Next

Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission

October 2006

Fiscal Overview

— *Allan Lundell*

One quarter into FY 2007, General Revenue Fund (GRF) receipts are $207 million below estimate, disbursements are $74 million below estimate, and the cash balance is below its expected level.[1]

Receipts

For the month of September, total GRF receipts of $2,112.4 million were below estimate by $109.6 million (4.9%). State-source receipts were below estimate by $54.5 million (3.2%) and federal grants were below estimate by $55.1 million (10.9%). Tax revenues were below estimate by $66.2 million (4.1%). Revenue from the sales and use tax was below estimate by $41.1 million (6.8%) and personal income tax revenue was $40.3 million (4.6%) below estimate. Revenue from the corporate franchise tax was above estimate by $13.6 million (376.7%) and earnings on investments were $12.3 million (32.2%) above estimate.

Fiscal year-to-date GRF receipts of $5,879.4 million are $206.8 million (3.4%) below estimate and are down 3.0% compared to FY 2006. State-source receipts are $30.4 million (0.7%) below estimate and federal grants are $176.4 million (11.3%) below estimate. Tax revenues are below estimate by $37.0 million (0.8%). Revenue from the sales and use tax is below estimate by $61.1 million (3.2%). Revenue from the corporate franchise tax is above estimate by $23.0 million (68.8%) and personal income tax revenue is above estimate by $2.5 million (0.1%).

Disbursements

September GRF program disbursements of $2,291.8 million were above estimate by $73.3 million (3.3%). Disbursements for property tax relief were above estimate by $86.6 million (70.1%), debt service payments were above estimate by $69.0 million (1,013.2%), and disbursements for primary and secondary education were $26.2 million (4.5%) above estimate. Disbursements for health care/Medicaid were below estimate by $67.3 million (8.0%) and disbursements for higher education were $21.1 million (12.1%) below estimate.

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

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

	Month of September	Fiscal Year 2007 to Date	Last Year	Difference
Beginning Cash Balance	**$379.3**	**$1,528.8**		
Plus Revenue and Transfers In	$2,112.4	$5,879.4		
Available Resources	**$2,491.7**	**$7,408.2**		
Less Disbursements and Transfers Out	$2,291.8	$7,208.3		
Ending Cash Balances	**$199.9**	**$199.9**	**-$168.8**	**$368.7**
Less Encumbrances and Accts. Payable		$1,006.4	$1,013.2	-$6.9
Unobligated Balance		-$806.5	-$1,182.0	$375.5
Plus BSF Balance		$1,012.3	$576.6	$435.7
Combined GRF and BSF Balance		$205.8	-$605.4	$811.2

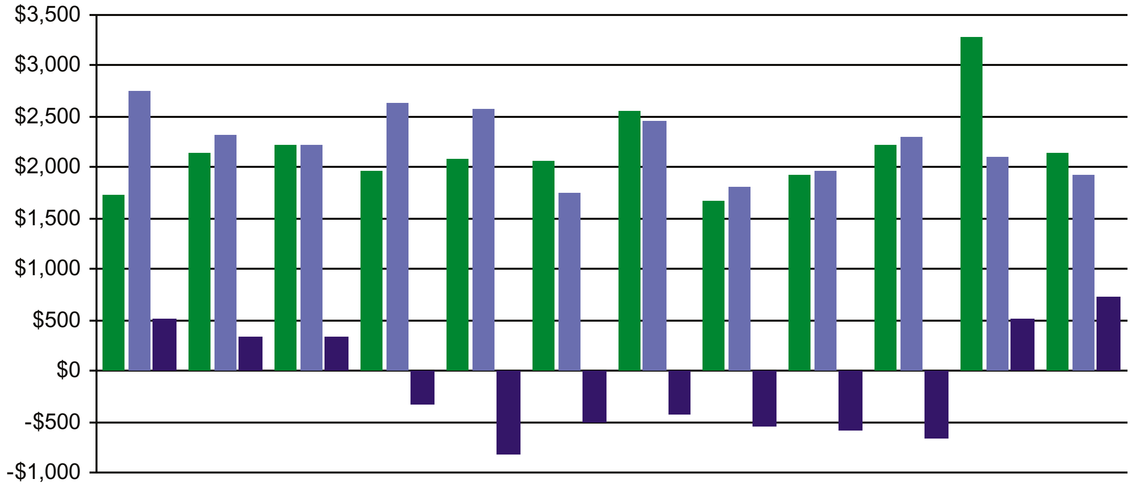
Fiscal year-to-date GRF disbursements of $7,208.3 million are $74.5 million (1.0%) below estimate and are down 3.1% compared to FY 2006. Program disbursements total $6,731.3 million, $36.7 million (0.5%) below estimate and 2.1% lower than at the same point in FY 2006. Transfers out total $477.0 million, $37.8 million (7.3%) below estimate and 15.4% lower than a year ago. Disbursements for property tax relief are above estimate by $226.8 million (175.1%). Disbursements for health care/Medicaid are below estimate by $200.9 million (7.6%), disbursements for higher education are below estimate by $31.4 million (5.5%), and disbursements for primary and secondary education are $10.6 million (0.6%) below estimate.

Cash Balance

As shown in Table 1, the GRF began FY 2007 with a $1,528.8 million cash balance. Through September, FY 2007 revenues plus transfers in totaled $5,879.4 million and disbursements plus transfers out totaled $7,208.3 million. Transfers out include $394.0 million to the Budget Stabilization Fund (BSF). The year-to-date deficit of $1,328.9 million reduced the cash balance to $199.9 million. If receipts and disbursements had equaled their estimates, the cash balance would have been $332.2 million, $132.3million higher than the actual level. Chart 1 presents the monthly estimates of FY 2007 receipts and disbursements and the month-end cash balances that would have resulted if receipts and disbursements had equaled the monthly estimates. Chart 2 presents a comparison of actual and estimated month-end cash balances.

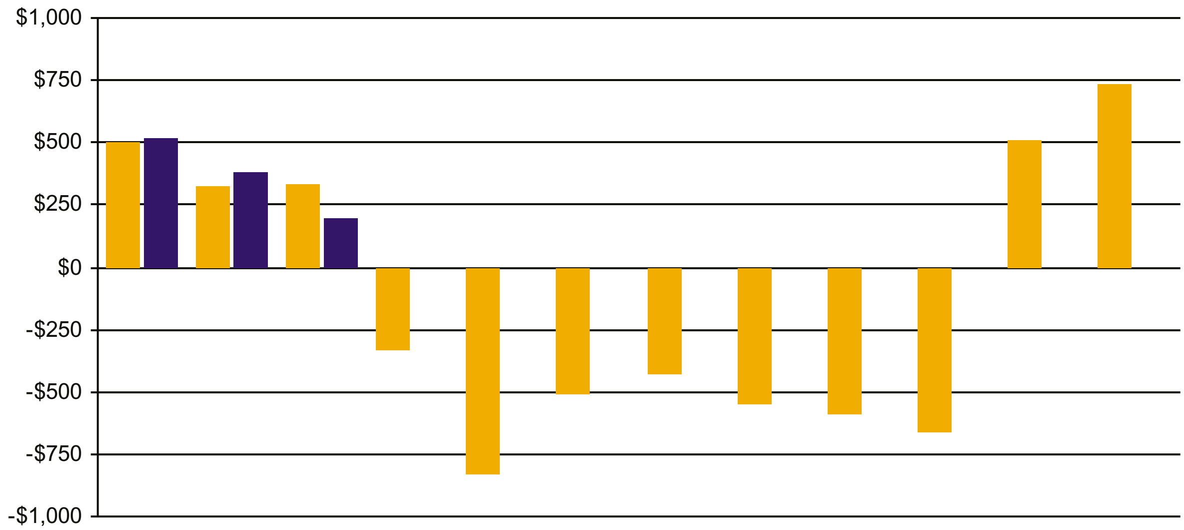
Encumbrances and accounts payable of $1,006.4 million combine with the cash balance to yield an unobligated balance of -$806.5 million. This amount is $375.5 million higher (less negative) than a year ago. The $1,012.3 million in the BSF is $435.7 million higher than a year ago and is 3.9% of FY 2006 GRF receipts. The combined GRF and BSF balance of $205.8 million is $811.2 million higher than it was a year ago.

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	$200									

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

Tracking the Economy

— Phil Cummins

Economic indicators during the past month were mixed. Payroll employment nationwide rose in September, but the increase was small. Ohio's total nonfarm payrolls declined in September, while unemployment fell to 5.3% of the labor force. Manufacturing output in the United States, as measured in the industrial production index, fell last month. Surveys of purchasing managers showed small gains in activity. Retail sales fell last month, but rose excluding a large drop in gasoline station sales, related to sharply lower prices for gasoline. Housing starts rose in September but the number of permits issued for new housing construction fell. Average wholesale and retail prices fell in September as a result of sharply lower prices for petroleum-based energy products.

Gross domestic product rose in the second quarter at a 2.6% annual rate in the latest revision, down from a 5.6% rate of growth in the first quarter. The reduction reflected slower growth of consumer spending and exports, and declines in residential fixed investment, federal spending, and business investment in equipment and software. On the other hand, business investment in structures strengthened, and growth of state and local government spending turned higher. Slower growth of aggregate demand was reflected in sharply slower growth of imports, and inventories accumulated more rapidly.

