Next

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

NOVEMBER 2005

FISCAL OVERVIEW

— Allan Lundell

Four months into FY 2006, GRF receipts are $54 million below the August 2005 OBM estimate, program disbursements are $335 million below estimate, and the cash balance is above its expected level.

Tracking the Economy

The economy continues to expand, though apparently with somewhat less vigor than earlier. Payroll employment nationwide rose modestly in October. Retail sales fell in October, mainly as a result of weakness at car and light truck dealers. Demand for light vehicles has slowed, particularly for less energy-efficient larger models. Home buying in many areas remains at a high level but may be past its peak, slowed in part by rising interest rates.

Energy prices have come down from peaks but remain high and are a drain on the budgets of households and many businesses. More than half of pre-hurricane oil and natural gas production in the Gulf of Mexico has been restored. Three Gulf Coast refineries remain shut down and two others are operating at reduced rates, out of twenty closed ahead of Hurricane Rita. Gasoline prices have fallen back to near pre-hurricane levels. Prices for winter heating fuels also have fallen but remain high.

Receipts

Total GRF receipts for October were below estimate by $32 million (1.6%). State-source receipts were $89 million (6.1%) above estimate and federal grants were below estimate by $121 million (21.3%). Tax revenues were above estimate by $84 million (5.8%). Revenue from the personal income tax was above estimate by $48 million (8.1%) and revenue from the corporate franchise tax was above estimate by $44 million. Revenue from the sales and use tax was below estimate by $30 million (4.9%). Revenue from the auto sales tax was $16 million (20.6%) below estimate and revenue from the nonauto sales tax was $14 million (2.6%) below estimate.

Volume 29, Number 3

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

For questions or comments regarding specific sections:

GRF Revenue:
Allan Lundell 644-7788

GRF Spending:
Steve Mansfield 728-4815

Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: (614)466-3615

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

	Month of October	Fiscal Year 2006 to Date	Last Year	Difference
Beginning Cash Balance	**-$168.8**	**$1,209.2**		
Plus Revenue and Transfers In	$1,990.5	$8,051.0		
Available Resources	**$1,821.7**	**$9,260.2**		
Less Disbursements and Transfers Out	$2,184.9	$9,623.4		
Ending Cash Balances	**-$363.3**	**-$363.3**	**-$466.1**	**$102.8**
Less Encumbrances and Accts. Payable		$944.8	$692.0	$252.7
Unobligated Balance		**-$1,308.0**	**-$1,158.1**	**-$149.9**
Plus BSF Balance		$576.6	$180.7	$395.9
Combined GRF and BSF Balance		**-$731.4**	**-$977.4**	**$246.0**

Fiscal year-to-date GRF receipts are $54 million (0.7%) below estimate. State-source receipts are $81 million (1.3%) above estimate and federal grants are below estimate by $135 million (6.5%). Tax revenues are $49 million (0.8%) above estimate. Revenue from the corporate franchise tax is above estimate by $48 million, revenue from the personal income tax is above estimate by $39 million (1.5%), and revenue from the auto sales tax is above estimate by $13 million (3.6%). Revenue from the nonauto sales tax is below estimate by $53 million (2.4%) and revenue from the cigarette tax is below estimate by $25 million (7.1%). Compared to the same point in FY 2005, GRF receipts are up 5.3%, state-source receipts are up 5.4%, and tax revenue is up 5.2%.

Disbursements

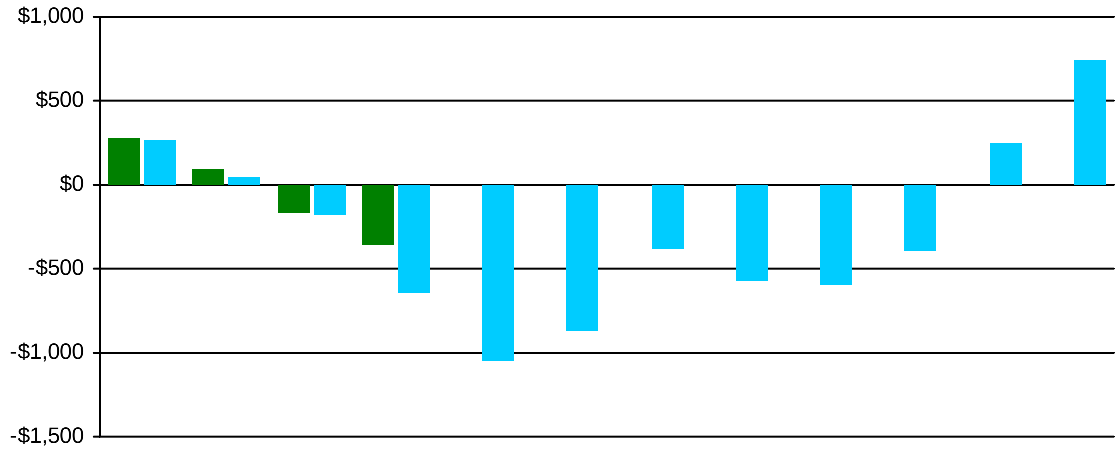
Program disbursements for October were below estimate by $296 million (12.0%). Disbursements for property tax relief were below estimate by $194 million (84.3%) and disbursements for higher education were $23 million (10.7%) below estimate. Disbursements for human services were below estimate by $26 million (17.5%), disbursements for justice and corrections were below estimate by $14 million (7.8%), and TANF disbursements were $12 million (20.0%) below estimate.

GRF program disbursements for the fiscal year to date are $335 million (3.6%) below estimate. Disbursements for health care/Medicaid are $76 million (2.1%) below estimate, disbursements for justice and corrections are below estimate by $67 million (8.2%), disbursements for primary and secondary education are $63 million (2.7%) below estimate, disbursements for human services are below estimate by $34 million (7.0%), and disbursements for development are below estimate by $15 million (17.7%). Disbursements for property tax relief are below estimate by $15 million (3.4%). Compared to the same point in FY 2005, GRF program disbursements are up 5.1%.

Cash Balance

As shown in Table 1, the GRF began October with a -$169 million cash balance. October revenues plus transfers in totaled $1,990 million and disbursements plus transfers out totaled $2,185 million. The monthly deficit of $194 million reduced the cash balance to -$363 million.[1] Although a negative cash balance

Chart 1: Actual and Estimated Ending Cash Balances
(in millions)



	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06
Actual	$277	$95	-$169	-$363								
Estimate	$261	$52	-$183	-$639	-$1,052	-$868	-$378	-$577	-$600	-$387	$253	$743

may appear to be a cause for concern, the cash balance, due to the timing of receipts 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 a negative $639 million, $275 million lower (more negative) than the actual level. Chart 1 presents a comparison of actual monthly ending cash balances and the estimated monthly ending cash balances based on the monthly estimates of receipts and disbursements. The ending cash balance is tracking higher (less negative) than estimate thus far this fiscal year.

Encumbrances and accounts payable of $945 million combine with the cash balance to yield an unobligated balance of -$1,308 million. This amount is $150 million lower (more negative) than a year ago. The $577 million in the Budget Stabilization Fund (BSF) is $396 million higher than a year ago, so the combined GRF and BSF balance of -$731 million is $246 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 $8,051 million and disbursements plus transfers out total $9,623 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 $1,572 million reduces the cash balance to -$363 million.

Tracking the Economy

— *Phil Cummins*

The economy continues to expand, though apparently with somewhat less vigor than earlier. Payroll employment nationwide rose modestly in October, after a hurricane-related decline in September. The slow rise in the latest month was a result of below-trend growth in areas other than those struck by Hurricane Katrina. October's employment increase reflected in part hiring to clean up and rebuild hurricane-battered areas. Energy prices have come down from peaks but remain high and are a drain on budgets of households and many businesses. Demand for light vehicles has slowed, particularly for less energy-efficient larger models. Retail sales fell in October, mainly as a result of weakness at car and light truck dealers. Home buying in many areas remains at a high level but may be past its peak, slowed in part by rising interest rates. Housing starts continued at a high level nationwide but below the pace earlier this year. Apart from sharply accelerated energy industry spending to repair Gulf of Mexico hurricane damage and in response to high oil and natural gas prices, nonresidential private investment in structures remained sluggish through the third quarter, though demand for commercial and industrial space reportedly is firming. Business equipment continued on a strong uptrend. Purchasing managers saw continued expansion in business activity in October. Industrial production bounced back in October from the impact of the hurricanes. Inflation-adjusted gross domestic product rose at a 3.8% annual rate in this year's third quarter, matching the first quarter's growth rate and up from a 3.3% rate of increase in the second quarter.

