

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JUNE 2005

FISCAL OVERVIEW

—Allan Lundell

General Revenue Fund (GRF) receipts were \$420 million above estimate and program disbursements were \$156 million below estimate for May.¹ For the fiscal year to date, total GRF receipts are \$565 million above estimate, total program disbursements are \$247 million below estimate, and the cash balance is \$772 million above its expected level.

Tracking the Economy

The national economy continues to grow, but the rate of expansion has eased. Estimated first quarter gross domestic product growth of 3.5% trails last year's 4.4% growth. Total nonfarm payroll employment nationwide rose a less than expected 78,000 in May. Retail sales fell. Producer and consumer price inflation remain low. Business activity in the Ohio region was thought to be expanding on balance according to the latest "Beige Book" report from the Federal Reserve.

Receipts

May was an exceptional month for receipts. Total GRF receipts were \$420 million (19.5%) above estimate, state-source receipts were \$422 million (23.6%) above estimate, tax revenue was \$421 million (23.9%) above estimate, and revenue from the major taxes was \$425 million (28.4%) above estimate.² Revenue from the personal income tax was above estimate by \$407 million (73.0%), revenue from the corporate franchise tax was \$24 million (13.6%) above estimate, and revenue from the public utility excise tax was above estimate by \$15 million (33.2%). Sales and use tax revenue was \$20 million (3.0%) below estimate. Federal grants were \$2 million (0.4%) below estimate.

For the fiscal year to date, total GRF receipts are \$565 million (2.5%) above estimate, state-source receipts are \$633 million (3.7%) above estimate, tax revenue is \$613 million (3.7%) above estimate, and revenue from the major taxes is \$633 million (4.0%) above estimate. The income tax is \$551 million (7.6%) above estimate,

Volume 28, Number 10

Tracking the Economy 221

- The national economy continues to expand but at a more subdued pace than earlier
- Inflation remains low
- Ohio nonfarm payroll employment is recovering slowly; the state's unemployment rate is a full percentage point above that of the nation

STATUS OF THE GRF

Revenue 226

- Income tax revenue above estimate by \$407 million in May
- Auto sales tax revenue continues to lag; year-to-date revenue below estimate for tenth consecutive month
- Year-to-date state-source receipts 3.7% above estimate and up 8.7% over FY 2004

Disbursements 234

- Total Education disbursements stand at \$171 million under OBM's estimate for the year to date
- Welfare and Human Services disbursements remain significantly under the year-to-date estimate
- Disbursement variance in Tax Relief dissipates

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

For questions or comments regarding specific sections:

GRF Revenue:
Allan Lundell 644-7788

GRF Spending:
Steve Mansfield 728-4815

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

Telephone: (614)466-3615

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

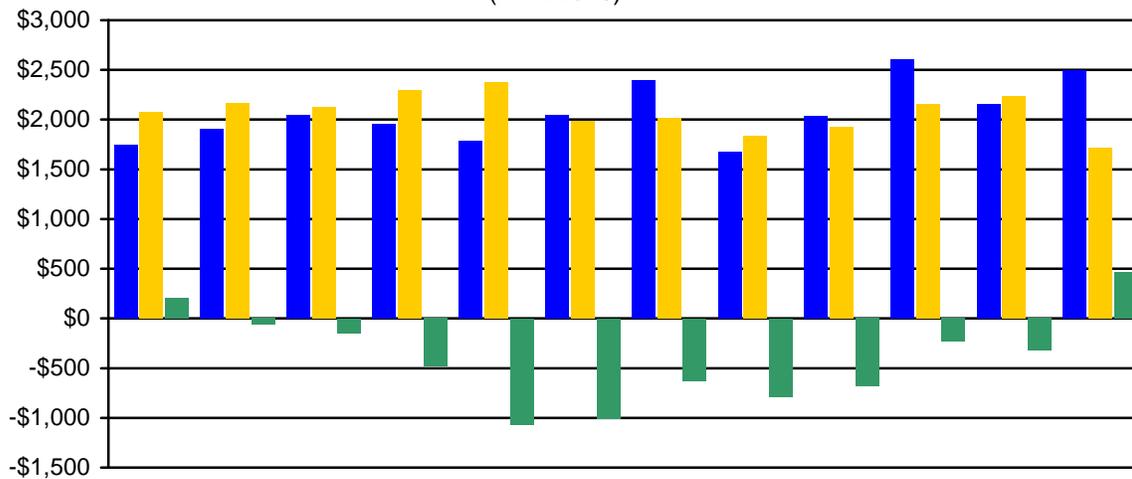
	Month of May	Fiscal Year 2005 to Date	Last Year	Difference
Beginning Cash Balance	-\$33.8	\$533.1		
Plus Revenue and Transfers In	\$2,571.1	\$22,926.5		
Available Resources	\$2,537.3	\$23,459.6		
Less Disbursements and Transfers Out	\$2,086.5	\$23,008.8		
Ending Cash Balances	\$450.8	\$450.8	-\$169.3	\$620.1
Less Encumbrances and Accts. Payable		\$312.8	\$290.6	\$22.2
Unobligated Balance		\$138.0	-\$459.9	\$597.9
Plus BSF Balance		\$180.7	\$180.7	\$0.0
Combined GRF and BSF Balance		\$318.7	-\$279.2	\$597.9

the corporate franchise tax is \$131 million (15.5%) above estimate, and the nonauto sales and use tax is \$11 million (0.2%) above estimate. Revenue from the auto sales tax is \$54 million (5.3%) below estimate and federal grants are \$67 million (1.3%) below estimate.

Disbursements

GRF program disbursements were \$156 million (7.0%) below estimate in May. Disbursements for primary and secondary education were \$101 million (15.6%) below estimate and

**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

disbursements for higher education were below estimate by \$2 million (0.6%). Disbursements for health care/Medicaid were \$38 million (5.0%) above estimate and disbursements for TANF were \$14 million (62.9%) above estimate. Disbursements for property tax relief were \$132 million (45.1%) below estimate.

For the fiscal year to date, GRF program disbursements are \$247 million (1.1%) below estimate. Disbursements for primary and secondary education are below estimate by \$156 million (2.5%) and disbursements for higher education are below estimate by \$15 million (0.7%). Disbursements for health care/Medicaid are \$64 million (0.7%) below estimate and disbursements for TANF are \$3 million (0.8%) below estimate. Disbursements for property tax relief are \$22 million (1.9%) above estimate.

Cash Balance

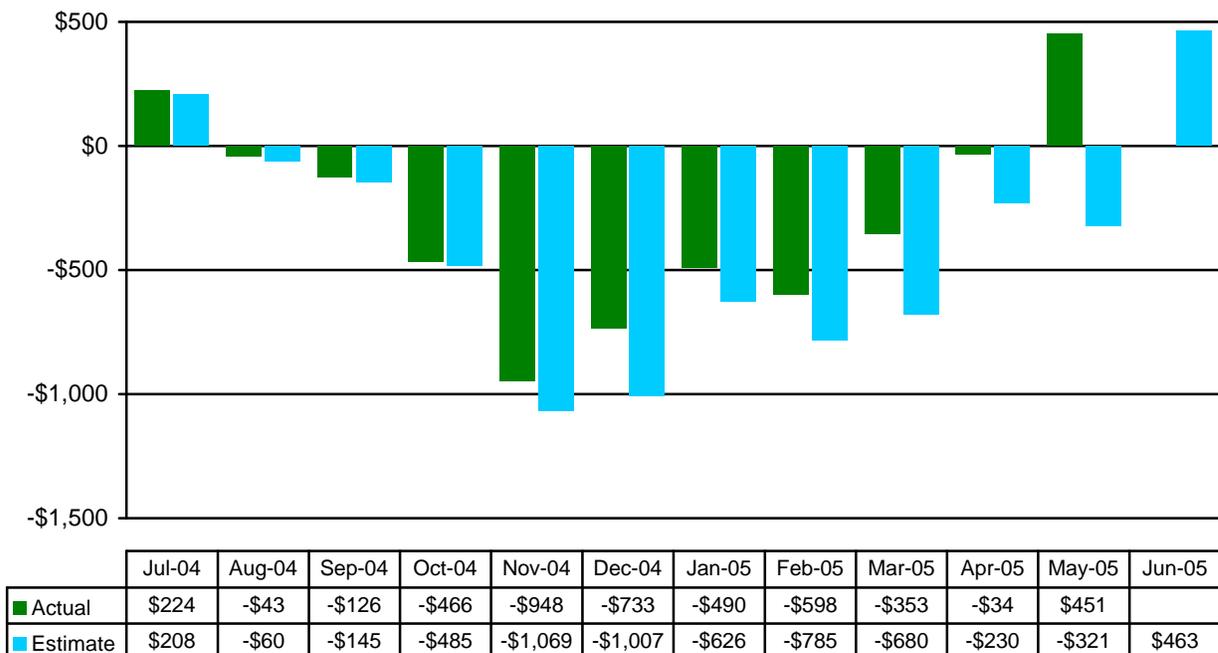
As shown in Table 1, the GRF began May with a negative cash balance amounting to -\$34 million. Monthly revenues plus transfers in totaled \$2,571 million and disbursements plus transfers out totaled \$2,087 million. The monthly surplus of \$485 million raised the month-end cash balance to \$451 million.³ This amount is \$620 million higher than a year ago, and \$772 million higher

than the balance that would have resulted if receipts and disbursements had equaled their estimates for the first 11 months of the fiscal year.

The cash balance turned positive a month earlier than expected. 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 ahead of the estimate thus far this fiscal year.

