

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

SEPTEMBER 2006

FISCAL OVERVIEW

— Allan Lundell

Two months into FY 2007, General Revenue Fund (GRF) receipts are \$97 million below estimate, disbursements are \$148 million below estimate, and the cash balance is above its expected level.¹

Receipts

Fiscal year-to-date total GRF receipts are \$97.2 million (2.5%) below estimate. State-source receipts are \$24.1 million (0.9%) above estimate and federal grants are \$121.3 million (11.5%) below estimate. Tax revenues are above estimate by \$29.2 million (1.1%). Revenue from the personal income tax is above estimate by \$42.7 million (3.6%) and revenue from the nonauto sales and use tax is below estimate by \$23.2 million (2.1%). Compared to the same point in FY 2006, total GRF receipts are down 2.9%. State-source receipts are down 0.9%, federal grants are down 8.6%, and tax revenues are down 0.9%.

Disbursements

GRF disbursements for the fiscal year to date are \$147.7 million (2.9%) below estimate. Program disbursements are below estimate by \$109.9 million (2.4%) and transfers out are below estimate by \$37.8 million (7.3%). Disbursements for health care/Medicaid are below estimate by \$133.6 million (7.4%) and disbursements for primary and secondary education are below estimate by \$36.8 million (3.0%). Debt service payments are \$68.7 million (32.9%) less than estimated. Disbursements for property tax relief are above estimate by \$140.3 million (2,315.5%). Compared to the same point in FY 2006, total disbursements are down 1.6%. GRF program disbursements are up 0.2% and transfers out are down 15.3%.

Cash Balance

As shown in Table 1, the GRF began FY 2007 with a \$1,528.8 million cash balance. Through August, FY 2007 revenues plus transfers in totaled \$3,767.0 million and disbursements plus transfers out totaled \$4,916.5 million. Transfers out include

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- The national economic expansion appears to be continuing but at a slower pace than earlier, and residential investment is declining
- In Ohio, employment has declined since May, and the unemployment rate is a percentage point above that nationwide
- Inflation eased in August

STATUS OF THE GRF

Revenue 9

- State-source receipts above estimate for FY 2007, but down compared to FY 2006
- Personal income tax revenue above estimate; sales tax revenue below estimate
- GRF to receive no revenue from the CAT in FY 2007

Disbursements 14

- Total GRF program disbursements lag year-to-date estimates by \$109.9 million
- Medicaid spending now \$133.6 million under estimate for the year to date
- Property Tax Relief payments get off to a fast start

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)

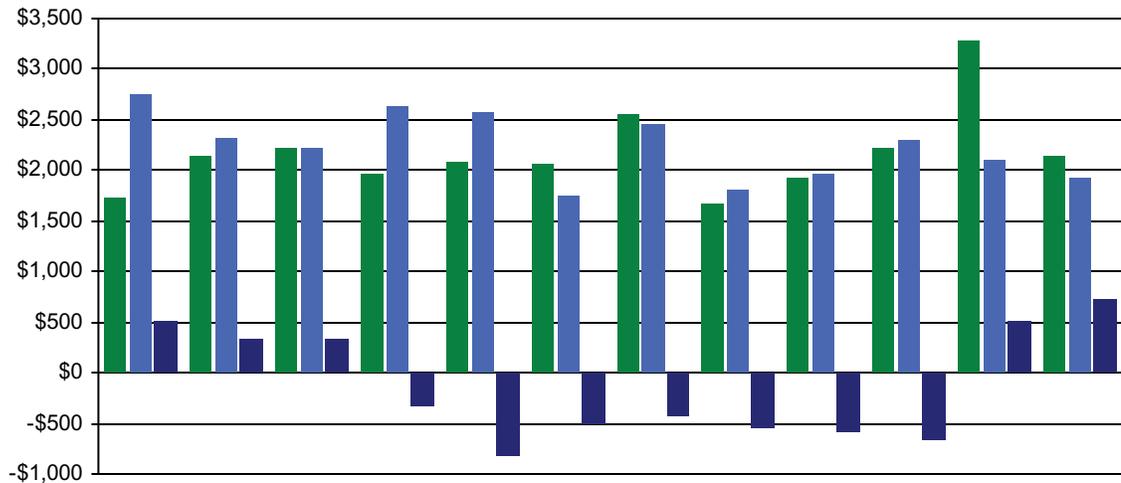
	Month of August	Fiscal Year 2007 to Date	Last Year	Difference
Beginning Cash Balance	\$515.2	\$1,528.8		
Plus Revenue and Transfers In	\$2,035.9	\$3,767.0		
Available Resources	\$2,551.1	\$5,295.8		
Less Disbursements and Transfers Out	\$2,171.8	\$4,916.5		
Ending Cash Balances	\$379.3	\$379.3	\$95.4	\$283.9
Less Encumbrances and Accts. Payable		\$1,027.4	\$1,096.4	-\$69.0
Unobligated Balance		-\$648.1	-\$1,001.0	\$352.9
Plus BSF Balance		\$1,012.3	\$576.6	\$435.7
Combined GRF and BSF Balance		\$364.2	-\$424.4	\$788.6

\$394.0 million to the Budget Stabilization Fund (BSF). The year-to-date deficit of \$1,149.5 million reduced the cash balance to \$379.3 million. If receipts and disbursements had equaled their estimates, the cash balance would have been \$328.7 million, \$50.6 million lower than the actual level. Chart 1 presents the monthly estimates of FY 2007 receipts and disbursements and the month-end cash balances that would result if receipts and disbursements equaled the monthly estimates. Chart 2 presents a comparison of actual and estimated month-end cash balances.

Encumbrances and accounts payable of \$1,027.4 million combine with the cash balance to yield an unobligated balance of -\$648.1 million. This amount is \$352.9 million higher (less negative) than a year ago. The \$1,012.3 million in the BSF is \$435.7 million higher than a year ago and is 3.9% of FY 2006 GRF receipts. The combined GRF and BSF balance of \$364.2 million is \$788.6 million higher than it was a year ago.

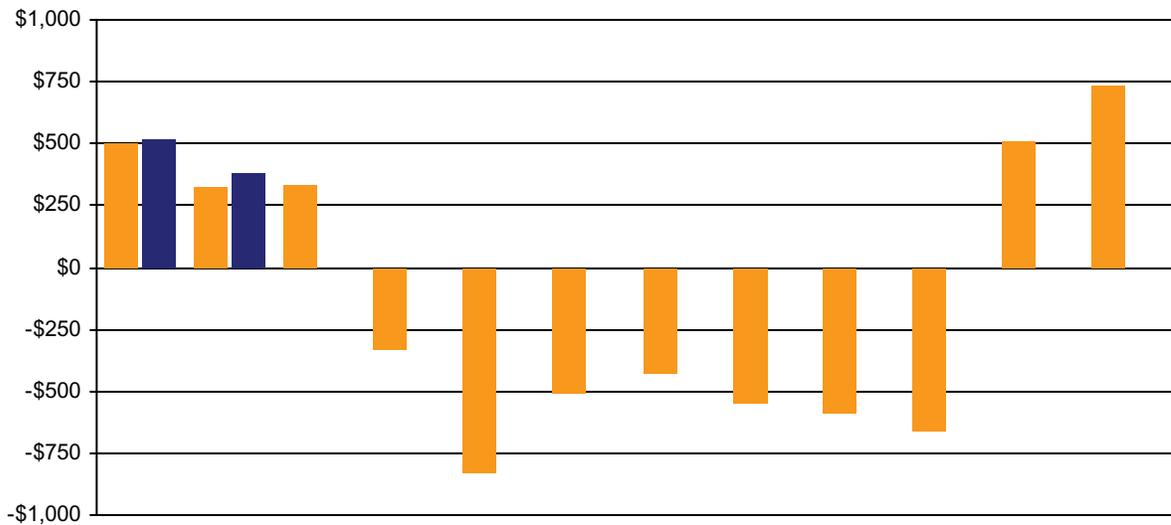
¹ "Estimate" refers to the August 2006 estimate of the Office of Budget and Management.

