Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — OCTOBER 2005

FISCAL OVERVIEW

— *Allan Lundell*

One quarter into FY 2006, GRF receipts are $22 million below the August 2005 estimate of the Office of Budget and Management, program disbursements are $39 million below the estimate, and the cash balance is above its expected level.

Tracking the Economy

The effects of the hurricanes that struck the Gulf Coast in August and September dominated statistical reports during the past month. In September, national employment and industrial production fell, adversely affected by the hurricanes and by a strike at an aircraft maker. Retail sales continue to trend upward, though energy prices are taking a toll on household budgets. Housing sales and construction remain at a high level nationwide but are less robust in Ohio and the Midwest. Inflation shot up in September, reflecting the sharp rise in energy prices and widespread increases in prices for other industrial inputs.

Receipts

Total GRF receipts for September were above estimate by $36 million (1.7%). State-source receipts were $36 million (2.1%) above estimate and tax revenues were above estimate by $18 million (1.1%). Revenue from the auto sales tax was above estimate by $13 million (17.9%) and earnings on investments were $8 million (48%) above estimate. Revenue from the nonauto sales tax was $6 million (1.3%) below estimate and revenue from the income tax was below estimate by $1.4 million (0.2%).

Fiscal year-to-date GRF receipts are $22 million (0.4%) below estimate, state-source receipts are $8 million (0.2%) below estimate, and tax revenues are $35 million (0.8%) below estimate. Revenue from the auto sales tax is $29 million (10.3%) above estimate. Revenue from the nonauto sales tax is below estimate by $39 million (2.3%) and revenue from the cigarette tax is below estimate by $35 million (12.6%). Compared to the same point in

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Budget Footnotes examines the fiscal position of the state General Revenue Fund on a periodic basis.

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Table 1
General Revenue Fund
Simplified Cash Statement
($ in millions)

	Month of September	Fiscal Year 2006 to Date	Last Year	Difference
Beginning Cash Balance	**$95.4**	**$1,209.2**		
Plus Revenue and Transfers In	$2,179.5	$6,060.5		
Available Resources	**$2,274.9**	**$7,269.7**		
Less Disbursements and Transfers Out	$2,443.7	$7,438.5		
Ending Cash Balances	**-$168.8**	**-$168.8**	**-$125.7**	**-$43.1**
Less Encumbrances and Accts. Payable		$1,013.2	$740.7	$272.5
Unobligated Balance		**-$1,182.0**	**-$866.4**	**-$315.6**
Plus BSF Balance		$576.6	$180.7	$395.9
Combined GRF and BSF Balance		**-$605.4**	**-$685.7**	**$80.3**

FY 2005, GRF receipts are up 5.6%, state-source receipts are up 5.0%, and tax revenue is up 4.5%.

Disbursements

Program disbursements for September were above estimate by $63 million (2.7%). Disbursements for property tax relief were above estimate by $154 million (77.1%) and disbursements for higher education were $18 million (10.7%) above estimate. Disbursements for development were below estimate by $36 million (78.7%), disbursements for justice and corrections were below estimate by $29 million (12.4%), and disbursements for primary and secondary education were $23 million (4.0%) below estimate.

GRF program disbursements for the fiscal year to date are $39 million (0.6%) below estimate. Disbursements for health care/Medicaid are $80 million (2.9%) below estimate, disbursements for primary and secondary education are $63 million (3.5%) below estimate, disbursements for justice and corrections are below estimate by $53 million (8.3%), and disbursements for development are below estimate by $14 million (19.3%). Disbursements for property tax relief are above estimate by $179 million (86.4%). Compared to the same point in FY 2005, GRF program disbursements are up 7.9%.

Cash Balance

As shown in Table 1, the GRF began September with a $95 million cash balance. September revenues plus transfers in totaled $2,179 million and disbursements plus transfers out totaled $2,444 million. The monthly deficit of $264 million reduced the cash balance to -$169 million.[1] Although a negative cash balance may appear to be a cause for concern, the cash balance, due to the timing of revenues and disbursements, is generally negative early in the fiscal year before turning positive later in the year. If receipts and disbursements had equaled their estimates, the cash balance would have been -$185 million, $17 million lower (more negative) than the actual level.

Encumbrances and accounts payable of $1,013 million combine with the cash balance to yield an unobligated balance of -$1,182 million.

This amount is $316 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 -$605 million is $80 million higher (less negative) than it was a year ago.

[1] The GRF began FY 2006 with a $1,209 million cash balance. FY 2006 year-to-date revenues plus transfers in total $6,061 million and disbursements plus transfers out total $7,439 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 $1,378 million reduces the cash balance to -$169 million.

Tracking the Economy

— Phil Cummins

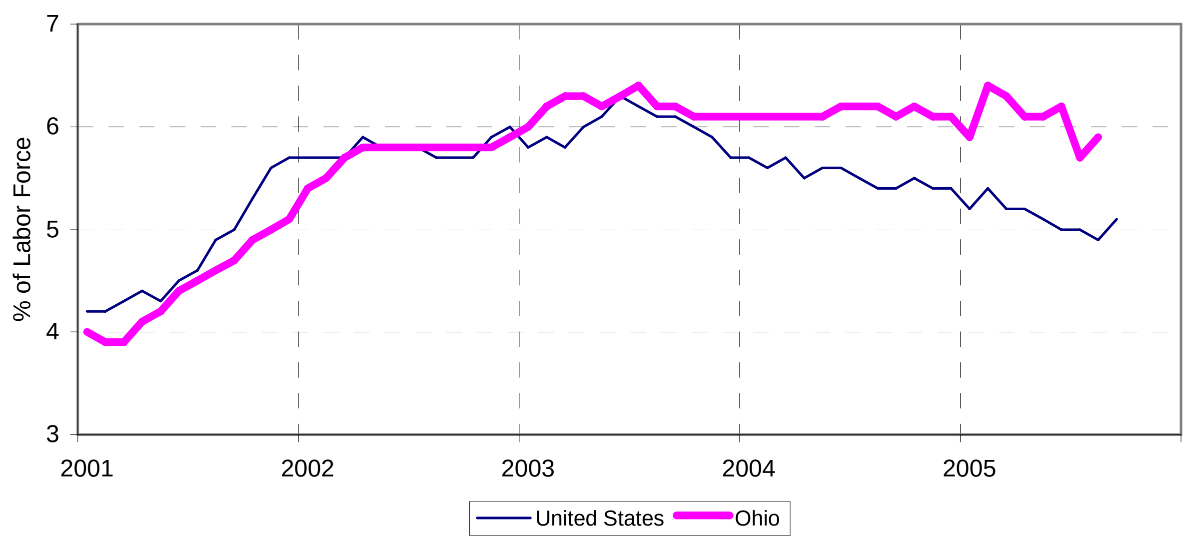
The effects of the hurricanes that struck the Gulf Coast in August and September dominated statistical reports during the past month. Hurricane Rita came ashore September 24 near the border between Louisiana and Texas. It followed Hurricane Katrina, which made landfall east of New Orleans. Hurricane Rita was less devastating onshore than had been feared, but nevertheless did extensive damage both onshore and offshore. It temporarily shut down almost all oil production and more than three-fourths of natural gas production in the Gulf of Mexico, and closed 16 refineries on the Gulf Coast in addition to the 4 that remained out of operation following Hurricane Katrina. Gasoline prices spiked back toward $3 per gallon for regular but have since eased as production has been partly restored and supplies improved. As of October 17, six refineries remained shut down, the Department of Energy reported, and others were operating at reduced rates. Gulf of Mexico oil and gas production still not in operation represents more than half of that region's wellhead capacity and 14% of total United States capacity.

