
Budget Footnotes

NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

APRIL 2003

FISCAL OVERVIEW

— Allan Lundell

The economy spent the first half of March waiting for the war in Iraq to start and the second half waiting for it to be over. The economic indicators for March were mixed. Employment fell. Retail sales and motor vehicle sales were up. Industrial production was down. The ending of the war and the lifting or at least partial clearing of the cloud of geopolitical uncertainty may open the way for recovery or it may reveal other factors blocking the road to recovery.

March 2003 marked the two-year anniversary of the end of the most recent economic expansion and the start of a recession that may or may not be over. To the extent there has been recovery, it has been a jobless one. Total nonagricultural employment is 2,053,000 (1.5 percent) below its March 2001 peak.

Revenues once again were below estimate.¹ Total GRF revenue was \$175.2 million below estimate. Tax revenues were \$90.9 million short of estimate. All tax collections came in under estimate except for the corporate franchise tax (\$61.4 million over) and the estate tax (\$1.7 million over). The largest negative variances were for the non-auto sales and use tax (\$64.2 million), the public utility taxes (\$33.8 million), the personal income tax (\$21.1 million), the auto sales tax (\$16.7 million), the foreign insurance tax (\$7.2 million), and the kilowatt hour excise tax (\$7.2 million). Earnings on investments were \$18.6 million below estimate.

Disbursements excluding transfers were \$38.7 million greater than estimate. Positive variances were reported for Health Care/Medicaid (\$82.5 million), Justice and Corrections (\$9.5 million), Other Government (\$8.9 million), TANF (\$3.0 million), and Higher Education (\$2.6 million). Negative variances were reported for Property Tax Relief (\$35.0 million), Primary and Secondary Education (\$10.8 million), Other Welfare (\$7.1 million), Development (\$5.8 million), Debt Service (\$4.9 million), Human Services (\$2.5 million), and Transportation (\$1.8 million).

For the fiscal year to date, total GRF revenues are \$359.9 million below estimate and total GRF revenues less federal grants (revenue from state sources) are \$278.5 million below estimate.

Volume 26, Number 8

Tracking the Economy 175

- Too soon to tell the effect of war on economy
- Retail sales bounce back
- Employment situation continues to deteriorate

STATUS OF THE GRF

Revenues 178

- Total GRF revenue under estimate for fifth consecutive month
- Non-auto sales tax back below estimate
- March corporate franchise tax receipts erase cumulative shortfall

Disbursements 186

- Budget reductions push most disbursement categories down
- Medicaid variance pushes further upward
- Tax Relief payments slower than estimate

Lottery Profits Quarterly Report

Lottery Ticket Sales and Profits Transfers, Third Quarter, FY 2003 193

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

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

	Month of March	Fiscal Year 2003 to Date	Last Year	Difference
Beginning Cash Balance	(\$1,398.8)	\$619.2		
Revenue + Transfers	\$1,607.6	\$15,213.7		
Available Resources	\$208.8	\$15,832.9		
Disbursements + Transfers	\$1,805.1	\$17,429.1		
Ending Cash Balances	(\$1,596.2)	(\$1,596.2)	(\$1,449.5)	(\$146.7)
Encumbrances and Accts. Payable		\$443.4	\$498.2	(\$54.8)
Unobligated Balance		(\$2,039.6)	(\$1,947.7)	(\$91.9)
BSF Balance		\$427.9	\$1,002.6	(\$574.7)
Combined GRF and BSF Balance		(\$1,611.7)	(\$945.2)	(\$666.6)

Total GRF disbursements are \$135.7 million less than estimated and total program payments (disbursement excluding transfers) are \$138.5 million less than estimated.

For March, total GRF revenues were \$1,607.6 million and total expenditures were \$1,805.1 million. The monthly deficit reduced the ending cash balance to -\$1,596.2 million, which is \$146.7 million lower than it was at this time last year. Encumbrances are \$54.8 million less than last year. The unobligated balance of -\$2,039.6 million is \$91.9 million lower than it was at the end of March last year. The balance in the Budget Stabilization Fund (BSF) is \$574.7 million less than last year. The combined year-to-date GRF and BSF balance of -\$1,611.7 million is \$666.6 million lower than it was at this time last year.

¹ Comparisons are to the July 2002 estimates of the Office of Budget and Management (OBM). OBM revised its estimates, starting with March 2003, to reflect the tax law and other revenue changes that were adopted in H.B. 40.

TRACKING THE ECONOMY

¾ Allan Lundell

March was split by the start of the war in Iraq on March 19. The economy slowed in the months leading up to the war. Federal Reserve Chairman Alan Greenspan described the subpar performance as a “soft spot” and listed “geopolitical uncertainty” as the primary cause. The ending of the war and the lifting of the cloud of geopolitical uncertainty may open the way for recovery or it may reveal other factors blocking the road to recovery. The economy has a significant amount of excess capacity, consumer debt burdens are large and growing, the housing market may or may not be experiencing a bubble, and decision makers may be more risk averse in general, not just due to the prospects of war.

The economic indicators for March were mixed. Payroll employment fell. Retail sales were up. The Institute of Supply Management’s manufacturing and non-manufacturing indices fell. Vehicle sales were up. Industrial production was down.

The seasonally adjusted Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3 percent in March after increasing 0.6 percent in February. The index for food increased by 0.2 percent and the index for energy increased by 4.6 percent. The “core” index (all items except food and energy) was unchanged in March. The index for gasoline rose by 4.1 percent in March after increasing by 6.6 percent and 9.9 percent in January and February. Compared to a year ago, the CPI is up 3.0 percent, the index for food is up 1.4 percent, the index for energy is up 23.4 percent, and the core index is up 1.7 percent.

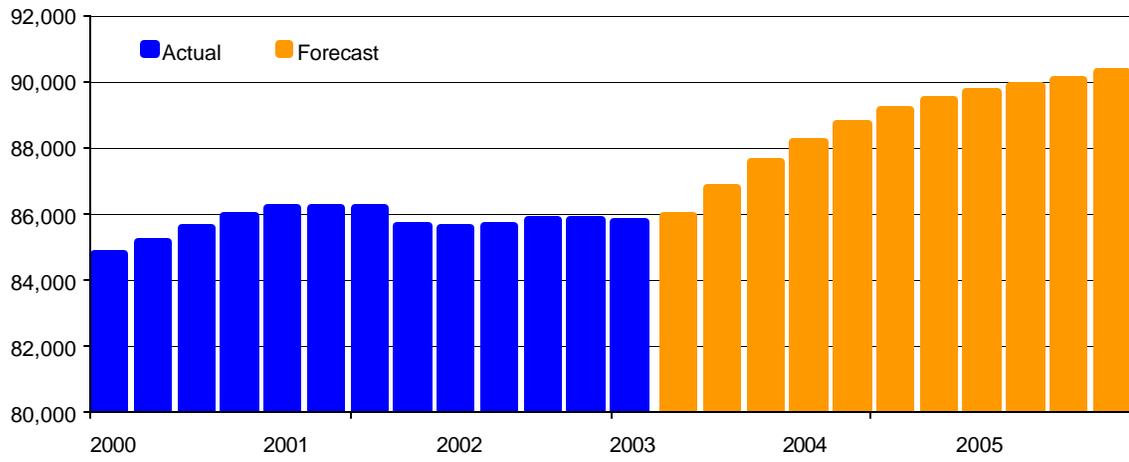
After slowing in February, consumer spending bounced back in March. The Census Bureau’s seasonally adjusted advance estimate of U.S. retail sales (including food services) increased by 2.1 percent in March. Sales of motor vehicle and parts dealers rose by 5.3 percent. Total sales excluding motor vehicle and parts dealers (sales ex auto) rose by 1.1 percent. Sales of building material dealers increased by 7.9 percent. Compared to a year ago, retail sales (including food services) are up 5.3 percent and sales ex auto are up 4.8 percent. Sales of motor vehicle and parts dealers are up 6.9 percent. Sales of automobiles and light trucks increased to a seasonally adjusted annualized rate (SAAR) of 16.2 million in March. This is up from 15.4 million SAAR for February but is well below the 16.7 million total for 2002.

The Institute of Supply Management’s purchasing managers’ index for manufacturing fell from 50.5 in February to 46.2 in March. Values above 50 indicate expansion and values below 50 indicate contraction. The production component fell from 55.4 to 46.3 and the new orders component fell from 52.3 to 46.2. The employment component fell from 42.8 to 42.1. The purchasing managers’ index for non-manufacturing fell from 53.9 in February to 47.9 in March. This was the first time this index has been below 50 since January 2002. The new orders component fell from 53.0 to 47.7 and the employment component fell from 49.0 to 47.9.

The Federal Reserve’s index of industrial production fell by 0.5 percent in March after falling by 0.1 percent in February. Manufacturing output fell by 0.2 percent and output of utilities fell by 4.1 percent. Compared to a year ago, total industrial production is up 0.5 percent, manufacturing output is up 0.1 percent, and output of utilities is up 3.4 percent. Overall capacity utilization fell to 74.8 percent. The utilization rate for manufacturing fell from 73.1 percent to 72.9 percent and the rate for utilities fell from 88.5 percent to 84.5 percent.