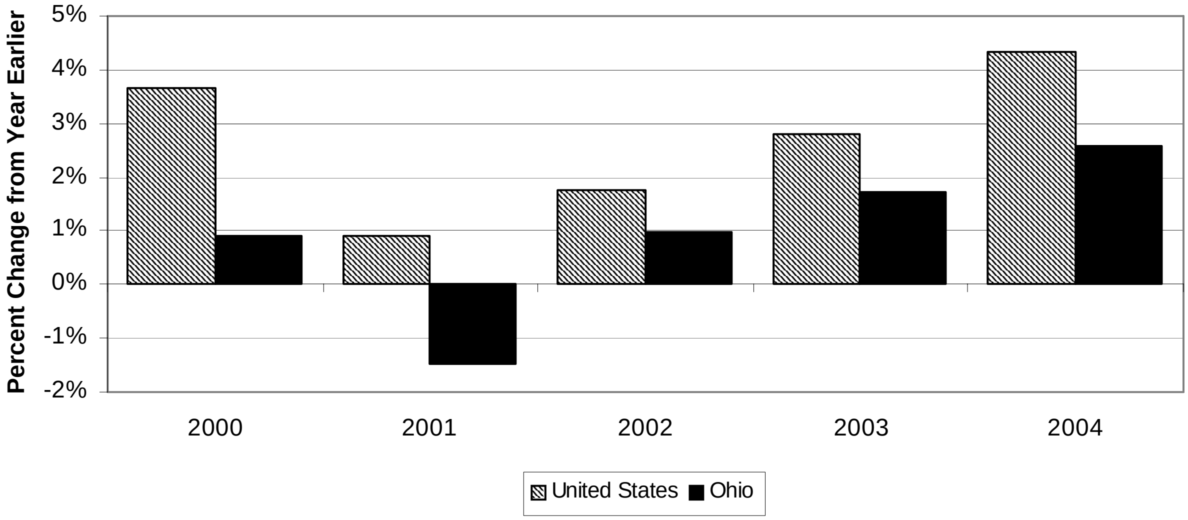
Price increases were very widespread for a broad range of inputs in October, according to purchasing managers. At the finished goods and services level, inflation measured by the producer and consumer price indexes *excluding* energy remained well contained in October. Gasoline prices fell but costs rose for a number of other types of energy last month. Consumer prices *including* energy and all other items in October were 4.3% higher than a year earlier, down from 4.7% in September but otherwise the largest increase since the early 1990s. Since October, gasoline prices have fallen back to pre-hurricane levels. Prices for winter heating fuels also have fallen but remain high. More than half of oil and natural gas production in the Gulf of Mexico has been restored. As of November 9, three Gulf Coast refineries remained shut down, two others were operating at reduced rates, and another was expected to be back to full operation by mid-November, out of twenty closed ahead of Hurricane Rita.

The United States Bureau of Economic Analysis revised its gross state product (GSP) estimates for 2004. Ohio's economy remained 7th largest among the states last year, but its GSP growth ranked 44th. The state's inflation-adjusted GSP rose 2.6%, 0.3 percentage point higher than previously estimated. Growth nationwide in 2004, at 4.3%, was stronger than in Ohio. The new estimates include industry detail for 2004, not available previously. Most of the growth in GSP last year was in service industries, in the nation and Ohio. Value added in most service industries rose more rapidly elsewhere in the nation than in Ohio. Factory output rose 1.7% last year in the state, less than the 4.3% increase in manufacturing GSP nationwide. Construction and mining output fell in Ohio, in contrast with continuing increases in output of these industries in the nation. Ohio and national gross state product growth are shown in Chart 1.

Small Rise in National Employment

Nonfarm payroll employment in the United States rose 56,000 in October, about one-third of the average monthly rise earlier in the year. August and September employment were revised downward. Unlike September's decline in employment, mainly a result of job losses in areas hit hardest by Hurricane Katrina, the relatively small increase in employment in October did not

Chart 1: Gross State Product
Adjusted for Inflation



result from weakness in those areas, according to an analysis by the United States Bureau of Labor Statistics (BLS), but from below-trend growth in the rest of the country. Post-hurricane rebuilding boosted construction employment in October. Direct effects of Hurricane Rita on the October employment figures were minimal, BLS indicated, and Hurricane Wilma struck Florida October 24, after the survey period for inclusion in last month's employment report. Manufacturing employment rose last month as aerospace workers returned to their jobs from a strike.

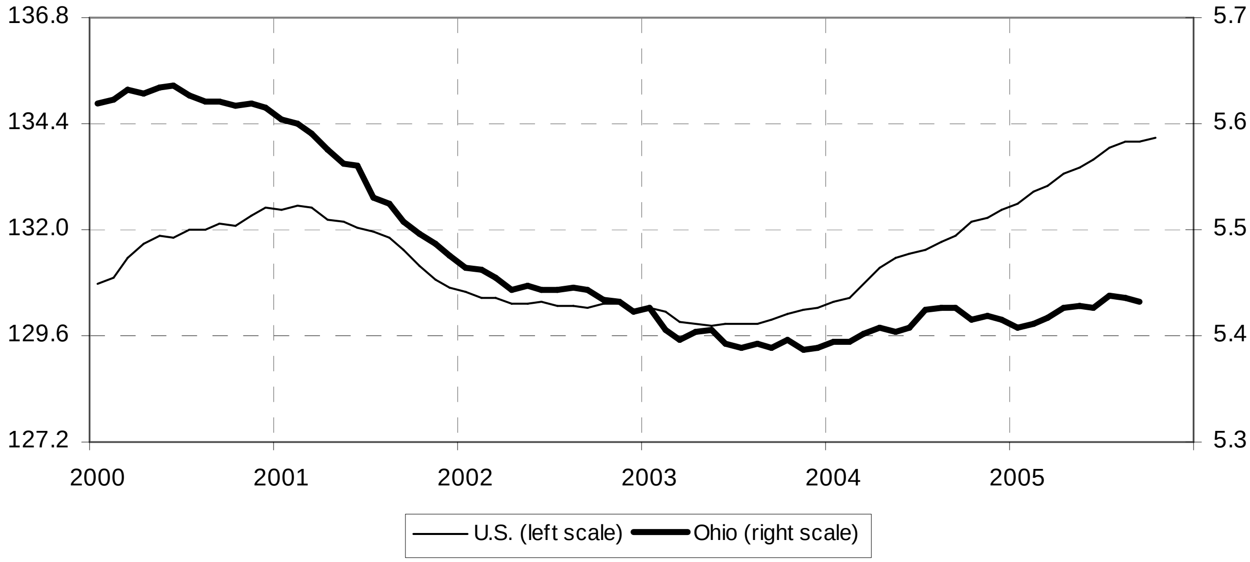
Unemployment nationwide edged down from 5.1% of the labor force in September to 5.0% in October. In connection with these figures, BLS reported on questions added to the household survey about evacuations because of Hurricane Katrina. The survey estimated that 800,000 persons ages 16 and older evacuated, not counting those residing in shelters and hotels (who were not covered by the survey). Of these 800,000 people, 56% were in the labor force in October, i.e., they either had jobs or wanted to work and were available for work. About 300,000 of them had returned to the homes they evacuated. BLS reported the unemployment rate of these people at 10.5%. Among the 500,000 persons who had not returned to their former homes, one-third of those who wanted jobs and were available for work were unemployed.

Ohio nonfarm payroll employment fell 4,600 in September to 6,100 above a year earlier. Nonfarm payrolls in the state recovered about 50,000 or nearly 1% from the cyclical low in late 2003 to July 2005, but have slipped since. Unemployment in the state was 5.8% of the labor force in September, 0.7 percentage point above the national unemployment rate. Total nonfarm payroll employment in the country and Ohio are shown in Chart 2.

Growing Economy with Rising Prices

Purchasing managers with manufacturers saw continued growth in activity during October, according to the Institute for Supply Management's monthly survey, accompanied by very widespread price increases. Some shortages likely resulted in part from hurricane disruptions of hydrocarbon feedstock supplies. One survey respondent noted that an increasing number of chemicals were being put on allocation. Another, in the food industry, was experiencing difficulty finding refrigerated truck transport. Natural gas, fuel oil, a few chemicals, steel, copper, and tires were reported in short supply. Respondents who said orders, order backlogs, production, and employment were rising outnumbered those reporting declines. Purchasing managers in nonmanufacturing sectors of the economy, in a comparable survey, generally reported continued

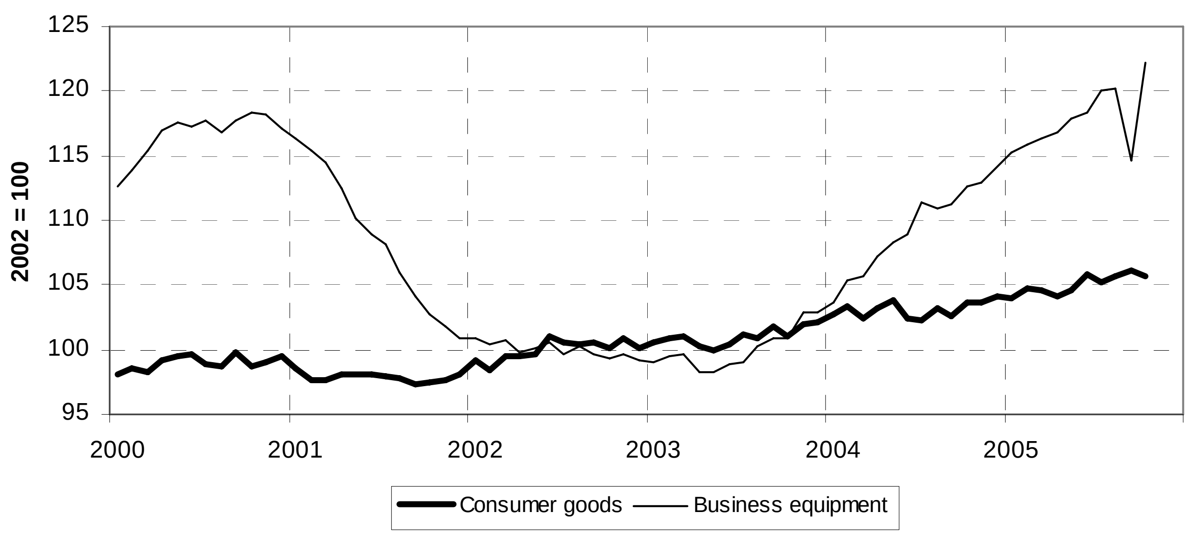
Chart 2: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



expansion. They were concerned about high energy prices and adverse effects of the hurricanes on cost and availability of construction materials and truck transport. Increases in prices paid remained widespread in the nonmanufacturing sector.

