Next

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JULY 2005

FISCAL OVERVIEW

— *Allan Lundell*

FY 2005 was the best year, budget-wise, since FY 2000. For the fiscal year, total GRF receipts were $688 million above the estimate made by the Office of Budget and Management at the beginning of the fiscal year, total program disbursements were $102 million below estimate, and the ending cash balance was $746 million above its expected level. Both the ending cash balance and the unobligated balance finished the fiscal year at the highest levels since FY 2000. The balances allowed for a transfer to the Budget Stabilization Fund (BSF) ($394 million in July 2005) for the first time since July 2001.

Tracking the Economy

During FY 2005, the national economic expansion continued at a healthy, but slower, pace. Inflation-adjusted gross domestic product growth in the first three quarters of the fiscal year averaged an annual rate of 3.9%, down from 4.8% in the four quarters of FY 2004. The Ohio economy continued to trail the national economy according to most measures of economic activity. Gross state product (GSP) estimates through 2004 showed growth of inflation-adjusted GSP in Ohio of 2.2% last calendar year, less than the 4.2% increase reported for the nation. U.S. employment increased and the unemployment rate fell. In Ohio, employment is up from its cyclical low, but not by much, and the unemployment rate remains elevated.

Receipts

For FY 2005, total GRF receipts were $688 million (2.8%) above estimate, state-source receipts were $815 million (4.3%) above estimate, tax revenue was $625 million (3.4%) above estimate, and

Dear Readers:

Budget Footnotes **will be on vacation for the month of August. The next issue will be published in September.**

The writers and editors

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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 June	Fiscal Year 2005 to Date	Last Year	Difference
Beginning Cash Balance	**$450.8**	**$533.1**		
Plus Revenue and Transfers In	$2,624.0	$25,550.5		
Available Resources	**$3,074.8**	**$26,083.6**		
Less Disbursements and Transfers Out	$1,865.6	$24,874.4		
Ending Cash Balance	**$1,209.2**	**$1,209.2**	**$533.1**	**$676.1**
Less Encumbrances and Accts. Payable		$526.6	$375.6	$151.0
Unobligated Balance		**$682.6**	**$157.5**	**$525.1**
Plus BSF Balance		$180.7	$180.7	$0.0
Combined GRF and BSF Balance		**$863.3**	**$338.2**	**$525.1**

revenue from the major taxes was $605 million (3.5%) above estimate. The income tax was $496 million (6.1%) above estimate, the corporate franchise tax was $152 million (16.8%) above estimate, and the nonauto sales and use tax was $13 million (0.2%) above estimate. Revenue from the auto sales tax was $52 million (4.6%) below estimate and federal grants were $127 million (2.2%) below estimate.

Disbursements

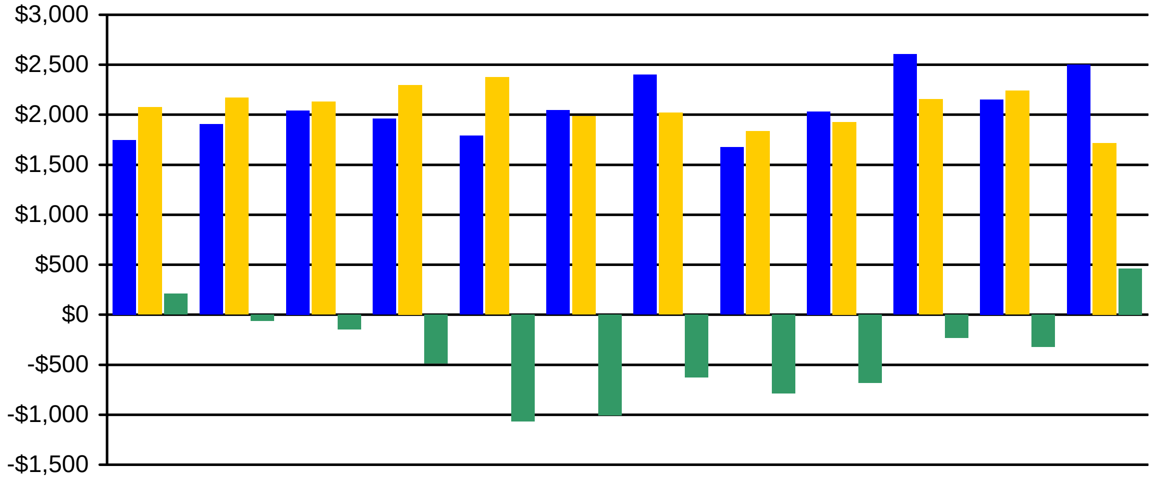
FY 2005 GRF program disbursements were $102 million (0.4%) below estimate. Disbursements for primary and secondary education were above estimate by $101 million (1.5%) and disbursements for higher education were below estimate by $12 million (0.5%). Disbursements for health care/Medicaid were $126 million (1.3%) below estimate and disbursements for property tax relief were $13 million (0.9%) above estimate.

Cash Balance

As shown in Table 1, the GRF began FY 2005 with a positive cash balance of $533 million. Revenues plus transfers in totaled $25,550 million and disbursements plus transfers out totaled $24,874 million. The surplus of $676 million raised the ending cash balance to $1,209 million. This amount is $676 million higher than a year ago, and $746 million higher than the balance that would have resulted if receipts and disbursements had equaled their monthly estimates for the fiscal year.

The monthly ending 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 receipts and disbursements for FY 2005 and the estimated monthly ending cash balances based on those estimates. Chart 2 presents the actual receipts, disbursements, and monthly ending cash balances for FY 2005. Chart 3 presents a comparison of actual monthly ending cash balances and the estimated monthly ending cash balances based on the monthly estimates of receipts and disbursements. The monthly ending cash balance tracked ahead of the estimate throughout the fiscal year. Chart 4, which presents the year-end GRF

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



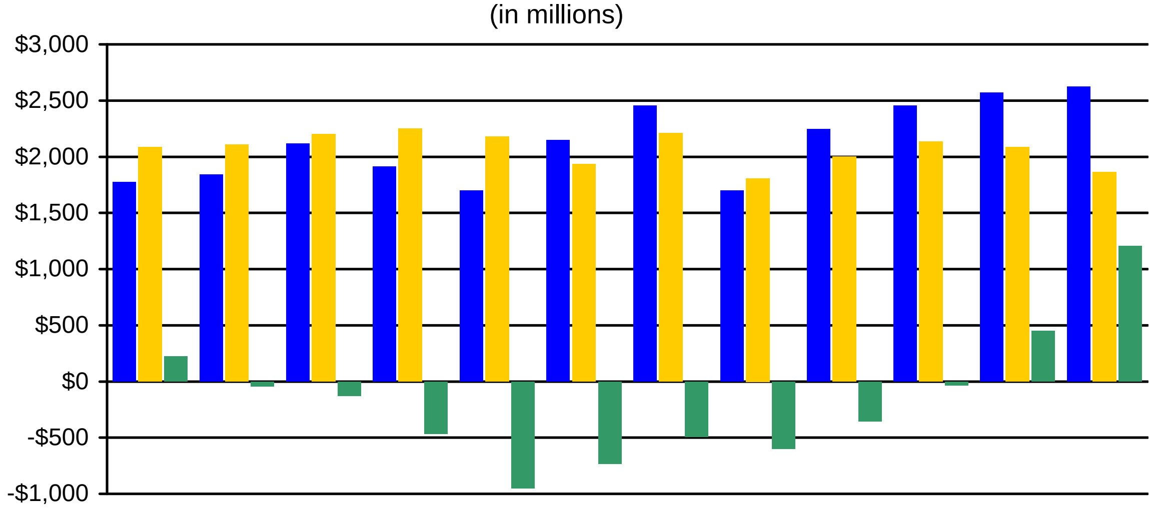
	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
Receipts	$1,748	$1,905	$2,044	$1,959	$1,791	$2,047	$2,403	$1,676	$2,033	$2,606	$2,151	$2,501
Disbursements	$2,074	$2,172	$2,129	$2,298	$2,375	$1,985	$2,022	$1,835	$1,928	$2,156	$2,243	$1,717
Cash Balance	$208	-$60	-$145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

cash, GRF unobligated, and BSF balances since FY 1995, shows that FY 2005 was the best year, budget-wise, since FY 2000.

Encumbrances and accounts payable of $527 million combine with the cash balance to yield an unobligated balance of $683 million. This amount is $525 million higher than a year ago. The $181 million balance in the Budget Stabilization Fund is the same as a year ago, so the combined GRF and BSF balance of $863 million is also $525 million higher than it was a year ago.

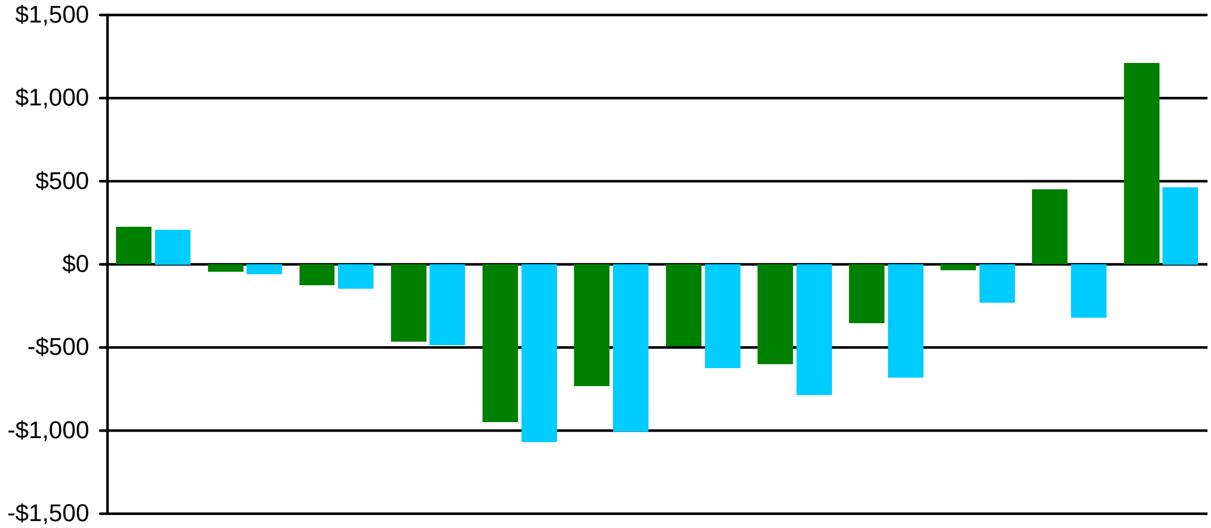
The FY 2005 GRF balance of $683 million was disposed of as follows. The carry-over fund balance (0.5% of the previous year's revenue) came to $127.8 million. Other GRF reserves

Chart 2: Actual 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
Receipts	$1,777	$1,843	$2,119	$1,909	$1,700	$2,147	$2,456	$1,700	$2,247	$2,456	$2,571	$2,624
Disbursements	$2,086	$2,110	$2,202	$2,250	$2,181	$1,932	$2,213	$1,809	$2,002	$2,136	$2,087	$1,866
Cash Balance	$224	-$43	-$126	-$466	-$948	-$733	-$490	-$598	-$353	-$34	$451	$1,209

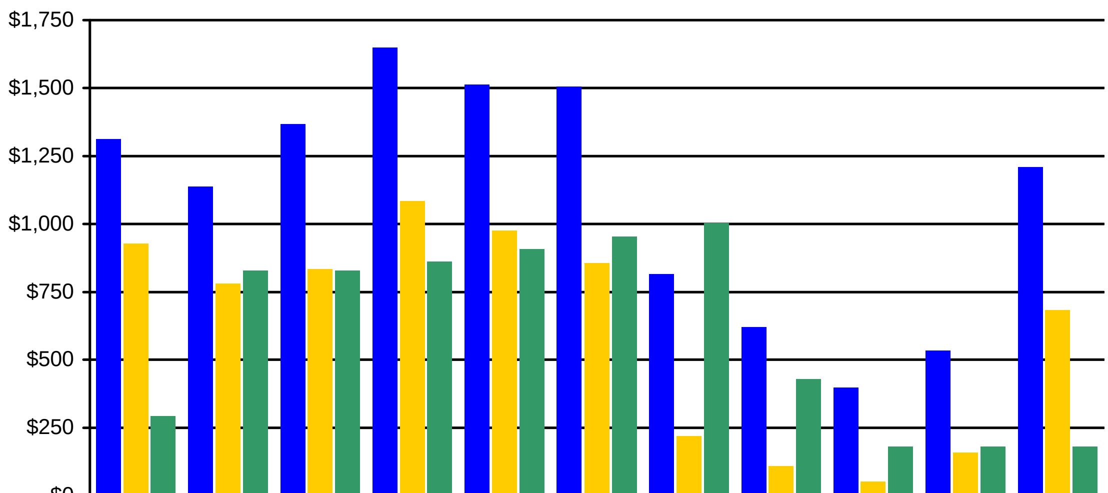
Chart 3: Actual and Estimated Ending Cash Balances
(in millions)



	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	-$490	-$598	-$353	-$34	$451	$1,209
Estimate	$208	-$60	-$145	-$485	-$1,069	-$1,007	-$626	-$785	-$680	-$230	-$321	$463

were: Best Rx, $9.0 million; Capital, $1.1 million; and National Guard Scholarship, $0.6 million. The following transfers were also made: $60 million to Fund 5AX, Public Assistance Reconciliation Fund; $50 million to Fund 021, Public School Building; and $40 million to Fund 5E2, Disaster Services. Finally, $394.2 million was transferred to the BSF (Fund 013). The balance in the BSF rose to $575 million. This amount is 2.25% of the previous fiscal year's revenue.

Chart 4: Fiscal Year-End Balances
(in millions)



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Cash	$1,312	$1,139	$1,368	$1,649	$1,513	$1,506	$817	$619	$397	$533	$1,209
Unobligated	$928	$781	$835	$1,084	$977	$856	$219	$108	$52	$158	$683
BSF	$293	$828	$828	$863	$907	$953	$1,003	$428	$181	$181	$181

TRACKING THE ECONOMY

¾ Phil Cummins

Economic expansion nationwide strengthened in June. Employment rose and the national unemployment rate fell to its lowest level in nearly four years. In Ohio, employment rose only slightly and unemployment remained at an elevated level. Industrial production increased sharply after slower gains or declines in earlier months this year. Retail sales expanded briskly last month after slowing in May. Housing starts remained at a high level. Inflation was nil in June, measured by the producer price index for finished goods and by the consumer price index for all goods and services. Short-term interest rates continued to rise, as the central bank again increased its monetary policy target rate, but longer-term yields remained low and conducive to further expansion of the economy.

Ohio Gross State Product Growth Trails That of the Nation

Gross state product (GSP) estimates through 2004, released last month by the United States Bureau of Economic Analysis, showed growth of inflation-adjusted GSP in Ohio of 2.2% last year, less than the 4.2% increase reported for the nation. This continues the pattern indicated by earlier data. Total economic activity in Ohio has been recovering from the 2001 recession, but growth in the state's economy has been slower than that of the nation, as illustrated in Chart 1. Industry detail through 2003 shows generally stronger growth in activity in individual industries nationwide than in those same industries in this state, across a wide range of industries.[1]

Nationwide Employment Gains, Unemployment Falls; Ohio Lags

Employment on the nation's nonfarm payrolls rose 146,000 in June and unemployment fell to 5.0% of the labor force. The rise in nonfarm payroll employment trails the average monthly increase last year and in this year's first half of over 180,000 (or 2.2 million net additional jobs a year). The national unemployment rate in June was at its lowest level since September 2001. In Ohio, nonfarm payroll employment in June rose by 700 workers, to 21,500 (0.4%) higher than a year earlier. Gains in June were in service industries, while employment fell in goods-producing industries. Manufacturing employment declined 2,600 and, as noted in this space last month, is around its lowest level since 1940. The statewide unemployment rate was unchanged at 6.1%. The latest data for total nonfarm payroll

Chart 1: Inflation-Adjusted Gross State Product

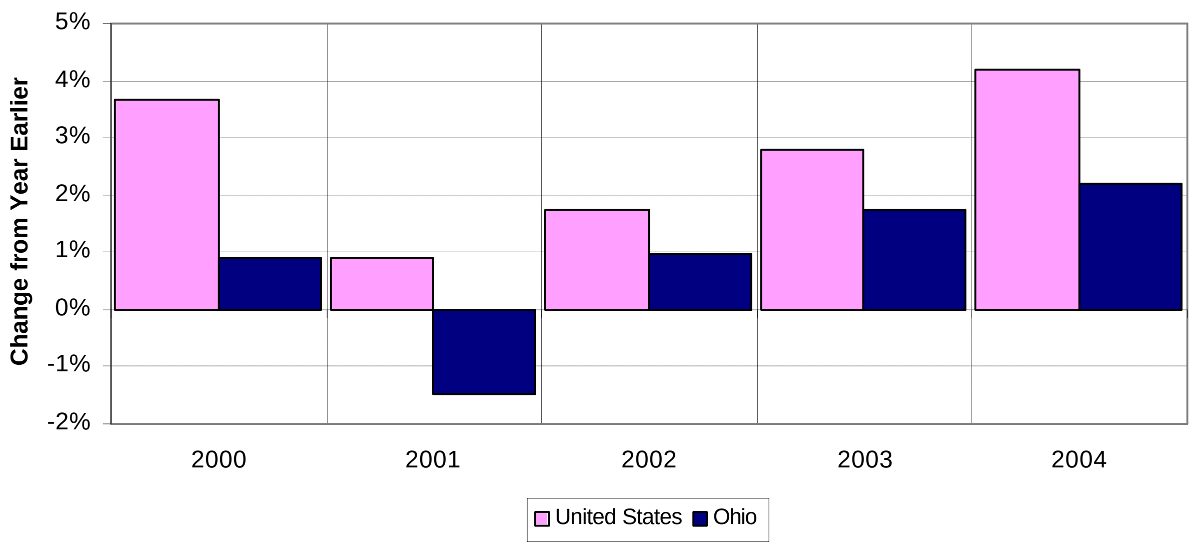
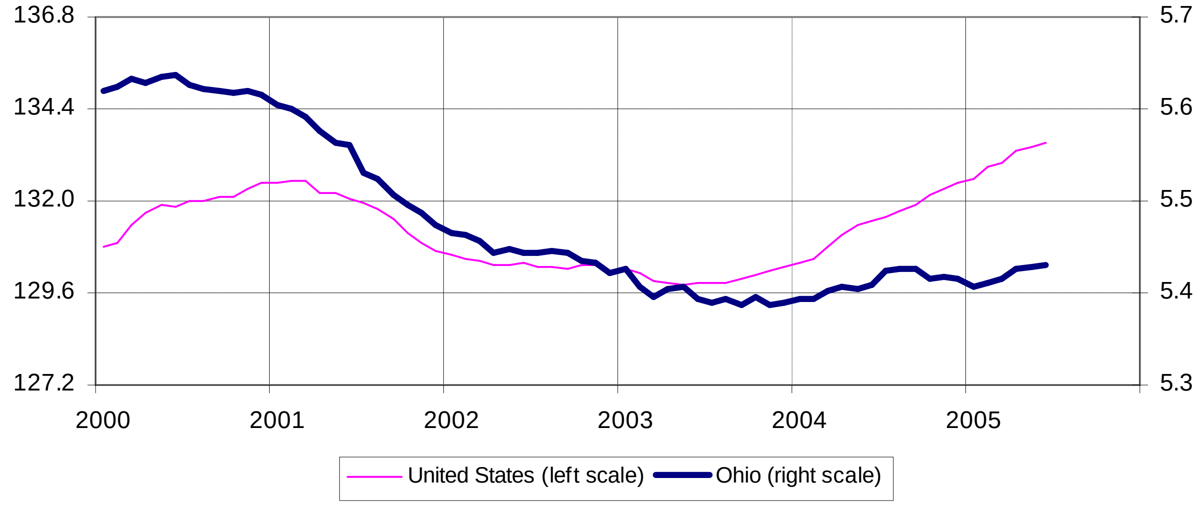


Chart 2: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



employment are plotted in Chart 2, which highlights the stark divergence between the performance of the national economy and that of this state in job creation. Chart 3 shows a 1.3 percentage point decline in the national unemployment rate from its cyclical peak in mid-2003, and a much smaller 0.3 percentage point decline in Ohio's unemployment rate from its peak.

Industry groups adding jobs in June nationwide included professional and business services and health care. Within professional and business services, architectural and engineering firms and companies offering computer systems design services have been adding to employment in recent months. Temporary help services continue to add to staffing, but not as rapidly as last year. In the health care sector, hospitals and walk-in facilities such as doctors' offices expanded employment. Other industries that have been adding to employment include construction, finance, and real estate. Manufacturing employment fell 24,000 in June; has declined 96,000 since August 2004, following a brief recovery earlier last year; and is at its lowest level since 1950. This comparison may be distorted by increased use by manufacturers of temporary workers, counted as employed in the service sector.

Factory Sector Indicators Turn Higher in June

Manufacturing activity strengthened in June, according to the Institute for Supply Management's monthly survey of purchasing managers. This upturn followed several months of generally less widespread reports of growth among survey respondents. Increases in factory production and new orders were more frequently noted. Order backlogs rose, but employment and inventories were reduced. Almost as many prices paid by manufacturers declined as increased, though high energy prices remained a concern. A few commodities—caustic soda, steel, and other metals—remained in short supply. A comparable survey of activity in nonmanufacturing industries in June was generally more upbeat, with more widespread increases in orders and backlogs, and rising employment and inventories. The nonmanufacturing report also indicated more upward pressures on input prices than were reported by manufacturers, though such pressures clearly have eased compared with early this year and much of last year.

