

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JANUARY 2006

FISCAL OVERVIEW

—Allan Lundell

Total General Revenue Fund (GRF) receipts for December were below estimate by \$46 million and GRF program disbursements for the month were below estimate by \$275 million. At the midpoint of FY 2006, total GRF receipts are \$33 million above estimate, program disbursements are \$427 million below estimate, and the cash balance is above its expected level.¹

Tracking the Economy

The national economic expansion continues. Nonfarm payroll employment nationwide rose a modest 108,000 in December, but the previous month's employment was revised upward to show a 305,000 gain rather than the 215,000 increase initially reported. Total U.S. nonfarm payroll employment in December was 2.0 million higher than a year earlier and 1.9 million higher than the previous peak reached in February 2001. U.S. personal income rose 0.3% in November and was up 5.2% compared to a year earlier. Retail sales for December were up 0.7% from November and 6.8% compared to a year earlier. Total sales for 2005 were up 7.3% from 2004.

The economic expansion is forecast to continue in 2006, but growth is expected to slow gradually throughout the year. Employment will continue to increase and tightening labor markets will result in higher wage gains. Inflation and interest rates are expected to increase but remain low compared to their historical averages. Risks to the forecast include energy prices, how the housing bubble ends, and the effects of budget and trade deficits, as well as weather, natural disasters, and geopolitical events.

Receipts

Total GRF receipts for December were below estimate by \$46 million (2.2%). Receipts processed and reported for the month may have been affected by the last day of the month falling on a holiday weekend. State-source receipts were \$50 million (3.1%) below estimate and federal grants were above estimate by \$5 million

Volume 29, Number 5

Tracking the Economy 72

- The national economy continues to expand
- Inflation remains generally well contained, apart from energy
- Ohio's economy continues to lag

STATUS OF THE GRF

Revenue 78

- Total receipts below estimate for December; remain above estimate for fiscal year to date
- Monthly nonauto sales tax revenue above estimate for first time since July; still below estimate for fiscal year
- Year-to-date state-source receipts \$76 million over estimate

Disbursements 85

- GRF year-to-date disbursement variance climbs by \$275 million in December
- Welfare and Human Services disbursements push to \$244 million under the estimate for the year to date
- Led by Justice and Corrections, Government Operations now \$94 million under the estimate for the year so far
- Education disbursements now \$82.5 million under the estimate for the year to date

ISSUES OF INTEREST

Lottery Ticket Sales and Profit Transfers, First Quarter 92

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 December	Fiscal Year 2006 to Date	Last Year	Difference
Beginning Cash Balance	-\$827.2	\$1,209.2		
Plus Revenue and Transfers In	\$2,080.3	\$12,150.9		
Available Resources	\$1,253.0	\$13,360.2		
Less Disbursements and Transfers Out	\$1,666.6	\$13,773.7		
Ending Cash Balances	-\$413.6	-\$413.6	-\$732.8	\$319.2
Less Encumbrances and Accts. Payable		\$771.8	\$638.5	\$133.2
Unobligated Balance		-\$1,185.4	-\$1,371.3	\$186.0
Plus BSF Balance		\$576.6	\$180.7	\$395.9
Combined GRF and BSF Balance		-\$608.8	-\$1,190.6	\$581.9

(0.9%). Tax revenues were below estimate by \$53 million (3.3%). The personal income tax was below estimate by \$38 million (4.8%) and the corporate franchise tax was \$15 million below estimate. Revenue from the sales and use tax was above estimate by \$4 million (0.6%). The auto sales tax was \$2.5 million (4.0%) above estimate and the nonauto sales tax was \$1.5 million (0.2%) above estimate. The cigarette tax was above estimate by \$7 million (8.2%) and the estate tax was below estimate by \$11 million (97.9%).

Fiscal year-to-date GRF receipts are \$33 million (0.3%) above estimate. State-source receipts are \$76 million (0.8%) above estimate and federal grants are below estimate by \$43 million (1.4%). Tax revenues are \$40 million (0.5%) above estimate. The corporate franchise tax is above estimate by \$91 million and the personal income tax is above estimate by \$6 million (0.1%). The nonauto sales tax is below estimate by \$63 million (1.9%), the cigarette tax is below estimate by \$7 million (1.5%), and the auto sales tax is below estimate by \$7 million (1.4%). Compared to the same point in FY 2005, GRF receipts are up 5.7%. State-source receipts

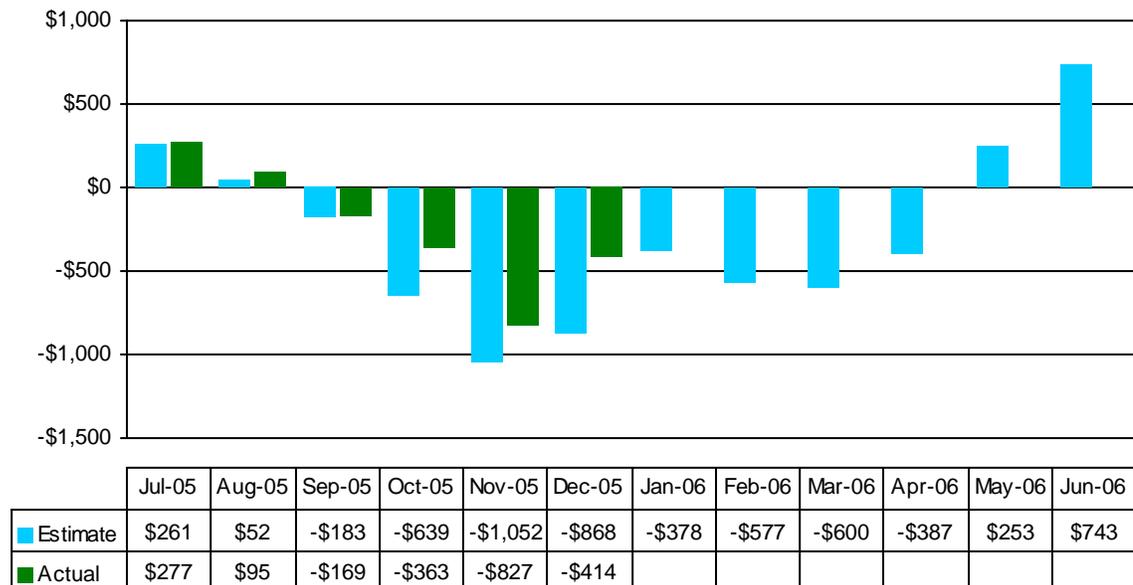
are up 5.3%, federal grants are up 6.9%, and tax revenues are up 5.0%.

Disbursements

Program disbursements for December were below estimate by \$275 million (14.2%). Disbursements for primary and secondary education were \$186 million (36.8%) below estimate, disbursements for property tax relief were below estimate by \$47 million (32.5%), and health care/Medicaid disbursements were \$35 million (4.3%) below estimate.

GRF program disbursements for the fiscal year to date are \$427 million (3.1%) below estimate. Health care/Medicaid disbursements are \$169 million (3.2%) below estimate, disbursements for primary and secondary education are \$87 million (2.5%) below estimate, and disbursements for justice and corrections are below estimate by \$71 million (6.7%). Disbursements for higher education are above estimate by \$4 million (0.3%). Compared to the same point in FY 2005, GRF program disbursements are up 3.7%.

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



Cash Balance

As shown in Table 1, the GRF began December with a -\$827 million cash balance. Monthly revenues plus transfers in totaled \$2,080 million and disbursements plus transfers out totaled \$1,667 million. The monthly surplus of \$414 million raised the cash balance to -\$414 million.² 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 -\$868 million, \$454 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 the estimate thus far this fiscal year.

Encumbrances and accounts payable of \$772 million combine with the cash balance to yield an unobligated balance of -\$1,185 million. This amount is \$186 million higher (less 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 -\$609 million is \$582 million higher (less negative) than it was a year ago.

¹ “Estimate” refers to the monthly estimates for FY 2006 made by the Office of Budget and Management in August 2005.

² The GRF began FY 2006 with a \$1,209 million cash balance. FY 2006 year-to-date revenues plus transfers in total \$12,151 million and disbursements plus transfers out total \$13,774 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 \$1,623 million reduces the cash balance to -\$414 million.

TRACKING THE ECONOMY

—*Phil Cummins*

The national economy continued to expand through year-end 2005, and further growth this year is widely expected. Total payroll employment nationwide rose in December, the 31st consecutive month of increase, and the previous month's gain was revised higher. In contrast, Ohio's nonfarm payrolls fell last month. Purchasing managers again reported rising measures of activity, though in manufacturing, increases were not as widespread as the month before. Industrial production expanded in December, in part due to continued recovery in industries particularly affected by last year's hurricanes. Retail sales growth last month was modest, after allowing for usual seasonal patterns, and mainly reflected an upturn in the pace of vehicle sales. Housing starts slowed sharply in December. Home sales remain at high levels but below earlier peaks. Finished goods inflation measured by the producer price index turned higher last month, reflecting increased costs for energy and food, but was tame excluding these volatile items. Consumer prices, in contrast, fell for the second consecutive month, reflecting a drop in energy prices. Excluding energy, they rose modestly. The renewed upturn in 2006 in world oil prices on tensions in Iran and Nigeria may put upward pressures on domestic inflation.

