

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JUNE 2006

FISCAL OVERVIEW

— Allan Lundell

Total General Revenue Fund (GRF) receipts for May were above estimate by \$301 million and GRF program disbursements for the month were above estimate by \$54 million. Through the first 11 months of FY 2006, total GRF receipts are \$268 million above estimate, program disbursements are \$583 million below estimate, and the cash balance remains above its expected level.¹

Tracking the Economy

The national economy continues to expand, but the pace of expansion appears to be slowing. Total nonfarm payroll employment nationwide rose 75,000 in May, the smallest increase since last October following hurricane disruptions. Unemployment edged down from 4.7% to 4.6% of the labor force, the lowest rate in nearly five years. Industrial production fell 0.1% in May, following a sharp 0.8% rise in April. Manufacturing output also fell 0.1% in May, after a sizable gain in April, to 4.9% above a year earlier. Retail sales rose only 0.1% in May, following an upward-revised 0.8% increase in April and a 0.7% increase in March. The latest month's sales were 7.6% above a year earlier. The consumer price index rose 0.4% in May to 4.2% above a year earlier.

Receipts

Total GRF receipts for May were above estimate by \$301 million (11.3%). State-source receipts were \$387 million (17.5%) above estimate and federal grants were below estimate by \$87 million (19.0%). Tax revenues were above estimate by \$356 million (16.4%). Personal income tax revenue was above estimate by \$314 million (34.4%) and corporate franchise tax revenue was \$43 million (22.7%) above estimate. Cigarette tax revenue was above estimate by \$34 million (26.7%) and revenue from the public utility excise tax was above estimate by \$14 million (24.6%). Nonauto sales tax revenue was \$33 million (6.1%) below estimate and auto sales tax revenue was \$6 million (7.2%) below estimate. Revenue from the domestic insurance tax was below estimate by \$14 million (9.2%).

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- Tracking the Economy 195
- The economic uptrend appears to be continuing nationwide, though some measures fell in the latest month
 - Inflation reports show modest acceleration at the finished goods and services level
 - Ohio employment has risen since February

STATUS OF THE GRF

- Revenue 201
- Income tax revenue bounces back
 - Sales tax revenue continues to disappoint
 - Cigarette tax revenue above estimate for eighth consecutive month
- Disbursements 210
- Total GRF program disbursements lag year-to-date estimates by \$583.2 million
 - Medicaid spending now \$277.2 million under estimate for the year to date
 - Total Welfare and Human Services disbursements now \$375 million under estimate for the year to date

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

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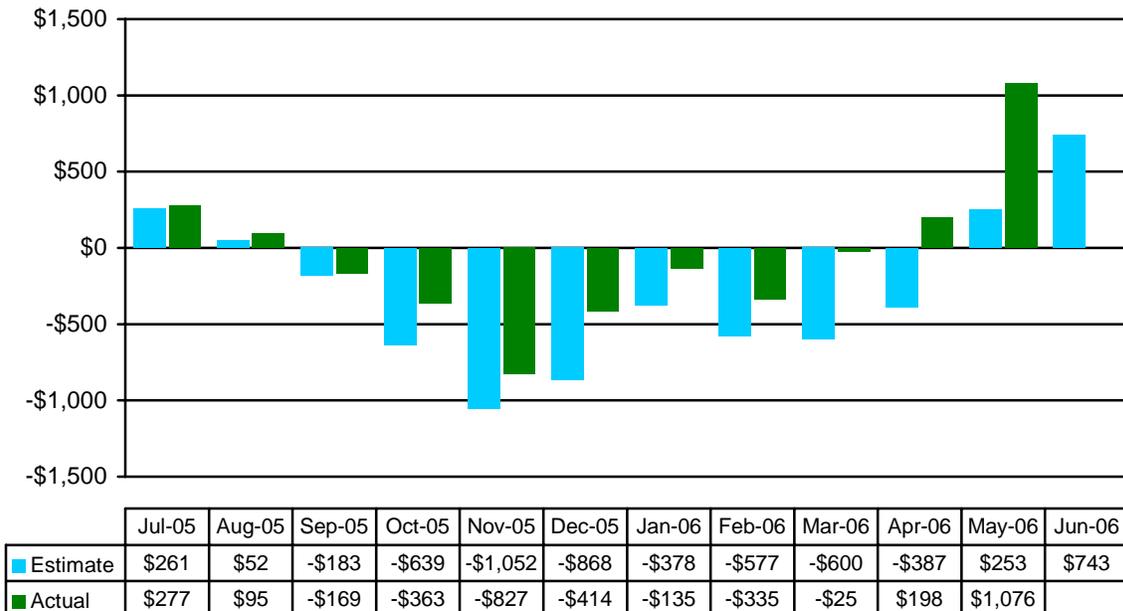
Table 1
General Revenue Fund
Simplified Cash Statement
 (\$ in millions)

	Month of May	Fiscal Year 2006 to Date	Last Year	Difference
Beginning Cash Balance	\$197.8	\$1,209.2		
Plus Revenue and Transfers In	\$2,965.3	\$23,651.9		
Available Resources	\$3,163.1	\$24,861.1		
Less Disbursements and Transfers Out	\$2,087.5	\$23,785.5		
Ending Cash Balances	\$1,075.6	\$1,075.6	\$450.8	\$624.8
Less Encumbrances and Accts. Payable		\$402.5	\$312.8	\$89.8
Unobligated Balance		\$673.1	\$138.0	\$535.1
Plus BSF Balance		\$576.6	\$180.7	\$395.9
Combined GRF and BSF Balance		\$1,249.7	\$318.7	\$931.0

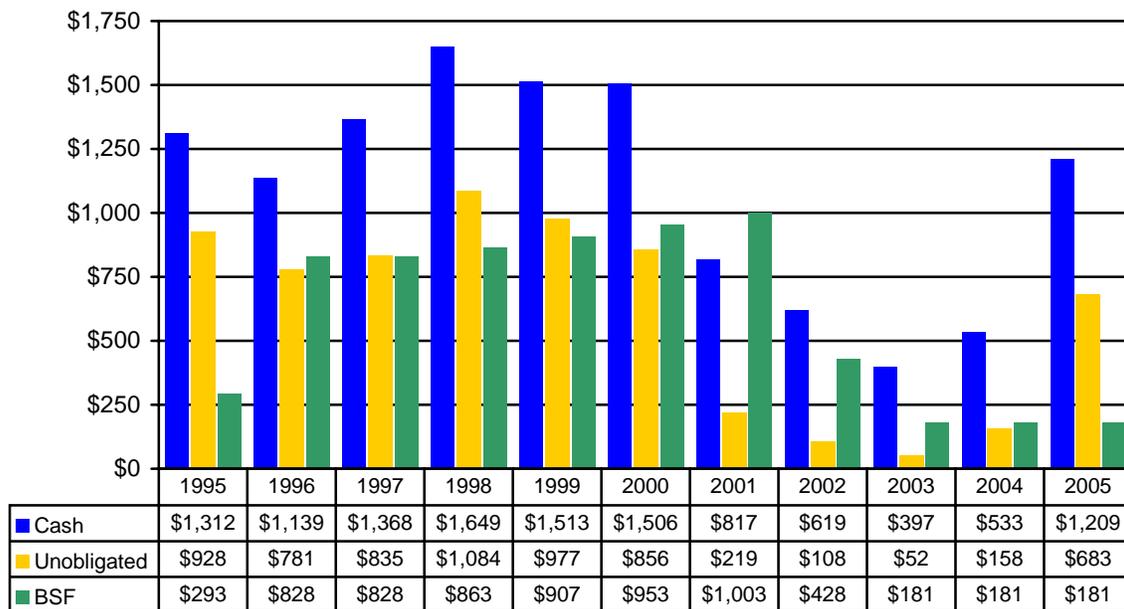
Fiscal year-to-date GRF receipts are \$268 million (1.1%) above estimate. State-source receipts are \$459 million (2.5%) above estimate and federal grants are below estimate by \$191 million (3.6%). Tax revenues are \$360 million (2.0%) above estimate. Personal income tax revenue is above estimate by \$221 million (2.8%). Corporate franchise tax

revenue is above estimate by \$140 million (15.9%), revenue from the cigarette tax is above estimate by \$60 million (6.5%), and revenue from the commercial activity tax is above estimate by \$38 million (26.8%). Revenue from the public utility excise tax is above estimate by \$24 million (15.9%) and revenue from the kilowatt-hour excise tax is above estimate by \$16 million (5.2%).

Estimated and Actual Ending Cash Balances
 (in millions)



Fiscal Year-End Balances
(in millions)



Nonauto sales tax revenue is below estimate by \$93 million (1.6%) and auto sales tax revenue is below estimate by \$34 million (3.8%). Compared to the same point in FY 2005, GRF receipts are up 3.2%. State-source receipts are up 3.9%, federal grants are up 0.4%, and tax revenues are up 3.1%.

Disbursements

Program disbursements for May were above estimate by \$54 million (2.7%). Health care/Medicaid disbursements were \$17 million (2.2%) above estimate, disbursements for primary and secondary education were \$15 million (2.8%) above estimate, and disbursements for human services were above estimate by \$15 million (15.2%). Disbursements for property tax relief were above estimate by \$11 million (6.9%). Disbursements for justice and corrections were above estimate by \$6 million (4.8%).

GRF program disbursements for the fiscal year to date are \$583 million (2.5%) below estimate. Health care/Medicaid disbursements are \$277 million (3.1%) below estimate, disbursements for primary and secondary education are \$67 million (1.1%) below estimate, and disbursements for justice and corrections are below estimate by \$46 million (2.5%).

Disbursements for higher education are above estimate by \$26 million (1.2%). Disbursements for property tax relief are below estimate by \$57 million (4.8%). Compared to the same point in FY 2005, GRF program disbursements are up 1.0%.

Cash Balance

As shown in Table 1, the GRF began May with a \$198 million cash balance. Monthly revenues plus transfers in totaled \$2,965 million and disbursements plus transfers out totaled \$2,087 million. The monthly surplus of \$878 million raised the cash balance to \$1,076 million.² If receipts and disbursements had equaled their estimates for the fiscal year, the cash balance would have been \$253 million, \$823 million lower than the actual level. The accompanying chart, Estimated and Actual Ending Cash Balances, 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 has tracked higher (less negative) than the estimate throughout the fiscal year, turned positive a month earlier than expected, and is on track to finish FY 2006 at the highest level since FY 2000.

Encumbrances and accounts payable of \$403 million combine with the cash balance to yield an unobligated balance of \$673 million. This amount is \$535 million higher 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 \$1,250 million is \$931 million higher 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 \$23,652 million and disbursements plus transfers out total \$23,786 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 \$134 million reduces the cash balance to \$1,076 million.

