

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

APRIL 2004

## FISCAL OVERVIEW

— Allan Lundell

The national economic news for March was upbeat and encouraging. Total nonfarm payroll employment increased by the largest one-month amount in four years. Additionally, employment gains for January and February were revised upward. The number of initial and continuing jobless claims fell throughout the month. Retail sales increased by 1.8% from February and were up 8.2% compared to a year earlier. Both the manufacturing and nonmanufacturing purchasing managers indexes were at levels indicating strong growth. The national economic recovery appears to be gaining momentum and the prospects for strong growth through the end of the year are good, but nothing is certain.

Even though the economic news for March was upbeat and encouraging, the Office of Budget and Management (OBM) revised its revenue estimates for the remainder of the fiscal year (March through June). The revisions were made because, through February, revenues were not coming in as expected and indications were that collections would not pick up as the state entered its major revenue collecting months. The personal income tax filing season – which reflects calendar year 2003 activity – was the major source of concern. Estimated total General Revenue Fund (GRF) revenue for FY 2004 was reduced by \$249.9 million (1.04%) from the original estimates and estimated tax revenue was reduced by \$257.3 million (1.45%).

Through March, total GRF revenue is \$63 million (0.4%) below the original estimate. Total tax revenue is \$12 million (0.1%) below estimate and revenue from the major taxes is \$9 million (0.1%) above estimate. Revenue from the “other” taxes, mostly the cigarette tax and the estate tax, is \$12 million (2.7%) below estimate.<sup>1</sup> Compared to the revised estimates, total GRF revenue is \$43 million (0.3%) above estimate, state-source revenue is \$109 million (0.9%) above estimate, tax revenue is \$100 million (0.8%) above estimate, and revenue from the major taxes is \$92 million (0.8%) above estimate. Through the first nine months of FY 2004, total GRF revenue is up \$1,707 million (11.2%) compared to FY 2003. The revenue growth is almost entirely due to the increase in the state sales tax rate and an increase in federal grants. If revenue from the sales tax and federal

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**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)

	<b>Month of March</b>	<b>Fiscal Year 2004 to Date</b>	<b>Last Year</b>	<b>Difference</b>
Beginning Cash Balance	-\$678.9	\$396.5		
Revenue + Transfers	<u>\$1,956.8</u>	<u>\$16,920.3</u>		
Available Resources	\$1,277.8	\$17,316.8		
Disbursements + Transfers	<u>\$2,171.0</u>	<u>\$18,209.9</u>		
Ending Cash Balances	-\$893.1	-\$893.1	-\$1,449.5	\$556.4
Encumbrances and Accts. Payable		\$498.0	\$498.2	-\$0.2
Unobligated Balance		<b>-\$1,391.1</b>	<b>-\$1,947.7</b>	<b>\$556.6</b>
BSF Balance		\$180.7	\$1,002.6	-\$821.9
<b>Combined GRF and BSF Balance</b>		<b>-\$1,210.4</b>	<b>-\$945.2</b>	<b>-\$265.3</b>

grants is subtracted from total GRF revenue, the resulting state-source revenue from sources other than the sales tax is up \$63 million (0.9%) compared to FY 2003.

Fiscal year-to-date total GRF disbursements are \$305 million (1.6%) below estimate. Disbursements for primary and secondary education are \$51 million (1.0%) below estimate and disbursements for higher education are \$5 million (0.3%) above estimate. Disbursements for welfare and human services are \$151 million (1.8%) below estimate.

As shown in Table 1, the GRF began March with a negative cash balance of -\$679 million. Revenue, including transfers-in, for March was \$1,957 million. Disbursements, including transfers-out, were \$2,171 million. The monthly deficit of \$214 million brought the fiscal year-to-date cash balance to -\$893 million. Due to the timing of revenues and disbursements, the cash balance is generally negative early in the fiscal year

before turning positive later in the year. If revenues and disbursements had met their estimates, the fiscal year-to-date cash balance would have been -\$1,135 million, \$242 million lower than the actual level.

The fiscal year-to-date cash balance of -\$893 million is \$556 million higher (less negative) than a year ago. Year-to-date encumbrances of \$498 million combine with the cash balance to yield an unobligated balance of -\$1,391 million, which is \$557 million higher than a year ago. Looking at just the unobligated balance indicates that the state's financial situation in terms of current-year performance has improved compared to a year ago. The \$181 million balance in the Budget Stabilization Fund (BSF) is \$822 million less than a year ago, so the combined GRF and BSF balance is \$265 million lower than it was at this time last year. If one looks at the combined GRF and BSF balance, the state's financial situation in terms of ability to withstand an economic shock has deteriorated from a year ago and remains far from robust.

<sup>1</sup> The "other" or "minor" taxes are the foreign insurance tax, the domestic insurance tax, the business and property tax, the cigarette tax, the alcoholic beverage tax, the liquor gallonage tax, and the estate tax.

## ***TRACKING THE ECONOMY***

*¾ Phil Cummins*

The upturn in U.S. economic growth in last year's second half is continuing this year. Gross domestic product, the total output of the U.S. economy, appears to be growing at least as rapidly this year as in last year's fourth quarter, when it rose at a 4.1% annual rate. Nonfarm payrolls nationwide added 308,000 jobs in March, the most in any month in four years. U.S. factory employment stopped shrinking last month. In Ohio, nonfarm payroll employment rose 7,900 last month. Purchasing managers reported expanding activity at their firms. Industrial production fell in March, reflecting cutbacks at utilities and unchanged manufacturing output following sizable gains in earlier months. Retail sales rose strongly in March. Housing starts rose last month and remain at a high level. Consumer prices through March have been increasing more rapidly than last year. The reports of larger payroll employment and retail sales increases in March, along with higher consumer price inflation, put upward pressure on interest rates, as financial market participants anticipated firming monetary policy later this year.

### ***Employment Gains***

Total nonfarm payroll employment rose 308,000 in March, the largest one-month increase in four years. Gains in March were the most widespread among industries since 2000, prior to the last recession. Part of the increase in March resulted from striking union members at food stores returning to work. Job increases in January and February were revised upward. Total payroll employment has increased about 760,000 since reaching a low point last August. Manufacturing employment was unchanged in March, the first month that total factory jobs have not declined since 2000. However, hours worked declined, both on average and in the aggregate. In contrast with the generally very positive payroll report, the number of people unemployed, based on a separate survey of households, increased to 8.4 million in March, and the unemployment rate

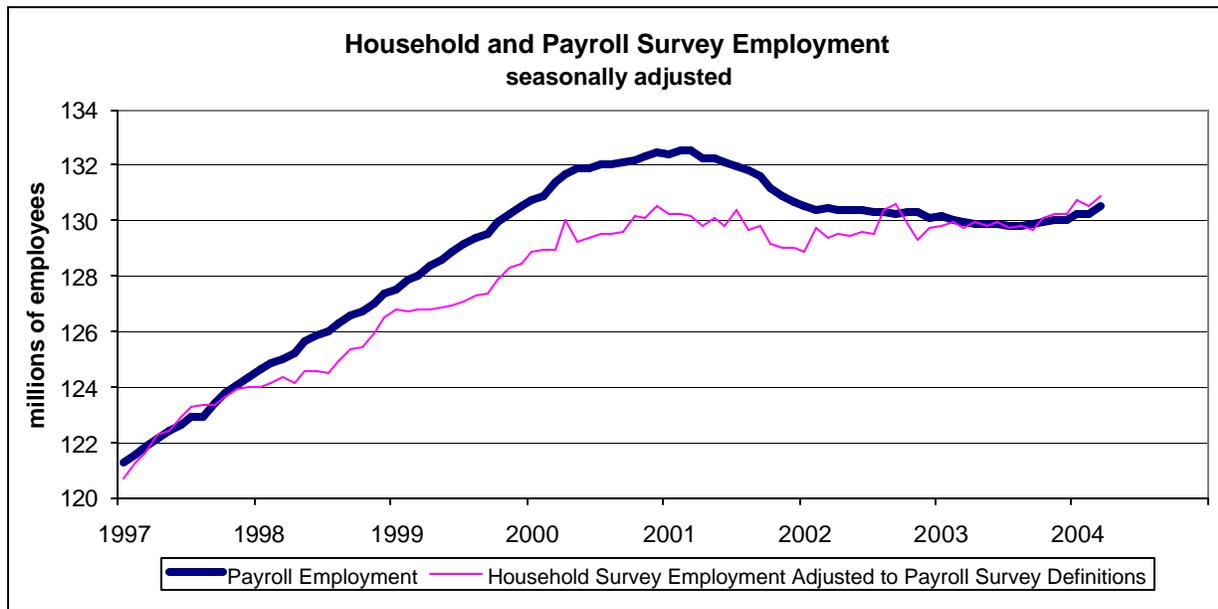
rose from 5.6% to 5.7%. Unemployment peaked for the current cycle at 6.3% of the labor force in June 2003.

In Ohio, total nonfarm payroll employment rose 7,900 in March. The gain was mainly in service-producing industries, while manufacturing employment fell slightly. Unemployment in Ohio fell to 333,000 in March, 5.7% of the labor force, down from 5.9% the month before.

Analysts have puzzled over divergent trends in employment shown by the two surveys reported monthly by the U. S. Bureau of Labor Statistics (BLS). Since the end of the last recession in November 2001, nonfarm payroll employment has fallen 320,000 while total employment from the household survey has risen 1.9 million. Only a small part of this divergence is due to differing definitions, such as inclusion of self-employed persons in total (household survey) employment and exclusion of these people from the payroll survey.

The BLS released data this month showing employment from the household survey adjusted to match employment as defined in the payroll survey as nearly as possible. These data are shown in the chart. Adjusted household survey employment grew more slowly than payroll employment in the boom years of the late 1990s, fell less in the 2001 recession, and has grown more in the recovery since then.

The BLS suggests several causes that may account for the divergent trends in the two series. Payroll survey employment is benchmarked once a year to a count of all employees on nonfarm payrolls. Household survey employment does not have such a benchmark. Instead, it is estimated every month from a survey of 60,000 households and from estimates of the total population derived separately. Between decennial census years, population is difficult to estimate, particularly with international migration. Growth in the household



employment series since the 2001 recession has resulted from increases in estimated population combined with declines in the employment-population ratio. Other possible sources of divergence between the two employment series include worker misclassification by household survey respondents, and “off-the-books” workers some of whom might be reported in the household survey but not the payroll survey.

### ***Most Reports Show a Growing Economy***

Reports from purchasing managers for March indicate continued brisk expansion in the economy. Respondents to the Institute for Supply Management’s monthly survey of manufacturers said that increases in production, new orders, and order backlogs were widespread. Employment increased for the fifth consecutive month, according to the survey respondents, in contrast with the BLS report that factory employment was unchanged in March after 43 months of declines. Manufacturing purchasing managers said numerous commodities that they purchase were higher in price, and prices fell for only two. Steel, aluminum, some electronic components, and propylene were in short supply. Concerns of the purchasing managers were said to be shifting from cost to availability of needed commodities. Factory inventories, however, continued to shrink, for the 50th consecutive month. Purchasing managers with organizations other than manufacturers reported another strong month,

with increases in business activity most widespread in the brief history (since July 1997) of the nonmanufacturing survey. Steel and steel products were in short supply, prices for many products and services were higher than a month earlier, and only a few items declined in price.

Total industrial production fell 0.2% in March as utility output dropped 2.3% and mining activity declined fractionally. Manufacturing production was unchanged in March, but the first quarter’s factory output exceeded that in last year’s fourth quarter by 6%, at an annual rate, reflecting gains in earlier months.

Retail sales rose sharply in March, increasing 1.8% from February to 8.2% above a year earlier. Strong increases in sales were reported at stores selling building materials, garden equipment, and supplies; at motor vehicle dealers; and at clothing and accessories stores. Retail sales in this year’s first quarter rose from last year’s fourth quarter at around a 9% annual rate. In light of these sales figures, the initial estimate of first quarter gross domestic product, to be released later this month, can be expected to show a large gain in consumer spending on goods.