Employment Growth Slow Nationwide

Employment on nonfarm payrolls nationwide rose only 51,000 in September, the smallest change since September and October of 2005, when the economy was disrupted by hurricanes. Unemployment edged down to 4.6% of the country's labor force last month, equaling the low for this business expansion reached earlier this year. Employment fell in the latest month in manufacturing, the third consecutive monthly decline. It rose again in September in health care and in finance. Changes in employment in other major industry groups in September were small. The number of jobs in residential construction fell, as has been the case in most months since a peak in February, while employment in nonresidential construction rose, continuing a two-year uptrend. The Bureau of Labor Statistics (BLS), which gathers and publishes the employment and unemployment numbers, also announced its preliminary estimate of the annual benchmark revision of the payroll employment numbers. In most months, BLS publishes survey-based figures for payroll employment, but once a year it revises these figures based on a count of all employees on nonagricultural payrolls, derived mainly from employers' unemployment insurance tax reports. This latest estimate indicates that the total will need to be revised upward for March 2006 by 810,000, or 0.6%, a larger-than-usual revision and an indication that employment has grown more in the past one-and-one-half years, since the March 2005 benchmark, than indicated by previous reports. Final figures for this revision will be released in early February.

In Ohio, total nonfarm payroll employment declined 2,500 in September, the fourth consecutive month in which employment fell. Private payrolls increased in September, more than offset by lower government employment. The number of manufacturing jobs rose last month, from its lowest level in decades in August. Unemployment in the state fell in September to 5.3% of the labor force from 5.7% in August, approaching the cyclical low of 5.0% reached in March of this year.

Reports from purchasing managers for September showed continued though slower expansion of the economy, and easing of inflation. Those with manufacturers saw continued growth in production and new orders in September, in the Institute for Supply Management's monthly survey, but some other indicators weakened. Inventories and employment fell. Declines in order backlogs were more widespread than in any month since the first half of 2003. A majority of respondents continued to report increases in prices paid, but by a smaller margin than in any month since summer 2005. In a comparable survey of purchasing executives in the nonmanufacturing sector, fewer respondents said that business activity was increasing than in any month since 2003, but more noted increases in orders, backlogs, and employment than the month before. Those reporting higher prices paid continued to predominate, but by less than in any month since 2003.

The "Beige Book," a compilation by Federal Reserve banks of information on business conditions obtained from outside contacts, showed continued national economic expansion through September. In the Cleveland district, which includes all of Ohio and portions of three other states, the economy grew modestly in the latest period, but sources noted concerns about slowdowns in motor vehicle and housing markets. Commercial building activity, in contrast, is strong—particularly for health care, education, and public works—but builders were concerned about a slowing of inquiries that has occurred regarding future projects. Retail trends were mixed, with some retailers saying that lower gasoline prices and cooling weather were adding to sales. Demand for shipping and trucking services continued to slow.

Industrial production fell 0.6% in September, after being unchanged in August, and was 5.6% above a year earlier. Utility output fell sharply in September, at least in part due to weather. Manufacturing output declined 0.3% last month, with cutbacks broadly based across a range of industries including motor vehicles and parts, electrical equipment and appliances, and nonmetallic mineral products. Output was higher in September in a few industry groups, including petroleum and coal products and computers and electronic products.

Business inventories increased 0.6% in August, to 7.7% above a year earlier. Total sales of manufacturers, wholesalers, and retailers rose more rapidly, and inventories in most sectors remain lean relative to sales. Businesses have not been adding to inventories in the third quarter as rapidly as they did in the second quarter.

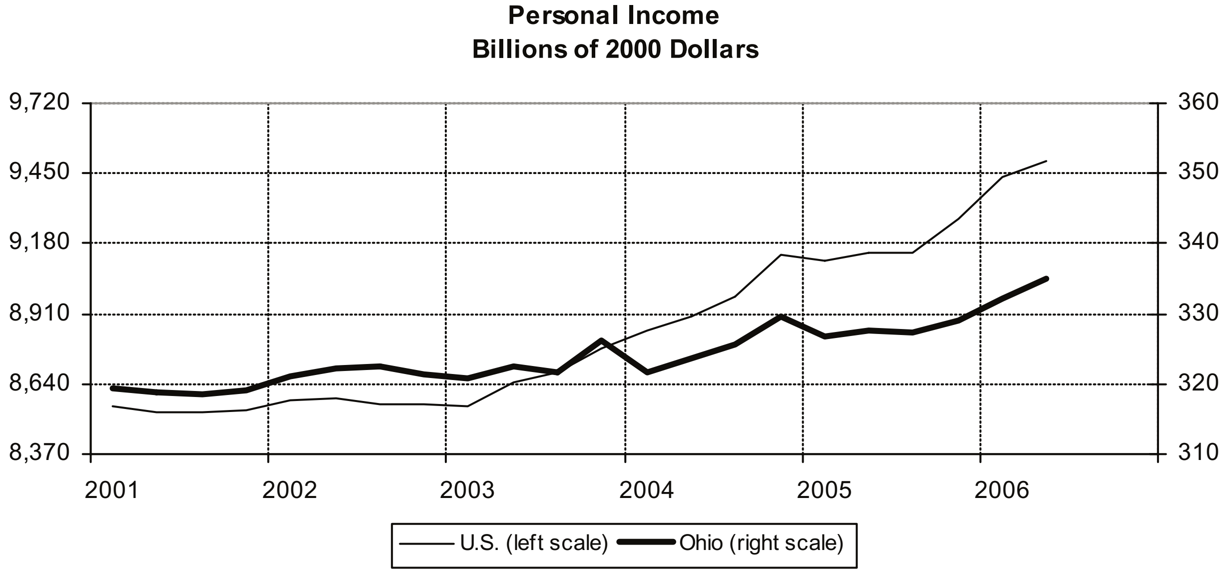
Consumer Spending Grows, Excluding Slower Gasoline Station Sales

Growth of consumer spending evidently picked up in the third quarter, chiefly reflecting stronger sales of durable goods in July, when light motor vehicle unit sales were the highest since January. Retail sales fell in September by 0.4%, but the decline was more than accounted for by a drop in the dollar value of sales at gasoline stations, due to sharply lower gasoline prices. Sales of retailers excluding gasoline stations rose 0.6% last month, to 6.9% above a year earlier. Clothing store sales rose a relatively strong 3.0% in September, and sales at general merchandise stores also did well, rising 1.1%.

Personal income in Ohio rose 1.8% from the first to the second quarter, slightly more than the 1.7% increase nationwide. Compared with a year earlier, however, the rise in personal income in Ohio, by 5.6%, was smaller than that nationwide, 7.3%. Net of inflation, as shown in the accompanying chart, the rise in personal income in Ohio since the end of recession year 2001 has been less than half of the increase for the nation. With the release of second quarter state personal income estimates, the Bureau of Economic Analysis revised its figures from 2003 forward to incorporate more complete source data. Revisions at the national level, the sum of the 50 states plus the District of Columbia, were small. Personal income for the nation in 2005 was revised downward by 0.3%. Revisions for some states were considerably larger. Ohio personal income was revised downward by 1.9% for last year.

Housing Markets Remain Soft

Housing starts rose in September, by 6% nationwide and by 3% in the Midwest. New housing units started in August in the nation were at the lowest level in more than three years. On a year-to-date basis, housing starts were 9% lower than a year earlier nationwide and 18% lower in the Midwest. The upturn in starts in September



may not be an indication that the housing market weakness is bottoming out. Permits for new housing construction fell 6% last month to their lowest level since the current series was started in January 2004.[1]

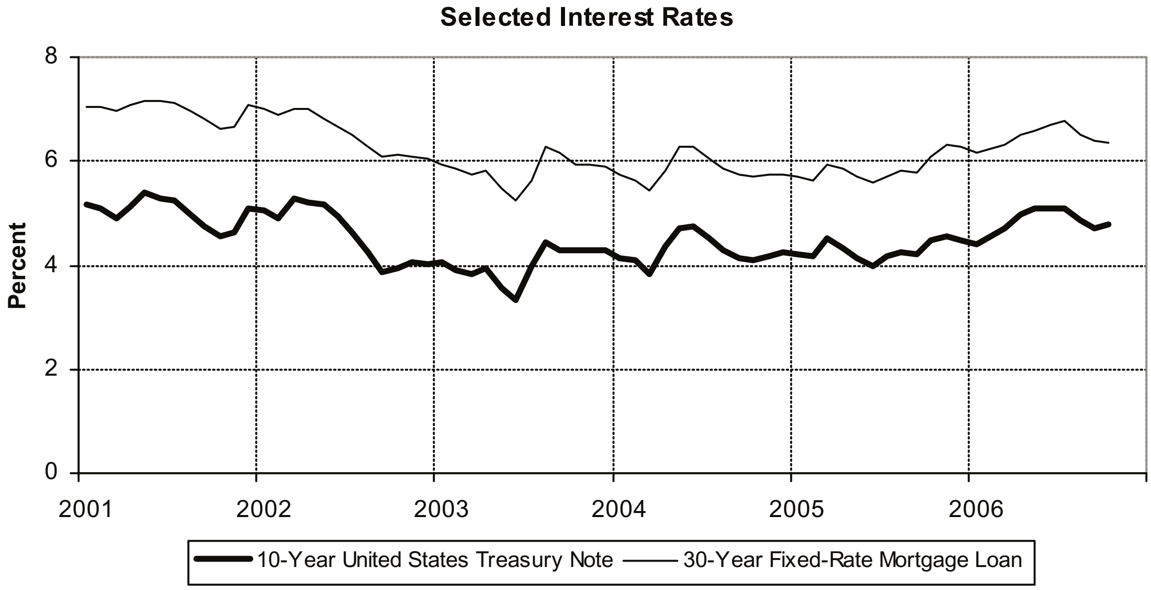
The dollar value of total construction spending rose 0.3% from July to August, but the July-August rate of construction spending was below that in the second quarter, reflecting sharply lower residential construction. The slowdown in housing was partly offset by a sizable increase in nonresidential building and a small rise in public construction.