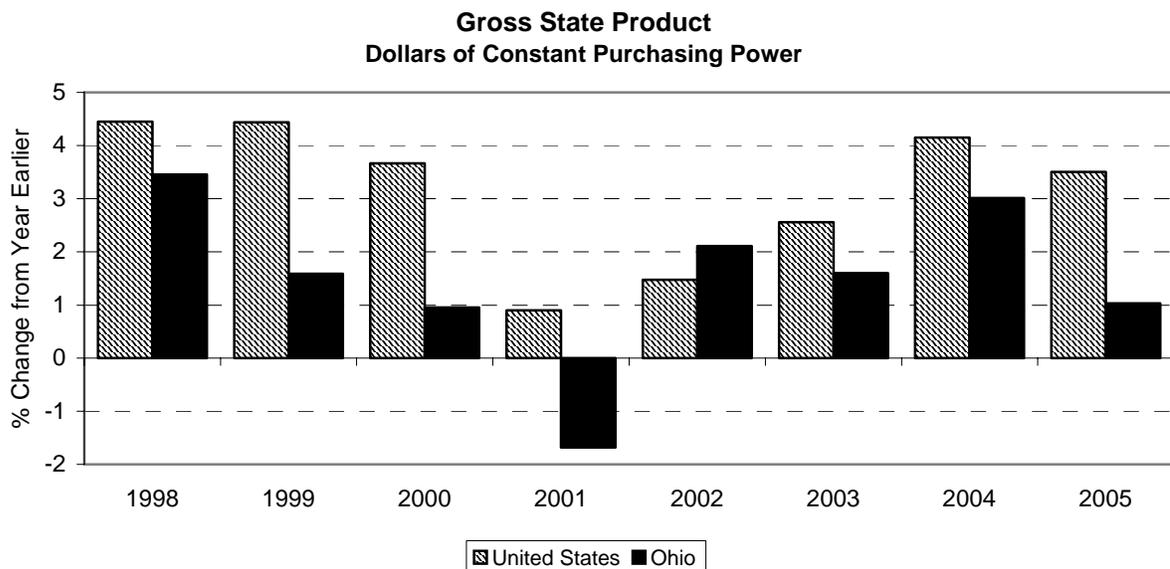
TRACKING THE ECONOMY

—Phil Cummins

Reports over the past few weeks show slower expansion or one-month declines in some measures of economic activity, and inflation running somewhat higher than last year. Small increases were reported in nationwide nonfarm payroll employment and retail sales in May. Small declines were reported in industrial production in May and in construction spending in April. Other sources including purchasing managers are seeing continued but generally slower growth. Ohio employment has risen during the most recent three months, and the statewide unemployment rate has remained lower than last year. Consumer price inflation is somewhat higher than last year, mainly but not entirely due to higher energy prices. Selling in world equity and commodity markets pushed prices lower during the past month, following price run-ups in earlier months. Concerns about rising interest rates and resulting slower economic growth, in the United States and elsewhere, were viewed as contributing to the sell-off. Stock indices have since recovered part of the declines of the prior few weeks. Somewhat higher short-term interest rates appear likely as the central bank responds to evidence of increased business pass-through of higher costs to finished goods and services prices.

Inflation-adjusted gross domestic product rose at a 5.3% annual rate in this year's first quarter, revised upward from 4.8% initially reported. Continued but slower economic growth appears likely for the rest of this year, as residential investment slows. High energy prices and rising interest rates are taking a toll on household spending. Business investment continues strong, supported by healthy cash flows. The initial estimate by the United States Bureau of Economic Analysis (BEA) of first quarter corporate profits from current production was 24% higher than a year earlier, following increases in profits of 16% for all of 2005 and 13% in 2004.¹

Newly released gross state product (GSP) estimates for 2005 show that Ohio's economy expanded 1.0% last year, measured in dollars of constant purchasing power, compared with a 3.5% increase nationwide. Growth in Ohio's GSP last year ranked 47th among the 50 states; GSP growth was weaker only in Louisiana (-1.6%), Michigan (+0.1%), and Alaska (+0.6%). States with the strongest GSP growth last year were mostly in the West but also included Florida (+7.8%) and Virginia (+5.6%). BEA's estimate of Ohio's growth in 2004 was revised upward



from 2.6% to 3.0% but still trailed the nation with 4.2% growth. Industry detail was not released for 2005, but the general shortfall in this state's economic performance in 2004 and 2003 reflected weaker growth of services as well as goods production. Ohio's economy remains more heavily concentrated in manufacturing than that of the nation, with value added in the state's factories accounting for about 20% of total GSP in 2004 versus 12% for the country as a whole.

Employment Growth Slows

Total nonfarm payroll employment nationwide rose 75,000 in May, the smallest increase since last October following hurricane disruptions. Unemployment edged down from 4.7% to 4.6% of the labor force, the lowest rate in nearly five years. As in most recent months, gains in employment were mainly in service industries. Manufacturing employment fell after rising in April. Jobs in residential building fell slightly in May while those in nonresidential construction registered a small increase. Year-over-year growth of employment in residential construction has slowed from 8% in 2004 and early 2005 to 3% in the latest period, while that in nonresidential construction has trended upward to 4%.

Ohio nonfarm payroll employment was virtually unchanged (up 200) in May after increasing 20,200 in April and 6,000 in March. This 0.5% increase in the latest three months outpaced the

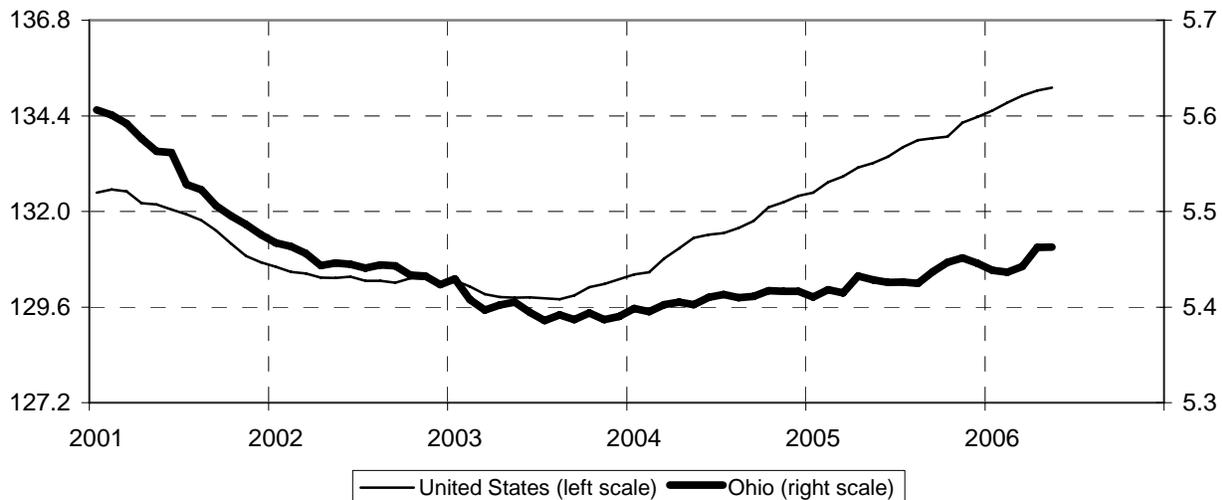
rise in nationwide employment (+0.3%) during the same period but followed a decline of about 15,000 employees in Ohio during the previous three months. Gains in the latest month were in various services. Factory jobs fell 2,500 to the lowest level in many years, possibly since 1940 (data are not directly comparable). Ohio's statewide unemployment declined to 5.3% of the labor force in May from 5.5% in April. The recent low was 5.0% in March, but in 2003 through 2005 the state's unemployment rate remained higher, ranging from 5.8% to 6.4%.

A survey of hiring plans, conducted by Manpower Inc. since 1962, found that for the 2006 third quarter employers in this country expect no change in the pace of hiring. In the Midwest, the pace of hiring is also expected to be about unchanged overall from the second quarter and a year earlier. However, in comparisons of the four regions of the country, hiring plans are weakest in the Midwest. Industries in the Midwest with the strongest pace of anticipated hiring include durable goods manufacturing, services, nondurable goods manufacturing, and wholesale and retail trade.

Industrial Production Down in May; Other Reports Show Continued but Slower Expansion

Industrial production fell 0.1% in May, following a sharp 0.8% rise in April. Manufacturing output also fell 0.1% in May, after

Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



a sizable gain in April, to 4.9% above a year earlier. Production of motor vehicles, machinery, and some other industries declined last month, while output of primary metals, computer and electronic products, and some others rose. Total mining output fell as a result of reduced production of stone, sand, and gravel, and despite increased output of oil and gas and of coal. Utility output rose. Increases in manufacturers' orders and backlogs through April point to continued expansion in factory production, particularly in capital goods output.

The nation's purchasing managers, in surveys by the Institute for Supply Management, reported continued but slower expansion in activity at their organizations in May and more rapid inflation. Manufacturing production, orders, order backlogs, and employment continued to increase last month, but reports of growth were not as widespread as earlier this year. Increases in prices paid for factory inputs were the most widespread since last October, when supply chains were still disrupted by the impact of last year's hurricanes. Commodities up in price included metals, fuels and transport, packaging materials, chemicals, and others. Similarly, purchasing managers with nonmanufacturing organizations saw continued but less widespread increases in business activity, orders, and backlogs. Raw material and fuel price increases were most widespread since last September. Commodities in short supply included some metals, construction materials, and tires.

The "Beige Book," a compilation of comments on business conditions received by Federal Reserve banks from outside contacts, reported continued but slower growth of economic activity, with consumer spending growing more slowly and residential real estate markets continuing to cool. In contrast, commercial real estate markets were steady or tightened in most areas, with office vacancy rates lower and rents higher. Construction of commercial space was higher in some areas, but in others escalating materials costs resulted in delays or redesign of projects. Manufacturing activity continued to expand, but with more reports of softening than in the previous Beige Book. Labor markets continued to tighten, with pay levels rising for some skills in short supply.

In the Cleveland Federal Reserve District, which includes Ohio, economic expansion continued, with production of most manufacturers steady to higher and retail sales greater than expected. Residential building is down while commercial construction continues to strengthen. More firms planned to hire, but apart from a few areas no upward pressure on wages was reported.

Consumer Spending Growth Slows in May

Retail sales rose only 0.1% in May, following an upward-revised 0.8% increase in April and a 0.7% increase in March. The latest month's sales were 7.6% above a year earlier. Excluding motor vehicles and parts, often variable from month to month in response to changes in sales incentive programs, retail sales rose 0.5% last month to 9.1% higher than the year-ago level. The April-May average is up from the first quarter at the slowest rate in nearly two years. This slower growth trend in the latest few months may be a response by consumers to the effects on their budgets of high gasoline and other energy prices and to slower housing price appreciation. Sales fell in May at motor vehicle dealers, furniture and home furnishings stores, and building materials dealers. Unit new car and light truck sales slowed by 6% last month. Gasoline dealer sales registered another large increase, probably due mainly to higher fuel prices, and nonstore retailers (catalog and Internet) reported a large rise.

