Next

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION FEBRUARY 2006

FISCAL OVERVIEW

— *Allan Lundell*

Total General Revenue Fund (GRF) receipts for January were below estimate by $163 million and GRF program disbursements for the month were above estimate by $40 million. Through the first seven months of FY 2006, total GRF receipts are $130 million below estimate, program disbursements are $388 million below estimate, and the cash balance remains above its expected level.[1]

Tracking the Economy

The national economy continued to expand in early 2006, with economic data for January showing the effects of mild weather. Sales at retailers rose strongly during the month, and housing starts soared to the highest pace, seasonally adjusted, since 1973. Industrial production fell as demand for natural gas and electricity contracted sharply, seasonally adjusted, even as factory and mining output rose. Nonfarm payroll employment nationwide rose nearly 200,000 in January, somewhat more than the average monthly increase during the past two years. Unemployment fell to 4.7% of the labor force, the lowest rate since mid-2001.

Receipts

Total GRF receipts for January were below estimate by $163 million (6.3%). State-source receipts were $77 million (3.7%) below estimate and federal grants were below estimate by $86 million (17.9%). Tax revenues were below estimate by $76 million (3.7%). Corporate franchise tax revenue was $48 million (20.4%) below estimate and personal income tax revenue was below estimate by $8 million (0.8%). Revenue from the sales and use tax was below estimate by $35 million (5.1%). Nonauto sales tax revenue was $24 million (4.0%) below estimate and auto sales tax revenue was $11 million (15.7%) below estimate. Cigarette tax revenue was above estimate by $12 million (16.3%).

Fiscal year-to-date GRF receipts are $130 million (0.9%) below estimate. State-source receipts are $675,000 (0.01%) below estimate and federal grants are below estimate by $129 million (3.6%). Tax revenues are $36 million (0.3%) below estimate.

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

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

	Month of January	Fiscal Year 2006 to Date	Last Year	Difference
Beginning Cash Balance	**-$413.6**	**$1,209.2**		
Plus Revenue and Transfers In	$2,416.7	$14,567.6		
Available Resources	**$2,003.1**	**$15,776.8**		
Less Disbursements and Transfers Out	$2,138.6	$15,912.3		
Ending Cash Balances	**-$135.5**	**-$135.5**	**-$489.6**	**$354.1**
Less Encumbrances and Accts. Payable		$765.3	$596.5	$168.8
Unobligated Balance		**-$900.7**	**-$1,086.1**	**$185.3**
Plus BSF Balance		$576.6	$180.7	$395.9
Combined GRF and BSF Balance		**-$324.1**	**-$905.4**	**$581.2**

Corporate franchise tax revenue is above estimate by $43 million (19.2%) and personal income tax revenue is below estimate by $2 million (0.04%). Nonauto sales tax revenue is below estimate by $87 million (2.2%) and auto sales tax revenue is below estimate by $17 million (3.1%). Kilowatt-hour tax revenue is $12 million (6.2%) above estimate and cigarette tax revenue is above estimate by $5 million (0.9%). Compared to the same point in FY 2005, GRF receipts are up 4.4%. State-source receipts are up 4.1%, federal grants are up 5.4%, and tax revenues are up 3.8%.

Disbursements

Program disbursements for January were above estimate by $40 million (1.9%). Disbursements for primary and secondary education were $9 million (1.7%) below estimate and disbursements for higher education were above estimate by $13 million (8.7%). Health care/Medicaid disbursements were $27 million (3.4%) above estimate, disbursements for justice and corrections were above estimate by $11 million (5.2%), and disbursements for property tax relief were above estimate by $11 million (100.3%).

GRF program disbursements for the fiscal year to date are $388 million (2.5%) below estimate. Health care/Medicaid disbursements are $141 million (2.3%) below estimate, disbursements for primary and secondary education are $95 million (2.4%) below estimate, and disbursements for justice and corrections are below estimate by $60 million (4.7%). TANF disbursements are below estimate by $23 million (11.1%) and disbursements for development are below estimate by $13 million (11.2%). Disbursements for higher education are above estimate by $17 million (1.2%) and disbursements for property tax relief are above estimate by $12 million (1.6%). Compared to the same point in FY 2005, GRF program disbursements are up 2.6%.

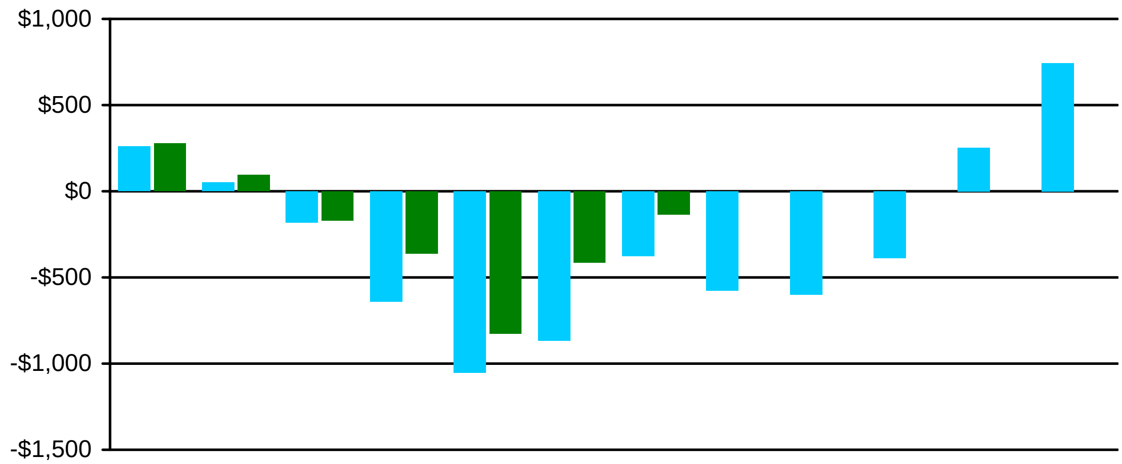
Cash Balance

As shown in Table 1, the GRF began January with a -$414 million cash balance. Monthly revenues plus transfers in totaled $2,417 million and disbursements plus transfers out totaled $2,139 million. The monthly surplus of $278 million raised the cash balance to -$135 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 -$378 million, $243 million lower (more negative) than the actual level. Exhibit 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 $765 million combine with the cash balance to yield an unobligated balance of -$901 million. This amount is $185 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 -$324 million is $581 million higher (less negative) than it was a year ago.

Exhibit 1: Estimated and Actual 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
Estimate	$261	$52	-$183	-$639	-$1,052	-$868	-$378	-$577	-$600	-$387	$253	$743
Actual	$277	$95	-$169	-$363	-$827	-$414	-$135					

[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 $14,568 million and disbursements plus transfers out total $15,912 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 $1,345 million reduces the cash balance to -$135 million.

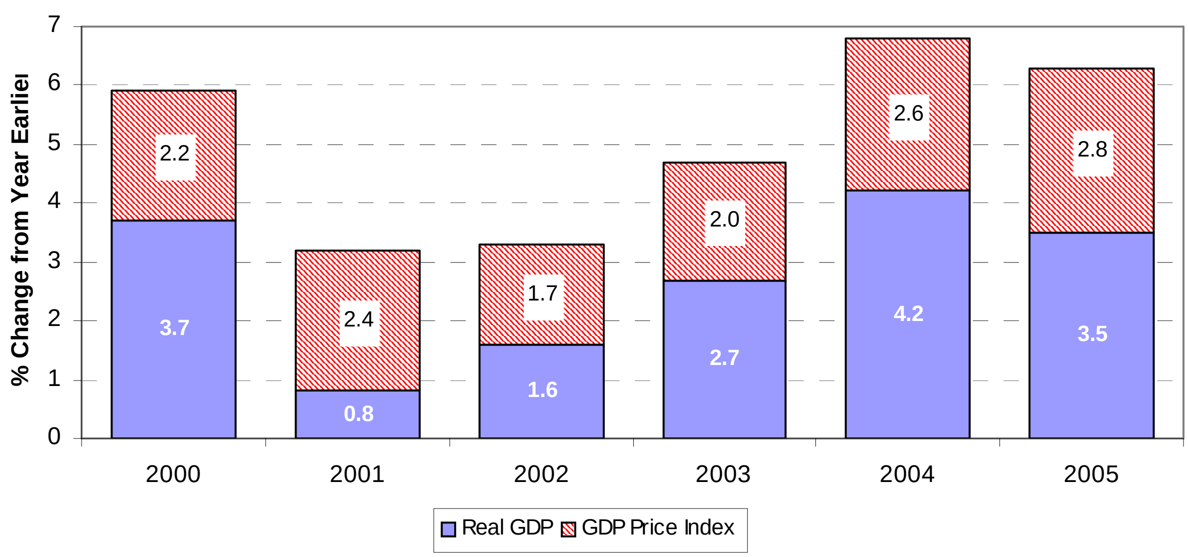
Tracking the Economy

—Phil Cummins

The national economy continues to expand in early 2006. Economic data for January showed the effects of mild weather. January's average temperature in the United States was the warmest ever in records dating from 1895, according to the National Climatic Data Center. Weather effects on the economic statistics could be reversed in February, which to date has brought more seasonable weather in many parts of the country and a disruptive blizzard on the East Coast. Sales at retailers rose strongly during the month, likely benefiting from the mild weather. Housing starts soared to the highest pace, seasonally adjusted, since 1973. Industrial production, on the other hand, fell as demand for natural gas and electricity contracted sharply, seasonally adjusted. However, factory and mining output rose. Purchasing managers for manufacturers and nonmanufacturers reported continued expansion in business activity. Nonfarm payroll employment nationwide rose nearly 200,000 last month, somewhat more than the average monthly increase during the past two years. Unemployment fell to 4.7% of the labor force, the lowest rate since mid-2001. The producer price index for finished goods rose 0.3% in January, about half of the rate of increase in the second half of 2005.