Sales of new homes nationwide in August rose 4% from July but were 17% below their year-earlier pace. Year-to-date sales were 16% lower than a year earlier. In the Midwest, home sales so far this year were 20% below their year-ago level. The inventory of homes under construction or finished and available for sale in the nation was 19% (73,000 units) higher than a year earlier. Home prices were 1% lower than in August 2005, measured by the median home price, but 3% higher indicated by the price of the average home. Used home sales in August were little changed from July's pace and 13% below a year earlier. Year-to-date sales were 7% lower in the United States and 5% lower in the Midwest. The number of units listed for sale nationwide was 38% (nearly 1.1 million units) higher than a year earlier. The median price for used homes in August was 2% below a year earlier; the average price was 1% lower. Home sales in this state, reported by the Ohio Association of Realtors, continued to slow through August. Year-to-date sales were 1% below a year earlier.

The nationwide average for 30-year fixed-rate mortgage interest rates fell from a peak of 6.8% in July, the highest in about four years, to 6.3% in early October, the lowest since early March. The rate rose to 6.36% in the week ending October 19. Yields on ten-year United States Treasury notes, which serve as a basis for pricing 30-year fixed-rate mortgage loans, fell from a four-year high of 5.25% in late June to a low of 4.56% in late September, but have since risen above 4.75%.[2]

Broad Measures of Inflation Ease on Lower Energy Prices

The producer price index for finished goods declined 1.3% last month as finished energy goods prices fell 8.4%. More than half of this decline resulted from lower gasoline prices. Food prices rose 0.7%. Excluding food and energy, producer prices rose 0.6%, the sharpest monthly increase in this measure since January 2005. Energy prices were also lower at the intermediate and the crude goods stages of production. Separately, crude oil prices edged higher recently after falling about 25% in August, September, and early October.



The end to the decline apparently was due at least in part to an Organization of Petroleum Exporting Countries meeting on October 19 to consider output cuts.

The consumer price index (CPI) for all items fell 0.5% from August to September and was 2.1% above a year earlier. Energy prices fell 7.2% from the previous month, more than accounting for the decline. Food prices rose 0.3%. The CPI excluding food and energy rose 0.2% in September, the same as in the previous two months, to 2.9% above a year earlier. A weekly survey of average gasoline prices in Ohio shows that they have fallen more than 90 cents a gallon (30%) since peaking at over $3 in July, with most of the drop occurring in September.[3]

Longer-Term Interest Rates Higher, Reversing Part of Recent Declines

As noted above, longer-term market interest rates have firmed recently, after easing from peaks in June and July. Short-term interest rates have remained anchored by an unchanged central bank target for federal funds, which are overnight loans between banks. The central bank's Federal Open Market Committee (FOMC) most recently raised the federal funds target, to 5.25%, at its meeting in June. Minutes of the September meeting make clear the FOMC's concern that future inflation might be unacceptably high and that another tightening of monetary policy may be needed in response. The FOMC next meets October 24 and 25.

[1] The current housing permits series reports on permit issuance in 20,000 places around the country. Prior to 2004, monthly data were reported for 19,000 permit-issuing places. Adjusted for the estimated effect of this change, permits for new housing construction in September were at the lowest level in nearly five years.

[2] Mortgage interest rates quoted here are from the Federal Home Loan Mortgage Corporation weekly survey. United States Treasury note yields are as reported daily by the Federal Reserve Board.

[3] Energy Information Administration weekly survey.

Status of the General Revenue Fund

REVENUE

— Jean Botomogno and Allan Lundell

For the month of September, General Revenue Fund (GRF) receipts of $2,112.4 million were below estimate by $109.6 million (4.9%).[1] State-source receipts were below estimate by $54.5 million (3.2%) and federal grants were below estimate by $55.1 million (10.9%).[2] Tax revenues were below estimate by $66.2 million (4.1%). Revenue from the sales and use tax was below estimate by $41.1 million (6.8%); the nonauto tax was $37.1 million (7.1%) below estimate and the auto tax was below estimate by $4.1 million (5.1%). Personal income tax revenue was $40.3 million (4.6%) below estimate. Revenue from the corporate franchise tax was above estimate by $13.6 million (376.7%) and earnings on investments were $12.3 million (32.2%) above estimate.

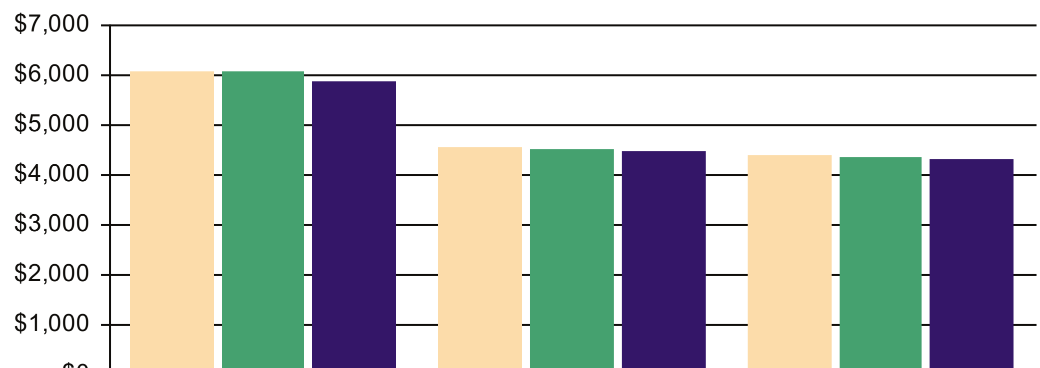
One quarter into FY 2007, total GRF receipts are $206.8 million (3.4%) below estimate. State-source receipts are $30.4 million (0.7%) below estimate and federal grants are $176.4 million (11.3%) below estimate. Tax revenues are below estimate by $37.0 million (0.8%). Revenue from the sales and use tax is below estimate by $61.1 million (3.2%). Revenue from the corporate franchise tax is above estimate by $23.0 million (68.8%) and personal income tax revenue is above estimate by $2.5 million (0.1%).

For the fiscal year to date, total GRF receipts are down 3.0% compared to FY 2006. State-source receipts are down 1.3% and federal grants are down 8.0%. Tax revenue is down 1.8%. Revenue from the personal income tax is up 0.7%. Revenue from the nonauto sales and use tax is down 2.7% and revenue from the auto sales and use tax is down 19.0%. Revenue from the cigarette tax is down 18.8%, largely 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 received $836.9 million from the personal income tax in September. This amount

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



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Total Tax Revenue
FY 2006	$6,061	$4,556	$4,408
FY 2007 Estimate	$6,086	$4,526	$4,364
FY 2007 Actual	$5,879	$4,495	$4,327

was $40.3 million (4.6%) less than estimated. Gross collections were below estimate by $38.8 million (4.0%) and refunds were $1.3 million (8.5%) greater than estimated. Withholding was below estimate by $24.1 million (3.9%) and quarterly estimated payments were $6.1 million (1.9%) below estimate.[3] Trust payments were $4.4 million (56.8%) below estimate and payments associated with annual returns were below estimate by $6.5 million (39.9%).

The GRF has received $2,057.7 million from the personal income tax thus far this fiscal year. This amount is $2.5 million (0.1%) above estimate. Gross collections are above estimate by $2.0 million (0.1%) and refunds are $1.1 million (1.3%) below estimate. The $1,914.3 million collected through withholding is $1.9 million (0.1%) above estimate. Withholding is expected to account for 72% of gross income tax collections for FY 2007. Year-to-date quarterly estimated payments of $358.1 million are $7.0 million (2.0%) above estimate. Payments associated with annual returns are below estimate by $15.9 million (31.9%).

