

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JANUARY 2005

## FISCAL OVERVIEW

— Allan Lundell

December saw a continuation of the U.S. economic expansion along with some indications of improvement in Ohio's economy. General Revenue Fund (GRF) receipts were above estimate and disbursements were below estimate for the month. For the fiscal year to date, total GRF receipts are on target with estimate, total program disbursements are below estimate, and the cash balance is above its expected level.

### Tracking the Economy

The U.S. economic expansion continued in December. Nonfarm payroll employment increased by 157,000 and the October and November increases in employment were raised by a combined 34,000. The estimate of growth in real gross domestic product for the third quarter was revised upward from 3.9% to 4.0%, compared to 3.3% for the second quarter. Retail sales rose 1.2% in December to 8.7% above a year earlier, and sales excluding autos and gasoline rose by 0.6% to 7.3% above a year ago. Third-quarter personal income growth was 0.8% for both the U.S. and Ohio. Compared to a year earlier, U.S. personal income is up 5.2% and Ohio personal income is up 5.0%.

### Receipts

The gloomy revenue picture for November was followed by a merry one for December. Total GRF receipts for the month were \$101 million (4.9%) above estimate, state-source receipts were \$100 million (6.7%) above estimate, tax revenue was \$100 million (6.9%) above estimate, and revenues from the "major" taxes were \$98 million (7.1%) above estimate.<sup>1</sup>

At the midpoint of the fiscal year, the overall revenue picture has turned from mildly worrisome to mildly encouraging. December stopped a trend that had seen tax revenue fall below estimate for three consecutive months and total GRF receipts fall below estimate for two. Through December, total GRF receipts are \$3 million (0.03%) above estimate and state-source receipts are \$62 million (0.7%) above estimate. Total GRF tax revenue is \$70 million (0.8%)

### Volume 28, Number 5

Tracking the Economy ..... 105

- The nation's economy expanded further in December
- Finished goods and services inflation remains muted, but commodity price pressures continue
- The performance of Ohio's economy continues to lag that of the nation

### STATUS OF THE GRF

Revenue ..... 110

- December revenue picture merry
- Strong revenue performance led by personal income tax and nonauto sales and use tax
- Fiscal year-to-date receipts from state sources other than the sales tax up 2.8% compared to FY 2004

Disbursements ..... 118

- Timing issues push Education Y-T-D disbursements further under estimate
- Total GRF disbursements nearly \$300 million under estimate
- Tangible Property Tax Relief program variance growing because estimate based on appropriations rather than on expected payments

### ISSUES OF INTEREST

Lottery Ticket Sales and Profit Transfers: First Quarter, FY 2005 ..... 125

**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 December	Fiscal Year 2005 to Date	Last Year	Difference
<b>Beginning Cash Balance</b>	-\$947.9	\$533.1		
Plus Revenue and Transfers In	\$2,147.5	\$11,496.2		
<b>Available Resources</b>	<b>\$1,199.6</b>	<b>\$12,029.4</b>		
Less Disbursements and Transfers Out	\$1,932.4	\$12,762.2		
<b>Ending Cash Balances</b>	<b>-\$732.8</b>	<b>-\$732.8</b>	<b>-\$840.4</b>	<b>\$107.6</b>
Less Encumbrances and Accts. Payable		\$638.5	\$550.9	\$87.6
<b>Unobligated Balance</b>		<b>-\$1,371.3</b>	<b>-\$1,391.3</b>	<b>\$20.0</b>
Plus BSF Balance		\$180.7	\$180.7	\$0.0
<b>Combined GRF and BSF Balance</b>		<b>-\$1,190.6</b>	<b>-\$1,210.6</b>	<b>\$20.0</b>

above estimate and GRF revenues from the “major taxes” are \$86 million (1.1%) above estimate. Encouragement is provided by the personal income tax (2.9% above estimate) and the nonauto sales tax (2.0% above estimate). These two revenue sources are expected to provide 78% of state-source GRF receipts for FY 2005, and their strong year-to-date performance combined with forecasts of economic recovery offer hope as the state heads into the second half of the fiscal year.

### **Disbursements**

December total GRF program disbursements were \$52 million (2.6%) below estimate. Disbursements for Health Care/Medicaid were \$19 million (2.4%) above estimate. Disbursements for Primary and Secondary Education were \$44 million (7.9%) below estimate, disbursements for Property Tax Relief were \$41 million (21.4%) below estimate, and disbursements for Debt Service were \$15 million (89.7%) below estimate.

Year-to-date total program disbursements are \$298 million (2.3%) below estimate. Disbursements for Primary and Secondary Education are \$154 million (4.4%) below estimate

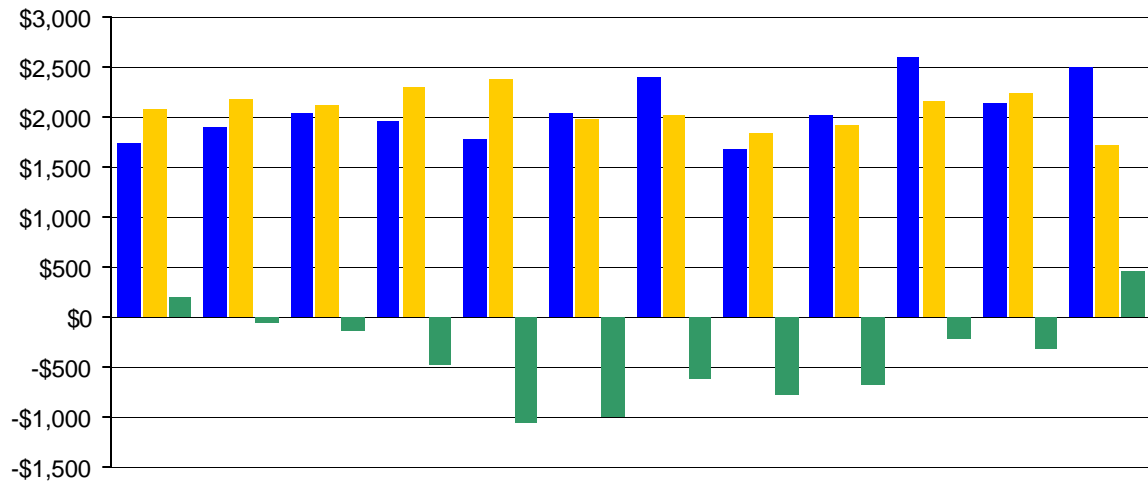
and disbursements for Higher Education are \$19 million (1.6%) below estimate. Disbursements for Health Care/Medicaid are \$64 million (1.3%) below estimate and total disbursements for Welfare and Human Services are \$100 million (1.7%) below estimate. Disbursements for Debt Service are \$26 million (12.8%) below estimate.

### **Cash Balance**

As shown in Table 1, the GRF began December with a negative cash balance -\$948 million. Monthly revenues plus transfers in totaled \$2,148 million and disbursements plus transfers out totaled \$1,932 million. The monthly surplus of \$215 million raised the month-end cash balance to -\$733 million.<sup>2</sup> This amount is \$108 million higher (less negative) than a year ago, and \$274 million higher (less negative) than the balance that would have resulted if receipts and disbursements had equaled their estimates for the first four 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

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

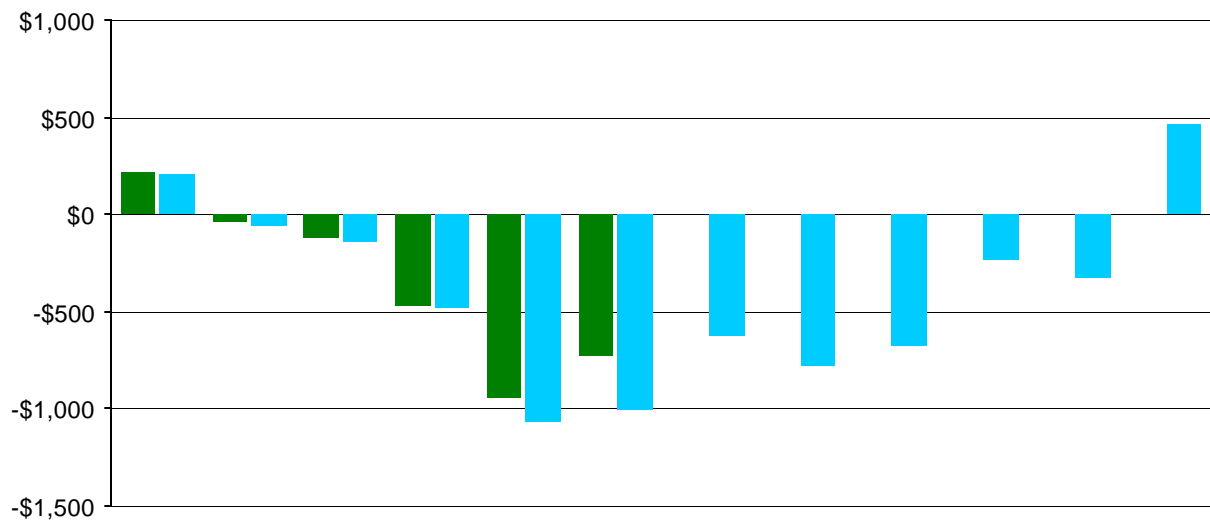


	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
■ Revenues	\$1,748	\$1,905	\$2,044	\$1,959	\$1,791	\$2,047	\$2,403	\$1,676	\$2,033	\$2,606	\$2,151	\$2,501
■ Disbursements	\$2,074	\$2,172	\$2,129	\$2,298	\$2,375	\$1,985	\$2,022	\$1,835	\$1,928	\$2,156	\$2,243	\$1,717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

pattern for FY 2005 is shown in Chart 1, which presents the monthly estimates of receipts and disbursements for FY 2005 and the estimated monthly ending cash balances based on those

estimates. Chart 2 presents a comparison of actual monthly ending cash balances and the estimated monthly ending cash balances based on the monthly estimates of receipts and

**Chart 2: Actual and Estimated 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
■ Actual	\$224	-\$43	-\$126	-\$466	-\$948	-\$733						
■ Estimate	\$208	-\$60	-\$145	-\$485	-\$1,069	-\$1,007	-\$626	-\$785	-\$680	-\$230	-\$321	\$463

disbursements. The ending cash balance is tracking ahead of (less negative than) the estimate thus far this fiscal year.

Encumbrances and accounts payable of \$639 million combine with the cash balance to yield an unobligated balance of -\$1,371 million.

This amount is \$20 million higher (less negative) than 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 -\$1,191 million is also \$20 million higher than it was a year ago.