Inflation-adjusted gross domestic product (GDP) rose in the fourth quarter of last year at a 1.1% annual rate, the slowest increase in the country's economic output in three years. Much of the slowdown appears traceable to a drop in demand for motor vehicles from incentive-hyped levels last summer, partly offset by a buildup of vehicle and other types of inventories, as high fuel prices cut demand for larger light truck models. Slower growth of residential fixed investment, following an 18-month climb in short-term interest rates, and a drop in federal defense spending contributed to the slowing in GDP growth. Elevated energy prices and higher short-term interest rates are likely to weigh on spending decisions in the months ahead. The country's international trade deficit will remain massive. But the magnitude of the swing in motor vehicle demand from the third quarter to the fourth quarter was exceptional (though not unprecedented), and unlikely to be repeated any time soon. A sustained slowing in military outlays, in the face of continued international tensions and threats, also appears unlikely. Annual changes in GDP growth ahead of, during, and since the 2001 recession are shown in Exhibit 2. Also shown is the upturn in inflation since 2002, measured by the change in prices for gross domestic product.

Exhibit 2: United States Gross Domestic Product



Nationwide Employment Increases Again

Nonfarm payroll employment nationwide rose 193,000 from December to January, somewhat above the 170,000 monthly average increase (about 2 million per year) during the previous two years. The employment data for the past five years were revised, an annual procedure that incorporates a count of all employees and updates estimates of seasonality in the numbers. In most months, a sample is used as the basis for published figures rather than a full count. Total employment in 2005 was revised downward 168,000 or 0.1%. The number of persons considered unemployed in the United States declined in January to 7 million, seasonally adjusted, and the unemployment rate fell to 4.7%, the lowest since July 2001.

In January, employment increased in construction, mining, and several service industries. Construction employment rose, seasonally adjusted, as the warmer than usual weather around the country likely resulted in fewer layoffs than is typical during the month. Service sector employment rose in health care, restaurants and bars, professional and business services, finance, and wholesale trade.

Exhibit 3 shows changes in nonfarm payroll employment last year in Ohio and the United States, in total and by industry group. The changes from December 2004 to December 2005 are based on data that are not seasonally adjusted and so differ from the figures usually charted in this space. Also shown are the percentages of employees in the various industries for Ohio and the United States, and this state's share of national employment by industry. Total employment was about unchanged in Ohio last year, in contrast with a 1.2% or 1.7 million increase nationwide. Over half of the national increase in total employment was accounted for by Florida, California, Texas, Arizona, Washington, and Nevada. Employment fell in Louisiana, Michigan, and Mississippi. Manufacturing employment declined 0.6% in Ohio as well as nationwide, but factory jobs account for a larger share of total employment in the state than the nation (15% versus 11%), so this decline had a larger impact on total employment here than

Exhibit 3: Nonfarm Payroll Employment, 2005

	Percent Change[2]		Percent of Total[3]		Ohio Share
	Ohio	United States[1]	Ohio	United States[1]	of U.S. Total[1,3]
Total	0.0%	1.2%	100.0%	100.0%	4.1%
Natural resources and mining	3.5%	3.6%	0.2%	0.5%	1.9%
Construction	-0.1%	3.8%	4.3%	5.4%	3.3%
Manufacturing	-0.6%	-0.6%	15.1%	10.6%	5.8%
Trade, transportation, and utilities	-1.0%	0.8%	19.4%	19.7%	4.0%
Information	-1.5%	0.1%	1.7%	2.3%	2.9%
Financial activities	0.2%	1.5%	5.7%	6.1%	3.8%
Professional and business services	1.8%	2.4%	11.7%	12.6%	3.8%
Education and health services	0.7%	1.8%	14.0%	13.1%	4.3%
Leisure and hospitality	0.6%	1.9%	8.9%	9.4%	3.8%
Other services	0.7%	0.8%	4.2%	4.0%	4.2%
Government	-0.4%	0.6%	14.8%	16.5%	3.6%

[1]Fifty states plus District of Columbia
[2]December 2004 to December 2005
[3]December 2005

for the country as a whole. Construction employment in the state fell slightly last year, very different from robust gains elsewhere in the nation, mainly in the South and West. Employment in natural resources and mining rose strongly, in the nation and Ohio, but this industry group accounts for only a small share of total employment. In service industry groups, either Ohio employment growth was slower than that nationwide, or Ohio employment fell in contrast with increases nationwide. Government employment in Ohio was lower in December than a year earlier, while government employment rose elsewhere.

Further Expansion in Business Activity

Manufacturing activity expanded again in January, according to purchasing managers surveyed in the Institute for Supply Management's monthly survey. New orders and order backlogs, production, and employment all rose last month. Increases in activity remained less widespread than in September and October, when manufacturing was recovering from the impact of last year's hurricanes. Higher prices paid were more frequently reported by survey participants than declines, but price increases were less widespread than last fall. A comparable survey of nonmanufacturing purchasing managers also indicated continued expansion with gains less widespread than earlier.

Industrial production fell in January by 0.2% as a result of a 10% plunge in utility output, the largest monthly drop on record. Demand for electric power fell, and natural gas distribution rose much less than usual in January, because of the warm weather. With more seasonable weather to date in February, a sizable increase in this component of industrial output plausibly will be reported next month. Manufacturing output rose 0.7% in January to 4.5% above a year earlier. Mining output also rose last month. Gains in factory production in earlier months were revised higher, and fourth quarter manufacturing output is now estimated to have expanded at a strong 9% annual rate.

Rising factory orders will tend to support continued expansion in manufacturing activity this year. Manufacturers' new orders rose 8% in 2005. New orders for nondefense capital goods, an indicator of future business investment in equipment, increased 20% last year; excluding aircraft, they were up 10%. Some of this demand for equipment is from abroad.

Robust Growth of Consumer Spending

Retail sales rose very strongly in January, increasing 2.3% from December's level to 8.8% above a year earlier. Gains were reported for most types of retailers, with the exception of grocery stores and nonstore retailers (catalogs and Internet). Motor vehicle and parts dealers' sales rose 2.9%, matching the rise from December to January in unit sales of light vehicles, seasonally adjusted. Excluding motor vehicles, retail sales increased 2.2%. Unusually mild weather may have contributed to sales of some types of merchandise, such as goods more commonly sold in the spring. There have been reports of goods being sold out at retailers following last month's strong sales. January sales may also have been boosted, and sales in November and December held down, by increased use of gift cards received during the holidays.

Housing Soars, but Probably Only Temporarily

Housing starts jumped in January to a 2.28 million unit seasonally adjusted annual rate nationwide, the highest since 1973. Starts on single-family homes for the country as a whole were the highest ever in records dating to 1959. The magnitude of this increase was probably a consequence of the mild weather. Monthly gains were largest in the Northeast and Midwest, where winter weather would ordinarily slow construction the most. Interest rates on fixed-rate mortgage loan commitments eased in January from levels reached in November and December, which could have encouraged some construction to be started. Mortgage interest rates have been trending higher since 2003-2004, particularly for adjustable-rate mortgages. Availability of home purchase financing at the very low interest rates available on adjustable-rate mortgages a couple of years ago helped fuel the strong housing market, particularly on the nation's coasts. Rapid housing price increases along with the uptrend in interest rates have made housing less affordable.

The pace of new home sales in the United States rose 3% in December but remained below levels earlier in 2005. For the full year, sales of new homes rose 7% nationwide, with growth strongest in the South. In the Midwest, sales slowed 3% last year. Used home sales in the nation slowed 6% in December, according to National Association of Realtors' figures, but for the entire year were 4% higher than in 2004 nationwide and 2% higher in the Midwest. Compared with December 2004, the number of homes listed for sale at the end of 2005 was higher by 26% or more than 500,000 nationwide, implying longer delays in selling homes. The rise was smaller in the number of new homes for sale that were either completed or under construction, up about 50,000 units or 14% from December 2004 to 2005, but this increase still outpaced the rise in sales. In Ohio, unit sales of homes rose 4% last year, based on Ohio Association of Realtors' figures.

The value of new construction put in place rose 1% in December. For the entire year, new construction activity rose 9%, including increases of 11% in the value of residential building, 5% in private nonresidential building, and 8% in public construction. The largest increases in public construction are for streets and highways and for education. These figures are not adjusted for inflation and so include changes not only in numbers of units but also in prices per unit.

Inflation Continuing

The producer price index for finished goods rose 0.3% in January to 5.7% above a year earlier. The increase was about half the average monthly increase in last year's second half, when energy prices rose sharply and food prices also increased. However, excluding food and energy, the producer price index for finished goods rose 0.4% last month, its largest increase in a year. The inflation indicators were also mixed at earlier stages in the production process. Intermediate goods prices rose 1.2% in January to 9.3% above a year earlier. Crude materials prices fell for the third consecutive month, declining 0.5%, but were 24% above a year earlier.

