Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION SEPTEMBER 2005

FISCAL OVERVIEW

— *Allan Lundell*

Two months into FY 2006, GRF receipts are $57 million below estimate, program disbursements are $102 million below estimate, and the cash balance is above its expected level.

Tracking the Economy

Hurricane Katrina struck the Gulf Coast on August 29, causing extensive devastation in New Orleans and nearby communities. The storm disrupted crude oil and natural gas production, refining, and distribution in a region where these activities are concentrated. The U.S. economy had been expanding at a healthy pace before Katrina hit and is expected to continue to grow, but at a slower pace. Real GDP growth is estimated to fall by more than half a percentage point for the second half of 2005, but pick up in 2006 as reconstruction spending makes its way into the economy.

Receipts

Fiscal year-to-date GRF receipts are $57 million (1.4%) below estimate, state-source receipts are $43 million (1.5%) below estimate, and tax revenues are $53 million (1.9%) below estimate. Revenue from the cigarette tax is below estimate by $34 million (18.1%) and revenue from the nonauto sales tax is below estimate by $33 million (2.8%). Compared to the same point in FY 2005, GRF receipts are up 7.2%, state-source receipts are up 3.9%, and tax revenue is up 3.8%.

Disbursements

GRF program disbursements for the fiscal year to date are $102 million (2.3%) below estimate. Disbursements for health care/ Medicaid are $73 million (3.9%) below estimate, disbursements for primary and secondary education are $41 million (3.3%) below estimate, and disbursements for justice and corrections are below estimate by $23 million (5.9%). Disbursements for property tax relief are above estimate by $25 million (346.9%) and disbursements for development are $22 million (85.4%) above estimate. Compared

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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 August	Fiscal Year 2006 to Date	Last Year	Difference
Beginning Cash Balance	**$277.1**	**$1,209.2**		
Plus Revenue and Transfers In	$2,037.0	$3,881.0		
Available Resources	**$2,314.1**	**$5,090.2**		
Less Disbursements and Transfers Out	$2,218.7	$4,994.8		
Ending Cash Balances	**$95.4**	**$95.4**	**-$42.8**	**$138.3**
Less Encumbrances and Accts. Payable		$1,096.4	$819.7	$276.7
Unobligated Balance		-$1,001.0	-$862.5	-$138.5
Plus BSF Balance		$576.6	$180.7	$395.9
Combined GRF and BSF Balance		-$424.4	-$681.8	$257.4

to the same point in FY 2005, GRF program disbursements are up 6.2%.

Cash Balance

As shown in Table 1, the GRF began FY 2006 with a $1,209 million cash balance. Through August, FY 2006 revenues plus transfers in totaled $3,881 million and disbursements plus transfers out totaled $4,995 million. Transfers out include the following transfers made in early July: $60 million to Fund 5AX, TANF; $50 million to Fund 021, Public School Building; $40 million to Fund 5E2, Disaster Services; and $394.2 million to the BSF (Fund 013). The year-to-date deficit of $1,114 million reduced the cash balance to $95 million. If receipts and disbursements had equaled their estimates, the cash balance would have been $69 million, $26 million lower than the actual level.

Encumbrances and accounts payable of $1,096 million combine with the cash balance to yield an unobligated balance of -$1,001 million. This amount is $139 million lower (more negative) than a year ago. The $577 million in the BSF is $396 million higher than a year ago, so the combined GRF and BSF balance of -$424 million is $257 million higher (less negative) than it was a year ago.

Tracking the Economy

—*Phil Cummins and Ross Miller*

Hurricane Katrina, which struck the Gulf Coast early on August 29, caused extensive devastation in New Orleans and nearby communities, and disrupted crude oil and natural gas production, refining, and distribution in a region where these activities are concentrated, as well as shipping through one of the world's principal seaports. Energy prices jumped as a consequence. Crude oil and natural gas prices rose to record levels. Sharply higher prices for gasoline and other energy products are reducing consumer and business purchasing power available for spending on other goods and services, spreading the hurricane's impact to Ohio and elsewhere across the country.

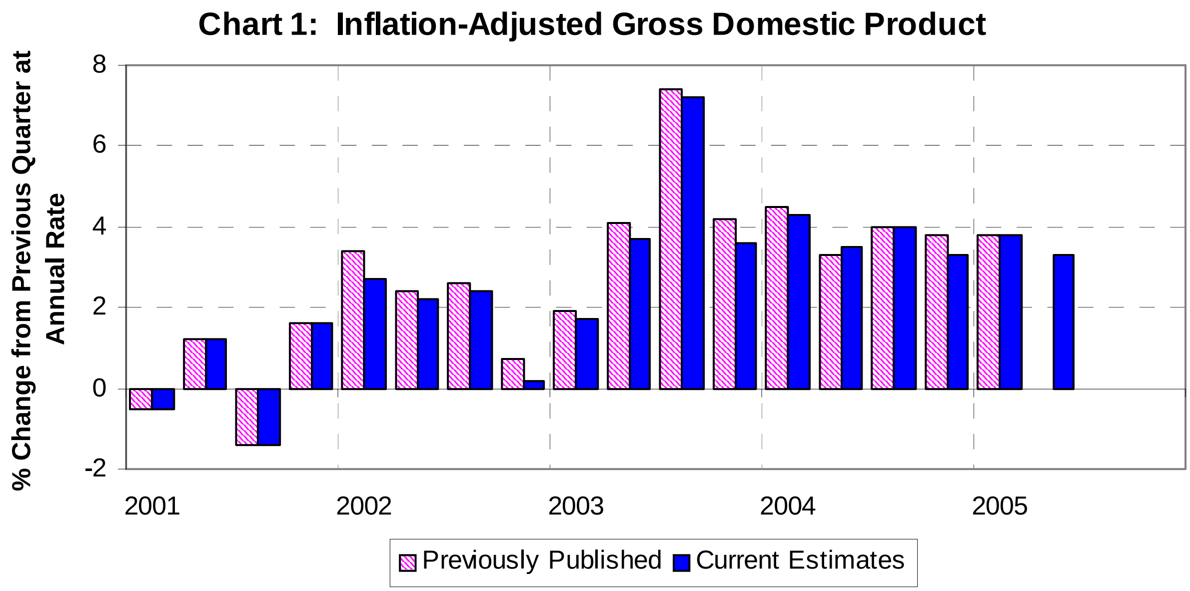
Prior to the hurricane, the nation's economy was expanding, accompanied by moderate inflation at the finished goods level apart from the rising cost of energy. Prices for other commodities appear to be heating up again. Some economic statistics for August were unaffected by the hurricane, including employment, unemployment, and the producer price index. Other August statistics were affected, including industrial production, retail sales, and consumer prices. Reports for the next several months will reflect the disruptions from the hurricane, followed by repair and rebuilding, along with consumer and business responses to the jump in energy prices.

