationwide and 4% higher in the Midwest.

Profit Growth Slows

Labor productivity gains in American business have been slowing this year, placing upward pressures on business costs. These upward pressures are still modest but contrast with earlier declines since recession year 2001. Labor

**Chart 4: Unit Costs and Profits
Nonfinancial Corporations**



productivity, or output per hour of all persons, rose in the nonfarm business sector at an estimated 1.8% annual rate in the third quarter, the smallest gain in any quarter in nearly two years. Labor productivity gains averaged 4.4% in 2002 and 2003, the most rapid rise over a two-year period since the early 1950's. Increases in hourly labor compensation, including benefits as well as wages, recently have averaged around 4% per year. Compensation gains outpaced productivity in the second and third quarters, pushing up business costs per unit of output after declines in 2002 and 2003. Upward pressures on business unit costs tend to translate into higher prices. Otherwise, profit margins are eroded. Recent trends in labor productivity and compensation in the nonfarm business sector are shown in Chart 3.

The recent upturn in unit business costs is also shown in Chart 4, which covers nonfinancial corporations, a narrower (though still very broad) segment of the American economy than nonfarm business. More detail is published for productivity and costs of nonfinancial corporations than nonfarm business. Chart 4 shows a very modest upturn this year in nonfinancial corporations' total unit costs, including nonlabor as well as labor costs, after two years of declines. Profit growth per unit of output, subject to wide swings, remains rapid but has slowed.

Energy and Food Price Increases Push Up Inflation

The producer price index for finished goods rose 0.5% in November, following a 1.7% surge

in October, to 5.0% above a year earlier. This was the largest year-over-year increase in this measure since 1990. Higher producer prices in November mainly reflected increased costs for energy and foods, after even larger increases the month before. Gasoline prices eased slightly following a large jump in October, but natural gas and other energy costs were higher. Excluding energy and foods, finished goods prices rose 0.2% last month to 1.9% above November 2003. Price hikes remained rapid at earlier stages of production. The index for intermediate goods prices rose 0.8% in November to 10% above a year earlier, and that for crude materials jumped 9% from October to November, to 26% higher than a year ago.

The consumer price index (CPI) rose 0.2% in November to 3.5% above a year earlier. Last year, the CPI rose 1.9%. Energy and food prices at the consumer level also rose 0.2% last month after increasing 4.2% and 0.6%, respectively, in October. Excluding energy and food, the consumer price index in November was 2.0% above a year earlier, a relatively low rate of inflation but higher than the increase of only 1.1% in 2003.

Short-Term Interest Rates Rise, Bond Yields Stay Low

As had been widely expected, the Federal Reserve again raised its target for federal funds, overnight loans between commercial banks, from 2% to 2.25%. In spite of higher short-term interest rates, longer-term yields remain quite low.

¹ Specifically, Hurricanes Charley, Frances, Ivan, and Jeanne reduced third-quarter corporate profits from current production by \$79.7 billion, at an annual rate, consisting of \$69.3 billion of settlements paid by insurance companies and \$10.4 billion of uninsured losses.

² The national economy is here represented by the sum of GSPs in the 50 states plus the District of Columbia. GDP, the more commonly used measure of total nationwide economic activity, exceeds this sum by about 1%.

³ For some manufactured products, notably computers and various other types of electronic equipment, prices have been declining, which is also reflected in the value of manufacturers' orders.

Status of the General Revenue Fund

REVENUE

— Jean Botomogno, Glenn Wintrich, and Allan Lundell

The dreary revenue picture for October was followed by a gloomy one for November. Total General Revenue Fund (GRF) receipts for the month were \$91.4 million (5.1%) below estimate. State-source receipts (tax revenue plus nontax revenue plus transfers in) were \$67.0 million (5.0%) below estimate, total tax revenue was \$60.0 million (4.5%) below estimate, and revenue from the “major taxes” was \$61.8 million (4.9%) below estimate.¹

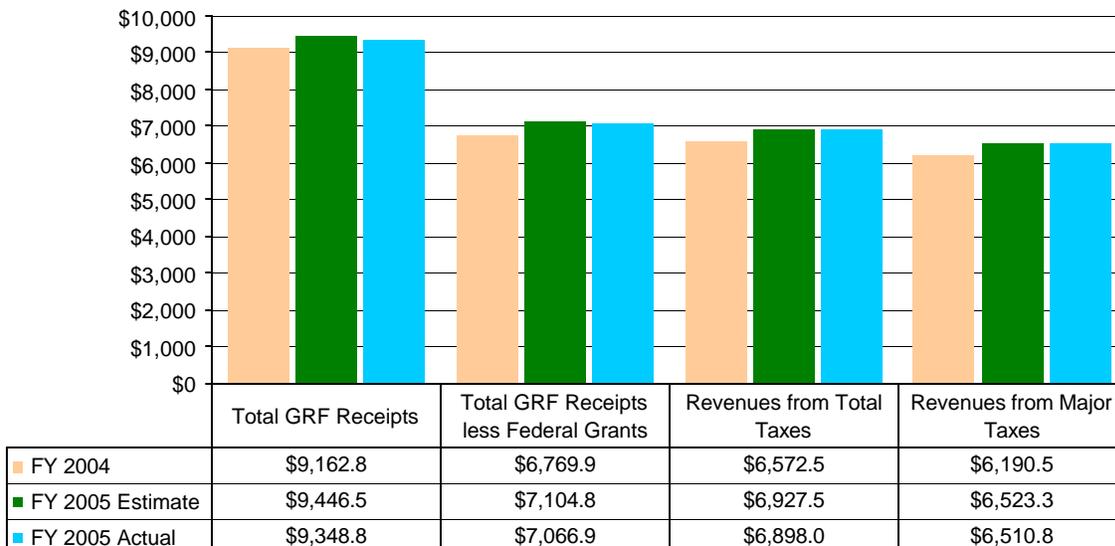
Revenue from the corporate franchise tax was \$51.0 million below estimate and revenue from the public utility tax was below estimate by \$10.2 million (54.6%). Federal grants were \$24.4 million (5.5%) below estimate.² The one bright spot in the November revenue picture was the personal income tax, which was above estimate by \$3.5 million (0.6%).

