

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

OCTOBER 2004

FISCAL OVERVIEW

— Allan Lundell

The U.S. economy continues to expand, but the pace of job growth continues to lag the pace of output growth. September General Revenue Fund (GRF) receipts were soft and program disbursements were above estimate. For the fiscal year to date, total GRF receipts remain above estimate, total program disbursements are below estimate, and the cash balance is above its expected level for this point in the fiscal year.

Tracking the Economy

The U.S. economy continued its steady but unspectacular performance. Employment grew, but by less than expected. Retail sales rose, but manufacturing output fell. Gross domestic product (GDP) growth for the second quarter was revised upward from an annualized rate of 2.8% to 3.3%, but professional forecasters surveyed by the National Association of Business Economics expect GDP growth to slow from 4.3% in 2004 to 3.7% in 2005.

Revenues

September revenues appeared solid, but were a bit soft underneath. Although total GRF receipts for the month were \$76 million (3.7%) above estimate, the total was boosted by two timing-related positive variances. Federal grants were \$49 million above estimate and Other Transfers In were \$43 million above estimate. If these two sources are removed from the total, then September receipts were \$17 million below estimate. Revenue from the auto sales tax was \$12 million less than expected, revenue from the corporate franchise tax was \$6 million below estimate, and earnings from investment were \$4 million below estimate. Revenue from the personal income tax was \$6 million above estimate.

One quarter into the new fiscal year, the overall revenue picture remains mildly encouraging. Total GRF receipts are \$43 million (0.8%) above estimate and state-source receipts are \$74 million (1.7%) above estimate. Total GRF tax revenue is \$72 million (1.7%) above estimate and GRF revenues from the “major taxes” are \$77 million (1.9%) above

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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)

	Month of September	Fiscal Year 2005 to Date	Last Year	Difference
Beginning Cash Balance	-\$42.8	\$533.1		
Plus Revenue and Transfers In	\$2,119.4	\$5,739.9		
Available Resources	\$2,076.5	\$6,273.0		
Less Disbursements and Transfers Out	\$2,202.2	\$6,398.7		
Ending Cash Balances	-\$125.7	-\$125.7	-\$385.2	\$259.5
Less Encumbrances and Accts. Payable		\$740.7	\$848.7	-\$107.9
Unobligated Balance		-\$866.4	-\$1,233.8	\$367.4
Plus BSF Balance		\$180.7	\$180.7	\$0.0
Combined GRF and BSF Balance		-\$685.7	-\$1,053.1	\$367.4

estimate.¹ Revenue from the personal income tax is 2.7% above estimate and revenue from the nonauto sales tax is 2.3% above estimate.

Disbursements

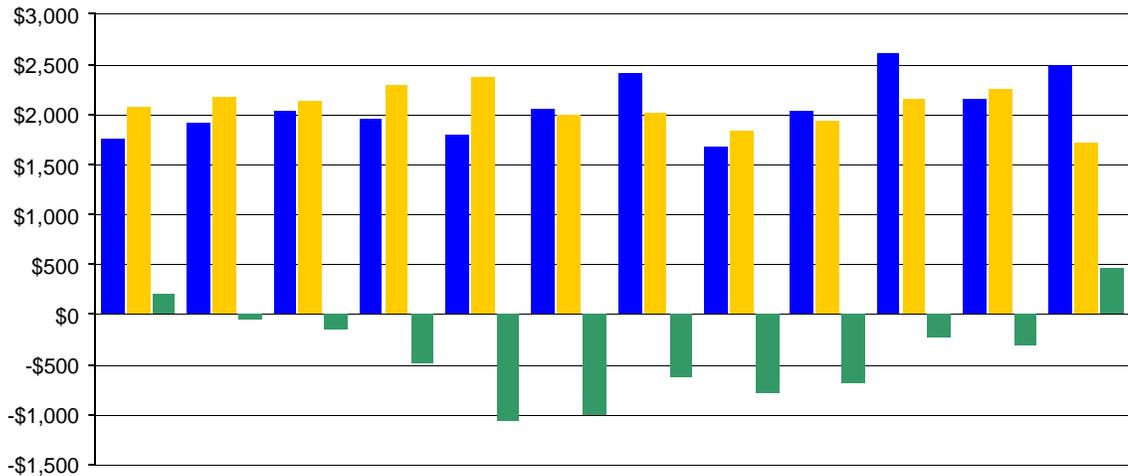
September total GRF program disbursements were \$72 million (3.4%) above estimate. Property tax relief was \$112 million (140.4%) above estimate and disbursements for welfare and human services were \$17 million (2.0%) above estimate. Disbursements for justice and corrections were \$42 million (16.5%) below estimate and disbursements for higher education were \$26 million (14.2%) below estimate.

Year-to-date total program disbursements are \$1 million below estimate. Disbursements for primary and secondary education are \$72 million (4.0%) below estimate, disbursements for higher education are \$32 million (5.8%) below estimate, and disbursements for welfare and human services are \$18 million (0.6%) below estimate. Disbursements for property tax relief are \$106 million (117.4%) above estimate.

Cash Balance

As shown in Table 1, the GRF began FY 2005 with a \$533 million cash balance. This is \$137 million higher than the cash balance at the start of FY 2004 but is much lower than the balances during the years before the most recent recession. Through September, FY 2005 revenues plus transfers in totaled \$5,740 million and disbursements plus transfers out totaled \$6,399 million. The year-to-date deficit of \$659 million reduced the month-end cash balance to -\$126 million. This amount is \$260 million higher (less negative) than a year ago and \$20 million higher than the balance that would have resulted if revenues and disbursements had equaled their estimates for the first three months of the fiscal year. Although a negative cash balance may appear to be a cause for concern, the cash balance, due to the timing of revenues and disbursements, is generally negative early in the fiscal year before turning positive later in the year. The expected pattern for FY 2005 is shown in Chart 1, which presents the monthly estimates of revenues and disbursements for FY 2005 and the estimated monthly ending cash balances based on those estimates.

**Chart 1: Estimated FY 2005 Revenues,
Disbursements, and Ending Cash Balances**
(in millions)



	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
■ Revenues	\$1,748	\$1,905	\$2,044	\$1,959	\$1,791	\$2,047	\$2,403	\$1,676	\$2,033	\$2,606	\$2,151	\$2,501
■ Disbursements	\$2,074	\$2,172	\$2,129	\$2,298	\$2,375	\$1,985	\$2,022	\$1,835	\$1,928	\$2,156	\$2,243	\$1,717
■ Cash Balance	\$208	-\$60	-\$145	-\$485	-\$1,069	-\$1,007	-\$626	-\$785	-\$680	-\$230	-\$321	\$463

Encumbrances of \$741 million combine with the cash balance to yield an unobligated balance of -\$866 million. This amount is \$367 million higher (less negative) than a year ago. The ending cash balance and the unobligated balance indicate 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 the same as a year ago, so the combined GRF and BSF balance of -\$686 million is \$367 million higher than it was a year ago. The combined GRF and BSF balance indicates that the state's financial situation in terms of ability to withstand an economic shock also has improved from a year ago, but it remains far from robust.

¹ The "major taxes" are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the kilowatt-hour tax. In addition to providing revenue for the GRF, these taxes contribute to the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRA), and the Library and Local Government Support Fund (LLGSF). For FY 2005, the major taxes are expected to account for approximately 70% of total GRF receipts and 90% of state-source GRF receipts.

TRACKING THE ECONOMY

¾ Phil Cummins

Employment continued to rise in September, but the increase was relatively small. Purchasing managers' surveys for September show expansion continuing, though reports of growth were not as widespread as earlier. Manufacturing output fell in September, at least in part as a result of hurricanes. Housing markets remain strong, supported by continued low borrowing rates. Retail sales rose 1.5% in September, mainly reflecting higher motor vehicle sales. Inflation remained low last month, as measured by the producer price index for finished goods, though crude oil prices this month rose to their highest levels ever. United States gross domestic product (GDP) growth in the second quarter was revised upward to a 3.3% annual rate from 2.8%, mainly reflecting stronger inventory building and a slightly less massive trade deficit than previously estimated. The pace of inventory accumulation was the most rapid in four years. Professional forecasters surveyed in September by the National Association for Business Economics (NABE) expected, on average, real GDP growth of 3.7% next year, down from 4.3% this year.