In September, national employment and industrial production fell, adversely affected by the hurricanes and by a strike at an aircraft maker. In contrast, purchasing managers for manufacturers said expansion was more widespread. Retail sales overall continue to trend upward, though near-record energy prices are taking a toll on household budgets. Vehicle sales have slipped back after being boosted last summer by attractive incentive programs. Housing sales and construction remain at high levels nationwide, but are off from peaks, and are generally less robust in Ohio and in the Midwest as a whole. Inflation shot up in September reflecting the sharp rise in energy prices and widespread increases in prices for other industrial inputs. In the second quarter, United States gross domestic product rose 3.3% at an annual rate, after increasing at a 3.8% rate in the first quarter and 4.2% in 2004.

Employment Reflects Hurricane Impact

Nonfarm payroll employment nationwide fell 35,000 in September, the first monthly decline in more than two years. Unemployment rose to 5.1% of the labor force last month from 4.9% in August, as shown in Chart 1. Most of the rise in unemployment in September resulted from job losses, rather than voluntary separations or persons entering the labor market. The Bureau of Labor Statistics (BLS), which publishes the national figures, calculated that as a result of Hurricane Katrina roughly 230,000 people were

Chart 1: Unemployment Rates



out of work, equal to the difference between the actual decline in employment and the average payroll employment gain during the previous 12 months. This rough estimate may understate hurricane-related job losses, as some people may have been displaced by the hurricane but received pay for all or part of the pay period that included September 12, and so were counted as employed under BLS' definition of payroll employment. Hurricane Rita struck the coast after the reference period for the September numbers, but disrupted collection of data. Other developments affected September's national employment figures, including food and beverage store closings resulting from restructuring, a strike in the aerospace industry, and further growth in parts of the service sector in line with past trends. Information on Ohio employment and unemployment in September is scheduled for release October 21.

BLS announced that it expects to lower total nonfarm payroll employment by 191,000 nationwide as of March 2005 when it releases its annual revision of the data in February 2006. This downward adjustment, while substantial, is quite small compared with total nonfarm payroll employment of about 134 million workers. It is based on a preliminary count of jobs at all establishments, conducted once a year. In other months, only a sample is counted.

Prices Jump in Purchasing Managers' Reports

Purchasing managers at the nation's manufacturers reported more widespread expansion in activity at their firms in September than in August, in a monthly survey by the Institute for Supply Management (ISM), accompanied by heightened pressures on prices for a wide variety of raw materials. Production, orders, and backlogs rose. Prices paid in September were reported higher by 60% of respondents and lower by only 4%, a sharp turnaround from July when those paying less outnumbered those paying more. In contrast, purchasing managers in the nonmanufacturing sector surveyed by ISM reported that increases in business activity and orders were less widespread than a month earlier. Those seeing expansion continued to outnumber those reporting declines in activity. The prices paid index jumped to its highest ever level in the eight-year history of the nonmanufacturing survey.

Industrial Output Pared by Hurricanes

Industrial production fell 1.3% in September, the sharpest decline in any month since 1982. Disruptions in and along the Gulf of Mexico resulting from hurricanes Katrina and Rita accounted for much of the drop. A strike, settled late in the month, at a major aircraft manufacturer also significantly reduced output. The Federal Reserve, which produces these statistics, estimated that storm-related declines reduced total industrial production last month by 1.7 percentage points, more than accounting for the drop in the total index. Oil and gas extraction nationwide fell 13% in September, petroleum refining dropped 7%, and output of basic chemicals was reduced 14%. Production of aircraft and aircraft parts declined by 21%.

Retail Sales Growing, Apart from Month-to-Month Fluctuations in Vehicles

Retail sales rose 0.2% in September, after dropping 1.9% the month before, to 6.5% above a year earlier. These monthly swings are largely attributable to fluctuations in sales at motor vehicle dealers, driven by factory incentive programs and the surge in gasoline prices. Excluding motor vehicles, retail sales rose 1.1% in September after increasing 1% in August. Light truck sales were exceptionally strong in July as consumers rushed to take advantage of these incentives. Motor vehicle dealer inventories were trimmed in May, June, and especially July. Sharply higher gasoline prices are encouraging consumers to buy more fuel-efficient vehicles. This shift in demand, away from larger vehicles, is adding to pressures on domestic auto and parts makers, faced with heavy legacy costs, to cut spending. Gasoline station sales in September were 35% above a year earlier, reflecting the jump in prices. High energy prices will continue to be a burden for households into the winter, as heating costs well above those last year subtract from discretionary incomes.

Personal Income Growth in Ohio Trails Most Other States

Personal income in Ohio rose 1.3% in this year's second quarter to 5.2% above a year earlier. Income growth here continues to trail that in most other states. Personal income rose 6.5% nationwide in the year to the second quarter. Growth in Ohio ranked 44th in comparison with the other states in the latest year. In Chart 2, personal income in Ohio is compared to that in eight regions of the country, with income in all regions adjusted to dollars of constant purchasing power using the national price deflator for consumer spending. These figures are then indexed to 100 in the first quarter of 2001, the peak of the previous business cycle expansion. The strongest growth was in the South and West, labeled "Other Regions" on the chart. Ohio's personal income growth outpaced that in Michigan and Illinois among Great Lakes states, but trailed that in Indiana and Wisconsin. It also outpaced that in New England, reflecting slower growth in Massachusetts and Connecticut. Personal income growth in New York, included in the Mideast region of the country, also trailed that in Ohio.

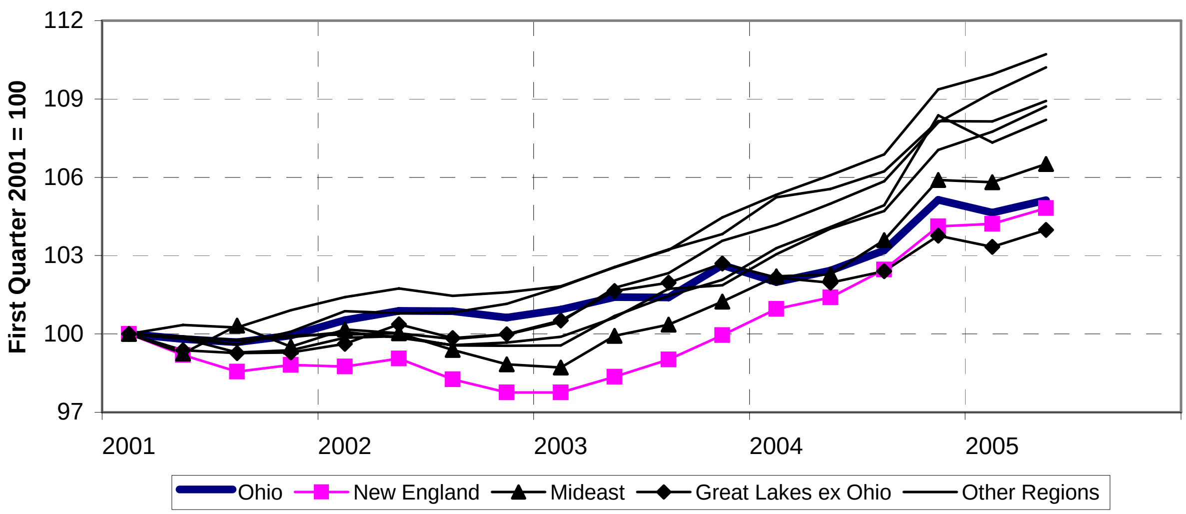
Housing Market Activity at a High Level, but Construction Slips in Ohio

Housing starts nationwide remained at a high level in September, above a two million unit annual rate but below peaks reached early in the year. Year-to-date starts were 6% above a year earlier nationwide and 1% higher than the year-ago level in the Midwest. Used home sales, reported by the National Association of Realtors, rose in August to the second highest level ever for the nation, and year-to-date sales were up 5%. New home sales, however, fell 10% in August, though year-to-date new home sales were 7% higher nationwide and 2% higher in the Midwest. In Ohio, used home sales also were up through August, with year-to-date sales 5% higher than a year ago. In contrast, permits for construction of new housing in the state were 7% below a year earlier, for eight months, after falling 6% in all of 2004.