Industrial production rose 0.9% in October, after a 1.5% drop in September, as output in numerous industries recovered from the hurricanes and production resumed at Boeing following a strike. Manufacturing output rose 1.4%, more than reversing a 0.7% decline the previous month, to 3.2% above a year earlier. Business equipment was up sharply, as a result of the end of the strike as well as increased production of information processing equipment and of industrial and other equipment. Consumer goods production fell in October as auto output was trimmed following increases in the third quarter; production of appliances, furniture, and carpeting was reduced after earlier increases; and consumer nondurable goods output fell. Industrial production indexes for business equipment, which accounts for about 10% of the industrial production index, and for consumer goods, 31% of the index, are shown in Chart 3. Output of military equipment rose as shipbuilding increased following hurricane

Chart 3: Industrial Production
Seasonally Adjusted



curtailments. Production of construction supplies rose, perhaps as a result of reconstruction following the hurricanes. Oil and gas production remained well below pre-hurricane levels, as described above.

Factory orders fell 1.7% in September following a 2.9% increase in August. This volatile series is growing less rapidly than last year, but orders have been outpacing shipments in industries for which the Department of Commerce tracks unfilled orders, adding to backlogs. Year-to-date orders were 8% above a year earlier, below the 10% year-over-year increase for all of last year. Manufacturers' unfilled orders at the end of September were 10% higher than a year earlier.

The latest "Beige Book" showed further expansion of economic activity in much of the country, though with weakness in motor vehicle sales and slackening demand for homes in some areas. The "Beige Book" summarizes reports on business conditions and is compiled by the Federal Reserve banks based on outside contacts. In the Cleveland Federal Reserve District, which includes Ohio, activity increased in the latest period for durable goods manufacturers, retailers, and nonresidential contractors. Sales appear to have peaked for home builders, and prices for new homes were said to be generally only slightly above those a year ago despite higher costs. Input cost increases intensified for firms in the region, though hurricane-related higher costs were thought likely to be temporary in most industries. Hiring remained modest, with improvement slower than elsewhere in the nation.

Consumer Spending Rises, except for Motor Vehicles

Retail sales fell 0.1% in October, mainly as a result of sharply lower motor vehicle dealer sales. Excluding motor vehicles, retail sales rose 0.9% last month to 10% above a year earlier. Sales of light trucks and of total light vehicles in October were the weakest since 1998. Stimulated by exceptional incentive programs, light truck sales rose in July to the strongest rate on record but have fallen persistently since then. Motor vehicle dealer inventories, reduced by the summer incentive programs, have been built back up. Retail lines that have done well in recent months include building materials dealers, furniture and home furnishings stores, and nonstore retailers (catalog and Internet). Gasoline station sales have been well above year-earlier levels, reflecting high fuel prices, but fell from September to October.

New Housing Starts and Sales at High Levels but Slower than Earlier this Year

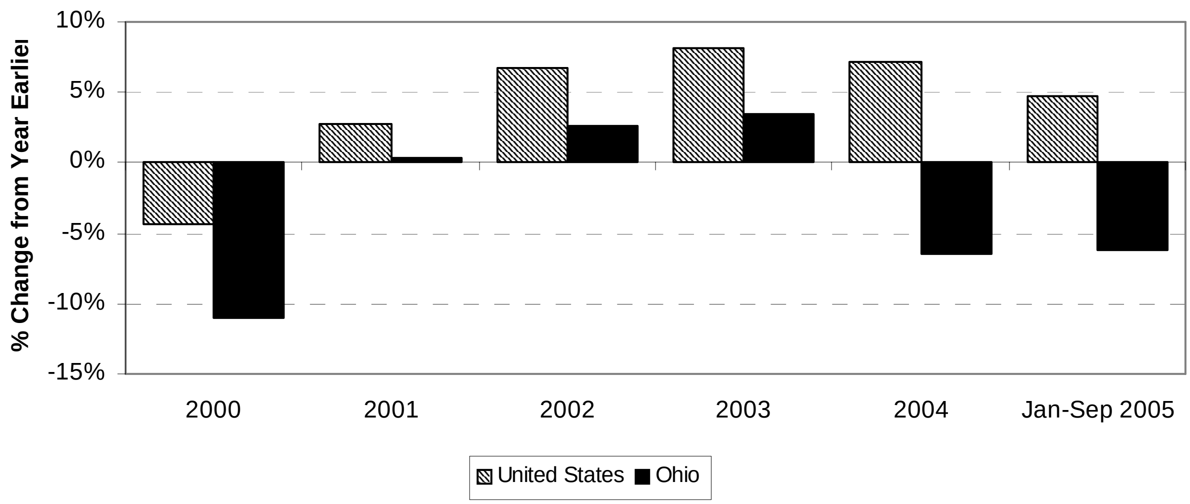
Housing starts nationwide fell 6% in October from September's upward-revised level. Starts on new housing remained strong at more than a 2 million unit annual rate, seasonally adjusted, but were below the pace earlier in 2005. Year-to-date starts were 5% higher than a year earlier for the nation and about even with a year ago in the Midwest.

Sales of new homes nationwide rose 2% in September but remained below sales rates earlier. Year-to-date sales were 6% above a year ago, on pace for the highest sales year ever. New home sales in the Midwest were 1% above a year earlier, and for the full year may match or exceed last year's record number. Permits for construction of new residences in Ohio in the first nine months of 2005 were 6% below a year earlier, following a 6% decline in all of 2004, as shown in Chart 4. Nationwide, year-to-date housing permits were 5% higher after a 7% increase last year.

Sales of used homes nationally were unchanged in September at the second highest rate ever, boosted in part by buying in areas near those devastated by Hurricane Katrina, according to the National Association of Realtors. Year-to-date sales were 6% above a year ago in the nation and 4% higher in the Midwest. Ohio home sales during the first nine months of 2005 remained at a record pace, 5% above a year earlier.

Interest rates for home purchases have risen. The average contract interest rate nationwide on commitments for 30-year fixed-rate mortgage loans rose to 6.37% in a weekly survey for November 17, highest in more than two years.[1] Interest rates on new adjustable-rate loans have risen with higher short-term market interest rates.

Chart 4: Housing Permits



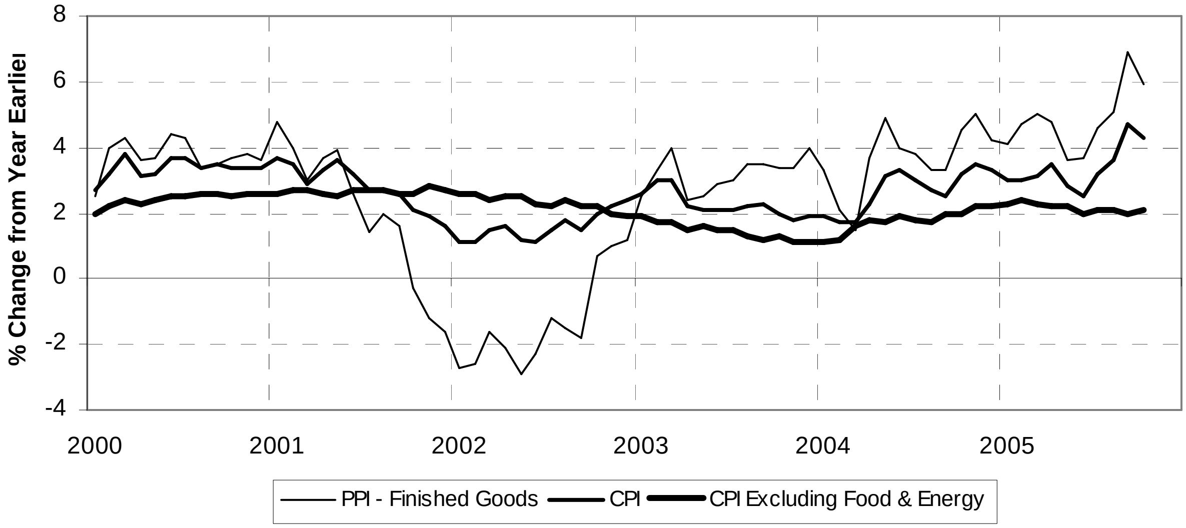
Finished Goods and Services Inflation Tame, Apart from Energy

The producer price index for finished goods rose 0.7% in October to 5.9% above a year earlier. But excluding a 4.1% increase in energy prices last month, producer prices for finished goods fell 0.3% from September and were only 1.5% higher than a year earlier. Gasoline prices declined in October but prices for numerous other energy goods rose. Prices are rising at earlier stages in the production process. Intermediate goods prices rose 3% in October to 11% above a year earlier, and crude materials prices rose 6.7% last month to 32% above October 2004, mainly because of higher energy costs. Prices for crude oil have since declined, with the benchmark West Texas Intermediate falling from around $70 per barrel at the end of August to under $60 recently, which was still about double the price two years earlier. Natural gas prices have declined from peaks in September and October but are well above levels a few years ago.

The consumer price index rose 0.2% in October to 4.3% above a year earlier. Energy prices in the index fell 0.2% last month, as a 4.4% decline in motor fuels outweighed a 5.2% rise in household fuels, including a 14% increase in natural gas, its fourth consecutive large increase. Consumer prices for goods and services other than food and energy rose 0.2% in October to 2.1% above a year earlier. Inflation as measured by the producer and consumer price indexes is shown in Chart 5. As of November 14, the nationwide average price of regular gasoline fell to $2.26 per gallon, and the average in Ohio dropped to $2.14, from more than $3 in early September, according to the Energy Information Administration's weekly survey.

Output per labor hour in nonfarm business rose at a 4.1% annual rate in the third quarter, the strongest performance for this measure of labor productivity since the second quarter of 2004. Hourly labor compensation—benefits as well as wages and salaries—in the nonfarm business sector increased at a 3.6% rate in the same period. Consequently, labor costs per unit of output fell during the quarter, the first decline in this measure in more than a year. Slower productivity gains and somewhat larger increases in total compensation over the past couple of years had been pushing up unit labor costs. However, an alternative measure of compensation, the employment cost index, does not show a comparable upturn in compensation gains. The latter measure has fixed weights, eliminating changes due to interindustry shifts, and excludes certain types of compensation such as that of CEOs and business owners as well as proceeds from the exercise of stock options, which may account for part of the difference.