Slow Growth in Employment

Total nonfarm payroll employment nationwide rose by 96,000 in September. Economic growth at the pace projected by NABE would generate more than twice this many jobs each month if the long-term historical relationship between these two sets of numbers continued to hold. However, the United States Bureau of Labor Statistics (BLS) also announced that a preliminary estimate of its annual revision to the payroll employment figures indicates an upward adjustment to total nonfarm payroll employment in March 2004 of 236,000 (0.2%). Final results of this annual revision will be announced in early February 2005. Payroll employment in the nation has now recovered about two-thirds of the decline from the previous peak in March 2001 to

the cyclical low in August 2003, and with the estimated revision may have recovered about three-fourths of the decline. Unemployment nationwide was unchanged in September at 5.4% of the labor force.

The recent hurricanes reduced payroll employment at some establishments in September, according to a BLS review of sample data, but increased employment at firms engaged in cleanup and rebuilding and in accommodating evacuees. BLS believes that the net effect on total employment was small but is unable to quantify it precisely.

The latest information on employment and unemployment in Ohio is for August; data for September will not be available until October 22. As this report indicated last month, total nonfarm payroll employment in the state fell in August, and the statewide unemployment rate rose to 6.3%, matching the cyclical peak reached last year. Payroll employment in the state and the nation are shown in Chart 1. The dashed line shows how the national figures might appear if adjusted to include the preliminary upward revision to March 2004 employment, represented by the diamond-shaped symbol.

The percentage of the U.S. population 16 years of age and older that is employed remains well below the share that had jobs prior to the 2001 recession.¹ A Federal Reserve Bank of Cleveland study earlier this year compared the employment-population ratio since the business cycle peak in 2001 with this ratio in previous business cycles and concluded that the current recovery is substantially weaker by this measure than past recoveries.² In September, 62.3% of the 224 million people ages 16 years and older were employed, 2 percentage points less than the 64.3% employed at the previous business expansion peak in March 2001. This is shown in

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

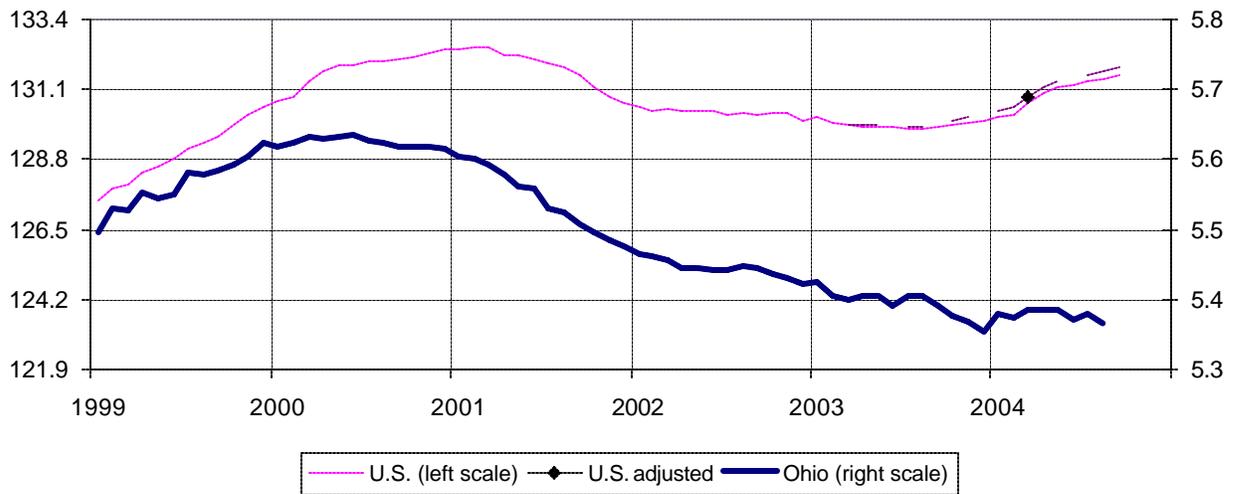


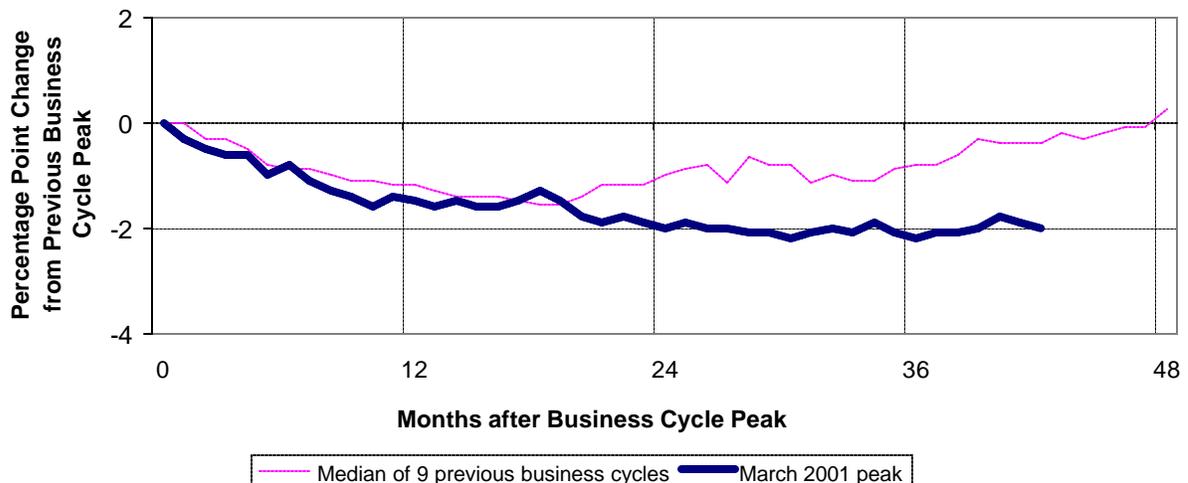
Chart 2, which compares the change in the employment-population ratio since the previous cyclical peak with earlier post-World War II business cycles, represented by the median change in those earlier recessions and recoveries. As is clear from the chart, by this measure the current recovery has trailed the typical recovery. It is below the weakest of these earlier post-World War II recoveries by more than a percentage point. The declines in the employment-population ratios for men and women since the previous business cycle peak are similar in the current recovery, 2.3 percentage points and 1.7 percentage points, respectively. Because the

employed share of the male population has trended downward during the post-World War II period, the decline in this ratio during the current cycle is not unprecedented for men. But women's labor force participation has nearly doubled since the late 1940s, and a decline in the share of women working, this far into a recovery, is unprecedented.

Mixed Trends in Manufacturing

Purchasing managers at the nation's manufacturers reported expanding activity in September, in the Institute for Supply Management's

**Chart 2: Employment-Population Ratio, Total
Ages 16 Years and Older**



monthly survey. Those saying new orders and production increased outnumbered those noting declines for the 17th consecutive month. Employment grew for the 11th consecutive month after falling for more than three years. Supplier deliveries slowed, an indication of tightening availability of products and materials. Inventories rose, and respondents' comments showed that at many firms the inventory gains were desired. An index combining these various measures of manufacturing activity remained at a high level in September and continued to indicate growth, but showed that reports of expanding activity were the least widespread since October 2003. Price increases were again widely noted last month, but less so than earlier this year. Some types of steel and chemicals were in short supply. A survey of purchasing managers at organizations other than manufacturers showed continued growth in activity, but increases were generally less widespread than in earlier months. Increases in prices paid were much more commonly noted than decreases, and shortages were reported of cement, some fuels, various types of steel, and ethyl alcohol.

Industrial production rose 0.1% in September, reflecting a jump in electric utility output following an unseasonably cool August. Manufacturing and mining output both declined, at least in part due to disruption of output at refineries, chemical plants, and Gulf of Mexico oil and gas platforms and pipelines, as a result of hurricanes. Output declined last month in several additional industry groups, including motor vehicles, other transportation equipment, furniture, and textiles. In view of other more favorable reports, the latest downturn in manufacturing activity will likely prove temporary.

Manufacturers' new orders slipped 0.1% in August, after rising 1.7% in July. The trend in this volatile series has been strongly upward since mid-2003, and year-to-date factory orders are 12% higher than a year earlier. New orders for nondefense capital goods, an advance indicator of business capital spending, are 15% higher this year than a year earlier.