Because of damage to America's energy infrastructure, flooding in New Orleans, and other destruction, Hurricane Katrina is the most costly hurricane, in terms of economic losses, in the country's history, according to the National Oceanic and Atmospheric Administration. Various commentators have been attempting to assess the likely consequences for the economic outlook. This is an ongoing process as more becomes known about the extent of damage to equipment and structures, and as productive facilities shut down by the storm are brought back online. Fears of $100 per barrel crude oil appear to have faded, but world oil supplies remain tight. Four refineries may remain offline for an extended period, according to the Energy Information Administration, and Gulf of Mexico crude oil production was curtailed by more than half and natural gas production by over one-third as of September 15. The jump in the price of jet fuel may have contributed to decisions by two of the country's major airlines to seek bankruptcy protection, joining two others already operating under Chapter 11.

An analysis from the Congressional Budget Office (CBO), based on progress in restarting refineries and pipelines and in assessing damage as of September 6, estimates that the hurricane might reduce national economic growth in this year's second half by between one-half and one percentage point at an annual rate, and reduce employment by 400,000 at year-end. In the first half of 2006, CBO expects economic growth and employment to bounce back, as destroyed property is replaced. Increased government spending for disaster relief and rebuilding will require additional borrowing. The *New York Times* of September 9 cites Washington sources as expecting federal hurricane-related costs to exceed $100 billion. The *Wall Street Journal* of a week later refers to expectations that federal aid could cost twice this much. President Bush proposed a Gulf Opportunity Zone to spur economic growth in the region. Democratic leadership called for a Marshall Plan to rebuild the Gulf Coast.

Economic Growth Revised Slightly Lower Through the Second Quarter

In the April-June quarter, according to the latest estimates, inflation-adjusted gross domestic product (GDP) rose at a 3.3% annual rate. Revised figures from 2002 through the first quarter of this year show a hesitant recovery into 2003 followed by stronger growth, a pattern similar to that of previously published figures. GDP growth was revised slower in most quarters, by about 0.3% per year on average, mainly reflecting smaller



increases in consumer spending and business investment. Quarterly GDP growth is shown in Chart 1.

Third quarter gross domestic product will not be directly affected by the destruction of previously existing property by Hurricane Katrina. GDP, a measure of current production, will tend to be reduced by the loss of current output of goods and services as a result of the hurricane, but will tend to be increased by other activities undertaken in response to the hurricane. Rebuilding will add to GDP in future quarters. These various effects will generally be embedded in source data and not readily identifiable. Personal income and corporate profits, in the national accounts, will be reduced by hurricane destruction of uninsured structures and equipment. Payment of benefits for insured losses will reduce profits of domestic insurance companies, except for losses insured or reinsured by foreign carriers. The government's first estimate of third quarter GDP is scheduled for release October 28.

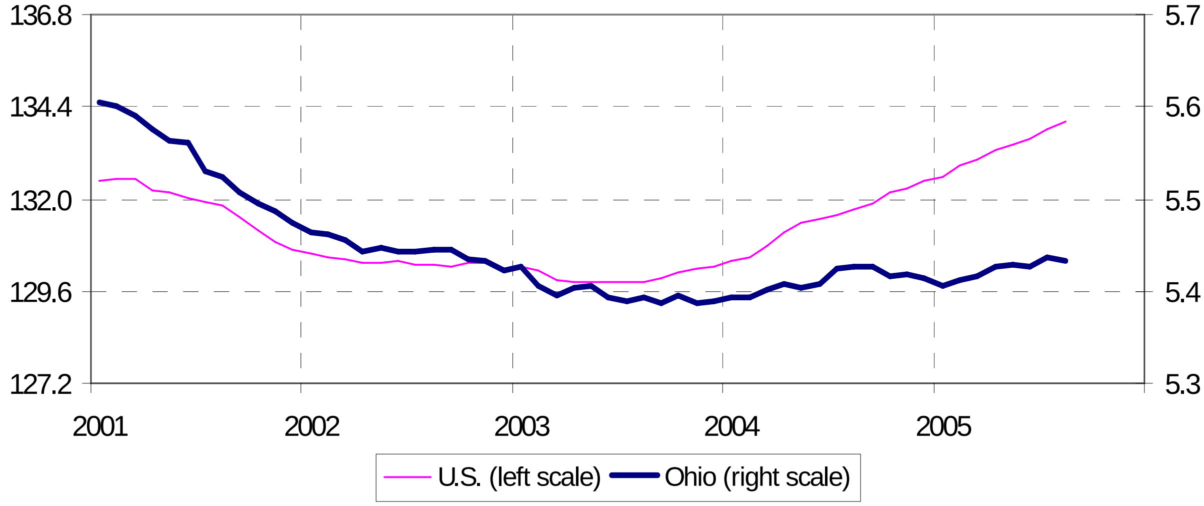
Employment Growing Nationwide, Trending Upward More Slowly in Ohio

Total nonfarm payroll employment nationwide rose 169,000 in August, continuing the uptrend underway since mid-2003. In the first eight months of this year, monthly payroll employment gains averaged 194,000 (equal to 2.3 million additional jobs per year), a little higher than the 183,000 monthly average in 2004. Unemployment fell slightly from 5.0% of the labor force in July to 4.9% last month, lowest since August 2001. Employment gains were mainly in a variety of service industries and in construction. Manufacturing employment again fell, to its lowest level since 1950. Over the latest year, the decline in employment in the motor vehicles and parts industry accounts for nearly half of the drop in total manufacturing jobs. Hurricane Katrina hit Florida and the Gulf Coast after the reference periods for the employment and unemployment surveys, so did not affect the August figures. However, employment in September is likely to be sharply reduced by the hurricane's impact.

