

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JANUARY 2003

## *FISCAL OVERVIEW*

— Doris Mahaffey

At the end of December the economy appeared to be in a holding pattern. Some indicators, such as the Institute of Supply Management's purchasing managers index, suggested improvement. On the other hand, according to the Bureau of Labor Statistics' establishment survey, employment fell for the second month in a row. Also, the Conference Board's Index of Consumer Confidence fell in December (after rising in November), due mostly to consumers' appraisal of current conditions. As one analyst noted, "consumers often report that their confidence is low, but then they continue to spend." Of course some of the decline was due to increased pessimism about employment prospects that is entirely in keeping with the employment numbers.

All of these indicators lend support to the likelihood that the economy is near the trough of the current "soft spot." The purchasing managers index is generally regarded as a "leading index," suggesting that the economy is headed in an upward direction. Employment-related indices are generally considered to be "lagging indices," showing where the economy is coming from. On top of that, economic indicators tend to be more erratic around a turning point in the business cycle, which would help explain the oscillations of the consumer confidence index. Regardless of how close the economy may or may not be to its turning point, the turnaround is coming too late to save this year's state budget, especially since the state's budget fortunes tend to follow the lagging economic indicators.

The revenue projections for FY 2003 assumed that the economy would begin to pick up in the latter part of the third quarter of 2002 (that is, the first quarter of FY 2003). And indeed, the economic data – as well as the revenue numbers – from that time seemed promising. But the economic pickup apparently failed to materialize. Moreover, second quarter fiscal year revenue numbers began to deteriorate. December's disappointing revenue numbers have reduced some of the ambiguity about the state's fiscal condition that the November revenue numbers produced. It now seems likely that some kind of action will need to be taken on the state budget before the fiscal year is over.

For the month of December total revenues were \$156 million under estimate. Tax revenues were \$83 million under estimate and federal grants were also \$83 million under estimate. Nontax revenues offset some of the revenue shortfall, though not with the help of earnings on

### **Volume 26, Number 5**

- Tracking the Economy ..... 106
- Economy remains in a "soft spot"
  - Employment situation still disappointing
  - Consumers continue to spend

### **STATUS OF THE GRF**

- Revenues ..... 108
- Revenue picture a tale of two quarters
  - Non-auto sales tax continues to struggle
  - January collections may hold key to fiscal year
- Disbursements ..... 117
- Spending alters course with dramatic negative variances
  - Property Tax Relief roller-coaster ride over?
  - Medicaid disbursement variance decreases due to unexpected DSH reimbursement

### **Lottery Profits Quarterly Report**

- Lottery Ticket Sales and Profits Transfers, Second Quarter, FY 2003 ..... 125

- Lottery Profits Education Fund Disbursements, Second Quarter, FY 2003 ..... 128

**Budget Footnotes** is issued periodically by the fiscal staff of the Legislative Service Commission (LSC), a non-partisan agency serving the Ohio General Assembly.

**Budget Footnotes** examines the fiscal position of the state GRF on a periodic basis.

For questions or comments regarding specific sections:

GRF Revenue:  
Doris Mahaffey 644-7762

GRF Spending:  
Steve Mansfield 728-4815

Other Articles:  
Dave Brunson 644-7770

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 December</b>	<b>Fiscal Year 2002 to Date</b>	<b>Last Year</b>	<b>Difference</b>
Beginning Cash Balance	(\$1,568.0)	\$619.2		
Revenue + Transfers	<u>\$1,589.3</u>	<u>\$9,873.7</u>		
Available Resources	\$21.2	\$10,492.9		
Disbursements + Transfers	<u>\$1,644.5</u>	<u>\$12,116.1</u>		
Ending Cash Balances	(\$1,623.2)	(\$1,623.2)	(\$1,403.2)	(\$220.0)
Encumbrances and Accts. Payable		\$578.6	\$640.4	(\$61.8)
Unobligated Balance		<b>(\$2,201.9)</b>	<b>(\$2,043.7)</b>	<b>(\$158.2)</b>
BSF Balance		\$427.9	\$1,010.6	(\$582.7)
<b>Combined GRF and BSF Balance</b>		<b>(\$1,774.0)</b>	<b>(\$1,033.1)</b>	<b>(\$740.9)</b>

investment. The GRF received none of the anticipated \$21 million from this source (and in fact may end up having to refund some of the revenue it received in September). Much of the \$28 million surplus from other revenue was in the unclaimed funds service category.

Year-to-date revenues are \$145 million under estimate. Tax revenues are \$65 million under estimate. Nontax revenues are \$24 million under estimate (due chiefly to earnings on investments), and federal grants are \$63 million under estimate. The transfers-in category is the only category with a revenue surplus (it is \$7.2 million over estimate, due mainly to liquor profits).

Revenues from the major taxes alone are \$98 million under estimate. (The \$30 million overage in cigarette tax revenues reduces the total shortfall.) The biggest revenue shortfall is in the non-auto sales and use tax, which was \$74 million under estimate. While tax revenue from this source is up 2 percent over this time last year, estimates had expected a 5 percent increase. Public utility excise tax revenues are \$30 million under estimate and corporate franchise tax revenues are \$28 million under estimate. In both cases the shortfalls are largely due to greater than anticipated refunds. Personal income tax revenues are now \$4 million under estimate. The losses from withholding and refunds have by now offset the unanticipated gains from the tax on trusts. On the bright side, auto sales tax revenues are \$35 million over estimate and kilowatt-hour tax revenues are \$2.7 million over.

Disbursements for the month of December were under estimate by nearly \$297 million. Most spending categories were under estimate for the month. This includes the health care/Medicaid category, which was under estimate for the first time this fiscal year. However, the variance in this category reflects the use of non-GRF funds to make certain Medicaid payments in December, as explained in the Disbursements report below. It does not indicate that Medicaid cost and caseload pressures have eased up.

Property tax relief disbursements, which were under estimate by \$171 million for the month, accounted for over half of the December disbursement variance. This variance was expected, as many local governments had applied for payments earlier than usual this year. It therefore eliminated the substantial overage that existed in this category at the end of November. Year-to-date property tax relief disbursements stand at \$10 million under estimate.

Revenues for the month of December came in at \$1,589 million while expenditures for the month amounted to \$1,644 million. Thus, even though expenditures were under estimate by \$297 million, the size of the negative balance grew. As Table 1 shows, at the end of December 2002, the unobligated balance in the GRF stood at -\$2,201.9 million. That is \$158 million less than the balance at the end of December 2001. Beginning in January monthly revenues should exceed monthly disbursements, so the size of the negative balance should begin to shrink.

The combined GRF and Budget Stabilization Fund (BSF) balance at the end of December was \$741 million less than at the same time last year, due to the substantial withdrawals from the BSF made at the end of FY 2002 to balance that year's state budget. At year-end \$427.9 million remained in the BSF to help balance this year's budget, as authorized by H.B. 94 and S.B. 261 of the 124th General Assembly. The state is likely to use nearly all of the BSF balance.

## *TRACKING THE ECONOMY*

*¾ Allan Lundell*

The economy remained in a “soft spot” during December. Unemployment remained at an eight-year high and employment fell for the third time in four months. Retail sales grew less than expected and sales excluding motor vehicles were flat.

The national employment situation remained the primary reason that the economy can be described as in a soft spot. In the Bureau of Labor Statistics’ (BLS) establishment survey, after falling by a revised 88,000 in November, seasonally adjusted employment fell by 101,000 in December. Although the decline was the first back-to-back decline in eight months, December was the third month in the past four in which employment has fallen. The December decrease was the largest since February. Goods-producing employment fell by 59,000 and service-producing employment fell by 42,000. Employment in retail trade fell by 104,000. If seasonal adjustments are not made, employment fell by 341,000. Goods-producing employment fell by 272,000 and service-producing employment fell by 69,000. Employment in retail trade increased by 162,000. Compared to December 2001, seasonally adjusted employment is down by 181,000 and nonseasonally adjusted employment is down by 199,000.

In the BLS’ household survey, the seasonally adjusted number of people employed fell by 273,000 and the number counted as unemployed increased by 82,000. The labor force decreased by 191,000 and the number classified as not in the labor force increased by 338,000. If seasonal adjustments are not made, employment decreased by 126,000 and the number classified as unemployed increased by 19,000. The labor force decreased by 107,000 and the number classified as not in the labor force increased by 256,000. The seasonally adjusted unemployment rate remained at 6.0 percent and the unadjusted rate remained at 5.7 percent. The seasonally adjusted average duration of unemployment increased from 17.7 weeks to 18.5 weeks, while the median duration increased from 9.3 weeks to 9.6 weeks.

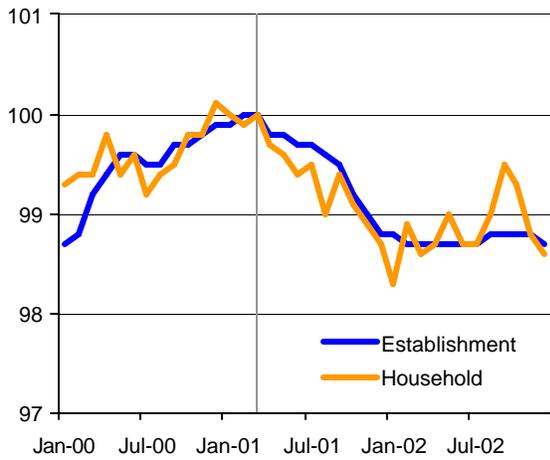
The Census Bureau’s advance estimate of retail sales indicates that overall retail sales increased by 1.2 percent in December. Total sales excluding motor vehicle and parts dealers (“sales ex auto”) did not change from its November level. Compared to December 2001, total sales were up 4.6 percent and sales ex auto were up 4.3 percent. Although total retail sales for 2002 were up 3.4 percent compared to 2001 and sales ex auto were up 3.8 percent, the year was the weakest for retail sales since the Commerce Department began keeping comparable records in 1992. Consumers are still spending, but the spending has shifted toward motor vehicles and housing instead of traditional retail goods.

The Institute of Supply Management’s (ISM) purchasing managers index (PMI) reached 54.7 and thus exceeded 50 for the first time in four months, indicating growth in the manufacturing sector.<sup>1</sup> The new orders index increased to 63.3 and the production index increased to 55.6. The employment index remained below 50 for the 27th consecutive month but increased from 43.8 in November to 47.4 in December. The past relationship between the PMI and the overall economy indicates that the December PMI value of 54.7 corresponds to 4.4 percent annualized real GDP growth. The ISM’s index of nonmanufacturing business activity and production fell from 57.4 in November to a December value of 54.7. December was the 11th consecutive month in which nonmanufacturing business activity increased. The new orders index fell from 58.0 to 56.3, but the employment index increased from 45.9 to 46.9. New orders are considered a leading economic indicator, and the fact that both the manufacturing and nonmanufacturing new orders indices are greater than 50 is encouraging for the recovery as the economy heads into 2003.

---

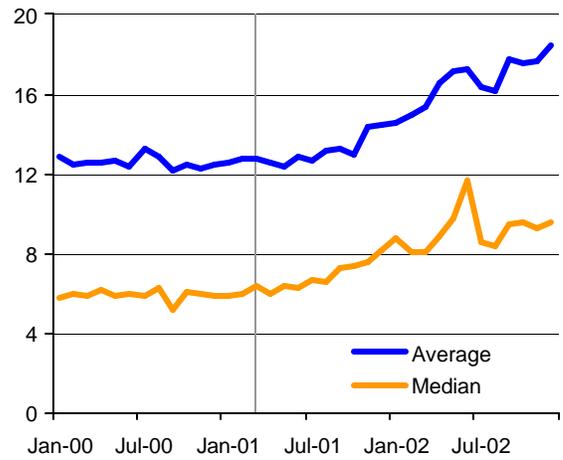
<sup>1</sup> The ISM index is a diffusion index. A reading above 50 indicates expansion and a reading below 50 indicates decline. The distance above or below 50 is an indicator of the strength of the expansion or decline.