Housing Markets Remain Strong

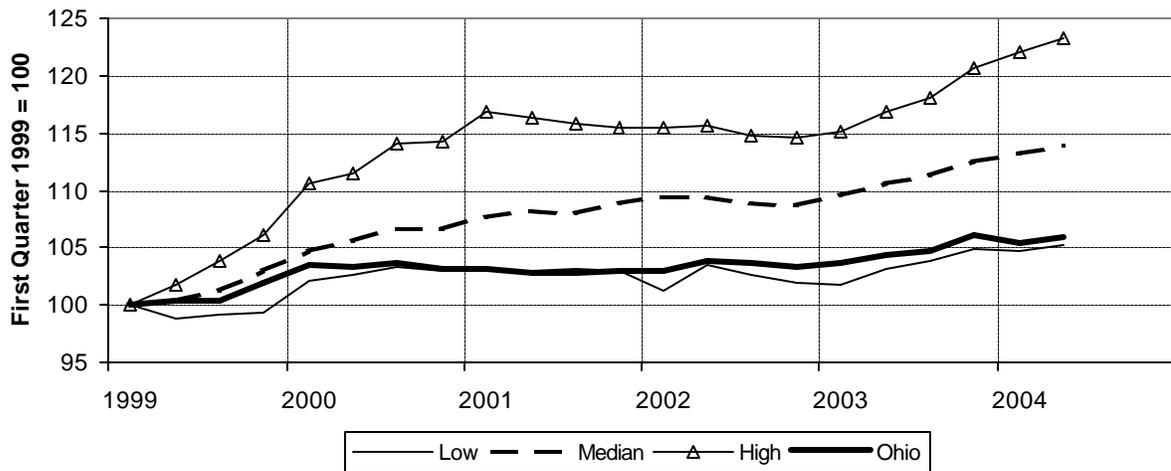
Low mortgage interest rates continue to support residential sales and construction. Housing starts nationwide are on track for the strongest year since 1973, when government programs facilitated high levels of multifamily housing construction. Starts rose 0.6% nationwide in August, and in the first eight months of 2004 were 10% higher than a year ago. The expansion is strongest in parts of the country other than the Midwest, as year-to-date starts in this region were only 0.3% higher than a year earlier. Sales of new single-family homes in the first eight months of 2004 were 11% higher than a year earlier nationwide and 10% higher in the Midwest. Year-to-date sales of used homes were also 11% higher than a year ago nationwide, and were 5% higher in the Midwest, based on National Association of Realtors (NAR) statistics. In Ohio, NAR data show sales of homes, apartment condos, and co-ops in the second quarter were 5% above a year earlier, compared with a 16% rise in the nation.

The value of construction spending in the United States rose 0.8% in August, a relatively rapid monthly gain, to 10% above a year earlier. Private residential construction continued strong, and private nonresidential building also grew at a brisk pace, particularly the building of commercial structures. Public construction fell 1% in August and was only 3.2% above a year earlier.

Growth in Retail Sales

Retail sales increased 1.5% in September, to 7.7% above a year earlier. Motor vehicle sales rose last month, particularly sales of light trucks, in response to enhanced manufacturers' incentive programs. Excluding motor vehicles, retail sales increased 0.6% in September. In the third quarter, retail lines of business with above average gains included motor vehicle dealers; furniture and home furnishings stores; sporting goods, hobby, book, and music stores; and nonstore retailers. Among general merchandise retailers, warehouse clubs and other

**Chart 3: Ohio Personal Income Compared with Other States
Deflated by the National Implicit Price Deflator for
Personal Consumption Expenditures**



discounters continue to outperform department stores.

Personal Income Growing, but Rise in Ohio Relatively Slow

Personal income nationwide grew 1.5% in the second quarter, compared with the first quarter, the fastest pace in more than three years. Income growth was strongest in the West and South, and weakest in New England, followed by the Great Lakes states. The comparison with a year earlier is similar, with second quarter personal income in the nation 5.2% higher, the largest year-over-year gain in more than three years. Growth was strongest in the South and West, and weakest in the Great Lakes states. Personal income in Ohio rose 1.2% in the second quarter, seventh slowest among the 50 states, to 3.7% above a year earlier, a smaller increase than in all but two states. Ohio personal income in recent years is compared with the other 49 states in Chart 3, in which personal income for all 50 states, net of inflation, is indexed to equal 100 in the first quarter of 1999. Ohio's personal income since then is compared with the low, median, and high for personal income among the rest of the states. As is clear from the chart, Ohio personal income has trended upward since early 2003, after essentially no change on balance during the previous three

years, and has been relatively weak compared with that of the other 49 states.

Finished Goods Inflation Stays Low

The producer price index for finished goods rose 0.1% in September and has been about flat over the past four months after rapid increases earlier this year. Compared with a year earlier, finished goods at the producer level were 3.3% higher last month. At earlier stages of production, producer prices for intermediate goods rose 0.1% in September to 8% higher than a year earlier. The price index for crude materials has declined in the latest three months, including a 4.2% fall last month, but was 14% higher than a year earlier reflecting large price increases in earlier months.

Crude oil prices recently have been at their highest levels ever. The benchmark U. S. crude, West Texas Intermediate, rose nearly to \$55 per 42-gallon barrel. Measured in dollars of constant purchasing power, crude oil prices are still well short of peak levels reached in 1981. The price rise reflects the impact of various short-term supply disruptions and concerns – in Iraq, Russia, Nigeria, the Gulf of Mexico, and elsewhere – on top of strong world demand. High oil prices, by diverting purchasing power from other uses, are likely to reduce economic

activity of net oil importers, including the United States, relative to what it would otherwise have been. Because the world uses energy more efficiently than 30 years ago, the adverse impact of an oil price rise can be expected to be less than following the oil price surges in 1973-1974 and 1979-1981.

Higher Short-Term Interest Rates, Lower Longer-Term Yields

Beginning in June, the Federal Reserve raised its target short-term interest rate for federal funds by

one-quarter percentage point at each of its meetings, including increases in August and September. A further tightening appears to be generally expected when the monetary policymaking group next meets on November 10. As short-term interest rates have risen, longer-term yields have tended to ease. Bond yields fell this month following announcement of the relatively small increase in payroll employment during September. The yield on the benchmark ten-year U.S. Treasury note declined close to 4%, down almost a percentage point from its recent peak four months earlier.

¹ See *Budget Footnotes*, July 2004, page 254.

² Mark Schweitzer and Guhan Venkatu, "Employment Surveys Are Telling the Same (Sad) Story," Federal Reserve Bank of Cleveland, May 15, 2004.

Status of the General Revenue Fund

REVENUE

— Jean Botomogno and Allan Lundell

A casual glance at September revenues reveals what appears to be a solid performance, but a closer look reveals some underlying softness. Although total General Revenue Fund (GRF) receipts for the month were \$75.6 million (3.7%) above estimate, total receipts for the month were boosted by two timing-related positive variances. Federal grants were \$49.5 million above estimate and transfers in were \$43.4 million above estimate. Federal grants were above estimate because a large payment was received on the first day of September rather than the last day of August as the estimates assumed. Other transfers in were above estimate due to the receipt in September of the transfer from the School District Property Tax Replacement Fund expected in August. If these two sources are removed from the total, then September receipts were \$17.3 million below estimate. Total tax revenue was \$14.6 million (1.0%) below estimate and revenue from the “major taxes” was \$12.3 million (0.8%) below estimate.¹ Revenue from the auto sales tax was \$12.0 million less than expected, revenue from the corporate franchise tax was \$6.4 million less than expected, and earnings from investment were \$4.1 million below estimate. Revenue from the personal income tax was \$6.2 million (0.8%) above estimate.

One quarter into the new fiscal year, the revenue picture remains mildly encouraging in spite of the results for September. Total GRF receipts are \$43.2 million (0.8%) above estimate. State-source receipts (tax revenue plus nontax revenue plus transfers in) are \$74.3 million (1.7%) above estimate. Total GRF revenues from the major taxes are \$76.9 million (1.9%) above estimate and total tax revenue is \$72.2 million (1.7%) above estimate. The major taxes are expected to account for approximately 70% of total GRF revenue and 90% of state-source GRF revenue in FY 2005. Their healthy performance is essential for a good revenue

year and their year-to-date performance is a promising sign.

