

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

NOVEMBER 2006

FISCAL OVERVIEW

— Allan Lundell

Four months into FY 2007, General Revenue Fund (GRF) receipts are \$202 million below estimate, disbursements are \$317 million below estimate, and the cash balance is above its expected level.¹

Receipts

For the month of October, total GRF receipts of \$1,969.3 million were above estimate by \$4.5 million (0.2%). State-source receipts were above estimate by \$56.1 million (3.6%) and federal grants were below estimate by \$51.6 million (12.6%). Tax revenues were above estimate by \$58.5 million (3.8%). Revenue from the corporate franchise tax was above estimate by \$39.9 million (332.7%) and personal income tax revenue was \$24.9 million (3.9%) above estimate. Revenue from the sales and use tax was below estimate by \$16.2 million (2.6%); the nonauto tax was below estimate by \$7.7 million (1.4%) and the auto tax was below estimate by \$8.6 million (10.7%).

Fiscal year-to-date GRF receipts of \$7,848.7 million are \$202.3 million (2.5%) below estimate and are down 2.5% compared to FY 2006. State-source receipts are \$25.7 million (0.4%) above estimate and federal grants are \$227.9 million (11.6%) below estimate. Tax revenues are above estimate by \$21.5 million (0.4%). Revenue from the corporate franchise tax is above estimate by \$62.9 million (138.6%) and personal income tax revenue is above estimate by \$27.3 million (1.0%). Revenue from the sales and use tax is below estimate by \$77.3 million (3.0%); the nonauto tax is below estimate by \$67.9 million (3.1%) and the auto tax is below estimate by \$9.4 million (2.8%).

Disbursements

October GRF program disbursements of \$2,173.0 million were below estimate by \$252.5 million (10.4%). Disbursements for property tax relief were below estimate by \$146.4 million (69.4%), disbursements for health care/Medicaid were below estimate by \$92.9 million (10.1%), and disbursements for justice and corrections were \$17.3 million (9.3%) below estimate. Disbursements for primary and secondary education were above estimate by

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Tracking the Economy 50

- National economic growth has slowed
- Inflation has eased
- Ohio's economy continues to lag

STATUS OF THE GRF

Revenue 54

- State-source receipts above estimate; federal grants below
- Sales tax shows continuing signs of weakness
- FY 2007 monthly receipts below FY 2006 amounts for fourth consecutive month

Disbursements..... 61

- Medicaid spending 293.8 million under estimate for the year to date
- Total GRF program disbursements under estimate by \$289.2 million

ISSUES OF INTEREST

TANF Spending Annual Report 69

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 October	Fiscal Year 2007 to Date	Last Year	Difference
Beginning Cash Balance	\$199.9	\$1,528.8		
Plus Revenue and Transfers In	\$1,969.3	\$7,848.7		
Available Resources	\$2,169.2	\$9,377.5		
Less Disbursements and Transfers Out	\$2,386.8	\$9,595.2		
Ending Cash Balances	-\$217.6	-\$217.6	-\$363.3	\$145.6
Less Encumbrances and Accts. Payable		\$956.3	\$944.8	\$11.6
Unobligated Balance		-\$1,174.0	-\$1,308.0	\$134.0
Plus BSF Balance		\$1,012.3	\$576.6	\$435.7
Combined GRF and BSF Balance		-\$161.7	-\$731.4	\$569.7

\$31.0 million (5.5%) and disbursements for higher education were \$16.3 million (7.6%) below estimate.

Fiscal year-to-date GRF program disbursements of \$8,904.3 million are \$289.2 million (3.1%) below estimate and are down 1.7% compared to FY 2006. Disbursements for health care/Medicaid are below estimate by \$293.8 million (8.2%) and disbursements for higher education are \$47.7 million (6.1%) below estimate. Disbursements for property tax relief are above estimate by \$80.5 million (23.6%) and disbursements for primary and secondary education are \$20.4 million (0.9%) above estimate.

Cash Balance

As shown in Table 1, the GRF began FY 2007 with a \$1,528.8 million cash balance. Through October, FY 2007 revenues plus transfers in totaled \$7,848.7 million and disbursements plus transfers out totaled \$9,595.2 million. The year-to-date deficit of \$1,746.5 million reduced the cash balance to -\$217.6 million. Although

a negative cash balance may appear to be a cause for concern, the cash balance, due to the timing of revenues and disbursements, is generally negative early in the fiscal year before turning positive later in the year. If receipts and disbursements had equaled their estimates, the cash balance would have been -\$332.9 million, \$115.2 million lower (more negative) 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 \$956.3 million combine with the cash balance to yield an unobligated balance of -\$1,174.0 million, \$134.0 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 -\$161.7 million is \$569.7 million higher (less negative) than it was a year ago.

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

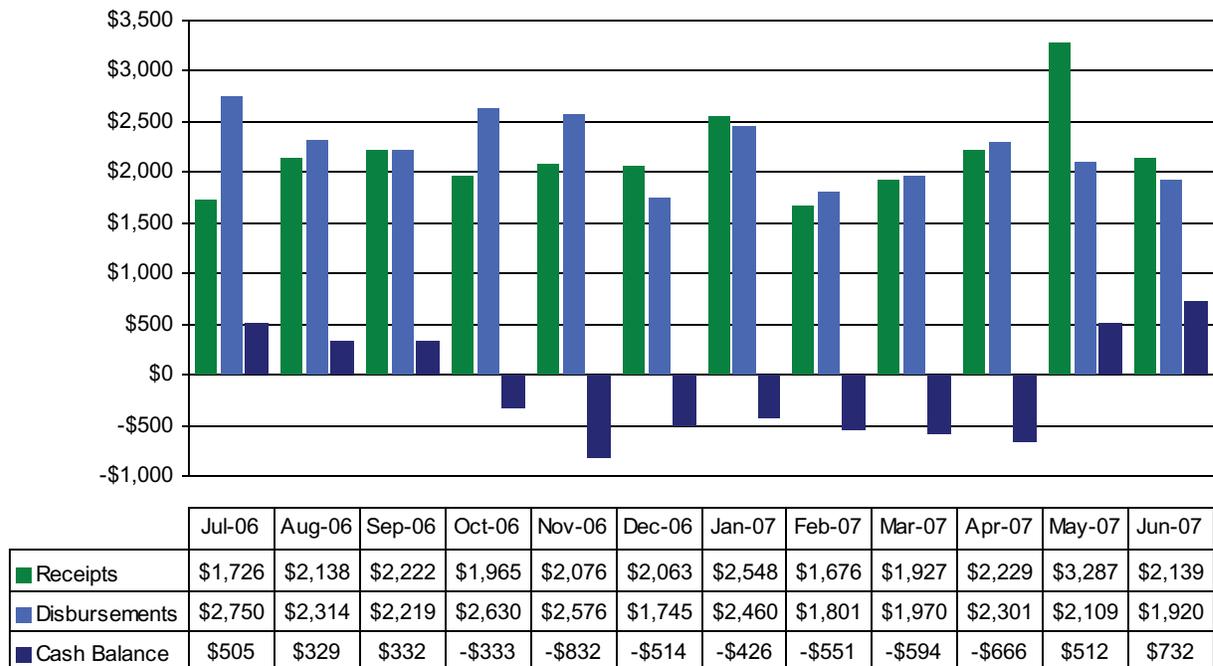
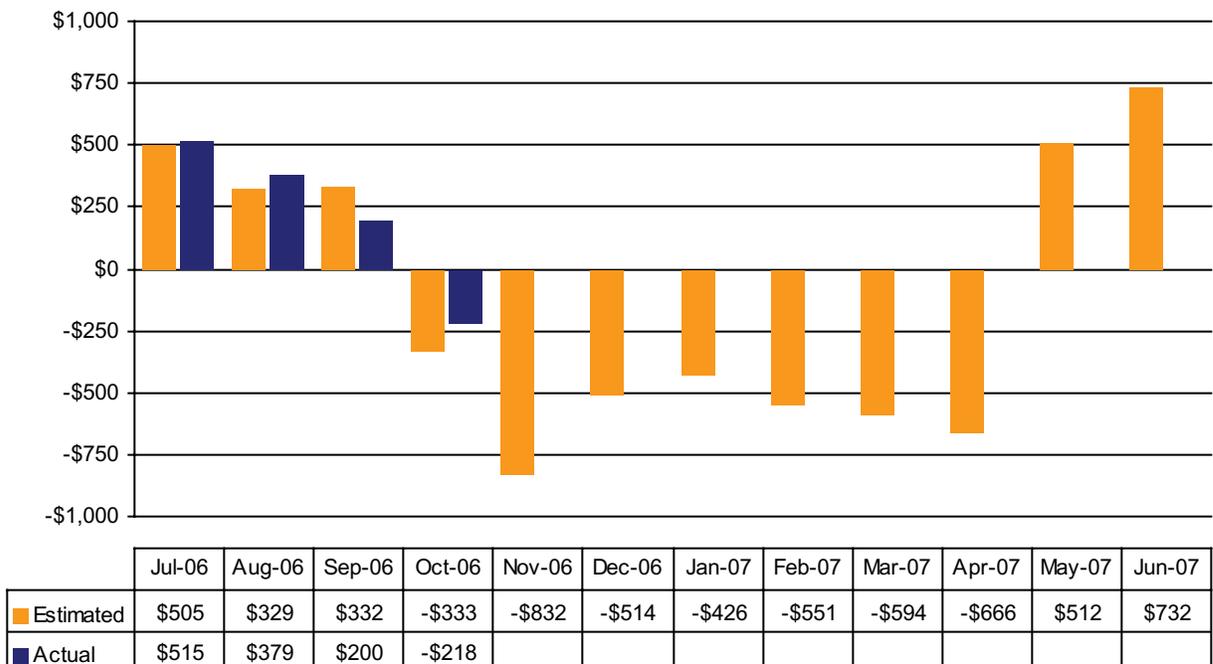


Chart 2: Actual and Estimated Ending Cash Balances
(FY 2007, in millions)



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

TRACKING THE ECONOMY

— Phil Cummins

Economic expansion is continuing but the rate of growth has slowed. Employment nationwide rose in October but by less than in earlier months this year. Purchasing managers reported more sluggish growth last month and substantial easing of inflation. Factory output fell in October, reflecting in part cutbacks by domestic automakers. Retail sales rose apart from gasoline stations, where sharply lower prices reduced the dollar value of sales. Housing construction continues to slow. Inflation has eased mainly as a result of lower prices for petroleum-based energy. Short-term interest rates remain anchored to the central bank's unchanged target policy rate, but longer-term interest rates have eased since mid-year.