The employment situation worsened in March. In the Bureau of Labor Statistics’ (BLS) establishment survey, seasonally adjusted total nonfarm U.S. employment fell by 108,000 in March. February’s decline was revised down from a 308,000 decline to a decline of 357,000. Private employment fell by 68,000 in March after falling by 370,000 in February. Goods-producing employment fell by 14,000 in March after falling by 101,000 in February. Private services-producing employment fell by 54,000 in March after falling by 269,000 in February. Private employment is down 2,629,000 (2.4 percent) from its most recent peak in February 2001. Goods-producing employment is down 2,320,000 (9.0 percent) from its March 2000 peak and private services-producing employment is down 608,000 (0.7 percent) from its May 2001 peak.

Exhibit 3: Private Services Producing Employment
(seasonally adjusted, in thousands)



Status of the General Revenue Fund

REVENUES

— Allan Lundell and Jean Botomogno

March was the fifth consecutive month in which total GRF revenues were below estimate.¹ Total GRF revenue was \$175.3 million (9.8 percent) below estimate in March. Total GRF revenue less federal grants (revenue from Ohio sources) was \$113.3 million (8.3 percent) below estimate. Tax revenues were \$90.9 million (7.2 percent) below estimate and revenues from the major taxes (personal income, sales and use, corporate franchise, public utility, and kilowatt hour) were \$81.7 million (7.1 percent) below estimate.

For the fiscal year to date, total GRF revenue is \$359.9 million (2.3 percent) below estimate. Total GRF revenue less federal grants is \$278.5 million (2.3 percent) below estimate. Tax revenues are \$211.4 million (1.8 percent) below estimate and revenues from the major taxes are \$254.0 million (2.4 percent) below estimate. The monthly and cumulative variances (differences from estimates) are presented in Exhibits 1-4. Compared to FY 2002,

total GRF revenues are up by 6.3 percent, total revenue less federal grants is up by 5.8 percent, tax revenues are up by 5.5 percent, and revenues from the major taxes are up by 3.5 percent.

Personal Income Tax

March personal income tax revenues of \$417.1 million were \$21.1 million (4.8 percent) below estimate. Tax withholding was \$32.3 million (5.5 percent) below estimate. Withholding, which accounts for over 80 percent of gross income tax collections, is sensitive to the employment situation. The continued weakness in withholding is due to the continuing weakness in employment. Quarterly estimated payments were \$37.0 million (493 percent) above estimate. This large variance is most likely due to early filing of returns due April 15 and may be offset by a negative variance in April.² Refunds were \$11.2 million (5.9 percent) above estimate.

Exhibit 1: Total GRF Revenue
(variance from estimate, in millions)

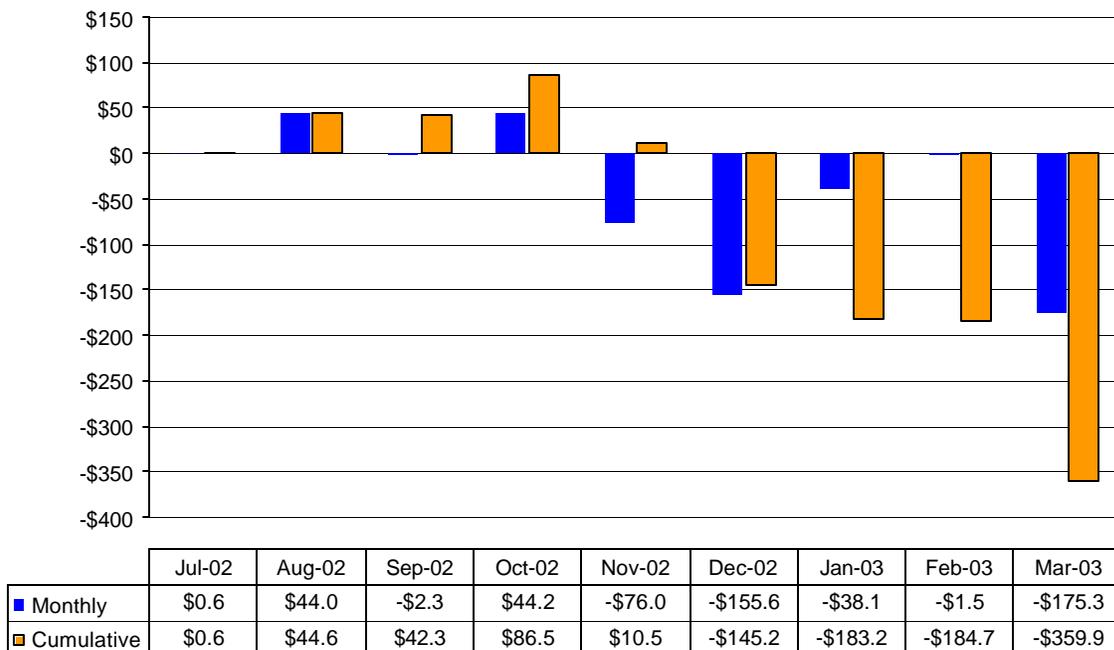
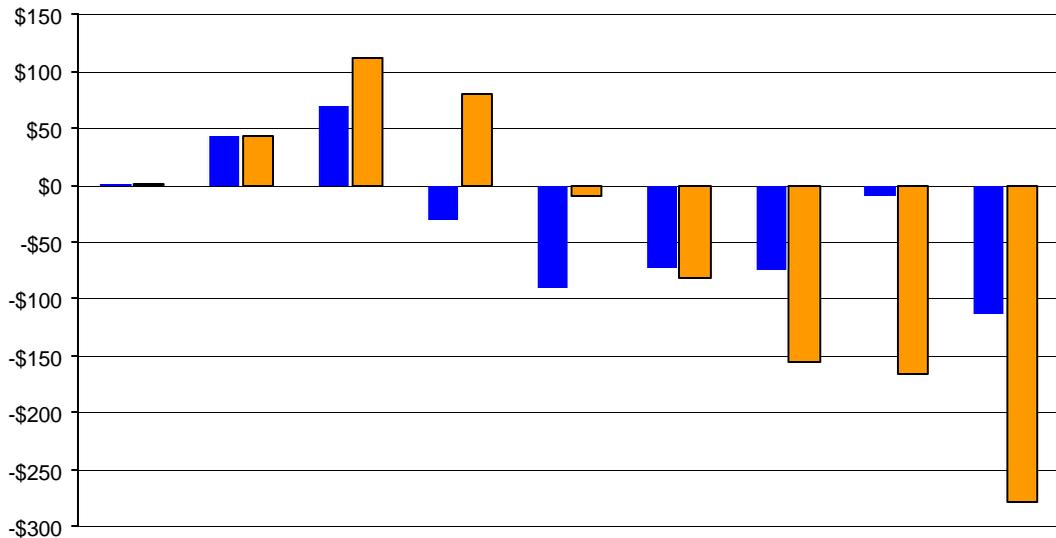
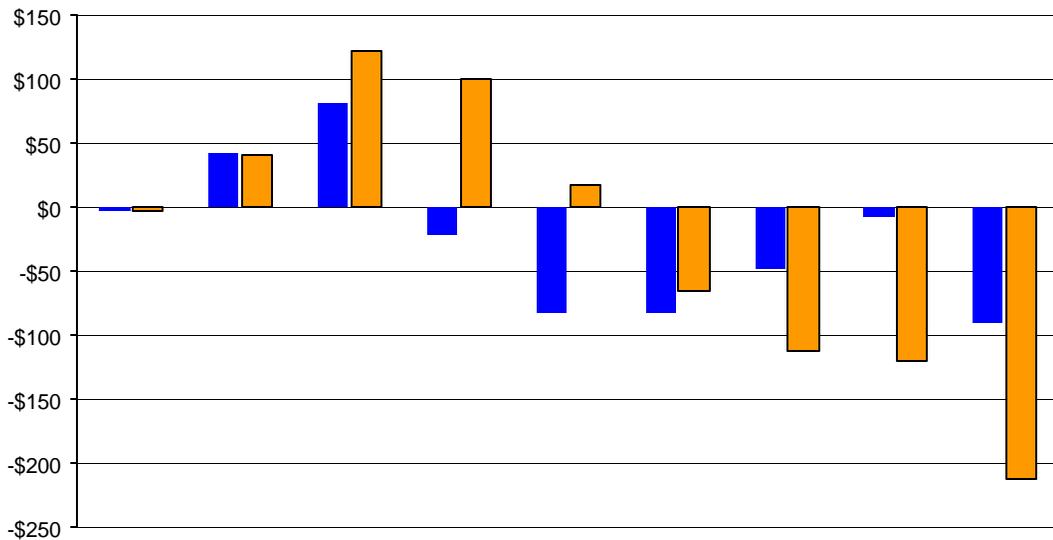


Exhibit 2: Total GRF Revenue less Federal Grants
(variance from estimate, in millions)



