Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission JULY 2006

Fiscal Overview

— *Allan Lundell*

FY 2006 was a strong year, budget wise. For the fiscal year, total General Revenue Fund (GRF) receipts were $220 million above estimate, program disbursements were $665 million below estimate, and the ending cash balance was $786 million above its expected level.[1] A $40 million transfer of funds from the tax amnesty program was made to the Budget Stabilization Fund (BSF) on the last day of the fiscal year. Although the "budget surplus" is at about the same level as that for FY 2005 ($746 million), the cause is different. In FY 2005, higher than expected receipts accounted for most of the surplus. Receipts were $688 million above estimate and program disbursements were $102 million below estimate. In FY 2006, lower than expected program disbursements accounted for most of the surplus.

Tracking the Economy

Economic indicators in the past month show an economy growing more slowly and inflation somewhat higher. Employment nationwide continued to grow through June, but recent increases have been smaller. Retail sales fell slightly in June after a small increase in May. The burden on consumers of high gasoline prices is curtailing outlays for other goods and services. Additionally, the softer housing market is slowing price appreciation, weakening another source of support for consumer spending on other goods and services.

Receipts

GRF receipts were $220 million (0.9%) above estimate for FY 2006. State-source receipts were $349 million (1.8%) above

Dear Readers:

Budget Footnotes **will be on vacation for the month of August. The next issue will be published in September.**

The writers and editors

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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 June	Fiscal Year 2006 to Date	Last Year	Difference
Beginning Cash Balance	**$1,075.6**	**$1,209.2**		
Plus Revenue and Transfers In	$2,194.1	$25,846.0		
Available Resources	**$3,269.7**	**$27,055.2**		
Less Disbursements and Transfers Out	$1,740.9	$25,526.4		
Ending Cash Balances	**$1,528.8**	**$1,528.8**	**$1,209.2**	**$319.6**
Less Encumbrances and Accts. Payable		$502.8	$526.6	-$23.7
Unobligated Balance		**$1,026.0**	**$682.6**	**$343.3**
Plus BSF Balance		$616.7	$180.7	$435.9
Combined GRF and BSF Balance		**$1,642.6**	**$863.3**	**$779.3**

estimate and federal grants were below estimate by $129 million (2.3%). Tax revenues were $242 million (1.3%) above estimate. Personal income tax revenue was above estimate by $112 million (1.3%) and revenue from the cigarette tax was above estimate by $71 million (7.0%). Corporate franchise tax revenue was above estimate by $102 million (10.7%) and revenue from the commercial activity tax was above estimate by $42 million (29.0%). Revenue from the public utility excise tax was above estimate by $30 million (20.2%) and revenue from the kilowatt-hour excise tax was above estimate by $10 million (3.0%). Nonauto sales tax revenue was below estimate by $82 million (1.3%) and auto sales tax revenue was below estimate by $31 million (3.2%). Compared to FY 2005, GRF receipts were up 1.2%. State-source receipts were up 1.7%, federal grants were down 0.9%, and tax revenues were up 2.5%.

Disbursements

GRF program disbursements for FY 2006 were $665 million (2.6%) below estimate. Health Care/Medicaid disbursements were $389 million (4.0%) below estimate, disbursements for primary and secondary education are $122 million (1.8%) below estimate, and disbursements for justice and corrections were below estimate by $33 million (1.6%). Disbursements for debt service were below estimate by $33 million (6.4%). Disbursements for property tax relief were above estimate by $53 million (4.2%). Compared to FY 2005, GRF program disbursements were up 0.1%.

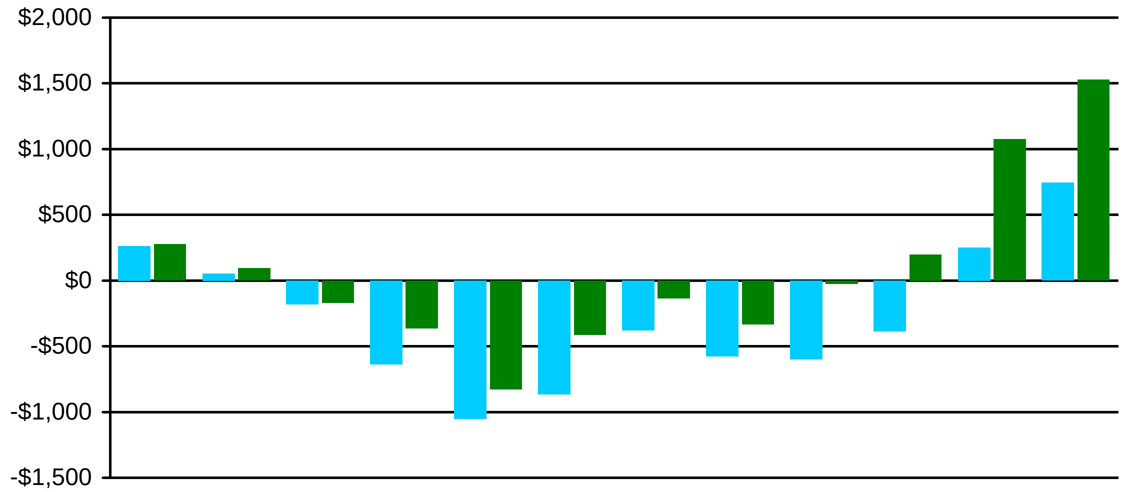
Cash Balance

As shown in Table 1, the GRF began June with a $1,076 million cash balance. Monthly revenues plus transfers in totaled $2,194 million and disbursements plus transfers out totaled $1,741 million. The monthly surplus of $453 million raised the cash balance to $1,529 million.[2] If receipts and disbursements had equaled their estimates for the fiscal year, the cash balance would have been $743 million, $786 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 tracked higher (less negative) than the estimate throughout the fiscal year, turned positive a month earlier than expected, and finished FY 2006 at the highest level since FY 1998.

Encumbrances and accounts payable of $503 million combine with the cash balance to yield an unobligated balance of $1,026 million. This amount is $343 million higher than a year ago. The $617 million in the Budget Stabilization Fund (BSF) at the end of FY 2006 is $436 million higher than a year earlier, so the combined GRF and BSF balance of $1,643 million is $779 million higher than it was a year ago.

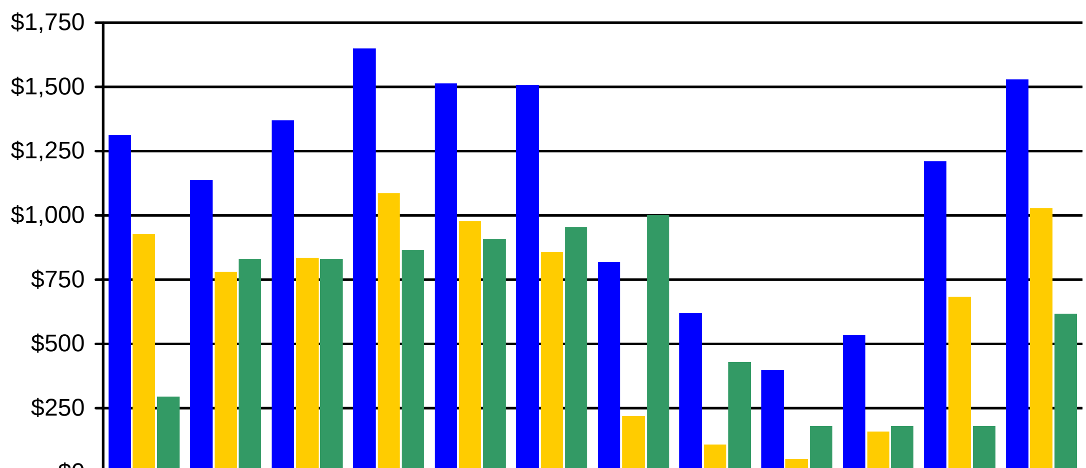
The FY 2006 GRF balance of $1,026 million was disposed of as follows: $632 million was carried forward for the FY 2007 budget and $394 million was transferred (on July 13, 2006) to the BSF. The balance in the BSF rose to $1,011 million (3.9% of FY 2006 GRF receipts).

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	-$335	-$25	$198	$1,076	$1,529

Fiscal Year-End Balances
(in millions)



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cash	$1,312	$1,139	$1,368	$1,649	$1,513	$1,506	$817	$619	$397	$533	$1,209	$1,529
Unobligated	$928	$781	$835	$1,084	$977	$856	$219	$108	$52	$158	$683	$1,026
BSF	$293	$828	$828	$863	$907	$953	$1,003	$428	$181	$181	$181	$617

[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 revenues plus transfers in totaled $25,846 million and disbursements plus transfers out totaled $25,526 million. Transfers out included the following transfers made in July 2005: $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). An additional $40 million transfer to the BSF (of funds from the tax amnesty program) was made on the last day of FY 2006. The FY 2006 surplus of $320 million raised the cash balance to $1,529 million.

TRACKING THE ECONOMY

— Phil Cummins

Economic indicators in the past month show an economy growing more slowly and inflation somewhat higher than earlier. Terrorist attacks abroad initially weighed on financial markets and contributed to upward pressures on world oil prices, which have since fallen somewhat but remain high. Employment nationwide continued to grow through June, but recent increases have been smaller than earlier in the current expansion. In Ohio, employment fell in June, and the longer-term uptrend continued slower than that nationwide. Statewide unemployment fell to 5.1% of the labor force, the lowest since 2001 apart from a one-month decline to 5.0% in March. Industrial production grew briskly in June. Purchasing managers for both manufacturers and nonmanufacturers said business activity continued to expand, but these reports of growth were less widespread than earlier. Retail sales fell slightly in June after a small increase in May. The burden on consumers of high gasoline prices is curtailing outlays for other goods and services. Housing starts fell in June, and the pace of starts in this year's first half trailed the total last year, the strongest housing construction market in over three decades and the highest on record for single-family homebuilding. Mortgage interest rates on 30-year fixed-rate loans rose to 6.8% in July, the highest since 2002. The softer housing market is slowing price appreciation, eroding another source of support for consumer spending on other goods and services. Inflation in consumer prices continued above earlier rates, and prices for some inputs in the production process were sharply higher in price.

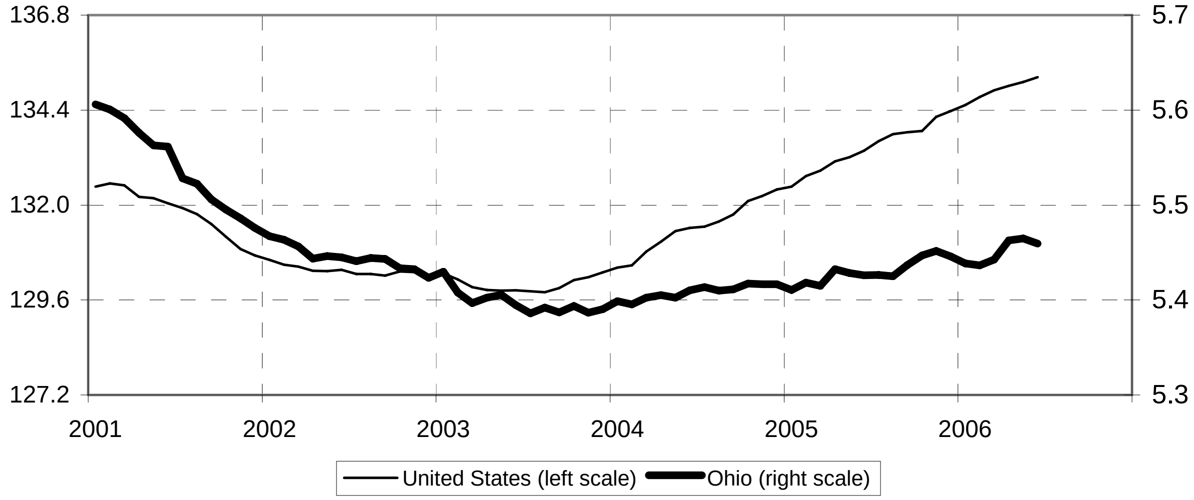
National economic growth evidently was slower in the second quarter than the first quarter's upward revised 5.6% rate of increase in inflation-adjusted gross domestic product. Total consumer spending in the second quarter through May was growing at only about a 2% annual rate, adjusted for inflation, and retail sales slipped in June as noted above. Total construction spending through May was growing slowly in nominal dollars and may have been flat or declining net of price increases. Residential construction activity shrank in the April-May period compared with the first quarter while private nonresidential construction and public construction were expanding strongly. Indicators for business investment in equipment were mixed, with shipments of nondefense capital goods through May growing more slowly while industrial production of business equipment through June continued to surge ahead. Inventory building in the second quarter through May was stronger than in the first quarter. Growth of aggregate hours worked in the private sector, an uncertain indicator of output growth, slowed from the first to the second quarter.

Employment Growth Slows

Total nonfarm payroll employment nationwide rose by 121,000 in June, and the number of persons unemployed was about unchanged at 7 million or 4.6% of the labor force, matching May's unemployment rate and the lowest since 2001. The pace of growth in the number of jobs has slowed, with employers adding 108,000 employees on average each month in this year's second quarter, down from 176,000 a month on average in the first quarter, 142,000 a month last year, and 175,000 a month in 2004. Employment has continued to increase in health care and in professional and business services, though the number of jobs at temporary help services has declined this year after rising since 2003. Growth elsewhere in the service sector has slowed, and some retailers, notably general merchandise stores, have cut staff. Growth of employment in construction has slowed, reflecting softening in residential building. However, manufacturers nationwide have added 64,000 jobs since last September, after reducing employment since 1998. This recent upturn reflects increased employment at durable goods producers.

Nonfarm payroll employment in Ohio fell 5,600 in June after gains in the previous three months. Compared with a year earlier, nonfarm payroll employment in Ohio increased 0.6%, less than the

Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted

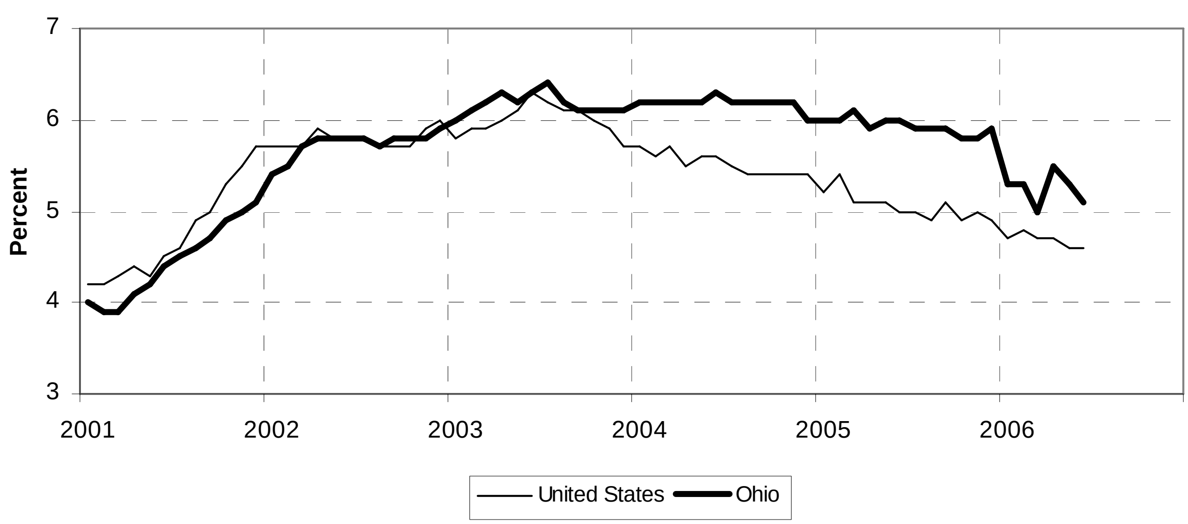


1.4% increase in the number of jobs nationwide. Virtually all of the gains in statewide employment in the past year were in the service sector rather than in goods production. The state's unemployment rate fell from 5.3% in May to 5.1% in June, down from a peak of 6.4% in 2003 but still above the rate for the nation.

Growth of Output Continues

Industrial production in the nation rose a strong 0.8% in June and the index for May was revised to show a small increase in production instead of a small decline. Factory output rose 0.7% in June and production was also higher at mines and utilities. In this year's second quarter, factory production expanded at a 5.4% annual rate, about matching the first quarter's gain and up from a 4.2% rise in the four quarters of 2005. Business equipment output continued to grow at a rapid clip, rising 0.7% in June and at a 13% annual rate in the second quarter. In contrast, an earlier report from a separate survey showed that growth of manufacturers' capital goods shipments and orders through May had slowed. Industrial production of consumer goods increased at a 3.9% annual rate in the second quarter after shrinking earlier in the year, in part as a result of an upturn in output of automotive products. Production of construction supplies fell slightly in the second quarter after increasing earlier.

Unemployment Rates



Monthly figures through May show an upturn in the pace of inventory building in the second quarter. Additions to inventories were particularly rapid at wholesalers. Inventories nevertheless appear lean overall, based on the ratio of inventories to sales.

Activity expanded in June at manufacturing firms, according to the Institute for Supply Management's survey of purchasing managers. However, reports of growth were less widespread among the survey participants than in earlier months since August 2005. More survey respondents reported increased new orders, production, and backlogs than noted declines. Increases in prices paid by manufacturers were widespread and few commodity prices fell. A comparable survey of purchasing executives at nonmanufacturers also showed continued but less widespread expansion, accompanied by higher prices paid for a broad assortment of purchased inputs.

Consumer Spending Slows

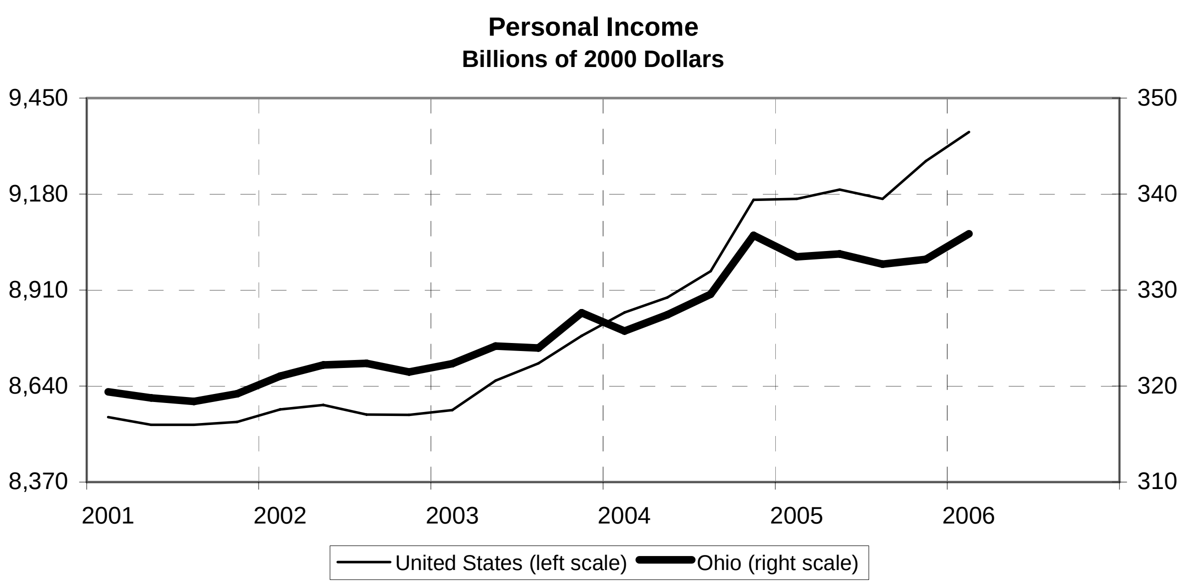
Total retail sales in the nation fell 0.1% from May to June, after only a 0.1% increase the previous month, to 5.9% above a year earlier. The sluggish pace of sales reflects slower sales at motor vehicle dealers, department stores, building materials stores, and electronics and appliance stores. Gasoline station sales, however, were 20% higher than a year earlier as a result of the jump in gasoline prices. Unit sales of light vehicles rose slightly in June but remained below last year's pace because of slower light truck sales, probably due in substantial part to increased buyer interest in fuel economy following the jump in gasoline prices.

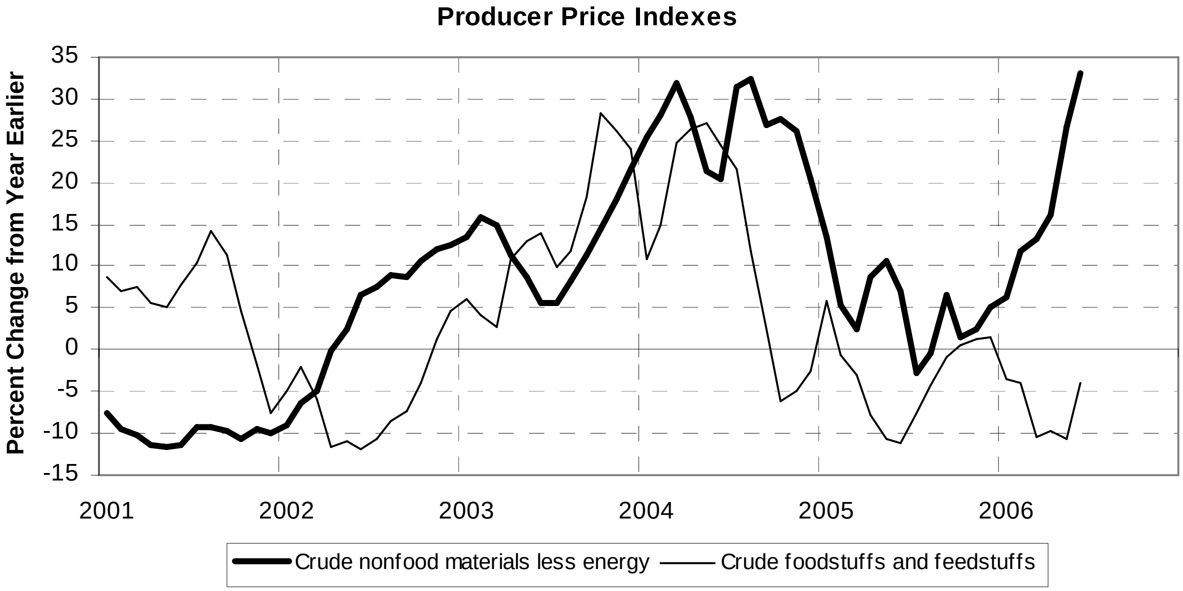
Personal income of Ohio residents rose 1.3% in this year's first quarter to 3.7% above a year earlier. Nationwide, personal income increased 1.4% in the first quarter to 5.1% higher than a year earlier. Growth of personal income in Ohio has trailed that of the nation for the past three years.