Initial claims for unemployment insurance jumped more than 70,000 (seasonally adjusted) in the first full week of September, the biggest one-week rise in nearly a decade, with large increases in Alabama, Georgia, Louisiana, and Texas. Those states that commented attributed the rise mostly to layoffs resulting from Hurricane Katrina, including claims by evacuees to nearby states.

Total employment in the 86 counties and parishes in Alabama, Louisiana, and Mississippi most affected by the hurricane was about 2.7 million in July, according to the United States Bureau of Labor Statistics. Of this total, employment in 22,000 establishments in Louisiana and Mississippi located in FEMA-designated

Chart 2: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



areas that were either flooded or subject to storm damage totaled about 370,000.

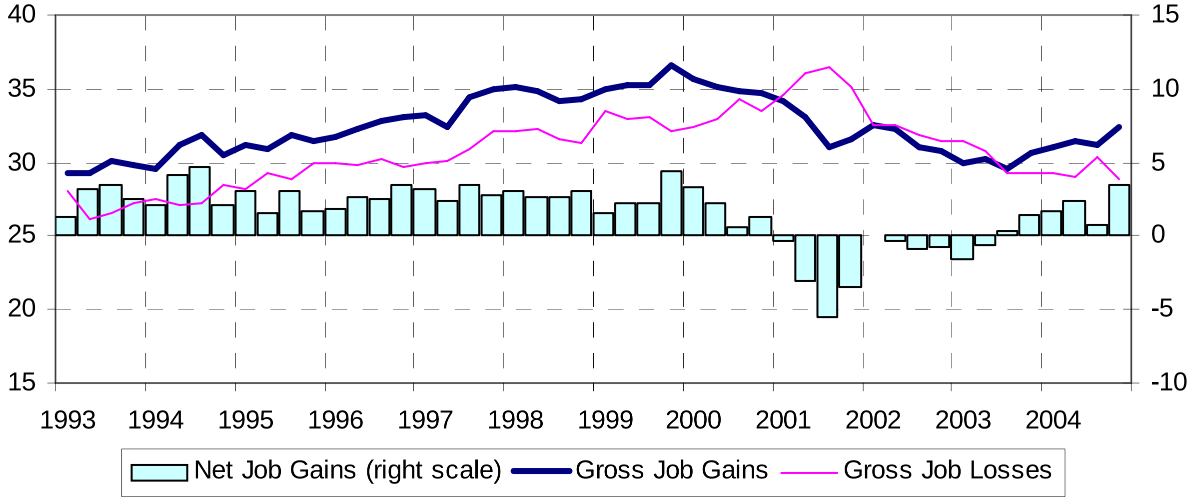
Ohio total payroll employment fell 4,000 in August after rising 11,500 in July. At about 5.4 million workers, the total was 6,600 or 0.1% above a year earlier. Employment gains during the past year were mostly in services, particularly professional and business services, followed by education and health. Manufacturing employment fell. Unemployment in the state rose to 5.9% of the labor force in August from 5.7% in July. Chart 2 shows payroll employment in the nation and Ohio.

The outlook for hiring in this year's fourth quarter is about as robust as it has been over the past year, according to results of a quarterly survey by Manpower, Inc. Nationwide, 29% of employers interviewed expected to add to employment, while 8% planned to reduce payrolls. Net hiring, represented by the difference, +21%, between these two figures, is the same as a year ago and about equals the average of the past four quarters. Hiring expectations are strongest in the West and South, weakest in the Midwest.

Data on gross job gains and losses indicate an improving job market late last year. This report, available quarterly and only with a long lag, gives a better sense of the dynamic churning of American labor markets than the much smaller monthly net changes. In the fourth quarter of 2004, the latest data available, gross job gains were the highest in nearly three years while gross job losses were the fewest in more than nine years. The resulting net gain was the strongest since 1999. In this report, gross job gains are defined as increases from three months earlier in employment at those existing establishments where employment rose plus employment at new establishments, based on unemployment insurance records. Gross job losses are declines compared with three months earlier in employment at existing establishments where employment fell and at establishments that closed. These figures are shown in Chart 3, annualized by multiplying them by four.

Manufacturing activity nationwide continued to expand in August, according to purchasing managers surveyed by the Institute for Supply Management (ISM). More survey respondents indicated that output and new orders were rising at their companies than reported they were contracting. Increases were less widespread than in July. Those seeing rising backlogs of orders slightly outnumbered those with shrinking backlogs, reversing the net decline of the month before. However, inventories shrank for the fifth consecutive month. Upward pressures on prices paid re-emerged and were again widespread in August, after easing earlier in late spring and summer. Those surveyed indicated particular concern about high energy prices. A comparable

Chart 3: Private Sector Employment Gains and Losses
Millions of Jobs at Annual Rate



ISM survey of nonmanufacturing organizations indicated more widespread increases in orders and inventories in August than in July, accompanied by increases in prices paid for numerous products. Increases in nonmanufacturing business activity last month were the most widespread since April 2004.