Labor productivity growth slowed last year from its exceptional pace in 2002-2004. When labor productivity or output per labor hour is growing rapidly, businesses can raise pay and benefit levels without commensurate upward pressure on costs per unit of output. With slower productivity growth, any increases in compensation tend to put more upward pressure on unit costs, which in turn tend to be passed through to buyers, if competitive circumstances permit, as higher inflation. Labor productivity, measured as the ratio of indexes of real or inflation-adjusted output divided by labor hours, is intended to approximate the ability of workers along with other factors of production to produce goods and services. Rising labor productivity tends, over time and on average, to improve our standard of living. In 2005, output per labor hour in nonfarm business rose 2.7%, the smallest gain in labor productivity since 2001. Hourly compensation, wages plus benefits, rose 5.2% in this part of the economy last year, the largest increase since 2000. Consequently, unit labor cost rose 2.4% at nonfarm businesses, also the most rapid increase since 2000.

Another measure, the employment cost index, shows a different picture. In the 12 months to December 2005, compensation costs per hour in private industry, including wages and benefits, rose 3.0%, the smallest rise in compensation since 1995. This measure excludes pay of corporate chief executives and business owners, excludes proceeds from the exercise of stock options, and differs from the compensation index in the productivity report in other ways. Private-sector hourly wages and salaries, in the employment cost index, rose 2.5% in the latest year; benefit costs increased 4.1%. Net of inflation, wages and salaries in private industry, as measured by the employment cost index, fell in 2005 for the second consecutive year, the first such two-year decline in the purchasing power of hourly wages and salaries since 1989-1990. A companion measure of the pay and benefits of state and local government workers shows somewhat larger gains in hourly wages and salaries and in benefits in

2005 than those of private-sector workers, but also indicates that wages and salaries failed to keep pace with inflation during the latest two years.

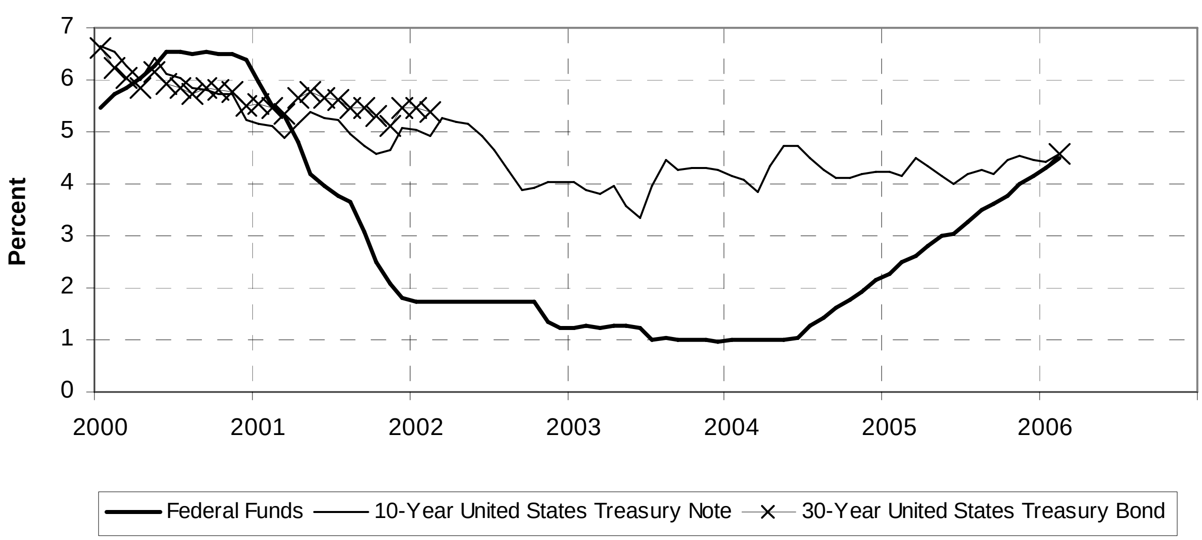
Another Rise in Short-Term Interest Rates

On January 31, the Federal Open Market Committee (FOMC), the central bank's monetary policy-setting group, raised its primary target short-term interest rate by 0.25 percentage point to 4.5%. In announcing this latest increase in its federal funds rate target, the FOMC chose wording that no longer conveys to financial markets a high likelihood of another 0.25 percentage point increase in federal funds at its next meeting, altering the pattern followed since mid-2004. Alan Greenspan retired as Federal Reserve chairman after the FOMC's January 31 meeting, replaced by Ben Bernanke. Generally robust economic statistics for early 2006 increase the likelihood of another short-term interest rate increase, with perhaps more to follow.

In his first Congressional testimony in his new job, Chairman Bernanke stated in his prepared remarks that "no single economic or financial indicator, or even a small set of such indicators, can provide reliable guidance for the setting of monetary policy." Market commentators have speculated that Bernanke may seek to shift emphasis in the setting of monetary policy toward explicitly targeting an inflation indicator. While he may over time introduce changes, his testimony praised the broad-ranging analytical process of the Greenspan era and reaffirmed his intent to maintain continuity in the approach to be taken to monetary policy.

Responding to the prospect of continued large federal budget deficits for years into the future and strong domestic and foreign demand for long-term United States Treasury securities, the Treasury Department reintroduced its 30-year bond in early February. Treasury bonds of this maturity were last auctioned in August 2001. With the rise in short-term interest rates and much smaller increases in long-term interest rates from lows two to three years ago, there is now little difference between short- and long-term interest rates. This is illustrated in Exhibit 4, which shows interest rates for federal funds, 10-year Treasury notes, and 30-year Treasury bonds.[1]

Exhibit 4: Selected Interest Rates



[1] Rates shown are monthly averages except for February 2006.

Status of the General Revenue Fund

REVENUE

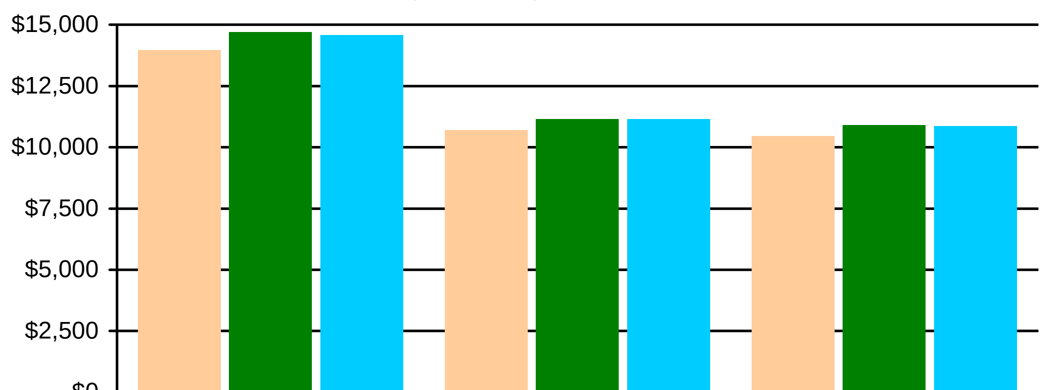
— *Jean Botomogno and Allan Lundell*

Total General Revenue Fund (GRF) receipts for January were below estimate by $163.0 million (6.3%).[1] State-source receipts (tax revenue plus nontax revenue plus transfers in) were $76.6 million (3.7%) below estimate and federal grants were below estimate by $86.4 million (17.9%).[2] Tax revenues were below estimate by $75.8 million (3.7%). Corporate franchise tax revenue was $48.4 million (20.4%) below estimate and personal income tax revenue was below estimate by $7.8 million (0.8%). Revenues from the sales and use tax were below estimate by $34.6 million (5.1%). Nonauto sales tax revenue was $24.0 million (4.0%) below estimate and auto sales tax revenue was $10.6 million (15.7%) below estimate. Cigarette tax revenue was above estimate by $12.5 million (16.3%).

Through the first seven months of FY 2006, total GRF receipts were below estimate by $130.1 million (0.9%). State-source receipts were below estimate by $675,000 (0.01%) and federal grants were below estimate by $129.4 million (3.6%). Tax revenues were below estimate by $36.0 million (0.3%). Nonauto sales tax revenue was below estimate by $86.6 million (2.2%) and auto sales tax revenue was $17.4 million (3.1%) below estimate. Corporate franchise tax revenue was above estimate by $42.7 million (19.2%) and personal income tax revenue was below estimate by $2.2 million (0.04%). Kilowatt-hour tax revenue was above estimate by $11.7 million (6.2%) and cigarette tax revenue was above estimate by $5.0 million (0.9%).

For the fiscal year to date, total GRF receipts are up 4.4% compared to FY 2005. State-source receipts are up 4.1% and federal grants are up 5.4%. Tax revenues are up 3.8%. Personal income tax revenue is up 6.9% and cigarette tax revenue is up 98.6%. Revenue from the cigarette tax has been boosted by the 127% rate increase from 55 cents per pack to $1.25 per pack. Nonauto sales tax revenue is down 5.6% and auto sales tax revenue is down 11.2%. Revenues from the sales and use tax have been affected by the 8.33% decrease in the sales tax rate from 6.0%

Exhibit 5: Year-to-Date GRF Receipts
(in millions)



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Total Tax Revenue
FY 2005	$13,952.1	$10,694.1	$10,460.6
FY 2006 Estimate	$14,697.7	$11,133.9	$10,895.4
FY 2006 Actual	$14,567.6	$11,133.3	$10,859.3

to 5.5%. Exhibit 5 compares GRF FY 2006 receipts with FY 2005 receipts and FY 2006 estimates.