The total of inventories at manufacturers, wholesalers, and retailers rose 0.7% in February, after increasing 0.2% in January, to 2.0% above a year earlier. Inventories remain quite lean relative to sales. Inventory building contributed to the rise

in gross domestic product in the 2003 fourth quarter and appears to be continuing to do so in the 2004 first quarter.

Housing starts remain at a high level, and rose in March to a 2.0 million unit annual rate. Year-to-date starts are 13% above those a year earlier. Home sales continued strong through February but are likely to slow as a result of the rise in interest rates this month.

### ***Inflationary Pressures***

The reports from BLS on producer prices have been delayed this year, because of problems converting the data to the North American Industry Classification System (NAICS) from the Standard Industrial Classification (SIC) system. As a result, information on producer prices in March is not yet available. In February, the producer price index for finished goods rose 0.1%, after a 0.6% increase in January, to 2.1% above a year earlier. At earlier stages of production, prices increased more rapidly in the first two months of 2004. Intermediate goods prices rose 0.9% in February, after rising 0.8% in January, to 2.7% above a year earlier. Crude goods prices climbed 2.5% in February, after a 2.8% increase in January, to 11% above a year earlier.

Consumer prices rose 0.5% in March to 1.7% above a year earlier. Price increases have accelerated this year. If the rate of increase in consumer prices during the first three months of 2004 continued for a year, prices would rise more

than 5%. The faster rate of increase in 2004 mainly reflects higher energy prices, particularly for gasoline, which has risen above its previous peak a year earlier. However, prices for other goods and services, including apparel, medical care, and recreation, also have risen faster so far this year. Increases in food prices have slowed. Excluding food and energy, consumer prices rose 0.4% in March, a rapid rate of increase matched in only three other months in the past ten years. However, the question remains: Is this a short-term increase or the start of a trend?

### ***Higher Interest Rates***

Interest rates jumped sharply at the beginning of April, following the report that payroll employment in March registered its strongest rise in four years. Yields rose further in mid-April after the robust retail sales report for March was released. The yield on the U.S. Treasury ten-year note rose above 4.3%, from 3.7% in mid-March, and mortgage interest rates also increased. Indications of an expanding economy, coupled with an acceleration of inflation, raise the odds that the nation's central bank will tighten monetary policy, perhaps as soon as midyear. The Federal Open Market Committee (FOMC) has held its target rate for its short-term policy interest rate, on overnight federal funds, unchanged at a 40-year low of 1% since June 2003. No change is likely until the FOMC sees confirmation that larger gains in payroll employment are continuing, and perhaps also that the upturn in inflation is being sustained.

# Status of the General Revenue Fund

## REVENUE

— Allan Lundell and Jean Botomogno

The Office of Budget and Management (OBM) revised its revenue estimates for the remainder of the fiscal year (March through June). Estimated total General Revenue Fund (GRF) revenue for FY 2004 was reduced by \$249.9 million (1.04%) from the original estimates and estimated tax revenue was reduced by \$257.3 million (1.45%). The revisions to the fiscal year estimates may be thought of as the sum of the year-to-date variances from original estimates through February plus the changes to the estimates for March, April, May, and June. Most of the revisions were in the personal income tax (down \$215.3 million for the fiscal year and \$149.5 million for March through June) and the estate tax (down \$40.2 million for the fiscal year and \$25.0 million for March through June). Details of the revisions are presented in Exhibit 1.

March total GRF revenue of \$1,956.8 million was \$28.9 million (1.5%) above original estimate and GRF revenue less federal grants (state-source revenue) was \$95.0 million (6.6%) above estimate. Revenue from federal grants was \$66.1 million (13.6%) below estimate in March. Total tax revenue was \$86.0 million (6.3%) above estimate and revenue from the major taxes was \$63.2 million (5.0%) above estimate.<sup>1</sup> Compared to the revised estimates, total GRF revenue was \$42.8 million (2.2%) above estimate in March and state-source revenue was \$108.8 million (7.6%) above estimate. Total tax revenue was \$100.4 million (7.4%) above estimate and revenue from the major taxes was \$92.2 million (7.5%) above estimate.

Through March, GRF revenue is up 11.2% compared to FY 2003. State-source revenue is up 9.2% and revenue from federal grants is up 17.8%. Federal grants are up partly due to one-time revenue. Total tax revenue is up 9.5% and revenue from the major taxes is up 10.8%. Total

GRF revenue is up \$1,706.6 million compared to FY 2003, but if the sales tax (up \$1,015.4 million) and federal grants (up \$627.7 million) are not counted, state-source revenue from sources other than the sales tax is up just \$63.5 million (0.9%). Compared to FY 2003, revenue from the cigarette tax is down by \$43.4 million (10.2%) and revenue from the estate tax is down \$32.7 million (46.2%). Revenue from the personal income tax is up \$26.1 million (0.5%) compared to FY 2003, and revenue from the corporate franchise tax is up \$88.4 million (19.2%).

Although revenues are up compared to FY 2003 and exceeded estimates for March, they remained slightly below the original FY 2004 estimates. Total GRF revenue is \$63.3 million (0.4%) below estimate through the first nine months of this fiscal year. State-source revenue is \$6.7 million (0.1%) above estimate, and total tax revenue is \$11.6 million (0.1%) below estimate. Revenue from the major taxes, which are expected to account for 69% of total GRF revenue and 89% of state-source revenue for the fiscal year, is \$8.7 million (0.1%) above the original estimate. Compared to the revised estimates, total GRF revenue is \$42.8 million (0.3%) above estimate and state-source revenue is \$108.8 million (0.9%) above estimate. Total tax revenue is \$100.4 million (0.8%) above estimate and revenue from the major taxes is \$92.2 million (0.8%) above estimate. Chart 1 compares FY 2004 revenues with FY 2003 revenues and FY 2004 estimates, original and revised.

### *Personal Income Tax*

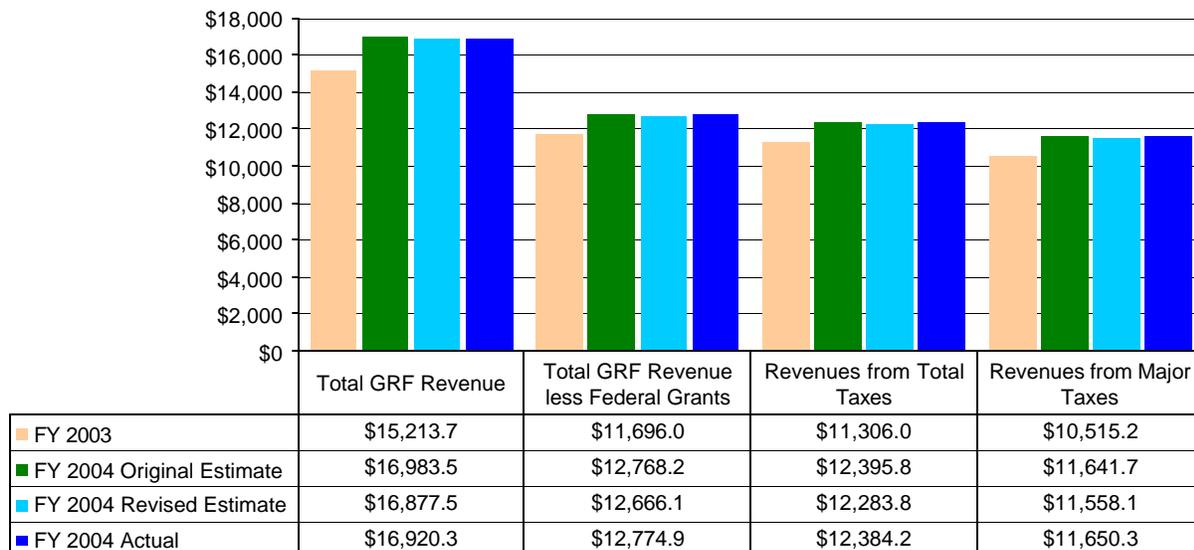
In March, revenue from the personal income tax rose above estimate for the first time since December and just the third time this fiscal year. The GRF received \$421.2 million in revenue from

the personal income tax. This amount was \$5.6 million (1.4%) above estimate. The \$616.4 million in revenue collected through

withholding was \$11.4 million (1.9%) above estimate. Quarterly estimated payments of \$17.9 million were \$2.9 million (19.2%) above

<b>Exhibit 1: OBM Revisions to GRF Revenue Estimates (in thousands of dollars)</b>				
Revenue Source	Variance through February	March through June Revision	FY 2004 Revision	Percent
<b>TAX REVENUE</b>				
Auto Sales	-\$3,508	\$15,208	\$11,700	1.03%
Nonauto Sales & Use	-\$10,292	-\$108	-\$10,400	-0.16%
Total Sales Taxes	-\$13,800	\$15,100	\$1,300	0.02%
Personal Income	-\$65,839	-\$149,461	-\$215,300	-2.83%
Corporate Franchise	\$18,140	-\$1,142	\$16,998	2.14%
Public Utility	\$26,479	-\$7,679	\$18,800	8.73%
Kilowatt Hour	-\$19,521	-\$15,381	-\$34,902	-9.36%
Total Major Taxes	-\$54,541	-\$158,563	-\$213,104	-1.28%
Foreign Insurance	-\$8,955	\$8,955	\$0	0.00%
Domestic Insurance	-\$52	\$52	\$0	0.00%
Business & Property	-\$421	\$421	\$0	0.00%
Cigarette	-\$17,018	\$15,018	-\$2,000	-0.36%
Alcoholic Beverage	-\$2,068	\$1,068	-\$1,000	-1.67%
Liquor Gallonage	\$663	-\$1,663	-\$1,000	-3.33%
Estate	-\$15,228	-\$24,972	-\$40,200	-38.21%
Total Other Taxes	-\$43,079	-\$1,121	-\$44,200	-3.73%
Total Taxes	-\$97,620	-\$159,684	-\$257,304	-1.45%
<b>NONTAX REVENUE</b>				
Earnings on Investments	\$1,518	\$0	\$1,518	6.07%
Licenses and Fees	-\$3,693	\$0	-\$3,693	-8.37%
Other Revenue	-\$7,668	\$0	-\$7,668	-3.67%
Nontax Receipts	-\$9,843	\$0	-\$9,843	-3.54%
<b>TRANSFERS</b>				
Liquor Transfers	\$8,000	\$2,000	\$10,000	9.52%
Budget Stabilization	\$0	\$0	\$0	0.00%
Other Transfers In	\$11,219	\$0	\$11,219	2.70%
Total Transfers In	\$19,219	\$2,000	\$21,219	4.08%
TOTAL REVENUE less Federal Grants	-\$88,244	-\$157,684	-\$245,928	-1.32%
Federal Grants	-\$3,945	\$0	-\$3,945	-0.07%
TOTAL GRF REVENUE	-\$92,189	-\$157,684	-\$249,873	-1.04%

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



estimate.<sup>2</sup> Payments made by individuals filing their annual returns were \$10.5 million (35.0%) above estimate and payments made by individuals requesting a filing extension were \$3.5 million (21.7%) above estimate. Refunds totaled \$237.9 million. This total was \$24.9 million (11.7%) above estimate.

Through March, GRF revenue from the personal income tax totaled \$4,151.6 million. The total is \$60.2 million (1.2%) below estimate. Withholding is \$3.3 million (0.06%) below estimate. Quarterly estimated payments are \$27.4 million (3.4%) below estimate, revenue from the tax on trusts is \$1.8 million (6.3%) below estimate, and refunds are \$35.3 million (5.3%) above estimate.