Slower Rise in Industrial Output

Industrial production rose 0.1% in August, the same as in July, to 3.1% above a year earlier. Hurricane Katrina is estimated to have reduced August output by 0.3 percentage point, affecting oil and gas extraction, petroleum refining, and industrial chemicals manufacturing more severely than other industries. Total factory output rose 0.3% last month to 2.9% above August 2004.

Manufacturers' orders fell 1.9% in July, the largest decline in 15 months, after strengthening in the second quarter. New orders for factory output are often volatile from month to month. Year-to-date orders are 7% higher than a year earlier, following a 10% rise in 2004. Order backlogs at manufacturers jumped 1% in July to 9% above a year earlier.

Economic activity was rising throughout most of the country in July and August, according to the Federal Reserve's latest Beige Book, written by the 12 District banks just before Hurricane Katrina struck the Gulf Coast. Business conditions were generally improving in the Cleveland Federal Reserve District, which includes all of Ohio and parts of three adjacent states. Production was expanding at most manufacturers in the District, according to this report. Sales were strong at auto dealers but softer recently at some other retailers, attributed to high gasoline prices and warm weather discouraging buying of fall merchandise. Nonresidential building was improving while homebuilding was weaker. Demand for trucking and shipping services rebounded in August after slowing slightly in July.

Retail Sales Slip on Lower Motor Vehicle Deliveries

Retail sales in August fell 2.1% from July, the sharpest monthly drop in nearly 4 years. Lower motor vehicle sales more than accounted for the decline. Excluding vehicle and parts dealers, retail sales last month rose 1%. Total retail sales in August were 7.9% above a year earlier. The retail sales report covers the entire calendar month and so includes the effect of Hurricane Katrina, but the Census Bureau, which produces the report, indicated that it is unable to quantify that effect.

Residential Markets Remain at High Levels

Housing sales and starts are at high levels. Construction activity has been about flat recently. Replacement of housing lost to the hurricane will boost future activity. Housing starts in July were again above a 2 million unit annual rate nationwide. Starts on single-family homes were at one of the highest rates on record. Year-to-date starts on construction of new housing were 5% above a year earlier in the nation, and 1% higher in the Midwest.

Sales of new homes in the United States rose in July to the highest rate ever. In the first seven months of this year, home sales were 8% above a year earlier nationwide and 2% higher in the Midwest. Sales of used homes remained strong in July but slowed from the highest level on record for the nation in June. Year-to-date used home sales in this year's first seven months were 5% above a year earlier nationwide, 2% higher in the Midwest, and up 5% in Ohio.[1]

In contrast with this highest ever sales pace in Ohio for used homes, construction of new housing here, measured by issuance of building permits, continues below 2004. This year's weakness in Ohio residential construction is concentrated in single-family structures. The number of housing units for which permits were issued in Ohio in the first seven months of this year was 8% below a year earlier, following a 6% decline in all of 2004.

The total value of new construction put in place in the United States in July is estimated to be about unchanged from June. Year-to-date private residential building is 12% above a year earlier but has been about flat in recent months. Private nonresidential building, for 7 months, is 5% above a year earlier; it remains below levels reached in the late 1990s and early in the current decade. Year-to-date public construction is 6% higher than a year earlier.

Finished Goods Inflation Tame Apart from Energy

The producer price index for finished goods rose 0.6% in August to 5.1% above a year earlier, reflecting the third consecutive month of sharply higher energy prices. The pricing date for this report was prior to and so unaffected by Hurricane Katrina. Excluding energy, finished producer goods prices fell slightly. At earlier stages in the production process, energy prices also surged. Prices of crude materials other than food and energy rose 4.6% in August, the second large increase in a row following declines almost every month during the first half of the year.

After Hurricane Katrina tore through oil producing and refining areas in and near the Gulf of Mexico, the benchmark United States crude oil rose to an all-time high around $70 per 42-gallon barrel, from $61-$67 earlier in August and $40-$50 near the beginning of 2005. Gasoline prices across the nation rose more sharply as refinery and pipeline shutdowns curtailed supply. The average retail price of regular gasoline nationwide jumped to $3.04 per gallon on September 5 from $2.58 a week earlier, and under $2 early in 2005 (Energy Information Administration data). Prices in Ohio were similar. Prices have since eased below $3. As refineries and pipelines have been brought back into service, the price of gasoline has begun to fall toward a more normal relationship with that of crude oil.

The consumer price index rose 0.5% in August to 3.6% above a year earlier. Higher energy prices, up 5%, accounted for most of this increase, though apparel prices rose 1% after falling in most months earlier in the year. Excluding food and energy, the CPI rose 0.1% to 2.1% above a year earlier. More than 90% of the data for August's CPI were collected prior to August 29, when the hurricane struck the Gulf Coast.

Short-Term Interest Rates Still Trending Upward

The nation's central bank raised short-term interest rates at both the early August and the September 20 meeting of its Federal Open Market Committee (FOMC). The FOMC increased its target for federal funds by 0.25 percentage point at both meetings, making the target rate 3.75% after the September meeting. A statement released after the September meeting acknowledged the widespread devastation in the Gulf region, and the accompanying impact on the economy, but indicated that FOMC members view the impact of Hurricane Katrina as affecting "near-term economic performance" while not posing "a more persistent threat."

One member of the committee voted against the increase in the federal funds target rate at the September meeting; votes at previous meetings had been reported as unanimous. This may be due to disagreement over the impact of the hurricane, or it may suggest that the committee's characterization of rate increases as removing "policy accommodation" is becoming fuzzier as the inflation-adjusted interest rate, now in the neighborhood of 1.6% to 1.7%, approaches 2%. Many economists view a 2% inflation-adjusted, or "real," federal funds rate to be a neutral policy stance, neither providing stimulus to the economy nor a tendency to slow its growth. Nevertheless, at least one further hike in the federal funds target appeared likely since the September statement continued to employ the forward-looking language it has for the last several meetings that the committee believes that "policy accommodation can be removed at a pace that is likely to be measured." The FOMC is next scheduled to meet on November 1.