Personal Income Tax

The GRF received $1,030.9 million from the personal income tax in January, $7.8 million (0.8%) less than estimated. Gross collections were above estimate by $8.2 million (0.6%) and refunds were $15.8 million (21.2%) greater than estimated. Withholding was $30.1 million (3.8%) above estimate and quarterly estimated payments were $32.8 million (6.7%) below estimate.[3] Quarterly estimated payments for January and December may have been affected by taxpayers adjusting their final payments for tax year 2005 to account for the 4.2% rate cut provided for in Am. Sub. H.B. 66. Trust payments were above estimate by $4.9 million (63.0%) and payments associated with annual returns were above estimate by $4.7 million (60.1%).

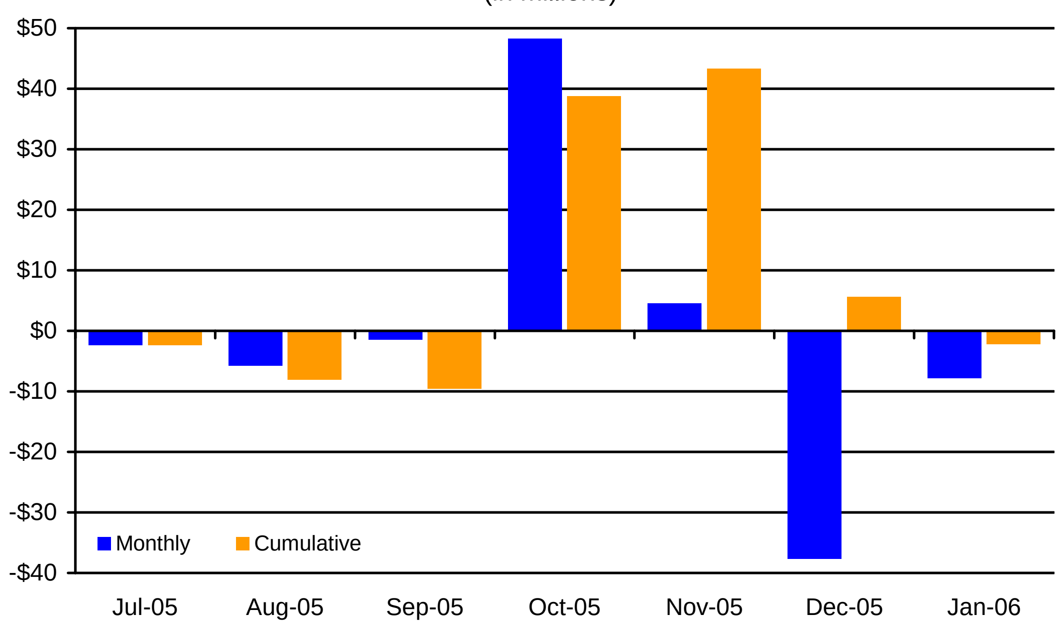
The GRF received $5,096.5 million from the personal income tax during the first seven months of the fiscal year, $2.2 million (0.04%) below estimate. Through January, gross collections were above estimate by $13.2 million (0.2%) and refunds were above estimate by $14.5 million (7.2%). Withholding, which is expected to account for 74% of gross income tax collections for FY 2006, was $4.0 million (0.1%) above estimate. Year-to-date quarterly estimated payments were $41.5 million (4.2%) below estimate, payments associated with annual returns were above estimate by $27.2 million (26.2%), and trust payments were $18.0 million (104.5%) above estimate.

Compared to a year ago, GRF revenue from the personal income tax is up 6.9% for the fiscal year to date. Gross collections are up 6.2% and refunds are up 5.5%. Withholding, which reflects the condition of Ohio's labor market, is up 5.4%. Year-to-date withholding growth has been in the 5% to 6% range throughout the fiscal year, suggesting a stable labor market. Quarterly estimated payments are up 6.4%, payments associated with annual returns are up 17.2%, and trust payments are up 83.2%.

Sales and Use Tax

Total sales and use tax revenues in January were $638.5 million, $34.6 million (5.1%) below projected revenues. Auto sales and use tax receipts were $10.6 million (15.7%) below estimate. Nonauto sales and use tax receipts were $24.0 million (4.0%) below estimate. Total sales and use tax receipts in January 2006 were

Exhibit 6: Personal Income Tax
Variance from August 2005 Estimates
(in millions)



$65.8 million (9.3%) below revenues in January 2005.[4] Tax receipts partly reflect taxable retail sales activity in the prior month and partly taxable retail sales during that month.[5]

Through January, FY 2006 year-to-date total sales and use tax revenues were $4,420.2 million, $104.0 million (2.3%) below estimate. FY 2006 sales and use tax receipts were also $298.3 million (6.3%) below fiscal year-to-date tax receipts in January 2005. 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).

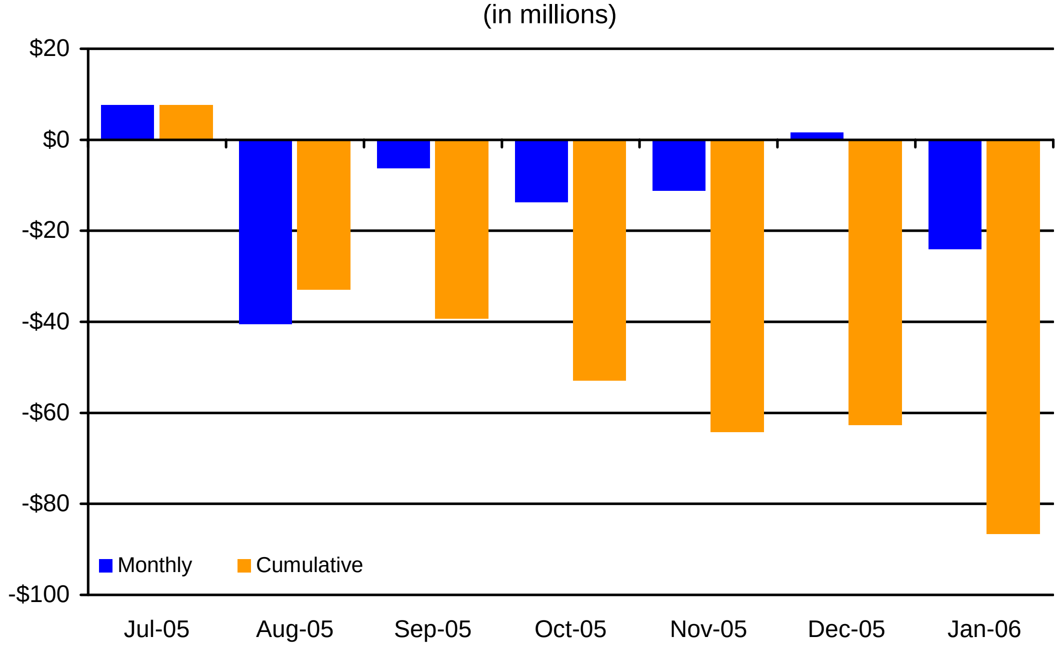
Nonauto Sales and Use Tax

For the fifth month this fiscal year, nonauto sales and use tax revenues were below estimate. Revenues from this tax in January were $581.8 million, $24.0 million (4.0%) below anticipated receipts. Nonauto sales and use tax receipts were also $47.6 million (7.6%) below revenues in the same month last year. As of January, FY 2006 nonauto sales and use tax receipts were $3,869.8 million, $86.6 million (2.2%) below estimate and $228.8 million (5.6%) below year-to-date receipts in January 2005. Revenues were expected to decline due to the decrease in the tax rate. With the exception of July, the decline in nonauto sales and use tax revenues has been greater than the anticipated decline throughout the fiscal year.

Nationwide "core" retail sales (retail sales excluding autos and gasoline sales) grew about 0.3% in December 2005 and 1.8% in January 2006. Compared to sales a year ago, nationwide core retail sales were up 6.5% and 8.3%, respectively. The increasing use of gift cards probably pushed out some holiday sales from December 2005 into January 2006.

Two possible reasons for the poor performance of the sales and use tax are the slowing of mortgage equity withdrawals (MEWs) and the increase in spending for energy, particularly on gasoline. Nationwide, MEWs were estimated at $279.1 billion in CY 2005.[6] A share of the cashouts from MEWs and other consumer borrowing has been used to support consumption growth in the last few years. MEWs growth, which started declining in the second half of CY 2005, is forecast to be negative in CY 2006, down 50% to $139.1 billion. Although the data for Ohio are unavailable, the slowing of MEWs growth may be affecting receipts from the sales and use tax. Also, Ohio consumers may have spent up to $2.1 billion more for gasoline through January in FY 2006 than in the same period of FY 2005.

Exhibit 7: Nonauto Sales Tax
Variance from August 2005 Estimates
(in millions)



Gasoline is not included in the sales and use tax base; therefore, spending on gasoline does not contribute to sales and use tax revenues. Assuming that 70% of the additional spending on gasoline would have been spent on goods and services taxable under the sales and use tax, up to $83 million in additional sales and use tax receipts might have been collected thus far in FY 2006.

Auto Sales and Use Tax

Auto sales and use tax receipts were $56.7 million in January 2006, $10.6 million (15.7%) below estimate. Auto sales and use tax receipts that month were $18.1 million (24.3%) below receipts in January 2005. 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.