Encumbrances and accounts payable of \$313 million combine with the cash balance to yield an unobligated balance of \$138 million. This amount is \$598 million higher 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 \$319 million is also \$598 million higher than it was a year ago.

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



¹ August 2004 estimates of the Office of Budget and Management.

² The “major taxes” are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the kilowatt-hour tax. 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.

³ 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 May, FY 2005 revenues plus transfers in totaled \$22,926 million and disbursements plus transfers out totaled \$23,009 million. The year-to-date deficit of \$82 million has reduced the year-to-date cash balance to \$451 million.

TRACKING THE ECONOMY

¾ Phil Cummins

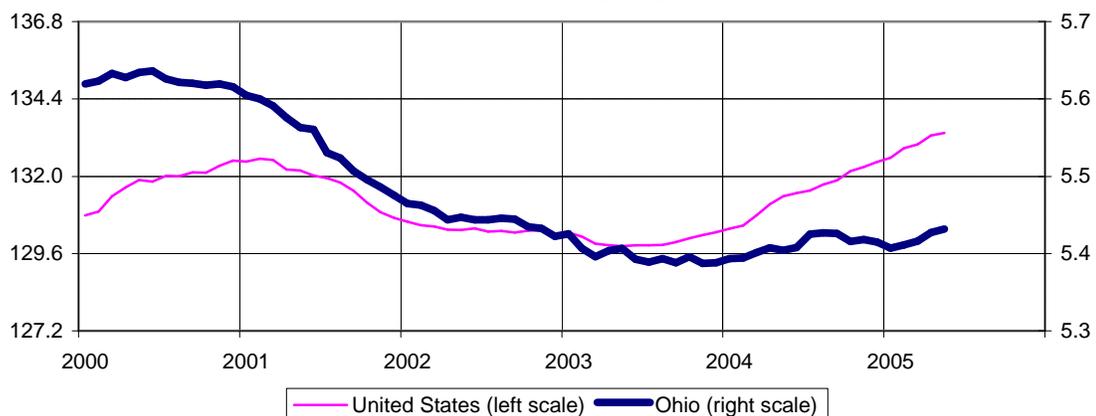
The national economy continues to grow, but the rate of expansion has eased. High energy prices, reduced monetary and fiscal stimulus, sluggish demand growth in some major foreign economies, and the stronger dollar may all be factors in this slower expansion. Growth of gross domestic product in the first quarter was revised upward to a 3.5% annual rate, from 3.1%, but this trails growth last year of 4.4%. The latest report on nationwide employment, for May, showed a relatively small 78,000 increase in nonfarm payrolls. Ohio employment continued a gradual recovery, rising 4,700 in May. Purchasing managers report that business activity continues to expand, but not as robustly as earlier. Industrial production is growing more slowly than last year. Business activity in this region was thought to be expanding on balance according to the latest "Beige Book," a summary of reports from business and other contacts. Retail sales fell in May, and a drop in light vehicle sales prompted a new round of incentives that likely will boost June results. Housing markets generally remain strong, but new construction has slipped in this region. The housing markets continue to be supported by continued low long-term mortgage rates and the availability of alternatives such as interest-only

loans, which enhance affordability in the more expensive areas of the country. Producer and consumer price inflation remains low. Commodity price pressures generally have eased, with the notable exception of crude oil, which has risen back to an all-time high price.

Employment Gains Slow

Nonfarm payroll employment nationwide rose 78,000 in May. This increase follows monthly gains averaging 205,000 in the first four months of the year and 183,000 last year. Unemployment edged down 0.1 percentage point to 5.1% of the civilian labor force, the lowest since 2001, as both total employment and the labor force registered sizable gains. The unemployment and labor force figures are collected in a survey of households, separate from the survey of employers on which the payroll figures are based, and results of the two surveys frequently diverge from month to month. The number of persons counted as unemployed in May totaled 7.6 million, of whom 1.5 million had been out of work more than six months. Both numbers have been declining for nearly two years, from cyclical peaks in 2003. By industry, more than half of the increase in

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



nonfarm payrolls in May was accounted for by health care and construction. Manufacturing employment fell 7,000, continuing a downtrend underway since August and leaving factory payrolls only 18,000 or 0.1% above their cyclical low in February 2004.

Ohio nonfarm payroll employment rose 4,700 in May, continuing the gradual recovery of employment in the state. The unemployment rate in Ohio was 6.1% in May, unchanged from April and from a year earlier. Employment gains in May were in various service industries and in natural resources and mining. Manufacturing and construction employment declined. Factory employment in Ohio is around its lowest level since 1940, though because of definitional changes, current data are not directly comparable with earlier figures. With these declines, Ohio manufacturing still accounts for more than 15% of the state's total nonfarm payroll employment. Nationwide, the share of manufacturing jobs in total nonfarm payrolls has fallen to less than 11%. The recovery in Ohio nonmanufacturing employment has lagged that of the nation. Some of these nonmanufacturing jobs provide services to manufacturing workers and their families, as well as to manufacturing companies. Consequently, with the greater concentration of manufacturing jobs in Ohio than in the country as a whole, the absence of a recovery in manufacturing employment could be expected to have more of an adverse effect on nonmanufacturing employment here than elsewhere.

A survey of hiring plans for this year's third quarter, conducted by Manpower Inc., suggests a steady pace of increases in employment, comparable to that in the first half of the year. The weakest outlook for hiring is in the Midwest, followed by the Northeast, according to the study. Job gains are projected to be strongest in the South in the third quarter, followed by the West.

Purchasing Managers See Slower Expansion

Manufacturing activity continued to expand in May, but the pace of expansion was notably less

robust than in past months since mid-2003, according to purchasing managers surveyed by the Institute for Supply Management. Prices paid by manufacturers continued to rise overall, but the list of commodities with higher prices was shorter and more commodity prices were lower than in earlier months. Some types of steel and caustic soda remained in short supply. Reports from purchasing managers with nonmanufacturing organizations were more upbeat than those from manufacturers, though in this area of the economy the pace of expansion and of increases in prices paid also has slowed since last year. Shortages of some building materials and of tires were noted by nonmanufacturing survey respondents.

Industrial Output Growing More Slowly

Industrial production rose 0.4% in May, as manufacturing output increased 0.6% while utilities reduced output. The rise in factory production last month followed declines in March and April. Output of light vehicles and other consumer durables has been pared back, and output of consumer nondurables is growing more slowly. Production of business equipment continues to rise at a brisk pace but not as rapidly as last year. Output of industrial materials has flattened.

Manufacturers' orders continue to grow, but not as rapidly as earlier. Total new orders of all manufacturers during January through April were 7% higher than a year earlier, after an 11% increase last year. Year-to-date new orders for capital goods, excluding military orders, were 12% higher, after a 14% rise in all of 2004.

Business Activity Expanding in This Region

In the Cleveland Federal Reserve District, which includes all of Ohio, business activity expanded in April and May according to the latest "Beige Book." Manufacturing activity increased, though cutbacks were reported at area steel producers. Steel prices have fallen. Hiring by manufacturers remained restrained but overtime increased, often a precursor to hiring. Retailers' reports were mixed, attributed in part to unseasonably cool weather and high gasoline

prices. Sales at specialty stores and grocers were above those a year earlier, and discounters noted improvement. However, light vehicle sales were sluggish, inventories of domestic models were high, and truck and SUV sales were described as poor. Department store sales were below expectations. Residential builders reported lower sales, while commercial builders saw increased activity, notably in public projects and manufacturing. Demand for shipping rose. Hiring in most industries was limited, but openings through staffing services increased.

Retail Sales Fall

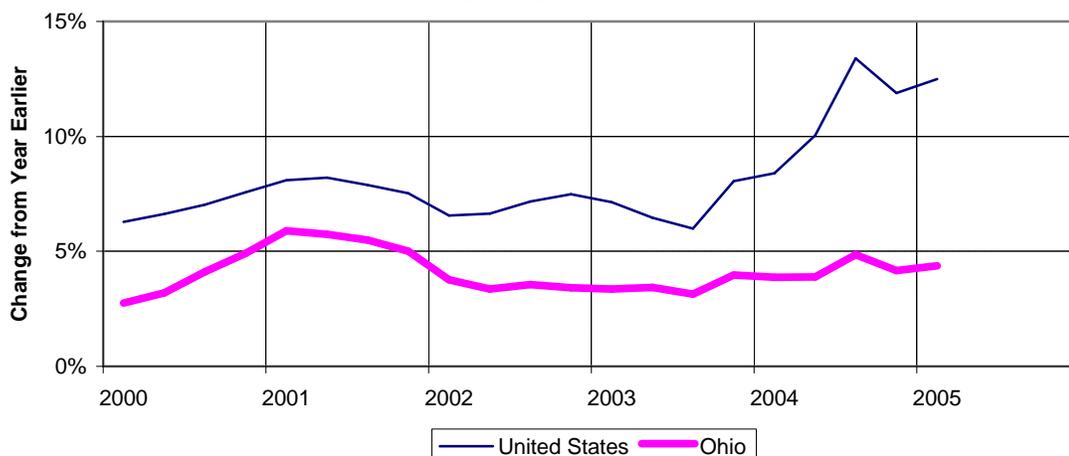
Retail sales fell 0.5% in May, to 6.4% above a year earlier. The May decline followed a 1.5% increase in April. Car and light truck sales fell in May after strengthening in April. Another round of enhanced motor vehicle sales incentives was announced and can be expected to boost deliveries in June. Excluding motor vehicle and parts dealers, retail sales fell 0.2% last month. Lines of business in which sales contracted in May included gasoline stations, clothing stores, department stores, restaurants and bars, and nonstore retailers. The drop in the dollar value of gasoline station sales probably is mainly a result of a decline in average gasoline prices last month, but prices have since begun to rise again. Sales of nonstore retailers, including catalog as well as Internet sales, have outpaced total retail sales since 2002.