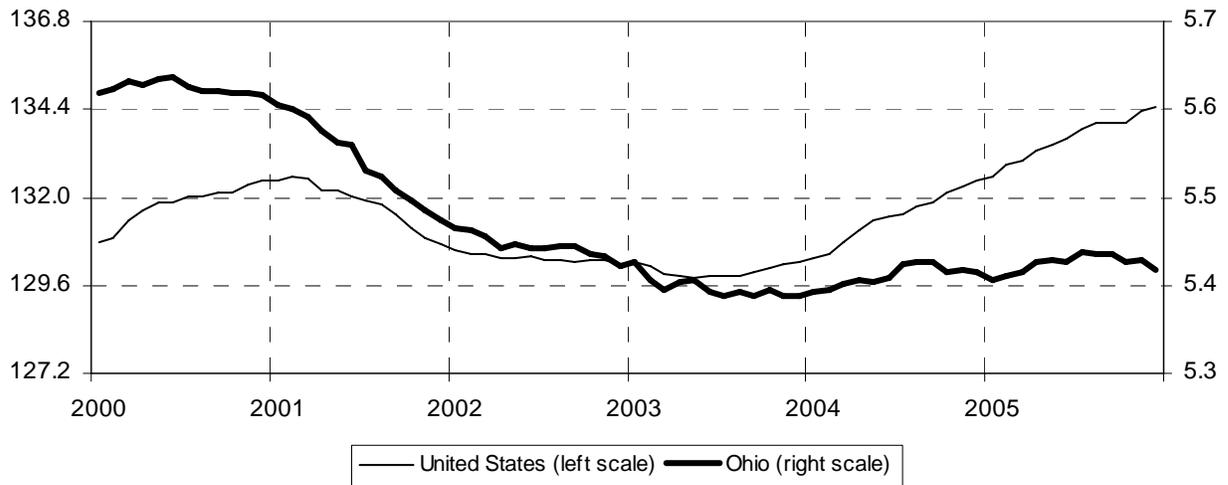
Inflation-adjusted gross domestic product (GDP), the broadest measure of the nation's output, rose in the 2005 third quarter at a 4.1% annual rate to 3.6% above a year earlier. Fourth-quarter GDP growth will be held down by weakness in consumer spending, due to slower light vehicle sales after the exceptional pace of last July, but will probably be boosted by renewed inventory building. Personal income growth in Ohio outpaced that of the nation in the third quarter, reflecting the severe impact of hurricanes on incomes in Louisiana and a lesser impact in other Gulf Coast states. As of mid-2005, Ohio remained the seventh most populous state in the nation, but the growth of Ohio's population in the latest year was slower than that of all but four other states.

Employment Continues To Grow Nationwide but Lags in Ohio

Nonfarm payroll employment nationwide rose a modest 108,000 in December, but the previous month's employment was revised upward to show a 305,000 gain rather than the 215,000 increase initially reported. Total nonfarm payroll employment in the United States in December was 2.0 million higher than a year earlier, nearly as many people as the 2.2 million increase in 2004, which was the largest annual rise in payroll jobs since 1999. In Ohio, nonfarm payroll employment fell 10,700 from November to December, and was only 3,600 (0.1%) above a year earlier. National and Ohio employment are shown in Chart 1.

Most of the growth in employment last year was in a broad range of service industries, including health care, temporary help and other support services, leisure and hospitality, professional services, finance, wholesale and retail trade, and transportation and warehousing. Construction employment rose during the course of the year, though it fell in December; housing markets in most areas increasingly appear to be past their peaks. Mining employment rose, supported by high prices for crude oil, natural gas, and other minerals. But manufacturing employment fell overall as cutbacks in textiles, apparel, paper, and other nondurable goods exceeded net additions to jobs at makers of durable goods. Within the durable goods sector, manufacturers of fabricated metal products, machinery, and computers and electronics added to staffing, while motor vehicle manufacturers and makers of furniture and wood products cut employment. Federal government employment was little changed, but state and local governments increased their employment. Growth in state government employment turned up in the second half of 2004 and continued last year, after reductions during the previous two years. Local government employment continued

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



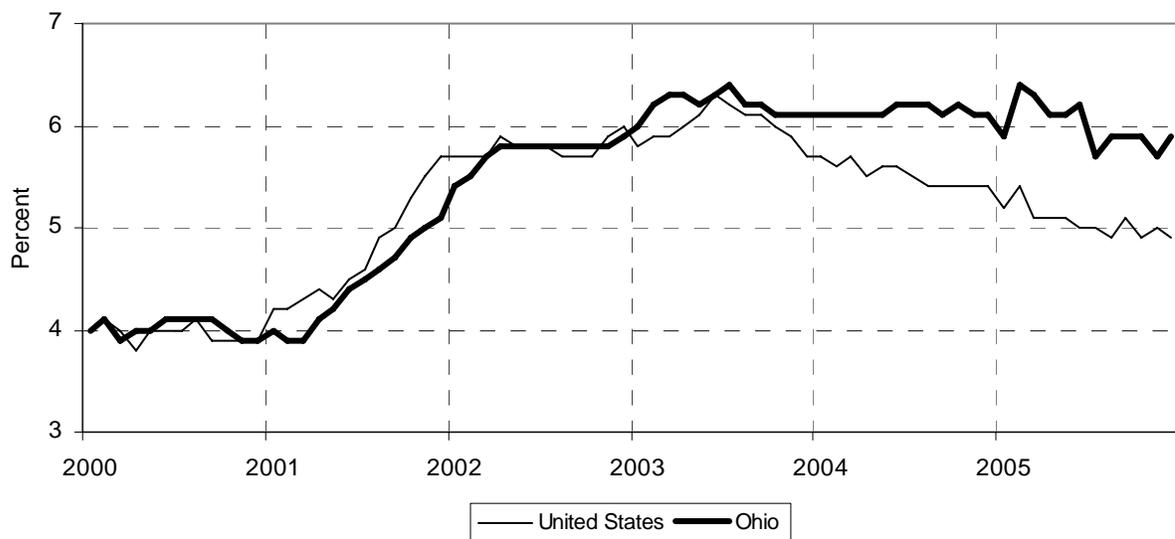
to expand in 2005 after being about flat in 2003 and early 2004.

The unemployment rate nationwide edged down to 4.9% in December, equaling its low for this economic expansion. This rate was most recently lower in July 2001, partway through that year's recession, at 4.6%. National unemployment statistics were revised from 2001 forward. In Ohio, the unemployment rate rose in December to 5.9%. National unemployment rates as revised and Ohio's unemployment rates are shown in Chart 2.

Industrial Activity Rising

Purchasing managers for the nation's manufacturers continued to report growing production and orders in December, according to a monthly survey by the Institute for Supply Management, though increases were not as widespread as earlier. Backlogs shrank modestly. Factories added to employment but inventories were reduced. Prices rose again but increases were not as widespread as in earlier months last fall. A comparable survey of the nonmanufacturing sector showed increases in orders, activity, and

Chart 2: Unemployment Rates



employment more widespread than in manufacturing, as well as rising inventories and backlogs. Reports of higher prices paid continued to be more frequent than reports of lower prices, but as in the manufacturing sector, increases were not as widespread as earlier.

In this part of the country, durable goods manufacturers' shipments and production were rising at year-end 2005, while activity was flat at nondurable goods makers and below the year-earlier pace, according to the latest Beige Book section from the Cleveland Federal Reserve Bank, which covers Ohio and parts of adjacent states. The report characterizes holiday spending at retailers in the region as flat or lower than a year earlier, and short of expectations. Home building was slowing, but commercial construction was rising. Hiring in the region is described as limited, except that staffing services were seeing rising client orders, and trucking firms had difficulty finding and keeping enough drivers.

The nation's industrial production increased 0.6% in December as a result of sizable gains in mining and utilities and a 0.2% increase in manufacturing output. Increased mining output chiefly reflected continued recovery in Gulf of Mexico oil and gas production from the damage inflicted by Hurricane Katrina. The rise in utility output was in part a result of relatively cold weather. Manufacturing sector output was held down by cutbacks in light vehicle production;

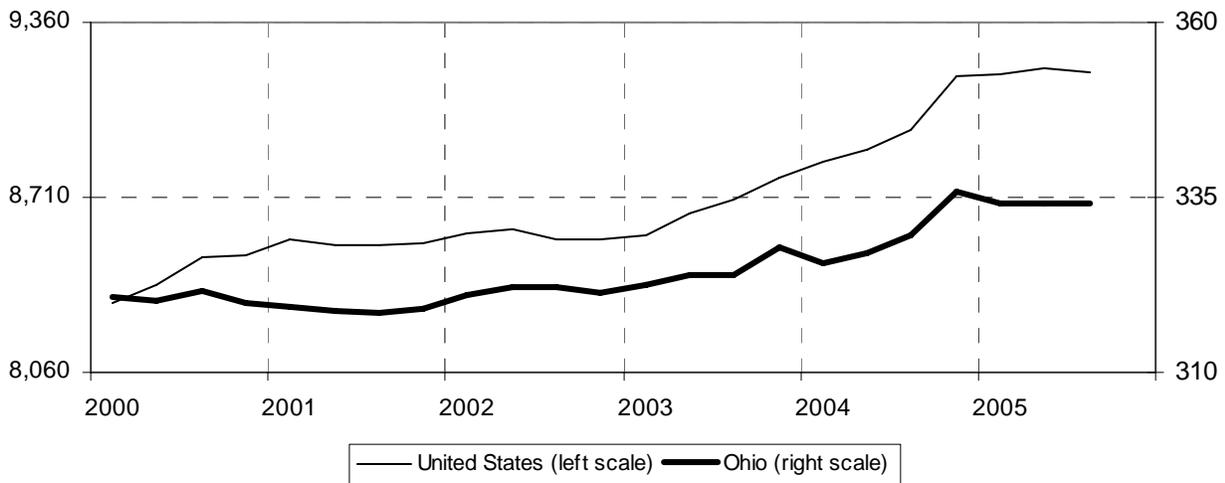
output of chemicals, another industry continuing to recover from the hurricanes, registered a sizable gain. Among major market groups, consumer goods output in December was 1.3% higher than a year earlier, while business equipment production was 10% higher than in December 2004, output of defense and space equipment was about 10% higher, and production of construction supplies was 5.2% higher.

Manufacturers' orders continued to rise through November, and the value of orders received in the first 11 months of 2005 was 8% above a year earlier. Backlogs of unfilled orders in November were 14% higher than a year earlier. The largest increase in backlogs was for nondefense aircraft and parts, up 47%. Factory unfilled orders net of nondefense aircraft and parts were 5% higher in November than a year earlier.