Nationwide economic growth slowed further in this year's third quarter, according to the government's initial estimate. Gross domestic product growth was at a 1.6% annual rate in the July-September period, measured in dollars of constant purchasing power, down from a 2.6% rate in the second quarter and 5.6% in the first quarter. Stronger growth of most major final demand sectors, with the exception of residential fixed investment, was more than accommodated by an upturn in import growth and by a slowdown in inventory accumulation. The fall in residential

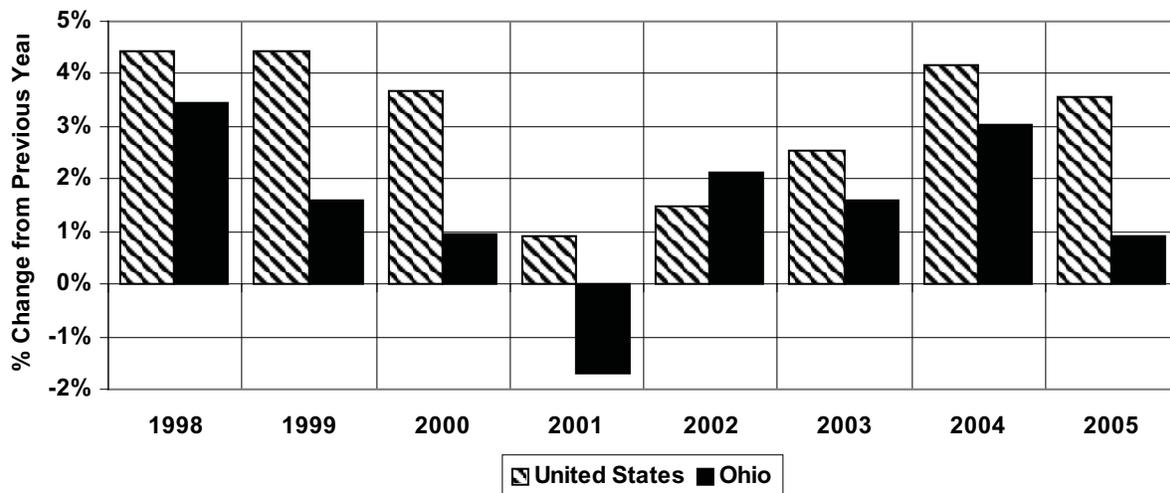
investment spending steepened in the third quarter. It has declined for four consecutive quarters, from a peak in the 2005 third quarter.

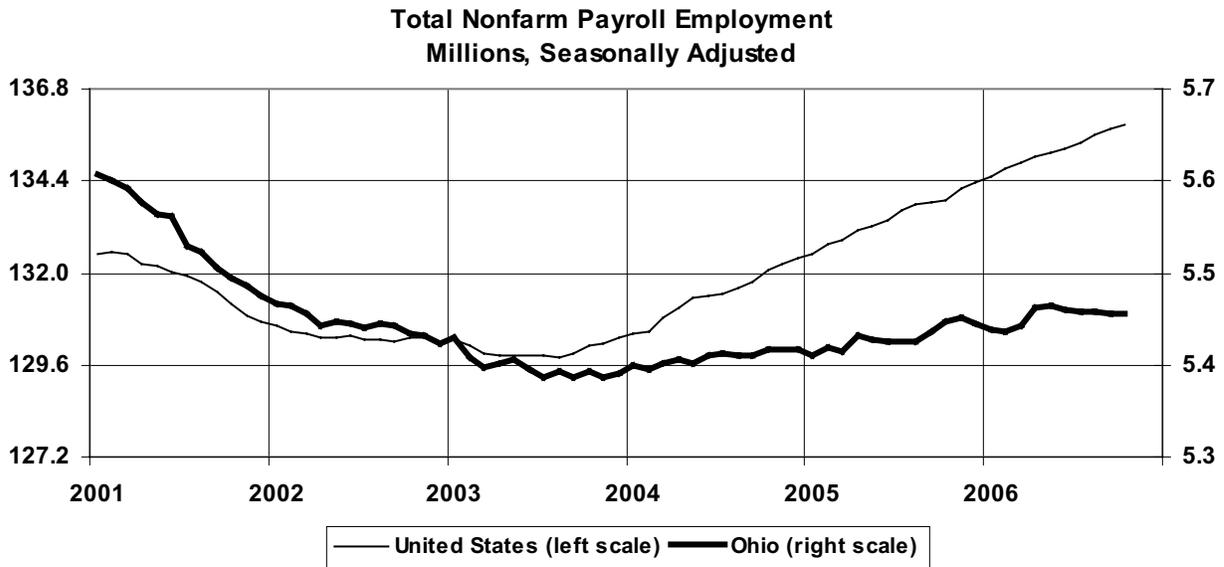
A report on gross domestic product by state, previously called gross state product, was released for 2005 by the United States Bureau of Economic Analysis (BEA). The new numbers include industry detail for 2005 that was not included in the gross state product estimates published in June. Ohio's production grew 0.9% last year, in the new report, slightly lower than the 1.0% increase reported earlier. Output growth nationwide was revised slightly higher for 2005, to 3.6% from 3.5%. Ohio still ranks 47th among the states in its rate of growth last year. Only Louisiana, Alaska, and Michigan were weaker.¹

Nationwide Employment Continues to Grow

Nonfarm payroll employment nationwide rose 92,000 in October, and gains in the previous two months were revised higher. Unemployment fell to 4.4% of the labor force, the lowest since 2001. With the revisions, the pace of payroll employment growth in the July-September quarter was nearly 170,000 per month, close to the rate of job gains in the first quarter and in 2005

Gross Domestic Product by State
Inflation-Adjusted Dollars





and 2004. Growth of total employment slowed in this year's second quarter. October's employment gains were mainly in service industries, including professional and business services, health care, and restaurants and bars. Factory employment continued to trend downward. The decline at manufacturers has totaled about 3.4 million positions since 1997, though some of these jobs may now be filled by temporary and contract workers counted in the service sector. Construction employment fell last month, more than accounted for by reduced employment of residential specialty trade contractors.

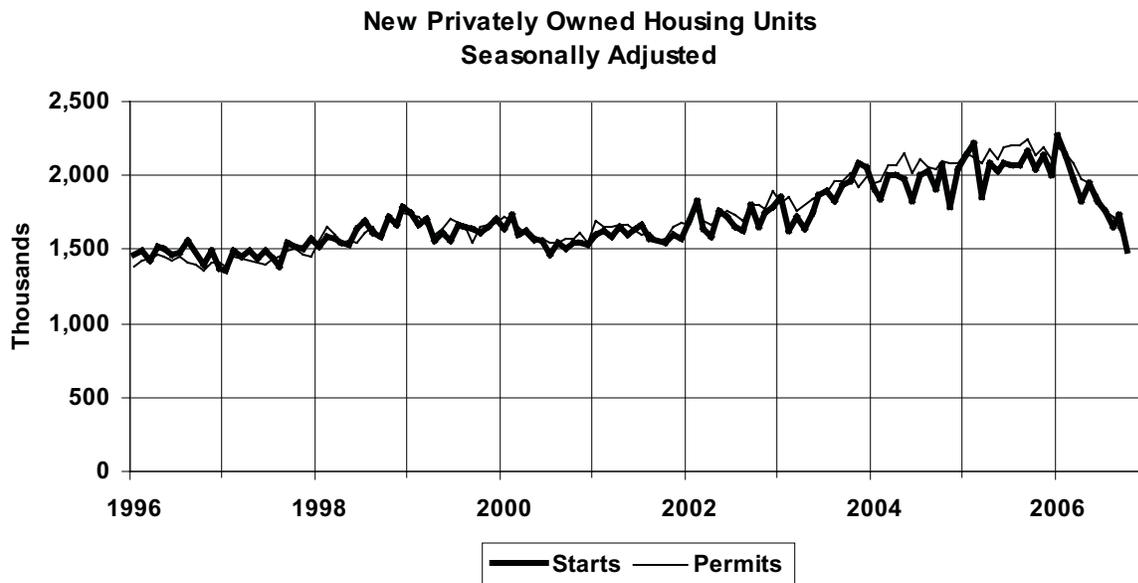
In Ohio, statewide employment was little changed from September to October, as a 2,600 decline in the number of jobs at goods producers about offset a 2,400 increase in the service sector. Growth in the number of jobs from a year earlier was small, only 0.2% in Ohio compared with a 1.5% increase nationwide. Statewide unemployment declined to 306,000 in October, or 5.1% of the labor force, just above the low of 5.0% reached in March, the lowest since 2001.

Expansion Slows, Inflation Eases

Purchasing managers with manufacturers said that activity continued to grow in October, but at the slowest rate since 2003, in the Institute for Supply Management's monthly survey. Growth of production and new orders slowed. Order backlogs fell for the second consecutive

month. Reports of lower prices paid were more frequent among survey participants than reports of higher prices, for only the second time since early 2002. A comparable survey of purchasing managers at nonmanufacturers was more upbeat, with increases continuing in various measures of activity. In contrast with the manufacturing report, those reporting higher prices paid outnumbered those paying less, but by a smaller margin than in any month since 2003.

The industrial production index rose 0.2% in October, following a 0.6% decline in September, as utility output was boosted by colder-than-usual weather. Manufacturing output in October fell 0.2%, for the second straight month, to 4.1% above a year earlier. Excluding sharply lower output in the motor vehicle industry, factory output rose 0.1% last month. Production of motor vehicles also contracted sharply in the third quarter (at a 20% annual rate), in contrast with the initial gross domestic product report for the third quarter, which showed rapid growth of inflation-adjusted motor vehicle output (at a 26% annual rate). The two measures do not always vary closely together, but they usually change in the same direction, and the divergence in the third quarter is exceptionally wide.² Industrial production of business equipment has continued a strong uptrend this year. Output of consumer goods has been mixed and is little changed in total from a year ago. Production of construction supplies has fallen in the latest two quarters,



after rising sharply in late 2005 following the extensive hurricane damage.