Exhibit 1: Employment Indices  
(based on seasonally adjusted employment)



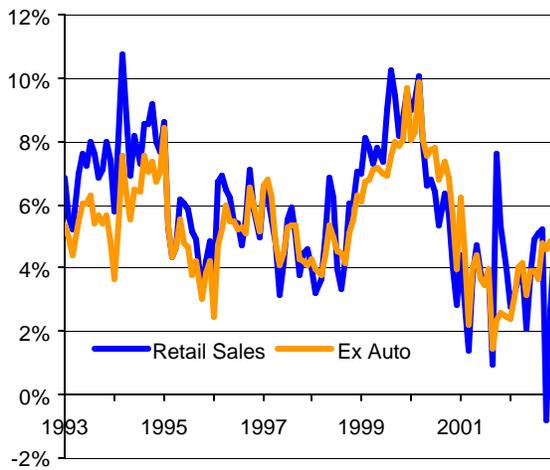
Source: U.S. Bureau of Labor Statistics and LSC calculations

Exhibit 2: Duration of Unemployment  
(in weeks, seasonally adjusted)



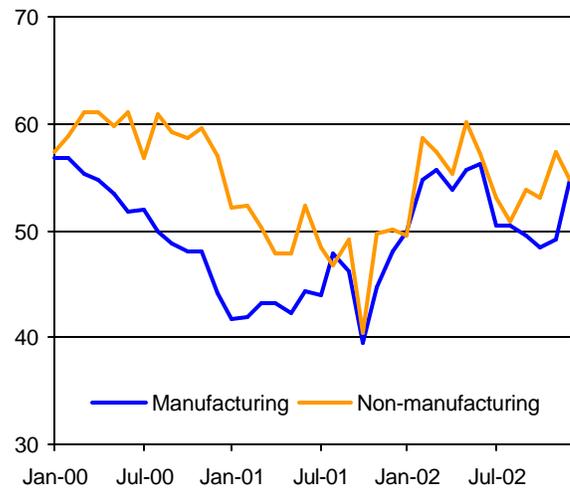
Source: U.S. Bureau of Labor Statistics

Exhibit 3: Retail Sales  
(percentage changes from one year earlier)



Source: U.S. Census Bureau

Exhibit 4: ISM Indices



Source: Institute of Supply Management

# Status of the General Revenue Fund

## REVENUES

—Allan Lundell\*

December brought the first half of FY 2003 to a troubling end. Total GRF revenue was \$155.6 million (8.9 percent) below estimate in December. Total GRF revenue less federal grants (revenue from Ohio sources) was \$72.7 million (5.5 percent) below estimate. Tax revenues were \$82.6 million (6.6 percent) below estimate and revenues from the major taxes (personal income, sales and use, corporate franchise, public utility, and kilowatt hour) were \$86.7 million (7.2 percent) below estimate. Revenues from the non-auto sales and use tax were \$42.6 million below estimate. Income tax revenues were \$23.3 million below estimate.

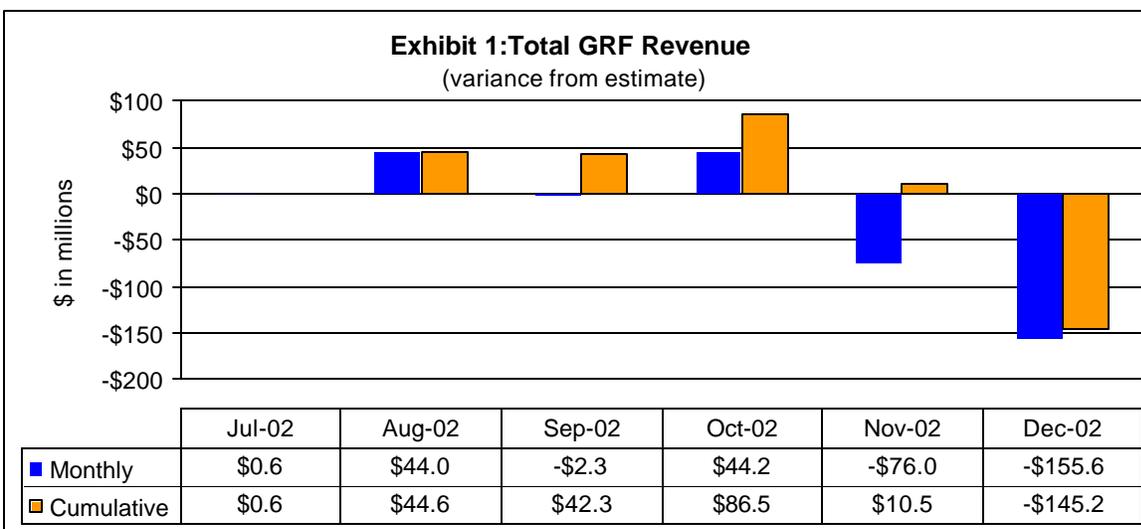
For the fiscal year to date, total GRF revenue is \$145.2 million (1.4 percent) below estimate. Total GRF revenue less federal grants is \$82.0 million (1.1 percent) below estimate. Tax revenues are \$64.8 million (0.9 percent) below estimate. Revenues from the major taxes are \$98.0 million (1.4 percent) below estimate. Exhibits 1-4 present the monthly and cumulative variances (differences from estimates) for these revenue classifications. The state's revenue picture deteriorated throughout the second fiscal quarter. The deterioration is in comparison to estimates. Compared to FY 2002, total GRF revenue is up by 5.6 percent, total revenue less federal grants is up by 5.0 percent, tax revenues are

up by 4.6 percent, and revenues from the major taxes are up by 2.4 percent. The revenue estimates were based on economic forecasts that had the economy recovering at a faster pace than it has recovered. The revenue picture was encouraging for the first quarter of the fiscal year but deteriorated as the economy entered the current "soft spot."

### Personal Income Tax

December personal income tax revenues of \$629.8 million were \$23.3 million (3.6 percent) below estimate. Withholding was \$3.5 million (0.6 percent) below estimate, quarterly estimated payments were \$10.5 million (12.7 percent) below estimate, and refunds were \$6.2 million (83.2 percent) greater than estimated.

For the fiscal year to date, personal income tax revenues are \$4.4 million (0.1 percent) less than estimated. Withholding is \$15.8 million (0.5 percent) below estimate, quarterly estimated payments are \$1.8 million (0.5 percent) above estimate, and refunds are \$11.3 million (7.9 percent) greater than estimated. The new tax on trusts has generated \$28 million in revenue, \$18 million more than the amount estimated for the first half of the fiscal year.



**Table 2**  
**General Revenue Fund Revenue**  
**Actual vs. Estimate**  
**Month of December 2002**  
(\$ in thousands)

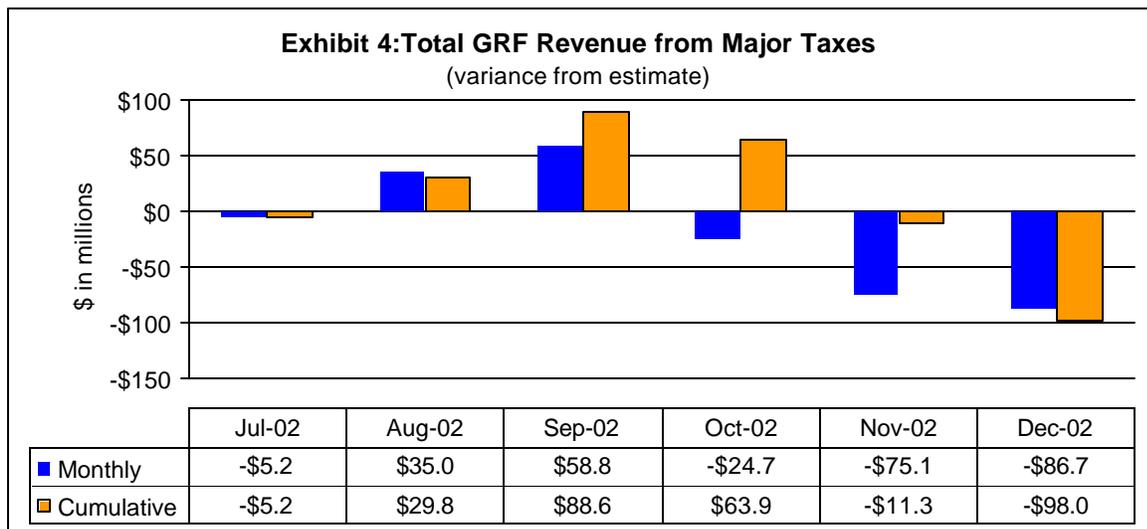
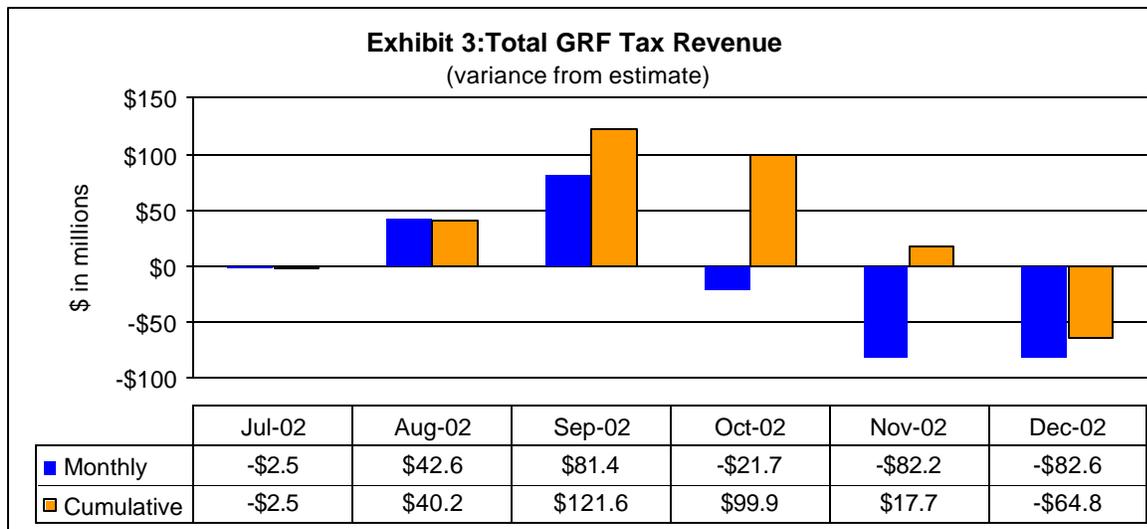
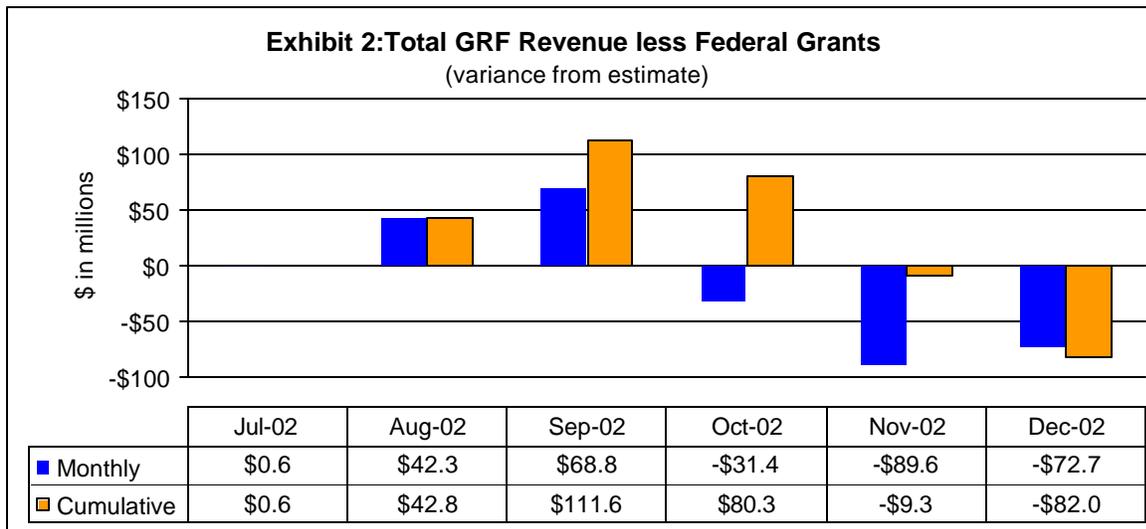
<b>REVENUE SOURCE</b>			
<b>TAX REVENUE</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>
Auto Sales	\$67,888	\$63,350	\$4,538
Non-Auto Sales & Use	\$415,109	\$457,725	(\$42,616)
Total Sales	\$482,997	\$521,075	(\$38,078)
Personal Income	\$629,821	\$653,100	(\$23,279)
Corporate Franchise	(\$26,882)	(\$7,743)	(\$19,139)
Public Utility	(\$713)	\$5,600	(\$6,313)
Kilowatt Hour Excise Tax	\$25,372	\$25,293	\$79
<b>Total Major Taxes</b>	<b>\$1,110,595</b>	<b>\$1,197,325</b>	<b>(\$86,730)</b>
Foreign Insurance	\$0	\$0	\$0
Domestic Insurance	\$0	\$0	\$0
Business & Property	\$16	\$285	(\$269)
Cigarette	\$52,781	\$48,297	\$4,484
Alcoholic Beverage	\$4,210	\$4,814	(\$604)
Liquor Gallonage	\$2,572	\$2,550	\$22
Estate	\$3,266	\$2,730	\$536
Total Other Taxes	\$62,845	\$58,676	\$4,169
<b>Total Taxes</b>	<b>\$1,173,439</b>	<b>\$1,256,000</b>	<b>(\$82,561)</b>
<b>NON-TAX REVENUE</b>			
Earnings on Investments	\$0	\$21,250	(\$21,250)
Licenses and Fees	\$706	\$825	(\$119)
Other Revenue	\$47,343	\$19,051	\$28,292
Non-Tax Receipts	\$48,048	\$41,126	\$6,922
<b>TRANSFERS</b>			
Liquor Transfers	\$16,000	\$14,000	\$2,000
Budget Stabilization	\$0	\$0	\$0
Other Transfers In	\$972	\$0	\$972
Total Transfers In	\$16,972	\$14,000	\$2,972
<b>TOTAL REVENUE less Federal Grants</b>	<b>\$1,238,460</b>	<b>\$1,311,126</b>	<b>(\$72,666)</b>
Federal Grants	\$350,826	\$433,797	(\$82,971)
<b>TOTAL GRF REVENUE</b>	<b>\$1,589,286</b>	<b>\$1,744,923</b>	<b>(\$155,637)</b>

