

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

FEBRUARY 2005

## *FISCAL OVERVIEW*

— Allan Lundell

January saw a continuation of the U.S. economic expansion, but the expansion appears to be less robust than last year. General Revenue Fund (GRF) receipts and disbursements were above estimate for the month. For the fiscal year to date, total GRF receipts are above estimate, total program disbursements are below estimate, and the cash balance is above its expected level.

### *Tracking the Economy*

The U.S. economy continued to grow in January, though some sectors slowed. In January, nonfarm payroll employment rose and the unemployment rate fell to its lowest level in more than three years. Factory production rose last month but utility output shrank. Retail sales grew at many retailers but declined at motor vehicle dealerships. The housing market remained vigorous. Short-term interest rates rose again, as the country's central bank raised its monetary policy target another notch, but longer-term interest rates remain low.

### *Receipts*

Total GRF receipts for January were \$53 million (2.2%) above estimate, state-source receipts were \$103 million (5.3%) above estimate, tax revenue was \$93 million (4.9%) above estimate, and revenues from the "major" taxes were \$90 million (4.8%) above estimate.<sup>1</sup>

One month past the midpoint of the fiscal year, the overall revenue picture remains mildly encouraging. Through January, total GRF receipts are \$57 million (0.4%) above estimate and state-source receipts are \$165 million (1.6%) above estimate. Total GRF tax revenue is \$163 million (1.6%) above estimate and GRF revenues from the "major taxes" are \$176 million (1.8%) above estimate. Encouragement is provided by the personal income tax (3.9% above estimate), but the nonauto sales tax has slipped to just 0.9% above estimate.

### *Volume 28, Number 6*

Tracking the Economy ..... 131

- Economic expansion continues but is less robust than earlier
- Inflation indicators were mixed
- Short-term interest rates remain on upward trend

### *STATUS OF THE GRF*

Revenue ..... 135

- Income and corporate franchise tax revenues exceed estimates in January; nonauto sales tax revenue lags estimate
- Withholding and estimated payments drive income tax growth
- January receipts place corporate franchise tax on target with year-to-date estimate

Disbursements ..... 143

- January disbursements provide evidence of need for additional FY 2005 appropriation for Education

**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)

	<b>Month of January</b>	<b>Fiscal Year 2005 to Date</b>	<b>Last Year</b>	<b>Difference</b>
<b>Beginning Cash Balance</b>	<b>-\$732.8</b>	<b>\$533.1</b>		
Plus Revenue and Transfers In	\$2,455.9	\$13,952.1		
<b>Available Resources</b>	<b>\$1,723.1</b>	<b>\$14,485.3</b>		
Less Disbursements and Transfers Out	\$2,212.7	\$14,974.9		
<b>Ending Cash Balances</b>	<b>-\$489.6</b>	<b>-\$489.6</b>	<b>-\$557.7</b>	<b>\$68.1</b>
Less Encumbrances and Accts. Payable		\$596.5	\$460.5	\$136.0
<b>Unobligated Balance</b>		<b>-\$1,086.1</b>	<b>-\$1,018.1</b>	<b>-\$67.9</b>
Plus BSF Balance		\$180.7	\$180.7	\$0.0
<b>Combined GRF and BSF Balance</b>		<b>-\$905.4</b>	<b>-\$837.4</b>	<b>-\$67.9</b>

### *Disbursements*

January total GRF program disbursements were \$187 million (9.2%) above estimate. Disbursements for primary and secondary education were \$113 million (23.9%) above estimate, disbursements for health care/Medicaid were \$56 million (6.8%) above estimate, and disbursements for justice and corrections were above estimate by \$42 million (23.9%). Disbursements for Temporary Assistance to Needy Families (TANF) were below estimate by \$30 million (56.0%).

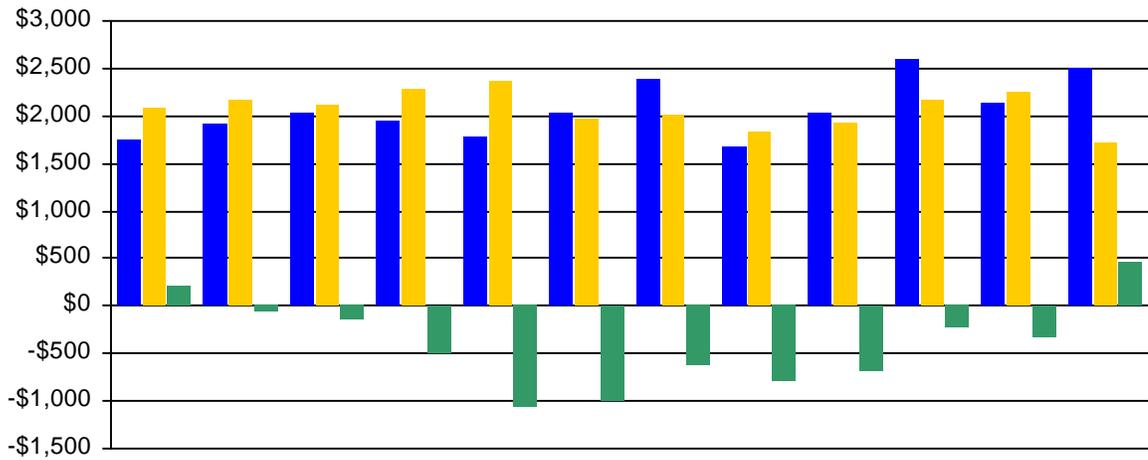
Year-to-date total program disbursements are \$112 million (0.7%) below estimate. Disbursements for primary and secondary education are \$41 million (1.0%) below estimate and disbursements for higher education are \$33 million (2.4%) below estimate. Disbursements for health care/Medicaid are \$8 million (0.1%) below estimate and total disbursements for welfare and human services are \$64 million (0.9%) below estimate. Disbursements for debt service are \$17 million (6.4%) below estimate. Disbursements for justice and corrections are \$38 million (3.3%) above estimate.

### *Cash Balance*

As shown in Table 1, the GRF began January with a negative cash balance -\$733 million. Monthly revenues plus transfers in totaled \$2,456 million and disbursements plus transfers out totaled \$2,213 million. The monthly surplus of \$243 million raised the month-end cash balance to -\$490 million.<sup>2</sup> This amount is \$68 million higher (less negative) than a year ago, and \$136 million higher (less negative) than the balance that would have resulted if receipts and disbursements had equaled their estimates for the first seven months of the fiscal year.

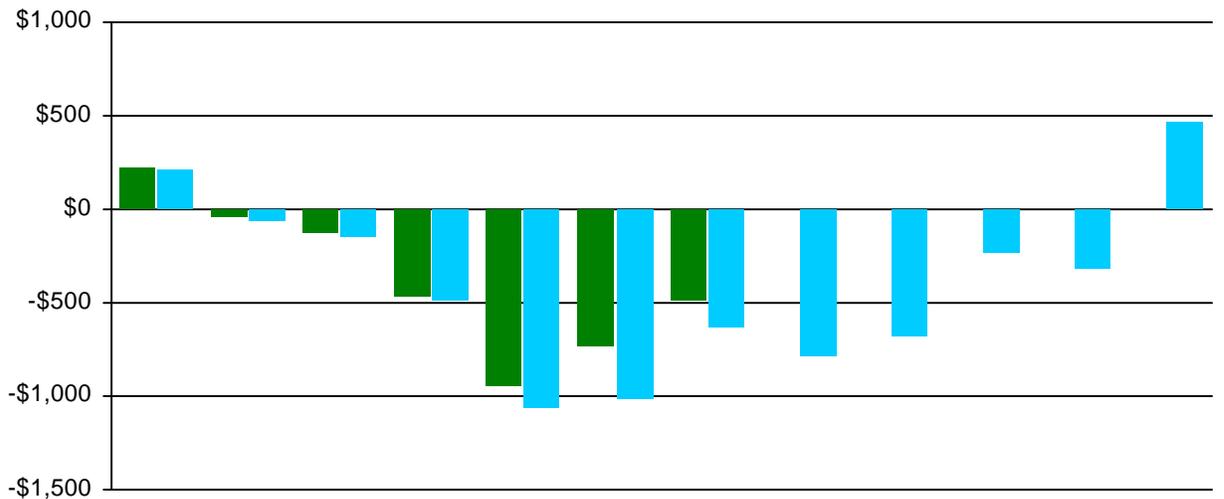
Although a negative cash balance may appear to be a cause for concern, the cash balance, due to the timing of revenues and disbursements, is generally negative early in the fiscal year before turning positive later in the year. The expected pattern for FY 2005 is shown in Chart 1, which presents the 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

**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
Receipts	\$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	-\$948	-\$733	-\$490					
Estimate	\$208	-\$60	-\$145	-\$485	-\$1,069	-\$1,007	-\$626	-\$785	-\$680	-\$230	-\$321	\$463

ahead of (less negative than) the estimate thus far this fiscal year.

