

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

OCTOBER 2003

FISCAL OVERVIEW

— Allan Lundell

The first quarter of FY 2004 ended with encouraging economic news. July and August saw improvements in most economic indicators, with the major exception of employment. In September, employment news was positive – for the first time in seven months total employment increased. Although one month does not make a trend, this is encouraging because employment is thought to be the last remaining piece of the recovery puzzle. Employment gains will be needed for the recovery to be self-sustaining.

Although the news of the economic recovery is encouraging, tax revenue generally lags the economy, so a surge in revenue should not be expected. Through the first quarter of FY 2004, total GRF revenue is up 7.5% compared to FY 2003 and tax revenue is up 5.4%. The revenue growth is partly due to the recovering economy, but it is also due to the tax changes made in the recently passed budget bill for FY 2004-2005 (Am. Sub. H.B. 95). Revenue is up compared to FY 2003, but remains below FY 2004 estimates. For the first fiscal quarter, total GRF revenue is \$35 million (0.7%) below estimate and tax revenue is \$78 million (2.0%) below estimate. Even as first quarter revenue fell below estimate, spending was also less than estimated. For the first quarter of FY 2004, total GRF disbursements are \$169 million (2.7%) below estimate and are down 3.9% compared to last year. Disbursements for primary and secondary education are \$55 million (3.3%) below estimate and disbursements for higher education are \$30 million (5.6%) below estimate. Disbursements for welfare and human services are \$53 million (1.8%) below estimate.

As shown in Table 1, the GRF began September with a negative cash balance of -\$247.3 million. Revenue, including transfers-in, for September was \$2,014.6 million. Disbursements, including transfers-out, were \$2,152.5 million. The monthly revenue shortfall compared to disbursements brought the fiscal year-to-date cash balance to -\$385.2 million. Compared to FY 2003, the cash balance is \$112.6 million lower. Year-to-date encumbrances of \$848.7 million contribute to an unobligated balance of -\$1,233.8 million, which is \$56.5 million less than a year ago. The \$180.7 million balance in

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

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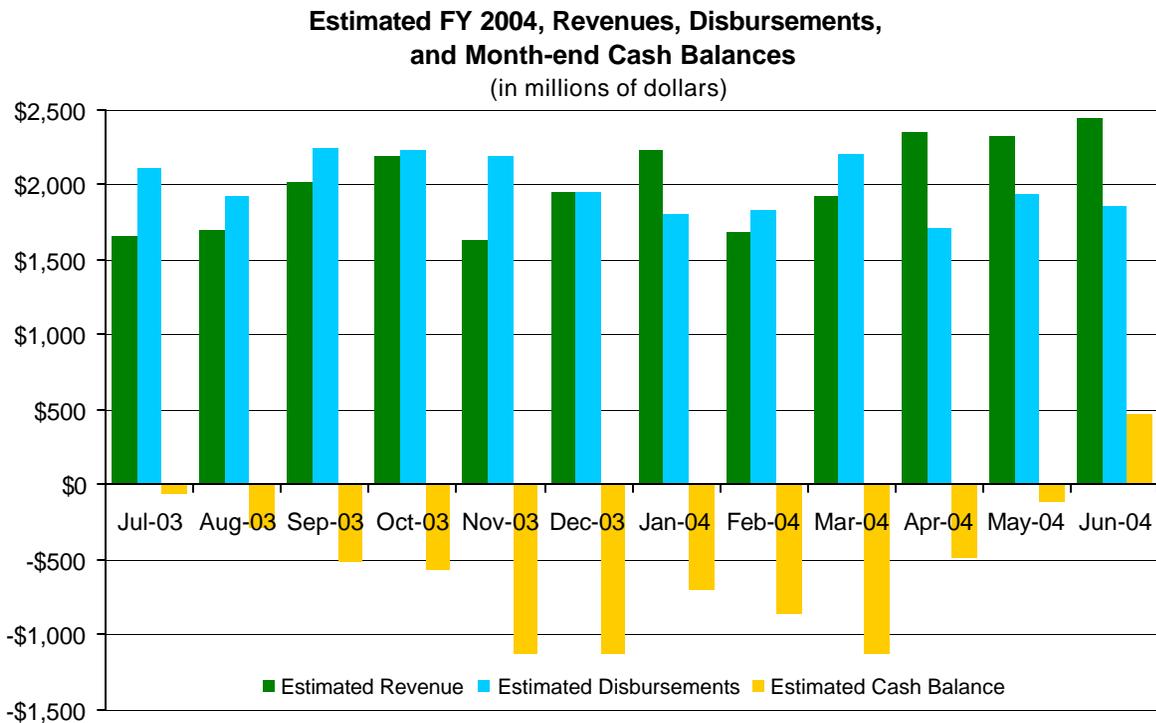
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	<u>Month of September</u>	<u>Fiscal Year 2004 to Date</u>	<u>Last Year</u>	<u>Difference</u>
Beginning Cash Balance	-\$247.3	\$396.5		
Revenue + Transfers	<u>\$2,014.6</u>	<u>\$5,341.1</u>		
Available Resources	\$1,767.3	\$5,737.6		
Disbursements + Transfers	<u>\$2,152.5</u>	<u>\$6,122.8</u>		
Ending Cash Balances	-\$385.2	-\$385.2	-\$272.5	-\$112.6
Encumbrances and Accts. Payable		\$848.7	\$904.8	-\$56.2
Unobligated Balance		-\$1,233.8	-\$1,177.4	-\$56.5
BSF Balance		\$180.7	\$1,010.6	-\$829.9
Combined GRF and BSF Balance		-\$1,053.1	-\$166.8	-\$886.4



the Budget Stabilization Fund (BSF) is \$829.9 million less than a year ago, and the combined GRF and BSF balance is \$886.4 million less than it was at this time last year.

Although the negative cash balance may appear to be a cause for concern, if revenues and disbursements had met their estimates for the first quarter, the cash balance would have been -\$518.6 million, \$133.4 million lower than the actual level. Because of the timing of the revenues and disbursements, the cash balance is generally negative early in the fiscal year before turning positive later in the year. The accompanying chart presents the monthly estimates of GRF revenues and disbursements for FY 2004 and the resulting month end cash balance estimates.

TRACKING THE ECONOMY

¾ Phil Cummins

National economic recovery continued in September. Employment on nonagricultural payrolls increased after falling for seven months. Unemployment nationwide remained stuck at 6.1% of the labor force. Ohio nonagricultural payroll employment fell last month and the unemployment rate was unchanged at 5.8%. Purchasing managers again reported improvement in business activity. Industrial production rose in September, continuing an upturn underway since last spring. Though retail sales slowed in September, third quarter consumer spending was strong, helped by tax cuts. The housing market continued strong. Inflation at the finished goods level remained moderate in September, but prices for some commodities were sharply higher than a year earlier. Financial markets have responded to evidence of improving business conditions and expectations of further recovery by pushing up stock prices and bond yields.

Nonfarm payroll employment nationwide rose 57,000 in September, its first increase since January. Unemployment totaled 9 million persons or 6.1% of those who want jobs and are available for work, down from a peak of 6.4% in June but unchanged from August. In September, manufacturing payrolls declined but by less than in recent months. Temporary help services employment rose, continuing its recent uptrend. Employment in construction and at building material and garden supply stores rose, also continuing upward trends in those sectors, resulting from strength in residential building and home improvement. August nonfarm payrolls were lowest since 1999 and nearly 2.8 million persons below the peak in early 2001. In addition to reporting the latest monthly numbers, the U. S. Bureau of Labor Statistics (BLS) indicated that it expects to revise nonfarm payroll employment downward, with the decrease for March 2003 estimated at 145,000 workers. This expectation is based on a preliminary tabulation of total employment in state unemployment insurance tax records for that month, as part of an annual revision process for which final results will be reported next February.