Nonresidential Construction Growing Faster than Residential Building

Construction spending fell 0.1% in April, seasonally adjusted, after growing in earlier months of 2006. The year-to-date value of new construction put in place was 9% higher than a year earlier, with private residential building 8% higher and private nonresidential construction up by 11%. In each of the previous three years, private residential building rose more than 10%, while private nonresidential construction rose 5% in 2005 and 4% in 2004 and shrank in 2001 through 2003. Public construction in this year's first four months was 10% above its year-earlier level, after increasing 8% in all of 2005 and only 3% to 5% in the prior three years. These figures

are all in current dollars, not adjusted for inflation. Tightness in markets for construction materials has been pushing up building costs.

The number of new homes sold nationwide rose in April, seasonally adjusted, but remained below last year's sales rate. For the first four months of 2006, sales of new homes were 11% below a year earlier in the nation and 12% lower in the Midwest. Slower sales are resulting in a buildup of units waiting to be sold. The inventory of new homes for sale at the end of April that were either completed or under construction was 23% higher nationwide than a year earlier. Sales of used homes, reported by the National Association of Realtors, slipped in April and remained below last year's pace. Year-to-date sales were 4% lower than a year earlier nationwide and 1% lower in the Midwest. The inventory of units listed for sale nationwide at the end of April was 37% higher than a year ago. Unit sales reported by the Ohio Association of Realtors, for the first four months of 2006, were 3% higher than a year earlier after growth averaging twice that high in the preceding five years. Average prices in Ohio for multiple listing service sales closed so far this year were 1% below the year-earlier level; price increases in the previous five years averaged 3%.

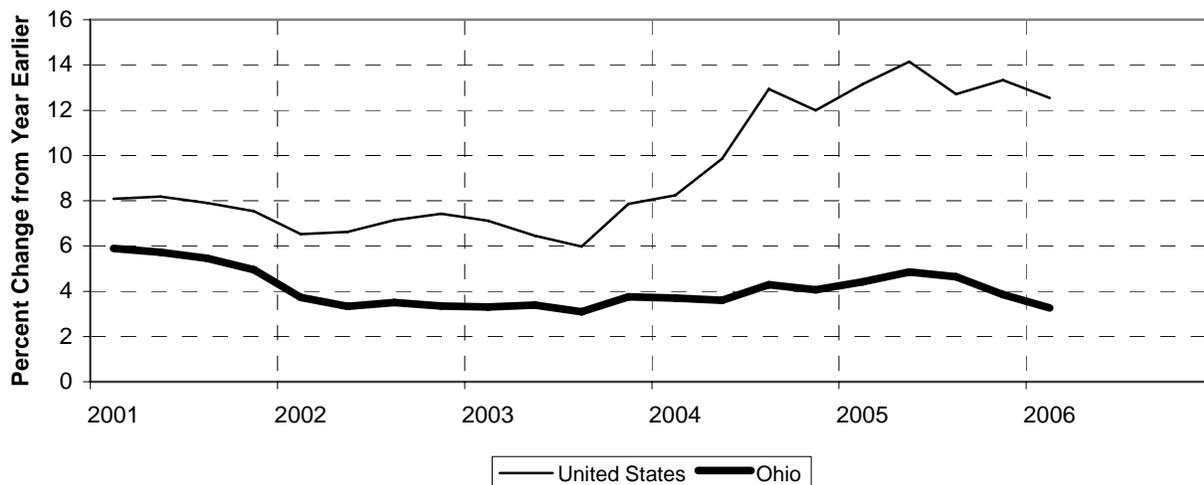
Prices of homes nationwide rose 2% from the fourth quarter of 2005 to the first quarter of 2006, and were 13% higher than a year earlier, as

measured by an index constructed by the Office of Federal Housing Enterprise Oversight (OFHEO). The first quarter housing price appreciation was the smallest in two years. In Ohio, the OFHEO index of housing prices rose less than 1% in this year's first quarter, to 3% above a year earlier. The rise in Ohio housing prices in the latest year was the second smallest among the 50 states; only Michigan housing prices were up by less. In the latest quarter, however, prices fell in Iowa and South Dakota, the first statewide quarterly declines since 2002. The OFHEO housing price index, illustrated by the chart in this article, is calculated from values reported for repeat sales or refinancings of millions of homes. By tracking price changes for the same homes in repeat transactions, this index mitigates reported price changes resulting from shifts in the mix of homes sold among units in different price ranges, as occurs with an average price for all homes sold.

Upturn in Inflation

The producer price index for finished goods rose 0.2% in May to 4.5% above a year earlier. Excluding food and energy, producer prices rose 0.3% to 1.5% above last year; 1.3% of this increase, over a 3% annual rate, has occurred this year. At earlier stages in the production process, prices continued to rise rapidly. Intermediate materials prices rose 1.1% in May to 8.9% above a year earlier. Crude goods prices rose 2% to

Housing Prices



8.6% higher than a year ago. Prices for crude nonfood materials excluding energy in May were 27% higher than a year earlier.

The consumer price index rose 0.4% in May to 4.2% above a year earlier. Excluding a large increase in energy prices, mostly reflecting another increase in the retail cost of gasoline, and also excluding prices for food, consumer prices rose 0.3% in May to 2.4% above a year earlier. During the first five months of 2006, consumer prices excluding food and energy increased at a 3.1% seasonally adjusted annual rate, up from 2.2% in all of 2005. Prices in Ohio for gasoline have risen back near their peaks reached last September, when the price of regular conventional gasoline rose to a little over \$3 per gallon, according to Energy Information Administration data.

Estimated productivity gains at businesses continue to hold down increases in the cost of the labor needed to produce each unit of goods and services on average, tending to boost profitability as well as restrain inflation. In the first quarter of 2006, nonfarm business output per labor hour, or labor productivity, rose at a 3.7% annual rate, following a 2.7% increase in all of 2005 and more than 3% in each of the previous three years. Total labor compensation, benefits as well as wages and salaries, rose at a 5.3% annual rate in the first quarter, up from 5.1% in 2005 and smaller increases during the prior four years. Compensation gains outpaced increases in productivity in the first quarter, resulting in an increase in estimated unit labor costs at a 1.6% annual rate, after a 2.3% rise in 2005 and smaller increases or declines during 2001 through 2004.

Short-Term Interest Rates Likely Headed Higher

The nation's central bank appears likely to raise its target short-term interest rate again in response to the upturn in inflation. At each of the past 16 meetings of its Federal Open Market Committee (FOMC), the bank has decided to increase the target for federal funds (overnight loans between banks) by one-quarter percentage point, resulting

in a cumulative increase in this interest rate during the past two years from 1% to 5%. Since the most recent FOMC meeting, on May 10, FOMC members have given speeches that, among other points, focused attention on the need to contain inflation. Federal Reserve Chairman Bernanke, for example, in June 5 remarks said "core inflation...has reached a level that, if sustained, would be at or above the upper end of the range that many economists, including myself, would consider consistent with price stability and the promotion of maximum long-run growth." This acceptable range is widely thought to be 1% to 2% annual increases in the consumer price index excluding prices for food and energy or alternatively in the price index for personal consumption expenditures excluding food and energy. The former, as noted above, rose in the first five months of this year at over a 3% annual rate. The latter rose in this year's first four months at a 2.6% annual rate.

Subsequently, on June 15 Chairman Bernanke noted that over the past quarter century "central banks have worked hard to bring inflation and expectations of inflation down. An important benefit of these efforts is that the second-round inflation effect of a given increase in energy prices has been much reduced." The second-round inflation effect refers to the pass-through of higher energy prices to other goods and services and to wages. He also said that "expectations measures have remained within the ranges in which they have fluctuated in recent years" and "these developments bear watching," comments evidently viewed by financial markets as less indicative than earlier remarks of a determination to raise interest rates aggressively. Nevertheless, in balancing this year's uptick in inflation against slower economic expansion, the FOMC appears likely to view the rise in inflation as sufficient reason to raise its federal funds target at its next meeting on June 28 and 29, and possibly also at the meeting scheduled for August 8, depending on developments in the interim.

Longer term interest rates have retreated in recent weeks after rising to peaks in May. The yield on the ten-year United States Treasury note

fell from around 5.2%, a four-year high, in mid-May to below 5% in June before rising back above that level. Declines in yields on longer term Treasury notes and bonds appeared to reflect at least in part flight-to-quality buying, as funds were shifted out of riskier equity and commodity

markets. Corporate and municipal bond yields also fell. The nationwide average 30-year fixed-rate mortgage interest rate rose to a four-year high of 6.67% in early June before falling back slightly to 6.63% at midmonth.²

¹ Corporate profits as used here, from the national income and product accounts, are sometimes referred to as profits from current production or economic profits, with inventories adjusted to a last-in-first-out basis, and depreciation adjusted to approximate the patterns of decline in value, at current replacement cost, over estimated useful lives of equipment and structures.

² FHLMC weekly survey.

Status of the General Revenue Fund

REVENUE

— Jean Botomogno and Allan Lundell

Total General Revenue Fund (GRF) receipts for May were above estimate by \$300.6 million (11.3%).¹ State-source receipts (tax revenues plus nontax revenues plus transfers in) were \$387.2 million (17.5%) above estimate and federal grants were below estimate by \$86.6 million (19.0%).² Tax revenues were above estimate by \$356.3 million (16.4%). Personal income tax revenue was above estimate by \$313.6 million (34.4%) as the April shortfall was offset by a May surplus. Corporate franchise tax revenue was \$42.7 million (22.7%) above estimate. Cigarette tax revenue was above estimate by \$33.9 million (26.7%) and revenue from the public utility excise tax was above estimate by \$14.3 million (24.6%). Nonauto sales tax revenue was \$33.3 million (6.1%) below estimate and auto sales tax revenue was \$6.5 million (7.2%) below estimate. Revenue from the domestic insurance tax was below estimate by \$13.7 million (9.2%).

Through the first 11 months of FY 2006, total GRF receipts were above estimate by \$268.5 million (1.1%). State-source receipts were above estimate by \$459.2 million (2.5%) and federal grants were below estimate by \$190.7 million (3.6%). Tax revenues were above estimate by \$360.4 million (2.0%). Personal income tax revenue was above estimate by \$220.8 million (2.8%) and revenue from the corporate franchise tax was above estimate by \$140.2 million (15.9%). Revenue from the cigarette tax was above estimate by \$60.1 million (6.5%), and revenue from the commercial activity tax was above estimate by \$38.5 million (26.8%). Revenue from the public utility excise tax was above estimate by \$23.8 million (15.9%) and revenue from the kilowatt-hour tax was above estimate by \$15.5 million (5.2%). Nonauto sales tax revenue was below estimate by \$93.1 million

(1.6%) and auto sales tax revenue was \$33.7 million (3.8%) below estimate.