\* July, 2002 estimates of the Office of Budget and Management.  
Detail may not sum to total due to rounding.

Compared to the first half of FY 2002, personal income tax revenues are up 4.0 percent. Withholding is up 3.5 percent, but quarterly estimated payments are down 6.3 percent. Refunds are down 5.3 percent and payments to the local government funds supported by the personal income tax are down 1.4 percent. If the new tax on trusts is not included in the comparison, gross revenues are up just 2.4 percent compared to FY 2003.

### *Non-Auto Sales and Use Tax*

The downturn in non-auto sales and use tax revenues increased in December 2002. Non-auto sales and use tax receipts generally reflect retail sales activity in the prior month. For the fourth month in this fiscal year, non-auto sales and use tax revenues were below estimates. At \$415.1 million, non-auto sales tax revenues were \$42.6 million, or 9.3 percent,



**Table 3**  
**General Revenue Fund Revenue**  
**Actual vs. Estimate**  
**FY 2003 to Date as of December 2002**  
(\$ in thousands)

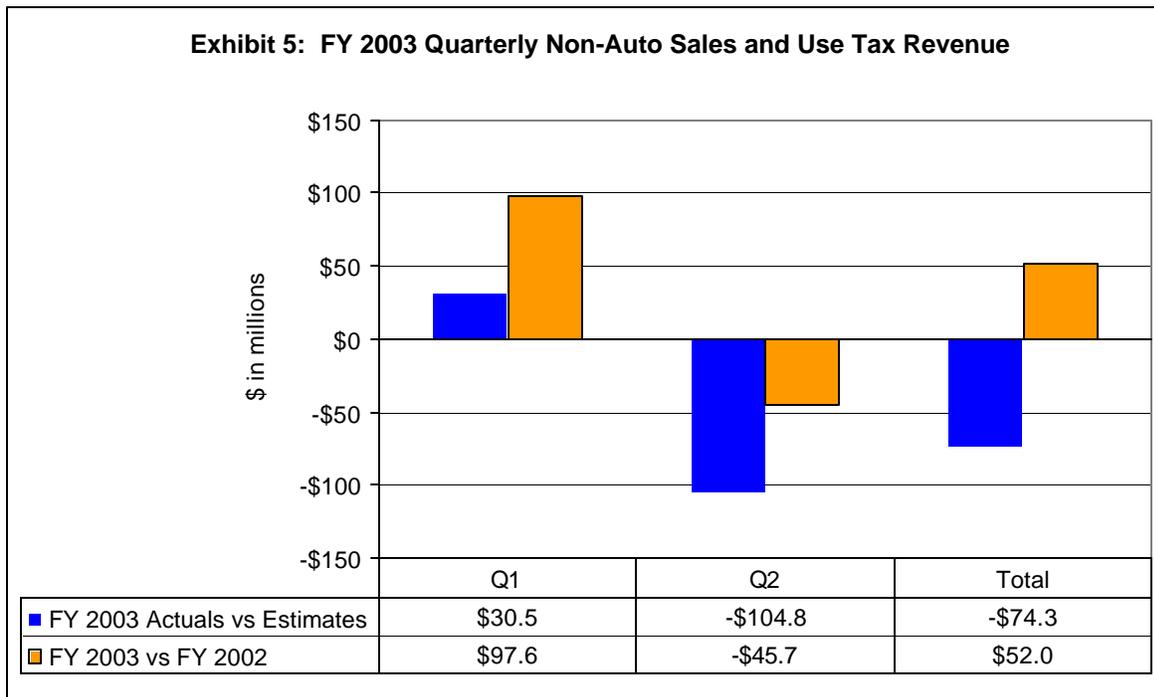
REVENUE SOURCE					
<i>TAX REVENUE</i>	Actual	Estimate*	Variance	FY 2002	Percent Change
Auto Sales	\$483,475	\$447,975	\$35,500	\$496,638	-2.65%
Non-Auto Sales & Use	\$2,591,300	\$2,665,575	(\$74,275)	\$2,539,353	2.05%
Total Sales	\$3,074,775	\$3,113,550	(\$38,775)	\$3,035,991	1.28%
Personal Income	\$3,461,940	\$3,466,300	(\$4,360)	\$3,327,942	4.03%
Corporate Franchise	-\$39,562	-\$12,001	(\$27,561)	(\$74,802)	-47.11%
Public Utility	\$74,223	\$104,200	(\$29,977)	\$130,259	-43.02%
Kilowatt Hour Excise Tax	\$172,538	\$169,846	\$2,692	\$164,230	5.06%
<b>Total Major Taxes</b>	<b>\$6,743,914</b>	<b>\$6,841,895</b>	<b>(\$97,981)</b>	<b>\$6,583,620</b>	<b>2.43%</b>
Foreign Insurance	\$115,365	\$119,250	(\$3,885)	\$114,927	0.38%
Domestic Insurance	\$1,626	\$0	\$1,626	\$3,013	-46.02%
Business & Property	\$1,081	\$855	\$226	\$936	15.46%
Cigarette	\$295,497	\$265,065	\$30,432	\$132,012	123.84%
Alcoholic Beverage	\$28,714	\$29,261	(\$547)	\$28,325	1.37%
Liquor Gallonage	\$14,677	\$14,760	(\$83)	\$14,487	1.31%
Estate	\$59,930	\$54,540	\$5,390	\$63,203	-5.18%
Total Other Taxes	\$516,890	\$483,731	\$33,159	\$356,904	44.83%
<b>Total Taxes</b>	<b>\$7,260,804</b>	<b>\$7,325,622</b>	<b>(\$64,818)</b>	<b>\$6,940,524</b>	<b>4.61%</b>
<b>NON-TAX REVENUE</b>					
Earnings on Investments	\$22,810	\$51,000	(\$28,190)	\$56,784	-59.83%
Licenses and Fees	\$13,246	\$14,850	(\$1,604)	\$12,768	3.75%
Other Revenue	\$114,374	\$108,948	\$5,426	\$86,521	32.19%
Non-Tax Receipts	\$150,430	\$174,798	(\$24,368)	\$156,074	-3.62%
<b>TRANSFERS</b>					
Liquor Transfers	\$61,000	\$55,000	\$6,000	\$58,000	5.17%
Budget Stabilization	\$0	\$0	\$0	\$0	---
Other Transfers In	\$50,412	\$49,195	\$1,217	\$10,850	364.64%
Total Transfers In	\$111,412	\$104,195	\$7,217	\$68,850	61.82%
<b>TOTAL REVENUE less Federal Grants</b>	<b>\$7,522,647</b>	<b>\$7,604,615</b>	<b>(\$81,968)</b>	<b>\$7,165,447</b>	<b>4.99%</b>
Federal Grants	\$2,351,012	\$2,414,205	(\$63,193)	\$2,182,333	7.73%
<b>TOTAL GRF REVENUE</b>	<b>\$9,873,659</b>	<b>\$10,018,820</b>	<b>(\$145,161)</b>	<b>\$9,347,780</b>	<b>5.63%</b>

\* July, 2002 estimates of the Office of Budget and Management.  
Detail may not sum to total due to rounding.

below estimates. Receipts were also \$2.4 million, or 0.6 percent, below revenues in the same period last year (in December 2001). In November 2002, non-auto sales tax revenues were \$20.5 million, or 4.8 percent, below estimates. Prior to that, October 2002 non-auto sales tax receipts were \$41.7 million, or 9.1 percent, below estimates. Therefore, taxable retail activity in Ohio, as reflected in non-auto sales

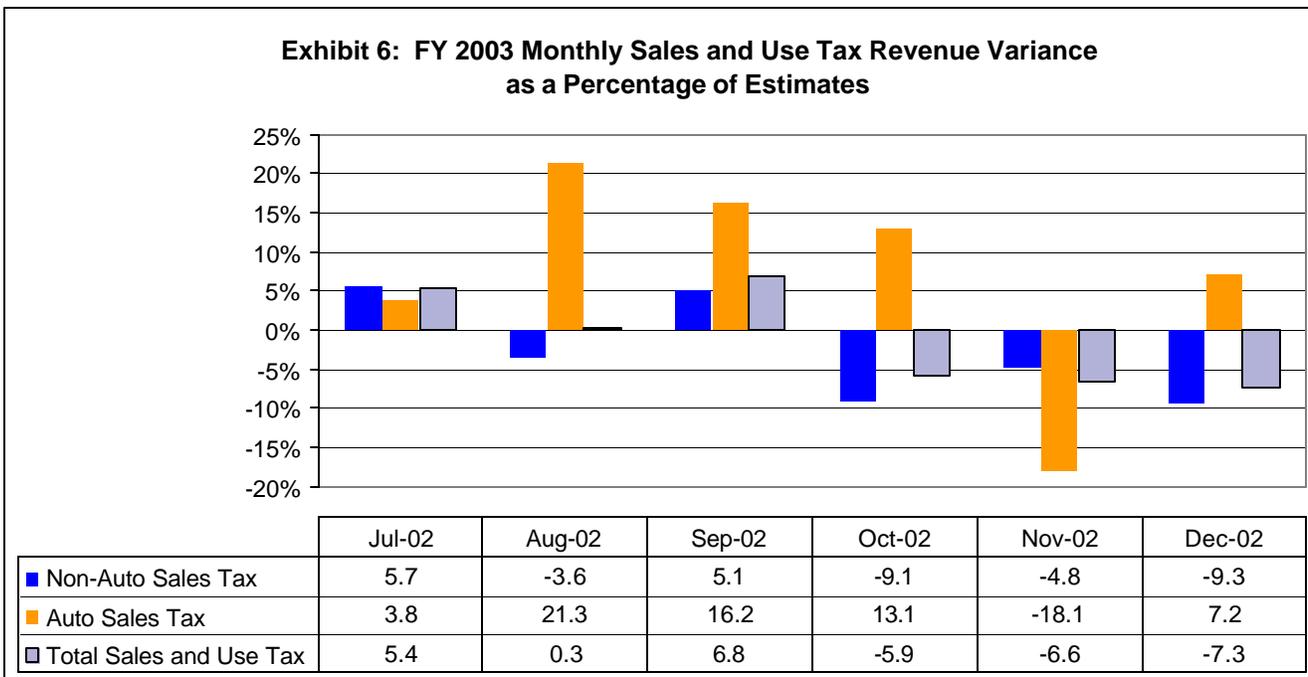
tax revenues, was sluggish in the second quarter of FY 2003.