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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. 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.

<sup>2</sup> The GRF began FY 2005 with a \$533 million cash balance. This was \$137 million higher than the cash balance at the start of FY 2004 but was much lower than the balances during the years before the most recent recession. Through December, FY 2005 revenues plus transfers in totaled \$11,496 million and disbursements plus transfers out totaled \$12,762 million. The year-to-date deficit of \$1,266 million reduced the month-end cash balance to -\$733 million.

## TRACKING THE ECONOMY

¾ Phil Cummins

The national economy continued to expand through the end of last year. Industrial production, employment, retail sales, and housing starts rose in December. Purchasing managers reported further growth. Real gross domestic product probably rose in the fourth quarter at a pace similar to the 4.0% annual rate of increase in the third quarter. Ohio employment sagged again in December. Personal income in the state rose in the third quarter of 2004 about in line with that in the nation. The producer and consumer price indexes fell in December. Year-over-year increases in finished goods and services prices, overall, were up somewhat but remain moderate. Upward pressures on prices are substantial at earlier stages of production, though reports of price increases are less widespread than in last year's first half. Further increases in short-term interest rates are expected as the Federal Reserve continues to raise its federal funds target to a less expansionary level.

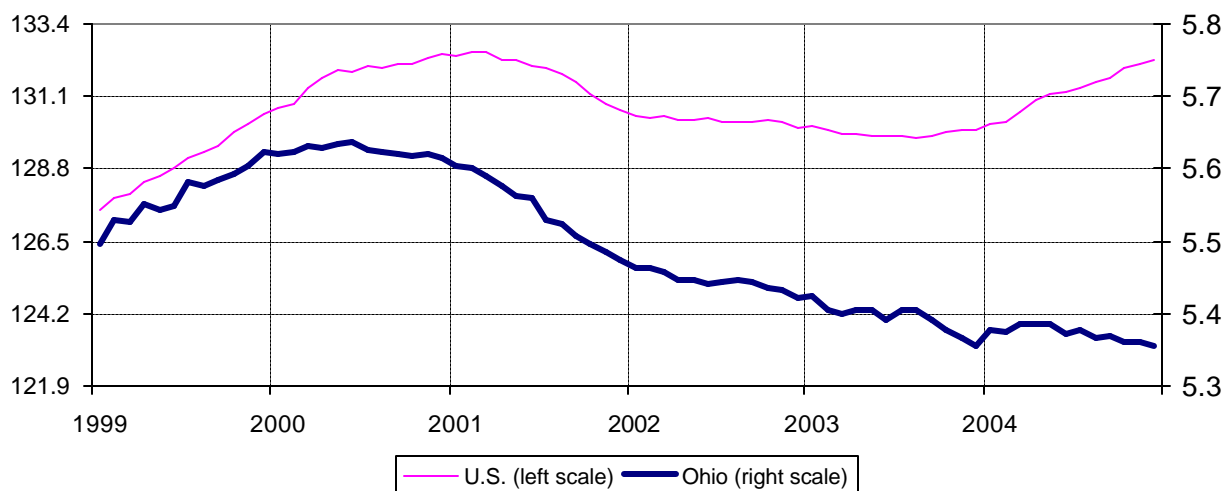
The United States Census Bureau recently released estimates of the resident population of the country and the states updated to July 1, 2004. Ohio remains the seventh most populous state—following California, Texas, New York, Florida, Illinois, and Pennsylvania—and accounts for 3.9%

of the total resident population of the country. The nation's population is estimated at 293,655,404 last July, up 1.0% from a year earlier. Ohio's population is estimated at 11,459,011, 0.2% higher than a year earlier. Only New York and North Dakota grew more slowly during the latest year; Massachusetts is estimated to have lost population. According to a United Van Lines study, reported in the *Columbus Dispatch*, more of that company's customers moved out of Ohio last year than moved in. Outbound moves from Ohio have exceeded inbound moves in 26 of the 28 consecutive years of this annual study.

### ***Employment Grows Nationwide but Declines in Ohio***

Nonfarm payroll employment nationwide rose 157,000 in December to 2.2 million above a year earlier. Unemployment totaled about 8 million people last month, 5.4% of the country's labor force, the same as in November. The increase in nonfarm payrolls last year followed declines in the previous three years and was the largest increase since 1999, when more than 3 million employees were added. The total number of nonfarm payroll jobs in the United States has almost recovered to the previous peak, as shown in Chart 1. Revisions

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



to these statistics scheduled for release next month are expected to be upward, based on a preliminary estimate reported in October. This may raise payroll employment to a new all-time high. Job gains in the latest month and over the past year were mostly in service industries. However, employment in construction increased in 2004, supported by the strong housing market. Jobs in manufacturing nationwide rose modestly last year, the first increase during a full year since 1997. State and local governments added more than 200,000 employees in 2004, most of them in education.

In Ohio, total nonfarm payroll employment declined 7,500 in December, to 200 below a year earlier. The unemployment rate in the state fell from 6.5% in November to 5.9% in December. Employment fell last month and over the past 12 months in manufacturing; trade, transportation, and utilities; and government. Increases were reported in construction, leisure and hospitality services, and educational and health services.

### ***Factory Production Increasing***

Industrial production rose a strong 0.8% in December and manufacturing output, 83% of the total, increased 0.7%. Total factory output last month was 5.1% higher than a year earlier, the strongest annual increase since 1999. Increases in factory output in the latest month and year were widespread across industry groups. Among industries with large shares in Ohio manufacturing, motor vehicle and parts production rose 2.0% in the year to December; primary metals output rose 4.8%; electrical equipment, appliances, and components production rose 4.3%; fabricated metal products output rose 2.8%; and plastics and rubber products production rose 1.8%. By the end of last year, the share of manufacturing capacity being utilized, as estimated by the Federal Reserve, had risen to its highest level since 2000, prior to the 2001 recession. Nevertheless, factory capacity utilization remained below its long-term average and well below peaks reached in the late 1970s and 1980s and in the mid to late 1990s. However, estimated margins of unused capacity appeared considerably narrower for production

of materials used as manufacturing inputs than for finished and semifinished goods.

Shipments and production of Ohio steel during the first nine months of 2004 rose to their highest levels in four years, according to the Ohio Steel Council, a private-public partnership. Production was 15% higher than a year earlier and shipments were 13% higher during this period. Capital investment in Ohio by the steel industry was reported by this group to have risen to a five-year high, 79% above a year earlier.

Manufacturing activity expanded in December for the 19th consecutive month, according to an Institute for Supply Management survey. More respondents reported increases than noted decreases in new orders, production, inventories, and employment. Backlogs of orders rose last month after declining for two months. Increases in prices paid by manufacturers were again widespread, though less so than in last year's first half. Supplier deliveries slowed for the 36th consecutive month, and a few commodities were reported in short supply including steel for the 12th consecutive month. A comparable report on nonmanufacturing sector activity also showed further expansion in December accompanied by increases in prices paid for numerous products and services and by some shortages, though prices were lower for several categories of purchased products.

### ***Mixed Reports on Business Activity in this Region***

The latest Federal Reserve "Beige Book," summarizing reports from business and other contacts through early January, said economic activity continued to grow in 11 of 12 regions of the country. The exception, as in the previous report, was the Cleveland Federal Reserve District, which includes Ohio. For this region, economic conditions were characterized as mixed. Retailers' reports varied by type of store, with department store, furniture, and other home product sales described as weak or poor. Apparel, grocery, personal care, and motor vehicle sales were stronger, attributed partly to

discounting and incentive programs. Factory output here was flat in recent weeks, apart from seasonal variation. Residential building was down more than seasonally, notably in the Columbus and Cincinnati markets, despite builders' incentive programs to attract buyers. Nonresidential building in this region was flat recently, slightly above a year ago, and contacts thought activity this year would at least match that in 2004. Demand for shipping services continued to be characterized as strong.

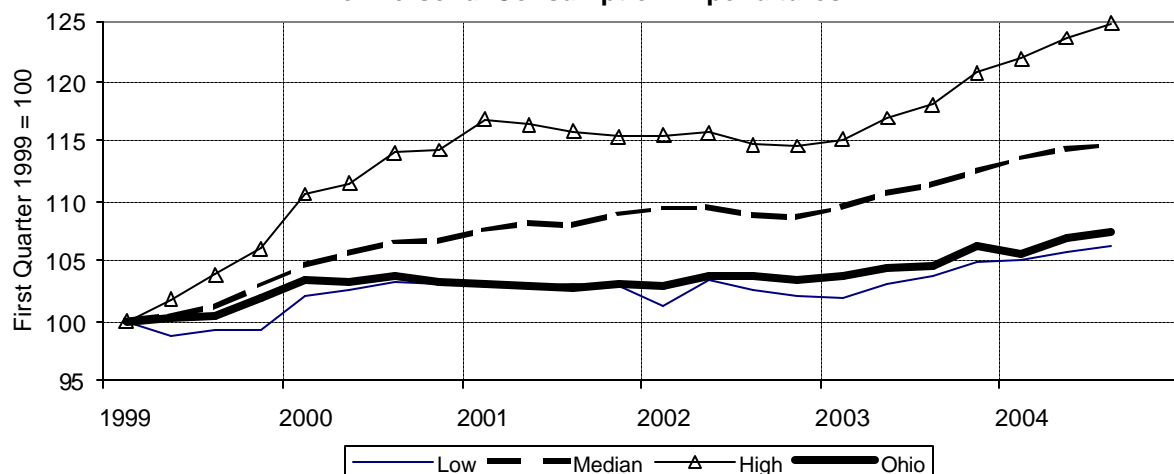
Personal income earned in Ohio rose 0.8% in last year's third quarter, matching the increase nationwide. In the latest year, Ohio's personal income rose 5.0%, slightly less than the 5.2% increase in the nation. Over a longer time horizon, Ohio's personal income growth has lagged that in most other states, as shown in Chart 2, reproduced and updated from last October's issue of this publication. In the chart, personal income in the 50 states is adjusted downward to remove increases resulting from inflation, using the national implicit price deflator for personal consumption expenditures. Inflation-adjusted personal income in the first quarter of 1999 is set equal to 100 for all of the states. Ohio's personal income is then compared with the lowest and highest personal income among the other 49 states as well as with the median. The shortfall between the growth of Ohio's personal income and that of

other states was greatest in 2000 and 2001, when Ohio's economy turned down ahead of the nation's.