For the fiscal year to date, total GRF receipts are up 3.2% compared to FY 2005. State-source receipts are up 3.9% and federal grants are up 0.4%. Tax revenues are up 3.1%. Revenue from the corporate franchise tax is up 4.4%, personal income tax revenue is up 2.9%, and cigarette tax revenue is up 95.5%. 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 5.1% and auto sales tax revenue is down 12.5%. Revenues from the sales and use tax have been affected by the 8.33% decrease in the sales tax rate from 6.0% to 5.5% and by the effect of higher gasoline prices on spending on taxable goods and services.

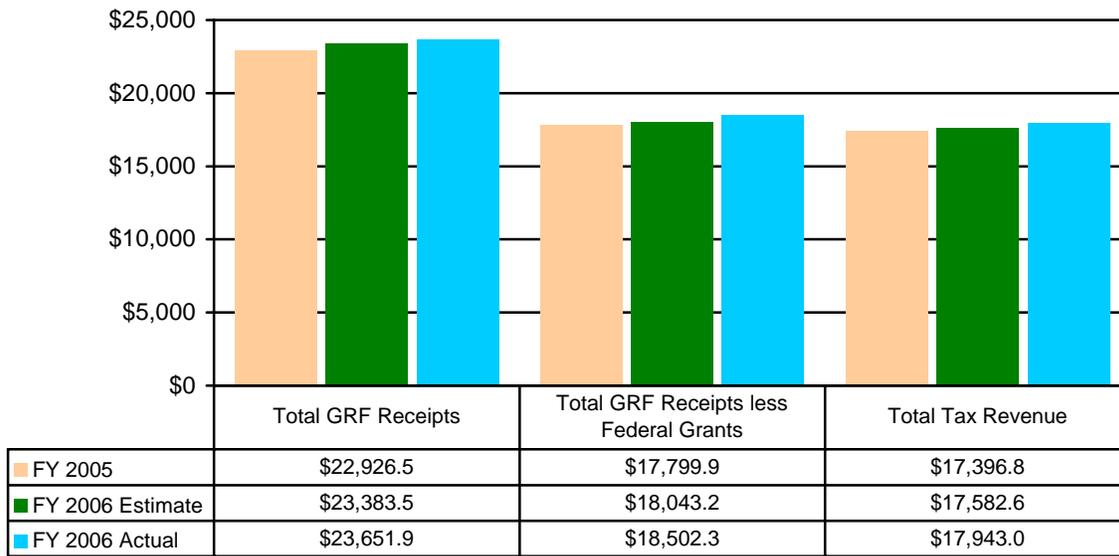
Personal Income Tax

The GRF received \$1,224.6 million from the personal income tax in May, \$313.6 million (34.4%) more than estimated. As expected, the April shortfall was offset by a May surplus. Gross collections of \$1,403.7 million were above estimate by \$340.4 million (32.0%) and refunds of \$142.8 million were \$27.0 million (23.3%) more than estimated. Withholding was \$11.9 million (1.7%) above estimate and payments associated with annual returns were above estimate by \$291.2 million (85.8%). Quarterly estimated payments were above estimate by \$13.8 million (65.8%) and trust payments were above estimate by \$22.7 million (175.8%).³

The GRF received \$7,995.9 million from the personal income tax during the first 11 months of the fiscal year, \$220.8 million (2.8%) above estimate. Through May, gross collections were below estimate by \$0.6 million (0.01%) and

Year-to-Date GRF Receipts

(in millions)



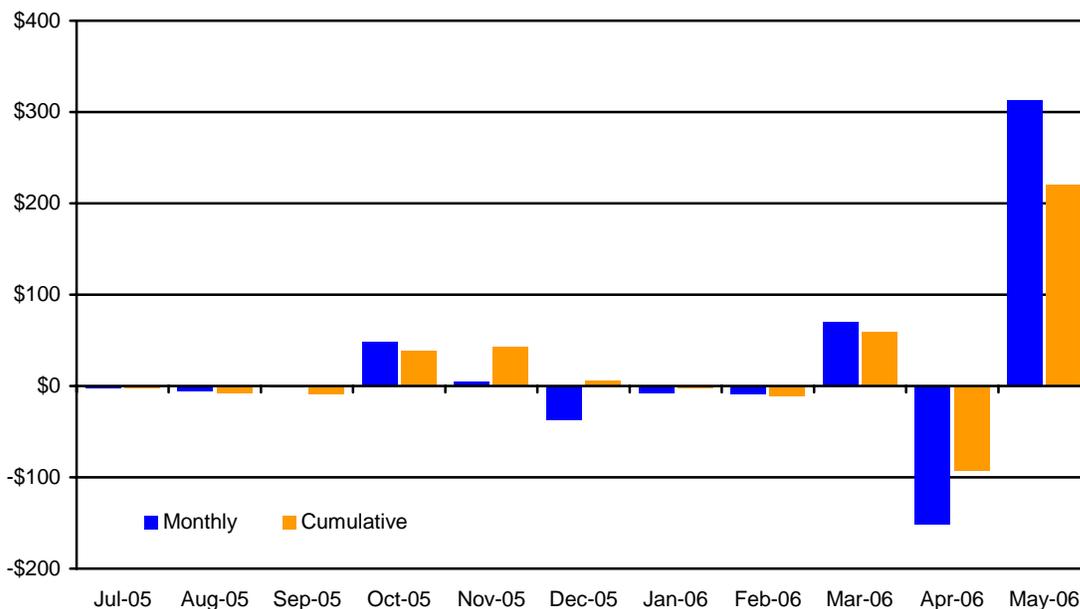
refunds were below estimate by \$222.8 million (16.3%). Withholding, which is expected to account for 74% of gross income tax collections for FY 2006, was \$102.4 million (1.4%) below estimate. Year-to-date quarterly estimated payments were \$28.2 million (2.3%) below estimate, payments associated with annual returns were above estimate by \$101.2 million (9.1%),

and trust payments were \$16.9 million (26.8%) above estimate.

Compared to a year ago, GRF revenue from the personal income tax is up 2.9% for the fiscal year to date. Gross collections are up 4.3% and refunds are up 18.6%. Withholding is up 4.3%.⁴ Quarterly estimated payments are up 5.7%,

Personal Income Tax Variance from August 2005 Estimates

(in millions)



payments associated with annual returns are up 1.8%, and trust payments are up 13.9%.

Sales and Use Tax

Following February and March, in which monthly receipts were above estimates, sales and use tax revenues reversed course in April and May.⁵ Total sales and use tax revenues in May were \$599.6 million, \$39.8 million (6.2%) below projected revenues. Auto sales and use tax receipts were \$6.5 million (7.2%) below estimate and nonauto sales and use tax receipts were \$33.3 million (6.1%) below estimate. Total sales and use tax receipts in May 2006 were \$67.8 million (10.2%) below revenues in May 2005. Tax receipts partly reflect taxable retail sales activity in the prior month and partly taxable retail sales during the current month.⁶

Through May, FY 2006 year-to-date total sales and use tax revenues were \$6,733.4 million, \$126.8 million (1.8%) below estimate. FY 2006 sales and use tax receipts were also \$440.9 million (6.1%) below year-to-date tax receipts in May 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). With one month

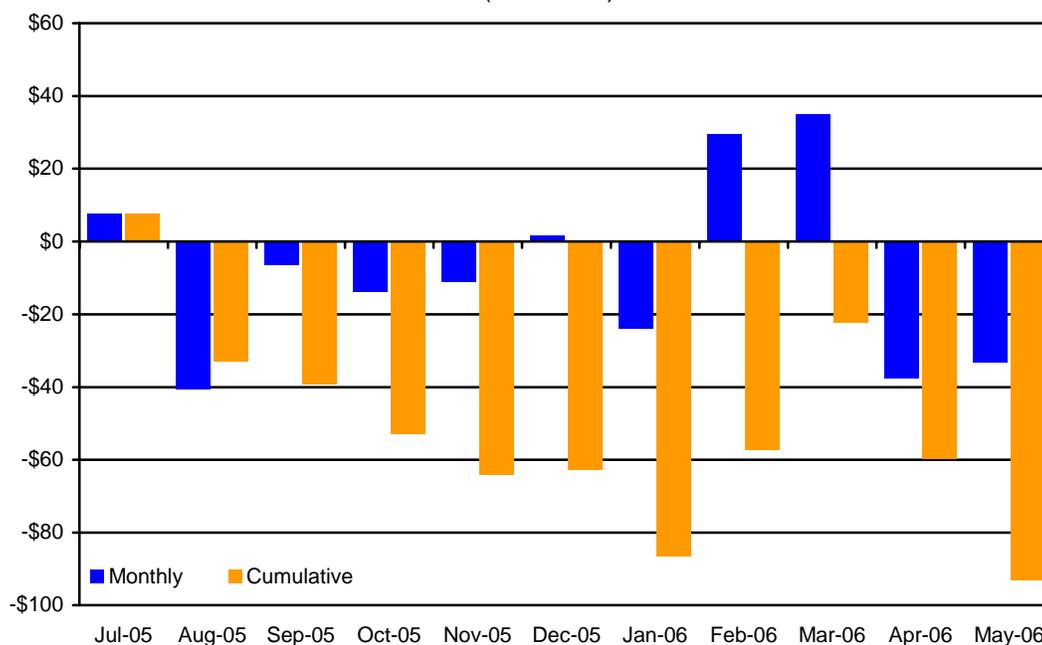
remaining in FY 2006, sales and use tax revenues will finish the year below estimates. Growth in the sales and use tax taxable base, which has been poor throughout FY 2006, weakened in the second half of the fiscal year (growing less than 2%), primarily because of inadequate receipts from the auto component of the tax.

Nonauto Sales and Use Tax

Revenues from the nonauto sales and use tax in May were \$515.4 million, \$33.3 million (6.1%) below anticipated receipts. Nonauto sales and use tax receipts were also \$56.7 million (9.9%) below revenues in the same month last year. Through May, FY 2006 nonauto sales and use tax receipts were \$5,881.7 million, \$93.1 million (1.6%) below estimate. These receipts include \$20.4 million from the six-week Ohio Tax Amnesty Program in January and February 2006. Nonauto sales and use tax receipts were also \$319.2 million (5.1%) below year-to-date receipts in May 2005. Growth in the nonauto sales and use tax taxable base in FY 2006, at about 3.5%, has been unsteady and mediocre.