	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03
Monthly	\$0.6	\$42.3	\$68.8	-\$31.4	-\$89.6	-\$72.7	-\$74.2	-\$9.1	-\$113.3
Cumulative	\$0.6	\$42.8	\$111.6	\$80.3	-\$9.3	-\$82.0	-\$156.2	-\$165.3	-\$278.5

Exhibit 3: Total GRF Tax Revenue
(variance from estimate, in millions)



	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03
Monthly	-\$2.5	\$42.6	\$81.4	-\$21.7	-\$82.2	-\$82.6	-\$47.6	-\$8.1	-\$90.9
Cumulative	-\$2.5	\$40.2	\$121.6	\$99.9	\$17.7	-\$64.8	-\$112.4	-\$120.5	-\$211.4

Exhibit 4: Total GRF Revenue from Major Taxes
(variance from estimate, in millions)

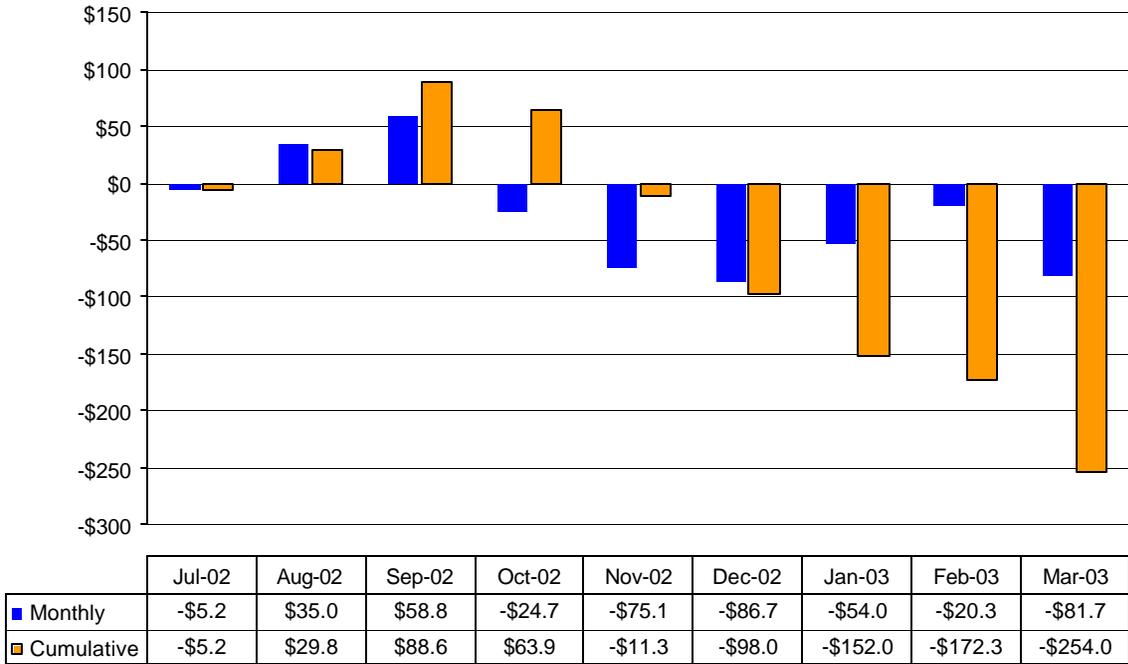
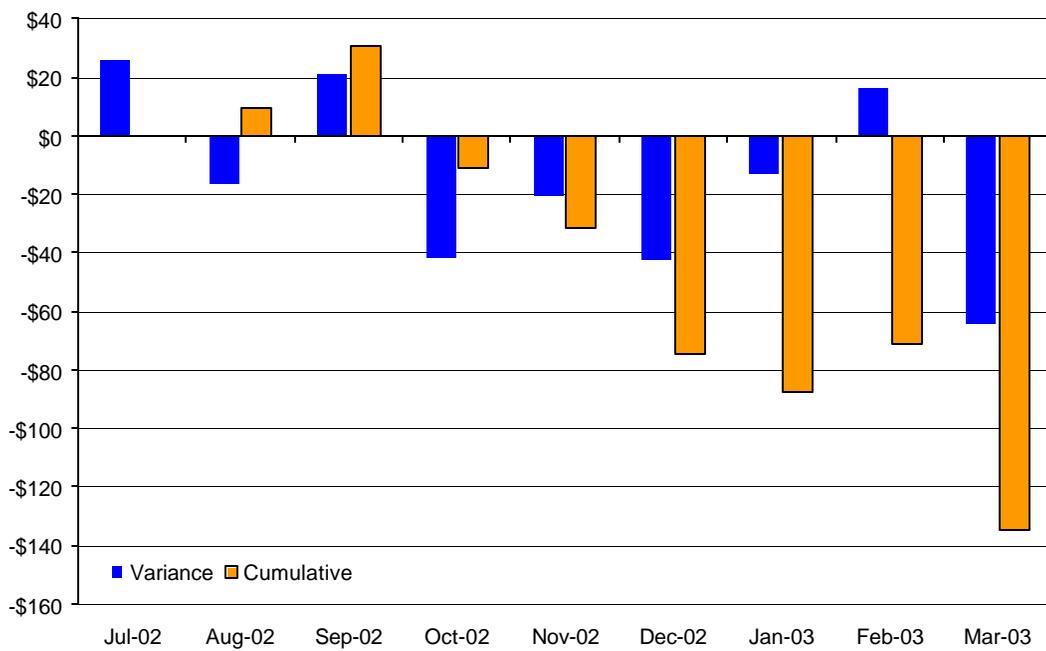


Exhibit 5: Non-auto Sales Tax Variance from July 2002 Estimate
(in millions of dollars)



For the fiscal year to date, personal income tax revenues are \$121.3 million (2.3 percent) below estimate. Withholding is \$130.4 million (2.4 percent) below estimate, quarterly estimated payments are \$36.1 million (4.4 percent) above estimate, and refunds are \$28.8 million (4.7 percent) greater than estimated.

Compared to FY 2002, personal income tax revenues through January are up 4.4 percent. Withholding is up 3.1 percent and quarterly estimated payments are up 1.6 percent. Refunds are up 2.5 percent and payments to the local government funds supported by the income tax are down 0.8 percent.

Non-Auto Sales and Use Tax

March was another down month for the non-auto sales and use tax. Non-auto sales and use tax receipts generally reflect retail sales activity in the prior month. At \$323.5 million, non-auto sales tax revenues in March 2003 were \$64.2 million or 16.6 percent below estimates. Receipts were also \$44.5 million or 12.1 percent below revenues in the same period last year (March 2002). Thus, taxable sales in February 2003 were poor compared to sales in February 2002. National retail sales (excluding autos) declined 1.0 percent at a seasonally adjusted annual rate in February from the previous month, which was a significant decline. The Presidents' Day weekend snowstorms and a drop in consumer confidence affected retail sales. March non-auto sales tax revenue reflects these weak sales. The downturn in February comes after a strong January 2003 performance, when retail sales (excluding autos) grew 1.2 percent, the largest increase since September 2000.

The year-to-date shortfall in non-auto sales tax receipts increased to \$135.4 million in March 2003, up from \$71.1 million in February. Year-to-date non-auto sales and use tax receipts as of March 2003 were \$3,849.5 million, 3.4 percent below estimates. Compared to receipts a year ago, year-to-date non-auto sales and use tax revenues in March 2003 were up \$56.9 million or 1.5 percent. A month ago, year-to-date revenues were 3.0 percent above February 2002 revenue. Sales tax revenue growth, when compared to last year's revenue, slowed considerably in March 2003.

In the last quarter of FY 2003, H.B. 40 (effective March 7, 2003) will accelerate sales tax receipts from taxpayers that pay by electronic funds transfer, increasing revenues by up to \$288 million. The act requires direct pay permit holders, vendors, and sellers that remit sales and use taxes by electronic funds transfer to make tax payments more often. Under previous law, most taxpayers remitted their sales tax payments on or before the twenty-third day of each month for taxes due the previous month. Certain taxpayers must now pay each month one-fourth of their tax liability for the same month in the preceding calendar year on the eleventh, eighteenth, and twenty-fifth days of each month and, on the twenty-third day of the month, the taxpayer must pay the taxes due for the previous month less any amounts already paid during the month.

Auto Sales Tax

The auto sales tax has continued to perform amazingly well this year. However, the volatility in monthly auto sales also continues. Sales at auto dealers declined 2.9 percent in January 2003 from December 2002 sales. Sales fell again in February by 4.2 percent. However, sales rebounded in March, increasing 5.6 percent.