Midway through this fiscal year, year-to-date non-auto sales and use tax receipts of \$2,591.3 million are \$74.3 million, or 2.8 percent, below estimate. Compared to receipts a year ago, year-to-date non-auto sales and use tax revenues are up \$51.9 million,

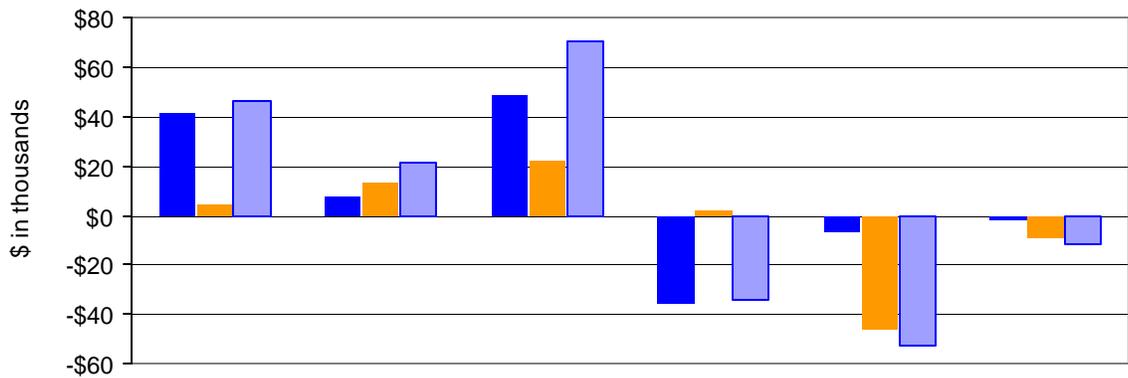


or 2.0 percent. Although the year-over-year comparison is positive, the overage was built up in the first quarter of the fiscal year. Non-auto sales and use tax revenues in the second quarter were poor. Not only were second quarter receipts \$104.8 million below current fiscal year estimates, non-auto sales tax revenues in the second quarter were \$45.7 million below revenues in the second quarter in FY 2002. Thus, the current trends are not favorable. Holiday sales were reportedly soft, even among discounters

such as Wal-Mart, Kohl's, and Target that usually do better than department stores and high-end retailers. The chain-store sales index of the Bank of Tokyo-Mitsubishi registered the weakest growth in holiday sales in several years. This index, which measures sales at same stores open at least a year, grew a scant 1 percent over December 2001 sales. Therefore, the typical bounce in sales and use tax receipts in January may be affected.



**Exhibit 7: Variance in Monthly Sales and Use Tax Revenues**  
FY 2003 vs. FY 2002



	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
■ Non-Auto Sales Tax	\$41.6	\$7.5	\$48.5	-\$36.2	-\$7.1	-\$2.4
■ Auto Sales Tax	\$4.5	\$13.7	\$22.6	\$1.8	-\$46.2	-\$9.6
■ Total Sales and Use Tax	\$46.1	\$21.2	\$71.1	-\$34.4	-\$53.2	-\$11.9

Exhibit 6 illustrates the variance in monthly non-auto sales and use tax revenue as a percentage of estimates in FY 2003. Exhibit 7 illustrates the variance in monthly non-auto sales and use tax revenue in the current and previous fiscal years.

### ***Auto Sales Tax***

The growth in auto sales tax revenues resumed in December 2002. Auto sales tax revenues of \$67.9 million were \$4.5 million, or 7.2 percent, above estimate. Auto tax receipts were \$12.3 million, or 22.0 percent, higher than November receipts. However, receipts were \$9.6 million, or 12.4 percent, below December 2001 tax revenues. The U.S. Department of Commerce reported flat sales at auto dealers in November, following two down months (September sales were down 5.2 percent, and October sales were down 1.9 percent). The U.S. Department of Commerce has not yet released December sales at auto and other motor vehicle dealers, but sales were expected to be higher than November sales.<sup>1</sup> The annual pace of unit sales in December was 18.4 million (or 13 percent higher than in December 2001). Major automakers reported various levels of increases in sales in December.<sup>2</sup> CY 2002 auto sales, propped up with extraordinary incentives, were the fourth best yearly sales on record with total unit sales of 16.8 million, down 1.8 percent from CY 2001 sales.<sup>3</sup> It is unclear if the growth in car sales has

stabilized, or if decreasing consumer confidence and rising interest rates and oil prices will force manufacturers to continue providing generous incentives in CY 2003. However, discounting may continue to power auto sales. General Motors has already announced that rebates will continue, and assuming the other major automakers join in, car sales may continue at a relatively high level for the remainder of this fiscal year. All manufacturers seem intent on maintaining market share and their long-term market position.

As of December 2002, year-to-date auto sales tax revenues, at \$483.5 million, were \$35.5 million, or 7.9 percent, above estimates. Compared to auto sales tax revenues a year ago, year-to-date receipts as of December 2002 were \$13.2 million, or 2.7 percent, below auto sales tax revenues in December 2001.

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

In December, sales and use tax revenues were below estimate for the third consecutive month this fiscal year. Total sales and use tax revenues of \$482.0 million were \$38.0 million, or 7.3 percent, below estimate. Sales and use tax revenues were also below December 2001 revenues by \$11.9 million, or 2.4 percent. Exhibits 6 and 7 also illustrate variances in total sales and use tax revenues from estimates and from tax receipts in FY 2002.

Due to the general weakness of non-auto sales tax revenues, the overage in sales and use tax receipts that had accumulated in the first quarter of FY 2003 has been replaced by a deficit. As of December 2002, year-to-date sales and use tax revenues, at \$3,074.8 million are \$38.8 million, or 1.2 percent, below estimated revenue at the midpoint of this fiscal year. Compared to year-to-date revenues in the same month a year ago, sales and use tax revenues in December 2002 were ahead \$38.8 million, or 1.3 percent.

**Corporate Franchise Tax**

Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year, with the first major payment in January 2003. The second major payment will be due in March 2003, and the last major payment will be due in May 2003. Franchise tax payments will be primarily based on corporate book profits in CY 2002.

Activities under the franchise tax in the first half of the fiscal year are generally tax refunds, or tax collections due to audit findings or late payments. Franchise tax refunds in December 2002 were \$26.8 million. As of December 2002, year-to-date corporate franchise tax refunds have exceeded receipts by \$39.6 million. A year ago, corporate franchise tax refunds exceeded receipts by \$74.8 million.

**Cigarette and Other Tobacco Products Tax**

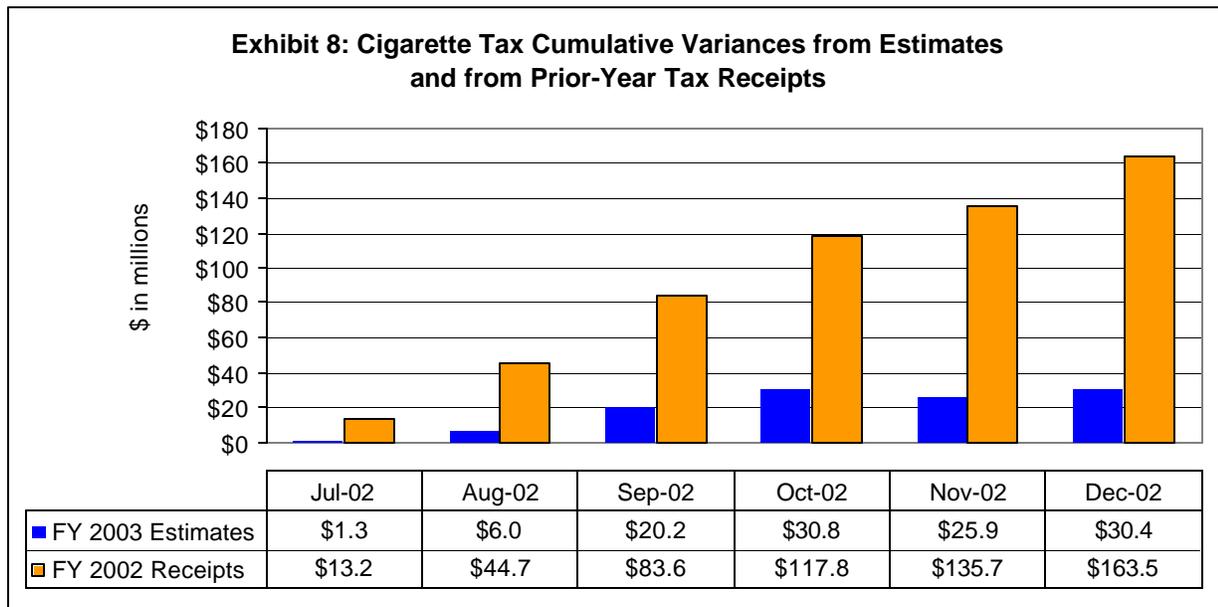
December cigarette and other tobacco products tax receipts of \$52.8 million were \$4.5 million, or

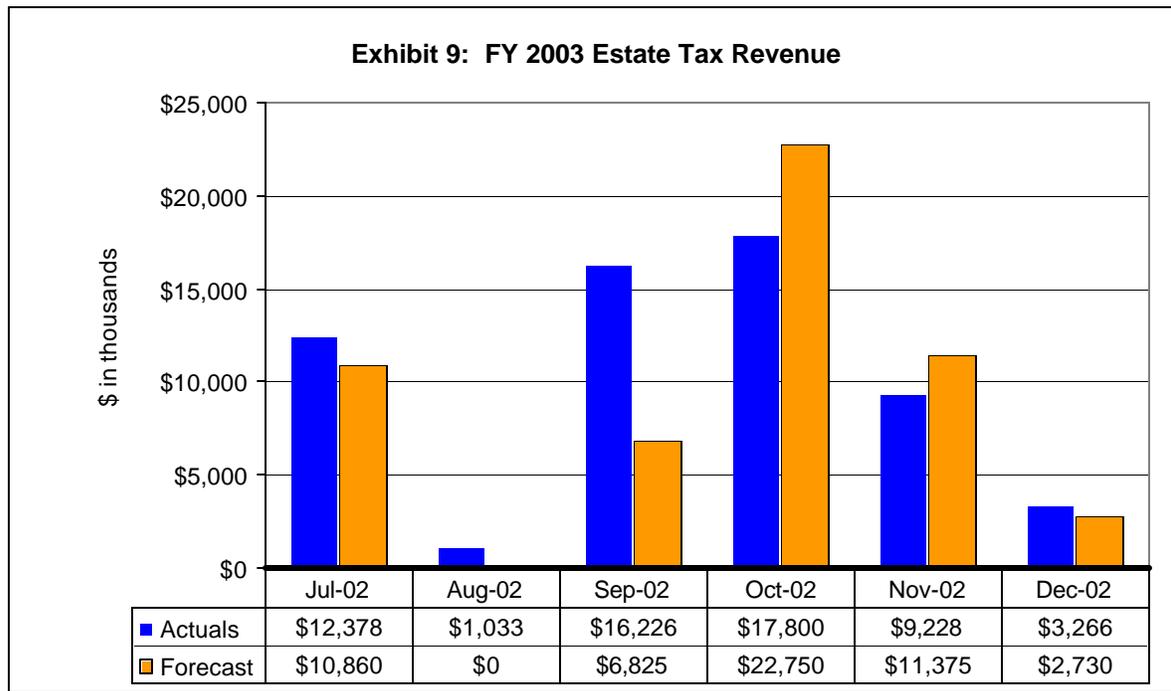
9.3 percent, above estimates. Cigarette and other tobacco products tax revenues were \$11.0 million, or 26.4 percent, higher than November cigarette tax receipts. Compared to cigarette tax receipts a year ago, December 2002 revenues were up \$27.8 million, or 110.9 percent.