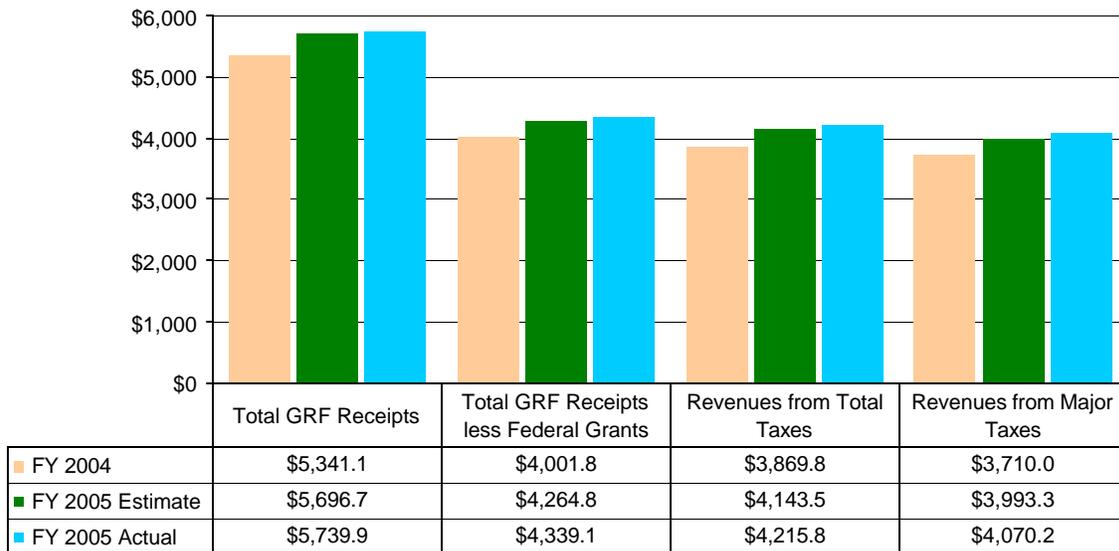
For the fiscal year to date, total GRF receipts are up 7.5% compared to FY 2004. State-source receipts are up 8.4%, total tax revenue is up 8.9%, and revenue from the major taxes is up 9.7%. The year-over-year comparisons are a bit misleading due to the timing of last year’s sales tax rate increase and base expansion, which make them not quite “apples to apples” comparisons. The improvement in receipts is better indicated by the 5.4% increase in state-source receipts from sources other than the sales tax. This improvement is largely due to the 8.0% year-over-year increase in revenue from the personal income tax. Chart 1 compares FY 2005 receipts with FY 2004 receipts and FY 2005 estimates.

Personal Income Tax

The GRF received \$800.6 million from the personal income tax in September. This amount was \$6.2 million (0.8%) greater than estimated. Withholding was \$4.7 million (0.8%) below estimate. Quarterly estimated payments were \$9.2 million (3.5%) above estimate.²

The GRF has received \$1,909.2 million from the personal income tax thus far this fiscal year. This amount is \$50.0 million (2.7%) above estimate. The \$1,810.0 million in revenue collected through withholding is \$6.3 million (0.3%) above estimate. Withholding is expected to account for 77% of gross income tax collections for FY 2005. Year-to-date quarterly estimated payments of \$297.8 million are \$10.7 million (3.7%) above estimate. Refunds total \$64.7 million. This total is \$17.3 million (21.1%) less than estimated.

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



Compared to a year ago, GRF revenue from the personal income tax is up 8.0%. Withholding is up 5.3%. Withholding reflects the condition of Ohio's labor market, and the growth in withholding may be an indication of improvement in Ohio's economy. Quarterly estimated payments are up 8.3%. Gross collections are up 6.0%, refunds are down 22.4%, and net collections are up 7.2%.

Sales and Use Tax

In September, revenues from the sales and use tax were below estimates. Total sales and use tax revenues in the month were \$615.7 million, \$12.3 million (2.0%) below projected revenues. The underperformance of this tax source was largely confined to the auto sales and use tax, which was \$12.0 million below estimates. Tax receipts partly reflect taxable retail sales activity in the prior month and also taxable retail sales during that month.³ As of September, fiscal year-to-date total sales and use tax revenues were \$2,017.3 million, \$23.4 million (1.2%) above estimates. Sales and use tax receipts were \$217.8 million (12.1%) higher than fiscal year-to-date tax receipts through September 2003.

The level of revenues in September 2004 provided the first "true" read on the monthly

comparison with year-ago receipts without the distortions created by the timing of tax collections in the first two months of FY 2004 (see *Budget Footnotes*, September 2004). Sales and use tax receipts in September 2004 were \$3.4 million (0.6%) below September 2003 sales and use tax revenues. Therefore, despite the promising results in the first quarter of FY 2005, the growth of the overall sales and use tax base is still difficult to assess.

Nonauto Sales and Use Tax

In September, nonauto sales and use tax revenues were \$526.3 million, almost equaling projected revenues. Revenues were also \$25.3 million (5.0%) above revenues in the same month last year. As of September, fiscal year-to-date nonauto sales and use tax revenues were \$236.3 million (15.9%) above revenues in the same period in FY 2004. This picture is very encouraging, but potentially misleading. Combined revenues in August and September 2004 were \$91.9 million (9.2%) above combined revenues in August and September 2003. When taking into account that the sales tax on local phone calls (base expansion, effective January 1, 2004) is still boosting this year-over-year comparison, the current large year-over-year variance is expected to decline over the next several months.

Auto Sales Tax

Auto sales and use tax receipts were \$89.4 million in September 2004, \$12.0 million (11.8%) below estimates. This follows a poor performance in the prior month. In August, auto sales and use tax receipts were \$18.1 million (15.1%) below estimates. The clerks of court generally make auto tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales tax receipts largely reflect vehicles sold and titled during the month. Compared to revenues in the same month a year ago, auto sales tax receipts in September 2004 were \$28.7 million (24.3%) lower. As of September, fiscal year-to-date auto sales tax receipts were \$298.1 million, \$15.2 million (4.8%) below estimates. Year-to-date auto sales and use tax receipts were also \$18.5 million (5.8%) below receipts through the same period a year ago.⁴

This tax source is not performing as well as expected. In the last six months (April 2004 through September 2004), auto sales and use tax collections have been 5.4% below estimates. Also, auto tax revenues have grown only 0.5% over the same six-month period in CY 2003 (April 2003 through September 2003). Auto sales and use tax revenues are about 15% of total sales and use tax receipts. As the large positive variance in nonauto sales tax receipts diminishes over the next few months, the auto sales tax will have to improve for the sales and use tax to do as well as projected this fiscal year.

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.⁵ In September, corporate franchise tax receipts were \$9.6 million, \$6.4 million (40.2%) below estimate. Fiscal year-to-date corporate franchise tax receipts were \$3.3 million (20.4%) above estimates and are also \$16.7 million (15.2%) above FY 2004 receipts.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts in September were \$46.9 million, \$0.6 million (1.2%) below estimate. In the first three months of FY 2005, revenues from the cigarette and other tobacco products tax were \$113.4 million, \$0.9 million (0.8%) below estimate. Compared to year-ago receipts, fiscal year-to-date revenues as of September 2004 were \$10.7 million (8.6%) lower. However, the inventory of stamps sold for cigarette packs is running 1.4% ahead of last year's pace. Therefore, some of the revenue gap may be due to the timing of payments of the cigarette tax by the dealers and wholesalers who buy the stamps on credit. Also, this tax source may, over time, benefit from Michigan increasing its cigarette tax from \$1.25 to \$2.00 per pack on July 1, 2004.

¹ The "major taxes" are the personal income tax, the sales and use tax, the corporate franchise tax, the public utility excise tax, and the kilowatt-hour tax. In addition to providing revenue for the GRF, these taxes contribute to the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF).

² 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.

³ 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 month.

⁴ Nationwide unit sales have been flat in this quarter compared to unit sales in the same quarter in CY 2003, and have been up 0.4% in the period from April to September 2004 compared to the same period in CY 2003. Sales at auto and motor vehicle dealers grew 2.4% from April to August 2004 compared to the same period in CY 2003.

⁵ Corporate franchise tax receipts are due in the second half of the fiscal year. Corporate franchise tax estimated payments are due January 31, March 31, and May 31. By May 31 each year, a corporation must pay the difference between its full tax liability and the first two estimated payments.

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

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	\$89,403	\$101,420	-\$12,017	-11.8%
Nonauto Sales & Use	\$526,266	\$526,500	-\$234	0.0%
Total Sales & Use Taxes	\$615,669	\$627,920	-\$12,251	-2.0%
Personal Income	\$800,607	\$794,400	\$6,207	0.8%
Corporate Franchise	\$9,567	\$15,985	-\$6,418	-40.2%
Public Utility	\$100	\$0	\$100	---
Kilowatt Hour Excise	\$30,041	\$30,000	\$41	0.1%
Total Major Taxes	\$1,455,984	\$1,468,305	-\$12,321	-0.8%
Foreign Insurance	\$7,158	\$6,636	\$522	7.9%
Domestic Insurance	\$5	\$17	-\$12	-73.3%
Business & Property	\$4	\$450	-\$446	-99.2%
Cigarette	\$46,943	\$47,500	-\$557	-1.2%
Alcoholic Beverage	\$4,612	\$4,788	-\$176	-3.7%
Liquor Gallonage	\$2,576	\$2,573	\$3	0.1%
Estate	\$487	\$2,100	-\$1,613	-76.8%
Total Other Taxes	\$61,785	\$64,064	-\$2,279	-3.6%
Total Tax Revenue	\$1,517,769	\$1,532,369	-\$14,600	-1.0%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	\$6,487	\$10,560	-\$4,073	-38.6%
Licenses and Fees	\$2,712	\$1,364	\$1,348	98.8%
Other Revenue	\$8,139	\$8,110	\$29	0.4%
Nontax State-Source Revenue	\$17,338	\$20,034	-\$2,696	-13.5%
TRANSFERS				
Liquor Transfers	\$9,000	\$9,000	\$0	0.0%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$43,495	\$100	\$43,395	43395.5%
Total Transfers In	\$52,495	\$9,100	\$43,395	476.9%
TOTAL GRF before Federal Grants	\$1,587,602	\$1,561,503	\$26,099	1.7%
Federal Grants	\$531,773	\$482,293	\$49,480	10.3%
TOTAL GRF SOURCES	\$2,119,375	\$2,043,796	\$75,579	3.7%

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

Detail may not sum to total due to rounding.