Revenue from the personal income tax was \$22.6 million (5.7%) above revised estimates for March. Withholding was \$10.4 million (1.7%) above estimate, quarterly estimated payments were \$2.9 million (19.2%) above estimate, and refunds were \$2.0 million (0.9%) below estimate.

Income tax revenue continues to show just slight growth compared to a year ago. For the fiscal year through March, GRF revenue from the personal income tax is up by 0.5% and gross collections are up by 1.4%. Fiscal year-to-date withholding is up by 3.2% compared to FY 2003.

In a month-by-month comparison to last year, withholding is up by 1.9% for January, 3.9% for February, and 9.9% for March. Withholding reflects the condition of Ohio's labor market and the monthly improvement in withholding provides some indication that Ohio's labor market may be improving. Quarterly estimated payments are down by 8.9% compared to FY 2003 and revenue from the tax on trusts is down 35.8%. While withholding is making a positive contribution compared to last year, the other components are making negative contributions compared to last year.

### *The Sales and Use Tax*

In March 2004, revenues from the sales and use tax were above estimates and stronger than the performance in February 2004. February 2004 revenues came in at \$513.1 million, \$0.9 million below estimates. Total sales and use tax revenues in March 2004 were \$604.7 million, \$29.2 million (5.1%) above projected revenues. Nonauto sales and use tax receipts were \$22.0 million (4.6%) above estimates while those from the auto sales and use tax were \$7.2 million (7.1%) better than projected revenues. Total sales and use tax receipts were \$216.4 million (55.7%) above March 2003 sales and use tax revenues. As of March 2004, year-to-date total sales and use tax revenues were \$5,547 million,

\$15.4 million (0.3%) above estimates. Sales and use tax receipts were \$1,015.4 million (22.4%) higher than year-to-date tax receipts in March 2003. The increase in sales and use tax revenue is primarily due to a 20% increase in tax rates, as the tax increased from 5% to 6% of the purchase price in July 2003.

### The Nonauto Sales and Use Tax

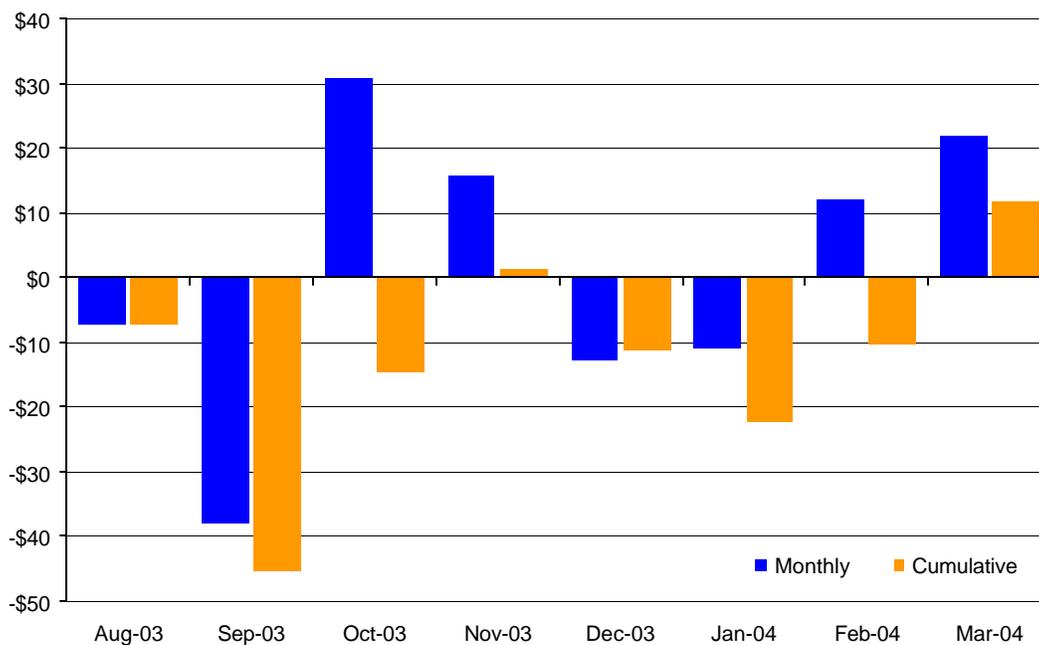
For a second consecutive month, nonauto sales and use tax revenue was above estimates. In February 2004, this tax source was \$12.1 million (2.7%) above estimates. In March, nonauto sales and use tax receipts, at \$496.1 million, were \$22.0 million (4.6%) above estimates. Tax receipts partly reflect taxable retail sales activity in the prior month and partly taxable retail sales during the current month.<sup>3</sup> Compared to nonauto sales tax revenues a year ago, tax receipts for the month were \$172.7 million (53.4%) higher than revenues in March 2003. At the 5% sales tax rate, March 2004 receipts would have been about \$90 million or 28% higher than March 2003 receipts. As of March 2004, year-to-date nonauto sales and use tax receipts were \$4,729.4 million, \$11.7 million (0.2%) above estimates. Compared to receipts a year ago, year-to-date nonauto sales tax receipts as of March 2004 increased \$879.9 million (22.9%). However, due to tax

payment changes, the sales periods for the tax collections are not the same. The performance of the nonauto sales and use tax in March 2004 more than erased the cumulative negative variance of \$10.3 million at the end of February 2004. For only the second time in this fiscal year, the year-to-date variance for the nonauto sales and use tax is barely positive.

The growth in nationwide retail and food service sales (excluding autos) has been positive. Growth in retail sales (excluding autos) in January 2004 was 1.2%. Growth was 0.6% and 1.7% in February and March 2004, respectively. Compared to retail sales in the same month a year ago, March 2004 sales (ex autos) were up 8.5%. In the first quarter of calendar year (CY) 2004, retail sales (ex auto) grew 9.4% when compared to the first quarter of CY 2003. Year-over-year retail sales growth has been above 8% in the last four months. Another measure of the health of the retail sector, the index of chain-stores sales,<sup>4</sup> grew 7.0% above last year in March, and total sales<sup>5</sup> in March 2004 grew 12.6% over the same month last year. For the quarter, the index of chain-stores sales grew 6.6%, the strongest quarterly growth since the third quarter of 1999.

Am. Sub. H.B. 95 expanded the sales and use tax base by including new services, including the

**Chart 2: Nonauto Sales Tax Variance from July 2003 Estimates**  
(in millions of dollars)



sales taxation of local telephone service starting January 1, 2004. The start of the remittance of sales and use tax receipts by local telephone companies has helped the comparison with year-ago tax receipts. Revenues from the sales tax on local telephone service are expected to boost GRF revenues by about \$11.0 million on a monthly basis. Comparison with prior year-nonauto sales tax receipts has also been distorted by the increase in the sales tax rate from 5% to 6%, and by the acceleration of sales and use tax receipts under H.B. 40 starting with April 2003 tax collections. In May 2004, the impact of the change in the pattern of remittance of tax receipts will wane in the monthly comparison of revenues with prior-year sales tax receipts. The impact of the increase in revenues from the tax rate increase and the base expansion, however, will remain.

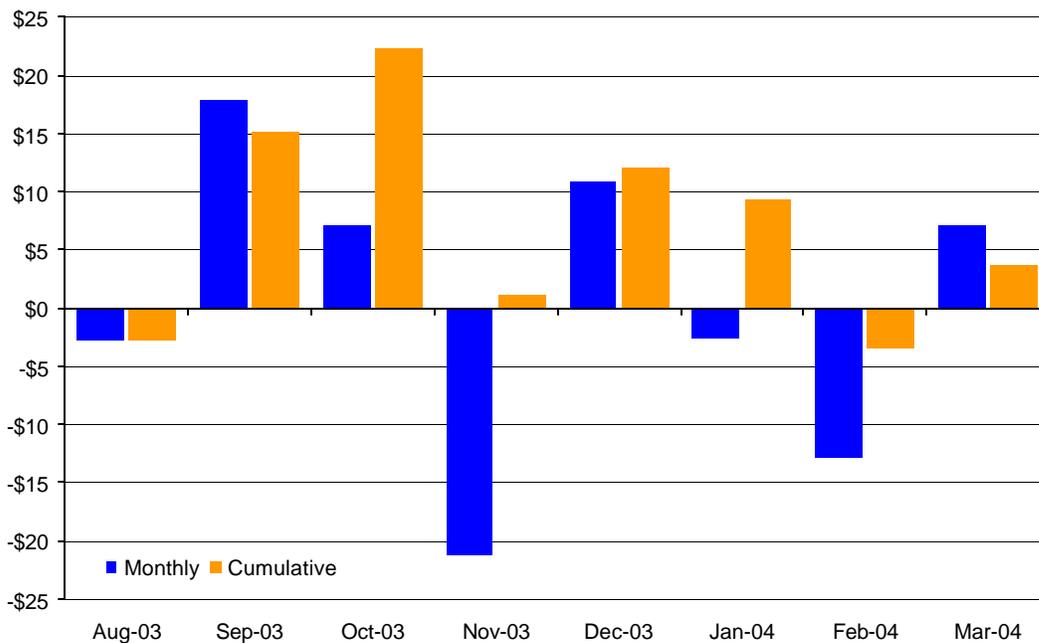
**The Auto Sales Tax**

Auto sales tax receipts were \$108.5 million in March 2004, \$7.2 million (7.1%) above July 2003 estimates.<sup>6</sup> The clerks of court make auto tax payments 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 March 2004 were \$43.7 million (67.5%) higher than receipts in March 2003. As of March 2004, year-to-date auto sales tax receipts were \$817.8 million, \$3.7 million (0.5%) above estimates. These receipts were also \$135.5 million (19.9%) higher than receipts through the same period in March 2003. At the 5% sales tax rate, March 2004 auto sales tax revenue would have been about \$90.4 million, \$25.6 million (39.5%) more than March 2003 receipts. Adjusted for the tax rate increase, year-to-date revenues in March 2004 would have been \$681.5 million, \$0.8 million (0.1%) less than FY 2003 receipts. Receipts for the first two months in CY 2004 had been below receipts in the same period last year, despite the rate increase from 5% to 6%. Therefore, March auto sales tax revenues reversed a two-month downtrend in tax receipts for this revenue source.