Ohio nonagricultural payroll employment fell 21,700 in September, with losses in both goods and service producing sectors. Total nonfarm payrolls were 66,700 below a year earlier. Ohio's unemployed totaled 337,000 persons or 5.8% of the labor force last month, the same unemployment rate as in August.

Purchasing managers at manufacturers throughout the United States said activity expanded in September, continuing the recent pattern of more favorable performance. Conditions varied among industries, with "winners and losers," according to the Institute for Supply Management which reports this information. The number seeing rising production and new orders at their firms outnumbered those noting declines for the fifth consecutive month. Order backlogs rose. Employment fell, continuing three years of declines, and manufacturers again liquidated inventories, a downtrend underway for more than three years.

In nonmanufacturing parts of the national economy, purchasing managers reported expanding business activity for the sixth straight month. New orders and order backlogs rose. Growth was more widespread than in manufacturing, and comments of survey respondents indicated continued optimism about economic activity. Employment declined after rising for three months. Inventories were reduced, the fourth decline after two months of increases.

Industrial production rose 0.4% from August to September. Manufacturing output increased 0.7% last month, and has been trending upward since April. Factory output recovered in the first half of last year from the 2001 recession, but then slowed in the second half of 2002 and early this year. In September, production of motor vehicles rose, as did output of information processing equipment and defense and space equipment. These three sectors have been trending upward in recent months. On the other hand, output of industrial equipment and construction supplies remain at low levels.

Retail sales declined 0.2% in September, but increases in July and August were revised upward. Excluding motor vehicles and parts, retail sales rose 0.3% following upward-revised 1.2% increases in each of the previous two months. Unit car sales slowed in September from August's robust pace. General merchandise store sales also rose 0.3% last month following upward revisions to earlier months. The retail sales figures indicate that consumer spending will be very strong in the report on third quarter gross domestic product to be released October 30.

Housing starts continued at a high level in September. New privately-owned housing units started rose 3.4% last month to a 1.89 million unit annual rate. Year-to-date starts were 5.4% above the year-earlier level, with single-family starts up 7.6% but multifamily starts below last year's pace. For all of last year, starts totaled 1.7 million units, highest since 1986. New and used single-family home sales in August were very strong, driven by low mortgage rates earlier in the summer. The August rate of new home sales, if continued for a full year, would be highest ever. The National Association of Realtors reported used home sales at a record pace.

The producer price index for finished goods rose 0.3% from August to September, to 3.5% above a year earlier. The increase in this index in September resulted from a 1.2% jump in food prices, mainly due to higher prices for vegetables, red meat, eggs, dairy products, and rice. Compared with a year ago, finished food prices in September were 6.6% higher, finished energy goods prices were 13% higher, and finished goods prices excluding food and energy were about unchanged. At earlier stages of production, intermediate goods prices fell 0.1% in September to 3.7% above a year earlier, and crude goods prices rose 3.5% to 22% above a year earlier. Prices last month for livestock, milk, cotton,

natural gas, and scrap metals were sharply above year-ago levels.

Consumer prices rose 0.3% in September to 2.3% above a year earlier. Energy prices rose 3% from August to September reflecting 6.3% higher gasoline prices. The consumer price index for food rose only 0.2% last month. Excluding food and energy, consumer prices rose 0.1% in September to 1.2% above a year earlier.

The latest Federal Reserve Beige Book, summarizing primarily anecdotal reports on the economy gathered by regional Federal Reserve banks prior to October 7, indicated that economic expansion has picked up in the last six weeks. Economic activity has been expanding recently in most Federal Reserve districts. In the Cleveland Federal Reserve District, which includes all of Ohio, business conditions were described as mixed. The Cleveland bank noted improvement for nondurable goods manufacturers but generally lower sales and production than a year ago for durable goods producers. Furniture and appliances sold well at retail but apparel and car sales were soft. Discounters outperformed other retailers. The disparity remained wide between residential and commercial construction, but the Cleveland bank reported more optimism about future nonresidential projects.

The Federal Reserve Bank has maintained its target for federal funds at 1% since June. Longer-term interest rates fell in September but have rebounded in October. Interest rates declined last month, despite evidence that the economy was continuing to recover, as persistent softness in labor markets raised concerns about the possibility of a pullback by consumers. Following the report early this month that payroll employment expanded in September, longer-term interest rates jumped, and have continued to trend upward, reversing more than half of last month's decline.

Status of the General Revenue Fund

REVENUE

— Allan Lundell and Jean Botomogno

On the surface, September revenue collections could be described as “not too unpleasant.” September GRF revenues of \$2,014.5 million were \$8.5 million (0.4%) below estimate. However, as can be seen in Table 2, the small negative total variance is the result of larger, but offsetting, positive and negative variances for individual revenue sources. The auto sales tax was \$18.0 million (17.9%) above estimate, but the non-auto sales tax was \$38.1 million (7.1%) below estimate. The personal income tax was \$6.7 million (0.9%) below estimate, kilowatt-hour excise tax was \$5.9 million (16.7%) below estimate, and the estate tax was \$12.3 million (97.3%) below estimate. Total tax revenues were \$39.6 million (2.6%) below estimate. “Other revenue” was \$8.1 million (55.4%) below estimate and federal grants were \$6.4 million (1.3%) below estimate.¹ The revenue picture for September was helped by \$49.9 million in “other transfers in.” This amount, which was \$43.4 million greater than estimated, was boosted by an earlier than expected transfer from the School District Property Tax Replacement Fund.³ Without this

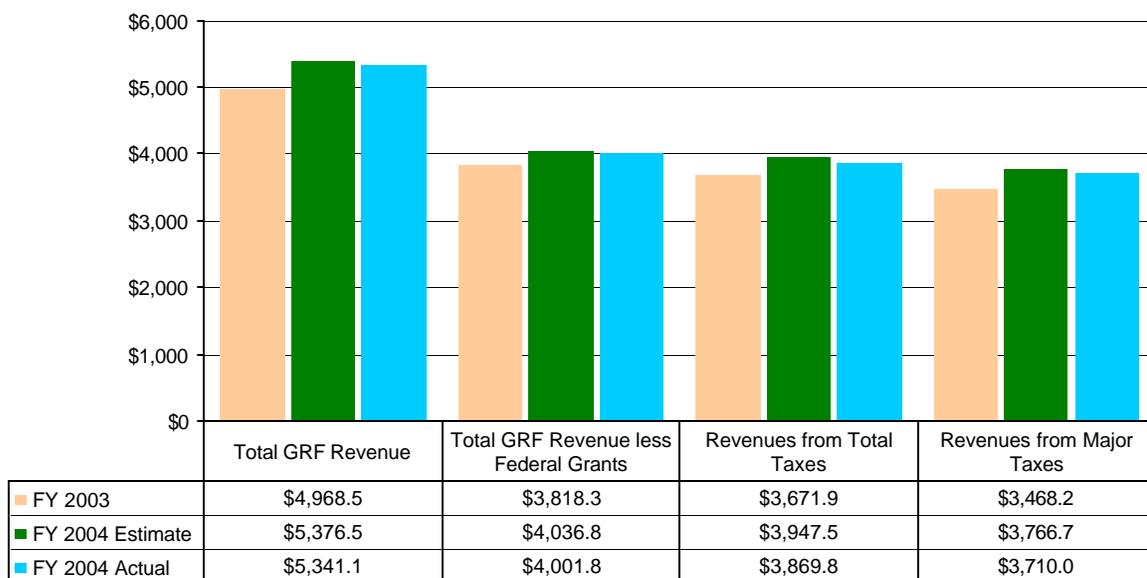
positive variance, total GRF revenues would have been \$51.9 million (2.6%) below estimate.