Exhibit 8 illustrates the cigarette tax cumulative variance from FY 2003 estimates and the cumulative variance from FY 2002 actual tax receipts. As of December 2002, year-to-date receipts from the tax on cigarette and other tobacco products are \$295.5 million. These revenues are above estimate by \$30.4 million, or 11.5 percent. Year-to-date cigarette tax receipts are also \$163.5 million, or 123.8 percent, ahead of tax receipts in the same period a year ago.

**Public Utility Excise Tax**

Revenues from the public utility excise tax are below forecast by \$30.0 million, or 28.8 percent, for the year to date. A significant portion of this shortfall is presumably due to refunds to electric companies, which have collected \$11.6 million in refunds during the first six months of the fiscal year. These refunds are belated artifacts of the tax credit for using Ohio coal that was available under this tax up until December of 2001 (for coal used between May 2000 and April 2001). Some companies submitted estimated payments without considering the tax credit that they would be allowed to claim, thereby paying more than their tax liability and becoming eligible for refunds under the tax. Such refunds were paid in





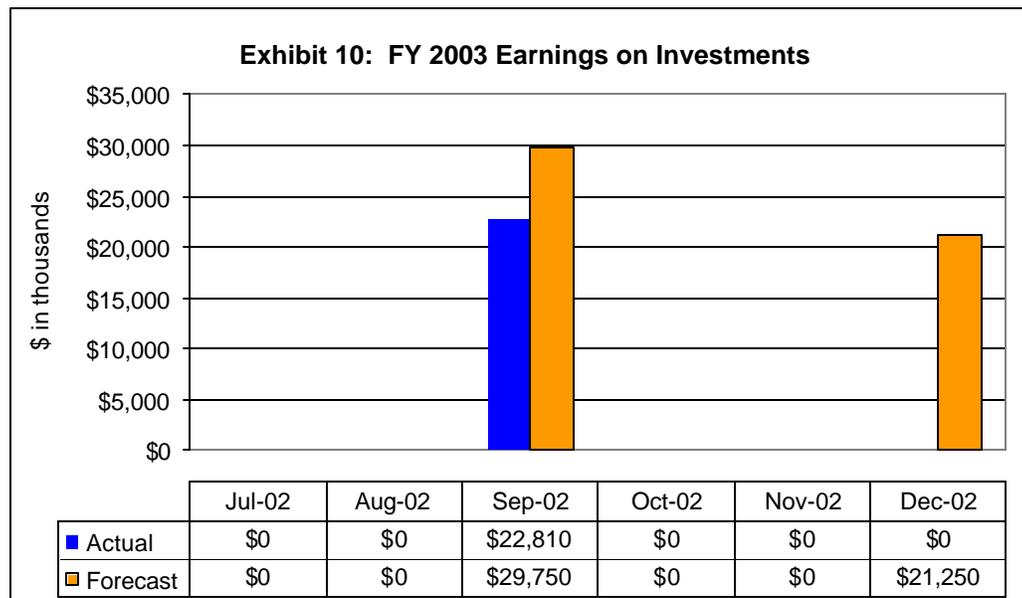
five of the six months of the fiscal year so far, but Department of Taxation officials believe those to be the last of the refunds payable to electric companies.

The other significant factor has been payments by natural gas companies, which so far this year have been \$28.0 million, or 39.6 percent, below their level of one year ago. Last year's receipts were unusually high, due to cold weather and high prices for natural gas during the 2000-2001 winter heating season; therefore this year's drop in receipts represents a return to a more typical level. The combined effect of these two factors has been partially offset by

payments by telephone companies, which are \$17.7 million above their level of one year ago.

#### *Estate Tax*

December 2002 estate tax revenue was \$0.54 million higher than estimate. Year-to-date accumulated estate tax revenue for FY 2003 of \$59.9 million is over the estimates by more than \$5 million, or 9.9 percent. Estate tax revenue is expected to total \$91 million at the end of FY 2003, based on July 2002 estimates. Taking into consideration the bearish stock market and lower



interest rates, it is possible that estate tax revenue will be less than the amount estimated, but so far results appear positive.

### ***Earnings on Investment***

For the fiscal year to date, earnings on investment, \$22.8 million, are \$28.2 million, 55.3 percent, below estimate. Low short-term interest rates in the last six months and a low balance in state funds contributed to the lower earnings on investments.

### ***Fee Revenue***

The General Revenue Fund benefits from a number of fees that are either completely or partially

deposited into the GRF. The amount of fee revenue credited to the GRF is estimated to be \$33 million in FY 2003. The receipts for the first six months are \$3.2 million, or \$1.6 million, under estimate. In FY 2002, over \$31.1 million of fee-generated revenue was credited to the GRF. Of this amount, more than 75 percent was generated by insurance licensing fees (56 percent) and liquor permits (23 percent).

*\* Jean Botomogno, Nicole Evans, Ross Miller, and Ruhaiza Ridzwan contributed to this Revenues article.*

---

<sup>1</sup> Sales at auto dealers include parts and other services that may not be part of the auto sales tax base. Therefore, the relationship between sales at auto dealers and the auto sales tax is not simple.

<sup>2</sup> <http://www.automotivedigest.com/weekly.html>.

<sup>3</sup> Unit sales of autos and light trucks were \$16.8 million in CY 1999, \$17.2 million in CY 2000, and \$17.0 million in CY 2001. CY 2002 unit sales were similar to CY 1999 unit sales.

## DISBURSEMENTS

— Steve Mansfield\*

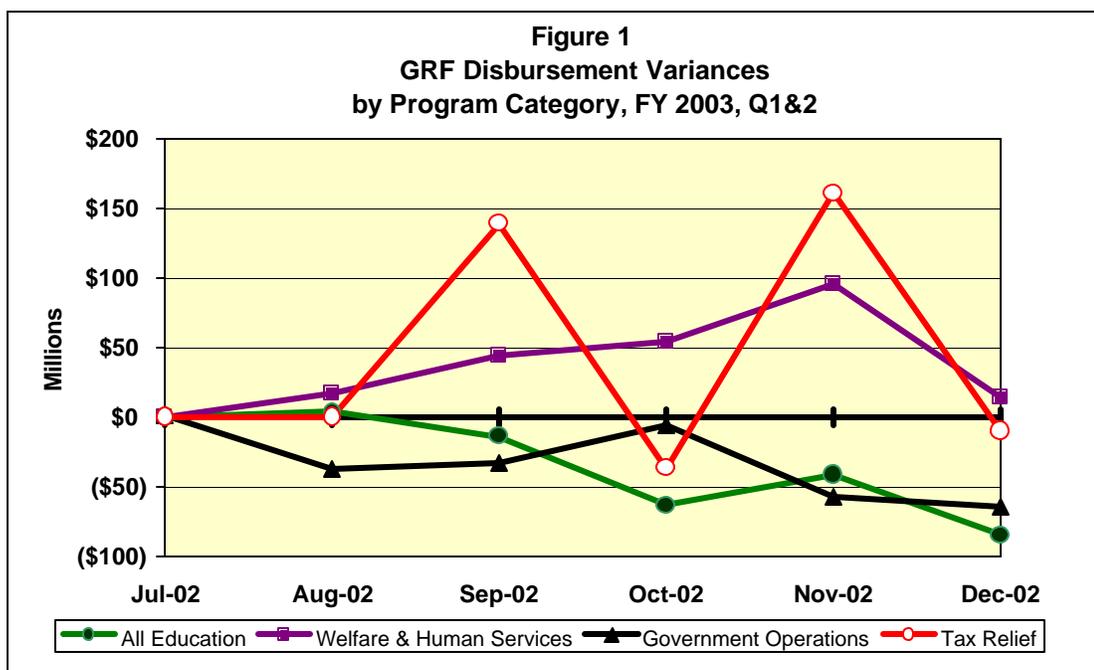
Disbursements for December (excluding transfers) were \$296.6 million under estimate, with yet another dramatic swing in disbursements in the Tax Relief program accounting for a large part of the variance. In contrast to November's positive disbursement variance in the Tax Relief program of \$197.7 million, in December the program posted a negative disbursement variance of \$170.7 million. Largely as a result of an unscheduled use of Disproportionate Share Hospital (DSH) payment program funds, Medicaid disbursements were \$68.0 million under the December estimate. For disbursements from the General Revenue Fund (GRF) as a whole, there was at the end of December a year-to-date negative disbursement variance of \$148.0 million, thus representing a net swing of nearly \$300 million from November.

When we look at the year-to-date disbursement variance in four of the state's major program categories, as depicted in Figure 1, we see that disbursements from three of the state's major GRF program categories (Education, Government Operations, and Tax Relief) are now below estimate, while the remaining program category (Welfare and Human Services) is currently above estimate, although it, like the other categories, registered a negative disbursement variance in December. In the

sections that follow, we will examine the disbursement activity in each of these four major GRF program categories in the order of magnitude of their contribution to the year-to-date negative disbursement variance. For each program category, we then examine the state agency budgets and programs that have contributed most notably with either positive or negative disbursement variances. The reader's attention is directed to Tables 4 and 5 for summary information about GRF disbursement activity and to Tables 6 and 7 for a detailed presentation of disbursement activity in the Health Care/Medicaid program.

### Education (-\$85.0 million)

**Department of Education.** In December, the Department of Education increased the size of its year-to-date negative disbursement variance to \$62.0 million by posting a negative disbursement variance of \$26.0 million for the month. The December negative disbursement variance can be traced to a couple of line items. Line item 200-501, Base Cost Funding, posted a negative disbursement variance of \$41.6 million. This line item has the largest appropriation (\$4,400.0 million) in the department's budget. These funds are paid to school districts according to the base cost formula developed by the



**Table 4**  
**General Revenue Fund Disbursements**  
**Actual vs. Estimate**  
**Month of December 2002**  
(\$ in thousands)

<b>USE OF FUNDS</b>			
PROGRAM	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>
Primary & Secondary Education (1)	\$485,612	\$531,384	(\$45,772)
Higher Education	\$158,418	\$156,160	\$2,258
<b>Total Education</b>	<b>\$644,030</b>	<b>\$687,543</b>	<b>(\$43,513)</b>
Health Care/Medicaid	\$644,413	\$712,407	(\$67,994)
Temporary Assistance to Needy Families (TANF)	\$42,911	\$51,234	(\$8,323)
General/Disability Assistance	\$1,954	\$1,951	\$3
Other Welfare (2)	\$29,885	\$35,800	(\$5,915)
Human Services (3)	\$86,003	\$84,281	\$1,722
<b>Total Welfare &amp; Human Services</b>	<b>\$805,166</b>	<b>\$885,673</b>	<b>(\$80,507)</b>
Justice & Corrections	\$115,796	\$122,746	(\$6,950)
Environment & Natural Resources	\$8,280	\$6,852	\$1,428
Transportation	\$987	\$3,552	(\$2,565)
Development	\$10,925	\$10,571	\$354
Other Government	\$22,744	\$23,141	(\$397)
Capital	\$0	\$0	\$0
<b>Total Government Operations</b>	<b>\$158,733</b>	<b>\$166,862</b>	<b>(\$8,130)</b>
Property Tax Relief (4)	\$28,791	\$199,506	(\$170,715)
Debt Service	\$7,668	\$1,420	\$6,247
<b>Total Program Payments</b>	<b>\$1,644,386</b>	<b>\$1,941,005</b>	<b>(\$296,618)</b>
<b>TRANSFERS</b>			
Local Govt Distribution	\$0	\$0	\$0
Budget Stabilization	\$0	\$0	\$0
Other Transfers Out	\$100	\$0	\$100
<b>Total Transfers Out</b>	<b>\$100</b>	<b>\$0</b>	<b>\$100</b>
<b>TOTAL GRF USES</b>	<b>\$1,644,486</b>	<b>\$1,941,005</b>	<b>(\$296,518)</b>
(1) Includes Primary, Secondary, and Other Education.			
(2) Includes the Department of Job and Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.			
(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.			
(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.			
* August 2002 estimates of the Office of Budget and Management.			
<i>Totals may not add up due to rounding.</i>			

General Assembly and are used to provide educational services to Ohio public school students. As these payments depend on a variety of data that have not all been finalized, variances are to be expected. The data is typically finalized in January, so in the coming months we expect to see disbursements from this line item closer to the estimates. This line item accounts for \$46.7 million of the department's year-to-date negative disbursement variance.