Industrial production rose 0.9% in June, mainly as a result of a sharp increase in utility output driven by hot weather. Manufacturing production in June rose 0.4% to 3.8% above a year earlier. Motor vehicle assemblies turned higher in June after slowing earlier in the first half. Abstracting from month-to-month fluctuations, consumer goods production has been growing more slowly this year than in 2004. Output of business equipment and of defense and space equipment have continued to expand rapidly. Growth of industrial materials production has slowed. In the second quarter, total industrial production rose at a 2.1% annual rate, the slowest quarter in two years.

Orders for manufactured goods continue to trend upward. Manufacturers' new orders, volatile from month to month, rose to their highest level on record in May, the latest month currently available. Year-to-date factory orders are 7% above a year earlier, down from an 11% increase for all of last year. The jump in orders in May included a large volume of orders for nonmilitary aircraft. Excluding aircraft and parts, the uptrend in manufacturers' new orders has slowed this year, as shown in Chart 4. This may in part reflect expiration at the end of 2004 of bonus depreciation provisions in federal tax law.

Retail Sales Rebound Vigorously

Retail sales rose 1.7% in June after falling 0.3% in May. The strengthening in retail sales resulted in part from an upturn at motor vehicle dealers in response to enhanced buyer incentives, which will also likely boost July sales. Excluding motor vehicles, total retail sales rose 0.7% in June to 8.3% above a year earlier. Building materials dealers and nonstore retailers (catalog and Internet sales) continued to experience strong sales gains from year-ago levels. Gasoline station sales were also up strongly, reflecting large year-over-year increases in gasoline prices.

Personal Income Growth in Ohio Picks Up

State personal income growth slowed in the first quarter of 2005 in almost all states, following the special $32 billion Microsoft dividend in December and large bonuses and other lump sum payments in last year's fourth quarter. Apart from these one-time factors, personal income growth in the nation picked up beginning in 2003. Growth of personal income has also turned higher in Ohio in recent quarters. Personal income in the state rose 4.7% in the year ended in this year's first quarter, after netting out inflation, slightly more than a 4.5% increase for the nation. During 2004 and the second half of 2003, year-over-year growth of personal income elsewhere outpaced that in Ohio. Trends in personal income are shown in Chart 5, in which data for the United States and Ohio are adjusted for inflation using the personal consumption expenditures deflator for the nation.

Chart 3: Unemployment Rates
Seasonally Adjusted

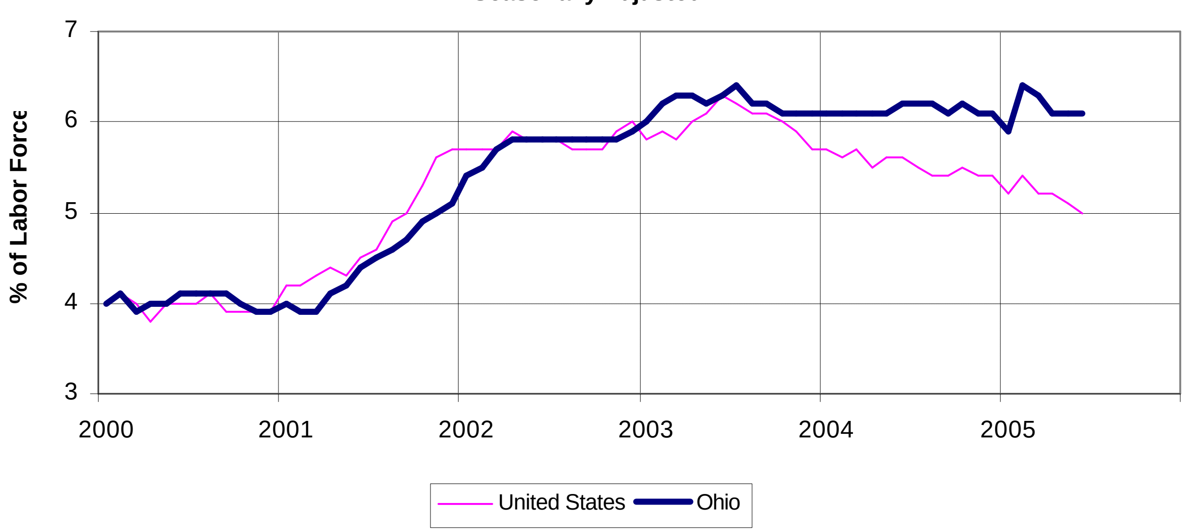
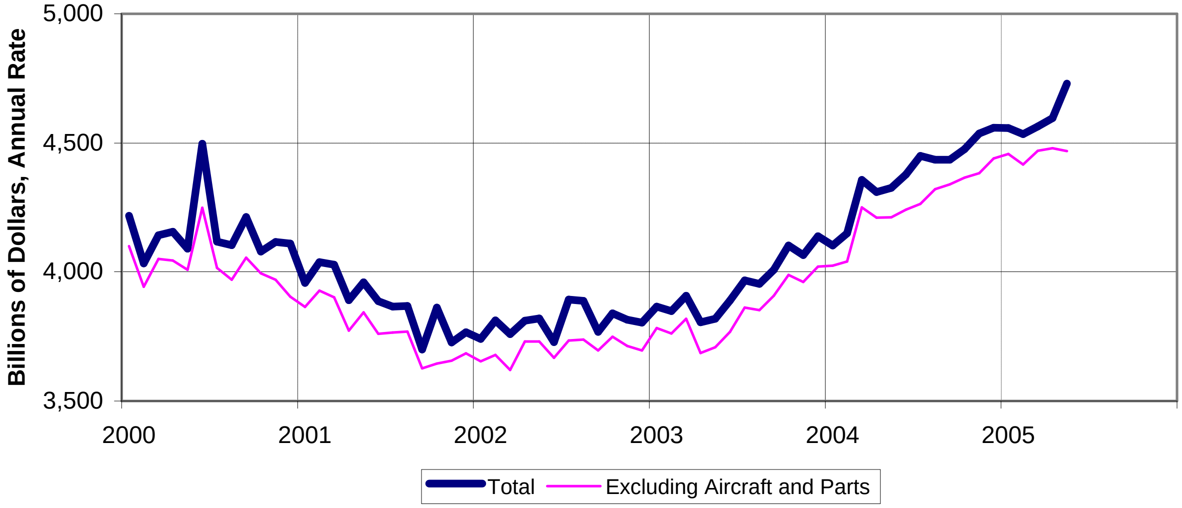


Chart 4: Manufacturers' New Orders
Seasonally Adjusted



Construction Activity: A Mixed Bag

Housing starts in the United States maintained a strong 2.0 million unit rate in June. Year-to-date total starts on new housing units were 5% above the year-earlier pace, and single-family starts were 6% higher. In the Midwest, housing starts in the first six months of 2005 were about unchanged from a year earlier, for total units as well as homes and apartments.

Sales of new and used homes nationwide in May were the second highest ever. New home sales, at around a 1.3 million unit annual rate, rose 2% in May and remained slightly below the all-time peak last October. Year-to-date new home sales were 4% higher nationwide and 5% higher in the Midwest. Used home sales, reported by the National Association of Realtors, were around 7 million units annually nationwide, and slipped 0.7% in May from the highest rate ever in April. Year-to-date used home sales were 6% higher for the nation and 4% higher in Midwestern states. The Ohio Association of Realtors reported unit home sales at a record pace, 5% above a year earlier during January-May.

Permits for construction of new residential units in Ohio in January-May were 10% below a year earlier, after declining 6% in all of 2004. In

Chart 5: Inflation-Adjusted Personal Income
Billions of 2000 Dollars, Seasonally Adjusted

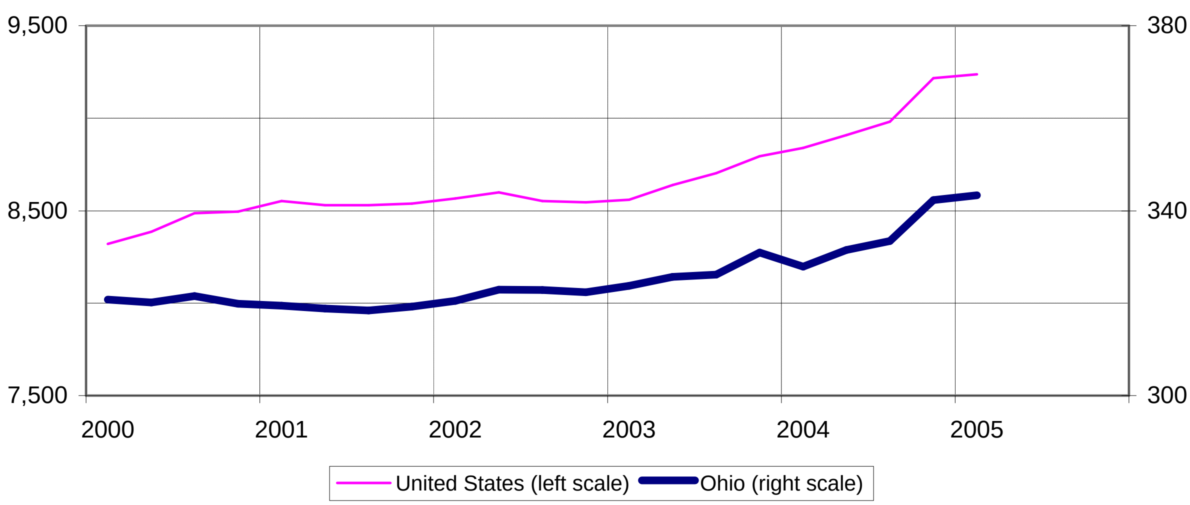
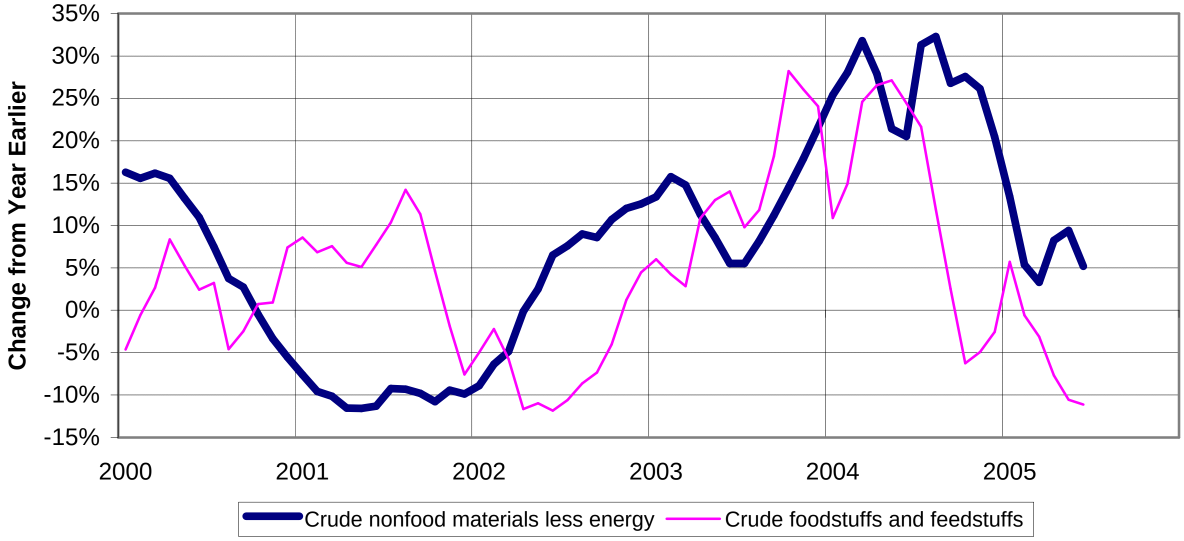


Chart 6: Commodity Prices



contrast, year-to-date permits nationwide were 2% above a year earlier, after increasing 7% in all of last year.

Growth of construction activity nationwide appears to have slowed. The value of new construction put in place, in current dollars, fell in March, April, and May, after a large increase in February. Residential building activity was nearly unchanged from the first quarter to the April-May average, and private nonresidential building rose only slightly overall as growth in commercial, office, hotel, and factory building was largely offset by declines in other sectors. Public construction grew strongly, particularly educational buildings and sewer, water, and power projects.

Price Pressures Abate

Prices of finished producer goods were unchanged in June after falling 0.6% in May. Excluding volatile food and energy prices, finished producer prices fell 0.1% last month after increasing 0.1% the month before. Total finished goods prices in June were 3.6% above a year earlier, as shown in Chart 7. At an earlier stage in the production process, strong upward pressures on prices of many commodities last year and in 2003 have eased. An index of total crude materials prices was about 2% above a year earlier in June. Prices of raw foodstuffs in June were 11% below a year earlier, as shown in Chart 6. Crude energy materials prices were 11% above their year-earlier levels, down from much larger year-to-year increases earlier. Excluding food and energy, crude materials prices in June were 5% higher than a year earlier, also shown in Chart 6.

The consumer price index was unchanged in June after a 0.1% decline in May and increases earlier in the year. Energy prices included in the index fell in the latest two months, declines that will likely be reversed this month. Weekly gasoline prices for the nation and Ohio, published by the United States Department of Energy, rose to all-time highs in early July. Over the past year, the consumer price index for all items rose 2.5%, as shown in Chart 7. Excluding food and energy, consumer prices rose 2.0%, also shown in Chart 7.

Monetary Policy Tightens Again

As widely expected, the nation's central bank in June again raised its interest rate target for overnight federal funds, loans between commercial banks, by one-quarter percentage point. This interest rate has been raised by this amount at each meeting of the central bank's Federal Open Market Committee (FOMC) since June 2004, increasing the federal funds rate from 1% to 3.25%. In announcing the latest interest rate increase, as in past announcements, the FOMC again referred prospectively to a "measured" pace of removing policy accommodation, an indication that additional one-quarter percentage point increases can be expected at future meetings. Longer-term interest rates remain low. In his semiannual report to Congress this month, Federal Reserve Chairman Greenspan indicated that FOMC members expect the nation's economy (inflation-adjusted gross domestic product or GDP) to grow at a 3.25% - 3.5% annual rate through the end of 2006, accompanied by low inflation.

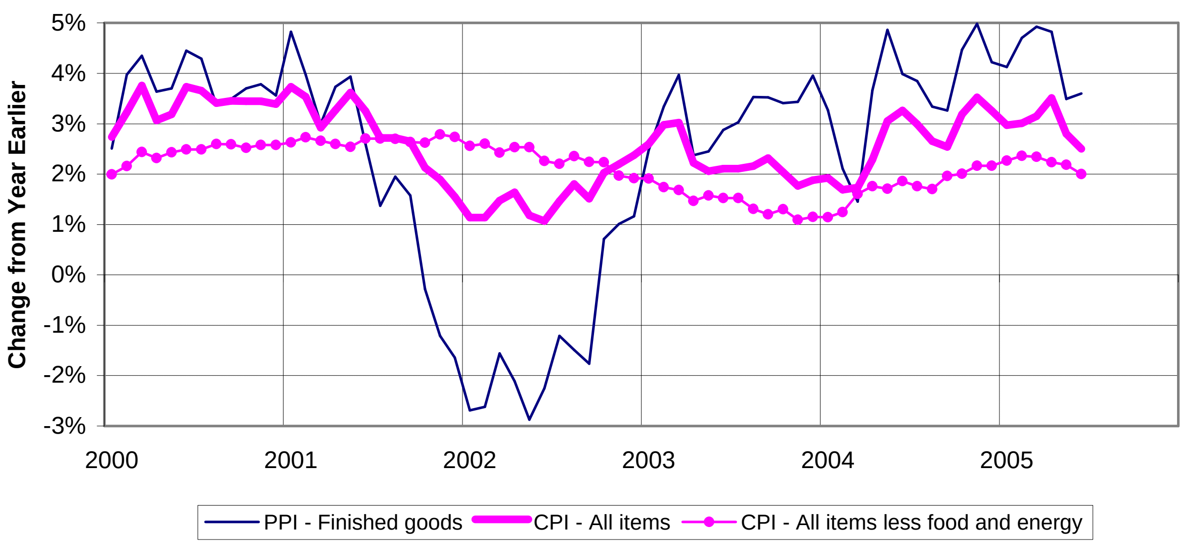
Fiscal Year in Review

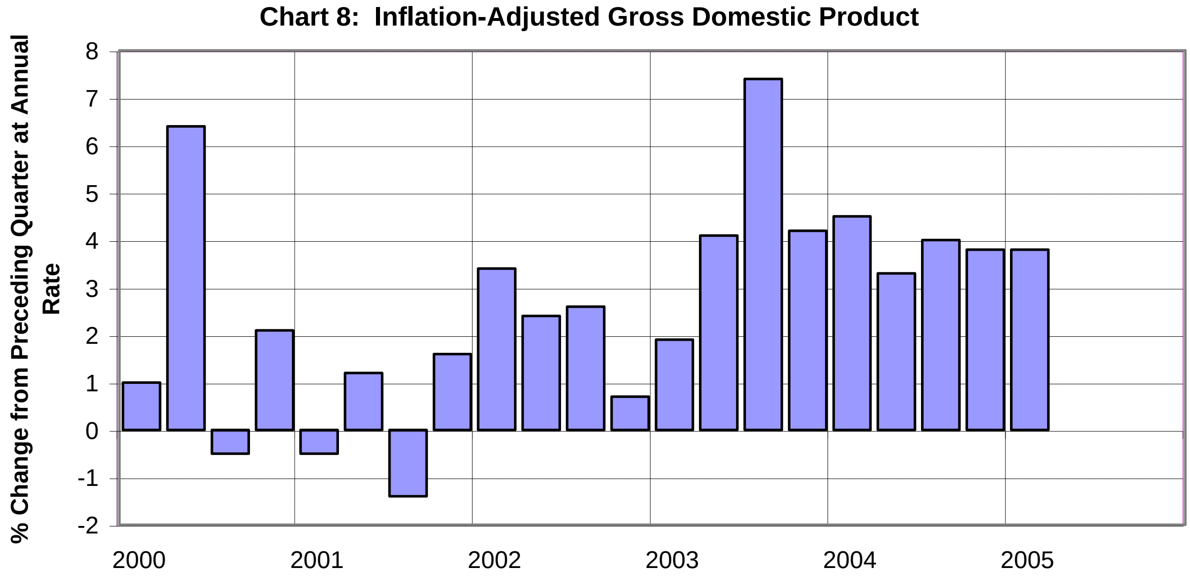
The national economy had been expanding for more than 2-1/2 years at the start of Ohio's FY 2005 in July 2004. Growth of business activity in this country during FY 2004 had been vigorous, following an anemic initial recovery from the 2001 recession. Ohio's economy had also been recovering, but at a slower pace. With the stronger national economic upturn, employment around the country had been growing and unemployment was reduced. However, the upturn in hiring was weaker than in past recoveries. In Ohio, employment also was up from cyclical lows, but not by much, and unemployment remained elevated, as shown in Charts 2 and 3.

With concerns about deflation greatly eased by the upturn in various indicators of price pressures during the previous year, the FOMC began raising its federal funds interest rate target at the end of June 2004. Deflation risk had prompted the FOMC to reduce its federal funds target in June 2003 to 1%, the lowest in over 40 years. The exceptional labor productivity gains subsequent to the 2001 recession helped to hold down business unit labor costs and restrain inflation. But by mid-2004, consumer prices were rising more than 3% year-over-year, their most rapid rate of increase in three years, as shown in Chart 7. Excluding food and energy, consumer prices were nearly 2% higher than a year earlier, a relatively tame rate of rise but nearly twice as rapid as in late 2003. At an earlier stage in the production process, commodity prices had jumped sharply for a broad range of materials and for energy (see Chart 6).

During FY 2005, the pace of national economic expansion continued healthy but slowed. Most measures of activity in Ohio show the performance of the state's economy continuing to trail that of the nation. Inflation-adjusted gross domestic product growth in the first three quarters of the fiscal year averaged an annual rate of 3.9%, down from 4.8% in the four quarters of FY 2004, as shown in Chart 8.[2] This less rapid growth mainly reflected slower increases in the pace of inventory building and smaller gains in exports and residential fixed investment. Inventory data for April and May show a further downshift in the pace of inventory building, mainly at manufacturers. The slowdown in export growth probably reflects

Chart 7: Finished Goods and Services Prices





at least in part slower growth in the economies of some of our major trading partners. Growth of imports also slowed but remained rapid, and the country's trade deficit with the rest of the world increased to another record level. Housing construction defied predictions of a downturn, but single-family building grew less rapidly than the year before. Housing markets were supported by long-term mortgage interest rates that stayed low and availability of alternative financing such as adjustable-rate loans with very low initial interest rates and loans that allow borrowers to pay interest only (no amortization of principal owed) for an initial period of years. Sharply escalating house prices in some markets on the nation's east and west coasts appear to have stimulated further buying. In Ohio, however, residential investment has slowed, as evidenced by declines in construction permit issuance in 2004 and this year.

Consumer spending nationwide continued to grow at a healthy pace in FY 2005, supported by rising employment and incomes, declining unemployment, and gains in household wealth, notably rising home values. High prices for gasoline and other energy products shifted purchasing power from consumers to energy producers. Costly energy may have encouraged conservation measures, altered purchase decisions toward more energy-efficient models, and forced cutbacks in some spending on other items, but does not appear to have put a major crimp in consumer outlays. Slow sales of some light vehicle models earlier this year were countered by more aggressive sales incentive programs. Consumer buying of furniture, household equipment, and other durable goods expanded briskly, supported in part by strength in many parts of the nation in home construction and resales. Some nondurable goods categories also showed large gains in sales volume, including clothing and shoes, bolstered by falling prices. Spending on medical care expanded rapidly.