At the close of the first quarter of the fiscal year, GRF revenue is up 7.5% compared to the first quarter of FY 2003. GRF revenue less federal grants (state-source revenue) is up 4.8%, total tax revenue is up 5.4%, and revenue from the **major taxes is up 7.0%**⁴. Although revenues are up compared to the previous year, they are slightly below estimate for the fiscal year. Total GRF revenue is \$35.5 million (0.7%) below estimate through the first three months of FY 2004. State source revenue is \$35.0 million (0.9%) below estimate, total tax revenue is \$77.6 million (2.0%) below estimate, and revenue from the major taxes is \$56.7 million (1.5%) below estimate. Chart 1 compares FY 2004 revenues with FY 2003 revenues and FY 2004 estimates.

Sales and Use Tax

September 2003 closed the first quarter of FY 2004 with revenues lagging estimates. Due

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



to the timing of sales and use tax payments by various sellers and vendors,⁵ sales and use tax revenues in September 2003 reflect both the effect of the sales tax rate increase and some additional revenue from the sales tax base expansion.⁶ September sales and use tax receipts were \$619.1 million, \$20.2 million (3.2%) below estimates. Receipts were \$104.6 million (20.3%) above September 2002 revenues. As of September 2003, year-to-date total sales and use tax revenues were \$1,799.5 million, \$30.3 million (1.7%) below estimates. Sales and use tax receipts were \$176.7 million (10.9%) higher than year-to-date tax receipts in September 2002 of FY 2003.

The Non-auto Sales and Use Tax

The non-auto sales and use tax provided \$501.0 million in September 2003. Receipts were \$38.1 million (7.1%) below estimates. Tax receipts largely reflect taxable retail sales activity in the prior month. Compared to non-auto sales tax revenues a year ago, non-auto sales tax receipts in September 2003 were \$70.0 million (16.4%) higher than revenues in September 2002.

As of September 2003, year-to-date non-auto sales and use tax receipts were \$1,483.0 million, \$45.5 million (3.0%) below estimates. Compared to receipts a year ago, year-to-date non-auto sales tax receipts as of September 2003 were up \$133.1 million (9.9%).

Nationwide, brisk consumer spending has sustained the growth in retail sales. According to the U.S. Department of Commerce, nationwide retail sales (excluding autos) grew 1.1% in July, 1.1% in August 2003, and 0.3% in September 2003. Compared to retail sales in the same month in calendar year (CY) 2002, nationwide retail sales (excluding autos) grew 5.5% in July 2003, 6.8% in August 2003, and 7.2% in September 2003. Looking at another national measure of retail sales health, the Bank of Tokyo Mitsubishi Retail Chain Store Index⁷ month-to-month percentage change was positive for four straight months (2.3% in June, 0.4% in July, 0.4% in August, and 0.3% in September). The same index shows healthy growth in sales when compared to

sales in the same month in the prior year of 4.2%, 5.1% and 5.9% in July 2003, August 2003, and September 2003, respectively.⁸

Auto Sales Tax

Auto sales continue to be strong, in large part from incentives offered to buyers. Auto sales tax receipts were \$118.1 million in September 2003, \$18.0 million (17.9%) higher than estimates. Auto tax payments are made by the clerks of court on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto tax receipts largely reflect vehicles sold and titled during the month. Compared to revenues a year ago in the same month, auto sales tax receipts in September 2003 were \$34.0 million (40.4%) higher than receipts last year. For the first quarter of FY 2004, auto sales tax receipts were \$316.6 million, \$15.2 million (5.0%) above estimates. Year-to-date receipts as of September 2003 were \$43.6 million (16.0%) higher than receipts in the same period in September 2002.

Nationwide, light vehicles (auto and light trucks) unit sales in September 2003 were 6% above overall unit sales in the same month last year (with a 1.0% decline in unit sales for autos, and a 13.2% increase for trucks). Unless sales of light vehicles collapse in the remaining three months of CY 2003, nationwide light vehicle sales will be above 16 million units for the fifth consecutive year. Most forecasts of light vehicle unit sales, including forecasts from Global Insight, Wards Auto, and the National Automobile Dealers Association, expect sales to reach at least 16.5 million units. From data from the U.S. Department of Commerce, nationwide automobile sales declined 1.9% in September 2003,⁹ after growing 1.0% in August 2003. For the quarter, nationwide sales from automobile dealers grew 2.8% from the previous quarter.

Personal Income Tax

For September, the GRF received \$749.2 million in revenue from the personal income tax. This amount was \$6.7 million (0.9%) below estimate. Withholding was \$3.8 million

(0.7%) below estimate. Withholding will continue to perform weakly until Ohio's labor market perks up. The first quarterly estimated payment of the fiscal year was due in September.¹⁰ Quarterly estimated payments of \$254 million were only \$10,000 below estimate. Revenues from the temporary tax on trusts were just \$3.8 million, \$11.2 million (74.5%) below estimate. The weak performance of the tax on trusts may be due to the weak performance of the stock market during the preceding year resulting in lower trust income to be taxed or it may be due to strategic behavior on the part of trustees who may be delaying the realizing of gains until after the tax expires in 2004.

First quarter GRF revenues from the personal income tax totaled \$1,767.3 million. The total is \$23.7 million (1.3%) below estimate. Withholding is \$32.8 million (1.9%) below estimate, quarterly estimated payments are \$1.6 million (0.6%) below estimate, and revenue from the tax on trusts is \$10.6 million (67.0%) below estimate. The poor collection performance is partially offset by lower than expected refunds. Refunds are \$7 million (7.8%) below estimate. Compared to a year ago, GRF revenue from the personal income tax is up by 1.1%. Gross collections are up by 0.5% and withholding is up by 0.9%. Quarterly estimated payments are down by 5.6% and refunds are down by 10.0%.

Corporate Franchise Tax

Activities under the franchise tax in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments, and

other tax reconciliations. Major tax receipts under this tax are due in the second half of the fiscal year, with the first major payment tax in January 2004. Corporate franchise tax receipts were \$14.4 million in September 2003. As of September 2003, year-to-date receipts were \$16.7 million. These receipts were \$6.4 million (62.1%) above estimates. Year to date as of September 2003, corporate franchise tax revenues were \$35.9 million above receipts in the same period last year. Last year receipts were negative due to high refunds.

Cigarette Tax

Cigarette and other tobacco products tax receipts were \$47.4 million in September 2003, \$1.6 million (3.3%) below estimates. Receipts were \$15.1 million (24.2%) lower than receipts in September 2002. As of September 2003, year-to-date cigarette and other tobacco product receipts were \$124.0 million, \$7.1 million (5.4%) below estimates. As of September 2003, year-to-date cigarette and other tobacco product revenues were \$19.5 million (13.6%) below revenue a year ago. S.B. 261, which increased the tax rate from 22 cents to 55 cents per pack of 20 cigarettes, required taxpayers to pay a "floor" tax for cigarettes that were in inventory when the excise tax rate was increased. In the first three months of FY 2003, the floor tax provided \$25.8 million. Excluding amounts provided by the floor tax in FY 2003, year-to-date FY 2004 revenues would be \$6.3 million (5.4%) above receipts in the same period in FY 2003.

¹ "Other revenue" includes various miscellaneous revenues from refunds and recoveries, fines and forfeitures, sales of goods and services, receipts from local governments, and other revenue not elsewhere classified. The category also includes repayments of loans made from the GRF, canceled warrants, and refunds of prior year expenditures.

² "Other transfers in" include transfers to the GRF from other state funds as a result of loans, Controlling Board actions, or temporary law.

³ This \$45.8 million transfer was scheduled for October. The purpose of the transfer is to offset increases in the state school foundation program as a result of lower utility property valuations due to the deregulation of electric companies as authorized in S.B. 3.

⁴ The "major taxes" are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the kilowatt-hour tax.