### *Nationwide Retail Sales Rise*

Retail sales rose a strong 1.2% in December to 8.7% above a year earlier. Motor vehicle sales were boosted by dealer incentive programs. Unit sales of cars in December rose 13% from the November rate to their strongest pace in two years. Light truck unit sales rose 12% to one of the highest rates on record. Other retail lines showing sizable gains include furniture and home furnishings stores, nonstore retailers (Internet and catalog sales), and building materials stores. Gasoline station sales were 22% higher than a year earlier, reflecting gasoline prices sharply above levels in December 2003, though down from peaks earlier this year. Holiday sales at large retail chains, overall, were short of projections, according to the International Council of Shopping Centers, whose survey of 77 large retailers showed a 2.7% increase in sales last month at stores open a year or more. Because of more widespread use of gift cards, booked as sales when used by recipients rather than when purchased by the giver, additional holiday sales may show up in January.

**Chart 2: Ohio Personal Income Compared with Other States  
Deflated by the National Implicit Price Deflator  
for Personal Consumption Expenditures**



Business inventories rose 1.0% in November to 7.9% above a year earlier, the largest year-over-year increase in nearly a decade. But business sales rose more sharply than inventories in the latest year. Sales of manufacturers, wholesalers, and retailers rose 10.6% in the 12 months to November, and inventories, overall, appear quite lean relative to sales.

### ***Homebuilding Bounces Back***

Housing starts in December rose sharply, seasonally adjusted, increasing 11%. The rise was almost all in starts of single-family dwellings. For the year, nearly two million homes and apartments were started, 6% more than in 2003 and the highest yearly total since 1978. In the Midwest, starts also rose in December, but total starts in 2004 were 5% below a year earlier, mainly because fewer apartments were started.

Sales of new and used homes diverged in November. New home sales nationwide fell 12%. Sales of new homes in October were revised upward to the highest seasonally adjusted rate on records kept since 1963. In the Midwest, new home sales in November slumped 39% to the slowest pace since 2000. Sales of new homes were also lower in November in the West and Northeast, but gained in the South. Used home sales, reported by the National Association of Realtors, rose nationwide in November to the highest seasonally adjusted pace on record, and also rose in the Midwest. In these statistics, new home sales generally are counted when a buyer enters into a sales contract, but used home sales usually are not tallied until the sale closes. Consequently, new home sales tend to lead by a month or two.

Construction spending slowed nationwide in November, declining 0.4% to 6.9% above the year-earlier pace. Year-to-date construction through 11 months was 9% higher than a year earlier. Most of this increase was in residential building, which rose 14% above a year earlier. Private nonresidential construction was 3% higher, as was public construction. These figures are based on nominal dollar amounts and include the effects of both price and quantity changes.

### ***Inflation Eases***

The producer price index for finished goods fell 0.7% in December, allaying inflation concerns somewhat, as energy prices dropped 4%. Compared with a year earlier, finished goods prices at the producer level were 4.1% higher in December, about matching the price increase the year before. However, excluding volatile food and energy costs, finished goods prices rose 2.1% last year, up from a 1.0% increase the previous year and a 0.5% decline in 2002. At earlier stages of production, price indexes fell in the latest month but nevertheless were sharply higher than a year earlier. The intermediate goods price index rose 9% last year, up from about 4% in 2003. The crude materials price index rose 18% in 2004 after even larger increases during the previous two years.

The consumer price index fell 0.1% in December to 3.3% above a year earlier, the largest full-year increase since a 3.4% rise in 2000. Energy prices fell last month, after large increases earlier in 2004, and food prices overall were unchanged in December. Excluding food and energy, consumer prices were 0.2% higher in December than a month earlier and 2.2% above December 2003's level, the most rapid inflation by this measure since a 2.7% increase in 2001.

### ***Monetary Policy on Track for Further Increases in Short-Term Interest Rates***

As noted in this space last month, the nation's central bank raised its target for the interest rate on federal funds, overnight loans between banks, by 0.25 percentage point to 2.25% at the December meeting of its Federal Open Market Committee (FOMC). The federal funds target rate has been raised a total of 1.25 percentage points from a four-decade low of 1% maintained from June 2003 to June 2004. Note and bond yields remain at levels that, in a longer-term historical perspective, are quite low.

The FOMC next meets February 1 and 2, ahead of semiannual Congressional testimony by Chairman Greenspan. Minutes of the group's December meeting, recently released, indicate



general agreement among committee members on the likelihood of further economic expansion but some divergence of opinion on inflation risks. The focus on inflation risks tends to support the view that the federal funds interest rate target will continue to be raised. On the one hand, higher oil prices and the decline in the value of the dollar versus other currencies might flow through to other prices. Productivity growth slowed in the latest quarter, implying higher labor costs per unit of output than otherwise. The extent of unutilized resources was viewed as uncertain, particularly if labor force participation (persons either employed or actively looking for work) did not rise as employment continued to grow. An indicator of compensation for future inflation, the spread between five-year United States Treasury note yields on nominal and inflation-indexed securities,

had been rising, perhaps indicating heightened inflation expectations among market participants. This measure is reproduced and extended through year-end in Chart 3.

On the other hand, FOMC members were described as generally expecting the upward impact on domestic prices of the dollar's decline to be limited. Guides to inflation expectations other than the one shown in Chart 3 were characterized as having been stable recently. The restrained rate at which compensation had increased was viewed as consistent with a margin of excess capacity remaining in labor markets. Productivity growth might pick up again and elevated price markups provided some leeway for businesses to absorb rising labor costs.

**Chart 3: United States Treasury Five-Year Note Yields**



# Status of the General Revenue Fund

## REVENUE

— Jean Botomogno, Glenn Wintrich, and Allan Lundell

The gloomy revenue picture for November was followed by a merry one for December. Total General Revenue Fund (GRF) receipts for the month were \$100.9 million (4.9%) above estimate. State-source receipts (tax revenue plus nontax revenue plus transfers in) were \$100.0 million (6.7%) above estimate, total tax revenue was \$99.6 million (6.9%) above estimate, and revenue from the “major taxes” was \$98.3 million (7.1%) above estimate.<sup>1</sup>

Revenue from the personal income tax was \$52.3 million (7.6%) above estimate and revenue from the nonauto sales and use tax was above estimate by \$32.6 million (5.3%). Federal grants were on target at \$980,000 (0.2%) above estimate.<sup>2</sup>

Halfway through the fiscal year, total GRF receipts of \$11,496.2 million are \$3.2 million (0.03%) above estimate. State-source receipts are \$62.0 million (0.7%) above estimate, GRF tax revenue is \$70.0 million (0.8%) above estimate, and total GRF revenues from the major taxes are \$85.9 million (1.1%) above estimate. Federal grants are \$58.8 million (2.0%) below estimate.

For the fiscal year to date, total GRF receipts are up 3.6% compared to FY 2004. State-source receipts are up 4.8%, total tax revenue is up 5.6%, and revenue from the major taxes is up 6.0%. Federal grants are up 0.1%. If the \$193 million in one-time revenue received in October 2003 is removed from the FY 2004 total, then FY 2005 federal grants are up 7.4%. The year-over-year comparisons of state receipts 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 2.8% increase in receipts from state sources other than the sales tax. This improvement is largely due to the 7.3% 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 \$741.4 million from the personal income tax in December. This amount was \$52.3 million (7.6%) greater than estimated. Withholding was \$22.6 million (3.4%) above estimate for December and estimated payments were \$26.6 million (29.3%) above estimate.<sup>3</sup> Refunds were \$515,000 (5.4%) more than expected for December.

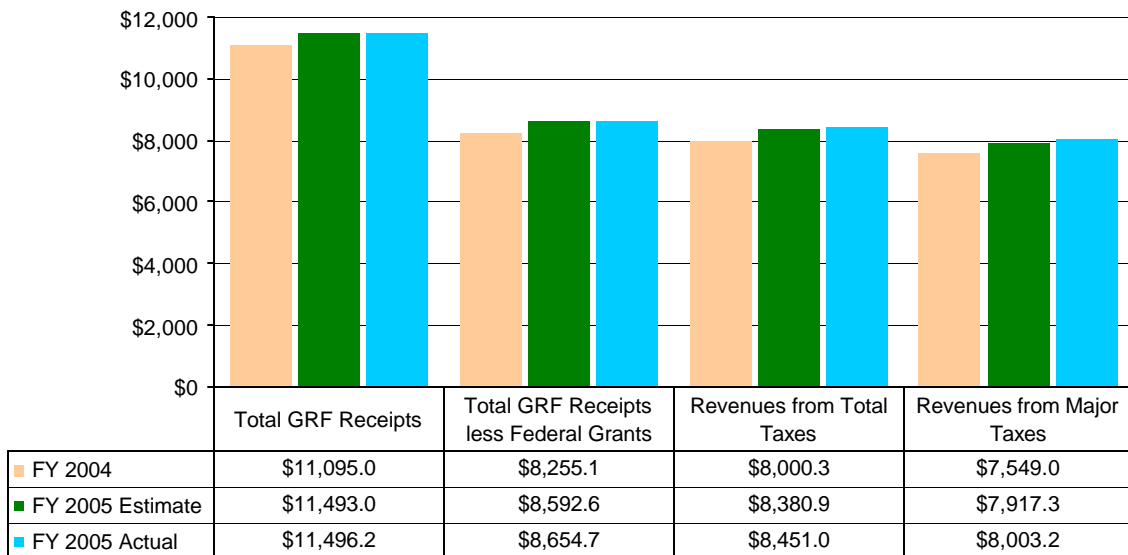
For the fiscal year to date, the GRF has received \$3,800.7 million from the personal income tax, which is \$105.8 million (2.9%) above estimate. The \$3,734.8 million in revenue collected through withholding is \$13.5 million (0.4%) above estimate. Year-to-date quarterly estimated payments of \$441.9 million are \$37.9 million (9.4%) above estimate. Refunds for the year total \$128.5 million, which is \$23.0 million (15.2%) below estimate.

Compared to a year ago, GRF revenue from the personal income tax is up 7.3%. Withholding, which reflects the condition of Ohio’s labor market, is up 5.2%. Quarterly estimated payments are up 8.3%, gross collections are up 5.7%, refunds are down 15.7%, and net collections (gross collections minus refunds) are up 6.6%.