Business fixed investment in equipment again rose strongly in FY 2005. Spending on information processing equipment and software continued to advance at a double-digit pace. Spending strengthened for industrial and transportation equipment. As noted above, the forward momentum of equipment buying may have been slowed by expiration at the end of 2004 of bonus depreciation. Outlays for business structures remained soft overall, though investment in manufacturing structures turned higher from a low level. Oil and gas exploration and development, counted as part of business investment in structures in calculating GDP, has been growing strongly, encouraged by escalation of oil and natural gas prices. Businesses continue to have ample cash and are spending part of it on numerous merger and acquisition transactions, as well as distributions to shareholders. Some heightened degree of risk aversion—in the wake of the terrorist attacks in 2001 and since, corporate scandals of a few years ago, and the toughened legal climate that has followed—may be restraining expansion and hiring.

Government spending growth in FY 2005 was restrained both at the federal and at the state and local levels. Even with the war on terrorism, growth of federal military spending slowed after being raised sharply in 2002 and 2003. Other federal purchases of goods and services rose slowly. Tax receipts—federal as well as state and local—strengthened during the year.

Inflation at the finished goods and services level picked up modestly during the fiscal year and then eased, as shown in Chart 7. Commodity price pressures generally have eased as well, as indicated in Chart 6, but energy prices remain high. The benchmark U.S. crude oil, West Texas Intermediate, escalated from around $40 per barrel in mid-2004, to $50 per barrel later in the year and early this year, and up to $60 per barrel and at times above that level recently. These are all-time highs in nominal dollars, though well short of past peaks when account is taken of the rise in the general price level.

[1] Gross state product for the United States includes the totals for the 50 states plus the District of Columbia. It differs from the more inclusive gross domestic product primarily because of exclusion of compensation of federal personnel stationed outside the country and depreciation of military structures located abroad and of most military equipment.

[2] This history is scheduled for revision from 2002 forward when the initial estimate of second quarter GDP is released on July 29.

Status of the General Revenue Fund

REVENUE

— *Jean Botomogno, Glenn Wintrich, Ross Miller, Ruhaiza Ridzwan, and Allan Lundell*

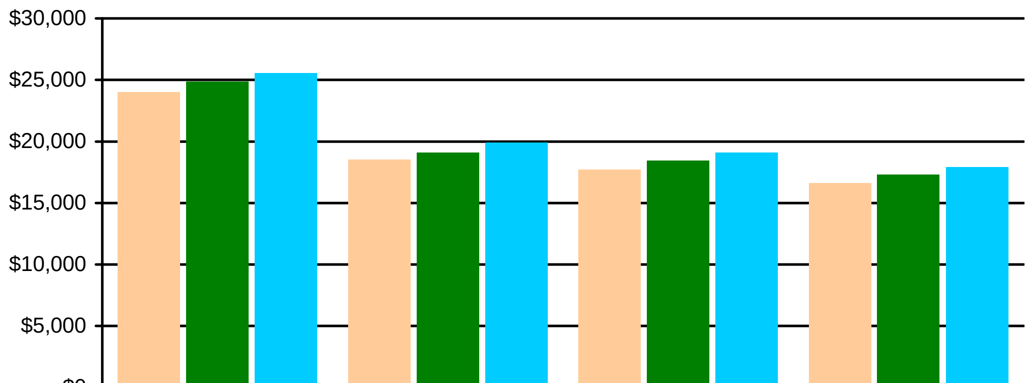
June General Revenue Fund (GRF) receipts totaled $2,624.0 million, $123.0 million (4.9%) above the August 2004 estimate of the Office of Budget and Management. The $2,104.0 million in state-source receipts were $182.6 million (9.5%) above estimate. Tax revenue was $12.3 million (0.7%) above estimate and revenue from the major taxes was $28.4 million (1.8%) below estimate.[1]

The $831.1 million in revenue from the personal income tax was below estimate by $55.5 million (6.3%). Corporate franchise tax revenue was above estimate by $20.7 million (39.3%). The auto sales tax was above estimate by $2.8 million (3.2%), and the nonauto sales tax was $1.9 million (0.3%) above estimate. Revenue from the cigarette tax was $25.3 million (55.8%) above estimate and revenue from the domestic insurance tax was $13.8 million (206.6%) greater than estimate. Earnings on investments were above estimate by $6.0 million (74.7%). "Other" transfers in were above estimate by $168.0 million (96.8%).[2] Federal grants were $59.5 million (10.3%) below estimate.[3]

For the fiscal year, the $25,550.5 million in total GRF receipts was $688.1 million (2.8%) above estimate and the $19,903.9 million in state-source receipts was $815.1 million (4.3%) above estimate. Tax revenue was $625.4 million (3.4%) above estimate and revenue from the major taxes was $604.9 million (3.5%) above estimate. The income tax was $495.7 million (6.1%) above estimate, the corporate franchise tax was $151.6 million (16.8%) above estimate, and the nonauto sales tax was $13.0 million (0.2%) above estimate. Federal grants were $127.0 million (2.2%) below estimate and revenue from the auto sales tax was $51.6 million (4.6%) below estimate.

For the fiscal year, total GRF receipts were up 6.3% compared to FY 2004. State-source

Chart 1: GRF Receipts
(in millions)



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Revenues from Total Taxes	Revenues from Major Taxes
FY 2004	$24,031	$18,514	$17,737	$16,602
FY 2005 Estimate	$24,862	$19,089	$18,463	$17,317
FY 2005 Actual	$25,550	$19,904	$19,088	$17,922

receipts were up 7.5%, total tax revenue was up 7.6%, and revenue from the major taxes was up 7.9%. Personal income tax revenues were up 11.7%, corporate franchise tax revenues were up 30.0%, and revenue from the nonauto sales tax was up 5.5%. Revenue from the auto sales tax was down 5.2%. Federal grants were up 2.4%. If the $193 million in one-time revenue received in October 2003 is removed from the FY 2004 total for federal grants, then FY 2005 federal grants were up 6.1%. Chart 1 compares FY 2005 receipts with FY 2004 receipts and FY 2005 estimates.

Personal Income Tax

The GRF received $831.1 million from the personal income tax in June. This amount was $55.5 million (6.3%) less than estimated. Gross collections were $20.8 million (2.2%) above estimate for the month. Withholding was $20.1 million (3.0%) below estimate for the month. As expected, refunds were $75.4 million (953.9%) greater than estimate for June. This variance was due to the delay in processing refunds that was experienced in prior months.[4]

For FY 2005, the GRF received $8,598.9 million from the personal income tax, which was $495.7 million (6.1%) above estimate. The $7,705.1 million in revenue collected through withholding was $10.2 million (0.1%) below estimate. Quarterly estimated payments of $1,416.3 million were $160.5 million (12.8%) above estimate.[5] Gross collections were $10,482.6 million, $447.2 million (4.5%) above estimate, and refunds for the year totaled $1,047.2 million, $50.6 million (4.6%) below estimate.

GRF revenue from the personal income tax was up 11.7% compared to FY 2004. Withholding was up 5.2% from FY 2004, indicating that Ohio's labor market is improving. Revenue from quarterly estimated payments was up 17.2% from last year, and combined taxes due and payments by individuals requesting a filing extension were up 25.2%.

The recently passed main operating appropriations act will affect the revenues received from the personal income tax by reducing tax rates by 21% over the next five years (approximately 4.2% per year) and by providing a credit for taxpayers earning under $10,000 per year. The budget act also delays the indexing of the tax brackets until 2010, makes the trust tax permanent, and eliminates the deduction for qualified tuition expenses.[6]

Sales and Use Tax

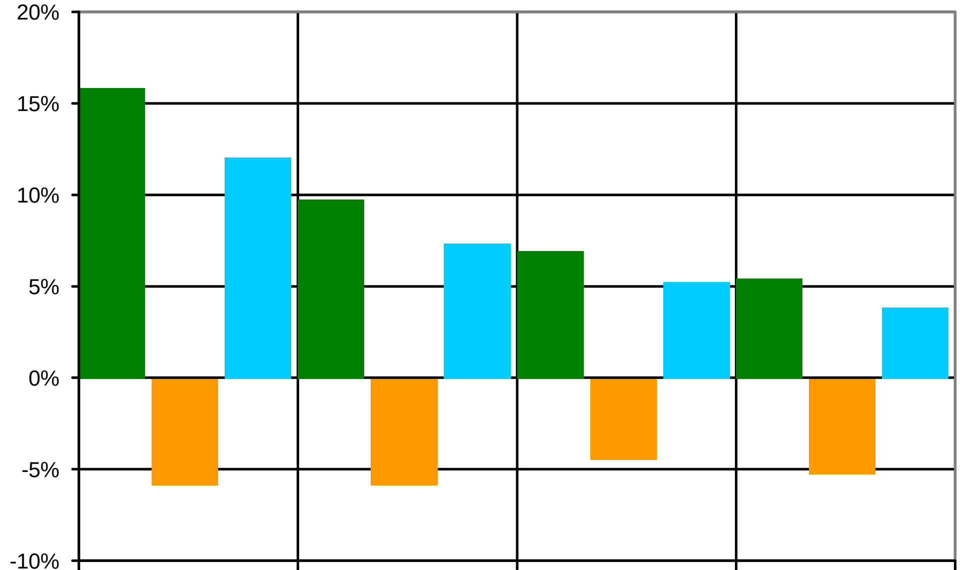
Sales and use tax revenues in June 2005 were $652.8 million, $4.6 million (0.7%) above expected revenues. Receipts from the nonauto sales and use tax were 0.3% above estimate, while those from the auto sales and use tax were 3.2% above estimate. Sales and use tax receipts during the month were $12.5 million (2.0%) above receipts in June 2004. Tax receipts partly reflect taxable retail sales activity in the prior month and partly taxable retail sales during that month.[7]

FY 2005 sales and use tax revenues were $7,827.1 million, $38.6 million (0.5%) below estimate. FY 2005 sales and use tax receipts were also $296.4 million (3.9%) higher than in June 2004. Chart 2 compares year-to-date sales and use tax revenues in FY 2005 and FY 2004. Through June 2005, the nonauto sales and use tax showed a healthy revenue growth of 5.5%, while receipts from the auto sales and use tax were 5.2% below receipts in the same period last year. The cumulative year-over-year percentage change in total sales and use tax receipts declined to 3.9%, down from 5.3% at the end of the third quarter of FY 2005. A closer analysis of the sales and use tax receipts shows that most of this positive variance is attributable to the first half of the fiscal year. In the last six months, receipts from this tax source have been below estimate by 2.2% and have been just 0.6% above receipts during the same period in FY 2004.

Nonauto Sales and Use Tax

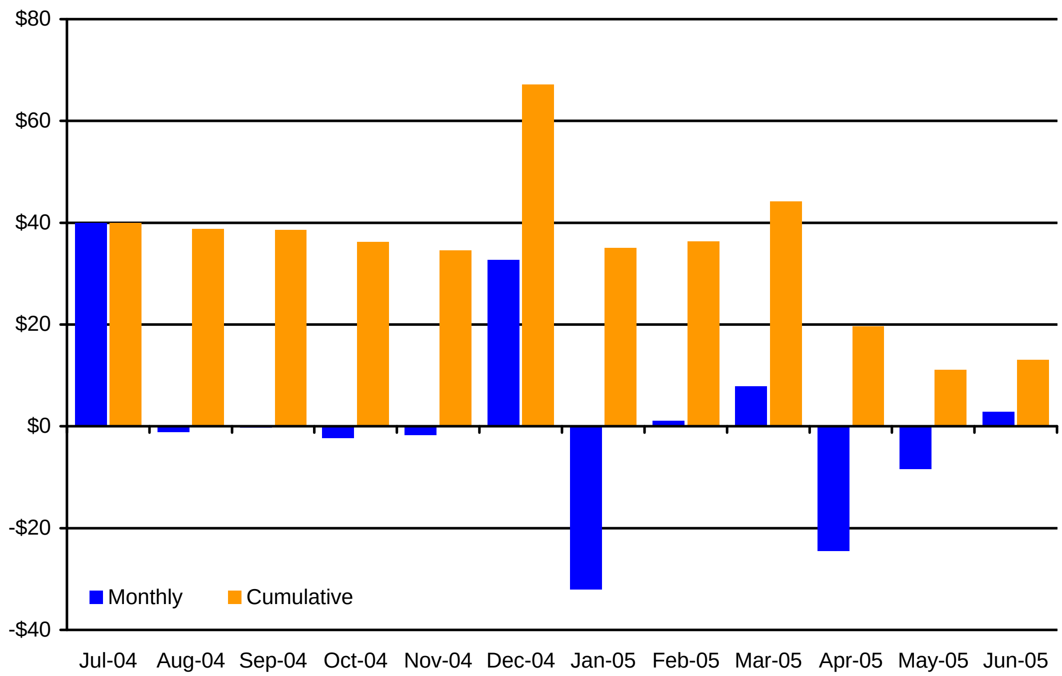
Nonauto sales and use tax revenues were $562.1 million in June 2005, $1.9 million (0.3%) above estimate. These receipts were $21.1 million (3.9%) above revenues in the same month last year. FY 2005 nonauto sales and use tax revenues were $6,763.0 million, $13.0 million

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



	Q1	Q2	Q3	Q4
Nonauto Tax Receipts	15.9%	9.8%	7.0%	5.5%
Auto Tax Receipts	-5.8%	-5.8%	-4.4%	-5.2%
Total SUT Receipts	12.1%	7.4%	5.3%	3.9%

Chart 3: Variance in Nonauto Sales Tax Receipts from August 2004 Estimates
(in millions)



(0.2%) higher than the estimate. FY 2005 receipts were also $355.3 million (5.5%) above revenues in FY 2004. FY 2005 nonauto sales and use tax receipts were inflated by the effects of the tax rate increase on July 1, 2003, by receipts from the sales tax on local phone calls (Am. Sub. H.B. 95, effective January 1, 2004), and by receipts from the sales tax base expansion (with collections that started generally in September 2003).

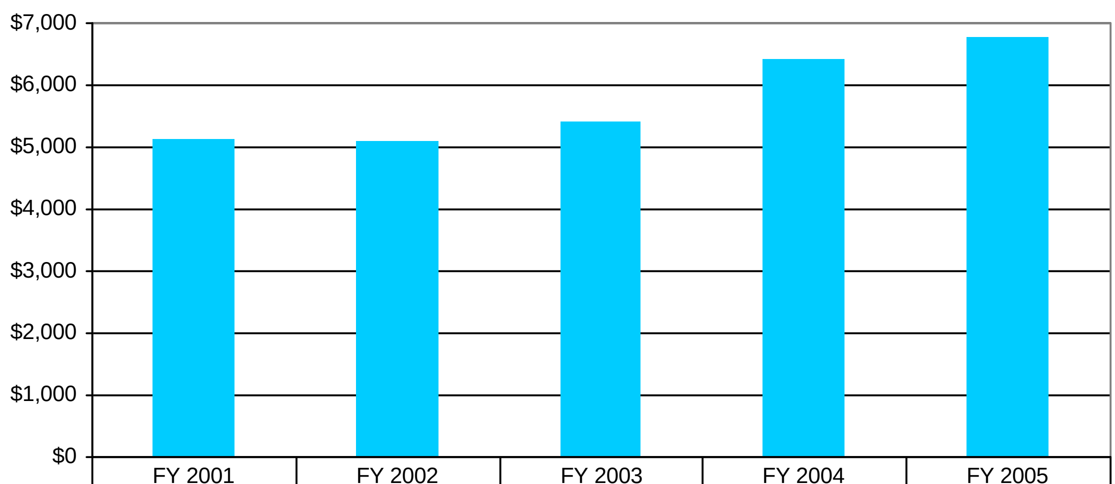
Revenue growth for this tax source was disappointing in the second half of the fiscal year. Although FY 2005 revenue growth was 5.5%, nonauto sales and use tax receipts were 1.6% below estimates from January through June 2005, and were only 1.4% above nonauto sales and use tax revenues in the same period in FY 2004. Chart 4 presents nonauto sales and use tax revenues in the last five fiscal years.

From $5,124 million in FY 2001, nonauto sales and use tax revenues grew to $6,763 million in FY 2005. Although nonauto sales and use tax receipts rose, the performance of the nonauto sales and use tax has remained feeble throughout this period. For example, in the last three fiscal years, nonauto sales and use tax revenues grew mostly from tax changes. Tax receipts grew 6.2% in FY 2003, but primarily from the additional revenues received from the acceleration of sales and use tax payments by H.B. 40. Revenue growth of 18.0% in FY 2004 was from the rate increase (from 5% to 6%) on July 1, 2003. Revenue growth in FY 2005 was primarily due to changes in the tax base in Am. Sub. H.B. 95. To underscore the weakness of the tax source, in the last six months of FY 2005 the "true" underlying growth in the tax base has been less than 2.0% when compared to the same period in FY 2004. In comparison, year-over-year growth in nationwide retail sales (excluding autos and gasoline sales) was about 6.8% between January and June 2005. Therefore, the revenue growth for the nonauto sales and use tax remains a concern.

Auto Sales and Use Tax

Auto sales and use tax receipts were $90.7 million in June 2005, $2.8 million (3.2%) above estimate. 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 a year ago, auto sales and use tax receipts in June 2005 were $8.5 million (8.6%) lower than in June 2004. FY 2005 auto sales tax receipts were $1,064.1 million, $51.6 million (4.6%) below estimates. FY 2005 auto sales and use tax receipts were $58.8 million (5.2%) below receipts in FY 2004. The auto tax taxable base decreased 3.1% in FY 2004 when

Chart 4: Nonauto Sales and Use Tax Revenues
FY 2001- FY 2005 (in millions)



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Revenues	$5,124.1	$5,110.4	$5,431.7	$6,407.7	$6,763.0

Chart 5: Variance in Auto Sales Tax Receipts from August 2004 Estimate
(in millions)

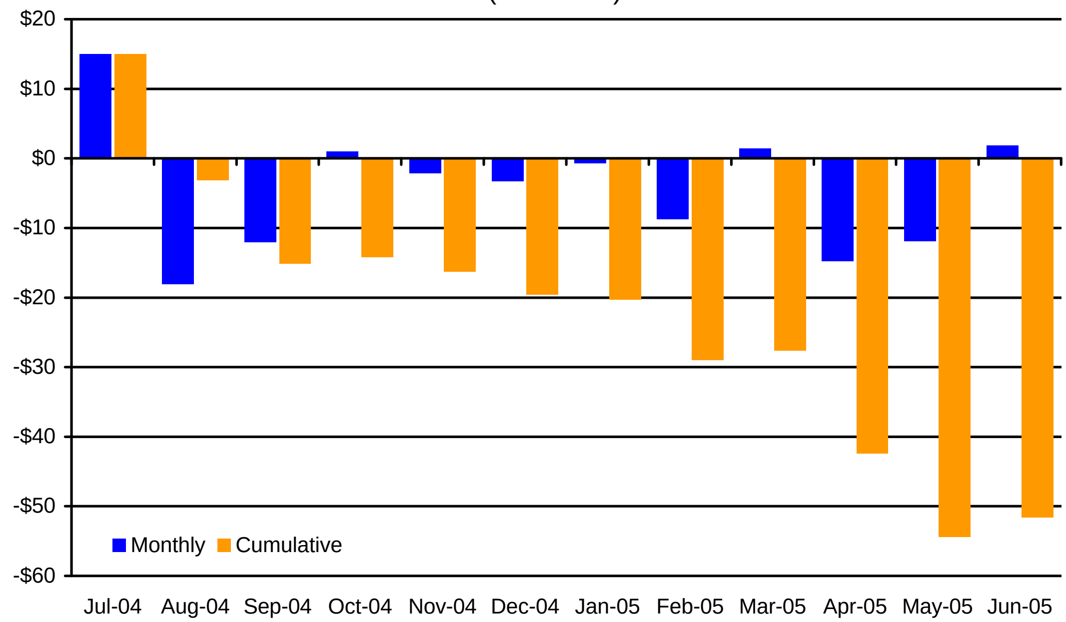
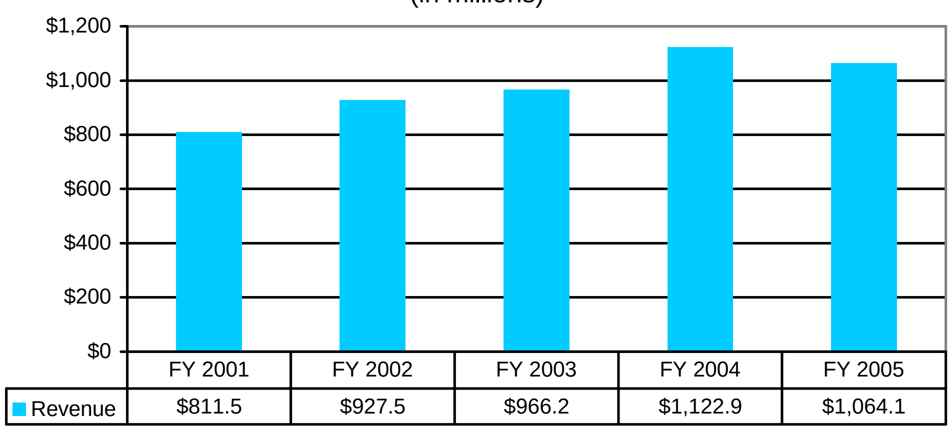


Chart 6: Auto Sales and Use Tax Revenues FY 2001- FY 2005
(in millions)



compared to FY 2003 and fell another 5.2% in FY 2005.[8] At the end of FY 2005, based on tax receipts, the auto tax taxable base has declined by about $1.6 billion (8.2%) when compared to the estimated auto tax taxable base in FY 2003.