Housing Markets Stay Strong Nationwide, but Are Mixed in This Region

Housing starts nationwide continued at a strong 2.0 million unit annual rate in May. Year-to-date starts were 4% above a year earlier, and starts on single-family housing were 5% ahead of the year-earlier pace. In all of 2004, 1.96 million housing units were started, the highest since 1978, and 1.61 million structures with one unit were started, the highest on records maintained since 1959. In the Midwest, year-to-date housing starts were 2% lower than a year earlier, and starts on single-family housing were 3% lower. Both single-family and multifamily starts in all of 2004 in the Midwest were below those of 2003.

New and used home sales nationwide in April were the highest ever, seasonally adjusted, spurred by continued low mortgage rates and availability of financial instruments with features that augment affordability such as an initial period when only payments of interest are due and loans that allow repayment to be stretched over 40 years. The number of new homes sold in this year's first four months was 6% higher than a year earlier. Sales of used homes, reported by the National Association of Realtors, were 5% above the year-earlier pace. In the Midwest, year-to-date sales of new homes were 1% below a year ago, while used home sales rose 3%.

Chart 2 - Housing Prices
OFHEO Data



In this state, unit sales reported by the Ohio Association of Realtors for this year's first four months were 2% higher than a year earlier, and were the highest ever for the period after a record-setting year in 2004. The new home market in Ohio is weaker, however. Permits for construction of new housing in the state were 11% lower during January-April than a year earlier, after a 6% decline in calendar year 2004. For single-family homes, year-to-date construction permits through April 2005 were 12% lower.

Housing price increases in Ohio have not kept pace with those in other parts of the country, particularly the East and West coasts. Concerns about the possibility of a housing price bubble in some local housing markets, with prices rising excessively and then perhaps falling back, do not appear applicable to housing markets here. Home prices have risen between 3% and 5% a year in Ohio during the past four years, according to data from the Office of Federal Housing Enterprise Oversight (OFHEO), shown in Chart 2. In contrast, housing price increases nationwide, on average, have jumped more than 10% during the past year, the largest increases since the 1970s, when prices of most goods and services were rising rapidly. Home prices in Ohio have not always trailed those elsewhere. Prices of houses in Ohio rose more rapidly than the nationwide average for several years in the 1990s. The OFHEO provides regulatory oversight of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), the country's largest housing finance institutions. OFHEO uses data from those two secondary mortgage market makers to track price changes in repeat sales or refinancings of the same single-family properties. Consequently, the series is controlled to some extent for price changes resulting from shifts in the mix of housing sold.

Inflation Tame

The producer price index for finished goods fell 0.6% in May, the sharpest monthly fall in this index in more than two years. Finished goods prices last month were 3.5% above a year earlier. Excluding declines in energy and food prices in

May, the index for finished goods prices rose 0.1%. At earlier stages in the production process, indexes for prices of all intermediate and crude goods fell in May, only in part as a result of lower energy prices. The intermediate and crude goods price indexes were each about 6% above a year earlier, their smallest increases in over a year.

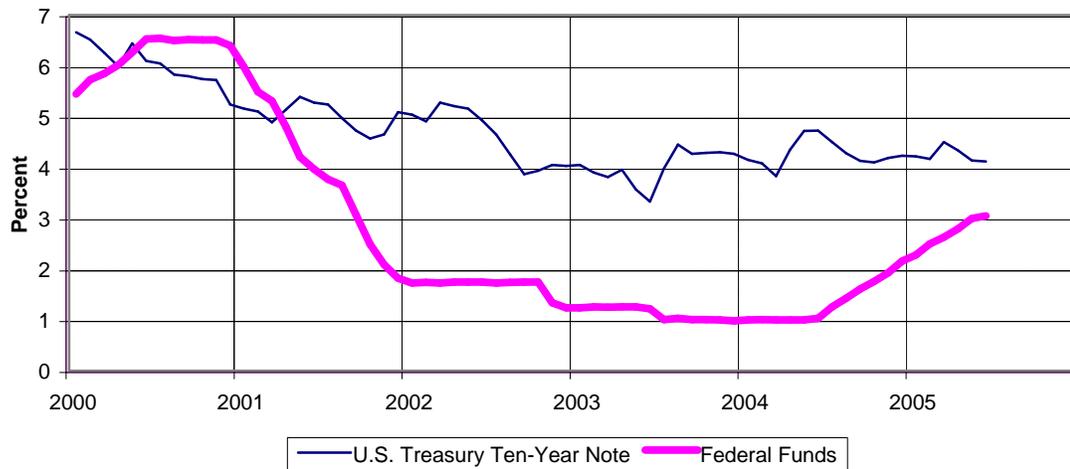
The consumer price index for all items fell 0.1% in May to 2.8% above a year earlier. Excluding prices for food and energy, the consumer price index rose 0.1% in May to 2.2% above May 2004. Energy prices fell in May after a three-month runup to a peak in April.

Personal income growth in late 2004 and early this year was stronger than the government initially estimated. This stronger growth apparently resulted at least in part from bonuses and other forms of incentive compensation. One consequence of upward revision to estimates of income growth is that the rate of increase in the cost to business of producing a unit of output was revised sharply higher for last year's fourth quarter and the first quarter of this year. Hourly compensation of workers at nonfarm businesses is now estimated to have risen 7% from a year earlier in this year's first quarter, and unit labor costs rose 4.3%, the most rapid increase since 2000.

Continued Gradual Tightening of Monetary Policy Remains Likely

In testimony this month, Federal Reserve Chairman Greenspan discounted the ongoing significance for the inflation outlook of this latest upturn in compensation, saying that "(e)xcluding a large but apparently transitory surge in bonuses and the proceeds of stock option exercises late last year, overall hourly labor compensation has exhibited few signs of acceleration." He nevertheless gave recognition to the potential for upward pressures on inflation, noting that "the rise in underlying unit labor costs has been mainly the result of the slower growth of output per hour... Whether that rise... will feed into the core price level or will be absorbed by a fall in profit margins remains an open question."

Chart 3 - Interest Rates on Selected Financial Instruments



The central bank's main policy-setting group next meets June 29-30, ahead of a semiannual report to Congress on monetary policy by Chairman Greenspan. At each of its last eight meetings, since mid-2004, this group has raised the central bank's primary target interest rate, the overnight federal funds rate, by one-quarter percentage point for a total increase in the past year of 2 percentage points. The current federal funds rate of 3% still appears accommodative relative to the rate of inflation. Historically, the overnight federal funds rate has tended on average to exceed inflation, measured by the consumer price index or by consumer prices excluding food and energy, by about 2 percentage points. Based on this guide, the current level of short-term interest rates is still accommodative. In the absence of evidence that the economy is faltering

significantly, further increases in the federal funds rate appear likely in this year's second half, at the "measured" pace that the Federal Reserve has maintained during the past year.

In Chart 3, the federal funds rate is shown along with a key long-term interest rate, the yield on U.S. Treasury ten-year notes. Data plotted are monthly averages except for the latest month, for which the rates as of June 15 are used. The longer-term rate is up nearly one percentage point from its 47-year low in June 2003. In past periods when the federal funds rate was raised, the yield on the Treasury ten-year note rose about 40% as much as the percentage point increase in federal funds, on average. The relationship between the two rates varied greatly from period to period.

Status of the General Revenue Fund

REVENUE

— Jean Botomogno, Glenn Wintrich, and Allan Lundell

May General Revenue Fund (GRF) receipts totaled \$2,571.1 million, \$420.0 million (19.5%) above the August 2004 estimate of the Office of Budget and Management. The \$2,208.4 million in state-source receipts were \$421.6 million (23.6%) above estimate. Tax revenue was \$421.3 million (23.9%) above estimate and revenue from the major taxes was \$425.0 million (28.4%) above estimate.¹

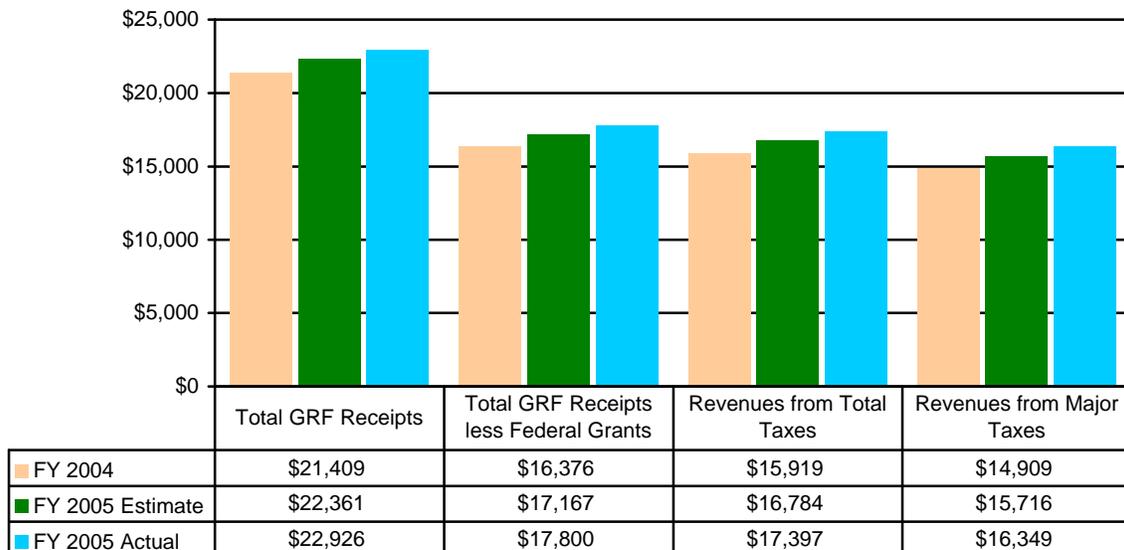
The \$965.3 million in revenue from the personal income tax was above estimate by \$407.3 million (73.0%). Corporate franchise tax revenue was above estimate by \$24.4 million (13.6%) and revenue from the public utility excise tax was \$14.6 million (33.2%) above estimate. The auto sales tax was below estimate by \$12.0 million (11.1%), and the nonauto sales tax was \$8.4 million (1.5%) below estimate. Federal grants were \$1.6 million (0.4%) below estimate.²