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

REVENUE SOURCE				
TAX REVENUE	Actual	Estimate*	Variance	Percent
Auto Sales	\$118,139	\$100,170	\$17,969	17.9%
Non-Auto Sales & Use	\$500,973	\$539,118	-\$38,145	-7.1%
Total Sales	\$619,111	\$639,288	-\$20,177	-3.2%
Personal Income	\$749,208	\$755,904	-\$6,696	-0.9%
Corporate Franchise	\$14,432	\$5,948	\$8,484	142.6%
Public Utility	\$13	\$0	\$13	---
Kilowatt Hour Excise Tax	\$29,519	\$35,426	-\$5,907	-16.7%
Total Major Taxes	\$1,412,283	\$1,436,566	-\$24,283	-1.7%
Foreign Insurance	\$5,248	\$6,325	-\$1,077	-17.0%
Domestic Insurance	\$0	\$0	\$0	---
Business & Property	\$438	\$279	\$159	57.0%
Cigarette	\$47,374	\$49,000	-\$1,626	-3.3%
Alcoholic Beverage	\$4,516	\$5,100	-\$584	-11.5%
Liquor Gallonage	\$2,630	\$2,580	\$50	1.9%
Estate	\$346	\$12,600	-\$12,254	-97.3%
Total Other Taxes	\$60,551	\$75,884	-\$15,333	-20.2%
Total Taxes	\$1,472,835	\$1,512,450	-\$39,615	-2.6%
NON-TAX REVENUE				
Earnings on Investments	\$7,973	\$7,000	\$973	13.9%
Licenses and Fees	\$2,098	\$1,764	\$334	18.9%
Other Revenue	\$6,561	\$14,700	-\$8,139	-55.4%
Non-Tax Receipts	\$16,632	\$23,464	-\$6,832	-29.1%
TRANSFERS				
Liquor Transfers	\$9,000	\$8,000	\$1,000	12.5%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$45,854	\$2,500	\$43,354	1734.1%
Total Transfers In	\$54,854	\$10,500	\$44,354	422.4%
TOTAL REVENUE less Federal Grants	\$1,544,320	\$1,546,414	-\$2,094	-0.1%
Federal Grants	\$470,238	\$476,644	-\$6,406	-1.3%
TOTAL GRF REVENUE	\$2,014,558	\$2,023,058	-\$8,500	-0.4%

* August 2003 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

Table 3
General Revenue Fund Income
Actual vs. Estimate
FY 2004 to Date as of September 2003
(\$ in thousands)

REVENUE SOURCE							Percent
TAX REVENUE	Actual	Estimate*	Variance	Percent	FY 2003	Change	
Auto Sales	\$316,552	\$301,331	\$15,221	5.1%	\$272,965	16.0%	
Non-Auto Sales & Use	\$1,482,953	\$1,528,423	-\$45,470	-3.0%	\$1,349,831	9.9%	
Total Sales	\$1,799,504	\$1,829,754	-\$30,250	-1.7%	\$1,622,796	10.9%	
Personal Income	\$1,767,354	\$1,791,006	-\$23,652	-1.3%	\$1,748,037	1.1%	
Corporate Franchise	\$16,711	\$9,913	\$6,798	68.6%	-\$19,175	-187.2%	
Public Utility	\$39,152	\$38,577	\$575	1.5%	\$26,525	47.6%	
Kilowatt Hour Excise Tax	\$87,308	\$97,475	-\$10,167	-10.4%	\$90,023	-3.0%	
Total Major Taxes	\$3,710,030	\$3,766,725	-\$56,695	-1.5%	\$3,468,207	7.0%	
Foreign Insurance	\$5,377	\$6,416	-\$1,039	-16.2%	\$5,723	-6.0%	
Domestic Insurance	\$147	\$200	-\$53	-26.4%	\$1,284	-88.5%	
Business & Property	\$1,061	\$915	\$146	16.0%	\$1,001	6.0%	
Cigarette	\$123,980	\$131,059	-\$7,079	-5.4%	\$143,505	-13.6%	
Alcoholic Beverage	\$14,888	\$15,748	-\$860	-5.5%	\$15,137	-1.6%	
Liquor Gallonage	\$7,703	\$7,524	\$179	2.4%	\$7,422	3.8%	
Estate	\$6,651	\$18,900	-\$12,249	-64.8%	\$29,637	-77.6%	
Total Other Taxes	\$159,807	\$180,762	-\$20,955	-11.6%	\$203,708	-21.6%	
Total Taxes	\$3,869,838	\$3,947,487	-\$77,649	-2.0%	\$3,671,915	5.4%	
NON-TAX REVENUE							
Earnings on Investments	\$7,973	\$7,000	\$973	13.9%	\$22,810	-65.0%	
Licenses and Fees	\$9,743	\$10,977	-\$1,234	-11.2%	\$9,263	5.2%	
Other Revenue	\$30,030	\$34,431	-\$4,401	-12.8%	\$36,886	-18.6%	
Non-Tax Receipts	\$47,746	\$52,408	-\$4,662	-8.9%	\$68,959	-30.8%	
TRANSFERS							
Liquor Transfers	\$28,000	\$24,000	\$4,000	16.7%	\$28,000	0.0%	
Budget Stabilization	\$0	\$0	\$0	---	\$0	---	
Other Transfers In	\$56,217	\$12,862	\$43,355	337.1%	\$49,440	13.7%	
Total Transfers In	\$84,217	\$36,862	\$47,355	128.5%	\$77,440	8.8%	
TOTAL REVENUE less Federal Grants	\$4,001,800	\$4,036,757	-\$34,957	-0.9%	\$3,818,314	4.8%	
Federal Grants	\$1,339,289	\$1,339,788	-\$499	0.0%	\$1,150,191	16.4%	
TOTAL GRF REVENUE	\$5,341,089	\$5,376,545	-\$35,456	-0.7%	\$4,968,505	7.5%	

* August 2003 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

(Endnotes continued from page 23)

⁵ Payments for sales and use tax vary by type of accounts (vendors, direct-pay holders, sellers use taxpayers, consumers use taxpayers, etc.) and by schedule (monthly, semi-annual, quarterly).

⁶ The tax base expansion applied August 2, 2003, except the taxation of local telephone service, which is effective January 1, 2003.

⁷ The Bank of Tokyo Mitsubishi Retail Chain Store Index measures sales at locations open at least a year for between 74 to 94 retailers. The index does not include new business expansions, does not represent all retail sales, and does not include privately held companies. Government data is broader and the information is often revised. However, both measures provide changes in trends in retail sales.

⁸ The Bank of Tokyo Mitsubishi Total Retail Chain Store Index, which includes store expansions, relocations, and mergers, shows stronger growth than its other index: 9.6%, 10.3%, and 10.8% in year-over-year growth for July, August and September 2003.

⁹ U.S. Department of Commerce data generally looks gloomier than unit sales. The apparent discrepancy between growth in unit sales and decline in sales of autos in the month of September 2003 is due to unit sales provided by all manufacturers including only new cars and Commerce data on auto sales from dealers also including used cars, parts, and services. Also, auto sales reflect prices that include incentives.

¹⁰ Quarterly estimated payments are made by taxpayers who expect to be under-withheld by more than \$500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. These payments are usually made by taxpayers with significant nonwage income.

DISBURSEMENTS

— Steve Mansfield*

Disbursements for September (excluding transfers) were \$98.1 million below estimate, with the Education program contributing a negative disbursement variance of \$90.2 million. For the year to date, there was at the end of September a negative disbursement variance of \$178.1 million, with the September disbursement variance in the Education program providing the largest part. As can be seen in Figure 1, each of the state's four major GRF program categories are under the estimate for the year to date, with one category (Welfare and Human Services) registering a positive disbursement variance for the month of September.

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 analysis of disbursement activity in the Health Care/Medicaid program is presented in Tables 6 and 7.

Education (-\$85.5 million)

Disbursements in the Education category through September stood at \$85.5 million below the year-to-date estimate. The Department of Education accounted for \$52.9 million of the category's negative disbursement variance, and the Board of Regents for \$30.1 million. The remainder of the variance can be traced to the other small agencies in the category.