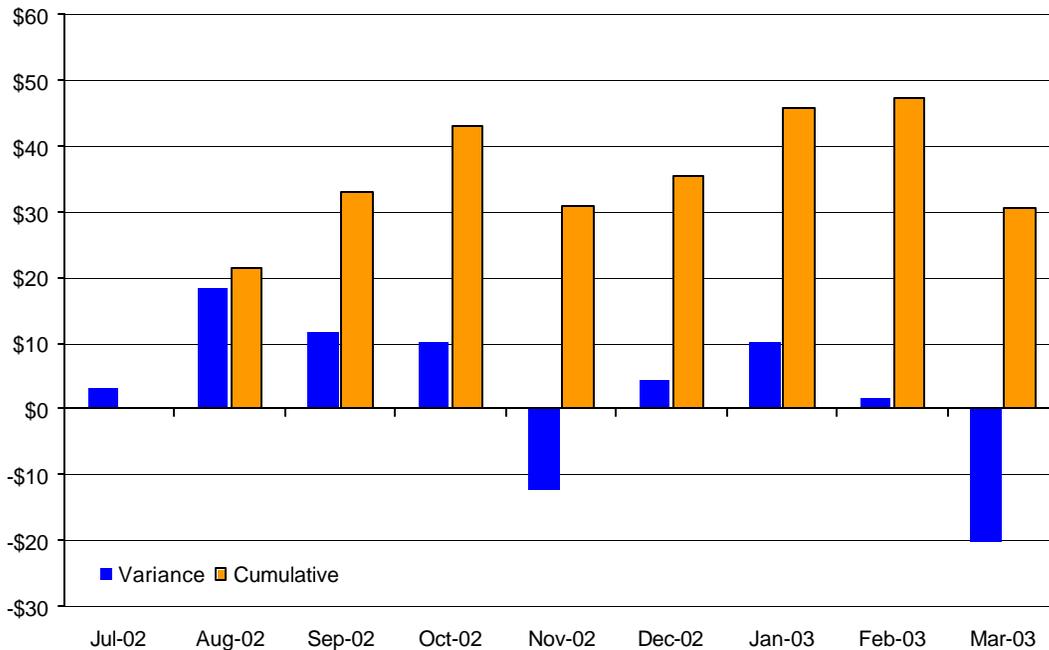
Auto sales tax revenues were \$64.8 million in March, \$16.7 million or 20.4 percent below estimates. Receipts were about \$5.9 million or 8.3 percent lower than March 2002 tax revenues. Nationwide, unit sales were down 4.1 percent in March 2003 compared to March 2002.

As of March 2003, year-to-date auto sales tax revenues, at \$682.3 million, were \$30.7 million or 4.7 percent above estimates. Year-to-date auto sales tax revenues were \$7.9 million or 1.2 percent above FY 2002 revenue during the same period. The tax source is expected to finish above estimates for the rest of the year.

National auto sales declined in the first two months in CY 2003 and rebounded in March. (This rebound may show up in April tax receipts.) However, when compared to sales in the first quarter of CY 2002, CY 2003 total unit sales fell by 4.4 percent. General Motors unit sales declined 10.0 percent. Chrysler Group unit sales fell 6.6 percent. Ford unit sales were down 1.8 percent. Toyota unit sales were about the

Exhibit 6: Auto Sales Tax Variance from July 2002 Estimate

(in millions of dollars)



same. Among major automakers, only Honda unit sales were up, by 12.3 percent. Overall, domestic brands lost 5.7 percent in sales and international brands' sales increased 1.0 percent.

Corporate Franchise Tax

The first major payment under the corporate franchise tax in the fiscal year was received in January and February 2003. Corporate franchise tax receipts in January were \$5.1 million or 2.7 percent above estimates. February receipts were \$77.9 million, \$30.5 million or 28.1 percent below estimates. Combined, the two months were \$25.4 million under estimates. March receipts were \$223.9 million, \$61.4 million or 37.7 percent above estimates. The cumulative shortfall for the fiscal year of \$52.9 million in February has been erased. As of March 2003, year-to-date corporate franchise tax revenues were \$461.0 million, \$8.5 million or 1.9 percent above estimates. Compared to year-to-date revenues in March 2002, corporate franchise tax revenues this year were \$111.5 million or 31.9 percent higher. However, there are still three months left in the fiscal year, including the April portion of the March-April payment. The last major payment is due in May and June 2003. The U.S. Bureau of Economic Analysis recently published preliminary data for corporate

profits in CY 2002. Before-tax profits declined 0.7 percent in CY 2002, after a decrease of 14.3 percent in CY 2001. However, profits from current production (which do not reflect depreciation accounting for federal income tax purposes) increased 7.6 percent in CY 2002, compared to a decrease of 7.2 percent in CY 2001. Thus, the turnaround in corporate profits has started and is expected to continue in CY 2003. The improvement in corporate federal net income in CY 2003 will enhance the net income tax base of the Ohio corporate franchise tax in FY 2004.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts in March 2003 were \$45.3 million, \$0.7 million or 1.5 percent below estimates and \$3.7 million or 8.9 percent above February tax receipts. As of March 2003, year-to-date receipts from the tax on cigarette and other tobacco products were \$425.4 million. These revenues were above estimates by \$28.3 million or 7.1 percent. This revenue source is expected to finish the year above estimates. Year-to-date cigarette tax receipts were \$229.5 million or 117.1 percent ahead of tax receipts in the same period a year ago.

Exhibit 7: Corporate Franchise Tax Variance from July 2002 Estimate
(in millions of dollars)

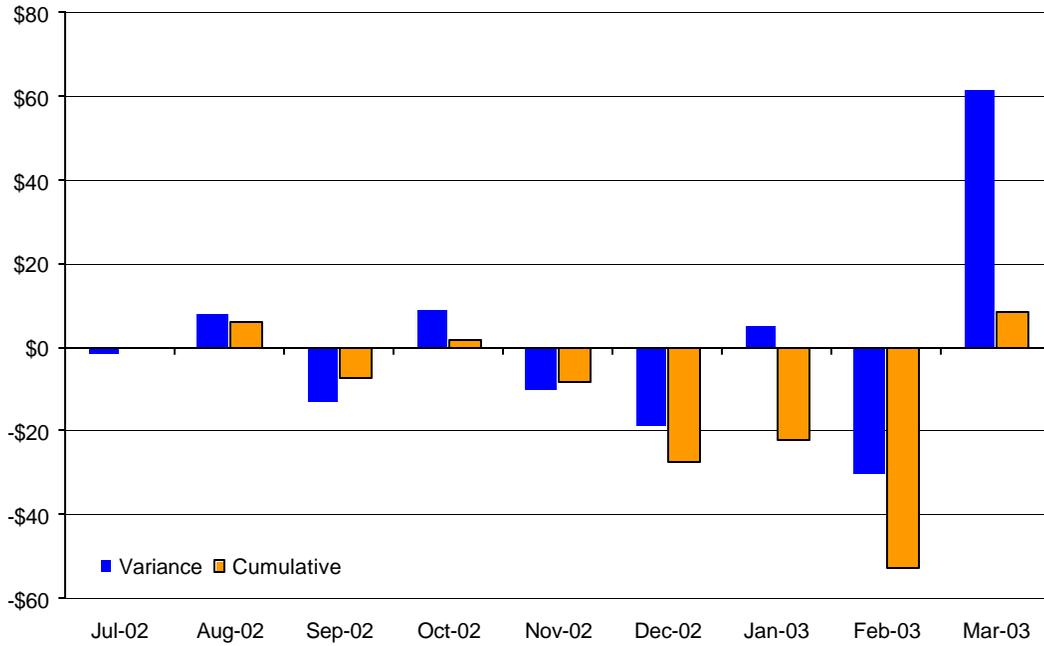
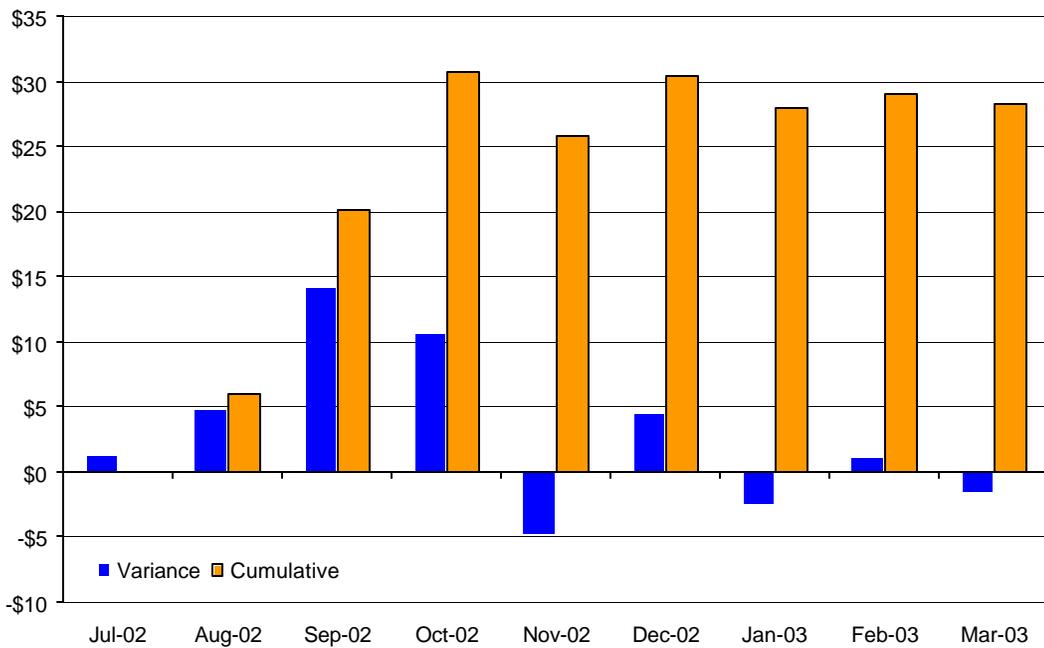


Exhibit 8: Cigarette Tax Variance from July 2002 Estimate
(in millions of dollars)



¹ All comparisons are to the July 2002 estimates of the Office of Budget and Management.