Consumer Spending Growth Modest

Retail sales nationwide rose 0.7% in December, but excluding stronger motor vehicle sales last month, retail sales rose only 0.2%. General merchandise store sales fell last month after adjustment for typical seasonal strength in December. The softness may reflect the impact of high gasoline prices and home heating costs on household budgets. Sales at large retail chain stores in December were 3.2% higher than a year earlier, according to a monthly report from the International Council of Shopping Centers, a

Chart 3: Personal Income
Billions of 2000 Dollars



relatively modest rise. Consumer credit outstanding rose less than seasonally in November, after declining in October, resulting in the first decline for two consecutive months in seasonally adjusted consumer credit since 1992.

Personal income in Ohio rose 1.0% from the second to the third quarter of 2005, larger than the 0.7% increase nationwide. However, the national total was held down by the impact of hurricanes Katrina and Rita, which resulted in a 25% drop in Louisiana personal income, due both to destruction of uninsured property and to disruption of income flows. In Mississippi and Alabama, less severely affected than Louisiana, personal income grew 0.8% in the third quarter. Personal income in the rest of the country increased 1.1%. Compared with a year earlier, personal income in Ohio was 4.5% higher, less than a 5.6% increase nationwide. In Chart 3, personal income in the nation and Ohio are shown adjusted for inflation using the personal consumption expenditures implicit price deflator. As is evident from this chart, personal income growth in Ohio has trailed that of the nation, and Ohio personal income has declined from 3.9% of the national total to 3.6% during the period shown in the chart.

Housing Markets Slowing

Housing starts nationwide fell 9% in December, slipping below a 2 million unit annual rate, seasonally adjusted, for the first time since last March. The drop was sharpest in the Midwest, where commencement of work on new homes and apartments dropped 24% last month. For all of last year, nearly 2.1 million housing units were started in the United States, 6% more than the year before and the highest number since 1972. Starts on single-family homes were the highest on record. In the Midwest, housing starts in 2005 were about even with a year earlier.

Home sales have slowed but remain at high levels. New home sales nationwide in November fell 11% from an all-time peak the previous month, seasonally adjusted. Year-to-date sales were 7% higher than a year earlier. In the Midwest, in contrast, year-to-date sales were 2% lower than a year ago. Nationwide numbers of new homes

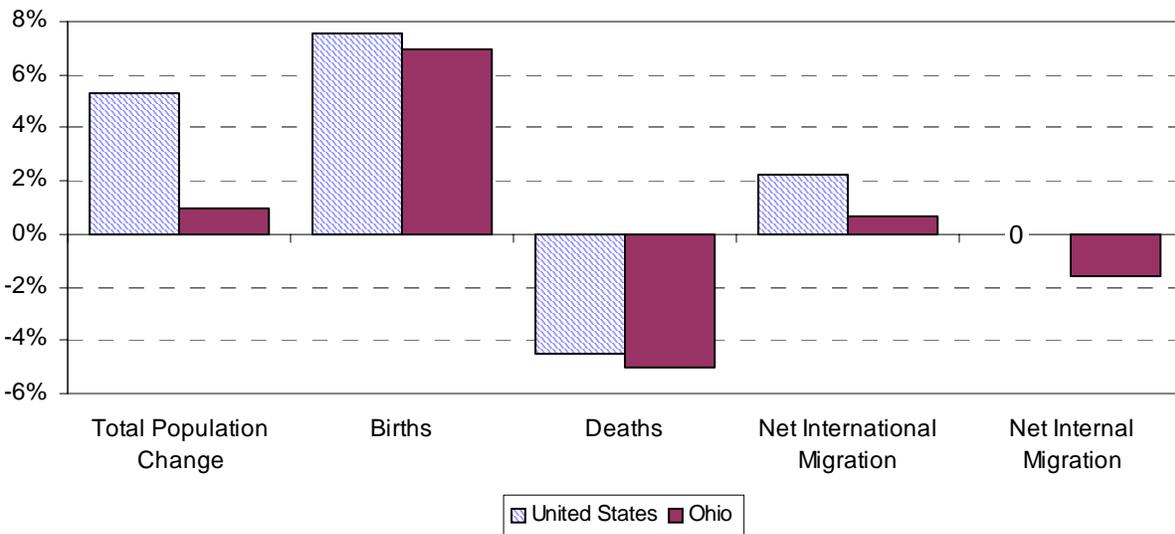
completed or under construction and awaiting sale have risen faster than the pace of sales during the past two years. Sales of used homes, reported by the National Association of Realtors, also continue at high levels but below peaks reached earlier, and unsold homes listed for sale have risen relative to sales. For 11 months, sales were 5% above a year earlier nationwide and 3% higher in the Midwest. Unit sales of used homes in Ohio, reported by the Ohio Association of Realtors, were 5% higher in 2005's first 11 months than a year earlier. Lower sales and rising backlogs of unsold homes have slowed the rapid rise in home prices of recent years in some markets, principally on the east and west coasts. Median and average sales prices of new homes sold in the United States in November were about even with a year before, after double-digit increases earlier in 2005 and in 2004.

Home sales are widely expected to slow further from the strong pace of recent years. Short-term market interest rates, the basis for adjustable-rate mortgages, have risen from 2003-2004 lows. Longer-term market interest rates also have risen from lows in 2003, though recently they have declined somewhat, and interest rates on fixed-rate mortgages have fallen since November and remain supportive of the housing market.¹ Also, the need to replace homes destroyed by last year's hurricanes will tend to limit the downturn in the national residential building totals.

Inflation Remains Limited, Apart from Energy

The producer price index for finished goods rose 0.9% in December to 5.4% above a year earlier. But excluding a renewed upturn in energy prices and a rise in the cost of food, finished goods prices at the producer level rose only 0.1% last month to 1.7% above a year earlier. Similarly, at earlier stages in the production process, intermediate goods prices in December were 8% higher than a year earlier, and crude materials prices were 22% higher. But excluding double-digit increases in energy prices and small increases in prices for food, intermediate goods prices last month were 4.5% higher than a year earlier and crude materials prices were 4.8% higher.

Chart 4: Sources of Population Change, 2000 to 2005



The consumer price index declined 0.1% in December to 3.4% above a year earlier. The December decline followed a 0.6% drop in November. Consumer energy prices fell last month, in contrast with the rise in prices of finished energy commodities at the producer level noted above. The two series are calculated differently and sometimes diverge. Consumer food prices rose modestly in December. Excluding food and energy, consumer prices rose 0.2% to 2.2% above a year earlier.

Increases in Short-Term Interest Rates Likely Nearing an End

Bond and stock markets responded positively to indications that the monetary tightening underway since mid-2004 may be nearing an end. The yield on the United States Treasury ten-year note has remained below 4.5% since mid-December. Minutes of the December meeting of the central bank's monetary policy-setting group, the Federal Open Market Committee (FOMC), said "most members" of the Committee expected that "the number of additional firming steps required probably would not be large." The term "large" was not defined, however, and members disagreed regarding the extent of the additional monetary tightening that might be needed. They thought the outlook for monetary policy had become more uncertain. Some believed the Federal Reserve's interest rate target had been

raised to a level that probably was no longer accommodative, though Chairman Greenspan earlier indicated that he regards the concept of a "neutral" interest rate as of limited use to monetary policymakers.² Alan Greenspan retires from the Federal Reserve after the FOMC's January 31 meeting, to be replaced as chairman by economist Ben Bernanke. The FOMC appears likely to decide at this meeting to increase its target federal funds interest rate by another 0.25 percentage point to 4.5%.

Ohio's Population Grew Slowly Last Year

Ohio's population was 11,464,042 on July 1, 2005, higher than a year earlier by 0.1%, according to Census Bureau estimates released last month. The state remained seventh most populous in the nation, with 3.9% of the country's residents. California had the highest population at more than 36 million, followed in order by Texas, New York, Florida, Illinois, and Pennsylvania. Growth in the number of Ohio residents from 2004 to 2005 was 46th among the 50 states. Only North Dakota's population grew more slowly, and Massachusetts, New York, and Rhode Island lost people. Growth of state populations was most rapid in the South and West. Estimated population growth and the sources of change since 2000, in the nation and Ohio, are shown in Chart 4. The lower rate of natural increase (births minus deaths) in Ohio's population

may reflect mainly a somewhat older population with fewer women of prime child-bearing ages.³ Net outmigration from Ohio as well as the difference in age distributions presumably are driven primarily by availability of employment opportunities here versus elsewhere.

In calendar year 2005, more people moved out of Ohio than into the state, based on an annual

study by United Van Lines of more than 200,000 interstate shipments of household goods. Outbound shipments accounted for 54% of moves in which Ohio was either the origin or destination. The household goods mover said that several states in the Northeast and Midwest, as well as Louisiana and California, had high outbound traffic. States with high inbound traffic included much of the Southeast and parts of the West.

¹ The Federal Home Loan Mortgage Corporation's weekly survey of contract interest rates on 30-year fixed-rate mortgages showed a decline in the nationwide average from 6.37% in mid-November to 6.10% in mid-January.

² Letter of November 28, 2005, from Chairman Greenspan to the Joint Economic Committee of Congress, responding to questions from an earlier hearing, released to the public December 7.

³ Ohioans' median age in 2000 was 36.2 years, almost a year older than the median age of the nation's population. The share of Ohio's population that was 65 years of age and older in that year was 13.3%, nearly a percentage point higher than nationwide. The proportion of Ohio's female population that was ages 22 through 34 was 22.1%, almost a percentage point lower than the corresponding share for the nation. A fuller exploration of this topic would also consider differences between Ohio and the rest of the nation in age-specific fertility and mortality rates. A 2003 Census Bureau study, "Variations in State Mortality from 1960 to 1990," found that life expectancy at age 65 for Ohioans was consistently shorter than the national average during the period covered by the study, and was about half a year shorter in 1989-1991, an indication of generally higher age-specific mortality rates among older Ohioans.