### Sales and Use Tax

Monthly revenues from the sales and use tax were above estimates for the second time this fiscal

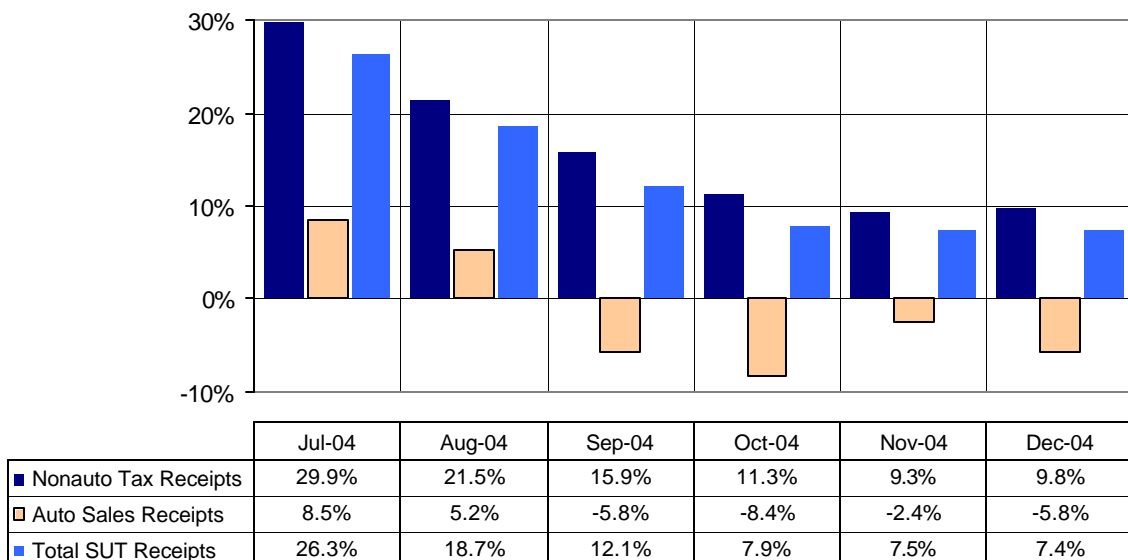
**Chart 1: Year-to-Date GRF Receipts**  
(in millions of dollars)



year. December 2004 sales and use tax revenues were \$723.4 million, \$29.3 million (4.2%) above projected revenues. Sales and use tax receipts in the month were \$46.9 million (6.9%) above December 2003. Receipts from the nonauto sales and use tax in December 2004 were 5.3% above estimates, while those from the auto sales and use tax were 4.5% below estimates. Tax receipts partly reflect taxable retail sales activity in the prior month and also taxable retail sales during that month.<sup>4</sup>

As of December 2004, FY 2005 year-to-date sales and use tax revenues were \$4,014.1 million, \$47.6 million (1.2%) above estimates. Sales and use tax receipts were also \$275.1 million (7.4%) higher than year-to-date tax receipts in December 2003. Chart 2 compares year-to-date sales and use tax revenues in FY 2005 and FY 2004, with an emphasis on cumulative quarterly results. Through December 2004, the nonauto sales tax shows a healthy year-over-year revenue growth of 9.8%, while the auto sales tax receipts were

**Chart 2: Cumulative Year-over-Year Percentage Changes in Sales and Use Tax Receipts**



5.8% below receipts in the same period last year. The cumulative year-over-year percentage change in sales and use tax receipts declined to 7.4%, down from 12.1% at the end of the first quarter of FY 2005.

**Nonauto Sales and Use Tax**

In December 2004, nonauto sales and use tax revenues were \$653.6 million, \$32.6 million (5.3%) above estimate. These receipts were \$68.7 million (11.8%) above revenues in the same month last year. The performance of this tax source in December reversed a string of poor monthly results. From September through November 2004, combined nonauto sales and use tax revenues were \$4.2 million (0.3%) lower than estimates. Combined nonauto sales and use tax revenues in those months were only \$29.0 million (1.8%) above revenues in the same period last year, reflecting a weak growth in tax receipts during the period.

Through December 2004, FY 2005 year-to-date nonauto sales and use tax revenues were \$3,469.1 million, \$67.1 million (2.0%) higher than estimate. FY 2005 year-to-date receipts were also \$308.8 million (9.8%) above revenues in the

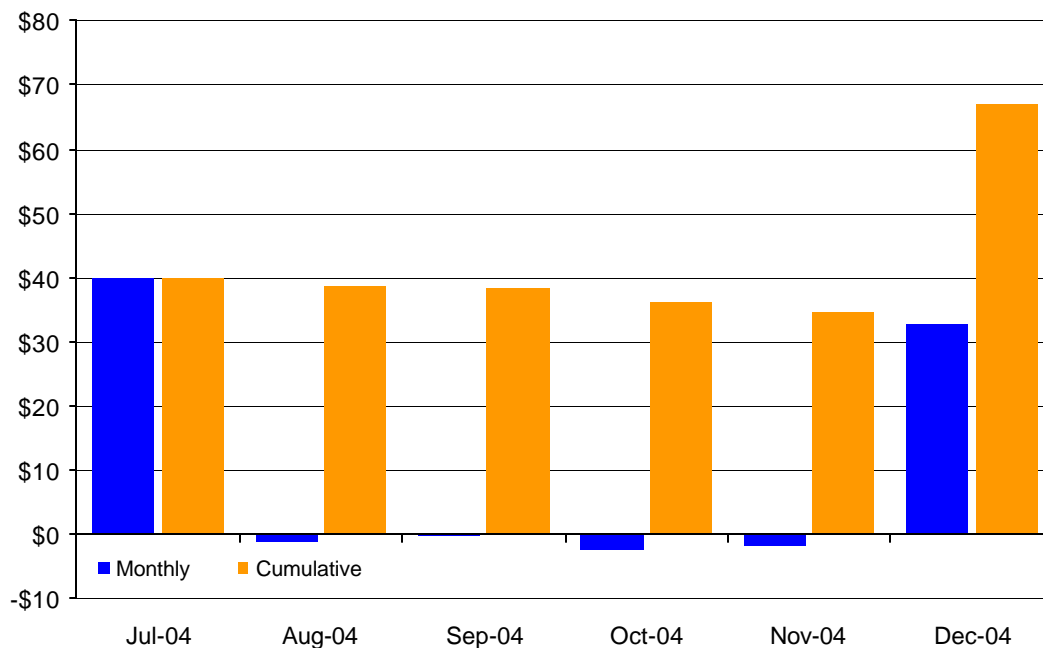
same period in FY 2004. At the end of the first quarter of FY 2005, the cumulative year-over-year percentage change in nonauto sales and use tax receipts was 15.9%.

FY 2005 nonauto sales and use tax receipts are inflated by the effects of the tax rate increase in July 1, 2003, by receipts from the sales tax on local phone calls (Am. Sub. H.B. 95, effective January 1, 2005), and by receipts from the sales tax base expansion (with collections that started generally in September 2003). Therefore, a more realistic year-over-year growth in the nonauto sales and use tax tax base would be less than 9.8%. Nonetheless, the growth in nonauto sales and use tax receipts is very encouraging after several years of little or no expansion of the taxable base (except from legislated changes to the tax base).

**Auto Sales Tax**

Auto sales and use tax receipts were \$69.8 million in December 2004, \$3.3 million (4.5%) 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

**Chart 3: Nonauto Sales Tax Variance from August 2004 Estimates**  
(in millions of dollars)



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 and use tax receipts in December 2004 were \$21.9 million (23.8%) lower. As of December 2004, FY 2005 year-to-date auto sales tax receipts were \$544.9 million, \$19.6 million (3.5%) below estimates. FY 2005 year-to-date auto sales and use tax receipts were also \$33.7 million (5.8%) below receipts in the same period in FY 2004.

In the last four months, the performance of the auto sales and use tax has been dismal. From September through December 2004, combined auto sales and use tax revenues were \$34.5 million (9.8%) below estimates. Combined auto sales and use tax revenues in those months were \$44.0 million (11.6%) below revenues in the same period in CY 2003. Conversely, during the same period, nationwide sales of autos and other motor vehicles grew about 6.2% over sales in CY 2003. Nationwide unit sales of light vehicles (autos and light trucks) in the period grew 4.0%.

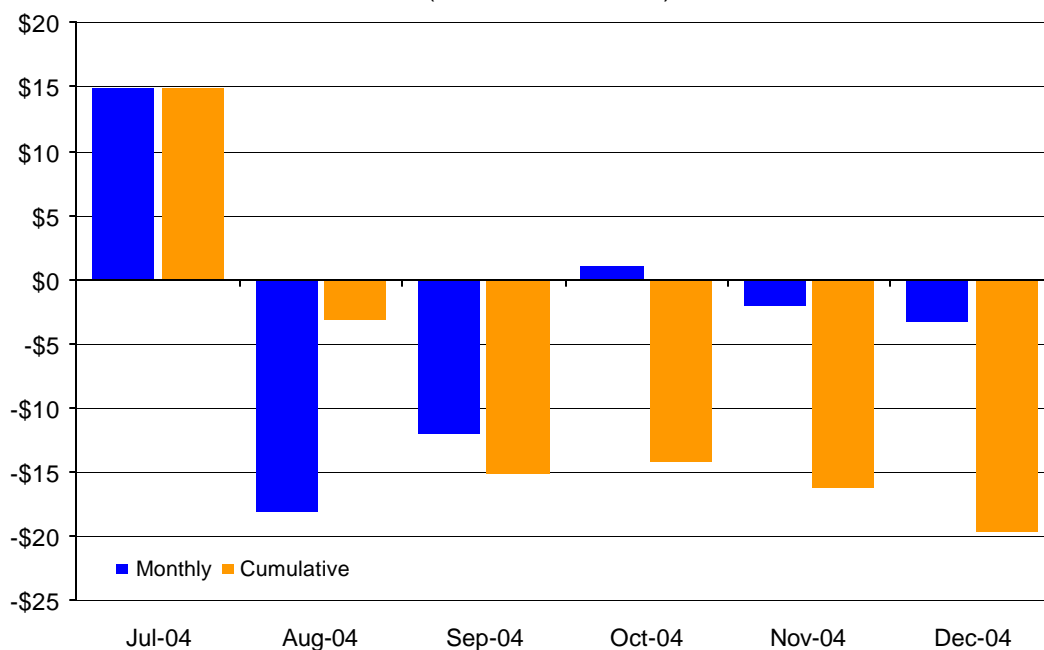
Based on auto sales and use tax collections through December 2004, Ohio customers spent nearly \$561.4 million less on motor vehicles in

FY 2005 than they did in the same period in FY 2004. For the entire 2004 calendar year, Ohio customers may have decreased their spending on motor vehicles by about \$1.1 billion compared to CY 2003. During CY 2004, nationwide unit sales of light vehicles grew about 1.4%,<sup>5</sup> and sales of autos and other motor vehicles at auto dealers grew 5.0%.<sup>6</sup> The decline in the Ohio auto sales taxable base suggests a drop in auto and motor vehicle sales at dealers and a possible decline in vehicle unit sales. Those trends would be divergent from nationwide trends. Auto sales and use tax revenues are generally about 15% of total sales and use tax receipts. So far in FY 2005, this tax source has been a drag on the performance of the sales and use tax. Unless revenues improve dramatically in the next few months, the auto sales and use tax revenues may finish the year below estimates.