Lower Gasoline Prices Helping Consumers

Although retail sales fell in September and October, the decline was more than accounted for by a sharp slowing in gasoline station sales, reflecting lower prices. Total retail sales dropped 0.2% in October, following a 0.8% decline in September, but retail sales excluding gasoline stations were up by 0.4% in both months. Net of inflation, consumer spending appears to be growing in the fourth quarter. However, unit sales of cars and light trucks slowed in October.

Housing Downturn Continues

The downturn is continuing in housing markets. Starts on new housing construction fell 15% in October nationwide and 12% in the Midwest. The country's rate of new housing starts was at its lowest level in more than six years. Permits for new housing construction, which generally precede starts, were the lowest in nearly nine years. With the fall in housing starts, residential construction activity is likely to continue to decline for at least the next two quarters. Much of the 11% fall in year-to-date starts, compared with a year earlier, has been in single-family homes, construction on which is, on

average, completed about six months after being started, according to United States Department of Commerce data.³

Residential mortgage interest rates have declined since last summer. The nationwide average interest rate on 30-year fixed-rate mortgage loans fell to 6.24% in the week ended November 16, down from a peak of 6.80% in July and lowest since March.⁴

New home sales nationwide rose in September for the second consecutive month, perhaps reflecting aggressive promotions. The pace of sales remained well below that a year ago, however, and year-to-date sales were 17% lower for the nation and 23% lower in the Midwest. Used home sales nationwide, reported by the National Association of Realtors, continued to decline through September, and year-to-date sales were 8% lower than a year earlier in the United States and 6% lower in the Midwest. For both new and used homes nationwide, inventories remained elevated and prices were lower than earlier, but the inventory of new homes under construction has declined 8% since May and the number of homes listed for sale with real estate brokers has been reduced 3% from a peak in July. The Ohio Association of Realtors reported that unit sales in this state in the first nine months of 2006 were 2% below a year earlier, and average selling prices were 2% lower.

The total value of construction spending in the United States in the first nine months of 2006 was 7% higher than a year earlier. Private nonresidential construction spending was 17% above a year ago, public construction was 10% higher, and private residential construction was up 1%. Private residential building accounts for somewhat more than half of the \$1.2 trillion construction market nationwide, and the dollar value of private nonresidential construction is somewhat larger than that for public construction.

Price Indexes Decline

The producer price index for finished goods fell 1.6% in October, following a 1.3% drop in September, to 1.6% below a year earlier, the first year-over-year decline since 2002. The latest declines mainly reflect lower energy prices, but the indexes for food and for finished goods other than food and energy were also lower in October. Price indexes for intermediate goods and crude materials were lower in September and October, mostly due to the fall in energy prices. The price of the benchmark crude oil, West Texas Intermediate, in October was 8% lower than in September and 21% lower than in July. However, the producer price index for crude materials other than food and energy also fell in October and has declined in four of the last five months, following sharp increases earlier in the year.

The consumer price index (CPI) fell 0.5% in September and October, and was 1.3% higher in the latest month than a year earlier, its smallest increase in more than four years. Declines in the last two months mostly reflected large drops in energy prices paid by consumers. Gasoline

prices paid by Ohioans averaged \$2.13 a gallon in October, 13 cents lower than in September and 82 cents below the July peak. Gasoline prices elsewhere in the country also fell. Excluding food and energy, the CPI rose 0.1% in October to 2.7% above a year earlier, down from a 2.9% year-over-year rise in September, which was the largest increase in this inflation gauge since 1996. Month-to-month increases in the CPI excluding food and energy were sharp in March through June but have been smaller since then.

Short-Term Interest Rates on Hold for Now

At the October 25 meeting of its policy-setting Federal Open Market Committee (FOMC), the nation's central bank again held its principal interest rate target, for overnight federal funds, unchanged at 5.25%. The target for federal funds, which are loans between banks, has remained at this level since June 29, after being increased steadily from 1% in June 2004. In describing its most recent decision to hold the federal funds target unchanged, the FOMC noted that economic growth had slowed but appeared likely to continue and that inflation had been elevated. The FOMC reiterated its expectation that price increases would slow but held open the possibility of further interest rate increases if needed. Indications in reports released this month of sharply lower inflation increase the likelihood that the central bank's next interest rate change will be to lower short-term interest rates. The group is next scheduled to meet on December 12. Longer-term interest rates remain below earlier levels. The yield on the ten-year Treasury note has recently fluctuated around 4.6%, down from a four-year high of 5.25% in June.

¹ Gross domestic product by state, for all the states plus the District of Columbia, differs slightly from the nation's gross domestic product in that overseas federal military and civilian activity is excluded from the former but included in the latter.

² BEA attributes the difference in part to inclusion in its measure of value added at the retail and wholesale levels on new and used domestic and imported vehicles, which are not part of industrial production.

³ Residential fixed investment in the national income and product accounts includes not only the value of construction on dwellings counted in the housing starts report but also additions and alterations to existing housing, brokers' commissions on residential sales, factory-built homes, and purchases of furniture and appliances for furnished rental housing.

⁴ Freddie Mac survey.

Status of the General Revenue Fund

REVENUE

— Jean Botomogno and Allan Lundell

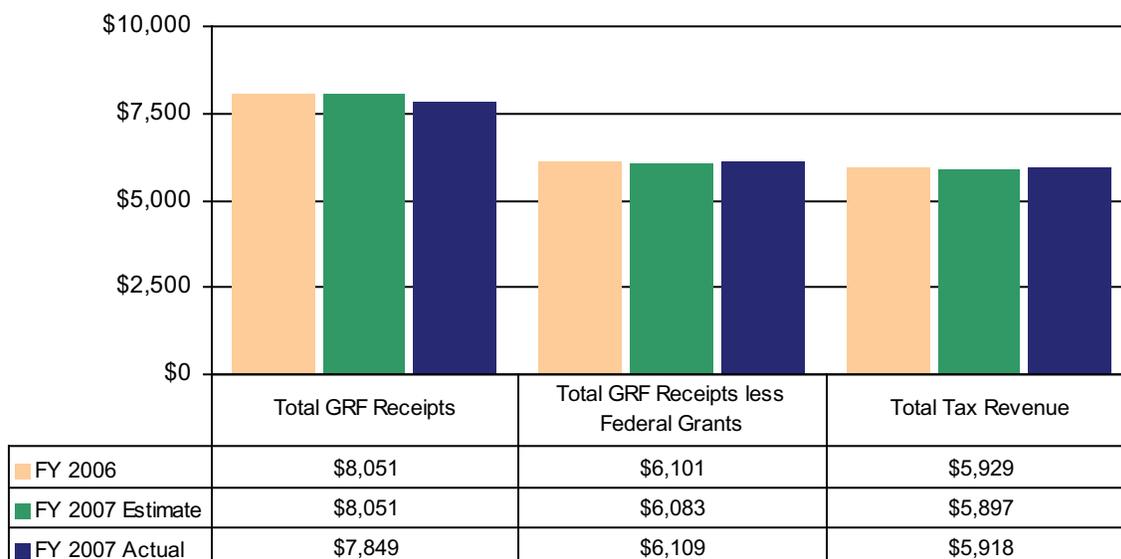
For the month of October, General Revenue Fund (GRF) receipts of \$1,969.3 million were above estimate by \$4.5 million (0.2%).¹ State-source receipts were above estimate by \$56.1 million (3.6%) and federal grants were below estimate by \$51.6 million (12.6%).² Tax revenues were above estimate by \$58.5 million (3.8%). Revenue from the corporate franchise tax was above estimate by \$39.9 million (332.7%) and personal income tax revenue was \$24.9 million (3.9%) above estimate. Revenue from the sales and use tax was below estimate by \$16.2 million (2.6%); the nonauto tax was \$7.7 million (1.4%) below estimate and the auto tax was below estimate by \$8.6 million (10.7%).

Four months into FY 2007, total GRF receipts of \$7,848.7 million are \$202.3 million (2.5%) below estimate. State-source receipts are \$25.7 million (0.4%) above estimate and federal grants are \$227.9 million (11.6%) below estimate. Tax revenues are above estimate by \$21.5 million

(0.4%). Revenue from the corporate franchise tax is above estimate by \$62.9 million (138.6%) and personal income tax revenue is above estimate by \$27.3 million (1.0%). Revenue from the sales and use tax is below estimate by \$77.3 million (3.0%); the nonauto tax is below estimate by \$67.9 million (3.1%) and the auto tax is below estimate by \$9.4 million (2.8%).

For the fiscal year to date, total GRF receipts are down 2.5% compared to FY 2006. State-source receipts are up 0.1% and federal grants are down 10.8%. Tax revenue is down 0.2%. Revenue from the personal income tax is up 1.1%. Revenue from the sales and use tax is down 2.5%; the nonauto tax is down 0.6% and the auto tax is down 13.4%. Revenue from the cigarette tax is down 14.6%, largely due to a comparison with FY 2006 revenues that included receipts from the floor tax³ associated with the July 2005 increase in the cigarette tax. Chart 1 compares FY 2007 receipts with FY 2006 receipts and FY 2007 estimates.

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



Personal Income Tax

The GRF received \$659.9 million from the personal income tax in October. This amount was \$24.9 million (3.9%) more than estimated. Gross collections were above estimate by \$47.0 million (6.5%) and refunds were \$21.9 million (97.2%) greater than estimated. Withholding was above estimate by \$18.5 million (2.9%) and quarterly estimated payments were \$7.7 million (32.1%) above estimate.⁴ Trust payments were \$1.6 million (22.0%) above estimate and payments associated with annual returns were above estimate by \$17.5 million (34.6%).