Housing Sales and Construction Slow Further

Construction was started on 5% fewer new housing units nationwide in June than the month before, as the pace of new housing starts, seasonally adjusted, fell to around the 2003 level. Starts on new housing units, increasing yearly since 2000, rose further in 2004 and 2005 as single-family home starts reached an all-time high on records dating from 1959. Housing starts in this year's first half were 4% below a year earlier. In the Midwest, housing starts in the first half of this year were 12% lower than 12 months earlier. The recent peak year for housing starts in this region was 2003.

New home sales nationwide rose 5% in May, seasonally adjusted, but remained below the sales pace for all of last year. Year-to-date sales were 11% below a year earlier. Builders' inventories





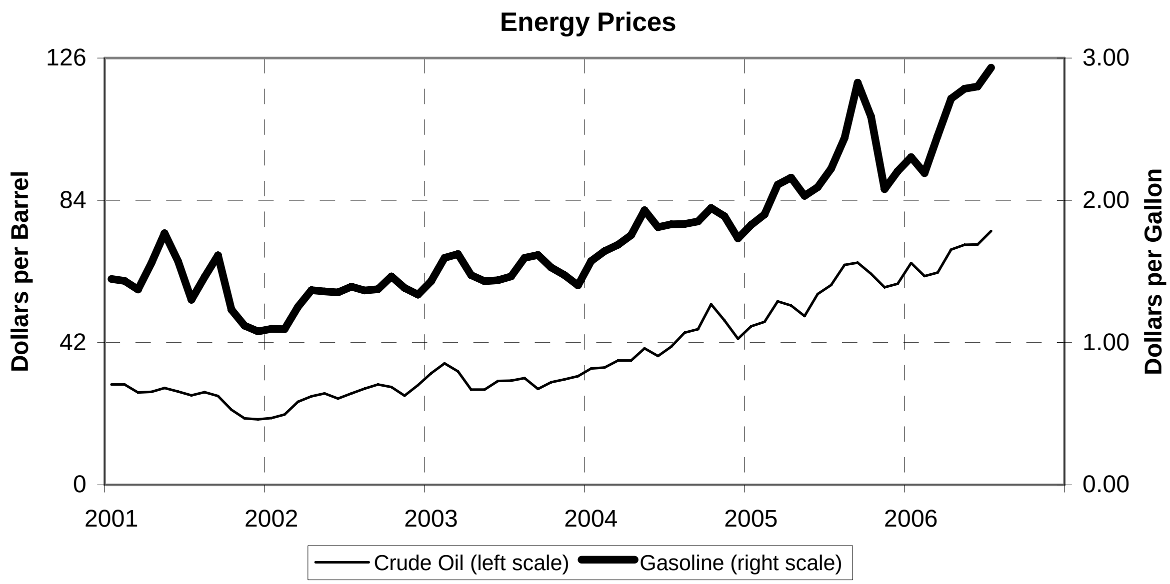
of new homes under construction or completed at the end of May were 22% higher than a year earlier. In the Midwest, new home sales during the first five months of 2006 were 13% below a year ago. Sales of used homes, compiled by the National Association of Realtors, fell 1% in May in the nation and remained below last year's sales rate. Year-to-date sales were 4% lower than a year earlier, and the inventory of unsold homes at the end of May was 41% higher than a year earlier, representing an increase of more than 1 million homes being offered for sale through realtors. In the Midwest, unit sales during January-May were 1% below a year earlier. In Ohio, year-to-date sales through May were 2% higher than a year ago, according to the Ohio Association of Realtors.

The value of construction spending fell 0.4% in May to 6% higher than a year earlier. These figures include changes in prices. Year-to-date private residential construction spending was 6% higher than a year earlier, after double-digit annual increases in 2003 through 2005. In contrast, private nonresidential construction activity in this year's first five months was 13% higher than a year earlier, following smaller increases in 2004 and 2005 and declines in the previous three years. The value of public construction put in place so far this year was 10% higher than a year earlier.

Inflation Remains Elevated

The producer price index for finished goods rose 0.5% from May to June and was 4.9% above its year-earlier level. However, excluding food and energy, producer finished goods prices rose less rapidly, increasing 0.2% last month to 1.9% above a year earlier. At earlier stages in the production process, price changes were mixed with intermediate goods prices increasing 0.7% in the latest month to 9% above a year earlier, and the crude materials price index falling 1.7% in June to 9% above its June 2005 level. Basic industrial materials prices, excluding food and energy, were 33% higher in June than a year earlier. Crude foodstuffs prices, on the other hand, have trended lower for two years.

Crude oil prices rose to new all-time highs in trading this month, driven by heightened instability in the Middle East on top of strong world demand and tight supplies. Prices have eased since July 14. Gasoline prices rose nearly to $3 a gallon on average for unleaded regular in Ohio, only a few cents below the peak last September. The accompanying chart of energy prices shows monthly averages except for this month. The crude oil price shown is for West Texas Intermediate crude oil in the spot market. The gasoline price plotted is the statewide average in



Ohio for regular gasoline beginning in June 2003, and before that is a Midwest average price. Gasoline prices have nearly tripled since late 2001.

The consumer price index rose 0.2% in June, the smallest one-month change since February, to 4.3% above a year earlier. Consumer energy prices fell 0.9% in June as gasoline and natural gas prices declined. Weekly average gasoline prices, from a separate survey, fell from late April to late June but then rose in the first half of July. Excluding food and energy, the consumer price index rose 0.3% for the fourth consecutive month in June, to 2.6% above a year earlier, the largest year-over-year increase since early 2002. The upturn is partly attributable to faster increases in "rent of primary residence" and in "owners' equivalent rent of primary residence." The latter is used to impute a charge to homeowners for the cost of living in their homes. Together the weights on the two rent components account for more than one-fourth of the consumer price index and more than one-third of the index excluding food and energy. Other prices paid by consumers are, in the aggregate, not up as sharply but are also rising faster than earlier.

Another Increase in Short-Term Interest Rates

As expected, the nation's central bank raised its short-term interest rate target for federal funds

(overnight loans between banks) by one-quarter percentage point to 5.25% at the June 28-29 meeting of its Federal Open Market Committee (FOMC). In Congressional testimony, Federal Reserve Chairman Bernanke described the economy as in transition to less robust growth. He expected, subject to numerous uncertainties, that this slower growth would be accompanied by an easing of inflationary pressures. Nevertheless, his remarks left the central bank with great leeway regarding its future monetary policy actions. Another increase in short-term interest rates clearly remains a possibility at the next FOMC meeting, on August 8, or the central bank may pause in its monetary tightening.

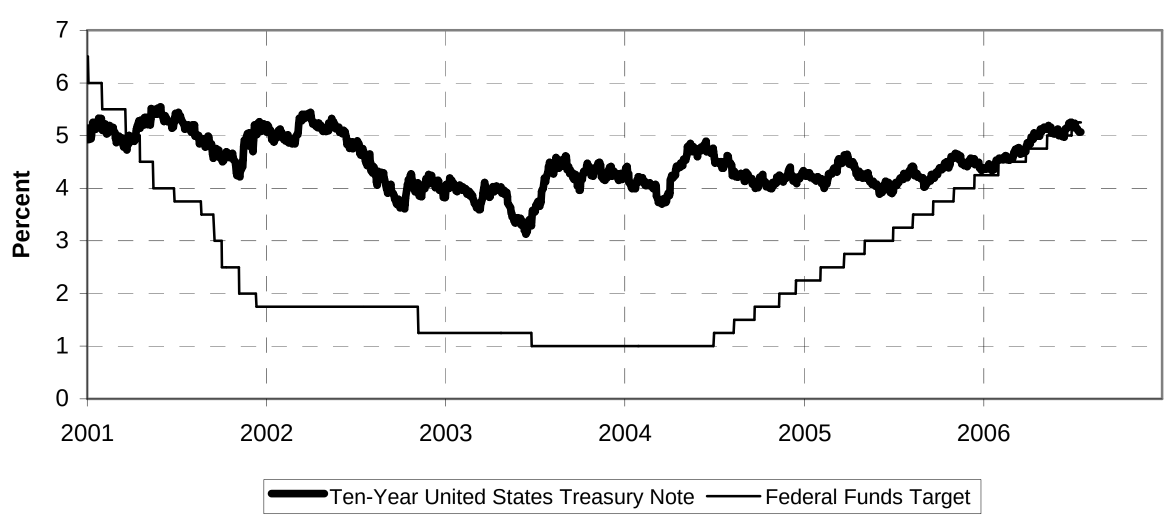
Fiscal Year in Review

At the beginning of Ohio's FY 2006, in July 2005, expansion of national economic activity had been underway for more than three years, following the end of the 2001 recession. The initial recovery from the recession had been unusually weak, but then growth in the nation's output of goods and services turned higher during this state's FY 2004 and FY 2005. Ohio's economy was also growing, following the 2001 downturn, but the upturn here was generally slower than the national expansion. Gross state product and personal income in Ohio grew more slowly than for the nation in calendar years 2003 and 2004, after rising somewhat more rapidly in 2002. Employment growth since the 2003 post-recession low point for the number of jobs had been much more anemic in Ohio than nationwide. The unemployment rate in the state had not fallen much, as of mid-2005, from its 2003 peak in contrast with a drop of more than a percentage point in the average unemployment rate nationwide.

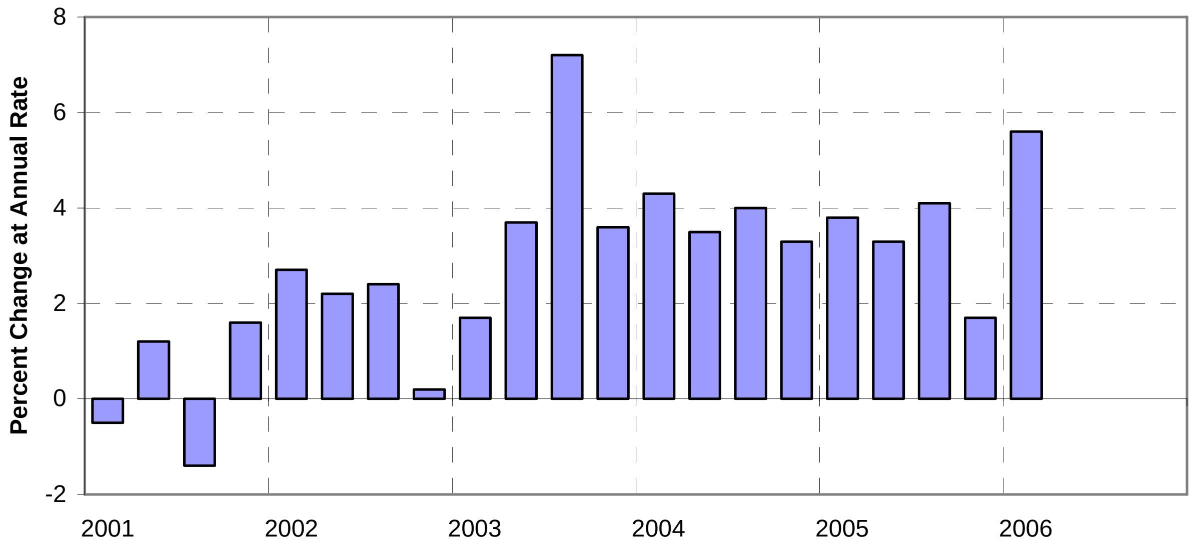
Inflation pressures had eased somewhat for finished goods and services by mid-2005, the beginning of FY 2006. The consumer price index for June 2005 was 2.5% higher than a year earlier, down from a 3.5% year-over-year rise earlier in 2005 and late in 2004. Commodity price pressures also had eased, though energy prices remained elevated. With the economy expanding and higher inflation a threat, the nation's central bank raised its short-term interest rate target from 3% to 3.25% on June 30, 2005, after increasing this rate during the previous 12 months from 1%.

The national economy, during Ohio's FY 2006, was buffeted by the impact of the most costly hurricane in the nation's history, soaring energy prices as well as higher prices for other commodities, and further increases in interest rates. Growth strengthened in the third quarter of 2005 and the first quarter of 2006, and slowed in last year's fourth quarter and apparently also in this year's second quarter, based on the information available at this time. Ohio's expansion continued to trail that of the country. Inflation-adjusted gross state product in Ohio rose

Selected Interest Rates



Gross Domestic Product



only 1.0% in calendar year 2005, less than the 3.5% increase in the nation. Personal income increased at a 0.8% annual rate in Ohio, adjusted for inflation, from the second quarter of 2005 to the first quarter of 2006, less than the 2.4% rate of increase for the United States during this period. Employment growth in the state turned higher but remained slow, and the statewide unemployment rate fell but stayed higher than that for the nation. Sales of light motor vehicles surged in July 2005 in response to very attractive incentives offered by car and light truck manufacturers but then fell back as incentives were reduced. Ohio's economy is particularly affected by the difficulties faced by the domestic automakers and suppliers. The hurricanes in late August and September disrupted energy production and distribution, as well as distribution of a range of other commodities, boosting prices. High energy prices reflect strong demand worldwide, limited ability of producers to increase supply quickly, and political instability in the Middle East and elsewhere. Consumer spending was dampened by high gasoline prices. Increases in mortgage interest rates during the course of the year, for both fixed-rate and adjustable-rate loans, slowed home and condominium sales, particularly in some more speculative markets on the east and west coasts, where housing prices had jumped sharply during the prior few years. At the same time that the housing sector was slowing, nonresidential construction strengthened. Supported by strong profits and cash flows, business investment in equipment continued to grow rapidly through this year's first quarter but may have slowed in the second quarter. Any such slowdown will likely prove temporary as order backlogs remain substantial (though unfilled orders sometimes evaporate when underlying demand slips). Strength in equipment spending has been broad based, with investment in computers and electronic equipment and software particularly strong, huge backlogs of orders for aircraft (though many are destined for export and not domestic investment), shipments of heavy and medium trucks at a very strong pace ahead of tougher environmental requirements, and buying of industrial equipment continuing to grow.

Continued national economic expansion throughout Ohio's FY 2006 and increases in various measures of inflation kept pressure on the central bank during the year to tighten monetary policy further. The interest rate on federal funds was increased two percentage points during the year. Other short-term interest rates also increased. Longer-term borrowing costs rose, by about half as much as short-term rates in the year to June 30, as illustrated for one such interest rate in the accompanying chart. More expensive credit appears clearly to have slowed demand for housing, but credit remains readily available to qualified borrowers.

Status of the General Revenue Fund

REVENUE

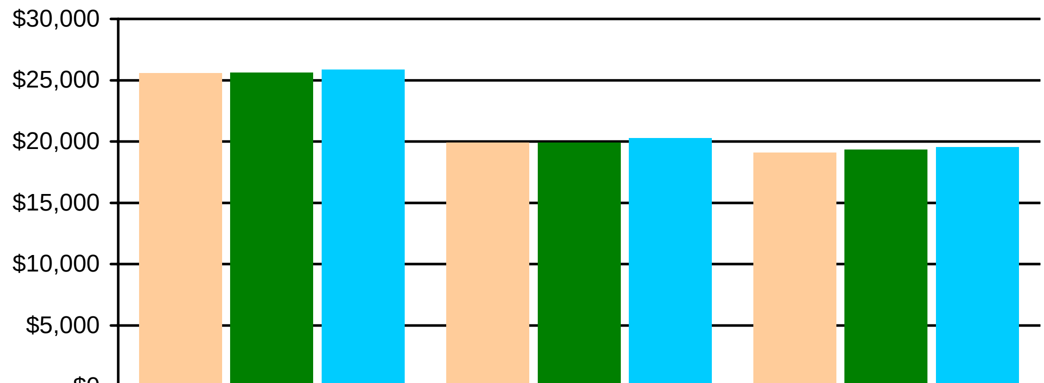
— Jean Botomogno and Allan Lundell

Total General Revenue Fund (GRF) receipts for June were below estimate by $48.9 million (2.2%).[1] State-source receipts (tax revenues plus nontax revenues plus transfers in) were $110.1 million (5.9%) below estimate and federal grants were above estimate by $61.2 million (15.9%).[2] Tax revenues were below estimate by $118.5 million (6.8%). Personal income tax revenue was below estimate by $108.3 million (12.0%) and corporate franchise tax revenue was $37.9 million (52.8%) below estimate. Cigarette tax revenue was above estimate by $10.8 million (13.2%) and revenue from the domestic insurance tax was above estimate by $10.1 million (44.1%). Nonauto sales tax revenue was $11.1 million (2.1%) above estimate and auto sales tax revenue was $3.1 million (3.8%) above estimate. Revenue from the estate tax was below estimate by $11.4 million (63.3%).

Total FY 2006 GRF receipts were above estimate by $219.6 million (0.9%). State-source receipts were above estimate by $349.1 million (1.8%) and federal grants were below estimate by $129.5 million (2.3%). Tax revenues were above estimate by $241.9 million (1.3%). Personal income tax revenue was above estimate by $112.5 million (1.3%) and revenue from the corporate franchise tax was above estimate by $102.3 million (10.7%). Revenue from the cigarette tax was above estimate by $70.9 million (7.0%) and revenue from the commercial activity tax was above estimate by $41.6 million (29.0%). Revenue from the public utility excise tax was above estimate by $29.6 million (20.2%) and revenue from the kilowatt-hour tax was above estimate by $9.6 million (3.0%). Nonauto sales tax revenue was below estimate by $82.0 million (1.3%) and auto sales tax revenue was $30.6 million (3.2%) below estimate. Revenue from the estate tax was below estimate by $8.0 million (12.9%).

FY 2006 total GRF receipts were up 1.2% compared to FY 2005. State-source receipts were up 1.7% and federal grants were down 0.9%. Tax revenues were up 2.5%. Cigarette tax revenue was up 87.7%, personal income tax

GRF Receipts
(in millions)



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Total Tax Revenue
FY 2005	$25,550.5	$19,903.9	$19,088.0
FY 2006 Estimate	$25,626.4	$19,901.7	$19,321.5
FY 2006 Actual	$25,846.0	$20,250.8	$19,563.4

revenue was up 2.2%, and revenue from the corporate franchise tax was up 0.3%. Revenue from the cigarette tax was boosted by the 127% rate increase from 55¢ per pack to $1.25 per pack. Growth in personal income tax revenue was slowed by a reduction in income tax rates and growth in corporate franchise tax revenue was slowed by the phaseout of the tax on nonfinancial corporations. Nonauto sales tax revenue was down 4.9% and auto sales tax revenue was down 12.0%. Revenues from the sales and use tax were 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 $790.5 million from the personal income tax in June, $108.3 million (12.0%) less than estimated. Gross collections of $967.3 million were below estimate by $46.1 million (4.5%) and refunds of $129.7 million were $63.1 million (94.8%) more than estimated. Withholding was $43.1 million (6.3%) below estimate, quarterly estimated payments were below estimate by $8.0 million (2.7%), and payments associated with annual returns were above estimate by $3.9 million (19.4%).[3]

The GRF received $8,786.4 million from the personal income tax during FY 2006, $112.5 million (1.3%) above estimate. Gross collections were below estimate by $46.7 million (0.4%) and refunds were below estimate by $159.7 million (11.1%). Withholding, which accounted for 73% of gross income tax collections for FY 2006, was $145.5 million (1.8%) below estimate. Quarterly estimated payments were $36.2 million (2.4%) below estimate, payments associated with annual returns were above estimate by $105.1 million (9.3%), and trust payments were $17.8 million (26.5%) above estimate.

Compared to FY 2005, GRF revenue from the personal income tax was up 2.2% for the fiscal year. Gross collections were up 3.9% and refunds were up 21.6%. Withholding was up 3.9%.[4] Quarterly estimated payments were up 5.0%, payments associated with annual returns were up 2.2%, and trust payments were up 13.6%.