Chart 5: Producer and Consumer Prices



Higher Interest Rates

Following the November 1 meeting of its Federal Open Market Committee (FOMC), the central bank announced another 0.25 percentage point increase in its target for the interest rate on federal funds which are overnight loans between banks. The federal funds target is now 4%, up 3 percentage points since June 2004. The wording of the press release announcing this latest action suggested that further 0.25 percentage point increases at future FOMC meetings remain likely. The group is next scheduled to meet December 13. Longer-term interest rates rose further. The ten-year United States Treasury note yield increased to more than 4.6%, the highest in 16 months, before easing back below that level. Corporate, municipal, and mortgage interest rates are above levels of a month ago.

[1] Freddie Mac (FHLMC), Primary Mortgage Market Survey, and Federal Reserve, H.15 report.

Status of the General Revenue Fund

REVENUE

— *Jean Botomogno and Allan Lundell*

Total GRF receipts for October were below the August 2005 estimate of the Office of Budget and Management by $32.1 million (1.6%). State-source receipts (tax revenue plus nontax revenue plus transfers-in) were $88.8 million (6.1%) above estimate and federal grants were below estimate by $121.0 million (21.3%).[1] Tax revenues were above estimate by $83.9 million (5.8%). Revenue from the personal income tax was above estimate by $48.3 million (8.1%) and revenue from the corporate franchise tax was above estimate by $44.5 million. Revenue from the sales and use tax was below estimate by $29.8 million (4.9%). Revenue from the auto sales tax was $16.1 million (20.6%) below estimate and revenue from the nonauto sales tax was $13.7 million (2.6%) below estimate.

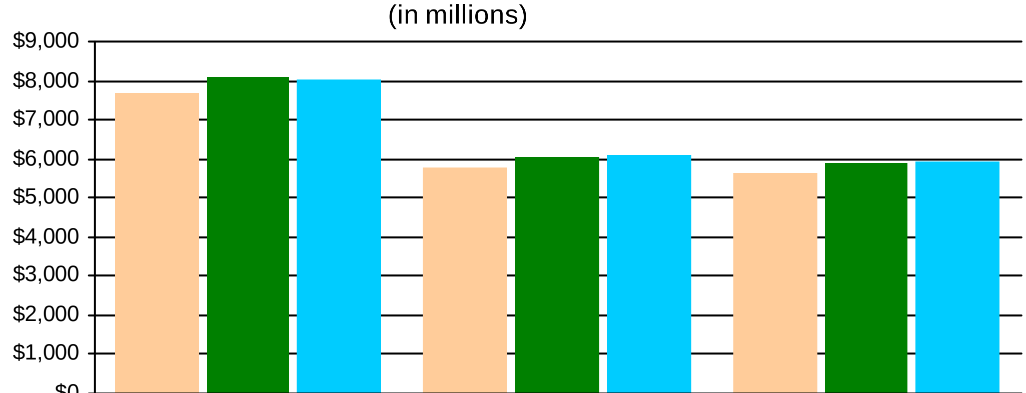
Four months into FY 2006, total GRF receipts are below estimate by $53.7 million (0.7%). State-source receipts are above estimate by $81.1 million (1.3%) and federal grants are below estimate by $134.8 million (6.5%).

Tax revenue for the fiscal year to date is above estimate by $48.6 million (0.8%). Revenue from the corporate franchise tax is above estimate by $48.5 million, revenue from the personal income tax is above estimate by $38.7 million (1.5%), and revenue from the auto sales tax is above estimate by $13.0 million (3.6%). Revenue from the nonauto sales tax is below estimate by $52.9 million (2.4%) and revenue from the cigarette tax is below estimate by $25.2 million (7.1%).

For the fiscal year to date, total GRF receipts are up 5.3% compared to FY 2005. State-source receipts are up 5.4% and tax revenue is up 5.2%. Revenue from the cigarette tax is up 107.0% 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 8.6%. 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 5.4%, and revenue from the auto

Chart 1: Year-to-Date GRF Receipts

(in millions)



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Total Tax Revenue
FY 2005	$7,649.2	$5,786.5	$5,634.0
FY 2006 Estimate	$8,104.7	$6,019.5	$5,880.3
FY 2006 Actual	$8,051.0	$6,100.6	$5,928.9

sales tax is down 4.1%. Chart 1 compares FY 2006 receipts with FY 2005 receipts and FY 2006 estimates.

Personal Income Tax

The GRF received $644.2 million from the personal income tax in October. This amount was $48.3 million (8.1%) greater than estimated. Withholding was $17.6 million (2.8%) above estimate, payments associated with annual returns were above estimate by $11.8 million (30.8%), trust payments were above estimate by $8.4 million (1192.7%), and quarterly estimated payments were $7.0 million (41.0%) above estimate.[2] Payments associated with annual returns and trust payments were mainly final payments on filing extensions, which were due by October 15. Refunds were $3.2 million (14.3%) less than estimated.

The GRF has received $2,687.2 million from the personal income tax thus far this fiscal year. This amount is $38.7 million (1.5%) above estimate. The $2,540.8 million in revenue collected through withholding is $4.4 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 $361.2 million are $5.3 million (1.5%) above estimate. Payments associated with annual returns are above estimate by $17.2 million (21.0%) and trust payments are $11.6 million (141.0%) above estimate. Refunds total $88.0 million. This total is $1.5 million (1.8%) more than the estimate.

Compared to a year ago, GRF revenue from the personal income tax is up 8.6%. Withholding, which reflects the condition of Ohio's labor market, is up 6.0%. Quarterly estimated payments are up 14.7%, payments associated with annual returns are up 13.3%, and trust payments are up 115.8%. Refunds are up 0.8%.

Sales and Use Tax

Total sales and use tax revenues in October 2005 were $576.9 million, $29.8 million (4.9%) below projected revenues. Auto sales and use tax receipts were $16.1 million (20.6%) below estimate and nonauto sales and use tax receipts were $13.7 million (2.6%) below estimate. Total sales and use tax receipts in October 2005 were $66.7 million (10.4%) below sales and use tax revenues in October 2004. Tax receipts in October partly reflect taxable retail sales activity in September and also taxable retail sales during October.[3]

Chart 2: Nonauto Sales Tax Variance from August 2005 Estimates
(in millions)

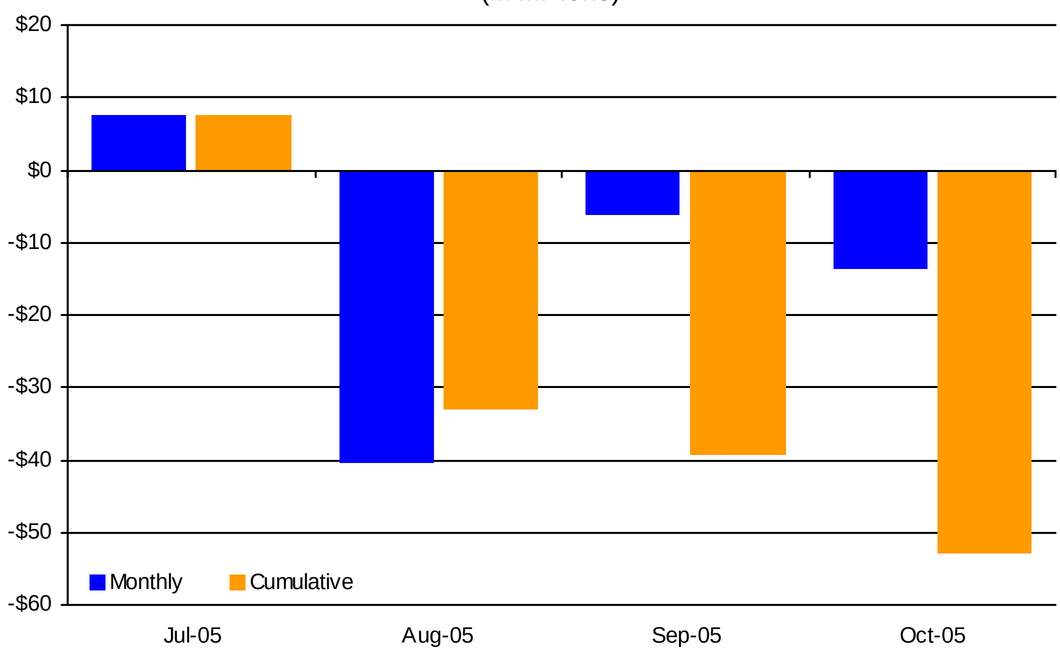
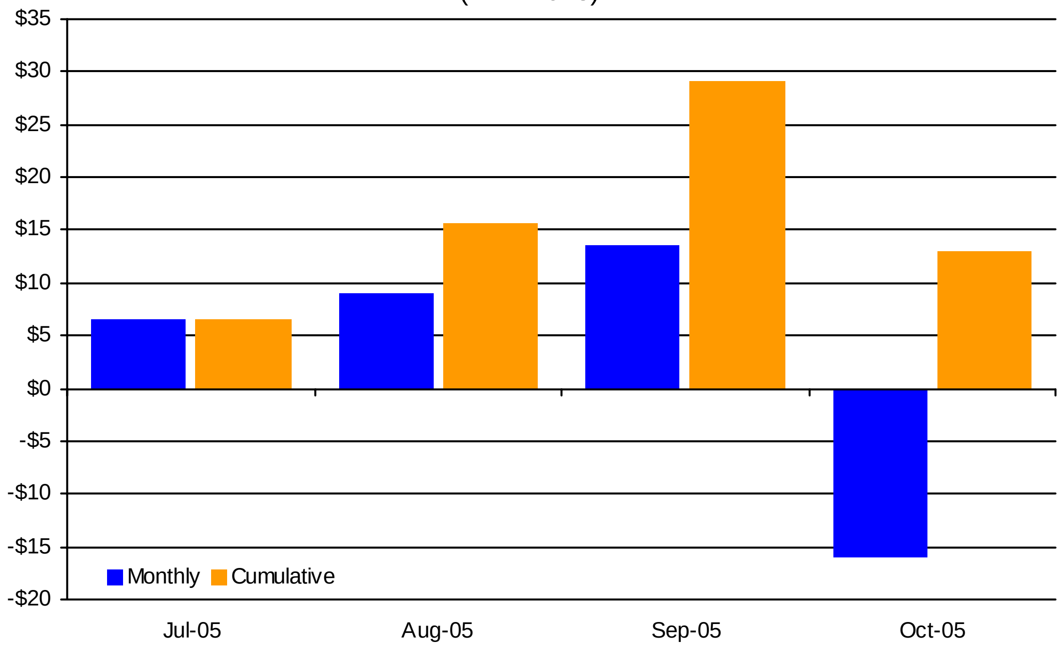


Chart 3: Auto Sales Tax Variance from August 2005 Estimates

(in millions)



FY 2006 year-to-date total sales and use tax revenues were $2,522.6 million, $39.9 million (1.6%) below estimate. FY 2006 sales and use tax receipts were also $138.3 million (5.2%) below the FY 2005 year-to-date tax receipts in October 2004. Although sales and use tax revenues show continued signs of weakness, the year-over-year decrease in revenues in FY 2006 is primarily due to the decrease in the tax rate on July 1, 2005 (to 5.5%, down from 6.0% in FY 2005).