Table 3
General Revenue Fund Sources
Actual vs. Estimate
FY 2005 as of September 2004
(\$ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
TAX REVENUE						
Auto Sales	\$298,088	\$313,242	-\$15,154	-4.8%	\$316,552	-5.8%
Nonauto Sales & Use	\$1,719,257	\$1,680,750	\$38,507	2.3%	\$1,482,953	15.9%
Total Sales & Use Taxes	\$2,017,345	\$1,993,992	\$23,353	1.2%	\$1,799,504	12.1%
Personal Income	\$1,909,222	\$1,859,200	\$50,022	2.7%	\$1,767,354	8.0%
Corporate Franchise	\$19,244	\$15,985	\$3,259	20.4%	\$16,711	15.2%
Public Utility	\$35,918	\$35,500	\$418	1.2%	\$39,152	-8.3%
Kilowatt Hour Excise	\$88,447	\$88,600	-\$153	-0.2%	\$87,308	1.3%
Total Major Taxes	\$4,070,176	\$3,993,277	\$76,899	1.9%	\$3,710,030	9.7%
Foreign Insurance	\$7,275	\$6,683	\$592	8.9%	\$5,377	35.3%
Domestic Insurance	\$8	\$1,037	-\$1,029	-99.3%	\$147	-94.8%
Business & Property	\$800	\$1,050	-\$250	-23.8%	\$1,061	-24.6%
Cigarette	\$113,365	\$114,300	-\$935	-0.8%	\$123,980	-8.6%
Alcoholic Beverage	\$15,399	\$15,333	\$66	0.4%	\$14,888	3.4%
Liquor Gallonage	\$8,042	\$7,657	\$385	5.0%	\$7,703	4.4%
Estate	\$700	\$4,200	-\$3,500	-83.3%	\$6,651	-89.5%
Total Other Taxes	\$145,590	\$150,260	-\$4,670	-3.1%	\$159,807	-8.9%
Total Tax Revenue	\$4,215,766	\$4,143,537	\$72,228	1.7%	\$3,869,838	8.9%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	\$6,319	\$10,560	-\$4,241	-40.2%	\$7,973	-20.7%
Licenses and Fees	\$12,693	\$9,577	\$3,116	32.5%	\$9,743	30.3%
Other Revenue	\$31,781	\$28,688	\$3,093	10.8%	\$30,030	5.8%
Nontax State-Source Revenue	\$50,793	\$48,825	\$1,968	4.0%	\$47,746	6.4%
TRANSFERS						
Liquor Transfers	\$29,000	\$27,000	\$2,000	7.4%	\$28,000	3.6%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$43,495	\$45,400	-\$1,905	-4.2%	\$56,217	-22.6%
Total Transfers In	\$72,495	\$72,400	\$95	0.1%	\$84,217	-13.9%
TOTAL GRF before Federal Grants	\$4,339,054	\$4,264,762	\$74,292	1.7%	\$4,001,800	8.4%
Federal Grants	\$1,400,844	\$1,431,902	-\$31,058	-2.2%	\$1,339,289	4.6%
TOTAL GRF SOURCES	\$5,739,899	\$5,696,665	\$43,234	0.8%	\$5,341,089	7.5%

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

Detail may not sum to total due to rounding.

DISBURSEMENTS

— Steve Mansfield*

September's disbursements from the General Revenue Fund (GRF) (excluding transfers) totaled \$2,201.0 million. This was \$71.7 million over the estimate for the month, moving spending for the year to date to a negligible \$1.3 million under the estimate. Actual outlays for FY 2004 to date are 4.5% higher than at the same point in FY 2004.

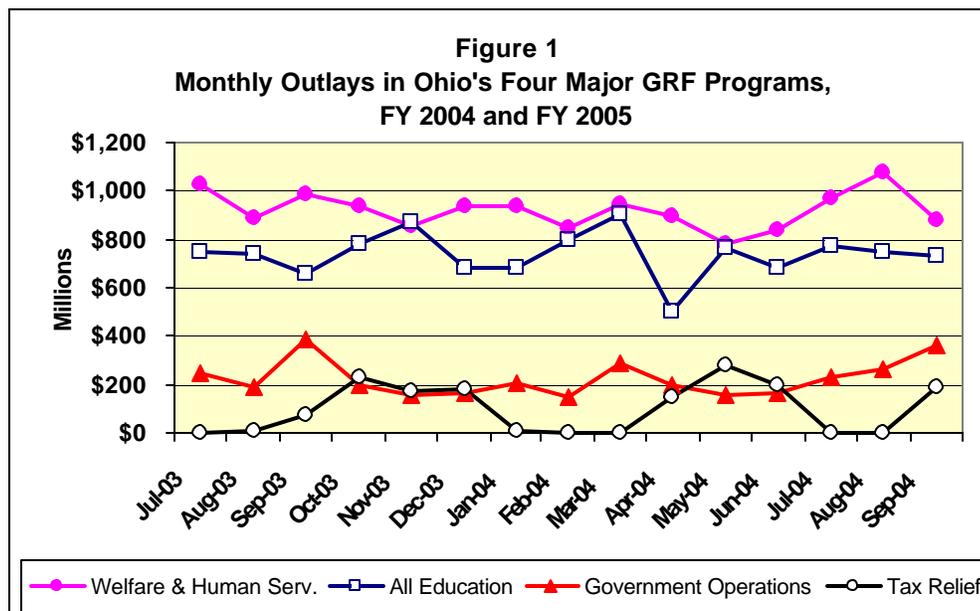
As we see in Figure 1, there were a number of large shifts in the pattern of disbursements. Disbursements in the Welfare and Human Services category were \$878.8 million, down from \$1,080.3 million in August, but still producing a variance of \$17.0 million above the estimate. A decline in outlays in the Health Care/Medicaid program is the main source of the difference between August and September outlays for that category. Outlays in the Property Tax Relief program when compared to August were greater in September by more than \$230 million. And outlays in the Government Operations category were nearly \$102 million higher.

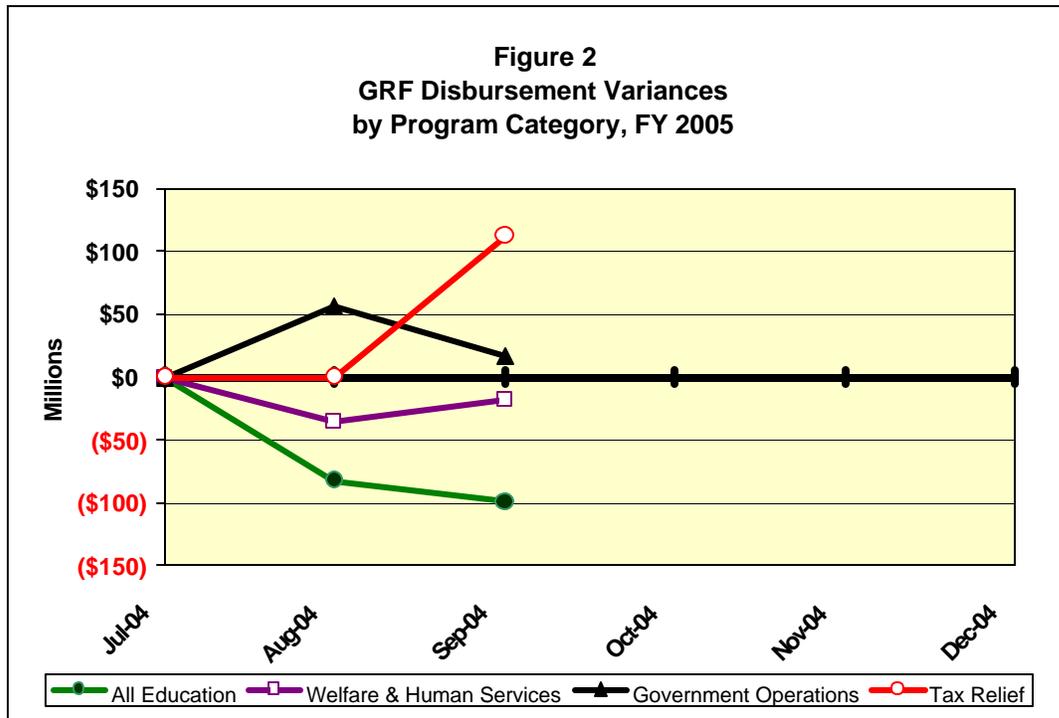
In September, two of the state's four major GRF program categories posted disbursement variances above the estimates, and two posted variances below

the estimates. Since these were only partially offsetting, the net variance for the month once Debt Service is included totaled \$71.7 million over the estimate (see Figure 2). The Property Tax Relief category had a larger than expected disbursement of \$192.4 million, which was \$112.4 million above the estimate.