Chart 6 presents auto sales and use tax receipts from FY 2001 to FY 2005. Auto sales and use tax receipts grew 14.1% in FY 2002 (mainly as a result of auto manufacturers' incentives in October and November 2001) and 4.4% in FY 2003. However, in the last two years, receipts from this tax source have been below expectations. Auto sales and use tax revenues grew 16.2% in FY 2004 due to the 20% tax rate increase from 5% to 6% of the purchase price. FY 2005 receipts were 5.2% below FY 2004 receipts, in part due to increased auto leasing, which depresses auto sales tax revenues (tax revenues from leases are distributed to the nonauto sales and use tax), but mostly due to the decrease in new auto and light truck purchases. The disappointing auto sales tax receipts have occurred at the time when nationwide car and light truck sales are historically high and incentives by auto manufacturers and dealers have continued unabated.

Corporate Franchise Tax

June 2005 corporate franchise tax (CFT) receipts were $73.3 million, $20.7 million (39.3%) above estimate. Receipts were also $26.0 million (26.2%) below receipts in June 2004. FY 2005 CFT revenues were $1,051.6 million, $151.6 million (16.8%) above estimate, and $242.4 million (30.0%) above revenues in FY 2004. CFT collections were above $1 billion for the first time since FY 1999. Corporate franchise tax revenues in a given fiscal year generally reflect corporate profits in the prior calendar year. The franchise tax for tax year 2005 (generally FY 2005) is applied to the taxpayer's activity during its taxable year ending in CY 2004. Corporate profits have been strong in the last three calendar years, and the growth in corporate franchise tax revenues, with no changes in tax rate or tax base, was exceptional in FY 2005.

Chart 8 presents corporate franchise tax revenues in the last five years. From $1,196.6 million in FY 1998, CFT receipts had declined to $712.3 million by FY 2002. The turnaround in corporate franchise tax revenues began in FY 2003. Corporate franchise tax receipts grew 4.9% in FY 2003, 8.3% in FY 2004, and 30.0% in FY 2005. As the amount of revenue from this tax source decreased and GRF tax receipts increased, the corporate franchise tax's relative contribution to total GRF tax revenue also shrunk. From 8.2% of total GRF tax revenue in FY 1998, the contribution of the corporate franchise tax to GRF tax receipts fell to 4.6% in FY 2002, where it remained for FY 2003 and FY 2004. Higher corporate franchise tax receipts in FY 2005 raised the share to 5.5% of GRF tax receipts, despite higher sales and use and personal income tax revenues.

Corporate Profits in CY 2004

Nationwide measures of corporate profits indicate that corporate net incomes grew in the last three calendar years. (Measures of Ohio corporate profits are unavailable.) Corporate profits increased 14.0%, 16.8%, and 15.7% in CY 2002, CY 2003, and CY 2004, respectively.[9] The turnaround in corporate franchise tax revenues mirrors the improvement in corporate profits in the last three years. Looking at the

Chart 7: Corporate Franchise Tax Revenue Variance from August 2004 Estimates
(in millions)

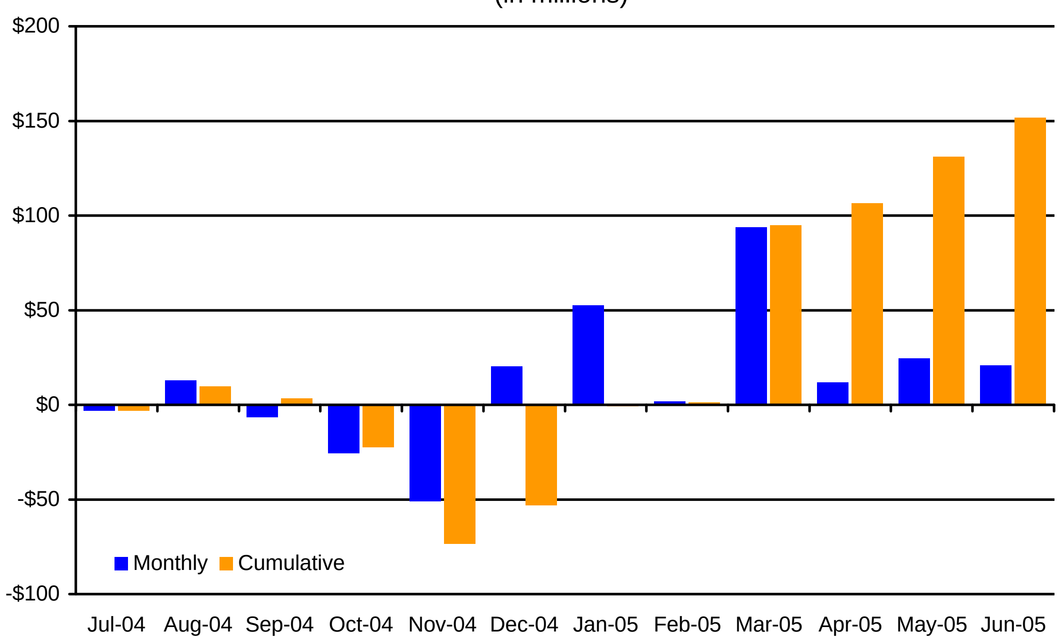


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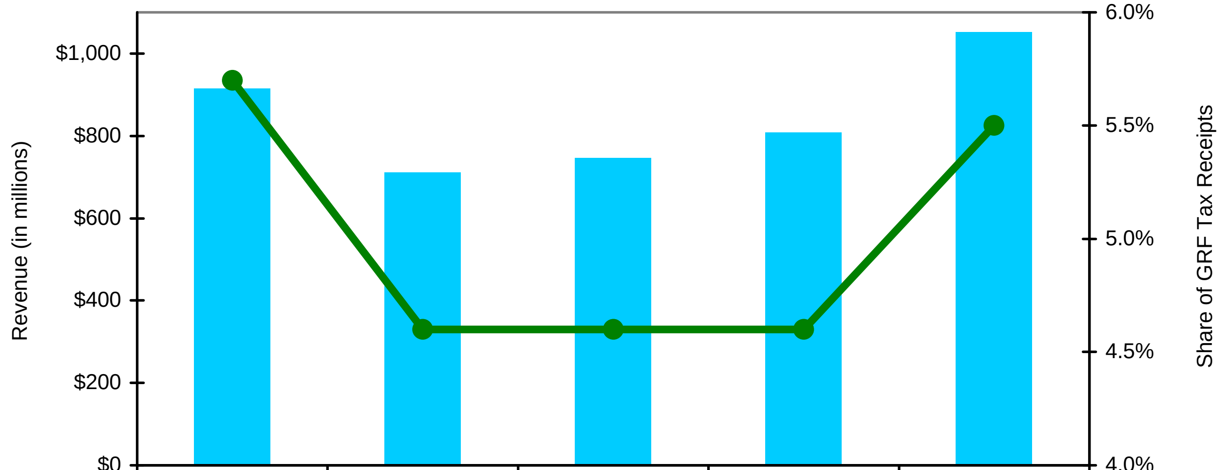
Chart 8: Corporate Franchise Tax Revenue and Share of GRF Tax Receipts



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Revenue	$915.3	$712.3	$747.2	$809.2	$1,051.6
Share	5.7%	4.6%	4.6%	4.6%	5.5%

various industries in CY 2004, growth in corporate profits was mixed. Nationally, profits fell 1.9% in the financial industry, 7.1% in the retail industry, and 7.6% in the transportation sector. Conversely, corporate profits grew 14.0% in the wholesale sector, 23.9% in the utility sector, and 57.4% in the manufacturing industry.

Beyond the profits recovery, possible explanations for the exceptional growth in corporate franchise tax revenues this year include a reduction in net operating losses (NOLs) applied against corporate revenues for Ohio taxpayers,[10] a reported crackdown on corporate fraud and increased audits by the Internal Revenue Service, and the repatriation of profits by multinational corporations. Because the computation of the Ohio corporate franchise tax starts with the calculation of federal corporate taxable income, these factors may have played a part in the exceptional growth in Ohio franchise tax revenues. However, a full explanation of the reasons for the growth in franchise tax receipts in FY 2005 may be ascertained only when an analysis of tax returns by the Department of Taxation is completed.

Public Utility Excise Tax and Kilowatt Hour Tax

The GRF received $104.1 million from the public utility excise tax (PUET) in FY 2005, a decrease of $122.3 million (54.0%) compared with FY 2004 revenue. The kilowatt hour (kWh) tax raised $339.8 million for the GRF in FY 2005, an increase of 0.3% compared to FY 2004.

The sharp decrease in revenues under the PUET is attributable to the exemption of telephone utilities from the tax, starting in FY 2005, by Am. Sub. H.B. 95 of the 125th General Assembly. Telephone companies are now subject to the sales and use tax and the corporate franchise tax, increasing revenues under those taxes. This change in the taxation of telephone utilities follows a similar change to the taxation of electric utilities. The kWh tax was established by Am. Sub. S.B. 3 of the 123rd General Assembly, which implemented electric restructuring in Ohio. The tax was established to replace revenue lost as a result of S.B. 3's exempting electric companies from the PUET. Chart 9 shows the combined revenue from the two taxes. The total collected under the two taxes has declined by $219.4 million since FY 2001, but presumably much of this reduction has been offset by increased collections under the sales and use tax and the corporate franchise tax.

Revenues under the PUET were approximately $0.6 million (0.6%) less than OBM's August 2004 estimate. The accuracy of the estimate is remarkable in light of the difficulty in predicting natural gas prices; revenues paid by natural gas companies constituted over 96.5% of revenues under the tax in FY 2005 (excluding payments to the local government funds). Payments from natural gas companies were $13.8 million lower than in FY 2004, contributing to the reduction in revenues in FY 2005.[11] The November payment accounted for nearly all of this reduction, coming in at $13.6 million less than the preceding November. November payments from natural gas companies are based on their receipts during the period when customers on a budget payment plan make their last couple of payments for the year. The reduction in November 2004 tax receipts is most likely due to a warmer winter during 2003-2004 than during 2002-2003, with consequent low budget plan settlement payments from customers at the end of the budget plan year in 2004.

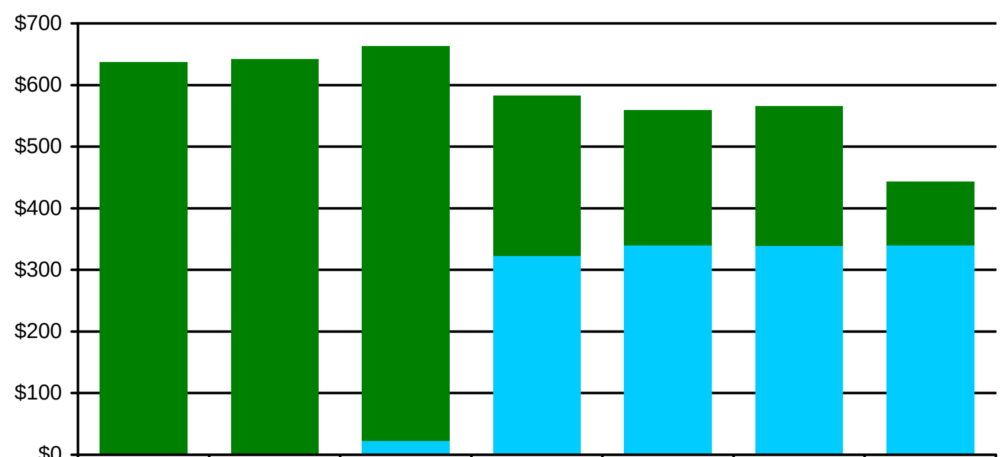
Revenues under the kWh tax were approximately $3.2 million (0.9%) lower than the August estimate. Revenues grew by just 0.3% from FY 2004 to the current fiscal year, well below the long-run trend rate of growth in electricity usage, 1.8%, projected by the U.S. Energy Information Administration in Annual Energy Outlook 2005 (Early Release). Revenues fell significantly (i.e., by over 3%) in both January and March relative to their corresponding FY 2004 levels. The reduction in January revenue was due at least in part to widespread power outages in December 2004, while the March results were due in part to the fact that February 2005 contained one less day than February 2004.

Insurance Taxes (Domestic and Foreign)

The domestic insurance tax, which is paid by insurance companies headquartered in Ohio, raised $171.4 million for the GRF in FY 2005, while the foreign insurance tax (which is paid by insurance companies headquartered in other states) raised $242.9 million. Revenues from the domestic tax grew by approximately 3.3% in FY 2005, while revenues from the foreign tax grew by approximately 5.4%. Fiscal year 2005 was the third year of a new tax structure that was created by Am. Sub. H.B. 215 of the 122nd General Assembly and phased in over five years. The tax rates under both taxes are now identical, at 1% of premiums for health insuring corporations (HICs) and 1.4% of premiums for other insurers.

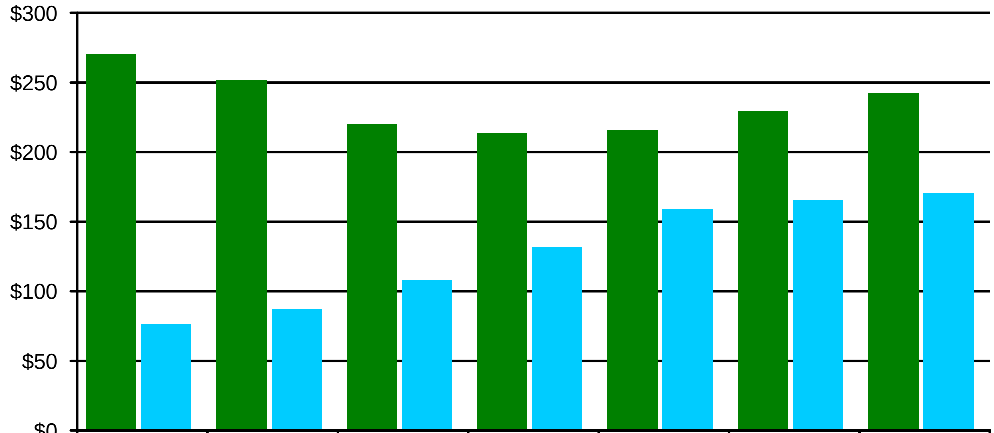
Growth rates in revenue collected under the two taxes were quite different between FY 1999 and FY 2003, as is clear in Chart 10. During those fiscal years the differences were attributable primarily to the tax changes made in H.B. 215.[12] The differences in growth rates were much smaller in the most recent two years since the transition period for the H.B. 215 changes ended. There are two reasons for the growth rates to differ under the two taxes in the most recent two years. First,

Chart 9: Utility Tax Revenue
(in millions)



	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
PUET	$637.6	$642.1	$640.5	$260.1	$218.7	$226.4	$104.1
KWH tax	$0.0	$0.0	$22.8	$323.3	$339.9	$339.0	$339.8

Chart 10: Insurance Tax Revenue
(in millions)



	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Foreign	$271.6	$252.3	$220.6	$214.3	$216.4	$230.5	$242.9
Domestic	$77.5	$88.2	$109.3	$132.4	$160.1	$165.9	$171.4

the importance of the various lines of business differs between domestic and foreign insurance companies. For foreign insurance companies, life insurance is a more important line of business than it is for domestic insurance companies,[13] for example. Since industry premiums for the different lines of business grow at different rates, the total premiums collected by domestic and foreign insurers grow at different rates.

Second, the foreign insurance tax includes a so-called "retaliatory" tax component. Ohio, like many other states, taxes foreign insurers at the higher of a stated statutory rate (i.e., 1.4% in Ohio) or the rate that the home state of the foreign insurer imposes on Ohio-based insurers.[14] This component of the foreign insurance tax is somewhat more difficult to forecast due to its dependence on other states' statutory tax rates. The amount of the retaliatory tax certified by the Department of Insurance increased from $179.6 million in FY 2004 to $183.8 million in FY 2005 (after credits). In some years this feature of the foreign insurance tax gives an extra boost to the growth rate of its revenues, as compared with the domestic insurance tax. This year, in contrast, it pulls the growth rate of foreign insurance tax revenues closer to the growth in revenues from the domestic tax.

The revenue variance for the foreign insurance tax was about $5.9 million (2.5%) as compared with the OBM August 2004 estimate, while revenues for the domestic tax were approximately $1.4 million (0.8%) above the estimate. The positive variance for both taxes is due to growth in insurance premiums that was somewhat greater than expected in 2004.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco products tax receipts in June 2005 were $70.6 million, $25.3 million (55.8%) above estimates. June 2005 receipts were $13.3 million (23.2%) above receipts last year. FY 2005 cigarette and other tobacco tax receipts were $577.7 million, $26.7 million (4.8%) above estimates. Compared to revenues in FY 2004, FY 2005 cigarette and other tobacco products tax revenues were $20.1 million (3.6%) higher. Receipts from the tax on cigarettes were about $549.8 million (95.2% of the total) and revenues from the tax on other tobacco products were $27.7 million (4.8% of the total).

Chart 12 presents revenues from the cigarette and other tobacco products tax in the last five years. Receipts from the cigarette and other tobacco products tax more than doubled in FY 2003 when the tax rate on cigarettes increased from $0.24 per pack of 20 cigarettes to $0.55 per pack of 20 cigarettes on July 1, 2002. The tax on other tobacco products, 17% of the wholesale

Chart 11: Cigarette Tax Revenue Variance from August 2004 Estimates
(in millions)

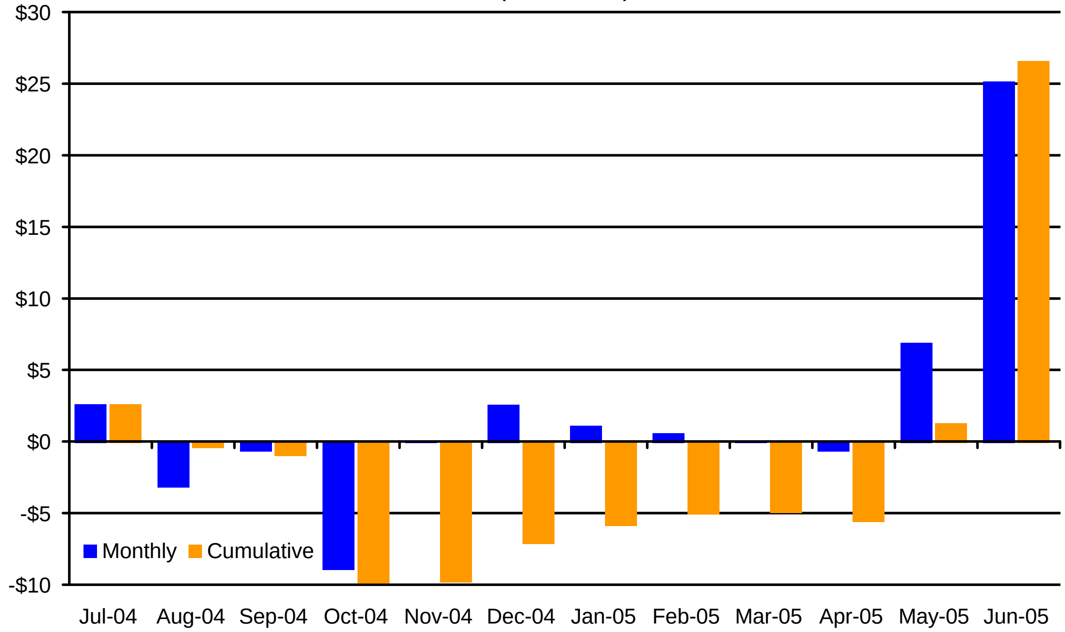
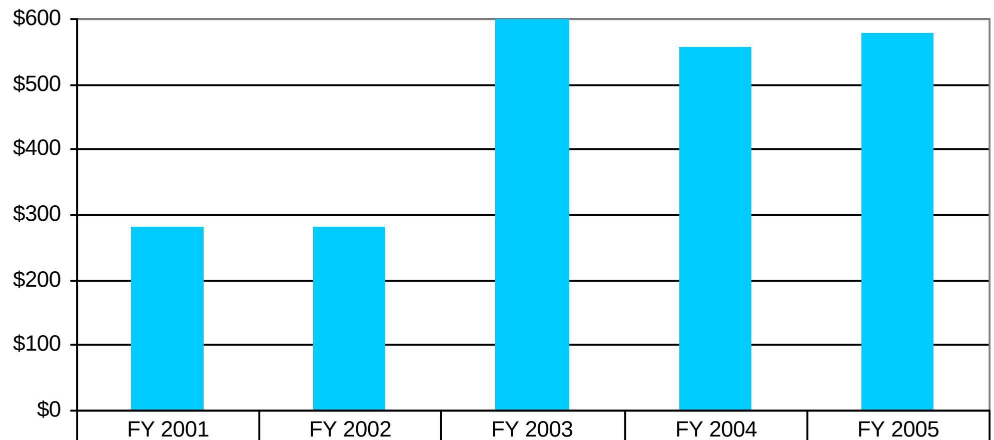


Chart 12: Cigarette and Other Tobacco Products Tax Revenues FY 2001- FY 2005 (in millions)



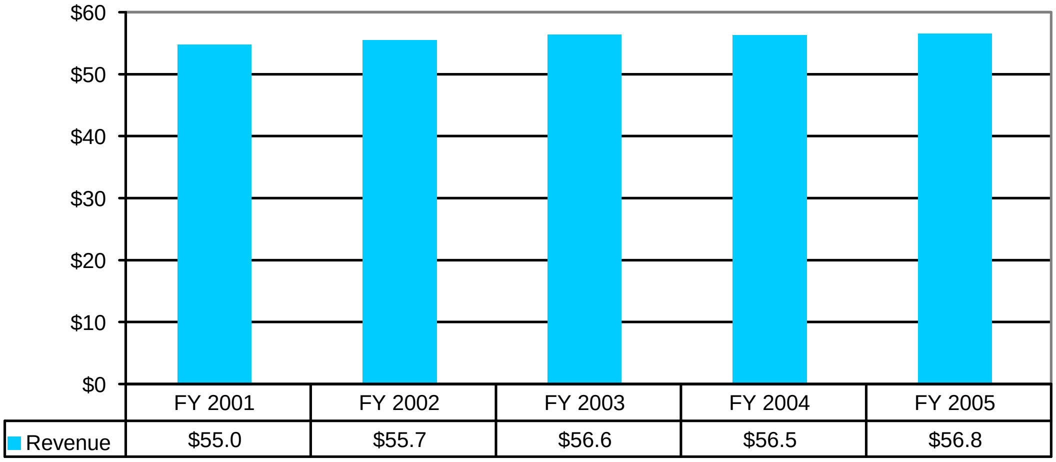
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Revenue	$282.5	$281.3	$599.9	$557.5	$577.7

price, remained unchanged. FY 2004 receipts were 7.1% below FY 2003 receipts, which included "floor tax" revenues of $35.3 million. Excluding the "floor tax" receipts in FY 2003, FY 2004 receipts were 1.3% less than FY 2003 revenues. Generally, revenues from the cigarette and other tobacco products tax decrease 1% to 2% each year in the absence of a major tax policy change. However, receipts from this tax source increased 3.6% in FY 2005 from a boost in May and June 2005 receipts. This unanticipated increase was most likely due to advance cigarette purchases in anticipation of a rate increase of $0.70 per pack on July 1, 2005.