Despite the ongoing expansion and concerns about the potential for escalation of inflation, longer-term interest rates remain low. The 10-year U.S. Treasury note yield fell almost to 4% at the end of August, near the lower end of the range in which it has fluctuated for more than a year, before rising somewhat in September.

[1] *Sources: National Association of Realtors, Ohio Association of Realtors.*

Status of the General Revenue Fund

REVENUE

— *Jean Botomogno and Allan Lundell*

Two months into FY 2006, the revenue picture is not yet clear. Receipts are greater than a year ago, but by less than estimated. Total GRF receipts are below estimate by $57.1 million (1.4%), state-source receipts (tax revenue plus nontax revenue plus transfers-in) are below estimate by $43.3 million (1.5%), and tax revenue is below estimate by $52.9 million (1.9%). Revenue from the cigarette tax is below estimate by $33.7 million (18.1%) and revenue from the nonauto sales tax is below estimate by $32.9 million (2.8%). Revenue from the auto sales tax is $15.6 million (7.5%) above estimate.

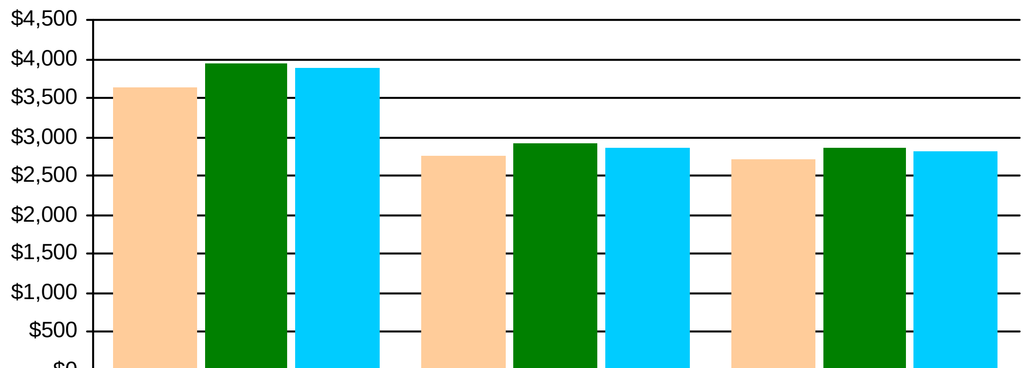
For the fiscal year to date, total GRF receipts are up 7.2% compared to FY 2005. State-source receipts are up 3.9% and tax revenue is up 3.8%. Revenue from the cigarette tax is up 129.1% due to the recently enacted rate increase, and revenue from the personal income tax is up 5.5%. Revenue from the nonauto sales tax is down 4.9%, but revenue from the auto sales tax is up 7.3%. Chart 1 compares FY 2006 receipts with FY 2005 receipts and FY 2006 estimates.

Personal Income Tax

The GRF has received $1,169.4 million from the personal income tax thus far this fiscal year. This amount is $8.1 million (0.7%) below estimate. The $1,271.8 million in revenue collected through withholding is $2.2 million (0.2%) above estimate. Withholding is expected to account for 74% of gross income tax collections for FY 2006. Year-to-date quarterly estimated payments of $26.9 million are $2.4 million (9.8%) above estimate.[1] Refunds total $55.5 million. This total is $12.4 million (28.7%) more than estimate.

Compared to a year ago, GRF revenue from the personal income tax is up 5.5%. Withholding, which reflects the condition of Ohio's labor market

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



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Total Tax Revenue
FY 2005	$3,620.5	$2,751.5	$2,698.0
FY 2006 Estimate	$3,938.1	$2,902.5	$2,853.3
FY 2006 Actual	$3,881.0	$2,859.2	$2,800.4

is up 6.0%. Gross collections are up 5.7%, refunds are up 27.6%, and net collections (gross collections minus refunds) are up 5.0%.

Sales and Use Tax

Through August, FY 2006 year-to-date total sales and use tax revenues were $1,358.4 million, $17.3 million (1.3%) below estimate and $43.2 million (3.1%) below receipts for the same period in FY 2005. The year-over-year decrease in sales and use tax revenues in the first two months of FY 2006 is largely due to the decrease in the tax rate to 5.5% on July 1, 2005 (down from 6.0% in FY 2005).

Nonauto Sales and Use Tax

In the first two months of FY 2006, nonauto sales and use tax revenues were $1,134.6 million, $32.9 million (2.8%) below estimate and $58.4 million (4.9%) below revenues in the first two months of FY 2005. The performance of this tax source was different in the two months. Revenues were $7.6 million (1.2%) above estimate in July and $40.5 million (7.5%) below estimate in August.

Nationwide retail sales (excluding autos and gasoline sales) were flat in July 2005 and grew 0.5% in August 2005. Compared to sales a year ago, nationwide retail sales (excluding autos and gasoline sales) grew 6.7% and 7.0% in July and August 2005, respectively. Higher gasoline prices may be affecting nonauto sales and use tax revenues because they reduce consumer spending on items taxable under the sales and use tax. Also, motor fuel is not included in the nonauto sales and use tax base, thus higher sales at gasoline stations have no beneficial impact on sales and use tax revenues.

Auto Sales and Use Tax

As of August 2005, FY 2006 year-to-date auto sales tax receipts were $223.9 million, $15.6 million (7.5%) above estimate and $15.1 million (7.3%) higher than receipts through the same period in FY 2005. July revenues were $6.5 million (6.4%) above estimate and August revenues were above estimate by $9.1 million (8.6%).