Inflation Surges

The producer price index for finished goods rose 1.9% in September, the largest monthly increase since 1990, to 6.9% above a year earlier. Prices for finished energy goods rose 7.1% in the latest month and food prices rose 1.4%. Excluding food and energy, finished goods prices rose much more modestly, increasing 0.3% last month to 2.6% above a year earlier. At earlier stages in the production process, energy prices were also up sharply, but price indexes excluding food and energy accelerated. Prices for crude materials other than food and energy rose 5.3% in September, the third consecutive sizable increase.

Chart 2: Personal Income Inflation Adjusted



The consumer price index rose 1.2% in September, the largest monthly increase since 1980, to 4.7% above a year earlier. Energy prices paid by consumers increased 12% in September from the previous month, the largest of three consecutive sizable increases. Gasoline prices jumped 17% from their prior all-time peak in August. Excluding energy costs, however, consumer price inflation remained relatively tame last month, as that index rose 0.2% to 2% above a year earlier.

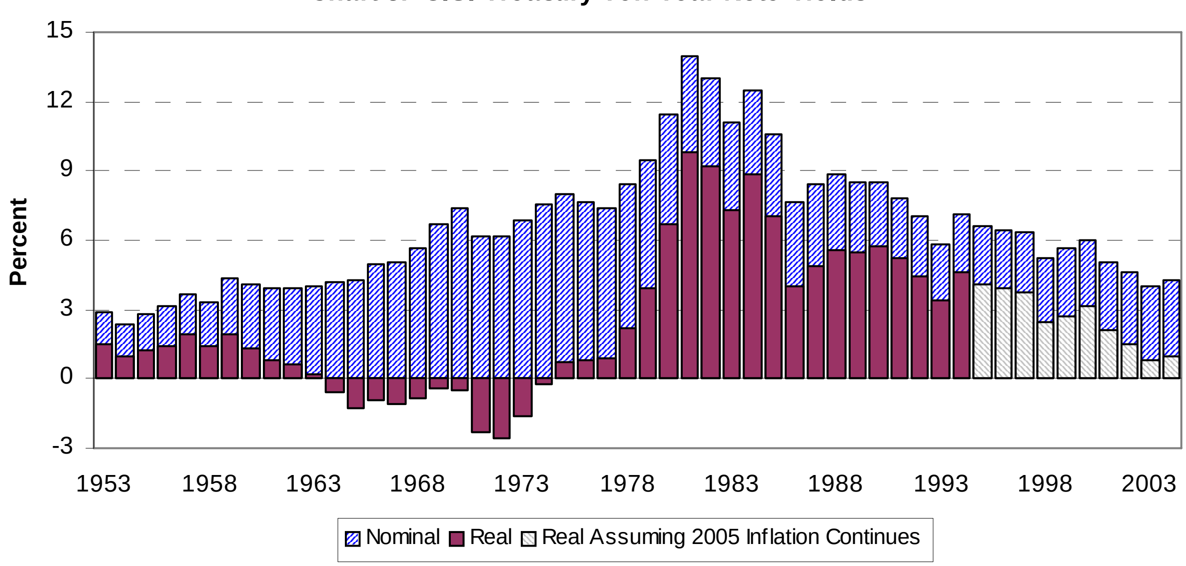
Further Increases in Short-Term Interest Rates Expected

Officials of the nation's central bank, at the September 20 meeting of the Federal Open Market Committee (FOMC), were nearly unanimous in thinking that a pause in raising interest rates in response to hurricane devastation might mislead the public about their expectations for the economy's strength and their determination to hold down inflation. Minutes of the meeting say that one member favored keeping policy unchanged until additional information became available on the economic consequences of Hurricane Katrina's devastation. FOMC members generally viewed the risk of higher inflation as having increased. They thought that the target for the federal funds rate, the interest rate on overnight borrowings between banks, probably would still be below the level needed to restrain inflation. Additional future rate hikes remained likely, in their view, even with the increase in their target rate to 3.75% decided at that meeting. This target rate has now been increased by 0.25 percentage point at each of the last 11 FOMC meetings.

Long-term yields remain low. The United States Treasury's ten-year note yield has risen to about 4.5%, up from around 4% at the end of August, but quite low in a historical context. Chart 3 shows annual average returns on Treasury ten-year notes during more than half a century. The yield recently has been a little higher than the average return in 2004, 4.27%. Except for 2003, when the yield averaged 4.01%, this was the lowest annual average interest rate on this security since 1964. These rates of interest are shown in the chart by the bars labeled "Nominal" yield.

Returns on longer-term financial instruments reflect in part inflation expectations. The bars labeled "Real" yield in Chart 3 show each year's nominal ten-year note yield less the average annual change in the consumer price index during the following ten years. This calculation measures what happened to the purchasing power of a representative investor's returns from buying and holding to maturity a ten-year Treasury note in each year.[1] Real returns on fixed-income investments have varied widely over time. Unanticipated inflation in the 1970s and 1980s

Chart 3: U.S. Treasury Ten-Year Note Yields



greatly eroded the purchasing power of returns to investors who bought and held ten-year notes in the second half of the 1960s and the first half of the 1970s. As inflation came down in the 1980s and 1990s, the decline in longer-term interest rates lagged, providing investors in the 1980s with exceptional inflation-adjusted returns. If the 3.3% year-over-year change in the consumer price index so far in 2005 were to continue for the next decade, real returns to 2004 buy-and-hold investors in Treasury ten-year notes would average 1.0%. This would be less than the long-run average or mean real return on this security of 2.4%, but only a little lower than the median real yield of 1.4%.[2] Investors have been able, since 1997, to mitigate inflation risk by purchasing inflation-indexed U.S. Treasury securities, or TIPS (Treasury Inflation-Protected Securities). The ten-year inflation-indexed Treasury note recently has yielded nearly 2% more than inflation.

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[1] This discussion does not address returns, including capital gains or losses, to investors who sold securities prior to maturity.

[2] These long-term mean and median real returns are calculated for ten-year U.S. Treasury notes issued in 1953 through 1994, and include changes in consumer prices through 2004. The mean yield exceeds the median because of the very high real returns on investments in the early 1980s, which skew the mean upward.

Status of the General Revenue Fund

REVENUE

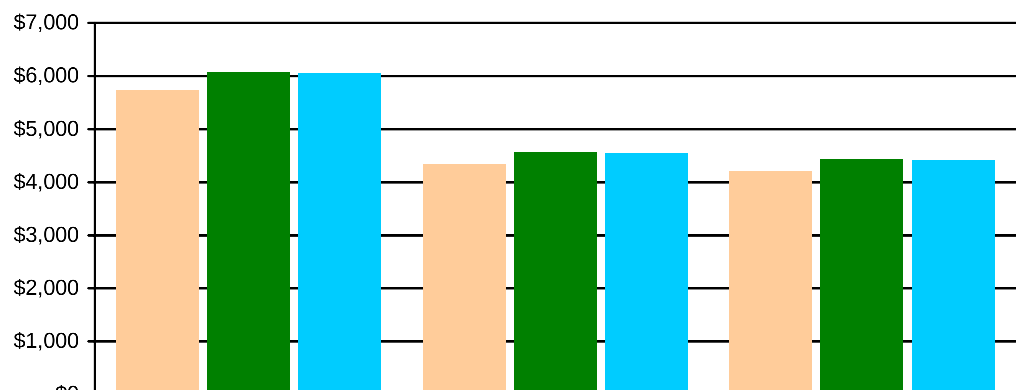
— Jean Botomogno and Allan Lundell

Total GRF receipts for September were above the August 2005 estimate of the Office of Budget and Management by $35.5 million (1.7%). State-source receipts (tax revenue plus nontax revenue plus transfers-in) were $35.6 million (2.1%) above estimate and tax revenues were above estimate by $17.5 million (1.1%). Revenue from the auto sales tax was above estimate by $13.5 million (17.9%) and earnings on investments were $8.2 million (48.0%) above estimate. Revenue from the nonauto sales tax was $6.3 million (1.3%) below estimate and revenue from the income tax was below estimate by $1.4 million (0.2%).