As Table 5 indicates, the three program subcategories with the largest disbursement variances for the year to date are Property Tax Relief (\$105.5 million above estimate), Primary and Secondary Education (\$71.7 million below estimate), and Higher Education (\$32.3 million below estimate).

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 \$1.3 million in year-to-date underspending. Summary information about GRF disbursement activity for the most recent month is presented in Table 4. Fiscal year spending data are presented in Table 5. A detailed analysis of disbursement activity in the Health Care/Medicaid program is presented in Tables 6 and 7.





Education (-\$104.0 million)

In September, the Education category posted a variance of \$16.8 million under estimate, pushing the actual spending for the year to date under the estimate by \$104.0 million (4.4%). The Department of Education posted a \$9.5 million over-estimate variance for the month. Disbursements by the Board of Regents offset this with a variance of \$26.3 million under the estimate for the month. For the year to date, the Department of Education is under estimate by \$68.5 million and the Board of Regents is under estimate by \$32.3 million. The remainder of the category's variance is traceable to the smaller agencies in the category.

Department of Education. September disbursements in the Department of Education were \$562.4 million, which was \$10.4 million (1.9%) above the estimate for the month. For the year to date, the Department's disbursements are \$68.5 million (3.9%) under the estimate. September's spending over estimate is traceable to payments from line item 200-511, Auxiliary Services, being made in September rather than in August as planned. This line item provides assistance to

chartered nonpublic elementary and secondary schools. Overspending in this line item was partially offset with timing-related underspending in a number of other line items.

The line item with the largest year-to-date disbursement variance is line item 200-501, Base Cost Funding (\$23.5 million under the estimate). This is the Department's largest line item, with an appropriation in FY 2005 of just over \$4.4 billion. These funds are paid to school districts according to the base cost formula developed by the General Assembly and are used to provide educational services to Ohio public school students. Payments from this line item depend on a variety of data that have not been finalized, and variances are to be expected during the process of finalizing the data.

In FY 2004 additional funds were required to support formula funding. Average daily membership (ADM) figures for FY 2004 came in about 7,000 students above estimate. Special education ADM for FY 2004 came in about 10,000 students above estimate. Also, business personal tangible property values fell more than had been anticipated. (When property values fall, state aid goes up.) For all these

Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of September 2004
(\$ in thousands)

<i>PROGRAM</i>	<u>Actual</u>	<u>Estimate*</u>	<u>Variance</u>	<u>Percent</u>
Primary & Secondary Education (1)	\$568,082	\$558,628	\$9,454	1.7%
Higher Education	\$159,318	\$185,589	-\$26,270	-14.2%
Total Education	\$727,400	\$744,216	-\$16,816	-2.3%
Health Care/Medicaid	\$763,386	\$745,481	\$17,905	2.4%
Temporary Assistance to Needy Families (TANF)	-\$21	\$0	-\$21	---
General/Disability Assistance	\$1,788	\$1,908	-\$120	-6.3%
Other Welfare (2)	\$36,599	\$42,426	-\$5,827	-13.7%
Human Services (3)	\$77,029	\$72,007	\$5,022	7.0%
Total Welfare & Human Services	\$878,782	\$861,822	\$16,960	2.0%
Justice & Corrections	\$213,610	\$255,810	-\$42,200	-16.5%
Environment & Natural Resources	\$8,142	\$10,433	-\$2,291	-22.0%
Transportation	\$1,976	\$1,738	\$238	13.7%
Development	\$47,497	\$36,320	\$11,177	30.8%
Other Government	\$90,840	\$96,677	-\$5,837	-6.0%
Capital	\$0	\$250	-\$250	-100.0%
Total Government Operations	\$362,065	\$401,227	-\$39,162	-9.8%
Property Tax Relief (4)	\$192,367	\$80,018	\$112,350	140.4%
Debt Service	\$40,354	\$41,995	-\$1,642	-3.9%
Total Other Disbursements	\$232,721	\$122,013	\$110,708	90.7%
Total Program Disbursements	\$2,200,967	\$2,129,278	\$71,689	3.4%
TRANSFERS				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$1,250	\$0	\$1,250	---
Total Transfers Out	\$1,250	\$0	\$1,250	---
TOTAL GRF USES	\$2,202,217	\$2,129,278	\$72,939	3.4%

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

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

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

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

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

Detail may not sum to total due to rounding.

reasons, the Department transferred in FY 2004 \$32.8 million into this line item from other line items. In addition, Sub. H.B. 434 (the Tobacco Settlement Appropriations Act) increased the FY 2004 appropriation for this item by \$80 million.

As seen in Figure 3, total school ADM reached a peak in FY 1998. It decreased somewhat over the next few years but has recently increased, going from 1,794,113 ADM in FY 2002 to 1,813,185 ADM in FY 2004, an increase of 19,072. At the same time,

Table 5
General Revenue Fund Uses
Actual vs. Estimate
FY 2005 as of September 2004
(\$ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
Primary & Secondary Education (1)	\$1,720,126	\$1,791,874	-\$71,748	-4.0%	\$1,632,670	5.4%
Higher Education	\$524,583	\$556,838	-\$32,255	-5.8%	\$510,283	2.8%
Total Education	\$2,244,709	\$2,348,712	-\$104,003	-4.4%	\$2,142,953	4.7%
Health Care/Medicaid	\$2,428,455	\$2,425,895	\$2,560	0.1%	\$2,363,151	2.8%
Temporary Assistance to Needy Families (TANF)	\$26,908	\$25,402	\$1,506	5.9%	\$52,723	-49.0%
General/Disability Assistance	\$6,709	\$6,916	-\$207	-3.0%	\$6,972	-3.8%
Other Welfare (2)	\$147,127	\$164,373	-\$17,247	-10.5%	\$172,781	-14.8%
Human Services (3)	\$317,328	\$322,327	-\$4,999	-1.6%	\$305,878	3.7%
Total Welfare & Human Services	\$2,926,527	\$2,944,913	-\$18,386	-0.6%	\$2,901,504	0.9%
Justice & Corrections	\$573,588	\$567,932	\$5,656	1.0%	\$555,065	3.3%
Environment & Natural Resources	\$37,442	\$38,072	-\$631	-1.7%	\$35,919	4.2%
Transportation	\$8,229	\$7,416	\$813	11.0%	\$9,033	-8.9%
Development	\$71,203	\$56,689	\$14,514	25.6%	\$58,719	21.3%
Other Government	\$163,496	\$166,105	-\$2,609	-1.6%	\$158,245	3.3%
Capital	\$0	\$380	-\$380	-100.0%	\$0	---
Total Government Operations	\$853,957	\$836,594	\$17,363	2.1%	\$816,981	4.5%
Property Tax Relief (4)	\$195,409	\$89,865	\$105,545	117.4%	\$85,641	128.2%
Debt Service	\$153,349	\$155,155	-\$1,806	-1.2%	\$149,941	2.3%
Total Other Disbursements	\$348,759	\$245,020	\$103,739	42.3%	\$235,582	48.0%
Total Program Disbursements	\$6,373,951	\$6,375,239	-\$1,288	0.0%	\$6,097,021	4.5%
TRANSFERS						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$24,772	\$0	\$24,772	---	\$25,779	-3.9%
Total Transfers Out	\$24,772	\$0	\$24,772	---	\$25,779	-3.9%
TOTAL GRF USES	\$6,398,723	\$6,375,239	\$23,484	0.4%	\$6,122,799	4.5%