Encumbrances and accounts payable of \$597 million combine with the cash balance to yield an unobligated balance of -\$1,086 million. This

amount is \$68 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 -\$905 million is also \$68 million lower than it was a year ago.

---

<sup>1</sup> The “major taxes” are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the kilowatt-hour tax. 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.

<sup>2</sup> 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 January, FY 2005 revenues plus transfers in totaled \$13,952 million and disbursements plus transfers out totaled \$14,975 million. The year-to-date deficit of \$1,023 million reduced the month-end cash balance to -\$490 million.

## TRACKING THE ECONOMY

*¾ Phil Cummins*

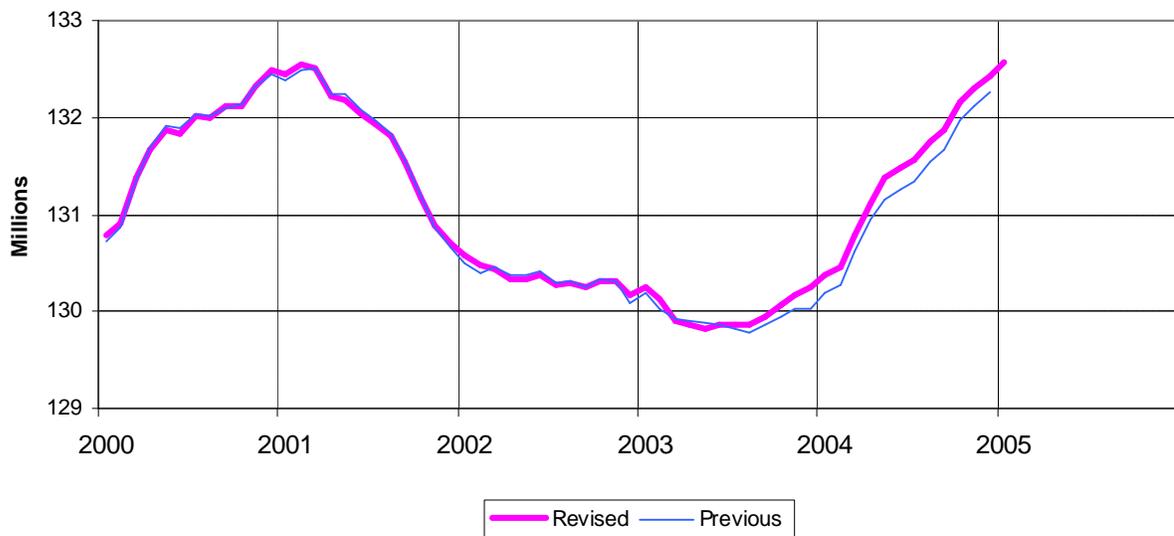
The nation's economy continued to grow in January, though some sectors slowed. This follows less rapid growth in last year's fourth quarter, when inflation-adjusted gross domestic product increased at a 3.1% annual rate. For all of last year, the economy grew 4.4%. In January, nonfarm payroll employment rose and the unemployment rate fell to its lowest level in more than three years. Purchasing managers noted further growth in measures of activity, but gains were less widespread than in earlier months. Factory production rose last month but utility output shrank. Retail sales grew at many retailers but declined at motor vehicle dealerships. The housing market remained vigorous. Prices rose sharply in January for producer finished goods other than foods and energy, but other inflation measures showed only modest increases or declines. Short-term interest rates rose again, as the country's central bank raised its monetary policy target another notch, but longer-term interest rates remain low.

### *The Nation's Employment Grows and Unemployment Declines*

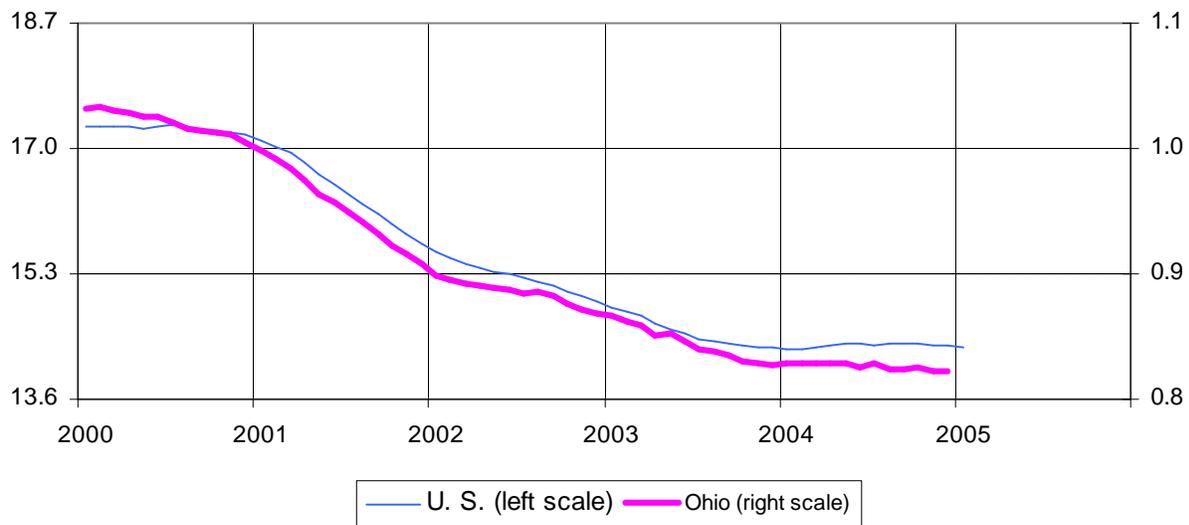
Total employment nationwide on nonfarm payrolls rose 146,000 in January, and unemployment declined

to 7.7 million persons or 5.2% of the labor force. The fall in the number of people counted as unemployed reduced the unemployment rate to its lowest level since September 2001. An annual revision to the payroll employment figures, incorporating results of a count of the number of payroll jobs in March 2004, raised the level of employment last year by nearly 200,000 (0.2%). With this upward revision, payroll employment last month of 132.6 million was at a new all-time high, surpassing the previous peak for the nation in February 2001. This revision is shown in Chart 1. Employment gains nevertheless continue smaller than in past business expansions. Even at the slower pace of real GDP growth in the fourth quarter of 2004, employment growth of closer to 200,000 each month might be expected based on past patterns. The rise in employment in January was mostly in service industries. Manufacturing employment fell 25,000 last month, and has declined every month since August 2004 after rising from a cyclical low in February. At 14.3 million, factory employment is only 11% of the country's nonfarm payrolls, down from 15% a decade ago.