For the fiscal year to date, the \$22,926.5 million in total GRF receipts is

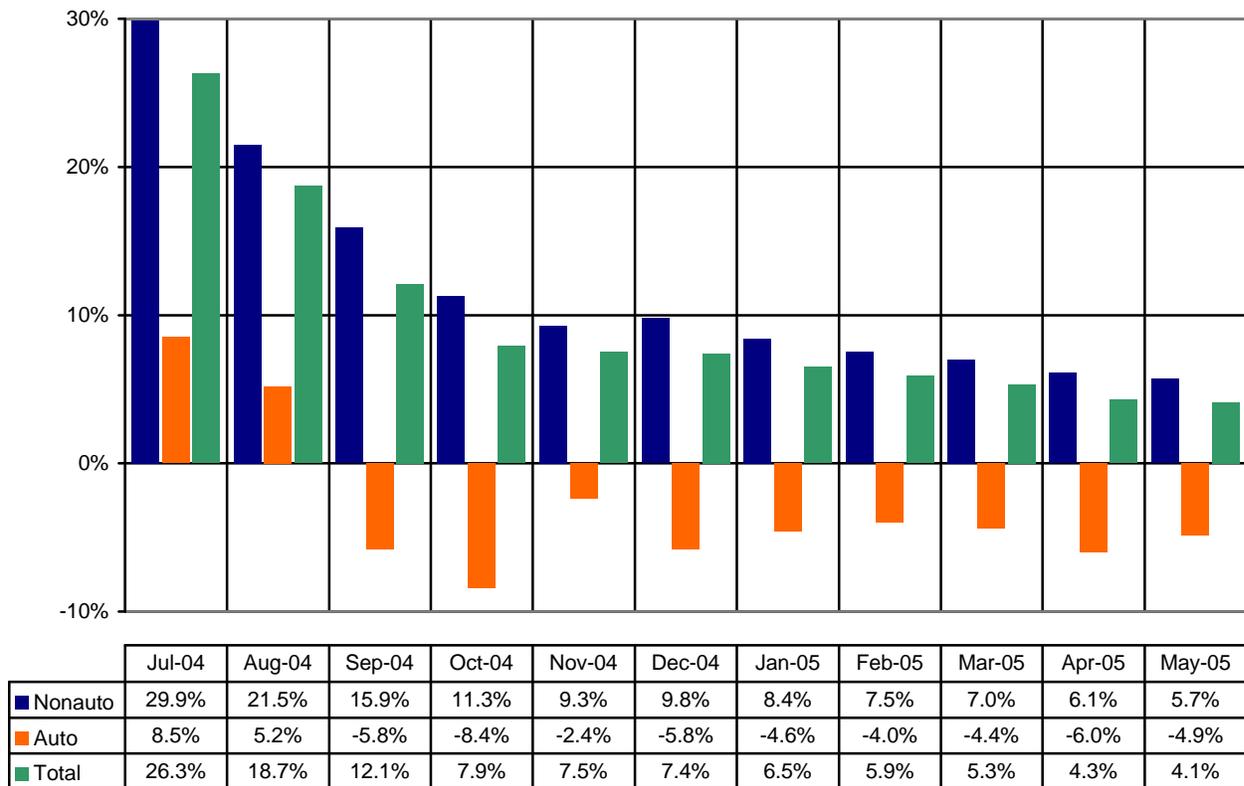
\$565.0 million (2.5%) above estimate and the \$17,799.9 million in state-source receipts is \$632.5 million (3.7%) above estimate. Tax revenue is \$613.1 million (3.7%) above estimate and revenue from the major taxes is \$633.3 million (4.0%) above estimate. The income tax is \$551.2 million (7.6%) above estimate, the corporate franchise tax is \$130.9 million (15.5%) above estimate, and the nonauto sales tax is \$11.2 million (0.2%) above estimate. Federal grants are \$67.5 million (1.3%) below estimate and revenue from the auto sales tax is \$54.4 million (5.3%) below estimate.

For the fiscal year to date, total GRF receipts are up 7.1% compared to FY 2004. State-source receipts are up 8.7%, total tax revenue is up 9.3%, and revenue from the major taxes is up 9.7%. Personal income tax revenues are up 14.3%, corporate franchise tax revenues are up 37.8%, and revenue from the nonauto sales tax is up 5.7%. Revenues from the auto sales tax are down 4.9%. Federal grants are up 1.9%. If the

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



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



\$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 5.9%. Chart 1 compares FY 2005 receipts with FY 2004 receipts and FY 2005 estimates.

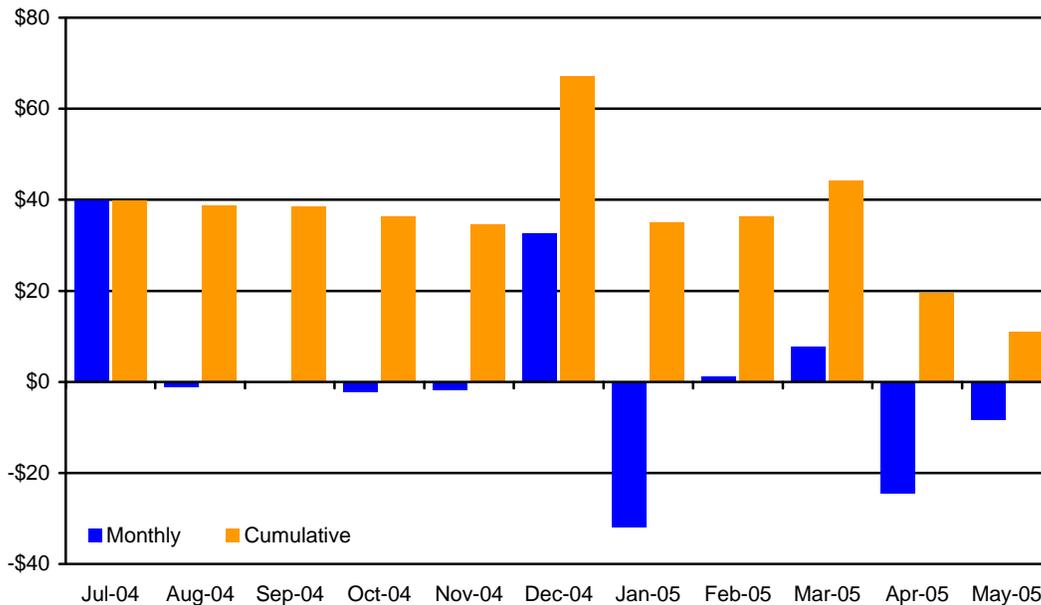
Personal Income Tax

The GRF received \$965.3 million from the personal income tax in May. This amount was \$407.3 million (73.0%) more than estimated. Gross collections were \$371.2 million (53.5%) above estimate for the month. This was primarily because taxes due were \$338.3 million (654.4%) above estimate. In April the Ohio Department of Taxation indicated that it was going to be processing taxes due throughout May, which could in part explain why revenue from this source was up significantly in May. Withholding was \$2.6 million (0.4%) above estimate for the month. Refunds were \$36.8 million (36.8%) less than expected for May, and net collections were \$407.9 million (68.7%) greater than expected.

For the fiscal year to date, the GRF has received \$7,767.8 million from the personal income tax, which is \$551.2 million (7.6%) above estimate. The \$7,056.9 million in revenue collected through withholding is \$9.9 million (0.1%) above estimate. Year-to-date quarterly estimated payments of \$1,137.5 million are \$136.4 million (13.6%) above estimate³ and the \$1,190.0 million in taxes due is above estimate by \$200.3 million (20.2%). Refunds for the year total \$964.0 million, \$125.9 million (11.6%) below estimate. However, refunds are still being processed and are expected to be well above estimate for June.

Compared to a year ago, GRF revenue from the personal income tax is up 14.3%. Withholding, which reflects the condition of Ohio's labor market, is up 5.4%. Quarterly estimated payments are up 17.8%, taxes due are up 24.8%, gross collections are up 9.4%, refunds are down 8.8%, and net collections are up 11.9%.