Department of Education. The Department's \$54.6 million negative disbursement variance in September was solely responsible for its year-to-date variance. When we survey the various programs that contributed to the negative variance we find the "timing" of payments appears to be the culprit for all of this variance. Line item 200-511, Auxiliary Services, posted a \$32.0 million negative disbursement variance in September. This line item provides assistance to chartered nonpublic elementary and secondary schools. Funds are distributed to school districts on a per nonpublic pupil basis. The \$32.0 million payment planned for September was made in August.

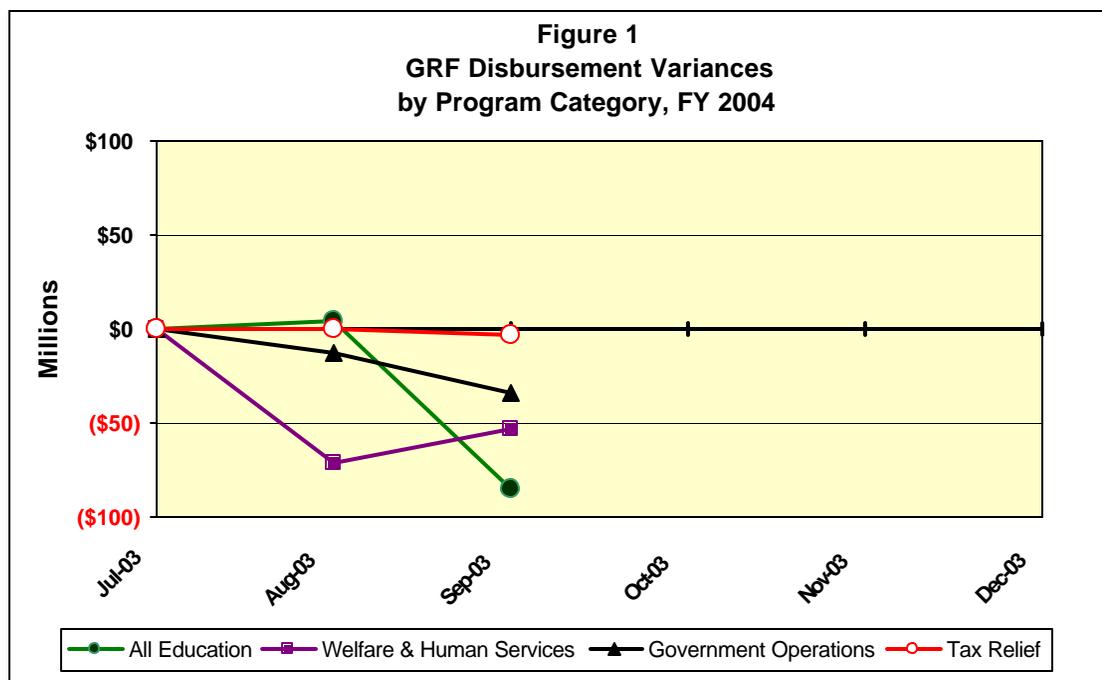


Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of September 2003
(\$ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	\$509,234	\$564,525	-\$55,291	-9.8%
Higher Education	\$148,085	\$183,001	-\$34,916	-19.1%
Total Education	\$657,318	\$747,526	-\$90,207	-12.1%
Health Care/Medicaid	\$800,553	\$796,059	\$4,494	0.6%
TANF	\$28,606	\$26,434	\$2,172	8.2%
General/Disability Assistance	\$1,633	\$1,881	-\$248	-13.2%
Other Welfare (2)	\$51,323	\$62,100	-\$10,777	-17.4%
Human Services (3)	\$105,980	\$83,862	\$22,119	26.4%
Total Welfare & Human Services	\$988,095	\$970,336	\$17,759	1.8%
Justice & Corrections	\$246,484	\$268,455	-\$21,972	-8.2%
Environment & Natural Resources	\$10,604	\$10,767	-\$163	-1.5%
Transportation	\$2,728	\$2,160	\$569	26.3%
Development	\$37,708	\$35,340	\$2,368	6.7%
Other Government	\$87,803	\$90,162	-\$2,358	-2.6%
Capital	\$0	\$412	-\$412	-100.0%
Total Government Operations	\$385,327	\$407,296	-\$21,969	-5.4%
Property Tax Relief (4)	\$76,340	\$80,000	-\$3,660	-4.6%
Debt Service	\$41,895	\$41,869	\$26	0.1%
Total Program Payments	\$2,148,975	\$2,247,027	-\$98,052	-4.4%
TRANSFERS				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$3,479	\$0	\$3,479	---
Total Transfers Out	\$3,479	\$0	\$3,479	---
TOTAL GRF USES	\$2,152,454	\$2,247,027	-\$94,573	-4.2%

(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 2003 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
FY 2004 to Date as of September 2003
(\$ in thousands)

USE OF FUNDS						
PROGRAM	Actual	Estimate*	Variance	Percent	FY 2003	Percent Change
Primary & Secondary Education (1)	\$1,632,670	\$1,688,091	-\$55,421	-3.3%	\$1,660,684	-1.7%
Higher Education	\$510,283	\$540,388	-\$30,105	-5.6%	\$562,694	-9.3%
Total Education	\$2,142,953	\$2,228,480	-\$85,527	-3.8%	\$2,223,378	-3.6%
Health Care/Medicaid	\$2,363,151	\$2,375,721	-\$12,570	-0.5%	\$2,194,445	7.7%
TANF	\$52,723	\$48,724	\$3,999	8.2%	\$61,879	-14.8%
General/Disability Assistance	\$6,972	\$7,416	-\$445	-6.0%	\$7,533	-7.5%
Other Welfare (2)	\$172,781	\$192,602	-\$19,821	-10.3%	\$164,808	4.8%
Human Services (3)	\$305,878	\$330,168	-\$24,290	-7.4%	\$363,488	-15.8%
Total Welfare & Human Services	\$2,901,504	\$2,954,632	-\$53,127	-1.8%	\$2,792,154	3.9%
Justice & Corrections	\$555,065	\$578,403	-\$23,338	-4.0%	\$519,994	6.7%
Environment & Natural Resources	\$35,919	\$35,043	\$876	2.5%	\$41,763	-14.0%
Transportation	\$9,033	\$9,709	-\$676	-7.0%	\$15,029	-39.9%
Development	\$58,719	\$65,487	-\$6,767	-10.3%	\$81,957	-28.4%
Other Government	\$158,245	\$162,230	-\$3,986	-2.5%	\$162,749	-2.8%
Capital	\$0	\$502	-\$502	-100.0%	\$0	---
Total Government Operations	\$816,981	\$851,374	-\$34,393	-4.0%	\$821,491	-0.5%
Property Tax Relief (4)	\$85,641	\$89,300	-\$3,659	-4.1%	\$387,276	-77.9%
Debt Service	\$149,941	\$151,362	-\$1,421	-0.9%	\$130,788	14.6%
Total Program Payments	\$6,097,021	\$6,275,148	-\$178,127	-2.8%	\$6,355,087	-4.1%
TRANSFERS						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$25,779	\$16,525	\$9,254	56.0%	\$15,838	62.8%
Total Transfers Out	\$25,779	\$16,525	\$9,254	56.0%	\$15,838	62.8%
TOTAL GRF USES	\$6,122,799	\$6,291,673	-\$168,873	-2.7%	\$6,370,925	-3.9%

(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 2003 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

Line item 200-520, Disadvantaged Pupil Impact Aid (DPIA), accounted for \$9.1 million of the negative disbursement variance in September. This line item is used to provide funds to school districts that incur higher educational costs due to a higher concentration of economically disadvantaged students. The majority of these funds are distributed directly to school districts. In prior years, this distribution was based on formulas, but H.B. 95 provided that districts receiving DPIA in FY 2003 receive a 2% annual increase in FY 2004 and FY 2005. About half of the disbursement variance in this line item is traceable to a delayed payment to the Cleveland Scholarship and Tutoring program.