Status of the General Revenue Fund

REVENUE

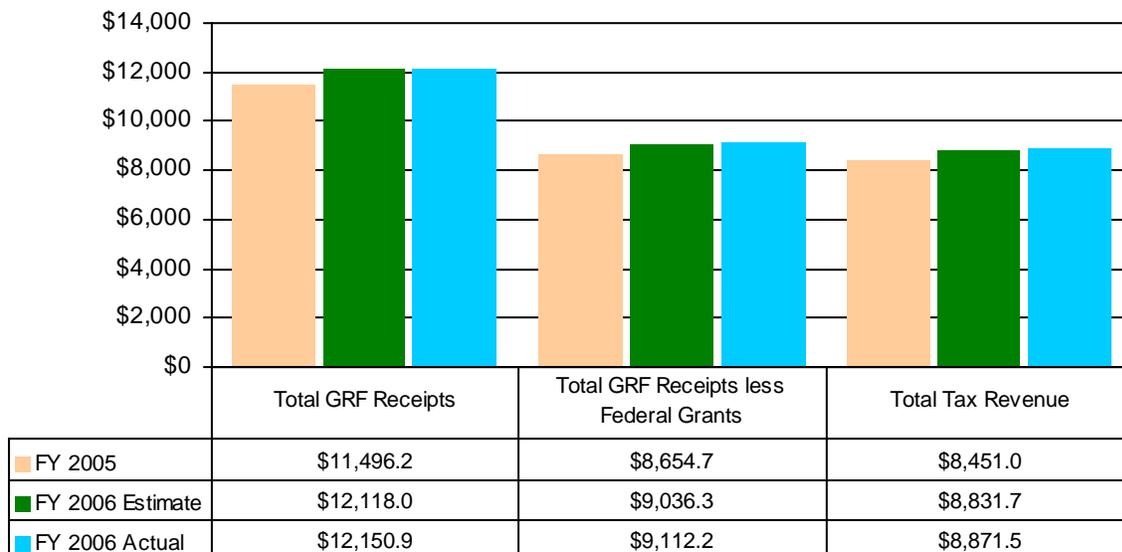
— Jean Botomogno and Allan Lundell

Total General Revenue Fund (GRF) receipts for December were below estimate by \$45.8 million (2.2%).¹ Receipts processed and reported for the month may have been reduced because the last day of the month fell on a holiday weekend. State-source receipts (tax revenue plus nontax revenue plus transfers in) were \$50.5 million (3.1%) below estimate and federal grants were above estimate by \$4.6 million (0.9%).² Tax revenues were below estimate by \$52.7 million (3.3%). The corporate franchise tax was below estimate by \$14.5 million, the estate tax was \$11.3 million (97.9%) below estimate, and the personal income tax was below estimate by \$37.7 million (4.8%). The cigarette tax was above estimate by \$6.5 million (8.2%) and revenues from the sales and use tax were above estimate by \$4.0 million (0.6%). The auto sales tax was \$2.5 million (4.0%) above estimate and the nonauto sales tax was \$1.5 million (0.2%) above estimate. Earnings on investments, boosted by higher interest rates and larger investment balances, were above estimate by \$8.8 million (62.8%).

At the midpoint of FY 2006, total GRF receipts were above estimate by \$32.9 million (0.3%). State-source receipts were above estimate by \$75.9 million (0.8%) and federal grants were below estimate by \$43.0 million (1.4%). Tax revenues were above estimate by \$39.7 million (0.5%). The corporate franchise tax was above estimate by \$91.1 million and the personal income tax was above estimate by \$5.6 million (0.1%). The nonauto sales tax was below estimate by \$62.7 million (1.9%), the auto sales tax was \$6.8 million (1.4%) below estimate, and the cigarette tax was below estimate by \$7.4 million (1.5%).

For the fiscal year to date, total GRF receipts are up 5.7% compared to FY 2005. State-source receipts are up 5.3% and federal grants are up 6.9%. Tax revenues are up 5.0%. Personal income tax revenue is up 7.0% and cigarette tax revenue is up 99.7%. Revenue from the cigarette tax has been boosted by the recently enacted 127% rate increase from 55 cents per pack to \$1.25 per pack. The nonauto sales tax is down

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



5.2% and the auto sales tax is down 9.4%. Revenues from the sales and use tax have been affected by the recent 8.33% decrease in the sales tax rate from 6.0% to 5.5%. Chart 1 compares FY 2006 receipts with FY 2005 receipts and FY 2006 estimates.

Personal Income Tax

The GRF received \$751.2 million from the personal income tax in December. This amount was \$37.7 million (4.8%) less than estimated. Gross collections were below estimate by \$35.2 million (4.1%) and refunds were 2.4 million (24.3%) greater than estimated. Withholding was \$18.6 million below estimate and quarterly estimated payments were \$16.5 million below estimate.³

The GRF received \$4,065.6 million from the personal income tax during the first half of the fiscal year, \$5.6 million (0.1%) above estimate. Through December, gross collections were above estimate by \$5.0 million (0.1%) and refunds were below estimate by \$1.3 million (1.0%). Withholding, which is expected to account for 74% of gross income tax collections for FY 2006, was \$26.1 million (0.7%) below estimate. Year-to-date quarterly estimated payments were

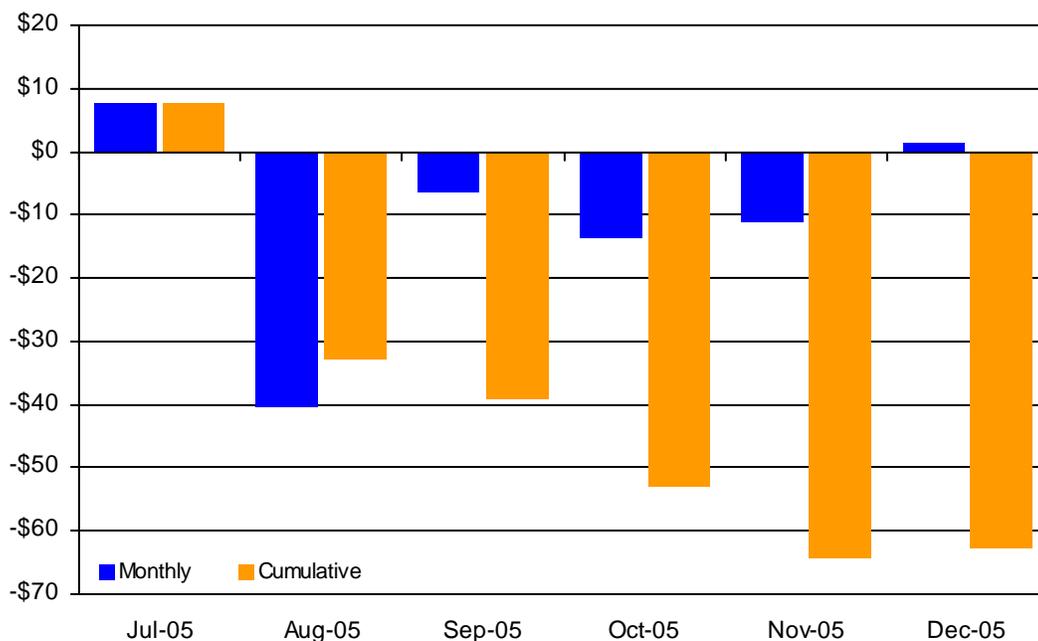
\$8.7 million (1.8%) below estimate, payments associated with annual returns were above estimate by \$22.5 million (23.5%), and trust payments were \$13.1 million (138.2%) above estimate.

Compared to a year ago, GRF revenue from the personal income tax is up 7.0%. Gross collections are up 6.1% and refunds are down 2.0%. Withholding, which reflects the condition of Ohio's labor market, is up 5.1%. Quarterly estimated payments are up 9.3%, payments associated with annual returns are up 15.2%, and trust payments are up 112.0%.

Sales and Use Tax

Total sales and use tax revenues in December 2005 were \$693.4 million, \$4.0 million (0.6%) above projected revenues. Auto sales and use tax receipts were \$2.5 million (4.0%) above estimate. Nonauto sales and use tax receipts were \$1.5 million (0.2%) above estimate. Total sales and use tax receipts in December 2005 were \$30.0 million (4.2%) below revenues in December 2004. Tax receipts for a given month partly reflect taxable retail sales activity in the prior month and also taxable retail sales during that month.⁴

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



Through December 2005, FY 2006 year-to-date total sales and use tax revenues were \$3,781.6 million, \$69.4 million (1.8%) below estimate. FY 2006 sales and use tax receipts were \$232.4 million (5.8%) below fiscal year-to-date tax receipts in December 2004. The year-over-year decrease in revenues in FY 2006 is primarily due to the 8.3% decrease in the tax rate on July 1, 2005 (to 5.5%, down from 6.0% in FY 2005).

Nonauto Sales and Use Tax

For the first time since July, monthly nonauto sales and use tax revenues were above estimate. Revenues from this tax in December 2005 were \$628.1 million, \$1.5 million (0.2%) above anticipated receipts. Nonauto sales and use tax receipts were \$25.5 million (3.9%) below revenues in the same month last year. As of December 2005, FY 2006 nonauto sales and use tax receipts were \$3,288.0 million, \$62.7 million (1.9%) below estimate. Receipts were below estimates in both quarters of this fiscal year. Nonauto sales and use tax revenues were \$39.2 million and \$23.4 million below estimates in the first quarter and the second quarter, respectively. These receipts were also \$181.2 million (5.2%) below year-to-date receipts in December 2004. The growth in