Alcoholic Beverage Tax

Alcoholic beverage tax receipts in FY 2005 were $56.8 million, lagging estimates by $0.2 million (0.3%). Tax receipts from this

Chart 13: Alcoholic Beverage Tax Revenues
FY 2001- FY 2005 (in millions)

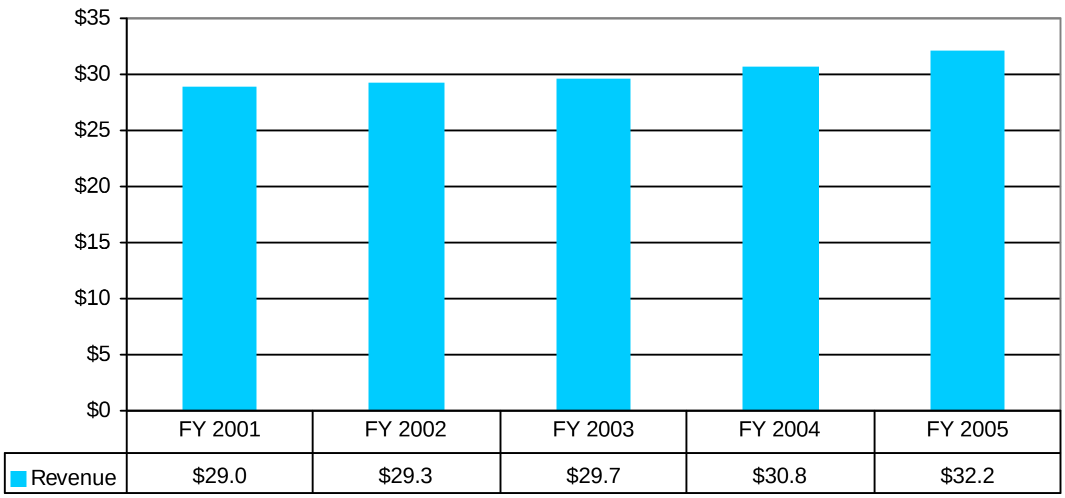


revenue source were $0.4 million (0.6%) higher than FY 2004 revenues. The alcoholic beverage tax applies to sales of beer, malt beverages, wine, and mixed alcoholic beverages. The tax is based on a per-container rate depending on the type of beverage sold. Beer is taxed at varying rates that are equivalent to 0.14 cents per ounce (generally for bottles and cans with less than 12 ounces). Wine with less than 14% alcohol by volume is taxed at 33 cents per gallon. Wine with between 14% and 21% alcohol by volume is taxed at $1.00 per gallon. Mixed beverages are taxed at $1.20 per gallon.[15] Major exemptions from the tax are sacramental wine, sales to the federal government, and sales in interstate commerce. Revenue is deposited into the GRF.[16] Beer and malt beverages generate about 84% of tax receipts. The next largest source of revenue is the tax on wines, which provides about 9% of total tax receipts. Mixed beverages contribute about 5% of total tax revenues. Contributions to tax receipts from sales of vermouth, sparkling wines, and cider are small. Chart 13 provides alcoholic beverage tax receipts for the last five fiscal years. Overall, this tax source has grown slowly, on average less than 1.0% annually between FY 2001 and FY 2005.

Liquor Gallonage Tax

Liquor gallonage tax receipts were $32.2 million in FY 2005, $1.2 million (3.8%) above the estimate. Revenues from this tax source were higher than FY 2004 receipts by $1.3 million

Chart 14: Liquor Gallonage Tax Revenues
FY 2001- FY 2005 (in millions)



(4.2%). The liquor gallonage tax is levied at the rate of $3.38 per gallon of spirituous liquor. Revenue is deposited into the GRF. Liquor gallonage tax receipts have increased each year in the last five years, as shown in Chart 14.

Dealers in Intangibles Tax

The dealers in intangibles tax is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money or buying and selling notes, mortgages, and securities. The distribution of receipts from the tax depends on the taxpayer. For "nonqualifying" dealers, a share of the tax, 3 mills, is deposited into the GRF. The remaining 5 mills is distributed to counties. All taxes paid by "qualifying" dealers[17] are credited to the GRF.

GRF receipts from the dealers in intangibles tax were $25.2 million in FY 2005, $4.8 million (16%) below estimate. FY 2005 receipts were also $4.7 million (15.7%) below FY 2004 receipts. The decline was due to a decrease of $4.9 million (21.3%) in receipts from "qualifying" dealers, who provide the majority of receipts. Receipts from "nonqualifying" dealers increased $0.2 million (3.5%). In FY 2005, GRF revenues from "qualifying" dealers were 72.3% of total revenues. Revenues from "nonqualifying" dealers were 27.7% of total revenues.

Chart 15 provides revenues from the dealers in intangibles tax for the last five years. Revenue growth from this tax is highly dependent on investments by financial institutions and insurance companies in their subsidiaries' dealers. Revenue growth is also dependent on tax policy changes.

Estate Tax

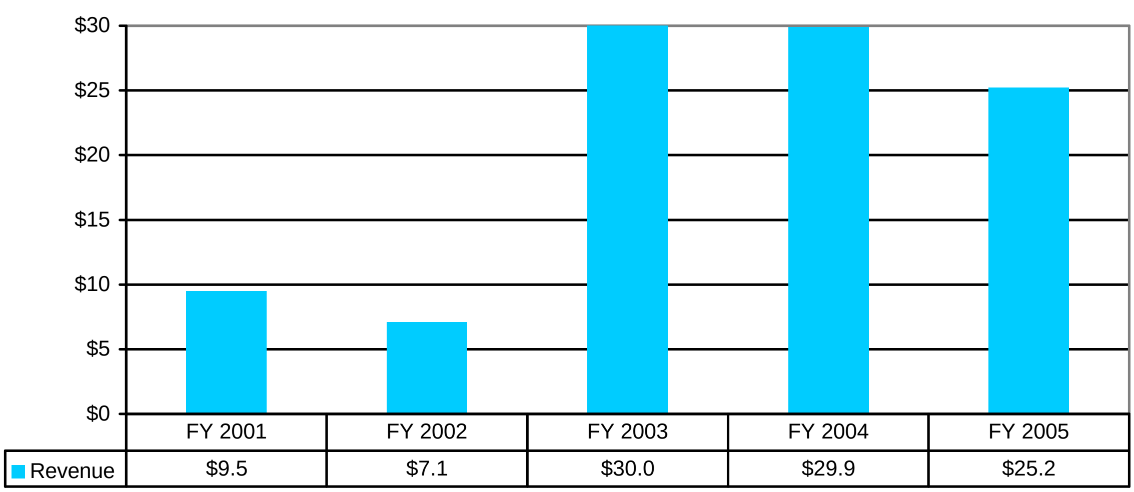
In FY 2005, Ohio collected $60.4 million in estate tax revenue, $3.9 million (6.0%) less than FY 2004 collections. Collections decreased due to low interest rates over the last several years and the phase-in effect of the changes in estate tax valuations and credits enacted by the legislature in 2001.

Collections in FY 2005 were about $9.6 million or 13.7% lower than estimate. The estate tax is one of the more volatile state revenue sources. The estate of a very wealthy individual may account for 10% or more of the total state estate tax revenues. Revenue also depends on the estate's value at the time a person dies and the time of settlement made by each county to the state.

Earnings on Investment

Earnings on investment generated more than $13 million during June. At the end of FY 2005

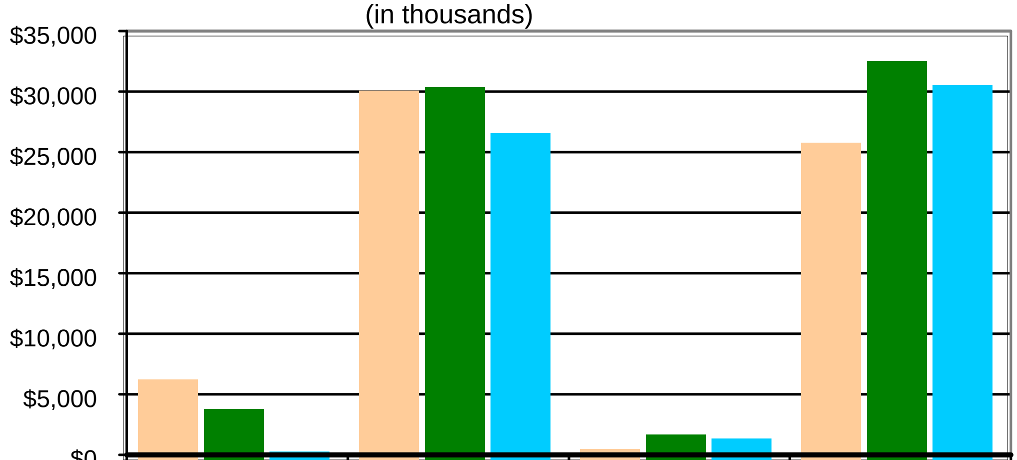
Chart 15: Dealers in Intangibles Tax Revenues FY 2001- FY 2005 (in millions)



revenue collections from earnings on investment were slightly less than $35 million, over $17 million (94.7%) above last fiscal year's collections.

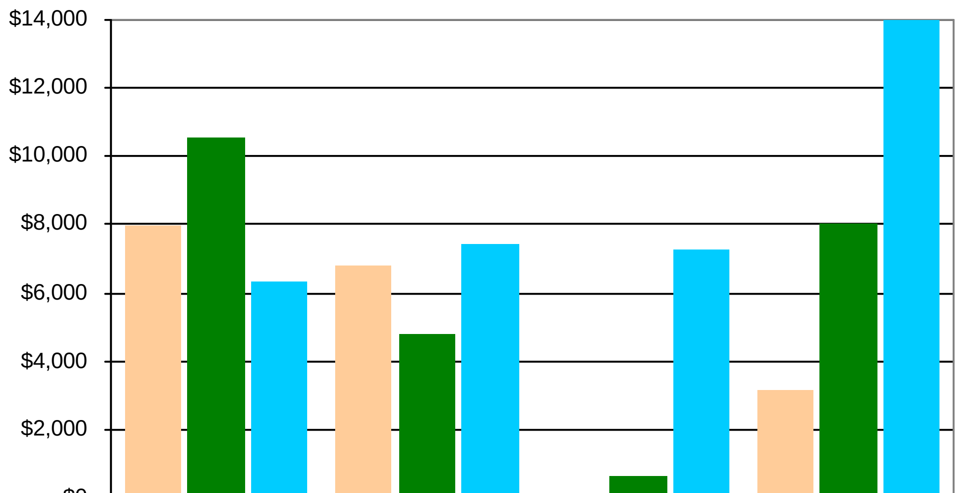
FY 2005 collections were higher than the estimates by $11.0 million (45.8%). Investment earnings outperformed the estimate due to higher than anticipated state revenue, which gave the state more to invest, and higher than anticipated average yield.

Chart 16: Estate Tax Revenue
(in thousands)



	Q1	Q2	Q3	Q4
FY 2004	$6,651	$30,513	$892	$26,187
FY 2005 Estimate	$4,200	$30,800	$2,100	$32,900
FY 2005 Actual	$700	$26,945	$1,775	$30,962

Chart 17: Earnings on Investments Revenue FY 2005
(in millions)



	Q1	Q2	Q3	Q4
FY 2004	$7,973	$6,796	$52	$3,147
FY 2005 Estimate	$10,560	$4,800	$640	$8,000
FY 2005 Actual	$6,319	$7,435	$7,252	$13,979

[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] This includes $150 million in extra transfers from federal fiscal relief money to make up the shortfall in FY 2005 primary and secondary education appropriations.

[3] "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.

[4] In March, April, and May refunds were 14.1%, 15.5%, and 36.8% below estimate, respectively.

[5] 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.

[6] The tax brackets were to have been indexed for inflation starting with taxable year 2005, and the trust tax had been set to expire at the end of taxable year 2004.

[7] Am. Sub. H.B. 40 of the 125th General Assembly changed the historical patterns of remittance of sales and use tax receipts starting in April 2003. Under prior law, monthly sales and use tax receipts reflected taxable transactions in the prior month. Under current law, certain large taxpayers must remit sales tax payments in the same month the transactions occur. Thus, monthly sales tax receipts reflect taxable transactions in both the current and the prior months.

[8] The taxable base is estimated by dividing tax revenue by the tax rate. The tax rate for FY 2003 was 5% and the tax rate for FYs 2004 and 2005 was 6%.

[9] This measure of corporate profits is profits from current production or "economic" profits. Profits from current production reflect depreciation charges and inventory changes calculated on an economic basis. Other measures of profits also are available from the Bureau of Economic Analysis (BEA), a unit of the United States Department of Commerce.

[10] When corporations have net operating losses, those are generally carried forward to the next tax years. The losses become deferred tax assets that are applied against taxable income during profitable years to reduce corporate tax liabilities. Growth in NOLs is cyclical. NOLs rise with economic recessions and decline during periods of economic growth and increased profits.

[11] This was the case despite higher prices for natural gas during FY 2005. Data from the U.S. Energy Information Administration indicate that the price of natural gas for Ohio's residential customers in December 2004 was over 20% higher than it had been during the previous December, while in January it was still over 17% higher. Similarly, commercial customers were paying over 20% more than they had been the preceding year in December, and over 15% more in January 2005 than in the preceding January.

[12] Taxes paid by domestic companies grew significantly during the transition years, while taxes paid by foreign companies fell in several years. The higher Ohio taxes paid by domestic insurance companies were offset to some extent by many other states reducing their foreign insurance taxes levied on Ohio companies, meaning that for many Ohio insurance companies their overall tax burden fell even as they paid more taxes to Ohio. This reduction was not implemented intentionally by other states; it was an automatic result of applying the "retaliatory" tax that many states, including Ohio, impose while the tax rate that Ohio imposes on foreign insurance companies was falling.

[13] For domestic insurers, fire and casualty insurance and HICs are relatively more important lines of business.

[14] To illustrate, suppose that New York imposes a tax of 2% on foreign insurers, including companies headquartered in Ohio, and suppose that New York imposes a retaliatory tax. Then New York would impose a tax rate of 2% on Ohio companies, since 2% is higher than Ohio's rate of 1.4%. Similarly, Ohio would impose a rate of 2% on New York-based insurers (also because New York's 2% rate is higher than Ohio's 1.4% rate).

On the other hand, if New York reduced its tax rate to 1%, it would then start to impose a tax of 1.4% on Ohio companies, since its new chosen rate (1%) would be less than Ohio's foreign insurance tax rate (1.4%), and Ohio would begin to tax New York companies at a rate of 1.4%.

[15] The corresponding tax rates are 10 cents for a six-pack of 12 oz. containers for beer, 5.4 cents for a standard 750 ml bottle of wine with less than 14% alcohol, 17 cents for a standard 750 ml bottle of wine with more than 14% alcohol, and 20.4 cents for a standard 750 ml bottle of mixed beverages.

[16] Revenue is deposited into the General Revenue Fund with two exceptions. One percent of the tax is deposited into the Beverage Tax Administration Fund and 5 cents per gallon of the excise tax is deposited into the Ohio Grape Industries Fund to provide funds for research, development, and marketing of grape products in Ohio.

[17] A "qualifying" dealer is a dealer that is a member of a "controlled group" of which a financial institution or insurance company is a member.

Table 2
General Revenue Fund Sources
Actual vs. Estimate
Month of June 2005
($ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$90,700	$87,911	$2,789	3.2%
Nonauto Sales & Use	$562,110	$560,250	$1,860	0.3%
Total Sales & Use Taxes	$652,810	$648,161	$4,649	0.7%
Personal Income	$831,076	$886,600	-$55,524	-6.3%
Corporate Franchise	$73,319	$52,630	$20,689	39.3%
Public Utility	-$9,867	-$9,300	-$567	6.1%
Kilowatt Hour Excise	$25,374	$23,000	$2,374	10.3%
Total Major Taxes	**$1,572,711**	**$1,601,091**	**-$28,380**	**-1.8%**
Foreign Insurance	$2,919	-$2,370	$5,289	-223.2%
Domestic Insurance	$20,537	$6,698	$13,839	206.6%
Business & Property	$1,220	$4,200	-$2,980	-70.9%
Cigarette	$70,557	$45,300	$25,257	55.8%
Alcoholic Beverage	$5,229	$5,301	-$72	-1.4%
Liquor Gallonage	$2,705	$2,635	$70	2.7%
Estate	$15,364	$16,100	-$736	-4.6%
Total Other Taxes	$118,532	$77,864	$40,668	52.2%
Total Tax Revenue	**$1,691,244**	**$1,678,955**	**$12,289**	**0.7%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$13,979	$8,000	$5,979	74.7%
Licenses and Fees	$2,243	$8,199	-$5,956	-72.6%
Other Revenue	$43,963	$43,687	$276	0.6%
Nontax State-Source Revenue	$60,186	$59,886	$299	0.5%
TRANSFERS				
Liquor Transfers	$11,000	$9,000	$2,000	22.2%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$341,603	$173,600	$168,003	96.8%
Total Transfers In	$352,603	$182,600	$170,003	93.1%
TOTAL GRF before Federal Grants	**$2,104,032**	**$1,921,441**	**$182,591**	**9.5%**
Federal Grants	$519,988	$579,537	-$59,548	-10.3%
TOTAL GRF SOURCES	**$2,624,021**	**$2,500,978**	**$123,043**	**4.9%**

* 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 June 2005
($ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2004	Percent Change
TAX REVENUE						
Auto Sales	$1,064,107	$1,115,700	-$51,593	-4.6%	$1,122,917	-5.2%
Nonauto Sales & Use	$6,763,023	$6,750,000	$13,023	0.2%	$6,407,673	5.5%
Total Sales & Use Taxes	$7,827,130	$7,865,700	-$38,570	-0.5%	$7,530,590	3.9%
Personal Income	$8,598,871	$8,103,200	$495,671	6.1%	$7,696,901	11.7%
Corporate Franchise	$1,051,620	$900,000	$151,620	16.8%	$809,172	30.0%
Public Utility	$104,102	$104,700	-$598	-0.6%	$226,446	-54.0%
Kilowatt Hour Excise	$339,817	$343,000	-$3,183	-0.9%	$338,961	0.3%
Total Major Taxes	**$17,921,539**	**$17,316,600**	**$604,939**	**3.5%**	**$16,602,070**	**7.9%**
Foreign Insurance	$242,856	$237,000	$5,856	2.5%	$230,515	5.4%
Domestic Insurance	$171,364	$170,000	$1,364	0.8%	$165,902	3.3%
Business & Property	$25,196	$30,000	-$4,804	-16.0%	$29,893	-15.7%
Cigarette	$577,671	$551,000	$26,671	4.8%	$557,532	3.6%
Alcoholic Beverage	$56,821	$57,000	-$179	-0.3%	$56,455	0.6%
Liquor Gallonage	$32,173	$31,000	$1,173	3.8%	$30,870	4.2%
Estate	$60,381	$70,000	-$9,619	-13.7%	$64,242	-6.0%
Total Other Taxes	$1,166,462	$1,146,000	$20,462	1.8%	$1,135,409	2.7%
Total Tax Revenue	**$19,088,002**	**$18,462,600**	**$625,402**	**3.4%**	**$17,737,478**	**7.6%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$34,986	$24,000	$10,986	45.8%	$17,966	94.7%
Licenses and Fees	$70,601	$62,400	$8,201	13.1%	$50,152	40.8%
Other Revenue	$158,535	$147,000	$11,535	7.8%	$187,952	-15.7%
Nontax State-Source Revenue	$264,121	$233,400	$30,721	13.2%	$256,071	3.1%
TRANSFERS						
Liquor Transfers	$115,000	$107,000	$8,000	7.5%	$118,000	-2.5%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$436,795	$285,800	$150,995	52.8%	$402,871	8.4%
Total Transfers In	$551,795	$392,800	$158,995	40.5%	$520,871	5.9%
TOTAL GRF before Federal Grants	**$19,903,918**	**$19,088,800**	**$815,118**	**4.3%**	**$18,514,420**	**7.5%**
Federal Grants	$5,646,559	$5,773,600	-$127,041	-2.2%	$5,516,383	2.4%
TOTAL GRF SOURCES	**$25,550,477**	**$24,862,400**	**$688,077**	**2.8%**	**$24,030,803**	**6.3%**

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

DISBURSEMENTS

— *Steve Mansfield**

In FY 2005, General Revenue Fund (GRF) program expenditures totaled $24.8 billion, an increase of $1.0 billion (4.2%) from FY 2004 GRF spending. Actual spending was below the estimate the Office of Budget and Management (OBM) produced at the beginning of the fiscal year by $101.9 million. The variance between actual spending and the estimate has its source in the Welfare and Human Services category, which was under the estimate by $197.7 million. The largest contributor to the variance within that category was the Health Care/Medicaid program, which was under the estimate by $125.6 million. The largest factor providing a partial offset to this was a variance of $103.3 million over the estimate in the Department of Education.