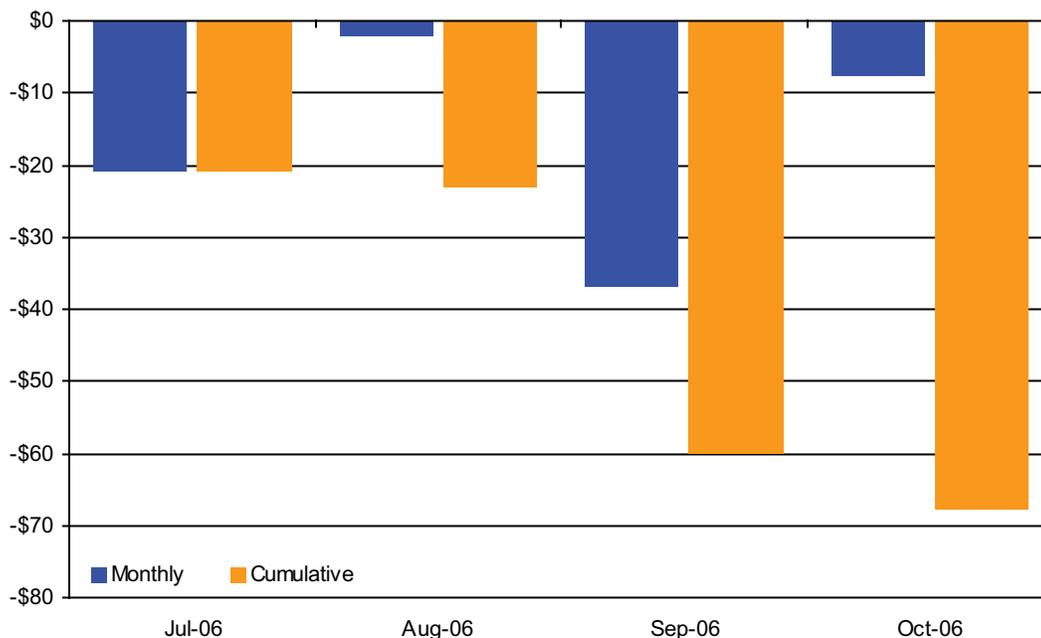
The GRF has received \$2,717.5 million from the personal income tax thus far this fiscal year. This amount is \$27.3 million (1.0%) above estimate. Gross collections are above estimate by \$49.0 million (1.6%) and refunds are \$20.8 million (20.1%) above estimate. The \$2,567.4 million collected through withholding is \$20.4 million (0.8%) above estimate. Withholding is expected to account for 72% of gross income tax collections for FY 2007. Year-to-date quarterly estimated payments are \$14.8 million (3.9%) above estimate. Trust payments are \$4.0 million (24.9%) above estimate and payments associated with annual returns are above estimate by \$1.6 million (1.6%).

Compared to a year ago, GRF revenue from the personal income tax is up 1.1%. Gross collections are up 2.2% and refunds are up 41.0%. Withholding, which reflects the condition of Ohio's labor market, is up 1.0%.⁵ Quarterly estimated payments are up 8.0%. Trust payments are up 2.4% and payments associated with annual returns are up 2.9%.

Sales and Use Tax

Total sales and use tax revenues in October were \$617.8 million, \$16.2 million (2.6%) below projected revenues. Auto sales and use tax receipts were \$8.6 million (10.7%) below estimate. Nonauto sales and use tax receipts were \$7.7 million (1.4%) below estimate. Total sales and use tax receipts were \$40.8 million (7.1%) above sales and use tax revenues in October 2005. Receipts from both the nonauto and the auto sales and use taxes were above revenues in October 2005. This monthly result is an improvement over receipts during September 2006, when sales and use tax receipts were below estimate and below prior year revenues. Tax receipts for a given month partly reflect taxable retail sales activity during that month and partly taxable retail sales in the prior month.⁶

Chart 2: Nonauto Sales Tax Variance from August 2006 Estimates
(in millions)



Through October, FY 2007 total sales and use tax revenues were \$2,459.9 million, \$77.3 million (3.0%) below estimate. Thus, the sales and use tax shows continuing signs of weakness. FY 2007 sales and use tax receipts were also \$62.7 million (2.5%) below fiscal year-to-date tax receipts in October 2005. Most of this negative variance, \$50.2 million, is from the auto sales and use tax.

Nonauto Sales and Use Tax

Nonauto sales and use tax revenues in October were \$546.5 million, \$7.7 million (1.4%) below estimate but were \$31.5 million (6.1%) above revenues in the same month last year. Through October, FY 2007 nonauto sales and use tax receipts were \$2,135.5 million, \$67.9 million (3.1%) below estimate. They were also \$12.5 million (0.6%) below fiscal year-to-date receipts in October 2005.⁷

Nationwide core retail sales (excluding auto and gasoline sales) grew 0.3% in September and in October 2006. Compared to sales a year ago, nationwide core retail sales were up 6.7% and 5.4% in September and October 2006, respectively.

Auto Sales and Use Tax

Auto sales and use tax receipts were \$71.2 million in October, \$8.6 million (10.7%) 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 October 2006 were \$9.3 million (15.0%) above receipts in October 2005. This apparent strength in October 2006 receipts may be misleading. Auto sales and use tax receipts in October 2005 were depressed following outsized auto sales and use tax receipts from an aggressive manufacturer incentive campaign in the first quarter of FY 2006.⁸ Therefore, November and December sales and use tax receipts will probably be better indicators of vehicle sales and the state of the Ohio automobile market.

Through October, FY 2007 year-to-date auto sales tax receipts were \$324.4 million, \$9.4 million (2.8%) below estimate. Year-to-date auto sales and use tax receipts were also

Chart 3: Auto Sales Tax Variance from August 2006 Estimates
(in millions)

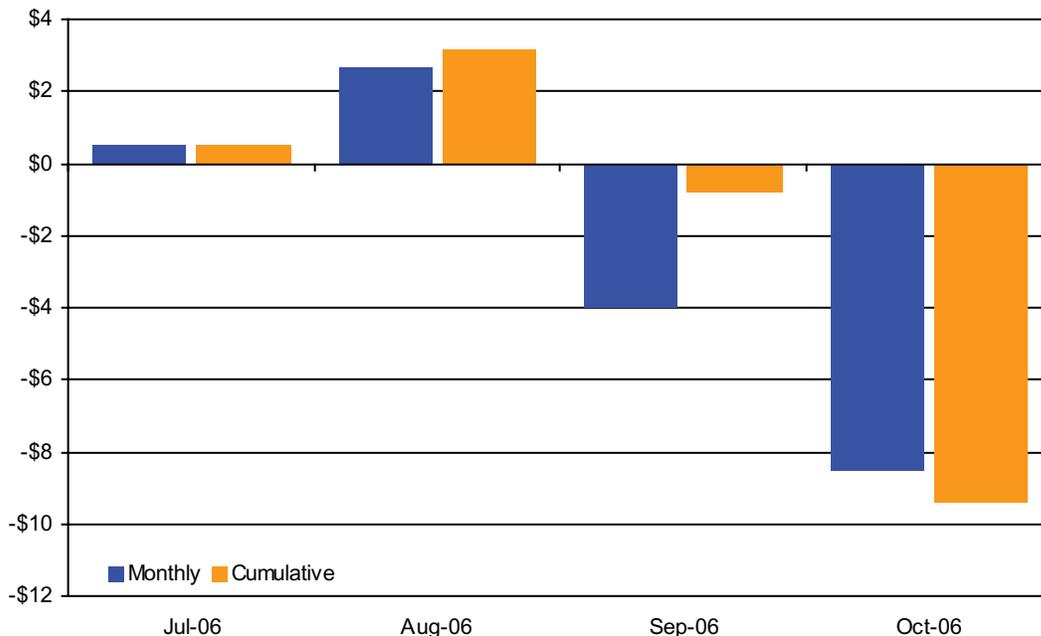
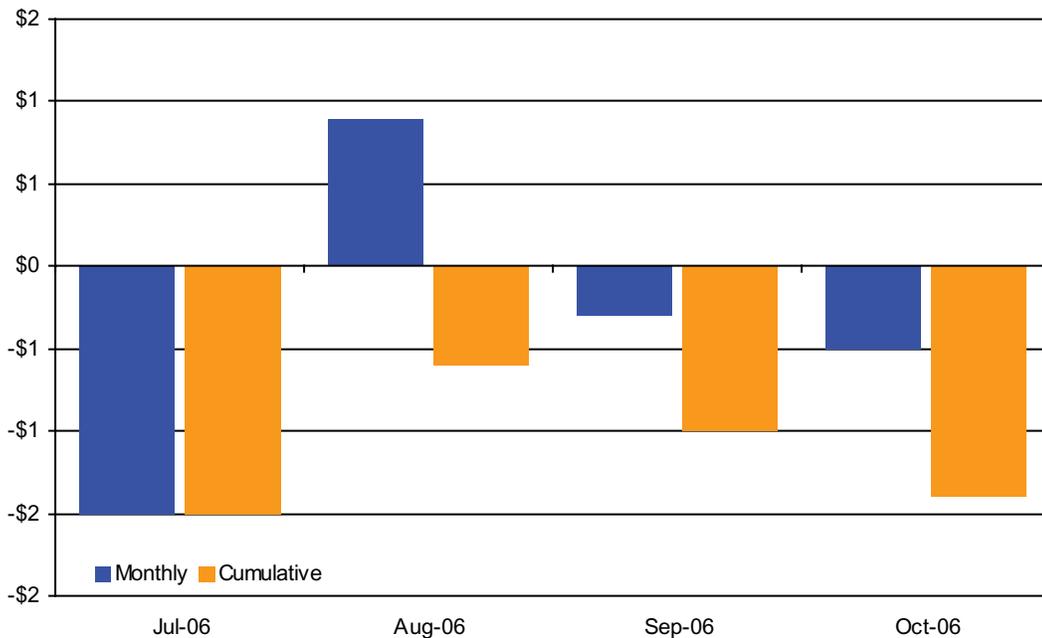


Chart 4: Cigarette Tax Variance from August 2006 Estimates
(in millions)



\$50.2 million (13.4%) below receipts through the same period in FY 2006. The negative variance in this year-ago comparison is expected to shrink over the next few months.