Table 2
General Revenue Fund Revenue
Actual vs. Estimate
Month of March 2003
(\$ in thousands)

REVENUE SOURCE			
TAX REVENUE	Actual	Estimate*	Variance
Auto Sales	\$64,797	\$81,450	(\$16,653)
Non-Auto Sales & Use	\$323,488	\$387,720	(\$64,232)
Total Sales	\$388,285	\$469,170	(\$80,885)
Personal Income	\$417,104	\$438,200	(\$21,096)
Corporate Franchise	\$223,973	\$162,603	\$61,370
Public Utility	\$7,970	\$41,800	(\$33,830)
Kilowatt Hour Excise Tax	\$30,303	\$37,520	(\$7,217)
Total Major Taxes	\$1,067,636	\$1,149,293	(\$81,657)
Foreign Insurance	\$49,878	\$58,500	(\$8,622)
Domestic Insurance	\$0	\$930	(\$930)
Business & Property	(\$11)	\$0	(\$11)
Cigarette	\$45,335	\$46,024	(\$689)
Alcoholic Beverage	\$3,950	\$4,582	(\$632)
Liquor Gallonage	\$2,176	\$2,190	(\$14)
Estate	\$1,660	\$0	\$1,660
Total Other Taxes	\$102,988	\$112,226	(\$9,238)
Total Taxes	\$1,170,624	\$1,261,519	(\$90,895)
NON-TAX REVENUE			
Earnings on Investments	\$104	\$18,700	(\$18,596)
Licenses and Fees	\$5,677	\$6,600	(\$923)
Other Revenue	\$14,499	\$23,805	(\$9,306)
Non-Tax Receipts	\$20,280	\$49,105	(\$28,825)
TRANSFERS			
Liquor Transfers	\$10,000	\$10,000	\$0
Budget Stabilization	\$0	\$0	\$0
Other Transfers In	\$52,440	\$46,000	\$6,440
Total Transfers In	\$62,440	\$56,000	\$6,440
TOTAL REVENUE less Federal Grants	\$1,253,343	\$1,366,624	(\$113,281)
Federal Grants	\$354,264	\$416,245	(\$61,981)
TOTAL GRF REVENUE	\$1,607,607	\$1,782,869	(\$175,262)

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

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

REVENUE SOURCE					
TAX REVENUE	Actual	Estimate*	Variance	FY 2002	Percent Change
Auto Sales	\$682,330	\$651,600	\$30,730	\$674,445	1.17%
Non-Auto Sales & Use	\$3,849,525	\$3,984,900	(\$135,375)	\$3,792,576	1.50%
Total Sales	\$4,531,855	\$4,636,500	(\$104,645)	\$4,467,022	1.45%
Personal Income	\$5,125,456	\$5,246,800	(\$121,344)	\$4,907,218	4.45%
Corporate Franchise	\$461,035	\$452,579	\$8,456	\$349,532	31.90%
Public Utility	\$134,726	\$177,300	(\$42,574)	\$190,816	-29.39%
Kilowatt Hour Excise Tax	\$262,084	\$255,941	\$6,143	\$247,149	6.04%
Total Major Taxes	\$10,515,156	\$10,769,120	(\$253,964)	\$10,161,738	3.48%
Foreign Insurance	\$227,487	\$229,500	(\$2,013)	\$224,609	1.28%
Domestic Insurance	\$2,031	\$930	\$1,101	\$3,529	-42.44%
Business & Property	\$1,183	\$1,140	\$43	\$1,417	-16.51%
Cigarette	\$425,442	\$397,172	\$28,270	\$195,978	117.09%
Alcoholic Beverage	\$41,595	\$42,427	(\$832)	\$40,770	2.03%
Liquor Gallonage	\$22,377	\$22,620	(\$243)	\$22,069	1.39%
Estate	\$70,774	\$54,540	\$16,234	\$65,543	7.98%
Total Other Taxes	\$790,889	\$748,329	\$42,560	\$553,914	42.78%
Total Taxes	\$11,306,046	\$11,517,449	(\$211,403)	\$10,715,651	5.51%
NON-TAX REVENUE					
Earnings on Investments	\$14,864	\$69,700	(\$54,836)	\$71,732	-79.28%
Licenses and Fees	\$28,211	\$28,380	(\$169)	\$25,963	8.66%
Other Revenue	\$154,974	\$185,750	(\$30,776)	\$125,517	23.47%
Non-Tax Receipts	\$198,049	\$283,830	(\$85,781)	\$223,212	-11.27%
TRANSFERS					
Liquor Transfers	\$86,000	\$78,000	\$8,000	\$82,000	4.88%
Budget Stabilization	\$0	\$0	\$0	\$8,000	-100.00%
Other Transfers In	\$105,944	\$95,300	\$10,644	\$23,724	346.56%
Total Transfers In	\$191,944	\$173,300	\$18,644	\$113,724	68.78%
TOTAL REVENUE less Federal Grants	\$11,696,039	\$11,974,579	(\$278,540)	\$11,052,587	5.82%
Federal Grants	\$3,517,621	\$3,599,027	(\$81,406)	\$3,261,710	7.85%
TOTAL GRF REVENUE	\$15,213,660	\$15,573,606	(\$359,946)	\$14,314,298	6.28%
* July, 2002 estimates of the Office of Budget and Management. Detail may not sum to total due to rounding.					

DISBURSEMENTS

— Steve Mansfield*

Breaking a string of three months of negative disbursement variances, total General Revenue Fund (GRF) program payments (excluding transfers) were \$38.7 million over the estimate. The effect of this was to reduce the negative year-to-date GRF disbursement variance to \$138.5 million below the estimate. Setting the month's direction was an \$82.5 million positive disbursement variance in the Health Care/Medicaid program within the Department of Job and Family Services, which was only partially offset by several smaller negative variances in the remainder of the state's GRF expenditures. Year-to-date disbursements in the Health Care/Medicaid program (which will be discussed in detail below) stand at \$114.0 million above the estimate.

Readers are reminded that much of the Health Care/Medicaid program is an "entitlement" where services are provided to individuals and families who apply for services, and who meet the eligibility requirements. The bulk of the spending within the Health Care/Medicaid program takes place under federal matching grant programs. The federal share of the expenditures in the matching grant portions of the Health Care/Medicaid program ranges from about 59 percent to about 71 percent. The budget of the Department of Job and Family Services is the only

part of the state's budget where federal funds are included within GRF appropriation items.

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 categories remain below estimate—showing the impact of budget reductions. In March, two categories (Welfare and Human Services, and Government Operations) posted positive disbursement variances, while the other two categories (All Education and Tax Relief) were below estimate.

The disbursement estimates produced by the Office of Budget and Management (OBM) in August 2002 provide the point of comparison for LSC's analysis of disbursements. In the current fiscal year, there have been three rounds of budget reductions. The first of these reductions (announced on July 1, 2002 and totaling \$375 million) was factored into the disbursement estimates prepared by OBM in August. With subsequent reductions and because of some peculiarities in this year's disbursements (particularly in the earlier than anticipated use of federal reimbursement in the Disproportionate Share Hospital (DSH) program), OBM has revised its estimates to bring them into line with the changed circumstances. For methodological reasons as well as for consistency in presentation, LSC maintains a policy of adhering to the original disbursement estimates for the year