Five months into the fiscal year, encouraging revenue signs are becoming more difficult to find. Tax revenue has fallen below estimate for three

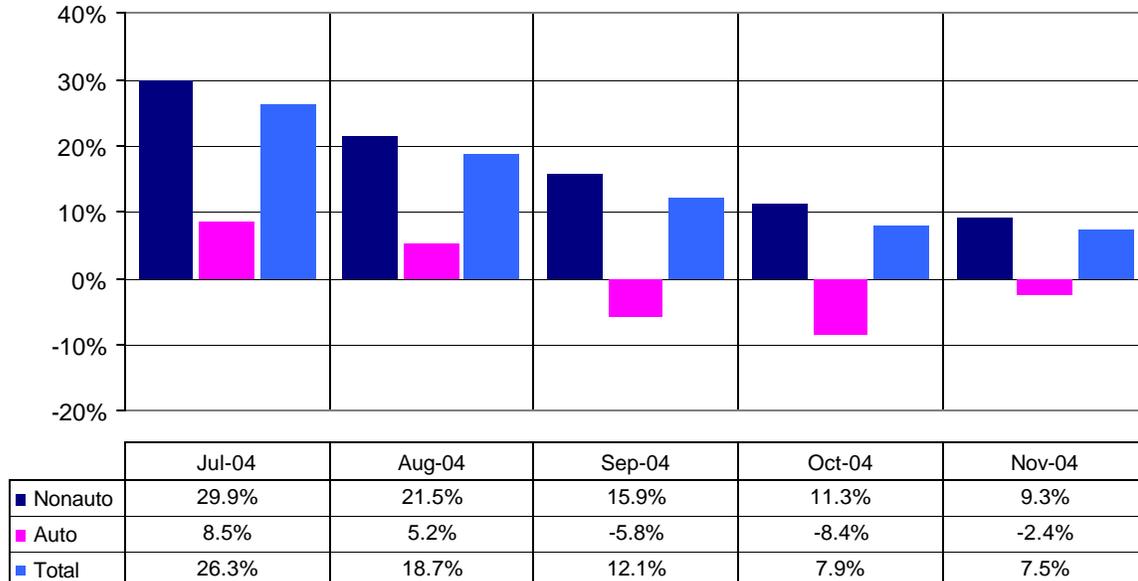
consecutive months and total GRF receipts have been below estimate for the last two months. Total GRF receipts are \$97.7 million (1.0%) below estimate for the fiscal year to date, state-source receipts are \$37.9 million (0.5%) below estimate, GRF tax revenue is \$29.6 million (0.4%) below estimate, and total GRF revenues from the major taxes are \$12.4 million (0.2%) below estimate.

For the fiscal year to date, total GRF receipts are up 2.0% compared to FY 2004. State-source receipts are up 4.4%, total tax revenue is up 5.0%, and revenue from the major taxes is up 5.2%. Federal grants are down 4.6%. If the \$193 million in one-time revenue received in October 2003 is removed from the FY 2004 total, then FY 2005 federal grants are up 6.4%. The year-over-year comparisons of state receipts 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 1.9%

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



**Chart 2: Cumulative Year-over-Year Percentage Changes
in Sales Tax Receipts**



increase in receipts from state sources other than the sales tax. This improvement is largely due to the 6.9% 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.

Personal Income Tax

The GRF received \$584.9 million from the personal income tax in November. This amount was \$3.5 million (0.6%) greater than estimated. Net collections were \$3.4 million (0.5%) greater than expected. Withholding was \$1.7 million (0.3%) below estimate for November. Refunds were \$3.9 million (11.0%) less than expected.

For the fiscal year to date, the GRF has received \$3,059.3 million from the personal income tax, which is \$53.5 million (1.8%) above estimate. The \$3,052.1 million in revenue collected through withholding is \$9.1 million (0.3%) below estimate. Year-to-date quarterly estimated payments of \$324.4 million are \$11.3 million (3.6%) above estimate.³ Refunds for the year total \$118.5 million, which is \$23.5 million (16.5%) below estimate.

Compared to a year ago, GRF revenue from the personal income tax is up 6.9%. Withholding, which reflects the condition of Ohio's labor market, is up 4.7%. Quarterly estimated

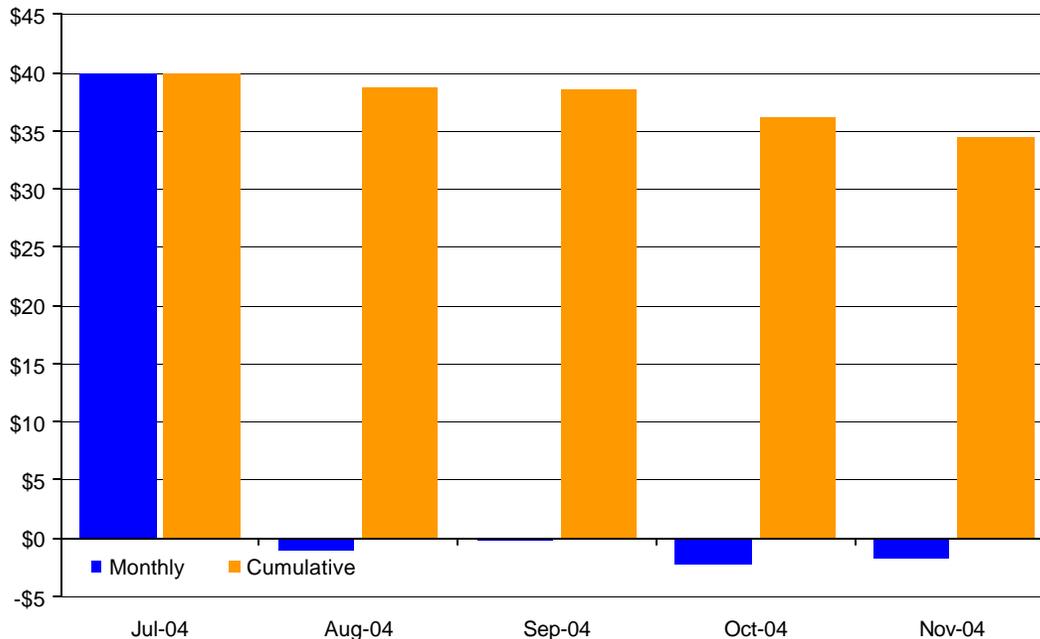
payments are up 7.4%, gross collections are up 5.2%, net collections are up 6.2%, and refunds are down 17.1%.