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. 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. CFT receipts were \$51.9 million in October. These receipts were \$39.9 million above estimate and \$5.9 million above October 2005 receipts. Through October, FY 2007 year-to-date CFT receipts were \$108.3 million, \$62.9 million (138.6%) above estimate. FY 2007 year-to-date receipts were also \$61.3 million (130.5%) above year-to-date receipts in October 2005. FY 2007 year-to-date

receipts include \$30.0 million in unexpected one-time settlements. Excluding the settlements, CFT receipts would still be strong, up 66% in FY 2007 through October 2006. During the months of tax reconciliation, generally in November and December, this strong year-over-year variance may be reduced.

Cigarette and Other Tobacco Products Tax

Receipts from the cigarette and other tobacco products tax in October were \$85.9 million, \$0.3 million (0.3%) above estimate and \$3.0 million (3.4%) lower than receipts in October 2005. In FY 2007, total receipts from the cigarette and other tobacco products tax were \$281.5 million, \$0.7 million (0.2%) below estimate and \$48.2 million (14.6%) below revenues in FY 2006. Excluding about \$65.9 million in floor tax receipts in FY 2006, FY 2007 year-to-date receipts would be \$17.7 million (6.7%) above FY 2006 year-to-date receipts through October 2005.

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 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.

⁴ 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.

⁵ 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.

⁶ Under current law, certain large taxpayers must remit sales and use tax payments in the same month the transactions occur. For smaller taxpayers, monthly sales and use tax receipts reflect taxable transactions in the prior month. Thus, monthly sales and use tax receipts reflect taxable transactions in both the current and the prior months.

⁷ The first month of FY 2006 included receipts from sales that were taxed at 6%, due to the lag between sales and receipts. Thus, the year-over year comparison of tax receipts slightly overstates the weakness of the nonauto sales and use tax. Excluding the timing effect of this extra revenue in FY 2006, FY 2007 year-to-date nonauto sales and use tax receipts would, at worst, be equal to FY 2006 receipts through October 2005.

⁸ At the end of the first quarter of FY 2007, auto sales and use tax receipts were \$59.5 million (19.1%) below first-quarter receipts in FY 2006. In the same period, new Ohio titles were off 14.6% compared to the previous year.

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

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	\$71,248	\$79,814	-\$8,566	-10.7%
Nonauto Sales & Use	\$546,533	\$554,200	-\$7,667	-1.4%
Total Sales & Use Taxes	\$617,782	\$634,014	-\$16,232	-2.6%
Personal Income	\$659,870	\$635,000	\$24,871	3.9%
Corporate Franchise	\$51,922	\$12,000	\$39,922	332.7%
Public Utility	\$2,115	-\$1,800	\$3,915	-217.5%
Kilowatt Hour Excise	\$23,570	\$25,300	-\$1,730	-6.8%
Commercial Activity Tax	\$0	\$0	\$0	---
Foreign Insurance	\$124,185	\$125,289	-\$1,104	-0.9%
Domestic Insurance	\$0	\$100	-\$100	-100.0%
Business & Property	\$140	\$40	\$100	251.0%
Cigarette	\$85,897	\$85,600	\$297	0.3%
Alcoholic Beverage	\$4,270	\$4,488	-\$218	-4.9%
Liquor Gallonage	\$2,818	\$2,653	\$165	6.2%
Estate	\$18,646	\$10,000	\$8,646	86.5%
Total Tax Revenue	\$1,591,215	\$1,532,684	\$58,531	3.8%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	-\$93	\$0	-\$93	---
Licenses and Fees	\$5,046	\$5,160	-\$114	-2.2%
Other Revenue	\$5,057	\$5,000	\$57	1.1%
Nontax State-Source Revenue	\$10,010	\$10,160	-\$150	-1.5%
TRANSFERS				
Liquor Transfers	\$12,000	\$11,000	\$1,000	9.1%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$3,300	-\$3,300	-100.0%
Total Transfers In	\$12,000	\$14,300	-\$2,300	-16.1%
TOTAL GRF before Federal Grants	\$1,613,225	\$1,557,144	\$56,081	3.6%
Federal Grants	\$356,093	\$407,650	-\$51,557	-12.6%
TOTAL GRF SOURCES	\$1,969,318	\$1,964,793	\$4,525	0.2%

* 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 October 2006
(\$ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
TAX REVENUE						
Auto Sales	\$324,419	\$333,825	-\$9,406	-2.8%	\$374,631	-13.4%
Nonauto Sales & Use	\$2,135,475	\$2,203,365	-\$67,890	-3.1%	\$2,147,977	-0.6%
Total Sales & Use Taxes	\$2,459,895	\$2,537,190	-\$77,295	-3.0%	\$2,522,608	-2.5%
Personal Income	\$2,717,532	\$2,690,200	\$27,332	1.0%	\$2,687,231	1.1%
Corporate Franchise	\$108,313	\$45,400	\$62,913	138.6%	\$46,992	130.5%
Public Utility	\$47,176	\$42,900	\$4,276	10.0%	\$43,828	7.6%
Kilowatt Hour Excise	\$117,366	\$118,900	-\$1,534	-1.3%	\$120,116	-2.3%
Commercial Activity Tax	\$0	\$0	\$0	---	\$0	---
Foreign Insurance	\$131,045	\$131,428	-\$383	-0.3%	\$129,944	0.8%
Domestic Insurance	\$235	\$1,200	-\$965	-80.4%	\$1,035	-77.3%
Business & Property	\$507	\$670	-\$163	-24.3%	\$1,092	-53.6%
Cigarette	\$281,544	\$282,200	-\$656	-0.2%	\$329,745	-14.6%
Alcoholic Beverage	\$19,972	\$19,738	\$234	1.2%	\$20,397	-2.1%
Liquor Gallonage	\$11,453	\$11,410	\$43	0.4%	\$11,058	3.6%
Estate	\$23,408	\$15,700	\$7,708	49.1%	\$14,816	58.0%
Total Tax Revenue	\$5,918,446	\$5,896,936	\$21,510	0.4%	\$5,928,861	-0.2%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	\$50,157	\$38,000	\$12,157	32.0%	\$24,722	102.9%
Licenses and Fees	\$18,679	\$18,211	\$468	2.6%	\$18,129	3.0%
Other Revenue	\$25,672	\$27,850	-\$2,178	-7.8%	\$44,028	-41.7%
Nontax State-Source Revenue	\$94,507	\$84,061	\$10,446	12.4%	\$86,878	8.8%
TRANSFERS						
Liquor Transfers	\$47,000	\$42,000	\$5,000	11.9%	\$43,000	9.3%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$48,716	\$60,000	-\$11,284	-18.8%	\$41,902	16.3%
Total Transfers In	\$95,716	\$102,000	-\$6,284	-6.2%	\$84,902	12.7%
TOTAL GRF before Federal Grants	\$6,108,669	\$6,082,997	\$25,672	0.4%	\$6,100,641	0.1%
Federal Grants	\$1,740,030	\$1,967,974	-\$227,944	-11.6%	\$1,950,332	-10.8%
TOTAL GRF SOURCES	\$7,848,699	\$8,050,971	-\$202,271	-2.5%	\$8,050,973	-2.5%

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

DISBURSEMENTS

— Steve Mansfield*

One-third of the way through fiscal year (FY) 2007, General Revenue Fund (GRF) disbursements for program spending total \$8,904.3 million, which is under estimate by \$289.2 million (3.1%). Compared with spending at the same point last fiscal year, disbursements are \$151.9 million (1.7%) lower in the current fiscal year.¹ In October, total GRF program disbursements were \$2,173.0 million, which was under estimate by \$252.5 million.

Disbursements for three of the state's four major GRF program categories (Education, Welfare and Human Services, and Government Operations) are each under estimate for the year to date (see the chart titled "GRF Disbursement Variances by Program Category" and Table 5). The fourth major program category, Property Tax Relief, is over estimate by \$80.5 million for the year to date as a result of being under estimate by \$146.4 million in October. Within the GRF program *subcategories*, the Health Care/Medicaid program posted the largest year-to-date variance

(\$293.8 million under estimate) and the largest variance for the month (\$92.9 million under estimate). 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 (-\$301.2 million)

The Welfare and Human Services category posted a variance of \$90.7 million (7.8%) under estimate in October disbursements. For the year to date, outlays in this category are \$301.2 million (6.9%) under estimate. Within the category, the Health Care/Medicaid program registered the largest difference from the year-to-date estimates and stands at \$293.8 million (8.2%) under estimate. Among the other components of the category, disbursements in