As of January, FY 2006 year-to-date auto sales tax receipts were $550.3 million, $17.4 million (3.1%) below estimate. Year-to-date auto sales and use tax receipts were $69.5 million (11.2%) below receipts through the same period in FY 2005. In the first quarter of FY 2006, auto sales and use tax revenues were $29.1 million (3.6%) above estimates. In the last four months, auto sales and use tax revenues were $46.4 million (16.3%) below estimates. Although the auto sales and use tax is a volatile tax, this prolonged downturn in receipts is substantial, especially in contrast to buoyant nationwide automobile sales. According to the U.S. Department of Commerce, nationwide sales of automobiles and light trucks at motor vehicle dealers grew 3.0% in January 2006. Unit sales grew 9.5%. Compared to sales in the same month in FY 2005, sales at motor vehicle dealers were up 5.2% and unit sales were up 7.5%. Strong nationwide sales in January 2006 were helped by a one-time surge in fleet sales to governments and daily car rental agencies.[7] While nationwide automobile sales have been strong, the Ohio auto sales tax base was flat or declining throughout CY 2005, and also so far in CY 2006.

Corporate Franchise Tax

Major tax receipts under the corporate franchise tax (CFT) are due in the second half of the fiscal year. Activities under the CFT in the first half of the fiscal year are generally refunds, payments due to audit findings, tax reconciliations, and settlements. Am. Sub. H.B. 66 (the main operating appropriations act for the biennium)

Exhibit 8: Auto Sales Tax
Variance from August 2005 Estimates
(in millions)

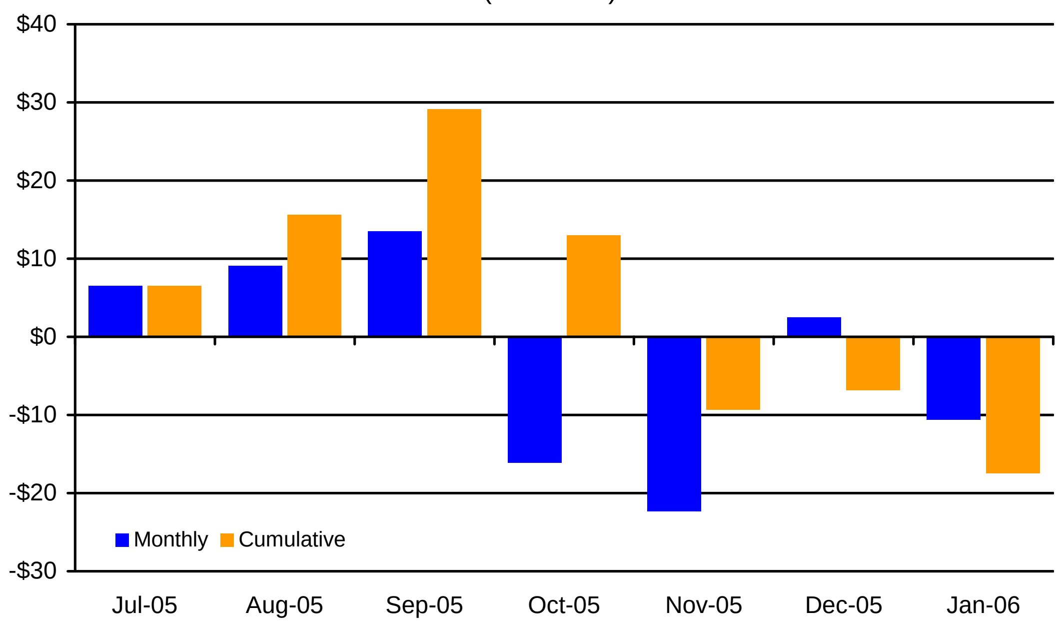
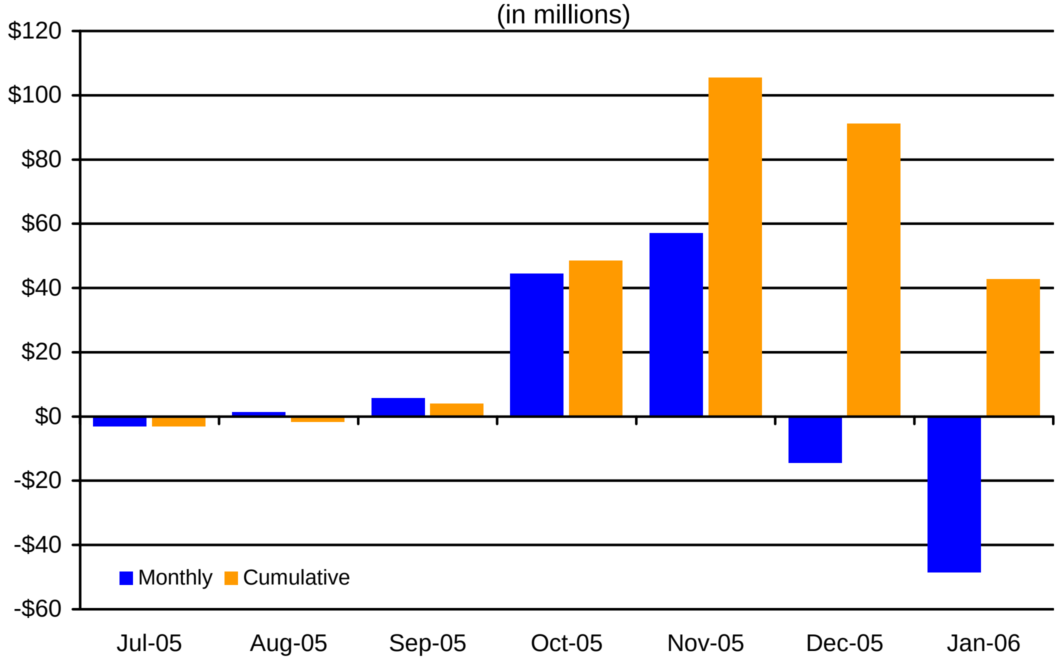


**Exhibit 9: Corporate Franchise Tax
Variance from August 2005 Estimates**
(in millions)



phases out the CFT over a five-year period for nonfinancial corporations. Financial corporations, which have a different tax base than general corporations, will continue to pay the 13-mill tax on their net worth base. Starting in FY 2006, nonfinancial corporations will pay a decreasing percentage of their regular CFT liability each year. CFT payments from nonfinancial corporations will be 80% of the overall tax liability this year. This change will affect year-over-year revenue comparisons.

For the first major CFT payment in January 2006, tax receipts were $189.2 million, $48.4 million (20.4%) below estimate. OBM attributes the shortfall to higher than anticipated refunds.[8] CFT receipts were also $65.8 million (25.8%) below January receipts last year. As of January, FY 2006 year-to-date CFT receipts were $265.3 million, $42.7 million (19.2%) above estimate. FY 2006 year-to-date receipts were also $27.0 million (11.4%) above year-to-date receipts in January 2005.

Cigarette and Other Tobacco Products Tax

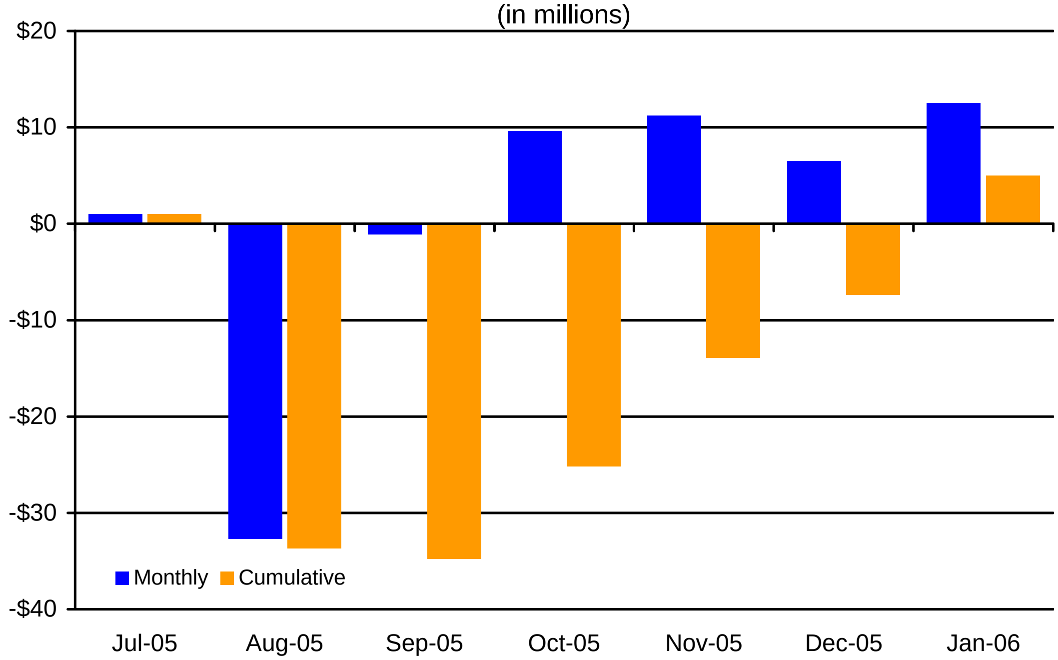
January receipts from the cigarette and other tobacco products tax were $88.8 million, $12.5 million (16.3%) above estimate. Compared to year-ago receipts in the same month, revenues were $42.7 million (92.9%) higher. Through January, FY 2006 year-to-date receipts from the cigarette and other tobacco products tax were $591.2 million, $5.0 million (0.9%) above estimate and $297.6 million (98.6%) above revenues in FY 2005. The large increase in cigarette tax revenues compared to the previous year is due to the $0.70 per pack tax rate increase on July 1, 2005.

Commercial Activity Tax

Am. Sub. H.B. 66 created the commercial activity tax (CAT), a new privilege tax on business entities operating in Ohio. The tax is being phased in over five years. Although the first CAT payment was due February 10, 2006 for the period covering July 1 through December 31, 2005, early GRF CAT receipts of $1.3 million were recorded in January 2006.