Nationwide auto sales, both in number of vehicles sold and dollar sales, improved in March 2004. The U.S. Department of Commerce reported that sales at motor vehicle dealers grew 2.2% in March 2004, after an increase of 2.8% in February 2004. Unit sales of light vehicles were 16.6 million on an annualized basis, 0.3 million better than February 2004 sales. Compared to

**Chart 3: Auto Sales Tax Revenue Variance from July 2003 Estimate**  
(in millions of dollars)



<b>Exhibit 2</b>			
<b>Sales and Use Tax Collections - July through March 2004, \$ in millions</b>			
	Auto Sales Tax	Nonauto Sales Tax	Total
FY 2003	\$682.3	\$3,849.5	\$4,531.8
FY 2004	\$817.8	\$4,729.4	\$5,547.2
<b>Growth</b>	<b>19.9%</b>	<b>22.9%</b>	<b>22.4%</b>
<b>Estimated Taxable Sales (based on tax collections), \$ in millions</b>			
	Auto Sales Tax	Nonauto Sales Tax	Total
FY 2003	\$13,646.5	\$76,990.5	\$90,637.0
FY 2004	\$13,630.0	\$78,823.3	\$92,453.3
<b>Growth</b>	<b>-0.1%</b>	<b>2.4%</b>	<b>2.0%</b>

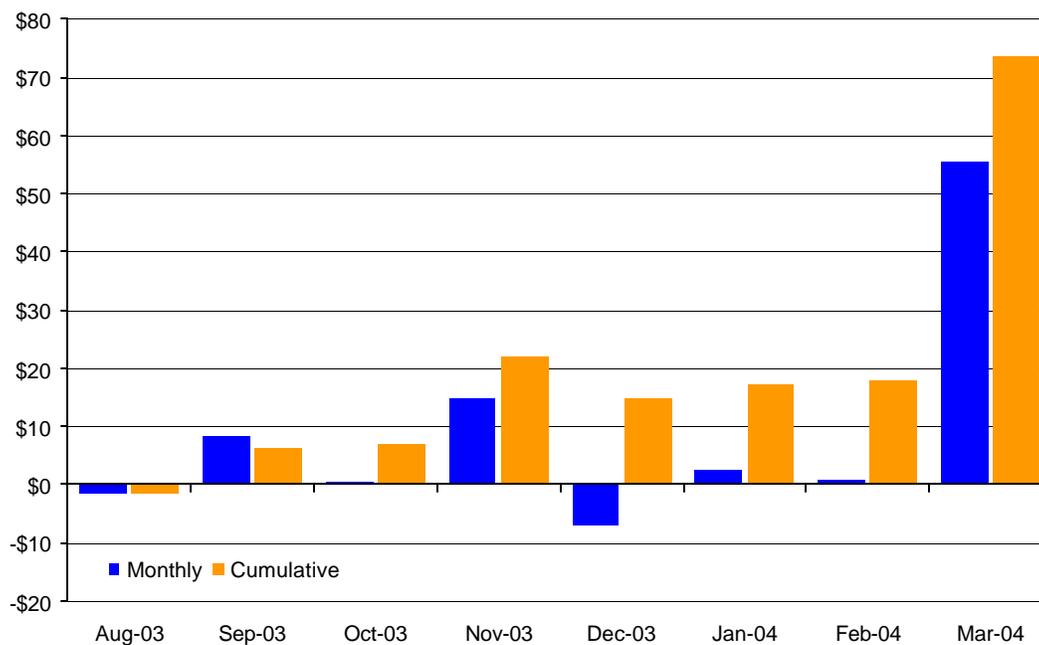
February 2004, light truck sales in March 2004 held steady at 8.9 million units while car sales improved to 7.7 million, up from 7.4 million in February 2004. Unit sales have increased each month in CY 2004. So far in CY 2004, about 3.9% more vehicles have been sold nationwide than in the three months in CY 2003.<sup>7</sup>

#### Estimated Taxable Sales in FY 2004

The table (Exhibit 2) above shows year-to-date estimated taxable sales in FY 2004 and a comparison with taxable sales in the same period in FY 2003. The sales and use tax rate was increased to 6% on July 1, 2003, up from 5%. Taxable sales were obtained by dividing sales tax receipts by the corresponding tax rate. The table

presents, based on actual tax receipts, an estimate of the growth in the sales and use tax base. The underlying sales and use tax taxable base so far in FY 2004 grew 2.0% from the same period in FY 2003. This includes effects from broadening the base of the sales tax. Nonauto taxable sales grew 2.4%, while auto taxable sales declined 0.1%. Information in the table must be used with caution because it ignores the effect of H.B. 40, which modified sales and use tax collections (see January 2004 Budget Footnotes). Also, it does not take into account the probable acceleration of purchases of big-ticket items (e.g., cars, furniture, appliances, etc.) in June 2003 ahead of the rate increase that occurred on July 1, 2003. This effect was most likely larger for the auto sales tax than for the nonauto sales tax. Based on

**Chart 4: Corporate Franchise Tax Variance from July 2003 Estimate**  
(in millions of dollars)



research from the Department of Taxation, between \$20 million and \$40 million in potential FY 2004 auto tax revenues were transferred due to the shifting of purchases of automobiles into FY 2003.

**Corporate Franchise Tax**

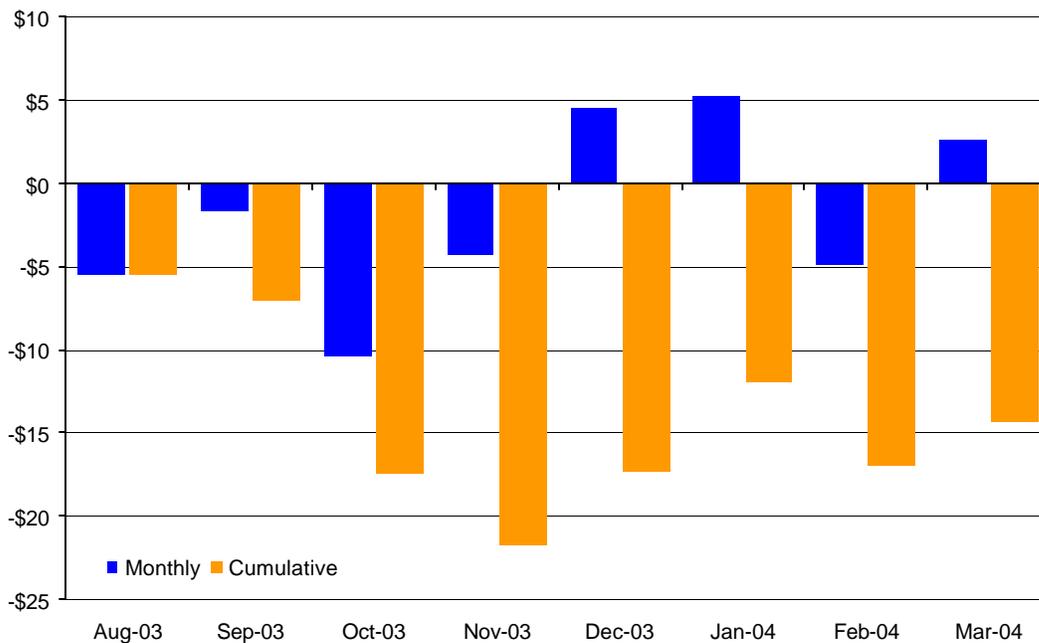
Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year. By March 31 each year, a corporation must pay the difference between its full tax liability and the first estimated payment that was due in January, or it must file an extension request and pay another third of its estimated tax liability. Thus, the second major corporate tax payment occurred in March 2004, but some of the revenue will be received in April. Corporate franchise tax receipts in March 2004 were \$253.7 million, \$55.5 million (28.0%) above estimates. These receipts were \$29.3 million (13.3%) above March 2003 receipts. As of March 2004, year-to-date franchise tax revenues were \$549.5 million, \$73.7 million (15.5%) above estimates. Although monthly corporate franchise tax receipts are volatile, it is probable that corporate franchise tax revenues will finish the year ahead of the July 2003 estimates. The Office of Budget and Management (OBM) has raised the full-year estimate for this tax source to \$810 million in FY 2004, up from \$793 million.

The latest revision to the Gross Domestic Product (GDP) for the fourth quarter of CY 2003 indicates that corporate profits in the U.S. economy rose at their fastest pace, 29%, in two decades (U.S. Bureau of Economic Analysis). For CY 2003, pretax profits were up about 18%. Companies have been able to produce more output without new hiring and without bidding wages up. Declining unit labor costs, strong productivity, and low interest rates have contributed to soaring corporate profits. Corporate franchise tax reports in a tax year are primarily based on corporate activity and profits in the previous calendar year. Thus, increasing corporate profits in CY 2003 will likely improve corporate franchise tax revenues in FY 2004.

**Cigarette and Other Tobacco Products Tax**

Cigarette and other tobacco products tax receipts were above estimate in March 2004. At \$47.4 million, receipts in March 2004 were \$2.6 million (5.7%) above July 2003 estimates.<sup>8</sup> Compared to year-ago receipts, monthly revenues in March 2004 were \$2.0 million (4.5%) higher than March 2003 receipts. As of March 2004, year-to-date cigarette and other tobacco products receipts were \$382.1 million, \$14.4 million (3.6%) below estimates. Year-to-

**Chart 5: Cigarette Tax Variance from July 2003 Estimates**  
(in millions of dollars)



date revenues from this tax source were also \$43.4 million (10.2%) below revenues a year ago. From July 2002 through March 2003, the floor tax<sup>9</sup> provided \$39.0 million. Excluding amounts provided by the floor tax, year-to-date FY 2004 revenues as of March 2004 would have been \$4.4 million (1.1%) below receipts in the same period in FY 2003. Am. Sub. H.B. 95 changed how certain dealers acquire stamps or tax indicia to affix to their products. Prior to Am. Sub. H.B. 95, cigarette and other tobacco dealers had to pay cash for the stamps or post bond against the stamps they received. This is essentially how these taxpayers paid state or county cigarette

taxes. Due to Am. Sub. H.B. 95, certain taxpayers in good standing are now able to receive stamps on credit and pay their tax liabilities when tax returns are filed. This change decreased cigarette tax receipts, most noticeably in October 2003. This timing issue is expected to reverse during the fiscal year, most likely in May 2004, when tax reconciliations will be made for the cigarette and other tobacco products tax. OBM has recognized that some of the current negative variance (\$14.4 million) will reverse and has increased its estimate of cigarette tax revenues for May 2004 by \$9.3 million.

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

<sup>2</sup> Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than \$500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. These payments are usually made by taxpayers with significant nonwage income. This income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

<sup>3</sup> Am. Sub. H.B. 40 changed the historical patterns of remittance of sales and use tax receipts starting in April 2003. Under prior law, monthly sales and use tax receipts reflected taxable transactions in the prior month. Under current law, certain large taxpayers must remit sales tax payments in the same month the transactions occur. Thus, monthly sales tax receipts reflect taxable transactions in both the current and the prior months.

<sup>4</sup> Stores open at least a year for major discounters, department stores, and specialty retailers.

<sup>5</sup> All stores, including expansions and closures. The International Council of Shopping Centers’ Total Retail Chain Store Index measures sales at about 80 major retailers. Sales are from all stores, including sales from store expansions, relocations, and mergers.

<sup>6</sup> In the revisions to estimates, estimated March 2004 auto sales tax revenues were increased by \$15.2 million, from \$101.3 million to \$116.5 million. Thus, March 2004 auto tax receipts were \$8.0 million (6.8%) below revised estimates.

<sup>7</sup> LSC does not have statewide statistics on auto sales. The Greater Cleveland Dealers Association (GCDA), which represents 206 dealers in 19 northeast counties, reported that unit sales were down 4.2% in the first quarter this year compared to CY 2003 (the GCDA represents about 23% of all new car dealers in Ohio). However, northeast Ohio may not be representative of the entire state.

<sup>8</sup> March 2004 cigarette tax estimates were revised upward from \$44.8 million to \$50.5 million. Thus, March 2004 cigarette and other tobacco products receipts, at \$47.4 million, were \$3.1 million (6.1%) below revised estimates.

<sup>9</sup> The “floor” tax is the additional tax paid by dealers on cigarettes in inventory when the tax rate was increased from 22 cents to 55 cents on July 1, 2003.