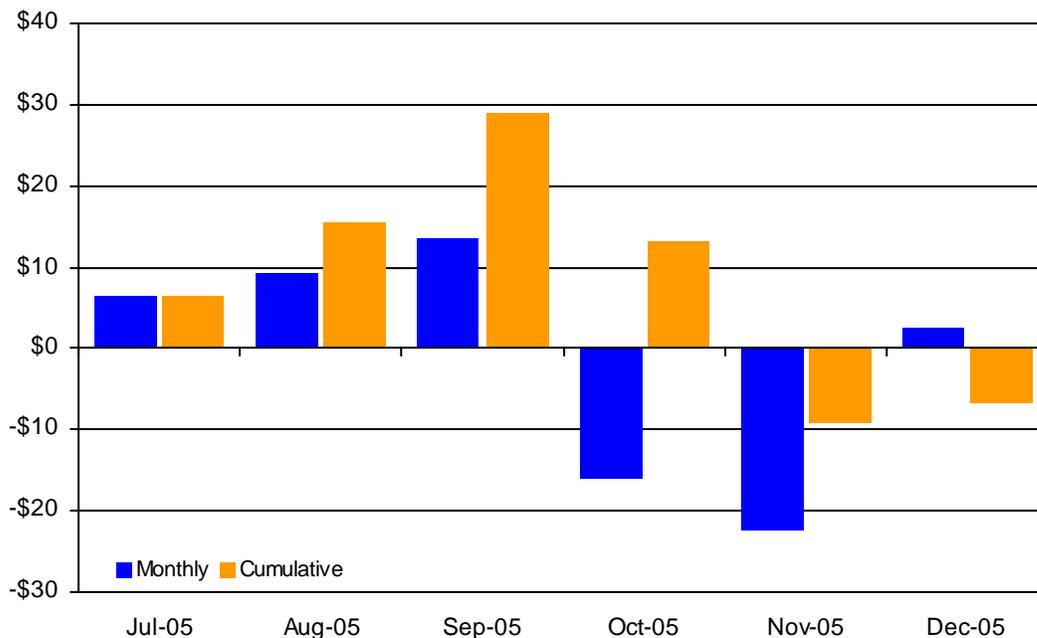
nonauto sales and use tax revenues was below the anticipated revenue growth in the first half of FY 2006. Revenue growth in the second half of the year will need to increase for this tax to achieve the full-year revenue estimate.

Nationwide “core” retail sales (retail sales excluding autos and gasoline sales) grew about 1.0%, 0.5%, and 0.1% in the last three months of CY 2005. Thus, retail sales growth softened considerably at the end of the year. Compared to sales a year ago, nationwide core retail sales grew 6.9% in the last quarter of CY 2005, below growth rates in the previous three quarters.

Auto Sales and Use Tax

Auto sales and use tax receipts were \$65.3 million in December 2005, \$2.5 million (4.0%) above estimate. This tax benefited from year-end incentive programs from manufacturers and dealers. Auto sales and use tax receipts were \$4.5 million (6.5%) below receipts in December 2004. 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.

Chart 3: Auto Sales Tax Variance from August 2005 Estimates
(in millions)



As of December 2005, FY 2006 year-to-date auto sales tax receipts were \$493.6 million, \$6.8 million (1.4%) below estimate. In the first quarter of FY 2006, auto sales and use tax revenues were \$29.1 million above estimates. Conversely, auto sales and use tax revenues were \$35.8 million below estimates in the second quarter. For the year to date, auto sales and use tax receipts were \$51.3 million (9.4%) below receipts through the same period in FY 2005.

According to the Department of Commerce, nationwide sales of light vehicles (automobiles and light trucks) at motor vehicle dealers grew 2.8% in December 2005. Unit sales grew 9.5%. However, compared to sales in the same month in FY 2005, sales at motor vehicle dealers declined 2.8% and unit sales dropped 3.8%. Automobiles and light truck sales in the first quarter of FY 2006 reached an annualized pace of 17.9 million units. In the last quarter, the annualized pace of sales of light vehicles averaged 15.9 million units. For CY 2005, a total of 16.9 million automobiles and light trucks were sold, compared to 16.8 million units sold in CY 2004. Although light trucks are still 54.8% of total light vehicle sales, the increase in gasoline prices in CY 2005 reversed the demand mix from light trucks to cars. For the first time in several

years, the number of cars sold grew (2.1%) while sales of light trucks declined (0.9%).

Corporate Franchise Tax

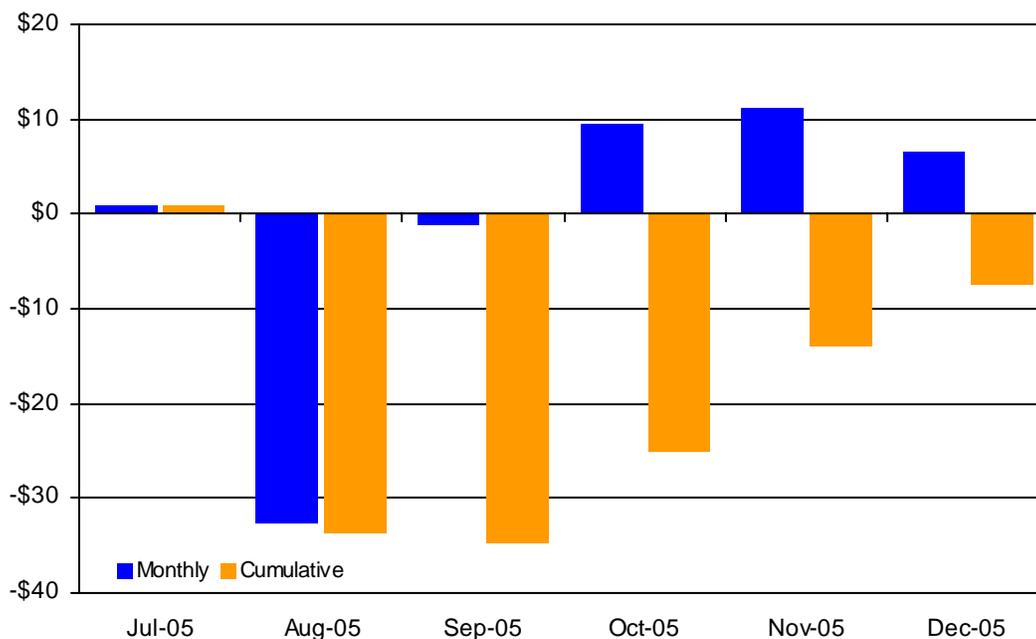
Major tax receipts under the corporate franchise tax (CFT) are due in the second half of the fiscal year. CFT estimated payments are due January 31, March 31, and May 31. Activities under the franchise tax in the first half of the fiscal year are generally refunds, payments due to audit findings, tax reconciliations, and settlements.

In December, refunds were higher than payments by \$18.3 million. CFT receipts were \$14.5 million below estimate. As of December 2005, FY 2006 year-to-date CFT receipts were \$76.1 million, \$91.1 million above estimate. FY 2006 year-to-date receipts were also \$92.9 million above year-to-date receipts in December 2004.

Cigarette and Other Tobacco Products Tax

Receipts from the cigarette and other tobacco products tax were \$85.7 million in December, \$6.5 million (8.2%) above estimate. Compared to year-ago receipts in the same month, revenues

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



in December 2005 were \$41.2 million (92.6%) higher. Through December, FY 2006 year-to-date receipts from the cigarette and other tobacco products tax were \$502.5 million, \$7.4 million (1.5%) below estimate. FY 2006 year-to-date revenues were also \$250.8 million (99.7%) above revenues in FY 2005.

other tobacco products were \$15.1 million. Revenue from the one-time “floor tax” on inventories (paid in the first quarter of FY 2006) were \$66.1 million. The large increase in cigarette tax revenues compared to year-ago revenue is due to the \$0.70 per pack tax rate increase on July 1, 2005.

Revenues from the excise tax on cigarettes were \$421.2 million. Receipts from the tax on

¹ “Estimate” refers to the August 2005 estimate of the Office of Budget and Management.

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

³ 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.

⁴ 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 December 2005
(\$ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	\$65,261	\$62,733	\$2,528	4.0%
Nonauto Sales & Use	\$628,134	\$626,634	\$1,500	0.2%
Total Sales & Use Taxes	\$693,395	\$689,367	\$4,028	0.6%
Personal Income	\$751,218	\$788,900	-\$37,682	-4.8%
Corporate Franchise	-\$18,251	-\$3,750	-\$14,501	386.7%
Public Utility	-\$396	-\$400	\$4	-1.0%
Kilowatt Hour Excise	\$25,000	\$24,300	\$700	2.9%
Total Major Taxes	\$1,450,966	\$1,498,417	-\$47,452	-3.2%
Commercial Activity Tax	\$0	\$0	\$0	---
Foreign Insurance	\$89	\$50	\$39	78.8%
Domestic Insurance	\$0	\$0	\$0	---
Business & Property	\$36	\$45	-\$9	-18.9%
Cigarette	\$85,724	\$79,200	\$6,524	8.2%
Alcoholic Beverage	\$4,267	\$4,700	-\$433	-9.2%
Liquor Gallonage	\$2,764	\$2,900	-\$136	-4.7%
Estate	\$241	\$11,500	-\$11,259	-97.9%
Total Other Taxes	\$93,122	\$98,395	-\$5,273	-5.4%
Total Tax Revenue	\$1,544,087	\$1,596,812	-\$52,725	-3.3%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	\$22,798	\$14,000	\$8,798	62.8%
Licenses and Fees	\$650	\$1,000	-\$350	-35.0%
Other Revenue	\$5,377	\$9,800	-\$4,423	-45.1%
Nontax State-Source Revenue	\$28,825	\$24,800	\$4,025	16.2%
TRANSFERS				
Liquor Transfers	\$15,000	\$14,000	\$1,000	7.1%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$2,547	\$5,300	-\$2,753	-51.9%
Total Transfers In	\$17,547	\$19,300	-\$1,753	-9.1%
TOTAL GRF before Federal Grants	\$1,590,459	\$1,640,912	-\$50,453	-3.1%
Federal Grants	\$489,811	\$485,205	\$4,606	0.9%
TOTAL GRF SOURCES	\$2,080,271	\$2,126,117	-\$45,847	-2.2%