A substantial part of the 4.2% increase in GRF expenditures consisted of Health Care/Medicaid expenditures from line item 600-525, in the Department of Job and Family Services, which were 6.0% higher in FY 2005 than in FY 2004. Although the appropriation for the Health Care/Medicaid program is made in the GRF, 58.7% of the total expenditure is derived from federal funds deposited in the GRF. If these federal funds are excluded from the totals for both FYs 2004 and 2005, the GRF rate of growth is 3.6%. If we exclude Health Care/Medicaid expenditures entirely, we find that the remaining GRF expenditures in FY 2005 increased by $458.9 million (3.1%) over FY 2004 expenditures.

With these considerations in mind, the GRF growth rate is slightly above the rate of growth in the consumer price index. From June 2004 to June 2005 the consumer price index for the Midwest region, and the nation as a whole, increased by 2.6%. Of course the "market basket" of goods purchased by the typical consumer, and measured by the consumer price index, is much different for governmental entities and the consumers of their services. For educational and medical goods and services, both of which form a large portion of the state's purchases and are delivered to a growing population, the U.S. inflation rate for the year ending in June was 6.3% and 4.2%, respectively.

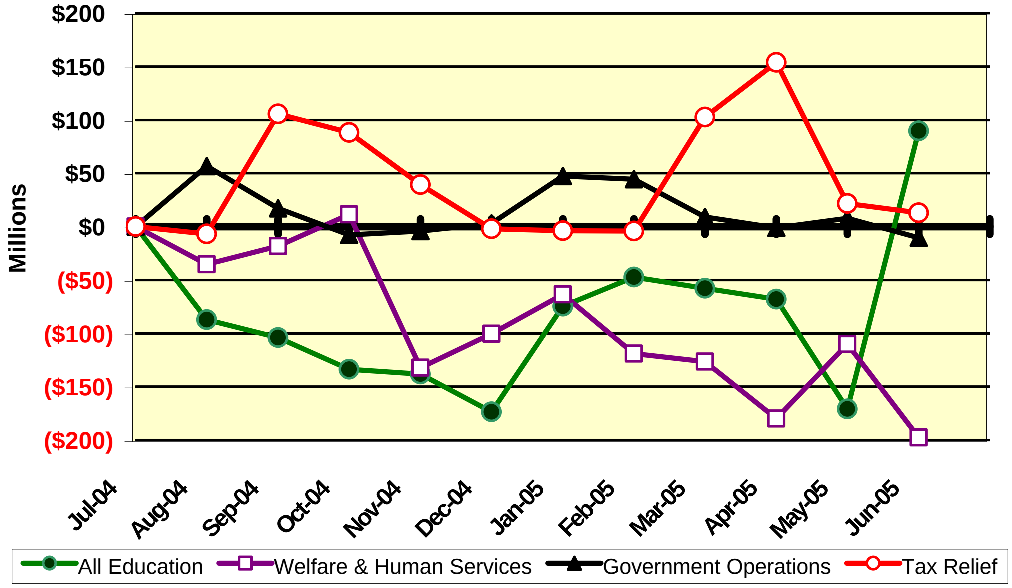
Percentage and dollar changes from FY 2004 to FY 2005 for the state's largest spending programs are given in Exhibit 1, below.

Exhibit 1. Changes in FY 2005 Program Expenditures

Program Expenditure Category	$ Change (in millions)	FY 2004 Percentage Change
Primary and Secondary Education	$172	2.7%
Higher Education	$2	0.1%
Health Care/Medicaid	$533	6.0%
Temporary Assistance for Needy Families	$0	0.0%
Other Welfare	$2	0.4%
Human Services	$37	3.3%
Justice and Corrections	$48	2.6%
Other Government	$15	4.2%
Property Tax Relief	$66	5.0%
Debt Service	$94	27.7%

June's GRF program disbursements were $145.3 million over estimate for the month. When we disaggregate these numbers to look at the disbursement variances of four of the state's major GRF program categories, as depicted in Figure 1, we see that the Education category registered a disbursement variance over the estimate for the month of $260.6 million and ended the year with disbursements exceeding the estimate by $89.6 million. As will be discussed in more detail below, this overage was supported by an increased appropriation of $150 million to school foundation formula line items. Disbursements in the Government Operations and the Welfare and Human Services program categories were under

Figure 1
GRF Disbursement Variances
by Program Category, FY 2005



their estimates in June, as well as for the fiscal year, while the Tax Relief program finished the year just slightly above estimate (see Figure 1 and Table 4).

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 disbursement variance. Summary information about GRF disbursement activity is presented in Tables 4 and 5, and a detailed analysis of disbursement activity in the Health Care/Medicaid program is presented in Tables 6 and 7.

Welfare & Human Services (-$197.7 million)

With a disbursement variance that was $87.7 million below estimate in June, the Welfare & Human Services category as a whole finished the fiscal year at $197.7 million below the estimate for the year. The largest contributors to the year's negative disbursement variance in this category were the Health Care/Medicaid subcategory ($125.6 million below estimate) and the Other Welfare subcategory ($69.2 million below estimate). The following paragraphs discuss the disbursements in the components of this category in more detail.

Health Care/Medicaid. For FY 2005, the Health Care/Medicaid program (primarily line item 600-525) posted a $125.6 million negative disbursement variance. A total of $9,446.2 million was spent in this program in FY 2005. Nearly half of the year's underspending was posted in June, with a disbursement of $61.6 million under the estimate. Total spending in the program for FY 2005 increased by $533.3 million over FY 2004, an increase of 6.0%. The state share of the increase was $220.2 million. The rate of growth in FY 2004 was 11.3%.

The average monthly number of eligibles in the program for FY 2005 increased by 72,958 over FY 2004, a 4.4% increase. FY 2004's rate of increase was 6.0%. Besides exhibiting a slower rate of growth, the average monthly number of health care eligibles in the program during FY 2005 was 7,483 below the number that had been budgeted. All of the lower than anticipated caseload was in the Covered Families and Children (CFC) eligibility component of the caseload, with 10,113 average monthly eligibles below the budgeted level. The Aged, Blind, and Disabled (ABD) population in the Health Care/Medicaid program had 4,012 more average monthly eligibles than the number budgeted.

State & Federal Funded Caseload Highlights

- In FY 2005, the number of Medicaid eligibles grew at 4.4%, down from 6.0% in FY 2004.
- The rate of spending growth in the Health Care/Medicaid program slowed from 11.3% in FY 2004 to 6.0% in FY 2005.
- The TANF/OWF cash assistance caseload, after holding fairly steady for nearly four years, dropped by 4.4% in the last half of FY 2005.
- Total cash benefits paid to TANF/OWF recipients declined by $5.3 million in FY 2005.

Figure 2. Health Care/Medicaid Eligibles, June 2001 to June 2005

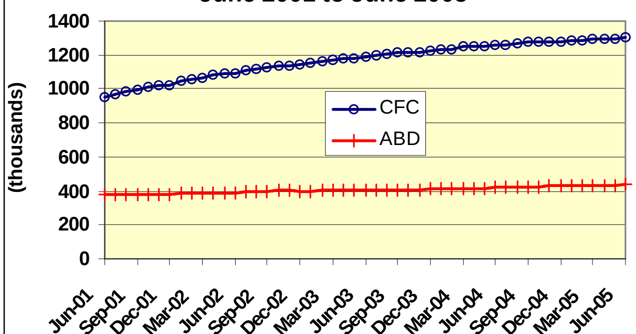


Figure 3. OWF/TANF Caseload FY 2004-FY 2005

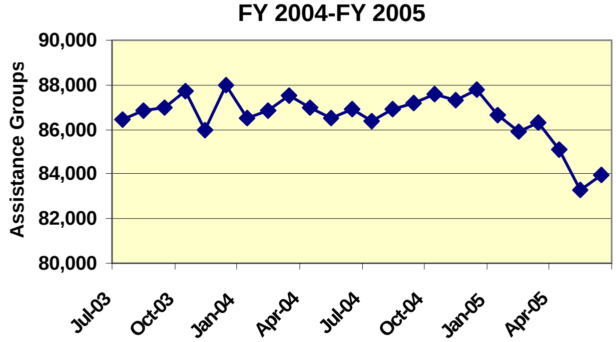


Figure 2 displays the caseloads for the two eligibility components. We see in Figure 2 that while the smaller ABD caseload has been increasing at a fairly stable rate of around 4% or so per year, the CFC caseload had a comparatively high rate of growth associated with the recent recession (e.g., a 15% growth rate from June 2001 to June 2002). In the fiscal year just completed, however, the CFC caseload grew at a more modest rate of 3.4%.

When we look at the specific service categories of health care expenditures in Table 6, we see that payments in the Nursing Facilities category were over budget by $58.1 million. About half of the variance in this category is traceable to higher than budgeted "bed days." For the Physicians category, higher than expected costs per claim partially explain the $45.7 million variance over the estimate. For the Prescription Drugs and All Other categories, lower utilization rates, especially among the ABD eligibles, account for a large portion of these sizable variances. Similarly, enrollment in managed care plans (MCP) is lower than anticipated, and this accounts for the $76.6 million variance under the estimate in that category. A correlate of lower MCP usage is higher utilization of physicians in traditional fee-for-service plans.

Job and Family Services. FY 2005 disbursements for the Department of Job and Family Services' operating expenses and subsidy programs (which are captured in the "Other Welfare" subcategory in Tables 4 and 5 and which excludes Medicaid, TANF, and Disability Assistance and are tracked as separate components of the Welfare and Human Services program category) were $69.2 million (13.5%) under the estimate.

Line item 600-416, Computer Projects, with a variance of $20.5 million under the estimate, was the largest single item contributing to the category's disbursement variance for the year. The variance in line item 600-416 resulted from contracts for the Electronic Benefit Transfer project and child support payment processing that were lower than had been anticipated. While $3.6 million of the underspending in line item 600-416 was allowed to lapse, the Department encumbered $15.5 million, part of which is for payments to the Department of Administrative Services (DAS) for Ohio Data Network (ODN) services. The Department had planned to encumber $22.7 million in line item 600-416, primarily for

Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of June 2005
($ in thousands)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$524,978	$267,555	$257,423	96.2%
Higher Education	$157,259	$154,128	$3,131	2.0%
Total Education	$682,237	$421,683	$260,555	61.8%
Health Care/Medicaid	$719,406	$781,031	-$61,626	-7.9%
Temporary Assistance to Needy Families (TANF)	$2,826	$0	$2,826	---
General/Disability Assistance	$420	$600	-$180	-30.0%
Other Welfare (2)	$17,969	$32,047	-$14,077	-43.9%
Human Services (3)	$41,775	$56,377	-$14,601	-25.9%
Total Welfare & Human Services	$782,396	$870,055	-$87,659	-10.1%
Justice & Corrections	$127,918	$130,967	-$3,049	-2.3%
Environment & Natural Resources	$3,555	$6,058	-$2,504	-41.3%
Transportation	$1,577	$707	$870	123.1%
Development	$6,460	$13,102	-$6,642	-50.7%
Other Government	$16,500	$22,870	-$6,369	-27.9%
Capital	$0	$551	-$551	-100.0%
Total Government Operations	$156,009	$174,255	-$18,246	-10.5%
Property Tax Relief (4)	$197,950	$206,914	-$8,964	-4.3%
Debt Service	$43,567	$43,962	-$396	-0.9%
Total Other Disbursements	$241,517	$250,877	-$9,360	-3.7%
Total Program Disbursements	**$1,862,160**	**$1,716,869**	**$145,290**	**8.5%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$3,437	$0	$3,437	---
Total Transfers Out	$3,437	$0	$3,437	---
TOTAL GRF USES	**$1,865,596**	**$1,716,869**	**$148,727**	**8.7%**

(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.

payments to vendors who have already performed work for the Department but have not yet presented invoices for payment, and for ODN services, since there is usually a slight delay on the part of DAS to bill for these services (planned encumbrances are not included in the estimates).

Another portion of the encumbered appropriation for Computer Projects will go to pay disallowed charges to federal funds that were used on the Statewide Automated Child Welfare Information System (SACWIS). The Department began work on SACWIS in 1997. In reviewing

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2004**	**Percent Change**
Primary & Secondary Education (1)	$6,651,144	$6,549,709	$101,435	1.5%	$6,478,701	2.7%
Higher Education	$2,333,745	$2,345,597	-$11,852	-0.5%	$2,331,167	0.1%
Total Education	$8,984,889	$8,895,306	$89,583	1.0%	$8,809,868	2.0%
Health Care/Medicaid	$9,446,178	$9,571,826	-$125,648	-1.3%	$8,912,897	6.0%
Temporary Assistance to Needy Families (TANF)	$356,739	$356,740	-$1	0.0%	$356,933	-0.1%
General/Disability Assistance	$23,069	$22,777	$291	1.3%	$21,349	8.1%
Other Welfare (2)	$443,872	$513,093	-$69,222	-13.5%	$442,038	0.4%
Human Services (3)	$1,181,830	$1,184,967	-$3,137	-0.3%	$1,144,427	3.3%
Total Welfare & Human Services	$11,451,687	$11,649,403	-$197,716	-1.7%	$10,877,644	5.3%
Justice & Corrections	$1,912,743	$1,908,439	$4,304	0.2%	$1,864,950	2.6%
Environment & Natural Resources	$116,738	$117,935	-$1,196	-1.0%	$113,180	3.1%
Transportation	$31,143	$29,222	$1,921	6.6%	$27,158	14.7%
Development	$155,175	$148,446	$6,728	4.5%	$141,793	9.4%
Other Government	$367,998	$387,049	-$19,051	-4.9%	$353,197	4.2%
Capital	$0	$3,331	-$3,331	-100.0%	$0	---
Total Government Operations	$2,583,797	$2,594,422	-$10,625	-0.4%	$2,500,279	3.3%
Property Tax Relief (4)	$1,379,052	$1,366,333	$12,719	0.9%	$1,313,229	5.0%
Debt Service	$431,440	$427,291	$4,149	1.0%	$337,853	27.7%
Total Other Disbursements	$1,810,492	$1,793,624	$16,868	0.9%	$1,651,082	9.7%
Total Program Disbursements	**$24,830,865**	**$24,932,755**	**-$101,890**	**-0.4%**	**$23,838,873**	**4.2%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$43,535	$0	$43,535	---	$55,337	-21.3%
Total Transfers Out	$43,535	$0	$43,535	---	$55,337	-21.3%
TOTAL GRF USES	**$24,874,399**	**$24,932,755**	**-$58,356**	**-0.2%**	**$23,894,210**	**4.1%**

(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.

the spending on SACWIS, the federal government decided to disallow some of the charges because the Department failed to have an advance-planning document approved by the federal government for SACWIS. In FY 2005, the Department repaid the federal government $9.0 million from line item 600-416 and $300,000 from line item 600-321 for federal dollars that were misspent during FYs 1997-2000 on SACWIS. An additional $5.5 million to $5.7 million that was misspent during that period has also been disallowed. The Department is awaiting a letter from the federal government instructing it to pay back those misspent dollars. The Department had accounted

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

Service Category	June Actual	June Estimate	June Variance	June Percent Variance	YTD Actual thru June	YTD Estimate thru June	YTD Variance	YTD Percent Variance
Nursing Facilities Payments	$226,659	$224,020	$2,639	1.2%	$2,728,832	$2,670,779	$58,052	2.2%
ICF/MR Payments	$37,908	$37,621	$286	0.8%	$447,172	$448,524	($1,352)	-0.3%
Inpatient Hospitals	$118,724	$115,929	$2,795	2.4%	$1,452,718	$1,468,989	($16,271)	-1.1%
Outpatient Hospitals	$48,953	$52,102	($3,149)	-6.0%	$654,951	$649,421	$5,531	0.9%
Physicians	$51,159	$47,211	$3,949	8.4%	$634,516	$588,784	$45,732	7.8%
Prescription Drugs	$142,769	$165,508	($22,738)	-13.7%	$1,978,737	$2,050,559	($71,822)	-3.5%
ODJFS Waiver	$16,236	$19,013	($2,778)	-14.6%	$220,264	$240,166	($19,902)	-8.3%
All Other	$73,958	$83,234	($9,276)	-11.1%	$945,446	$1,017,653	($72,208)	-7.1%
MCP	$96,773	$104,404	($7,630)	-7.3%	$1,076,262	$1,152,874	($76,612)	-6.6%
Medicare Buy-In	$17,481	$15,186	$2,295	15.1%	$193,504	$175,391	$18,114	10.3%
Total Medicaid Payments	**$830,620**	**$864,228**	**($33,608)**	**-3.9%**	**$10,332,402**	**$10,463,139**	**($130,737)**	**-1.2%**
DA Medical	$4,131	$4,323	($191)	-4.4%	$72,693	$64,064	$8,629	13.5%
Drug Rebates Offsets	($66,902)	($49,836)	($17,066)	34.2%	($541,958)	($524,000)	($17,958)	3.4%
ICF/MR Franchise Fee Offsets	($1,648)	($1,638)	($11)	0.7%	($18,419)	($20,225)	$1,805	-8.9%
NF Franchise Fee Offsets	($46,796)	($36,045)	($10,750)	29.8%	($264,160)	($274,041)	$9,881	-3.6%
DSH Rebate Offsets	$0	$0	$0		($134,380)	($137,112)	$2,732	
Total Health Care (Net of Offsets)	**$719,406**	**$781,031**	**($61,626)**	**-7.9%**	**$9,446,178**	**$9,571,826**	**($125,648)**	**-1.3%**
Est. Federal Share	$422,349	$458,529	($36,179)		$5,545,671	$5,619,436	($73,766)	
Est. State Share	$297,056	$322,503	($25,446)		$3,900,507	$3,952,390	($51,883)	

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 in 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 federal medical assistance percentage (FMAP) for CHIP II.
5. DA Medical is a state-only funded program.
6. The 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 in Tables 4 and 5.

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

for this repayment in the encumbrances of FY 2005 dollars that were approved for line item 600-416.

Line item 600-321, Support Services, contributed $11.1 million to the disbursement variance for the year. The underspending was spread throughout the activities supported by the appropriation, $4.3 million was allowed to lapse, and $5.8 million was encumbered to cover costs for central administration.

Line item 600-440, Ohio's Best Rx, established in Am. Sub. H.B. 311, carried an original FY 2004 appropriation of $10.0 million. Due to the late start date of the program, the act anticipated that a large part of this appropriation would be transferred to FY 2005, and in fact, $9.9 million was transferred. The estimated disbursements for FY 2005 totaled $9.0 million, but only $742,561 was actually disbursed. Under a provision of Am. Sub. H.B. 66, the unencumbered balance of the appropriation was automatically transferred to FY 2006.

Line item 600-528, Adoption Services, was also a significant contributor to the negative disbursement variance for the year. The underspending in Adoption Services, which amounted to $14.0 million, stemmed in large part from a lower than expected rate of growth in the program and a lower cost per case. Of this unspent amount, the Department lapsed $5.4 million and encumbered $2.4 million. There was also a planned encumbrance of $3.2 million that was not included in the estimate.

Mental Health. The Department of Mental Health posted a year-end variance of $2.8 million below the estimate. A large part of the variance ($1.7 million) is traceable to the Department's

Table 7 FY 2005 to FY 2004 Comparison of Year-to-Date Health Care/Medicaid Spending (ALI 600-525 Only) ($ in thousands)				
Service Category	FY 2005 Yr.-to-Date as of June '05	FY 2004 Yr.-to-Date as of June '04	Dollar Change	Percent Increase
Nursing Facilities Payments	$2,728,832	$2,709,358	$19,473	0.7%
ICF/MR Payments	$447,172	$441,848	$5,324	1.2%
Inpatient Hospitals	$1,452,718	$1,343,533	$109,185	8.1%
Outpatient Hospitals	$654,951	$604,840	$50,111	8.3%
Physicians	$634,516	$597,404	$37,112	6.2%
Prescription Drugs	$1,978,737	$1,790,255	$188,482	10.5%
ODJFS Waiver	$220,264	$195,396	$24,868	12.7%
All Other	$945,446	$909,223	$36,223	4.0%
MCP	$1,076,262	$1,021,073	$55,189	5.4%
Medicare Buy-In	$193,504	$161,515	$31,990	19.8%
Total Medicaid Payments	**$10,332,402**	**$9,774,445**	**$557,957**	**5.7%**
DA Medical	$72,693	$81,662	($8,968)	-11.0%
Drug Rebates Offsets	($541,958)	($457,891)	($84,067)	18.4%
ICF/MR Franchise Fee Offsets	($18,419)	($20,315)	$1,896	-9.3%
NF Franchise Fee Offsets	($264,160)	($277,793)	$13,632	-4.9%
DSH Rebate Offsets	($134,380)	($116,210)	($18,169)	
Prior Period Encumbrance Subsidy	$0	($71,000)	$71,000	-100.0%
Total Health Care (Net of Offsets)	**$9,446,178**	**$8,912,897**	**$533,280**	**6.0%**
Est. Federal Share	$5,545,671	$5,232,592	$313,079	
Est. State Share	$3,900,507	$3,680,305	$220,202	

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 in 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 federal medical assistance percentage (FMAP)
5. DA Medical is a state-only funded program.
6. The 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.

largest GRF subsidy appropriation: line item 334-408, Community and Hospital Mental Health Services. The $1.7 million variance has been encumbered. Approximately half of this line item goes for hospital payroll and half goes for community mental health boards. Not all FY 2005 payment requests from the community boards had been received by the end of the fiscal year.