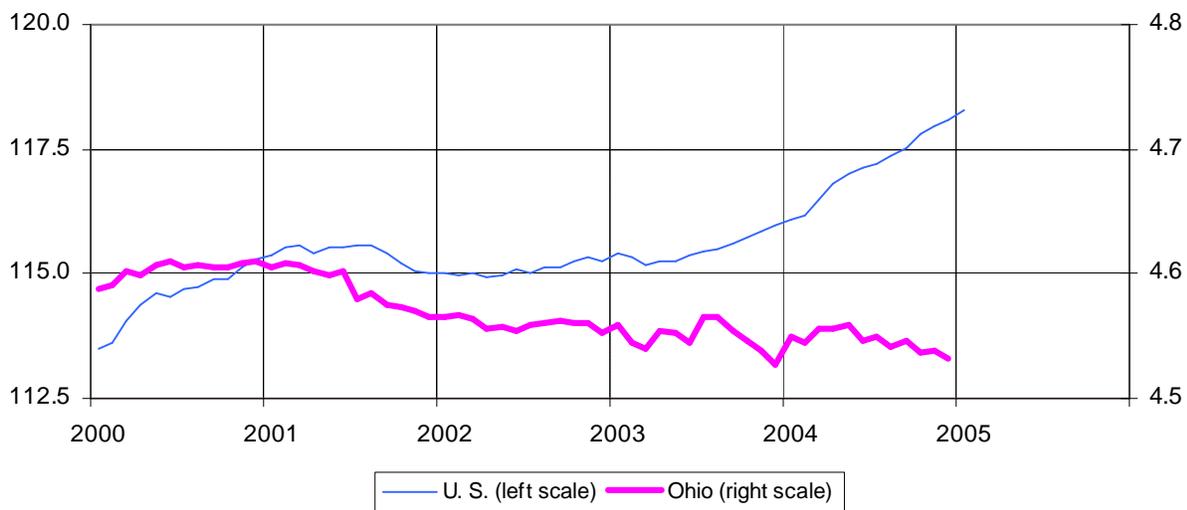
**Chart 1: Total Nonfarm Payroll Employment**



**Chart 2: Manufacturing Employment  
Millions, Seasonally Adjusted**



**Chart 3: Nonmanufacturing Employment  
Millions, Seasonally Adjusted**



Figures for January employment and unemployment in Ohio are scheduled for release on February 25. Data currently available show Ohio underperforming versus the nation over the past several years. Manufacturing employment declined somewhat more steeply, in percentage terms, in the state. Ohio nonmanufacturing employment was about flat for nearly two years after an earlier decline, in contrast with rising nonmanufacturing employment in the nation to a new all-time peak. These patterns are shown in Chart 2 and Chart 3. The peak for Ohio total nonfarm payroll employment was June

2000. From that month through December 2004, the number of jobs here fell by 281,000 or 5%. During this same period, manufacturing employment in the state declined 203,000 or 20%, accounting for nearly three-fourths of the fall in Ohio's total employment. Nationwide, factory payrolls fell about 3 million or 17% during this period. The number of nonmanufacturing payroll jobs in Ohio was 78,000 or 1.7% lower in December 2004 than in June 2000. In contrast, nonmanufacturing payrolls nationwide rose 3.6 million or 3.1% during this period.

***Expansion Continuing but Less Robust Than Last Year***

A monthly survey of purchasing managers at manufacturers nationwide, by the Institute for Supply Management, indicated that factory orders, production, inventories, and employment continued to expand in January. However, increases in activity were less widespread than last year. Purchasing managers reporting higher order backlogs in January only slightly outnumbered those seeing declines. Increases in prices paid continued widespread, but less so than in 2004. Only one commodity, steel, was reported in short supply. Respondents at capital goods producers commented that they expect demand to remain strong in domestic and foreign markets. Purchasing managers surveyed at nonmanufacturing organizations also reported expanding activity in January but at a slower pace than in December. Backlogs of orders fell, after 20 consecutive months of increases; however, 40% of the nonmanufacturing respondents said they do not measure backlogs. As in the manufacturing sector, price increases were less widespread.

Industrial production was unchanged in January, reflecting a 0.4% rise in manufacturing offset by a sharp drop in utility production, attributed to unseasonably warm weather, and a small decline in mining output. Factory output last month was 5.2% above a year earlier. Production of consumer goods slowed 0.4% in January, mainly reflecting cutbacks in output of light trucks and other durables, and was 2.2% higher than a year earlier. In contrast, business equipment production rose 1.1% last month to 10% above January 2004. Output of defense and space equipment was also up strongly in January from a year earlier, by 8.5%, but was unchanged from December.

Factory orders nationwide, in total, continued to rise through year-end 2004. For all of last year, manufacturers' new orders were 11% higher than a year earlier. Unfilled orders in December were 9% above their year-earlier level. Nondefense capital goods new orders, an indicator of future business investment in equipment, were 14% higher last year

than in 2003, and order backlogs at year-end were 11% higher.

***Retail Sales Held Down by Slower Vehicle Market***

Retail sales fell 0.3% in January, mainly reflecting a 3.3% decline in sales of motor vehicle and parts dealers. Dealers responded to sluggish January sales with another round of incentives on selected models. Excluding motor vehicles, retail sales rose 0.6% last month to 7.6% above a year earlier. Retail lines up strongly in the past year include building materials; garden equipment and supplies; gasoline stations, mostly due to higher prices; and nonstore retailers, a category that includes catalog and Internet sales.

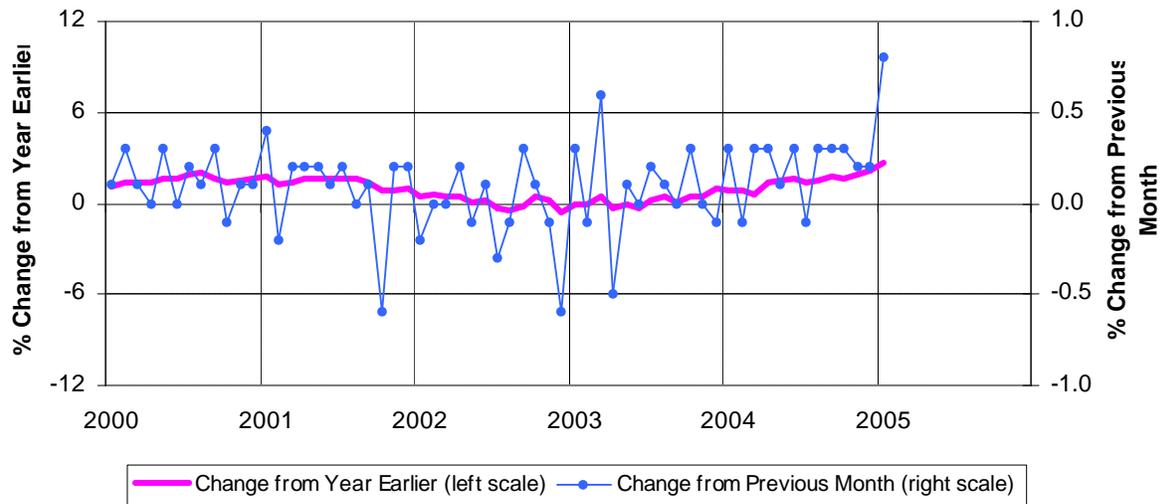
***Housing Strong Especially in the South***

Defying expectations of a slowing this year, housing starts in January, on a seasonally adjusted basis, rose 4.7% to a 2.16 million unit annual rate nationwide, the highest monthly pace of activity since 1984. Starts on single-family homes last month were the strongest on record, going back to 1959. The strength was concentrated in the South, where starts rose 19%. In the Midwest, housing starts fell 12%. Seasonal adjustments to measures of construction activity are large in winter months, particularly in northern states, because of weather effects.

***Inflation Indicators Mixed***

The report on producer prices for January gave mixed signals regarding inflation. Indexes for finished foods and energy declined in January, but finished goods other than food and energy rose more sharply, by 0.8%, than in any month since 1998. Several product categories showed sizable price increases from December to January, including tobacco products, up 3.1%; alcoholic beverages, 2.8%; passenger cars, 1.2%; light trucks, 0.9%; sporting and athletic goods, 0.9%; women's, girls', and infants' apparel, 0.6%; pharmaceuticals, 0.6%; and capital goods, 0.6%. Changes in the producer price index for finished goods excluding food and

**Chart 4: Producer Price Index for Finished Goods  
Excluding Food and Energy**



energy are shown in Chart 4. At earlier stages of production, the price index for crude materials fell 2%, the second consecutive monthly decline, and intermediate goods prices rose 0.4%, less than in most months last year.