Nonauto Sales and Use Tax

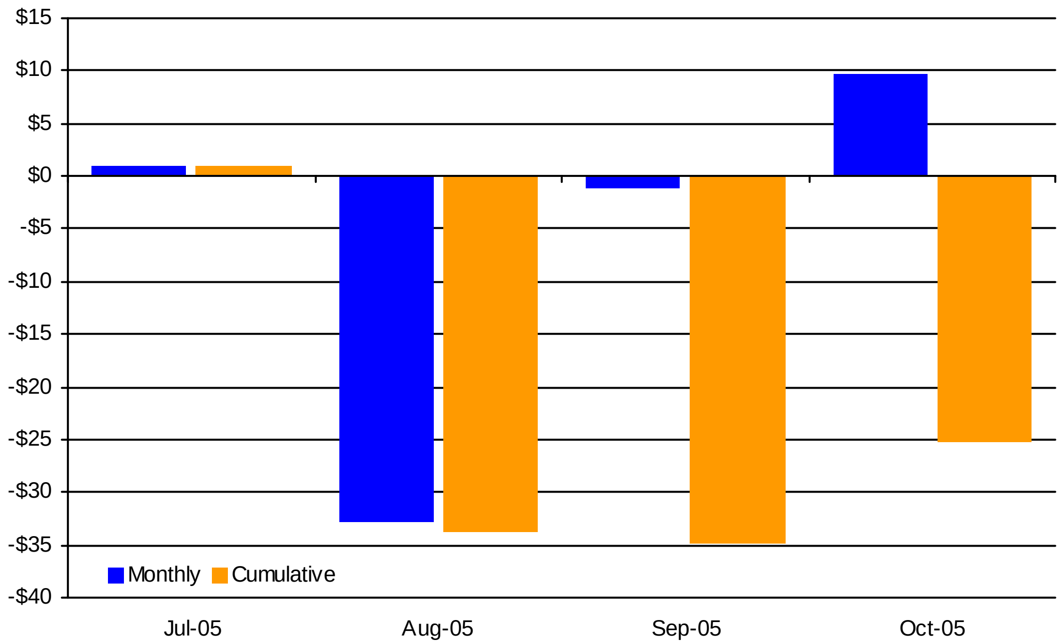
Nonauto sales and use tax revenues in October 2005 were $515.0 million, $13.7 million (2.6%) below estimate. Nonauto sales and use tax receipts were also $36.2 million (6.6%) below revenues for the same month last year. As of October 2005, FY 2006 nonauto sales and use tax receipts were $2,148.0 million, $52.9 million (2.4%) below estimate. Nonauto sales and use tax revenues in FY 2006 were also $122.5 million (5.4%) below year-to-date receipts in October 2004.

Nationwide retail sales (excluding auto and gasoline sales) fell 4.2% in September and grew about 3.9% in October 2005. Compared to sales a year ago, nationwide retail sales (excluding auto and gasoline sales) grew 7.3% and 7.7% in September and October 2005, respectively. Despite the increase in expenditures for gasoline (up 25% compared to last year), which comes at the expense of spending on other retail items, the year-over-year growth in nationwide retail sales (excluding autos and gasoline) has remained healthy.

Auto Sales and Use Tax

Auto sales and use tax receipts were $61.9 million in October 2005, $16.1 million (20.6%) below 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 October 2005 were $30.5 million (33.0%) below receipts in October 2004. FY 2006 year-to-date auto sales and use tax receipts were $374.6 million, $13.0 million (3.6%) above estimate. Year-to-date auto sales and use tax receipts were also $15.9 million (4.1%) below receipts through the same period in FY 2005.

Chart 4: Cigarette Tax Variance from August 2005 Estimates
(in millions)



According to the Department of Commerce, nationwide sales of automobiles and light trucks at motor vehicle dealers fell 4.1% and unit sales fell 11.6% in October 2005. Compared to sales in the same month in FY 2005, sales at motor vehicle dealers declined 10.0% and unit sales dropped 10.9% in October 2005. In October 2005, the annualized pace of sales of light vehicles fell to 14.7 million units, confirming the importance of manufacturers' incentives to healthy vehicle sales. Auto and light truck sales in the third quarter of CY 2005 reached an annualized pace of 17.9 million units. The "employee price" incentive program buoyed auto sales and use tax receipts in the first quarter of FY 2006. The pull-ahead buying in the summer hurt the performance of the tax and substantially decreased auto tax receipts in October. General Motors, which saw sales drop 23% in October, has reacted by starting a new "Red Tag" promotion in hope of bolstering its flagging sales.

Corporate Franchise Tax

Activities under the franchise tax in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations. 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. Corporate franchise tax receipts were $46.0 million in October 2005. The receipts were $44.5 million above estimate and $34.2 million above October 2004 receipts. FY 2006 year-to-date corporate franchise tax receipts were $47.0 million, $48.5 million above estimate. FY 2006 year-to-date receipts were also $16.0 million (51.7%) above year-to-date receipts in October 2004.

Cigarette and Other Tobacco Products Tax

October receipts from the cigarette and other tobacco products tax were $88.9 million, $9.7 million (12.2%) above estimate. Compared to year-ago receipts in the same month, revenues were $43.0 million (93.6%) higher. In FY 2006, total receipts from the cigarette and other tobacco products tax were $329.7 million, $25.2 million (7.1%) below estimate. Through October, FY 2006 year-to-date revenues were $170.5 million (107.0%) above revenues in FY 2005. 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.

[1] "Federal grants" are federal reimbursements for programs administered by the Department of Job and Family Services such as Medicaid and Temporary Assistance for Needy Families (TANF). The amount received depends on expenses for human services programs that require federal participation. Any changes in state spending in these areas will change receipts from federal grants.

[2] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. These payments are usually made by taxpayers with significant nonwage income. This income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

[3] 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 months.

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

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$61,945	$78,035	-$16,090	-20.6%
Nonauto Sales & Use	$515,001	$528,679	-$13,678	-2.6%
Total Sales & Use Taxes	$576,946	$606,714	-$29,768	-4.9%
Personal Income	$644,167	$595,900	$48,267	8.1%
Corporate Franchise	$45,973	$1,500	$44,473	2964.8%
Public Utility	-$1,130	-$1,500	$370	-24.7%
Kilowatt Hour Excise	$24,811	$23,700	$1,111	4.7%
Total Major Taxes	**$1,290,767**	**$1,226,314**	**$64,453**	**5.3%**
Commercial Activity Tax	$0	$0	$0	---
Foreign Insurance	$125,860	$118,400	$7,460	6.3%
Domestic Insurance	$163	$10	$153	1531.9%
Business & Property	$73	$45	$28	62.8%
Cigarette	$88,881	$79,200	$9,681	12.2%
Alcoholic Beverage	$4,623	$4,600	$23	0.5%
Liquor Gallonage	$2,738	$2,400	$338	14.1%
Estate	$8,205	$6,400	$1,805	28.2%
Total Other Taxes	$230,544	$211,055	$19,489	9.2%
Total Tax Revenue	**$1,521,311**	**$1,437,369**	**$83,942**	**5.8%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	-$430	$0	-$430	---
Licenses and Fees	$5,138	$3,400	$1,738	51.1%
Other Revenue	$7,319	$5,735	$1,584	27.6%
Nontax State-Source Revenue	$12,027	$9,135	$2,892	31.7%
TRANSFERS				
Liquor Transfers	$11,000	$9,000	$2,000	22.2%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$0	$0	---
Total Transfers In	$11,000	$9,000	$2,000	22.2%
TOTAL GRF before Federal Grants	**$1,544,338**	**$1,455,504**	**$88,834**	**6.1%**
Federal Grants	$446,119	$567,088	-$120,970	-21.3%
TOTAL GRF SOURCES	**$1,990,457**	**$2,022,592**	**-$32,136**	**-1.6%**