Sales and Use Tax

For the fourth straight month, revenues from the sales and use tax were below estimate. November total sales and use tax revenues were \$629.7 million, \$3.8 million (0.6%) below projected revenues. Sales and use tax receipts in the month were \$33.5 million (5.6%) above those in November 2003. Receipts from both the nonauto and the auto sales and use taxes were below their estimates for the month, and above November 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 November, fiscal year-to-date total sales and use tax revenues were \$3,290.6 million, \$18.2 million (0.6%) above estimates. Fiscal year-to-date sales and use tax receipts were also \$228.2 million (7.5%) higher than at the corresponding point in FY 2004.

Chart 2 compares year-to-date sales and use tax revenues in FY 2005 and FY 2004. The nonauto sales tax shows a healthy year-over-year revenue growth of 9.3% at the end of November 2004, while the auto sales tax receipts were 2.4% below receipts in the same period last year. However, a closer analysis of total sales and use

Chart 3: Nonauto Sales Tax Variance from August 2004 Estimates
(in millions of dollars)



tax receipts in the last three months reveals a less rosy trend. Sales and use tax revenues from September through November 2004 were \$17.6 million (0.9%) below estimates. Growth in total sales and use tax receipts was almost flat, up only \$6.9 million (0.4%) over year-ago receipts. During the same three-month period, growth in nationwide retail sales was about 8.3% above retail sales in a similar period last year.

Nonauto Sales and Use Tax

In November, nonauto sales and use tax revenues were \$545.1 million, \$1.7 million (0.3%) below estimate. Nonauto sales and use tax revenues were also \$9.7 million (1.8%) above revenues in the same month last year. As of the end of November, FY 2005 year-to-date nonauto sales and use tax revenues were \$2,815.5 million, \$34.5 million (1.2%) higher than estimate and \$240.0 million (9.3%) above revenues in the same period in FY 2004. In the last three months, nonauto sales and use tax revenues have been less than stellar. Total nonauto sales tax revenues from September through November were \$4.2 million (0.3%) lower than estimates. From September to November, nationwide retail sales (excluding sales at motor vehicle dealers) grew 6.9% over the same three-month period in FY 2004. However, combined nonauto sales and use tax

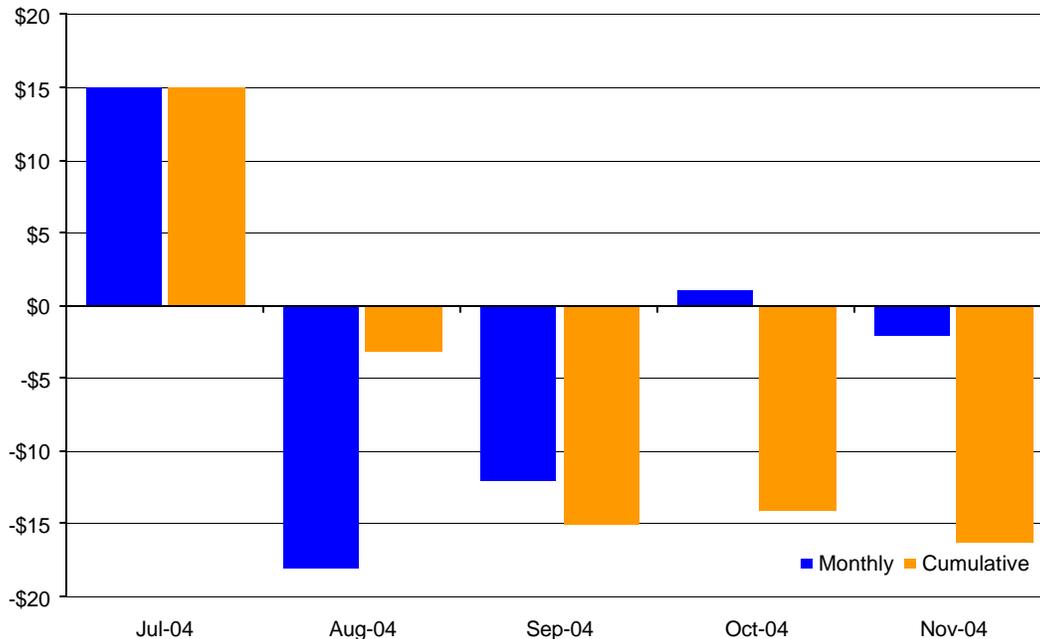
revenues in the last three months were only \$29.0 million (1.8%) above revenues in the same period last year. Thus, revenue growth for the nonauto sales and use tax has decreased from the first two months of the fiscal year to a weaker but potentially more sustainable level.

Auto Sales Tax

Auto sales and use tax receipts were \$84.6 million in November, \$2.1 million (2.4%) below estimate. 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 November were \$23.9 million (39.3%) higher. As of November, FY 2005 year-to-date auto sales tax receipts were \$475.1 million, \$16.3 million (3.3%) below estimate. FY 2005 year-to-date auto sales and use tax receipts were also \$11.8 million (2.4%) below receipts in the same period a year ago.

In the last three months, the performance of the auto sales tax has been dismal. From September through November 2004, total auto sales tax revenues were \$13.1 million (4.7%)

Chart 4: Auto Sales Tax Variance from August 2004 Estimate
(in millions of dollars)



below estimates. Combined auto sales tax revenues in those months were \$22.1 million (7.7%) below revenues in the same period in CY 2003. Conversely, nationwide sales at motor vehicle dealers grew about 5.0%.