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

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

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

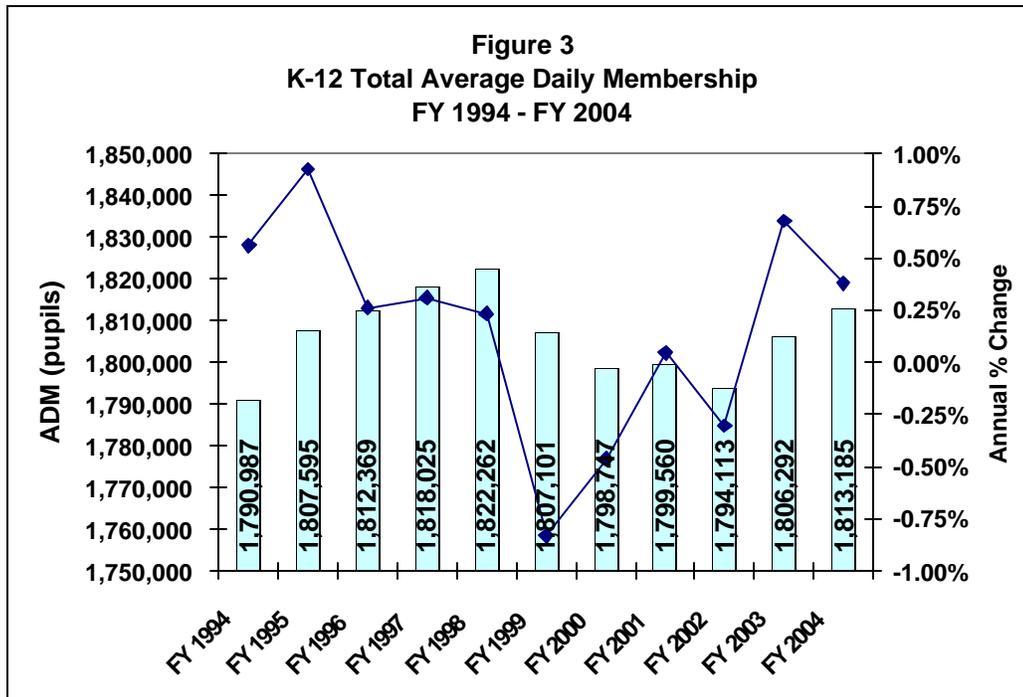
(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

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

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nonpublic enrollment has fallen. From FY 2001 to FY 2004, total nonpublic school enrollment fell by 7.9%, from 241,908 students to 222,842 students, a decrease of 19,066 students.

Board of Regents. Disbursements by the Board of Regents were \$26.3 million below estimate in September and stand at \$32.3 million below estimate for the year to date. Two line items stand out as the



source for both the month's and year-to-date variances. Disbursements for line item 235-532, Student Choice Grants, which provides grants to Ohio residents working toward a bachelor's degree, were under estimate by \$17.0 million for September and \$17.4 million under estimate for the fiscal year. The disbursement variance in line item 235-532 is due to data coming in from campuses at a slower rate than was assumed in the estimate. Disbursements from line item 235-503, Ohio Instructional Grants, which provides financial grants to Ohio residents enrolled full-time and whose family income qualifies them, were under estimate in September by \$9.8 million and stand at \$11.5 million below estimate for the fiscal year. The variance in line item 235-503 is due in part to summer-term 2004 payment requests being lower than expected. Some of the requests for spring 2004 were paid out of the Ohio Instructional Grant Reconciliation Fund after the start of the current fiscal year, which may not have been factored into the estimate for this line item.

Welfare/Human Services (-\$18.4 million)

The Welfare/Human Services category posted a disbursement variance of \$17.0 million over the

estimate in September. For the year to date, outlays in this category stand at \$18.4 million below the estimate. Two program subcategories (Health Care/Medicaid and Other Welfare) are the main contributors to these variances and are discussed in more detail in the following paragraphs.

Health Care/Medicaid. Year-to-date disbursements through September in the Health Care/Medicaid program (primarily line item 600-525) are \$2.6 million (0.1%) above the estimate (see Table 6). For September, health care spending was \$17.9 million (2.4%) above the estimate.

As we see in Table 6, the sources of September's above-estimate variance were Nursing Home Payments, Drug Rebates Offsets, and other offsets. For both the month and the year to date, most of the service categories show below-estimate spending, while payments from offsets are above estimate. One factor affecting the variances in all of the service categories is that the estimates include the use of funds from the Medicaid Relief Fund. These funds have not yet been appropriated but will be later in the fiscal year.

Looking at the year-over-year comparisons in Table 7, we see a significant increase in Prescription Drugs payments. This is a continuation of the trend of a relatively high inflation rate in the cost of prescription drugs and higher utilization rates. We also see significantly lower payments for Intermediate Care Facilities for the Mentally Retarded (ICF/MR), Inpatient Hospitals, and Managed Care Plan (MCP, previously designated as "HMO"). The year-to-year difference for ICF/MR Payments is due largely to a mistake last fiscal year in the way payments to some developmental centers of the Department of Mental Retardation and Developmental Disabilities were posted. And the difference in the Inpatient Hospitals category stems from last year's adjustment in payments to children's hospitals. LSC is investigating the decrease in expenditures in the Managed Care Plan.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs were \$5.8 million under estimate in September and stand at \$17.2 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.

Several line items contributed to the underspending for the year to date. Among these are line items 600-521, Family Stability Subsidy (\$4.5 million under estimate); 600-523, Children and Families Subsidy (\$2.5 million under estimate); and 600-321, Support Services (\$2.5 million under estimate). For the two subsidy line items, counties have simply requested slightly less than in years past.

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

Service Category	September				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Sep.	Estimate thru Sep.	Variance	Percent Variance
Nursing Facilities Payments	\$228,642	\$224,651	\$3,991	1.8%	\$680,946	\$666,706	\$14,240	2.1%
ICF/MR Payments	\$37,837	\$37,766	\$70	0.2%	\$111,774	\$112,080	(\$307)	-0.3%
Inpatient Hospitals	\$92,601	\$111,015	(\$18,414)	-16.6%	\$319,589	\$360,799	(\$41,210)	-11.4%
Outpatient Hospitals	\$45,606	\$48,755	(\$3,149)	-6.5%	\$156,952	\$158,452	(\$1,500)	-0.9%
Physicians	\$41,517	\$44,266	(\$2,749)	-6.2%	\$145,798	\$143,864	\$1,933	1.3%
Prescription Drugs	\$142,893	\$147,620	(\$4,727)	-3.2%	\$475,855	\$479,765	(\$3,909)	-0.8%
ODJFS Waiver	\$16,003	\$17,883	(\$1,880)	-10.5%	\$53,900	\$58,120	(\$4,220)	-7.3%
All Other	\$64,874	\$73,040	(\$8,166)	-11.2%	\$224,824	\$237,701	(\$12,877)	-5.4%
MCP	\$85,562	\$88,287	(\$2,725)	-3.1%	\$254,903	\$265,019	(\$10,116)	-3.8%
Medicare Buy-In	\$14,184	\$14,103	\$81	0.6%	\$43,566	\$42,233	\$1,333	3.2%
Total Medicaid Payments	\$769,717	\$807,386	(\$37,669)	-4.7%	\$2,468,108	\$2,524,741	(\$56,633)	-2.2%
DA Medical	\$5,749	\$4,928	\$821	16.7%	\$16,671	\$16,017	\$654	4.1%
Drug Rebates Offsets	(\$403)	(\$49,836)	\$49,433	-99.2%	(\$25,403)	(\$75,473)	\$50,070	-66.3%
ICF/MR Franchise Fee Offsets	(\$1,705)	(\$3,409)	\$1,705	-50.0%	(\$3,365)	(\$5,065)	\$1,700	-33.6%
NF Franchise Fee Offsets	(\$9,972)	(\$13,588)	\$3,615	-26.6%	(\$22,771)	(\$29,541)	\$6,770	-22.9%
DSH Rebate Offsets	\$0	\$0	\$0	0.0%	(\$4,785)	(\$4,785)	\$0	0.0%
Total Health Care (Net of Offsets)	\$763,386	\$745,481	\$17,905	2.4%	\$2,428,455	\$2,425,895	\$2,560	0.1%
Est. Federal Share	\$448,170	\$437,658	\$10,512		\$1,425,700	\$1,424,197	\$1,503	
Est. State Share	\$315,217	\$307,823	\$7,393		\$1,002,756	\$1,001,698	\$1,057	

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, and prior period contract.

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

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

6. The federal medical assistance percentage (FMAP) used in this table is a blended rate of 58.71%.

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

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

The pattern established in recent years forms the basis of the current year estimates. Also, disbursements from line item 600-523 were affected by the fact that foster parent training funds were not disbursed as had been expected. Disbursements from line item 600-321 were affected by lower than anticipated rent and maintenance expenditures.