Another significant contributor to the negative disbursement variance was line item 200-513, Student Intervention Services, which posted a variance of \$8.3 million under the estimate. This line item provides funds to school districts for providing state-mandated student intervention services. Moneys are to be targeted to provide more time for learning, including extended day, extended year, after school, Saturday school, and summer school. The quarterly payment estimated to occur in September will be made later.

Regents. The year-to-date \$30.1 million negative disbursement variance posted by the Board of Regents is wholly traceable to two line items: line item 235-503, Ohio Instructional Grants (\$13.2 million below estimate), and line item 235-531, Student Choice Grants (\$19.7 million below estimate). The explanation for these disbursement variances is that processing of the grants had not yet taken place in the first case, and the necessary data had not yet been fully reported in the second case.

Welfare/Human Services (-\$53.1 million)

With a positive disbursement variance of \$17.8 million in September, the Welfare/Human Services category as a whole stood at \$53.1 million below the estimate for the year to date. The Human Services category (which includes the Department of Mental Health, the Department of Mental Retardation and Developmental Disabilities, and other human

services agencies) accounted for the bulk of September's positive disbursement variance and the year-to-date negative variance. The following paragraphs discuss the disbursements in the components of this category in more detail.

Human Services. Despite posting a positive disbursement variance of \$22.1 million in September (largely the result of some "catching up" in disbursements in the Department of Mental Health), the Human Services subcategory remains \$24.3 million below the estimate for the year to date. The year-to-date disbursement variance is largely traceable to August activity in the Department of Mental Retardation and Developmental Disabilities, where the timing of Medicaid waiver payments and lower than anticipated county use of waiver slots accounted for most of the Department's \$18.4 million negative year-to-date disbursement variance.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating expenses and subsidy programs (which are captured in the "Other Welfare" subcategory in Tables 4 and 5, but which excludes Medicaid, TANF, and Disability Assistance since they are tracked as separate components of the Welfare and Human Services program category) stood at \$19.8 million under the estimate for the year to date. About \$5.7 million of this negative disbursement variance can be traced to slower than anticipated billing to and payments from line item 600-416, Computer Projects. Another \$8.3 million of the negative year-to-date disbursement variance can be traced to line item 600-321, Support Services. A large portion of this negative disbursement variance (\$5.4 million) stemmed from a planned purchase of office furniture that is being made by the Ohio Penal Industries. The furniture is not yet completed and has therefore not yet been invoiced.

Health Care/Medicaid. Year-to-date disbursements through September in the Health Care/Medicaid program (primarily line item 600-525) were \$12.6 million, or 0.5% below the estimate. For the month of September, health care disbursements were \$4.5 million, or 0.6% above the budget estimate.

Table 6
Health Care Spending in FY 2004
Medicaid, ALI 600-525
(\$ in thousands)

Service Category	Sept.				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Sept.	Estimate thru Sept.	Variance	Percent Variance
Nursing Facilities	\$219,098	\$209,721	\$9,377	4.5%	\$652,601	\$622,133	\$30,468	4.9%
Payments	\$229,115	\$219,658	\$9,457	4.3%	\$682,128	\$651,889	\$30,239	4.6%
NF Franchise Fees Offset ¹	(\$10,017)	(\$9,937)	(\$80)	0.8%	(\$29,527)	(\$29,756)	\$229	-0.8%
ICF/MR	\$44,701	\$35,270	\$9,431	26.7%	\$128,438	\$104,692	\$23,746	22.7%
Payments	\$46,452	\$37,007	\$9,445	25.5%	\$133,549	\$109,828	\$23,721	21.6%
ICF/MR Franchise Fees Offset	(\$1,751)	(\$1,737)	(\$14)	0.8%	(\$5,112)	(\$5,136)	\$25	-0.5%
Inpatient Hospitals	\$127,218	\$127,028	\$191	0.1%	\$326,942	\$353,661	(\$26,719)	-7.6%
Outpatient Hospitals	\$54,869	\$54,077	\$792	1.5%	\$149,149	\$151,376	(\$2,227)	-1.5%
Physicians	\$48,331	\$53,955	(\$5,624)	-10.4%	\$141,110	\$150,133	(\$9,023)	-6.0%
Prescription Drugs	\$156,680	\$156,135	\$544	0.3%	\$428,668	\$435,745	(\$7,077)	-1.6%
HMO	\$73,189	\$71,238	\$1,951	2.7%	\$277,486	\$278,438	(\$952)	-0.3%
Medicare Buy-In	\$12,865	\$12,847	\$18	0.1%	\$38,424	\$38,474	(\$49)	-0.1%
ODJFS Waiver ²	\$17,458	\$19,216	(\$1,759)	-9.2%	\$47,988	\$53,752	(\$5,764)	-10.7%
All Other ³	\$72,304	\$82,196	(\$9,892)	-12.0%	\$206,979	\$226,219	(\$19,240)	-8.5%
CHIP II ⁴	\$5,804	\$5,661	\$143	2.5%	\$17,586	\$16,225	\$1,361	8.4%
DA Medical ⁵	\$9,007	\$10,693	(\$1,686)	-15.8%	\$26,144	\$27,801	(\$1,656)	-6.0%
Total ALI 600-525	\$841,524	\$838,037	\$3,487	0.4%	\$2,441,515	\$2,458,648	(\$17,133)	-0.7%
DSH Offset	\$0	\$0	\$0		\$0	\$0	\$0	
Drug Rebates	(\$41,395)	(\$41,978)	\$583		(\$41,395)	(\$43,145)	\$1,750	
FY 2002 Encumbrance	\$0	\$0	\$0		(\$71,000)	(\$39,781)	\$31,219	
Prior Period ALI 600-525	\$424	\$0	\$424		\$34,031	\$0	\$34,031	
Total Health Care (Net of Offset)	\$800,553	\$796,059	\$4,494	0.6%	\$2,363,151	\$2,375,721	(\$12,570)	-0.5%
Est. Federal Share ⁶	\$469,890	\$467,252	\$2,638		\$1,387,068	\$1,394,446	(\$7,378)	
Est. State Share	\$330,663	\$328,807	\$1,856		\$976,083	\$981,275	(\$5,192)	

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 for FYs 2003 through 2005.

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

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.

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.

As we see in Table 6, there are several service categories with disbursement variances which stand out either for the amount or the percentage of their variance. The one item on which we have received information is the positive disbursement variance in the Intermediate Care Facilities for the Mentally Retarded (ICF/MR) category. The positive disbursement variance in the ICF/MR payments for both the month of September and year to date can largely be traced to an error of paying the federal share of the expenditure for some of the developmental centers through line item 600-525. The federal share of the reimbursements for the developmental centers operated by the Department of Mental Retardation and Developmental Disabilities should have been paid out of line item 600-655, Interagency

Reimbursement. According to the Department of Job and Family Services, a correction has been made and the correct payment will be reflected in the October disbursement report. This error also impacted the disbursement variance in the Department of Mental Retardation and Developmental Disabilities.

At the time of this writing, we are still seeking an explanation for the disbursement variances in the Nursing Facilities, Inpatient Hospitals, Physicians, and All Other categories and will report on our findings as soon as possible.