In December, disbursements from line item 200-513, Student Intervention Services, encountered programming glitches that prevented a payment of \$18.0 million from encumbered FY 2002 funds. The encumbrance was canceled before the payment could be reentered. A total of \$26.2 million had been encumbered from FY 2002 to reimburse districts for intervention services provided during the 2001-2002

**Table 5**  
**General Revenue Fund Disbursements**  
**Actual vs. Estimate**  
**FY 2003 to Date as of December 2002**  
(\$ in thousands)

USE OF FUNDS					
PROGRAM	Actual	Estimate*	Variance	FY 2002	Percent Change
Primary & Secondary Education (1)	\$3,253,339	\$3,319,250	(\$65,911)	\$3,080,407	5.61%
Higher Education	\$1,245,207	\$1,264,297	(\$19,089)	\$1,302,254	-4.38%
<b>Total Education</b>	<b>\$4,498,546</b>	<b>\$4,583,547</b>	<b>(\$85,000)</b>	<b>\$4,382,661</b>	<b>2.64%</b>
Health Care/Medicaid	\$4,133,036	\$4,114,641	\$18,394	\$3,727,115	10.89%
Temporary Assistance to Needy Families (TANF)	\$280,465	\$241,801	\$38,664	\$264,819	5.91%
General/Disability Assistance	\$13,956	\$12,796	\$1,160	\$43,743	-68.10%
Other Welfare (2)	\$278,937	\$308,469	(\$29,532)	\$285,929	-2.45%
Human Services (3)	\$670,121	\$683,833	(\$13,712)	\$666,378	0.56%
<b>Total Welfare &amp; Human Services</b>	<b>\$5,376,515</b>	<b>\$5,361,541</b>	<b>\$14,975</b>	<b>\$4,987,984</b>	<b>7.79%</b>
Justice & Corrections	\$952,603	\$993,889	(\$41,287)	\$950,782	0.19%
Environment & Natural Resources	\$78,298	\$79,407	(\$1,109)	\$84,686	-7.54%
Transportation	\$18,930	\$25,404	(\$6,474)	\$29,110	-34.97%
Development	\$110,705	\$114,037	(\$3,333)	\$109,059	1.51%
Other Government	\$224,521	\$237,130	(\$12,610)	\$243,704	-7.87%
Capital	\$0	\$1,535	(\$1,535)	\$7,995	-100.00%
<b>Total Government Operations</b>	<b>\$1,385,056</b>	<b>\$1,451,403</b>	<b>(\$66,347)</b>	<b>\$1,425,337</b>	<b>-2.83%</b>
Property Tax Relief (4)	\$688,238	\$698,246	(\$10,008)	\$620,349	10.94%
Debt Service	\$151,775	\$153,321	(\$1,546)	\$123,127	23.27%
<b>Total Program Payments</b>	<b>\$12,100,131</b>	<b>\$12,248,058</b>	<b>(\$147,926)</b>	<b>\$11,539,458</b>	<b>4.86%</b>
<b>TRANSFERS</b>					
Local Govt Distribution	\$0	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	\$13,104	-100.00%
Other Transfers Out	\$15,988	\$15,836	\$152	\$15,530	2.95%
<b>Total Transfers Out</b>	<b>\$15,988</b>	<b>\$15,836</b>	<b>\$152</b>	<b>\$28,634</b>	<b>-44.17%</b>
<b>TOTAL GRF USES</b>	<b>\$12,116,119</b>	<b>\$12,263,893</b>	<b>(\$147,774)</b>	<b>\$11,568,092</b>	<b>4.74%</b>

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

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

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

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

\* August 2002 estimates of the Office of Budget and Management.

Totals may not add up due to rounding.

school year. The department will request that the Controlling Board move the funds from FY 2002 to FY 2003 in order to cover the payments.

Partially offsetting these negative disbursement variances was a positive disbursement variance of \$24.8 million in December's expenditures from line item 200-503, Bus Purchase Allowance. This appropriation item is used to reimburse school districts for purchases of public, nonpublic, and

handicapped buses. Reimbursement for nonpublic and handicapped buses is at 100 percent; reimbursement for public buses is based on a formula. December's positive disbursement variance stemmed from the timing of this year's payments.

**Regents.** For December, the Board of Regents posted a \$2.3 million positive disbursement variance, thus reducing its negative disbursement variance for the year to date to \$19.1 million. This year-to-date

variance is traceable to the effects of a \$32.4 million negative disbursement variance in November from line item 235-420, Success Challenge, which was due to the slower than anticipated receipt of data necessary to determine allocations in the program. The Success Challenge program supports universities' efforts to promote successful degree completion by at-risk baccalaureate students and timely degree completion by all baccalaureate students.

### ***Government Operations (-\$66.3 million)***

For the year to date, disbursements for the Government Operations category as a whole stand at \$66.3 million under the estimate, with the Department of Rehabilitation and Correction (DRC) contributing \$35.6 million of that figure. For the month of December, the category as a whole posted a negative disbursement variance of \$8.1 million, with DRC contributing \$7.0 million.

**Rehabilitation & Correction.** DRC's year-to-date negative disbursement variance was composed primarily of a \$21.5 million negative variance in line item 501-321, Institutional Operations. Along with several smaller negative disbursement variances in other operational line items, the year-to-date negative disbursement variance in line item 501-321 reflects reductions in staff and other spending reductions.

### ***Tax Relief (-\$10.0 million)***

The Property Tax Relief program, which carries an FY 2003 GRF appropriation of over \$1.3 billion, reimburses school districts and local government 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.

December's negative disbursement variance of \$170.7 million in the Tax Relief program as a whole continues a string of impressive variances from the estimates. And while these variances are timing-related and will ultimately balance out, they are

nonetheless impressive as variances from the expectations that were built into the estimates. Readers are reminded that the disbursement estimates for the Tax Relief program that are used in the Central Accounting System (CAS) reports were revised by the Office of Budget and Management (OBM) in September. We, however, continue to compare actual disbursements to OBM's estimates as of August 2002. Consequently, the analysis in this disbursements article regarding the Tax Relief program diverges from OBM's *Monthly Financial Report*. As noted in our previous disbursements article, counties have so far this fiscal year requested reimbursements much faster than in previous years, and it is this pattern that determines the disbursement estimates for the program that are produced by OBM. With counties sharply altering the timing of their requests, the result is wild swings away from the estimated levels that assumed the historical pattern of disbursement.

For the year to date, and after a negative disbursement variance of \$125.2 million in December, the property tax program in the Department of Education stands at the end of December almost exactly on estimate. The program in the Department of Taxation stands for the year to date at \$10.0 million under estimate.

### ***Welfare/Human Services (\$15.0 million)***

Disbursements in the Welfare/Human Services category as a whole stand at \$15.0 million above the estimate for the year to date. December's negative disbursement variance pushed the category's overage down by \$80.5 million. This was largely the result of a \$68.0 million negative disbursement variance in the Medicaid program, as well as smaller negative variances in the TANF program, the Department of Job and Family Services' "Other Welfare" subcategory, and the Department of Mental Health. The following paragraphs discuss the disbursements in the components of this category in more detail.

**Health Care/Medicaid.** At the end of December the Health Care/Medicaid program (primarily line item 600-525) was cumulatively \$18.4 million above the spending estimate. For the month of December, the program was \$68.0 million under the estimate. The negative disbursement variance for December was largely the result of the department's use of \$89.0 million from federal reimbursements for the Disproportionate Share Hospital (DSH) program

**Table 6**  
**Health Care Spending in FY 2003**  
**Medicaid, ALI 600-525**  
**(\$ in thousands)**

Service Category	December				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Dec.	Estimate thru Dec.	Variance	Percent Variance
Nursing Facilities	\$203,347	\$217,531	(\$14,184)	-6.5%	\$1,226,673	\$1,292,908	(\$66,236)	-5.1%
Payments	\$214,613	\$229,712	(\$15,099)	-6.6%	\$1,282,976	\$1,358,092	(\$75,117)	-5.5%
NF Franchise Fees Offset <sup>1</sup>	(\$11,266)	(\$12,181)	\$915	-7.5%	(\$56,303)	(\$65,184)	\$8,881	-13.6%
ICF/MR	\$33,614	\$35,441	(\$1,827)	-5.2%	\$204,476	\$211,108	(\$6,633)	-3.1%
Payments	\$35,333	\$37,214	(\$1,881)	-5.1%	\$214,758	\$221,550	(\$6,792)	-3.1%
ICF/MR Franchise Fees Offset	(\$1,719)	(\$1,773)	\$54	-3.0%	(\$10,282)	(\$10,441)	\$159	-1.5%
Inpatient Hospitals	\$108,045	\$120,524	(\$12,479)	-10.4%	\$648,924	\$658,342	(\$9,418)	-1.4%
Outpatient Hospitals	\$48,214	\$44,221	\$3,993	9.0%	\$274,822	\$247,806	\$27,016	10.9%
Physicians	\$49,461	\$46,712	\$2,749	5.9%	\$262,038	\$255,189	\$6,849	2.7%
Prescription Drugs	\$145,639	\$137,034	\$8,605	6.3%	\$766,553	\$747,697	\$18,856	2.5%
HMO	\$58,077	\$50,943	\$7,134	14.0%	\$340,929	\$310,869	\$30,061	9.7%
Medicare Buy-In	\$12,002	\$10,740	\$1,262	11.8%	\$70,864	\$64,522	\$6,342	9.8%
ODJFS Waiver <sup>2</sup>	\$16,691	\$18,496	(\$1,805)	-9.8%	\$89,102	\$95,519	(\$6,417)	-6.7%
All Other <sup>3</sup>	\$75,349	\$78,316	(\$2,967)	-3.8%	\$382,384	\$409,596	(\$27,213)	-6.6%
CHIP II <sup>4</sup>	\$4,691	\$5,031	(\$340)	-6.8%	\$28,435	\$27,629	\$806	2.9%
DA Medical <sup>5</sup>	\$8,786	\$6,787	\$1,999	29.4%	\$47,658	\$40,375	\$7,282	18.0%
<b>Total ALI 600-525</b>	<b>\$763,915</b>	<b>\$771,776</b>	<b>(\$7,860)</b>	<b>-1.0%</b>	<b>\$4,342,858</b>	<b>\$4,361,562</b>	<b>(\$18,703)</b>	<b>-0.4%</b>
DSH Offset	(\$89,037)	\$0			(\$89,037)	\$0		
Drug Rebates	(\$30,470)	(\$31,070)			(\$121,881)	(\$125,283)		
FY 2002 Encumbrance	\$0	\$0			(\$83,539)	(\$82,208)		
<b>Total Health Care (Net of Offsets)</b>	<b>\$644,409</b>	<b>\$740,705</b>	<b>(\$96,297)</b>	<b>-13.0%</b>	<b>\$4,048,401</b>	<b>\$4,154,070</b>	<b>(\$105,668)</b>	<b>-2.5%</b>
Est. Federal Share <sup>6</sup>	\$374,516	\$432,386	(\$57,869)		\$2,357,149	\$2,423,499	(\$66,349)	
Est. State Share	\$269,892	\$308,320	(\$38,428)		\$1,691,252	\$1,730,571	(\$39,319)	
Prior Period ALI 600-525	\$4	\$0			\$84,635	\$85,075		
BSF Shortfall <sup>7</sup>	\$0	(\$28,299)			0	(\$124,514)		
<b>Total Hlth Care w/o BSF</b>	<b>\$644,413</b>	<b>\$712,407</b>	<b>(\$67,994)</b>	<b>-9.5%</b>	<b>\$4,133,036</b>	<b>\$4,114,631</b>	<b>\$18,405</b>	<b>0.4%</b>

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

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

3. "All Other" includes all other health services funded by line item 600-525.

4. CHIP II, effective July 1, 2000, 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. For FY 2003 the FMAP is 58.83% and the enhanced FMAP is 71.18%.