* 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 October 2005
($ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
TAX REVENUE						
Auto Sales	$374,631	$361,635	$12,996	3.6%	$390,486	-4.1%
Nonauto Sales & Use	$2,147,977	$2,200,897	-$52,920	-2.4%	$2,270,463	-5.4%
Total Sales & Use Taxes	$2,522,608	$2,562,532	-$39,924	-1.6%	$2,660,949	-5.2%
Personal Income	$2,687,231	$2,648,500	$38,731	1.5%	$2,474,467	8.6%
Corporate Franchise	$46,992	-$1,500	$48,492	-3232.8%	$30,968	51.7%
Public Utility	$43,828	$38,500	$5,328	13.8%	$28,548	53.5%
Kilowatt Hour Excise	$120,116	$112,100	$8,016	7.2%	$117,984	1.8%
Total Major Taxes	**$5,420,774**	**$5,360,132**	**$60,643**	**1.1%**	**$5,312,916**	**2.0%**
Commercial Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	$129,944	$124,850	$5,094	4.1%	$122,249	6.3%
Domestic Insurance	$1,035	$50	$985	1970.3%	$170	509.7%
Business & Property	$1,092	$1,045	$47	4.5%	$820	33.0%
Cigarette	$329,745	$354,900	-$25,155	-7.1%	$159,285	107.0%
Alcoholic Beverage	$20,397	$20,000	$397	2.0%	$19,925	2.4%
Liquor Gallonage	$11,058	$10,500	$558	5.3%	$10,610	4.2%
Estate	$14,816	$8,800	$6,016	68.4%	$7,977	85.7%
Total Other Taxes	$508,087	$520,145	-$12,058	-2.3%	$321,036	58.3%
Total Tax Revenue	**$5,928,861**	**$5,880,277**	**$48,585**	**0.8%**	**$5,633,953**	**5.2%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$24,722	$17,000	$7,722	45.4%	$6,319	291.2%
Licenses and Fees	$18,129	$11,300	$6,829	60.4%	$17,709	2.4%
Other Revenue	$44,028	$30,435	$13,593	44.7%	$39,710	10.9%
Nontax State-Source Revenue	$86,878	$58,735	$28,143	47.9%	$63,738	36.3%
TRANSFERS						
Liquor Transfers	$43,000	$38,000	$5,000	13.2%	$39,000	10.3%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$41,902	$42,500	-$598	-1.4%	$49,795	-15.9%
Total Transfers In	$84,902	$80,500	$4,402	5.5%	$88,795	-4.4%
TOTAL GRF before Federal Grants	**$6,100,641**	**$6,019,512**	**$81,130**	**1.3%**	**$5,786,486**	**5.4%**
Federal Grants	$1,950,332	$2,085,173	-$134,842	-6.5%	$1,862,668	4.7%
TOTAL GRF SOURCES	**$8,050,973**	**$8,104,685**	**-$53,712**	**-0.7%**	**$7,649,154**	**5.3%**

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

DISBURSEMENTS

— *Steve Mansfield**

Through the end of October, $9,056.2 million in General Revenue Fund (GRF) program disbursements have been made. This is under the estimate for the fiscal year to date by $335.3 million (3.6%). The bulk of this variance from the estimate was registered in October, when disbursements were under the estimate by $296.2 million. Each of the state's four major GRF program categories (Education, Welfare and Human Services, Government Operations, and Property Tax Relief), is now under the estimate for the year to date, with nearly half of the variance recorded in the Welfare and Human Services category (see Figure 1 and Table 4). In October, the Tax Relief program posted a significant variance ($194.0 million under the estimate), which offset the previous month's spending over the estimate. We will discuss in the sections that follow the details of these variances between what was actually disbursed through October compared to the estimates prepared by the Office of Budget and Management in August.

Welfare and Human Services (-$156.3 million)

The Welfare and Human Services category posted a disbursement variance of $51.3 million (4.2%) under the estimate in October. For the year to date, outlays in this category are now $156.3 million (3.5%) under the estimate. Three program subcategories (Health Care/Medicaid, Human Services, and Other Welfare) are the most significant contributors to the year-to-date underestimate in spending. The Department of Mental Health (in the Human Services subcategory) registered a $1.3 million variance below the estimate in October, thus pushing its year-to-date variance to $17.3 million below the estimate. These variances are discussed in more detail below.

Health Care/Medicaid. Year-to-date disbursements through October in the Health Care/Medicaid program (primarily line item 600-525)

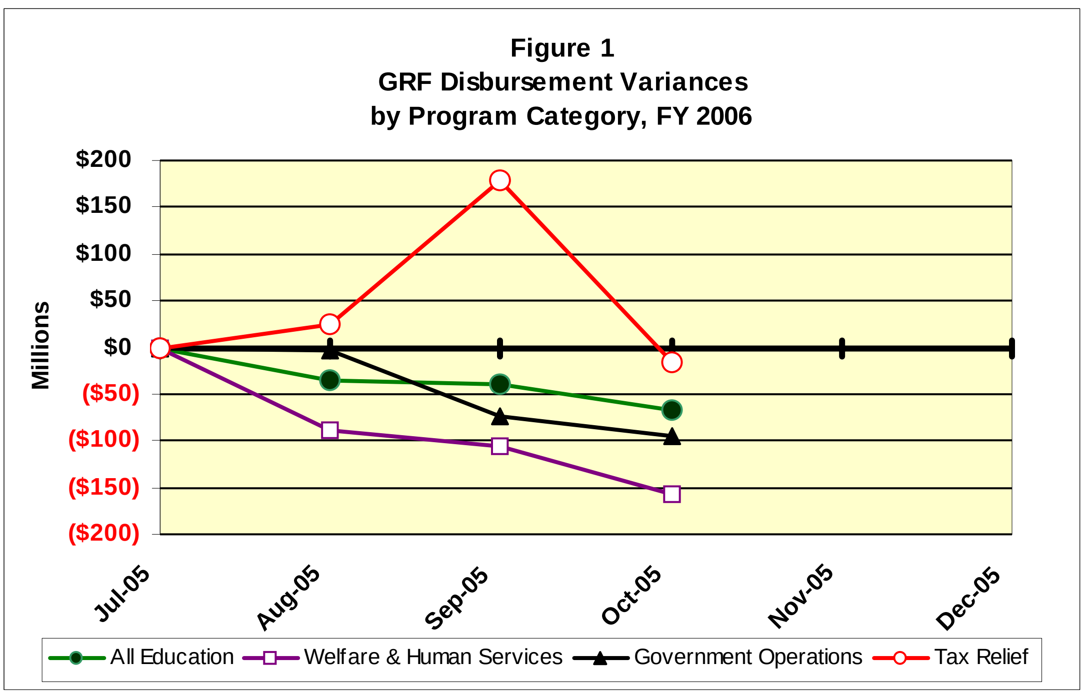


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of October 2005
($ in thousands)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$567,068	$566,939	$128	0.0%
Higher Education	$193,499	$216,699	-$23,201	-10.7%
Total Education	$760,566	$783,639	-$23,072	-2.9%
Health Care/Medicaid	$935,401	$931,722	$3,680	0.4%
Temporary Assistance to Needy Families (TANF)	$49,192	$61,457	-$12,265	-20.0%
General/Disability Assistance	$0	$0	$0	---
Other Welfare (2)	$48,276	$64,670	-$16,394	-25.3%
Human Services (3)	$124,200	$150,547	-$26,347	-17.5%
Total Welfare & Human Services	$1,157,070	$1,208,396	-$51,326	-4.2%
Justice & Corrections	$167,910	$182,056	-$14,146	-7.8%
Environment & Natural Resources	$5,287	$5,978	-$691	-11.6%
Transportation	$1,465	$1,602	-$137	-8.6%
Development	$9,757	$10,418	-$660	-6.3%
Other Government	$19,762	$25,922	-$6,159	-23.8%
Capital	$55	$15	$40	264.8%
Total Government Operations	$204,236	$225,990	-$21,754	-9.6%
Property Tax Relief (4)	$36,043	$230,000	-$193,957	-84.3%
Debt Service	$23,766	$29,823	-$6,057	-20.3%
Total Other Disbursements	$59,809	$259,823	-$200,014	-77.0%
Total Program Disbursements	**$2,181,682**	**$2,477,848**	**-$296,166**	**-12.0%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$3,237	$0	$3,237	---
Total Transfers Out	$3,237	$0	$3,237	---
TOTAL GRF USES	**$2,184,919**	**$2,477,848**	**-$292,929**	**-11.8%**

(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.

are $75.9 million (2.1%) below the estimate (see Table 6). The variance narrowed slightly in October. The largest contributor to the year-to-date variance was the HMO service category, which was $54.5 million (12.1%) below estimate with spending of $396.5 million through October. According to the Department, utilization in this spending category has not grown as fast as anticipated. In October, the caseload for managed care was 559,320 versus a forecast of 661,020. The Department believes that enrollment will be up to forecast levels by January. The second

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2005**	**Percent Change**
Primary & Secondary Education (1)	$2,306,439	$2,369,689	-$63,249	-2.7%	$2,242,469	2.9%
Higher Education	$756,070	$755,536	$535	0.1%	$752,167	0.5%
Total Education	$3,062,510	$3,125,224	-$62,715	-2.0%	$2,994,636	2.3%
Health Care/Medicaid	$3,583,575	$3,659,492	-$75,917	-2.1%	$3,236,638	10.7%
Temporary Assistance to Needy Families (TANF)	$75,676	$88,619	-$12,943	-14.6%	$89,456	-15.4%
General/Disability Assistance	$0	$0	$0	---	$8,473	-100.0%
Other Welfare (2)	$215,543	$248,945	-$33,402	-13.4%	$200,637	7.4%
Human Services (3)	$452,701	$486,701	-$34,001	-7.0%	$454,909	-0.5%
Total Welfare & Human Services	$4,327,495	$4,483,758	-$156,262	-3.5%	$3,990,112	8.5%
Justice & Corrections	$745,371	$812,027	-$66,657	-8.2%	$734,149	1.5%
Environment & Natural Resources	$36,777	$39,321	-$2,544	-6.5%	$43,981	-16.4%
Transportation	$10,597	$11,928	-$1,332	-11.2%	$9,891	7.1%
Development	$67,716	$82,268	-$14,552	-17.7%	$77,068	-12.1%
Other Government	$177,903	$187,535	-$9,632	-5.1%	$179,929	-1.1%
Capital	$55	$28	$27	94.2%	$0	---
Total Government Operations	$1,038,419	$1,133,108	-$94,689	-8.4%	$1,045,017	-0.6%
Property Tax Relief (4)	$422,133	$437,125	-$14,992	-3.4%	$416,392	1.4%
Debt Service	$205,597	$212,237	-$6,640	-3.1%	$174,370	17.9%
Total Other Disbursements	$627,730	$649,362	-$21,632	-3.3%	$590,761	6.3%
Total Program Disbursements	**$9,056,153**	**$9,391,452**	**-$335,299**	**-3.6%**	**$8,620,526**	**5.1%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$394,205	$0	$394,205	---	$0	---
Other Transfers Out	$173,081	$0	$173,081	---	$27,857	521.3%
Total Transfers Out	$567,286	$0	$567,286	---	$27,857	1936.4%
TOTAL GRF USES	**$9,623,439**	**$9,391,452**	**$231,987**	**2.5%**	**$8,648,384**	**11.3%**

(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.

largest contributor to the variance is the Prescription Drugs category with a year-to-date variance of $51.6 million (6.8%) below the estimate. The Ohio Department of Job and Family Services is currently investigating why this spending category was overestimated.