### ***Interest Rate Increases Ahead***

The nation's central bank, as widely expected, raised its target for federal funds, the interest rate on overnight interbank loans, by 0.25 percentage point to 2.5% at its meeting in early February. In semiannual Congressional testimony, Federal

Reserve Chairman Greenspan characterized the inflation-adjusted federal funds rate as "fairly low." With economic expansion well established, the central bank will almost certainly continue to tighten monetary policy. Although the report accompanying his testimony forecast a low and stable rate of inflation, Chairman Greenspan noted uncertainties in the outlook for inflation related to future productivity growth and the impact of any further fall in the foreign exchange value of the dollar. Bond market yields traded higher following the testimony, but remain low.

# Status of the General Revenue Fund

## REVENUE

— Jean Botomogno, Glenn Wintrich, and Allan Lundell

Total General Revenue fund (GRF) receipts for January were \$53.3 million (2.2%) above estimate. State-source receipts (tax revenue plus nontax revenue plus transfers in) were \$102.6 million (5.3%) above estimate, total tax revenue was \$93.0 million (4.9%) above estimate, and revenue from the “major taxes” was \$90.0 million (4.8%) above estimate.<sup>1</sup>

Revenue from the personal income tax was \$71.8 million (8.0%) above estimate and revenue from the corporate franchise tax was above estimate by \$52.4 million (25.9%). Revenue from the nonauto sales and use tax was below estimate by \$32.0 million (4.8%). Federal grants were \$49.3 million (10.6%) below estimate.<sup>2</sup>

Seven months into the fiscal year, total GRF receipts of \$13,952.1 million are \$56.5 million (0.4%) above estimate. State-source receipts are \$164.6 million (1.6%) above estimate, GRF tax revenue is \$163.0 million (1.6%) above estimate,

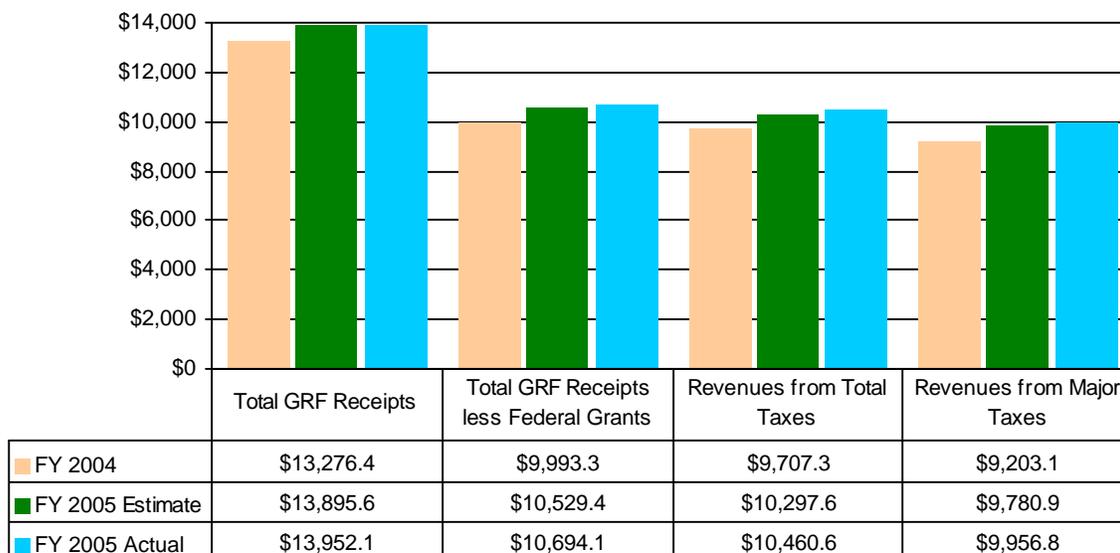
and total GRF revenues from the major taxes are \$175.9 million (1.8%) above estimate. Federal grants are \$108.1 million (3.2%) below estimate. Revenue from the personal income tax is \$177.6 million (3.9%) above estimate.

For the fiscal year to date, total GRF receipts are up 5.1% compared to FY 2004. State-source receipts are up 7.0%, total tax revenue is up 7.8%, and revenue from the major taxes is up 8.2%. Federal grants are down 0.8%. If the \$193 million in one-time revenue received in October 2003 is removed from the FY 2004 total for federal grants, then FY 2005 federal grants are up 5.4%. Chart 1 compares FY 2005 receipts with FY 2004 receipts and FY 2005 estimates.

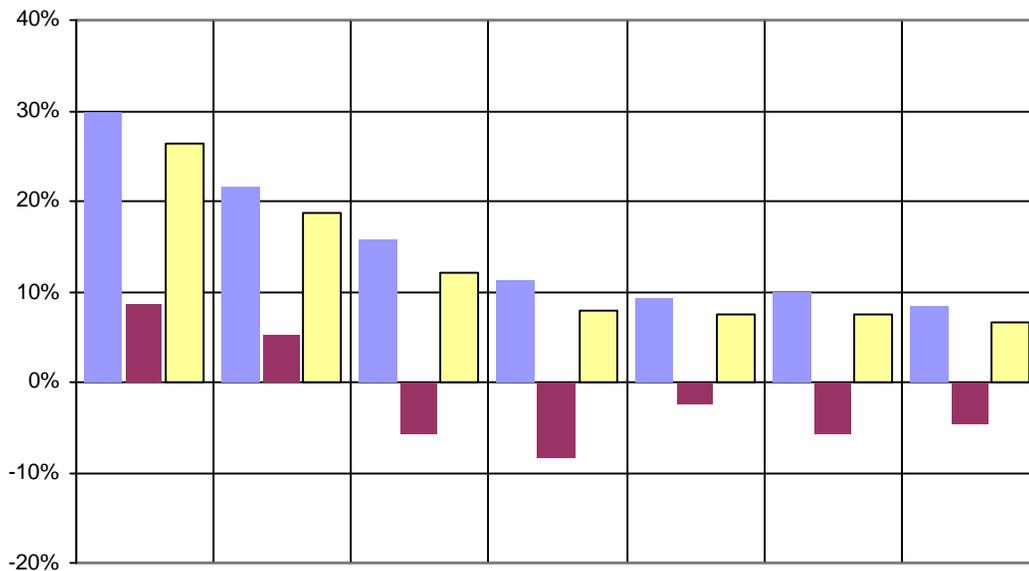
### Personal Income Tax

The GRF received \$966.3 million from the personal income tax in January. This amount was \$71.8 million (8.0%) greater than estimated. Most

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



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



	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05
Nonauto Tax Receipts	29.9%	21.5%	15.9%	11.3%	9.3%	9.8%	8.4%
Auto Tax Receipts	8.5%	5.2%	-5.8%	-8.4%	-2.4%	-5.8%	-4.6%
Total SUT Receipts	26.3%	18.7%	12.1%	7.9%	7.5%	7.4%	6.5%

of this increase was due to a strong month for estimated payments.<sup>3</sup> Estimated payments were \$65.5 million (17.3%) above estimate for January. Withholding was \$2.0 million (0.3%) above estimate and refunds were \$5.6 million (6.8%) less than expected for January.

For the fiscal year to date, the GRF has received \$4,767.0 million from the personal income tax, which is \$177.6 million (3.9%) above estimate. The \$4,496.2 million in revenue collected through withholding is \$15.5 million (0.3%) above estimate. Year-to-date quarterly estimated payments of \$885.8 million are \$103.4 million (13.2%) above estimate. Refunds for the year total \$204.9 million, which is \$28.6 million (12.2%) below estimate.