### *Corporate Franchise Tax*

Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year. 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. In December 2004,

**Chart 4: Auto Sales Tax Variance from August 2004 Estimate**  
(in millions of dollars)



corporate franchise tax receipts were \$3.3 million. The Office of Budget and Management had expected \$17.0 million to be returned to taxpayers as refunds. Thus, the monthly variance from estimates was \$20.3 million. December 2004 corporate franchise tax receipts were also \$26.2 million above December 2003 receipts. Through December 2004, year-to-date FY 2005 corporate franchise net tax revenues were negative, at -\$16.7 million, and were \$53.0 million below estimates.

Primarily as a result of large tax refunds in November 2004 (\$51.0 million), more money has been returned to taxpayers in the first half of FY 2005 than has been collected under the corporate franchise tax. In contrast, at the end of December 2003, FY 2004 year-to-date net corporate franchise tax receipts were \$16.7 million. Alternatively, FY 2005 year-to-date corporate franchise tax receipts were \$33.4 million below receipts in the same period last year. Because the timing of refunds and other tax reconciliations is unpredictable and monthly negative or positive variances in corporate franchise tax revenues have little meaning in the

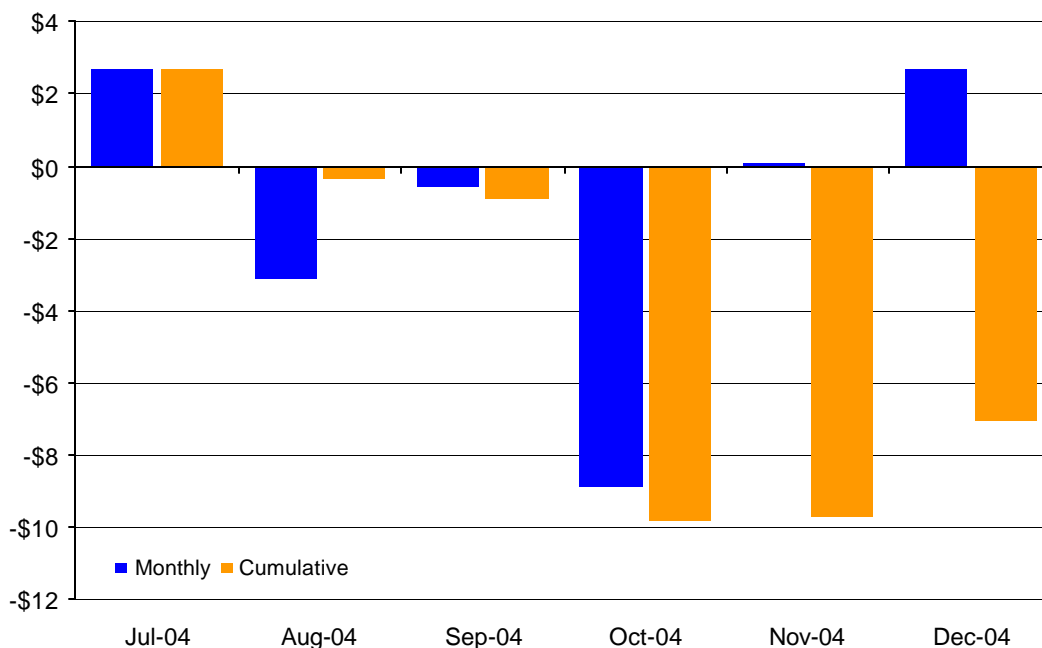
first half of the fiscal year, the first corporate tax payment, due January 31, 2005, will loom large in determining the performance of the corporate franchise tax in this fiscal year. However, there is a strong possibility that corporate franchise tax receipts will finish below estimates in FY 2005.

**Cigarette and Other Tobacco Products Tax**

Cigarette and other tobacco products tax receipts in December 2004 were \$44.5 million, \$2.7 million (6.4%) above estimates. Revenues from this tax source were \$7.6 million (14.6%) lower than December 2003 receipts. As of December 2004, FY 2005 year-to-date cigarette and other tobacco products tax receipts were \$251.6 million, \$7.1 million (2.7%) below estimates. Compared to revenues in the same period in FY 2004, year-to-date cigarette and other tobacco products tax revenues were \$2.6 million (1.0%) lower.

Tobacco products stamp sales through December 2004 were 0.7% higher than stamp sales in the same period last year. Most tax payments are remitted as advance purchases of

**Chart 5: Cigarette Tax Variance from August 2004 Estimates**  
(in millions of dollars)



stamps. Cigarette dealers, primarily wholesalers, pay the tax by purchasing stamps that must be affixed to the cigarette pack before sale at retail.

FY 2005 year-to-date cigarette tax receipts, at \$236.7 million, were 1.5% below cigarette tax receipts recorded in the first half of FY 2004. Tax

revenues from the other tobacco products (cigars, chewing tobacco, snuff, and smoking tobacco) were \$14.7 million, 8.4% below tax receipts in the first half of FY 2004. The share of other tobacco products tax receipts relative to total tax receipts dropped to 5.9%, down from 6.3% in FY 2004 through December 2003.

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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. 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).

<sup>2</sup>“Federal grants” are federal reimbursements for programs administered by the Department of Job and Family Services such as Medicaid and Temporary Assistance for Needy Families (TANF). The amount received depends on expenditures for human services programs that require federal participation. Any changes in state spending in these areas will change receipts from federal grants.

<sup>3</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>4</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 month and the prior month.

<sup>5</sup>Data are from the United States Bureau of Economic Analysis.

<sup>6</sup>This is a 12-month percentage change in December 2004. Data are from the United States Census Bureau.

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

	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
<b>TAX REVENUE</b>				
Auto Sales	\$69,806	\$73,089	-\$3,283	-4.5%
Nonauto Sales & Use	\$653,616	\$621,000	\$32,616	5.3%
Total Sales & Use Taxes	\$723,422	\$694,089	\$29,333	4.2%
Personal Income	\$741,399	\$689,100	\$52,299	7.6%
Corporate Franchise	\$3,314	-\$17,000	\$20,314	-119.5%
Public Utility	-\$1,293	\$2,600	-\$3,893	-149.7%
Kilowatt Hour Excise	\$25,491	\$25,200	\$291	1.2%
<b>Total Major Taxes</b>	<b>\$1,492,333</b>	<b>\$1,393,989</b>	<b>\$98,344</b>	<b>7.1%</b>
Foreign Insurance	\$61	\$24	\$38	159.2%
Domestic Insurance	\$0	\$0	\$0	---
Business & Property	\$42	\$75	-\$33	-44.4%
Cigarette	\$44,463	\$41,800	\$2,663	6.4%
Alcoholic Beverage	\$4,473	\$4,731	-\$258	-5.4%
Liquor Gallonage	\$2,662	\$2,976	-\$314	-10.5%
Estate	\$8,940	\$9,800	-\$860	-8.8%
Total Other Taxes	\$60,642	\$59,406	\$1,236	2.1%
<b>Total Tax Revenue</b>	<b>\$1,552,975</b>	<b>\$1,453,395</b>	<b>\$99,580</b>	<b>6.9%</b>
<b>NONTAX STATE-SOURCE REVENUE</b>				
Earnings on Investments	\$7,435	\$4,800	\$2,635	54.9%
Licenses and Fees	\$615	\$1,279	-\$664	-51.9%
Other Revenue	\$7,871	\$13,333	-\$5,462	-41.0%
Nontax State-Source Revenue	\$15,921	\$19,412	-\$3,490	-18.0%
<b>TRANSFERS</b>				
Liquor Transfers	\$14,000	\$13,000	\$1,000	7.7%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$4,865	\$2,000	\$2,865	143.3%
Total Transfers In	\$18,865	\$15,000	\$3,865	25.8%
<b>TOTAL GRF before Federal Grants</b>	<b>\$1,587,762</b>	<b>\$1,487,806</b>	<b>\$99,955</b>	<b>6.7%</b>
Federal Grants	\$559,695	\$558,715	\$980	0.2%
<b>TOTAL GRF SOURCES</b>	<b>\$2,147,456</b>	<b>\$2,046,522</b>	<b>\$100,935</b>	<b>4.9%</b>

\* 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 December 2004**  
(\$ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
<b>TAX REVENUE</b>						
Auto Sales	\$544,913	\$564,472	-\$19,559	-3.5%	\$578,595	-5.8%
Nonauto Sales & Use	\$3,469,138	\$3,402,000	\$67,138	2.0%	\$3,160,376	9.8%
Total Sales & Use Taxes	\$4,014,051	\$3,966,472	\$47,579	1.2%	\$3,738,971	7.4%
Personal Income	\$3,800,744	\$3,694,900	\$105,844	2.9%	\$3,542,283	7.3%
Corporate Franchise	-\$16,763	\$36,284	-\$53,047	-146.2%	\$16,782	-199.9%
Public Utility	\$35,703	\$49,100	-\$13,397	-27.3%	\$82,935	-57.0%
Kilowatt Hour Excise	\$169,428	\$170,500	-\$1,072	-0.6%	\$167,995	0.9%
<b>Total Major Taxes</b>	<b>\$8,003,163</b>	<b>\$7,917,256</b>	<b>\$85,907</b>	<b>1.1%</b>	<b>\$7,548,966</b>	<b>6.0%</b>
Foreign Insurance	\$122,311	\$123,074	-\$763	-0.6%	\$114,737	6.6%
Domestic Insurance	\$170	\$1,122	-\$952	-84.9%	\$147	15.1%
Business & Property	\$926	\$1,275	-\$349	-27.4%	\$1,254	-26.2%
Cigarette	\$251,635	\$258,700	-\$7,065	-2.7%	\$254,265	-1.0%
Alcoholic Beverage	\$29,182	\$29,013	\$169	0.6%	\$28,541	2.2%
Liquor Gallonage	\$15,927	\$15,500	\$427	2.8%	\$15,224	4.6%
Estate	\$27,645	\$35,000	-\$7,355	-21.0%	\$37,164	-25.6%
Total Other Taxes	\$447,796	\$463,684	-\$15,888	-3.4%	\$451,331	-0.8%
<b>Total Tax Revenue</b>	<b>\$8,450,959</b>	<b>\$8,380,940</b>	<b>\$70,019</b>	<b>0.8%</b>	<b>\$8,000,297</b>	<b>5.6%</b>
<b>NONTAX STATE-SOURCE REVENUE</b>						
Earnings on Investments	\$13,754	\$15,360	-\$1,606	-10.5%	\$14,768	-6.9%
Licenses and Fees	\$19,168	\$20,714	-\$1,546	-7.5%	\$16,187	18.4%
Other Revenue	\$55,121	\$63,821	-\$8,700	-13.6%	\$86,163	-36.0%
Nontax State-Source Revenue	\$88,043	\$99,895	-\$11,852	-11.9%	\$117,119	-24.8%
<b>TRANSFERS</b>						
Liquor Transfers	\$61,000	\$58,000	\$3,000	5.2%	\$62,000	-1.6%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$54,661	\$53,800	\$861	1.6%	\$75,681	-27.8%
Total Transfers In	\$115,661	\$111,800	\$3,861	3.5%	\$137,681	-16.0%
<b>TOTAL GRF before Federal Grants</b>	<b>\$8,654,662</b>	<b>\$8,592,635</b>	<b>\$62,027</b>	<b>0.7%</b>	<b>\$8,255,097</b>	<b>4.8%</b>
Federal Grants	\$2,841,585	\$2,900,398	-\$58,813	-2.0%	\$2,839,942	0.1%
<b>TOTAL GRF SOURCES</b>	<b>\$11,496,248</b>	<b>\$11,493,033</b>	<b>\$3,214</b>	<b>0.0%</b>	<b>\$11,095,039</b>	<b>3.6%</b>