Sales and Use Tax

Total sales and use tax revenues in June 2006 were $634.8 million, $14.2 million (2.3%) above projected revenues. Auto sales and use tax receipts were $3.1 million (3.8%) above estimate. Nonauto sales and use tax receipts were

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

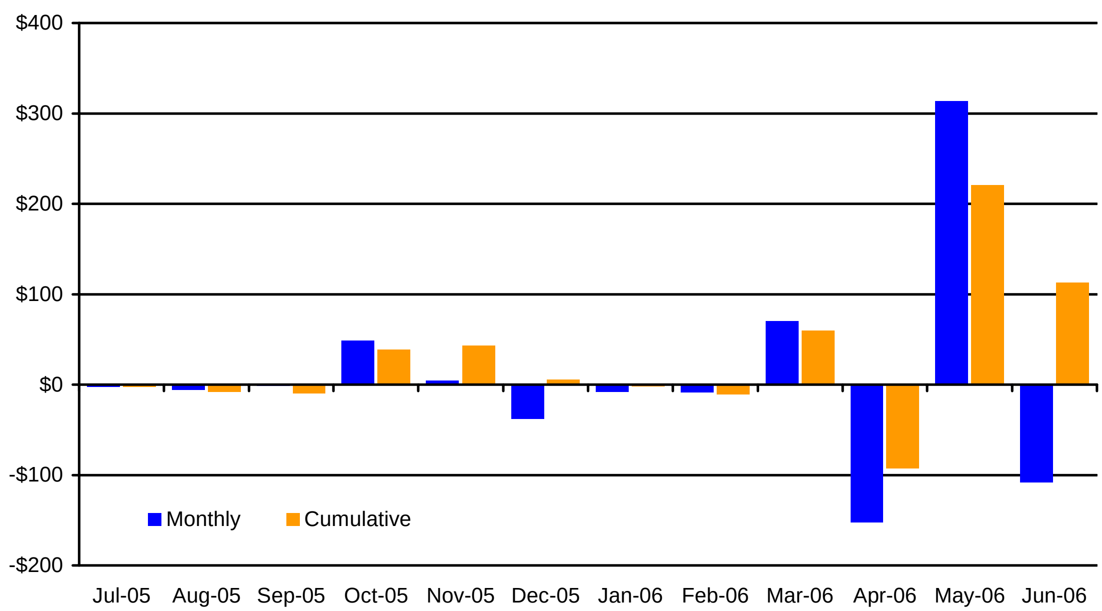


Table 2
General Revenue Fund Sources
Actual vs. Estimate
Month of June 2006
($ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$84,604	$81,509	$3,095	3.8%
Nonauto Sales & Use	$550,210	$539,144	$11,067	2.1%
Total Sales & Use Taxes	$634,814	$620,653	$14,162	2.3%
Personal Income	$790,525	$898,800	-$108,275	-12.0%
Corporate Franchise	$33,878	$71,800	-$37,922	-52.8%
Public Utility	$2,697	-$3,100	$5,797	-187.0%
Kilowatt Hour Excise	$12,172	$18,100	-$5,928	-32.8%
Total Major Taxes	**$1,474,085**	**$1,606,253**	**-$132,168**	**-8.2%**
Commercial Activity Tax	$3,130	$0	$3,130	---
Foreign Insurance	$445	$250	$195	78.2%
Domestic Insurance	$33,135	$23,000	$10,135	44.1%
Business & Property	$1,791	$1,380	$411	29.8%
Cigarette	$92,810	$82,000	$10,810	13.2%
Alcoholic Beverage	$5,548	$5,200	$348	6.7%
Liquor Gallonage	$2,873	$2,800	$73	2.6%
Estate	$6,601	$18,000	-$11,399	-63.3%
Total Other Taxes	$146,333	$132,630	$13,703	10.3%
Total Tax Revenue	**$1,620,418**	**$1,738,883**	**-$118,465**	**-6.8%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$35,455	$21,000	$14,455	68.8%
Licenses and Fees	$793	$1,650	-$857	-51.9%
Other Revenue	$38,477	$44,100	-$5,623	-12.8%
Nontax State-Source Revenue	$74,725	$66,750	$7,975	11.9%
TRANSFERS				
Liquor Transfers	$12,000	$12,000	$0	0.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$41,316	$40,900	$416	1.0%
Total Transfers In	$53,316	$52,900	$416	0.8%
TOTAL GRF before Federal Grants	**$1,748,459**	**$1,858,533**	**-$110,074**	**-5.9%**
Federal Grants	$445,603	$384,391	$61,212	15.9%
TOTAL GRF SOURCES	**$2,194,062**	**$2,242,924**	**-$48,862**	**-2.2%**

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

Table 3
General Revenue Fund Sources
Actual vs. Estimate
FY 2006 as of June 2006
($ in thousands)

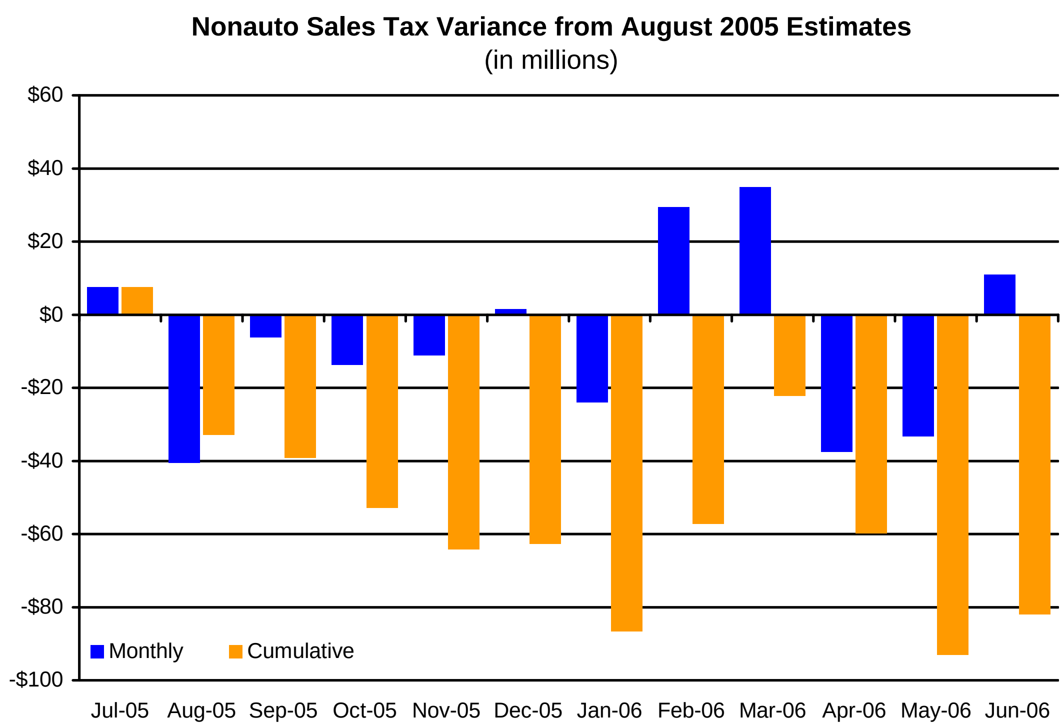
	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
TAX REVENUE						
Auto Sales	$936,363	$967,000	-$30,637	-3.2%	$1,064,107	-12.0%
Nonauto Sales & Use	$6,431,881	$6,513,900	-$82,019	-1.3%	$6,763,023	-4.9%
Total Sales & Use Taxes	$7,368,244	$7,480,900	-$112,656	-1.5%	$7,827,130	-5.9%
Personal Income	$8,786,395	$8,673,900	$112,495	1.3%	$8,598,871	2.2%
Corporate Franchise	$1,054,901	$952,600	$102,301	10.7%	$1,051,620	0.3%
Public Utility	$176,171	$146,600	$29,571	20.2%	$104,102	69.2%
Kilowatt Hour Excise	$325,308	$315,700	$9,608	3.0%	$339,817	-4.3%
Total Major Taxes	**$17,711,020**	**$17,569,700**	**$141,320**	**0.8%**	**$17,921,539**	**-1.2%**
Commercial Activity Tax	$185,082	$143,500	$41,582	29.0%	$0	---
Foreign Insurance	$248,797	$243,600	$5,197	2.1%	$242,856	2.4%
Domestic Insurance	$170,318	$172,900	-$2,582	-1.5%	$171,364	-0.6%
Business & Property	$19,092	$26,400	-$7,308	-27.7%	$25,196	-24.2%
Cigarette	$1,084,142	$1,013,200	$70,942	7.0%	$577,671	87.7%
Alcoholic Beverage	$57,546	$57,500	$46	0.1%	$56,821	1.3%
Liquor Gallonage	$33,370	$32,600	$770	2.4%	$32,173	3.7%
Estate	$54,070	$62,100	-$8,030	-12.9%	$60,381	-10.5%
Total Other Taxes	$1,852,417	$1,751,800	$100,617	5.7%	$1,166,462	58.8%
Total Tax Revenue	**$19,563,437**	**$19,321,500**	**$241,937**	**1.3%**	**$19,088,002**	**2.5%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$107,281	$65,000	$42,281	65.0%	$34,986	206.6%
Licenses and Fees	$73,904	$69,200	$4,704	6.8%	$70,601	4.7%
Other Revenue	$190,973	$186,700	$4,273	2.3%	$158,535	20.5%
Nontax State-Source Revenue	$372,157	$320,900	$51,257	16.0%	$264,121	40.9%
TRANSFERS						
Liquor Transfers	$138,000	$123,000	$15,000	12.2%	$115,000	20.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$177,211	$136,300	$40,911	30.0%	$436,795	-59.4%
Total Transfers In	$315,211	$259,300	$55,911	21.6%	$551,795	-42.9%
TOTAL GRF before Federal Grants	**$20,250,806**	**$19,901,700**	**$349,106**	**1.8%**	**$19,903,918**	**1.7%**
Federal Grants	$5,595,196	$5,724,675	-$129,479	-2.3%	$5,646,559	-0.9%
TOTAL GRF SOURCES	**$25,846,001**	**$25,626,375**	**$219,627**	**0.9%**	**$25,550,477**	**1.2%**

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

$11.1 million (2.1%) above estimate. It was the first time since February that receipts from both taxes were above estimate. Total sales and use tax receipts in June 2006 were $18.0 million (2.8%) below revenues in June 2005. Tax receipts partly reflect taxable retail sales activity in the prior month and partly taxable retail sales during the current month.[5]

FY 2006 total sales and use tax revenues were $7,368.2 million, $112.7 million (1.5%) below estimate. These receipts were also $458.9 million (5.9%) below FY 2005 receipts. The year-over-year decrease in revenues 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). 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, primarily because of inadequate receipts from the auto component of the tax. Expected growth in the sales and use tax taxable base was about 4.3% for the fiscal year. Based on tax receipts, the estimated sales and use tax taxable base grew about 2.7% in FY 2006.

Various measures of Ohio income, income tax withholding, and other income payments have held up reasonably well during FY 2006. Thus, the poor performance of the sales and use tax is most likely due to higher gasoline spending by Ohioans and the household budget squeeze it creates. Households are finding it difficult to adjust to $3 for a gallon of regular unleaded gasoline and price increases in the other energy sources. Based on revenues from the motor vehicle fuel tax, Ohio consumers may have spent up to $4.6 billion more for gasoline and other fuels in FY 2006 compared to FY 2005. This represents on average about $1,000 in nontaxed extra spending per household.[6] Gasoline is not included in the sales and use tax taxable base and thus is not captured in sales and use tax revenues. Assuming that 50% of the additional spending on gasoline would have been spent on goods and services taxable under the sales and use tax, $128 million in additional sales and use tax receipts might have been collected, more than the negative variance in total sales and use tax revenues in FY 2006. Higher gasoline prices have hit lower income households especially hard. Those in the bottom two quintiles of the income distribution are now spending over 10% of their budgets on energy, according to Global Insight, a national forecasting firm. If the runup in gasoline prices continues, growth in sales and use tax revenues in FY 2007 may be constrained.



Nonauto Sales and Use Tax

Revenues from the nonauto sales and use tax in June were $550.2 million, $11.1 million (2.1%) above anticipated receipts. Nonauto sales and use tax receipts were also $11.9 million (2.1%) below revenues in the same month last year. FY 2006 nonauto sales and use tax receipts were $6,431.9 million, $82.0 million (1.3%) below estimate. These receipts include $12.8 million from the six-week Ohio Tax Amnesty Program in January and February 2006.[7] Nonauto sales and use tax receipts were also $331.1 million (4.9%) below year-to-date receipts in June 2005. Growth in the nonauto sales and use tax taxable base, about 3.7%, was unsteady and mediocre in FY 2006.

Nationwide core retail sales (retail sales excluding auto and gasoline sales) grew about 0.6% in May and 0.1 % in June. Compared to sales a year ago, core retail sales grew at a moderate 7.0% and 7.8%, respectively.[8]

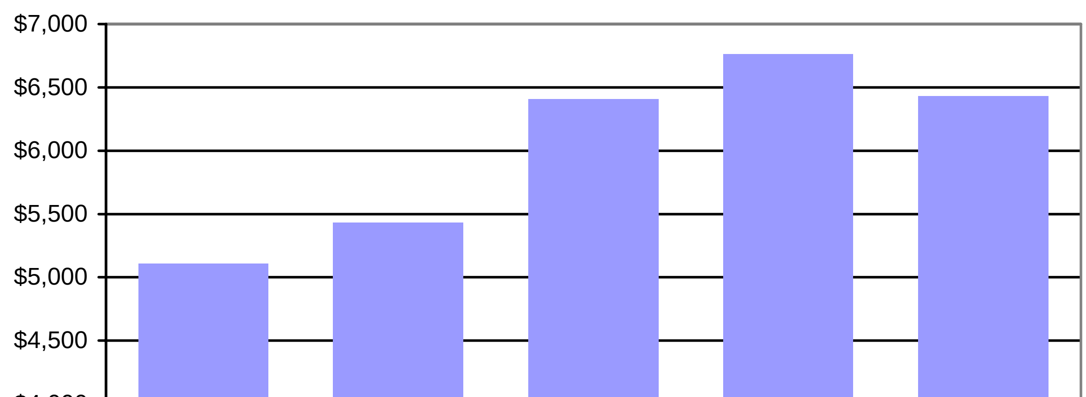
From $5,110 million in FY 2002, nonauto sales and use tax revenues grew to $6,431 million in FY 2006. Although receipts rose about 26%, the performance of the nonauto sales and use tax remained feeble during this period. Sales and use tax revenues grew 6.3% in FY 2003 primarily from the additional revenues received from the acceleration of sales and use tax payments in Am. Sub. H.B. 40 (125th General Assembly). Revenue growth of 18.0% in FY 2004 was from the rate increase from 5% to 6% on July 1, 2003 in Am. Sub. H.B. 95 (125th General Assembly). Revenues increased 5.5% in FY 2005 with the help of the sales and use tax taxable base expansion, also in Am. Sub. H.B. 95. Excluding the various tax changes, the nonauto sales and use tax taxable base has grown less than 3.5% on an annual basis since FY 2003.

Auto Sales and Use Tax

Auto sales and use tax receipts were $84.6 million in June, $3.1 million (3.8%) above estimate. These tax receipts were also $6.1 million (6.7%) below receipts in June 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.

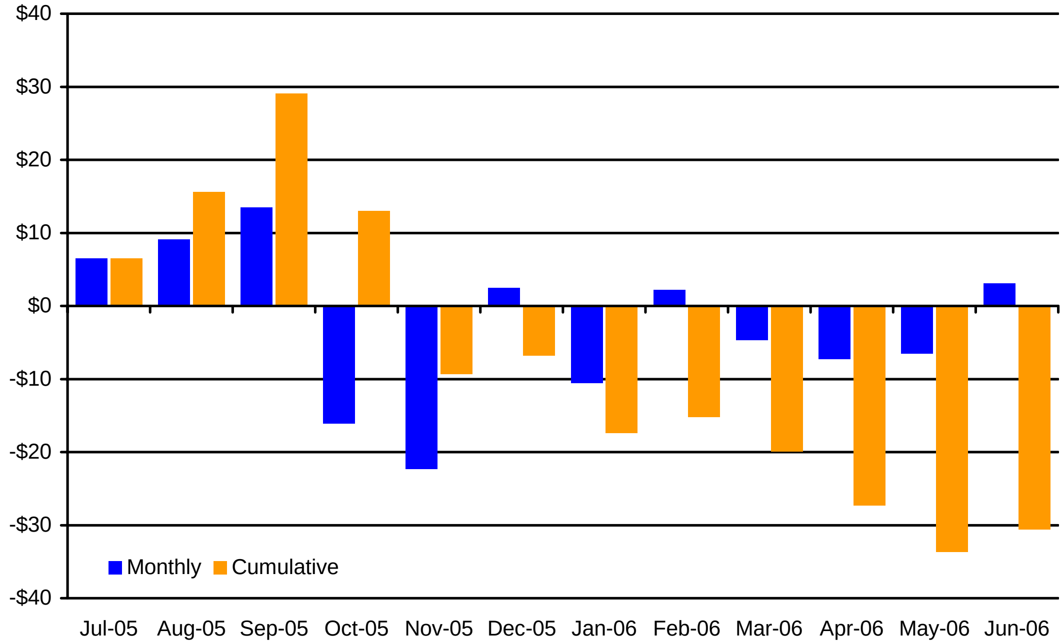
FY 2006 auto sales and use tax receipts were $936.4 million, $30.6 million (3.2%) below estimate. FY 2006 auto sales and use tax receipts were also $127.7 million (12.0%) below receipts through the same period in FY 2005. Growth in the auto sales and use tax taxable base plunged 8% in the second half of FY 2006. For the entire fiscal year, a decline of 0.9% in the taxable base

Nonauto Sales and Use Tax Revenues
FY 2002 - FY 2006 (in millions)



	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	$5,110.4	$5,431.7	$6,407.7	$6,763.0	$6,431.8

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

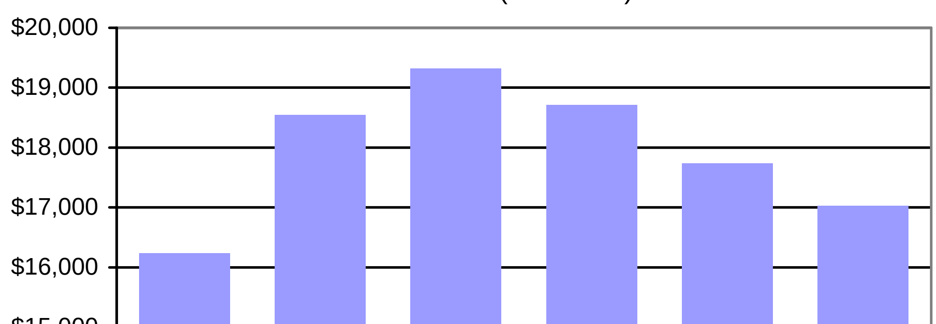


was anticipated. Based on tax receipts, the auto sales and use tax taxable base declined 4.0% in FY 2006.

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. In FY 2006, nationwide light truck sales were down 5.1%, while car sales were up 2.6%.[9] 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, both the total number of vehicles sold in Ohio and the average price per vehicle decreased in FY 2006. Total vehicle demand dropped 5.1% and the average purchase price declined 6.1%. Also, the share of new vehicles purchased declined from 22.3% to 20.4% of all transactions.

Auto sales and use tax receipts (and the taxable base) grew in FY 2002 and in FY 2003, mainly as a result of innovative auto manufacturer incentives. However, in the last three years,

Auto Sales and Use Tax Taxable Base
FY 2001 - FY 2006 (in millions)



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Taxable Base	$16,230.0	$18,550.0	$19,324.0	$18,715.0	$17,735.0	$17,025.5

receipts from this tax source have been below expectations. Auto sales and use tax revenues grew 16.2% in FY 2004 (although the taxable base declined 3%) due to the 20% tax rate increase from 5% to 6% of the purchase price (Am. Sub. H.B. 95). Tax receipts (and the taxable base) declined 5.2% in FY 2005 from a drop in purchases of new vehicles. Receipts declined in FY 2006 as a result of the rate decrease from 6% to 5.5%.

For the third consecutive year, the auto sales and use tax taxable base shrank, to about $17.0 billion, which is well below the FY 2002 level of $18.5 billion. The disappointing auto sales and use tax receipts have occurred at the time when nationwide car and light truck sales are historically high and incentives by auto manufacturers and dealers have continued unabated.

Corporate Franchise Tax

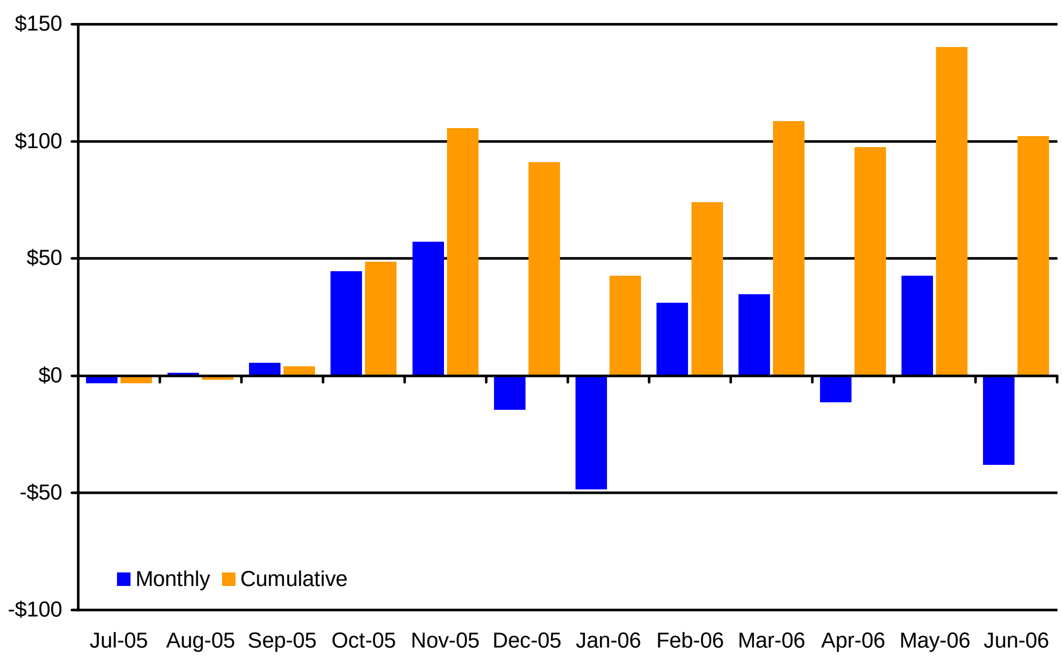
Receipts from the corporate franchise tax (CFT) in June 2006 were $33.9 million, $37.9 million (52.8%) below estimate. The Office of Budget and Management reported that $23.0 million in tax refunds were paid out during the month, which explains most of the negative variance. June 2006 receipts were also $39.4 million (53.8%) below June receipts last year.