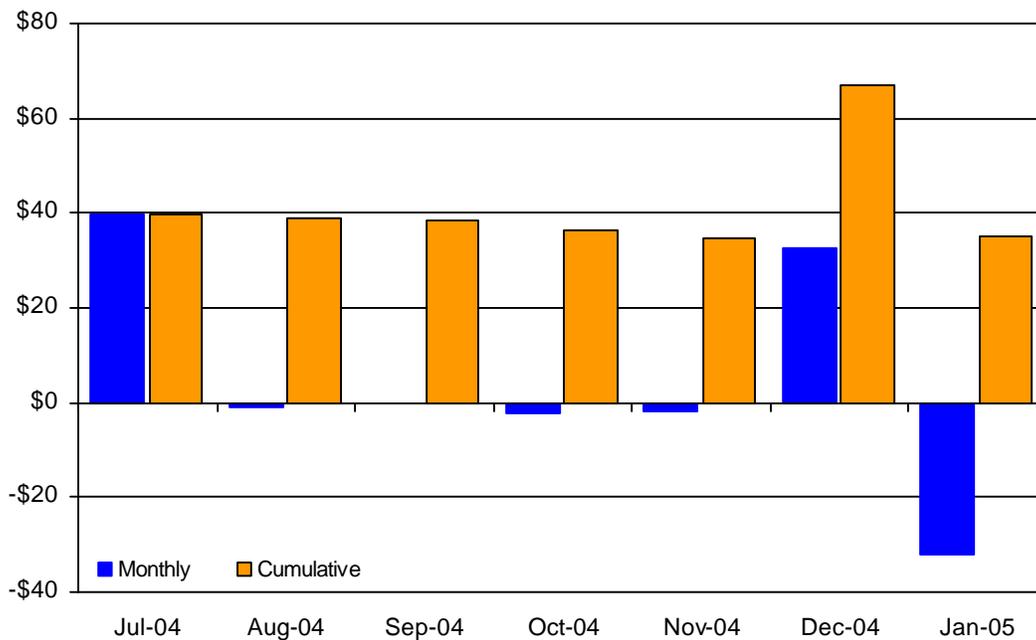
Compared to a year ago, GRF revenue from the personal income tax is up 9.4%. Withholding, which reflects the condition of Ohio's labor market, is up 5.3%. Quarterly estimated payments are up 17.5%, gross collections are up 7.3%, refunds are down 12.2%, and net collections (gross collections minus refunds) are up 8.3%.

### ***Sales and Use Tax***

January 2005 sales and use tax revenues were \$704.4 million, \$32.7 million (4.4%) below projected revenues. Sales and use tax receipts in the month were \$13.9 million (2.0%) above January 2004 revenues. Receipts from the nonauto sales and use tax in January 2005 were 4.8% below estimates, while those from the auto sales and use tax were 0.9% below estimates. Monthly tax receipts partly reflect taxable retail sales activity in the prior month and also taxable retail sales during that month.<sup>4</sup>

As of January 2005, FY 2005 year-to-date sales and use tax revenues were \$4,718.4 million, \$14.9 million (0.3%) above estimates. FY 2005 year-to-date sales and use tax receipts were also \$289.0 million (6.5%) higher than year-to-date tax receipts in January 2004. Chart 2 compares year-to-date sales and use tax revenues in FY 2005 and FY 2004. Through January, the nonauto sales tax shows a healthy year-over-year revenue growth of 8.4%, while receipts from the auto sales tax were 4.6%

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



below receipts in the same period last year. The cumulative year-over-year percentage change in total sales and use tax receipts declined to 6.5%, down from 7.4% at the end of the second quarter of FY 2005.

### Nonauto Sales and Use Tax

In January 2005, nonauto sales and use tax revenues were \$629.5 million, \$32.0 million (4.8%) below estimate. These receipts were \$10.4 million (1.7%) above revenues in the same month last year. Through January, FY 2005 year-to-date nonauto sales and use tax revenues were \$4,098.6 million, \$35.1 million (0.9%) higher than estimate. FY 2005 year-to-date receipts were also \$319.2 million (8.4%) above revenues in the same period in FY 2004. At the end of the second quarter of FY 2005 (December 2004), the cumulative year-over-year percentage change in nonauto sales and use tax receipts was 9.8%. FY 2005 nonauto sales and use tax receipts are inflated by the effects of the tax rate increase on July 1, 2003, by receipts from the sales tax on local phone calls (Am. Sub. H.B. 95, effective January 1, 2005), and by receipts from the sales tax base expansion (with collections that started generally in September 2003).

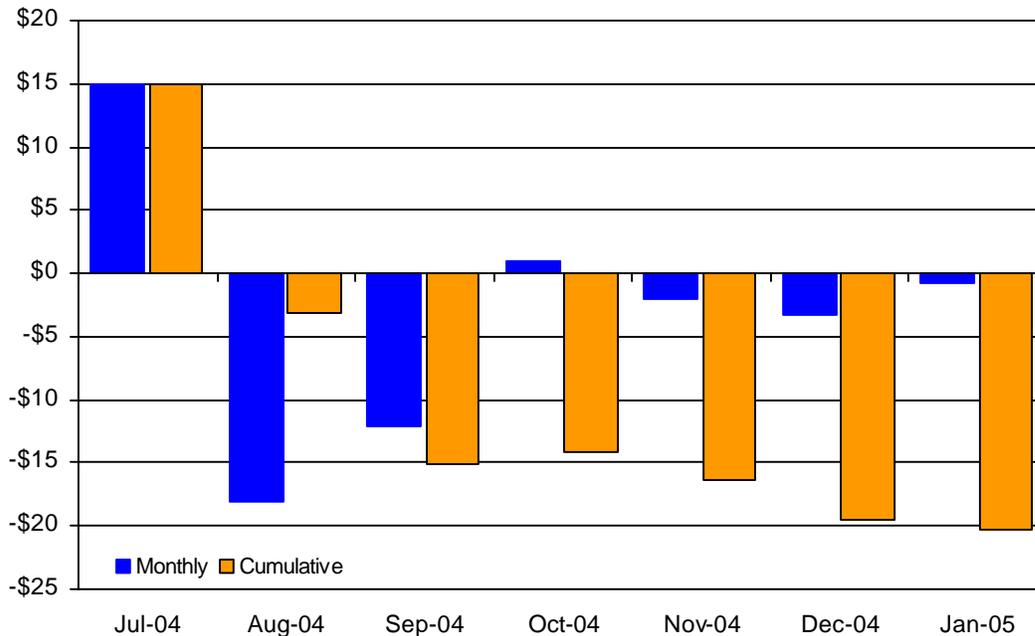
### Auto Sales Tax

Auto sales and use tax receipts were \$74.9 million in January 2005, \$0.7 million (0.9%) below estimates. 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 and use tax receipts in January 2004 were \$3.5 million (4.9%) higher. Through January, FY 2005 year-to-date auto sales tax receipts were \$619.8 million, \$20.3 million (3.2%) below estimates. FY 2005 year-to-date auto sales and use tax receipts were also \$30.2 million (4.6%) below receipts in the same period in FY 2004.