Nationwide core retail sales (retail sales excluding auto and gasoline sales) grew about 0.1% in April 2006 and 0.3% in May. Compared

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



to sales a year ago, core retail sales grew at a moderate 7.3% and 7.5%, respectively.⁷

Auto Sales and Use Tax

Auto sales and use tax receipts were \$84.2 million in May, \$6.5 million (7.2%) below estimate. These tax receipts were also \$11.2 million (11.7%) below receipts in May 2005. The clerks of court generally make auto 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.

Through May, FY 2006 auto sales tax receipts were \$851.8 million, \$33.7 million (3.8%) below estimate. Year-to-date auto sales and use tax receipts were \$121.6 million (12.5%) below receipts through the same period in FY 2005. Receipts from the auto sales and use tax will finish the year below estimate. Growth in the auto sales and use tax taxable base has plunged in the second half of FY 2006. In the first half, the taxable base decreased about 1% compared to the same period in FY 2005. In the second half so far, the taxable base has declined about 8% compared to the same period in FY 2005.

Generally, sustained higher gasoline prices have little impact on total vehicle sales, but they alter the demand for light vehicles from light trucks toward more cars. Through May in FY 2006, nationwide light truck sales were down 3.5%, while car sales were up 2.7%.⁸ The average price for the light truck segment of light vehicle sales is higher than that for cars by about \$10,000. Thus, the change in the vehicle demand mix decreases the auto sales and use tax taxable base. Further depressing the taxable base, the total number of vehicles sold has decreased. Year to date through the third quarter of FY 2006, the total number of vehicles titled in Ohio was down 4.5% compared to sales in the same period in FY 2005. The average purchase price was down 1%. Although the total demand for vehicles has decreased, the decline is more pronounced for new vehicles. Through March 2006, year-to-date sales of new and used vehicles in Ohio decreased 8% and 3%, respectively. The average purchase price for new vehicles titled in Ohio decreased 2%, partly reflecting an increase in car sales compared to truck sales.⁹ Conversely, the average price for used vehicles increased 28%, likely as a result of higher demand for used vehicles.

For the third consecutive year, the auto sales and use tax taxable base (estimated from tax

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

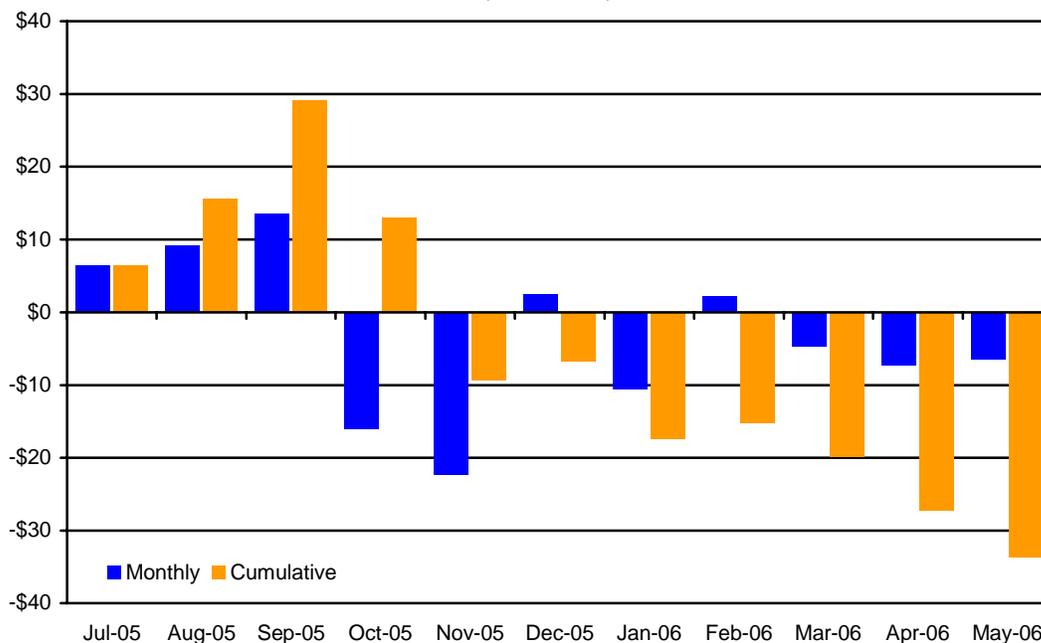


Table 2
General Revenue Fund Sources
Actual vs. Estimate
Month of May 2006
(\$ in thousands)

	<u>Actual</u>	<u>Estimate*</u>	<u>Variance</u>	<u>Percent</u>
TAX REVENUE				
Auto Sales	\$84,180	\$90,676	-\$6,496	-7.2%
Nonauto Sales & Use	\$515,376	\$548,701	-\$33,325	-6.1%
Total Sales & Use Taxes	\$599,556	\$639,377	-\$39,821	-6.2%
Personal Income	\$1,224,556	\$911,000	\$313,556	34.4%
Corporate Franchise	\$230,996	\$188,300	\$42,696	22.7%
Public Utility	\$72,160	\$57,900	\$14,260	24.6%
Kilowatt Hour Excise	\$25,119	\$23,800	\$1,319	5.5%
Total Major Taxes	\$2,152,387	\$1,820,377	\$332,010	18.2%
Commercial Activity	\$60,581	\$55,400	\$5,181	9.4%
Foreign Insurance	-\$12,873	-\$17,000	\$4,127	-24.3%
Domestic Insurance	\$136,075	\$149,800	-\$13,725	-9.2%
Business & Property	\$16,105	\$23,300	-\$7,195	-30.9%
Cigarette	\$160,896	\$127,000	\$33,896	26.7%
Alcoholic Beverage	\$3,624	\$5,000	-\$1,376	-27.5%
Liquor Gallonage	\$2,568	\$2,700	-\$132	-4.9%
Estate	\$14,563	\$11,000	\$3,563	32.4%
Total Other Taxes	\$381,539	\$357,200	\$24,339	6.8%
Total Tax Revenue	\$2,533,926	\$2,177,577	\$356,349	16.4%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	\$2	\$0	\$2	---
Licenses and Fees	\$4,665	\$3,000	\$1,665	55.5%
Other Revenue	\$9,931	\$8,620	\$1,311	15.2%
Nontax State-Source Revenue	\$14,598	\$11,620	\$2,978	25.6%
TRANSFERS				
Liquor Transfers	\$10,000	\$10,000	\$0	0.0%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$37,899	\$10,000	\$27,899	279.0%
Total Transfers In	\$47,899	\$20,000	\$27,899	139.5%
TOTAL GRF before Federal Grants	\$2,596,423	\$2,209,197	\$387,225	17.5%
Federal Grants	\$368,873	\$455,506	-\$86,633	-19.0%
TOTAL GRF SOURCES	\$2,965,295	\$2,664,703	\$300,592	11.3%

* 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 May 2006
(\$ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
TAX REVENUE						
Auto Sales	\$851,759	\$885,491	-\$33,732	-3.8%	\$973,407	-12.5%
Nonauto Sales & Use	\$5,881,671	\$5,974,756	-\$93,086	-1.6%	\$6,200,912	-5.1%
Total Sales & Use Taxes	\$6,733,429	\$6,860,247	-\$126,818	-1.8%	\$7,174,320	-6.1%
Personal Income	\$7,995,871	\$7,775,100	\$220,771	2.8%	\$7,767,795	2.9%
Corporate Franchise	\$1,021,023	\$880,800	\$140,223	15.9%	\$978,301	4.4%
Public Utility	\$173,475	\$149,700	\$23,775	15.9%	\$113,969	52.2%
Kilowatt Hour Excise	\$313,136	\$297,600	\$15,536	5.2%	\$314,443	-0.4%
Total Major Taxes	\$16,236,934	\$15,963,447	\$273,487	1.7%	\$16,348,828	-0.7%
Commercial Activity	\$181,952	\$143,500	\$38,452	26.8%	\$0	---
Foreign Insurance	\$248,352	\$243,350	\$5,002	2.1%	\$239,937	3.5%
Domestic Insurance	\$137,183	\$149,900	-\$12,717	-8.5%	\$150,827	-9.0%
Business & Property	\$17,301	\$25,020	-\$7,719	-30.9%	\$23,975	-27.8%
Cigarette	\$991,332	\$931,200	\$60,132	6.5%	\$507,114	95.5%
Alcoholic Beverage	\$51,998	\$52,300	-\$302	-0.6%	\$51,592	0.8%
Liquor Gallonage	\$30,497	\$29,800	\$697	2.3%	\$29,467	3.5%
Estate	\$47,469	\$44,100	\$3,369	7.6%	\$45,017	5.4%
Total Other Taxes	\$1,706,084	\$1,619,170	\$86,914	5.4%	\$1,047,930	62.8%
Total Tax Revenue	\$17,943,019	\$17,582,617	\$360,402	2.0%	\$17,396,758	3.1%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	\$71,826	\$44,000	\$27,826	63.2%	\$21,006	241.9%
Licenses and Fees	\$73,110	\$67,550	\$5,560	8.2%	\$68,358	7.0%
Other Revenue	\$152,496	\$142,600	\$9,896	6.9%	\$114,572	33.1%
Nontax State-Source Revenue	\$297,432	\$254,150	\$43,282	17.0%	\$203,936	45.8%
TRANSFERS						
Liquor Transfers	\$126,000	\$111,000	\$15,000	13.5%	\$104,000	21.2%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$135,896	\$95,400	\$40,496	42.4%	\$95,191	42.8%
Total Transfers In	\$261,896	\$206,400	\$55,496	26.9%	\$199,191	31.5%
TOTAL GRF before Federal Grants	\$18,502,347	\$18,043,167	\$459,180	2.5%	\$17,799,885	3.9%
Federal Grants	\$5,149,593	\$5,340,284	-\$190,691	-3.6%	\$5,126,570	0.4%
TOTAL GRF SOURCES	\$23,651,940	\$23,383,451	\$268,489	1.1%	\$22,926,456	3.2%

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

receipts) will shrink. The taxable base declined about 3% and 5% in FY 2004 and FY 2005, respectively. Based on year-to-date receipts this fiscal year, the taxable base is likely to decline another 4% to 5%.

Corporate Franchise Tax

The last major corporate franchise tax (CFT) payment, generally for corporate financial results achieved in calendar year (CY) 2005, was due May 31, 2006. Receipts in May 2006 were \$231.0 million, \$42.7 million (22.7%) above estimate. These receipts were also \$26.6 million (26.1%) above May receipts last year.