Chart 1: Estimated Receipts, Disbursements, and Ending Cash Balances
(FY 2007, in millions)



	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
■ Receipts	\$1,726	\$2,138	\$2,222	\$1,965	\$2,076	\$2,063	\$2,548	\$1,676	\$1,927	\$2,229	\$3,287	\$2,139
■ Disbursements	\$2,750	\$2,314	\$2,219	\$2,630	\$2,576	\$1,745	\$2,460	\$1,801	\$1,970	\$2,301	\$2,109	\$1,920
■ Cash Balance	\$505	\$329	\$332	-\$333	-\$832	-\$514	-\$426	-\$551	-\$594	-\$666	\$512	\$732

Chart 2: Actual and Estimated Ending Cash Balances
(FY 2007, in millions)



	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
■ Estimated	\$505	\$329	\$332	-\$333	-\$832	-\$514	-\$426	-\$551	-\$594	-\$666	\$512	\$732
■ Actual	\$515	\$379										

TRACKING THE ECONOMY

— Phil Cummins

The uptrend in the national economy, underway since 2001, looks to be continuing but at a more subdued pace than earlier. Employment gains nationwide have moderated. In Ohio, total employment has declined since May. Manufacturing output, in the industrial production index, was flat in August. The housing sector shrank further last month, and home price appreciation has slowed abruptly. Consumer outlays continue to grow overall, but sales in previously strong segments including home furnishings and building materials have softened. On the other hand, nonresidential building has been expanding during the past year, and a downturn in business investment in equipment in the second quarter appears likely to be a one-quarter blip. The rate of increase in consumer prices slowed in August, and the rise in producer prices for finished goods was small. Recent declines in gasoline prices may ease strains on consumer finances. The central bank paused in its monetary firming in August, after two years of hiking short-term interest rates, and held its target interest rate unchanged again this month. Longer term interest rates have trended lower since late June.

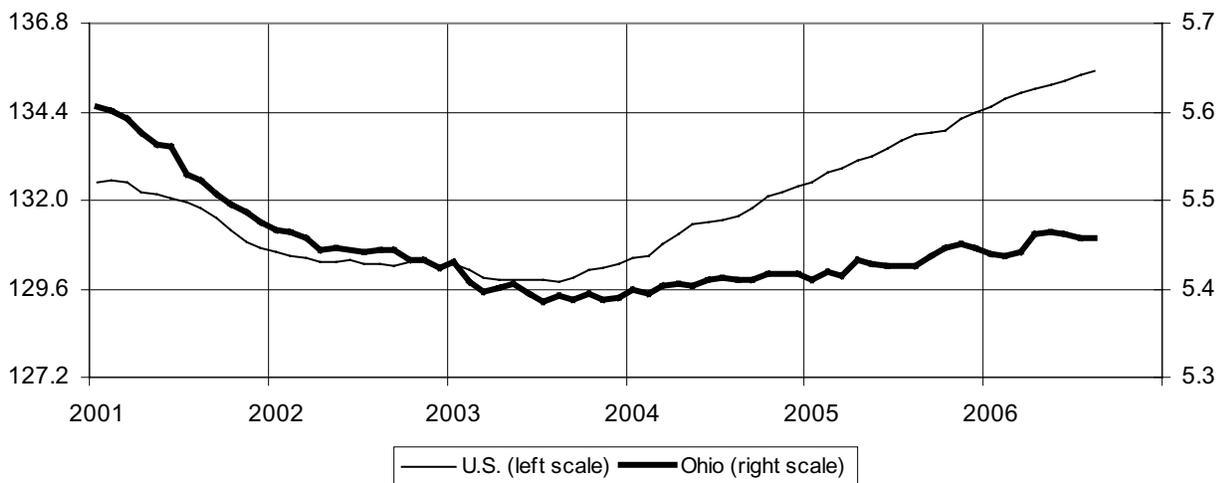
Expansion of the national economy slowed in the second quarter to a 2.9% annual rate, measured

by inflation-adjusted gross domestic product (GDP), from a 5.6% rate in the first quarter. The slowdown was widespread across final demand sectors, partly offset by increased inventory accumulation. Growth of the economy—as estimated by the source agency for the GDP figures, the United States Bureau of Economic Analysis—was revised lower in 2003 through 2005, from 3.5% annual average growth to 3.2%, mainly as a result of a lower estimate of growth of business investment in equipment and software. Forecasters, on average, appear to expect slower but continued growth of the economy, accompanied by an easing of inflation.¹

Slow Growth of Employment Nationwide

Total nonfarm payroll employment nationwide rose 128,000 in August, with almost all of the gains in service industries. Growth in payroll employment has slowed since the first quarter. Total nonfarm payrolls in August were 1.3% above a year earlier. Unemployment edged down from 4.8% of the labor force in July to 4.7% in August, near the cyclical low of 4.6% in May and June, the lowest in nearly five years. Within the service sector, employment in health care continued to grow in August. The uptrend in employment also continued in food services

Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



and in the financial sector, though growth in both sectors has moderated recently. Jobs with temporary help services have been about flat this year, after rising more than 400,000 during 2003 through 2005. The number of jobs at department stores continued to shrink. Among goods-producing industries, employment rose in August in construction, mainly among nonresidential contractors, and in mining, chiefly at oil and gas producers and in related support activities. Manufacturing employment fell, in part due to cutbacks at motor vehicle and parts makers.

In Ohio, nonfarm payroll employment fell 500 in August and was 32,900 or 0.6% above a year earlier. The statewide unemployment rate edged down from 5.8% in July to 5.7% in August. Employment in manufacturing rose by 800 during the month but was 5,600 below a year earlier. The number of construction jobs in the state fell 1,200 in August. Total employment in service industries fell slightly, with increases in professional and business services and in education and health services more than offset by declines in trade, transportation, and utilities and in other parts of the service sector.

Mixed Reports on Manufacturing

Industrial production fell 0.1% in August, mainly as a result of a decline in utility output, seasonally adjusted, as monthly average temperatures around the nation were nearer normal levels following a heat wave in July. Manufacturing output in August, in the aggregate, was unchanged from July and was 5.4% above a year earlier. Durable goods production rose 0.3% in August while nondurable goods output fell 0.4%. Motor vehicle and parts output rose last month following cutbacks in July, but the pace of light vehicle assemblies in the United States remains below the rate in this year's first half, which in turn was lower than in 2005. Total consumer goods production in August rose 0.1% to 1.9% above a year earlier. Business equipment production slipped 0.2% in August but has been trending upward strongly this year and was 13.5% higher in August than a year earlier.