Generally, business entities with annual taxable gross receipts below $150,000 are exempt from the CAT. Firms with annual gross receipts above $150,000 and less than $1 million will pay a tax of $150, and businesses with gross receipts above

Exhibit 10: Cigarette and Other Tobacco Products Tax Variance from August 2005 Estimates
(in millions)



$1 million will pay $150 plus a tax rate of 0.26% on receipts in excess of $1 million. H.B. 66 expressly provides that the tax applies to all legal persons[9] with substantial nexus with Ohio. H.B. 66 excludes public utilities, financial institutions, dealers in intangibles, insurance companies, and nonprofit institutions. These business entities will continue their current tax regimes. The CAT also applies to out-of-state businesses with taxable Ohio receipts. An out-of-state business has nexus with Ohio and is taxable if it has over $50,000 in real or personal property in Ohio, $50,000 in payroll for work in Ohio, $500,000 in taxable gross receipts in Ohio, or 25% or more of its nationwide activity in the state.

The tax is being phased in over five years. For the period from July 1 through December 31, 2005, the tax for taxable gross receipts below $500,000 is $75. The tax rate for receipts over $500,000 is 0.06%. Beginning on January 1, 2006, taxpayers with taxable receipts over $1 million will file and pay quarterly. All other taxpayers will pay annually. For tax year 2006, all taxpayers are required to pay the first $150 in annual privilege tax on May 10, 2006. Taxpayers subject to quarterly tax reporting will also make their payment for the first quarter on that date, generally 40 days after the close of a calendar quarter.

H.B. 66 earmarks revenues from the CAT for the GRF and for reimbursing school districts and other local governments for the reductions and phaseout of local taxes on most tangible personal property. To that end, revenues from the CAT will be distributed to the School District Tangible Property Tax Replacement Fund (SDRF) and to the Local Government Tangible Property Tax Replacement Fund (LGRF). Varying percentages are applied to the distribution of revenues from the commercial activity tax. For FY 2006, the GRF will receive 67.7% of CAT revenues, the SDRF will receive 22.6%, and the LGRF will receive 9.7%. Total CAT revenues are estimated at $212.0 million in FY 2006. The GRF is estimated to receive $143.5 million in the fiscal year. The SDRF and the LGRF will receive $47.9 million and $20.6 million, respectively.

[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] Adjusting for the rate decrease, revenues in the month were $7.1 million lower than revenues in January 2005.

[5] 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.

[6] MEWs are funds from home equity cashouts and the consolidation of second mortgage/home equity lines of credit during refinancing. The data are from Freddie Mac, which publishes quarterly and annual data on cashout volume for all prime conventional loans in the United States.

[7] Sales of automobiles to governments are generally tax exempt.

[8] The processing of CFT refunds was delayed due to the processing of commercial activity tax registration applications. CFT refunds that normally would have been processed in November and December were instead processed in January.

[9] As defined in section 5751.01 of the Revised Code, "'person' means, but is not limited to, individuals, combinations of individuals of any form, receivers, assignees, trustees in bankruptcy, firms, companies, joint-stock companies, business trusts, estates, partnerships, limited liability partnerships, limited liability companies, associations, joint ventures, clubs, societies, for-profit corporations, S corporations, qualified subchapter S subsidiaries, qualified subchapter S trusts, trusts, entities that are disregarded for federal income tax purposes, and any other entities. 'Person' does not include nonprofit organizations or the state, its agencies, its instrumentalities, and its political subdivisions."

Table 2
General Revenue Fund Sources
Actual vs. Estimate
Month of January 2006
($ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$56,701	$67,299	-$10,598	-15.7%
Nonauto Sales & Use	$581,842	$605,811	-$23,969	-4.0%
Total Sales & Use Taxes	$638,542	$673,110	-$34,567	-5.1%
Personal Income	$1,030,886	$1,038,700	-$7,814	-0.8%
Corporate Franchise	$189,215	$237,600	-$48,385	-20.4%
Public Utility	$0	$0	$0	---
Kilowatt Hour Excise	$29,992	$28,600	$1,392	4.9%
Total Major Taxes	**$1,888,636**	**$1,978,010**	**-$89,374**	**-4.5%**
Commercial Activity Tax	$1,346	$0	$1,346	---
Foreign Insurance	-$589	$50	-$639	-1278.5%
Domestic Insurance	$0	$10	-$10	-97.5%
Business & Property	$1	$45	-$44	-97.4%
Cigarette	$88,755	$76,300	$12,455	16.3%
Alcoholic Beverage	$4,163	$4,400	-$237	-5.4%
Liquor Gallonage	$3,740	$3,600	$140	3.9%
Estate	$1,798	$1,200	$598	49.8%
Total Other Taxes	$99,214	$85,605	$13,609	15.9%
Total Tax Revenue	**$1,987,850**	**$2,063,615**	**-$75,764**	**-3.7%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$13,590	$20,600	-$7,010	-34.0%
Other Revenue	$11,607	$7,450	$4,157	55.8%
Nontax State-Source Revenue	$25,197	$28,050	-$2,853	-10.2%
TRANSFERS				
Liquor Transfers	$8,000	$6,000	$2,000	33.3%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$0	$0	---
Total Transfers In	$8,000	$6,000	$2,000	33.3%
TOTAL GRF before Federal Grants	**$2,021,047**	**$2,097,665**	**-$76,618**	**-3.7%**
Federal Grants	$395,634	$482,023	-$86,389	-17.9%
TOTAL GRF SOURCES	**$2,416,681**	**$2,579,687**	**-$163,006**	**-6.3%**

* 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 January 2006
($ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
TAX REVENUE						
Auto Sales	$550,331	$567,713	-$17,382	-3.1%	$619,800	-11.2%
Nonauto Sales & Use	$3,869,819	$3,956,449	-$86,629	-2.2%	$4,098,630	-5.6%
Total Sales & Use Taxes	$4,420,151	$4,524,162	-$104,011	-2.3%	$4,718,429	-6.3%
Personal Income	$5,096,500	$5,098,700	-$2,200	0.0%	$4,767,044	6.9%
Corporate Franchise	$265,347	$222,600	$42,747	19.2%	$238,287	11.4%
Public Utility	$68,148	$60,800	$7,348	12.1%	$35,770	90.5%
Kilowatt Hour Excise	$201,910	$190,200	$11,710	6.2%	$197,316	2.3%
Total Major Taxes	**$10,052,055**	**$10,096,462**	**-$44,407**	**-0.4%**	**$9,956,847**	**1.0%**
Commercial Activity Tax	$1,346	$0	$1,346	---	$0	---
Foreign Insurance	$129,908	$124,950	$4,958	4.0%	$122,562	6.0%
Domestic Insurance	$1,081	$70	$1,011	1444.4%	$170	534.9%
Business & Property	$1,049	$1,180	-$131	-11.1%	$932	12.6%
Cigarette	$591,207	$586,200	$5,007	0.9%	$297,648	98.6%
Alcoholic Beverage	$33,609	$33,900	-$291	-0.9%	$34,312	-2.0%
Liquor Gallonage	$20,215	$19,700	$515	2.6%	$19,518	3.6%
Estate	$28,873	$32,900	-$4,027	-12.2%	$28,613	0.9%
Total Other Taxes	$807,287	$798,900	$8,387	1.0%	$503,756	60.3%
Total Tax Revenue	**$10,859,342**	**$10,895,362**	**-$36,020**	**-0.3%**	**$10,460,602**	**3.8%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$47,345	$31,000	$16,345	52.7%	$13,754	244.2%
Licenses and Fees	$32,954	$36,200	-$3,246	-9.0%	$33,445	-1.5%
Other Revenue	$72,182	$54,585	$17,597	32.2%	$64,622	11.7%
Nontax State-Source Revenue	$152,481	$121,785	$30,696	25.2%	$111,821	36.4%
TRANSFERS						
Liquor Transfers	$77,000	$69,000	$8,000	11.6%	$67,000	14.9%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$44,449	$47,800	-$3,351	-7.0%	$54,661	-18.7%
Total Transfers In	$121,449	$116,800	$4,649	4.0%	$121,661	-0.2%
TOTAL GRF before Federal Grants	**$11,133,271**	**$11,133,947**	**-$675**	**0.0%**	**$10,694,084**	**4.1%**
Federal Grants	$3,434,355	$3,563,784	-$129,430	-3.6%	$3,258,060	5.4%
TOTAL GRF SOURCES	**$14,567,626**	**$14,697,731**	**-$130,105**	**-0.9%**	**$13,952,144**	**4.4%**

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

DISBURSEMENTS

— *Steve Mansfield**

So far this fiscal year a little over $15.3 billion in disbursements have been made from the General Revenue Fund (GRF) for program spending.[1] This total is under the estimate by $387.8 million (2.5%). January's outlays for program spending were over the estimate for the month by $39.6 million (1.9%). Compared to the same point in FY 2005, total GRF program disbursements are $393.5 million (2.6%) 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) are slightly over the estimate for the year to date (see Exhibit 11 and Table 5).

Each of these program categories was over the estimate for January. Of these, the largest variance was posted in the Welfare and Human Services category, which was over estimate by $16.4 million (1.6%). The Health Care/Medicaid subcategory posted the largest variance among subcategories, with a variance of $27.4 million over the estimate. We will discuss in the sections that follow the details of the most significant variances between what was actually disbursed through January 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 (-$227.7 million)

The Welfare and Human Services category posted a disbursement variance of $16.4 million (1.6%) over the estimate in January. For the year to date, outlays in this category are $227.7 million (3.0%) under the estimate. Two program subcategories (Health Care/Medicaid, and Other Welfare) continue to be the most significant contributors to the year-to-date variance.