**Table 2**  
**General Revenue Fund Revenue**  
**Actual vs. Estimate**  
**Month of March 2004**  
(\$ in thousands)

**REVENUE SOURCE**

<b>TAX REVENUE</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Auto Sales	\$108,527	\$101,309	\$7,218	7.1%
Nonauto Sales & Use	\$496,171	\$474,164	\$22,007	4.6%
Total Sales	\$604,697	\$575,473	\$29,224	5.1%
Personal Income	\$421,180	\$415,588	\$5,592	1.3%
Corporate Franchise	\$253,755	\$198,250	\$55,505	28.0%
Public Utility	\$9,561	\$30,000	-\$20,439	-68.1%
Kilowatt Hour Excise Tax	\$30,602	\$37,290	-\$6,688	-17.9%
<b>Total Major Taxes</b>	<b>\$1,319,795</b>	<b>\$1,256,601</b>	<b>\$63,194</b>	<b>5.0%</b>
Foreign Insurance	\$75,797	\$54,534	\$21,263	39.0%
Domestic Insurance	\$245	\$0	\$245	---
Business & Property	\$59	\$0	\$59	---
Cigarette	\$47,358	\$44,800	\$2,558	5.7%
Alcoholic Beverage	\$4,461	\$4,500	-\$39	-0.9%
Liquor Gallonage	\$2,260	\$2,190	\$70	3.2%
Estate	\$784	\$2,100	-\$1,316	-62.7%
Total Other Taxes	\$130,964	\$108,124	\$22,840	21.1%
<b>Total Taxes</b>	<b>\$1,450,759</b>	<b>\$1,364,725</b>	<b>\$86,034</b>	<b>6.3%</b>
<b>NONTAX REVENUE</b>				
Earnings on Investments	\$52	\$5,000	-\$4,948	-99.0%
Licenses and Fees	\$6,622	\$6,663	-\$41	-0.6%
Other Revenue	\$6,245	\$15,500	-\$9,255	-59.7%
Nontax Receipts	\$12,919	\$27,163	-\$14,244	-52.4%
<b>TRANSFERS</b>				
Liquor Transfers	\$14,000	\$9,000	\$5,000	55.6%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$57,519	\$39,338	\$18,181	46.2%
Total Transfers In	\$71,519	\$48,338	\$23,181	48.0%
<b>TOTAL REVENUE less Federal Grants</b>	<b>\$1,535,197</b>	<b>\$1,440,226</b>	<b>\$94,971</b>	<b>6.6%</b>
Federal Grants	\$421,567	\$487,643	-\$66,076	-13.6%
<b>TOTAL GRF REVENUE</b>	<b>\$1,956,763</b>	<b>\$1,927,869</b>	<b>\$28,894</b>	<b>1.5%</b>

\* August 2003 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 2004 to Date as of March 2004**  
(\$ in thousands)

<b>REVENUE SOURCE</b>						<b>Percent</b>
<b>TAX REVENUE</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2003</b>	<b>Change</b>
Auto Sales	\$817,846	\$814,136	\$3,710	0.5%	\$682,330	19.9%
Nonauto Sales & Use	\$4,729,379	\$4,717,664	\$11,715	0.2%	\$3,849,525	22.9%
Total Sales	\$5,547,225	\$5,531,800	\$15,425	0.3%	\$4,531,855	22.4%
Personal Income	\$5,151,567	\$5,211,814	-\$60,247	-1.2%	\$5,125,456	0.5%
Corporate Franchise	\$549,446	\$475,801	\$73,645	15.5%	\$461,035	19.2%
Public Utility	\$143,017	\$136,977	\$6,040	4.4%	\$134,726	6.2%
Kilowatt Hour Excise Tax	\$259,061	\$285,270	-\$26,209	-9.2%	\$262,084	-1.2%
<b>Total Major Taxes</b>	<b>\$11,650,317</b>	<b>\$11,641,662</b>	<b>\$8,655</b>	<b>0.1%</b>	<b>\$10,515,156</b>	<b>10.8%</b>
Foreign Insurance	\$246,908	\$234,600	\$12,308	5.2%	\$227,487	8.5%
Domestic Insurance	\$393	\$200	\$193	96.7%	\$2,031	-80.6%
Business & Property	\$1,469	\$1,831	-\$362	-19.8%	\$1,183	24.2%
Cigarette	\$382,020	\$396,480	-\$14,460	-3.6%	\$425,442	-10.2%
Alcoholic Beverage	\$41,721	\$43,828	-\$2,107	-4.8%	\$41,595	0.3%
Liquor Gallonage	\$23,286	\$22,554	\$732	3.2%	\$22,377	4.1%
Estate	\$38,056	\$54,600	-\$16,544	-30.3%	\$70,774	-46.2%
Total Other Taxes	\$733,853	\$754,093	-\$20,240	-2.7%	\$790,889	-7.2%
<b>Total Taxes</b>	<b>\$12,384,170</b>	<b>\$12,395,755</b>	<b>-\$11,585</b>	<b>-0.1%</b>	<b>\$11,306,046</b>	<b>9.5%</b>
<b>NONTAX REVENUE</b>						
Earnings on Investments	\$14,820	\$18,250	-\$3,430	-18.8%	\$14,864	-0.3%
Licenses and Fees	\$33,310	\$37,044	-\$3,734	-10.1%	\$28,211	18.1%
Other Revenue	\$116,408	\$133,331	-\$16,923	-12.7%	\$154,974	-24.9%
Nontax Receipts	\$164,538	\$188,625	-\$24,087	-12.8%	\$198,049	-16.9%
<b>TRANSFERS</b>						
Liquor Transfers	\$91,000	\$78,000	\$13,000	16.7%	\$86,000	5.8%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$135,200	\$105,800	\$29,400	27.8%	\$105,944	27.6%
Total Transfers In	\$226,200	\$183,800	\$42,400	23.1%	\$191,944	17.8%
<b>TOTAL REVENUE less Federal Grants</b>	<b>\$12,774,908</b>	<b>\$12,768,180</b>	<b>\$6,728</b>	<b>0.1%</b>	<b>\$11,696,039</b>	<b>9.2%</b>
Federal Grants	\$4,145,345	\$4,215,367	-\$70,022	-1.7%	\$3,517,621	17.8%
<b>TOTAL GRF REVENUE</b>	<b>\$16,920,253</b>	<b>\$16,983,547</b>	<b>-\$63,294</b>	<b>-0.4%</b>	<b>\$15,213,660</b>	<b>11.2%</b>

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

Detail may not sum to total due to rounding.

# DISBURSEMENTS

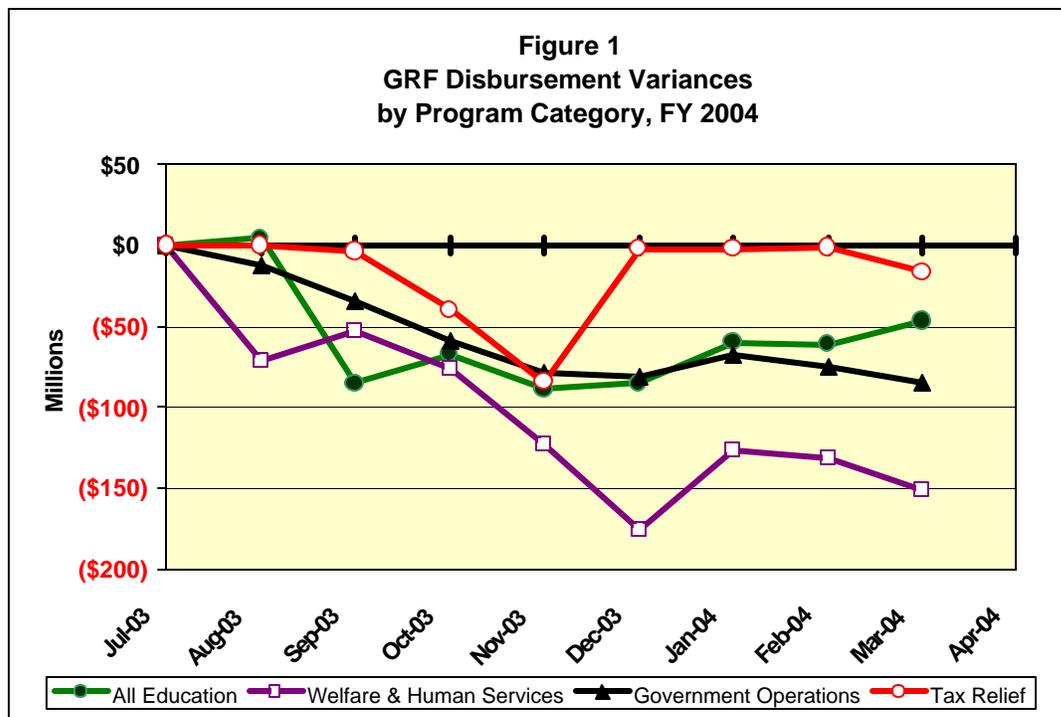
— Steve Mansfield\*

March disbursements from the General Revenue Fund (GRF) (excluding transfers) were \$35.3 million below the estimate for the month. This negative variance between actual outlays and the estimate for the month increased the overall negative disbursement variance for the year to date to \$321.1 million. The year-to-date negative variance represents 1.7% of forecast outlays. Actual outlays for the year to date are 4.4% higher than at the same point in FY 2003.

Part of this year-to-date negative variance has been employed to compensate for a shortfall in revenues anticipated by the Office of Budget and Management to be approximately \$247 million. In early March, the Governor announced budget cuts for FY 2004 with about \$150 million coming from agency negative variances and the remainder from cuts of about \$100 million to most agency budgets for the remainder of the fiscal year. The Departments of Rehabilitation and Correction, Mental Health, and Mental Retardation and Developmental Disabilities received cuts at one-fourth the rate of other agencies. Basic aid to primary, secondary, and higher education

programs, the student financial aid program in higher education, the Passport program in the Department of Aging, and certain job creation programs were exempted from any cuts.

Three of the state's four major GRF program categories posted negative disbursement variances in March (see Figure 1). The Welfare and Human Services category increased its year-to-date negative disbursement variance by \$19.5 million to \$150.9 million; the Government Operations category increased the size of its negative year-to-date disbursement variance by \$10.0 million to \$85.0 million; the Property Tax Relief category posted a negative variance of \$15.0 million in March, increasing its year-to-date negative disbursement variance to \$16.3 million; and the Education category posted a positive variance of \$14.6 million in March, which decreased its negative year-to-date disbursement variance to \$46.6 million. In order of magnitude, the three largest program subcategories contributing to the \$321.1 million year-to-date negative disbursement variance for the state's four major GRF program categories are Other Welfare (-\$71.6 million),



**Table 4**  
**General Revenue Fund Disbursements**  
**Actual vs. Estimate**  
**Month of March 2004**  
(\$ in thousands)

**USE OF FUNDS**

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Primary & Secondary Education (1)	\$743,100	\$730,224	\$12,877	1.8%
Higher Education	\$161,327	\$159,613	\$1,714	1.1%
<b>Total Education</b>	<b>\$904,428</b>	<b>\$889,837</b>	<b>\$14,591</b>	<b>1.6%</b>
Health Care/Medicaid	\$825,832	\$811,874	\$13,958	1.7%
TANF	\$6,330	\$34,314	-\$27,983	-81.6%
General/Disability Assistance	\$1,875	\$1,881	-\$6	-0.3%
Other Welfare (2)	\$24,075	\$43,301	-\$19,227	-44.4%
Human Services (3)	\$83,328	\$69,592	\$13,736	19.7%
<b>Total Welfare &amp; Human Services</b>	<b>\$941,439</b>	<b>\$960,962</b>	<b>-\$19,522</b>	<b>-2.0%</b>
Justice & Corrections	\$209,624	\$219,389	-\$9,766	-4.5%
Environment & Natural Resources	\$8,952	\$8,602	\$350	4.1%
Transportation	\$1,205	\$1,377	-\$172	-12.5%
Development	\$18,374	\$15,210	\$3,164	20.8%
Other Government	\$51,527	\$54,738	-\$3,210	-5.9%
Capital	\$0	\$412	-\$412	-100.0%
<b>Total Government Operations</b>	<b>\$289,682</b>	<b>\$299,728</b>	<b>-\$10,046</b>	<b>-3.4%</b>
Property Tax Relief (4)	\$38	\$15,000	-\$14,962	-99.7%
Debt Service	\$35,033	\$40,395	-\$5,362	-13.3%
<b>Total Program Payments</b>	<b>\$2,170,621</b>	<b>\$2,205,922</b>	<b>-\$35,301</b>	<b>-1.6%</b>
<b>TRANSFERS</b>				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$340	\$0	\$340	---
<b>Total Transfers Out</b>	<b>\$340</b>	<b>\$0</b>	<b>\$340</b>	<b>---</b>
<b>TOTAL GRF USES</b>	<b>\$2,170,961</b>	<b>\$2,205,922</b>	<b>-\$34,961</b>	<b>-1.6%</b>

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

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

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

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

\* August 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 March 2004**  
(\$ in thousands)