Line item 335-505, Local Mental Health Systems of Care, finished the year with a negative variance of $0.9 million. All of these funds were encumbered for an expected payment in July of fourth quarter, FY 2005 allotments to local mental heath boards. The appropriation is used by the state's 50 mental health boards for community mental health programs.

Health. The Department of Health posted a disbursement variance of $1.7 million under the estimate. The line item with the largest variance ($0.5 million under the estimate) was line item 440-418, Immunizations. Along with a planned encumbrance of $4.6 million from this line item, the unspent funds were encumbered. The variance in line item 440-418 is timing-related and happens every year in the process of ordering vaccines for the period of high usage that occurs just prior to the start of the school year.

Mental Retardation and Developmental Disabilities. For FY 2005, the Department of Mental Retardation and Developmental Disabilities posted a disbursement variance of $1.1 million over the estimate. This variance, however, did not put the Department over its appropriation for the year. Indeed, the Department's expenditures from FY 2005 appropriations were $13.4 million below its total appropriation of $353.0 million for the year. Out of these unspent FY 2005 funds, $11.5 million has been encumbered and $1.8 million has lapsed. The Department had planned an encumbrance of $14.3 million from FY 2005 funds, most of which ($12.9 million) was to be in line item 322-416, Waiver State Match, which funds the state share of two home and community-based Medicaid waivers. However, expenditures from this line item were over the estimate for the year by $5.2 million, and only $7.7 million of the appropriation was left to be encumbered. This situation stemmed from the separate timing of payments to counties and the corresponding receipt of pledge money from counties.

Partially offsetting this was a disbursement variance of $3.5 million under the estimate in line item 323-321, Residential Facilities Operations, which supports the state's share of Medicaid-covered pharmacy expenditures in the state's developmental centers. The variance stems from the timing of billing, which has been slowed due to system problems in the Department of Job and Family Services. Some of the costs yet to be paid are for expenses incurred in FY 2004.

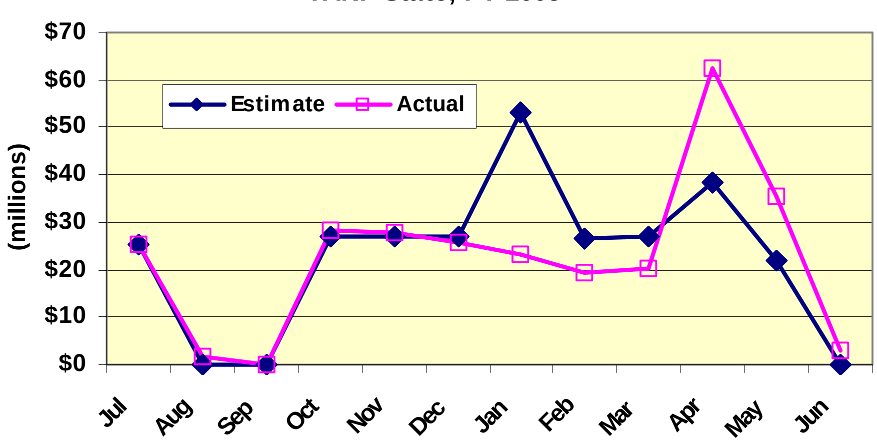
In addition to FY 2005 appropriations, the Department carried into FY 2005 $17.4 million from FY 2004 appropriations. Out of these funds, $10.1 million was disbursed in FY 2005, another $5.4 million has been encumbered for use in FY 2006, and $1.9 million was allowed to lapse. Of the encumbered funds from these remaining FY 2004 appropriations, $3.9 million is in line item 322-416, Waiver State Match, and $1.1 million is in line item 323-321, Residential Facilities Operations.

Aging. The Department of Aging finished FY 2005 with a disbursement variance that was $1.4 million over the estimate, but still within the appropriation level. This variance stemmed solely from a delay in the receipt of federal funds that are used in line item 490-411, Senior Community Services. Funds from line item 490-411 support community-based services to assist older persons in remaining independent within their homes and communities as long as possible. Instead of encumbering $4.4 million in this line item as planned, the Department has encumbered $2.9 million.

Ohio Veterans' Home. The Ohio Veterans' Home Agency posted a year-end total variance of approximately $470,000 over estimated spending for FY 2005. There was a variance of approximately $530,000 over the estimate in line item 430-100, Personal Services. This variance was supported in part with a transfer of $276,188 from line item 430-200, with the remainder coming from Maintenance to appropriation item 430-100, Personal Services, as well as from planned encumbrances in both of these line items that were not included in the estimate of funds that were to be disbursed. Total spending was underestimated due to many factors, such as the underestimation of overtime, unexpected overtime costs due to snowstorms and other unforeseen events, and the fact that FY 2005 was the first full year of operations for the Georgetown facility in southern Ohio.

TANF. The state's portion of the TANF program that is expended from the GRF is composed of funds from line item 600-410, TANF State, a portion of line item 600-413, Day Care Match/MOE, and a portion of line item 600-321, Support Services. These are supplemented by Fund 4A8, line item 600-658, Child Support Collection, and by county expenditures for part of the program's administrative costs. At the end of June, the reports on line items 600-410 and 600-413 show that a total of $356.7 million was disbursed from these two components of Ohio's TANF Maintenance of Effort (MOE) requirement;

Figure 4. Disbursements from ALI 600-410, TANF State, FY 2005



this was equal to the disbursements made from these two line items in FY 2004. Disbursements from federal TANF funds (Fund 3V6, line item 600-689, TANF Block Grant) totaled $525.2 million, which was $62.4 million less than in FY 2004.

TANF cash assistance benefits paid during the fiscal year totaled $311.0 million, down $5.3 million from FY 2004. The average number of TANF cash assistance groups per month decreased from FY 2004 to FY 2005 by about 750 to stand at 86,186. The average number of TANF recipients per month, however, decreased from FY 2004 to FY 2005 by almost 3,000 to stand at about 190,000 on average, with a low in May 2005 of 181,279.

Spending from line item 600-410, TANF State, was not exhausted until June, contrary to estimates that placed the final payments from this appropriation in May (see Figure 4). An element of the delay can be attributed to caseloads decreasing more sharply than anticipated: almost 4.4% between January and June 2005. During the course of the year, county advances also were more heavily drawn from federal TANF funds as the Department attempted to comply with OBM's request to level out disbursements from these appropriations to reduce the impact of large withdrawals on the General Revenue Fund.

While the Department experienced a slightly lower than expected demand for child care, and disbursements were a little slower than anticipated, spending of the appropriation for line item 600-413, Child Care Match/MOE ($84.1 million), was exhausted in December, in accordance with the estimates.

Education ($89.6 million)

Disbursements in the Education category finished FY 2005 $89.6 million over the estimate. With a variance of $103.3 million over the estimate, the Department of Education accounted for all of the category's disbursement variance, although this was offset somewhat by a variance posted by the Ohio Board of Regents that was $11.9 million below estimate. The Board of Regents was joined with some smaller offsetting variances posted by the other agencies in the category. This section discusses disbursements in some of these agencies.

Department of Education. As just noted, the Department of Education finished FY 2005 with a disbursement variance of $103.3 million over the estimate. The variance for June was $257.5 million over the estimate, as the Department made up for a number of variances throughout the year where disbursements were below estimate. Appropriation line items whose disbursements are affected by Average Daily Membership (ADM) figures were the main force behind this spending over estimate. Average Daily Membership (ADM) figures for FY 2005 came in about 2,730 students above estimate. Special education ADM for FY 2005 came in about 7,200 students above estimate. Also, property values used to calculate the local share were less than anticipated, and the amount of state subsidy therefore was higher. The overage was supported by a $150 million increase in S.B. 56 in the appropriation for line item 200-502, Base Cost Funding, plus an additional reallocation of $61.2 million, which included the rescission of $14.8 million in cuts that had been ordered at the beginning of the fiscal year.

The Department entered FY 2005 carrying $69.1 million in GRF funds that either had been encumbered or were part of an available appropriation balance from prior fiscal years, some of which dated back to FY 2000. At the end of FY 2005, $37.1 million of this had been disbursed, $14.2 million remained encumbered, and $17.8 million was allowed to lapse back to the GRF cash balance.

Disbursements from line item 200-501, Base Cost Funding, were $176.4 million over estimate for the year. This appropriation item is the largest one in the Department's budget, with a total adjusted appropriation for FY 2005 of $4,609.9 million. The line item funds school districts according to the base cost formula developed by the General Assembly to provide educational services to Ohio public school students.

Line item 200-520, Disadvantaged Pupil Impact Aid (DPIA), posted for the year a disbursement variance of $27.5 million under the estimate. This line item is used to provide funds to school districts that incur higher educational costs due to a higher concentration of economically disadvantaged students. Most of these funds are distributed directly to school districts. In prior years, this distribution was based on formulas, but Am. Sub. H.B. 95 of the 125th General Assembly provided that districts receiving DPIA in FY 2003 were to receive annual increases of 2% in FY 2004 and FY 2005. This line item is one of several that together fund the state's formula aid obligation to school districts. The Controlling Board approved the transfer of $23.9 million in excess spending authority out of this line item to cover other formula obligations.

Several FY 2005 appropriations were partly encumbered. Total encumbrances were $89.2 million.

Regents. In FY 2005, the Board of Regents disbursed $11.9 million less than had been estimated. Two appropriation items figure prominently in the disbursement variance: line item 235-599, Ohio National Guard Scholarship Program (under estimate by $5.4 million), and line item 235-534, Student Workforce Development Grants (under estimate by $1.0 million). The remainder of the disbursement variance was spread in smaller amounts over a number of other line items.

Line item 235-599, Ohio National Guard Scholarship Program, provides scholarships for eligible National Guard members. Enrollments have lagged behind the estimates because of continued deployments. Of the unspent balance, $3.8 million has been encumbered for later use, and $1.5 million has been transferred to the new non-GRF line item 235-623, National Guard Scholarship Reserve Fund (Fund 5BM).

The other significant contributor to the variance in disbursements by the Board of Regents was line item 235-534, Student Workforce Development Grants, which was under estimate for the year by $1.4 million.

Another item of note was the transfer in June of $17.6 million needed to cover a projected deficit in line item 235-503, Ohio Instructional Grants. Most of the transfer was from the FY 2004 appropriation for line item 235-909, Higher Education General Obligation Debt Service, which was not needed for debt service in FY 2005. Another $23.1 million from the FY 2005 appropriation for this line item lapsed due to the rescheduling of some bond issuances and to recent issuances with lower than expected interest rates.

School Facilities Commission. Disbursements by the Commission in FY 2005 were very close to the estimate. There was a lapse, however, of $26.8 million in GRF appropriation item 230-908, Common Schools General Obligation Debt Service. As is also true of other debt service appropriations, the large lapse in this line item is due to very conservative estimates and the subsequent appropriations in order to make sure that sufficient funding is available to pay for debt service each fiscal year.

Ohio School for the Deaf. The Ohio School for the Deaf had an FY 2005 disbursement variance of about $767,000. About three-fifths of the variance was the result of staff vacancies throughout the year.

SchoolNet Commission. The SchoolNet Commission and the Ohio Educational Telecommunications Network Commission were merged by Am. Sub. H.B. 66 to create the eTech Ohio Commission as of July 1, 2005. The SchoolNet Commission's disbursements for FY 2005 were below estimate by $1.7 million. The largest contributor to this variance was line item 228-404, Operating Expenses ($730,000 below estimate). A number of vacant positions were not filled in anticipation of the merger. Approximately $500,000 of the variance has been encumbered to provide early retirement incentives and to cover the cost of some FY 2005 equipment purchases.

Tax Relief ($12.7 million)

In June, tax relief payments totaled $198.0 million, which was $9.0 million below the estimate for the month but which left the program over estimate for the fiscal year by $12.7 million. While total disbursements under the program were $1,379.1 million and this was over the estimate for the year, they fell short of the total appropriation for the year by $2.7 million. The higher than expected payments, like last year, were due in large part to higher property valuations and higher homestead exemption payments than had been anticipated.

The Property Tax Relief program 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 property 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 into two components: real property tax credits/exemptions and tangible tax exemptions. For the fiscal year, disbursements were over the estimate by $27.7 million for the real property tax credits/exemptions component, and $15.0 million under the estimate for the tangible property tax exemption component.

Government Operations (-$10.6 million)

Disbursements for the Government Operations category for FY 2005 were $10.6 million under the estimate. The Department of Rehabilitation and Correction, Department of Development, and Department of Public Safety partially offset numerous other agencies in the category with disbursement variances that were over the estimate by $11.5 million, $6.9 million, and $3.8 million, respectively. The remaining 30 agencies in the category each posted relatively small disbursement variances under the estimate. The details of disbursements in the category will be discussed in the following paragraphs in order of their magnitude.

Rehabilitation & Correction. In FY 2005, the Department of Rehabilitation and Correction disbursed $11.5 million more than the estimate. No increase in appropriation was necessary, however, as total disbursements were within the appropriation level. The disbursement amount over estimate was driven by an overage in line item 505-321, Institutional Medical Services, needed to cover increased medical costs. Like last year, the Department experienced both increased medical inflation and a growing caseload of inmates with Hepatitis C. As a result, the Department used, with Controlling Board approval, $19.8 million from other line items to meet these expenses.

In addition, $4.7 million in prior year funds were carried forward to FY 2005 from the FY 2004 appropriation, and this was not included in the estimates. This prior year appropriation was used to support line item 501-405, Halfway House ($2.5 million), and line item 501-501, Community Residential Programs – CBCF ($2.2 million).

Development. The Department of Development finished FY 2005 with a disbursement variance that was $6.9 million over the estimate. The Department had an adjusted appropriation of $104.5 million for FY 2005, and had encumbered appropriations dating back to FY 1997 that at the start of FY 2005 totaled $85.6 million. The Department's total disbursements for the year totaled $99.1 million, against an estimate of $92.2 million. A little over half ($55.0 million) of the total disbursed was from prior year funds. Out of current year appropriations, the Department disbursed $44.1 million and encumbered $52.9 million. The largest single encumbrance of FY 2005 appropriations was in line item 195-422, Third Frontier Action Fund ($14.4 million).

Looking at particular programs, and considering both current and prior year funds, there are three items that stand out as contributors to the $6.9 million variance over the estimate. Line item 195-515, Economic Development Contingency, was over estimate by $3.6 million; line item 195-412, Business Development Grants, was over estimate by $2.5 million; and line item 195-434, Investment in Training Grants, was over estimate by $2.2 million. Because projects and businesses request funds on an as needed basis, it is difficult for the Department and the Office of Budget and Management to predict when the funds will be requested. In each of these circumstances, the companies involved requested the funds faster than had been anticipated when disbursement estimates were developed.

Taxation. The Department of Taxation ended FY 2005 with a disbursement variance of $4.4 million under the estimate. Much of this variance was registered in line item 110-321, Operating Expenses, and is traceable to the postponement of the purchase of a new software system (Enterprise Tax System) as well as lower than anticipated personnel expenditures. Including a planned encumbrance of $3.6 million, most of the unused appropriation was encumbered, and $1.5 million was allowed to lapse.

Administrative Services. Disbursements by the Department of Administrative Services in FY 2005 were $5.6 million less than estimated. The largest contributor to the variance was line item 100-447, OBA Building Rent Payments, which was under the estimate by $7.0 million. This amount lapsed. The variance was offset somewhat by other line items. There was also a portion ($12.9 million) of the FY 2005 appropriation for line item 100-447 that did not enter into the estimates and was planned to lapse. In addition, $21.7 million of this line item that had been carried into FY 2005 from the FY 2004 appropriation was allowed to lapse.

Youth Services. The Department of Youth Services finished FY 2005 with a disbursement variance of $4.8 million under the estimate. The bulk ($4.3 million) of the variance was in line item 470-401, Reclaim Ohio. This line item is used to provide institutional placement and community program services to youth who have been convicted of a felony offense and to any delinquent child, unruly child, or juvenile traffic offender who is under the jurisdiction of a juvenile court. The variance was a matter of timing, and all of the unspent funds in line item 470-401 were encumbered.

Judiciary/Supreme Court. In FY 2005, Judiciary/Supreme Court registered a disbursement variance that was $8.8 million below the estimate. The bulk of the variance was registered in line item 018-321, Operating Expenses, and was due to cuts of redundant and seldom-used materials in the Supreme Court Library, savings in administrative costs of the Ohio courts of appeals, and lower than projected costs for operating and maintaining the Ohio Judicial Center. About $2.6 million of the underspending has been encumbered ($1.0 million of this was a planned encumbrance and was not therefore included in the estimates), and $6.5 million has been allowed to lapse.

Public Safety. The Department of Public Safety ended FY 2005 with a disbursement variance that was $3.8 million over the estimate. The overage was supported by two transfers totaling $3.8 million from General Services Fund line items of the Controlling Board to cover emergency services and relief related to floods and tornadoes in Ohio.

Natural Resources. The Department of Natural Resources finished FY 2005 with a disbursement variance of about $300,000 under the estimate. Roughly one-third of this variance is due to setting aside part of an appropriation for early retirement incentive payments that will be made in FY 2006.

Public Defender. The Public Defender Commission finished FY 2004 with a disbursement variance of $3.2 million over the estimate. Line item 019-501, County Reimbursement – Non-Capital Cases, accounts for about 80% of the variance for the year, as its appropriation was fully expended in reimbursement to the counties. This line item is used to reimburse counties for up to 50% of their costs of operating county public defender offices, joint county public defender offices, and appointed counsel systems. The FY 2005 level of funding was sufficient to allow the Commission to reimburse counties for about 31% of their annual cost of providing indigent defense legal services.

Transportation. For FY 2005, the Department of Transportation posted a disbursement variance of $1.9 million over the estimate, but still within the appropriation level. The Department disbursed a total of $12.9 million from the FY 2005 adjusted appropriations of $24.3 million and encumbered $11.3 million. The Department carried into FY 2005 $25.3 million in appropriations from previous fiscal years, some of which dated back to FY 1999. Of the prior year appropriations, $18.2 million was disbursed in FY 2005 and $6.9 million was encumbered.

Most of the variance from the estimate is attributable to payouts from prior year appropriations that exceeded the estimates, particularly in the areas of public transportation (line item 775-451, Public Transportation – State) and rail (line items 775-465, Ohio Rail Development Commission, and 775-466, Railroad Crossing/Grade Separation). These variances were the result of the timing of grants.

Commerce. For FY 2005, the Department of Commerce posted a negligible variance of just under $100,000 due to some savings on personnel costs. Another $145,000 was lapsed due to an "assessment holiday" for which the divisions within the Department were not required to pay an administrative assessment.

**LSC colleagues who contributed to the development of this disbursement report included, in alphabetical order, Sara Anderson, Ann Braam, Melaney Carter, Ivy Chen, Phil Cummins, Jamie Doskocil, Jonathan Lee, Sarkis Mahdasian, Ed Millane, Erin Pettegrew, Jason Phillips, Laura Potts, David Price, Ruhaiza Ridzwan, Wendy Risner, Joseph Rogers, Maria Seaman, Terry Steele, Kerry Sullivan, Zak Talarek, Clay Weidner, and Holly Wilson.*

Issues of Interest

Lottery Ticket Sales and Profit Transfers Fourth Quarter, Fiscal Year 2005

— *Jean Botomogno*

Ticket Sales

In the fourth quarter of FY 2005, total lottery ticket sales were $540.2 million, $4.4 million (0.8%) lower than ticket sales in the third quarter. On-line ticket sales[1] were $239.4 million (44.3% of quarterly sales), and Instant ticket sales were $300.7 million (55.7% of quarterly sales). Table 1 presents monthly ticket sales by game in the fourth quarter of FY 2005. April 2005, with above average sales, was the most productive month in the quarter.

Compared to fourth-quarter results a year ago, ticket sales were down $11.7 million (2.1%) this fiscal year. Instant ticket sales inched up $0.9 million (0.3%). On-line ticket sales decreased $12.6 million (5.0%). Except for sales of Buckeye/Rolling Cash 5,[2] which increased $3.3 million (20.2%), sales of On-line games declined. Sales of Super Lotto and Kicker fell $5.6 million (17.6%) and $0.9 million (16.3%), respectively. Sales of Mega Millions decreased $5.3 million (9.7%). Sales of Pick 4 were down $0.3 million (0.7%), and Pick 3 sales declined $3.7 million (3.7%).

Table 1: Fourth-Quarter Ticket Sales by Games (dollars in millions)

	Pick 3	Pick 4	Kicker	Rolling Cash 5	Super Lotto	Mega Millions	Instants	On-line	Total
Apr	$33.6	$14.9	$1.7	$6.6	$9.4	$26.4	$101.1	$92.6	$193.6
May	$31.6	$14.1	$1.4	$6.4	$7.7	$13.1	$105.6	$74.3	$180.0
Jun	$31.0	$13.7	$1.6	$6.9	$9.0	$10.4	$94.0	$72.5	$166.6
Total	**$96.2**	**$42.7**	**$4.6**	**$19.8**	**$26.1**	**$49.9**	**$300.7**	**$239.4**	**$540.2**
Share	17.8%	7.9%	0.9%	3.7%	4.8%	9.2%	55.7%	44.3%	

Totals may not add up due to rounding.