Increased dealer and manufacturer incentives may have helped maintain sales nationwide but appear to have done little to improve auto sales tax revenues in Ohio this year. According to the U.S. Bureau of Economic Analysis, purchases of new light vehicles (autos and light trucks) grew 1.2% in the first nine months of CY 2004. Although unit sales have increased this year, declining prices have hampered the dollar value of sales. The consumer price index for new light vehicles has declined by almost 1%. Prices for leased or used cars and light trucks also declined about 3% and 9%, respectively. The Greater Cleveland Dealers Association⁵ reported that unit sales of new vehicles at its dealers declined 3.4% this calendar year. Sales at these dealers may not be representative of statewide unit sales, but they are a good indication that statewide unit sales may not have increased this calendar year.

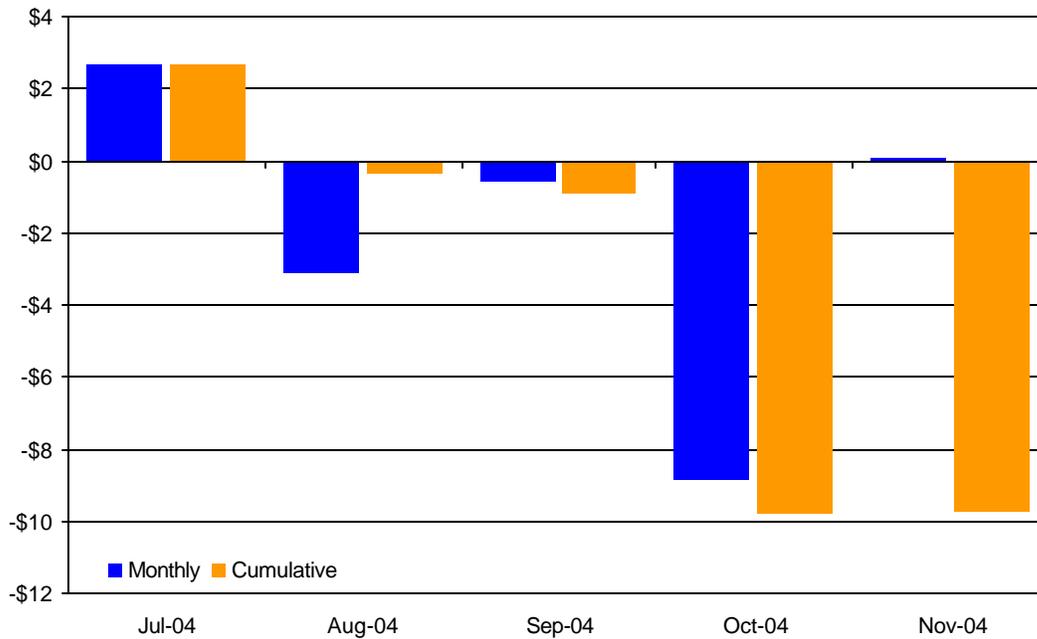
Based on auto sales tax collections through November, Ohio customers have spent nearly \$200 million less on motor vehicles in FY 2005

than they did in the same period in FY 2004. For the calendar year through November, Ohio customers have spent about \$775 million less on motor vehicles in CY 2004 than in CY 2003. Auto sales and use tax revenues are about 15% of total sales and use tax receipts. If the large positive variance in the nonauto sales tax declines over the next few months, the auto sales tax will have to improve for the sales and use tax to do as well as projected this fiscal year. So far, this tax source has been a drag on the performance of the sales and use tax.

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. In November 2004, \$51.0 million in tax refunds were returned to corporate franchise taxpayers. The Office of Budget and Management had estimated no net receipts for the month. A faster processing of corporate tax returns and other timing issues may explain this large monthly tax refund.

Chart 5: Cigarette Tax Variance from August 2004 Estimates
(in millions of dollars)



As a result of the November tax refunds, more money (\$20.0 million) has been returned to taxpayers so far in FY 2005 than has been collected under the corporate franchise tax. Conversely, at the end of November 2003, year-to-date corporate franchise tax receipts in FY 2004 were \$39.7 million. Alternatively, FY 2005 receipts through November were \$59.7 million below receipts in the same period last year. Although the timing of refunds and other tax reconciliations is unpredictable, and monthly negative or positive variances in corporate franchise tax revenues have little meaning in the first half of the fiscal year, corporate tax receipts in December 2004 and the first corporate tax payment in January 2005 will loom large in determining the performance of the corporate franchise tax in this fiscal year.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts in November were \$47.9 million,

\$0.1 million (0.2%) above estimates. November 2004 revenues from this tax source were also \$10.2 million (27.0%) higher than November 2003 receipts. As of November 2004, year-to-date cigarette and other tobacco tax receipts were \$207.2 million, \$9.7 million (4.5%) below estimate. Compared to revenues in the same period in FY 2004, year-to-date revenues were \$5.0 million (2.5%) higher. Also, cigarette stamp sales are 3.2% higher than stamp sales at this time last year. However, this probably does not reflect higher taxed cigarette and other tobacco product consumption. Higher cigarette and other tobacco products tax receipts are most likely due to timing regarding payment of stamps purchased on credit by dealers and wholesalers.

¹The “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 (LGRA), and the Library and Local Government Support Fund (LLGSF).

² “Federal grants” are federal reimbursements for programs administered by the Department of Job and Family Services such as Medicaid and Temporary Assistance for Needy Families (TANF). The amount received depends on expenditures for human services programs that require federal participation. Any changes in state spending in these areas will change receipts from federal grants.

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 patterns 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 month.