One quarter into FY 2006, the revenue picture is still not clear. Receipts are greater than a year ago, but by less than estimated. Total GRF receipts are below estimate by $21.6 million (0.4%), state-source receipts are below estimate by $7.7 million (0.2%), and tax revenue is below estimate by $35.4 million (0.8%). Revenue from the nonauto sales tax is below estimate by $39.2 million (2.3%) and revenue from the cigarette tax is below estimate by $34.8 million (12.6%). Revenue from the auto sales tax is $29.1 million (10.3%) above estimate and earnings on investments are above estimate by $8.2 million (48.0%).

For the fiscal year to date, total GRF receipts are up 5.6% compared to FY 2005. State-source receipts are up 5.0% and tax revenue is up 4.5%. Revenue from the cigarette tax is up 112.5% due to the recently enacted 127% rate increase from 55 cents per pack to $1.25 per pack, and revenue from the personal income tax is up 7.0%. Revenue from the sales and use tax has been affected by the recent 8.33% decrease in the sales tax rate from 6.0% to 5.5%. Revenue from the nonauto sales tax is down 5.0%, but revenue from the auto sales tax is up 4.9%. Chart 1 compares FY 2006 receipts with FY 2005 receipts and FY 2006 estimates.

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	$5,739.9	$4,339.1	$4,215.8
FY 2006 Estimate	$6,082.1	$4,564.0	$4,442.9
FY 2006 Actual	$6,060.5	$4,556.3	$4,407.6

Personal Income Tax

The GRF received $873.7 million from the personal income tax in September. This amount was $1.4 million (0.2%) less than estimated. Withholding was $15.5 million (2.4%) below estimate and quarterly estimated payments were $4.1 million (1.3%) below estimate.[1] Refunds were $7.6 million (36.3 %) less than estimated.

The GRF has received $2,043.1 million from the personal income tax thus far this fiscal year. This amount is $9.5 million (0.5%) below estimate. The $1,901.6 million in revenue collected through withholding is $13.2 million (0.7%) below estimate. Withholding is expected to account for 74% of gross income tax collections for FY 2006. Year-to-date quarterly estimated payments of $337.1 million are $1.7 million (0.5%) below estimate. Refunds total $68.8 million. This total is $4.7 million (7.4%) more than the estimate.

Compared to a year ago, GRF revenue from the personal income tax is up 7.0%. Withholding, which reflects the condition of Ohio's labor market, is up 5.1%. Quarterly estimated payments are up 13.2% and refunds are up 6.4%.

Sales and Use Tax

Total sales and use tax revenues in September 2005 were $587.2 million, $7.1 million (1.2%) above projected revenues. Auto sales and use tax receipts were $13.5 million (17.9%) above estimate. In contrast, nonauto sales and use tax receipts were $6.3 million (1.3%) below estimate. Total sales and use tax receipts in September 2005 were $28.5 million (4.6%) below sales and use tax revenues in September 2004. The sales tax rate is 8.33% lower. Tax receipts partly reflect taxable retail sales activity in the prior month and also taxable retail sales during the month.[2]

As of September 2005, FY 2006 year-to-date total sales and use tax revenues were $1,945.7 million, $10.2 million (0.5%) below estimate. FY 2006 sales and use tax receipts were also $71.7 million (3.6%) below year-to-date tax receipts in September 2004. Although the sales and use tax revenues show some signs of weakness, the year-over-year decrease in revenues in the first quarter of FY 2006 is primarily due to the decrease in the tax rate on July 1, 2005. The sales and use tax rate was reduced to 5.5%, down from 6.0% in FY 2005.

Nonauto Sales and Use Tax

Nonauto sales and use tax revenues in September 2005 were $498.4 million, $6.3 million (1.3%) below estimate. Nonauto sales and use tax receipts were also $27.9 million (5.3%) below revenues in the same month last year. As of September 2005, FY 2006 nonauto sales and use tax receipts were $1,633.0 million, $39.2 million (2.3%) below estimate. First-quarter nonauto sales and use tax revenues in FY 2006 were also $86.3 million (5.0%) below year-to-date receipts in the first quarter of FY 2005.

Nationwide retail sales (excluding auto and gasoline sales) grew 0.6% in August and September 2005. Compared to sales a year ago, nationwide retail sales (excluding auto and gasoline sales) grew 7.0% and 6.7% in August and September 2005, respectively. Higher gasoline prices may be affecting nonauto sales and use tax revenues because less of the disposable income of consumers is available for spending on items or services 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

Auto sales and use tax receipts were $88.8 million in September, $13.5 million (17.9%) above estimate. The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month. Compared to revenues a year ago, auto sales and use tax receipts in September were $0.6 million (0.7%) below receipts in September 2004. As of September 2005, FY 2006 year-to-date auto sales tax receipts were $312.7 million, $29.1 million (10.3%) above estimate. Year-to-date auto sales and use tax receipts were also

$14.6 million (4.9%) higher than receipts through the same period in FY 2005.

According to the Department of Commerce, nationwide sales of autos and light trucks at motor vehicle dealers fell 2.8% and unit sales fell 2.4% in September 2005. Compared to sales in the same month in FY 2005, sales at motor vehicle dealers were down 3.7% and unit sales were down 7.6% in September 2005. However, nationwide auto and light truck sales were strong in the first quarter of FY 2006, which contributed to the good performance of the auto sales and use tax. Auto and light truck sales in the third quarter of CY 2005 reached an annualized pace of 17.9 million units. In the previous six months, the annualized pace of sales was about 16.9 million units. The "employee price" incentive programs of General Motors, DaimlerChrysler, and Ford (which generally ended on September 30, 2006) helped improve the performance of the Ohio auto sales and use tax in the first quarter of FY 2006. However, auto sales might weaken in the following months, thus potentially reducing auto sales and use tax receipts below estimates.[3]

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. 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. Corporate franchise tax receipts were $6.4 million in September 2005, $5.6 million above estimate and $3.2 million below September 2004 receipts. As of September 2005, FY 2006 year-to-date corporate franchise tax receipts were $1.0 million, $4.0 million above estimate. FY 2006 year-to-date receipts were also $18.2 million below year-to-date receipts in September 2004.

Cigarette and Other Tobacco Products Tax

Receipts from the cigarette and other tobacco products tax were $88.7 million, $1.1 million (1.2%) below estimate. Compared to year-ago receipts in the same month, revenues in September 2005 were $41.7 million (88.9%) higher. The large increase in cigarette tax revenues compared to year-ago revenues is due to the $0.70 per pack tax rate increase on July 1, 2005.

In the first quarter of FY 2005, total receipts from the cigarette and other tobacco products tax were $240.9 million, $34.8 million (12.6%) below estimate. Am. Sub. H.B. 66 imposed a "floor" tax on cigarettes in inventory on July 1, 2005. These cigarettes had the "old" stamp of $0.55 per pack of 20 cigarettes; dealers paid the additional $0.70 on the amount of cigarettes in inventory. The "floor" tax provided $51.6 million in the first quarter of FY 2006. Revenues from the excise tax on cigarettes were $182.1 million, and receipts from the tax on other tobacco products were $7.2 million. Through September, FY 2006 year-to-date revenues from this tax source were $127.5 million (112.5%) above first-quarter revenues in FY 2005.