Through May 2006, FY 2006 year-to-date CFT receipts were \$1,021.0 million, \$140.2 million (15.9%) above estimate. (Year-to-date receipts include \$17.8 million from the tax amnesty program and an unknown amount from settlements and audits.) FY 2006 year-to-date receipts were also \$42.7 million (4.4%) above fiscal year-to-date receipts in May 2005. The performance of the CFT is remarkable because this year corporations have to pay only 80% of

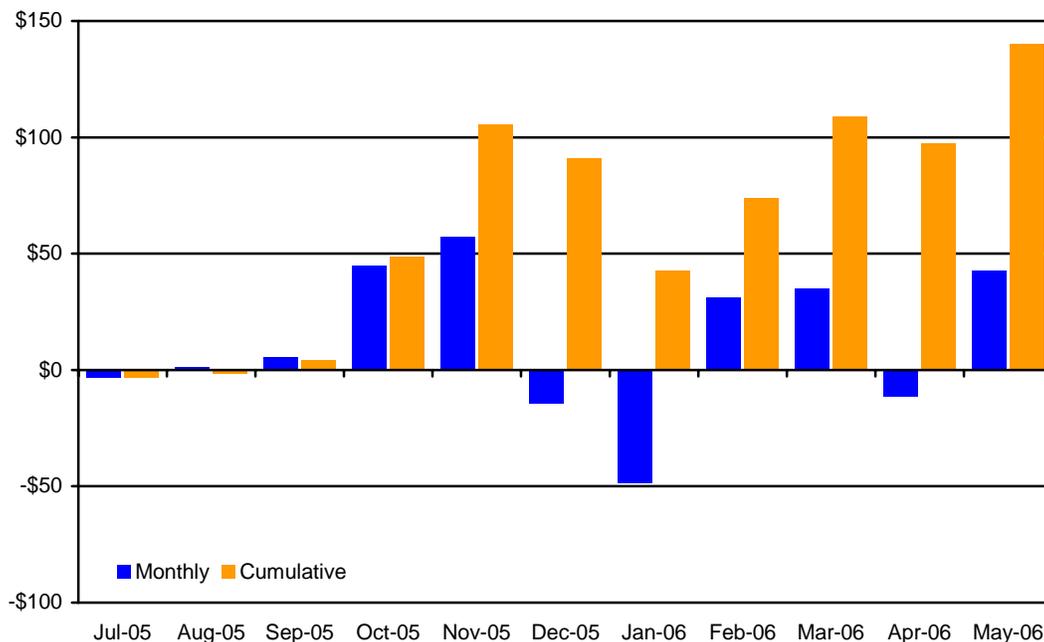
the total CFT tax liability. Corporate profits have increased steadily from CY 2002 through CY 2005. As a result, CFT receipts have increased from FY 2003 through FY 2006.

Cigarette and Other Tobacco Products Tax

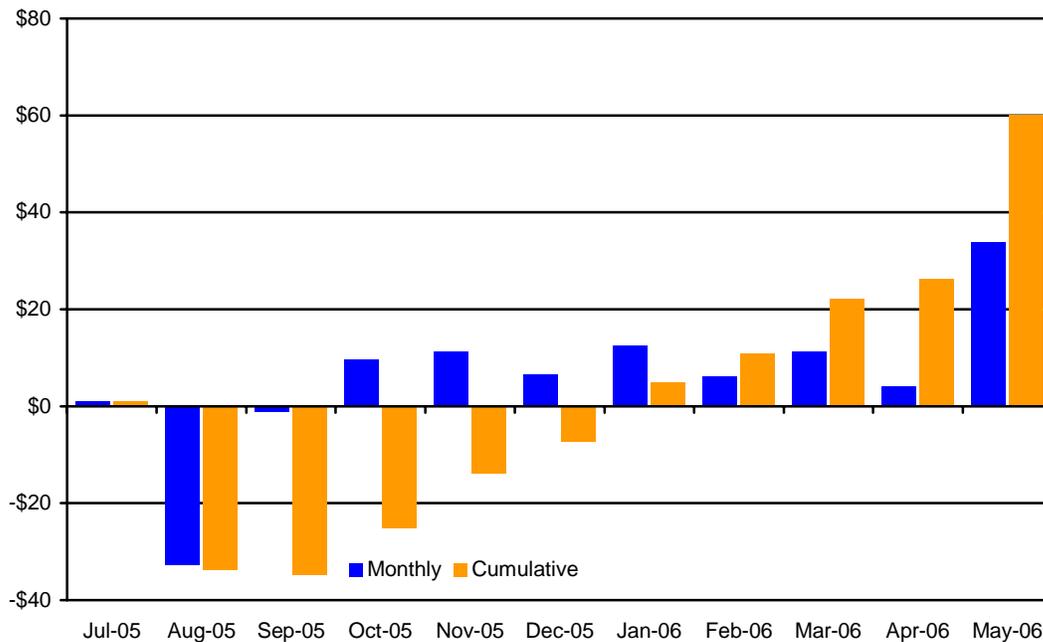
Since October 2005, monthly revenues from the cigarette and other tobacco products tax have been above estimate. Receipts from the cigarette and other tobacco products tax in May 2006 were \$160.9 million, \$33.9 million (26.7%) above estimate.¹⁰ Compared to year-ago receipts in the same month, revenues in May 2006 were \$78.9 million (96.3%) higher.

Through May, FY 2006 year-to-date receipts from the cigarette and other tobacco products tax were \$991.3 million, \$60.1 million (6.5%) above estimate. This tax will finish the year above estimate. FY 2006 year-to-date revenues were also \$484.2 million (95.5%) above year-to-date revenues in May of FY 2005. The large increase in cigarette tax revenues compared to year-ago revenues is due to the \$0.70 per pack tax rate increase on July 1, 2005.

Corporate Franchise Tax Variance from August 2005 Estimates
(in millions)



Cigarette Tax Variance from August 2005 Estimates
(in millions)



Commercial Activity Tax

The second and last due date for the commercial activity tax (CAT) this fiscal year was May 10. The payment covers the calendar quarter from January 1, 2006 through March 31, 2006 for calendar quarter taxpayers. These taxpayers pay the bulk of the tax. GRF revenues from the CAT in May were \$60.6 million, \$5.2 million (9.4%) above estimate.

Through May 2006, FY 2006 total CAT revenues were \$268.8 million, \$56.8 million

(26.8%) above estimates. Year-to-date GRF receipts were \$182.0 million, \$38.5 million (26.8%) above estimates. The School District Tangible Property Tax Replacement Fund received \$60.7 million, \$12.8 million above estimate. The Local Government Tangible Property Tax Replacement Fund received \$26.1 million, \$5.5 million above estimate. From FY 2007 through FY 2011, revenues from the CAT will be distributed only to the SDRF (70%) and the LGRF (30%). The distribution of CAT revenues to all three funds is expected to resume in FY 2012.

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 Year-to-date withholding growth was in the 5% to 6% range throughout the first half of the fiscal year, suggesting a stable labor market. The slowdown in withholding growth during the second half of FY 2006 is

most likely due to a change in employer withholding tables to account for the reduction in marginal income tax rates enacted in Am. Sub. H.B. 66.

⁵ Sales and use tax receipts in April were \$44.9 million (7.1%) below estimate.

⁶ 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.

⁷ Data are from the Monthly Retail Trade Survey of the U.S. Census Bureau.

⁸ Data are from the U.S. Bureau of Economic Analysis. The car share of light vehicle sales rose from 44.7% to 46.2%.

⁹ The data, from the Ohio Bureau of Motor Vehicles, do not provide the breakdown between light trucks and cars.

¹⁰ Generally, the Treasurer of State may sell stamps to dealers on credit from July through April, but sales in May must be for cash. Thus, dealers pay both for credit sales of the previous months and cash sales during May.

DISBURSEMENTS

— Steve Mansfield*

In May, General Revenue Fund (GRF) disbursements for program spending totaled \$2,079.0 million, which was above estimate by \$54.3 million (2.7%). For the fiscal year to date, total GRF program disbursements are \$23,195.5 million. With one month left in the fiscal year, year-to-date spending is \$583.2 million (2.5%) below estimate but \$226.8 million (1.0%) ahead of spending at this point last year.¹

Disbursements for each of the state's four major GRF program categories (Education, Welfare and Human Services, Government Operations, and Tax Relief) are under estimate for the year to date, but each category is also over estimate for the month of May (see the chart titled "GRF Disbursement Variances by Program Category" and Tables 4 and 5). The largest year-to-date disbursement variance is in the Welfare and Human Services category, which is now under estimate by \$375.0 million (3.4%). As shown in Table 4, the largest variance in May was posted by the Welfare and Human Services category, which was over estimate by \$23.2 million (2.5%).

Within the GRF program subcategories, the Health Care/Medicaid program continues to post the largest year-to-date variance (\$277.2 million under estimate). It also posted the largest variance for the month (\$16.6 million over estimate). While it is normal for monthly spending in program categories and subcategories near the end of the fiscal year to exceed estimates, monthly spending in a few programs continued to be under estimate. In the sections that follow, based on the differences between what was actually disbursed from the GRF and what the Office of Budget and Management (OBM) estimated in August 2005 would be disbursed during the fiscal year, the most significant variances within each of the major categories will be discussed.

Welfare and Human Services (-\$375.0 million)

The Welfare and Human Services category posted a variance of \$23.2 million (2.5%) over estimate in May disbursements. For the year to date, outlays in this category are \$375.0 million