⁵ The group represents new vehicle dealers from 19 counties in Northeast Ohio (Ashland, Ashtabula, Coshocton, Cuyahoga, Erie, Geauga, Holmes, Huron, Lake, Lorain, Mahoning, Medina, Portage, Richland, Stark, Summit, Trumbull, Tuscarawas, and Wayne). The number of dealers in the group was about 24% of all Ohio dealers in CY 2003. About 38% of statewide passenger car registrations in CY 2003 were in those counties.

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

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	\$84,621	\$86,721	-\$2,100	-2.4%
Nonauto Sales & Use	\$545,059	\$546,750	-\$1,691	-0.3%
Total Sales & Use Taxes	\$629,680	\$633,471	-\$3,791	-0.6%
Personal Income	\$584,877	\$581,400	\$3,477	0.6%
Corporate Franchise	-\$51,045	\$0	-\$51,045	---
Public Utility	\$8,448	\$18,600	-\$10,152	-54.6%
Kilowatt Hour Excise	\$25,953	\$26,200	-\$247	-0.9%
Total Major Taxes	\$1,197,913	\$1,259,671	-\$61,758	-4.9%
Foreign Insurance	\$1	\$237	-\$236	-99.7%
Domestic Insurance	\$0	\$51	-\$51	-100.0%
Business & Property	\$64	\$75	-\$11	-14.6%
Cigarette	\$47,886	\$47,800	\$86	0.2%
Alcoholic Beverage	\$4,783	\$4,560	\$223	4.9%
Liquor Gallonage	\$2,655	\$2,542	\$113	4.4%
Estate	\$10,729	\$9,100	\$1,629	17.9%
Total Other Taxes	\$66,118	\$64,365	\$1,753	2.7%
Total Tax Revenue	\$1,264,031	\$1,324,036	-\$60,005	-4.5%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	\$0	\$0	\$0	---
Licenses and Fees	\$844	\$5,884	-\$5,040	-85.7%
Other Revenue	\$7,540	\$8,498	-\$958	-11.3%
Nontax State-Source Revenue	\$8,384	\$14,382	-\$5,998	-41.7%
TRANSFERS				
Liquor Transfers	\$8,000	\$9,000	-\$1,000	-11.1%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$0	\$0	---
Total Transfers In	\$8,000	\$9,000	-\$1,000	-11.1%
TOTAL GRF before Federal Grants	\$1,280,415	\$1,347,418	-\$67,003	-5.0%
Federal Grants	\$419,222	\$443,640	-\$24,417	-5.5%
TOTAL GRF SOURCES	\$1,699,637	\$1,791,057	-\$91,420	-5.1%

* 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 November 2004
(\$ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
TAX REVENUE						
Auto Sales	\$475,107	\$491,383	-\$16,276	-3.3%	\$486,928	-2.4%
Nonauto Sales & Use	\$2,815,522	\$2,781,000	\$34,522	1.2%	\$2,575,496	9.3%
Total Sales & Use Taxes	\$3,290,629	\$3,272,383	\$18,246	0.6%	\$3,062,424	7.5%
Personal Income	\$3,059,345	\$3,005,800	\$53,545	1.8%	\$2,860,898	6.9%
Corporate Franchise	-\$20,078	\$53,284	-\$73,362	-137.7%	\$39,710	-150.6%
Public Utility	\$36,996	\$46,500	-\$9,504	-20.4%	\$84,270	-56.1%
Kilowatt Hour Excise	\$143,937	\$145,300	-\$1,363	-0.9%	\$143,171	0.5%
Total Major Taxes	\$6,510,829	\$6,523,267	-\$12,438	-0.2%	\$6,190,473	5.2%
Foreign Insurance	\$122,250	\$123,050	-\$801	-0.7%	\$114,701	6.6%
Domestic Insurance	\$170	\$1,122	-\$952	-84.9%	\$147	15.1%
Business & Property	\$885	\$1,200	-\$315	-26.3%	\$1,165	-24.1%
Cigarette	\$207,172	\$216,900	-\$9,728	-4.5%	\$202,180	2.5%
Alcoholic Beverage	\$24,709	\$24,282	\$427	1.8%	\$23,691	4.3%
Liquor Gallonage	\$13,265	\$12,524	\$741	5.9%	\$12,732	4.2%
Estate	\$18,705	\$25,200	-\$6,495	-25.8%	\$27,375	-31.7%
Total Other Taxes	\$387,155	\$404,278	-\$17,124	-4.2%	\$381,990	1.4%
Total Tax Revenue	\$6,897,984	\$6,927,545	-\$29,562	-0.4%	\$6,572,463	5.0%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	\$6,319	\$10,560	-\$4,241	-40.2%	\$8,065	-21.7%
Licenses and Fees	\$18,553	\$19,435	-\$882	-4.5%	\$15,549	19.3%
Other Revenue	\$47,250	\$50,489	-\$3,239	-6.4%	\$53,943	-12.4%
Nontax State-Source Revenue	\$72,122	\$80,484	-\$8,362	-10.4%	\$77,558	-7.0%
TRANSFERS						
Liquor Transfers	\$47,000	\$45,000	\$2,000	4.4%	\$46,000	2.2%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$49,795	\$51,800	-\$2,005	-3.9%	\$73,879	-32.6%
Total Transfers In	\$96,795	\$96,800	-\$5	0.0%	\$119,879	-19.3%
TOTAL GRF before Federal Grants	\$7,066,901	\$7,104,829	-\$37,928	-0.5%	\$6,769,899	4.4%
Federal Grants	\$2,281,890	\$2,341,682	-\$59,792	-2.6%	\$2,392,913	-4.6%
TOTAL GRF SOURCES	\$9,348,791	\$9,446,511	-\$97,720	-1.0%	\$9,162,812	2.0%

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

DISBURSEMENTS

— Steve Mansfield*

In November \$2,181.4 million was disbursed from the General Revenue Fund (GRF), excluding transfers. This was \$193.2 million under the estimate for the month, moving outlays for the year to date to \$246.2 million under the estimate. Actual outlays for FY 2005 to date are 4.6% higher than at the same point in FY 2004. Of the state's four major GRF program categories (Education, Welfare and Human Services, Government Operations, and Property Tax Relief), only the Education category showed an increase in outlays. Total outlays were about \$44 million lower than in November.