**USE OF FUNDS**

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2003</b>	<b>Percent Change</b>
Primary & Secondary Education (1)	\$5,073,566	\$5,124,641	-\$51,074	-1.0%	\$4,817,221	5.3%
Higher Education	\$1,781,149	\$1,776,643	\$4,506	0.3%	\$1,832,752	-2.8%
<b>Total Education</b>	<b>\$6,854,715</b>	<b>\$6,901,283</b>	<b>-\$46,568</b>	<b>-0.7%</b>	<b>\$6,649,973</b>	<b>3.1%</b>
Health Care/Medicaid	\$6,764,737	\$6,815,163	-\$50,426	-0.7%	\$6,180,392	9.5%
TANF	\$317,836	\$345,733	-\$27,897	-8.1%	\$351,427	-9.6%
General/Disability Assistance	\$17,294	\$18,703	-\$1,409	-7.5%	\$20,548	-15.8%
Other Welfare (2)	\$357,053	\$428,636	-\$71,583	-16.7%	\$375,497	-4.9%
Human Services (3)	\$902,221	\$901,840	\$381	0.0%	\$899,709	0.3%
<b>Total Welfare &amp; Human Services</b>	<b>\$8,359,142</b>	<b>\$8,510,075</b>	<b>-\$150,933</b>	<b>-1.8%</b>	<b>\$7,827,574</b>	<b>6.8%</b>
Justice & Corrections	\$1,452,858	\$1,510,402	-\$57,543	-3.8%	\$1,411,734	2.9%
Environment & Natural Resources	\$88,811	\$91,849	-\$3,038	-3.3%	\$97,688	-9.1%
Transportation	\$23,472	\$22,385	\$1,088	4.9%	\$27,744	-15.4%
Development	\$113,887	\$123,012	-\$9,125	-7.4%	\$146,043	-22.0%
Other Government	\$303,219	\$316,648	-\$13,429	-4.2%	\$313,657	-3.3%
Capital	\$0	\$2,977	-\$2,977	-100.0%	\$0	---
<b>Total Government Operations</b>	<b>\$1,982,247</b>	<b>\$2,067,272</b>	<b>-\$85,024</b>	<b>-4.1%</b>	<b>\$1,996,866</b>	<b>-0.7%</b>
Property Tax Relief (4)	\$686,272	\$702,600	-\$16,328	-2.3%	\$706,151	-2.8%
Debt Service	\$288,492	\$310,755	-\$22,262	-7.2%	\$229,972	25.4%
<b>Total Program Payments</b>	<b>\$18,170,868</b>	<b>\$18,491,984</b>	<b>-\$321,116</b>	<b>-1.7%</b>	<b>\$17,410,535</b>	<b>4.4%</b>
<b>TRANSFERS</b>						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$39,058	\$22,975	\$16,083	70.0%	\$18,587	110.1%
<b>Total Transfers Out</b>	<b>\$39,058</b>	<b>\$22,975</b>	<b>\$16,083</b>	<b>70.0%</b>	<b>\$18,587</b>	<b>110.1%</b>
<b>TOTAL GRF USES</b>	<b>\$18,209,927</b>	<b>\$18,514,959</b>	<b>-\$305,033</b>	<b>-1.6%</b>	<b>\$17,429,123</b>	<b>4.5%</b>

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

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

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

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

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

Detail may not sum to total due to rounding.

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

Service Category	Marruary				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Mar.	Estimate thru Mar.	Variance	Percent Variance
Nursing Facilities	\$169,269	\$166,586	\$2,683	1.6%	\$1,863,802	\$1,816,002	\$47,800	2.6%
Payments	\$211,474	\$208,851	\$2,623	1.3%	\$2,016,283	\$1,969,937	\$46,346	2.4%
NF Franchise Fees Offset <sup>1</sup>	(\$42,205)	(\$42,265)	\$60	-0.1%	(\$152,481)	(\$153,935)	\$1,454	-0.9%
ICF/MR	\$33,425	\$33,402	\$23	0.1%	\$315,215	\$315,745	(\$529)	-0.2%
Payments	\$35,177	\$35,172	\$5	0.0%	\$330,541	\$331,332	(\$791)	-0.2%
ICF/MR Franchise Fees Offset	(\$1,752)	(\$1,770)	\$17	-1.0%	(\$15,326)	(\$15,587)	\$261	-1.7%
Inpatient Hospitals	\$141,083	\$131,252	\$9,831	7.5%	\$978,395	\$1,012,083	(\$33,688)	-3.3%
Outpatient Hospitals	\$61,863	\$58,475	\$3,388	5.8%	\$438,220	\$438,873	(\$653)	-0.1%
Physicians	\$59,964	\$60,890	(\$926)	-1.5%	\$426,671	\$439,031	(\$12,360)	-2.8%
Prescription Drugs	\$184,382	\$175,952	\$8,430	4.8%	\$1,308,752	\$1,303,257	\$5,495	0.4%
HMO	\$81,071	\$77,078	\$3,993	5.2%	\$751,182	\$727,632	\$23,550	3.2%
Medicare Buy-In	\$13,823	\$13,928	(\$105)	-0.8%	\$118,197	\$118,858	(\$661)	-0.6%
ODJFS Waiver <sup>2</sup>	\$18,903	\$22,052	(\$3,150)	-14.3%	\$143,045	\$164,881	(\$21,836)	-13.2%
All Other <sup>3</sup>	\$89,481	\$98,544	(\$9,064)	-9.2%	\$635,992	\$689,543	(\$53,550)	-7.8%
CHIP II <sup>4</sup>	\$7,050	\$6,346	\$704	11.1%	\$53,874	\$49,653	\$4,222	8.5%
DA Medical <sup>5</sup>	\$6,876	\$9,346	(\$2,470)	-26.4%	\$65,380	\$74,402	(\$9,022)	-12.1%
<b>Total ALI 600-525</b>	<b>\$867,189</b>	<b>\$853,852</b>	<b>\$13,337</b>	<b>1.6%</b>	<b>\$7,098,727</b>	<b>\$7,149,960</b>	<b>(\$51,233)</b>	<b>-0.7%</b>
DSH Offset	\$0	\$0	\$0		\$0	\$0	\$0	
Drug Rebates	(\$41,357)	(\$41,978)	\$621		(\$297,063)	(\$295,016)	(\$2,047)	
FY 2002 Encumbrance	\$0	\$0	\$0		(\$71,000)	(\$39,781)	(\$31,219)	
Prior Period ALI 600-525	\$0	\$0	\$0		\$34,073	\$0	\$34,073	
<b>Total Health Care (Net of Offsets)</b>	<b>\$825,832</b>	<b>\$811,874</b>	<b>\$13,958</b>	<b>1.7%</b>	<b>\$6,764,737</b>	<b>\$6,815,163</b>	<b>(\$50,426)</b>	<b>-0.7%</b>
Est. Federal Share <sup>6</sup>	\$484,728	\$476,535	\$8,193		\$3,970,610	\$4,000,207	(\$29,598)	
Est. State Share	\$341,104	\$335,339	\$5,765		\$2,794,127	\$2,814,955	(\$20,828)	

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 provides health care coverage for children under age 19 whose family incomes are between 150% and 200% of FPL. The state receives enhanced FMAP for CHIP II.

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

6. The federal medical assistance percentage (FMAP) used in this table is a blended rate of 58.70%.

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.

Justice and Corrections (-\$57.5 million), and Primary and Secondary Education (-\$51.1 million). As can be seen in Table 5, all but three program subcategories show negative year-to-date disbursement variances.

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 for the most recent month is presented in Table 4 and for the year to date is presented in Table 5. A detailed analysis of disbursement activity in the Health Care/Medicaid program is presented in Tables 6 and 7.

### ***Welfare/Human Services (-\$150.9 million)***

The Welfare/Human Services category posted a negative disbursement variance of \$19.5 million in March. For the year to date, outlays in this category stand at \$150.9 million below the estimate. The Health Care/Medicaid and Other Welfare subcategories, which have through the year been the largest factors in accounting for the broader category's overall year-to-date negative variance, are joined this month by a significant negative variance of \$28.0 million in the Temporary Assistance for Needy Families (TANF) program. The following paragraphs discuss the disbursements in these subcategories in more detail.

**Health Care/Medicaid.** Year-to-date disbursements through March in the Health Care/Medicaid program (primarily line item 600-525) are \$50.4 million, or 0.7% below the estimate (see Table 6). For the month of March, health care spending was \$14.0 million, or 1.7% over the estimate. As reported in previous months, the pattern of year-to-date negative disbursement variances in Inpatient Hospitals, All Other, and other fee-for-service categories can be largely traced to higher than projected growth in managed care enrollment (which tends to push down fee-for-service expenditures), to lower than expected overall caseload growth, and to some matters involving the timing of payments. Continuing partially to offset these negative disbursement variances is the Nursing Facilities service category, which is over the year-to-date estimate by \$47.8 million.

Also providing pressure on the positive side of the variance ledger in March was a relatively strong increase in the Medicaid caseload. The number of eligibles in the Covered Families and Children (CFC) category jumped by about 13,500, while the number of Aged, Blind, and Disabled (ABD) eligibles increased by about 2,000. The number of CFC eligibles exceeded the year-to-date forecast for the first time this fiscal year, while the number of ABD eligibles continued at about 6,000 below the forecast.

**Job and Family Services.** Through March, disbursements for the Department of Job and Family Services' operating and subsidy programs now stand at \$71.6 million under the estimate for the year to date. In Tables 4 and 5, these disbursements are captured in the Other Welfare subcategory, which excludes the separately tracked Medicaid, TANF, and Disability Assistance programs.

Service Category	FY 2004	FY 2003	Dollar Change	Percent Increase
	Yr.-to-Date as of Mar. '04	Yr.-to-Date as of Mar. '03		
Nursing Facilities	\$1,863,802	\$1,781,159	\$82,643	4.6%
Payments	\$2,016,283	\$1,926,701	\$89,583	4.6%
NF Franchise Fees Offset <sup>1</sup>	(\$152,481)	(\$145,542)	(\$6,940)	4.8%
ICF/MR	\$315,215	\$305,828	\$9,387	3.1%
Payments	\$330,541	\$321,198	\$9,343	2.9%
ICF/MR Franchise Fees Offset	(\$15,326)	(\$15,370)	\$44	-0.3%
Inpatient Hospitals	\$978,395	\$969,493	\$8,902	0.9%
Outpatient Hospitals	\$438,220	\$406,875	\$31,345	7.7%
Physicians	\$426,671	\$399,752	\$26,919	6.7%
Prescription Drugs	\$1,308,752	\$1,154,747	\$154,004	13.3%
HMO	\$751,182	\$524,628	\$226,554	43.2%
Medicare Buy-In	\$118,197	\$108,827	\$9,371	8.6%
ODJFS Waiver <sup>2</sup>	\$143,045	\$130,833	\$12,212	9.3%
All Other <sup>3</sup>	\$635,992	\$584,378	\$51,614	8.8%
CHIP II <sup>4</sup>	\$53,874	\$44,024	\$9,850	22.4%
DA Medical <sup>5</sup>	\$65,380	\$71,081	(\$5,700)	-8.0%
<b>Total Health Care</b>	<b>\$7,098,727</b>	<b>\$6,481,625</b>	<b>\$617,102</b>	<b>9.52%</b>
DSH Offset	\$0	(\$89,037)	\$89,037	
Drug Rebates	(\$297,063)	(\$213,293)	(\$83,770)	
Prior Year Encumbrance	(\$71,000)	(\$83,539)	\$12,539	
Prior Period ALI 600-525	\$34,073	\$84,635	(\$50,562)	
<b>Total Health Care (Net of Offsets)</b>	<b>\$6,764,737</b>	<b>\$6,180,392</b>	<b>\$584,345</b>	<b>9.45%</b>
Est. Federal Share <sup>6</sup>	\$3,970,610	\$3,627,624	\$342,985	
Est. State Share	\$2,794,127	\$2,552,768	\$241,360	

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.