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



Sales and Use Tax

Sales and use tax revenues in May 2005 were \$667.4 million, \$20.4 million (3.0%) below expected revenues. Receipts from the nonauto sales and use tax were 1.5% below estimate, while those from the auto sales and use tax were 11.1% below estimate. Sales and use tax receipts during the month were \$16.1 million (2.5%) above receipts in May 2004. Tax receipts partly reflect taxable retail sales activity in the prior month and partly taxable retail sales during that month.⁴

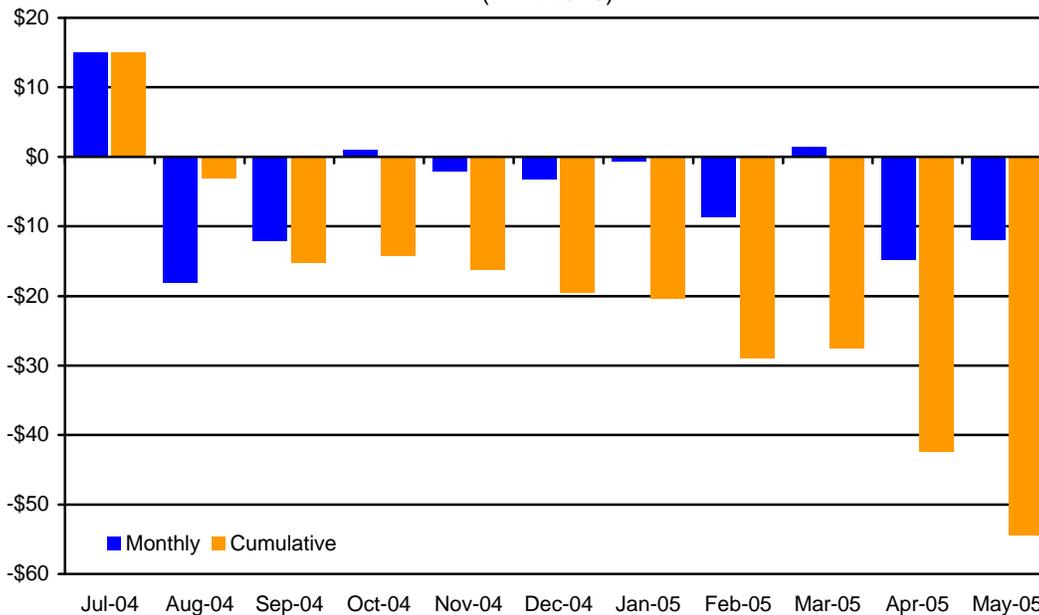
Through May 2005, FY 2005 year-to-date sales and use tax revenues were \$7,174.3 million, \$43.2 million (0.6%) below estimate. FY 2005 year-to-date sales and use tax receipts were also \$284.0 million (4.1%) higher than year-to-date tax receipts in May 2004. Chart 2 compares year-to-date sales and use tax revenues in FY 2005 and FY 2004. Through May 2005, the nonauto sales and use tax shows a healthy year-over-year revenue growth of 5.7%, while receipts from the auto sales and use tax were 4.9% below receipts in the same period last year. The cumulative year-over-year percentage change in total sales and use tax receipts declined to 4.1%, down from 4.3% at the end of April 2005. A closer analysis of the

sales and use tax receipts shows that most of this positive variance was accomplished in the first half of the fiscal year. In CY 2005, the sales and use tax has lost some momentum. In the last five months, the tax source has been below estimate by 2.8% and just 0.3% above receipts during the same period in FY 2004.

Nonauto Sales and Use Tax

In May nonauto sales and use tax revenues were \$572.1 million, \$8.4 million (1.5%) below estimate. These receipts were \$10.5 million (1.9%) above revenues in the same month last year. FY 2005 year-to-date nonauto sales and use tax revenues were \$6,200.9 million, \$11.1 million (0.2%) higher than estimate. Year-to-date receipts were \$334.2 million (5.7%) above revenues in the same period in FY 2004. 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).

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



Revenue growth has been disappointing in the second half of the fiscal year. Nonauto sales and use tax receipts were 2.0% below estimate from January through May 2005, and were just about 1.0 % above revenues in the same period in FY 2004.

Auto Sales and Use Tax

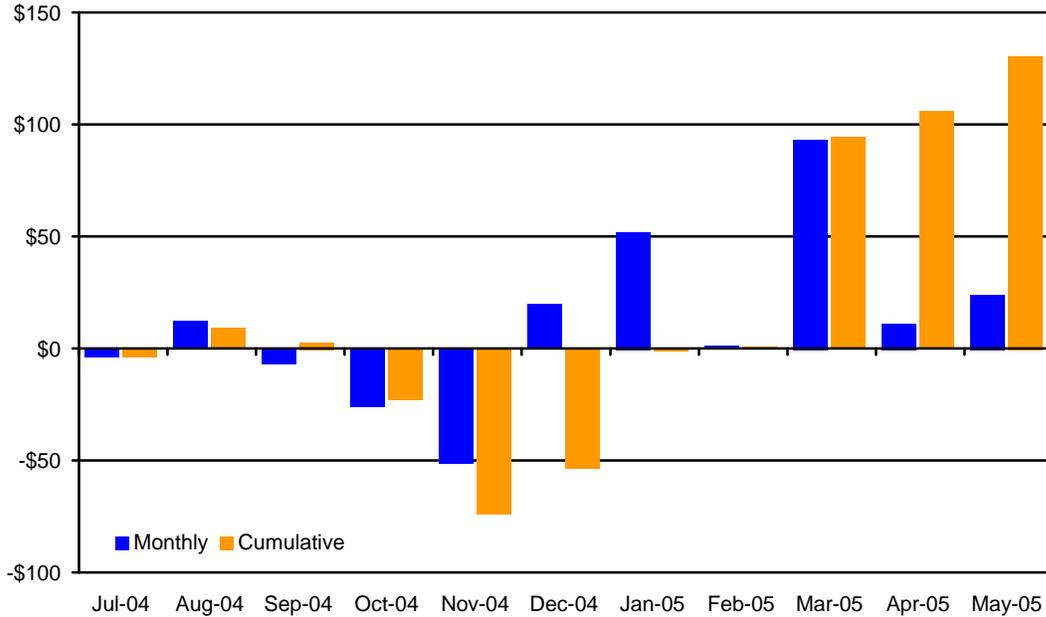
Auto sales and use tax receipts in May were \$95.3 million, \$11.9 million (11.1%) below estimate. The clerks of court generally make auto tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales tax receipts largely reflect vehicles sold and titled during the month. Compared to revenues in the same month a year ago, auto sales and use tax receipts in May 2005 were \$5.6 million (6.3%) higher. FY 2005 year-to-date auto sales tax receipts were \$973.4 million, \$54.4 million (5.3%) below estimate. Year-to-date auto sales and use tax receipts were also \$50.3 million (4.9%) below receipts in the same period in FY 2004. Receipts from the auto sales and use tax in this fiscal year will be substantially below FY 2004 receipts. The estimated auto taxable base decreased 3.1% in FY 2004 when

compared to FY 2003 receipts. Similarly, the estimated auto sales tax taxable base (based on tax receipts) may shrink another 5% in FY 2005. At the end of FY 2005, the taxable base would have declined by about \$1.6 billion when compared to the level of auto taxable base in FY 2003.

Corporate Franchise Tax

Major tax receipts under the corporate franchise tax (CFT) are due in the second half of the fiscal year. Activities under the corporate 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 tax payment occurred in January 2005. The second major payment occurred in March, and the third and final major payment was due May 31. Because the payment date for the third payment fell on the last day of the month, CFT collections are expected to spill over into June. May CFT receipts were \$204.4 million, \$24.4 million (13.6%) above estimate. Receipts were also \$90.4 million (79.4%) above receipts in May 2004. FY 2005 year-to-date CFT revenues were \$978.3 million, \$130.9 million (15.5%) above estimate, and

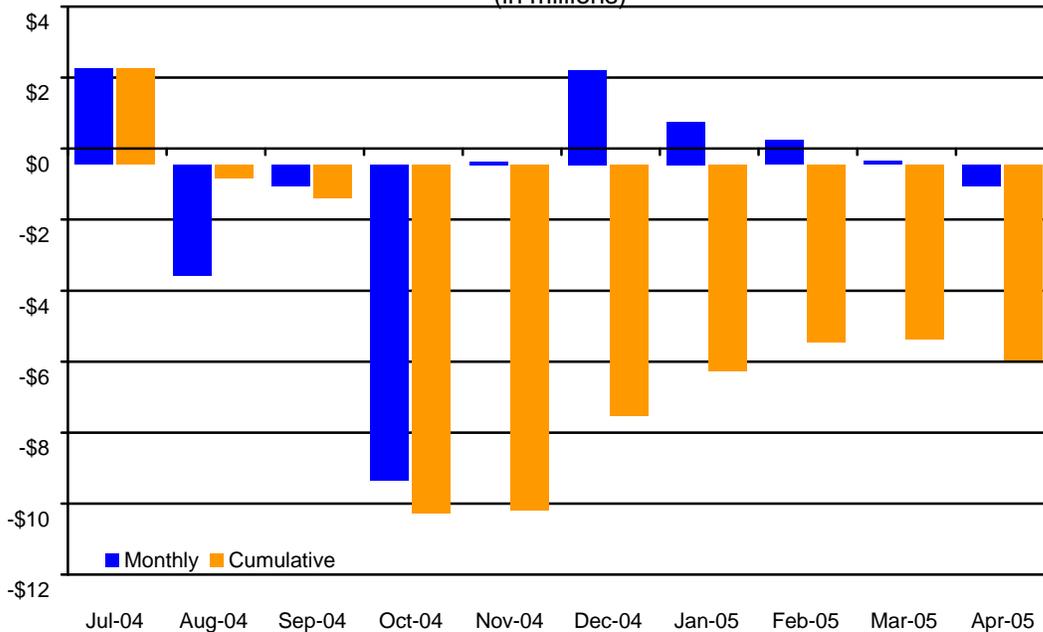
**Chart 5: Variance in Corporate Franchise Tax Revenue
from August 2004 Estimates**
(in millions)



\$268.4 million (37.8%) above year-to-date revenues in FY 2004. FY 2005 total corporate franchise tax revenues were expected to be about \$900.0 million in the August 2004 estimate, \$91.0 million (11.1%) above FY 2004 receipts. At the end of May 2005, year-to-date CFT collections in FY 2005 were on track to surpass

one billion dollars for the first time since FY 1999. Current forecasts project CFT revenue at up to \$1,054.0 million in FY 2005. Corporate profits have been strong in the last two calendar years. However, it appears that the growth in corporate franchise tax revenues in FY 2005 will be exceptional.