When we look in Figure 1 at the monthly variances in disbursements between what was actually disbursed and the estimates of disbursements prepared by the Office of Budget and Management, we see that in November, 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 (Government Operations) posted a variance slightly above the estimate. The most notable variance for the month

is the relatively large \$143.5 million variance under estimate in the Welfare and Human Services category. While more detail will be provided below, this variance was due to the timing of the receipt of rebates for prescription drug purchases. The receipt of the rebate funds, however, brings the rebate line item very close to its estimate for the year to date. The year-to-date variance in the category is thus explained by other disbursement variances in the category, particularly in the Health Care/Medicaid program.

As Table 5 indicates, the three program subcategories with the largest disbursement variances for the year to date are Primary and Secondary Education (\$110.1 million below estimate), Health Care/Medicaid (\$82.6 million below estimate), and Property Tax Relief (\$39.2 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 \$246.2 million in year-to-date underspending. Summary

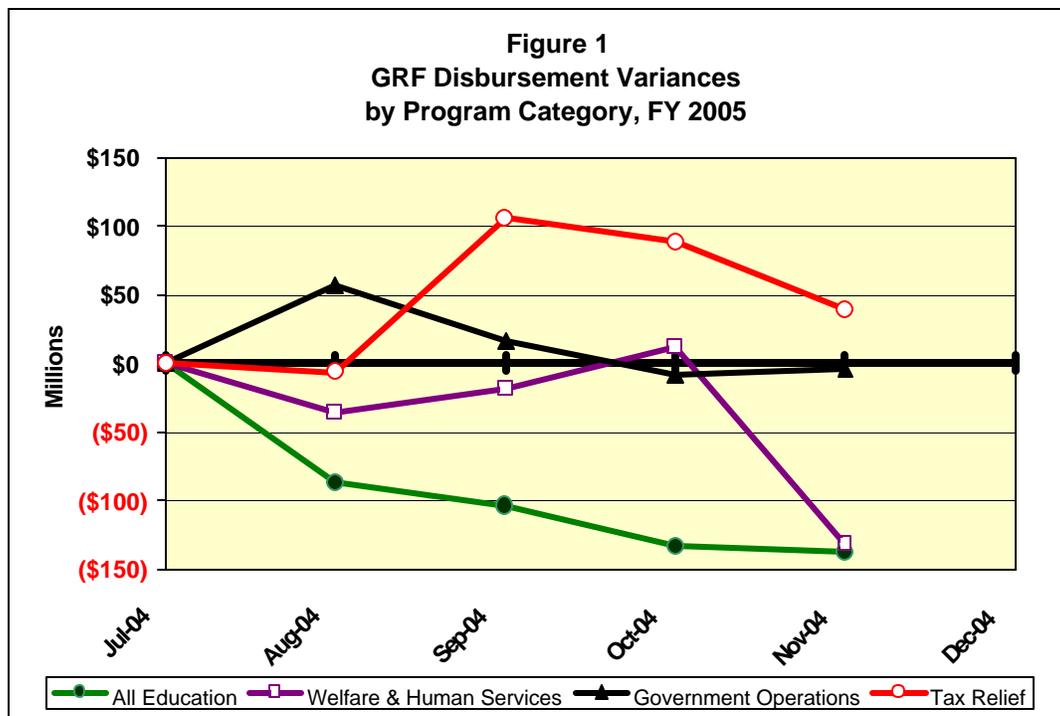


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of November 2004
(\$ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	\$620,273	\$628,479	-\$8,206	-1.3%
Higher Education	\$306,701	\$302,979	\$3,721	1.2%
Total Education	\$926,974	\$931,458	-\$4,484	-0.5%
Health Care/Medicaid	\$755,636	\$886,906	-\$131,270	-14.8%
Temporary Assistance to Needy Families (TANF)	\$61,829	\$64,343	-\$2,513	-3.9%
General/Disability Assistance	\$1,904	\$1,908	-\$3	-0.2%
Other Welfare (2)	\$26,594	\$35,053	-\$8,459	-24.1%
Human Services (3)	\$105,372	\$106,635	-\$1,262	-1.2%
Total Welfare & Human Services	\$951,336	\$1,094,844	-\$143,507	-13.1%
Justice & Corrections	\$119,168	\$115,631	\$3,537	3.1%
Environment & Natural Resources	\$19,554	\$19,131	\$423	2.2%
Transportation	\$1,945	\$2,466	-\$520	-21.1%
Development	\$12,087	\$7,609	\$4,478	58.9%
Other Government	\$18,070	\$21,963	-\$3,893	-17.7%
Capital	\$0	\$250	-\$250	-100.0%
Total Government Operations	\$170,823	\$167,049	\$3,774	2.3%
Property Tax Relief (4)	\$132,273	\$181,250	-\$48,977	-27.0%
Debt Service	\$0	\$0	\$0	---
Total Other Disbursements	\$132,273	\$181,250	-\$48,977	-27.0%
Total Program Disbursements	\$2,181,407	\$2,374,601	-\$193,194	-8.1%
TRANSFERS				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$0	\$0	\$0	---
Total Transfers Out	\$0	\$0	\$0	---
TOTAL GRF USES	\$2,181,407	\$2,374,601	-\$193,194	-8.1%

(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.

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 (-\$138.2 million)

In November, disbursements in the Education category were \$4.5 million (0.5%) under estimate, pushing total outlays in the category for the year to date under the estimate by \$138.2 million (3.4%).