The Nursing Facilities Payments service category was $43.3 million (4.6%) below estimate with spending of $888.7 million through October. Am. Sub. H.B. 66 of the 126th General Assembly (the main operating appropriations act for the current biennium) allows the Department to ensure

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

Service Category	October Actual	October Estimate	October Variance	October Percent Variance	Year-to-Date Actual thru Oct.	Year-to-Date Estimate thru Oct.	Year-to-Date Variance	Year-to-Date Percent Variance
Nursing Facilities Payments	$225,988	$231,805	($5,817)	-2.5%	$888,749	$932,081	($43,332)	-4.6%
ICF/MR Payments	$42,987	$43,323	($336)	-0.8%	$168,785	$168,257	$528	0.3%
Inpatient Hospitals	$163,153	$143,470	$19,683	13.7%	$552,573	$525,431	$27,142	5.2%
Outpatient Hospitals	$75,175	$64,158	$11,017	17.2%	$242,554	$237,195	$5,359	2.3%
Physicians	$65,823	$60,128	$5,695	9.5%	$222,532	$224,391	($1,859)	-0.8%
Prescription Drugs	$206,041	$211,621	($5,580)	-2.6%	$703,735	$755,346	($51,611)	-6.8%
ODJFS Waiver	$21,679	$21,334	$345	1.6%	$78,202	$75,403	$2,799	3.7%
HMO	$107,421	$121,391	($13,970)	-11.5%	$396,509	$450,970	($54,461)	-12.1%
Medicare Buy-In	$18,149	$35,403	($17,254)	N/A	$71,811	$70,641	$1,170	1.7%
Home Health	$17,719	$16,320	$1,399	8.6%	$59,205	$57,902	$1,303	2.3%
Dental	$13,972	$11,618	$2,354	20.3%	$46,685	$44,482	$2,203	5.0%
Hospice	$12,618	$13,419	($801)	-6.0%	$42,019	$46,473	($4,454)	-9.6%
All Other	$60,179	$55,106	$5,073	9.2%	$217,302	$198,511	$18,791	9.5%
Total Medicaid Payments	**$1,030,904**	**$1,029,096**	**$1,808**	**0.2%**	**$3,690,661**	**$3,787,083**	**($96,422)**	**-2.5%**
DA Medical	$4,984	$3,744	$1,240	33.1%	$18,409	$15,546	$2,863	18.4%
Drug Rebates Offsets	($86,052)	($86,687)	$635	-0.7%	($86,664)	($88,082)	$1,418	-1.6%
ICF/MR Franchise Fee Offsets	($1,685)	($1,685)	$0	0.0%	($6,121)	($6,726)	$605	-9.0%
NF Franchise Fee Offsets	($12,750)	($12,746)	($4)	0.0%	($32,710)	($48,335)	$15,625	-32.3%
DSH Rebate Offsets	$0	$0	$0	N/A	$0	$0	$0	N/A
Total Health Care (Net of Offsets)	**$935,401**	**$931,722**	**$3,679**	**0.4%**	**$3,583,575**	**$3,659,486**	**($75,911)**	**-2.1%**
Est. Federal Share	$560,615	$558,410	$2,205		$2,147,747	$2,193,243	($45,496)	
Est. State Share	$374,786	$373,312	$1,474		$1,435,828	$1,466,243	($30,415)	

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 FY 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.

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.

The projected number of total Medicaid eligibles in October was 1,759,087; this was over the budgeted caseload by nearly 8,000. The number of eligibles in the Covered Families and Children program is over the estimate by about 9,400, while the number of eligibles in the Aged, Blind, and Disabled program is under estimate by about 1,500.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs were $16.4 million (25.3%) under the October estimate. For the year to date, disbursements in this subcategory now stand at $33.4 million (13.4%) under the estimate. 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 $10.0 million, and line item 600-416, Computer Projects, which is under estimate by $8.9 million. Through the Family

Table 7
FY 2006 to FY 2005 Comparison of Year-to-Date Health Care/Medicaid Spending
(ALI 600-525 Only)
($ in thousands)

Service Category	FY 2006 Yr.-to-Date as of Oct. '06	FY 2005 Yr.-to-Date as of Oct. '05	Dollar Change	Percent Increase
Nursing Facilities Payments	$888,749	$903,419	($14,670)	-1.6%
ICF/MR Payments	$168,785	$148,660	$20,125	13.5%
Inpatient Hospitals	$552,573	$433,688	$118,885	27.4%
Outpatient Hospitals	$242,554	$207,895	$34,659	16.7%
Physicians	$222,532	$191,646	$30,886	16.1%
Prescription Drugs	$703,735	$634,273	$69,462	11.0%
ODJFS Waiver	$78,202	$71,267	$6,935	9.7%
HMO	$396,509	$340,284	$56,225	16.5%
Medicare Buy-In	$71,811	$58,152	$13,659	23.5%
All Other*	$365,211	$292,836	$72,375	24.7%
Total Medicaid Payments	**$3,690,661**	**$3,282,120**	**$408,541**	**12.4%**
DA Medical	$18,409	$23,412	($5,003)	-21.4%
Drug Rebates Offsets	($86,664)	($26,741)	($59,923)	224.1%
ICF/MR Franchise Fee Offsets	($6,121)	($11,076)	$4,955	-44.7%
NF Franchise Fee Offsets	($32,710)	($32,275)	($435)	1.3%
DSH Rebate Offsets	$0	($4,785)	$4,785	-100.0%
Prior Period Encumbrance Subsidy				
Total Health Care (Net of Offsets)	**$3,583,575**	**$3,230,655**	**$352,920**	**10.9%**
Est. Federal Share	$2,147,747	$1,936,231	$211,516	
Est. State Share	$1,435,828	$1,294,424	$141,404	

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 FY 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 above, 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.

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.

TANF. The state's portion of the Temporary Assistance for Needy Families (TANF) program that is expended from the GRF is composed of funds from line item 600-410, TANF State, a portion of line item 600-413, Day Care Match/MOE, and a portion of line item 600-321, Support Services. These are supplemented by Fund 4A8, line item 600-658, Child Support Collection, and by county expenditures for part of the program's administrative costs. In October, TANF disbursements were $12.3 million below estimate largely because a disbursement from line item 600-413 did not post in October as had been expected. This is a timing issue that should "self-correct" in November.

Under Am. Sub. H.B. 66, TANF cash assistance benefits were increased by 10% in October. The number of TANF cash assistance groups has experienced a small decline in the last several months and now stands at 83,658. Nearly half of these cases are "child only" cases. Typically, these are cases where the children are living with an adult relative (other than a parent) who is not a TANF recipient.

Mental Health. In October, disbursements by the Department of Mental Health were under estimate by $1.3 million, which pushed the year-to-date disbursement variance to $17.3 million under the estimate. The bulk of the year-to-date variance ($12.8 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 and are expected to even out by March or April of 2006.

Government Operations (-$94.7 million)

In October, outlays in the Government Operations category were $21.8 million (9.6%) under the estimate for the month, which pushed the year-to-date variance to $94.7 million (8.4%) below the estimate.

The largest single source of the year-to-date variance is the Department of Rehabilitation and Correction, with a variance of $61.9 million under the estimate. As reported last month, 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 $14.3 million (31.2%) 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. As reported last month, disbursements from this line item that were expected to take place in August and September did not in fact take place.

Education (-$62.7 million)

In October, disbursements in the Education category were $23.1 million (2.9%) under estimate. All of the October variance from the estimate is traceable to the Higher Education subcategory, which posted a disbursement variance of $23.2 million (10.7%). For the year to date, however, outlays in the Education category are $62.7 million (2.0%) under the estimate, with all of the underspending attributable to the Primary and Secondary Education subcategory. Compared to the same point in the last fiscal year, disbursements in the whole category are $67.9 million (2.3%) higher in the current fiscal year.

Department of Education. October disbursements by the Department of Education produced a minimal $2.5 million (0.4%) variance over the estimate. For the year to date, the Department's disbursements now stand at $59.2 million (2.5%) under the estimate. Total disbursements so far in FY 2006 are $2,271.3 million.

Like last month, the Department's year-to-date disbursement variance is traceable to two main sources: line item 200-550, Foundation Funding ($25.4 million under estimate), and line item 200-437, Student Assessment ($9.3 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 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 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.

A smaller, but still interesting, contributor to the year-to-date variance is line item 200-431, School Improvement Initiatives, which is under the estimate by $3.4 million. This line item provides earmarked funds for various school improvement initiatives. The bulk of the funding available in the line item is earmarked for the provision of technical assistance to academic watch and academic emergency school districts to develop and implement their continuous improvement plans and to school buildings not meeting the federal accountability measures established in the federal No Child Left Behind Act. The underspending is primarily due to a delay in reaching plan agreements. According to the Department, these delays have for the most part been resolved.