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



Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts in May 2005 were \$82.0 million, \$7.0 million (9.3%) above estimate. May 2005 receipts were also \$8.5 million (11.6%) above

receipts last year. FY 2005 year-to-date cigarette and other tobacco tax receipts were \$507.1 million, \$1.4 million (0.3%) above estimate. Compared to revenues in the same period in FY 2004, year-to-date cigarette and other tobacco products tax revenues were \$6.8 million (1.4%) above last year's receipts.

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 (LGRAAF), 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 of the 125th General Assembly changed the historical patterns of remittance of sales and use tax receipts starting in May 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 May 2005
(\$ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	\$95,336	\$107,298	-\$11,962	-11.1%
Nonauto Sales & Use	\$572,069	\$580,500	-\$8,431	-1.5%
Total Sales & Use Taxes	\$667,405	\$687,798	-\$20,393	-3.0%
Personal Income	\$965,297	\$558,000	\$407,297	73.0%
Corporate Franchise	\$204,391	\$180,001	\$24,390	13.6%
Public Utility	\$58,723	\$44,100	\$14,623	33.2%
Kilowatt Hour Excise	\$26,405	\$27,300	-\$895	-3.3%
Total Major Taxes	\$1,922,222	\$1,497,199	\$425,023	28.4%
Foreign Insurance	-\$16,250	-\$9,480	-\$6,770	71.4%
Domestic Insurance	\$150,605	\$159,290	-\$8,685	-5.5%
Business & Property	\$22,282	\$24,000	-\$1,718	-7.2%
Cigarette	\$81,969	\$75,000	\$6,969	9.3%
Alcoholic Beverage	\$4,255	\$4,959	-\$704	-14.2%
Liquor Gallonage	\$2,623	\$2,449	\$174	7.1%
Estate	\$15,454	\$8,400	\$7,054	84.0%
Total Other Taxes	\$260,938	\$264,618	-\$3,680	-1.4%
Total Tax Revenue	\$2,183,160	\$1,761,817	\$421,343	23.9%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	\$0	\$0	\$0	---
Licenses and Fees	\$3,191	\$8,216	-\$5,025	-61.2%
Other Revenue	\$6,825	\$7,774	-\$949	-12.2%
Nontax State-Source Revenue	\$10,016	\$15,990	-\$5,974	-37.4%
TRANSFERS				
Liquor Transfers	\$5,000	\$9,000	-\$4,000	-44.4%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$10,207	\$0	\$10,207	---
Total Transfers In	\$15,207	\$9,000	\$6,207	69.0%
TOTAL GRF before Federal Grants	\$2,208,384	\$1,786,807	\$421,577	23.6%
Federal Grants	\$362,730	\$364,326	-\$1,596	-0.4%
TOTAL GRF SOURCES	\$2,571,114	\$2,151,133	\$419,981	19.5%
* August 2004 estimates of the Office of Budget and Management. Detail may not sum to total due to rounding.				

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

	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
TAX REVENUE						
Auto Sales	\$973,407	\$1,027,789	-\$54,382	-5.3%	\$1,023,668	-4.9%
Nonauto Sales & Use	\$6,200,912	\$6,189,750	\$11,162	0.2%	\$5,866,645	5.7%
Total Sales & Use Taxes	\$7,174,320	\$7,217,539	-\$43,219	-0.6%	\$6,890,313	4.1%
Personal Income	\$7,767,795	\$7,216,600	\$551,195	7.6%	\$6,794,940	14.3%
Corporate Franchise	\$978,301	\$847,370	\$130,931	15.5%	\$709,845	37.8%
Public Utility	\$113,969	\$114,000	-\$31	0.0%	\$200,390	-43.1%
Kilowatt Hour Excise	\$314,443	\$320,000	-\$5,557	-1.7%	\$313,405	0.3%
Total Major Taxes	\$16,348,828	\$15,715,509	\$633,319	4.0%	\$14,908,893	9.7%
Foreign Insurance	\$239,937	\$239,370	\$567	0.2%	\$233,411	2.8%
Domestic Insurance	\$150,827	\$163,302	-\$12,475	-7.6%	\$131,442	14.7%
Business & Property	\$23,975	\$25,800	-\$1,825	-7.1%	\$16,094	49.0%
Cigarette	\$507,114	\$505,700	\$1,414	0.3%	\$500,306	1.4%
Alcoholic Beverage	\$51,592	\$51,699	-\$107	-0.2%	\$51,504	0.2%
Liquor Gallonage	\$29,467	\$28,365	\$1,102	3.9%	\$28,324	4.0%
Estate	\$45,017	\$53,900	-\$8,883	-16.5%	\$49,473	-9.0%
Total Other Taxes	\$1,047,930	\$1,068,136	-\$20,206	-1.9%	\$1,010,553	3.7%
Total Tax Revenue	\$17,396,758	\$16,783,645	\$613,113	3.7%	\$15,919,446	9.3%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	\$21,006	\$16,000	\$5,006	31.3%	\$14,820	41.7%
Licenses and Fees	\$68,358	\$54,201	\$14,157	26.1%	\$46,899	45.8%
Other Revenue	\$114,572	\$103,313	\$11,259	10.9%	\$145,657	-21.3%
Nontax State-Source Revenue	\$203,936	\$173,514	\$30,422	17.5%	\$207,375	-1.7%
TRANSFERS						
Liquor Transfers	\$104,000	\$98,000	\$6,000	6.1%	\$109,000	-4.6%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$95,191	\$112,200	-\$17,009	-15.2%	\$140,208	-32.1%
Total Transfers In	\$199,191	\$210,200	-\$11,009	-5.2%	\$249,208	-20.1%
TOTAL GRF before Federal Grants	\$17,799,885	\$17,167,359	\$632,527	3.7%	\$16,376,030	8.7%
Federal Grants	\$5,126,570	\$5,194,063	-\$67,493	-1.3%	\$5,032,482	1.9%
TOTAL GRF SOURCES	\$22,926,456	\$22,361,422	\$565,034	2.5%	\$21,408,513	7.1%

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

DISBURSEMENTS

— Steve Mansfield*

With one month of spending data left to complete the fiscal year, the stage is set for a very interesting finish. General Revenue Fund (GRF) program disbursements totaled \$2,086.5 million in May, which was \$156.1 million (7.0%) under the August 2004 estimate of the Office of Budget and Management (OBM). Of the state's four major GRF program categories (Education, Welfare and Human Services, Government Operations, and Property Tax Relief), substantial underspending was recorded in the Education and Property Tax Relief programs in May, with smaller and partially offsetting variances from the estimates in the other two programs (see Figure 1 and Table 4). For the year to date, GRF program disbursements are under estimate by \$247.2 million, with the Education program and the Welfare and Human Services program posting relatively large variances under their estimates. We will discuss in the sections that follow the details of these variances between what was actually disbursed through May compared to the estimates prepared by OBM.

Education (-\$171.0 million)

In May, disbursements in the Education category were \$102.9 million (11.6%) under estimate. For the year to date, outlays in this category are \$171.0 million (2.0%) under the estimate. Compared to the same point in the last fiscal year, disbursements in this category are \$177.7 million (2.2%) higher in the current fiscal year. As usual, the bulk of the disbursement variance was registered by the Department of Education, with a smaller, but also significant, variance in disbursements by the Board of Regents.

Department of Education. May disbursements by the Department of Education were \$101.0 million (15.9%) under the estimate for the month. For the year to date, the Department's disbursements are \$154.2 million (2.5%) under the estimate. Total disbursements so far this fiscal year are \$6,169.6 million.