\* August 2004 estimates of the Office of Budget and Management.  
Detail may not sum to total due to rounding.

## DISBURSEMENTS

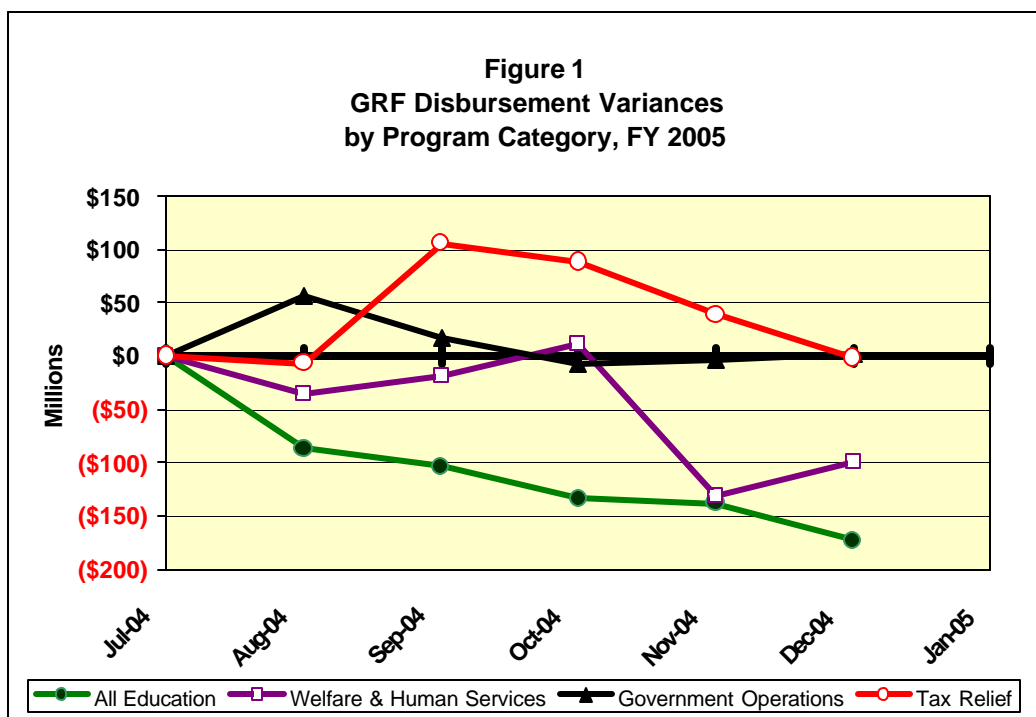
— Steve Mansfield\*

December's disbursements from the General Revenue Fund (GRF), excluding transfers, totaled \$1,932.3 million. This was \$52.3 million under the estimate for the month, moving outlays for the year to date to \$298.5 million under the estimate. Actual outlays for FY 2005 to date are 3.5% higher than at the same point in FY 2004. Of the state's four major GRF program categories (Education, Welfare and Human Services, Government Operations, and Property Tax Relief), only the Tax Relief category showed an increase in outlays from November's level. Total outlays were about \$250 million lower than in November.

When we look in Figure 1 at the monthly variances in disbursements between what was actually disbursed and the estimates of disbursements prepared by the Office of Budget and Management, we see that in December, two of the state's four major GRF program categories (Education and Tax Relief) had disbursement variances below the estimates, thus pushing down

the year-to-date variance for those categories, while the other two categories (Welfare & Human Services and Government Operations) posted variances that were above the estimate. For the year to date, disbursements from the Government Operations and Tax Relief categories are very near the estimate.

As Table 5 indicates, the three program subcategories with the largest disbursement variances for the year to date are Primary and Secondary Education (\$154.3 million below estimate), Health Care/Medicaid (\$63.8 million below estimate), and Other Welfare (\$46.9 million below estimate). The Debt Service program also has a significant variance for the year to date (\$25.9 million below estimate). Estimates for Debt Service are produced at the beginning of a biennium and not updated for the second year. This variance reflects lower than anticipated interest rates for servicing state debt, and a different sales schedule for bonds than was anticipated.



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

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Primary & Secondary Education (1)	\$512,420	\$556,612	-\$44,192	-7.9%
Higher Education	\$160,489	\$151,625	\$8,864	5.8%
<b>Total Education</b>	<b>\$672,909</b>	<b>\$708,237</b>	<b>-\$35,327</b>	<b>-5.0%</b>
Health Care/Medicaid	\$790,314	\$771,563	\$18,751	2.4%
Temporary Assistance to Needy Families (TANF)	\$41,648	\$37,590	\$4,058	10.8%
General/Disability Assistance	\$1,954	\$1,908	\$46	2.4%
Other Welfare (2)	\$25,930	\$37,611	-\$11,680	-31.1%
Human Services (3)	\$78,516	\$57,901	\$20,615	35.6%
<b>Total Welfare &amp; Human Services</b>	<b>\$938,363</b>	<b>\$906,573</b>	<b>\$31,790</b>	<b>3.5%</b>
Justice & Corrections	\$126,398	\$123,998	\$2,400	1.9%
Environment & Natural Resources	\$6,477	\$5,647	\$830	14.7%
Transportation	\$1,474	\$2,622	-\$1,147	-43.8%
Development	\$9,913	\$10,367	-\$454	-4.4%
Other Government	\$24,233	\$18,357	\$5,876	32.0%
Capital	\$0	\$450	-\$450	-100.0%
<b>Total Government Operations</b>	<b>\$168,495</b>	<b>\$161,440</b>	<b>\$7,055</b>	<b>4.4%</b>
Property Tax Relief (4)	\$150,859	\$192,025	-\$41,166	-21.4%
Debt Service	\$1,674	\$16,320	-\$14,645	-89.7%
<b>Total Other Disbursements</b>	<b>\$152,533</b>	<b>\$208,344</b>	<b>-\$55,811</b>	<b>-26.8%</b>
<b>Total Program Disbursements</b>	<b>\$1,932,300</b>	<b>\$1,984,594</b>	<b>-\$52,294</b>	<b>-2.6%</b>
<b>TRANSFERS</b>				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$100	\$0	\$100	---
<b>Total Transfers Out</b>	<b>\$100</b>	<b>\$0</b>	<b>\$100</b>	<b>---</b>
<b>TOTAL GRF USES</b>	<b>\$1,932,400</b>	<b>\$1,984,594</b>	<b>-\$52,194</b>	<b>-2.6%</b>
(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.				
<i>Detail may not sum to total due to rounding.</i>				

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 \$298.5 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.

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

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2004</b>	<b>Percent Change</b>
Primary & Secondary Education (1)	\$3,375,162	\$3,529,432	-\$154,271	-4.4%	\$3,233,079	4.4%
Higher Education	\$1,219,357	\$1,238,636	-\$19,279	-1.6%	\$1,241,996	-1.8%
<b>Total Education</b>	<b>\$4,594,519</b>	<b>\$4,768,068</b>	<b>-\$173,549</b>	<b>-3.6%</b>	<b>\$4,475,075</b>	<b>2.7%</b>
Health Care/Medicaid	\$4,782,587	\$4,846,431	-\$63,843	-1.3%	\$4,493,537	6.4%
Temporary Assistance to Needy Families (TANF)	\$192,934	\$190,134	\$2,800	1.5%	\$227,007	-15.0%
General/Disability Assistance	\$12,332	\$12,639	-\$307	-2.4%	\$11,954	3.2%
Other Welfare (2)	\$253,161	\$300,098	-\$46,937	-15.6%	\$282,062	-10.2%
Human Services (3)	\$638,797	\$630,939	\$7,859	1.2%	\$613,774	4.1%
<b>Total Welfare &amp; Human Services</b>	<b>\$5,879,811</b>	<b>\$5,980,240</b>	<b>-\$100,429</b>	<b>-1.7%</b>	<b>\$5,628,335</b>	<b>4.5%</b>
Justice & Corrections	\$979,714	\$983,072	-\$3,358	-0.3%	\$956,940	2.4%
Environment & Natural Resources	\$70,012	\$70,000	\$11	0.0%	\$67,600	3.6%
Transportation	\$13,310	\$13,748	-\$438	-3.2%	\$13,745	-3.2%
Development	\$99,068	\$83,128	\$15,940	19.2%	\$81,170	22.0%
Other Government	\$222,231	\$229,612	-\$7,381	-3.2%	\$217,017	2.4%
Capital	\$0	\$1,430	-\$1,430	-100.0%	\$0	---
<b>Total Government Operations</b>	<b>\$1,384,335</b>	<b>\$1,380,991</b>	<b>\$3,344</b>	<b>0.2%</b>	<b>\$1,336,472</b>	<b>3.6%</b>
Property Tax Relief (4)	\$699,524	\$701,500	-\$1,976	-0.3%	\$674,051	3.8%
Debt Service	\$176,044	\$201,899	-\$25,854	-12.8%	\$187,072	-5.9%
<b>Total Other Disbursements</b>	<b>\$875,568</b>	<b>\$903,398</b>	<b>-\$27,830</b>	<b>-3.1%</b>	<b>\$861,123</b>	<b>1.7%</b>
<b>Total Program Disbursements</b>	<b>\$12,734,233</b>	<b>\$13,032,698</b>	<b>-\$298,465</b>	<b>-2.3%</b>	<b>\$12,301,005</b>	<b>3.5%</b>
<b>TRANSFERS</b>						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$27,957	\$0	\$27,957	---	\$30,975	-9.7%
<b>Total Transfers Out</b>	<b>\$27,957</b>	<b>\$0</b>	<b>\$27,957</b>	<b>---</b>	<b>\$30,975</b>	<b>-9.7%</b>
<b>TOTAL GRF USES</b>	<b>\$12,762,191</b>	<b>\$13,032,698</b>	<b>-\$270,507</b>	<b>-2.1%</b>	<b>\$12,331,980</b>	<b>3.5%</b>

(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.