FY 2006 receipts were $1,054.9 million, $102.3 million (10.7%) above estimate. Receipts include $17.8 million from the tax amnesty program. FY 2006 receipts were also $3.3 million (0.3%) above receipts in FY 2005. Without receipts from the tax amnesty program and one-time settlements, FY 2006 CFT receipts would have declined about $19.7 million, 1.9% below FY 2005 receipts. The performance of the CFT is remarkable because nonfinancial corporations[10] had to pay only 80% of their total CFT tax liability. FY 2006 ushered in the start of the five-year phaseout of the CFT, which will be eliminated in FY 2010, as prescribed by Am. Sub. H.B. 66.

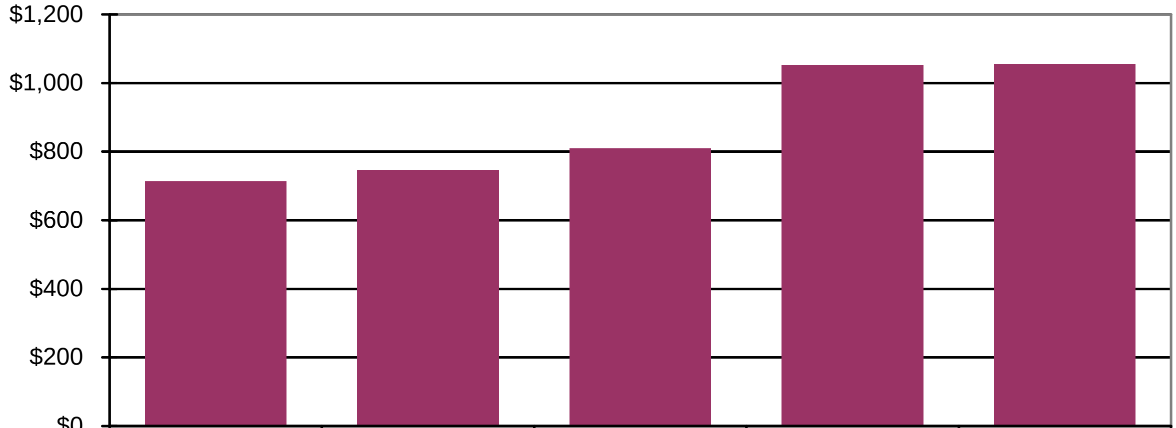
CFT revenues grew 4.9% in FY 2003, 8.3% in FY 2004, and 30.0% in FY 2005. Following the last economic recession, profit recovery has been strong, increasing the portion of the CFT that is based on net income.

Corporate profits increased steadily from calendar year (CY) 2002 through CY 2005. For a few industries, corporate profits have never been stronger and balance sheets more pristine in

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



Corporate Franchise Tax Revenues
FY 2002 - FY 2006 (in millions)



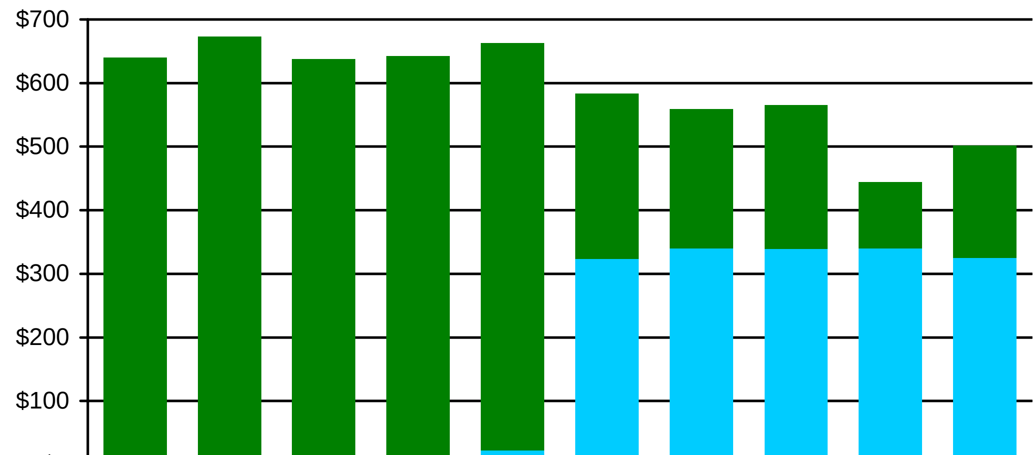
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenue	$712.3	$747.2	$809.2	$1,051.6	$1,054.9

the last calendar year. A notable exception is in the manufacturing of motor vehicles, body trailers, and parts, which lost $22.6 billion in CY 2005, according to the U.S. Bureau of Economic Analysis. Aftertax corporate profits are near a record as a share of Gross Domestic Product (about 11%), and the share of cash flow that businesses are devoting to interest expense is at a quarter-century low. Thus, the growth in Ohio CFT revenues mirrors the improvement in corporate profits in the last few years. However, profit growth started to slide at the start of CY 2006, which may portend slower growth in CFT receipts in FY 2007.

Utility Taxes

The GRF received $176.2 million from the public utility excise tax (PUET) in FY 2006. Revenues were $29.6 million (20.2%) above estimate and were up $72.1 million (69.2%) compared to FY 2005. Part of the FY 2006 increase in GRF revenues from the tax was due to a change in the amount of revenue from the tax distributed to the local government funds. A smaller amount was taken from PUET revenues and a larger amount was taken from kilowatt-hour tax revenues. Revenues were also up due to higher natural gas prices; natural gas prices for Ohio's

Utility Taxes
(fiscal year revenues, in millions)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
PUET	$639.8	$673.0	$637.6	$642.1	$640.5	$260.1	$218.7	$226.4	$104.1	$176.2
KWH				$0.0	$22.8	$323.3	$339.9	$339.0	$339.8	$325.3

residential customers were approximately one-third higher from December 2005 through February 2006 than they were during the equivalent period a year earlier, according to data reported by the U.S. Energy Information Administration.

The kilowatt-hour tax raised $325.3 million for the GRF in FY 2006, $9.6 million (3.0%) above estimate. Receipts were down $14.5 million (4.3%) compared to FY 2005. The decrease is due to the increase in the amount of revenue from the kilowatt-hour tax distributed to the local government funds.

Commercial Activity Tax

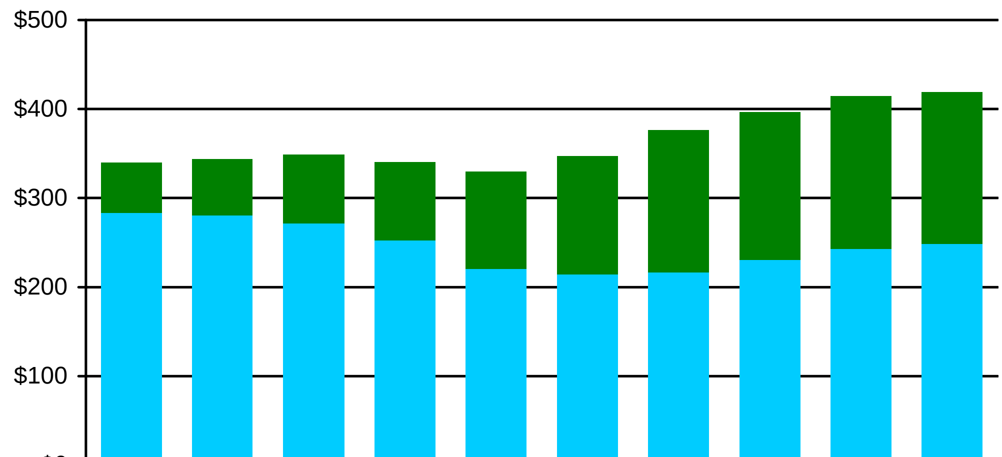
Am. Sub. H.B. 66 created the commercial activity tax (CAT), a new privilege tax on business entities operating in Ohio. The tax is being phased in over five years. H.B. 66 earmarks revenues from the CAT for the GRF and for reimbursing school districts and other local governments for the reductions and phaseout of local taxes on most tangible personal property. The first CAT payment for FY 2006 was February 10 for the period covering July 1 through December 31, 2005. The second and last payment was May 10 for the first calendar quarter from January 1, 2006 through March 31, 2006.

GRF revenues from the CAT in June were $3.1 million, although no revenues were anticipated. Through June, FY 2006 total CAT revenues were $273.4 million, $61.4 million (29.0%) above estimate. GRF receipts were $185.1 million, $41.6 million above estimate. The School District Tangible Property Tax Replacement Fund (SDRF) received $61.8 million, $13.9 million above estimate. The Local Government Tangible Property Tax Replacement Fund (LGRF) received $26.5 million, $5.9 million above estimate. From FY 2007 through FY 2011, revenues from the CAT may 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.

Insurance Taxes

The domestic insurance tax (paid by insurance companies headquartered in Ohio) raised $170.3 million for the GRF in FY 2006, while the foreign insurance tax (paid by insurance companies headquartered in other states) raised $248.8 million. Revenues from the domestic tax finished the fiscal year under estimate by $2.6 million (1.5%) and revenues from the foreign tax finished the year $5.2 million (2.1%) above

Insurance Taxes
(fiscal year revenues, in millions)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Domestic	$56.4	$63.2	$77.5	$88.2	$109.3	$132.4	$160.1	$165.9	$171.4	$170.3
Foreign	$283.5	$280.9	$271.6	$252.3	$220.6	$214.3	$216.4	$230.5	$242.9	$248.8

estimate. Revenues from the domestic tax fell by 0.6% during FY 2006, while revenues from the foreign tax grew by 2.4%. FY 2006 was the fourth year of a new tax structure created by Am. Sub. H.B. 215 of the 122nd General Assembly and is being phased in over five years. Both taxes now have the same tax rates, at 1% of premiums for health insuring corporations and 1.4% of premiums for other insurers.

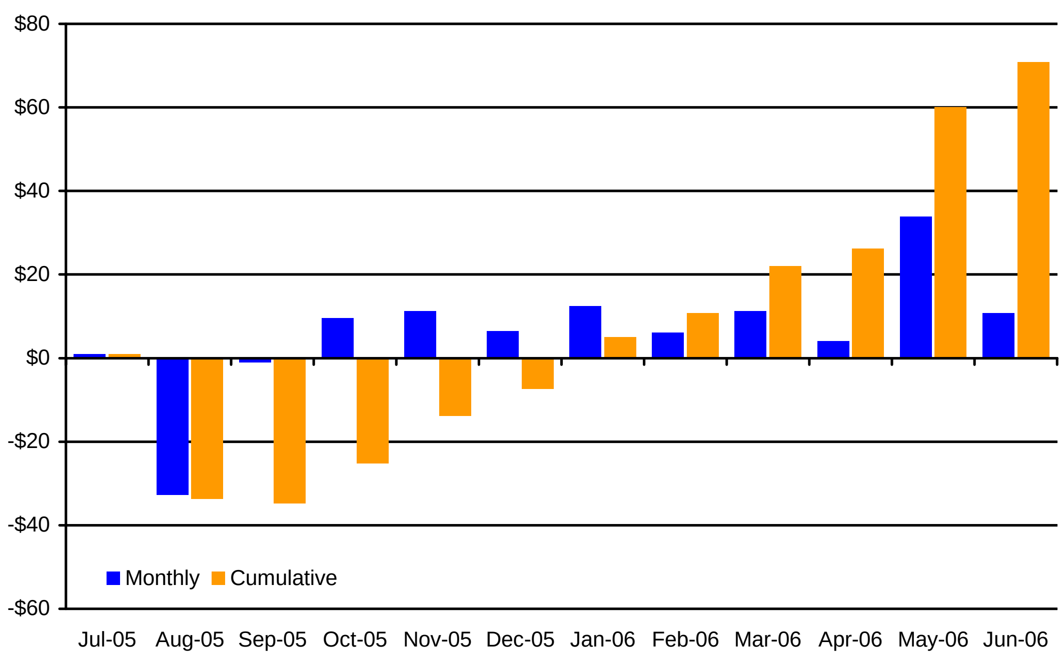
Cigarette and Other Tobacco Products Tax

Except for the first quarter, during which consumers were adjusting to the new cigarette tax rate of $1.25 per pack of 20 cigarettes, monthly revenues from the cigarette and other tobacco products tax have been above estimate in FY 2006. Receipts from the cigarette and other tobacco products tax in June 2006 were $92.8 million, $10.8 million (13.2%) above estimate. Compared to year-ago receipts in the same month, revenues in June 2006 were $22.3 million (31.5%) higher.

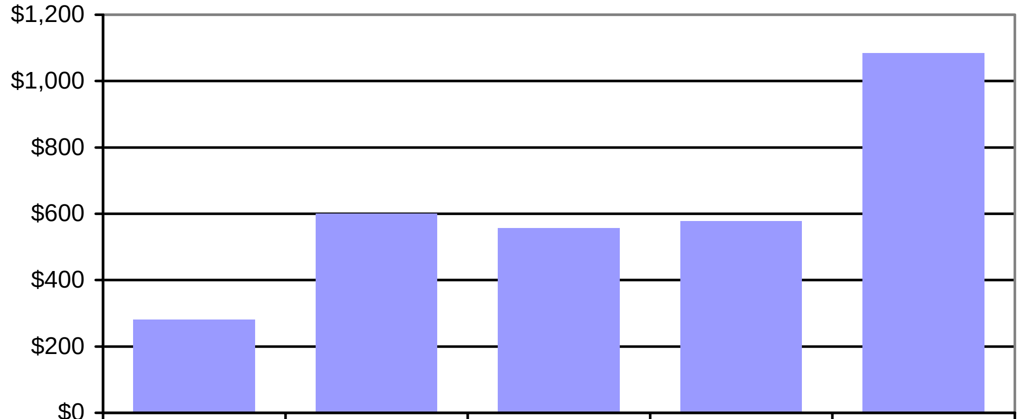
FY 2006 receipts from the cigarette and other tobacco products tax were $1,084.1 million, $70.9 million (7.0%) above estimate. FY 2006 revenues were also $506.4 million (87.7%) above revenues in FY 2005. The large increase in cigarette tax revenues compared to year-ago revenues is due to the 70¢ per pack tax rate increase on July 1, 2005 in Am. Sub. H.B. 66. The tax on the other tobacco products (17% of the wholesale price) remained unchanged. Am. Sub. H.B. 66 also imposed a floor tax of 70¢ on cigarettes in inventory on July 1, 2005, payable in the first quarter of FY 2006. These cigarettes had the old stamp of 55¢ per pack. Floor tax revenues were $66.4 million (6.1% of total tax receipts). Revenues from the cigarette excise tax were $986.8 million (91.0% of total receipts). Receipts from the tax on other tobacco products were $30.9 million (2.9% of total receipts).

Receipts from the cigarette and other tobacco products tax more than doubled in FY 2003, when the tax rate on cigarettes increased from 24¢ to 55¢ per pack on July 1, 2002. Receipts from this tax source increased 3.6% in FY 2005 due to advance purchases in anticipation of a 70¢ per pack increase on July 1, 2005, which also augmented FY 2006 revenues. The tax increases have decreased purchases of tax-paid cigarettes. Consumption of tax-paid cigarettes declined from about 1.1 billion packs in FY 2002 to less than 800 million packs in FY 2006.

Cigarette Tax Variance from August 2005 Estimates
(in millions)



Cigarette and Other Tobacco Products Tax Revenues
FY 2002 - FY 2006 (in millions)



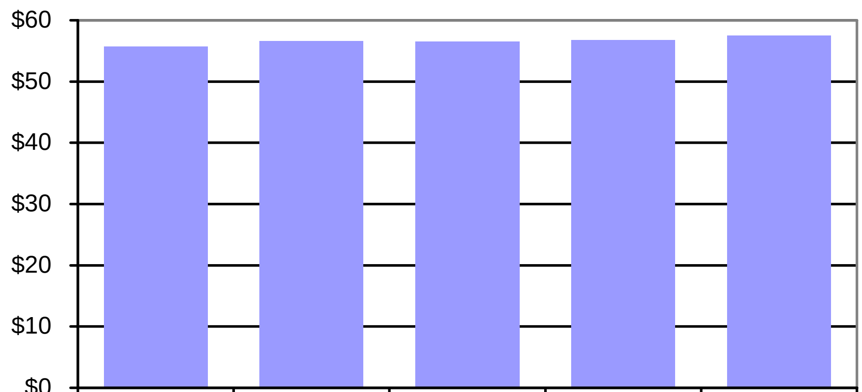
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenue	$281.3	$599.9	$557.5	$577.7	$1,084.1

Generally, revenues from the cigarette and other tobacco products decrease 1% to 2% each year in the absence of a major tax policy change. Revenues from the cigarette and other tobacco products tax are expected to be about $1 billion in FY 2007.

Alcoholic Beverage Tax

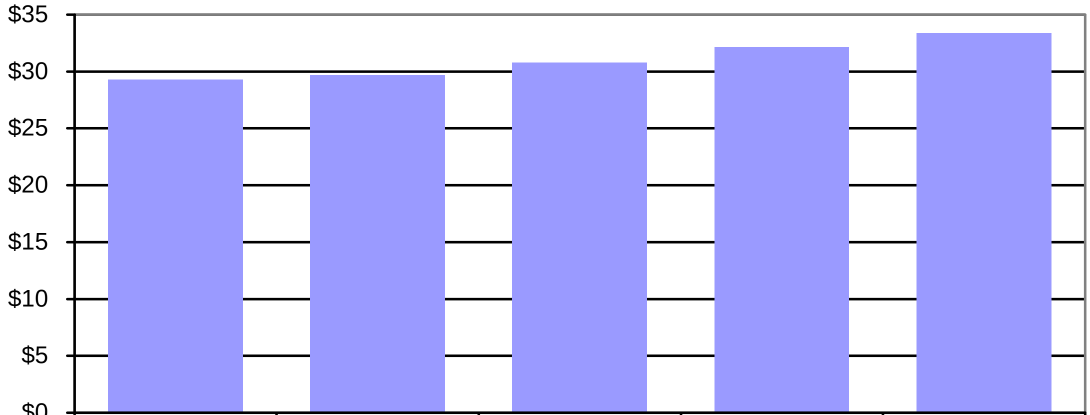
Receipts from the alcoholic beverage tax were $57.5 million in FY 2006, exceeding estimates by $0.5 million (0.1%). Tax receipts were also $0.7 million (1.3%) higher than FY 2005 revenues. The alcoholic beverage tax applies to sales of beer, malt beverages, wine, and mixed alcoholic beverages. The tax is based on a per-container rate depending on the type of beverage sold. Beer is taxed at varying rates that are equivalent to 14¢ per ounce. Wine less than 14% alcohol by volume is taxed at 33¢ per gallon. Wine between 14% and 21% alcohol by volume is taxed at $1.00 per gallon. Mixed beverages are taxed $1.20 per gallon.[11] Major exemptions from the tax are sacramental wine, sales to the federal government, and sales in interstate commerce. Revenue is deposited into the GRF.[12] Beer and malt beverages generate about 84% of tax receipts. The next largest source of revenue is the tax on wines, at about 9% of total tax receipts. Mixed beverages contribute about 5% of total tax revenues. Contributions to tax receipts are small from sales of vermouth, sparkling wines, and cider.

Alcoholic Beverage Tax Revenues
FY 2002 - FY 2006 (in millions)



	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenue	$55.7	$56.6	$56.5	$56.8	$57.5

Liquor Gallonage Tax Revenues
FY 2002- FY 2006 (in millions)



	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenue	$29.3	$29.7	$30.8	$32.2	$33.4

Overall, this tax source has grown slowly, on average less than 1.0% annually between FY 2002 and FY 2006.

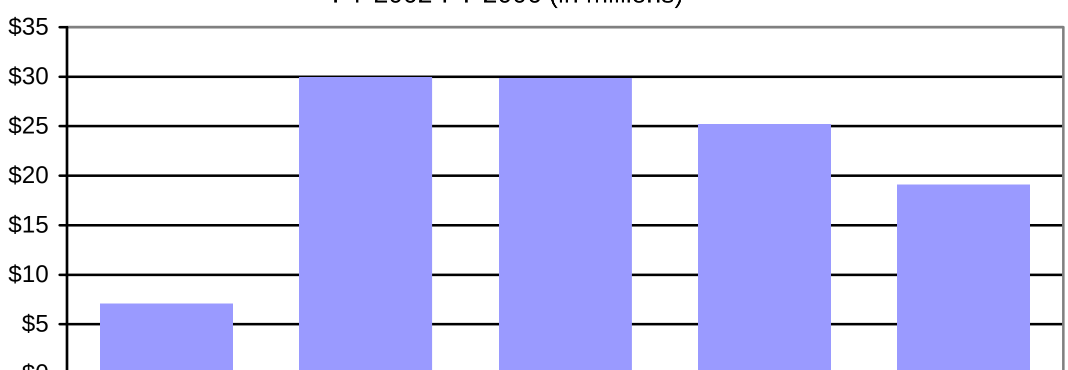
Liquor Gallonage Tax

Liquor gallonage tax receipts were $33.4 million in FY 2006, $0.8 million (2.4%) higher than estimates. FY 2006 revenues were higher than FY 2005 receipts by $1.2 million (3.7%). The liquor gallonage tax is levied at the rate of $3.38 per gallon of spirituous liquor. Receipts are deposited into the GRF. Liquor gallonage tax receipts have increased each year in the last five years. Liquor sales also contributed $27.1 million in sales and use tax revenues in FY 2006.