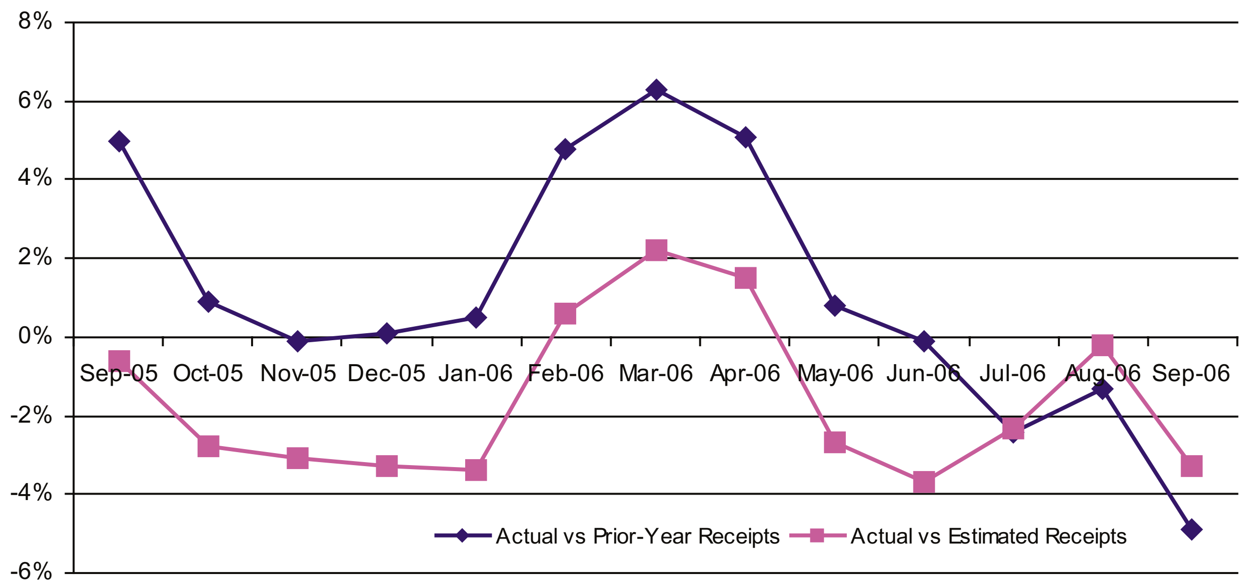
Compared to a year ago, GRF revenue from the personal income tax is up 0.7%. Gross collections are up 1.1% and refunds are up 15.8%. Withholding, which reflects the condition of Ohio's labor market, is up 0.7%.[4] Quarterly estimated payments are up 6.3%.

Sales and Use Tax

Total sales and use tax revenues in September were $559.9 million, $41.1 million (6.8%) below projected revenues. Auto sales and use tax receipts were $4.1 million (5.1%) below estimate. Nonauto sales and use tax receipts were $37.1 million (7.1%) below estimate. Total sales and use tax receipts in September 2006 were $27.3 million (4.7%) below September 2005 sales and use tax revenues. Tax receipts for a given month partly reflect taxable retail sales activity in the prior month and partly taxable retail sales during that month.[5] Through September, FY 2007 sales and use tax revenues were $1,842.1 million, $61.1 million (3.2%) below estimates. FY 2007 sales and use tax receipts were also $103.5 million (5.3%) below fiscal year-to-date tax receipts in September 2005. The performance of the sales and use tax has been troubling in the last few months.

Chart 2 presents the growth in sales and use tax receipts from July 2005 to September 2006. Actual monthly receipts are compared to estimated receipts and also to prior-year receipts in the same month. Starting July 1, 2005, the sales and use tax rate declined from 6.0% to 5.5%. To allow for a better comparison with prior-year receipts, receipts from July 2004 to June 2005 were adjusted for the rate change. When required, the growth in year-over-year

Chart 2: Total Sales and Use Tax Receipts
(3-month moving averages)



monthly receipts was based on the change in the calculated monthly tax base. Chart 2 uses three-month moving averages, which provide a better indication of trends. For example, the calculated growth rate for September 2005 is the average growth rate for July, August, and September. A moving average also reduces the impact of the lag between sales activity and tax collections that occurs with the sales and use tax. Finally, a moving average smoothes the effects of the tax rate change on consumer purchases and tax receipts. (Generally, consumers will postpone certain purchases when facing an impending rate decrease in the sales and use tax, a situation that impacts receipts before and after the rate change.) When compared to both estimated and prior-year receipts, monthly sales and use tax revenues have been on a downtrend since March 2006. Monthly receipts have been below estimate since May 2006. They were also below year-ago revenues in the first quarter of FY 2007, which indicates a sustained weakness that has become more apparent as of late.

Nonauto Sales and Use Tax

Nonauto sales and use tax revenues in September were $483.6 million, $37.1 million (7.1%) below estimate. Nonauto sales and use tax receipts were also $27.9 million (5.3%) below revenues in the same month a year ago. First-quarter receipts in FY 2007 were $1,588.9 million, $60.2 million (3.7%) below estimate and $44.0 million (2.7%) below first-quarter receipts in FY 2006.

After peaking in early August, crude oil prices have declined and inventories seem to be plentiful, which has led to a drop in gasoline prices. 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, the nonauto sales and use tax might receive a boost in the coming months. However, consumer spending tends to respond to changes in energy prices with a lag. So far, the nonauto sales and use tax has not benefited from the decline in gasoline and other energy prices. Economic growth slowed to 2.6% in the second quarter from 5.6% in the first quarter of calendar year (CY) 2006, and might have dropped further in the third quarter of CY 2006. Ohio nonfarm employment has dropped each month since June. The housing sector is in decline. Industrial activity seems to be contracting. Employment uncertainty in the auto industry is palpable. All these factors appear to be restraining consumer spending in Ohio.

Chart 3 presents the trends in receipts from the nonauto sales and use tax in the last 12 months. The trends are similar to those of total sales and use tax receipts. Except for a few months between February and May 2006, nonauto sales and use tax monthly receipts have been below

Chart 3: Nonauto Sales and Use Tax Receipts
(3-month moving averages)

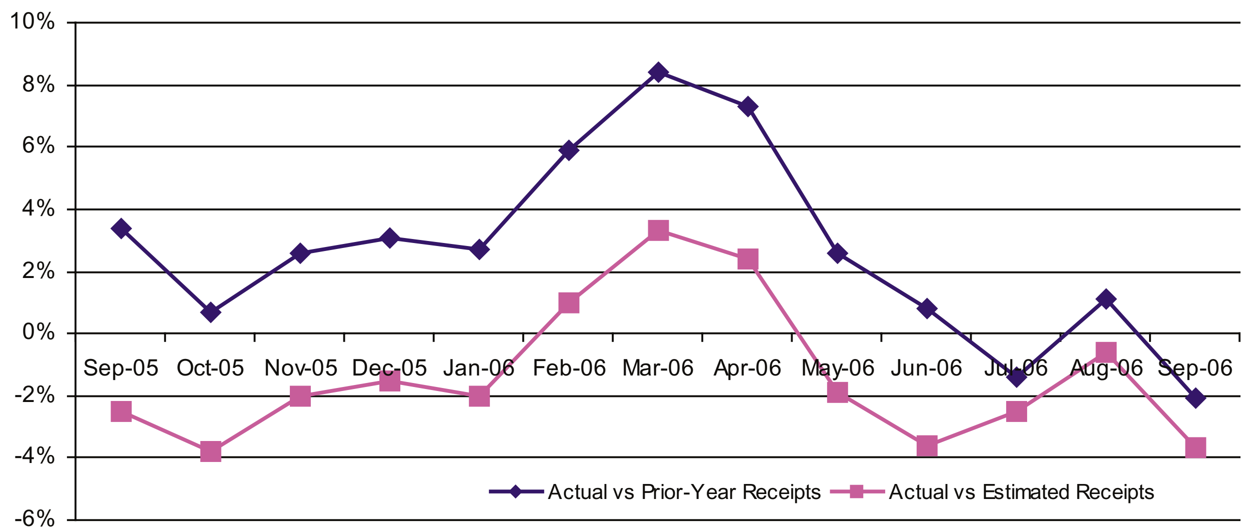
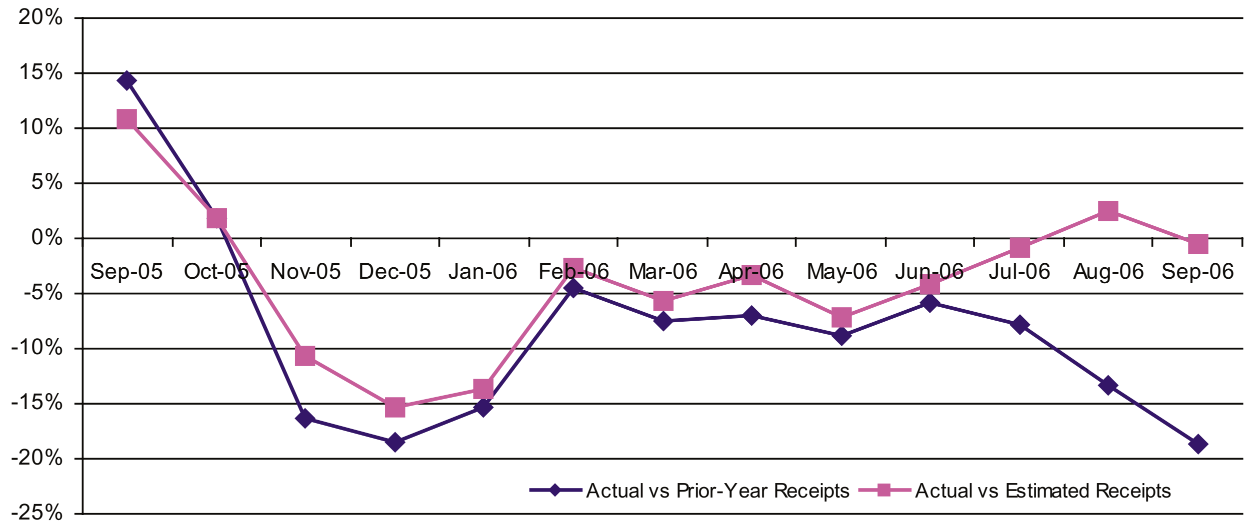


Chart 4: Auto Sales and Use Tax Receipts
(3-month moving averages)



estimates. First-quarter receipts in FY 2007 were below receipts in the first quarter of FY 2006, accelerating a downward trend that started in the last quarter of FY 2006.