Although volatile, nationwide auto and light trucks sales have been strong of late, which contributes to the good performance of the auto sales and use tax. The United States Department of Commerce reported that nationwide sales of auto and light trucks at motor vehicle dealers grew 6.1%, and unit sales jumped 11.7% in July 2005. In August 2005, sales at motor vehicle dealers fell 12.0%, and unit sales declined about 3.5%. Compared to sales in the first two months of FY 2005, sales at motor vehicle dealers increased 10.1% in the first two months of FY 2006. The swings in nationwide auto and light trucks sales are correlated to the level of incentives provided by automakers and dealers. The current “employee price” incentive program started by General Motors in June 2005, and subsequently followed by Daimler Chrysler and Ford, improved nationwide and Ohio auto and light trucks sales in the last three months. However, auto sales might weaken in the following months, thus potentially reducing auto sales and use tax receipts below estimates.

Corporate Franchise Tax

Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year. Corporate franchise tax estimated payments are due January 31, March 31, and May 31. By May 31 of each year, a corporation must pay the difference between its full tax liability and the first two estimated payments. Activities under the franchise tax in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations. As of August 2005, FY 2006 year-to-date corporate franchise tax refunds (negative receipts) were $5.4 million, $1.6 million above expected refunds. FY 2006 year-to-date receipts were also $15.0 million below year-to-date receipts in August 2004.

Cigarette and Other Tobacco Products Tax

Am. Sub. H.B. 66 (H.B. 66) increased the cigarette tax rate from $0.55 per pack of 20 cigarettes to $1.25 per pack of cigarettes on July 1, 2005. The tax on other tobacco products was not changed. The cigarette tax rate increase is expected to boost receipts from the tax on cigarette and other tobacco products by up to $457.0 million in FY 2006 and $443.0 million in FY 2007. H.B. 66 also imposed a "floor" tax on cigarettes in inventory on July 1, 2005. These cigarettes have the "old" stamp of $0.55 per pack of 20 cigarettes and dealers must pay the additional $0.70 on the amount of cigarettes in inventory. The "floor" tax, due on September 30, 2005, is expected to increase GRF revenues by about $64 million in FY 2006 only. H.B. 66 also allows an additional 5% discount to dealers for prompt remittance of the floor tax before or on August 15, 2005.[2]

In the first two months of FY 2006, total receipts from the cigarette and other tobacco products tax were $152.2 million, $33.7 million (18.1%) below estimate. Revenues were $0.9 million (6.1%) below estimate in July and $32.8 million (19.2%) below estimate in August. The poor performance in the first two months of FY 2006 may be due to increased cigarette sales in May and June 2005 in anticipation of the tax increase of July 1, 2005. FY 2006 year-to-date revenues from this tax source were $85.7 million (129.1%) above revenues in FY 2005. The large increase in cigarette tax revenues compared to year-ago revenue is due to the tax rate increase.

[1] 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.

[2] Under existing law, cigarette excise taxpayers are eligible for a 1.8% discount when purchasing stamps as a commission for affixing stamps.

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

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$115,344	$106,256	$9,089	8.6%
Nonauto Sales & Use	$502,300	$542,792	-$40,492	-7.5%
Total Sales & Use Taxes	$617,644	$649,047	-$31,403	-4.8%
Personal Income	$629,739	$635,500	-$5,761	-0.9%
Corporate Franchise	$687	-$750	$1,437	-191.5%
Public Utility	$44,949	$40,000	$4,949	12.4%
Kilowatt Hour Excise	$32,237	$29,900	$2,337	7.8%
Total Major Taxes	**$1,325,256**	**$1,353,697**	**-$28,441**	**-2.1%**
Commercial Activity Tax	$0	$0	$0	---
Foreign Insurance	$2	$50	-$48	-96.5%
Domestic Insurance	$872	$20	$852	4258.2%
Business & Property	$723	$200	$523	261.3%
Cigarette	$137,532	$170,300	-$32,768	-19.2%
Alcoholic Beverage	$4,726	$5,200	-$474	-9.1%
Liquor Gallonage	$2,828	$2,800	$28	1.0%
Estate	$183	$800	-$617	-77.1%
Total Other Taxes	$146,864	$179,370	-$32,506	-18.1%
	$0	$0		
Total Tax Revenue	**$1,472,120**	**$1,533,067**	**-$60,947**	**-4.0%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$5,390	$4,100	$1,290	31.5%
Other Revenue	$10,841	$8,050	$2,791	34.7%
Nontax State-Source Revenue	$16,231	$12,150	$4,081	33.6%
TRANSFERS				
Liquor Transfers	$11,000	$10,000	$1,000	10.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$2	$0	$2	---
Total Transfers In	$11,002	$10,000	$1,002	10.0%
	$0	$0		
TOTAL GRF before Federal Grants	**$1,499,353**	**$1,555,217**	**-$55,864**	**-3.6%**
Federal Grants	$537,674	$555,256	-$17,582	-3.2%
TOTAL GRF SOURCES	**$2,037,027**	**$2,110,474**	**-$73,446**	**-3.5%**