### 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 first major corporate franchise

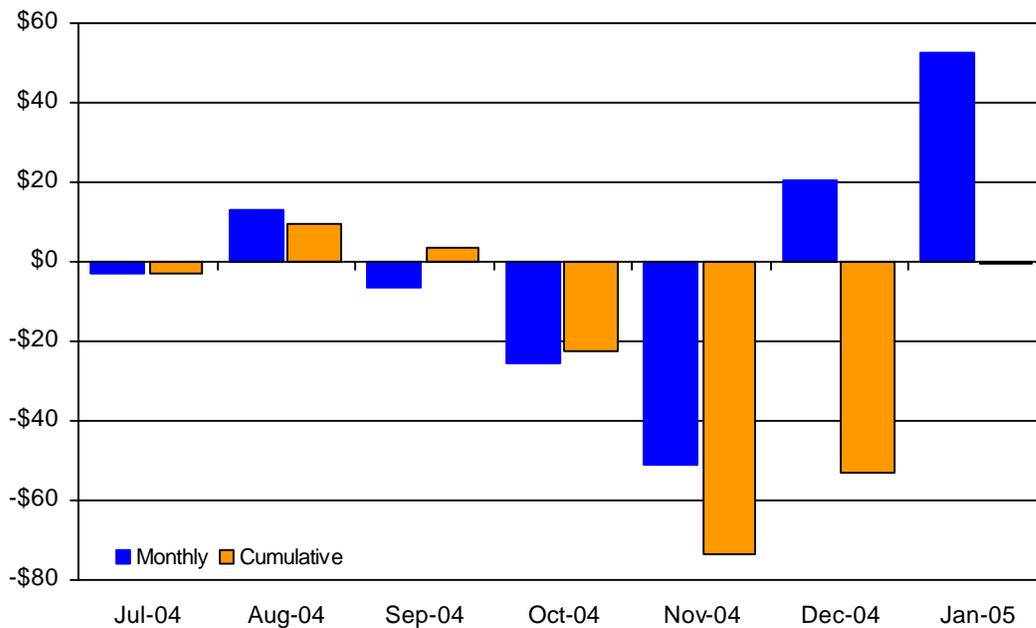
**Chart 4: Auto Sales Tax Variance from August 2004 Estimate**  
(in millions of dollars)



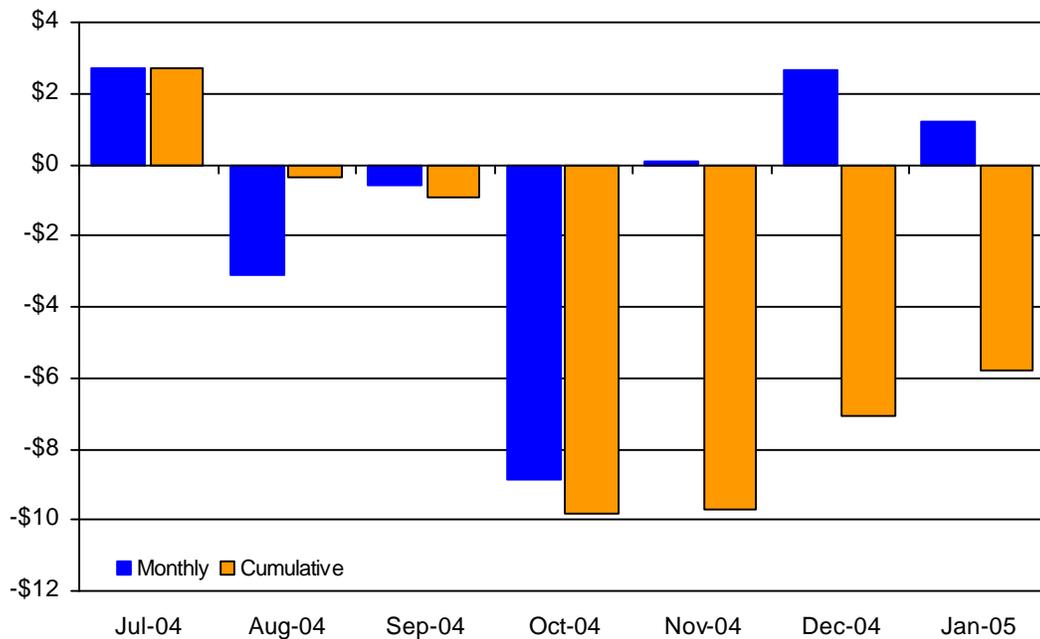
tax payments in FY 2005 occurred January 31, 2005. Corporate franchise tax receipts in the month were \$255.1 million, \$52.4 million (25.9%) above estimate, and \$137.6 million (117.1%) above January 2004 receipts. Of the \$255 million received in January, \$229.9 million was received on January 31.

Through December 2004, FY 2005 corporate franchise net tax revenues were negative, at -\$16.7 million, \$53.0 million below estimates, and \$33.6 million below FY 2004 year-to-date receipts through December 2003. Through January 2005, FY 2005 year-to-date revenues were

**Chart 5: Corporate Franchise Tax Variance from August 2004 Estimates**  
(in millions)



**Chart 6: Cigarette Tax Variance from August 2004 Estimates**  
(in millions)



\$238.3 million, \$0.6 million (0.3%) below estimates, and \$104.0 million (77.5%) above year-to-date revenues in FY 2004. The surge in corporate franchise tax receipts in January 2005 almost erased the cumulative deficit and brought year-to-date receipts almost up to par with estimates.

For franchise tax purposes, the second-half of the fiscal year may be divided into three distinct tax periods: the January-February tax period, the March-April tax period, and the May-June tax period. Because the payment date for the first payment falls on the last day of the month in January, there is usually a spillover of tax collections into February. Thus, it is too early to predict how this tax will fare this fiscal year. Adding January's take to February receipts would provide a better indication of the corporate franchise tax's prospects in FY 2005. FY 2005 corporate franchise tax revenues are expected to be about \$91 million (11.1%) above FY 2004 receipts. At the end of

January 2005, year-to-date collections were on track to achieve these results.

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

Cigarette and other tobacco products tax receipts in January 2005 were \$46.0 million, \$1.2 million (2.7%) above estimates. Cigarette tax revenues were \$43.6 million, while other tobacco products revenues were \$2.4 million. Total revenues from this tax source were \$1.5 million (3.4%) lower than January 2004 receipts. Through January, FY 2005 year-to-date cigarette and other tobacco tax receipts were \$297.6 million, \$5.9 million (1.9%) below estimates. Year-to-date receipts from the tax on cigarettes were \$280.4 million. Compared to revenues in the same period in FY 2004, year-to-date cigarette and other tobacco products tax revenues were \$1.1 million (0.4%) lower.

<sup>1</sup> The "major taxes" are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the kilowatt-hour tax. 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).

<sup>2</sup>“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 expenses for human services programs that require federal participation. Any changes in state spending in these areas will change receipts from federal grants.

<sup>3</sup>Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than \$500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. These payments are usually made by taxpayers with significant nonwage income. This income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

<sup>4</sup>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 months.

**Table 2**  
**General Revenue Fund Sources**  
**Actual vs. Estimate**  
**Month of January 2005**  
(in thousands)

	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
<b>TAX REVENUE</b>				
Auto Sales	\$74,887	\$75,598	-\$711	-0.9%
Nonauto Sales & Use	\$629,492	\$661,500	-\$32,008	-4.8%
Total Sales & Use Taxes	\$704,378	\$737,098	-\$32,720	-4.4%
Personal Income	\$966,300	\$894,500	\$71,800	8.0%
Corporate Franchise	\$255,050	\$202,644	\$52,406	25.9%
Public Utility	\$67	\$0	\$67	---
Kilowatt Hour Excise	\$27,888	\$29,400	-\$1,512	-5.1%
<b>Total Major Taxes</b>	<b>\$1,953,684</b>	<b>\$1,863,642</b>	<b>\$90,042</b>	<b>4.8%</b>
Foreign Insurance	\$251	\$24	\$227	959.4%
Domestic Insurance	\$1	\$0	\$1	---
Business & Property	\$5	\$75	-\$70	-92.8%
Cigarette	\$46,013	\$44,800	\$1,213	2.7%
Alcoholic Beverage	\$5,130	\$4,047	\$1,083	26.8%
Liquor Gallonage	\$3,591	\$3,348	\$243	7.3%
Estate	\$968	\$700	\$268	38.3%
Total Other Taxes	\$55,959	\$52,994	\$2,966	5.6%
<b>Total Tax Revenue</b>	<b>\$2,009,644</b>	<b>\$1,916,636</b>	<b>\$93,008</b>	<b>4.9%</b>
<b>NONTAX STATE-SOURCE REVENUE</b>				
Earnings on Investments	\$0	\$0	\$0	---
Licenses and Fees	\$14,277	\$4,480	\$9,797	218.7%
Other Revenue	\$9,500	\$10,697	-\$1,196	-11.2%
Nontax State-Source Revenue	\$23,778	\$15,177	\$8,601	56.7%
<b>TRANSFERS</b>				
Liquor Transfers	\$6,000	\$5,000	\$1,000	20.0%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$0	\$0	---
Total Transfers In	\$6,000	\$5,000	\$1,000	20.0%
<b>TOTAL GRF before Federal Grants</b>	<b>\$2,039,421</b>	<b>\$1,936,812</b>	<b>\$102,609</b>	<b>5.3%</b>
Federal Grants	\$416,475	\$465,764	-\$49,289	-10.6%
<b>TOTAL GRF SOURCES</b>	<b>\$2,455,896</b>	<b>\$2,402,576</b>	<b>\$53,320</b>	<b>2.2%</b>