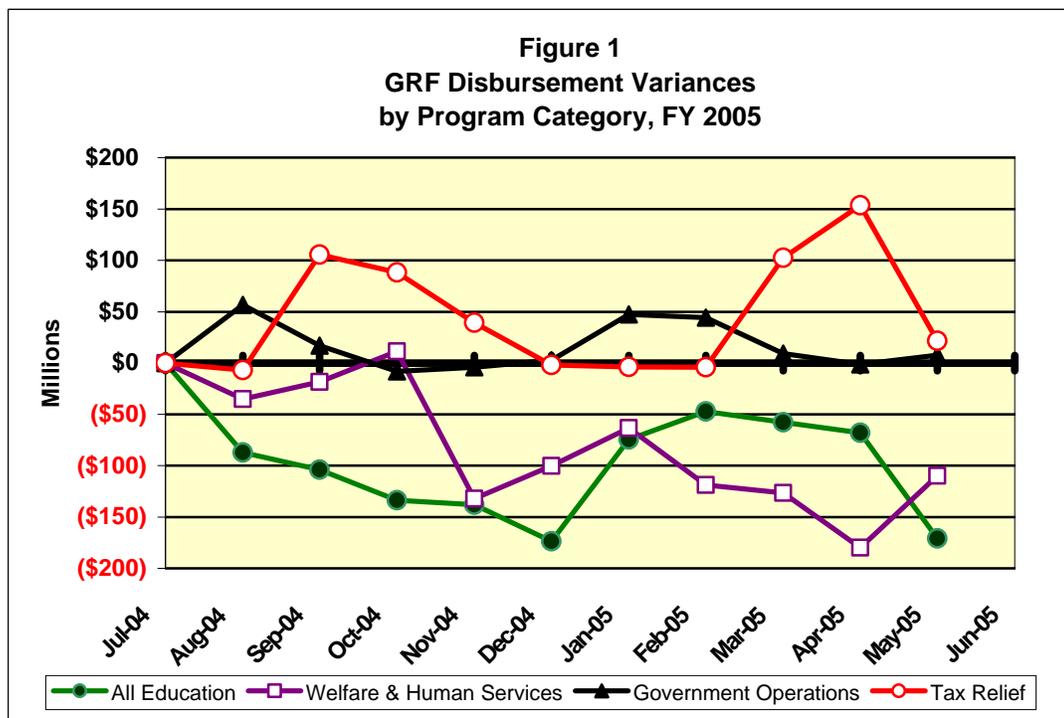


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of May 2005
(\$ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	\$548,228	\$649,570	-\$101,342	-15.6%
Higher Education	\$237,138	\$238,684	-\$1,547	-0.6%
Total Education	\$785,365	\$888,255	-\$102,889	-11.6%
Health Care/Medicaid	\$798,990	\$761,296	\$37,694	5.0%
Temporary Assistance to Needy Families (TANF)	\$35,566	\$21,831	\$13,735	62.9%
General/Disability Assistance	\$1,950	\$1,908	\$42	2.2%
Other Welfare (2)	\$39,353	\$31,633	\$7,720	24.4%
Human Services (3)	\$101,314	\$90,565	\$10,749	11.9%
Total Welfare & Human Services	\$977,173	\$907,233	\$69,941	7.7%
Justice & Corrections	\$121,915	\$113,415	\$8,500	7.5%
Environment & Natural Resources	\$11,380	\$13,018	-\$1,638	-12.6%
Transportation	\$1,021	\$1,429	-\$408	-28.5%
Development	\$9,666	\$8,746	\$921	10.5%
Other Government	\$19,298	\$17,632	\$1,666	9.4%
Capital	\$0	\$250	-\$250	-100.0%
Total Government Operations	\$163,281	\$154,490	\$8,791	5.7%
Property Tax Relief (4)	\$160,665	\$292,638	-\$131,973	-45.1%
Debt Service	\$0	\$0	\$0	---
Total Other Disbursements	\$160,665	\$292,638	-\$131,973	-45.1%
Total Program Disbursements	\$2,086,485	\$2,242,616	-\$156,131	-7.0%
TRANSFERS				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$26	\$0	\$26	---
Total Transfers Out	\$26	\$0	\$26	---
TOTAL GRF USES	\$2,086,511	\$2,242,616	-\$156,105	-7.0%

(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 Department's May disbursement variance of \$101.0 million below estimate is mostly attributable to spending that was \$94.5 million under the estimate for the month in line item 200-501, Base Cost Funding. For the year to date, this line item is under the estimate by \$88.6 million. This variance is largely attributable

to (1) \$15.0 million in catastrophic aid payments that were anticipated in the estimates for April but have been postponed until June and (2) the use of revised Average Daily Membership data that are still not finalized. Despite the current variance, the Department is predicting a shortfall in this line item for FY 2005 of \$200.1 million (with a total

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

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
Primary & Secondary Education (1)	\$6,126,166	\$6,282,154	-\$155,988	-2.5%	\$5,935,286	3.2%
Higher Education	\$2,176,486	\$2,191,469	-\$14,983	-0.7%	\$2,190,692	-0.6%
Total Education	\$8,302,651	\$8,473,623	-\$170,972	-2.0%	\$8,125,977	2.2%
Health Care/Medicaid	\$8,726,772	\$8,790,795	-\$64,023	-0.7%	\$8,135,186	7.3%
Temporary Assistance to Needy Families (TANF)	\$353,913	\$356,740	-\$2,826	-0.8%	\$356,927	-0.8%
General/Disability Assistance	\$22,649	\$22,177	\$471	2.1%	\$20,851	8.6%
Other Welfare (2)	\$425,902	\$481,047	-\$55,144	-11.5%	\$419,571	1.5%
Human Services (3)	\$1,140,055	\$1,128,590	\$11,465	1.0%	\$1,103,641	3.3%
Total Welfare & Human Services	\$10,669,291	\$10,779,348	-\$110,057	-1.0%	\$10,036,175	6.3%
Justice & Corrections	\$1,784,825	\$1,777,472	\$7,353	0.4%	\$1,732,528	3.0%
Environment & Natural Resources	\$113,184	\$111,876	\$1,308	1.2%	\$107,754	5.0%
Transportation	\$29,566	\$28,515	\$1,051	3.7%	\$26,352	12.2%
Development	\$148,715	\$135,344	\$13,371	9.9%	\$129,155	15.1%
Other Government	\$351,497	\$364,179	-\$12,682	-3.5%	\$336,523	4.4%
Capital	\$0	\$2,780	-\$2,780	-100.0%	\$0	---
Total Government Operations	\$2,427,787	\$2,420,166	\$7,621	0.3%	\$2,332,311	4.1%
Property Tax Relief (4)	\$1,181,102	\$1,159,419	\$21,683	1.9%	\$1,112,822	6.1%
Debt Service	\$387,873	\$383,329	\$4,544	1.2%	\$313,039	23.9%
Total Other Disbursements	\$1,568,975	\$1,542,748	\$26,228	1.7%	\$1,425,861	10.0%
Total Program Disbursements	\$22,968,705	\$23,215,886	-\$247,181	-1.1%	\$21,920,324	4.8%
TRANSFERS						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$40,098	\$0	\$40,098	---	\$54,043	-25.8%
Total Transfers Out	\$40,098	\$0	\$40,098	---	\$54,043	-25.8%
TOTAL GRF USES	\$23,008,803	\$23,215,886	-\$207,083	-0.9%	\$21,974,367	4.7%

(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.

net shortfall of \$183.4 million for all foundation formula items). As a result, the appropriation for line item 200-501 has been increased by \$150 million in Sub. S.B. 56. In addition, that act moves the payment of a \$30 million set-aside for this line item into FY 2006 and increases the appropriation for line item 200-612, Base Cost

Funding, from the Lottery Profits Education Fund, by \$30 million. This fund is used in conjunction with line item 200-501 to finance the foundation formula. The remainder of the shortfall will be met with forgiveness of Executive-ordered cuts totaling \$14.8 million and transfers from other appropriation items. LSC expects a significant

over-the-estimate variance in June in disbursements from the 200-501 line item.

There are several other appropriation items that contribute to the Department's year-to-date underspending of \$154.2 million. Among these, only line item 200-437, Student Assessment, which is now under the estimate for the year to date by \$13.5 million, has a variance that is significant in its size. Line item 200-437 is used to pay for developing, scoring, and reporting the results of the state's proficiency and achievement tests, as well as for developing the state's diagnostic assessments. The variance in line item 200-437 is solely due to invoices not arriving at the time that was anticipated in the estimates.

Board of Regents. Disbursements by the Board of Regents were \$1.5 million (0.6%) below the estimate for May, with the year-to-date

disbursement variance now standing at \$15.0 million (0.7%) below estimate. Like last month, the year-to-date variance is explained almost completely by 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. This variance is a matter of timing.

Welfare and Human Services ***(-\$110.1 million)***

The Welfare and Human Services category posted a disbursement variance of \$69.9 million (7.7%) over the estimate in May. But for the year to date, outlays in this category are now \$110.1 million (1.0%) under the estimate. Two program subcategories (Health Care/Medicaid

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

Service Category	May				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru May	Estimate thru May	Variance	Percent Variance
Nursing Facilities Payments	\$220,956	\$216,793	\$4,162	1.9%	\$2,502,172	\$2,446,759	\$55,413	2.3%
ICF/MR Payments	\$36,461	\$36,408	\$53	0.1%	\$409,264	\$410,902	(\$1,639)	-0.4%
Inpatient Hospitals	\$166,359	\$144,911	\$21,449	14.8%	\$1,333,995	\$1,353,060	(\$19,065)	-1.4%
Outpatient Hospitals	\$71,679	\$65,128	\$6,551	10.1%	\$605,999	\$597,319	\$8,680	1.5%
Physicians	\$68,544	\$59,013	\$9,531	16.2%	\$583,356	\$541,573	\$41,783	7.7%
Prescription Drugs	\$197,324	\$206,885	(\$9,561)	-4.6%	\$1,835,968	\$1,885,052	(\$49,084)	-2.6%
ODJFS Waiver	\$22,675	\$23,767	(\$1,092)	-4.6%	\$204,029	\$221,152	(\$17,124)	-7.7%
All Other	\$97,413	\$104,043	(\$6,630)	-6.4%	\$871,487	\$934,419	(\$62,932)	-6.7%
MCP	\$95,260	\$103,379	(\$8,119)	-7.9%	\$979,488	\$1,048,470	(\$68,981)	-6.6%
Medicare Buy-In	\$17,998	\$15,158	\$2,840	18.7%	\$176,024	\$160,205	\$15,819	9.9%
Total Medicaid Payments	\$994,668	\$975,484	\$19,184	2.0%	\$9,501,782	\$9,598,911	(\$97,130)	-1.0%
DA Medical	\$6,217	\$5,403	\$814	15.1%	\$68,562	\$59,741	\$8,821	14.8%
Drug Rebates Offsets	(\$49,687)	(\$49,836)	\$150	-0.3%	(\$475,056)	(\$474,164)	(\$893)	0.2%
ICF/MR Franchise Fee Offsets	(\$1,628)	(\$1,692)	\$64	-3.8%	(\$16,771)	(\$18,587)	\$1,816	-9.8%
NF Franchise Fee Offsets	(\$21,446)	(\$35,735)	\$14,289	-40.0%	(\$217,365)	(\$237,996)	\$20,631	-8.7%
DSH Rebate Offsets	(\$129,136)	(\$132,327)	\$3,192		(\$134,380)	(\$137,112)	\$2,732	
Total Health Care (Net of Offsets)	\$798,990	\$761,296	\$37,694	5.0%	\$8,726,772	\$8,790,795	(\$64,023)	-0.7%
Est. Federal Share	\$469,072	\$446,943	\$22,129		\$5,123,321	\$5,160,908	(\$37,586)	
Est. State Share	\$329,918	\$314,354	\$15,564		\$3,603,451	\$3,629,887	(\$26,436)	

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 payments from funds encumbered in the previous year.
 4. CHIP II provides health care coverage for children under age 19 whose family incomes are between 150% and 200% of FPL. The state receives enhanced FMAP for CHIP II.
 5. DA Medical is a state-only funded program.
 6. The federal medical assistance percentage (FMAP) used in this table is a blended rate of 58.71%.
- Note: Due to accounting differences, the totals do not exactly match the amounts in Tables 4 and 5.