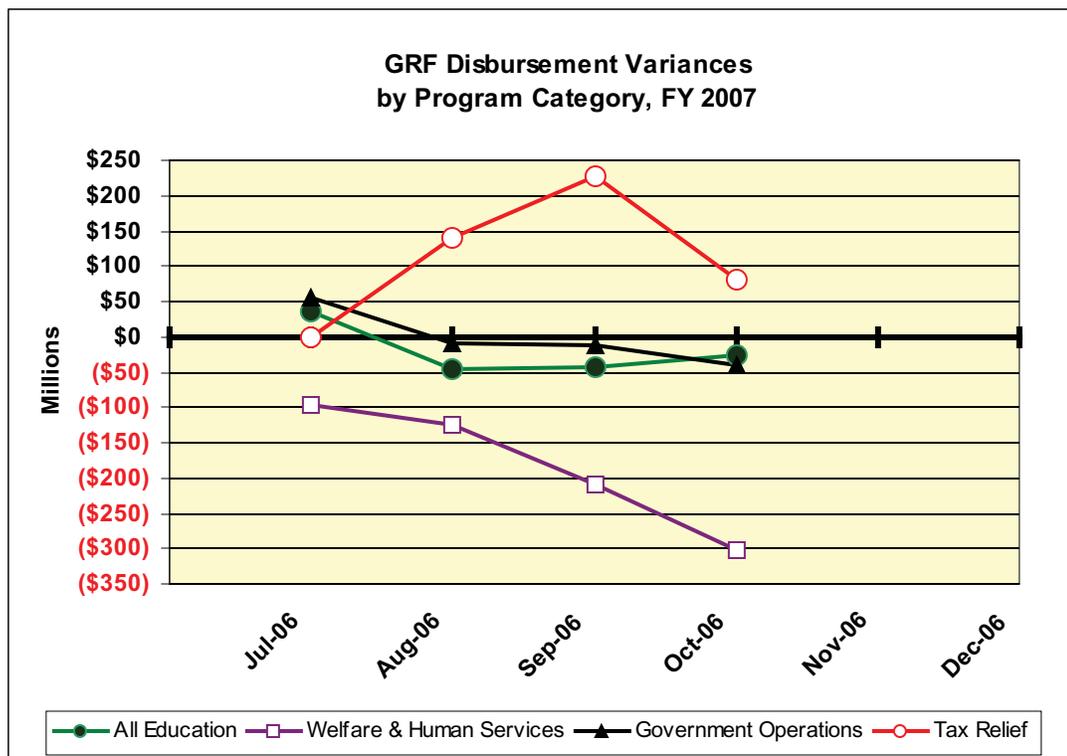


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of October 2006
(\$ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	\$593,671	\$562,701	\$30,970	5.5%
Higher Education	\$199,052	\$215,352	-\$16,299	-7.6%
Total Education	\$792,724	\$778,053	\$14,671	1.9%
Health Care/Medicaid	\$826,607	\$919,518	-\$92,911	-10.1%
Temporary Assistance to Needy Families	\$53,563	\$45,056	\$8,507	18.9%
Other Welfare (2)	\$50,187	\$57,631	-\$7,444	-12.9%
Human Services (3)	\$143,811	\$142,699	\$1,112	0.8%
Total Welfare & Human Services	\$1,074,169	\$1,164,904	-\$90,735	-7.8%
Justice & Corrections	\$169,148	\$186,409	-\$17,261	-9.3%
Environment & Natural Resources	\$5,300	\$5,177	\$123	2.4%
Transportation	\$4,387	\$8,196	-\$3,810	-46.5%
Development	\$7,851	\$9,904	-\$2,053	-20.7%
Other Government	\$18,325	\$24,441	-\$6,116	-25.0%
Capital	\$10	\$0	\$10	---
Total Government Operations	\$205,020	\$234,128	-\$29,107	-12.4%
Property Tax Relief (4)	\$64,673	\$211,041	-\$146,368	-69.4%
Debt Service	\$36,400	\$37,400	-\$1,000	-2.7%
Total Other Disbursements	\$101,072	\$248,440	-\$147,368	-59.3%
Total Program Disbursements	\$2,172,985	\$2,425,525	-\$252,540	-10.4%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$213,846	\$204,333	\$9,514	4.7%
Total Transfers Out	\$213,846	\$204,333	\$9,514	4.7%
TOTAL GRF USES	\$2,386,832	\$2,629,858	-\$243,026	-9.2%

(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.

the Temporary Assistance for Needy Families (TANF) program are over estimate for the year to date by \$11.6 million (16.3%), and disbursements in the Other Welfare subcategory, which includes programs other than Medicaid and TANF in the

Department of Job and Family Services, are under estimate by \$10.6 million (4.6%).

Health Care/Medicaid. So far this fiscal year, the Health Care/Medicaid program (primarily

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

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
Primary & Secondary Education (1)	\$2,386,991	\$2,366,634	\$20,357	0.9%	\$2,306,439	3.5%
Higher Education	\$735,160	\$782,849	-\$47,689	-6.1%	\$756,070	-2.8%
Total Education	\$3,122,152	\$3,149,483	-\$27,332	-0.9%	\$3,062,510	1.9%
Health Care/Medicaid	\$3,273,185	\$3,566,989	-\$293,804	-8.2%	\$3,583,575	-8.7%
Temporary Assistance to Needy Families	\$82,576	\$70,973	\$11,603	16.3%	\$75,676	9.1%
Other Welfare (2)	\$219,897	\$230,493	-\$10,597	-4.6%	\$215,543	2.0%
Human Services (3)	\$479,643	\$488,024	-\$8,380	-1.7%	\$452,701	6.0%
Total Welfare & Human Services	\$4,055,301	\$4,356,479	-\$301,178	-6.9%	\$4,327,495	-6.3%
Justice & Corrections	\$777,199	\$792,660	-\$15,461	-2.0%	\$745,371	4.3%
Environment & Natural Resources	\$33,014	\$32,321	\$692	2.1%	\$36,777	-10.2%
Transportation	\$8,507	\$12,883	-\$4,376	-34.0%	\$10,597	-19.7%
Development	\$66,794	\$71,789	-\$4,995	-7.0%	\$67,716	-1.4%
Other Government	\$167,915	\$184,248	-\$16,332	-8.9%	\$177,903	-5.6%
Capital	\$34	\$0	\$34	---	\$55	-38.3%
Total Government Operations	\$1,053,462	\$1,093,901	-\$40,439	-3.7%	\$1,038,419	1.4%
Property Tax Relief (4)	\$421,057	\$340,584	\$80,472	23.6%	\$422,133	-0.3%
Debt Service	\$252,328	\$253,048	-\$720	-0.3%	\$205,597	22.7%
Total Other Disbursements	\$673,384	\$593,632	\$79,752	13.4%	\$627,730	7.3%
Total Program Disbursements	\$8,904,298	\$9,193,495	-\$289,197	-3.1%	\$9,056,153	-1.7%
TRANSFERS						
Budget Stabilization	\$394,034	\$394,034	\$0	0.0%	\$394,205	0.0%
Other Transfers Out	\$296,828	\$325,113	-\$28,285	-8.7%	\$173,081	71.5%
Total Transfers Out	\$690,862	\$719,147	-\$28,285	-3.9%	\$567,286	21.8%
TOTAL GRF USES	\$9,595,160	\$9,912,642	-\$317,482	-3.2%	\$9,623,439	-0.3%

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

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

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

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

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

Detail may not sum to total due to rounding.

line item 600-525) has had disbursements of \$3,273.2 million. As noted earlier, this is \$293.8 million (8.2%) under estimate. Like last month, the largest contributor to the variance is the HMO service category, which is now

\$112.5 million (15.1%) below estimate with spending of \$630.7 million through October (see Table 6). The HMO disbursement variance is traceable to a slower than projected rollout of a planned managed care expansion. Enrollment

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

Service Category	October				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Oct.	Estimate thru Oct.	Variance	Percent Variance
Nursing Facilities Payments	\$218,863	\$230,093	(\$11,230)	-4.9%	\$870,525	\$907,543	(\$37,018)	-4.1%
ICF/MR Payments	\$42,478	\$43,889	(\$1,411)	-3.2%	\$172,975	\$173,695	(\$720)	-0.4%
Inpatient Hospitals	\$132,985	\$145,253	(\$12,268)	-8.4%	\$501,009	\$533,549	(\$32,540)	-6.1%
Outpatient Hospitals	\$62,524	\$61,209	\$1,315	2.1%	\$228,766	\$232,180	(\$3,414)	-1.5%
Physicians	\$55,679	\$53,513	\$2,166	4.0%	\$207,203	\$202,001	\$5,202	2.6%
Prescription Drugs	\$102,765	\$106,357	(\$3,592)	-3.4%	\$363,536	\$395,293	(\$31,757)	-8.0%
ODJFS Waiver	\$38,351	\$26,295	\$12,056	45.8%	\$117,842	\$95,598	\$22,244	23.3%
HMO	\$177,780	\$222,055	(\$44,275)	-19.9%	\$630,717	\$743,173	(\$112,456)	-15.1%
Medicare Buy-In	\$20,980	\$22,137	(\$1,157)	-5.2%	\$86,383	\$87,955	(\$1,572)	-1.8%
Home Health	\$13,787	\$19,195	(\$5,408)	-28.2%	\$51,299	\$68,385	(\$17,086)	-25.0%
Dental	\$8,905	\$8,242	\$663	8.0%	\$31,324	\$30,817	\$507	1.6%
Hospice	\$13,013	\$12,170	\$843	6.9%	\$46,739	\$43,232	\$3,507	8.1%
All Other	\$46,839	\$63,498	(\$16,659)	-26.2%	\$157,006	\$226,555	(\$69,549)	-30.7%
Total Medicaid Payments	\$934,949	\$1,013,906	(\$78,957)	-7.8%	\$3,465,324	\$3,739,976	(\$274,652)	-7.3%
Medicare Part D	\$0	\$21,895	(\$21,895)	-100.0%	\$59,796	\$86,888	(\$27,092)	-31.2%
Capital Compensation Program	(\$18)	\$0	(\$18)	N/A	\$1,963	\$2,500	(\$537)	N/A
DA Medical	\$2,712	\$3,385	(\$673)	-19.9%	\$10,067	\$13,031	(\$2,964)	-22.7%
Drug Rebates Offsets	(\$42,382)	(\$43,046)	\$664	-1.5%	(\$145,874)	(\$149,347)	\$3,473	-2.3%
Revenue & Collections	(\$18,116)	(\$18,092)	(\$24)	0.1%	(\$18,116)	(\$18,092)	(\$24)	0.1%
ICF/MR Franchise Fee Offsets	(\$1,515)	(\$1,515)	\$0	0.0%	(\$6,084)	(\$6,084)	\$0	0.0%
NF Franchise Fee Offsets	(\$37,184)	(\$37,184)	\$0	N/A	(\$74,574)	(\$74,572)	(\$2)	N/A
DSH Rebate Offsets	\$0	\$0	\$0	N/A	(\$7,478)	(\$7,478)	\$0	0.0%
MCP Assessments	(\$11,839)	(\$19,831)	\$7,992	N/A	(\$11,839)	(\$19,831)	\$7,992	N/A
Total Health Care (Net of Offsets)	\$826,607	\$919,518	(\$92,911)	-10.1%	\$3,273,185	\$3,566,991	(\$293,806)	-8.2%
Est. Federal Share	\$495,411	\$551,096	(\$55,684)		\$1,961,721	\$2,137,808	(\$176,087)	
Est. State Share	\$331,196	\$368,422	(\$37,227)		\$1,311,464	\$1,429,183	(\$117,719)	

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.