We see in Table 7, which compares FY 2004 and FY 2003 actual Health Care/Medicaid spending by service category, that the overall rate

Service Category	FY 2004	FY 2003	Dollar Change	Percent Increase
	Yr.-to-Date as of Sept. '03	Yr.-to-Date as of Sept. '02		
Nursing Facilities	\$652,601	\$616,417	\$36,184	5.87%
Payments	\$682,128	\$638,519	\$43,609	6.83%
NF Franchise Fees Offset ¹	(\$29,527)	(\$22,102)	(\$7,426)	33.60%
ICF/MR	\$128,438	\$102,322	\$26,116	25.52%
Payments	\$133,549	\$107,501	\$26,048	24.23%
ICF/MR Franchise Fees Offset)	(\$5,112)	(\$5,179)	\$68	-1.31%
Inpatient Hospitals	\$326,942	\$348,232	(\$21,289)	-6.11%
Outpatient Hospitals	\$149,149	\$143,565	\$5,585	3.89%
Physicians	\$141,110	\$135,071	\$6,038	4.47%
Prescription Drugs	\$428,668	\$395,894	\$32,774	8.28%
HMO	\$277,486	\$166,471	\$111,015	66.69%
Medicare Buy-In	\$38,424	\$35,145	\$3,279	9.33%
ODJFS Waiver ²	\$47,988	\$46,053	\$1,936	4.20%
All Other ³	\$206,979	\$194,753	\$12,226	6.28%
CHIP II ⁴	\$17,586	\$14,541	\$3,045	20.94%
DA Medical ⁵	\$26,144	\$25,521	\$623	2.44%
Total Health Care	\$2,441,515	\$2,223,984	\$217,531	9.78%
DSH Offset	\$0	\$0	\$0	
Drug Rebates	(\$41,395)	(\$30,470)	(\$10,925)	
Prior Year Encumbrance	(\$71,000)	(\$83,539)	\$12,539	
Prior Period ALI 600-525	\$34,031	\$84,470		
Total Health Care (Net of Offset)	\$2,363,151	\$2,194,445	\$168,706	7.69%
Est. Federal Share ⁶	\$1,387,068	\$1,288,045	\$99,023	
Est. State Share	\$976,083	\$906,400	\$69,683	

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 for FYs 2003 through 2005.

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

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

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.

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

of increase year over year is about 7.7%, once offsets and rebates are included. We have not been able yet to find an explanation for the large increase in the HMO service category, but will continue our efforts to do so, and report on our findings as soon as possible.

September's Medicaid caseload of all eligibles stands at 1,610,673, which is below the estimate by 16,710. A significant portion of this divergence from the caseload estimate is accounted for by a drop of nearly 7,000 cases that occurred in September in the Aged, Blind, and Disabled population. This was due largely to the decrease in the Qualified Individual-1 (QI-1) under the Specified Low-Income Medicare Beneficiary (SLMB) population. This portion of the Medicaid

population has an income between 120% and 135% of the federal poverty level. Ohio Medicaid makes the payment for their Medicare Part B premium, but with 100% federal dollars.

The QI-1 program was due to be reauthorized and Congress did not act to restore it until the last minute. On October 1, President Bush signed H.R. 3146 to extend the program through March 31, 2004. Prior to that, the Ohio Department of Job and Family Services terminated the cases of persons on this program effective September 30, 2003, reflecting the presumption that the program would not continue; this resulted in a temporary drop in caseload. Now that the program has been restored, the October number of eligibles should return to a level closer to the caseload forecast.

Exhibit 1 Comparison of TANF/OWF Caseload and JFS Disbursement of TANF Funds			
	Sept. 2001	Sept. 2002	Sept. 2003
Recipients	194,977	190,862	194,482
Assistance groups	84,219	84,535	87,006
Cash assistance	\$25,846,010	\$25,585,347	\$26,417,841
Disbursed in month*	\$60,835,180	\$68,400,132	\$69,094,082
Fiscal year-to-date disbursements*	\$209,587,111	\$191,720,399	\$202,981,040

*Includes ALI 600-410, TANF State, ALI 600-658, Child Support Collections, and Federal TANF Funds

TANF/OWF. The state's portion of the TANF program that is expended from the GRF is composed of funds from 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. These are supplemented by General Services Fund 4A8, line item 600-658, Child Support Collection, and by county expenditures for part of the program's administrative costs.

For the year to date, disbursements from line item 600-410 are over the estimate by \$4.0 million, or 8.2%. This year-to-date positive disbursement variance stems from an August payment for cash assistance where the state portion was slightly above the estimate in order to assist in meeting the state's maintenance of effort (MOE) requirement – and, in September, from subsidy payments to county departments of job and family services being slightly higher than anticipated.

Exhibit 1 illustrates the stability in the TANF caseload, Ohio Works First (OWF) cash assistance payments, and overall TANF/OWF disbursements that has been the case for the last two years.

Government Operations (-\$34.4 million)

Rehabilitation & Correction. The Department of Rehabilitation and Correction posted a monthly \$21.7 million negative disbursement variance for September. For the year to date, the department's disbursements were \$34.1 million under the estimate of \$439.5 million.

Both the monthly and year-to-date negative disbursement variances largely stem from line item

501-321, Institutional Operations, which reflects current shortages in staff primarily in the northern part of the state. When the Lima Correctional Institution closed in July of 2003, some staff positions were eliminated while other positions, particularly corrections officers, were to be moved to other northern institutions and paid with funds saved from the closing. The estimates for this line item anticipated that part of the funding for staff that was freed up by the closing would be used elsewhere in the system. Since this closure is in litigation and the institution remains partially in operation, many of these other positions remain vacant.

In addition, the Department has delayed some equipment purchases from line item 501-321 until later in the fiscal year to ensure that there are sufficient funds.

Another contributing factor to both the monthly and the year-to-date negative disbursement variance stems from line item 501-406, Lease Rental Payments. The actual payment made in September was \$8.2 million under the estimate. According to the Office of Budget and Management, Ohio received a delayed federal reimbursement payment for costs associated with construction/renovation of the Chillicothe Correctional Institution. The amount was about \$8.2 million and since the initial costs were paid out of the Department's bond fund, the reimbursement was put into the bond service fund and used to offset the GRF transfer. With this offsetting circumstance, the September estimate was thus off by \$8.2 million.

Youth Services. The Department of Youth Services posted a year-to-date positive disbursement variance of \$13.2 million, thus

partially offsetting the overall negative disbursement variance in the Government Operations category. This variance is timing-related insofar as the disbursement schedule for line item 470-401, Reclaim Ohio, was altered, and this change was not taken into account by the estimates.

Tax Relief (-\$3.7 million)

The Property Tax Relief program, which carries an FY 2004 GRF appropriation of over \$1.3 billion, reimburses school districts and local governments for revenue that is lost due to tax relief provided by state law to property owners

and businesses through the homestead exemption, the property tax rollbacks, and the \$10,000 tangible tax exemption programs. Tax relief funds are disbursed to school districts and local governments by the Department of Education and the Department of Taxation, respectively. Each of these departments divides its property tax relief program into two components: real property tax credits/exemptions, and tangible tax exemptions. For the year to date, the property tax relief program of the Department of Taxation stands at \$1.7 million under estimate, and the program of the Department of Education finished at \$1.9 million under estimate.

**LSC colleagues who contributed to the development of this disbursement report included, in alphabetical order, Melaney Carter, Ivy Chen, Phil Cummins, Laura Potts, David Price, Joseph Rogers, Maria Seaman, Clay Weidner, and Holly Wilson.*

Lottery Profits Quarterly Report

LOTTERY TICKET SALES AND PROFITS TRANSFERS FIRST QUARTER, FY 2004

— Jean Botomogno

Ticket Sales

Table 1 summarizes Lottery ticket sales by game in the first quarter of FY 2004. Ticket sales in September 2003 were higher than sales in July and August 2003. Monthly ticket sales were \$164.4 million in July and \$160.1 million in August. Then, ticket sales grew 7.6% to \$172.3 million in September, powered by receipts from Mega Millions. The Mega Millions' jackpot grew for seven weeks and ended during September with a \$150 million jackpot.¹ Mega Millions monthly sales were \$20.8 million, the third highest since the Ohio Lottery entered the multi-state game.

Table 1 shows that total ticket sales in the first quarter of FY 2004 were \$496.8 million and that Instant ticket sales were \$239.7 million, or 51.8% of quarterly sales. On-line ticket sales² were \$239.7 million, \$17.4 million or 6.8% less than Instant ticket sales. Total ticket sales in this quarter were \$24.3 million or 4.7% less than ticket sales in the last quarter of FY 2003.