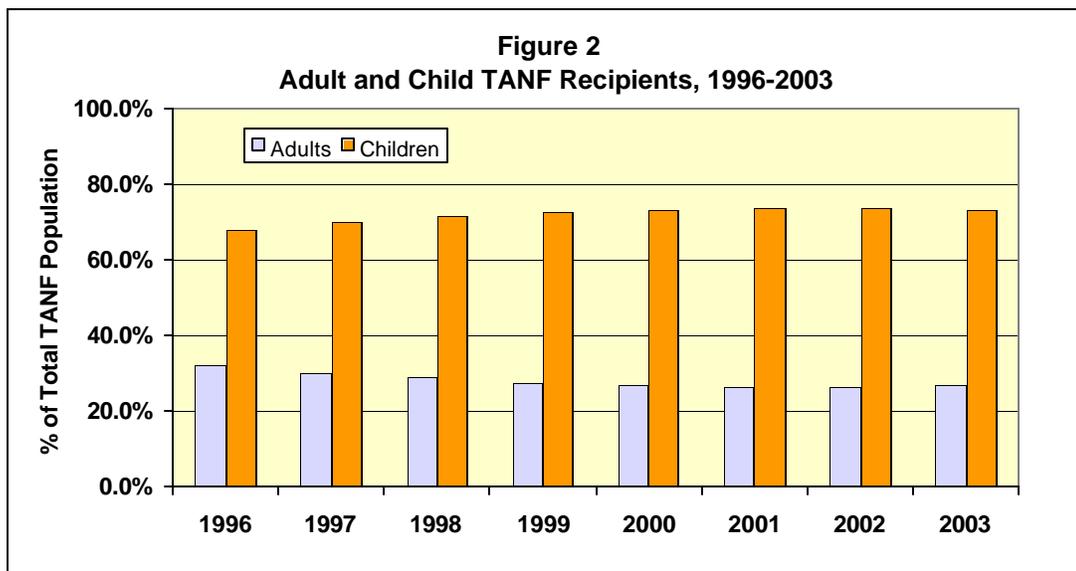
4. CHIP II provides health care coverage for children under age 19 whose family incomes are between 150% and 200% of FPL. The state receives enhanced FMAP for CHIP II.

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

6. The federal medical assistance percentage (FMAP) used in this table is a blended rate of 58.70%.

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

Among the most significant contributors to this negative variance are line items 600-416, 600-321, and 600-528. Line item 600-416, Computer Projects, accounted for \$22.8 million of the negative year-to-date disbursement variance. About \$13.9 million of this variance can be traced to slower than anticipated billing and payments for computer projects, while the remainder stems from \$8.9 million in prior-year appropriations to this line item that have now lapsed. Line item 600-416 has been designated in the Department's proposal for a reduction in the state share appropriation of \$4.8 million. Another \$12.4 million of the negative year-to-date disbursement variance can be traced to line item 600-321, Support Services. Under the Department's proposal on how to take the budget



reductions, the state share of appropriation in line item 600-321 will be reduced by \$5.5 million. Another significant contributor to the negative year-to-date disbursement variance in this subcategory is line item 600-528, Adoption Services. For the year to date, outlays from this line item are \$9.6 million below estimate. Like last year, the rate of adoption has grown slower than was forecast. Line item 600-528 will be subjected to a reduction of \$1.4 million in the state share of the appropriation. Taken together, these three appropriation items account for 78.4% of the budget reduction in the Department of Job and Family Services.

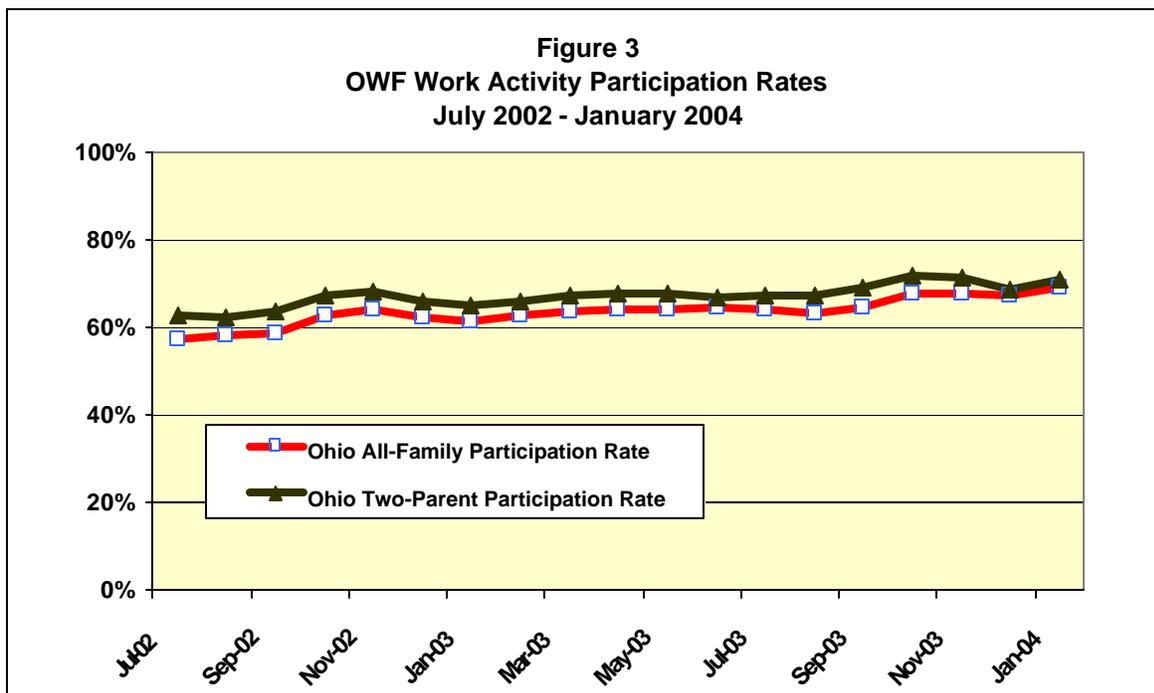
**TANF.** GRF outlays in the Temporary Assistance for Needy Families (TANF) program are \$27.9 million under the estimate for the year to date. This negative disbursement variance can be traced to line item 600-413, Child Care Match/MOE, which has experienced lower than anticipated child care caseloads. Line item 600-410, TANF State, experienced a large negative variance of \$19.4 million in March, which made up for a positive variance of similar size in February. For the year to date, line item 600-410 is under the estimate by only about \$500,000 and has been nearly 100% spent down. The Department will rely on federal funds to support the TANF program for the remainder of the fiscal year.

Since February, the number of TANF recipients and assistance groups has increased only

marginally and is on a par with that of the same month last year. As we have reported from time to time, the demographics of welfare cases have changed in a number of respects since the introduction of welfare reform in the shape of the Temporary Assistance for Needy Families (TANF) program. "Since August 1996," the U.S. Department of Health and Human Services reports, "the number of families receiving TANF has fallen by 53.7 percent." That nationwide trend has been reflected in Ohio where the total caseload of recipients is down significantly, from more than 204,000 individuals in August 1996 to less than 87,000 in March 2004, a decline of over 57%. In addition to the marked decline in caseload, the makeup of the recipient pool has also changed. One of these changes, mentioned frequently in this report, is the increase in the percentage of children among the total number of recipients. This change can be seen in Figure 2.

Time limits and other new rules imposed on adult recipients under TANF have decreased the number of adults as a percentage of those served by the program. Adults as a percentage of TANF-eligible individuals have declined from 32.0% in December 1996 to 26.6% in December 2003, and were at 26.4% in March 2004.

Another factor, and a corollary to the reduction in the number of adults served by TANF, is the increase in the number of child-only cases. These are cases where the children are living with an adult relative, other than a parent, who is not also



a TANF recipient. Since July 1998, the percentage of cases that are child-only has increased from 27.9% to 46.7% of the total TANF caseload in December 2003, with the actual number of such cases growing from about 36,200 to 39,600. A study by Steven R. Howe and Associates for the Community Welfare Monitoring Project and the Monitoring and Evaluation Subcommittee of the Hamilton County Human Services Planning Committee found the turnover for child-only cases to be much lower than other assistance group types. During the study period, May 1998 through April 1999, the study found that 58.9% of child-only assistance groups remained on public assistance longer than nine months, compared to 22.2% of single-parent assistance groups and 4.9% of two-parent assistance groups.

TANF reauthorization has not yet been completed by the U.S. Congress. However, another continuing resolution will keep the program funded until June 30. The two versions of the reauthorization bill under consideration by Congress both contain provisions that will increase the required rate of participation of adult recipients in work activities to 70% by federal fiscal year 2007. The “two-parent family participation rate” requirement would be eliminated under both versions. The current participation rate in Ohio

nearly meets the 70% level already, as illustrated by Figure 3.

**Mental Health.** In March, the Department of Mental Health posted a positive disbursement variance of \$14.2 million, increasing its year-to-date disbursement variance to \$16.4 million below the estimate. Virtually all of the variance is traceable to the Department’s largest GRF subsidy line item: 334-408, Community and Hospital Mental Health Services. The variance is solely due to the timing of payments.

#### ***Government Operations (-\$85.0 million)***

With a negative disbursement variance of \$10.0 million in March, outlays in the Government Operations category stand at \$85.0 million under the estimate for the year to date. The Department of Rehabilitation and Correction’s \$5.7 million negative variance in March pushed its year-to-date negative disbursement variance to \$44.5 million. The explanation of this variance has not changed since last month. The Department of Youth Services’ (DYS) disbursements were under estimate in March by \$0.9 million, to stand at \$12.1 million below estimate for the year to date. The bulk of the DYS disbursement variance is traceable to changes in the pattern of disbursements to counties required by the

operating budget. Those changes were not reflected in the estimates.

Another significant contributor to the negative year-to-date disbursement variance in the category is the Judiciary/Supreme Court (JSC), with a year-to-date negative variance of \$11.0 million. Accounting for nearly all of this variance was line item 005-321, Operating Expenses. This variance derives from three factors: holding down expenses, a later than expected move into the new Ohio Judicial Center, and the posting of some payroll expenses later than was anticipated by the estimates. In early April, the Supreme Court announced that it would make a voluntary cut of \$6.8 million in the current fiscal year.

### ***Tax Relief (-\$16.3 million)***

The Property Tax Relief program, which carries an FY 2004 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. Total payments in the program were only \$38,000 in March, while the OBM estimate was \$15.0 million. This variance increased the negative year-to-date disbursement variance in the program to \$16.3 million for the year to date. Disbursement variances in the tax relief program are usually traceable to the timing of county auditor requests for reimbursement.

### ***Education (-\$46.6 million)***

In March, the Education category posted a positive disbursement variance of \$14.6 million, reducing the negative year-to-date variance to \$46.6 million. The Department of Education accounted for \$47.2 million of the category's year-to-date negative disbursement variance. Several

smaller negative variances within the category and a \$4.5 million positive variance in the year-to-date disbursements of the Board of Regents explain the category's total variance.

**Department of Education.** With a positive disbursement variance of \$12.6 million in March, the Department of Education's disbursements for the year to date now stand at \$47.2 million below estimate. As is typical for the Department, timing was again largely responsible for the individual variances that produced the result for this month.

The two largest contributors to March's positive disbursement variance were line item 200-437, Student Assessment (\$6.3 million over estimate), and line item 200-520, Disadvantaged Pupil Impact Aid (\$5.6 million over estimate). Appropriation item 200-437 is used to pay for developing, scoring, and reporting the results of the state proficiency and achievement tests, as well as for developing the state's diagnostic assessments as mandated by S.B. 1 of the 124th General Assembly. This positive variance offsets negative variances from earlier months that were related to the timing of payments to vendors.