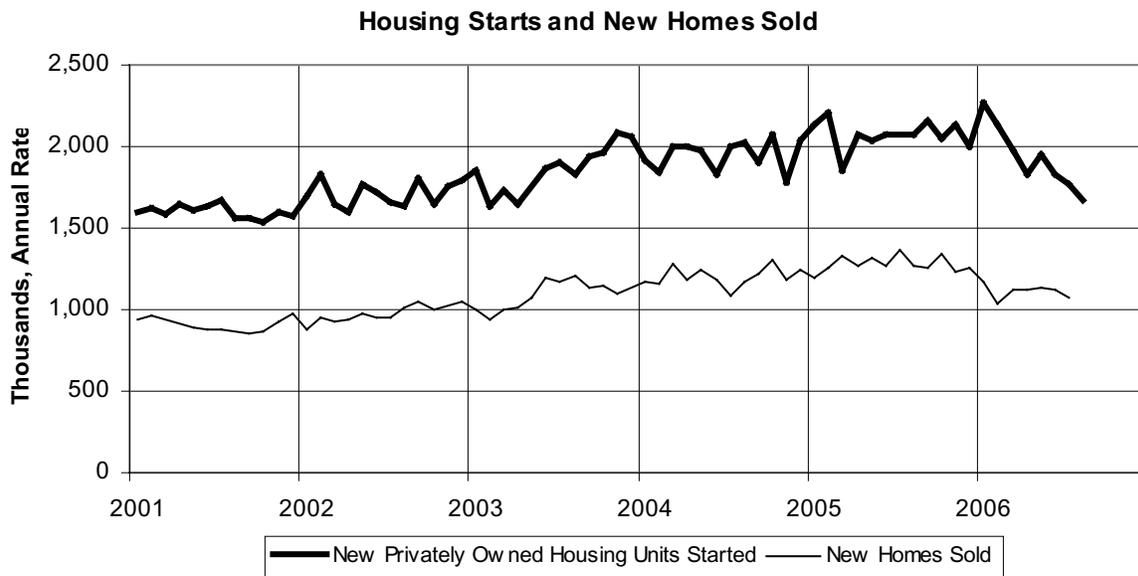
In contrast with the industrial production report, purchasing managers at manufacturers

reported continued expansion of business activity in August, in the Institute for Supply Management's monthly survey. Production, new orders and order backlogs, and employment rose. A comparable survey of nonmanufacturers also showed growing business activity, new orders, and employment, but order backlogs contracted for the first time in 19 months. Both surveys showed widespread increases in prices paid, with some purchased materials in short supply.

The Federal Reserve System's "Beige Book," a compilation of reports from business and other contacts outside the central bank, indicated continued expansion into August but at a slower pace than earlier. Sources noted higher prices for raw materials but indicated that producers generally had only limited ability to pass along their cost increases to their customers. In the Cleveland Federal Reserve District, which includes all of Ohio and parts of three adjacent states, economic activity was expanding moderately as of August, but the outlook was characterized as having become more uncertain because of continuing slowdowns in motor vehicle production and in residential building. Retailers' reports were mixed with declines at some attributed to high gasoline prices. Demand for commercial construction increased. Strong demand in recent months for shipping services had begun to moderate. Hiring was described as steady, with wage pressures not an issue.

Modest Retail Sales Growth

Retail sales rose 0.2% from July to August, following a 1.4% increase the month before. Sales at motor vehicle and parts dealers rose 0.4%, in spite of a drop in the number of light vehicles sold from a 17.1 million unit annual rate in July to 16.0 million in August (all figures seasonally adjusted). The two series usually change in the same direction but move in opposite directions nearly one-fourth of the time. Excluding autos, retail sales also rose 0.2% in August, following a 0.6% increase in July. Sales fell in August at furniture and home furnishings stores and slackened the past few months at building materials and garden supply stores, lines of business that earlier were growing briskly. Sales fell in August at gasoline stations,



following an increase in July, probably reflecting mainly the rise and fall of gasoline prices. Total consumer spending, net of inflation, rose in July and in earlier months this year.

Slower Housing Markets

Revised figures on GDP and its components show total housing investment spending shrinking, adjusted for inflation, since a peak in the third quarter of 2005, instead of continuing to grow into early 2006 as previously estimated. The decline continued into August. Housing starts fell 6% last month to their lowest level since April 2003. Starts in the first eight months of 2006 were 8% lower than a year earlier nationwide and 16% lower in the Midwest. Most of the declines were in starts on single-family homes. The number of new homes sold in July nationwide fell 4%, and sales in this year's first seven months were 12% lower than a year earlier for the country and 16% lower in the Midwest. Unit sales of used homes, reported by the National Association of Realtors, also slowed 4% in July and were 6% lower nationwide for seven months, and 3% lower in the Midwest. In Ohio, the number of homes sold in this year's first seven months was 0.4% lower than a year earlier, reflecting a 9% drop in July.

The housing downturn has put the brakes on housing price appreciation. An index of housing prices nationwide rose 1.2% from the first to the second quarter, its smallest quarterly increase

since 1999.² The index was 10% higher than a year earlier. Housing prices in Ohio fell 0.1% in the second quarter to 2.1% above a year earlier. Only in Michigan, among the other 49 states, were housing prices up by less in the latest year.

Mortgage interest rates on fixed-rate loans have eased somewhat. The nationwide average interest rate for 30-year fixed-rate loans fell from a peak of 6.8% as of July 20 to 6.43% in mid-September.³ Lower long-term borrowing rates may cushion the downturn in the housing market. However, the runup in short-term interest rates from lows in 2003 and 2004 is causing adjustable-rate loans taken out during the housing boom to reset at higher interest rates, boosting monthly payments and financial stress for households at a time when houses have become harder to sell.

Nonresidential Construction Growing, Equipment Investment Slows

Investment spending on nonresidential structures has grown vigorously since last year's fourth quarter. However, investment in equipment and software turned down in the second quarter after strong growth during the previous three years. Data on manufacturers' shipments of capital goods, available at this time only through July, point to a resumption of growth in the third quarter. Rising orders and backlogs support expectations of further growth in equipment spending.

Inflation Slows in August

The consumer price index (CPI) for all items rose 0.2% in August to 3.8% above a year earlier. Excluding food and energy, consumer prices were also up 0.2% last month, to 2.8% above August 2005. On a year-to-date basis, consumer prices rose at a 4.6% seasonally adjusted annual rate during this year's first eight months, following a 3.4% increase in all of 2005. The CPI excluding food and energy rose at a 3.0% annual rate during 2006's first eight months, after increasing 2.2% last year. Apparel prices rose 0.9% in August but this followed a 1.2% decline in July, evidently reflecting variation in the timing of introduction of fall and winter merchandise and discounting of spring and summer clothes. The CPI for apparel was little changed from a year earlier. Medical care costs in the CPI rose 0.4% last month to 4.3% above a year earlier. Transportation costs rose 0.2% to 6.1% above a year earlier, as the CPI for gasoline increased 0.2% following a 5.3% increase in July. Separately, the average price of regular gasoline in Ohio was reported to have fallen 80¢ a gallon since late July, to about \$2.20 on September 18.⁴

The producer price index for finished goods rose 0.1% in August to 3.7% above a year earlier. Food prices rose 1.4% last month and prices of finished energy goods increased 0.3%. Excluding food and energy, finished goods prices fell 0.4%, the second consecutive monthly decline in this index. At earlier stages in the production process, intermediate goods prices rose 0.4% in August to 8.8% above a year earlier, and crude goods prices increased 2.2% last month to 5.3% higher than in August 2005. The index for crude nonfood materials less energy was 25% higher than a year earlier, though it fell 2.8% from July to August. Crude oil prices have eased from peaks in July and August.