\* 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 January 2005**  
(in thousands)

	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2004</b>	<b>Percent Change</b>
<b>TAX REVENUE</b>						
Auto Sales	\$619,800	\$640,070	-\$20,270	-3.2%	\$649,972	-4.6%
Nonauto Sales & Use	\$4,098,630	\$4,063,500	\$35,130	0.9%	\$3,779,462	8.4%
Total Sales & Use Taxes	\$4,718,429	\$4,703,570	\$14,859	0.3%	\$4,429,434	6.5%
Personal Income	\$4,767,044	\$4,589,400	\$177,644	3.9%	\$4,358,861	9.4%
Corporate Franchise	\$238,287	\$238,928	-\$641	-0.3%	\$134,270	77.5%
Public Utility	\$35,770	\$49,100	-\$13,330	-27.1%	\$83,513	-57.2%
Kilowatt Hour Excise	\$197,316	\$199,900	-\$2,584	-1.3%	\$197,004	0.2%
<b>Total Major Taxes</b>	<b>\$9,956,847</b>	<b>\$9,780,898</b>	<b>\$175,949</b>	<b>1.8%</b>	<b>\$9,203,081</b>	<b>8.2%</b>
Foreign Insurance	\$122,562	\$123,098	-\$535	-0.4%	\$114,772	6.8%
Domestic Insurance	\$170	\$1,122	-\$952	-84.8%	\$147	15.5%
Business & Property	\$932	\$1,350	-\$418	-31.0%	\$1,405	-33.7%
Cigarette	\$297,648	\$303,500	-\$5,852	-1.9%	\$298,759	-0.4%
Alcoholic Beverage	\$34,312	\$33,060	\$1,252	3.8%	\$33,191	3.4%
Liquor Gallonage	\$19,518	\$18,848	\$670	3.6%	\$18,687	4.4%
Estate	\$28,613	\$35,700	-\$7,087	-19.9%	\$37,272	-23.2%
Total Other Taxes	\$503,756	\$516,678	-\$12,922	-2.5%	\$504,234	-0.1%
<b>Total Tax Revenue</b>	<b>\$10,460,602</b>	<b>\$10,297,576</b>	<b>\$163,027</b>	<b>1.6%</b>	<b>\$9,707,314</b>	<b>7.8%</b>
<b>NONTAX STATE-SOURCE REVENUE</b>						
Earnings on Investments	\$13,754	\$15,360	-\$1,606	-10.5%	\$14,768	-6.9%
Licenses and Fees	\$33,445	\$25,194	\$8,251	32.7%	\$23,767	40.7%
Other Revenue	\$64,622	\$74,518	-\$9,896	-13.3%	\$102,719	-37.1%
Nontax State-Source Revenue	\$111,821	\$115,072	-\$3,251	-2.8%	\$141,255	-20.8%
<b>TRANSFERS</b>						
Liquor Transfers	\$67,000	\$63,000	\$4,000	6.3%	\$67,000	0.0%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$54,661	\$53,800	\$861	1.6%	\$77,681	-29.6%
Total Transfers In	\$121,661	\$116,800	\$4,861	4.2%	\$144,681	-15.9%
<b>TOTAL GRF before Federal Grants</b>	<b>\$10,694,084</b>	<b>\$10,529,448</b>	<b>\$164,636</b>	<b>1.6%</b>	<b>\$9,993,250</b>	<b>7.0%</b>
Federal Grants	\$3,258,060	\$3,366,161	-\$108,101	-3.2%	\$3,283,193	-0.8%
<b>TOTAL GRF SOURCES</b>	<b>\$13,952,144</b>	<b>\$13,895,609</b>	<b>\$56,535</b>	<b>0.4%</b>	<b>\$13,276,442</b>	<b>5.1%</b>

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

## DISBURSEMENTS

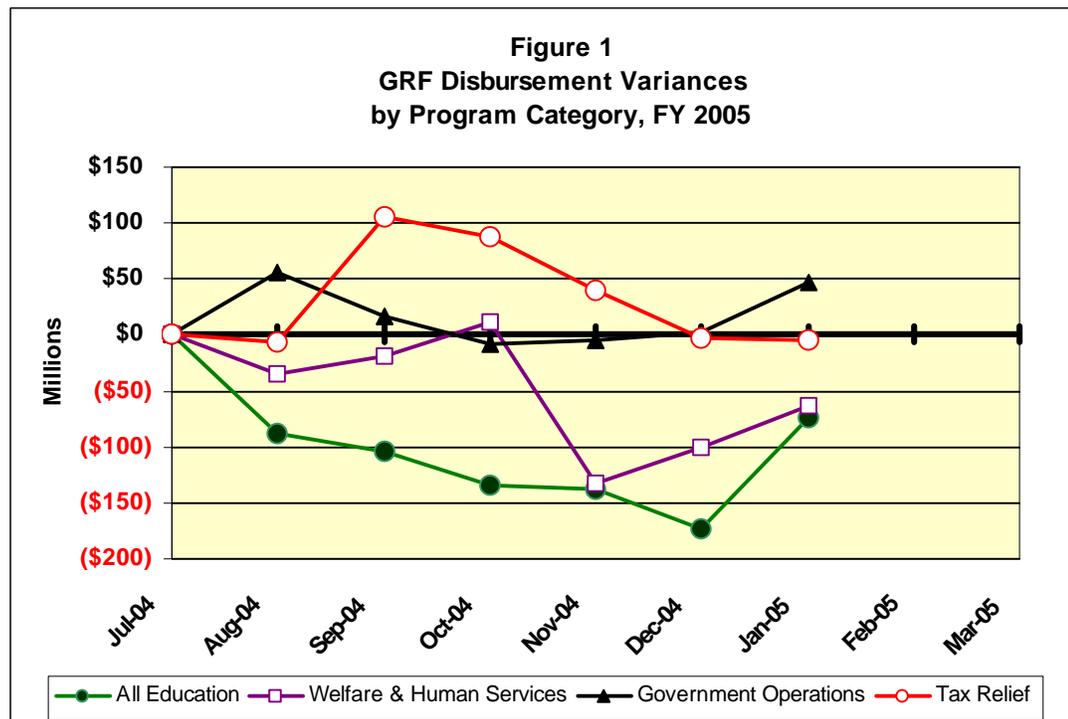
— Steve Mansfield

Due to time constraints and the priorities of the budget process, this month's "Disbursements" report is using an abbreviated format and excludes the usual tables on Medicaid expenditures. Our March issue will return to the usual format.

January's disbursements from the General Revenue Fund (GRF), excluding transfers, totaled \$2,208.6 million. This was \$186.9 million over the estimate for the month, reducing the variance in outlays for the year to date to \$111.5 million under the estimate. (There was included as part of the outlay total, however, an improper payment of \$43.6 million that was made by the Department of Education. The improper payment, which resulted from a data entry error, was immediately recovered.) Of the state's four major GRF program categories (Education, Welfare and Human Services, Government Operations, and Property Tax Relief), only the Tax Relief category showed an increase in outlays from December's level.

When we look in Figure 1 and Table 4 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 three of the state's four major GRF program categories had disbursement variances above the estimates, thus reducing the year-to-date variance for those categories. The Tax Relief program was the only major category posting a disbursement variance under the estimate for the month, and this was relatively small (\$1.8 million under estimate).