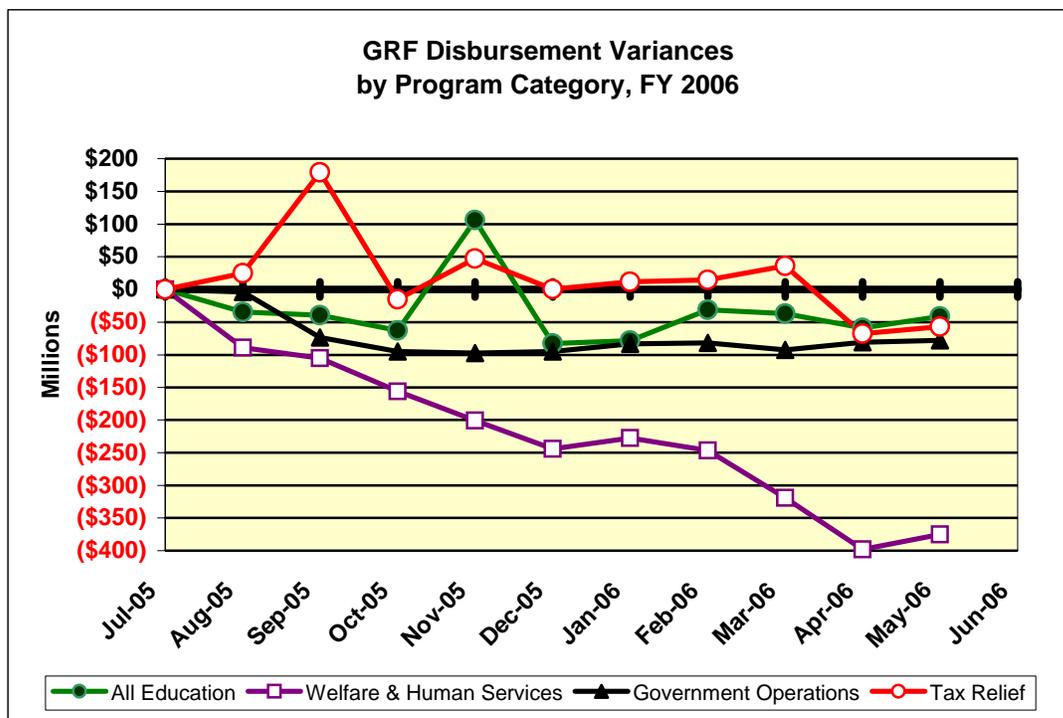


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of May 2006
(\$ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	\$557,844	\$542,883	\$14,962	2.8%
Higher Education	\$233,202	\$230,777	\$2,425	1.1%
Total Education	\$791,046	\$773,660	\$17,386	2.2%
Health Care/Medicaid	\$774,888	\$758,247	\$16,641	2.2%
Temporary Assistance to Needy Families (TANF)	\$36,965	\$38,176	-\$1,211	-3.2%
General/Disability Assistance	\$0	\$0	\$0	---
Other Welfare (2)	\$35,395	\$42,909	-\$7,514	-17.5%
Human Services (3)	\$115,992	\$100,690	\$15,301	15.2%
Total Welfare & Human Services	\$963,240	\$940,022	\$23,218	2.5%
Justice & Corrections	\$123,491	\$117,818	\$5,673	4.8%
Environment & Natural Resources	\$9,313	\$8,794	\$519	5.9%
Transportation	\$1,129	\$1,333	-\$204	-15.3%
Development	\$7,110	\$9,743	-\$2,633	-27.0%
Other Government	\$17,988	\$18,321	-\$333	-1.8%
Capital	\$13	\$0	\$13	---
Total Government Operations	\$159,044	\$156,009	\$3,035	1.9%
Property Tax Relief (4)	\$165,634	\$155,000	\$10,634	6.9%
Debt Service	\$0	\$0	\$0	---
Total Other Disbursements	\$165,634	\$155,000	\$10,634	6.9%
Total Program Disbursements	\$2,078,964	\$2,024,691	\$54,273	2.7%
TRANSFERS				
Local Govt Distribution	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$8,517	\$0	\$8,517	---
Total Transfers Out	\$8,517	\$0	\$8,517	---
TOTAL GRF USES	\$2,087,481	\$2,024,691	\$62,790	3.1%

(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.

(3.4%) under estimate. The Health Care/Medicaid and Other Welfare program subcategories continue to register the largest percentage differences from the year-to-date estimates. The disbursement variance in the Health Care/Medicaid program shrank modestly by \$16.6 million in May, while the Other Welfare category continues to add to its year-to-date

underspending, which now stands at \$89.9 million (14.9%) under estimate.

Health Care/Medicaid. Year-to-date disbursements through May in the Health Care/Medicaid program (primarily line item 600-525) are \$277.2 million (3.1%) below estimate (see Table 6). Compared to the same point in

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

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
Primary & Secondary Education (1)	\$6,248,435	\$6,315,566	-\$67,131	-1.1%	\$6,126,166	2.0%
Higher Education	\$2,187,236	\$2,161,279	\$25,957	1.2%	\$2,176,486	0.5%
Total Education	\$8,435,671	\$8,476,845	-\$41,174	-0.5%	\$8,302,651	1.6%
Health Care/Medicaid	\$8,741,320	\$9,018,479	-\$277,159	-3.1%	\$8,726,772	0.2%
Temporary Assistance to Needy Families (TANF)	\$329,588	\$318,635	\$10,953	3.4%	\$353,913	-6.9%
General/Disability Assistance	\$0	\$0	\$0	---	\$22,649	-100.0%
Other Welfare (2)	\$514,214	\$604,068	-\$89,855	-14.9%	\$425,902	20.7%
Human Services (3)	\$1,184,965	\$1,203,950	-\$18,985	-1.6%	\$1,140,055	3.9%
Total Welfare & Human Services	\$10,770,087	\$11,145,133	-\$375,046	-3.4%	\$10,669,291	0.9%
Justice & Corrections	\$1,807,451	\$1,853,227	-\$45,776	-2.5%	\$1,784,825	1.3%
Environment & Natural Resources	\$96,794	\$99,675	-\$2,881	-2.9%	\$113,184	-14.5%
Transportation	\$25,918	\$26,753	-\$836	-3.1%	\$29,566	-12.3%
Development	\$137,629	\$155,250	-\$17,622	-11.4%	\$148,715	-7.5%
Other Government	\$362,784	\$373,500	-\$10,716	-2.9%	\$351,497	3.2%
Capital	\$299	\$138	\$161	116.3%	\$0	---
Total Government Operations	\$2,430,874	\$2,508,543	-\$77,669	-3.1%	\$2,427,787	0.1%
Property Tax Relief (4)	\$1,129,584	\$1,186,411	-\$56,827	-4.8%	\$1,181,102	-4.4%
Debt Service	\$429,322	\$461,811	-\$32,489	-7.0%	\$387,873	10.7%
Total Other Disbursements	\$1,558,907	\$1,648,223	-\$89,316	-5.4%	\$1,568,975	-0.6%
Total Program Disbursements	\$23,195,539	\$23,778,743	-\$583,204	-2.5%	\$22,968,705	1.0%
TRANSFERS						
Local Govt Distribution	\$0	\$0	\$0	---	\$0	---
Budget Stabilization	\$394,205	\$0	\$394,205	---	\$0	---
Other Transfers Out	\$195,802	\$0	\$195,802	---	\$40,098	388.3%
Total Transfers Out	\$590,007	\$0	\$590,007	---	\$40,098	1371.4%
TOTAL GRF USES	\$23,785,546	\$23,778,743	\$6,803	0.0%	\$23,008,803	3.4%

(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.

FY 2005, Health Care/Medicaid service payments are 2.2% higher in the current fiscal year (see Table 7). Once offsets are taken into account, however, FY 2006 net spending for the year to date is only 0.2% higher than at the same point in FY 2005.

The largest contributor to the year-to-date variance in Health Care/Medicaid spending is the Prescription Drugs category, which is now \$136.9 million (8.1%) below estimate. The costs per claim and utilization rates in the Prescription Drug category are under estimate for both the

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

Service Category	May				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru May	Estimate thru May	Variance	Percent Variance
Nursing Facilities Payments	\$221,550	\$222,880	(\$1,330)	-0.6%	\$2,428,732	\$2,543,842	(\$115,110)	-4.5%
ICF/MR Payments	\$43,157	\$42,190	\$967	2.3%	\$471,897	\$471,575	\$322	0.1%
Inpatient Hospitals	\$143,544	\$129,466	\$14,078	10.9%	\$1,382,504	\$1,334,752	\$47,752	3.6%
Outpatient Hospitals	\$66,491	\$66,656	(\$165)	-0.2%	\$627,486	\$627,511	(\$25)	0.0%
Physicians	\$62,648	\$61,161	\$1,487	2.4%	\$597,589	\$585,435	\$12,154	2.1%
Prescription Drugs	\$103,524	\$123,761	(\$20,237)	-16.4%	\$1,554,389	\$1,691,244	(\$136,855)	-8.1%
ODJFS Waiver	\$21,281	\$21,871	(\$590)	-2.7%	\$206,352	\$205,299	\$1,053	0.5%
HMO	\$139,447	\$138,144	\$1,303	0.9%	\$1,295,637	\$1,404,980	(\$109,343)	-7.8%
Medicare Buy-In	\$21,941	\$21,242	\$699	N/A	\$214,333	\$211,917	\$2,416	1.1%
Home Health	\$18,565	\$17,297	\$1,268	7.3%	\$167,642	\$158,464	\$9,178	5.8%
Dental	\$9,744	\$10,187	(\$443)	-4.3%	\$112,590	\$108,026	\$4,564	4.2%
Hospice	\$14,144	\$15,031	(\$887)	-5.9%	\$116,065	\$132,373	(\$16,308)	-12.3%
All Other	\$56,324	\$59,869	(\$3,545)	-5.9%	\$538,924	\$547,837	(\$8,913)	-1.6%
Total Medicaid Payments	\$922,360	\$929,755	(\$7,395)	-0.8%	\$9,714,140	\$10,023,255	(\$309,115)	-3.1%
Medicare Part D	\$53,456	\$26,103	\$27,353	104.8%	\$69,967	\$129,104	(\$59,137)	-45.8%
DA Medical	\$3,191	\$2,547	\$644	25.3%	\$41,779	\$34,150	\$7,629	22.3%
Drug Rebates Offsets	(\$100,092)	(\$86,662)	(\$13,430)	15.5%	(\$680,587)	(\$694,199)	\$13,612	-2.0%
ICF/MR Franchise Fee Offsets	\$0	(\$1,721)	\$1,721	N/A	(\$18,876)	(\$16,795)	(\$2,081)	12.4%
NF Franchise Fee Offsets	(\$45,025)	(\$52,773)	\$7,748	-14.7%	(\$267,098)	(\$339,030)	\$71,932	-21.2%
DSH Rebate Offsets	(\$59,002)	(\$59,001)	\$0	0.0%	(\$118,003)	(\$118,002)	\$0	0.0%
Total Health Care (Net of Offsets)	\$774,888	\$758,248	\$16,641	2.2%	\$8,741,322	\$9,018,483	(\$277,160)	-3.1%
Est. Federal Share	\$464,414	\$454,441	\$9,973		\$5,238,944	\$5,405,055	(\$166,111)	
Est. State Share	\$310,474	\$303,807	\$6,668		\$3,502,378	\$3,613,428	(\$111,049)	

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.

Covered Families and Children (CFC) and the Aged, Blind, and Disabled (ABD) programs. The underspending also stems from pharmacy-related cost containment measures implemented in the last few years.

Second in size, the variance of the Nursing Facilities Payments category is now \$115.1 million (4.5%) below estimate. As noted in previous reports, this variance stems in part from a new direct billing system for nursing home facilities that is being implemented. This has resulted in a one-time savings from more accurate payments and from the collection of more overpayments from previous periods. The related NF Franchise Fee Offsets category is \$71.9 million (21.2%) below estimate for the year to date.²

A close third, the HMO category is \$109.3 million (7.8%) below estimate for the year. As we have noted in previous reports, spending in this category has not grown as fast as anticipated, especially in the CFC program. The caseload for Managed Care-CFC is 695,188 for May versus an estimated caseload of 733,300, a difference of 5.2%. Inversely related to the HMO category, spending in the Inpatient Hospitals category is \$47.8 million (3.6%) above estimate through May. The slower than anticipated enrollment in managed care is driving up spending in fee-for-service categories, such as the Inpatient Hospitals and the Physicians categories.