4. CHIP II provides health care coverage for children under age 19 whose family incomes are between 150% and 200% of FPL. The state receives enhanced FMAP for CHIP II.

5. DA Medical is a state-only funded program.

6. The federal medical assistance percentage (FMAP) used in this table is a blended rate of 59.93%.

Note: Due to accounting differences, the totals do not exactly match the amounts in Tables 4 and 5.

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

in the managed care program is 155,000 (15.8%) under the budgeted level for this point in the fiscal year.

The Nursing Facilities Payments service category is below estimate by \$37.0 million (4.1%) through October with spending of \$870.5 million. The All Other category is \$69.5 million (30.7%) below estimate with spending of \$157.0 million through October. 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 \$22.2 million (23.3%).

Other significant contributors to the year-to-date variance include the Prescription Drugs category, which is \$31.8 million (8.0%) below estimate, and the Inpatient Hospitals category, which is \$32.5 million (6.1%) below estimate. Compared to the same point in FY 2006, Health Care/Medicaid service payments are 6.1% lower in the current fiscal year (see Table 7). Once offsets are taken into account, FY 2007 net spending to date is 8.7% lower than at the same point in FY 2006.³

Service Category	FY 2007	FY 2006	Dollar Change	Percent Increase
	Yr.-to-Date as of Oct. '07	Yr.-to-Date as of Oct. '06		
Nursing Facilities Payments	\$870,525	\$888,749	(\$18,224)	-2.1%
ICF/MR Payments	\$172,975	\$168,785	\$4,190	2.5%
Inpatient Hospitals	\$501,009	\$552,573	(\$51,564)	-9.3%
Outpatient Hospitals	\$228,766	\$242,554	(\$13,788)	-5.7%
Physicians	\$207,203	\$222,532	(\$15,329)	-6.9%
Prescription Drugs	\$363,536	\$703,735	(\$340,199)	-48.3%
ODJFS Waiver	\$117,842	\$78,202	\$39,640	50.7%
HMO	\$630,717	\$396,509	\$234,208	59.1%
Medicare Buy-In	\$86,383	\$71,811	\$14,572	20.3%
Home Health	\$51,299	\$59,205	(\$7,906)	-13.4%
Dental	\$31,324	\$46,685	(\$15,361)	-32.9%
Hospice	\$46,739	\$42,019	\$4,720	11.2%
All Other	\$157,006	\$217,302	(\$60,296)	-27.7%
Total Medicaid Payments	\$3,465,324	\$3,690,661	(\$225,337)	-6.1%
Medicare Part D	\$59,796	\$0	\$59,796	N/A
Capital Compensation Program	\$1,963	N/A	N/A	N/A
DA Medical	\$10,067	\$18,409	(\$8,342)	-45.3%
Drug Rebates Offsets	(\$145,874)	(\$86,664)	(\$59,210)	68.3%
Revenue & Collections	(\$18,116)	N/A	N/A	N/A
ICF/MR Franchise Fee Offsets	(\$6,084)	(\$6,121)	\$37	-0.6%
NF Franchise Fee Offsets	(\$74,574)	(\$32,710)	(\$41,864)	128.0%
DSH Rebate Offsets	(\$7,478)	\$0	(\$7,478)	N/A
MCP Assessments	(\$11,839)	\$0	(\$11,839)	N/A
Total Health Care (Net of Offsets)	\$3,273,185	\$3,583,575	(\$310,390)	-8.7%
Est. Federal Share	\$1,961,721	\$2,147,747	(\$186,026)	
Est. State Share	\$1,311,464	\$1,435,828	(\$124,364)	
<p>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.</p> <p>2. Waivers provide home-care alternatives to consumers whose medical conditions/functional abilities would otherwise require long-term care facility residence.</p> <p>3. The Capital Compensation Program was not included in the Table 7 for FY 2006.</p> <p>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.</p> <p>5. DA Medical is a state-only funded program.</p> <p>6. The federal medical assistance percentage (FMAP) used in this table is a blended rate of 59.93%.</p>				
Source: BOMC8300-R001, BOMC8350-R001&R002 Reports, Ohio Department of Job & Family Services.				

TANF. Under the Temporary Assistance for Needy Families (TANF) program, as a condition of receiving federal funds, each state is required to meet a maintenance of effort (MOE) requirement. The exact level of the requirement varies depending on whether a state is meeting prescribed participation standards in work programs. Ohio's MOE spending each year is about \$395 million. The state's MOE that is expended from the GRF is composed of funds from line item 600-410, TANF State, a portion of line item 600-413, Day Care Match/MOE, a portion of line item 600-321, Support

Services (each in the Department of Job and Family Services), and a portion of line item 038-401, Treatment Service, in the Department of Alcohol and Drug Addiction Services. These are supplemented by non-GRF expenditures from Fund 4A8, line item 600-658, Child Support Collection, and by county expenditures for part of the program's administrative costs.

With a variance of \$8.5 million (18.9%) above estimate in October, the TANF program has a year-to-date variance of \$11.6 million (16.3%) above estimate. The bulk of the variance for

the year to date was registered in line item 600-410, TANF State, which is now over estimate by \$6.8 million. Part of the overage is due to higher than expected costs per cash assistance case. Line item 600-413, Day Care Match/MOE, is over estimate by \$4.8 million for the year to date because county advances for child care were greater than anticipated.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs were \$7.4 million (12.9%) under the October estimate and stand at \$10.6 million (4.6%) under estimate for the year to date. The largest contributors to the year-to-date variance were line item 600-528, Adoption Services, which was under estimate by \$7.5 million (21.2%), and line item 600-321, Support Services, which was under estimate by \$3.5 million (17.3%). The underspending in line item 600-528, Adoption Services, is due in large part to the use of an encumbrance from FY 2006 appropriations to cover part of July's payment, rather than letting the FY 2006 appropriation lapse as had been anticipated. The variance in disbursements from line item 600-321, Support Services, was largely due to postage payments for check mailings and general notices, which were less than anticipated. In Tables 4 and 5, these disbursements are captured in the Other Welfare subcategory, which excludes the separately tracked Medicaid, TANF, and Disability Assistance Cash Assistance programs.

Mental Health. In October, disbursements by the Department of Mental Health were over estimate by \$10.9 million, which pushed the year-to-date disbursement variance to \$12.2 million (5.7%) over estimate. Most of the year-to-date variance is traceable to two line items: 335-505, Local MH Systems of Care, and 334-408, Community and Hospital Mental Health Services. Line item 335-505 is used to pay a portion of the operating expenses and/or other general mental health purposes of the Ohio's 50 community mental health boards. The boards contract with local public and private nonprofit agencies to provide services to persons suffering from mental illness in their county or multicounty

service areas. For the year to date, line item 335-505 is over estimate by \$7.6 million (23.8%), as counties have drawn payments faster than assumed.

Line item 334-408, Community and Hospital Mental Health Services, is used to support hospital payroll for the delivery of mental health services and also for the community mental health boards. For the year to date, line item 334-408 is over estimate by \$4.1 million (2.6%). This also is due to counties requesting payment sooner than anticipated by the estimates.

Mental Retardation and Developmental Disabilities. October's disbursements by the Department of Mental Retardation and Developmental Disabilities were \$8.4 million (18.5%) under estimate, which pushed the year-to-date variance to \$13.8 million (9.8%) under estimate. The variance is traceable to the timing of Medicaid claims and to the posting of a transfer, both of which should be offset in November.

Government Operations (-\$40.4 million)

In October, outlays in the Government Operations category were \$29.1 million (12.4%) below estimate for the month. For the year to date, disbursements in the category are \$40.4 million (3.7%) under estimate.

Among the category's more than 40 agencies, the largest variance for the month was \$15.3 million of underspending by the Department of Rehabilitation and Correction, which constituted just over half of the variance in the category.

Corrections. As noted, disbursements by the Department of Rehabilitation and Correction were under estimate by \$15.3 million in October. The Department's year-to-date disbursements are under estimate by \$7.3 million. October's variance is traceable to line item 501-321, Institutional Operations, and stems from a slight overestimation of payroll, savings in food services, and lower than anticipated utility costs.

Education (-\$27.3 million)

October outlays in the Education category were \$14.7 million (1.9%) over estimate. For the year to date, however, outlays in this category are \$27.3 million (0.9%) under estimate, with the Board of Regents contributing the bulk of underspending and with a partially offsetting amount of overspending by the Department of Education.

Department of Education. October disbursements of \$582.0 million by the Department of Education were \$31.6 million (5.7%) over estimate. The Department's year-to-date disbursement variance stands at \$28.8 million (1.2%) under estimate.

The largest contributor to the variance for the month was line item 200-532, Nonpublic Administrative Cost Reimbursement, which was \$18.8 million over estimate. This line item reimburses chartered nonpublic schools for the costs they incurred in the previous fiscal year for state-mandated administrative and clerical activities. The variance stems from a payment expected to be made in November that was made in October instead. An offsetting variance should be posted in November.

Another significant contributor to October's variance was a payment of \$11.8 million (2.5%) over estimate from line item 200-550, Foundation Funding. This line item is the main source of state foundation payments to all school districts and joint vocational school districts in the state. Allocations are based on the school foundation (SF-3) formulas and payments are made twice per month. The payments are based on data projections that frequently change after the disbursement estimates have been prepared and actual data are collected and finalized. Variances of this size are typical at this point in the fiscal year.

Board of Regents. With a disbursement variance of \$16.3 million (7.6%) under estimate for October, year-to-date outlays from the Board of Regents' line items are under estimate by

\$47.7 million (6.1%). The largest contributor to the variance for the year to date is underspending from line item 235-503, Ohio Instructional Grants, which is now under estimate by \$26.1 million (73.9%). Line item 235-503 posted a variance of \$5.1 million below estimate in October. The timing of disbursements from this line item is being impacted by software changes in the enrollment data system. With these changes now accomplished, disbursements should begin to catch up with the estimates.

Another significant contributor to the variance for the year to date is line item 235-420, Success Challenge, which is under estimate by \$13.1 million. This line item is used to support universities' efforts to promote successful degree completion by "at-risk" baccalaureate students and timely degree completion by all baccalaureate students. The variance stems from the estimated payment not being made in October. This variance should be offset in the coming months.