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[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 current law, certain large taxpayers must remit sales and use tax payments in the same month the transactions occur. For smaller taxpayers, monthly sales and use tax receipts reflect taxable transactions in the prior month. Thus, monthly sales and use tax receipts reflect taxable transactions in both the current and the prior month.

[3] For example, the Greater Cleveland Dealers Association reported a year-over-year increase of 6% in new vehicle sales in the first quarter of FY 2006 in Northeast Ohio. However, auto and light truck sales declined in September 2005 compared to sales in September 2004. Dealers were also reporting slower sales at the beginning of October 2005.

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

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$88,811	$75,344	$13,467	17.9%
Nonauto Sales & Use	$498,397	$504,743	-$6,347	-1.3%
Total Sales & Use Taxes	$587,208	$580,088	$7,120	1.2%
Personal Income	$873,670	$875,100	-$1,430	-0.2%
Corporate Franchise	$6,371	$750	$5,621	749.5%
Public Utility	$8	$0	$8	---
Kilowatt Hour Excise	$34,621	$30,000	$4,621	15.4%
Total Major Taxes	**$1,501,878**	**$1,485,938**	**$15,940**	**1.1%**
Commercial Activity Tax	$0	$0	$0	---
Foreign Insurance	$3,852	$6,400	-$2,548	-39.8%
Domestic Insurance	$0	$10	-$10	-97.0%
Business & Property	$295	$100	$195	194.9%
Cigarette	$88,686	$89,800	-$1,114	-1.2%
Alcoholic Beverage	$4,996	$4,700	$296	6.3%
Liquor Gallonage	$2,733	$2,700	$33	1.2%
Estate	$4,717	$0	$4,717	---
Total Other Taxes	$105,278	$103,710	$1,568	1.5%
Total Tax Revenue	**$1,607,156**	**$1,589,648**	**$17,508**	**1.1%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$25,152	$17,000	$8,152	48.0%
Licenses and Fees	$1,817	$1,200	$617	51.4%
Other Revenue	$15,083	$7,200	$7,883	109.5%
Nontax State-Source Revenue	$42,052	$25,400	$16,652	65.6%
TRANSFERS				
Liquor Transfers	$11,000	$9,000	$2,000	22.2%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$36,899	$37,500	-$601	-1.6%
Total Transfers In	$47,899	$46,500	$1,399	3.0%
TOTAL GRF before Federal Grants	**$1,697,107**	**$1,661,548**	**$35,560**	**2.1%**
Federal Grants	$482,390	$482,429	-$39	0.0%
TOTAL GRF SOURCES	**$2,179,497**	**$2,143,976**	**$35,520**	**1.7%**

* 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 September 2005
($ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
TAX REVENUE						
Auto Sales	$312,686	$283,600	$29,086	10.3%	$298,088	4.9%
Nonauto Sales & Use	$1,632,975	$1,672,218	-$39,243	-2.3%	$1,719,257	-5.0%
Total Sales & Use Taxes	$1,945,661	$1,955,818	-$10,156	-0.5%	$2,017,345	-3.6%
Personal Income	$2,043,064	$2,052,600	-$9,536	-0.5%	$1,909,222	7.0%
Corporate Franchise	$1,019	-$3,000	$4,019	-134.0%	$19,244	-94.7%
Public Utility	$44,957	$40,000	$4,957	12.4%	$35,918	25.2%
Kilowatt Hour Excise	$95,306	$88,400	$6,906	7.8%	$88,447	7.8%
Total Major Taxes	**$4,130,007**	**$4,133,818**	**-$3,810**	**-0.1%**	**$4,070,176**	**1.5%**
Commercial Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	$4,084	$6,450	-$2,366	-36.7%	$7,275	-43.9%
Domestic Insurance	$872	$40	$832	2079.8%	$8	11344.5%
Business & Property	$1,018	$1,000	$18	1.8%	$800	27.3%
Cigarette	$240,864	$275,700	-$34,836	-12.6%	$113,365	112.5%
Alcoholic Beverage	$15,774	$15,400	$374	2.4%	$15,399	2.4%
Liquor Gallonage	$8,321	$8,100	$221	2.7%	$8,042	3.5%
Estate	$6,611	$2,400	$4,211	175.4%	$700	843.8%
Total Other Taxes	$277,543	$309,090	-$31,547	-10.2%	$145,590	90.6%
Total Tax Revenue	**$4,407,551**	**$4,442,908**	**-$35,357**	**-0.8%**	**$4,215,766**	**4.5%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$25,152	$17,000	$8,152	48.0%	$6,319	298.0%
Licenses and Fees	$12,991	$7,900	$5,091	64.4%	$12,693	2.3%
Other Revenue	$36,709	$24,700	$12,009	48.6%	$31,781	15.5%
Nontax State-Source Revenue	$74,851	$49,600	$25,251	50.9%	$50,793	47.4%
TRANSFERS						
Liquor Transfers	$32,000	$29,000	$3,000	10.3%	$29,000	10.3%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$41,902	$42,500	-$598	-1.4%	$43,495	-3.7%
Total Transfers In	$73,902	$71,500	$2,402	3.4%	$72,495	1.9%
TOTAL GRF before Federal Grants	**$4,556,303**	**$4,564,008**	**-$7,704**	**-0.2%**	**$4,339,054**	**5.0%**
Federal Grants	$1,504,213	$1,518,085	-$13,872	-0.9%	$1,400,844	7.4%
TOTAL GRF SOURCES	**$6,060,516**	**$6,082,093**	**-$21,577**	**-0.4%**	**$5,739,899**	**5.6%**

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

DISBURSEMENTS

— *Steve Mansfield**

With one quarter of spending data now in the books for FY 2006, we find that $6,874.5 million in General Revenue Fund (GRF) program disbursements have been made. This is under the estimate for the fiscal year to date by $39.1 million (0.6%). September's disbursements were over the estimate by $63.2 million, thus reducing the amount of underspending for the year to date. Of the state's four major GRF program categories (Education, Welfare and Human Services, Government Operations, and Property Tax Relief), a substantial overage was recorded in the Property Tax Relief program in September, with smaller and partially offsetting variances from the estimates in the other three programs (see Figure 1 and Table 4). For the year to date, the Tax Relief program is over its estimate by $179.0 million, with the Welfare and Human Services category supplying the largest offsetting variance, $104.9 million under its estimate. We will discuss in the sections that follow the details of these variances between what was actually disbursed through September compared to the estimates prepared by the Office of Budget and Management in August.

Welfare and Human Services (-$104.9 million)

The Welfare and Human Services category posted a disbursement variance of $16.1 million (1.6%) under the estimate in September. For the year to date, outlays in this category are now $104.9 million (3.2%) under the estimate. Two program subcategories (Health Care/Medicaid and Other Welfare)—both in the Department of Job and Family Services—are the most significant contributors to the year-to-date underestimate in spending. The Department of Mental Health (which is in the Human Services subcategory) registered a $7.6 million variance below the estimate in September, thus pushing its year-to-date variance to $16.1 million below the estimate. These variances are discussed in more detail below.