* 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 December 2005
(\$ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
TAX REVENUE						
Auto Sales	\$493,631	\$500,414	-\$6,784	-1.4%	\$544,913	-9.4%
Nonauto Sales & Use	\$3,287,977	\$3,350,638	-\$62,660	-1.9%	\$3,469,138	-5.2%
Total Sales & Use Taxes	\$3,781,608	\$3,851,052	-\$69,444	-1.8%	\$4,014,051	-5.8%
Personal Income	\$4,065,613	\$4,060,000	\$5,613	0.1%	\$3,800,744	7.0%
Corporate Franchise	\$76,132	-\$15,000	\$91,132	-607.5%	-\$16,763	-554.2%
Public Utility	\$68,148	\$60,800	\$7,348	12.1%	\$35,703	90.9%
Kilowatt Hour Excise	\$171,918	\$161,600	\$10,318	6.4%	\$169,428	1.5%
Total Major Taxes	\$8,163,419	\$8,118,452	\$44,967	0.6%	\$8,003,163	2.0%
Commercial Activity Tax	\$0	\$0	\$0	---	\$0	---
Foreign Insurance	\$130,498	\$124,900	\$5,598	4.5%	\$122,311	6.7%
Domestic Insurance	\$1,081	\$60	\$1,021	1701.4%	\$170	536.6%
Business & Property	\$1,047	\$1,135	-\$88	-7.7%	\$926	13.1%
Cigarette	\$502,452	\$509,900	-\$7,448	-1.5%	\$251,635	99.7%
Alcoholic Beverage	\$29,446	\$29,500	-\$54	-0.2%	\$29,182	0.9%
Liquor Gallonage	\$16,474	\$16,100	\$374	2.3%	\$15,927	3.4%
Estate	\$27,074	\$31,700	-\$4,626	-14.6%	\$27,645	-2.1%
Total Other Taxes	\$708,073	\$713,295	-\$5,222	-0.7%	\$447,796	58.1%
Total Tax Revenue	\$8,871,492	\$8,831,747	\$39,745	0.5%	\$8,450,959	5.0%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	\$47,345	\$31,000	\$16,345	52.7%	\$13,754	244.2%
Licenses and Fees	\$19,364	\$15,600	\$3,764	24.1%	\$19,168	1.0%
Other Revenue	\$60,575	\$47,135	\$13,440	28.5%	\$55,121	9.9%
Nontax State-Source Revenue	\$127,284	\$93,735	\$33,549	35.8%	\$88,043	44.6%
TRANSFERS						
Liquor Transfers	\$69,000	\$63,000	\$6,000	9.5%	\$61,000	13.1%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$44,449	\$47,800	-\$3,351	-7.0%	\$54,661	-18.7%
Total Transfers In	\$113,449	\$110,800	\$2,649	2.4%	\$115,661	-1.9%
TOTAL GRF before Federal Grants	\$9,112,224	\$9,036,282	\$75,942	0.8%	\$8,654,662	5.3%
Federal Grants	\$3,038,721	\$3,081,761	-\$43,041	-1.4%	\$2,841,585	6.9%
TOTAL GRF SOURCES	\$12,150,945	\$12,118,044	\$32,901	0.3%	\$11,496,248	5.7%

* 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 December, a little over \$13.2 billion in General Revenue Fund (GRF) program disbursements have been made. This total is under the estimate for the fiscal year to date by \$427.3 million (3.1%). December's disbursement activity was under the estimate for the month by \$275.5 million (14.2%), more than offsetting November's overspending. Compared to the same point in FY 2005, total GRF program disbursements are \$472.2 million (3.7%) higher in FY 2006.

Disbursements for three of the state's four major GRF program categories (Welfare and Human Services, Government Operations, and Education) are currently under the estimate for the year to date. Disbursements for the other major program category (Property Tax Relief) is slightly over the estimate for the year to date (see Figure 1 and Table 5). The largest variance in either direction in December was posted in the Education category, which was under estimate by \$188.7 million (28.3%). We will discuss in the sections that follow the details of the most significant variances between what was actually

disbursed through December compared to the estimates for the fiscal year prepared by the Office of Budget and Management (OBM) in August. For each major program category, the year-to-date variance is noted parenthetically in the category's heading.

Welfare and Human Services (-\$244.1 million)

The Welfare and Human Services category posted a disbursement variance of \$43.0 million (4.5%) under the estimate in December. For the year to date, outlays in this category are now \$244.1 million (3.8%) under the estimate. Two program subcategories (Health Care/Medicaid, and Other Welfare) are the most significant contributors to the year-to-date variance.

Health Care/Medicaid. Year-to-date disbursements through December in the Health Care/Medicaid program (primarily line item 600-525) are \$168.5 million (3.2%) below the estimate (see Table 6). Compared to the same point in FY 2005, Health Care/Medicaid payments are

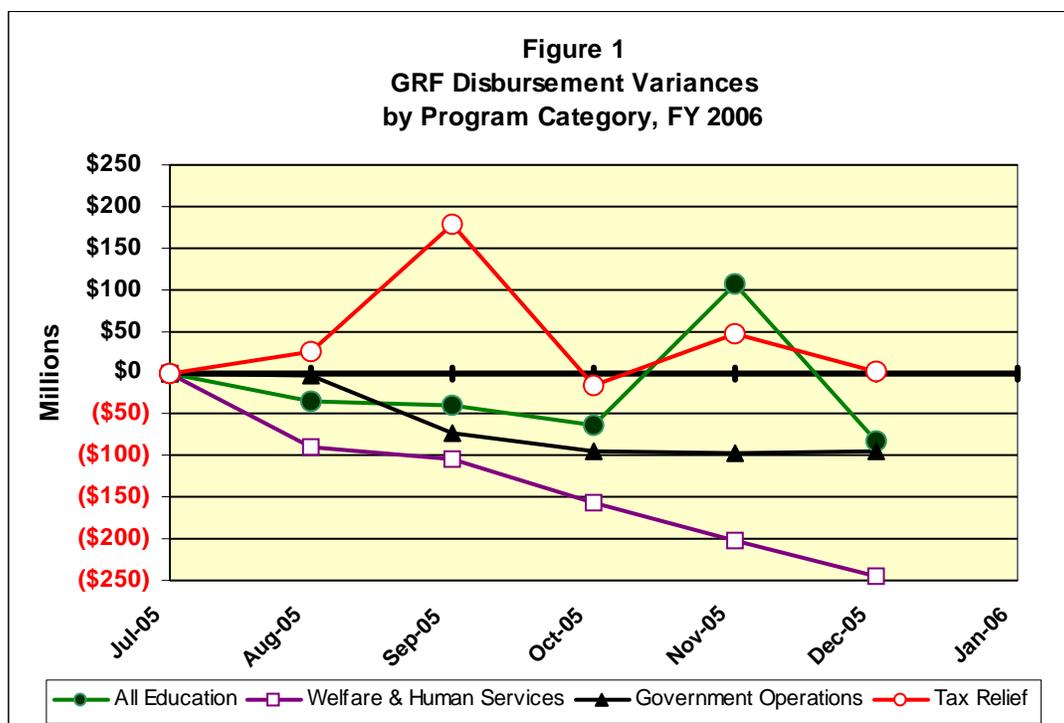


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of December 2005
(\$ in thousands)

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	\$319,563	\$505,616	-\$186,053	-36.8%
Higher Education	\$157,775	\$160,414	-\$2,640	-1.6%
Total Education	\$477,338	\$666,031	-\$188,693	-28.3%
Health Care/Medicaid	\$775,323	\$810,090	-\$34,767	-4.3%
Temporary Assistance to Needy Families (TANF)	\$26,867	\$32,156	-\$5,289	-16.4%
General/Disability Assistance	\$0	\$0	\$0	---
Other Welfare (2)	\$36,440	\$43,067	-\$6,627	-15.4%
Human Services (3)	\$74,116	\$70,391	\$3,725	5.3%
Total Welfare & Human Services	\$912,746	\$955,705	-\$42,958	-4.5%
Justice & Corrections	\$126,226	\$124,321	\$1,905	1.5%
Environment & Natural Resources	\$5,099	\$5,124	-\$25	-0.5%
Transportation	\$1,919	\$1,490	\$430	28.8%
Development	\$8,215	\$9,067	-\$852	-9.4%
Other Government	\$23,973	\$22,924	\$1,049	4.6%
Capital	\$93	\$0	\$93	---
Total Government Operations	\$165,526	\$162,926	\$2,600	1.6%
Property Tax Relief (4)	\$96,492	\$143,000	-\$46,508	-32.5%
Debt Service	\$14,526	\$14,455	\$71	0.5%
Total Other Disbursements	\$111,018	\$157,455	-\$46,437	-29.5%
Total Program Disbursements	\$1,666,628	\$1,942,116	-\$275,488	-14.2%
TRANSFERS				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$0	\$0	\$0	---
Total Transfers Out	\$0	\$0	\$0	---
TOTAL GRF USES	\$1,666,628	\$1,942,116	-\$275,488	-14.2%

(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.

6.8% higher in the current fiscal year. As cost containment initiatives now begin to take effect, the rate of spending increase is likely to decline.

Like last month, the largest contributor to the year-to-date variance is the HMO category, which is \$89.5 million (12.5%) below estimate

with spending of \$626.1 million through December. The Department of Job and Family Services has stated that this spending category has not grown as fast as anticipated in the Covered Families and Children (CFC) program. The caseload for Managed Care-CFC is 620,954 for December versus a budgeted caseload of 729,305.