Nationwide, core retail sales (sales excluding autos and gasoline) grew 0.4% in August and 0.8% in September. Compared to the same month last year, core retail sales were up 7.1% in August 2006 and 7.5% in September 2006. Core retail sales were up 7.2% in the first quarter of FY 2007 compared to the first quarter of FY 2006.

Auto Sales and Use Tax

Auto sales and use tax receipts were $76.3 million in September, $4.1 million (5.1%) below estimate. 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. Compared to revenues a year ago, auto sales and use tax receipts in September were $12.5 million (14.1%) lower than receipts in September 2005. As of September 2006, FY 2007 year-to-date auto sales and use tax receipts were $253.2 million, $0.1 million (0.3%) below estimate. They were also $59.5 million (19.0%) below receipts through September 2005 in FY 2006.

Chart 4 presents the growth in receipts from the auto sales and use tax in the last 12 months. From October 2005 through September 2006, monthly auto sales and use tax receipts have been almost consistently below prior-year revenues in the same period. Although auto sales and use tax receipts generally met estimates in the last few months, the monthly year-over-year negative growth has been more acute recently. Auto sales are strongly linked to the success of incentives offered by manufacturers and dealers, and incentives had limited success in the first quarter of FY 2007 when compared to those in the first quarter of FY 2006.

Nationwide, light vehicle (auto and light truck) sales at motor vehicle dealers grew 0.4% in August and were flat in September 2006. Compared to monthly sales last year, sales at motor vehicle dealers were up 2.2% and 5.6% in August 2006 and September 2006, respectively. Unit sales of light vehicles declined 6.6% in August from July 2006 but grew 3.7% in September 2006. Compared to monthly sales last year, unit sales declined 5.5% and 2.1% in August 2006 and September 2006, respectively. Compared to the first quarter of FY 2006, nationwide unit sales were down 6.3% and sales at motor vehicle dealers were down 0.7% in the first quarter of FY 2007.

Corporate Franchise Tax

Major tax receipts under the corporate franchise tax (CFT) 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 over a period of five years (as provided in Am. Sub. H.B. 66). 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.

September CFT receipts were $17.2 million, $13.6 million (%) above estimate. As of September 2006, FY 2007 year-to-date corporate franchise receipts were $56.4 million, $23.0 million (68.8%) above estimate. The Office of Budget and Management reported that about $30 million of FY 2007 receipts resulted from settlement payments. Year-to-date receipts were also $55.4 million above year-to-date receipts in September 2005.

Cigarette and Other Tobacco Products Tax

Receipts from the cigarette and other tobacco products tax in September 2006 were $87.5 million, $0.3 million (0.4%) below estimate. Compared to year-ago receipts, revenues in September 2006 were $1.2 million (1.4%) lower than in September 2005. In the first quarter of FY 2007, total receipts from the cigarette and other tobacco products tax were $195.6 million, $1.0 million (0.5%) below estimate. FY 2007 year-to-date revenues from this tax source were also $45.2 million (18.8%) below revenues through September 2005 in FY 2006. 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. Excluding the floor tax receipts of about $51.6 million last year, FY 2007 year-to-date receipts were $6.4 million (3.4%) above FY 2006 year-to-date receipts through September 2005.

Commercial Activity Tax

The first commercial activity tax (CAT) payment in FY 2007 was due by August 9, 2006. Total CAT receipts in the first quarter of FY 2007 were $140.7 million. Unlike FY 2006, the GRF will not receive distributions from the CAT this fiscal year. From FY 2007 through FY 2011, revenue from the CAT will be distributed only to the School District Tangible Property Tax Replacement Fund (SDRF) and to the Local Government Tangible Property Tax Replacement Fund (LGRF). Through September 2006, FY 2007 year-to-date distributions of revenue from the CAT were $97.6 million to the SDRF and $41.8 million to the LGRF.

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[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 September 2006
($ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$76,274	$80,334	-$4,060	-5.1%
Nonauto Sales & Use	$483,622	$520,676	-$37,054	-7.1%
Total Sales & Use Taxes	$559,896	$601,010	-$41,114	-6.8%
Personal Income	$836,918	$877,200	-$40,282	-4.6%
Corporate Franchise	$17,160	$3,600	$13,560	376.7%
Public Utility	$26	$0	$26	---
Kilowatt Hour Excise	$34,645	$32,700	$1,945	5.9%
Commercial Activity Tax	$0	$0	$0	---
Foreign Insurance	$6,812	$6,004	$808	13.5%
Domestic Insurance	$2	$0	$2	---
Business & Property	$175	$150	$25	16.6%
Cigarette	$87,486	$87,800	-$314	-0.4%
Alcoholic Beverage	$4,702	$4,683	$19	0.4%
Liquor Gallonage	$2,864	$2,884	-$20	-0.7%
Estate	$131	$1,000	-$869	-86.9%
Total Tax Revenue	**$1,550,817**	**$1,617,031**	**-$66,214**	**-4.1%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$50,250	$38,000	$12,250	32.2%
Licenses and Fees	$1,562	$1,801	-$239	-13.3%
Other Revenue	$7,240	$11,800	-$4,560	-38.6%
Nontax State-Source Revenue	**$59,052**	**$51,601**	**$7,451**	**14.4%**
TRANSFERS				
Liquor Transfers	$12,000	$11,000	$1,000	9.1%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$40,948	$37,700	$3,248	8.6%
Total Transfers In	**$52,948**	**$48,700**	**$4,248**	**8.7%**
TOTAL GRF before Federal Grants	**$1,662,817**	**$1,717,332**	**-$54,515**	**-3.2%**
Federal Grants	$449,590	$504,702	-$55,112	-10.9%
TOTAL GRF SOURCES	**$2,112,407**	**$2,222,033**	**-$109,626**	**-4.9%**

* 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 September 2006
($ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
TAX REVENUE						
Auto Sales	$253,171	$254,011	-$840	-0.3%	$312,686	-19.0%
Nonauto Sales & Use	$1,588,942	$1,649,165	-$60,223	-3.7%	$1,632,975	-2.7%
Total Sales & Use Taxes	$1,842,113	$1,903,176	-$61,063	-3.2%	$1,945,661	-5.3%
Personal Income	$2,057,662	$2,055,200	$2,462	0.1%	$2,043,064	0.7%
Corporate Franchise	$56,391	$33,400	$22,991	68.8%	$1,019	5432.3%
Public Utility	$45,061	$44,700	$361	0.8%	$44,957	0.2%
Kilowatt Hour Excise	$93,796	$93,600	$196	0.2%	$95,306	-1.6%
Commercial Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	$6,860	$6,139	$721	11.7%	$4,084	68.0%
Domestic Insurance	$235	$1,100	-$865	-78.6%	$872	-73.0%
Business & Property	$367	$630	-$263	-41.8%	$1,018	-64.0%
Cigarette	$195,647	$196,600	-$953	-0.5%	$240,864	-18.8%
Alcoholic Beverage	$15,701	$15,250	$451	3.0%	$15,774	-0.5%
Liquor Gallonage	$8,635	$8,757	-$122	-1.4%	$8,321	3.8%
Estate	$4,762	$5,700	-$938	-16.5%	$6,611	-28.0%
Total Tax Revenue	**$4,327,231**	**$4,364,252**	**-$37,021**	**-0.8%**	**$4,407,551**	**-1.8%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$50,250	$38,000	$12,250	32.2%	$25,152	99.8%
Licenses and Fees	$13,633	$13,051	$582	4.5%	$12,991	4.9%
Other Revenue	$20,615	$22,850	-$2,235	-9.8%	$36,709	-43.8%
Nontax State-Source Revenue	**$84,497**	**$73,901**	**$10,596**	**14.3%**	**$74,851**	**12.9%**
TRANSFERS						
Liquor Transfers	$35,000	$31,000	$4,000	12.9%	$32,000	9.4%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$48,716	$56,700	-$7,984	-14.1%	$41,902	16.3%
Total Transfers In	**$83,716**	**$87,700**	**-$3,984**	**-4.5%**	**$73,902**	**13.3%**
TOTAL GRF before Federal Grants	**$4,495,444**	**$4,525,853**	**-$30,409**	**-0.7%**	**$4,556,303**	**-1.3%**
Federal Grants	$1,383,937	$1,560,324	-$176,387	-11.3%	$1,504,213	-8.0%
TOTAL GRF SOURCES	**$5,879,381**	**$6,086,177**	**-$206,796**	**-3.4%**	**$6,060,516**	**-3.0%**

* August 2006 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

DISBURSEMENTS

*— Steve Mansfield**

In September, General Revenue Fund (GRF) disbursements for program spending were $2,291.8 million, which is over estimate by $73.3 million (3.3%). Through the first quarter of the fiscal year, total GRF program disbursements were $6,731.3 million, which is $36.7 million (0.5%) below estimate and $143.2 million (2.1%) lower than 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, Property Tax Relief, is over estimate by $226.8 million for the year to date. Within the GRF program *sub*categories, the Health Care/Medicaid program posted the largest year-to-date variance ($200.9 million under estimate) and the largest variance for the month ($67.3 million under estimate). The Debt Service program also posted a $69.0 million variance over estimate in September, which offsets the variance in August. This variance stemmed from the timing of a payment by the School Facilities Commission. 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 (-$210.4 million)

The Welfare and Human Services category posted a variance of $84.6 million (8.7%) under estimate in September disbursements. For the year to date, outlays in this category are $210.4 million (6.6%) under estimate. Within the category, the Health Care/Medicaid program registered the largest difference from the year-to-date estimates and stands at $200.9 million (7.6%) under estimate. The other components of the category show relatively small variances for the year to date.