Figure 1
GRF Disbursement Variances
by Program Category, FY 2006

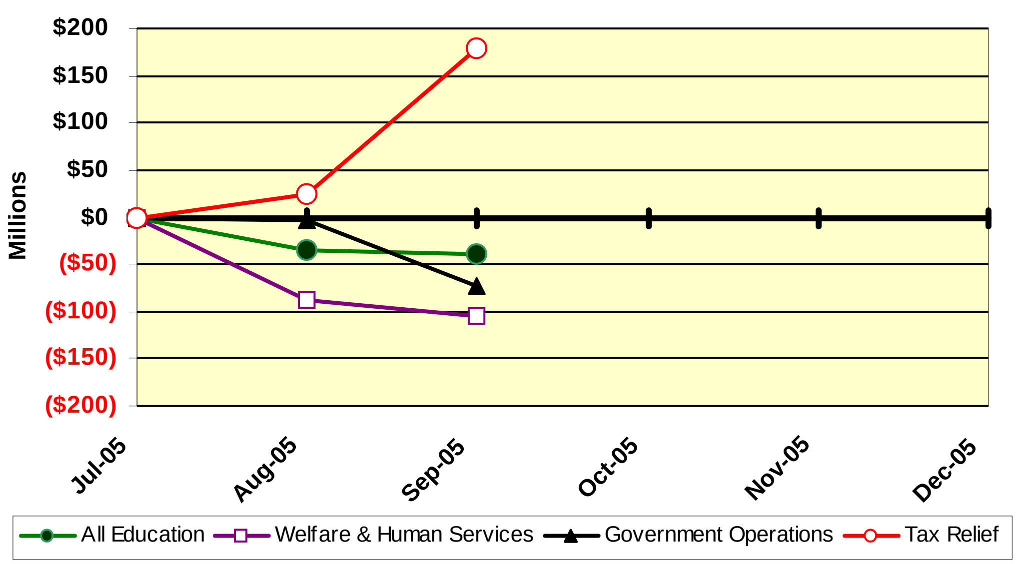

Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of September 2005
($ in thousands)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$543,350	$566,165	-$22,815	-4.0%
Higher Education	$181,843	$164,282	$17,560	10.7%
Total Education	$725,193	$730,447	-$5,254	-0.7%
Health Care/Medicaid	$857,332	$864,377	-$7,045	-0.8%
Temporary Assistance to Needy Families (TANF)	-$679	$0	-$679	---
General/Disability Assistance	$0	$0	$0	---
Other Welfare (2)	$38,515	$50,178	-$11,663	-23.2%
Human Services (3)	$83,296	$79,965	$3,331	4.2%
Total Welfare & Human Services	$978,465	$994,519	-$16,055	-1.6%
Justice & Corrections	$207,140	$236,419	-$29,279	-12.4%
Environment & Natural Resources	$6,434	$7,428	-$994	-13.4%
Transportation	$964	$1,938	-$974	-50.2%
Development	$9,762	$45,852	-$36,090	-78.7%
Other Government	$100,906	$102,787	-$1,882	-1.8%
Capital	$0	$0	$0	---
Total Government Operations	$325,206	$394,424	-$69,218	-17.5%
Property Tax Relief (4)	$354,248	$200,000	$154,248	77.1%
Debt Service	$59,572	$60,117	-$544	-0.9%
Total Other Disbursements	$413,820	$260,117	$153,704	59.1%
Total Program Disbursements	**$2,442,684**	**$2,379,507**	**$63,177**	**2.7%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$1,010	$0	$1,010	---
Total Transfers Out	$1,010	$0	$1,010	---
TOTAL GRF USES	**$2,443,694**	**$2,379,507**	**$64,187**	**2.7%**

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

Health Care/Medicaid. Year-to-date disbursements through September in the Health Care/Medicaid program (primarily line item 600-525) are $79.6 million (2.9%) below the estimate (see Table 6). The largest contributor to the year-to-date variance was the Prescription Drugs service category, which was $46.0 million (8.5%) below estimate with spending of $497.7 million through September. The Ohio Department of Job and Family Services (ODJFS) is currently investigating why this spending category was overestimated. Another contributor to the year-to-date variance was the HMO service category, which was $40.5 million (12.3%) below estimate

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

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
Primary & Secondary Education (1)	$1,739,372	$1,802,749	-$63,378	-3.5%	$1,720,126	1.1%
Higher Education	$562,572	$538,836	$23,735	4.4%	$524,583	7.2%
Total Education	$2,301,943	$2,341,586	-$39,643	-1.7%	$2,244,709	2.5%
Health Care/Medicaid	$2,648,174	$2,727,770	-$79,596	-2.9%	$2,428,455	9.0%
Temporary Assistance to Needy Families (TANF)	$26,484	$27,163	-$679	-2.5%	$26,908	-1.6%
General/Disability Assistance	$0	$0	$0	---	$6,709	-100.0%
Other Welfare (2)	$167,267	$184,275	-$17,008	-9.2%	$147,127	13.7%
Human Services (3)	$328,500	$336,154	-$7,653	-2.3%	$317,328	3.5%
Total Welfare & Human Services	$3,170,425	$3,275,362	-$104,936	-3.2%	$2,926,527	8.3%
Justice & Corrections	$577,460	$629,971	-$52,511	-8.3%	$573,588	0.7%
Environment & Natural Resources	$31,490	$33,343	-$1,853	-5.6%	$37,442	-15.9%
Transportation	$9,132	$10,326	-$1,195	-11.6%	$8,229	11.0%
Development	$57,959	$71,851	-$13,892	-19.3%	$71,203	-18.6%
Other Government	$158,141	$161,613	-$3,472	-2.1%	$163,496	-3.3%
Capital	$0	$13	-$13	-100.0%	$0	---
Total Government Operations	$834,182	$907,118	-$72,936	-8.0%	$853,957	-2.3%
Property Tax Relief (4)	$386,090	$207,125	$178,965	86.4%	$195,409	97.6%
Debt Service	$181,830	$182,414	-$583	-0.3%	$153,349	18.6%
Total Other Disbursements	$567,921	$389,539	$178,382	45.8%	$348,759	62.8%
Total Program Disbursements	**$6,874,471**	**$6,913,604**	**-$39,133**	**-0.6%**	**$6,373,951**	**7.9%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$394,205	$0	$394,205	---	$0	---
Other Transfers Out	$169,844	$0	$169,844	---	$24,772	585.6%
Total Transfers Out	$564,049	$0	$564,049	---	$24,772	2177.0%
TOTAL GRF USES	**$7,438,520**	**$6,913,604**	**$524,916**	**7.6%**	**$6,398,723**	**16.3%**

(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.

with spending of $289.1 million through September. According to the Department, utilization in this spending category has not grown as fast as anticipated. The caseload for managed care is 538,420 for September versus an estimated 628,536. The Department believes that enrollment will be up to estimated levels by January.

The Nursing Facilities Payments service category was $37.5 million (5.4%) below estimate with spending of $662.8 million through September. Am. Sub. H.B. 66 of the 126th General Assembly, allows the Department to ensure that inpatient hospital crossover payments for dual-eligible individuals, those who qualify for both Medicare and Medicaid, do not exceed the

Medicaid maximum reimbursement level set by the Department. The Medicaid maximum is the maximum amount that state Medicaid pays a given facility for a given service. During the budgeting process, it was anticipated that the crossover payments would begin in October. However, the crossover payments actually started in July. As a result, the spending category received savings earlier than anticipated.

Another contributor to the Nursing Facilities Payments variance is the implementation of the direct billing method. In previous fiscal years, nursing homes were reimbursed monthly at a rate that was based on the estimated number of beds in the facility. The Department adjusted future monthly payments if there was a difference in the number of actual and the number of estimated beds for that month. In August, nursing homes began directly billing the state for each month's bed days. Nursing homes that are using the direct billing method will be reimbursed monthly at 100%. Those nursing homes that are not using the method will receive 90% of the FY 2005 average monthly payment. When these nursing homes implement the direct billing method, they will receive full reimbursements. Therefore, the estimated spending for the Nursing Facilities Payments category is greater than actual spending since full reimbursements are not currently being made. In future months, as nursing homes implement the direct billing method, actual spending will catch up with estimated levels.