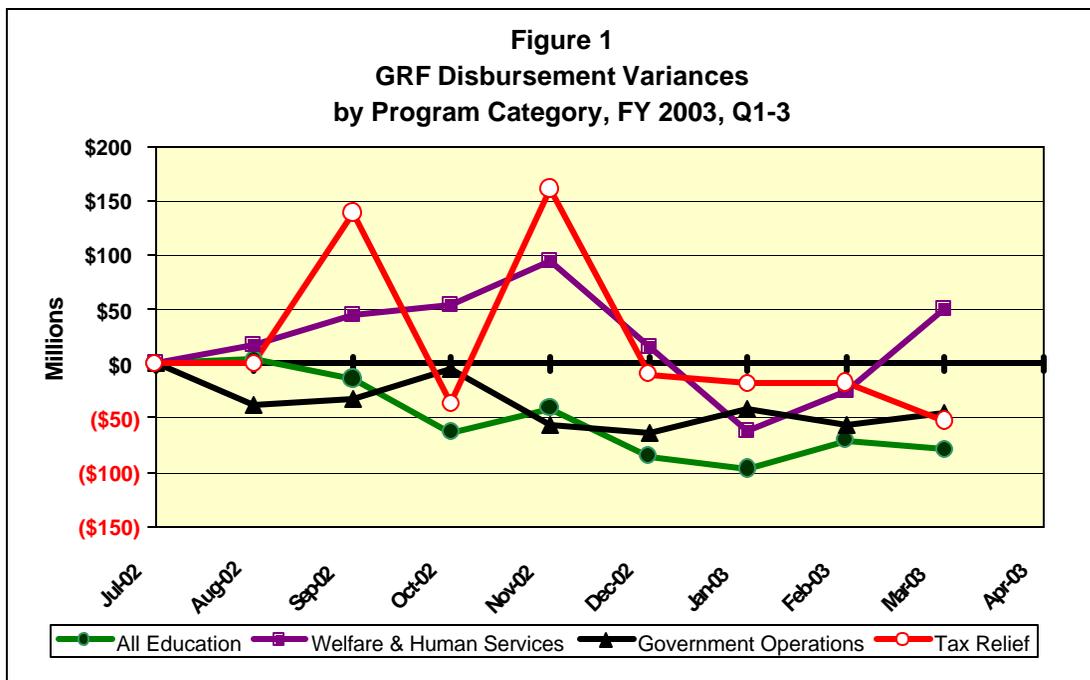


Exhibit 1
Agencies with More than \$1 Million in Executive Order FY 2003 GRF Budget Reductions

AGENCY	2003 Appropriation	Amount of July Budget Reductions*	Total Amount of January and March Budget Reductions**	% YTD Reduction in Agency's Appropriation	% of YTD Total Reduction--All Agencies
Attorney General	\$66,193,804	\$6,619,380	\$1,489,361	12.3%	1.3%
Auditor of State	\$38,930,520	\$5,839,578	\$340,372	15.9%	1.0%
Board of Regents	\$2,592,158,523	\$121,577,837	\$49,804,886	6.6%	27.2%
Civil Rights Commission	\$10,104,755	\$1,515,713	\$214,726	17.1%	0.3%
Controlling Board	\$7,486,000	\$1,122,900	\$120,802	16.6%	0.2%
Dept. of Administrative Services	\$177,459,883	\$6,540,457	\$1,368,896	4.5%	1.3%
Dept. of Aging	\$106,934,134	\$4,790,457	\$2,554,899	6.9%	1.2%
Dept. of Agriculture	\$23,763,477	\$3,116,576	\$0	13.1%	0.5%
Dept. of Alcohol and Drug Addiction Services	\$31,310,335	\$419,704	\$772,266	3.8%	0.2%
Dept. of Development	\$147,899,876	\$16,037,756	\$1,278,584	11.7%	2.7%
Dept. of Education	\$7,093,480,070	\$0	\$120,721,928	1.7%	19.2%
Dept. of Health	\$89,148,963	\$12,249,789	\$1,946,590	15.9%	2.3%
Dept. of Job and Family Services -- State Share	\$4,036,829,267	\$57,039,183	\$13,098,556	1.7%	11.1%
Dept. of Mental Health	\$533,832,559	\$7,613,359	\$7,905,416	2.9%	2.5%
Dept. of Mental Retardation	\$369,478,630	\$25,740,250	\$7,936,567	9.1%	5.3%
Dept. of Natural Resources	\$131,331,348	\$12,589,946	\$2,000,242	11.1%	2.3%
Dept. of Public Safety	\$7,671,234	\$2,612,446	\$126,469	35.7%	0.4%
Dept. of Rehabilitation and Correction	\$1,460,849,498	\$39,635,873	\$31,252,785	4.9%	11.2%
Dept. of Taxation	\$519,142,186	\$1,335,899	\$0	0.3%	0.2%
Dept. of Transportation	\$36,419,107	\$5,372,866	\$609,309	16.4%	0.9%
Dept. of Youth Services	\$241,806,910	\$15,612,893	\$4,223,872	8.2%	3.1%
Educational Telecommunications Network Commission	\$11,514,814	\$1,727,222	\$225,635	17.0%	0.3%
Environmental Protection Agency	\$25,329,533	\$2,799,430	\$563,254	13.3%	0.5%
House of Representatives	\$19,269,044	\$0	\$1,156,143	6.0%	0.2%
Judiciary/Supreme Court	\$103,138,879	\$0	\$1,150,000	1.1%	0.2%
Ohio Arts Council	\$15,672,033	\$2,350,805	\$333,031	17.1%	0.4%
Ohio Historical Society	\$15,817,624	\$1,175,313	\$438,105	10.2%	0.3%
Public Defender Commission	\$45,370,738	\$6,805,611	\$931,128	17.1%	1.2%
Rehabilitative Services Commission	\$25,901,378	\$1,942,603	\$191,154	8.2%	0.3%
SchoolNet Commission	\$23,200,967	\$711,774	\$414,465	4.9%	0.2%
State Library Board	\$11,583,204	\$1,737,481	\$30,427	15.3%	0.3%
Treasurer of State	\$40,007,160	\$1,933,415	\$814,943	6.9%	0.4%
Total Selected Agencies	\$18,059,036,453	\$368,566,516	\$254,014,811	3.4%	98.8%
All Other Agencies w/ Original GRF Appropriation (49) w/ Reductions (29)	\$5,009,133,715	\$6,245,136	\$1,552,569	0.2%	1.2%
Total Reduction--All Agencies	\$23,068,170,168	\$374,811,652	\$255,567,380	2.7%	100.0%

*Governor's News Release, July 1, 2002

**CAS Detailed GRF Appropriation Summary by Agency, as of March 31, 2003

and in reporting on changed disbursement circumstances like budget reductions by taking them into account with our analysis.

The two subsequent rounds of budget reductions (\$121 million announced January 22, 2003, and \$142.5 million announced March 5, 2003) have begun to have an impact on disbursement activity and will be fully implemented in the remainder of the fiscal year. Exhibit 1 summarizes the impact of all three rounds of FY 2003 budget reductions by agency and lists those agencies with reductions exceeding \$1 million. In addition to listing the amounts of the reductions, Exhibit 1 presents the reductions as a percentage of the agency's original appropriation and as a percentage of the total reduction.

The effects of the second and third rounds of budget reductions can be seen especially in the first three program categories in Table 5 (leaving out the unaffected Tax Relief program), where all but three of the subcategories reported there show negative variances. As the remaining budget reductions are implemented, the size of these negative variances will grow.

In the sections that follow, we examine in more detail the disbursement activity in each of the four major GRF program categories in the order of magnitude of its contribution to the year-to-date negative disbursement variance. Summary information about GRF disbursement activity is presented in Tables 4 and 5, and a detailed

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of March 2003
(\$ in thousands)

USE OF FUNDS			
PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	\$495,218	\$506,021	(\$10,803)
Higher Education	\$161,897	\$159,305	\$2,592
Total Education	\$657,115	\$665,327	(\$8,211)
Health Care/Medicaid	\$769,944	\$687,411	\$82,533
Temporary Assistance to Needy Families (TANF)	\$13,708	\$10,668	\$3,040
General/Disability Assistance	\$2,289	\$2,044	\$245
Other Welfare (2)	\$24,814	\$31,896	(\$7,081)
Human Services (3)	\$61,228	\$63,736	(\$2,508)
Total Welfare & Human Services	\$871,984	\$795,755	\$76,229
Justice & Corrections	\$177,215	\$167,679	\$9,536
Environment & Natural Resources	\$6,252	\$6,502	(\$250)
Transportation	\$1,744	\$3,498	(\$1,754)
Development	\$13,796	\$19,629	(\$5,833)
Other Government	\$52,355	\$43,471	\$8,884
Capital	\$0	\$0	\$0
Total Government Operations	\$251,363	\$240,779	\$10,583
Property Tax Relief (4)	\$13,722	\$48,706	(\$34,984)
Debt Service	\$10,884	\$15,764	(\$4,880)
Total Program Payments	\$1,805,068	\$1,766,331	\$38,737
TRANSFERS			
Local Govt Distribution	\$0	\$0	\$0
Budget Stabilization	\$0	\$0	\$0
Other Transfers Out	\$0	\$0	\$0
Total Transfers Out	\$0	\$0	\$0
TOTAL GRF USES	\$1,805,068	\$1,766,331	\$38,737
(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>			

presentation of disbursement activity in the Health Care/Medicaid program is presented in Table 6.

Education (-\$79.2 million)

Disbursements in the Education category as a whole stand at \$79.2 million below the estimate for the year to date, with the Department of Education standing at \$86.1 million below estimate and the Board of Regents standing at \$15.2 million over the estimate.

The remainder of the year-to-date negative disbursement variance is due to smaller variances in the other agencies in the category (most notable among these are negative year-to-date variances, each exceeding \$3.0 million, posted by the Ohio SchoolNet Commission and the Ohio Arts Council).