Disbursements for the new Medicare Part D category are under estimate by \$59.1 million

Service Category	FY 2006	FY 2005	Dollar Change	Percent Increase
	Yr.-to-Date as of May '06	Yr.-to-Date as of May '05		
Nursing Facilities Payments	\$2,428,732	\$2,502,172	(\$73,440)	-2.9%
ICF/MR Payments	\$471,897	\$409,264	\$62,633	15.3%
Inpatient Hospitals	\$1,382,504	\$1,333,995	\$48,509	3.6%
Outpatient Hospitals	\$627,486	\$605,999	\$21,487	3.5%
Physicians	\$597,589	\$583,356	\$14,233	2.4%
Prescription Drugs	\$1,554,389	\$1,835,968	(\$281,579)	-15.3%
ODJFS Waiver	\$206,352	\$204,029	\$2,323	1.1%
HMO	\$1,295,637	\$979,488	\$424,150	48.7%
Medicare Buy-In	\$214,333	\$176,024	\$38,309	21.8%
All Other*	\$935,221	\$871,487	\$63,734	7.3%
Total Medicaid Payments	\$9,714,140	\$9,501,782	\$212,358	2.2%
Medicare Part D	\$69,967	\$0	\$69,967	N/A
DA Medical	\$41,779	\$68,562	(\$26,783)	-39.1%
Drug Rebates Offsets	(\$680,587)	(\$475,056)	(\$205,531)	43.3%
ICF/MR Franchise Fee Offsets	(\$18,876)	(\$16,771)	(\$2,105)	12.6%
NF Franchise Fee Offsets	(\$267,098)	(\$217,364)	(\$49,734)	22.9%
DSH Rebate Offsets	(\$118,003)	(\$134,380)	\$16,377	-12.2%
Total Health Care (Net of Offsets)	\$8,741,322	\$8,726,773	\$14,549	0.2%
Est. Federal Share	\$5,238,944	\$5,230,225	\$8,720	
Est. State Share	\$3,502,378	\$3,496,548	\$5,829	

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.

(45.8%) for the year to date. In May, however, Medicare Part D payments were over estimate by \$27.4 million (104.8%) as the program made up for delays in previous months.

The Disability Assistance (DA) Medical category is \$7.6 million (22.3%) above estimate for the year to date. In March, the Controlling Board approved an increase in spending of \$4.7 million for the DA Medical program for FY 2006. Also, Am. Sub. H.B. 530 of the 126th General Assembly (the reappropriations and corrections act) provided for an additional \$4.3 million for the program in FY 2006 and \$5.7 million in FY 2007 (GRF line item 600-513, Disability Medical Assistance). The money for this increase came from reductions in

appropriations to the Department of Mental Health.

The number of Medicaid "eligibles" in the CFC portion of the program is now over the budgeted caseload for this point in the fiscal year by 14,884 individuals. The number of eligibles in the ABD portion of the program, however, is under the budgeted level by 5,417 individuals. Historically, the ABD population accounts for about 70% of all Medicaid expenditures.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs, which are captured in the Other Welfare subcategory, were under estimate for May by \$7.5 million (17.5%).

This pushed disbursements for the year to date to \$89.9 million (14.9%) below estimate. The largest contributor to the year-to-date variance is line item 600-521, Entitlement Administration-Local, which is under estimate by \$34.8 million (23.6%). Through the Entitlement Administration-Local line item, the Department advances to the counties the state's share of the cost of county administration of family services programs (primarily the Medicaid and Food Stamp programs). The variance appears to be related to counties requesting funding at a slower than expected rate and also to an unexpected shift in the mix of the reported county administrative activities away from these programs and toward the federal portion of the Temporary Assistance for Needy Families (TANF) program. Unspent amounts in this line item are likely to be encumbered so that the Department can reconcile its accounts with county departments of job and family services.

Line item 600-416, Computer Projects, is now \$23.2 million (16.0%) under estimate for the year to date. A little over half of the variance stems from lower than anticipated payments to vendors, while the rest is traceable to underspending from the encumbered FY 2005 appropriation for this line item.

TANF. GRF disbursements from line item 600-410, TANF State, were under estimate by \$1.2 million (3.2%) in May. Year to date, the state portion of TANF program spending is over estimate by \$11.0 million (3.4%). In previous months, the Department increased payments to the counties from the state portion of the program, and correspondingly reduced payments to the counties from the federal portion of the program, in order to meet the state's Maintenance of Effort requirement. Of the state TANF line items, the Department has disbursed \$254.5 million (90% of the appropriation) from line item 600-410, TANF State, and \$84.1 million (nearly 100% of the appropriation) from line item 600-413, Day Care/MOE.

Disbursements from TANF federal funds (Fund 3V6, line item 600-689, TANF Block Grant) through May totaled \$606.3 million (63.1%) of

the \$960.3 million total appropriation. At the same point in FY 2005, disbursements from Fund 3V6 totaled \$484.2 million.

The TANF caseload increased in May to 176,844 TANF recipients, an increase of more than 4,000. There were 81,827 assistance groups.

Mental Retardation and Developmental Disabilities. As a result of a disbursement variance of \$18.9 million (66.2%) over estimate for May, the year-to-date variance shrank to \$3.4 million (1.0%) under estimate. The variance stems from a shift in the way Medicaid waiver match obligations are met by the counties, which disrupted the timing of payments.

Government Operations (-\$77.7 million)

In May, outlays in the Government Operations category were \$3.0 million (1.9%) over estimate for the month, decreasing the year-to-date variance to \$77.7 million (3.1%) below estimate. Discussion of three notable contributors to the variance in the category follows.

Corrections. The largest single source of the year-to-date variance in the Justice and Corrections category continues to be the Department of Rehabilitation and Correction, with a variance of \$44.6 million (3.1%) under estimate. Outlays by the Department were over estimate by \$1.2 million (1.4%) in May. As reported previously, the year-to-date variance is due in part to attrition of personnel in the first quarter of FY 2006. These positions have not been fully replaced. In addition, the Department has lost around 300 employees since July 1, 2005. Another reason for the underspending is a higher degree of caution in maintenance and equipment spending in the main operations line, 501-321, Institutional Operations.

May's overspending is due in part to an increase in medical and mental health costs. The Department has transferred over \$11.6 million between line items to cover these increased costs.

Court of Claims. For the year to date, disbursements by the Court of Claims exceed the

estimate by \$2.3 million (98.3%). Virtually all of the variance stems from transfers by the Controlling Board from line item 911-401, Emergency Purposes, to line item 015-402, Wrongful Imprisonment, to make awards to three plaintiffs for wrongful imprisonment. The Wrongful Imprisonment line item receives no appropriation and hence has no estimate. It receives transfers as needed from the Controlling Board's Emergency Purposes line item.

Development. Outlays by the Department of Development in May were under estimate by \$2.7 million (33.1%), which pushed the year-to-date variance to \$16.8 million (17.0%) under estimate. Like last month, the two largest contributors to the year-to-date variance are line item 195-412, Business Development Grants (now \$5.2 million under estimate), and line item 95-434, Ohio Investment in Training Program (now \$5.3 million under estimate). The underspending from these line items is related to timing. In its June 12 meeting, the Controlling Board approved over \$9 million in grants.

Tax Relief (-\$56.8 million)

The Tax Relief program reimburses school districts and local governments for foregone revenue resulting from state tax relief to property owners and businesses through the homestead exemption, the property tax rollbacks, and the \$10,000 tangible property tax exemption. Through May, Tax Relief payments have totaled \$1,129.6 million, which is \$56.8 million (4.8%) below estimate. May's disbursements of \$165.6 million were above estimate for the month by \$10.6 million (6.9%). Disbursement variances in the Property Tax Relief program are usually traceable to the timing of local government requests for reimbursement. Due, however, to late filing by a number of large counties, OBM reports that there is a possibility of reimbursements exceeding the estimate for the year.

Education (-\$41.2 million)

May outlays in the Education category were \$17.4 million (2.2%) over estimate. For the year

to date, outlays in this category are \$41.2 million (0.5%) under estimate, with the Board of Regents' overspending partially offsetting underspending by the Department of Education.

Department of Education. May disbursements of \$541.3 million by the Department of Education were \$13.4 million (2.5%) over estimate. This reduced the Department's year-to-date disbursement variance to \$63.9 million (1.0%) under estimate, with total GRF disbursements of \$6,139.4 million so far in FY 2006.

The largest contributor to the variance for the year to date is line item 200-550, Foundation Funding (\$26.8 million under estimate). The variance for line item 200-550 is relatively small (0.5%) in comparison to the total estimate for the year to date. While the latest data have trended upward somewhat, the underspending reflects the fact that Average Daily Membership (ADM) counts are lower than expected.

The disbursement variance in line item 200-433, Reading/Writing Improvement-Professional Development, increased to \$7.6 million (46.3%) under estimate as recipients are not requesting awarded funds as fast as was anticipated. These funds are used in support of various professional development programs designed to improve literacy instruction in public schools.

Line item 200-437, Student Assessment, posted a disbursement variance of \$8.5 million (1,821.8%) over estimate, which reduced the year-to-date variance to \$1.3 million (2.2%) under estimate. Thus, invoices nearly caught up with estimates. Funds from line item 200-437 are used to develop, field-test, print, distribute, score, and report results of Ohio proficiency tests, achievement tests, the Ohio Graduation Test, and diagnostic assessments.

Due to declining enrollments, line item 200-540, Special Education Enhancements, now under estimate for the year to date by \$2.8 million, is expected to lapse approximately \$5 million from the year's appropriation. These funds are

primarily used to fund special education and related services at county MR/DD boards and state institutions for school-aged students and to fund preschool special education and related services at school districts, educational service centers, and county MR/DD boards. Am. Sub. H.B. 66 of the 126th General Assembly (the current operating budget act) shifted the funding distribution system away from a unit formula to the same weighted funding formula used to fund special education students in school districts.

Board of Regents. With a disbursement variance of \$2.4 million (1.1%) over estimate for May, year-to-date outlays from the Board of Regents' line items are over estimate by \$26.0 million (1.2%). The year-to-date variance

is mainly traceable to \$27.3 million (30.6%) in overspending from line item 235-503, Ohio Instructional Grants. 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 for FY 2005. The capital reappropriations and corrective act, Am. Sub. H.B. 530, contains a provision to increase the appropriation and transfer funds to line item 235-503 by up to \$30 million.

**LSC colleagues who contributed to the development of this disbursement report include, in alphabetical order, Phil Cummins, Jamie Doskocil, Deauna Hale, Jennifer Henry, David Price, Wendy Risner, Joe Rogers, and Ronnie Romito.*

¹ Disbursements plus transfers out total \$23,785.5 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). When transfers out are included, the amount disbursed for the year to date has increased by 3.4% over the amount disbursed at the same point in FY 2005.

² Offsets are revenues that offset specific expenditures. As an accounting procedure, a below estimate variance is counted as a positive amount.