Appropriation item 200-520 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. The variance derives from the difference in funding level from last year and differences in the status of data reporting as compared to the same month last fiscal year.

Through March, the two largest contributors to the negative year-to-date disbursement variance in the Department were line item 200-426, Ohio Education Computer Network (\$7.8 million under estimate), and line item 200-501, Base Cost Funding (\$7.0 million under estimate).

Line item 200-426, Ohio Education Computer Network, is used to maintain and provide technical assistance for a system of information technology throughout Ohio. The bulk of this line item is used to support connecting public and state-chartered nonpublic schools to the state's education

network, to each other, and to the Internet. This activity just seems to be taking longer than was anticipated, but there are signs now that disbursements are catching up with the estimates.

Line item 200-501, Base Cost Funding, provides funds to school districts according to the base cost formula developed by the General

Assembly. The total FY 2004 appropriation for this line item is \$4,397.1 million. The variance, which derives from the incompleteness of data and which is typical for this point in the fiscal year, is small in comparison to actual year-to-date disbursements.

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

# Issues of Interest

## LOTTERY TICKET SALES AND PROFIT TRANSFERS THIRD QUARTER, FISCAL YEAR 2004

— Jean Botomogno

### Ticket Sales

In the third quarter of FY 2004, total ticket sales were \$558.7 million, \$9.6 million (1.7%) higher than ticket sales in the second quarter. Third-quarter sales were also \$63.1 million (12.7%) higher than sales in the first quarter. On-line ticket sales<sup>1</sup> were \$262.2 million and Instant ticket sales were \$296.5 million. Higher total ticket sales in the third quarter were due to an increase of \$27.1 million (11.5%) from second-quarter on-line sales, while Instant ticket sales decreased \$17.6 million (5.5%).<sup>2</sup> Table 1 provides quarterly ticket sales by game in FY 2004. Compared to sales in the second quarter, ticket sales increased for all on-line games in the third quarter of FY 2004. The improvement in sales ranged from \$14.3 million (34.8%) for Mega Millions to \$0.6 million (3.5%) for Buckeye 5. Pick 3 sales increased \$6.8 million (7.0%). Super Lotto sales grew \$3.4 million (9.7%). Pick 4 and Kicker sales improved \$1.8 million (4.3%) and \$0.3 million (5.7%), respectively.

Compared to third-quarter results a year ago, ticket sales were up \$50.2 million (9.9%) in the third quarter of FY 2004. Instant ticket sales grew \$26.8 million (9.9%). On-line ticket sales increased \$23.4 million (9.8%). The increase in

on-line sales was directly related to a boost of \$18.2 million in Mega Millions sales. Mega Millions sales grew 48.9% from the third quarter of FY 2003. Except for Kicker sales, which declined \$0.1 million (1.1%), quarterly sales of the other on-line games in FY 2004 increased from the third quarter of FY 2003. Super Lotto sales increased \$1.2 million (3.3%). Pick 3 sales inched up \$0.3 million (0.3%). Buckeye 5 sales improved \$0.4 million (2.1%), and Pick 4 sales were up \$3.4 million (8.6%).

### Year-To-Date Summary

Table 2 summarizes year-to-date ticket sales by game and compares ticket sales in FY 2004 to those in FY 2003. As of March 2004, year-to-date ticket sales in FY 2004 were \$1,603.4 million. Compared to the same period a year ago, ticket sales increased \$59.9 million (or 3.9%). Sales of both Instant and on-line games were up. Instant sales surged \$57.7 million (7.1%). Despite huge jackpots in Mega Millions (most notably in December 2003 and February 2004), the improvement in on-line sales was relatively small, \$2.2 million (0.3%), because of the poor performance of the other on-line games. Compared to year-to-date sales as of March 2003, year-to-date Mega Millions sales were up

Table 1: Quarterly Lottery Ticket Sales by Games in FY 2004, in millions of dollars

	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Mega Millions	Instants	On-line	Total
Q1	\$98.2	\$39.1	\$6.5	\$16.5	\$39.4	\$40.0	\$255.9	\$239.7	\$495.6
Q2	\$95.9	\$40.6	\$6.1	\$16.5	\$34.9	\$41.1	\$314.1	\$235.1	\$549.1
Q3	\$102.6	\$42.4	\$6.4	\$17.1	\$38.3	\$55.4	\$296.5	\$262.2	\$558.7
Total	\$296.7	\$122.1	\$19.0	\$50.0	\$112.6	\$136.5	\$866.4	\$737.0	\$1,603.4

Totals may not add up due to rounding.

**Table 2: Year-to-date Ticket Sales by Games in FY 2004 and FY 2003, in millions of dollars**

Year	Pick 3	Pick 4	Kicker	Buckeye 5	Super Lotto	Mega Millions	Instants	On-line	Total
FY 2004	\$296.7	\$122.1	\$19.0	\$50.0	\$112.6	\$136.5	\$866.4	\$737.0	\$1,603.4
FY 2003	\$302.5	\$115.5	\$20.3	\$51.0	\$117.9	\$127.5	\$808.7	\$734.8	\$1,543.5
\$ Change	-\$5.7	\$6.6	-\$1.3	-\$0.9	-\$5.3	\$9.0	\$57.7	\$2.2	\$59.9
% Change	-1.9%	5.7%	-6.6%	-1.8%	-4.5%	7.0%	7.1%	0.3%	3.9%

Totals may not add up due to rounding.

\$9.0 million (7%) and those of Pick 4 increased \$6.6 million (5.7%). Year-to-date sales of the remaining on-line games decreased. As of March 2004, year-to-date Buckeye 5 sales declined \$0.9 million (1.8%). Pick 3 sales dropped \$5.7 million (1.9%). Kicker and Super Lotto sales declined most noticeably, \$1.3 million (6.6%) and \$5.3 million (4.5%), respectively.

At the end of February 2004, the year-to-date payout ratio for Instant games was about 64.9% while that of on-line games was 51.0%. For an extra dollar of ticket sales, 65 cents were returned to players who purchased Instant tickets compared to 51 cents paid out for the purchase of on-line games. The overall payout ratio was 58.5%. During the same period in FY 2003, the overall payout ratio was 59.6%, a full percentage point higher than in FY 2004. The payout ratio in FY 2003 was 65.9% and 52.8% for Instant and on-line games, respectively. Put another way, for an identical level of sales, the Ohio Lottery has paid out less to players so far in FY 2004 than in FY 2003. Thus, as of March 2004, both ticket sales and the profitability of lottery operations have improved in FY 2004 when compared to sales and profitability in the previous year.

### Transfers to LPEF

Table 3 summarizes transfers from operations to the Lottery Profits Education Fund (LPEF).

Transfers in the third quarter of FY 2004 were \$164.3 million, down from \$166.4 million in the second quarter. Transfers were also \$7.9 million (5%) higher than projected for the third quarter. In December 2003, year-to-date transfers in the current fiscal year were \$2.1 million below projected transfers. At the end of March 2004, transfers were \$482.9 million, \$5.7 million (1.2%) higher than year-to-date projected transfers. Transfers were about 30% of ticket sales. Year-to-date transfers are \$482.9 million, \$28.2 million (6.2%) higher than actual transfers in FY 2003 for the same period. The Ohio Lottery expects to transfer \$637.9 million to LPEF in FY 2004, \$31.6 million (5.1%) more than in FY 2003. At the end of March 2004, the Ohio Lottery is on track to achieve expected transfers.

### Recent Ticket Sales Trends

Lottery ticket sales grew tremendously throughout the early to mid 1990s – from \$1.6 billion in FY 1990 to over \$2.3 billion in FY 1996. Then sales started falling, bottoming out at \$1.92 billion in FY 2001 before improving slightly to \$2.05 billion in FY 2003. The chart on the following page shows the rise and fall of lottery ticket sales from December 1999 to December 2003.

Monthly sales have a seasonal pattern of increases in December. Sales also rise with Super

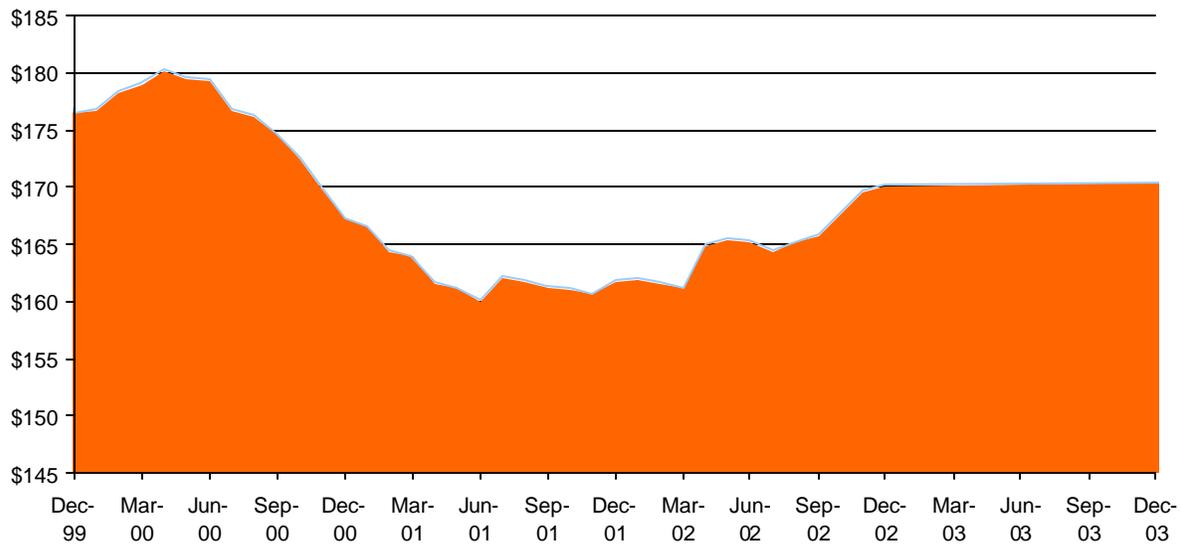
**Table 3: Quarterly Lottery Ticket Sales and Transfers to LPEF in FY 2004, in millions of dollars**

Quarter	Tickets Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percent Variance	Transfers as a Percent of Sales
Q1	\$495.6	\$152.2	\$154.7	-\$2.5	-1.6%	30.7%
Q2	\$549.1	\$166.4	\$166.0	\$0.4	0.3%	30.3%
Q3	\$558.7	\$164.3	\$156.5	\$7.9	5.0%	29.4%
Total	\$1,603.4	\$482.9	\$477.2	\$5.7	1.2%	30.1%

Totals may not add up due to rounding.

**Lottery Ticket Sales**

Monthly Sales (12-Month Moving Average)  
(\$ in millions)



Lotto and Mega Millions jackpots. A 12-month moving average of sales removes seasonal variations and provides an indication of sales trends. The chart shows that sales grew slowly from about \$160 million in June 2001 to about \$170 million per month in December 2002. Over the last 12 to 15 months, monthly sales have stabilized at that level. A key factor in the stabilization of sales has been Mega Millions. One

major objective of the Ohio Lottery's entering into Mega Millions was to reduce out-of-state spending by Ohioans on multistate games such as Powerball by offering a similar opportunity to its players. It is plausible that the objective has been achieved. The question remains whether the Ohio Lottery will be able to continue to maintain or increase sales, or whether sales will again start to decline.

<sup>1</sup> On-line games refers to Pick 4, Pick 3, Kicker, Buckeye 5, Super Lotto and Mega Millions. These games are played via a terminal at the place of business of a Lottery sales agent. Those terminals are linked to Ohio Lottery headquarters' computers. On-line games does not refer to "Internet" lottery sales

<sup>2</sup> Instant ticket sales are historically highest in the second quarter due to the large number of seasonal Instant games offered by the Ohio Lottery. Thus, a decrease in Instant sales in the third quarter is not surprising.