Board of Regents. Disbursements by the Board of Regents were $27.2 million (12.3%) under the estimate for October. This monthly variance offset the previous month's variance to a large extent, with the year-to-date disbursement variance now standing at $3.5 million (0.5%) below estimate. A little over half of the October variance stemmed from line item 235-503, Ohio Instructional Grants, when an estimated payment was missed due to the late reporting of data from the campuses. 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. Disbursements from this line item, despite the missed payment in October, remain over the estimate for the year to date. As reported last month, this is due to higher than expected enrollments in FY 2005, the exhaustion of last year's appropriation for the purpose, and the use of part of the FY 2006 appropriation to support not only current year grants but also grants from FY 2005. Consequently, the Board of Regents will need to seek a supplemental appropriation for FY 2006.

Tax Relief (-$15.0 million)

Tax Relief payments through October totaled $422.1 million, which is $15.0 million (3.4%) below the estimate. October's disbursements were under the estimate by $194.0 million, thus providing a complete offset to September's variance. 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 rollback 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 and will result 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.

**LSC colleagues who contributed to the development of this disbursement report include, in alphabetical order: Phil Cummins, Chuck Phillips, David Price, Joe Rogers, Ronnie Romito, Maria Seaman, and Kerry Sullivan.*

Issues of Interest

TANF Spending Annual Report

— Steve Mansfield

September 30, 2005 marked the eighth year of the operation of the federal Temporary Assistance for Needy Families (TANF) program and the eighth year of Ohio's operation of its two TANF programs: the Ohio Works First (OWF) program and the Prevention, Retention, and Contingency (PRC) program.

The TANF program replaced a matching grant system that operated as an entitlement (and thus had expenditures that fluctuated with changes in the caseload) with a flat-funded block grant that required the states to maintain a historical level of spending (called the Maintenance of Effort, or MOE, requirement). Compared to the programs that TANF replaced, there is a great deal of flexibility for states in how to use both federal and state funds. These funds can be used to support a wide range of activities in support of low-income families, and some of the funds can be transferred into other programs that serve low-income recipients. Qualified expenditures must meet at least one of the four broad purposes of the TANF program. These are:

(1) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
(2) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
(3) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
(4) Encourage the formation and maintenance of two-parent families.

Since the end of Federal Fiscal Year (FFY) 2002, TANF funding has been provided through a series of short-term extensions while reauthorization remains pending. Current funding expires on December 31, 2005. The U.S. Senate has already passed yet another extension, which would carry funding through March 31, 2006.

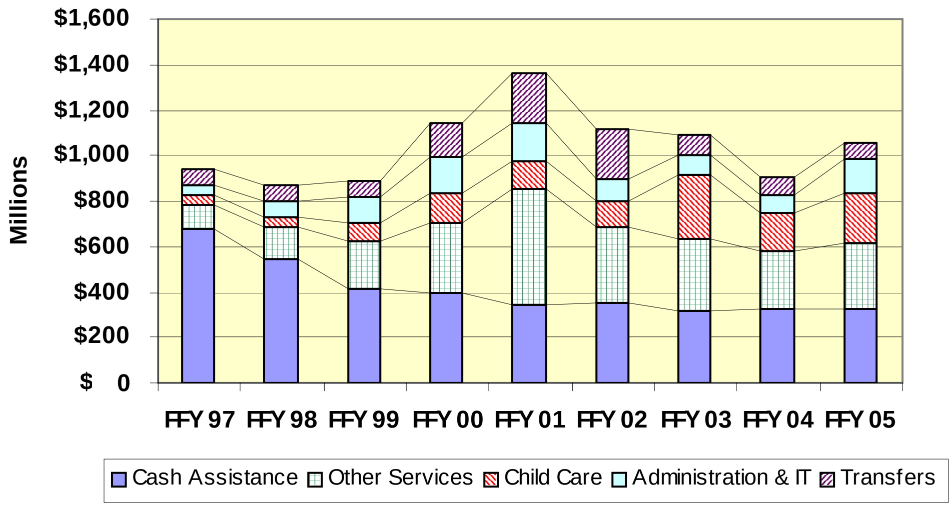
Ohio's TANF Expenditures, FFY 1997 – FFY 2005

Figure 1 tracks by federal fiscal year the total expenditures (both federal and state MOE) in five categories: cash assistance, all other services (excluding child care), child care, administration and information technology, and transfers (which can be made to the Child Care and Development Fund or to the Social Services Block Grant).

At the current funding level, Ohio's annual TANF grant from the federal government is $728.0 million. In FFY 2005 Ohio was awarded an additional $13.6 million in high-performance bonus funds for performance in FFY 2004. Last fiscal year Ohio was awarded $28.1 million in high-performance bonus funds for performance in FFY 2003. In FFY 2005 Ohio spent or transferred $665.2 million in federal TANF funds. In the previous fiscal year Ohio spent $501.5 million in federal TANF funds. With spending of the federal funds being lower than the total amount of the award, the state's cumulative total of unspent TANF funds held in reserve in the federal account increased by $77.4 million to stand at $913.5 million (see Figure 2).

In order to receive the federal TANF grant, Ohio must also meet a "maintenance of effort" (MOE) spending requirement. In each of the federal fiscal years 1997 through 2005, Ohio's MOE expenditures were about $400 million.

Figure 1. TANF Expenditures by Spending Category (includes State MOE and Federal TANF funds)



We see in Figure 1 that overall expenditures increased by $146.3 million from FFY 2004 to FFY 2005. Expenditures for cash assistance have declined from $673.1 million in FFY 1997 to $322.9 million in FFY 2005 but are up slightly from the low in FFY 2003. As a share of total TANF expenditures (and transfers), cash assistance has declined from 71.3% of annual expenditures in FFY 1997 to 30.6% in FFY 2005. Expenditures for "other services" (which includes the array of services in Ohio's Prevention, Retention, and Contingency program, as well as work subsidies, transportation, prevention of out-of-wedlock pregnancies, and services designed to help the formation and maintenance of two-parent families) were $288.8 million in FFY 2005, up about $38 million from FFY 2004 but down from a peak of $506.0 million in FFY 2001.

We also see in Figure 1 that direct TANF spending for child day care increased somewhat in FFY 2005 to $220.7 million, up from $171.8 million in FFY 2004. In FFY 2000 through FFY 2002, Ohio transferred TANF federal funds to the Child Care and Development Fund (CCDF). In FFY 2003 through FFY 2005 there were no transfers to the CCDF.

Figure 2 tracks the cumulative reserve of unspent TANF funds by federal fiscal year. At the end of FFY 2005, Ohio's cumulative unspent TANF funds totaled $913.5 million, with $424.4 million reported as unliquidated obligations and $489.1 million reported as the unobligated balance. A portion of the unliquidated obligations is in the form of allocations to counties. Any part of these allocations that goes unspent by the counties during the time frame in which the funds are available reverts to the unobligated balance.

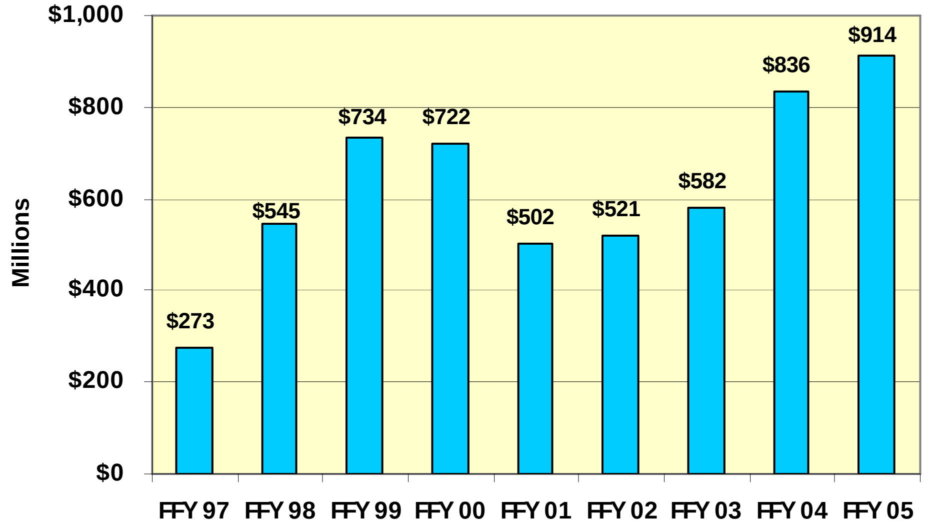
TANF Cash Assistance Caseload

Since reaching a peak of about 750,000 recipients in 1992, the number of Ohioans receiving cash assistance (either in the Ohio Works First program or in its predecessor program, Aid to Dependent Children, or ADC) has declined to about 182,000 in October 2004. The number of assistance groups has, in the same period, gone from about 263,000 to about 83,700 (see Figure 3). The TANF caseload has been relatively stable, with only a slight decline for nearly the last five years.

PRC Caseload

In addition to the cash assistance caseload, TANF funds were used to provide support services to an average of 76,067 individuals per month during state fiscal year (SFY) 2005. This was up from 65,465 individuals per month in SFY 2004 but below 112,108 individuals per

Figure 2. Ohio's Cumulative Unspent TANF Funds



month in SFY 2003 and 163,615 individuals in SFY 2002. During SFY 2005 the state spent $144.3 million on PRC services. This was up from $112.9 million in SFY 2004 but down from $152.9 million in SFY 2003 and $182.1 million in SFY 2002.

The PRC program provides support services for needs such as short-term basic needs, transportation, job training and work support, disaster assistance, and several other family support services. A report on the services delivered through the PRC program during the fourth quarter of fiscal year 2005 can be found on the Department of Job and Family Services' web site at the following Internet address: http://jfs.ohio.gov/oraa/prc_summaryaprjun05.pdf.

Figure 3. TANF/OWF Caseload
July 1990 – October 2005