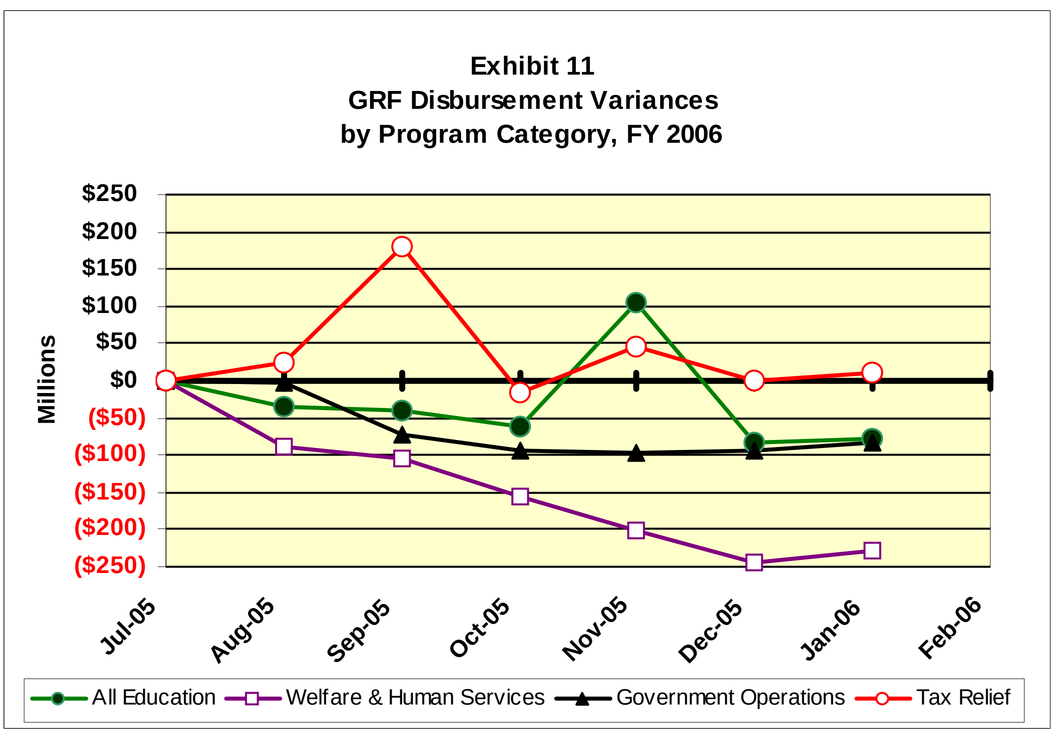


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of January 2006
($ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	$528,388	$537,335	-$8,947	-1.7%
Higher Education	$165,800	$152,576	$13,225	8.7%
Total Education	$694,189	$689,911	$4,278	0.6%
Health Care/Medicaid	$826,977	$799,616	$27,361	3.4%
Temporary Assistance to Needy Families (TANF)	$14,031	$20,000	-$5,969	-29.8%
General/Disability Assistance	$0	$0	$0	---
Other Welfare (2)	$57,517	$61,625	-$4,107	-6.7%
Human Services (3)	$153,334	$154,217	-$882	-0.6%
Total Welfare & Human Services	$1,051,859	$1,035,457	$16,402	1.6%
Justice & Corrections	$225,818	$214,715	$11,102	5.2%
Environment & Natural Resources	$8,403	$9,811	-$1,408	-14.4%
Transportation	$7,590	$5,402	$2,188	40.5%
Development	$7,197	$9,363	-$2,166	-23.1%
Other Government	$29,936	$27,997	$1,939	6.9%
Capital	$48	$0	$48	---
Total Government Operations	$278,991	$267,288	$11,703	4.4%
Property Tax Relief (4)	$22,745	$11,356	$11,389	100.3%
Debt Service	$82,260	$86,466	-$4,206	-4.9%
Total Other Disbursements	$105,005	$97,822	$7,183	7.3%
Total Program Disbursements	**$2,130,044**	**$2,090,478**	**$39,566**	**1.9%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$8,515	$0	$8,515	---
Total Transfers Out	$8,515	$0	$8,515	---
TOTAL GRF USES	**$2,138,559**	**$2,090,478**	**$48,080**	**2.3%**

(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.

Health Care/Medicaid. Year-to-date disbursements through January in the Health Care/Medicaid program (primarily line item 600-525) are $141.2 million (2.3%) below the estimate (see Table 6). Compared to the same point in FY 2005, Health Care/Medicaid service payments are 6.3% higher in the current fiscal year. Once offsets are taken into account, FY 2006 spending for the year to date is 4.7% higher than at the same point in FY 2005 (see Table 7).

Like last month, the largest contributor to the year-to-date variance in Health Care/Medicaid spending is the HMO category, which is now $101.1 million (11.8%) below the estimate. As

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2005**	**Percent Change**
Primary & Secondary Education (1)	$3,956,159	$4,051,642	-$95,483	-2.4%	$3,962,388	-0.2%
Higher Education	$1,403,762	$1,386,532	$17,230	1.2%	$1,380,612	1.7%
Total Education	$5,359,921	$5,438,174	-$78,253	-1.4%	$5,343,000	0.3%
Health Care/Medicaid	$5,936,633	$6,077,819	-$141,186	-2.3%	$5,672,274	4.7%
Temporary Assistance to Needy Families (TANF)	$180,315	$202,938	-$22,623	-11.1%	$216,279	-16.6%
General/Disability Assistance	$0	$0	$0	---	$14,558	-100.0%
Other Welfare (2)	$352,769	$407,457	-$54,688	-13.4%	$303,915	16.1%
Human Services (3)	$805,472	$814,677	-$9,205	-1.1%	$778,189	3.5%
Total Welfare & Human Services	$7,275,189	$7,502,891	-$227,702	-3.0%	$6,985,214	4.2%
Justice & Corrections	$1,216,288	$1,276,110	-$59,823	-4.7%	$1,196,254	1.7%
Environment & Natural Resources	$69,551	$72,418	-$2,868	-4.0%	$80,495	-13.6%
Transportation	$20,933	$20,331	$603	3.0%	$16,696	25.4%
Development	$99,185	$111,724	-$12,539	-11.2%	$108,213	-8.3%
Other Government	$250,402	$258,845	-$8,443	-3.3%	$244,920	2.2%
Capital	$213	$28	$185	657.1%	$0	---
Total Government Operations	$1,656,572	$1,739,457	-$82,885	-4.8%	$1,646,579	0.6%
Property Tax Relief (4)	$742,337	$730,481	$11,856	1.6%	$710,779	4.4%
Debt Service	$302,382	$313,157	-$10,775	-3.4%	$257,295	17.5%
Total Other Disbursements	$1,044,719	$1,043,638	$1,081	0.1%	$968,075	7.9%
Total Program Disbursements	**$15,336,400**	**$15,724,160**	**-$387,760**	**-2.5%**	**$14,942,868**	**2.6%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$394,205	$0	$394,205	---	$0	---
Other Transfers Out	$181,696	$0	$181,696	---	$31,985	468.1%
Total Transfers Out	$575,901	$0	$575,901	---	$31,985	1700.5%
TOTAL GRF USES	**$15,912,301**	**$15,724,160**	**$188,141**	**1.2%**	**$14,974,853**	**6.3%**

(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.

we have noted in previous reports, the Department of Job and Family Services (JFS) has stated that this spending category has not grown as fast as anticipated in the Covered Families and Children (CFC) program.

The Nursing Facilities Payments category is now $91.8 million (5.6%) below estimate for the year with spending through January coming in at over $1.5 billion. A new direct billing system for nursing home facilities is in the process of being implemented, but not every nursing home facility has implemented it. For those facilities that have not implemented the new system, the reimbursement rate is lower than last year's. JFS is investigating the variance and is unsure when or

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

Service Category	January Actual	January Estimate	January Variance	January Percent Variance	Year-to-Date Spending Actual thru Jan.	Year-to-Date Spending Estimate thru Jan.	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Facilities Payments	$219,143	$236,715	($17,572)	-7.4%	$1,548,353	$1,640,132	($91,779)	-5.6%
ICF/MR Payments	$44,307	$44,585	($278)	-0.6%	$299,805	$300,933	($1,128)	-0.4%
Inpatient Hospitals	$139,352	$119,310	$20,042	16.8%	$915,783	$874,293	$41,490	4.7%
Outpatient Hospitals	$57,327	$57,001	$326	0.6%	$402,865	$396,849	$6,016	1.5%
Physicians	$64,798	$50,931	$13,867	27.2%	$379,768	$371,526	$8,242	2.2%
Prescription Drugs	$166,958	$134,873	$32,085	23.8%	$1,189,824	$1,228,811	($38,987)	-3.2%
ODJFS Waiver	$21,725	$21,690	$35	0.2%	$134,154	$131,228	$2,926	2.2%
HMO	$126,071	$137,678	($11,607)	-8.4%	$752,183	$853,246	($101,063)	-11.8%
Medicare Buy-In	$21,318	$21,040	$278	N/A	$128,890	$127,251	$1,639	1.3%
Home Health	$17,342	$14,749	$2,593	17.6%	$104,965	$98,763	$6,202	6.3%
Dental	$11,452	$9,064	$2,388	26.3%	$77,662	$72,134	$5,528	7.7%
Hospice	$11,364	$12,725	($1,361)	-10.7%	$72,255	$80,670	($8,415)	-10.4%
All Other	$53,815	$52,229	$1,586	3.0%	$350,228	$338,909	$11,319	3.3%
Total Medicaid Payments	**$954,972**	**$912,590**	**$42,382**	**4.6%**	**$6,356,735**	**$6,514,745**	**($158,010)**	**-2.4%**
Medicare Part D	$0	$25,539	($25,539)	100.0%	$0	$25,539	($25,539)	100.0%
DA Medical	$4,097	$3,088	$1,009	32.7%	$29,733	$24,624	$5,109	20.7%
Drug Rebates Offsets	($86,064)	($86,561)	$497	-0.6%	($348,531)	($347,813)	($718)	0.2%
ICF/MR Franchise Fee Offsets	($1,001)	($1,630)	$629	-38.6%	($13,941)	($11,667)	($2,274)	19.5%
NF Franchise Fee Offsets	($45,028)	($53,409)	$8,381	-15.7%	($87,363)	($127,610)	$40,247	-31.5%
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)	**$826,976**	**$799,617**	**$27,359**	**3.4%**	**$5,936,633**	**$6,077,818**	**($141,185)**	**-2.3%**
Est. Federal Share	$495,632	$479,235	$16,397		$3,558,008	$3,642,624	($84,617)	
Est. State Share	$331,344	$320,382	$10,962		$2,378,625	$2,435,194	($56,568)	