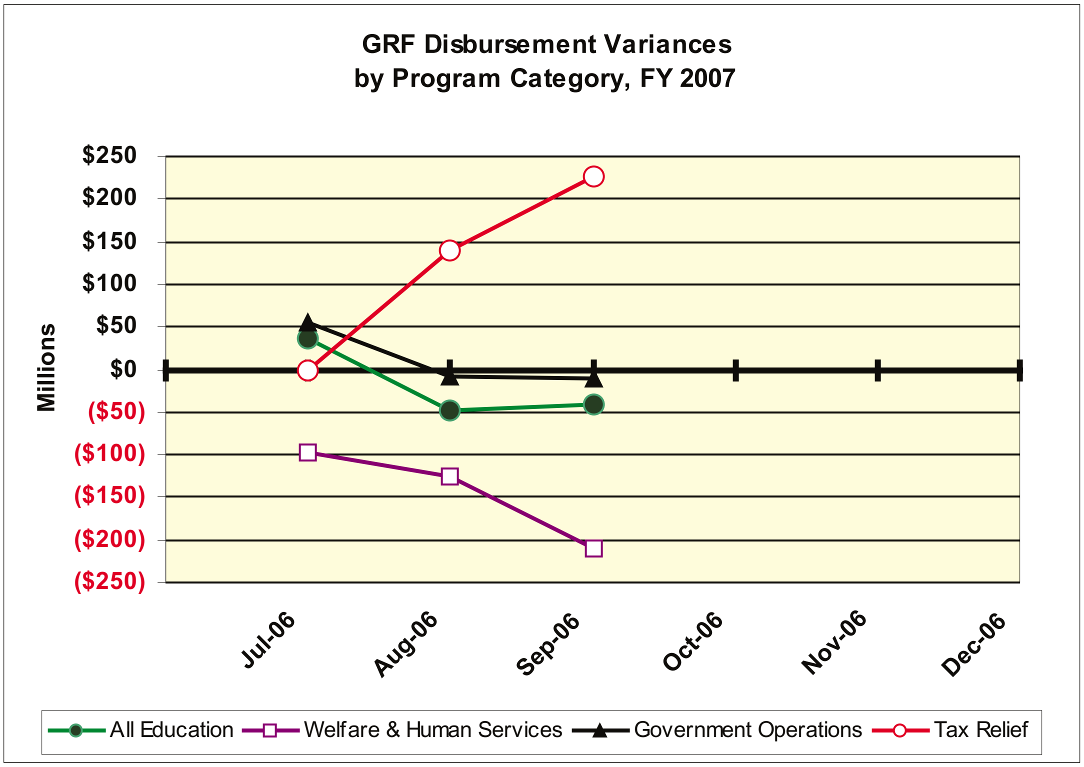

Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of September 2006
($ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	$603,246	$577,075	$26,171	4.5%
Higher Education	$153,569	$174,717	-$21,147	-12.1%
Total Education	$756,816	$751,792	$5,024	0.7%
Health Care/Medicaid	$778,108	$845,360	-$67,252	-8.0%
Temporary Assistance to Needy Families	$72	$0	$72	---
Other Welfare (2)	$37,264	$44,353	-$7,089	-16.0%
Human Services (3)	$74,733	$85,021	-$10,289	-12.1%
Total Welfare & Human Services	$890,176	$974,734	-$84,559	-8.7%
Justice & Corrections	$216,148	$214,885	$1,263	0.6%
Environment & Natural Resources	$6,623	$6,547	$76	1.2%
Transportation	$805	$991	-$186	-18.8%
Development	$35,100	$38,307	-$3,207	-8.4%
Other Government	$100,285	$101,005	-$720	-0.7%
Capital	$3	$0	$3	---
Total Government Operations	$358,964	$361,736	-$2,771	-0.8%
Property Tax Relief (4)	$210,047	$123,485	$86,562	70.1%
Debt Service	$75,832	$6,812	$69,020	1013.2%
Total Other Disbursements	$285,879	$130,297	$155,582	119.4%
Total Program Disbursements	**$2,291,835**	**$2,218,559**	**$73,276**	**3.3%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	$0	$0	$0	---
TOTAL GRF USES	**$2,291,835**	**$2,218,559**	**$73,276**	**3.3%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes Department of Job and Family Services, exclusive of Medicaid, TANF, and General/Disability Ass
(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. So far this fiscal year, the Health Care/Medicaid program (primarily line item 600-525) has had disbursements of $2,446.6 million. Including a $2.0 million discrepancy between the estimates of the Department of Job and Family Services and OBM, this is $200.9 million under estimate.[3] The largest contributor to the variance is the HMO service category, which is $68.2 million (13.1%) below estimate with spending of $452.9 million through September (see Table 6). The HMO disbursement variance is traceable to

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

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
Primary & Secondary Education (1)	$1,793,320	$1,803,933	-$10,613	-0.6%	$1,739,372	3.1%
Higher Education	$536,108	$567,498	-$31,390	-5.5%	$562,572	-4.7%
Total Education	$2,329,428	$2,371,431	-$42,003	-1.8%	$2,301,943	1.2%
Health Care/Medicaid	$2,446,577	$2,647,471	-$200,894	-7.6%	$2,648,174	-7.6%
Temporary Assistance to Needy Families	$29,013	$25,917	$3,096	11.9%	$26,484	9.6%
Other Welfare (2)	$169,709	$172,862	-$3,153	-1.8%	$167,267	1.5%
Human Services (3)	$335,832	$345,324	-$9,492	-2.7%	$328,500	2.2%
Total Welfare & Human Services	$2,981,132	$3,191,575	-$210,443	-6.6%	$3,170,425	-6.0%
Justice & Corrections	$608,051	$606,251	$1,800	0.3%	$577,460	5.3%
Environment & Natural Resources	$27,713	$27,144	$569	2.1%	$31,490	-12.0%
Transportation	$4,120	$4,687	-$567	-12.1%	$9,132	-54.9%
Development	$58,943	$61,885	-$2,942	-4.8%	$57,959	1.7%
Other Government	$149,590	$159,807	-$10,216	-6.4%	$158,141	-5.4%
Capital	$24	$0	$24	---	$0	---
Total Government Operations	$848,441	$859,773	-$11,332	-1.3%	$834,182	1.7%
Property Tax Relief (4)	$356,384	$129,544	$226,840	175.1%	$386,090	-7.7%
Debt Service	$215,928	$215,648	$280	0.1%	$181,830	18.8%
Total Other Disbursements	$572,312	$345,192	$227,120	65.8%	$567,921	0.8%
Total Program Disbursements	**$6,731,313**	**$6,767,970**	**-$36,657**	**-0.5%**	**$6,874,471**	**-2.1%**
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%	$169,844	-51.1%
Total Transfers Out	$477,015	$514,814	-$37,799	-7.3%	$564,049	-15.4%
TOTAL GRF USES	**$7,208,328**	**$7,282,784**	**-$74,456**	**-1.0%**	**$7,438,520**	**-3.1%**

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

* August 2006 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

a slower than projected rollout of managed care expansion. Enrollment in the managed care program is 12% under the budgeted level for this point in the fiscal year.

The Nursing Facilities Payments service category is below estimate by $25.8 million (3.8%) through September with spending of $651.7 million. The All Other category is

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

	September				Year-to-Date Spending			
Service Category	**Actual**	**Estimate***	**Variance**	**Percent Variance**	**Actual thru Sept.**	**Estimate* thru Sept.**	**Variance**	**Percent Variance**
Nursing Facilities Payments	$220,843	$220,908	($65)	0.0%	$651,663	$677,450	($25,787)	-3.8%
ICF/MR Payments	$43,913	$42,328	$1,585	3.7%	$130,497	$129,806	$691	0.5%
Inpatient Hospitals	$113,616	$119,455	($5,839)	-4.9%	$368,023	$388,296	($20,273)	-5.2%
Outpatient Hospitals	$51,134	$51,789	($655)	-1.3%	$166,242	$170,970	($4,728)	-2.8%
Physicians	$46,587	$45,019	$1,568	3.5%	$151,523	$148,488	$3,035	2.0%
Prescription Drugs	$80,999	$88,315	($7,316)	-8.3%	$260,771	$288,937	($28,166)	-9.7%
ODJFS Waiver	$30,075	$21,332	$8,743	41.0%	$79,492	$69,303	$10,189	14.7%
HMO	$163,034	$194,967	($31,933)	-16.4%	$452,937	$521,117	($68,180)	-13.1%
Medicare Buy-In	$21,821	$22,039	($218)	-1.0%	$65,403	$65,818	($415)	-0.6%
Home Health	$11,236	$15,382	($4,146)	-27.0%	$37,511	$49,189	($11,678)	-23.7%
Dental	$7,067	$6,889	$178	2.6%	$22,418	$22,574	($156)	-0.7%
Hospice	$10,924	$9,663	$1,261	13.0%	$33,727	$31,062	$2,665	8.6%
All Other	$26,396	$51,704	($25,308)	-48.9%	$110,167	$161,056	($50,889)	-31.6%
Total Medicaid Payments	**$827,645**	**$889,790**	**($62,145)**	-7.0%	**$2,530,374**	**$2,724,066**	**($193,692)**	-7.1%
Medicare Part D	$19,022	$21,766	($2,744)	-12.6%	$59,796	$64,993	($5,197)	-8.0%
Capital Compensation Program	$1,981	$2,500	($519)	-20.8%	$1,981	$2,500	($519)	-20.8%
DA Medical	$2,166	$2,842	($676)	-23.8%	$7,355	$9,646	($2,291)	-23.8%
Drug Rebates Offsets	($33,795)	($34,627)	$832	-2.4%	($103,491)	($106,301)	$2,810	-2.6%
ICF/MR Franchise Fee Offsets	($1,523)	($1,523)	$0	0.0%	($4,569)	($4,569)	$0	0.0%
NF Franchise Fee Offsets	($37,388)	($37,388)	$0	N/A	($37,390)	($37,388)	($2)	N/A
DSH Rebate Offsets	$0	$0	$0	N/A	($7,478)	($7,478)	$0	0.0%
MCP Assessments	$0	$0	$0	N/A	$0	$0	$0	N/A
Total Health Care (Net of Offsets)	**$778,108**	**$843,360**	**($65,252)**	**-7.7%**	**$2,446,578**	**$2,645,469**	**($198,891)**	**-7.5%**
Est. Federal Share	$466,344	$505,452	($39,108)		$1,466,310	$1,585,511	($119,202)	
Est. State Share	$311,764	$337,908	($26,144)		$980,268	$1,059,958	($79,689)	