Compared to ticket sales in the same quarter a year ago in FY 2003, first-quarter ticket sales in FY 2004 increased \$7.4 million, or 1.5%. On-line ticket sales were down \$14.7 million or 5.8%. Instant ticket sales grew \$22.2 million or

9.4%. Sales of most on-line games declined, except Pick 4 sales. Super Lotto sales declined \$0.5 million or 1.3%. Buckeye 5 sales dropped \$0.9 million or 5.1%. Pick 3 receipts declined \$0.5 million or 0.5%. Pick 4 revenues increased \$1.6 million or 4.3%. Compared to the first quarter in FY 2003, the first full quarter of sales of Mega Millions in Ohio, Mega Millions sales this quarter declined \$13.9 million or 25.9%, despite a huge September 2003 jackpot and monthly sales.

Transfers to the Lottery Profits Education Fund (LPEF)

Table 2 summarizes transfers from operations to the LPEF in the first quarter of FY 2004. First-quarter transfers were \$152.2 million, slightly up from \$151.6 million in the last quarter of FY 2003. Compared to transfers a year ago in the same quarter, first-quarter transfers were up \$6.7 million or 4.5%. However, transfers in the first quarter of FY 2004 were \$2.5 million or 1.6% lower than projected transfers. Quarterly transfers were about 30.6% of ticket sales. Transfers were a higher percent of sales than last fiscal year.

Transfers from operations to LPEF have declined from a peak of \$714 million in FY 1996

	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Mega Millions	Instants Tickets	On-line Tickets	Total Sales
July	\$33.0	\$12.8	\$2.4	\$5.7	\$15.3	\$9.2	\$86.1	\$78.2	\$164.4
August	\$32.6	\$13.0	\$2.1	\$5.5	\$12.2	\$10.1	\$84.7	\$75.4	\$160.1
September	\$32.6	\$13.2	\$2.0	\$5.4	\$12.1	\$20.8	\$86.3	\$86.1	\$172.3
Total	\$98.1	\$39.0	\$6.5	\$16.5	\$39.6	\$40.0	\$257.1	\$239.7	\$496.8

Totals may not add up due to rounding.

Table 2: First-Quarter Tickets Sales and Transfers to LPEF (millions of current dollars)						
	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfers as Percentage of Sales
July	\$164.4	\$50.9	\$50.9	-\$0.0	0.1%	31.0%
August	\$160.1	\$50.1	\$52.7	-\$2.6	-4.9%	31.3%
September	\$172.3	\$51.1	\$51.1	\$0.0	0.0%	29.7%
Total	\$496.8	\$152.2	\$154.7	-\$2.5	-1.6%	30.6%

Totals may not add up due to rounding.

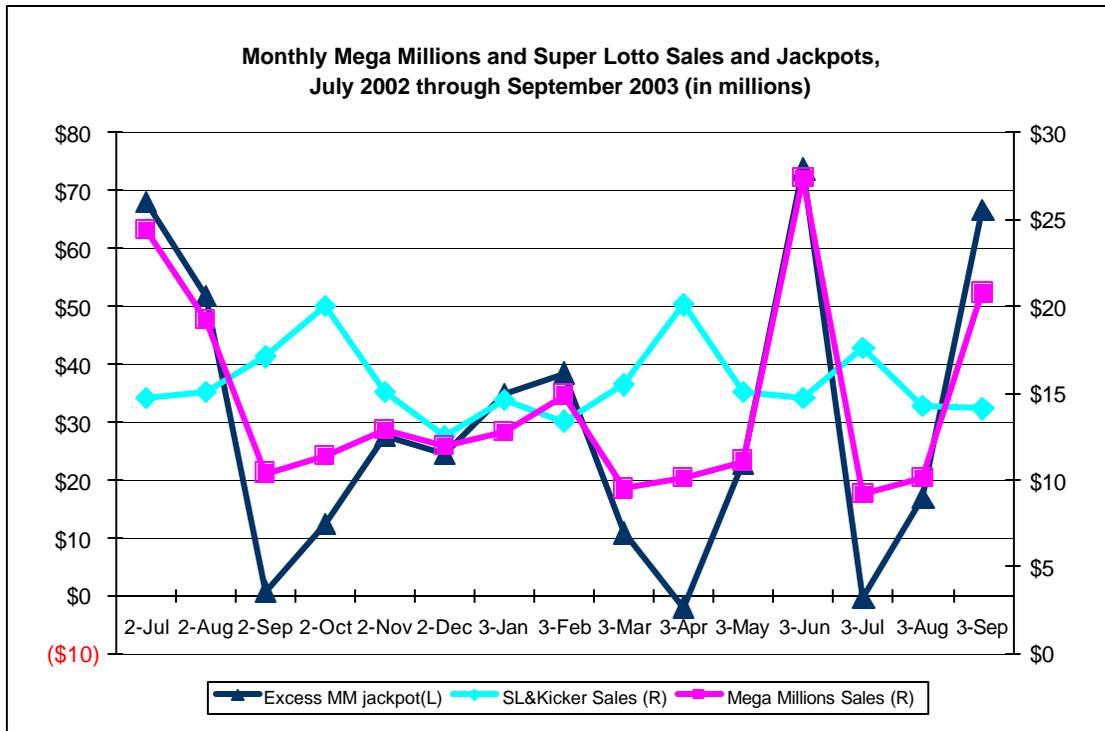
to \$606.4 million in FY 2003. Total transfers in FY 2003, including transfers from nonoperating sources, were \$641.3 million.³ Total transfers in FY 2004 are projected to be \$637.9 million, \$3.4 million less than transfers in FY 2003.

Super Lotto and Mega Millions

Seventeen months after Ohio entered this multistate game, overall sales of Mega Millions are lagging combined sales of Super Lotto and Kicker. Except for the first quarter of FY 2003, quarterly sales of Super Lotto and Kicker have exceeded those of Mega Millions by between \$8.1 million to \$18.3 million per quarter. The graph below describes the relationship between monthly sales of Mega Millions and Super Lotto/Kicker. Ticket sales for each of the games are shown on the right axis. The amount by which the average monthly Mega Millions jackpot exceeds

the average monthly Super Lotto jackpot (excess MM jackpot) is shown on the left axis.

The graph illustrates, as expected, that sales of each game are linked to the jackpot level. The graph also shows that the level of ticket sales of each game may be strongly linked to the differential in the jackpots. As the jackpot for Mega Millions increases relative to the Super Lotto jackpot, ticket spending shifts away from Super Lotto to Mega Millions as “regular” players hedge their bets and “occasional” players enter the Mega Millions, lured by large jackpots. From July 2002 through September 2003, monthly Mega Millions sales were higher than monthly Super Lotto sales five times. In each of these months, the average jackpot for Mega Million was substantially larger than the average jackpot for Super Lotto (by at least \$38 million). When jackpots are nearly identical, players prefer to



purchase Super Lotto, because the game has been around longer and the odds of winning the big prize are better. The odds of winning the jackpot are 1 in 135.1 million for Mega Millions, and 1 in 13.9 million for Super Lotto. For example, in July 2003, average monthly jackpots for Mega Millions and Super Lotto were \$20.2 million and

\$20.6 million, respectively. Monthly ticket sales were \$9.2 million for Mega Millions and \$17.6 million for Super Lotto. In September 2003, when the average monthly jackpots were \$83 million for Mega Millions and \$16.3 million for Super Lotto, monthly sales were \$20.8 million and \$14.1 million, respectively.

¹ About 14 drawings without a winner for the top prize.

² On-line ticket sales is the sum of sales of Pick 3, Pick 4, Buckeye 5, Kicker, Super Lotto, and Mega Millions.

³ Transfers from nonoperating sources are transfers from the Unclaimed Lottery Prize Fund, the Lottery Deferred Prizes Trust Fund, or the Lottery Profits Education Fund. Am. Sub. H.B. 95, the budget act, eliminated the Unclaimed Lottery Prize Fund. Unlike previous fiscal years, the budget act did not specify a target amount to transfer from nonoperating sources to LPEF in the current biennium.