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.

whether the variance in this service category will be reduced. The NF Franchise Fee Offset category is $40.2 million below the estimate (31.5%) for the year to date.

Another significant contributor to the year-to-date variance is the Prescription Drugs category, which is $39.0 million (3.2%) below estimate with spending of almost $1.2 billion through January. 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.

Disbursements in the Inpatient Hospitals service category are running $41.5 million above the year-to-date estimate. This overage is related to the lower than anticipated enrollment in managed care.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs were $4.1 million (6.7%) under the January estimate. For the year to date, disbursements in this subcategory now stand at $54.7 million (13.4%) under the estimate. The largest contributor to the year-to-date variance is line item 600-521, Entitlement Administration-Local, which is under estimate by $28.2 million for the year to date. Through the Entitlement Administration-Local 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 partly

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 Jan. '06	FY 2005 Yr.-to-Date as of Jan. '05	Dollar Change	Percent Increase
Nursing Facilities Payments	$1,548,353	$1,600,036	($51,683)	-3.2%
ICF/MR Payments	$299,805	$261,711	$38,094	14.6%
Inpatient Hospitals	$915,783	$810,394	$105,389	13.0%
Outpatient Hospitals	$402,865	$374,801	$28,064	7.5%
Physicians	$379,768	$361,952	$17,816	4.9%
Prescription Drugs	$1,189,824	$1,167,385	$22,439	1.9%
ODJFS Waiver	$134,154	$130,585	$3,569	2.7%
HMO	$752,183	$610,774	$141,409	23.2%
Medicare Buy-In	$128,890	$105,389	$23,501	22.3%
All Other*	$605,110	$554,786	$50,324	9.1%
Total Medicaid Payments	**$6,356,735**	**$5,977,813**	**$378,922**	**6.3%**
DA Medical	$29,733	$46,058	($16,325)	-35.4%
Drug Rebates Offsets	($348,531)	($275,114)	($73,417)	26.7%
ICF/MR Franchise Fee Offsets	($13,941)	($10,121)	($3,820)	37.7%
NF Franchise Fee Offsets	($87,363)	($61,575)	($25,788)	41.9%
DSH Rebate Offsets	$0	($4,785)	$4,785	**-100.0%**
Total Health Care (Net of Offsets)	**$5,936,633**	**$5,672,276**	**$264,357**	**4.7%**
Est. Federal Share	$3,558,008	$3,399,570	$158,437	
Est. State Share	$2,378,625	$2,272,706	$105,920	

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, 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.

due to the timing of county requests for funds, and perhaps also due to an unexpected change in the mix of the county administrative activities. LSC will be looking into this matter in the coming months.

Line item 600-416, Computer Projects, is now $10.1 million under the estimate for the year to date. The bulk of the variance is the result of $5.8 million of encumbered 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 (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 $6.0 million in January and now stand at $22.6 million (11.1%) under estimate for the year to date. This year-to-date variance is fully traceable to underspending from line item 600-410. County advances for the last two months have been lower than anticipated. Disbursements from TANF federal funds (Fund 3V6) through January totaled

$391.2 million (40.7%) out of an appropriation of $960.3 million. At the same point in FY 2005, disbursements from Fund 3V6 totaled $366.4 million.

The TANF caseload in January was 180,995 recipients, down by nearly 4,000 from December. In January there were 83,046 assistance groups.

Mental Health. January disbursements by the Department of Mental Health were under the estimate by $3.8 million (5.6%), which pushed the year-to-date disbursement variance to $15.7 million (4.3%) under the estimate. The bulk of the year-to-date variance ($10.2 million) is traceable to line item 334-408, Community and Hospital Mental Health Services. This line item is used to support hospital payroll for the delivery of mental health services and also for the community mental health boards. Variances in disbursements from the line item are timing-based and are expected to even out by the end of the fiscal year.

Mental Retardation and Developmental Disabilities. For the year to date, outlays by the Department of Mental Retardation and Developmental Disabilities are over the estimate by $12.7 million. Spending in line item 322-416, Waiver State Match, is over the estimate by $17.2 million. Line item 322-416 funds the GRF share of two home and community-based Medicaid waivers: the Individual Options Waiver and the Residential Facilities Waiver. The variance is a timing issue related to when providers submit bills for their services.

Government Operations (-$82.9 million)

In January, outlays in the Government Operations category were $11.7 million (4.4%) over the estimate for the month, reducing the year-to-date variance to $82.9 million (4.8%) below the estimate.

Corrections. The largest single source of the year-to-date variance in this category is the Department of Rehabilitation and Correction, with a variance of $58.6 million under the estimate, which is down by $8.5 million from 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. Many of these positions have now been filled or are in the process of being filled. This is reflected in the disbursements over the estimate for January. Another reason for the underspending 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. This situation has now reversed and medical expenditures are now near the estimate. Another contributing factor was a debt service payment that was lower than expected by $10.0 million.

Development. The Department of Development's disbursement activity in January produced a variance of $2.3 million under the estimate for the month, and pushed the year-to-date variance to $12.2 million under the estimate. Among the largest contributors to the year-to-date variance are line item 195-412, Business Development Grants ($4.3 million under the estimate), and line item 195-434, Ohio Investment in Training Program ($3.0 million under the estimate). Both of these variances may be the result of a lull in the business climate, which could impact the pace of business investments.

Education (-$78.3 million)

In January, disbursements in the Education category were $4.3 million (0.6%) over the estimate for the month. The January variance reflects offsetting variances of $13.2 million over the estimate posted by the Board of Regents and $8.6 million under the estimate posted by the Department of Education. For the year to date, outlays in this category are $78.3 million (1.4%) under the estimate, with the Board of Regents' $11.9 million of overspending partially offsetting the $91.3 million of underspending in the Department of Education.

Department of Education. January disbursements by the Department of Education were $8.6 million (1.6%) under the estimate. For the year to date, the Department's disbursements stand at $91.3 million (2.3%) under the estimate, with total GRF disbursements so far in FY 2006 at just under $4.0 billion.

The only variance of note from the estimate for January was the result of a payment from line item 200-503, Bus Purchase Allowance, not posting in January as expected. The payment was delayed due to a late audit and is now expected to occur in March. Variances in disbursements for the year to date in the Department of Education continue to have a couple of standouts: line item 200-550, Foundation Funding ($34.6 million under estimate), and line item 200-437, Student Assessment ($13.7 million under estimate). The variance for line item 200-550 is relatively small (1.1%) in comparison to the total estimate for the year to date; this line item typically has variances as data are collected and updated throughout the year. The variance for line item 200-437, however, is relatively large (59.6%) in comparison to the estimate. Invoices are not coming in as expected for this line item. But it is not yet clear to LSC if this is merely a timing issue or if, instead, the estimate was too high.

Board of Regents. As noted above, disbursements from the Board of Regents' line items are over the estimate by $11.9 million for the year to date. This variance is traceable to a variance of $21.6 million in line item 235-503, Ohio Instructional Grants, and several smaller offsetting variances. 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. As reported in previous months, the overage is due to higher than expected enrollments in FY 2005 and the exhaustion of last year's appropriation for this purpose. Some payments from the FY 2006 appropriation have been used to support not only current year grants but also grants from FY 2005. The Board of Regents is developing a plan to replace these FY 2006 funds.

Tax Relief ($11.9 million)

Through January, total Tax Relief payments have totaled $742.3 million, which is $11.9 million (1.6%) above the estimate. January's disbursements of $22.7 million were double the estimate of $11.4 million. Since January is typically a slow month for tax relief payments, the estimate for January was for a small disbursement relative to the size of the program. But the percentage comparison of the variance to the estimate appears large (100.3%). Disbursement variances in the Property Tax Relief program are usually traceable to the timing of county auditor requests for reimbursement.

The Property Tax Relief program, which carries an FY 2006 GRF appropriation of $1,255.9 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," 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, David Price, Wendy Risner, Joe Rogers, Ronnie Romito, Maria Seaman, and Kerry Sullivan.*

[1] Disbursements plus transfers out total $15,912.3 million for the year to date. Major items included in transfers out are 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).