As Table 5 indicates, the three program subcategories with the largest disbursement variances for the year to date are Primary and Secondary Education, Other Welfare, and Justice and Corrections.



**Table 4**  
**General Revenue Fund Uses**  
**Actual vs. Estimate**  
**Month of January 2005**  
(\$ in thousands)

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Primary & Secondary Education (1)	\$587,226	\$473,971	\$113,255	23.9%
Higher Education	\$161,255	\$175,475	-\$14,220	-8.1%
<b>Total Education</b>	<b>\$748,481</b>	<b>\$649,447</b>	<b>\$99,034</b>	<b>15.2%</b>
Health Care/Medicaid	\$889,687	\$833,423	\$56,263	6.8%
Temporary Assistance to Needy Families (TANF)	\$23,345	\$53,106	-\$29,761	-56.0%
General/Disability Assistance	\$2,227	\$1,908	\$319	16.7%
Other Welfare (2)	\$50,753	\$44,304	\$6,449	14.6%
Human Services (3)	\$139,392	\$135,782	\$3,610	2.7%
<b>Total Welfare &amp; Human Services</b>	<b>\$1,105,403</b>	<b>\$1,068,522</b>	<b>\$36,881</b>	<b>3.5%</b>
Justice & Corrections	\$216,539	\$174,822	\$41,717	23.9%
Environment & Natural Resources	\$10,484	\$6,632	\$3,852	58.1%
Transportation	\$3,386	\$5,167	-\$1,782	-34.5%
Development	\$9,145	\$8,288	\$857	10.3%
Other Government	\$22,689	\$22,513	\$177	0.8%
Capital	\$0	\$350	-\$350	-100.0%
<b>Total Government Operations</b>	<b>\$262,243</b>	<b>\$217,772</b>	<b>\$44,471</b>	<b>20.4%</b>
Property Tax Relief (4)	\$11,256	\$13,074	-\$1,818	-13.9%
Debt Service	\$81,251	\$72,872	\$8,379	11.5%
<b>Total Other Disbursements</b>	<b>\$92,507</b>	<b>\$85,946</b>	<b>\$6,561</b>	<b>7.6%</b>
<b>Total Program Disbursements</b>	<b>\$2,208,634</b>	<b>\$2,021,687</b>	<b>\$186,947</b>	<b>9.2%</b>
<b>TRANSFERS</b>				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$4,028	\$0	\$4,028	---
<b>Total Transfers Out</b>	<b>\$4,028</b>	<b>\$0</b>	<b>\$4,028</b>	<b>---</b>
<b>TOTAL GRF USES</b>	<b>\$2,212,662</b>	<b>\$2,021,687</b>	<b>\$190,975</b>	<b>9.4%</b>

(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.

### Highlights:

- In January, the Department of Education posted a disbursement variance of \$111.7 million. Most of this variance (\$100.7 million over the

estimate) was in the line item 200-501, Base Cost Funding. As noted above, \$43.6 million of this variance in the 501 line item was due to a data entry error and the improper payments were recovered immediately. Deducting the error leaves a variance of \$57.1 million over

**Table 5**  
**General Revenue Fund Uses**  
**Actual vs. Estimate**  
**FY 2005 as of January 2005**  
(in thousands)

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2004</b>	<b>Percent Change</b>
Primary & Secondary Education (1)	\$3,962,388	\$4,003,404	-\$41,016	-1.0%	\$3,742,328	5.9%
Higher Education	\$1,380,612	\$1,414,111	-\$33,499	-2.4%	\$1,410,857	-2.1%
<b>Total Education</b>	<b>\$5,343,000</b>	<b>\$5,417,515</b>	<b>-\$74,515</b>	<b>-1.4%</b>	<b>\$5,153,185</b>	<b>3.7%</b>
Health Care/Medicaid	\$5,672,274	\$5,679,854	-\$7,580	-0.1%	\$5,236,885	8.3%
Temporary Assistance to Needy Families (TANF)	\$216,279	\$243,240	-\$26,961	-11.1%	\$263,535	-17.9%
General/Disability Assistance	\$14,558	\$14,547	\$12	0.1%	\$13,620	6.9%
Other Welfare (2)	\$303,915	\$344,402	-\$40,487	-11.8%	\$307,147	-1.1%
Human Services (3)	\$778,189	\$766,720	\$11,469	1.5%	\$747,762	4.1%
<b>Total Welfare &amp; Human Services</b>	<b>\$6,985,214</b>	<b>\$7,048,762</b>	<b>-\$63,548</b>	<b>-0.9%</b>	<b>\$6,568,949</b>	<b>6.3%</b>
Justice & Corrections	\$1,196,254	\$1,157,894	\$38,360	3.3%	\$1,124,945	6.3%
Environment & Natural Resources	\$80,495	\$76,633	\$3,863	5.0%	\$73,696	9.2%
Transportation	\$16,696	\$18,916	-\$2,220	-11.7%	\$20,273	-17.6%
Development	\$108,213	\$91,416	\$16,797	18.4%	\$88,522	22.2%
Other Government	\$244,920	\$252,125	-\$7,204	-2.9%	\$236,482	3.6%
Capital	\$0	\$1,780	-\$1,780	-100.0%	\$0	---
<b>Total Government Operations</b>	<b>\$1,646,579</b>	<b>\$1,598,764</b>	<b>\$47,815</b>	<b>3.0%</b>	<b>\$1,543,918</b>	<b>6.6%</b>
Property Tax Relief (4)	\$710,779	\$714,573	-\$3,794	-0.5%	\$685,702	3.7%
Debt Service	\$257,295	\$274,771	-\$17,476	-6.4%	\$243,946	5.5%
<b>Total Other Disbursements</b>	<b>\$968,075</b>	<b>\$989,344</b>	<b>-\$21,270</b>	<b>-2.1%</b>	<b>\$929,647</b>	<b>4.1%</b>
<b>Total Program Disbursements</b>	<b>\$14,942,868</b>	<b>\$15,054,385</b>	<b>-\$111,518</b>	<b>-0.7%</b>	<b>\$14,195,699</b>	<b>5.3%</b>
<b>TRANSFERS</b>						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$31,985	\$0	\$31,985	---	\$34,936	-8.4%
<b>Total Transfers Out</b>	<b>\$31,985</b>	<b>\$0</b>	<b>\$31,985</b>	<b>---</b>	<b>\$34,936</b>	<b>-8.4%</b>
<b>TOTAL GRF USES</b>	<b>\$14,974,853</b>	<b>\$15,054,385</b>	<b>-\$79,532</b>	<b>-0.5%</b>	<b>\$14,230,635</b>	<b>5.2%</b>

(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 estimate. A large part of the variance is due to the use of real ADM (actual daily membership) data for the distribution of funds under the formula. Prior to this point in the fiscal year, only estimates had been employed for the disbursement calculations. According to

officials of the Department, this overage is an indication that enrollments are higher than forecast and that an additional appropriation will be needed for this line item. For the year to date, removing the overage that was due to the error, disbursements in the budget of the

- For the year to date, disbursement activity of the Board of Regents is under estimate by \$33.5 million. Of this amount, \$13.1 million stems from the timing of payments from line item 235-420, Success Challenge. These payments should be made in February. Another \$15.2 million stems from the timing of payments from line item 235-503, Ohio Instructional Grants. Warrants for these payments went to the Treasurer on the last day of January, too late to be recorded in January.
- The \$29.8 million variance under estimate in the TANF program in January was the result of paying county advances out of the federal rather than the state component of the program's funding. The number of TANF cases (assistance groups) declined by about 1,000 from December to 86,654 in January.
- The year-to-date variance of \$38.4 million in the Justice and Corrections subcategory stems mostly from a payroll of both the Department of Rehabilitation and Correction and the Department of Youth Services that was posted in January rather than in February, as had been anticipated by the estimates.