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

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
Primary & Secondary Education (1)	\$3,427,771	\$3,514,307	-\$86,536	-2.5%	\$3,375,162	1.6%
Higher Education	\$1,237,962	\$1,233,956	\$4,005	0.3%	\$1,219,357	1.5%
Total Education	\$4,665,732	\$4,748,263	-\$82,531	-1.7%	\$4,594,519	1.5%
Health Care/Medicaid	\$5,109,656	\$5,278,204	-\$168,547	-3.2%	\$4,782,587	6.8%
Temporary Assistance to Needy Families (TANF)	\$166,284	\$182,938	-\$16,654	-9.1%	\$192,934	-13.8%
General/Disability Assistance	\$0	\$0	\$0	---	\$12,332	-100.0%
Other Welfare (2)	\$295,251	\$345,832	-\$50,581	-14.6%	\$253,161	16.6%
Human Services (3)	\$652,137	\$660,460	-\$8,322	-1.3%	\$638,797	2.1%
Total Welfare & Human Services	\$6,223,329	\$6,467,434	-\$244,104	-3.8%	\$5,879,811	5.8%
Justice & Corrections	\$990,470	\$1,061,395	-\$70,925	-6.7%	\$979,714	1.1%
Environment & Natural Resources	\$61,148	\$62,607	-\$1,460	-2.3%	\$70,012	-12.7%
Transportation	\$13,343	\$14,928	-\$1,585	-10.6%	\$13,310	0.2%
Development	\$91,988	\$102,361	-\$10,373	-10.1%	\$99,068	-7.1%
Other Government	\$220,466	\$230,848	-\$10,382	-4.5%	\$222,231	-0.8%
Capital	\$166	\$28	\$138	488.4%	\$0	---
Total Government Operations	\$1,377,581	\$1,472,168	-\$94,587	-6.4%	\$1,384,335	-0.5%
Property Tax Relief (4)	\$719,592	\$719,125	\$467	0.1%	\$699,524	2.9%
Debt Service	\$220,122	\$226,692	-\$6,569	-2.9%	\$176,044	25.0%
Total Other Disbursements	\$939,714	\$945,817	-\$6,103	-0.6%	\$875,568	7.3%
Total Program Disbursements	\$13,206,357	\$13,633,682	-\$427,325	-3.1%	\$12,734,233	3.7%
TRANSFERS						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$394,205	\$0	\$394,205	---	\$0	---
Other Transfers Out	\$173,181	\$0	\$173,181	---	\$27,957	519.4%
Total Transfers Out	\$567,386	\$0	\$567,386	---	\$27,957	1929.5%
TOTAL GRF USES	\$13,773,743	\$13,633,682	\$140,061	1.0%	\$12,762,191	7.9%

(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.

Another significant contributor to the year-to-date variance is the Prescription Drugs category, which is \$71.1 million (6.5%) below estimate with spending of \$1,022.9 million through December. The Department has stated that this variance is being driven by lower than anticipated per member spending. Costs per claim and utilization rates are both under estimate for both the CFC

and the Aged, Blind, and Disabled (ABD) programs.

The Nursing Facilities Payments category is now \$74.2 million (5.3%) below estimate for the year with spending through December coming in at over \$1.3 billion. The NF Franchise Fee Offset category was \$31.9 million below estimate (43.0%).

The current number of total Medicaid eligibles in December was 1,757,642; this is over the budgeted caseload by about 5,400. The number of eligibles in the Covered Families and Children program is over the estimate by about 7,700, while the number of eligibles in the Aged, Blind, and Disabled program is under estimate by almost 2,400.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs were \$6.6 million (15.4%) under the December estimate. For the year to date, disbursements in this subcategory now stand at \$50.6 million (14.6%) under the estimate. The largest contributor to the year-to-date variance is line item 600-521, Family Stability Subsidy, which is now under estimate by \$22.0 million. Through the Family Stability Subsidy line item, the Department advances to the

counties the state's share of the cost of county administration for family services programs. The variance is the result of the timing of county requests for funds, and also of a delay in a reallocation of funds that is dependent on information from the reconciliation of county allocations and expenditures for FY 2005. The variance should be offset as the fiscal year progresses.

Line item 600-416, Computer Projects, is now \$7.2 million under the estimate for the year to date. The bulk of the variance is the result of \$5.8 million of FY 2005 funds going unspent and lapsing.

In Tables 4 and 5, these disbursements are captured in the Other Welfare subcategory, which excludes the separately tracked Medicaid and Temporary Assistance for Needy Families

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

Service Category	December				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Dec.	Estimate thru Dec.	Variance	Percent Variance
Nursing Facilities Payments	\$217,465	\$231,805	(\$14,340)	-6.2%	\$1,329,210	\$1,403,418	(\$74,208)	-5.3%
ICF/MR Payments	\$42,760	\$43,323	(\$563)	-1.3%	\$255,498	\$256,348	(\$850)	-0.3%
Inpatient Hospitals	\$113,455	\$114,776	(\$1,321)	-1.2%	\$776,431	\$754,984	\$21,447	2.8%
Outpatient Hospitals	\$52,444	\$51,326	\$1,118	2.2%	\$345,539	\$339,848	\$5,691	1.7%
Physicians	\$45,004	\$48,102	(\$3,098)	-6.4%	\$314,970	\$320,595	(\$5,625)	-1.8%
Prescription Drugs	\$159,358	\$169,297	(\$9,939)	-5.9%	\$1,022,867	\$1,093,939	(\$71,072)	-6.5%
ODJFS Waiver	\$17,876	\$17,067	\$809	4.7%	\$112,428	\$109,538	\$2,890	2.6%
HMO	\$120,910	\$137,412	(\$16,502)	-12.0%	\$626,112	\$715,568	(\$89,456)	-12.5%
Medicare Buy-In	\$17,722	\$17,806	(\$84)	N/A	\$107,571	\$106,211	\$1,360	1.3%
Home Health	\$15,144	\$13,056	\$2,088	16.0%	\$87,623	\$84,014	\$3,609	4.3%
Dental	\$9,850	\$9,294	\$556	6.0%	\$66,210	\$63,071	\$3,139	5.0%
Hospice	\$10,174	\$10,736	(\$562)	-5.2%	\$60,890	\$67,944	(\$7,054)	-10.4%
All Other	\$48,768	\$44,085	\$4,683	10.6%	\$296,413	\$286,680	\$9,733	3.4%
Total Medicaid Payments	\$870,930	\$908,085	(\$37,155)	-4.1%	\$5,401,762	\$5,602,158	(\$200,396)	-3.6%
DA Medical	\$3,552	\$2,995	\$557	18.6%	\$25,636	\$21,536	\$4,100	19.0%
Drug Rebates Offsets	(\$89,160)	(\$86,561)	(\$2,599)	3.0%	(\$262,467)	(\$261,204)	(\$1,263)	0.5%
ICF/MR Franchise Fee Offsets	(\$5,137)	(\$1,685)	(\$3,452)	204.9%	(\$12,940)	(\$10,037)	(\$2,903)	28.9%
NF Franchise Fee Offsets	(\$4,862)	(\$12,746)	\$7,884	-61.9%	(\$42,335)	(\$74,251)	\$31,916	-43.0%
DSH Rebate Offsets	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Health Care (Net of Offsets)	\$775,323	\$810,088	(\$34,765)	-4.3%	\$5,109,656	\$5,278,202	(\$168,546)	-3.2%
Est. Federal Share	\$464,675	\$485,511	(\$20,836)		\$3,062,375	\$3,163,390	(\$101,015)	
Est. State Share	\$310,648	\$324,577	(\$13,929)		\$2,047,281	\$2,114,812	(\$67,531)	

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.

Service Category	FY 2006	FY 2005	Dollar Change	Percent Increase
	Yr.-to-Date as of Dec. '05	Yr.-to-Date as of Dec. '04		
Nursing Facilities Payments	\$1,329,210	\$1,371,734	(\$42,524)	-3.1%
ICF/MR Payments	\$255,498	\$223,315	\$32,183	14.4%
Inpatient Hospitals	\$776,431	\$670,959	\$105,472	15.7%
Outpatient Hospitals	\$345,539	\$316,436	\$29,103	9.2%
Physicians	\$314,970	\$301,791	\$13,179	4.4%
Prescription Drugs	\$1,022,867	\$975,117	\$47,750	4.9%
ODJFS Waiver	\$112,428	\$109,701	\$2,727	2.5%
HMO	\$626,112	\$519,097	\$107,015	20.6%
Medicare Buy-In	\$107,571	\$87,484	\$20,087	23.0%
All Other*	\$511,136	\$458,970	\$52,166	11.4%
Total Medicaid Payments	\$5,401,762	\$5,034,604	\$367,158	7.3%
DA Medical	\$25,636	\$38,602	(\$12,966)	-33.6%
Drug Rebates Offsets	(\$262,467)	(\$225,914)	(\$36,553)	16.2%
ICF/MR Franchise Fee Offsets	(\$12,940)	(\$8,456)	(\$4,484)	53.0%
NF Franchise Fee Offsets	(\$42,335)	(\$51,463)	\$9,128	-17.7%
DSH Rebate Offsets	\$0	(\$4,785)	\$4,785	-100.0%
Total Health Care (Net of Offsets)	\$5,109,656	\$4,782,588	\$327,068	6.8%
Est. Federal Share	\$3,062,375	\$2,866,353	\$196,022	
Est. State Share	\$2,047,281	\$1,916,235	\$131,046	
<p>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.</p> <p>2. Waivers provide home-care alternatives to consumers whose medical conditions/functional abilities would otherwise require long-term care facility residence.</p> <p>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.</p> <p>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.</p> <p>5. DA Medical is a state-only funded program.</p> <p>6. The federal medical assistance percentage (FMAP) used in this table is a blended rate of 59.93%.</p> <p>Source: BOMC8300-R001, BOMC8350-R001&R002 Reports, Ohio Department of Job & Family Services.</p>				

(TANF) programs. The remainder of the variance for year-to-date disbursements in this subcategory is derived from a number of smaller items.

TANF. The state's portion of the TANF program that is expended from the GRF is composed of funds from line item 600-410, TANF State, a portion of line item 600-413, Day Care Match/MOE, and a portion of line item 600-321, Support Services. These are supplemented by Fund 4A8, line item 600-658, Child Support Collection, and by county expenditures for part of the program's administrative costs.

GRF disbursements in the TANF program were under estimate by \$5.3 million in December and now stand at \$16.7 million under estimate for the year to date. This year-to-date variance is

composed of \$11.3 million in underspending from line item 600-410 and \$5.4 million in underspending from line item 600-413. Timing issues account for the variances in both lines.

The TANF caseload in December was 184,798 recipients that were in 84,457 assistance groups. This is slightly above the historic low that was reached last July.

Mental Health. December disbursements by the Department of Mental Health were over the estimate by \$3.7 million, which reduced the year-to-date disbursement variance to \$11.9 million under the estimate. The bulk of the year-to-date variance (\$6.7 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 the end of the fiscal year.

Government Operations (-\$94.6 million)

In December, outlays in the Government Operations category were \$2.6 million (1.6%) over the estimate for the month, reducing slightly the year-to-date variance to \$94.6 million (6.4%) below the estimate.