Department of Education. The Department of Education's year-to-date negative disbursement variance grew by \$10.8 million in March to stand at

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

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance	FY 2002	Percent Change
Primary & Secondary Education (1)	\$4,817,221	\$4,911,643	(\$94,422)	\$4,576,350	5.26%
Higher Education	\$1,832,752	\$1,817,518	\$15,233	\$1,837,222	-0.24%
Total Education	\$6,649,973	\$6,729,161	(\$79,189)	\$6,413,572	3.69%
Health Care/Medicaid	\$6,180,392	\$6,066,430	\$113,962	\$5,540,060	11.56%
Temporary Assistance to Needy Families (TANF)	\$351,427	\$330,882	\$20,545	\$366,948	-4.23%
General/Disability Assistance	\$20,548	\$18,810	\$1,738	\$66,236	-68.98%
Other Welfare (2)	\$375,497	\$418,576	(\$43,079)	\$382,805	-1.91%
Human Services (3)	\$899,709	\$941,549	(\$41,840)	\$888,155	1.30%
Total Welfare & Human Services	\$7,827,574	\$7,776,248	\$51,326	\$7,244,203	8.05%
Justice & Corrections	\$1,411,734	\$1,436,613	(\$24,879)	\$1,392,153	1.41%
Environment & Natural Resources	\$97,688	\$98,659	(\$972)	\$103,975	-6.05%
Transportation	\$27,744	\$34,774	(\$7,030)	\$41,416	-33.01%
Development	\$146,043	\$154,717	(\$8,675)	\$150,401	-2.90%
Other Government	\$313,657	\$318,249	(\$4,591)	\$322,490	-2.74%
Capital	\$0	\$1,535	(\$1,535)	\$9,050	-100.00%
Total Government Operations	\$1,996,866	\$2,044,548	(\$47,683)	\$2,019,485	-1.12%
Property Tax Relief (4)	\$706,151	\$758,771	(\$52,619)	\$669,090	5.54%
Debt Service	\$229,972	\$240,280	(\$10,307)	\$201,600	14.07%
Total Program Payments	\$17,410,535	\$17,549,008	(\$138,473)	\$16,547,951	5.21%
TRANSFERS					
Local Govt Distribution	\$0	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	\$13,104	-100.00%
Other Transfers Out	\$18,587	\$15,836	\$2,752	\$19,858	-6.40%
Total Transfers Out	\$18,587	\$15,836	\$2,752	\$32,962	-43.61%
TOTAL GRF USES	\$17,429,123	\$17,564,844	(\$135,721)	\$16,580,913	5.12%

(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.

\$86.1 million. Line item 200-501, Base Cost Funding, now stands at \$29.9 million under estimate for the year to date; line item 200-513, Student Intervention Services, is \$17.3 million under estimate for the year to date; line item 200-520, Disadvantaged Pupil Impact Aid, accounted for \$12.6 million of the negative year-to-date variance, and line item 200-410, Professional Development, posted a \$10.0 million negative year-to-date disbursement variance. In the coming months we will see these and several other smaller

appropriation items post further negative variances against the estimates and reflect Executive-ordered reductions.

Regents. In March, the Board of Regents posted a \$2.6 million positive disbursement variance, pushing up its disbursement variance for the year to date to \$15.2 million above estimate. This year-to-date variance is largely traceable to earlier than anticipated payouts from Ohio Instructional Grants (appropriation

item 235-503), which accounts for \$15.0 million of the year-to-date positive variance. The disbursement variance in this line item is the product of the timing of payouts, which depends on submittals of eligibility data. Ohio Instructional Grants provides a financial grant for higher education to any full-time Ohio student who is an Ohio resident and whose family gross income for dependent students does not exceed \$39,000 and for independent students does not exceed \$35,300.

Tax Relief (-\$52.6 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. For the year to date, the property tax program in the Department of Education stands at \$41.2 million under estimate, and the program in the Department of Taxation stands at \$11.4 million under estimate.

Government Operations (-\$47.7 million)

For the year to date, disbursements for the Government Operations category as a whole now stand at \$47.7 million under the estimate. The situation in this category is much the same as last month, with the Department of Rehabilitation and Correction (DRC) contributing \$23.8 million of that figure. The second largest contributor to that figure, however, is now the Department of Development (DEV), which posted a year-to-date negative disbursement variance of \$7.8 million. For the month of March, the category as a whole posted a positive disbursement variance of \$10.6 million, with the Supreme Court (JSC) contributing \$5.4 million and the Department of Administrative Services (DAS) contributing \$4.1 million to that figure.

Rehabilitation & Correction. The Department of Rehabilitation and Correction's year-to-date negative disbursement variance of \$23.8 million is

wholly traceable to the department's institutional GRF line items (especially line item 501-321, Institutional Operations, which stands at \$17.0 million below the year-to-date estimate). Several smaller line items in the department's budget have also experienced budget reductions.

Welfare/Human Services (\$51.3 million)

Disbursements in the Welfare/Human Services category as a whole stand at \$51.3 million above the estimate for the year to date. March's positive disbursement variance of \$76.2 million pushed the category into positive territory. The basic direction of the March disbursement variance was set by the \$82.5 million positive disbursement variance in the Health Care/Medicaid program that we mentioned in the opening paragraph. The following paragraphs discuss the disbursements in the components of this category in more detail.

Health Care/Medicaid. For March, the Health Care/Medicaid program (primarily line item 600-525) posted an \$82.5 million positive disbursement variance, pushing the program's year-to-date disbursement variance further into positive territory at \$114.0 million over the estimate for the year to date.

In the presentation of detailed disbursement information in the Health Care/Medicaid program, we depart from our normal practice of including a table that compares actual expenditures against monthly and year-to-date spending estimates by service categories. Because OBM's estimates for the service categories assume the inclusion of funds that are to be transferred from the Budget Stabilization Fund (BSF), along with additional federal contributions, none of which have yet been appropriated, there exists a fundamental "apples and oranges" problem insofar as the estimate for the total expenditure in the program does not include these extra funds. In FY 2003, up to \$149.7 million can be drawn from the BSF to cover overages in the Health Care/Medicaid program. If this amount of the state share is used, the federal funds that would be drawn would be \$213.8 million. Thus in total \$363.5 million might be available.

Keeping with our normal practice, we include in this month's disbursement report Table 7, which compares FY 2003 and FY 2002 actual Health Care/

Service Category	FY 2003	FY 2002	Dollar Change	Percent Increase
	Yr.-to-Date as of Mar. '03	Yr.-to-Date as of Mar. '02		
Nursing Facilities	\$1,781,159	\$1,783,652	(\$2,493)	-0.14%
Payments	\$1,926,701	\$1,842,575	\$84,126	4.57%
NF Franchise Fees Offset ¹	(\$145,542)	(\$58,923)	(\$86,619)	147.00%
ICF/MR	\$305,828	\$299,617	\$6,211	2.07%
Payments	\$321,198	\$312,176	\$9,022	2.89%
ICF/MR Franchise Fees Offset)	(\$15,370)	(\$12,559)	(\$2,811)	22.38%
Inpatient Hospitals	\$969,493	\$822,796	\$146,697	17.83%
Outpatient Hospitals	\$406,875	\$339,391	\$67,484	19.88%
Physicians	\$399,752	\$353,880	\$45,871	12.96%
Prescription Drugs	\$1,154,747	\$930,442	\$224,305	24.11%
HMO	\$524,628	\$429,953	\$94,676	22.02%
Medicare Buy-In	\$108,827	\$98,753	\$10,074	10.20%
ODJFS Waiver ²	\$130,833	\$120,537	\$10,296	8.54%
All Other ³	\$584,378	\$446,266	\$138,112	30.95%
CHIP II ⁴	\$44,024	\$33,720	\$10,304	30.56%
DA Medical ⁵	\$71,081	\$50,772	\$20,308	40.00%
Total Health Care	\$6,481,625	\$5,709,779	\$771,846	13.52%
DSH Offset	(\$89,037)	\$0	(\$89,037)	
Drug Rebates	(\$213,293)	(\$169,197)	(\$44,096)	
Prior Year Encumbrance	(\$83,539)	\$1,547	(\$85,086)	
Total Health Care (Net of Offsets)	\$6,095,757	\$5,542,130	\$553,627	9.99%
Est. Federal Share ⁶	\$3,549,754	\$3,231,991	\$317,763	
Est. State Share	\$2,546,003	\$2,310,139	\$235,864	

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%. 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.

Medicaid spending by service category. We see in Table 7 that the overall rate of increase year over year is just below 10 percent. Posting year-over-year percentage increases that exceed the average rate by large amounts are the DA Medical, CHIP II, Prescription Drugs, and HMO categories. Below the average rate of the year-over-year increase are expenditures in the Nursing Facilities and Intermediate Care Facilities for the Mentally Retarded (ICF/MR) categories.

The categories with large rates of increase reflect an increase in the medical inflation rate (this is especially true for prescription drugs) and a strong

rate of growth for the Medicaid and Disability Assistance (DA) caseloads. For example, in March, the total number of Medicaid-eligible individuals was 1,575,398, nearly 180,000 more than had been budgeted.