7. The budget estimate assumed \$110 million of the Budget Stabilization Fund (BSF) will be used to increase the appropriation in line item 600-525 by \$266 million, all funds in SFY 2003.

Note: Due to accounting differences, the totals do not exactly match the amounts from Tables 4 and 5.

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

earlier than had been anticipated in the estimates. DSH calls for state Medicaid payments to take into account the situation of hospitals that serve a disproportionate share of low-income patients. If this reimbursement had not been used in December, Medicaid disbursements would have been about \$21 million over estimate. This situation (discounting the DSH charge) continues the trend of earlier months.

The number of Medicaid eligibles in December was 1,548,016. This was nearly 154,000 more than

had been forecast for this point in the current biennium. Covered Families and Children (CFC) recipients make up the bulk of eligibles (a little over 1,149,000 in December, up about 5,500 recipients since November), with Aged, Blind, and Disabled (ABD) recipients making up the balance (about 399,000). Although greatly outnumbered by the CFC population, the ABD population accounts for over 70 percent of all Medicaid expenditures. In December, the ABD population declined by about 5,000 recipients, all of which was registered in the Specified Low-income Medicare Beneficiaries

(SLMB) program. An SLMB is a Medicare-eligible individual who is also eligible for payment of the Medicare Part B premium only.

Like last year, a discussion of the role that particular service categories had in producing these disbursement variances is complicated by the fact that OBM estimates for the service categories (see Table 6) assume the inclusion of \$110 million that is to be transferred from the Budget Stabilization Fund (BSF), along with an additional federal contribution of \$156 million. These funds have not yet been appropriated, and the actual amount transferred will depend on what is needed at the end of the fiscal year. These additional state and federal funds are included in the service category estimates that are presented in Table 6, but they are not included in the monthly estimate of total spending for the program that is prepared by OBM for use in the Central Accounting System (CAS) reports. In order for Table 6 to show total Health Care/Medicaid expenditures and compare that total with the monthly and year-to-date estimate, the portion of the expenditures and estimates attributable to the BSF and matching federal funds must be subtracted. Like last year, this “apples and oranges” problem will throughout the year present an obstacle to any analysis of the role that particular service categories play in producing disbursement variances.

That said, it is still possible to glean some useful information from Table 6. Of particular note are the positive disbursement variances in the Outpatient Hospitals, HMO, Medicare Buy-In, and DA Medical service categories. The increased spending in the Outpatient Hospitals, HMO, and DA Medical service categories is being driven mostly by unexpected caseload growth. In part, these caseload trends stem from continued weakness in the job market, which

Service Category	FY 2003	FY 2002	Dollar Change	Percent Increase
	Yr.-to-Date as of Dec. '02	Yr.-to-Date as of Dec. '01		
Nursing Facilities	\$1,226,673	\$1,211,944	\$14,728	1.22%
Payments	\$1,282,976	\$1,231,722	\$51,254	4.16%
NF Franchise Fees Offset <sup>1</sup>	(\$56,303)	(\$19,777)	(\$36,526)	184.68%
ICF/MR	\$204,476	\$201,222	\$3,254	1.62%
Payments	\$214,758	\$208,912	\$5,846	2.80%
ICF/MR Franchise Fees Offset)	(\$10,282)	(\$7,690)	(\$2,592)	33.71%
Inpatient Hospitals	\$648,924	\$565,914	\$83,010	14.67%
Outpatient Hospitals	\$274,822	\$228,276	\$46,547	20.39%
Physicians	\$262,038	\$232,452	\$29,586	12.73%
Prescription Drugs	\$766,553	\$629,550	\$137,002	21.76%
HMO	\$340,929	\$274,673	\$66,256	24.12%
Medicare Buy-In	\$70,864	\$64,262	\$6,603	10.27%
ODJFS Waiver <sup>2</sup>	\$89,102	\$81,971	\$7,132	8.70%
All Other <sup>3</sup>	\$382,384	\$271,008	\$111,375	41.10%
CHIP II <sup>4</sup>	\$28,435	\$21,339	\$7,096	33.25%
DA Medical <sup>5</sup>	\$47,658	\$31,915	\$15,743	49.33%
<b>Total Health Care</b>	<b>\$4,342,858</b>	<b>\$3,814,525</b>	<b>\$528,333</b>	<b>13.85%</b>
DSH Offset	(\$89,037)	\$0	(\$89,037)	
Drug Rebates	(\$121,881)	(\$105,745)	(\$16,136)	
Prior Year Encumbrance	(\$83,539)	\$1,547	(\$85,086)	
<b>Total Health Care (Net of Offsets)</b>	<b>\$4,048,401</b>	<b>\$3,710,327</b>	<b>\$338,074</b>	<b>9.11%</b>
Est. Federal Share <sup>6</sup>	\$2,357,149	\$2,164,811	\$192,339	
Est. State Share	\$1,691,252	\$1,545,517	\$145,736	

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

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

3. "All Other" includes all other health services funded by line item 600-525.

4. CHIP II, effective July 1, 2000, 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

5. DA Medical is a state-only funded program.

6. For FY 2003 the FMAP is 58.83% and the enhanced FMAP is 71.18%. For FY 2002 the FMAP is 58.78% and the enhanced FMAP is 71.15%.

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

has pushed up Medicaid and DA enrollments. The DA caseload is now on a trend that is likely to push expenditures several million dollars above the appropriation level for FY 2003.

Certain program changes have also made an impact on costs, like the introduction of the “preferred option” program, under which new clients are being automatically enrolled in HMOs, as opposed to being enrolled on a fee-for-service basis, if they fail to select the fee-for-service option. The “preferred option” program exists in counties where there is voluntary enrollment in managed care plans. This change is producing higher spending in the HMO category and lower spending in the Physicians category than we would have observed otherwise. There is also strong growth in the Medicare Buy-In service category,

which provides services to low-income Medicare beneficiaries who are eligible to buy into Medicaid. Much of the growth is traceable to federal outreach efforts to tell Social Security recipients about the availability of the program.

With regard to the lower than anticipated spending in the Nursing Facilities service category, there are a number of possible factors that could provide an explanation. These possible factors include lower utilization rates than initially forecast, as well as certain rule changes and an overestimate of their impacts. At the present time, however, it is not clear how to weigh any of the possible factors to understand the situation with this service category. We will continue to gather information on this point.

Also standing out in Table 7 are the large year-to-year increases in most of the service category expenditures. In addition to the unexpected caseload growth, these large percentage increases continue to reflect in part the disbursement in FY 2003 of \$83.5 million that was encumbered at the end of FY 2002.

**TANF.** The state's portion of the TANF program that is expended from the GRF is composed of line item 600-410, TANF State, a portion of line item 600-413, Day Care Match/MOE, and a portion of line item 600-321, Support Services, which was recently created by Controlling Board action to facilitate the department's program budgeting. A portion of the state's TANF expenditures that contribute to the TANF maintenance of effort (MOE) requirement is also met by expenditures through line item 600-658, Child Support Collection, in the General Services Fund Group, and by county expenditures for part of the program's administrative costs.

At the end of December, year-to-date disbursement reports in the GRF portion of TANF show a positive disbursement variance of \$38.7 million. The year-to-date positive disbursement variance was produced by an overage of \$53.5 million in line item 600-413, Day Care Match/MOE. In December, this line item was \$10.3 million under estimate. The disbursement variance can be attributed to the department not receiving from the federal Child Care and Development Fund (CCDF) the amount that had been estimated. The U.S. Congress has not yet reauthorized the CCDF for FFY 2003 and is instead operating with a continuing resolution. This has required the department to adopt

a different schedule in posting child care expenses against the 600-413 line item. Line item 600-413 has now been fully expended and the department has begun posting child care expenses against line item 600-617, Day Care Federal. In the coming months, this positive disbursement variance will be reduced as the estimates catch up.

In December, the number of TANF cash assistance cases increased by about 1,000 cases from November to stand at 87,355, and the number of recipients also increased to stand at 197,944. In December of 2001, these same figures were 86,424 and 200,739, respectively.

**Job and Family Services.** Disbursement activity in the Department of Job and Family Services' operating expenses and subsidy programs, which is captured in the "Other Welfare" subcategory in Tables 4 and 5 and which excludes Medicaid, TANF, and Disability Assistance (which are tracked as separate components of the Welfare and Human Services program category), fell \$5.9 million short of the estimate for December. For the year to date, disbursements in the "Other Welfare" subcategory were \$29.5 million under estimate.

Accounting for a large part of the negative year-to-date disbursement variance was line item 600-416, Computer Projects, with \$10.1 million in underspending, \$7.7 million of which was traceable to an encumbrance of prior year funds. The department has indicated that all contracts for work performed in FY 2002 have been paid and the encumbrance of the \$7.7 million will be canceled.

Another significant contributor to the department's year-to-date negative disbursement variance is line item 600-321, Support Services. At the end of December, disbursements from line item 600-321 were \$6.1 million under the estimate for the year to date. There are several expenses that are paid out of this line item, including lease payments, payroll, travel, utilities, maintenance, and other central administration costs. Timing is usually the culprit when this line item runs over or under the estimates. According to the information we have received, however, this disbursement variance seems to reflect a cutback on expenditures in anticipation of another round of budget cuts.

**Mental Health.** In December, the Department

of Mental Health posted a \$1.8 million negative disbursement variance, putting it for the year to date at \$10.5 million below estimate. The bulk of the year-to-date negative disbursement variance is traceable to the department's largest GRF subsidy line item, 334-408, Community and Mental Health Services. The department disburses this subsidy to

county mental health boards on a quarterly basis. Depending on when the boards submit their requests for funds, disbursements can take place in any of the three months in the quarter. This disbursement variance is timing-related and should balance out in the coming months.

*\*LSC colleagues who contributed to the development of this disbursement report included, in alphabetical order, Melaney Carter, Ivy Chen, Nicole Evans, David Price, Joseph Rogers, Maria Seaman, and Holly Wilson.*

# Lottery Profits Quarterly Report

## LOTTERY TICKET SALES AND PROFITS TRANSFERS SECOND QUARTER, FY 2003

— Jean Botomogno

Mega Millions ticket sales are the main story in the second quarter of FY 2003. Ticket sales for this game fell about 33 percent from the first to the second quarter. After reaching \$24.4 million in sales in July 2002 and \$19.1 million in August 2002, Mega Millions sales have averaged \$11.7 million from September to December 2002. Surprisingly, Super Lotto ticket sales were higher, averaging \$13.4 million during the same period. Mega Millions jackpots have not reached the high levels needed to generate frenzied ticket purchases in this fiscal year.<sup>1</sup> Powerball, on the other hand, had a five-week roll that ended with a jackpot of \$314.9 million in December 2002, thus probably affecting Ohio Lottery On-line ticket sales during the month.

In the second quarter of FY 2003, total ticket sales were \$539.9 million, \$53.3 million or 11.0 percent higher than ticket sales in the first quarter. On-line ticket sales were \$241.4 million, \$13.1 million or 5.1 percent lower than in the first quarter. Higher total ticket sales in the second quarter were due to an increase of \$67.2 million (or 29.0 percent) in Instant ticket sales. Instant tickets sales were \$298.5 million, \$57.1 million (or 23.7 percent) higher than On-line games sales in the second quarter. This is a reversal, as On-line games sales were \$23.1 million (9.1 percent) higher than Instant games in the previous quarter. Low Super Lotto and Mega Millions jackpots during the second quarter hurt On-line sales.

	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Mega Millions	Instants	On-line	Total
Q1	\$98.7	\$37.3	\$7.0	\$17.4	\$40.1	\$54.0	\$231.3	\$254.5	\$486.6
Q2	\$101.5	\$39.0	\$6.9	\$16.9	\$40.9	\$36.2	\$298.5	\$241.4	\$539.9
\$ Change	\$2.8	\$1.7	-\$0.1	-\$0.5	\$0.8	-\$17.8	\$67.2	-\$13.1	\$53.3
% Change	2.9%	4.5%	-1.3%	-2.9%	2.1%	-33.0%	29.0%	-5.1%	11.0%

*Totals may not add up due to rounding.*

Table 1 compares first- and second-quarter sales per game in FY 2003. Among On-line games, ticket sales increased for Pick 3 (\$2.8 million or 2.9 percent) and Pick 4 (\$1.7 million or 4.5 percent). Super Lotto sales were up \$0.8 million or 2.1 percent. Kicker and Buckeye 5 sales declined 1.3 percent and 2.9 percent, respectively. Mega Millions ticket sales were down \$17.8 million or 33.0 percent.