Compensation gains as measured in the national income and product accounts (NIPA) turned sharply higher in this year's first half. Hourly compensation paid by nonfarm business in the first half was 7.0% higher than a year earlier, following increases of 4.4% in all of 2005 and 3.6% in 2004. Higher household incomes would help to support consumer spending, but

more rapid increases in business costs could translate into higher price inflation as businesses try to pass along to customers the jump in their costs. Labor productivity is no longer growing rapidly as it did early in the current expansion, so it will not offset increases in compensation costs to businesses. However, an alternative measure of compensation, the employment cost index, shows no such rise in labor costs. The employment cost index for private industry, an index of hourly costs, was 2.7% higher in this year's first half than a year earlier, following gains of 3.1% in 2005 and 3.8% in 2004. The two measures sometimes diverge because the NIPA measure is more comprehensive, while the employment cost index excludes pay of corporate chief executives and business owners, excludes proceeds from stock options, and differs from the broader measure in other ways as well. These definitional differences suggest that the sharper rise in the broader index may reflect at least in part higher executive incentive compensation. Whether these more rapid increases in the NIPA-basis compensation cost measure will continue is open to question, in the absence of any such acceleration in the employment cost index.

Central Bank Takes a Breather

The nation's central bank held its target for short-term interest rates unchanged in August and September, after increasing the target rate since mid-2004. In holding unchanged its target for federal funds, which are overnight loans between commercial banks, the central bank's Federal Open Market Committee (FOMC) cited more moderate growth of the country's economy, which it attributed in part to lagged effects of past interest rate increases as well as high energy prices and the slowing housing market. The FOMC thought future inflation was likely to ease, but its statement following the meeting left open the possibility of further interest rate increases in the future if warranted by its perception of inflation risks. Longer term interest rates eased on balance, with the ten-year United States Treasury note yield falling from around 5.25% in late June to 4.8% on September 15. Other longer term interest rates also fell.

¹ A survey of forecasts by members of the National Association for Business Economics, released in September, shows below-trend growth for the economy in this year's second half, with only a 25% chance that a recession will begin before the end of 2007. The GDP price index is expected to rise 3.1% this year and 2.4% next year. A newly released International Monetary Fund forecast shows United States GDP growing 3.4% this year and 2.9% next year. The world economy, in this forecast, continues to expand at about a 5% annual rate.

² Measured by the Office of Federal Housing Enterprise Oversight's house price index.

³ FHLMC weekly series.

⁴ United States Department of Energy weekly survey.

Status of the General Revenue Fund

REVENUE

— Jean Botomogno and Allan Lundell

Two months into FY 2007, total General Revenue Fund (GRF) receipts are below estimate by \$97.2 million (2.5%).¹ State-source receipts (tax revenue plus nontax revenue plus transfers in) are above estimate by \$24.1 million (0.9%) and federal grants are below estimate by \$121.3 million (11.5%).² Total tax revenues are above estimate by \$29.2 million (1.1%). Revenue from the personal income tax is above estimate by \$42.7 million (3.6%), revenue from the corporate franchise tax is above estimate by \$9.4 million (31.6%), and revenue from the auto sales tax is \$3.2 million (1.9%) above estimate. Revenue from the nonauto sales tax is below estimate by \$23.2 million (2.1%) and revenue from the kilowatt-hour excise tax is \$1.7 million (2.9%) below estimate.

For the fiscal year to date, total GRF receipts are down 2.9% compared to FY 2006. State-source receipts are down 0.9% and federal grants are down 8.6%. Tax revenue is down 0.9%. Revenue from the personal income tax is up 4.4%. Revenue from the nonauto sales tax is down 2.6% and revenue from the auto sales tax is

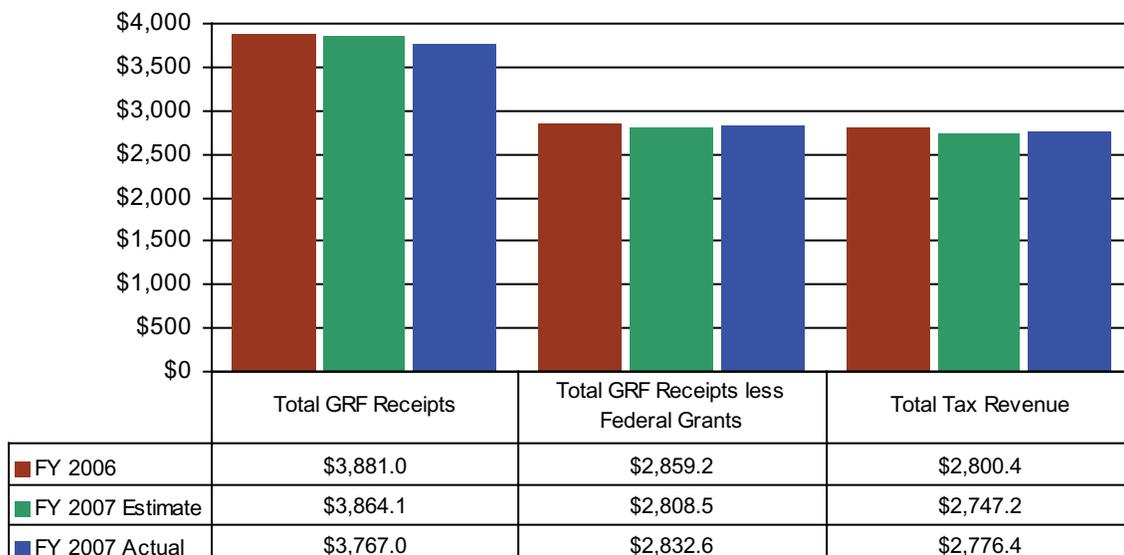
down 21.0%. Revenue from the cigarette tax is down 28.9% due to a comparison with FY 2006 revenues that included receipts from the “floor tax” associated with the July 2005 increase in the cigarette tax. Chart 1 compares FY 2007 receipts with FY 2006 receipts and FY 2007 estimates.

Personal Income Tax

The GRF has received \$1,220.7 million from the personal income tax thus far this fiscal year. This amount is \$42.7 million (3.6%) above estimate. Gross collections are above estimate by \$40.8 million and refunds are \$2.4 million (3.7%) below estimate. The \$1,315.2 million in revenue collected through withholding is \$26.0 million (2.0%) above estimate. Withholding is expected to account for 72% of gross income tax collections for FY 2007. Year-to-date quarterly estimated payments of \$40.0 million are \$13.1 million (48.7%) above estimate.³

Compared to a year ago, GRF revenue from the personal income tax is up 4.4%. Gross collections are up 4.4% and refunds are up 13.0%.

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



Withholding, which reflects the condition of Ohio's labor market, is up 3.4%.⁴

Sales and Use Tax

Through August 2006, FY 2007 year-to-date total sales and use tax revenues were \$1,282.2 million, \$19.9 million (1.5%) below estimate and \$76.2 million (5.6%) below receipts for the same period in FY 2006. The poor comparison to year-ago results is primarily due to the performance of the auto sales and use tax component. Receipts from the auto sales and use tax were \$47.0 million (21.0%) below FY 2006 revenues through August 2005. Tax receipts partly reflect taxable retail sales activity in the prior month and partly taxable retail sales during the current month.⁵

Nonauto Sales and Use Tax

In the first two months of FY 2007, nonauto sales and use tax revenues were \$1,105.3 million, \$23.2 million (2.1%) below estimate and \$29.3 million (2.6%) below revenues in the first two months of FY 2005. Revenues were below estimates in each of the months; however, the bulk of the underperformance occurred in July, when receipts were \$20.9 million below estimate. The performance of this tax source was different in the two months when compared to year-ago receipts. Compared to receipts in July last year, July 2006 revenues were 9.4% lower. Conversely, August 2006 revenues were 6.0% higher than August 2005 receipts, primarily on the strength of back-to-school sales.