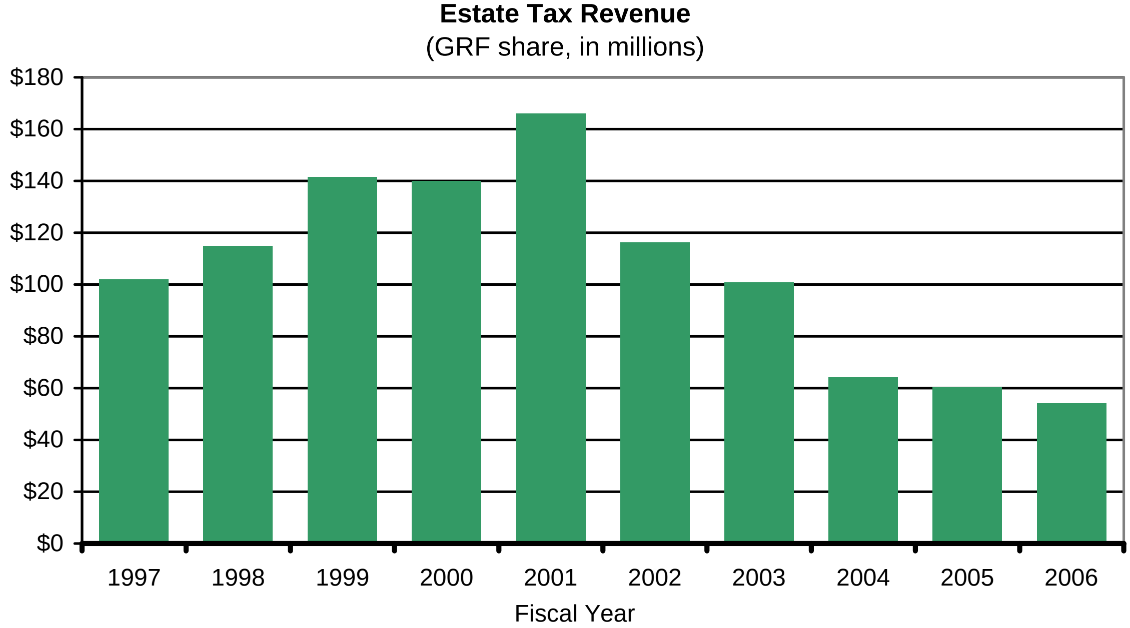
Dealer in Intangibles Tax

The dealer in intangibles tax (also called business and property tax) is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money or in buying and selling notes, mortgages, and securities. The distribution of receipts from the 8-mill tax depends on the taxpayer. All taxes paid by "qualified" dealers[13] are credited to the GRF. For "nonqualified" dealers, a share of the tax revenues, 3 mills, is deposited into the GRF.

Dealer in Intangibles Tax Revenues
FY 2002-FY 2006 (in millions)



	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenue	$7.1	$30.0	$29.9	$25.2	$19.1

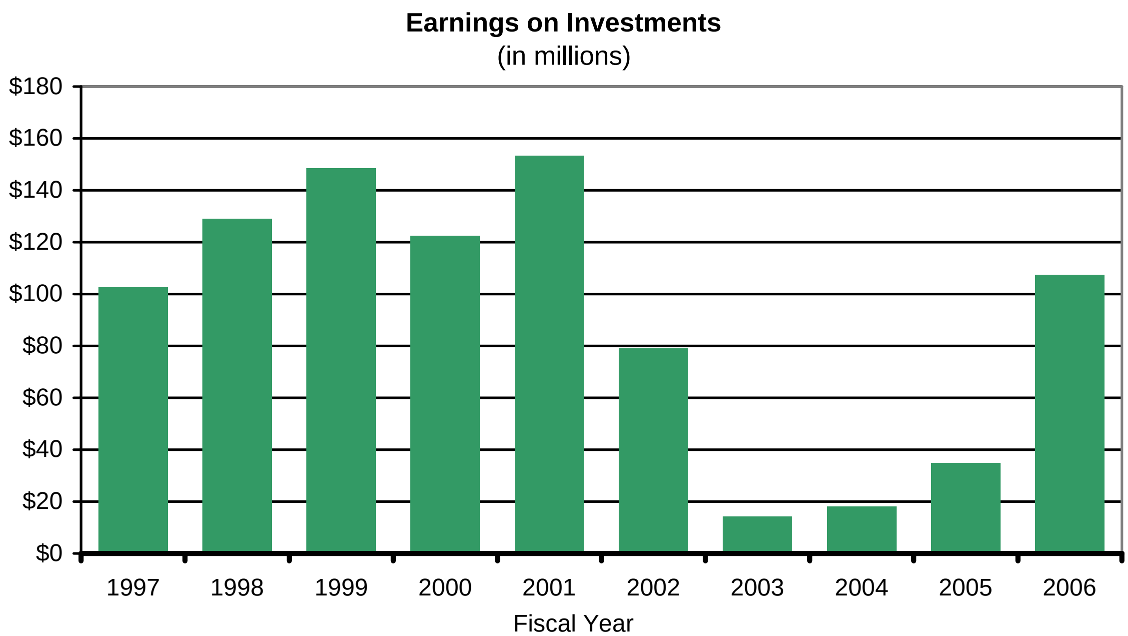


Revenues from the remaining 5 mills are distributed to counties.

GRF receipts from the dealer in intangibles tax were $19.1 million in FY 2006, $7.3 million (27.7%) below estimates. Receipts from qualified and nonqualified dealers were $11.1 million and $8.0 million, respectively. FY 2006 receipts were also $6.1 million (24.2%) below FY 2005 receipts, partly the result of a decline of $7.2 million (40.9%) in receipts from qualified dealers. Receipts from nonqualified dealers increased $1.1 million (15.7%). Revenue growth from this tax is highly dependent on investments by financial institutions and insurance companies in their subsidiary dealers and on the health of the mortgage industry. Revenue growth is also dependent on tax policy changes.

Estate Tax

In FY 2006, Ohio collected $54.1 million in estate tax revenue, $8.0 million (12.9%) below estimate. Collections in FY 2006 were down $6.3 million (10.5%) from FY 2005. The estate tax is one of the more volatile state revenue



sources. The estate of a very wealthy individual may account for 10% or more of the total state estate tax revenues. Revenue also depends on an estate's value at the time a person dies and the time of settlement made by each county with the state. In recent years, collections have been reduced by an increase in the estate tax credit from $500 to $13,900.[14] GRF revenue from the estate tax has also been reduced by an increase, from 64% to 80%, in the share of the tax distributed to local governments.

Earnings on Investments

FY 2006 revenue collections from earnings on investments were $107.3 million, $42.3 million (65.0%) above estimate. FY 2006 collections were up $72.3 million (206.6%) from FY 2005. Investment earnings outperformed the estimate due to higher than anticipated state revenue receipts, which gave the state more to invest, and higher than anticipated average yields.

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[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 was 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] 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] The definition of a household is the same as a consumer unit in the Consumer Expenditure Survey of the United States Bureau of Labor Statistics.

[7] The tax amnesty program also provided $3.6 million in local permissive sales and use taxes.

[8] Data are from the Monthly Retail Trade Survey of the U.S. Census Bureau.

[9] Unit sales data are from the U.S. Bureau of Economic Analysis. The car share of light vehicle sales rose from 44.4% to 46.3%.

[10] Nonfinancial and financial corporations provided about 82% and 18% of the total CFT liability in tax year 2004 in the latest data reported by the Department of Taxation.

[11] The corresponding tax rates would be: 10¢ for a six-pack of 12-oz. containers for beer, 5.4¢ for a standard 750-ml. bottle of wine with less than 14% alcohol, 17¢ for a standard 750-ml. bottle of wine with more than 14% alcohol, and 20.4¢ for a standard 750-ml. bottle of mixed beverages.

[12] Revenue is deposited into the GRF, except that 5¢ per gallon of wine is deposited into the Ohio Grape Industries Fund.

[13] A "qualified" dealer is a dealer that is a member of a "controlled group" of which a financial institution or insurance company is a member.

[14] The higher credit effectively exempts estates with net taxable values up to $338,333 from the estate tax. Estates with gross values of $338,333 or less are not required to file an estate tax return.

DISBURSEMENTS

*— Steve Mansfield**

In FY 2006, General Revenue Fund (GRF) program expenditures totaled $24.9 billion, an increase of $35.5 million (0.1%) from FY 2005 GRF spending. Actual program spending was below the amount that the Office of Budget and Management (OBM) estimated in August 2005 would be disbursed during the fiscal year by $664.9 million (2.6%). Transfers out of the GRF, including transfers to the Budget Stabilization Fund, totaled $660.1 million, and when taken into account increased total GRF spending by $652.0 million (2.6%).[1]

The variance between actual program spending and the estimate was largest in the Welfare and Human Services category, which was under estimate by $501.9 million (4.2%). Most of the disbursement variance in this category stems from spending in the Health Care/Medicaid program, which was under estimate by $389.5 million (4.0%). Other significant contributors to the variance included the Education category, which was $116.8 million (1.3%) under estimate, and the Government Operations category, which was $66.7 million (2.5%) under estimate.

The overall growth rate of GRF program spending is below the rate of growth in the consumer price index. From June 2005 to June 2006 the consumer price index for the Midwest region increased by 3.4%, and for the nation as a whole it increased by 4.3%. Of course the "market basket" of purchased goods is much different for governmental entities than for the typical consumer, and it is the latter that is measured by the consumer price index. For medical goods and services and for education and communication services, which form a large portion of the state's purchases, the inflation rate for the year ending in June was 4.1% and 2.7%, respectively.

Percentage and dollar changes from FY 2005 to FY 2006 for the state's largest spending programs showed substantial differences, ranging in percentage terms from a decrease of 12.0% to an increase of 23.7%.

June's GRF program disbursements were $81.7 million under estimate for the month. When we disaggregate these numbers to look at the June disbursement variances of the state's four major GRF program categories, we see that the Welfare and Human Services category registered a disbursement variance that was under estimate by $126.9 million and the Education category was under estimate by $75.7 million. These were partially offset with a variance in the Tax Relief

Summary of FY 2006 Program Expenditures		
Program Expenditure Category	**$ Change (in millions)**	**Percentage Change from FY 2005**
Primary and Secondary Education	$77	1.2%
Higher Education	$10	0.4%
Health Care/Medicaid	-$186	-2.0%
Temporary Assistance for Needy Families	$0	0.0%
Other Welfare	$105	23.7%
Human Services	$50	4.2%
Justice and Corrections	$33	1.7%
Environment and Natural Resources	-$14	-12.0%
Development	-$5	-3.3%
Other Government	$11	3.0%
Property Tax Relief	-$70	-5.1%
Debt Service	$51	11.8%

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

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	$479,939	$535,185	-$55,246	-10.3%
Higher Education	$156,748	$177,169	-$20,421	-11.5%
Total Education	$636,687	$712,354	-$75,667	-10.6%
Health Care/Medicaid	$519,324	$631,644	-$112,320	-17.8%
Temporary Assistance to Needy Families (TANF)	$27,152	$38,105	-$10,953	-28.7%
General/Disability Assistance	$0	$0	$0	---
Other Welfare (2)	$34,845	$35,851	-$1,005	-2.8%
Human Services (3)	$46,606	$49,213	-$2,607	-5.3%
Total Welfare & Human Services	$627,926	$754,812	-$126,886	-16.8%
Justice & Corrections	$138,686	$125,508	$13,178	10.5%
Environment & Natural Resources	$5,898	$3,613	$2,285	63.3%
Transportation	$270	$1,505	-$1,235	-82.1%
Development	$12,381	$6,700	$5,680	84.8%
Other Government	$16,152	$23,155	-$7,003	-30.2%
Capital	$27	$1,967	-$1,940	-98.6%
Total Government Operations	$173,414	$162,448	$10,966	6.8%
Property Tax Relief (4)	$179,691	$69,505	$110,186	158.5%
Debt Service	$53,090	$53,402	-$312	-0.6%
Total Other Disbursements	$232,781	$122,907	$109,874	89.4%
Total Program Disbursements	**$1,670,808**	**$1,752,520**	**-$81,712**	**-4.7%**
TRANSFERS				
Local Govt Distribution	$0	$0	$0	---
Budget Stabilization	$40,045	$0	$40,045	---
Other Transfers Out	$30,000	$0	$30,000	---
Total Transfers Out	$70,045	$0	$70,045	---
TOTAL GRF USES	**$1,740,853**	**$1,752,520**	**-$11,667**	**-0.7%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes Department of Job and Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.
(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.
(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

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

program that was $110.2 million over estimate and a variance in Government Operations that was $11.0 million over estimate (see Table 4).

In the sections that follow, we examine in more detail the disbursement activity in each of the four major GRF program categories in the order of magnitude of its contribution to the year's net program underspending. Summary information about GRF disbursement activity is presented in Tables 4 and 5, and a detailed analysis of disbursement activity in the Health Care/Medicaid program is presented in Tables 6 and 7.

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

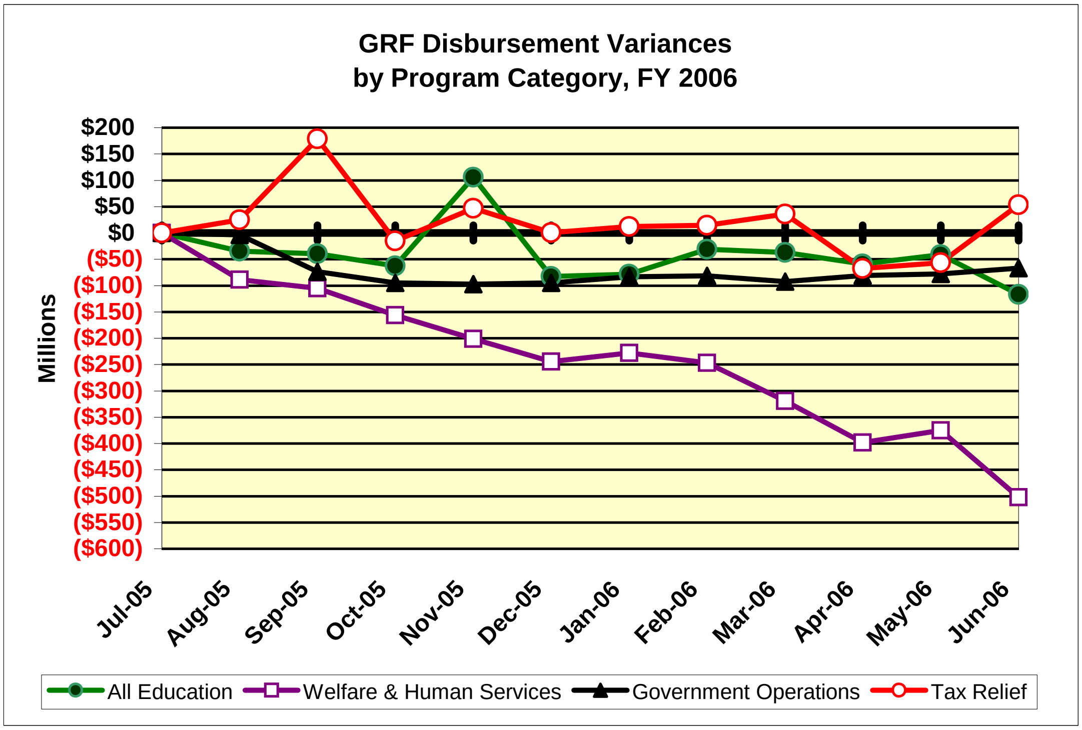
PROGRAM	Actual	Estimate*	Variance	Percent	FY 2005	Percent Change
Primary & Secondary Education (1)	$6,728,374	$6,850,751	-$122,377	-1.8%	$6,651,144	1.2%
Higher Education	$2,343,984	$2,338,448	$5,536	0.2%	$2,333,745	0.4%
Total Education	$9,072,358	$9,189,198	-$116,840	-1.3%	$8,984,889	1.0%
Health Care/Medicaid	$9,260,644	$9,650,123	-$389,479	-4.0%	$9,446,178	-2.0%
Temporary Assistance to Needy Families (TANF)	$356,740	$356,740	-$1	0.0%	$356,739	0.0%
General/Disability Assistance	$0	$0	$0	---	$23,069	-100.0%
Other Welfare (2)	$549,059	$639,919	-$90,860	-14.2%	$443,872	23.7%
Human Services (3)	$1,231,571	$1,253,163	-$21,592	-1.7%	$1,181,830	4.2%
Total Welfare & Human Services	$11,398,014	$11,899,945	-$501,931	-4.2%	$11,451,687	-0.5%
Justice & Corrections	$1,946,137	$1,978,735	-$32,598	-1.6%	$1,912,743	1.7%
Environment & Natural Resources	$102,692	$103,287	-$595	-0.6%	$116,738	-12.0%
Transportation	$26,188	$28,258	-$2,070	-7.3%	$31,143	-15.9%
Development	$150,009	$161,951	-$11,942	-7.4%	$155,175	-3.3%
Other Government	$378,936	$396,655	-$17,719	-4.5%	$367,998	3.0%
Capital	$326	$2,105	-$1,779	-84.5%	$0	---
Total Government Operations	$2,604,288	$2,670,991	-$66,703	-2.5%	$2,583,797	0.8%
Property Tax Relief (4)	$1,309,275	$1,255,916	$53,359	4.2%	$1,379,052	-5.1%
Debt Service	$482,412	$515,213	-$32,801	-6.4%	$431,440	11.8%
Total Other Disbursements	$1,791,688	$1,771,129	$20,558	1.2%	$1,810,492	-1.0%
Total Program Disbursements	**$24,866,347**	**$25,531,264**	**-$664,916**	**-2.6%**	**$24,830,865**	**0.1%**
TRANSFERS						
Local Govt Distribution	$0	$0	$0	---	$0	---
Budget Stabilization	$434,250	$0	$434,250	---	$0	---
Other Transfers Out	$225,802	$0	$225,802	---	$43,535	418.7%
Total Transfers Out	$660,052	$0	$660,052	---	$43,535	1416.2%
TOTAL GRF USES	**$25,526,399**	**$25,531,264**	**-$4,864**	**0.0%**	**$24,874,399**	**2.6%**

(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.

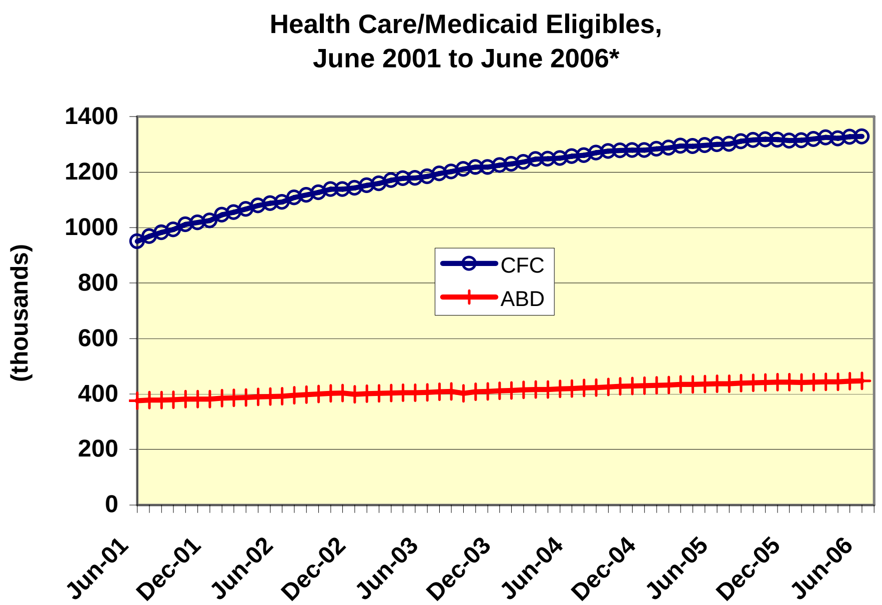
* August 2005 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Welfare/Human Services (-$501.9 million)

With a disbursement variance that was $126.9 million (16.8%) below estimate in June, the Welfare/Human Services category as a whole finished the fiscal year $501.9 million (4.2%) below estimate. The largest contributors to the year's underspending in this category were the Health Care/Medicaid subcategory ($389.5 million below estimate) and the Other Welfare subcategory ($90.9 million below estimate). The following paragraphs discuss the disbursements in this category in more detail.



Health Care/Medicaid. For FY 2006, the Health Care/Medicaid program (primarily line item 600-525) posted a disbursement variance that was $389.5 million (4.0%) below estimate. A total of $9,260.6 million was spent in this program during FY 2006. A little over a quarter of the year's underspending was posted in June, with a disbursement that was $112.3 million (17.8%) under estimate. Total net spending in the program for the fiscal year decreased by $185.5 million over FY 2005, a decrease of 2.0%. The state share of the decrease was $74.3 million, and the federal share was $111.2 million. Approximately $268.0 million of the FY 2006 appropriation for line item 600-525 lapsed, and $42.5 million was encumbered.



*The last three months are projections.