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

and Other Welfare) — both in the Department of Job and Family Services — are the most significant contributors to the year-to-date underestimate spending. The Department of Mental Health (which is in the Human Services subcategory) registered a relatively small monthly variance above the estimate, which pushed its year-to-date variance to \$10.4 million above the estimate. These variances are discussed in more detail below.

Health Care/Medicaid.

Year-to-date net disbursements through May in the Health Care/Medicaid program (primarily line item 600-525) total \$8,726.8 million, which is \$64.0 million (0.7%) under the estimate (see Table 6). For May, however, health care spending was \$37.7 million (5.0%) above the estimate (and thus reduced the underspending for the year to date). Total net health care payments so far in FY 2005 exceed FY 2004 payments at the same point of the year by \$591.6 million (7.3%).

As we see in Table 6, excluding offsets, payments in the Nursing Facilities, Outpatient Hospitals, Physicians, Medicare Buy-In, and DA Medical service categories are over estimate for the year to date. Compared to expenditures at this point in the last fiscal year, however, DA Medical expenditures for the year to date are running behind last year by \$7.1 million. The remaining categories, several of which show fairly large variances, are under estimate. This pattern and the year-over-year comparison in Table 7 show very little change from what was reported in previous “Disbursements” reports. Lower than anticipated caseload growth along with lower enrollment in managed care plans account for much of the overall variance and for variances within the service categories.

Service Category	FY 2005	FY 2004	Dollar Change	Percent Increase
	Yr.-to-Date as of May '05	Yr.-to-Date as of May '04		
Nursing Facilities Payments	\$2,502,172	\$2,479,833	\$22,339	0.9%
ICF/MR Payments	\$409,264	\$404,007	\$5,257	1.3%
Inpatient Hospitals	\$1,333,995	\$1,210,589	\$123,406	10.2%
Outpatient Hospitals	\$605,999	\$543,036	\$62,962	11.6%
Physicians	\$583,356	\$540,072	\$43,285	8.0%
Prescription Drugs	\$1,835,968	\$1,609,844	\$226,124	14.0%
ODJFS Waiver	\$204,029	\$175,557	\$28,472	16.2%
All Other	\$871,487	\$824,393	\$47,094	5.7%
MCP	\$979,488	\$936,594	\$42,894	4.6%
Medicare Buy-In	\$176,024	\$146,949	\$29,075	19.8%
Total Medicaid Payments	\$9,501,782	\$8,870,873	\$630,908	7.1%
DA Medical	\$68,562	\$75,662	(\$7,100)	-9.4%
Drug Rebates Offsets	(\$475,056)	(\$380,463)	(\$94,593)	24.9%
ICF/MR Franchise Fee Offsets	(\$16,771)	(\$18,654)	\$1,883	-10.1%
NF Franchise Fee Offsets	(\$217,365)	(\$225,021)	\$7,657	-3.4%
DSH Rebate Offsets	(\$134,380)	(\$116,210)	(\$18,169)	
Prior Period Encumbrance Subsidy	\$0	(\$71,000)	\$71,000	-100.0%
Total Health Care (Net of Offsets)	\$8,726,772	\$8,135,186	\$591,586	7.3%
Est. Federal Share	\$5,123,321	\$4,776,012	\$347,309	
Est. State Share	\$3,603,451	\$3,359,173	\$244,277	

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 payments from funds encumbered in the previous year.

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.

The total number of Medicaid eligibles increased in May by almost 5,000. For the year to date, however, the number of Medicaid eligibles remains below estimate by about 8,500. The number of eligibles in the Covered Families and Children program is under estimate by about 12,800, while the number of eligibles in the Aged, Blind, and Disabled program is over estimate by about 4,200.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs were \$7.7 million (24.4%) over estimate in May and stand at \$55.1 million (11.5%) under the estimate for the year to date. The disbursement variance for the year to date is composed of underspending of \$44.2 million in current year funds and \$10.9 million in prior year funds. In Tables 4 and 5, these disbursements are captured in the

Other Welfare subcategory, which excludes the separately tracked Medicaid, TANF, and Disability Assistance/Cash Assistance programs.

The three largest contributors to the year-to-date disbursement variance in this subcategory are line items 600-416, Computer Projects (\$12.7 million under estimate); 600-528, Adoption Services (\$11.8 million under estimate); and 600-321, Support Services (\$7.0 million under estimate). The reasons behind these variances have not changed for the last several months. Disbursements for adoption services have been lower than expected largely because the cost per recipient was lower than anticipated. As is often the case with line item 600-416, vendor invoicing for computer projects has been slower than anticipated. And the lower than anticipated disbursements for support services is attributable to a number of different small programs supported by the line item's appropriation.

TANF. In May, Temporary Assistance for Needy Families (TANF) disbursements again pushed back toward the estimate for the year to date with a variance of \$21.8 million over the estimate. For the year to date, disbursements in the TANF program now stand at \$2.8 million below the estimate.

The TANF caseload, which has averaged 86,703 assistance groups per month in the current fiscal year, fell in May to 83,274, a decrease of 2.2% since April. In the past year, the decline has been greater, with 3.8% fewer assistance groups than in May 2004. The number of individuals per assistance group continues to decline, with only 2.18 members in each assistance group in May 2005, compared to 2.22 in May 2004, and 2.68 in May 1995. The subcategory of Ohio Works First (OWF) Unemployed cases also dropped dramatically in the past month, with 1,271 (7.4%) fewer assistance groups than in April.

Mental Health. In May disbursements by the Department of Mental Health were slightly over estimate, which pushed the year-to-date disbursement variance to \$10.4 million over the estimate. The bulk of the year-to-date variance

(\$8.3 million) is traceable to line item 334-408, Community and Hospital Mental Health Services. This line item is used to support hospital payrolls for the delivery of mental health services, and also for the community mental health boards. Variances in disbursements from the line item are timing-based.

Government Operations (\$7.6 million)

In May, outlays in the Government Operations category were \$8.8 million (5.7%) above the estimate for the month, which pushed the year-to-date variance to just \$7.6 million (0.3%) above the estimate. The largest single source of the year-to-date variance is the Department of Rehabilitation and Correction, with a variance of \$15.9 million over the estimate. This variance stems largely from appropriation item 505-321, Institution Medical Services, which is running about \$13.7 million over the estimate. This overage in spending is very consistent with high inflation rates the Department has experienced in the delivery of medical services. The Department has had to seek Controlling Board approval in FY 2005 to transfer funds from other GRF lines in order to meet expenses related to medical services.

Disbursement activity of the Department of Development now stands at \$13.4 million (9.9%) above estimate for the year to date. As reported in previous "Disbursements" reports, this variance stems largely from the fact that disbursements of prior-year grant money, as well as disbursements from two new line items, are not occurring as anticipated. We expect this variance to dissipate in June as the estimates finally catch up with spending.

Tax Relief (\$21.7 million)

The Property Tax Relief program, which carries an FY 2005 GRF appropriation of almost \$1.4 billion, reimburses school districts and local governments for revenue that is lost due to tax relief provided by state law to property owners and businesses through the homestead exemption, the property tax rollbacks, and the \$10,000 tangible tax exemption programs. Tax relief funds

are disbursed to school districts and local governments by the Department of Education and the Department of Taxation, respectively. Each of these departments divides its property tax relief program into two components: real property tax credits/exemptions, and tangible tax exemptions.

Tax relief payments in May totaled \$160.7 million. This was \$132.0 million below the estimate for the month, and resulted from the fact that during the previous several months

disbursements in the program were running ahead of the estimates. The underspending in May is essentially an offset for earlier overages. May's variance was composed of partially offsetting variances in the two departments: tax relief payments to school districts were under estimate by \$183.2 million, while tax relief payments to local governments were over estimate by \$51.2 million. Cumulatively, the divergence from the estimate for all tax relief payments is \$21.7 million (1.9%) over the estimate.

**LSC colleagues who contributed to the development of this disbursement report included, in alphabetical order, Melaney Carter, Ivy Chen, Phil Cummins, Sarkis Mahdasian, Erin Pettegrew, David Price, Joe Rogers, Maria Seaman, Kerry Sullivan, Zak Talarek, and Holly Wilson.*