Two concurrent trends may have divergent effects on nonauto sales and use tax revenues in the coming months. The current slowdown in the housing sector may negatively affect nonauto sales and use tax revenues. When the growth in housing starts, sales of existing homes, and the value of homes stalls or declines, spending on taxable items needed to build, maintain, furnish, or improve those homes usually also decreases. After peaking in early August, crude oil prices have declined and inventories seem to be plentiful, which has contributed to a drop in gasoline prices. Gasoline prices have also fallen due to seasonal factors, such as changes in fuel

requirements and lower demand for gasoline. Declining gasoline prices allow consumers to spend the newly found savings on items taxable under the sales and use tax. If the current downtrend in gasoline prices continues, nonauto sales and use tax revenues may receive a boost in the coming months. However, it is unknown whether those benefits will outweigh the drags of housing or weakness in the labor market.

Auto Sales and Use Tax

The auto sales and use tax started the fiscal year on a good note, following a poor performance in the second half of FY 2006. As of August 2006, FY 2007 year-to-date auto sales and use tax receipts were \$176.9 million, \$3.2 million (1.9%) above estimate. July and August 2006 revenues were both above estimate. However, total receipts were \$47.0 million (21.0%) below receipts last year in the same two-month period. This negative comparison is due to the effect of the reduction in the tax rate from 6.0% to 5.5% on July 1, 2005, and the impact of manufacturer incentives on vehicle sales in the first quarter of FY 2006. The announced decrease in the tax rate caused some buyers to postpone June auto purchases until July, which resulted in outsized July 2005 receipts. Also, most auto manufacturers ran a robust "employee pricing" incentive program in the summer of FY 2006 designed to clear out the remaining inventory of 2005 models at dealers, which resulted in hefty auto sales and use tax receipts in the first quarter of FY 2006. A more restricted incentive program this summer was successful in July when nationwide vehicle unit sales reached 17.2 million on an annualized basis, the highest level since January 2006. However, vehicle unit sales reversed course by declining 7.0% in August 2006 to the lowest levels of CY 2006, prompting auto manufacturers to return to the "zero percent" financing incentive program to try to boost sales again.

Corporate Franchise Tax

Activities under the franchise tax in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations. Major tax receipts under the corporate franchise tax are due in the

second half of the fiscal year. Corporate franchise tax estimated payments are due January 31, March 31, and May 31. By May of each year, a corporation must pay the difference between its full tax year liability and the first two estimated payments. In FY 2007, nonfinancial corporations will pay only 60% of their full tax liability because the corporate franchise tax is being phased out (as part of the five-year tax plan enacted in Am. Sub. H.B. 66). As of August 2006, FY 2007 year-to-date corporate franchise receipts were \$9.4 million (31.6%) above estimate. Year-to-date receipts were also \$44.6 million above year-to-date receipts in August 2005, with one-time settlement payments accounting for about half of the year-over-year increase.

Cigarette and Other Tobacco Products Tax

Through August 2006, FY 2007 year-to-date receipts from the cigarette and other tobacco products tax were \$108.2 million, \$0.6 million (0.6%) below estimate. Receipts were also \$44.0 million (28.9%) below year-to-date receipts in August 2005. Am. Sub. H.B. 66 imposed a “floor tax” of \$0.70 on cigarettes in inventory on July 1, 2005, payable in the first quarter of FY 2006. These cigarettes had the “old” stamp of \$0.55 per pack. Thus, July and August 2005 receipts included floor tax revenues. Excluding the floor tax receipts of about \$49.3 million last year, FY 2007 year-to-date receipts were \$5.3 million (5.1%) above FY 2006 year-to-date receipts through August.

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, starting in FY 2006. Generally, H.B. 66 earmarked revenues from the CAT for the GRF and for reimbursing school districts and other local governments for the reductions and phase out of local taxes on most tangible personal property. Total CAT revenues were \$273.4 million in FY 2006. Distributions to the GRF were \$185.1 million. The School District Tangible Property Tax Replacement Fund (SDRF) received \$61.8 million. The Local Government Tangible Property Tax Replacement Fund (LGRF) received \$26.5 million.

The first CAT payment in FY 2007 was due by August 9, 2006. Total CAT receipts were \$137.3 million, \$29.9 million (28.1%) above estimate. Unlike FY 2006, the GRF will not receive distributions from the CAT this fiscal year. From FY 2007 through FY 2011, revenues from the CAT will be distributed only to the SDRF and the LGRF. Through August 2006, FY 2007 year-to-date distributions from CAT revenues to the LGRF and the SDRF were \$95.1 million and \$40.9 million, respectively. Also, the two funds may be subsidized, when required, with other distributions from the GRF. OBM reported that \$77.3 million was transferred to the two funds from the GRF in August 2006.

¹ “Estimate” refers to the August 2006 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-over-year withholding growth may understate the health of the labor market 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.

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

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	\$91,793	\$89,119	\$2,674	3.0%
Nonauto Sales & Use	\$532,223	\$534,525	-\$2,302	-0.4%
Total Sales & Use Taxes	\$624,016	\$623,644	\$372	0.1%
Personal Income	\$635,774	\$635,800	-\$26	0.0%
Corporate Franchise	\$7,497	\$14,200	-\$6,703	-47.2%
Public Utility	\$45,035	\$44,700	\$335	0.7%
Kilowatt Hour Excise	\$31,047	\$31,900	-\$853	-2.7%
Commercial Activity Tax	\$0	\$0	\$0	---
Foreign Insurance	\$13	\$50	-\$37	-74.8%
Domestic Insurance	-\$338	\$600	-\$938	-156.4%
Business & Property	\$87	\$300	-\$213	-70.9%
Cigarette	\$94,397	\$93,500	\$897	1.0%
Alcoholic Beverage	\$5,162	\$5,056	\$106	2.1%
Liquor Gallonage	\$2,847	\$2,948	-\$101	-3.4%
Estate	\$0	\$300	-\$300	-100.0%
Total Tax Revenue	\$1,445,538	\$1,452,998	-\$7,460	-0.5%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	\$0	\$0	\$0	---
Licenses and Fees	\$6,185	\$5,400	\$785	14.5%
Other Revenue	\$6,821	\$5,500	\$1,321	24.0%
Nontax State-Source Revenue	\$13,005	\$10,900	\$2,105	19.3%
TRANSFERS				
Liquor Transfers	\$12,000	\$11,000	\$1,000	9.1%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$6,380	\$19,000	-\$12,620	-66.4%
Total Transfers In	\$18,380	\$30,000	-\$11,620	-38.7%
TOTAL GRF before Federal Grants	\$1,476,923	\$1,493,898	-\$16,975	-1.1%
Federal Grants	\$558,979	\$644,134	-\$85,155	-13.2%
TOTAL GRF SOURCES	\$2,035,902	\$2,138,032	-\$102,130	-4.8%