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
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.

*Please note that JFS' estimates are $2 million less than OBM's estimates (as reported in the RSPND24S report). JFS is expected to reconcile this difference in October reports.
Source: BOMC8300-R001, BOMC8350-R001&R002 Reports, Ohio Department of Job & Family Services.

$50.9 million (31.6%) below estimate with spending of $110.2 million through September. The All Other category is below estimate in part due to several changes in the home care programs that have resulted in a shift of clients from the home care programs to programs within the ODJFS Waiver service category, which is over estimate by $10.2 million (14.7%).

Other significant contributors to the year-to-date variance include the Prescription Drugs category, which is $28.2 million (9.7%) below estimate, and the Inpatient Hospitals category, which is $20.3 million (5.2%) below estimate. Compared to the same point in FY 2006, Health Care/Medicaid service payments are 4.9% lower in the current fiscal year (see Table 7). Once offsets are taken into account, FY 2007 net spending to date is 7.6% lower than at the same point in FY 2006.[4]

Education (-$42.0 million)

September outlays in the Education category were $5.0 million (0.7%) over estimate. For the year to date, however, outlays in this category are $42.0 million (1.8%) under estimate, with the Board of Regents contributing the bulk of underspending.

Table 7
FY 2007 to FY 2006 Comparison of Year-to-Date Health Care/Medicaid Spending
(ALI 600-525 Only)
($ in thousands)

Service Category	FY 2007 Yr.-to-Date as of Sept. '07	FY 2006 Yr.-to-Date as of Sept. '06	Dollar Change	Percent Increase
Nursing Facilities Payments	$651,663	$662,762	($11,099)	-1.7%
ICF/MR Payments	$130,497	$125,798	$4,699	3.7%
Inpatient Hospitals	$368,023	$389,420	($21,397)	-5.5%
Outpatient Hospitals	$166,242	$167,379	($1,137)	-0.7%
Physicians	$151,523	$156,709	($5,186)	-3.3%
Prescription Drugs	$260,771	$497,694	($236,923)	-47.6%
ODJFS Waiver	$79,492	$56,523	$22,969	40.6%
HMO	$452,937	$289,088	$163,849	56.7%
Medicare Buy-In	$65,403	$53,662	$11,741	21.9%
Home Health	$37,511	$41,486	($3,975)	-9.6%
Dental	$22,418	$32,713	($10,295)	-31.5%
Hospice	$33,727	$29,401	$4,326	14.7%
All Other	$110,167	$157,123	($46,956)	-29.9%
Total Medicaid Payments	**$2,530,374**	**$2,659,758**	**($129,384)**	**-4.9%**
Medicare Part D	$59,796	$0	$59,796	N/A
Capital Compensation Program	$1,981	N/A	N/A	N/A
DA Medical	$7,355	$13,425	($6,070)	-45.2%
Drug Rebates Offsets	($103,491)	($612)	($102,879)	16810.3%
ICF/MR Franchise Fee Offsets	($4,569)	($4,437)	($132)	3.0%
NF Franchise Fee Offsets	($37,390)	($19,960)	($17,430)	87.3%
DSH Rebate Offsets	($7,478)	$0	($7,478)	N/A
MCP Assessments	$0	$0	$0	N/A
Total Health Care (Net of Offsets)	**$2,446,578**	**$2,648,174**	**($201,596)**	**-7.6%**
Est. Federal Share	$1,466,310	$1,587,132	($120,823)	
Est. State Share	$980,268	$1,061,042	($80,773)	

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. The Capital Compensation Program was not included in Table 7 for FY 2006.
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.

Department of Education. September disbursements of $599.5 million by the Department of Education were $29.7 million (5.2%) over estimate. The Department's year-to-date disbursement variance stands at $2.8 million (0.2%) under estimate.

The largest contributor to the variance for the month was line item 200-511, Auxiliary Services, which is $31.5 million over estimate for the month. This offset an equivalent under estimate disbursement variance in August. This line item is used to provide 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.

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

Board of Regents. With a disbursement variance of $21.1 million (12.1%) under estimate for September, year-to-date outlays from the Board of Regents' line items are under estimate by $31.4 million (5.5%). About two-thirds of the variance for both September and the year to date is attributable to underspending from line item 235-503, Ohio Instructional Grants. Before starting to make payments from this item, the Board of Regents must receive and process the student aid eligibility data from the campuses. The timing of these payments is being impacted by software changes in the enrollment data system.

Government Operations (-$11.3 million)

In September, outlays in the Government Operations category were $2.8 million (0.8%) below estimate for the month. For the year to date, disbursements in the category are $11.3 million (1.3%) under estimate.

The category's more than 40 agencies posted various timing-related variances in September and the fiscal year to date that were largely offsetting. The largest of these variances ($5.5 million below estimate for the month, and $6.0 million for the year to date) was posted by the Department of Administrative Services, which has experienced lower than anticipated payments for debt service for state buildings administered by the Ohio Building Authority.

Tax Relief ($226.8 million)

The Tax Relief program reimburses school districts and local governments for foregone revenue resulting from state tax relief to property owners and businesses through the homestead exemption, the property tax rollbacks, and the $10,000 tangible property tax exemption. Through September, Tax Relief payments totaled $356.4 million of a $1,243.8 million appropriation; the payments are above estimate by $226.8 million. While the variance stems from the submission of requests for reimbursement earlier than expected, it also seems that the estimates for the current year may be low compared to the average actual disbursements of the last four years.

Appropriations for the $10,000 tangible property tax exemption program 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.*

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[1] Disbursements plus transfers out total $7,208.3 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 September, $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 3.1% 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 differences being added to the September estimates.

[3] The variances by service category presented in Table 6 from data provided by the Department of Job and Family Services total $198.9 million rather than the $200.9 million reported by OBM.

[4] 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.

Issues of Interest

Lottery Ticket Sales and Profit Transfers First Quarter, Fiscal Year 2007

— *Jean Botomogno*

Ticket Sales

Table 1 summarizes ticket sales by game in the first quarter of FY 2007. Total ticket sales were $533.8 million. On-line ticket sales[1] were $218.5 million (40.9% of quarterly sales), and Instant ticket sales were $315.3 million (59.1% of quarterly sales).

Compared to first-quarter results a year ago, ticket sales were up $26.6 million (5.2%) this fiscal year. The improvement in sales is due to Instant games. Instant ticket sales increased $46.1 million (17.1%). Conversely, on-line ticket sales decreased $19.6 million (8.2%). In July 2006, the Ohio Lottery introduced "Raffle to Riches," a limited-print on-line game with a ticket price of $20. The game guaranteed four $1 million prizes, five $100,000 prizes, and 500 prizes of $1,000. By September 1, 2006, all 500,000 tickets were sold. The limited-print game concept has been a staple of Instant games where a number of tickets are issued with winning tickets determined in advance. For most on-line games, a draw generally determines the winning number of a ticket that may or may not have been sold. Excluding sales of "Raffle to Riches," total ticket sales would have grown 3.3%, and on-line ticket sales would have decreased 12.4%.

Compared to sales in the first quarter of FY 2006, sales of Rolling Cash 5 increased $0.7 million (3.6%). Sales of Mega Millions declined $18.0 million (30.5%). Sales of Lot' O Play fell $15.0 million (59.7%).[2] Sales of Kicker grew $0.2 million (5.5%). Sales of Pick 4 increased $2.4 million (5.9%), and Pick 3 sales were flat.

Table 1: First-Quarter Ticket Sales by Game in FY 2007 (in millions)

Month	Pick 3	Pick 4	Rolling Cash 5	Kicker	Raffle To Riches	Lot' O Play	Mega Millions	On-Line	Instants	Total
July	$30.7	$14.6	$6.1	$1.3	$3.1	$3.5	$10.1	$69.3	$106.4	$175.7
August	$30.1	$14.6	$6.3	$1.5	$6.7	$3.2	$12.4	$74.9	$105.1	$180.0
September	$29.8	$14.4	$6.1	$1.9	$0.2	$3.4	$18.4	$74.3	$103.8	$178.1
Total	$90.6	$43.6	$18.5	$4.7	$10.0	$10.1	$40.9	$218.5	$315.3	$533.8

Totals may not add up due to rounding.