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

Service Category	June: Actual	June: Estimate	June: Variance	June: Percent Variance	YTD: Actual thru June	YTD: Estimate thru June	YTD: Variance	YTD: Percent Variance
Nursing Facilities Payments	$221,472	$230,309	($8,837)	-3.8%	$2,650,205	$2,774,151	($123,946)	-4.5%
ICF/MR Payments	$44,641	$43,596	$1,045	2.4%	$516,538	$515,172	$1,366	0.3%
Inpatient Hospitals	$106,437	$103,573	$2,864	2.8%	$1,488,941	$1,438,325	$50,616	3.5%
Outpatient Hospitals	$51,629	$53,325	($1,696)	-3.2%	$679,115	$680,836	($1,721)	-0.3%
Physicians	$43,487	$48,929	($5,442)	-11.1%	$641,076	$634,363	$6,713	1.1%
Prescription Drugs	$81,924	$99,009	($17,085)	-17.3%	$1,636,313	$1,790,253	($153,940)	-8.6%
ODJFS Waiver	$17,743	$17,497	$246	1.4%	$224,095	$222,796	$1,299	0.6%
HMO	$138,473	$149,660	($11,187)	-7.5%	$1,434,111	$1,554,640	($120,529)	-7.8%
Medicare Buy-In	$21,544	$21,292	$252	1.2%	$235,877	$233,210	$2,667	1.1%
Home Health	$15,323	$13,838	($5,969)	-43.1%	$182,965	$172,302	$10,663	6.2%
Dental	$7,623	$8,150	($527)	-6.5%	$120,214	$116,176	$4,038	3.5%
Hospice	$10,414	$12,025	($1,611)	-13.4%	$126,479	$144,397	($17,918)	-12.4%
All Other	$42,422	$47,896	($5,474)	-11.4%	$581,346	$595,732	($14,386)	-2.4%
Total Medicaid Payments	**$803,132**	**$849,099**	**($45,967)**	**-5.4%**	**$10,517,275**	**$10,872,353**	**($355,078)**	**-3.3%**
Medicare Part D	$20,007	$26,246	($6,239)	-23.8%	$89,973	$155,349	($65,376)	-42.1%
DA Medical	$2,441	$2,038	$403	19.8%	$44,219	$36,187	$8,032	22.2%
Drug Rebates Offsets	($101,401)	($79,557)	($21,844)	27.5%	($781,988)	($773,757)	($8,231)	1.1%
ICF/MR Franchise Fee Offsets	($1,648)	($1,648)	$0	0.0%	($20,524)	($18,440)	($2,084)	11.3%
NF Franchise Fee Offsets	($110,425)	($60,104)	($50,321)	83.7%	($377,524)	($399,134)	$21,610	-5.4%
DSH Rebate Offsets	($47,358)	($59,001)	$11,643	-19.7%	($165,361)	($177,003)	$11,642	-6.6%
MCP Assessments	($45,426)	($45,426)	$0	0.0%	($45,426)	($45,426)	$0	0.0%
Total Health Care (Net of Offsets)	**$519,322**	**$631,647**	**($112,325)**	**-17.8%**	**$9,260,644**	**$9,650,129**	**($389,485)**	**-4.0%**
Est. Federal Share	$311,246	$378,566	($67,320)		$5,550,190	$5,783,620	($233,430)	
Est. State Share	$208,076	$253,081	($45,005)		$3,710,454	$3,866,509	($156,055)	

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.

The average monthly number of eligibles in the program for FY 2006 increased by 46,545 over FY 2005, a 2.7% increase. The FY 2005 rate of increase was 4.4%. The average monthly number of health care eligibles in the Covered Families and Children (CFC) component of the caseload program during FY 2006 was 1,755,610, which was 7,840 above the budgeted level. The Aged, Blind, and Disabled (ABD) caseload component was, however, 3,756 below the budgeted level. Historically, the ABD population is associated with about 72% of all Medicaid expenditures. The ABD caseload increased at a rate of around 4% or so per year from FY 2001 through FY 2005 and slowed to about 2.4% in FY 2006. Growth in the CFC caseload has slowed from a 15% growth rate from June 2001 to June 2002, during a recessionary period, to about 2.3% in FY 2006.

When we look at the specific service categories of health care expenditures in Table 6, we see that payments for Prescription Drugs were $153.9 million (8.6%) below estimate. This is due in large part to the pharmacy-related cost containment measures that have been implemented in recent years. In addition, the utilization and cost per claim trends began to slow in late FY 2005 and continued through FY 2006. Payments in the Nursing Facilities category were under budget by $123.9 million (4.5%), which is largely traceable to a one-time cash flow correction resulting from a new direct billing

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 June '06	FY 2005 Yr.-to-Date as of June '05	Dollar Change	Percent Increase
Nursing Facilities Payments	$2,650,205	$2,728,832	($78,627)	-2.9%
ICF/MR Payments	$516,538	$447,172	$69,366	15.5%
Inpatient Hospitals	$1,488,941	$1,452,718	$36,223	2.5%
Outpatient Hospitals	$679,115	$654,951	$24,164	3.7%
Physicians	$641,076	$634,516	$6,560	1.0%
Prescription Drugs	$1,636,313	$1,978,737	($342,424)	-17.3%
ODJFS Waiver	$224,095	$220,264	$3,831	1.7%
HMO	$1,434,111	$1,076,262	$357,849	33.2%
Medicare Buy-In	$235,877	$193,504	$42,373	21.9%
All Other	$1,011,004	$945,446	$65,558	6.9%
Total Medicaid Payments	**$10,517,275**	**$10,332,402**	**$184,873**	**1.8%**
Medicare Part D	$89,973	$0	$89,973	N/A
DA Medical	$44,219	$72,693	($28,474)	-39.2%
Drug Rebates Offsets	($781,988)	($541,958)	($240,030)	44.3%
ICF/MR Franchise Fee Offsets	($20,524)	($18,419)	($2,105)	11.4%
NF Franchise Fee Offsets	($377,524)	($264,160)	($113,364)	42.9%
DSH Rebate Offsets	($165,361)	($134,380)	($30,981)	23.1%
MCP Assessments	($45,426)	$0	($45,426)	N/A
Total Health Care (Net of Offsets)	**$9,260,644**	**$9,446,178**	**($185,534)**	**-2.0%**
Est. Federal Share	$5,550,190	$5,661,386	($111,196)	
Est. State Share	$3,710,454	$3,784,792	($74,338)	

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.

system that produced more accurate payments and greater collections on overpayments made in previous years. Payments in the HMO category were under estimate by $120.5 million (7.8%). This was due to a slower than anticipated implementation of the eight-county expansion of managed care. The caseload for Managed Care-CDC was 700,662 in June versus an estimated caseload of 734,021. Inversely related to the HMO category, spending in the Inpatient Hospitals category was $50.6 million (3.5%) above estimate. The slower than anticipated enrollment in managed care drove up spending in the fee-for-service categories, e.g., the Inpatient Hospitals and the Physicians categories.

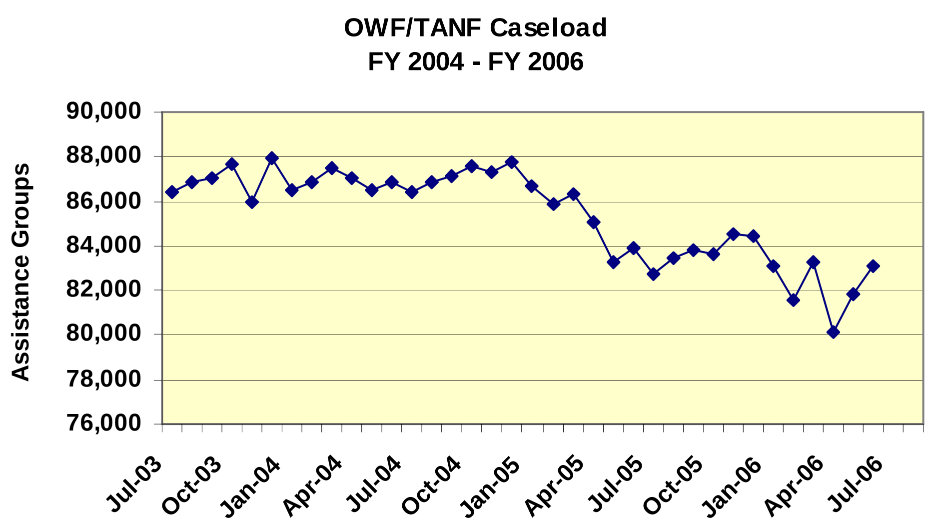
Disbursements for the new Medicare Part D category were under estimate by $65.4 million (42.1%) because only five payments were made instead of the planned six. The fewer payments were the result of the timing of invoices from the Centers for Medicare and Medicaid Services, as well as a lower than anticipated “clawback” amount (the monthly payment the state is obliged to make to the federal Medicare program because the state no longer has to pay for outpatient prescription drugs through Medicaid on behalf of low-income elderly or disabled persons who are enrolled in both Medicare and Medicaid).

The Disability Assistance (DA) Medical category was $8.0 million (22.2%) above estimate for the fiscal year. 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.

Job and Family Services. The Department of Job and Family Service's operating expenses and subsidy programs (excluding Medicaid, TANF, and Disability Assistance, which are tracked as separate components of the Welfare and Human Services program category) are captured in the Other Welfare subcategory in Tables 4 and 5. In FY 2006 disbursements in the Other Welfare subcategory were $90.9 million (14.2%) below estimate.

The largest contributor to the FY 2006 variance was line item 600-521, Entitlement Administration-Local, which was under estimate by $36.0 million (22.5%). 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 a continuing 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. All of the unspent amount in this line item was encumbered so that the Department can reconcile its accounts with county departments of job and family services.

Another significant contributor to the variance in this area of the Department's budget was line item 600-416, Computer Projects, which posted a variance that was $21.9 million (14.2%) below estimate. Unfilled vacancies and lower than expected project costs account for the bulk of the variance. In addition, there was a transfer during the year of $2.0 million to line item 200-512, Non-TANF Disaster Assistance. This transfer was used to support an interagency agreement with the Department of Alcohol and Drug Addiction Services. The money transferred was used in a transition program to assist people who were previously eligible for Disability Financial Assistance by virtue of residing in a certified residential treatment facility. Disability Financial Assistance benefits for this group were eliminated in Am. Sub. H.B. 66 (the main operating appropriations act). Approximately $39.1 million from the FY 2006 appropriation to line item 600-416 was encumbered. Approximately $12.0 million in combined appropriations to line item 600-416 for FY 2005 and FY 2006 was allowed to lapse.



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. At the end of June, the reports on line items 600-410 and 600-413 show that a total of $356.7 million was disbursed from these two components of Ohio's TANF Maintenance of Effort (MOE) requirement, and this was equal to the disbursements made from these two line items in FY 2005. Disbursements from federal TANF funds (line item 600-689, Fund 3V6, TANF Block Grant) totaled $670.6 million, which was $145.4 million more than in FY 2005.

TANF cash assistance benefits paid during the fiscal year totaled $317.0 million, up $5.5 million from FY 2005. The increase was, however, less than forecast. The Department forecast that because the cash grant levels were increased starting October 1, 2005, and because the caseload was expected to increase slightly, cash assistance payments would be $335.9 million in FY 2006. The average number of TANF cash assistance groups per month decreased from FY 2005 to FY 2006 by about 3,200 to stand at 82,957. The average number of TANF recipients per month decreased from FY 2005 to FY 2006 by just over 10,000 to stand at about 180,000, with a low of about 172,500 in April.

Mental Health. For FY 2006, disbursements for the Department of Mental Health were under the original estimate by approximately $8.1 million (1.4%). Two line items contributed the greatest to the variance: line item 335-419, Community Medication Subsidy ($4.3 million under estimate), and line item 334-408, Community and Hospital Mental Health Services ($2.2 million under estimate). The variance in line item 335-419 occurred because the $4.3 million earmark for the DA Medical program was removed in Am. Sub. H.B. 530 and added to the Department of Job and Family Services line item 600-513, Disability Medical Assistance. OBM revised its estimate for line item 335-419 after this action. The variance in line item 334-408 resulted from a timing issue relating to when the county boards request their funding from the Department. The Department also encumbered a total of approximately $3.4 million in eight line items and lapsed approximately $955,469 in line item 333-415, Lease Rental Payments.

Health. The Department of Health expended approximately $75.5 million in FY 2006 against an estimate of $76.3 million and thus finished the year with a $0.8 million (1.0%) variance. There are three primary contributors to the variance. The main contributor was line item 440-418, Immunizations. The Department disbursed approximately $1.7 million more and encumbered approximately $1.7 million less than originally estimated. The variance is timing related and happens every year in the process of ordering vaccines for the high-usage period that occurs just prior to the start of the school year. Another contributor to the variance is line item 440-507, Targeted Health Care Services Over 21, with actual expenditures of approximately $819,000 against estimated expenditures of approximately $1.6 million. In the previous biennium, enrollment was cut in this program. In the current biennium, the Department is working on reenrolling clients. On June 12, 2006, the Controlling Board transferred approximately $684,000 in this line item from FY 2006 to FY 2007 to deal with a lag in client reenrollment. The Department also encumbered approximately $78,000 in this line item. The third contributor to the variance is line item 440-444, AIDS Prevention and Treatment, with actual expenditures of approximately $6.7 million versus estimated expenditures of $7.2 million. According to the Department, $455,000 was encumbered in this line item to cover costs related to publications, medications, and general operational needs that have not been invoiced or paid to date.

Mental Retardation and Developmental Disabilities. For FY 2006, the Department of Mental Retardation and Developmental Disabilities posted a disbursement variance of $8.2 million (2.3%) under estimate. Of the unspent appropriations, the Department encumbered $11.0 million (part of which was a planned encumbrance of $5.0 million that did not figure in the estimate) and $1.9 million of unused GRF money will be transferred to the Community MR and DD Trust Fund (Fund 4U4). The Department disbursed $10.7 million in prior year appropriations in FY 2006.

In April, the Department and the counties signed the Medicaid Waiver Agreement, changing how Medicaid waiver match obligations are met at the county level. Under the agreement, county boards are not required to use additional local levy dollars or state allocations beyond current commitments to pay for Medicaid waiver reimbursement transition costs. As a result, many county boards delayed forwarding dollars to the Department until they received their local commitment determinations. Additionally, the Department delayed fourth quarter subsidy payments until it completed the process, allowing county boards to pledge dollars toward FY 2006 waiver commitments. Because of the agreement, the Department posted expenditures significantly below average in April and significantly above average in May. The two line items affected most by the new Medicaid Waiver Agreement were line item 322-416, Waiver State Match, which posted expenditures $23.2 million below estimate from April through June, completing the year at $4.0 million below estimate, and line item 323-321, Residential Facilities Operations, ending the year $1.8 million below estimate.

Alcohol and Drug Addiction Services. For FY 2006, disbursements by the Department of Alcohol and Drug Addiction Services were under estimate by approximately $1.4 million (3.4%). The bulk of the variance ($1.3 million) was in line item 038-401, Treatment Services. This line item is allocated to the 50 ADAS/ADAMHS boards for a range of alcohol and drug addiction prevention, intervention, treatment, counseling, residential, and community support services, and special projects. Of the total variance, approximately $326,683 (0.8%) has been encumbered and approximately $1.1 million (2.6%) lapsed.

Aging. The Department of Aging had total expenditures of $147.9 million in FY 2006, approximately $4.3 million below estimate. Two line items account for the bulk of the variance: 490-403, PASSPORT, and 490-421, PACE. The PASSPORT program allows Medicaid-eligible seniors to receive community-based in-home services as an alternative to nursing home placement through a Medicaid Waiver program. The PACE program enables seniors age 55 and older who qualify for nursing facility placement to receive managed care services. Line item 490-403, PASSPORT, had actual expenditures of $113.1 million versus estimated expenditures of $112.0 million, a $1.1 million variance over estimate. During FY 2006, OBM transferred $1.2 million to line item 490-403 from line item 600-525, Health Care/Medicaid, in accordance with Am. Sub. H.B. 66 of the 126th General Assembly, to enable the Department of Aging to enroll additional people in PASSPORT who had been in nursing facilities.

Line item 490-421, PACE, had actual expenditures of $6.7 million, which was under estimate by $4.7 million. During the previous biennium, the responsibility for administering the PACE component of Medicaid was transferred to the Department of Aging. In Am. Sub. H.B. 66, appropriations for PACE were made to the Department of Aging instead of the Department of Job and Family Services. However, for several reasons, the Department of Aging was unable to make payments to the PACE providers until February 2006. In order to maintain cash flow for the providers, the Department of Job and Family Services continued to make payments for PACE Medicaid services through January. Accordingly, under Am. Sub. H.B. 530 of the 126th General Assembly, $4.7 million was transferred from the Department of Aging's GRF appropriation line item 490-421, PACE, to the Department of Job and Family Services' GRF line item 600-525, Health Care/Medicaid.

Ohio Veterans' Home. The Ohio Veterans' Home Agency spent $1.5 million more than estimated in FY 2006. The actual expenditures were $28.6 million versus estimated expenditures of $27.1 million. This variance was made possible by the appropriation of an additional $1.7 million in Am. Sub. H.B. 530 of the 126th General Assembly for line items 430-100, Personal Services, and 430-200, Maintenance. The Agency's non-GRF revenue was not keeping pace with rising personnel and maintenance expenditures.

Education (-$116.8 million)

Disbursements in the Education category finished FY 2006 $116.8 million under estimate. With a disbursement variance of $119.2 million under estimate, the Department of Education accounted for almost all of the category's variance. Outlays by the Board of Regents were over estimate by $5.5 million for the fiscal year. There were several smaller variances posted by the other agencies in the category.

Department of Education. As just noted, FY 2006 outlays by the Department of Education were under estimate by $119.2 million (1.8%). June disbursements by the Department were $55.4 million (10.4%) under estimate.

The largest contributor to the FY 2006 variance was line item 200-550, Foundation Funding, which was under estimate by $58.6 million (1.1%). This line item is the main source of state foundation payments to all school districts and joint vocational school districts in the state. The appropriation for this line item was based on average daily membership (ADM) estimates and payments are based on ADM data that are updated and revised throughout the year. The most recent ADM data show that actual enrollment is approximately 15,000 students less than estimated. The Department encumbered $41.1 million and lapsed $37.3 million from line item 200-550. It also lapsed $3.0 million from other enrollment-driven line items.

Other large contributors to the FY 2006 variance were line item 200-437, Student Assessment, which was $20.2 million (25.5%) under estimate, and line item 200-433, Reading/Writing Improvement-Professional Development, which was $10.5 million (51.1%) under estimate. The variance in disbursements from line item 200-437 was the result of the timing of the receipt of invoices from vendors, and all of the variance has been encumbered for these payments. Likewise, nearly all of the variance in disbursements from line item 200-433 is related to the timing of award requests, and $9.0 million has been encumbered for these payments.

The Department entered FY 2006 carrying $103.4 million in GRF funds that had either been encumbered or were part of an available appropriation balance from prior fiscal years, some of which dated back to FY 2000. At year end, of that total, $84.8 million (82.0%) had been disbursed, $10.8 million (10.5%) was still encumbered, and $7.7 million (7.7%) had been canceled and allowed to lapse. In addition to the $10.8 million in prior years' encumbrances that the Department was still holding at the close of FY 2006, it had also encumbered $98.0 million in FY 2006 appropriations for future disbursement. As noted above, the two largest encumbrances were in line items 200-550 and 200-437.

Board of Regents. The Board of Regents finished FY 2006 with total disbursements exceeding estimate by $5.5 million (0.2%). There were two especially notable factors affecting the Board's disbursement picture. One was an overage of $14.5 million in disbursements from line item 235-503, Ohio Instructional Grants. The variance resulted from the use of FY 2006 appropriations to pay higher than expected grants from FY 2005 and in FY 2006. To meet these costs, Am. Sub. H.B. 530 contained a provision to increase the appropriation in and transfer funds to line item 235-503 by up to $30 million. In June, a combination of transfers and an increase in appropriations totaling $28.6 million were made to cover expenses in line item 235-503.

Second, a partially offsetting variance was registered in line item 235-531, Student Choice Grants, which was under estimate by $3.3 million. Line item 235-531 provides uniform tuition grant awards to Ohio residents who are full-time undergraduate students enrolled for baccalaureate study at eligible Ohio independent (private) nonprofit institutions of higher education. Part of the underspending ($2.7 million) was the result of a transfer to line item 235-503, mentioned above. About $0.6 million from the FY 2006 appropriation in this line item was encumbered. Underspending in several smaller line items, for instance line item 235-599, National Guard Scholarship ($2.5 million under estimate), and line item 235-549, Part-time Student Instructional Grants ($1.4 million under estimate), contributed offsetting amounts.

School Facilities Commission. FY 2006 disbursements by the School Facilities Commission were under estimate by $12.0 million (5.6%). The variance was almost entirely in line item 230-908, Common Schools General Obligation Debt Service. The Commission lapsed about $17.3 million from line item 230-908. As is true of other debt service appropriations, the large lapse in this line item is due to generous estimates and appropriations designed to make sure that sufficient funding is available to pay debt service in each year.

Ohio School for the Deaf. The Ohio School for the Deaf had an FY 2006 disbursement variance that was under estimate by approximately $500,000 (4.9% of the $10.2 million estimate). This amount has been encumbered for future payment for various personal services, maintenance, and equipment expenses. The School also lapsed $72,000, most of which was from FY 2005 appropriations.

eTech Ohio. The eTech Ohio Commission was formed by combining the SchoolNet Commission and the Ohio Educational Telecommunications Commission. For FY 2006, the Commission posted a disbursement variance of $1.7 million (6.2%) under estimate. Three line items accounted for the bulk of the variance: 935-406, Technical and Instructional Professional Development ($0.8 million under estimate), 935-321, Operations ($0.6 million under estimate), and 935-403, Technical Operations ($0.3 million under estimate). These remaining appropriations have been encumbered to cover outstanding costs.