The largest single source of the year-to-date variance is the Department of Rehabilitation and Correction, with a variance of \$67.1 million under the estimate, which is slightly smaller than last month. 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, who have not been fully replaced, thus continuing the trend of reduced payroll obligations. The Department has lost around 300 employees since July 1, 2005. Another factor is a freeze on expenditures for maintenance and equipment in anticipation of high winter utility costs. In addition, for the year so far medical treatment costs for inmates have been lower than were projected by the OBM estimates. In December, however, the Department increased outlays for medical services, and we will monitor this in future months. Another contributing factor was a debt service payment that was lower than expected by \$10.0 million.

Education (-\$82.5 million)

In December, disbursements in the Education category were \$188.7 million (28.3%) under the estimate for the month. By far the largest part of the December variance from the estimate was traceable to the Department of Education. For the year to date, outlays in this category are now \$86.5 million (2.5%) under the estimate, with nearly all of the variance located in outlays by the Department of Education. Compared to the same point in the last fiscal year, disbursements in the whole category are \$71.2 million (1.5%) higher in the current fiscal year.

Department of Education. December disbursements by the Department of Education were \$186.3 million (37.1%) under the estimate. For the year to date, the Department's disbursements now stand at \$82.7 million (2.4%) under the estimate, with total GRF disbursements so far in FY 2006 at \$3.4 billion.

The large variance from the estimate for December was the result of a payment from line item 200-550, Foundation Funding, being posted in late November rather than in early December as had been anticipated by the estimates. For the most part this variance offsets the variance in the opposite direction that was recorded in November and previous months. Disbursements from line item 200-550 were under the estimate by \$193.2 million in December and now stand at \$35.5 million under the estimate for the year to date. A partially offsetting and timing-related variance was registered in December from line item 200-532, Nonpublic Administrative Cost Reimbursement, which was over estimate in December by \$18.7 million. This offset a variance in the opposite direction recorded in November, and for the year to date, line item 200-532 now has only a very small variance.

Tax Relief (\$0.5 million)

Through December, total Tax Relief payments have totaled \$719.6 million, which is only \$0.5 million (0.1%) above the estimate. December's disbursements were under the estimate by \$47.5 million, and the estimates for the year thus were able to "catch up" with the faster than anticipated pace of outlays recorded in earlier months. Disbursement variances in the Property Tax Relief program are usually traceable to the timing of county auditor requests for reimbursement. It appears that in the first half of FY 2006 payments to school districts and other local governments for the percentage rollbacks and homestead exemption portions of the program were requested sooner than expected, and the processing of requests has seen improvements by both local governments and the state.

The Property Tax Relief program, which carries an FY 2006 GRF appropriation of a little under

\$1.3 billion, 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,” effective (under Am. Sub. H.B. 66) beginning with tax year 2005, will result in savings to the GRF beginning in the spring of 2006.

**LSC colleagues who contributed to the development of this disbursement report include, in alphabetical order, Phil Cummins, Jennifer Henry, Wendy Risner, Joe Rogers, Ronnie Romito, and Maria Seaman.*

Issues of Interest

LOTTERY TICKET SALES AND PROFIT TRANSFERS SECOND QUARTER, FISCAL YEAR 2006

— Jean Botomogno

Ticket Sales

During the second quarter of FY 2006, the State Lottery Commission made several changes to its on-line games.¹ Lot'O Play replaced Super Lotto Plus. The price of a ticket increased from \$1 per play (Super Lotto Plus) to \$2 per play (Lot'O Play). The odds to win the jackpot went from 1 in 14 million for Super Lotto Plus to 1 in 6.3 million with Lot'O Play. Also, the jackpot starts at \$1 million instead of \$4 million. Gross profit margins for the new game will be higher than Super Lotto Plus' gross margins, which varied from 25% to 40% annually. Finally, with the phaseout of the Super Lotto Plus game, sales of Kicker were linked with the Mega Millions game, instead of Lot'O Play.

Table 1 summarizes ticket sales by game in the first half of FY 2006. Ticket sales in the second quarter were \$553.6 million, \$46.4 million (9.1%) higher than sales in the first quarter. On-line ticket sales were \$241.3 million, \$3.3 million (1.4%) higher than sales in the first quarter. Instant ticket sales were \$312.3 million, \$43.1 million (16.0%) higher than sales in the first quarter. Among on-line games, second-quarter ticket sales increased for Pick 4 (6.3%), Rolling Cash 5

(2.8%), and Kicker (26.7%). Sales of Super Lotto/Lot'O Play and Mega Millions declined 4.8% and 2.7%, respectively.

Compared to second-quarter results in FY 2005, ticket sales were up \$3.9 million (0.7%) this fiscal year. Instant ticket sales were down \$9.1 million (2.8%). On-line ticket sales were up \$13.0 million (5.7%), helped by a surge in Mega Millions sales (up \$17.4 million).

FY 2006 First-Half Summary

Table 2 summarizes midyear ticket sales by game in FY 2006 and FY 2005. Through December, FY 2006 year-to-date ticket sales were \$1,060.8 million, \$12.7 million (1.2%) less than sales during the same period in FY 2005. Instant ticket sales declined \$24.4 million (4.0%) and on-line sales improved \$11.7 million (2.5%). High gasoline prices negatively affected Instant ticket sales.²

Comparing sales of various on-line games in FY 2006 and FY 2005, Pick 3 sales were down \$10.7 million (5.5%). Sales of Super Lotto/Lot'O Play and Kicker tickets decreased \$10.7 million (17.9%) and \$0.2 million (1.9%),

Table 1: Quarterly Ticket Sales by Game in FY 2006, in millions of dollars

	Pick 3	Pick 4	Kicker	Rolling Cash 5	Super Lotto/Lot'O Play	Mega Millions	On-line	Instants	Total
Q1	\$90.5	\$41.2	\$4.5	\$17.9	\$25.1	\$58.9	\$238.0	\$269.2	\$507.2
Q2	\$92.1	\$43.8	\$5.7	\$18.4	\$23.9	\$57.3	\$241.3	\$312.3	\$553.6
\$ Change	\$1.6	\$2.6	\$1.2	\$0.5	-\$1.2	-\$1.6	\$3.3	\$43.1	\$46.4
% Change	1.8%	6.3%	26.7%	2.8%	-4.8%	-2.7%	1.4%	16.0%	9.1%

Totals may not add up due to rounding.

Table 2: First-Half Ticket Sales by Games in FY 2006 and FY 2005, in millions of dollars

	Pick 3	Pick 4	Kicker	Rolling Cash 5	Super Lotto/ Lot 'O Play	Mega Millions	On-line	Instants	Total
FY 2006	\$182.6	\$85.0	\$10.2	\$36.3	\$49.0	\$116.2	\$479.3	\$581.5	\$1,060.8
FY 2005	\$193.3	\$84.2	\$10.4	\$34.4	\$59.7	\$85.6	\$467.6	\$605.9	\$1,073.5
\$ Change	-\$10.7	\$0.8	-\$0.2	\$1.9	-\$10.7	\$30.6	\$11.7	-\$24.4	-\$12.7
% Change	-5.5%	1.0%	-1.9%	5.5%	-17.9%	35.7%	2.5%	-4.0%	-1.2%

Totals may not add up due to rounding.

respectively. Pick 4 sales grew \$0.8 million (1.0%), Rolling Cash 5 sales improved \$1.9 million (5.5%), and Mega Millions ticket sales were up \$30.6 million (35.7%).

The share of Instants to total ticket sales decreased to 54.8%, down from 56.4% in the first half of FY 2005.

Transfers to the Lottery Profits Education Fund

Table 3 summarizes transfers from operations to the Lottery Profits Education Fund (LPEF) in FY 2006. Second-quarter transfers were

\$158.4 million as projected, up from \$148.0 million in the first quarter. Through December 2005, year-to-date transfers were \$306.4 million, \$1.5 million (0.5%) above projected transfers. Transfers were 28.9% of ticket sales, a percentage point lower than in FY 2005. The State Lottery Commission also transferred \$2.0 million to the Deferred Prizes Trust Fund (DPTF).

Table 4 compares first-half transfers in FY 2006 and FY 2005. Through December 2005, transfers in FY 2006 were \$24.8 million (7.5%) lower than transfers in the same period in FY 2005.

Table 3: Transfers to LPEF in FY 2006 and FY 2005, in millions of dollars

	Ticket Sales	Actual Transfers	Projected Transfers	Dollar Variance	FY 2005 Transfers	Dollar Variance	Percent Variance
Q1	\$507.2	\$148.0	\$146.5	\$1.5	\$161.9	-\$13.9	-8.6%
Q2	\$553.6	\$158.4	\$158.4	\$0.0	\$169.3	-\$10.9	-6.4%
\$ Change	\$46.4	\$10.4	\$11.9	N/A	\$7.4	-\$24.8	N/A
% Change	9.1%	7.0%	8.1%	N/A	4.6%	N/A	-7.5%

Totals may not add up due to rounding.

Table 4: First-Half Ticket Sales and Transfers to LPEF in FY 2006, in millions of dollars

Quarter	Ticket Sales	Actual Transfers	Projected Transfers	Dollar Variance	Percent Variance	Transfers as Percentage of Sales
FY 2006	\$1,060.8	\$306.4	\$304.9	\$1.5	0.5%	28.9%
FY 2005	\$1,073.5	\$331.2	\$319.6	\$11.6	3.6%	30.9%
\$ Change	-\$12.7	-\$24.8	-\$14.7	N/A	N/A	N/A
% Change	-1.2%	-7.5%	-4.6%	N/A	N/A	N/A

Totals may not add up due to rounding.

¹ On-line games refer to Pick 3, Pick 4, Kicker, Rolling Cash 5, Lot 'O Play, 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.

² The gasoline segment of ticket retailers consists of about 3,200, approximately 39%, of the State Lottery Commission's total retailer base. A negative correlation generally exists between high gasoline prices and lottery ticket sales, particularly Instant games.