Compared to second-quarter results a year ago in FY 2002, total ticket sales were up \$49.7 million or (10.1 percent) in the second quarter of FY 2003. Both Instants and On-line games sales improved. Instant ticket sales increased \$34.0 million (or 12.9 percent) and On-line ticket sales were up \$49.8 million (or 6.9 percent) due to the addition of Mega Millions. Super Lotto Plus declined \$19.0 million (or 31.7 percent).<sup>1</sup> Kicker sales, which are correlated to Super Lotto sales, were also down \$2.9 million (or 29.9 percent). Pick 4 sales declined

Year	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Mega Millions	Instants	On-line	Total
FY 2003	\$200.2	\$76.4	\$13.8	\$34.3	\$81.0	\$909.2	\$529.8	\$495.9	\$1,026.5
FY 2002	\$201.9	\$76.6	\$22.2	\$28.1	\$144.1	NA	\$494.8	\$472.9	\$967.7
\$ Change	-\$1.7	-\$0.2	-\$8.3	\$6.2	-\$63.1	\$90.2	\$35.1	\$23.0	\$58.8
% Change	-0.9%	-0.3%	-37.6%	21.9%	-43.8%	NA	7.1%	4.9%	6.1%

*Totals may not add up due to rounding.*

\$0.5 million (or 1.2 percent). Pick 3 sales were down \$0.8 million (or 0.8 percent). Buckeye 5 sales were up \$2.7 million (or 18.8 percent) due to increases in weekly drawings started in April 2002.

### Midyear Summary

Table 2 summarizes midyear ticket sales by game and compares FY 2003 to FY 2002 results. Compared to the same period a year ago, first half results in FY 2003 show an increase of \$58.8 million (or 6.1 percent) in total sales. Both Instants and On-line sales increased. Instants sales improved \$35.1 million or 7.1 percent. Although total On-line sales increased \$23.0 million (or 4.9 percent), most On-line games sales were lower. Pick 3 was down \$1.7 million (or 0.9 percent), Kicker was down \$8.3 million (or 37.6 percent), and Super Lotto decreased \$63.1 million (or 43.8 percent). Among On-line games, only Buckeye 5 sales increased, up \$6.2 million or 21.9 percent. Mega Millions added \$90.2 million, more than erasing the Super Lotto decline in ticket sales.

Comparing On-line and Instant games, Instant ticket sales were \$21.9 million (or 4.6 percent) higher than On-line sales in FY 2002. In FY 2003, Instant tickets sales are \$34.0 million (6.8 percent) ahead of On-line sales. The share of Instants to total sales tickets changed slightly, up 51.6 percent in the first half of FY 2003 from 51.1 percent in the same period in FY 2002.

### Transfers to LPEF

Table 3 summarizes transfers from operations to the Lottery Profits Education Fund (LPEF). Transfers for the second quarter of FY 2002 were \$160.1 million, up from \$145.5 million in the first quarter. The Ohio Lottery had anticipated transfers of \$150.3 million in the first quarter and \$163.5 million in the second quarter. Although transfers were higher by \$14.6 million, second-quarter transfers were \$3.4 million or 2.1 percent below projected transfers. As of December 2002, year-to-date transfers in the current fiscal year were \$8.2 million below projected transfers.

Compared to transfers in the first half of FY 2002 a year ago, FY 2003 transfers to LPEF from operations were down \$8.7 million (or 2.9 percent). As of December 2002, the variance between actual and projected transfers was \$8.2 million, \$4.4 million less than the variance recorded at the end of December 2001. Total transfers from operations were \$610.1 million in FY 2002. The State Lottery Commission expects an increase of 4.5 percent in transfers from operations to about \$637.7 million in FY 2003. As of December 2002, total transfers from operations to LPEF were \$305.6 million. The Ohio Lottery also expects to transfer an additional

**Table 3: Quarterly Lottery Ticket Sales and Transfers to LPEF in FY 2003 (dollars in millions)**

Quarter	Tickets Sales	Actual Transfers	Projected Transfers	Dollar Variance	Percent Variance	Transfers as a Percent of Sales
Q1	\$486.6	\$145.5	\$150.3	-\$4.8	-3.2%	29.9%
Q2	\$539.9	\$160.1	\$163.5	-\$3.4	-2.1%	29.6%
\$ Change	\$53.3	\$14.6	\$13.2	NA	NA	NA
% Change	9.9%	9.1%	8.1%	NA	NA	NA

*Totals may not add up due to rounding.*

**\$35.0 million from other sources of funds.**

### Super Lotto and Mega Millions Ticket Sales

The Ohio Lottery joined Mega Millions on May 15, 2002. Super Lotto ticket sales were expected to decline because its top prize would become less “exciting” to players, and some players would substitute Mega Millions tickets for Super Lotto tickets. This loss in Super Lotto sales would be more than compensated by ticket sales of Mega Millions. Table 4 provides a detailed analysis of ticket sales in the first half of FY 2003 and FY 2002 and illustrates early trends brought about by Mega Millions. FY 2002 monthly sales are sales of Kicker and Super Lotto games only. FY 2003 sales are aggregate sales of Kicker, Super Lotto, and Mega Millions

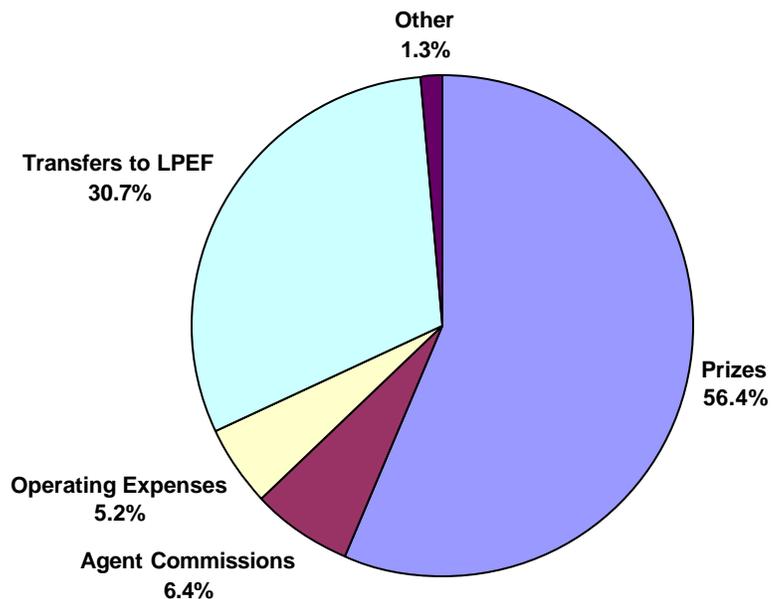
games.

Table 4 shows that except for the months of July and December, monthly ticket sales for Super Lotto, Kicker, and Mega Millions in the first half of FY 2003 were generally higher than sales of Kicker and Super Lotto in the same period in FY 2002. Compared to midyear ticket sales in FY 2002, total ticket sales in FY 2003 were \$18.7 million (or 11.3 percent) higher. The payout ratio from Mega Millions (about 50.0 percent) is lower than that of Super Lotto (59.7 percent). Thus, an increase in On-line ticket sales from Mega Millions sales improves the overall profitability of On-line games lottery games.

	FY 2003	FY 2002	Dollar Variance	Percent Variance
July	\$39.2	\$45.6	-\$6.4	-14.1%
August	\$34.3	\$26.0	\$8.3	32.0%
September	\$27.6	\$25.0	\$2.6	10.3%
October	\$31.4	\$20.7	\$10.7	51.8%
November	\$28.1	\$18.9	\$9.1	48.3%
December	\$24.5	\$30.1	-\$5.6	-18.7%
Total	\$185.0	\$166.3	\$18.7	11.3%

*Totals may not add up due to rounding.*

Am. Sub. HB 94 (the budget bill for this biennium) allowed the Lottery Commission more flexibility to increase the payout ratio for Instant games to help compete against non-lottery products. These products generally have a higher payout ratio than lottery products. Second quarter Instant sales increased due in part to games with a higher payout ratio, such as *Jingle Bucks* and *Holiday Cash* (which have a payout of 75 percent). However, a high payout ratio for selected Instant games is typical of the holiday season. The overall payout ratio for Instant games has been slowly increasing. In FY 2000, the payout ratio for Instant games was about 62.3 percent. In FY 2001 and FY 2002, the payout ratios were 63.2 percent and 64.1 percent, respectively. The payout percentage for Instant games in FY 2003 is expected to be higher than in FY 2002.



### ***Distribution of Ohio Lottery Revenue in FY 2002***

The chart to the right illustrates the distribution of operating revenues of the Ohio Lottery in FY 2002. Prizes accounted for 56.4 percent of operating revenues. Transfers to LPEF were about 30.7 percent of revenues. Operating expenses (personal services, maintenance of equipment, and depreciation) were 5.2 percent of receipts. The Ohio Lottery paid 6.4 percent of operating revenues to its agents for bonuses and commissions. The remainder, 1.3 percent, went for nonoperating expenses and transfers to the Deferred Prize Trust Fund and the Unclaimed Prize Fund.

<sup>1</sup> The jackpot for Mega Millions reached \$165 million in July 2002, the largest so far in FY 2003.

<sup>2</sup> In May 2002, during the fourth quarter of 2002, the Ohio Lottery introduced Mega Millions, which was expected to decrease Super Lotto sales. Also, in April 2002 the Ohio Lottery increased from four to six the number of weekly drawings for Buckeye 5.

## ***LOTTERY PROFITS EDUCATION FUND DISBURSEMENTS***

### ***SECOND QUARTER, FY 2003***

by Sara D. Anderson

Lottery Profits Education Fund (LPEF) disbursements so far in FY 2003 total \$281.5 million. Nearly this entire amount came from appropriation item 200-612, Base Cost Funding. The Lottery Profits Education Reserve Fund (LPERF) had no disbursements in the second quarter of FY 2003.

#### ***Base Cost Funding***

The \$281.5 million of lottery profits spending is combined with GRF appropriation item 200-501, Base Cost Funding (\$2,211.1 million), to fund the state foundation aid program. This program provides the state's share of per pupil funding that guarantees \$4,949 per pupil in state and local funding for FY 2003. The program also provides the state's share of additional special and career-technical education costs, known as weight cost funding. With the combination of GRF and LPEF money, base cost funding (\$2,492.6 million) represents 57.3 percent of the Department of Education's disbursements so far in FY 2003.

#### ***Lease Rental Payments***

Money from this appropriation item is transferred to the School Facilities Commission to support GRF appropriation item 230-428, Lease Rental Payments. The funds are disbursed according to a schedule determined by the Director of Budget and Management.

#### ***SchoolNet Plus Supplement and SchoolNet Electrical Infrastructure***

The projects funded by these appropriation items have been completed. The funding was completely disbursed in FY 2002, and there are no intentions to continue funding for FY 2003.

<b>Agency</b>	<b>Fund</b>	<b>Line Item</b>	<b>Line-Item Name</b>	<b>FY 2003 Appropriation</b>	<b>FY 2003 Disbursement</b>	<b>Appropriation Encumbrance</b>	<b>Appropriation Balance</b>
EDU	017	200-612	Base Cost Funding	\$ 637,000,000	\$ 281,500,000	\$ 0	\$ 355,500,000
EDU	017	200-682	Lease Rental	\$ 35,722,600	\$ 0	\$ 0	\$ 35,722,600
NET	017	228-603	SchoolNet Plus Supplement	\$ 11,776	\$ 10,676	\$ 0	\$ 1,100
NET	017	228-690	SchoolNet Electrical Infrastructure	\$ 455,360	\$ 0	\$ 0	\$ 455,360
			<b>Total LPEF</b>	<b>\$ 673,189,736</b>	<b>\$ 281,510,676</b>	<b>\$ 0</b>	<b>\$ 391,679,060</b>