The Medicare Buy-In category was $18.4 million (52.3%) above estimate for the year to date with spending of $53.7 million through September. According to the Department, this variance is due to an error in the estimate. The NF Franchise Fee Offsets category (through which the state retains a portion of the Nursing Facilities Franchise Fee) was $15.6 million (43.9%) below estimate (since this is an offset, below estimate variances show up as a positive value). ODJFS stated that this is a timing-related issue, as well as a direct billing issue.

As noted above, spending in the Prescription Drugs service category is below estimate by 8.5%. The reason for this underspending, which was described as an "overestimate," is being investigated by the Department. Compared to expenditures at this point in the last fiscal year, however, spending in this category is $21.8 million (4.6%) higher in the current fiscal year (see Table 7). And as we also see in Table 7, for the Medicare Buy-In service category, expenditures are (23.2%) higher than at the same point in the last fiscal year.

The projected number of total Medicaid eligibles in September was 1,752,232; this was over the budgeted caseload by 6,521. The number of eligibles in the Covered Families and Children program is over the estimate by about 7,000, while the number of eligibles in the Aged, Blind, and Disabled program is under estimate by about 400.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs were $11.7 million (23.2%) under the September estimate and stand at $17.0 million (9.2%) under the estimate for the year to date. The disbursement variance for the year to date is composed of a number of small items of underspending. The largest contributors to the year-to-date variance are line item 600-521, Family Stability Subsidy, which is under estimate by $5.6 million, and line item 600-416, Computer Projects, which is under estimate by $3.8 million. Through the Family Stability Subsidy line item, the Department advances to the counties the state's share of county administration for family services programs. The variance is the result of the timing of county requests for funds, and it should be offset as the fiscal year progresses. The Computer Projects line item provides funding for the development, implementation, and maintenance of computer systems used by the Department and the county departments. The year-to-date variance was registered mostly in lower than anticipated vendor payments for Electronic Benefit Transfer, Child Support Collections, and Network Administration systems. In Tables 4 and 5, these disbursements are captured in the Other Welfare subcategory, which excludes the separately tracked Medicaid, TANF, and Disability Assistance Cash Assistance programs.

Table 6
Health Care/Medicaid Spending in FY 2006
(ALI 600-525 Only)
($ in thousands)

Service Category	September				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Sept.	Estimate thru Sept.	Variance	Percent Variance
Nursing Facilities Payments	$212,087	$235,963	($23,876)	-10.1%	$662,762	$700,276	($37,514)	-5.4%
ICF/MR Payments	$45,545	$42,097	$3,448	8.2%	$125,798	$124,934	$864	0.7%
Inpatient Hospitals	$122,190	$117,526	$4,664	4.0%	$389,420	$381,961	$7,459	2.0%
Outpatient Hospitals	$52,810	$53,242	($432)	-0.8%	$167,379	$173,037	($5,658)	-3.3%
Physicians	$50,777	$50,543	$234	0.5%	$156,709	$164,263	($7,554)	-4.6%
Prescription Drugs	$156,223	$167,300	($11,077)	-6.6%	$497,694	$543,725	($46,031)	-8.5%
ODJFS Waiver	$18,030	$16,637	$1,393	8.4%	$56,523	$54,069	$2,454	4.5%
HMO	$98,122	$115,448	($17,326)	-15.0%	$289,088	$329,579	($40,491)	-12.3%
Medicare Buy-In	$17,728	$0	$17,728	N/A	$53,662	$35,239	$18,423	52.3%
Home Health	$13,689	$12,794	$895	7.0%	$41,486	$41,581	($95)	-0.2%
Dental	$10,128	$10,112	$16	0.2%	$32,713	$32,864	($151)	-0.5%
Hospice	$9,671	$10,170	($499)	-4.9%	$29,401	$33,054	($3,653)	-11.1%
All Other	$52,061	$44,124	$7,937	18.0%	$157,123	$143,404	$13,719	9.6%
Total Medicaid Payments	**$859,061**	**$875,956**	**($16,895)**	**-1.9%**	**$2,659,758**	**$2,757,986**	**($98,228)**	**-3.6%**
DA Medical	$4,063	$3,631	$432	11.9%	$13,425	$11,802	$1,623	13.8%
Drug Rebates Offsets	($606)	($520)	($86)	16.5%	($612)	($1,394)	$782	-56.1%
ICF/MR Franchise Fee Offsets	($1,725)	($1,672)	($53)	3.2%	($4,437)	($5,037)	$600	-11.9%
NF Franchise Fee Offsets	($3,462)	($13,020)	$9,558	-73.4%	($19,960)	($35,589)	$15,629	-43.9%
DSH Rebate Offsets	$0	$0	$0		$0	$0	$0	
Total Health Care (Net of Offsets)	**$857,331**	**$864,375**	**($7,044)**	**-0.8%**	**$2,648,174**	**$2,727,768**	**($79,594)**	**-2.9%**
Est. Federal Share	$513,825	$518,047	($4,222)		$1,587,132	$1,634,836	($47,703)	
Est. State Share	$343,506	$346,328	($2,822)		$1,061,042	$1,092,932	($31,891)	

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 FY 2005 and $6.25 for 2006.
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 FMAP for CHIP II.

5. DA Medical is a state-only funded program.
6. The federal medical assistance percentage (FMAP) used in this table is a blended rate of 59.93%.
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.

Mental Health. In September, disbursements by the Department of Mental Health were under estimate by $7.6 million, which pushed the year-to-date disbursement variance to $16.4 million under the estimate. The bulk of the year-to-date variance ($12.2 million) is traceable to line item 334-408, Community and Hospital Mental Health Services. This line item is used to support hospital payroll for the delivery of mental health services and also for the community mental health boards. Variances in disbursements from the line item are timing-based.

Government Operations (-$72.9 million)

In September, outlays in the Government Operations category were $69.2 million (17.5%) under the estimate for the month, which pushed the year-to-date variance to $72.9 million (8.0%) below the estimate.

The largest single source of the year-to-date variance is the Department of Rehabilitation and Correction, with a variance of $48.2 million under the estimate. The variance for the year to date is due, in part, to attrition of personnel in the first quarter of FY 2006. Many of the vacant positions are in the process of being filled. Another factor is a freeze on expenditures for maintenance and equipment in anticipation of high winter utility costs. A third contributing factor was a debt service payment that was lower than expected by $10.0 million. In light of these and other factors, the Office of Budget and Management is revising its estimates to reflect more accurately a revised spending plan.

Disbursement activity of the Department of Development now stands at $13.6 million (36.8%) below estimate for the year to date. The bulk of the variance ($8.5 million) is attributable to line item 195-515, Economic Development Contingency. The appropriation for this line item, which is spent at the discretion of the Director of Development, is typically reserved for large-scale economic development projects. Disbursements from this line item that were expected to take place in August and September did not in fact take place.

A large contributor to the disbursement variance for September in this category ($36.1 million under estimate) occurred because a $27.1 million debt service payment for the Cultural Facilities Commission was made in August rather than in September, as previously estimated. This portion of the month's underspending thus offsets last month's corresponding overspending.