* August 2005 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 2006 as of August 2005
($ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
TAX REVENUE						
Auto Sales	$223,875	$208,256	$15,620	7.5%	$208,685	7.3%
Nonauto Sales & Use	$1,134,579	$1,167,475	-$32,896	-2.8%	$1,192,991	-4.9%
Total Sales & Use Taxes	$1,358,454	$1,375,730	-$17,276	-1.3%	$1,401,676	-3.1%
Personal Income	$1,169,394	$1,177,500	-$8,106	-0.7%	$1,108,615	5.5%
Corporate Franchise	-$5,352	-$3,750	-$1,602	42.7%	$9,677	-155.3%
Public Utility	$44,949	$40,000	$4,949	12.4%	$35,817	25.5%
Kilowatt Hour Excise	$60,685	$58,400	$2,285	3.9%	$58,406	3.9%
Total Major Taxes	**$2,628,130**	**$2,647,880**	**-$19,751**	**-0.7%**	**$2,614,192**	**0.5%**
Commercial Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	$232	$50	$182	364.2%	$117	98.7%
Domestic Insurance	$872	$30	$842	2805.5%	$3	28136.4%
Business & Property	$723	$900	-$177	-19.6%	$796	-9.2%
Cigarette	$152,178	$185,900	-$33,722	-18.1%	$66,422	129.1%
Alcoholic Beverage	$10,778	$10,700	$78	0.7%	$10,787	-0.1%
Liquor Gallonage	$5,588	$5,400	$188	3.5%	$5,466	2.2%
Estate	$1,894	$2,400	-$506	-21.1%	$214	785.8%
Total Other Taxes	$172,265	$205,380	-$33,115	-16.1%	$83,805	105.6%
	$0	$0			$0	
Total Tax Revenue	**$2,800,395**	**$2,853,260**	**-$52,866**	**-1.9%**	**$2,697,997**	**3.8%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$0	$0	$0	---	-$168	-100.0%
Licenses and Fees	$11,174	$6,700	$4,474	66.8%	$9,981	11.9%
Other Revenue	$21,625	$17,500	$4,125	23.6%	$23,643	-8.5%
Nontax State-Source Revenue	$32,799	$24,200	$8,599	35.5%	$33,455	-2.0%
TRANSFERS						
Liquor Transfers	$21,000	$20,000	$1,000	5.0%	$20,000	5.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$5,002	$5,000	$2	0.0%	$0	---
Total Transfers In	$26,002	$25,000	$1,002	4.0%	$20,000	30.0%
TOTAL GRF before Federal Grants	**$2,859,196**	**$2,902,460**	**-$43,264**	**-1.5%**	**$2,751,452**	**3.9%**
Federal Grants	$1,021,824	$1,035,656	-$13,833	-1.3%	$869,071	17.6%
TOTAL GRF SOURCES	**$3,881,020**	**$3,938,117**	**-$57,097**	**-1.4%**	**$3,620,524**	**7.2%**

* August 2005 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

DISBURSEMENTS

— *Steve Mansfield**

This month's disbursements report keeps with tradition by starting the first installment of the new fiscal year with a brief explanation of the purposes of the monthly report on disbursements, i.e., outlays, from the General Revenue Fund (GRF). Each month the State Accounting Division of the Office of Budget and Management (OBM) reports actual disbursements that are made from appropriation line items and compares those actual figures to the monthly disbursement estimates that are produced at the beginning of each fiscal year by OBM. The difference between the particular actual disbursement and the estimate is called the "variance." A particular variance reflects spending that is either above or below the estimate.

As such, variances represent departures from the spending plan from which the estimates are derived. The Legislative Service Commission's fiscal staff track these variances and report on those that are significant in size. Throughout the fiscal year the majority of disbursement variances are "garden variety" monthly variances that stem from issues of "timing," which are determined, for example, by when requests for payment are actually submitted, processed, and issued. A common example is when State Accounting posts payroll amounts for a payday that lands near the end or beginning of a month, and the actual date of posting differs from what was assumed in the estimate. Such timing-related variances, if indeed they are really timing related, will self-correct by the end of the fiscal year, thus reducing the variance. In other words, the actual spending would move closer to the estimate as the year progresses, with the variance for the year moving closer to zero.

More interesting for purposes of this report are less common kinds of variances, those that might have a sustained impact on GRF spending, whether this is either above estimate (represented in positive numbers) or below estimate (represented in negative numbers). These sustained disbursement variances could result from implementation problems, changes in state policy, or changes in economic climate that trigger changes in spending, thus impacting future policy decisions. For example, larger than anticipated average daily membership (ADM) counts that influence Primary and Secondary Education spending from formula-funding line items, or larger than anticipated growth in the Medicaid caseload, both of which have happened in recent years, could produce significant disbursement variances. Hopefully, our regular scanning of GRF spending across state government will uncover these less common disbursement variances to the benefit of our readers.

Welfare/Human Services (-$88.9 million)

The Welfare/Human Services category posted a disbursement variance of $88.9 million under the estimate in August. The Health Care/Medicaid subcategory is the main contributor to the variance.

Health Care/Medicaid. Year-to-date disbursements through August in the Health Care/Medicaid program (primarily line item 600-525) are $72.6 million (3.9%) below the estimate (see Table 6). At the time of this writing, however, LSC analysts are unable to provide the usual detail about the contribution of the different service categories to the variance. Next month's edition of the Disbursement report will provide the usual Medicaid tables.

Education (-$34.4 million)

Through August, the Education category posted a variance of $34.4 million under estimate (4.4%). The Department of Education posted a $39.8 million variance under the estimate for the year to date. Disbursements by the Board of Regents partially offset this with a variance of $6.2 million over the estimate. The remainder of the category's variance is traceable to the smaller agencies in the category.

Department of Education. Through August, disbursements in the Department of Education

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$546,945	$587,508	-$40,563	-6.9%
Higher Education	$191,487	$185,312	$6,175	3.3%
Total Education	$738,432	$772,821	-$34,388	-4.4%
Health Care/Medicaid	$986,504	$1,059,056	-$72,552	-6.9%
Temporary Assistance to Needy Families (TANF)	$5,527	$5,527	$0	0.0%
General/Disability Assistance	$0	$0	$0	---
Other Welfare (2)	$53,881	$59,226	-$5,345	-9.0%
Human Services (3)	$130,912	$141,897	-$10,985	-7.7%
Total Welfare & Human Services	$1,176,824	$1,265,706	-$88,882	-7.0%
Justice & Corrections	$174,367	$197,599	-$23,232	-11.8%
Environment & Natural Resources	$9,312	$10,172	-$860	-8.5%
Transportation	$4,402	$4,623	-$221	-4.8%
Development	$39,294	$17,096	$22,198	129.8%
Other Government	$30,366	$31,957	-$1,591	-5.0%
Capital	$0	$13	-$13	-100.0%
Total Government Operations	$257,742	$261,460	-$3,718	-1.4%
Property Tax Relief (4)	$25,267	$550	$24,717	4494.0%
Debt Service	$18,560	$18,599	-$39	-0.2%
Total Other Disbursements	$43,827	$19,149	$24,678	128.9%
Total Program Disbursements	**$2,216,825**	**$2,319,135**	**-$102,309**	**-4.4%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$1,867	$0	$1,867	---
Total Transfers Out	$1,867	$0	$1,867	---
TOTAL GRF USES	**$2,218,692**	**$2,319,135**	**-$100,443**	**-4.3%**