* August 2006 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 2007 as of August 2006
(\$ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
TAX REVENUE						
Auto Sales	\$176,897	\$173,677	\$3,220	1.9%	\$223,875	-21.0%
Nonauto Sales & Use	\$1,105,320	\$1,128,489	-\$23,169	-2.1%	\$1,134,579	-2.6%
Total Sales & Use Taxes	\$1,282,217	\$1,302,166	-\$19,949	-1.5%	\$1,358,454	-5.6%
Personal Income	\$1,220,744	\$1,178,001	\$42,744	3.6%	\$1,169,394	4.4%
Corporate Franchise	\$39,231	\$29,800	\$9,431	31.6%	-\$5,352	N/A
Public Utility	\$45,035	\$44,700	\$335	0.7%	\$44,949	0.2%
Kilowatt Hour Excise	\$59,151	\$60,900	-\$1,749	-2.9%	\$60,685	-2.5%
Commercial Activity Tax	\$0	\$0	\$0	---	\$0	---
Foreign Insurance	\$48	\$135	-\$87	-64.2%	\$232	-79.2%
Domestic Insurance	\$233	\$1,100	-\$867	-78.8%	\$872	-73.3%
Business & Property	\$192	\$480	-\$288	-60.1%	\$723	-73.5%
Cigarette	\$108,161	\$108,800	-\$639	-0.6%	\$152,178	-28.9%
Alcoholic Beverage	\$11,000	\$10,567	\$433	4.1%	\$10,778	2.1%
Liquor Gallonage	\$5,772	\$5,873	-\$101	-1.7%	\$5,588	3.3%
Estate	\$4,631	\$4,700	-\$69	-1.5%	\$1,894	144.5%
Total Tax Revenue	\$2,776,414	\$2,747,222	\$29,193	1.1%	\$2,800,395	-0.9%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	\$0	\$0	\$0	---	\$0	---
Licenses and Fees	\$12,071	\$11,250	\$821	7.3%	\$11,174	8.0%
Other Revenue	\$13,374	\$11,050	\$2,324	21.0%	\$21,625	-38.2%
Nontax State-Source Revenue	\$25,445	\$22,300	\$3,145	14.1%	\$32,799	-22.4%
TRANSFERS						
Liquor Transfers	\$23,000	\$20,000	\$3,000	15.0%	\$21,000	9.5%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$7,768	\$19,000	-\$11,232	-59.1%	\$5,002	55.3%
Total Transfers In	\$30,768	\$39,000	-\$8,232	-21.1%	\$26,002	18.3%
TOTAL GRF before Federal Grants	\$2,832,627	\$2,808,522	\$24,106	0.9%	\$2,859,196	-0.9%
Federal Grants	\$934,347	\$1,055,622	-\$121,275	-11.5%	\$1,021,824	-8.6%
TOTAL GRF SOURCES	\$3,766,974	\$3,864,144	-\$97,170	-2.5%	\$3,881,020	-2.9%

* August 2006 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

DISBURSEMENTS

— Steve Mansfield*

In August, General Revenue Fund (GRF) disbursements for program spending were \$2,089.6 million, which was under estimate by \$104.5 million (4.8%). Through the first two months of the fiscal year, total GRF program disbursements were \$4,439.5 million, which is \$109.9 million (2.4%) below estimate and \$7.7 million (0.2%) ahead of spending at this point last year.¹

Disbursements for three of the state's four major GRF program categories (Education, Welfare and Human Services, and Government Operations) are under estimate for the year to date (see the chart titled "GRF Disbursement Variances by Program Category" and Tables 4 and 5). The fourth major program category, Tax Relief, is over estimate by \$140.3 million for the year to date. Within the GRF program subcategories, the Health Care/Medicaid program posted the largest year-to-date variance (\$133.6 million under estimate) and the largest variance for the month (\$73.4 million under estimate). The Debt Service program also posted a \$68.9 million (72.1%) variance below the estimate in August, which was the result of the delay of an anticipated

payment by the School Facilities Commission until early September. The sections that follow discuss the most significant variances within each of the four major categories, based on the differences between what was actually disbursed from the GRF and what the Office of Budget and Management (OBM) estimated in August 2006 would be disbursed during the fiscal year.²

Welfare and Human Services (-\$125.9 million)

The Welfare and Human Services category posted a variance of \$28.1 million (2.7%) under estimate in August disbursements. For the year to date, outlays in this category are \$125.9 million (5.7%) under estimate. The Health Care/Medicaid program subcategory registered the largest difference from the year-to-date estimates and stands at \$133.6 million (7.4%) under estimate. The Department of Mental Retardation and Developmental Disabilities posted a significant variance over estimate in August. The other components of the category show small overages for the year to date.

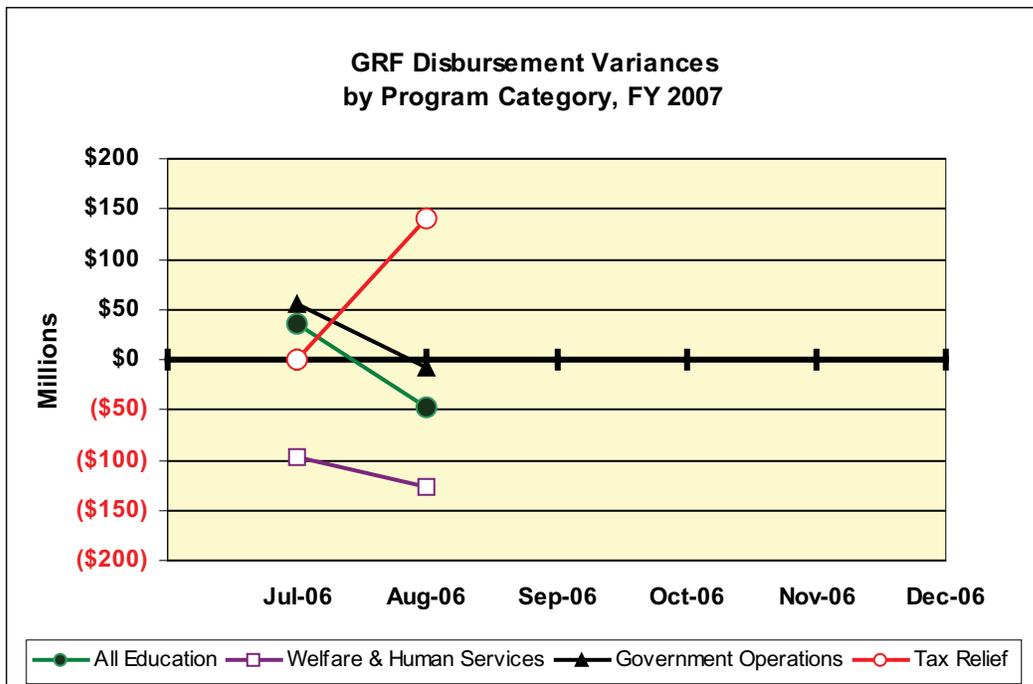


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of August 2006
(\$ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	\$564,116	\$613,971	-\$49,855	-8.1%
Higher Education	\$183,014	\$216,613	-\$33,599	-15.5%
Total Education	\$747,130	\$830,584	-\$83,454	-10.0%
Health Care/Medicaid	\$793,098	\$866,490	-\$73,391	-8.5%
Temporary Assistance to Needy Families	\$5,231	\$5,417	-\$186	-3.4%
Other Welfare (2)	\$60,636	\$57,655	\$2,981	5.2%
Human Services (3)	\$150,678	\$108,180	\$42,498	39.3%
Total Welfare & Human Services	\$1,009,643	\$1,037,741	-\$28,098	-2.7%
Justice & Corrections	\$124,886	\$172,696	-\$47,811	-27.7%
Environment & Natural Resources	\$7,304	\$9,283	-\$1,979	-21.3%
Transportation	\$1,198	\$1,790	-\$593	-33.1%
Development	\$10,370	\$10,478	-\$108	-1.0%
Other Government	\$18,149	\$32,291	-\$14,142	-43.8%
Capital	\$0	\$0	\$0	---
Total Government Operations	\$161,908	\$226,539	-\$64,632	-28.5%
Property Tax Relief (4)	\$144,282	\$3,725	\$140,557	3773.0%
Debt Service	\$26,641	\$95,540	-\$68,900	-72.1%
Total Other Disbursements	\$170,923	\$99,266	\$71,657	72.2%
Total Program Disbursements	\$2,089,604	\$2,194,130	-\$104,527	-4.8%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$82,222	\$120,105	-\$37,883	-31.5%
Total Transfers Out	\$82,222	\$120,105	-\$37,883	-31.5%
TOTAL GRF USES	\$2,171,826	\$2,314,235	-\$142,410	-6.2%

(1) Includes Primary, Secondary, and Other Education.