### **Education (-\$173.5 million)**

In December, disbursements in the Education category were \$35.3 million (5.0%) under estimate, pushing total outlays in the category for the year to date under the estimate by \$173.5 million (3.6%).

**Department of Education.** December disbursements of the Department of Education were \$510.7 million, which was \$44.2 million (8.0%) below the estimate for the month. For the year to date, the Department's disbursements are \$153.7 million (4.4%) under the estimate.

The largest part of December's variance is traceable to line item 200-501, Base Cost Funding, which was under estimate for the month by \$23.1 million. This appropriation item is the largest item in the Department's budget. 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. The total amount of this line item appropriation for FY 2005 is \$4,412.2 million. Although the Department had planned to make final payments for FY 2004 in December, these have been delayed until January and February. Normally, these payments are made from an encumbrance of prior year funds. But because of the FY 2004 shortfall in this line item and an extra appropriation that was needed to meet the expenses of higher than expected enrollments, the Department was not able to encumber FY 2004 funds; it is making these payments out of the FY 2005 appropriation. For the year to date, disbursements from line item 200-501 are \$62.7 million under estimate. Nevertheless, the Department expects that it will need to ask the General Assembly for an appropriation increase in order to cover school funding obligations in FY 2005, due to greater than expected increases in public school enrollment.

Line item 200-437, Student Assessment, is also a significant contributor to the month and year-to-date variances. In December it was \$10.2 million under the estimate, and it is \$19.0 million under the estimate for the year to date. This variance is largely a matter of the timing of vendor invoices.

Another significant contributor to the Department's underspending for the year is line item 200-503, Bus Purchase Allowance, which is under estimate for the year to date by \$14.7 million. This variance stems mostly from a delayed payment, which now is expected in January.

**Board of Regents.** Disbursements by the Board of Regents were \$8.9 million above the estimate for December, reducing the year-to-date underspending to \$19.3 million. The largest year-to-date variance is found in line item 235-420, Success Challenge, which is now under the

estimate by \$13.1 million. This line item is used to support universities' efforts to promote successful degree completion by "at risk" baccalaureate students and timely degree completion by all students. The variance is due to the fact that a large payment was estimated to take place in December but is actually scheduled to take place in February.

### ***Welfare/Human Services (-\$100.4 million)***

The Welfare/Human Services category posted a disbursement variance of \$31.8 million (3.5%) over the estimate in December. For the year to date, outlays in this category are now \$100.4 million (1.7%) under the estimate. Two program subcategories (Health Care/Medicaid, and Other Welfare)—both in the Department of Job and Family Services—are among the main contributors to the variance and are discussed in more detail below.

Another significant contributor, especially to the variance for the month, was the Department of Mental Retardation and Developmental Disabilities; its disbursements were over the estimate in December by \$19.0 million. This variance, however, is the result of timing—when the Department receives "pledges" from the county boards and when it distributes funds to cover the nonfederal share of Medicaid expenditures for home and community-based waiver expenditures. The "Disbursements" report has commented on this variance for the last several months.

**Health Care/Medicaid.** Year-to-date net disbursements through December for the Health Care/Medicaid program (primarily line item 600-525) total \$4.8 billion and are \$64.0 million (1.3%) under the estimate (see Table 6). For December, health care spending was \$18.8 million (2.4%) over the estimate.

As we see in Table 6, the Nursing Facilities Payments, Inpatient Hospitals, Outpatient Hospitals, Physicians, Medicare Buy-In, and DA Medical service categories are all over estimate for the month. However, only the Nursing Facilities Payments, Physicians, Medicare Buy-

In, and DA Medical services categories are over estimate for the year to date.

The service category with the largest variance over the estimate for the year to date is Nursing Facilities Payments, which is over the estimate by \$30.4 million. Like last year, the Department reports that "bed days" in nursing facilities are higher than expected, while per diems for Nursing Facilities have behaved as expected. The largest underestimate service category is Inpatient Hospitals, which is under estimate by \$52.6 million for the year to date. According to the Department, this is due to a lower than anticipated utilization rate.

Looking at the year-over-year comparisons in Table 7, we see a significant increase in payments for Prescription Drugs. 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 an increase in payments in the ODJFS Waiver category. This is mostly due to the increased caseload of the Ohio Home Care Waiver, which for several months has been exceeding the budgeted caseload level. Total net health care payments so far in FY 2005 exceed FY 2004 payments at the same point in the year by \$289.1 million (6.4%).

**Job and Family Services.** Disbursements for the Department of Job and Family Services' operating and subsidy programs were \$11.7 million under estimate in December and stand at \$46.9 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-cash assistance programs.

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

Service Category	December				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Dec.	Estimate thru Dec.	Variance	Percent Variance
Nursing Facilities Payments	\$239,206	\$222,400	\$16,806	7.6%	\$1,371,735	\$1,341,321	\$30,414	2.3%
ICF/MR Payments	\$36,851	\$37,326	(\$474)	-1.3%	\$223,315	\$225,302	(\$1,986)	-0.9%
Inpatient Hospitals	\$117,792	\$111,612	\$6,180	5.5%	\$670,959	\$723,539	(\$52,580)	-7.3%
Outpatient Hospitals	\$54,648	\$48,647	\$6,002	12.3%	\$316,436	\$316,554	(\$118)	0.0%
Physicians	\$48,033	\$43,813	\$4,221	9.6%	\$301,791	\$286,255	\$15,536	5.4%
Prescription Drugs	\$151,235	\$155,998	(\$4,763)	-3.1%	\$975,118	\$986,759	(\$11,641)	-1.2%
ODJFS Waiver	\$18,051	\$18,393	(\$342)	-1.9%	\$109,701	\$117,898	(\$8,198)	-7.0%
All Other	\$73,386	\$75,790	(\$2,403)	-3.2%	\$458,969	\$484,323	(\$25,354)	-5.2%
MCP	\$90,759	\$99,147	(\$8,388)	-8.5%	\$519,097	\$544,735	(\$25,639)	-4.7%
Medicare Buy-In	\$14,333	\$14,180	\$153	1.1%	\$87,484	\$84,695	\$2,788	3.3%
<b>Total Medicaid Payments</b>	<b>\$844,297</b>	<b>\$827,306</b>	<b>\$16,991</b>	<b>2.1%</b>	<b>\$5,034,605</b>	<b>\$5,111,382</b>	<b>(\$76,777)</b>	<b>-1.5%</b>
DA Medical	\$6,664	\$5,446	\$1,218	22.4%	\$38,604	\$33,716	\$4,887	14.5%
Drug Rebates Offsets	(\$49,267)	(\$49,836)	\$570	-1.1%	(\$225,913)	(\$224,982)	(\$931)	0.4%
ICF/MR Franchise Fee Offsets	(\$1,710)	(\$1,736)	\$26	-1.5%	(\$8,458)	(\$10,192)	\$1,734	-17.0%
NF Franchise Fee Offsets	(\$9,670)	(\$9,616)	(\$54)	0.6%	(\$51,466)	(\$58,710)	\$7,244	-12.3%
DSH Rebate Offsets	\$0	\$0	\$0		(\$4,785)	(\$4,785)	\$0	
<b>Total Health Care (Net of Offsets)</b>	<b>\$790,314</b>	<b>\$771,563</b>	<b>\$18,751</b>	<b>2.4%</b>	<b>\$4,782,587</b>	<b>\$4,846,431</b>	<b>(\$63,843)</b>	<b>-1.3%</b>
Est. Federal Share	\$463,978	\$452,970	\$11,008		\$2,807,766	\$2,845,247	(\$37,481)	
Est. State Share	\$326,336	\$318,593	\$7,743		\$1,974,822	\$2,001,184	(\$26,362)	

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 \$4.30 per bed per day for FYs 2004 and 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 payments from funds encumbered from the previous year.

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.

Nearly all of December's disbursement variance can be traced to line item 600-416, Computer Projects, which was under estimate by \$10.5 million. As is often the case with line item 600-416, vendor invoicing for computer projects has been slower than anticipated. For the year to date, disbursements from line item 600-416 are \$18.6 million under the estimate.

Several other line items have also contributed to the underspending for the year to date. Among these are line items 600-528, Adoption Services (\$8.7 million under estimate); 600-521, Family Stability Subsidy (\$6.6 million under estimate); and 600-321, Support Services (\$3.8 million under estimate). As reported previously, for the two subsidy line items (600-528 and 600-521), counties have simply requested slightly less than in years past. Disbursements from line item 600-321 were affected by lower than anticipated rent and maintenance expenditures.

### **Tax Relief (-\$2.0 million)**

The Property Tax Relief program, which carries an FY 2005 GRF appropriation of over \$1.4 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. 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.