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

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
Primary & Secondary Education (1)	\$2,862,742	\$2,972,821	-\$110,079	-3.7%	\$2,717,759	5.3%
Higher Education	\$1,058,868	\$1,087,011	-\$28,143	-2.6%	\$1,076,375	-1.6%
Total Education	\$3,921,610	\$4,059,831	-\$138,222	-3.4%	\$3,794,134	3.4%
Health Care/Medicaid	\$3,992,273	\$4,074,868	-\$82,594	-2.0%	\$3,747,087	6.5%
Temporary Assistance to Needy Families (TANF)	\$151,286	\$152,544	-\$1,258	-0.8%	\$176,138	-14.1%
General/Disability Assistance	\$10,377	\$10,731	-\$354	-3.3%	\$10,332	0.4%
Other Welfare (2)	\$227,231	\$262,487	-\$35,256	-13.4%	\$236,797	-4.0%
Human Services (3)	\$560,281	\$573,037	-\$12,756	-2.2%	\$523,862	7.0%
Total Welfare & Human Services	\$4,941,449	\$5,073,667	-\$132,219	-2.6%	\$4,694,217	5.3%
Justice & Corrections	\$853,316	\$859,074	-\$5,758	-0.7%	\$830,561	2.7%
Environment & Natural Resources	\$63,534	\$64,354	-\$819	-1.3%	\$61,929	2.6%
Transportation	\$11,836	\$11,127	\$709	6.4%	\$12,218	-3.1%
Development	\$89,155	\$72,761	\$16,394	22.5%	\$72,520	22.9%
Other Government	\$197,998	\$211,255	-\$13,257	-6.3%	\$191,179	3.6%
Capital	\$0	\$980	-\$980	-100.0%	\$0	---
Total Government Operations	\$1,215,840	\$1,219,551	-\$3,711	-0.3%	\$1,168,407	4.1%
Property Tax Relief (4)	\$548,665	\$509,475	\$39,190	7.7%	\$490,698	11.8%
Debt Service	\$174,370	\$185,579	-\$11,209	-6.0%	\$176,433	-1.2%
Total Other Disbursements	\$723,035	\$695,054	\$27,980	4.0%	\$667,130	8.4%
Total Program Disbursements	\$10,801,933	\$11,048,104	-\$246,171	-2.2%	\$10,323,888	4.6%
TRANSFERS						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$27,857	\$0	\$27,857	---	\$29,336	-5.0%
Total Transfers Out	\$27,857	\$0	\$27,857	---	\$29,336	-5.0%
TOTAL GRF USES	\$10,829,791	\$11,048,104	-\$218,314	-2.0%	\$10,353,223	4.6%

(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.

Department of Education. November disbursements of the Department of Education were \$595.0 million, which was \$9.0 million (1.5%) below the estimate for the month. For the year to date, the Department's disbursements are \$107.6 million (3.7%) under the estimate. November's variance is largely traceable to line

item 200-503, Bus Purchase Allowance, which was under estimate for the month by \$13.4 million. This appropriation item is used to assist school districts and other educational institutions in purchasing school buses. A large payment from this item had been expected in November.

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

Service Category	November				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Nov.	Estimate thru Nov.	Variance	Percent Variance
Nursing Facilities Payments	\$229,109	\$229,814	(\$705)	-0.3%	\$1,132,529	\$1,118,921	\$13,608	1.2%
ICF/MR Payments	\$37,822	\$38,570	(\$748)	-1.9%	\$186,464	\$187,976	(\$1,512)	-0.8%
Inpatient Hospitals	\$119,479	\$139,515	(\$20,037)	-14.4%	\$553,167	\$611,927	(\$58,760)	-9.6%
Outpatient Hospitals	\$53,893	\$60,809	(\$6,916)	-11.4%	\$261,788	\$267,908	(\$6,120)	-2.3%
Physicians	\$62,111	\$54,766	\$7,346	13.4%	\$253,758	\$242,443	\$11,315	4.7%
Prescription Drugs	\$189,609	\$194,998	(\$5,388)	-2.8%	\$823,883	\$830,761	(\$6,877)	-0.8%
ODJFS Waiver	\$20,383	\$22,992	(\$2,608)	-11.3%	\$91,649	\$99,505	(\$7,856)	-7.9%
All Other	\$92,748	\$94,842	(\$2,094)	-2.2%	\$385,583	\$408,533	(\$22,951)	-5.6%
MCP	\$88,054	\$91,092	(\$3,038)	-3.3%	\$428,338	\$445,588	(\$17,251)	-3.9%
Medicare Buy-In	\$14,999	\$14,154	\$845	6.0%	\$73,150	\$70,515	\$2,635	3.7%
Total Medicaid Payments	\$908,207	\$941,551	(\$33,344)	-3.5%	\$4,190,308	\$4,284,077	(\$93,768)	-2.2%
DA Medical	\$8,526	\$6,807	\$1,719	25.3%	\$31,939	\$28,270	\$3,669	13.0%
Drug Rebates Offsets	(\$149,906)	(\$49,836)	(\$100,070)	200.8%	(\$176,647)	(\$175,145)	(\$1,501)	0.9%
ICF/MR Franchise Fee Offsets	(\$1,672)	(\$1,680)	\$8	-0.5%	(\$6,747)	(\$8,456)	\$1,708	-20.2%
NF Franchise Fee Offsets	(\$9,520)	(\$9,937)	\$417	-4.2%	(\$41,796)	(\$49,094)	\$7,298	-14.9%
DSH Rebate Offsets	\$0	\$0	\$0		(\$4,785)	(\$4,785)	\$0	
Total Health Care (Net of Offsets)	\$755,636	\$886,906	(\$131,270)	-14.8%	\$3,992,273	\$4,074,868	(\$82,594)	-2.0%
Est. Federal Share	\$443,619	\$520,685	(\$77,066)		\$2,343,788	\$2,392,277	(\$48,490)	
Est. State Share	\$312,016	\$366,220	(\$54,204)		\$1,648,486	\$1,682,591	(\$34,105)	

- 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.
 - Waivers provide home-care alternatives to consumers whose medical conditions/functional abilities would otherwise require long-term care facility residence.
 - "All Other" includes all other health services funded by line item 600-525, and prior period contract.
 - 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.
 - DA Medical is a state-only funded program.
 - 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.