(2) Includes Department of Job and Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.

(3) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.

(4) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

* August 2006 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

Health Care/Medicaid. The \$133.6 million underestimate in year-to-date disbursements in the Health Care/Medicaid program (primarily line item 600-525) results from spending of \$1,668.5 million through August. The largest contributor to the variance is the HMO category, which is \$36.2 million (11.1%) below estimate

with spending of \$289.9 million through August (see Table 6). The Nursing Facilities Payments category is below estimate by \$25.7 million (5.6%) through August with spending of \$430.8 million. The All Other category is \$25.6 million (23.4%) below estimate with spending of \$83.8 million through August.

Table 5
General Revenue Fund Uses
Actual vs. Estimate
FY 2007 as of August 2006
(\$ in thousands)

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
Primary & Secondary Education (1)	\$1,190,073	\$1,226,858	-\$36,784	-3.0%	\$1,196,022	-0.5%
Higher Education	\$382,538	\$392,781	-\$10,243	-2.6%	\$380,729	0.5%
Total Education	\$1,572,612	\$1,619,639	-\$47,027	-2.9%	\$1,576,750	-0.3%
Health Care/Medicaid	\$1,668,470	\$1,802,111	-\$133,641	-7.4%	\$1,790,842	-6.8%
Temporary Assistance to Needy Families	\$28,941	\$25,917	\$3,024	11.7%	\$27,163	6.5%
Other Welfare (2)	\$132,446	\$128,509	\$3,937	3.1%	\$128,752	2.9%
Human Services (3)	\$261,099	\$260,303	\$796	0.3%	\$245,204	6.5%
Total Welfare & Human Services	\$2,090,956	\$2,216,840	-\$125,884	-5.7%	\$2,191,961	-4.6%
Justice & Corrections	\$391,903	\$391,366	\$537	0.1%	\$370,320	5.8%
Environment & Natural Resources	\$21,090	\$20,597	\$493	2.4%	\$25,056	-15.8%
Transportation	\$3,315	\$3,695	-\$381	-10.3%	\$8,167	-59.4%
Development	\$23,843	\$23,578	\$266	1.1%	\$48,197	-50.5%
Other Government	\$49,306	\$58,802	-\$9,496	-16.1%	\$57,235	-13.9%
Capital	\$21	\$0	\$21	---	\$0	---
Total Government Operations	\$489,477	\$498,037	-\$8,560	-1.7%	\$508,976	-3.8%
Property Tax Relief (4)	\$146,337	\$6,058	\$140,279	2315.5%	\$31,842	359.6%
Debt Service	\$140,096	\$208,836	-\$68,740	-32.9%	\$122,258	14.6%
Total Other Disbursements	\$286,433	\$214,894	\$71,538	33.3%	\$154,100	85.9%
Total Program Disbursements	\$4,439,478	\$4,549,411	-\$109,934	-2.4%	\$4,431,788	0.2%
TRANSFERS						
Budget Stabilization	\$394,034	\$394,034	\$0	0.0%	\$394,205	0.0%
Other Transfers Out	\$82,981	\$120,780	-\$37,799	-31.3%	\$168,834	-50.9%
Total Transfers Out	\$477,015	\$514,814	-\$37,799	-7.3%	\$563,039	-15.3%
TOTAL GRF USES	\$4,916,493	\$5,064,225	-\$147,732	-2.9%	\$4,994,827	-1.6%

(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 2006 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

Other significant contributors to the year-to-date variance include the Prescription Drug category, which is \$20.8 million (10.4%) below estimate, and the Inpatient Hospital category, which is \$14.4 million (5.4%) below estimate. Compared to the same point in FY 2006, Health

Care/Medicaid service payments are 5.4% lower in the current fiscal year (see Table 7). Once offsets are taken into account, FY 2007 net spending to date is 6.8% lower than at the same point in FY 2006.³

Table 6
Health Care/Medicaid Spending in FY 2007
(ALI 600-525 Only)
(\$ in thousands)

Service Category	August				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Aug.	Estimate thru Aug.	Variance	Percent Variance
Nursing Facilities Payments	\$219,427	\$228,271	(\$8,844)	-3.9%	\$430,820	\$456,542	(\$25,722)	-5.6%
ICF/MR Payments	\$44,294	\$43,739	\$555	1.3%	\$86,584	\$87,478	(\$894)	-1.0%
Inpatient Hospitals	\$113,056	\$120,247	(\$7,191)	-6.0%	\$254,407	\$268,840	(\$14,433)	-5.4%
Outpatient Hospitals	\$49,983	\$52,755	(\$2,772)	-5.3%	\$115,108	\$119,181	(\$4,073)	-3.4%
Physicians	\$45,530	\$45,707	(\$177)	-0.4%	\$104,936	\$103,470	\$1,466	1.4%
Prescription Drugs	\$79,113	\$89,118	(\$10,005)	-11.2%	\$179,772	\$200,621	(\$20,849)	-10.4%
ODJFS Waiver	\$25,744	\$21,287	\$4,457	20.9%	\$49,416	\$47,970	\$1,446	3.0%
HMO	\$150,709	\$171,674	(\$20,965)	-12.2%	\$289,902	\$326,151	(\$36,249)	-11.1%
Medicare Buy-In	\$21,757	\$21,940	(\$183)	-0.8%	\$43,582	\$43,779	(\$197)	-0.4%
Home Health	\$10,363	\$15,210	(\$4,847)	-31.9%	\$26,276	\$33,807	(\$7,531)	-22.3%
Dental	\$7,357	\$6,858	\$499	7.3%	\$15,352	\$15,685	(\$333)	-2.1%
Hospice	\$10,104	\$9,568	\$536	5.6%	\$22,803	\$21,399	\$1,404	6.6%
All Other	\$29,597	\$51,615	(\$22,018)	-42.7%	\$83,772	\$109,353	(\$25,581)	-23.4%
Total Medicaid Payments	\$807,034	\$877,989	(\$70,955)	-8.1%	\$1,702,730	\$1,834,276	(\$131,546)	-7.2%
Medicare Part D	\$19,214	\$21,668	(\$2,454)	-11.3%	\$40,773	\$43,227	(\$2,454)	-5.7%
DA Medical	\$2,219	\$2,980	(\$761)	-25.5%	\$5,190	\$6,803	(\$1,613)	-23.7%
Drug Rebates Offsets	(\$33,845)	(\$34,627)	\$782	-2.3%	(\$69,696)	(\$71,674)	\$1,978	-2.8%
ICF/MR Franchise Fee Offsets	(\$1,523)	(\$1,523)	\$0	0.0%	(\$3,046)	(\$3,046)	\$0	0.0%
NF Franchise Fee Offsets	\$0	\$0	\$0	N/A	(\$2)	\$0	(\$2)	N/A
DSH Rebate Offsets	\$0	\$0	\$0	N/A	(\$7,477)	(\$7,477)	\$0	0.0%
MCP Assessments	\$0	\$0	\$0	N/A	\$0	\$0	\$0	N/A
Total Health Care (Net of Offsets)	\$793,099	\$866,487	(\$73,388)	-8.5%	\$1,668,472	\$1,802,109	(\$133,637)	-7.4%
Est. Federal Share	\$473,599	\$517,423	(\$43,824)		\$996,328	\$1,076,129	(\$79,801)	
Est. State Share	\$319,500	\$349,064	(\$29,564)		\$672,144	\$725,980	(\$53,836)	

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 \$6.25 per bed per day for both FY 2006 and FY 2007.
2. Waivers provide home-care alternatives to consumers whose medical conditions/functional abilities would otherwise require long-term care
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 59.72%.