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 program budgeting by the Department of Job and Family Services. 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, and by county expenditures for part of the program's administrative costs.

At the end of March, year-to-date disbursement reports on the GRF portion of TANF show a positive disbursement variance of \$20.5 million. The year-to-date positive disbursement variance was produced by an overage of \$21.9 million in line item 600-413, Day Care Match/MOE, which resulted from a different pattern of disbursing child care funds than had been anticipated in the estimates. In the coming months, this positive disbursement variance will be reduced as the estimates catch up with the actual amounts.

In March, the number of TANF cash assistance cases increased slightly from February to stand at 86,263. The number of recipients also increased slightly to stand at 194,443. In March of 2002, these same figures were 87,224 and 201,452, 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 \$7.1 million under the estimate for March. For the year to date, disbursements in the "Other Welfare" subcategory were \$43.1 million under estimate.

Line item 600-416, Computer Projects, with year-to-date underspending of \$14.5 million (about half of which is from an encumbrance of prior year funds) is the largest single item contributing to the year-to-date negative disbursement variance. The spending under estimate in line 600-416 is traceable to projects being converted to state staff support only, equipment freezes, and changes in timelines and rollout schedules. These steps are the result of a reduction in the appropriation for line item 600-416 by an additional \$7.8 million in the January and March rounds of budget reductions. Another significant contributor is line item 600-321, Support Services (and its

predecessor line items 600-100, Personal Services, and 600-200, Maintenance), which together account for \$11.8 million of the year-to-date negative variance. The appropriation for line item 600-321 has been reduced by an additional \$1.4 million since the initial round of budget reductions. And line item 600-528, Adoption Services, continues to be a significant contributor with a year-to-date negative disbursement variance of \$8.1 million. The underspending in Adoption Services stems in large part from a lower than expected rate of growth in the program.

MR/DD. In March, the Department of Mental Retardation and Developmental Disabilities posted a \$4.4 million positive disbursement variance, thereby reducing its negative year-to-date variance to \$15.1 million. The bulk of the year-to-date negative disbursement variance (\$13.0 million) is traceable to the department's largest GRF subsidy line item, 322-413, Residential and Support Services. This line item funds residential services, including the Supported Living program and the GRF share of two home and community-based Medicaid waivers. The negative variance in line item 322-413 stems from the timing of Medicaid waiver payments.

Mental Health. Since last month, little has changed in the pattern of disbursement activity in the Department of Mental Health. But because the disbursement variance is still relatively large, we want to note it for the record. In March, the department posted a positive disbursement variance of \$2.1 million. The department's year-to-date disbursement variance stands at \$10.2 million below estimate. The negative disbursement variance is traceable to the department's two largest subsidy line items: \$7.8 million in 334-408, Community and Hospital Mental Health Services, and \$3.4 million in 335-508, Services for the Severely Mentally Disabled. The department disburses these subsidies to community mental health boards on a quarterly basis. Depending on when the boards submit their requests for funds, disbursements can occur anytime in the course of three months (which may or may not be consistent with monthly disbursement estimates). Disbursements in the coming months are expected to balance out this variance.

**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, Clay Weidner, and Holly Wilson.*

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS THIRD QUARTER, FY 2003

— Jean Botomogno

Ticket Sales

In the third quarter of FY 2003, total ticket sales were \$508.9 million, \$29.5 million or 5.5 percent lower than ticket sales in the second quarter. Both On-line and Instant ticket sales declined. On-line ticket sales were \$238.7 million, \$2.8 million or 1.2 percent lower than in the second quarter. Instant ticket sales were \$270.2 million, \$26.7 million or 9.0 percent lower than sales in the previous quarter. Historically, second-quarter Instant ticket sales are higher than any other quarter in the fiscal year because of special instant games offered during the holiday period. Only Mega Millions had a measurable increase in sales in the third quarter, up 2.6 percent from the previous quarter. Table 1 provides ticket sales per quarter and per game in FY 2003.

Compared to third-quarter results a year ago, in FY 2002, total ticket sales were up \$16.3 million or 3.2 percent. Instant ticket sales increased

\$14.5 million or 5.4 percent. On-line ticket sales were up only \$1.8 million (or 0.8 percent) despite the addition of Mega Millions in May 2002 and increases in the number of weekly drawings of Buckeye 5 starting in April 2002.¹ As in the second quarter, Mega Millions again did not provide the expected boost in sales in the third quarter of FY 2003.

Year-to-date Summary

Table 2 summarizes year-to-date ticket sales by game and compares FY 2003 and FY 2002 results. Year-to-date ticket sales at the end of March in FY 2003 were \$1,533.9 million, \$73.5 million or 5.0 percent higher than sales in the same period a year ago. Instant ticket sales improved \$47.9 million (or 6.4 percent) and On-line sales increased \$24.8 million (or 3.5 percent). However, most On-line games had lower sales than in the previous year. Pick 3 sales were down \$5.8 million (or 1.9 percent) and Pick 4 sales declined \$1.1 million (or 1.0 percent).

Table 1: Quarterly Lottery Ticket Sales by Games in FY 2003, in millions of dollars

	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	\$39.1	\$6.9	\$16.9	\$40.8	\$36.3	\$296.9	\$241.5	\$538.4
Q3	\$102.2	\$38.9	\$6.5	\$16.8	\$37.1	\$37.2	\$270.2	\$238.7	\$508.9
Total	\$302.4	\$115.4	\$20.3	\$51.1	\$118.0	\$127.6	\$798.4	\$734.7	\$1,533.9

Totals may not add up due to rounding.

Table 2: Year-to-date Ticket Sales by Games in FY 2003 and FY 2002, in millions of dollars

Year	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Mega Millions	Instants	On-line	Total
FY 2003	\$302.4	\$115.4	\$20.3	\$51.1	\$118.0	\$127.6	\$798.4	\$734.7	\$1,533.9
FY 2002	\$308.3	\$116.5	\$32.9	\$42.1	\$210.1	NA	\$750.5	\$709.9	\$1,460.4
\$ Change	-\$5.8	-\$1.1	-\$12.6	\$8.9	-\$92.2	\$127.6	\$47.9	\$24.8	\$73.5
% Change	-1.9%	-1.0%	-38.2%	21.2%	-43.9%	NA	6.4%	3.5%	5.0%

Totals may not add up due to rounding.

Quarter	Tickets Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percent Variance	Transfers as a Percentage of Sales
Q1	\$486.6	\$145.5	\$150.3	-\$4.8	-3.2%	29.9%
Q2	\$538.4	\$160.1	\$163.5	-\$3.4	-2.1%	29.7%
Q3	\$508.9	\$149.1	\$167.1	-\$18.0	-10.8%	29.3%
Total	\$1,533.9	\$454.7	\$480.9	-\$26.2	-5.4%	29.6%

Totals may not add up due to rounding.

Kicker sales were down \$12.6 million (or 38.2 percent), and Super Lotto sales decreased \$92.2 million (or 43.9 percent). Among On-line games, only Buckeye 5 sales increased, up \$8.9 million or 21.2 percent. Mega Millions added \$127.6 million, more than erasing the decline in combined Super Lotto and Kicker sales of \$104.8 million. However, Mega Millions reached expectations only in the first quarter, when sales were \$54 million. The Ohio Lottery expected this game to provide at least \$50 million in sales each quarter or about \$150 million for the first three quarters. As of March 2003, Mega Millions sales are \$22.4 million or about 15 percent below estimates.

Transfers to LPEF

Table 3 summarizes quarterly transfers from operations to the Lottery Profits Education Fund (LPEF). Transfers for the third quarter of FY 2003 were \$149.1 million, down from \$160.1 million in the second quarter. The Ohio Lottery had anticipated transfers of \$163.5 million in the second quarter and \$167.1 million in the third quarter. All transfers this year have been below projected transfers. First-

quarter transfers were \$4.8 million short. Second-quarter transfers were \$3.4 million below projected transfers. Third-quarter transfers were \$18.0 million below estimates. As of March 2003, year-to-date transfers in the current fiscal year were \$26.2 million below estimated transfers.

Compared to transfers in FY 2002, transfers to LPEF from operations in FY 2003 were up \$6.3 million or 1.4 percent. For the year-to-date as of March 2003, the variance between actual and projected transfers was \$26.2 million, \$14.5 million more than the variance recorded at the end of March 2002. The Ohio Lottery Commission had expected to transfer to LPEF from operations about \$637.7 million in FY 2003. Thus, to make this estimate, the amount to transfer in the fourth quarter would be \$183 million, \$23 million more than the highest quarterly transfer this fiscal year. Therefore, it is likely that the target for transfers from operations during FY 2003 may not be achieved. The Ohio Lottery also expects to transfer an additional \$35.0 million from other sources of funds. As of March 2003, the Ohio Lottery has transferred \$27.0 million from nonoperating sources.

¹ In May 2002, during the fourth quarter of FY 2002, the Ohio Lottery introduced Mega Millions, which was expected to decrease Super Lotto sales. Also, the Ohio Lottery in April 2002 increased from four to six the number of weekly drawings for Buckeye 5.