Government Operations **(\$17.4 million)**

With a disbursement variance of \$39.2 million under the estimate in September, outlays in the Government Operations category stand at \$17.4 million (2.1%), over the estimate for the year to date. With a variance of \$29.5 million under the estimate for September, the Department of Rehabilitation and Corrections in the Justice and Corrections subcategory is the largest contributor to the underspending in September. And with a variance of \$14.3 million over the year-to-date estimate, the Department of Development in the Development subcategory is the largest contributor to the year-to-date variance.

Development. The Department of Development's disbursements in September totaled \$19.3 million, a variance of \$11.7 million (152.5%) above the estimate. For the fiscal year, the Department's disbursements are \$14.3 million (58.7%) above the estimate.

There are three line items with significant contributions to the overspending in the Department of Development. Disbursements from line item 195-515, Economic Development Contingency (\$4.9 million over estimate for September and \$9.6 million over estimate for the year to date), which provides grants for large capital investment projects, experienced unexpected delays of several

Table 7
FY 2005 to FY 2004 Comparison of Year-to-Date Health Care Spending
(\$ in thousands)

Service Category	FY 2005	FY 2004	Dollar Change	Percent Change
	Yr.-to-Date as of Sep. '04	Yr.-to-Date as of Sep. '03		
Nursing Facilities Payments	\$680,946	\$682,128	(\$1,182)	-0.2%
ICF/MR Payments	\$111,774	\$133,550	(\$21,776)	-16.3%
Inpatient Hospitals	\$319,589	\$329,351	(\$9,761)	-3.0%
Outpatient Hospitals	\$156,952	\$151,205	\$5,747	3.8%
Physicians	\$145,798	\$143,094	\$2,703	1.9%
Prescription Drugs	\$475,855	\$431,152	\$44,704	10.4%
ODJFS Waiver	\$53,900	\$47,997	\$5,903	12.3%
All Other	\$224,824	\$242,983	(\$18,159)	-7.5%
MCP	\$254,903	\$284,156	(\$29,253)	-10.3%
Medicare Buy-In	\$43,566	\$38,424	\$5,142	13.4%
Total Medicaid Payments	\$2,468,108	\$2,484,041	(\$15,932)	-0.6%
DA Medical	\$16,671	\$26,144	(\$9,474)	-36.2%
Drug Rebates Offsets	(\$25,403)	(\$41,395)	\$15,992	-38.6%
ICF/MR Franchise Fee Offsets	(\$3,365)	(\$5,112)	\$1,746	-34.2%
NF Franchise Fee Offsets	(\$22,771)	(\$29,527)	\$6,757	-22.9%
DSH Rebate Offsets	(\$4,785)	\$0	(\$4,785)	
Prior period encumbrance subsidy	\$0	(\$71,000)	\$71,000	-100.00%
Total Health Care (Net of Offsets)	\$2,428,455	\$2,363,151	\$65,304	2.76%
Est. Federal Share	\$1,425,700	\$1,387,361	\$38,339	
Est. State Share	\$1,002,756	\$975,790	\$26,965	

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 58.71%.

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

grant awards. Disbursements from line item 195-412, Business Development Grants (\$2.3 million over estimate for September and \$2.4 million over estimate for the year to date), which provides grants for infrastructure financing that is used to attract or retain business opportunities in Ohio, also experienced certain delays in making grant awards. And disbursements from line item 195-516, Shovel Ready Sites (\$1.2 million over estimate for September and \$1.2 million over estimate for the year to date), which provides for the Director of Development to contract for pilot projects with three port authorities, were delayed by a slower than anticipated start-up in the planning process for these projects.

Rehabilitation & Correction. Over two-thirds of September's underspending by the Department of Rehabilitation and Corrections was registered by

line item 501-321, Institutional Operations, and was due to the posting of a payroll amount in August that had been expected in September. The remainder of the underspending for the month was spread over the Department's other 321 line items that also support payroll expenses. The overspending for the year to date can be traced to the earlier than expected timing of payments for halfway house and other community-based contracts. Since the estimates anticipated large payments for such contracts in October, the year-to-date disbursement variance for these contract payments is expected to decline by our next report.

Tax Relief (\$105.5 million)

Tax Relief payments totaled \$192.4 million in September, \$112.4 million (140.4%) over the estimate and \$112.4 million above a year earlier. Year-to-date total disbursements of \$195.4 million were \$105.5 million higher than the estimate and \$109.8 million above a year ago. Disbursement

variances in the Property Tax Relief program are usually traceable to the timing of county auditor requests for reimbursement. It appears that payments to school districts and other local governments merely began sooner than expected. No payments have been made so far this fiscal year for the \$10,000 tangible property tax exemption.

The Property Tax Relief program, which carries an FY 2005 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. Tax relief funds are paid 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.

**LSC colleagues who contributed to the development of this disbursement report included, in alphabetical order, Melaney Carter, Ivy Chen, Phil Cummins, David Price, Joseph Rogers, Kerry Sullivan, and Clay Weidner.*

Issues of Interest

LOTTERY TICKET SALES AND PROFIT TRANSFERS FIRST QUARTER, FISCAL YEAR 2005

¾ Jean Botomogno

Ticket Sales

Table 1 summarizes ticket sales by game in the first quarter of FY 2005. Total ticket sales were \$523.9 million, \$27.9 million (5.1%) lower than sales in the previous quarter. Instant ticket sales were \$45 million (18.7%) higher than On-line ticket sales.¹ Monthly ticket sales were highest in July. Then, sales decreased 9.6% in August and another 1.7% in September.

First-quarter ticket sales in FY 2005 were \$28.3 million (5.7%) higher than sales in the same quarter a year ago. Instant ticket sales grew 11.2%, and on-line ticket sales were flat. Compared to quarterly sales in FY 2004, Mega Millions and Pick

Compared to profit margins in the same quarter a year ago, profit margins in this quarter declined as the share of Instant tickets sold increased. Instant ticket sales were 51.6% of total sales in FY 2004 and 54.3% of total sales in FY 2005. However, total profits increased because ticket sales were higher this year.

Transfers to the Lottery Profits Education Fund (LPEF)

Table 2 provides monthly transfers from operations to the Lottery Profits Education Fund (LPEF) in FY 2005. Transfers to LPEF in the first quarter of FY 2005 were \$161.9 million, \$8.3 million (5.4%) higher than budgeted. Total budgeted

Month	Pick 3	Pick 4	Buckeye 5	Kicker	Super Lotto	Mega Millions	On-Line	Instants	Total
July	\$34.5	\$14.2	\$5.6	\$2.1	\$12.7	\$23.1	\$92.2	\$95.5	\$187.7
August	\$32.2	\$13.7	\$5.3	\$1.6	\$8.7	\$10.6	\$72.1	\$97.4	\$169.6
September	\$31.7	\$13.8	\$5.1	\$1.8	\$10.7	\$12.0	\$75.1	\$91.5	\$166.7
Quarter 1	\$98.4	\$41.7	\$16.0	\$5.5	\$32.1	\$45.7	\$239.5	\$284.4	\$523.9

Totals may not add up due to rounding.

4 ticket sales increased \$5.7 million (14.3%) and \$2.7 million (6.8%), respectively. Sales of Super Lotto and Kicker tickets decreased \$7.4 million (18.7%) and \$1.0 million (15.0%), respectively. Buckeye 5 ticket sales declined \$0.5 million (2.9%). Pick 3 ticket sales were about the same as in FY 2004.

transfers for the fiscal year are \$637.9 million. Transfers in the first quarter were also \$9.7 million (6.4%) higher than transfers in the same period in FY 2004. Transfers were about 31% of ticket sales.

Month	Projected Transfers	Actual Transfers	Dollar Variance	Percent Variance	FY 2004 Transfers	Dollar Change	Percent Change
July	\$51.2	\$57.6	\$6.4	12.4%	\$50.9	\$6.6	13.0%
August	\$51.3	\$51.3	\$0.0	0.1%	\$50.1	\$1.2	2.4%
September	\$51.2	\$53.0	\$1.8	3.6%	\$51.1	\$1.9	3.7%
Quarter 1	\$153.7	\$161.9	\$8.3	5.4%	\$152.2	\$9.7	6.4%

¹ On-line games are Pick 3, Pick 4, Buckeye 5, Kicker, Super Lotto, and Mega Millions. These games are played via a terminal at a Lottery sales agent. Those terminals are linked to Ohio Lottery headquarters computers. "On-line" does **not** refer to lottery sales made via the Internet.