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.

As was the case last fiscal year, enrollment in managed care has been slower than expected. In the Covered Families and Children (CFC) caseload, the projected number of eligibles enrolled in managed care is below estimate by about 67,100. Overall, the projected number of eligibles is below the budgeted level for both the CFC population and the Aged, Blind, and Disabled (ABD) population.

Mental Retardation and Developmental Disabilities. August disbursements by the Department of Mental Retardation and Developmental Disabilities were over estimate by \$34.2 million (173.3%) and offset July underspending of a nearly equal amount. For the

year to date, the Department's disbursements are under estimate by \$1.1 million (1.6%). Subsidy payments from several line-item appropriations were expected to be made in July but were actually made in August due to a delay in the implementation of a new invoicing system.

Education (-\$47.0 million)

August outlays in the Education category were \$83.5 million (10.0%) under estimate. For the year to date, outlays in this category are \$47.0 million (2.9%) under estimate, with both the Department of Education and the Board of Regents contributing to the underspending.

Service Category	FY 2007	FY 2006	Dollar Change	Percent Increase
	Yr.-to-Date as of Aug. '07	Yr.-to-Date as of Aug.'06		
Nursing Facilities Payments	\$430,820	\$450,674	(\$19,854)	-4.4%
ICF/MR Payments	\$86,584	\$80,253	\$6,331	7.9%
Inpatient Hospitals	\$254,407	\$267,229	(\$12,822)	-4.8%
Outpatient Hospitals	\$115,108	\$114,569	\$539	0.5%
Physicians	\$104,936	\$105,933	(\$997)	-0.9%
Prescription Drugs	\$179,772	\$341,471	(\$161,699)	-47.4%
ODJFS Waiver	\$49,416	\$38,492	\$10,924	28.4%
HMO	\$289,902	\$190,966	\$98,936	51.8%
Medicare Buy-In	\$43,582	\$35,935	\$7,647	21.3%
All Other*	\$148,203	\$175,174	(\$26,971)	-15.4%
Total Medicaid Payments	\$1,702,730	\$1,800,696	(\$97,966)	-5.4%
Medicare Part D	\$40,773	\$0	\$40,773	N/A
DA Medical	\$5,190	\$9,362	(\$4,172)	-44.6%
Drug Rebates Offsets	(\$69,696)	(\$7)	(\$69,689)	995557.1%
ICF/MR Franchise Fee Offsets	(\$3,046)	(\$16,499)	\$13,453	-81.5%
NF Franchise Fee Offsets	(\$2)	(\$2,711)	\$2,709	-99.9%
DSH Rebate Offsets	(\$7,477)	\$0	(\$7,477)	N/A
MCP Assessments	\$0	\$0	\$0	N/A
Total Health Care (Net of Offsets)	\$1,668,472	\$1,790,841	(\$122,369)	-6.8%
Est. Federal Share	\$996,328	\$1,071,460	(\$75,132)	
Est. State Share	\$672,144	\$719,381	(\$47,237)	

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 \$6.25 per bed per day for both FY 2006 and FY 2007.

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 59.72% for FY 2007 and 59.83% for FY 2006.

Source: BOMC8300-R001, BOMC8350-R001&R002 Reports, Ohio Department of Job & Family Services.

Department of Education. August disbursements of \$555.0 million by the Department of Education were \$47.7 million (7.9%) under estimate. The Department's year-to-date disbursement variance stands at \$32.5 million (2.7%) under estimate.

The largest contributor to the variance for the month and the year to date is line item 200-511, Auxiliary Services, which is \$31.5 million under estimate for both the month and the year to date. This line item provides assistance to chartered nonpublic elementary and secondary schools. Funds from this line item are distributed to school districts on a per nonpublic school pupil basis and may be used to provide eligible services to

chartered nonpublic school pupils such as the purchase of secular textbooks, health services, programs for the handicapped, and transportation to services offered off-site. The variance for line item 200-511 stems from a delay in processing the disbursement in August; it is expected to post in September.

Several other line items in the Department's budget posted significant but offsetting and timing-related variances in July and August.

Board of Regents. With a disbursement variance of \$33.6 million (15.5%) under estimate for August, year-to-date outlays from the Board of Regents' line items are under estimate by

\$10.3 million (2.6%). Part of the variance for August is attributable to \$20.1 million of underspending from FY 2006 funds encumbered in line item 235-503, Ohio Instructional Grants. This offset a roughly equivalent overage in July. Most of the remainder of the variance for August and for the year-to-date variance is attributable to \$7.6 million in underspending from the current year's appropriation for line item 235-503. Before starting to make payments for this item, the Board of Regents must receive and process the student aid eligibility data from the campuses, and the timing of this has not happened as expected.

Government Operations (-\$8.6 million)

In August, outlays in the Government Operations category were \$64.6 million (28.5%) below estimate for the month. For the year to date, however, disbursements in the category are only \$8.6 million (1.7%) under estimate. The most significant contributor to the August variance was the Department of Rehabilitation and Correction.

Corrections. August disbursements by the Department of Rehabilitation and Correction showed a variance of \$37.2 million (28.9%) under estimate. For the year to date, however, outlays by the Department are over estimate by \$6.3 million (2.3%), as August's underspending was largely an offset to the July above-estimate

variance of \$43.5 million. July's variance occurred because the first August payroll posted at the end of July.

Tax Relief (\$140.3 million)

The Tax Relief program reimburses school districts and local governments for foregone revenue resulting from state tax relief to property owners and businesses through the homestead exemption, the property tax rollbacks, and the \$10,000 tangible property tax exemption. Through August, Tax Relief payments totaled \$146.3 million of a \$1,243.8 million appropriation; the payments are above estimate by \$140.3 million. The variance stems from the submission of requests for reimbursements earlier than expected.

A factor to look for in the coming months in tax relief payments for the \$10,000 tangible property tax exemption program is that the appropriations for that purpose appear to exceed the amounts that will be needed in FY 2007. The phaseout of these payments was accelerated last year by Am. Sub. H.B. 66 (the main operating budget act for the 126th General Assembly) and is to fall this year to 40% of the FY 2003 base amounts. The amounts needed in FY 2007 for 40% of these base amounts are lower than the appropriations and the corresponding estimates by a total of \$7.6 million.

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

¹ Disbursements plus transfers out total \$4,916.5 million for the year to date. The major component included in transfers out is the July transfer of \$394.0 million made to the Budget Stabilization Fund (Fund 013). In August, \$77.3 million was transferred to the Local Government Tangible Property Tax Replacement Fund and the School District Tangible Property Tax Replacement Fund as reimbursement for revenues lost due to the phaseout of the tangible personal property tax. When transfers out are included, the amount disbursed for the year to date has decreased by 1.6% compared to the same point in FY 2006.

² Regular readers of the Disbursements report will notice that the "GRF Disbursement Variances by Program Category" chart shows substantial variances beginning in July. In most years all of the program categories start out the first month of the fiscal year with no variances. This year, OBM did not follow its past practice of adjusting the July estimates so that they would equal the July actuals, with any difference being added to the August estimates.

³ The offsets reported in Table 6 are revenues that offset specific expenditures. As an accounting procedure, a below estimate variance is counted as a positive amount.