(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 2005 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

were $1,176.1 million, which was $39.8 million (6.9%) below the estimate for the year to date. The largest contributor to the variance ($16.6 million under estimate) was line item 200-550, Foundation Funding. Given the size of the FY 2006 appropriation to this line item ($5,579.0 million) the variance is relatively small and stems from the use of formula data that at this stage of the fiscal year is not finalized. In these cases variances from the estimates is to be expected. Another significant disbursement variance ($10.4 million) occurred in line item

Table 5
General Revenue Fund Uses
Actual vs. Estimate
FY 2006 as of August 2005
($ in thousands)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2005**	**Percent Change**
Primary & Secondary Education (1)	$1,196,022	$1,236,585	-$40,563	-3.3%	$1,152,044	3.8%
Higher Education	$380,729	$374,554	$6,175	1.6%	$365,265	4.2%
Total Education	$1,576,750	$1,611,139	-$34,388	-2.1%	$1,517,309	3.9%
Health Care/Medicaid	$1,790,842	$1,863,394	-$72,552	-3.9%	$1,665,069	7.6%
Temporary Assistance to Needy Families (TANF)	$27,163	$27,163	$0	0.0%	$26,929	0.9%
General/Disability Assistance	$0	$0	$0	---	$4,921	-100.0%
Other Welfare (2)	$128,752	$134,097	-$5,345	-4.0%	$110,528	16.5%
Human Services (3)	$245,204	$256,189	-$10,985	-4.3%	$240,299	2.0%
Total Welfare & Human Services	$2,191,961	$2,280,842	-$88,882	-3.9%	$2,047,745	7.0%
Justice & Corrections	$370,320	$393,552	-$23,232	-5.9%	$359,978	2.9%
Environment & Natural Resources	$25,056	$25,916	-$860	-3.3%	$29,299	-14.5%
Transportation	$8,167	$8,388	-$221	-2.6%	$6,253	30.6%
Development	$48,197	$25,999	$22,198	85.4%	$23,706	103.3%
Other Government	$57,235	$58,826	-$1,591	-2.7%	$72,656	-21.2%
Capital	$0	$13	-$13	-100.0%	$0	---
Total Government Operations	$508,976	$512,694	-$3,718	-0.7%	$491,893	3.5%
Property Tax Relief (4)	$31,842	$7,125	$24,717	346.9%	$3,042	946.7%
Debt Service	$122,258	$122,297	-$39	0.0%	$112,996	8.2%
Total Other Disbursements	$154,100	$129,422	$24,678	19.1%	$116,038	32.8%
Total Program Disbursements	**$4,431,788**	**$4,534,097**	**-$102,309**	**-2.3%**	**$4,172,984**	**6.2%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$394,205	$0	$394,205	---	$0	---
Other Transfers Out	$168,834	$0	$168,834	---	$23,522	617.8%
Total Transfers Out	$563,039	$0	$563,039	---	$23,522	2293.7%
TOTAL GRF USES	**$4,994,827**	**$4,534,097**	**$460,730**	**10.2%**	**$4,196,506**	**19.0%**

(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 2005 estimates of the Office of Budget and Management.

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200-426, Ohio Educational Computer Network. The funds in this appropriation item are used to maintain and provided technical assistance for a system of information technology for schools throughout Ohio. This variance was simply a timing issue since grant payments were not posted in the month of August as had been expected.

Government Operations (-$3.7 million)

At the end of August, disbursements in the Government Operations category stood at $3.7 million under the estimate. The Ohio Cultural Facilities Commission (formerly known as the Arts and Sports Facilities Commission) made a lease payment in August (from line item 371-401, Lease Rental Payments), instead of as expected in September. This resulted in a timing-based variance of $29.0 million above the estimate. The Department of Rehabilitation and Corrections in the Justice and Corrections subcategory posted a partially offsetting variance that was $22.8 million under the estimate. This variance was also timing related since a payroll that was assumed by the estimates to be posted at the end of August was actually posted at the beginning of September. Both of these agencies should experience offsetting "corrections" in their September disbursements.

Tax Relief ($24.7 million)

Tax Relief payments through August totaled $31.8 million, which is $24.7 million (346.9%) over the estimate. Disbursement variances in the Property Tax Relief program are usually traceable to the timing of county auditor requests for reimbursement. Reimbursements being made now are for the second tax payment for tax year 2004, which generally was due from real property owners to counties by June 20. It appears that payments to school districts and other local governments merely began sooner than expected. No payments have been made so far this fiscal year for the $10,000 tangible property tax exemption.

The Property Tax Relief program, which carries an FY 2006 GRF appropriation of $1,256.0 million, reimburses school districts and local governments for revenue that is lost due to tax relief provided by state law to property owners and businesses through the homestead exemption, the property tax rollbacks, and the $10,000 tangible tax exemption. Tax relief funds are paid to school districts and local governments by the Department of Education and the Department of Taxation, respectively. Each of these departments divides its property tax relief program into two components: real property tax credits/exemptions, and tangible tax exemptions. The phased elimination of the 10% rollback for real property used primarily in a "business activity" under Am. Sub. H.B. 66 is effective beginning with tax year 2005, and will result in savings to the tax relief funds beginning in the spring of 2006.

**LSC colleagues who contributed to the development of this disbursement report included, in alphabetical order, Phil Cummins, Sarkis Mahdasian, Joe Rogers, and Kerry Sullivan.*