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 (\$39.7 million under the estimate). The variance in disbursements from this line item stems from the fact that the data on which disbursements is based is sent to the Department from school districts in an uneven fashion and have not yet been finalized. In addition to line items 200-501 and 200-503, line item 200-513, Student Intervention Services, is a significant contributor to the year-to-date variance. It now stands at \$11.3 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 \$3.7 million above the estimate for November, reducing the year-to-date underspending to \$28.1 million. Three line items stand out as the source for much of the year-to-date variance. The largest year-to-date variance

is found in disbursements from line item 235-420, Success Challenge, which is now under the estimate by \$13.1 million. This line item is used to support universities' efforts to promote successful degree completion by "at risk" baccalaureate students and timely degree completion by all students. The variance is due to the fact that a large payment was estimated to take place in November but is actually scheduled to take place in February. Disbursements for line item 235-401, Lease Rental Payments, are under estimate by \$4.1 million. This is due to a "bond call" by the Treasurer of State, in which certain bonds were retired early and replaced with new bonds that carried lower interest rates. Line item 235-531, Student Choice Grants, also has a notable year-to-date variance—\$3.5 million below the estimate. 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.

Welfare/Human Services (-\$132.2 million)

The Welfare/Human Services category posted a disbursement variance of \$143.5 million (13.1%) under the estimate in November. For the year to date, outlays in this category are now \$132.2 million (2.6%) under 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 November in the Health Care/Medicaid program (primarily line item 600-525) are \$82.6 million (2.0%) under the estimate (see Table 6). For November, health care spending was \$131.3 million (14.8%) below the estimate.

As we see in Table 6, the source of much of November's below-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 November, rebates that were expected in earlier months were received and thus spending was higher than anticipated, producing in this case a negative variance of \$100.1 million. This brings spending to within \$1.5 million of what had been projected for the year to date.

Several of the Medicaid 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 \$58.8 million for the year to date. According to the Department, this is due to a lower than anticipated utilization rate. The MCP category is below the estimate for the year to date by

Service Category	FY 2005	FY 2004	Dollar Change	Percent Increase
	Yr.-to-Date as of Nov. '04	Yr.-to-Date as of Nov. '03		
Nursing Facilities Payments	\$1,132,529	\$1,135,625	(\$3,096)	-0.3%
ICF/MR Payments	\$186,464	\$184,020	\$2,444	1.3%
Inpatient Hospitals	\$553,167	\$537,067	\$16,100	3.0%
Outpatient Hospitals	\$261,788	\$238,504	\$23,284	9.8%
Physicians	\$253,758	\$226,711	\$27,047	11.9%
Prescription Drugs	\$823,883	\$686,798	\$137,086	20.0%
ODJFS Waiver	\$91,649	\$75,943	\$15,707	20.7%
All Other	\$385,583	\$373,610	\$11,973	3.2%
MCP	\$428,338	\$440,472	(\$12,134)	-2.8%
Medicare Buy-In	\$73,150	\$63,171	\$9,980	15.8%
Total Medicaid Payments	\$4,190,308	\$3,961,919	\$228,389	5.8%
DA Medical	\$31,939	\$39,493	(\$7,553)	-19.1%
Drug Rebates Offsets	(\$176,647)	(\$125,499)	(\$51,147)	40.8%
ICF/MR Franchise Fee Offsets	(\$6,747)	(\$8,479)	\$1,731	-20.4%
NF Franchise Fee Offsets	(\$41,796)	(\$49,347)	\$7,551	-15.3%
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)	\$3,992,273	\$3,747,087	\$245,186	6.5%
Est. Federal Share	\$2,343,788	\$2,199,843	\$143,944	
Est. State Share	\$1,648,486	\$1,547,244	\$101,242	

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.

\$17.3 million. Enrollments for managed care are coming in a little lower than projected. When the MCP category is below estimate, it is also often the case that the traditional fee-for-service Physicians category performs above the estimate. The Physicians category is over estimate for the year to date by \$11.3 million.

One other service category with a variance over estimate for the year to date is Nursing Facilities Payments, which is over the estimate by \$13.6 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.

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 an increase in payments in the ODJFS Waiver category. This is mostly due to the increased caseload of the Ohio Home Care Waiver, which is 19.2% larger than at this point last year.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs were \$8.5 million under estimate in November and stand at \$35.3 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 600-416, Computer Projects (\$17.2 million under estimate); 600-528, Adoption Services (\$8.4 million under estimate); 600-521, Family Stability Subsidy (\$6.5 million under estimate); and 600-321, Support Services (\$3.3 million under estimate). As is often the case with line item 600-416, vendor invoicing for computer projects has been slower than anticipated. For the two subsidy line items (600-528 and 600-521), counties have simply requested slightly less than in years past. Disbursements from line item 600-321 were affected by lower than anticipated rent and maintenance expenditures.

Government Operations (-\$3.7 million)

With a disbursement variance of \$3.8 million over the estimate in November, outlays in the Government Operations category stand at \$3.7 million under the estimate for the year to date. There are several small and mostly offsetting

variances in the category. The only notable variance is in the budget of the Department of Development.

Development. The Department of Development's disbursements in November totaled \$10.5 million, a variance of \$5.9 million (77.3%) above the estimate. For the fiscal year, the Department's disbursements are \$16.4 million (44.2%) above the estimate.

As reported in October's "Disbursements" article, the Department's variance over estimate for the year to date stems largely from the fact that the timing of disbursements of prior year grant money, as well as disbursements from two new line items, is not occurring as anticipated in the estimates. This variance stems from several line items, including: 195-515, Economic Development Contingency (\$7.5 million over estimate); 195-412, Business Development Grants (\$3.4 million over estimate); 195-401 Thomas Edison Program (\$1.7 million over estimate); and 195-417, Urban/Rural Initiative (\$1.2 million over estimate).

Tax Relief (\$39.2 million)

Tax Relief payments totaled \$132.3 million in November, \$49.0 million (27.0%) under the estimate. For the year to date, however, the \$548.7 million total disbursed represents a variance above the estimate by \$39.2 million (7.7%). 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.

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