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 2006 Yr.-to-Date as of Sept. '06	FY 2005 Yr.-to-Date as of Sept. '05	Dollar Change	Percent Increase
Nursing Facilities Payments	$662,762	$680,946	($18,184)	-2.7%
ICF/MR Payments	$125,798	$111,792	$14,006	12.5%
Inpatient Hospitals	$389,420	$319,589	$69,831	21.9%
Outpatient Hospitals	$167,379	$156,953	$10,426	6.6%
Physicians	$156,709	$145,797	$10,912	7.5%
Prescription Drugs	$497,694	$475,855	$21,839	4.6%
ODJFS Waiver	$56,523	$53,901	$2,622	4.9%
HMO	$289,088	$254,904	$34,184	13.4%
Medicare Buy-In	$53,662	$43,567	$10,095	23.2%
All Other*	$260,723	$224,825	$35,898	16.0%
Total Medicaid Payments	**$2,659,758**	**$2,468,129**	**$191,629**	**7.8%**
DA Medical	$13,425	$16,670	($3,245)	-19.5%
Drug Rebates Offsets	($612)	($25,403)	$24,791	-97.6%
ICF/MR Franchise Fee Offsets	($4,437)	($3,366)	($1,071)	31.8%
NF Franchise Fee Offsets	($19,960)	($22,770)	$2,810	-12.3%
DSH Rebate Offsets	$0	($4,785)	$4,785	-100.0%
Prior Period Encumbrance Subsidy				
Total Health Care (Net of Offsets)	**$2,648,174**	**$2,428,475**	**$219,699**	**9.0%**
Est. Federal Share	$1,587,132	$1,455,460	$131,672	
Est. State Share	$1,061,042	$973,015	$88,027	

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 FY 2005 and $6.25 for 2006.
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. In Table 6, the categories of "Home Health", "Dental", and "Hospice" are reported separately.
4. CHIP II provides health care coverage for children under age 19 whose family incomes are between 150% and 200% of FPL. The state receives enhanced FMAP for CHIP II.
5. DA Medical is a state-only funded program.
6. The federal medical assistance percentage (FMAP) used in this table is a blended rate of 59.93%.

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

Education (-$39.6 million)

In September, disbursements in the Education category were $5.3 million (0.7%) under estimate. For the year to date, outlays in this category are $39.6 million (1.7%) under the estimate. Compared to the same point in the last fiscal year, disbursements in this category are $57.2 million (2.5%) higher in the current fiscal year. As usual, the bulk of the disbursement variance was registered in the Department of Education, and currently there is a smaller, but also significant and partially offsetting, variance in disbursements by the Board of Regents.

Department of Education. September disbursements by the Department of Education were $21.9 million (3.9%) under the estimate for the month. For the year to date, the Department's disbursements are $61.7 million (3.5%) under the estimate. Total disbursements so far in FY 2006 are $1,714.5 million.

The Department's year-to-date disbursement variance is traceable to two main sources: line item 200-550, Foundation Funding ($24.6 million under estimate), and line item 200-437, Student Assessment ($10.4 million under estimate). Line item 200-550, Foundation Funding is the main source of state foundation payments to all school districts and joint vocational school districts in the state. Allocations are based on school foundation (SF-3) formulas and are administered by the Department of Education. Am. Sub. H.B. 66 of the 126th General Assembly (the main operating appropriations act for the current biennium) combined into line item 200-550, former GRF appropriation items 200-501, Base Cost Funding;

200-520, Disadvantaged Pupil Impact Aid; 200-525, Parity Aid; and 200-546, Charge-Off Supplement. So far this fiscal year student enrollment numbers (Average Daily Membership, or ADM) are lower than anticipated in the estimates. The variance, however, may stem solely from the fact that the ADM data have not been finalized rather than that enrollments were lower. Line item 200-437 is used to pay for developing, scoring, and reporting the results of the state's proficiency and achievement tests, as well as for developing the state's diagnostic assessments. The variance in line item 200-437 is solely due to invoices not arriving at the time that had been anticipated in the estimates.

Board of Regents. Disbursements by the Board of Regents were $17.6 million (10.7%) above the estimate for September, with the year-to-date disbursement variance now standing at $23.7 million (4.4%) above estimate. Virtually all of the September and year-to-date variances are traceable to line item 235-503, Ohio Instructional Grants, with a variance over the estimate of $14.5 million and $23.2 million, respectively. The Ohio Instructional Grant program provides a financial grant for higher education to any full-time Ohio student who is an Ohio resident and whose family income does not exceed a specified maximum level. Due to higher than expected enrollments in FY 2005, last year's appropriation for the purpose was exhausted, and some payments from the FY 2006 appropriation have been used to support not only current-year grants but also grants from FY 2005. The Board of Regents will need to seek a supplemental appropriation for FY 2006.

Tax Relief ($179.0 million)

Tax Relief payments through September totaled $386.1 million, which is $179.0 million (86.4%) over the estimate. Disbursement variances in the Property Tax Relief program are usually traceable to the timing of county auditor requests for reimbursement. It appears that payments to school districts and other local governments for the percentage rollbacks and homestead exemption portions of the program have been requested sooner than expected. In general, the processing of requests has been improved by both local governments and the state. 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 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, resulting in savings to the GRF beginning in the spring of 2006. 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.

**LSC colleagues who contributed to the development of this disbursement report included, in alphabetical order, Melaney Carter, Phil Cummins, David Price, Joe Rogers, Ronnie Romito, Maria Seaman, Kerry Sullivan, and Holly Wilson.*

Issues of Interest

Lottery Ticket Sales and Profit Transfers First Quarter, Fiscal Year 2006

— *Jean Botomogno*

Ticket Sales

Table 1 summarizes ticket sales by game in the first quarter of FY 2006. Total ticket sales were $507.2 million. On-line ticket sales[1] were $238.0 million (46.9% of quarterly sales), and Instant ticket sales were $269.2 million (53.1% of quarterly sales).

Compared to first-quarter results a year ago, ticket sales were down $16.6 million (3.2%) this fiscal year. Instant ticket sales declined $15.2 million (5.4%). On-line ticket sales decreased $1.3 million (0.6%). Sales of Rolling Cash 5 increased $1.8 million (11.4%). Sales of Mega Millions grew $13.1 million (28.8%). Sales of the remaining on-line games declined. Sales of Super Lotto and Kicker fell $6.9 million (17.6%) and $1.0 million (18.9%), respectively. Sales of Pick 4 were down $0.6 million (1.3%), and Pick 3 sales declined $7.8 million (8.0%).

Transfers to the Lottery Profits Education Fund

Table 2 provides monthly transfers from operations to the Lottery Profits Education Fund (LPEF) in FY 2006. First-quarter transfers were $148.0 million, down from $156.7 million in the fourth quarter of FY 2005. Transfers were $1.5 million (1.0%) higher than State Lottery Commission estimates for the first quarter. Transfers were 29.2% of ticket sales.

Table 1: First-Quarter Ticket Sales by Game in FY 2006 (in millions)

	Pick 3	Pick 4	Kicker	Rolling Cash 5	Super Lotto	Mega Millions	Instants	On-line	Total
July	$30.7	$13.7	$1.6	$6.0	$9.1	$18.5	$90.0	$79.6	$169.6
August	$30.6	$14.1	$1.5	$6.2	$8.6	$14.3	$90.5	$75.3	$165.8
September	$29.3	$13.4	$1.3	$5.7	$7.3	$26.1	$88.6	$83.2	$171.8
Total	**$90.5**	**$41.2**	**$4.5**	**$17.9**	**$25.1**	**$58.9**	**$269.2**	**$238.0**	**$507.2**

Totals may not add up due to rounding.

Table 2: First-Quarter Ticket Sales and Transfers to LPEF in FY 2006 ($ in millions)

Quarter	Ticket Sales	Actual Transfers	Projected Transfers	Dollar Variance	Percentage Variance	Transfers as Percentage of Sales
July	$169.6	$44.4	$44.4	$0.0	0.0%	26.2%
August	$165.8	$54.6	$54.6	$0.0	0.0%	32.9%
September	$171.8	$49.0	$47.5	$1.5	3.1%	28.5%
Total	**$507.2**	$148.0	$146.5	$1.5	1.0%	29.2%

Totals may not add up due to rounding.

[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 headquarters' computers. On-line games do not refer to Internet lottery sales.