Table 2 shows quarterly ticket sales in FY 2005. Ticket sales were $523.8 million in the first quarter, and increased 4.9% to $549.6 million

Table 2: Quarterly Lottery Ticket Sales by Games in FY 2005 (dollars in millions)

	Pick 3	Pick 4	Kicker	Rolling Cash 5	Super Lotto	Mega Millions	Instants	On-line	Total
Q1	$98.4	$41.7	$5.5	$16.0	$32.0	$45.7	$284.4	$239.4	$523.8
Q2	$94.9	$42.5	$4.9	$18.4	$27.7	$39.9	$321.4	$228.2	$549.6
Q3	$98.2	$43.1	$4.9	$20.6	$27.4	$40.9	$309.6	$235.0	$544.5
Q4	$96.2	$42.7	$4.6	$19.8	$26.1	$49.9	$300.7	$239.4	$540.2
Total	$387.7	$170.1	$19.9	$74.8	$113.1	$176.4	$1,216.1	$942.0	$2,158.1
Share	18.0%	7.9%	0.9%	3.5%	5.2%	8.2%	56.4%	43.6%	

Totals may not add up due to rounding.

in the second quarter on the strength of "Holiday" Instant ticket sales. Then, ticket sales dropped 0.9% in the third quarter, and another 0.8% to $540.2 million in the last quarter of FY 2005. For the fiscal year, Pick 3 sales were 18.0% of total ticket sales. Mega Millions provided 8.2% of ticket sales. Pick 4 sales were 7.9% of ticket sales. Super Lotto, Rolling Cash 5, and Kicker contributed to ticket sales by 5.2%, 3.5%, and 0.9%, respectively. Instant ticket sales were 29.1% higher than On-line ticket sales.

Transfers to the Lottery Profits Education Fund

Table 3 summarizes FY 2005 transfers from operations to the Lottery Profits Education Fund (LPEF). Transfers in the fourth quarter were $156.7 million, down from $157.2 million in the third quarter. Fourth-quarter transfers were also $3.9 million (2.4%) lower than the State Lottery Commission estimated at the beginning of the fiscal year. Total transfers for FY 2005 were $645.1 million, $3.0 million (0.5%) less than transfers in FY 2004. Through December 2004, transfers from operations were $11.6 million (3.6%) above estimates. By the end of June 2005, the positive variance had declined to $7.2 million. The decrease in amounts transferred to LPEF was directly attributable to lower ticket sales in the last two quarters of the fiscal year. Third-quarter and fourth-quarter transfers were 0.3% and 2.4% below estimates, respectively. Total transfers from operations were about 29.9 % of ticket sales.

Year in Review

Table 4 summarizes ticket sales by game and compares sales in FY 2005 and FY 2004. Total ticket sales in FY 2005 were $2,158.1 million, $3.4 million (0.2%) higher than sales in FY 2004. The increase in total ticket sales was entirely due to the improvement in Instant ticket sales.

Compared to sales a year ago, Instant ticket sales surged $50.1 million (4.3%). Conversely, On-line sales declined $46.7 million (4.7%). Among On-line games, only Pick 4 and Rolling Cash 5 gained sales over the previous year. Rolling Cash 5 sales increased $8.2 million (12.4%), primarily due to a change in the game structure and prize in October 2004. Pick 4 sales improved $4.8 million (2.9%). These gains were negated by the poor performance of the remaining On-line games. Kicker sales declined $4.6 million (18.8%). Super Lotto sales decreased $30.7 million (21.3%). Pick 3 sales fell $9.1 million (2.3%). Sales of Mega Millions were down $15.4 million (8.0%). The overall profitability of Lottery operations was hurt by a combination of lower than expected Mega Millions sales, a higher than anticipated decline in Super Lotto and Kicker ticket sales, and a higher share of Instant ticket sales relative to total ticket sales. Table 5 presents sales of Kicker, Super Lotto, and Mega Millions between FY 2002 and FY 2005.

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

Quarter	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfers as Percentage of Sales
Q1	$523.8	$161.9	$153.7	$8.3	5.4%	30.9%
Q2	$549.6	$169.3	$165.9	$3.3	2.0%	30.8%
Q3	$544.5	$157.2	$157.7	-$0.5	-0.3%	28.9%
Q4	$540.2	$156.7	$160.6	-$3.9	-2.4%	29.0%
Total	$2,158.1	$645.1	$637.9	$7.2	1.1%	29.9%

Totals may not add up due to rounding.

Table 4: Ticket Sales by Games in FY 2004 and FY 2005 (dollars in millions)									
Year	Pick 3	Pick 4	Kicker	Rolling Cash 5	Super Lotto	Mega Millions	Instants	On-line	Total
FY 2005	$387.7	$170.1	$19.9	$74.8	$113.1	$176.4	$1,216.1	$942.0	$2,158.1
FY 2004	$396.8	$165.2	$24.5	$66.6	$143.8	$191.8	$1,166.0	$988.7	$2,154.7
$ Variance	-$9.1	$4.8	-$4.6	$8.2	-$30.7	-$15.4	$50.1	-$46.7	$3.4
% Variance	-2.3%	2.9%	-18.8%	12.4%	-21.3%	-8.0%	4.3%	-4.7%	0.2%

Totals may not add up due to rounding.

The performance of On-line games in FY 2005 is directly attributable to lackluster sales of these three games. Total On-line sales declined $46.7 million in FY 2005. The combined sales of Kicker, Super Lotto, and Mega Millions declined $51.0 million (14.1%). Sales of Mega Millions started in May 2002 and led to an anticipated decrease in Kicker and Super Lotto sales in FY 2003. The combined sale of the three games was expected to increase slightly with the addition of Mega Millions. This result occurred in FY 2003, the first full year of sales of Mega Millions in Ohio. However, combined sales of the three games fell 1.1% in FY 2004 and dropped another 14.1% in FY 2005.

Payout to Winners and Profitability of Lottery Operations

In FY 2005, the payout ratio for Instant games was about 65.1%, while that of On-line games was 51.5%. The previous year, the payout ratio for Instant games was about 65.5% and that of On-line games was about 51.8%. For a dollar of ticket sales, about 65 cents was returned to winners who purchased Instant tickets, compared to 52 cents to winners who purchased On-line games.[3] Gross profit margins (ticket sales minus payments to winners) are inversely related to the payout ratio. Thus, gross profit margins per dollar were about 34 cents for Instant ticket sales and 48 cents for On-line ticket sales.

Based on the relative share of Instant and On-line ticket sales and the payout ratios in FY 2004 and FY 2005, gross profits from On-line ticket sales declined about $20.1 million in FY 2005.[4] Conversely, gross profits from Instant ticket sales grew $22.1 million in FY 2005. The overall payout ratio (including Instant and On-line sales) was 59.2% in FY 2005, about the same as the payout ratio in FY 2004. Although the overall gross profit margin remained stable, overall gross profits increased about $1.8 million as a result of the increase in total ticket sales in FY 2005.

Ticket Sales Trends

Table 6 presents ticket sales and profit transfers since FY 2000. After a decline of 10.7% in FY 2001, lottery ticket sales rose $63.1 million (3.2%) in FY 2002, $95.1 million (3.6%) in FY 2003, $76.7 million (3.7%) in FY 2004, and $3.4 million (0.2%) in FY 2005. Ticket sales in FY 2004 and FY 2005 returned to the approximate level of sales achieved in FY 2000 but remain below the $2.3 billion in sales recorded in FY 1996. Sizable negative variances in

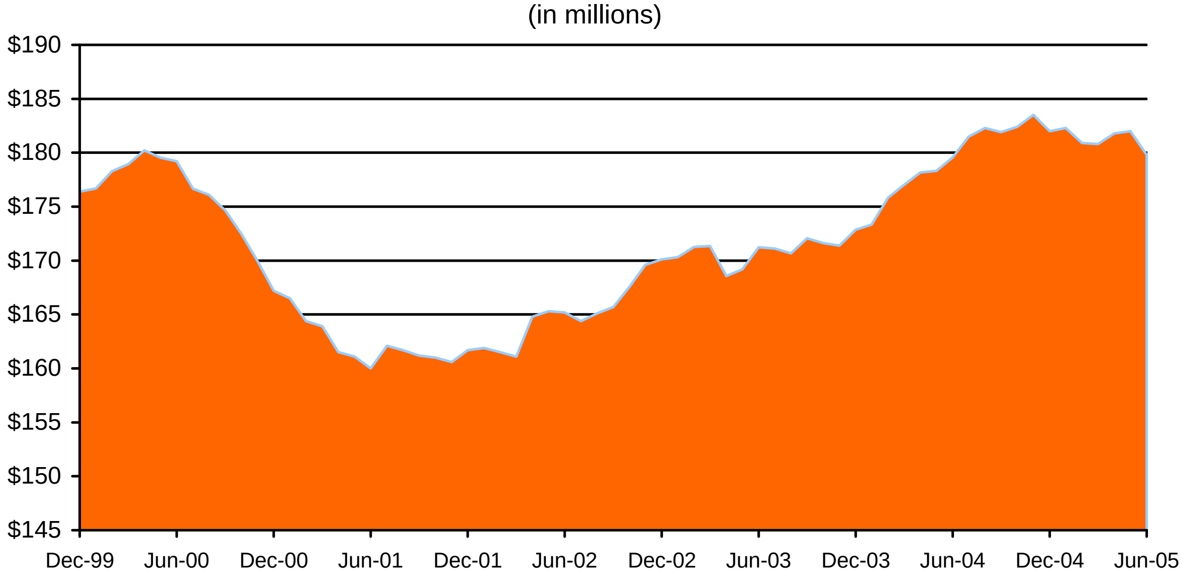
Table 5: Sales of Kicker, Super Lotto and Mega Millions FY 2002 – FY 2005 (dollars in millions)				
Fiscal Year	Kicker and Super Lotto	Mega Millions	Total	Growth
FY 2002	$343.1	$16.5	$359.6	
FY 2003	$188.1	$176.2	$364.3	1.3%
FY 2004	$168.6	$191.8	$360.4	-1.1%
FY 2005	$133.0	$176.4	$309.4	-14.1%

Table 6: Tickets Sales and Transfers to LPEF, FY 2000 to FY 2005 (dollars in millions)						
	Ticket Sales	Actual Transfers	Projected Transfers	Dollars Variance	Percentage Variance	Transfers as Percentage of Sales
FY 2000	$2,150.4	$661.0	$661.0	$0.0	0.0%	30.7%
FY 2001	$1,920.0	$612.0	$665.2	-$53.2	-8.0%	31.9%
FY 2002	$1,983.1	$610.1	$608.7	$1.4	0.2%	30.8%
FY 2003	$2,078.2	$606.4	$637.7	-$31.3	-4.9%	29.2%
FY 2004	$2,154.9	$648.1	$637.9	$10.2	1.6%	30.1%
FY 2005	$2,158.1	$645.1	$637.9	$7.2	1.1%	29.9%

transfers from operations occurred in FY 2001 ($53.2 million) and again in FY 2003 ($31.3 million). Transfers from operations were below 30% of ticket sales in FY 2003 and again in FY 2005. Table 6 shows that transfers in the last two years were significantly above projected transfers, although estimated transfers in those years imply that the Ohio Lottery expect transfers to be about $638 million per year, with annual ticket sales leveling off between $2.15 billion and $2.20 billion.

Chart 1 shows the rise and fall of monthly lottery ticket sales from December 1999 to June 2005. At the apex of Lottery sales, in FY 1996, monthly sales were about $192 million. Monthly sales have a seasonal pattern of increases in November and December and rise with Super Lotto and Mega Millions jackpots. A 12-month moving average of sales removes seasonal variations and provides a true indication of sales trends. The graph shows that sales grew from the nadir of about $160 million in June 2001 to almost $180 million per month in June 2005. A key factor in the improvement in sales in recent years has been yearly increases in Instant ticket sales and the entry into Mega Millions. Instant sales grew 9.3%, 7.1%, and 4.3% in the last three fiscal years from numerous new higher-priced games. One major objective of the Ohio Lottery's entry into Mega Millions was to reduce out-of-state spending by Ohioans on on-line multistate games such as Powerball by offering a similar "opportunity" to its players. The objective may have been achieved in FY 2003 and FY 2004, because total On-line sales were flat.

Chart 1: Lottery Ticket Sales
Monthly Sales (12-Month Moving Average)
(in millions)



However, lackluster On-line sales in FY 2005 resurrects the questions of whether the Ohio Lottery is able to increase On-line sales without introducing new games and whether sales growth will depend only on the growth in Instant ticket sales.

California Joins Mega Millions

California entered Mega Millions at the end of June 2005, joining Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, and Washington as Mega Millions states. Before California joined this multijurisdiction game, the odds to win the jackpot were about one in 135 million. The chances of winning today's Mega Millions jackpot are about one in 175 million. In contrast, the odds of winning Powerball's jackpot, the other multistate game, are one in 121 million. With the addition of California, Mega Millions could pay a lot more to winners, as its jackpot could potentially reach $500 million. Also, with the increase in the odds that someone will win, Mega Millions' jackpots are expected to reach several hundred million dollars in sales quicker than previously, which may generate higher yearly sales in Ohio.

[1] On-line games refer to Pick 3, Pick 4, Kicker, Buckeye/Rolling Cash 5, Super Lotto, and Mega Millions. These games are played via a terminal at a Lottery sales agent. Those terminals are linked to Ohio Lottery headquarter's computers. On-line games do not refer to Internet lottery sales.

[2] Rolling Cash 5, a new game with a different prize structure, replaced Buckeye 5 in October 2004.

[3] Profit margins for On-line games range from 24.4% for Super Lotto to 61.6% for Kicker.

[4] This measure is different from net profits from operations.

Lottery Profits Education Fund Disbursements, FY 2005

¾ Melaney Carter

During FY 2005, transfers into Fund 017, the Lottery Profits Education Fund (LPEF), from the State Lottery Fund exceeded disbursements by $7.2 million. These excess funds will be transferred in FY 2005 into Fund 018, the Lottery Profits Education Reserve Fund (LPERF). The balance of the LPERF at the end of FY 2005 (before the transfer of excess FY 2005 funds) was $32.8 million. Funds from the LPERF can be transferred, with Controlling Board approval, into the LPEF if funds in the LPEF are not sufficient to meet the appropriation in any given year.

Disbursements from the LPEF totaled $637.9 million in FY 2005. These funds were disbursed through two appropriation items, 200-612, Base Cost Funding, and 200-682, Lease Rental, both in the Ohio Department of Education's budget. The following table summarizes appropriations and disbursements from the LPEF in FY 2005.

Base Cost Funding

The $606.2 million of lottery profits spending from appropriation item 200-612, Base Cost Funding, was combined with GRF appropriation item 200-501, Base Cost Funding ($4,588.6 million), to fund the state school foundation aid program in FY 2005. This program provides the state's share of per pupil funding that guarantees $5,169 per pupil in state and local funding for FY 2005. The program also provides the state's share of additional special and career-technical education costs, known as weighted cost funding. With the combination of GRF and lottery profits money, base cost funding ($5,194.8 million) represented approximately 64.5% of the Department of Education's total GRF and LPEF disbursements in FY 2005.

Lease Rental

Money from appropriation item 200-682, Lease Rental, is transferred to the School Facilities Commission to support GRF appropriation item 230-428, Lease Rental Payments. These funds are used to pay any debt service incurred by the Treasurer of State from the issuance of nongeneral obligation bonds to fund school building improvements. General obligation bonds for school building improvements are supported by GRF appropriation item 230-908, Common Schools G.O. Debt Service. Disbursements from this item totaled $133.7 million in FY 2005.

FY 2005 LPEF (017) Appropriation and Disbursement Summary					
Agency	Fund	Line Item	Line Item Name	FY 2005 Appropriation	FY 2005 Disbursement
EDU	017	200-612	Base Cost Funding	$606,195,300	$606,195,300
EDU	017	200-682	Lease Rental	$31,704,700	$31,704,700
			Total LPEF	**$637,900,000**	**$637,900,000**

School Facilities Update, Fiscal Year 2005

— Ed Millane

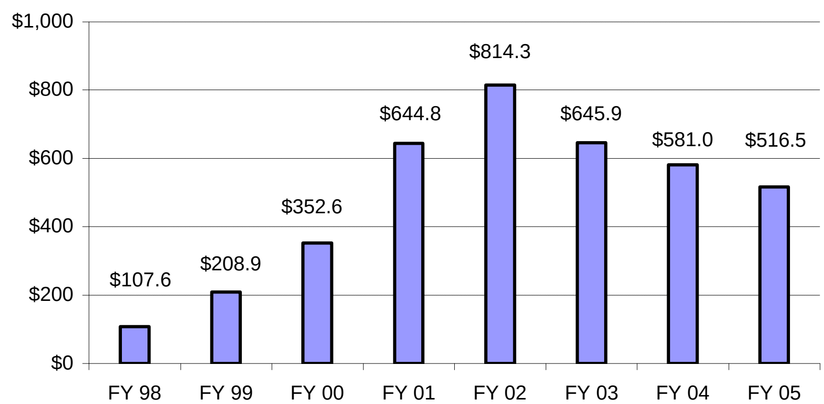
Since its inception in 1997, the Ohio School Facilities Commission (SFC) has disbursed almost $3.9 billion and has received appropriations through FY 2005 of nearly $5.0 billion. Through its four major programs, the SFC has served approximately 236 school districts and provided support for 293 new or renovated buildings in those districts.

The SFC's disbursements totaled approximately $516.5 million in FY 2005, a decrease of $64.5 million (11.1%) from FY 2004. This decrease, continuing the trend since FY 2003, is largely due to the acceptance of the six major urban districts (Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo) into the Classroom Facilities Assistance Program (CFAP) in FY 2003 under the Accelerated Urban Initiative. Due to the size and complexity of these districts, their facilities projects are divided into multiple phases. For example, Cleveland has nine phases, the last of which is not scheduled to begin until 2010. Currently, Toledo has entered into phase three of its project. Cincinnati, Cleveland, Columbus, and Dayton have reached phase two, while Akron is still in phase one. In addition, state and local shares are spent simultaneously in these urban district projects, unlike the case with smaller districts, where the state share is disbursed before the local share. The majority of districts served under the CFAP prior to FY 2003 were small, low wealth districts.

Of the $516.5 million disbursed in FY 2005, $475.7 million (92.1%) was from bond proceeds, while $23.1 million (4.5%) was from tobacco settlement revenue. The remaining $17.7 million (3.4%) came from the General Revenue Fund (GRF) and federal funds. Approximately $464.6 million (89.9%) of FY 2005 disbursements went to the CFAP, while $44.9 million (8.7%) was disbursed for the Exceptional Needs Program (ENP). The remaining $7.0 million (1.4%) went toward other SFC programs.

In FY 2005, 11 districts were approved to participate in the CFAP, bringing the total served by this program to 140 districts. The SFC has offered CFAP funding to approximately 22 new districts in FY 2006. Four school districts were accepted to participate in the ENP in FY 2005. This brings the total number of ENP school districts served to 27. Unlike the CFAP, where eligibility is based on an equity list developed by the Ohio Department of Education (ODE) and the

SFC Disbursements by Fiscal Year (in millions)



entire district's facility needs are addressed, the ENP is designed to assist school districts with below average wealth in addressing the health and safety needs associated with a specific building. The SFC has offered to serve another six school districts under this program in FY 2006.

Through February 2004, the SFC had approved a total of 122 school districts for participation in the Expedited Local Partnership Program (ELPP). Under the ELPP, school districts are able to use local funds to begin their school facilities projects before becoming eligible for the CFAP. Once the school district becomes eligible under the CFAP, it receives a credit for the local funds it has spent against its required local contribution under the CFAP. These 122 ELPP districts have accumulated a total credit of $2.8 billion against state funds. Furthermore, three ELPP districts that became eligible for and were served by the CFAP in FY 2005 had a combined ELPP credit of $41.3 million. In the next few years, more ELPP districts will be eligible for participating in the CFAP.

In FY 2005, Southern Hills JVSD in Brown County became the first district served by the Vocational Facilities Assistance Program (VFAP). This program operates similarly to the CFAP. The SFC has the authority to spend up to 2% of its annual appropriations for the VFAP program. The state contribution for this district amounts to $7.7 million, which is 74.8% of the $10.3 million total cost. The SFC has offered to serve another school district under this program in FY 2006.

Am. Sub. H.B. 16, the capital appropriations act of the 126th General Assembly, appropriated $544.6 million in bond proceeds and GRF cash to the SFC for the FY 2005-FY 2006 biennium. Am. Sub. H.B. 66, the main operating appropriations act of the 126th General Assembly, requires GRF transfers of $80.0 million to the Public School Building Fund (Fund 021) in FY 2006. It also requires the remaining balance of funds from the Tobacco Master Settlement Agreement that would otherwise go to the Tobacco Use Prevention and Cessation Trust Fund, after all other transfers have been made, to be transferred to the Education Facilities Trust Fund (Fund N87) in FY 2006 and FY 2007. When combined with the 125th General Assembly's actions on Sub. S.B. 189 and Sub. H.B. 234, the total funding for the FY 2005-2006 biennium amounts to almost $1.4 billion.

Finally, H.B. 66 also created the Half-Mill Equalization Program, to be jointly administered by the ODE and the SFC. Beginning in FY 2007, the program will provide equalized subsidies to school districts that have met or will meet the one half-mill maintenance requirement for participation in the CFAP. Only school districts with below the statewide average valuation per pupil are eligible for this funding. The program ensures that any such district will have the same amount of per pupil maintenance revenue for its SFC-assisted project as the average wealth district in the state. The ODE was appropriated $10.7 million in FY 2007 for the program.