Government Operations (-$66.7 million)

Disbursements for the Government Operations category for FY 2006 were $66.7 million (2.7%) under estimate. The Department of Rehabilitation and Correction accounted for just over half of this amount with a variance of $34.3 million under estimate. The Department of Administrative Services had underspending of $6.1 million, and the Department of Taxation had underspending of $5.2 million. Several agencies in the category had relatively small variances under estimate. Partially offsetting disbursement variances were posted by the Judiciary/Supreme Court ($3.0 million over estimate) and the Court of Claims ($2.4 million over estimate). The details of disbursements in the category are discussed in the following paragraphs.

Rehabilitation and Correction. The Department of Rehabilitation and Correction's FY 2006 disbursements were $34.3 million (2.3%) below the estimate of $1,504.0 million. Approximately 95% of the variance for the fiscal year can be found in two areas: institutional operations and GRF debt payments. A variance of $22.6 million under estimate was posted in line item 501-321, Institutional Operations. A large portion of this variance is attributable to the effects of the attrition of personnel in the first quarter of the fiscal year. These personnel were never fully replaced and reduced payroll obligations throughout the year. The Department also put off low priority maintenance expenditures in anticipation of higher utility costs and in anticipation of a need to transfer appropriations between line items to meet rising health care obligations. The Department encumbered a total of $23.1 million in line items 501-321, Institutional Operations, and 505-321, Institutional Medical Services, to cover remaining FY 2006 costs.

Disbursements for line item 501-406, Debt Service, were under estimate by $10.2 million (7.9%). This variance can be tied to a series of bonds issued in 1985 that have recently matured. The bonds were issued under a trust agreement requiring the creation of a debt service reserve fund that was to be used if needed. Since the bond obligations no longer exist, the $9.4 million remaining in the reserve fund was applied to the Department's debt service. An additional $2.8 million for debt service that was not included in the estimate was also allowed to lapse.

Youth Services. The Department of Youth Services finished FY 2006 with a disbursement variance of $2.8 million (1.2%) below estimate. The bulk ($2.5 million) of the variance was in line item 470-401, Reclaim Ohio. This line item is used to provide institutional placement and community program services for youth who have been convicted of a felony offense and for any delinquent child, unruly child, or juvenile traffic offender who is under the jurisdiction of a juvenile court. The Department had a planned encumbrance of $3.2 million in line item 470-401, which was not included in the estimate, to which it added the $2.5 million for a total encumbrance of $5.7 million in the line item.

Judiciary/Supreme Court. The Judiciary/Supreme Court ended the fiscal year with a variance of $3.0 million (2.7%) over estimated disbursements. Disbursements from line item 055-321, Operating Expenses, accounted for most of the variance. While it appears that the Judiciary/Supreme Court exceeded its budgeted allotment of GRF funds, in actuality the agency's disbursements were under its FY 2006 GRF appropriation by $3.3 million ($4.9 million when prior year appropriations are included). Of these remaining appropriations, $2.5 million was encumbered and $2.4 million was allowed to lapse.

Of the lapsed funds, approximately $1.8 million was due to budgetary issues related to the courts of appeals. The remaining lapse was due to savings related to judicial salaries and benefits. Since the number of judges fluctuates from year to year and benefit levels may change, it is sometimes difficult to predict accurately the funding needs for line item 055-321, Operating Expenses.

As for the courts of appeals, the Judiciary/Supreme Court has little control over their budget request. The courts of appeals requested a certain level of funding for FYs 2006 and 2007. The Judiciary/Supreme Court then included the request as part of its overall budget request.

At the end of FY 2006, the courts of appeals had a balance of nearly $1.8 million, which was partly due to savings from their early retirement incentive plans.

Also of note is the lack of spending activity in line item 005-502, Commission for Legal Education Opportunity, which experienced no disbursements from the $435,000 appropriation. The Continuing Legal Education Opportunity program was not implemented during FY 2006, but the Judiciary/Supreme Court anticipates spending about half its appropriation in FY 2007.

Public Safety. Disbursements by the Department of Public Safety finished FY 2006 $0.3 million (4.6%) below estimate. About half the variance stems from line item 763-403, Operating Expenses-EMA. This variance is related to a smaller amount of state share payments made through line item 763-507, Individual and Household Program-State, to eligible individuals and households in areas declared an emergency or major disaster by the President. In FY 2005, the Department disbursed $4.5 million from line item 763-507. In FY 2006, this declined to about $590,000.

Two new line items (768-502, Mandate Assistance, and 768-505, Southern Ohio Correction Facility Judicial and Defense Costs) were created by Controlling Board action to reimburse Marion County for prosecution costs and Scioto County for legal costs. The latter costs were associated with the 1993 Southern Ohio Correction Facility disturbance.

Court of Claims. During FY 2006, OBM revised its disbursement estimates for the Court of Claims. Based on the original estimate, the Court of Claims finished FY 2006 with a variance of $2.4 million (94.2%) above estimate. The variance is primarily due to spending activity in line item 015-402, Wrongful Imprisonment Compensation. When a wrongful imprisonment judgment has been determined by a court of common pleas, the Controlling Board, upon certification by the Court of Claims, transfers the sum necessary to pay that judgment to the Court's GRF line item 015-402, Wrongful Imprisonment Compensation. Since the Controlling Board provides the money for such judgments on an as-needed basis, the Court does not receive a direct appropriation through the main operating appropriations act. The necessary funds are typically transferred from the Controlling Board's GRF line item 911-401, Emergency Purposes/ Contingencies, which contains money generally appropriated for the purpose of assisting state agencies and political subdivisions in responding to unexpected events, disasters, and emergency situations. During the past fiscal year, there have been four transfers by the Controlling Board from line item 911-401 to line item 015-402, Wrongful Imprisonment, to make awards to three plaintiffs for wrongful imprisonment. These awards totaled $2,357,877.

Natural Resources. The Department of Natural Resources finished FY 2006 with total disbursements under estimate by about $500,000. The variance is traceable to several of the Department's operating line items and includes a set-aside for early retirement incentive payments. The Department carries into FY 2007 encumbrances of about $1.2 million from FY 2006 and FY 2005 appropriations.

Adjutant General. The Adjutant General finished FY 2006 with a disbursement variance that was about $330,000 (2.9%) below the original estimate. The variance stems from a number of factors. One of the more notable factors is that only about half of the $1.4 million appropriated to line item 745-407, National Guard Benefits, was used. Another $236,000 of the original appropriation had been for a planned lapse and for a planned encumbrance and did not enter the estimate.

During FY 2006, the Controlling Board approved three transfers totaling a little over $800,000 from line item 911-401, Emergency Purposes/Contingencies, to various line items in the Adjutant General's budget. Subsequent to these transfers, OBM revised its expenditure estimates for the Adjutant General. These transfers supported costs for workers' compensation associated with National Guard active duty, increased utility costs for National Guard units, and other active duty costs of Ohio National Guard units, including costs for mobilization for Hurricane Katrina and Rita relief efforts.

Attorney General. The Office of the Attorney General ended FY 2006 with a variance of about $42,000 (0.1%) over estimate. This overage was covered by a smaller encumbrance and by a smaller lapse than had been planned. During the fiscal year, a little over $100,000 was transferred from line item 055-321, Operating Expenses, to line item 055-415, County Prosecutors, to help meet the costs of the county prosecutors' pay supplements. The agency encumbered about $325,000 from its 055-321 line item.

Legislative Service Commission. The Legislative Service Commission posted a disbursement variance of $0.6 million under estimate for FY 2006. The bulk of the variance was registered in line item 035-410, Legislative Information Systems, which supports a number of projects. For some of these projects that variance was merely a matter of timing. One project has experienced some contract problems. In addition, approximately $3.8 million was lapsed. The largest lapse was in line item 035-321, Operating Expenses ($3.3 million), and was mainly traceable to reduced personnel costs due to the elimination of the Legislative Office of Education Oversight.

Office of Budget and Management. For FY 2006, the Office of Budget and Management posted a disbursement variance of $0.6 million below estimate. A little over $0.5 million lapsed and about $82,500 was encumbered. The variance stemmed from a combination of unplanned staff vacancies and lower than anticipated consultant, equipment, and maintenance expenses.

Agriculture. With an FY 2006 total disbursement estimate of just under $19.0 million, the Department of Agriculture ended the fiscal year with a variance of only $32,000 (0.2%) below estimate. Only one line item had any notable variance: line item 700-410, Plant Industry. This line item, which provides funding for a variety of inspection, certification, and monitoring programs, was under estimate by nearly $94,000. This amount has been encumbered.

Commerce. The Department of Commerce, with a total (all funds) appropriation of over $580 million for FY 2006, has only one GRF line item. This is line item 800-410, Labor and Worker Safety, which had an FY 2006 appropriation of $2.1 million (down $1.3 million from the actual spending level in FY 2005). Line item 800-410 supports the operations of the Wage and Hour Bureau, which administers and enforces Ohio's minimum wage, prevailing wage, and child labor laws. Disbursements from line item 800-410 were under estimate by $27,000 (1.3%).

Public Defender. For FY 2006, disbursements for the Public Defender Commission were over estimate by about $550,000 (1.4%). Am. Sub. H.B. 66 of the 126th General Assembly allows the Commission to request all allocated but unutilized appropriations in line item 911-404, Mandate Assistance, which is under the control of the Controlling Board. The Controlling Board authorized the transfer of $620,000 to increase available funding to reimburse counties for indigent defense services. Such amounts are not included in estimates. The County Reimbursement program is responsible for providing up to 50% reimbursement to counties for the cost of providing attorneys to represent indigent persons who are charged with a crime or are appealing their conviction(s). In Ohio, counties are required to provide and pay for legal counsel for indigent persons where a right to counsel exists and are reimbursed a portion of those costs by the state. The FY 2006 level of funding was sufficient to allow the Commission to reimburse counties for about 28% of their annual cost of providing indigent defense legal services.

The disbursements by the Commission in FY 2006, $38.7 million, were below the disbursements for FY 2005, which totaled $40.5 million. This decline in GRF spending reflects recent legislative- and executive-ordered reductions in the Commission's GRF budget. Besides the reduction in FY 2006 appropriations, the Governor ordered reductions in FY 2005 GRF appropriations, which totaled $2.5 million. The Commission has responded in two ways. First, it took numerous actions that cut payroll and maintenance costs and delayed equipment purchases. Perhaps most notably, the Commission reduced the size of its payroll, largely through attrition. Secondly, it has increased non-GRF revenues and shifted some expenses to these funding streams. In FY 2006, the Commission began collecting additional non-GRF revenues from two new fee-based funding mechanisms created by Am. Sub. H.B. 66. Additional non-GRF revenues offset the reduction in FY 2006 GRF expenditures, at least partially.

Inspector General. The Office of the Inspector General ended FY 2006 with a disbursement variance of $0.4 million (22.3%) below estimate. This variance can be traced to an appropriation increase in its only GRF line item: 965-321, Operating Expenses. The appropriation was increased by $954,150 for FY 2006, primarily to conduct investigations into the Bureau of Workers' Compensation's rare coin investments and related investigations. These investigations are still ongoing, and the entire appropriation has not yet been expended. In addition to encumbering about $120,000, the Inspector General received approval from the Controlling Board to transfer $290,000 in FY 2006 appropriations to FY 2007.

Transportation. The Department of Transportation's GRF spending accounts for less than 2% of its $2.9 billion annual budget. Of this GRF portion, nearly two-thirds is spent on public transportation. The remaining one-third is spent on capital improvements at regional airports and on loans and grants for rail economic development projects. Total GRF appropriations for the Department declined from an adjusted FY 2005 appropriation of $24.3 million to $22.2 million in FY 2006.

Looking at FY 2006 disbursement activity from its GRF appropriations, the Department posted a variance that was $2.0 million under estimate. The variance was largely located in line item 775-451, Public Transportation-State ($2.7 million below estimate), which provides operating and capital assistance to urban and rural transit systems, and in line item 776-465, Ohio Rail Development Commission ($1.0 million below estimate). For both of these line items the main factor accounting for the variance was that payouts were slower than anticipated due to project timing. A partially offsetting variance of about $850,000 above estimate was registered in line item 777-471, Airport Improvements-State, due to the timing of payments to vendors. The Department also encumbered $9.7 million for various public transportation and airport improvement projects.

Development. The Department of Development posted an FY 2006 disbursement variance that was under estimate by $11.4 million (11.0%). The Department had an appropriation of $99.8 million for FY 2006 and carried into FY 2006 $79.1 million in encumbered appropriations dating back to FY 1998. The Department's total disbursements for the fiscal year were $92.3 million against an estimate of $103.7 million. A little over half ($48.7 million) of the total disbursed was from prior year appropriations. Out of the current year appropriations, the Department disbursed $43.6 million and encumbered $55.9 million.

The largest single encumbrance of FY 2006 appropriations was in line item 195-422, Third Frontier Action Fund ($15.1 million encumbered). At the start of FY 2006, line item 195-422 had available appropriations of $41.0 million ($16.8 million in current year appropriations and $24.2 million in encumbered prior year appropriations). A total of $16.1 million was disbursed from line item 195-422 during FY 2006, which was under estimate by about $729,000.

Looking at particular programs, and considering both current and prior year funds, there are two items that stand out as contributors to the $11.4 million underestimate for FY 2006. Line item 195-434, Investment in Training Grants, was under estimate by $5.3 million; and line item 195-412, Business Development Grants was under estimate by $5.2 million. Because projects and businesses request funds on an ad hoc basis, it is difficult for the Department and OBM to predict when the funds will be requested.

Debt Service. The Debt Service category posted a disbursement variance of $32.8 million (6.4%) below estimate in FY 2006. This category is composed of debt service line items from the budgets of the Board of Regents, the School Facilities Commission, the Department of Natural Resources, the Air Quality Development Authority, and the Public Works Commission. The variance stems from changes in market conditions, changes in amount of issuance, changes in interest rates, changes in timing of bond issuance, and refunding activities.

Taxation. The Department of Taxation ended FY 2006 with a disbursement variance of $5.1 million (5.2%) below estimate. This does not include the Department's line items for Tax Relief, which are discussed below. Nearly all of the variance ($4.4 million) was registered in line item 110-321, Operating Expenses, and stems from the timing of billing for consulting services related to the implementation of the new commercial activity tax. Including some amounts for a planned encumbrance and lapse, the Department encumbered $4.7 million and lapsed $1.7 million.

Administrative Services. Disbursements by the Department of Administrative Services in FY 2006 were $6.1 million (4.0%) less than estimated. The largest contributors to the variance were line item 100-449, DAS-Building Operating Payments ($1.1 million under estimate), and line item 100-418, Web Site and Business Gateway ($1.1 million under estimate). Disbursements from both of these line items were under estimate due to the timing of payments.

Line item 100-403, Public School Employee Benefits, also contributed about $725,000 to the Department's underspending. This line item was recently created in Am. Sub. H.B. 66 of the 126th General Assembly to support the School Employee Health Care Board, which provides public school employees with health benefits. This variance was due to the Board not holding its first meeting until February. Of the $1.2 million appropriation to line item 100-403, about $75,000 was disbursed, $467,000 was encumbered, and $658,000 was allowed to lapse.

The Department lapsed a total of $14.5 million. Of this total, $12.5 million was from line items 100-447, OBA-Building Rent Payments, and 100-448, OBA-Building Operating Payments. This was due to planned lapses as well as reduced building project costs.

Tax Relief ($53.4 million)

In June, tax relief payments totaled $179.7 million, which was $110.2 million above estimate for the month and put the program over estimate for the fiscal year by $53.4 million (4.2%). For the fiscal year, disbursements were over estimate by $53.3 million for the real property tax credits/exemptions component and about $15,000 over estimate for the tangible tax exemption component. Under Am. Sub. H.B. 66, appropriations for the program were increased to cover the additional spending.

The Property Tax Relief program reimburses school districts and local governments for revenue that is lost because of 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 programs. Tax relief funds are disbursed 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 rollback for Class II property (real property intended primarily for use in a business activity) was eliminated in Am. Sub. H.B. 66, and, under the same legislation, the $10,000 tangible tax exemption program is being phased out.

**LSC colleagues who contributed to the development of this disbursement report include, in alphabetical order, Sara Anderson, Ann Braam, Ivy Chen, Phil Cummins, Jamie Doskocil, Deauna Hale, Jennifer Henry, Deborah Hoffman, Jonathan Lee, Ed Millane, Jason Phillips, David Price, Ruhaiza Ridzwan, Wendy Risner, Joseph Rogers, Ronnie Romito, and Maria Seaman.*

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[1] Disbursements plus transfers out total $25,526.4 million for FY 2006. Major items included in transfers out are the following transfers made in early July 2005: $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).

Issues of Interest

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

— *Jean Botomogno*

Ticket Sales

In the fourth quarter of FY 2006, lottery ticket sales were $568.2 million, $22.4 million (3.8%) lower than ticket sales in the third quarter. On-line ticket sales[1] were $223.9 million (39.4% of quarterly sales), and Instant ticket sales were $344.3 million (60.6% of quarterly sales).

increased $0.8 million (17.9%) and $1.6 million (3.8%), respectively. Sales of Super Lotto/ Lot' O Play fell $13.5 million (51.6%). Pick 3 sales declined $2.7 million (2.8%), while sales of Mega Millions were virtually flat.

Ticket sales were lowest in the first quarter of FY 2006 and highest in the third quarter. Historically, second-quarter sales have been

Fourth-Quarter FY 2006 Ticket Sales by Game (dollars in millions)									
	Pick 3	Pick 4	Kicker	Rolling Cash 5	Lot' O Play	Mega Millions	Instants	On-line	Total
Apr	$31.2	$14.6	$2.2	$5.9	$5.5	$22.7	$108.6	$82.1	$190.7
May	$31.8	$15.2	$1.7	$6.2	$3.8	$15.0	$121.2	$73.8	$195.0
Jun	$30.5	$14.6	$1.5	$6.1	$3.3	$12.1	$114.5	$68.0	$182.5
Total	**$93.5**	**$44.3**	**$5.4**	**$18.2**	**$12.6**	**$49.8**	**$344.3**	**$223.9**	**$568.2**
Share	16.5%	7.8%	1.0%	3.2%	2.2%	8.8%	60.6%	39.4%	

Totals may not add up due to rounding.

Compared to fourth-quarter results a year ago, ticket sales were up $28.0 million (5.2%) this fiscal year. Instant ticket sales grew $43.6 million (14.5%). On-line ticket sales decreased $15.5 million (6.5%). Sales of Kicker and Pick 4

highest due to various holiday Instant ticket sales offered during the period. For the fiscal year, Pick 3 sales were 17.0% of total ticket sales. Mega Millions provided 10.1% of ticket sales. Pick 4 sales were 7.9% of ticket sales. Super Lotto/

Quarterly Ticket Sales by Game in FY 2006 (dollars in millions)									
	Pick 3	Pick 4	Kicker	Rolling Cash 5	Super Lotto/Lot' O Play	Mega Millions	On-line	Instants	Total
Q1	$90.5	$41.2	$4.5	$17.9	$25.1	$58.9	$238.0	$269.2	$507.2
Q2	$92.1	$43.8	$5.7	$18.4	$23.9	$57.3	$241.3	$312.3	$553.6
Q3	$101.3	$46.4	$5.9	$18.1	$14.7	$57.3	$243.8	$346.8	$590.5
Q4	$93.5	$44.3	$5.4	$18.2	$12.6	$49.8	$223.9	$344.3	$568.2
Total	$377.3	$175.7	$21.6	$72.6	$76.3	$223.4	$946.9	$1,272.6	$2,219.5
Share	17.0%	7.9%	1.0%	3.3%	3.4%	10.1%	42.7%	57.3%	

Totals may not add up due to rounding.

Lot' O Play, Rolling Cash 5, and Kicker contributed to ticket sales by 3.4%, 3.3%, and 1.0%, respectively. On-line and Instant sales were 42.7% and 57.3% of total ticket sales, respectively.

Transfers to the Lottery Profits Education Fund

Transfers from operations to the Lottery Profits Education Fund (LPEF) increased in each quarter of FY 2006. Transfers in the fourth quarter were $173.4 million, up from $166.4 million in the third quarter. Fourth-quarter transfers were also $10.6 million (6.5%) higher than the State Lottery Commission estimated at the beginning of the fiscal year. For the fiscal year, transfers to LPEF were $646.3 million, $1.1 million (0.2%) higher than transfers in FY 2005. Also, transfers were about 29.1% of ticket sales. The Ohio Lottery made various transfers to the Deferred Prizes Trust Fund (DPTF) totaling $5.8 million in FY 2006. Thus, total transfers (LPEF and DPTF) were $652.1 million.

Quarterly Transfers to LPEF in FY 2006 (dollars in millions)

	Tickets Sales	Actual Transfers	Projected Transfers	Dollar Variance	FY 2005 Transfers	Dollar Variance	Percent Variance
Q1	$507.2	$148.0	$146.5	$1.5	$161.9	-$13.9	-8.6%
Q2	$553.6	$158.4	$158.4	$0.0	$169.3	-$10.9	-6.4%
Q3	$590.5	$166.4	$170.1	-$3.7	$157.2	$9.2	5.9%
Q4	$568.2	$173.4	$162.8	$10.6	$156.7	$16.7	10.7%
Total	$2,219.5	$646.3	$637.8	$8.4	$645.1	$1.1	0.2%

Totals may not add up due to rounding.