Transfers to the Lottery Profits Education Fund

Table 2 shows the amounts of monthly transfers from operations to the Lottery Profits Education Fund (LPEF) in FY 2007. First-quarter transfers were $163.0 million, $10.4 million (6.0%) less than transfers in the fourth quarter of FY 2006. Transfers were also $14.4 million (9.7%) higher than the State Lottery Commission's estimates for the first quarter of FY 2007. Transfers were 30.5% of ticket sales.

Compared to transfers a year ago, first-quarter transfers in FY 2007 were $15.0 million (10.1%) higher than transfers in the first quarter of FY 2006.

Table 2: First-Quarter Ticket Sales and Transfers to LPEF in FY 2007 ($ in millions)						
Quarter	Ticket Sales	Actual Transfers	Projected Transfers	Dollar Variance	Percentage Variance	Transfers as Percentage of Sales
July	$175.7	$56.1	$54.8	$1.3	2.3%	31.9%
August	$180.8	$51.0	$546.8	$4.2	9.0%	28.3%
September	$178.1	$55.9	$47.0	$8.9	18.9%	31.4%
Total	$533.8	$163.0	$148.6	$14.4	9.7%	30.5%

Totals may not add up due to rounding.

[1] On-line games refer to Pick 3, Pick 4, Kicker, Raffle to Riches, Rolling Cash 5, Super Lotto, 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] This large decline in quarterly sales reflects, as expected, the lower level of player excitement for Lot' O Play when compared to Super Lotto Plus. Lot' O Play commenced on October 12, 2005 as a replacement for Super Lotto Plus, which ended on October 8, 2005. Super Lotto Plus had a ticket price of $1 and a starting jackpot of $4 million to $1 million. Lot' O Play has a ticket price of $2 and a starting jackpot of $1 million. Additionally, Kicker, which used to be linked to Super Lotto Plus, is now linked to Mega Millions. Players who liked Kicker had to purchase Super Lotto Plus tickets in order to play Kicker; they do not have to buy Lot' O Play tickets in order to play Kicker.

Preliminary Analysis of the Commercial Activity Tax Returns Filed in FY 2006

— *Jean Botomogno*

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, business entities with annual taxable gross receipts below $150,000 are exempt from the CAT, and those with annual taxable gross receipts above $150,000 and less than $1 million pay the minimum tax of $150. Businesses with annual taxable gross receipts above $1 million pay $150 plus the CAT tax rate of 0.26% on gross receipts in excess of $1 million. Minimum tax taxpayers pay the CAT once a year. The other CAT taxpayers generally pay the CAT each quarter, based on taxable receipts in the previous calendar quarter.

For the phase-in year, the first CAT payment was due February 10, 2006 for the period covering July 1 through December 31, 2005. The actual tax rate was $75 on the first $500,000 in taxable receipts plus a rate of 0.06% on receipts above $500,000. The second and last due date in FY 2006 was May 10, for taxable receipts from January 1, 2006 through March 31, 2006. For this second payment, only 23% of the tax as normally computed was payable. For FY 2007, 40% of the tax as calculated is payable. Receipts from the first FY 2007 payment, due August 9, 2006, were $140.0 million.

Generally, 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. 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 received $61.8 million, and the Local Government Tangible Property Tax Replacement Fund received $26.5 million. From preliminary information gleaned from tax returns filed in FY 2006, reported total CAT taxable gross receipts were $378.7 million and total calculated liability was $260.2 million.[1] The data are from the Department of Taxation.[2]

Number of Business Entities Paying the CAT in FY 2006

The CAT applies to most businesses regardless of their legal or organizational form, unless the business entity is specifically excluded. Public utilities, financial institutions, dealers in intangibles, insurance companies, and nonprofit institutions are exempt. Because of the diversity of business legal and organization forms, H.B. 66 permits a group of commonly owned or controlled businesses to elect to file and pay the CAT on a consolidated basis in exchange for excluding otherwise taxable gross receipts from transactions with other members of the group. A "consolidated" taxpayer group must report and pay the tax on the basis of every member's taxable gross receipts, including members that do not have substantial nexus[3] with Ohio. All persons subject to the CAT that have more than 50% of their ownership interests owned or controlled by common owners, but that do not elect to be treated as consolidated elected taxpayers, are treated as "combined" taxpayers. Like a consolidated elected taxpayer, a combined taxpayer must report and pay the tax as a single taxpayer. However, unlike members of a consolidated elected taxpayer, members of a combined taxpayer may not exclude receipts arising from transactions between the members, and may include only members that have nexus. Also, the exemption for taxpayers with taxable gross receipts of $150,000 or less does not apply to consolidated or combined taxpayers.

About 246,000 business entities reported a CAT liability. However, only 170,000 taxpayers filed a CAT tax return, due to the large number

Table 1: Top Five Industrial Sectors by the Share of Total Tax Due	
Manufacturing	28.5%
Retail Trade	19.5%
Wholesale Trade	11.3%
Construction	6.3%
Professional, Scientific, & Technical Services	5.3%
Total	70.9%

of firms that filed as a taxpayer group. Of the 76,000 taxpayers that reported their CAT liability as a business group, 62,000 filed as consolidated taxpayers and 14,000 as combined taxpayers. About 27,000 (35%) of the members of the taxpayer groups were companies located outside Ohio.

CAT Collections by Industry in FY 2006

Data from tax returns provide information on the CAT liability for 19 industrial sectors in Ohio. Generally, each taxpayer is asked to select in its tax return a sector or subsector code within the North American Industry Classification System (NAICS). About 8% of taxpayers did not provide enough information to be reasonably classified within the NAICS codes. Data in Tables 1 and 2 exclude taxpayers in the "Unclassified" category. Table 1 lists the top five industrial sectors based on their share of total tax liability due. About 71% of the CAT collections are from taxable receipts received by firms in manufacturing, retail trade, wholesale trade, construction, and professional, scientific, and technical services industries.

Table 2 lists the top five industrial sectors by the number of taxpayers paying the CAT. About

Table 2: Top Five Industrial Sectors by the Number of Taxpayers Paying the CAT	
Accommodation & Food Services	38.6%
Retail Trade	10.2%
Construction	7.9%
Professional, Scientific, & Technical Services	6.5%
Manufacturing	6.3%
Total	69.6%

70% of the taxpayers are from the accommodation and food services, retail trade, construction, professional services, and manufacturing industries. More than a third of total taxpayers are businesses in the accommodation and food services industry (hotels, motels, and eating and drinking establishments).

CAT Revenue by Size of Taxable Gross Receipts in FY 2006

Table 3 presents CAT collections by size of gross receipts of the business entities. "Share of Taxpayers" is the percentage of taxpayers within the size group of taxable gross receipts relative to the total number of taxpayers. "Share of Tax Due" represents the tax liability of all firms within the size of taxable gross receipts relative to the total CAT liability. As expected, the large majority of CAT taxpayers (81%) paid the minimum tax of $150. Also, taxpayers with more than $50 million in taxable gross receipts paid more than half of the CAT liability.

The available data have some limitations. The data do not provide the number of taxpayers or tax collections by industrial sector when minimum tax taxpayers are excluded. Also, the data do not provide the number of consolidated/combined

Table 3: CAT Collections by Size of Taxable Gross Receipts in FY 2006

Size of Taxable Gross Receipts	Number of Taxpayers	Net Taxable Gross Receipts (millions)	Total Tax Due (millions)	Share of Taxpayers	Share of Tax Due
Less than $1 million	138,946	$2,712.1	$28.2	81.4%	10.8%
$1 million to $5 million	22,842	$34,014.0	$25.0	13.4%	9.6%
$5 million to $10 million	4,043	$25,384.6	$16.0	2.4%	6.2%
$10 million to $25 million	2,787	$40,833.0	$25.1	1.6%	9.6%
$25 million to $50 million	965	$32,297.3	$19.6	0.6%	7.5%
Above $50 million	1,077	$243,433.5	$146.3	0.6%	56.2%
Total	170,660	$378,674.5	$260.2	100.0%	100.0%

taxpayers by industrial sector or by size of taxable gross receipts, which may reveal information on tendencies regarding business legal organization across the spectrum of industrial sectors and across the size of the business group. Finally, the contribution of out-of-state firms (from individual taxpayers or from taxpayer groups) to total CAT liability is unavailable.

[1] The total calculated liability is thus less than the amounts actually collected under the CAT in FY 2006. The discrepancy is not unusual, particularly when a new tax is implemented. Generally, such discrepancies may be resolved when taxpayers file amended returns in later months.

[2] Data are from a presentation to the Federation of Tax Administrators on September 19, 2006 by Frederick Church, Ohio Deputy Tax Commissioner.

[3] An out-of-state firm legally or commercially domiciled in Ohio has nexus and is taxable under the CAT if it has (a) property of at least $50,000 in Ohio, (b) payroll of at least $50,000 in Ohio, (c) taxable receipts of at least $500,000 in Ohio, or (d) at least 25% of its total property, payroll, or receipts in Ohio.