Service Category	FY 2005	FY 2004	Dollar Change	Percent Increase
	Yr.-to-Date as of Dec. '04	Yr.-to-Date as of Dec. '03		
Nursing Facilities Payments	\$1,371,735	\$1,351,590	\$20,145	1.5%
ICF/MR Payments	\$223,315	\$219,858	\$3,457	1.6%
Inpatient Hospitals	\$670,959	\$633,529	\$37,430	5.9%
Outpatient Hospitals	\$316,436	\$286,305	\$30,131	10.5%
Physicians	\$301,791	\$277,325	\$24,466	8.8%
Prescription Drugs	\$975,118	\$857,133	\$117,985	13.8%
ODJFS Waiver	\$109,701	\$94,513	\$15,188	16.1%
All Other	\$458,969	\$443,131	\$15,838	3.6%
MCP	\$519,097	\$516,175	\$2,922	0.6%
Medicare Buy-In	\$87,484	\$75,018	\$12,465	16.6%
<b>Total Medicaid Payments</b>	<b>\$5,034,605</b>	<b>\$4,754,577</b>	<b>\$280,028</b>	<b>5.9%</b>
DA Medical	\$38,604	\$47,034	(\$8,430)	-17.9%
Drug Rebates Offsets	(\$225,913)	(\$167,504)	(\$58,409)	34.9%
ICF/MR Franchise Fee Offsets	(\$8,458)	(\$10,199)	\$1,742	-17.1%
NF Franchise Fee Offsets	(\$51,466)	(\$59,371)	\$7,905	-13.3%
DSH Rebate Offsets	(\$4,785)	\$0	(\$4,785)	
Prior period encumbrance subsidy	\$0	(\$71,000)	\$71,000	-100.0%
<b>Total Health Care (Net of Offsets)</b>	<b>\$4,782,587</b>	<b>\$4,493,537</b>	<b>\$289,050</b>	<b>6.4%</b>
Est. Federal Share	\$2,807,766	\$2,638,070	\$169,696	
Est. State Share	\$1,974,822	\$1,855,467	\$119,354	

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 \$4.30 per bed per day for FYs 2004 and 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 payments from funds encumbered from the previous year.
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.

Tax Relief payments totaled \$150.9 million in December, \$41.2 million (21.4%) under the estimate. For the year to date, however, the \$699.5 million total disbursed represents a variance of only \$2.0 million (0.3%) below the estimate.

The bulk of the variance for December is traceable to the reimbursements made for the tangible property tax exemption. In December, line item 200-906, Tangible Tax Exemption-Education, was under estimate by \$17.5 million, while line item 110-906, Tangible Tax Exemption-Taxation, was under estimate by \$10.1 million. The variances are partly the result of basing the estimates in each case on the appropriation rather than on the expected level of reimbursement.

Am. Sub. H.B. 95 (the current operating budget) eliminates over a ten-year period (and in 10% increments) the state's reimbursement for the loss of tax revenue to local government that results from the tax exemption for tangible personal property on the first \$10,000 of taxable value at each business. In FY 2005, the reimbursement is reduced to 80% of the amount reimbursed in FY 2003. The FY 2005 appropriation for line item 200-906 was reduced only 4.2% from FY 2004, and the FY 2005 appropriation for line item 110-906 was reduced only 5.6% from FY 2004. Because the estimates are based on these appropriation levels, in each line item there will be excess funds remaining at the end of FY 2005. Last May, \$9.9 million of the line item 200-906 appropriation for FY 2004 was transferred by Controlling Board action to line item 200-501, Base Cost Funding, in the budget of the Department of Education to cover part of the school funding formula obligations that were greater than expected.

### ***Government Operations (\$3.3 million)***

With a disbursement variance of \$7.1 million over the estimate in December, outlays in the Government Operations category stand at \$3.3 million over the estimate for the year to date. There are several small and mostly offsetting variances in the category. The only notable variance is in the budget of the Department of Development. For the year to date, disbursements by the Department are \$15.9 million above estimate. There was, however, no significant variance in disbursements by the Department in December. As reported in previous "Disbursements" articles, the variance for the year to date stems largely from the fact that the disbursements of prior year grant money, as well as disbursements from two new line items, are not occurring as anticipated in the estimates. LSC expects these variances to be reduced in the coming months.

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



# Issues of Interest

## LOTTERY TICKET SALES AND PROFIT TRANSFERS SECOND QUARTER, FISCAL YEAR 2005

*¾ Jean Botomogno*

### **Ticket Sales**

In the second quarter of FY 2005, total ticket sales were \$549.7 million, \$25.8 million (4.9%) higher than ticket sales in the first quarter. On-line ticket sales<sup>1</sup> were \$228.3 million, \$11.2 million (4.7%) lower than sales in the first quarter. Low Super Lotto and Mega Millions jackpots in the second quarter hurt On-line sales. Instant ticket sales were higher in the second quarter due to the traditional “holiday” Instant games offered by the Ohio Lottery. Instant ticket sales were \$321.4 million, \$37.0 million (13.0%) higher than sales in the first quarter. Table 1 compares quarterly sales per game in FY 2005. Among On-line games, second-quarter ticket sales increased for Pick 4 (1.8%). Buckeye 5/Rolling Cash 5 sales jumped \$2.3 million (14.6%). The increase was due to the introduction of the newest On-line game, Rolling Cash 5, which replaced Buckeye 5 on October 3, 2004. Unlike Buckeye 5, the jackpot in Rolling Cash 5 increases after each drawing until there is a winner. Pick 3 ticket sales were down 3.6%. Sales of the remaining On-line games declined 11% to 13%.

Compared to ticket sales in the same period in FY 2004, second-quarter ticket sales in FY 2005

were almost flat, up \$0.6 million (0.1%). Instant ticket sales were up \$7.4 million (2.3%). On-line tickets sales declined \$6.8 million (2.9%). Among On-line games, sales of Pick 4 and Rolling Cash 5 increased \$1.9 million (4.6%) and \$1.9 million (11.7%), respectively. Pick 3 ticket sales were down \$1.0 million (1.1%). Super Lotto Plus and Kicker sales declined \$7.1 million (20.3%) and \$1.2 million (19.8%), respectively.

### **FY 2005 First-Half Summary**

Table 2 summarizes mid-year ticket sales by game in FY 2005 and FY 2004. Through December 2004, FY 2005 year-to-date ticket sales were \$1,073.6 million, \$29.0 million (2.8%) higher than sales during the same period in FY 2004. Instant ticket sales improved \$35.8 million (6.3%), whereas On-line sales declined \$6.9 million (1.5%). Comparing sales of various On-line games, FY 2005 Pick 3 sales were down \$0.8 million (0.4%). Sales of Super Lotto and Kicker tickets decreased \$14.4 million (19.5%) and \$2.2 million (17.3%), respectively. Pick 4 ticket sales grew \$4.5 million (5.7%), Rolling Cash 5 ticket sales improved \$1.4 million (4.4%), and Mega Millions ticket sales were up \$4.5 million (5.5%).

**Table 1: Quarterly Lottery Ticket Sales by Game in FY 2005**  
(in millions of dollars)

	Pick 3	Pick 4	Kicker	Rolling Cash 5	Super Lotto	Mega Millions	On-line	Instants	Total
Q1	\$98.4	\$41.7	\$5.5	\$16.0	\$32.1	\$45.7	\$239.5	\$284.4	\$523.9
Q2	\$94.9	\$42.5	\$4.9	\$18.4	\$27.8	\$39.9	\$228.3	\$321.4	\$549.7
\$ Change	-\$3.5	\$0.8	-\$0.6	\$2.3	-\$4.3	-\$5.9	-\$11.2	\$37.0	\$25.8
% Change	-3.6%	1.8%	-11.3%	14.6%	-13.3%	-12.9%	-4.7%	13.0%	4.9%

*Totals may not add up due to rounding.*

**Table 2: Mid-year Ticket Sales by Games in FY 2005 and FY 2004**  
(in millions of dollars)

Year	Pick 3	Pick 4	Kicker	Rolling Cash 5	Super Lotto	Mega Millions	On-line	Instants	Total
FY 2005	\$193.3	\$84.3	\$10.4	\$34.4	\$59.7	\$85.6	\$467.8	\$605.8	\$1,073.6
FY 2004	\$194.1	\$79.7	\$12.6	\$33.0	\$74.2	\$81.1	\$474.7	\$570.0	\$1,044.6
\$ Change	-\$0.8	\$4.5	-\$2.2	\$1.4	-\$14.4	\$4.5	-\$6.9	\$35.8	\$29.0
% Change	-0.4%	5.7%	-17.3%	4.4%	-19.5%	5.5%	-1.5%	6.3%	2.8%

\* Totals may not add up due to rounding.

FY 2005 year-to-date sales of Instant tickets were \$138.1 million (29.5%) higher than On-line sales. In FY 2004, sales of Instant tickets were \$95.3 million (20.1%) ahead of On-line sales in December 2003. The share of Instants to total sales tickets in FY 2005 increased to 56.4%, up from 54.6% in the first half of FY 2004. The payout for Instant games (about 65%) is higher than that of On-line games (about 53%). Thus, year-to-date ticket sales were \$29.0 million higher in FY 2005, but gross profit margins declined.

### **Transfers to the Lottery Profits Education Fund (LPEF)**

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

Transfers for the second quarter of FY 2005 were \$169.3 million, up from \$161.9 million in the first quarter. The Ohio Lottery had anticipated transfers of \$153.7 million in the first quarter and \$165.9 million in the second quarter. Thus, transfers in each quarter of this fiscal year were higher than anticipated. Through December 2004, year-to-date transfers in FY 2005 were \$331.2 million, \$11.6 million (3.6%) above projected transfers.

Table 4 compares first-half transfers in FY 2005 and FY 2004. Through December 2004, year-to-date transfers were \$12.6 million (4%) above transfers in the same period in FY 2004. Transfers were also above 30% of ticket sales in each of the fiscal years.

**Table 3: Quarterly Lottery Ticket Sales and Transfers to LPEF in FY 2005**  
(in millions of dollars)

Quarter	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	FY 2004 Transfers	Dollar Variance*	Percent Variance*
Q1	\$523.9	\$161.9	\$153.7	\$8.3	\$152.2	\$9.7	6.4%
Q2	\$549.7	\$169.3	\$165.9	\$3.4	\$166.4	\$2.9	1.7%
\$ Change	\$25.8	\$7.4	\$12.3	N/A	\$14.2	\$12.6	N/A
% Change	4.9%	4.6%	8.0%	N/A	9.4%	N/A	4.0%

\* Totals may not add up due to rounding.

**Table 4: First-Half Transfers to LPEF in FY 2005 and FY 2004**  
(in millions of dollars)

	Ticket Sales	Actual Transfers	Projected Transfers	Dollar Variance	Percent Variance	Transfers as a Percent of Sales
Transfers in FY 2005	\$1,073.6	\$331.2	\$319.6	\$11.6	3.6%	30.9%
Transfers in FY 2004	\$1,044.6	\$318.6	\$320.7	-\$2.1	-0.7%	30.5%
\$ Change	\$29.0	\$12.6	-\$1.1	N/A	N/A	N/A
% Change	2.8%	4.0%	-0.3%	N/A	N/A	N/A

\* Totals may not add up due to rounding.

<sup>1</sup>On-line games are Pick 3, Pick 4, Rolling Cash 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.