Year in Review

Total ticket sales in FY 2006 were $2,219.5 million, $60.4 million (2.8%) higher than sales in FY 2005. The increase in total sales was almost entirely due to the improvement in Instant ticket sales.

During FY 2006, the State Lottery Commission made several changes to its On-line games. Lot' O Play replaced Super Lotto Plus in October 2005. The price of a ticket increased from $1 per play (Super Lotto Plus) to $2 per play (Lot' O Play). The odds to win the jackpot went from 1 in 14 million for Super Lotto Plus to 1 in 6.3 million with Lot' O Play. Also, the jackpot started at $1 million instead of $4 million. Despite the lower odds to win, the combination of higher ticket price and lower starting jackpot is expected to lead to lower sales of Lot' O Play when compared to sales of Super Lotto Plus. However, the profitability of the new game will be higher. Since October, the gross profit margin (ticket sales minus payments to winners) of Lot' O Play was almost 50%, compared to that of Super Lotto Plus, which was about 23%. Finally, with the phaseout of Super Lotto Plus, Kicker was linked to the Mega Millions game, instead of Lot' O Play.

Compared to sales in FY 2005, Instant ticket sales surged $55.4 million (4.5%). On-line ticket sales grew only $5.0 million (0.5%). Among On-line games, only Pick 4 and Mega Millions gained

Ticket Sales by Game in FY 2006 and FY 2005 (dollars in millions)

	Pick 3	Pick 4	Kicker	Rolling Cash 5	Super Lotto/Lot' O Play	Mega Millions	On-line	Instants	Total
FY 2006	$377.3	$175.7	$16.2	$72.6	$76.3	$223.4	$946.9	$1,272.6	$2,219.5
FY 2005	$387.7	$170.1	$19.9	$74.8	$113.1	$176.4	$941.9	$1,217.2	$2,159.1
$ Change	($10.4)	$5.6	($3.7)	($2.2)	($36.8)	$47.0	$5.0	$55.4	$60.4
% Change	-2.7%	3.3%	-18.8%	-2.9%	-32.5%	26.6%	0.5%	4.5%	2.8%

Totals may not add up due to rounding.

sales over the previous year. Pick 4 sales grew \$5.6 million (3.3%), and Mega Millions sales increased \$47.0 million (26.6%). These gains were negated by the poor performance of the remaining On-line games. Kicker sales declined \$3.7 million (18.8%). Super Lotto/Lot' O Play sales decreased \$36.8 million (32.5%). Pick 3 sales fell \$10.4 million (2.7%).

California entered Mega Millions at the end of June 2005, joining Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, and Washington. Before California joined this multijurisdiction game, the odds to win the jackpot were about 1 in 135 million. The chances of winning today's Mega Millions jackpot are about 1 in 175 million. With the addition of California and the increase in the odds that someone will win, Mega Millions jackpots were expected to reach several hundred million dollars in sales quicker than previously, which generated higher sales in Ohio in FY 2006. Despite higher Mega Millions sales this year, total On-line sales grew only 0.5%.

Payout to Winners and Profitability of Lottery Operations

The overall profitability of Lottery operations was marginally better in FY 2006 than in FY 2005. In FY 2006, the payout for Instant games was about 65.4% of sales, while that of On-line games was 51.1%,[2] for an overall payout of 59.3% for all ticket sales. The previous year, the payout shares for Instant and On-line sales were about 65.1% and 52.7%, for an overall payout of 59.7%. Gross profit margins (ticket sales minus payments to winners) are inversely related to the payout share. In FY 2006, gross profit margins per dollar of sale were about 35¢ for Instant ticket sales and 49¢ for On-line ticket sales. The overall gross profit margin was 40.7% of total ticket sales. In FY 2005, the overall gross profit margin was 40.3%. Although the year-over-year gross profit margin remained virtually stable, gross profits increased about \$33 million as a result of the increase in total ticket sales in FY 2006. Based on the relative share of Instant and On-line sales and the respective gross profit margins, gross profits from On-line ticket sales increased about \$17 million in FY 2006. Gross profits from Instant ticket sales grew about \$16 million.

Ticket Sales Trends

After a decline of 10.7% in FY 2001, ticket sales rose \$63.1 million (3.2%) in FY 2002, \$95.1 million (3.6%) in FY 2003, \$76.7 million (3.7%) in FY 2004, \$3.4 million (0.2%) in FY 2005, and \$60.4 million (2.8%) in FY 2006. Ticket sales have improved but remain below the \$2.3 billion in sales recorded in FY 1996. Sizable negative variances in transfers from operations occurred in FY 2001 (\$53.2 million) and again in FY 2003 (\$31.3 million). However, in the last three years, transfers from operations have been above expectations. Transfers from operations were below 30% of ticket sales in the last two years.

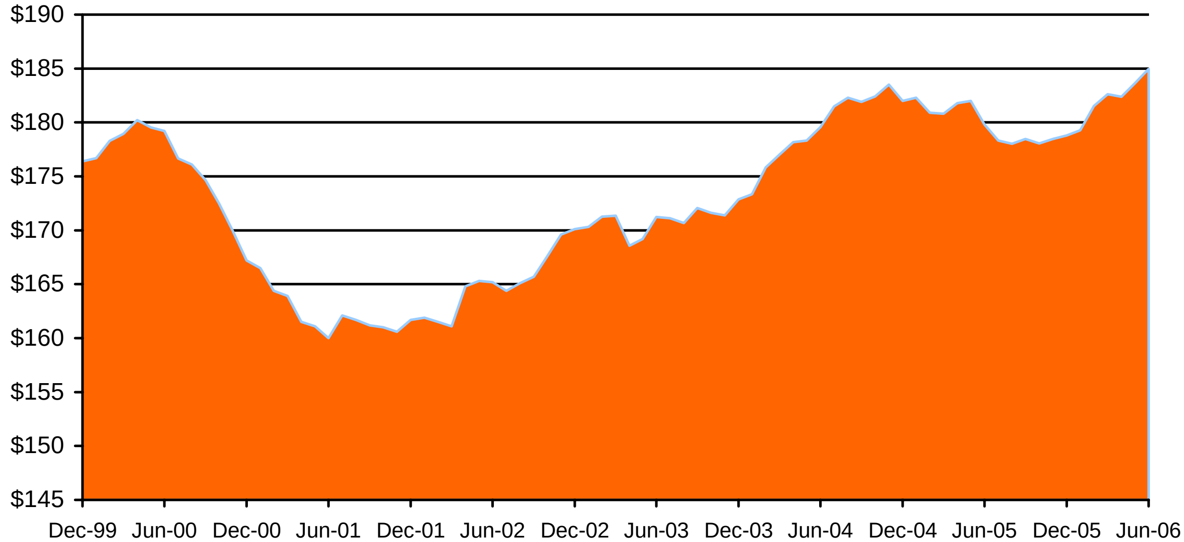
At the apex of Lottery sales in FY 1996, monthly sales were about \$192 million. Monthly sales have a seasonal pattern of increases in November and December and also rise with Super

Tickets Sales and Transfers to LPEF, FY 2000 to FY 2006 (dollars in millions)

	Ticket Sales	Actual Transfers	Projected Transfers	Dollar Variance	Percentage Variance	Transfers as Percentage of Sales
FY 2000	\$2,150.4	\$661.0	\$661.0	\$0.0	0.0%	30.7%
FY 2001	\$1,920.0	\$612.0	\$665.2	(\$53.2)	-8.0%	31.9%
FY 2002	\$1,983.1	\$610.1	\$608.7	\$1.4	0.2%	30.8%
FY 2003	\$2,078.2	\$606.4	\$637.7	(\$31.3)	-4.9%	29.2%
FY 2004	\$2,154.9	\$648.1	\$637.9	\$10.2	1.6%	30.1%
FY 2005	\$2,158.1	\$645.1	\$637.9	\$7.2	1.1%	29.9%
FY 2006	\$2,219.5	\$646.3	\$637.8	\$8.4	1.3%	29.1%

Lotto and Mega Millions jackpots. A 12-month moving average of sales removes seasonal variations and provides a true indication of sales trends. The chart of Lottery ticket sales shows that sales grew from the nadir of about $160 million in June 2001 to almost $185 million in June 2006. A key factor in the improvement in sales in recent years has been yearly increases in Instant ticket sales from the introduction of numerous new higher-priced games and Mega Millions. Instant ticket sales grew about 6% per year in the last four fiscal years. During the same period, the sales of On-line games have been about flat, even with Mega Millions. However, the Mega Millions game has helped mitigate out-of-state spending by Ohioans on Powerball (the other multistate game). Thus, it appears total ticket sales growth may continue to depend on the growth in Instant ticket sales.

Lottery Ticket Sales
Monthly Sales (12-Month Moving Average)
(in millions)



[1] On-line games refer to Pick 3, Pick 4, Kicker, Rolling Cash 5, Lot' O Play, and Mega Millions. These games are played via a terminal at a Lottery sales agent. Those terminals are linked to Ohio Lottery headquarters' computers. On-line games do not refer to Internet lottery sales.

[2] Gross profit margins for On-line games range from 23% for Super Lotto to 58% for Kicker in FY 2006.

Lottery Profits Education Fund Disbursements, FY 2006

— *Ronnie Romito and Melaney Carter*

During FY 2006, transfers into Fund 017, the Lottery Profits Education Fund (LPEF) from the State Lottery Fund exceeded disbursements by $8.4 million. These excess funds will be transferred in FY 2007 into Fund 018, the Lottery Profits Education Reserve Fund (LPERF). The balance of the LPERF at the end of FY 2006 (before the transfer of excess FY 2006 funds) was $42.5 million. Funds from the LPERF can be transferred, with Controlling Board approval, into the LPEF if funds in the LPEF are not sufficient to meet the appropriation in any given year.

Disbursements from the LPEF totaled $637.9 million in FY 2006. These funds were disbursed through two appropriation items, 200-612, Foundation Funding, and 200-682, Lease Rental, both in the Ohio Department of Education's budget.

Foundation Funding

The $606.2 million of lottery profits spending from appropriation item 200-612, Foundation Funding, was combined with GRF appropriation item 200-550, Foundation Funding ($5,500.5 million), to fund the state school foundation aid program in FY 2006. This program provides the state's share of base cost funding that guarantees $5,283 per pupil in state and local funding for FY 2006. The program also provides the state's share of additional special and career-technical education costs, known as weighted cost funding. With the combination of GRF and lottery profits money, foundation funding ($6,106.7 million) represented approximately 76.6% of the Department of Education's total GRF and LPEF disbursements in FY 2006.

Lease Rental

Money from appropriation item 200-682, Lease Rental, is transferred to the School Facilities Commission to support GRF appropriation item 230-428, Lease Rental Payments. These funds are used to pay for any debt service incurred by the Treasurer of State from the issuance of nongeneral obligation bonds to fund school building improvements. General obligation bonds for school building improvements are supported by GRF appropriation item 230-908, Common Schools G.O. Debt Service. Disbursements from this item totaled $171.5 million in FY 2006.

FY 2006 LPEF (017) Appropriation/Disbursement Summary

Agency	Fund	Line Item	Line Item Title	FY 2006 Appropriation	FY 2006 Disbursement
EDU	017	200-612	Foundation Funding	$606,208,300	$606,208,300
EDU	017	200-682	Lease Rental	$31,691,700	$31,691,700
			Total LPEF	**$637,900,000**	**$637,900,000**

School Facilities Update, Fiscal Year 2006

— *Ed Millane*

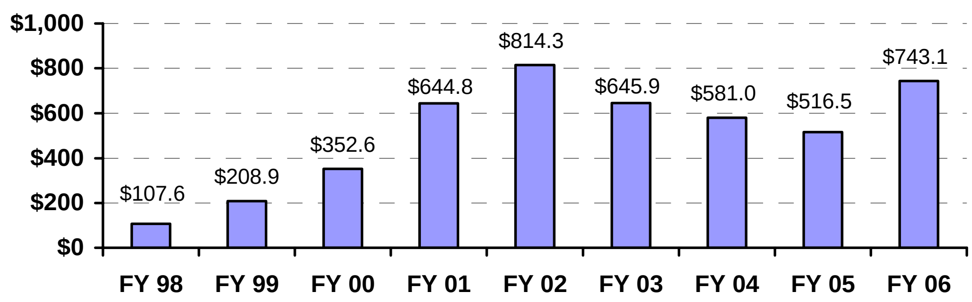
Since its inception in 1997, the Ohio School Facilities Commission (SFC) has received appropriations of nearly $6.4 billion and disbursed more than $4.6 billion. Through its various programs, the SFC has served 290 school districts and provided support for 427 new or renovated buildings in those districts.

The SFC's disbursements for FY 2006 totaled $743.1 million, an increase of $226.6 million (43.9%) over FY 2005. Of this amount, $681.6 million (91.7%) went to the Classroom Facilities Assistance Program (CFAP), $53.8 million went to the Exceptional Needs Program (ENP), and the remaining $7.7 million went to several other smaller programs. These disbursements are funded by bonds ($576.7 million, or 77.6%), tobacco settlement revenue ($146.5 million, or 19.7%), as well as cash and federal funds ($19.9 million, or 2.7%).

The disbursement increase in FY 2006 ended a trend of decreases after FY 2002, a year in which SFC's disbursements peaked at $814.3 million. The decreases from FY 2003 to FY 2005 were largely due to the FY 2003 Accelerated Urban Initiative, under which the six major urban districts (Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo) were accepted into the CFAP, the SFC's main program. Because of the size and complexity of these districts, their projects are divided into multiple phases and require a longer lead time before construction starts and funds are disbursed. Four years after being accepted into the CFAP, Cleveland and Toledo currently have entered phase three of the projects while the other four districts have reached phase two. Since FY 2003, the SFC has disbursed $459.9 million to these 6 districts and helped build or renovate 18 buildings.

In FY 2006, 15 districts were approved to participate in the CFAP, which addresses a school district's entire facilities needs. The CFAP eligibility is largely based on a wealth ranking list developed by the Department of Education. So far the CFAP has served a total of 159 (25.9%) school districts, including the 15 districts that were accepted into the program in FY 2006. For FY 2007, the SFC has offered the CFAP funding to an additional 34 districts; 27 to 29 of these districts are expected to accept the offer and move forward with their projects.

SFC Disbursements by Fiscal Year (in millions)



In contrast to the CFAP, which addresses a district's entire facilities needs, the ENP is designed to address a school district's health and safety needs associated with a specific building. Am.

Sub. H.B. 530 of the 126th General Assembly increased the wealth eligibility threshold from the 50th percentile to the 75th percentile. In FY 2006, 8 districts were accepted to participate in the ENP, bringing the total number of school districts served by this program to 37. For FY 2007, the SFC has offered the ENP funding to an additional three school districts, two of which are expected to move forward with their projects.

Unlike the CFAP and the ENP, which provide state funds to districts immediately after they participate in the programs, the Expedited Local Partnership Program (ELPP) does not directly provide state funding to its participating districts. All school districts are generally eligible to participate in the ELPP. Under the ELPP, school districts are allowed to use local funds to begin their school facilities projects prior to being eligible for the CFAP. Once the district becomes eligible under the CFAP, it will receive a credit for the local funds it has spent against its required local contribution under the CFAP. Since its establishment in 2000, the ELPP has served 88 districts, including the 3 districts that were accepted into the program in FY 2006. These 88 districts have accumulated a combined credit of $1.8 billion against state funds. Eight of the 88 districts became eligible for and were served by the CFAP or ENP in FY 2006; these 8 districts had a combined ELPP credit of $98.3 million. In FY 2007 seven more ELPP districts will be eligible for participating in the CFAP; these seven districts have a combined credit of $120.0 million.

The 49 joint vocational school districts (JVSDs) are served by the parallel Vocational Facilities Assistance Program (VFAP) and the Vocational Facilities Assistance Expedited Local Partnership Program. The SFC has the authority to spend up to 2% of its annual appropriations for the VFAP program. Since its creation in 2003, the VFAP has disbursed $5.1 million and served four JVSDs: the Pike County JVSD, the Pickaway-Ross JVSD, the Southern Hills JVSD in Brown County, and the Scioto County JVSD. For FY 2007, the SFC has offered the VFAP funding to an additional three JVSDs. In addition to the VFAP funding, the Wayne County Career Center and the Mid-East Career and Technology Center in Muskingum County were approved in FY 2006 for their expedited local partnership projects; they have accumulated a combined $7.7 million credit against state funds.

THE STREAMLINED SALES TAX PROJECT - AN UPDATE

— Jean Botomogno

The Streamlined Sales and Use Tax Agreement

The Streamlined Sales Tax Project (SSTP) was organized in March 2000 by 42 states and the District of Columbia to simplify and modernize sales and use tax administration in the member states in order to reduce substantially the burden of tax compliance. Another goal of the SSTP was to address the issue of sales tax collections from out-of-state remote sellers (mail-order and electronic shopping). For decades, sellers would not add the sales and use tax to taxable sales or would not remit the taxes collected to the appropriate tax authorities. Currently, states cannot compel remote sellers to collect and remit sales taxes on transactions that occur in jurisdictions where they do not have a physical presence. The meteoric growth of Internet shopping in recent years exacerbated the flaws in sales and use tax administration exposed by remote sales of the mail-order industry. Between CY 2000 and CY 2005, remote sales, fueled by Internet purchases, grew 26.4 % annually and from 0.9% to 2.3% of total retail sales.[1] With the continued democratization of access to the Internet, the extent of the potential sales and use tax revenue losses from electronic shopping alarmed the states.

After several rounds of negotiations, 33 states and the District of Columbia approved the Streamlined Sales and Use Tax Agreement (SSUTA) on November 12, 2002. The agreement focuses on improving sales and use tax administration systems for all sellers and for all types of commerce. The goals of the system are to: (1) establish a state level administration of sales and use tax collections, (2) create uniformity in the state and local tax bases and create uniformity of major tax base definitions, (3) establish a central electronic registration system for all member states, (4) design uniform sourcing rules for all taxable transactions, (5) simplify the administration of exemptions, and (6) simplify sales tax remittances. The agreement would not become binding and take effect until approved by ten states comprising at least 20% of the total population of states with a sales tax. After the SSUTA was approved, state legislatures began considering and passing legislation to bring their sales and use tax statutes into compliance with its provisions. The SSUTA, the culmination of a multiyear, nationwide effort by states, local governments, and the business community, became effective on October 3, 2005.

Current Status of the SSUTA

At the end of FY 2006, 13 states (Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Nebraska, New Jersey, North Carolina, North Dakota, Oklahoma, South Dakota, and West Virginia) were "full member" states in "substantial" compliance with all laws, rules, regulations, and policies of the SSUTA. Six states (Arkansas, Nevada, Ohio, Tennessee, Utah, and Wyoming) did enough to qualify as "associate" members. An associate member state is either (a) a state that is in compliance with the agreement except that its laws, rules, regulations, and policies to bring the state into compliance are not in effect but are scheduled to take effect on or before January 1, 2008, or (b) a state that has achieved substantial compliance with the terms of the agreement taken as a whole, but not necessarily each provision, and there is an expectation that the state will achieve compliance by January 1, 2008.

Recently, member states created the Streamlined Sales Tax Governing Board to manage and administer the SSUTA. The Board has approved bylaws and operating rules, created and implemented a national central registration system, and established a state and local advisory council. Also, four standing committees (compliance review and interpretations, finance, nominating, and issue resolution) were appointed to further the process of simplification and modernization of sales and use tax collections.

Software Systems for Collecting Sales and Use Tax in Place

The effective date of the agreement triggered a web-based centralized point-of-sales tax registration for member states, and advanced the process for certification of software and service providers that will assist in the collection of sales and use taxes, including the electronic filing of returns and payments. A central feature of the simplified sales and use tax system is the establishment of certified service providers (CSP) and certified automated systems (CAS). A CSP is designed to allow a business to outsource most of its sales tax administration responsibilities. The software system of a CSP identifies which products and services are taxable, applies the appropriate tax rate, can interface with the accounting systems of sellers, and files the sales tax return and remits the tax to the appropriate taxing authority. A CAS software system provides most of the same functions as a CSP system; however, a business that uses a CAS remains responsible for filing the tax return and remitting the tax to the appropriate taxing authority.

The certification process started in February 2005 ended in April 2006. The process included on-site review of security, analysis of internal controls, and analysis of financial capacity and stability of various firms. Two companies were eventually retained to assist with sales and use tax collections. Avalara was retained as a CSP. Taxware was selected both as a CSP and a CAS. Each member state will provide liability relief for errors that may result in incorrect calculation of the sales and use tax amount from the use by a seller of the CSP and the CAS systems.

Now that the SSUTA has become effective and the central registration and software systems are in place, the member states expect some of the remote sellers to come forward and volunteer to collect and remit taxes from their customers even though they may not have a physical presence in the customer's taxing jurisdiction for sales and use tax purposes. To help in that effort, member states, including Ohio, offered amnesty to sellers for uncollected or unpaid sales and use tax earlier this year. The amnesty provision (included in Am. Sub. H.B. 66, the main operating budget act for the current biennium) generated about $16.4 million in state and local sales and use tax receipts in FY 2006.

Future Issues

A number of issues have been identified by the member states for which future action is needed. These are: improvements to the registration system, compensation of certified service providers, definition and taxation of "digital goods,"[2] bundling rules for sales of telecommunication and ancillary services, taxation of products that have multiple points (or destinations) of use, and audit procedures under the simplified system.

[1] Data are from the U.S. Census Bureau. Although retail Internet shopping may have the most impact on sales and use tax revenue from taxable retail transactions, business-to-business (primarily manufacturing/wholesale) sales account for most remote sales (about 93% of the total). Business-to-consumer sales are about 7% of all remote sales.

[2] Products delivered electronically, such as software, video, music, etc.