Tax Relief (\$80.5 million)

The Tax Relief program reimburses school districts and local governments for forgone 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. Tax relief payments for the homestead exemption and for rollbacks slowed in October after being relatively strong in August and September. This brought cumulative payments closer to estimate (see the chart titled "GRF Disbursement Variances by Program Category" and Tables 4 and 5). October's disbursements for the program as a whole were \$146.4 million under estimate. For the year to date, tax relief payments have totaled \$421.1 million out of a \$1,243.8 million appropriation and are above estimate by \$80.5 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.

As noted last month, 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 appropriations act

of 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, Melaney Carter, Phil Cummins, Deauna Hale, David Price, Wendy Risner, Joe Rogers, and Maria Seaman.*

¹ Disbursements plus transfers out total \$9,595.2 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). The Local Government Tangible Property Tax Replacement Fund and the School District Tangible Property Tax Replacement Fund receive revenues from the commercial activity tax as reimbursement for revenues lost due to the phaseout of the tangible personal property tax. If revenues from the commercial activity tax are insufficient to cover the loss from the phaseout, a temporary transfer from the GRF is required by sections 5751.21(F) and 5751.22(D) of the Revised Code. In August, a temporary transfer of \$77.3 million was made, and in October, a transfer of \$213.8 million was made. When transfers out are included, the amount disbursed for the year to date has decreased by 0.3% 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 October 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.

Issues of Interest

TANF SPENDING ANNUAL REPORT

—Steve Mansfield

September 30, 2006 marked the completion of the tenth year of the operation of the federal Temporary Assistance for Needy Families (TANF) program and the ninth year of Ohio's operation of its two TANF programs: the Ohio Works First (OWF) program and the Prevention, Retention, and Contingency (PRC) program.

The TANF program replaced a matching grant system that operated as an entitlement (and thus had expenditures that fluctuated with changes in the caseload) with a flat-funded block grant that requires the states to maintain a historical level of spending (called the Maintenance of Effort, or MOE, requirement). Compared to the programs that TANF replaced, there is a great deal of flexibility for states in how to use both federal and state funds. These funds can be used to support a wide range of activities in support of low-income families, and some of the funds can be transferred into other programs that serve low-income recipients. Qualified expenditures must meet at least one of the four broad purposes of the TANF program. These are:

- (1) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- (2) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- (3) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- (4) Encourage the formation and maintenance of two-parent families.

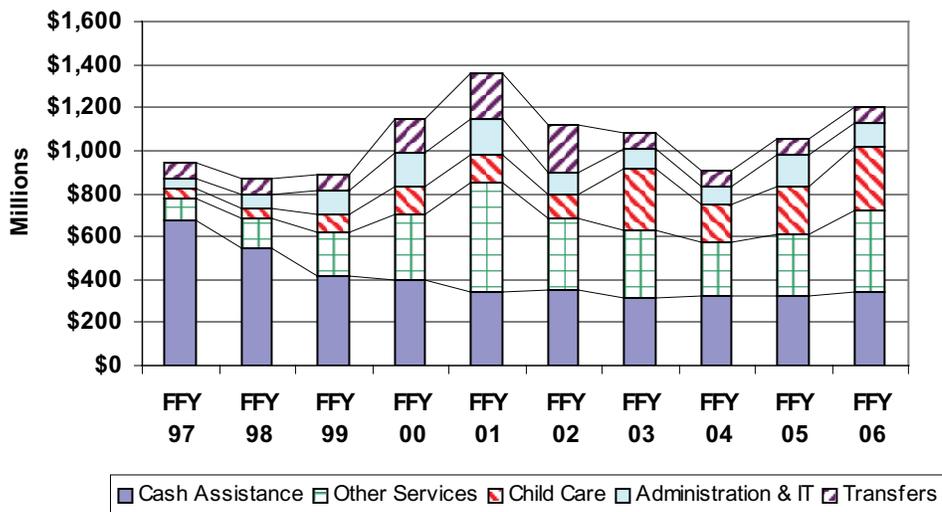
In the period from FFY 2003 through FFY 2006, TANF funding was provided through a series of short-term extensions while federal reauthorization of the program was pending. In February 2006, the President signed the Deficit Reduction Act of 2005. The act includes provisions that reauthorize the TANF program and that make changes to the program, which took effect October 1, 2006. The most notable changes made by reauthorization include: (1) the strengthening of work participation requirements through a recalibration of the caseload reduction credit to include only those reductions that happen after FFY 2005, (2) the imposition of a new penalty on states that fail to establish and maintain procedures to verify work participation data, and (3) changes in the definition of work participation. These changes are likely to require greater state investment in welfare-to-work programs and work supports, especially child care. Among recent innovations in the Ohio Works First program is the introduction of an incentive payment system for "employment retention," which is designed to help boost work participation.

Ohio's TANF Expenditures, FFY 1997 - FFY 2006

Figure 1 tracks by federal fiscal year the total expenditures (both federal and state MOE) in five categories: cash assistance, all other services (excluding child care), child care, administration and information technology, and transfers (which can be made to the Child Care and Development Fund or to the Social Services Block Grant).

At the current funding level, Ohio's annual TANF grant from the federal government is \$728.0 million. In FFY 2006, Ohio spent or transferred \$795.7 million in federal TANF

**Figure 1. TANF Expenditures by Spending Category
(includes State MOE and Federal TANF funds)**



funds. In the previous fiscal year Ohio spent or transferred \$676.9 million in federal TANF funds. With spending of the federal funds higher in the current year than the total amount of the award, the state's cumulative total of unspent TANF funds held in reserve in the federal account decreased by \$60.4 million to stand at \$834.2 million (see Figure 2). This is the first reduction in the cumulative unspent balance since FFY 2001.

In order to receive the federal TANF grant, Ohio must meet a "maintenance of effort" (MOE) spending requirement. Since Ohio began operation of the OWF and PRC programs, Ohio's MOE expenditures have been about \$400 million per year.

We see in Figure 1 that overall expenditures increased by \$145.2 million from FFY 2005 to FFY 2006. Expenditures for cash assistance have declined from \$673.1 million in FFY 1997 to \$342.5 million in FFY 2006. As a share of total TANF expenditures (and transfers), cash assistance has declined from 71.3% of annual expenditures in FFY 1997 to 28.5% in FFY 2006. Expenditures for "other services" (which includes the array of services in Ohio's Prevention, Retention, and Contingency program, as well as work subsidies, transportation, prevention of out-of-wedlock pregnancies, and services designed to help the formation and maintenance of two-parent

families) were \$377.1 million in FFY 2006, up about \$88 million from FFY 2005 but down from a peak of \$506.0 million in FFY 2001.

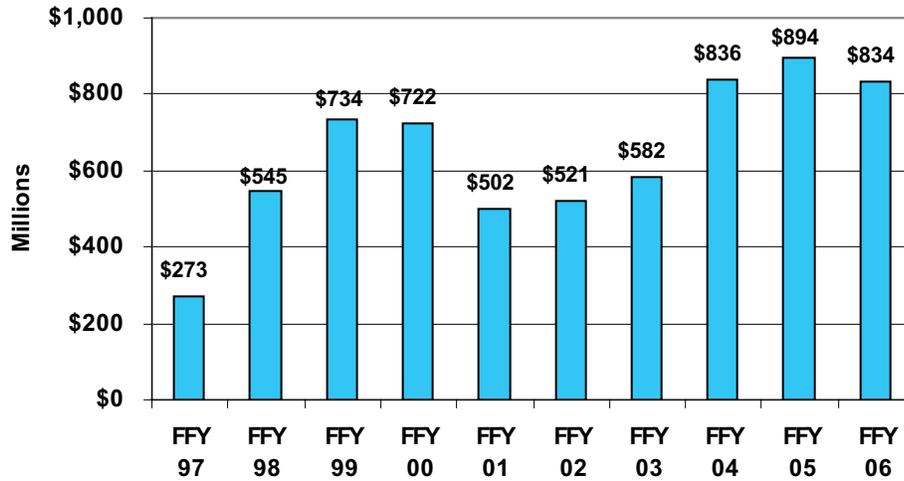
We also see in Figure 1 that TANF spending for child day care increased in FFY 2006 to \$301.7 million, up from \$220.7 million in FFY 2005. In FFY 2000 through FFY 2002, Ohio transferred TANF federal funds to the Child Care and Development Fund (CCDF). In FFY 2003 through FFY 2006 there were no transfers to the CCDF.

Figure 2 tracks the cumulative reserve of unspent TANF funds by federal fiscal year. At the end of FFY 2006, Ohio's cumulative unspent TANF funds totaled \$834.2 million, with \$403.0 million reported as unliquidated obligations and \$431.1 million reported as the unobligated balance.¹ A portion of the unliquidated obligations is in the form of allocations to counties. Any part of these allocations that goes unspent by the counties during the time frame in which the funds are available reverts to the unobligated balance.

TANF Cash Assistance Caseload

Since reaching a peak of about 750,000 recipients in 1992, the number of Ohioans receiving cash assistance (either in the Ohio Works First program or in its predecessor

Figure 2. Ohio's Cumulative Unspent TANF Funds



program, Aid to Dependent Children) has declined to about 173,000 in October 2006. The number of assistance groups has, in the same period, gone from about 263,000 to about 80,400 (see Figure 3). The TANF caseload has been relatively stable with only a slight decline during the last six years.

PRC Caseload

In addition to the cash assistance caseload, TANF funds were used to provide support services to an average of 88,231 individuals per

month during state fiscal year 2006. This was up from 76,067 individuals per month in SFY 2005 but below 112,108 individuals per month in SFY 2003 and 163,615 individuals in SFY 2002. During SFY 2006 the state spent \$167.2 million on PRC services (\$13.9 million average per month). This was up from \$144.3 million in SFY 2005 but down from \$152.9 million in SFY 2003 and \$182.1 million in SFY 2002.

The PRC program provides support services for short-term basic needs, transportation, job training and work support, disaster assistance,

Figure 3. TANF/OWF Caseload
July 1990 - October 2006

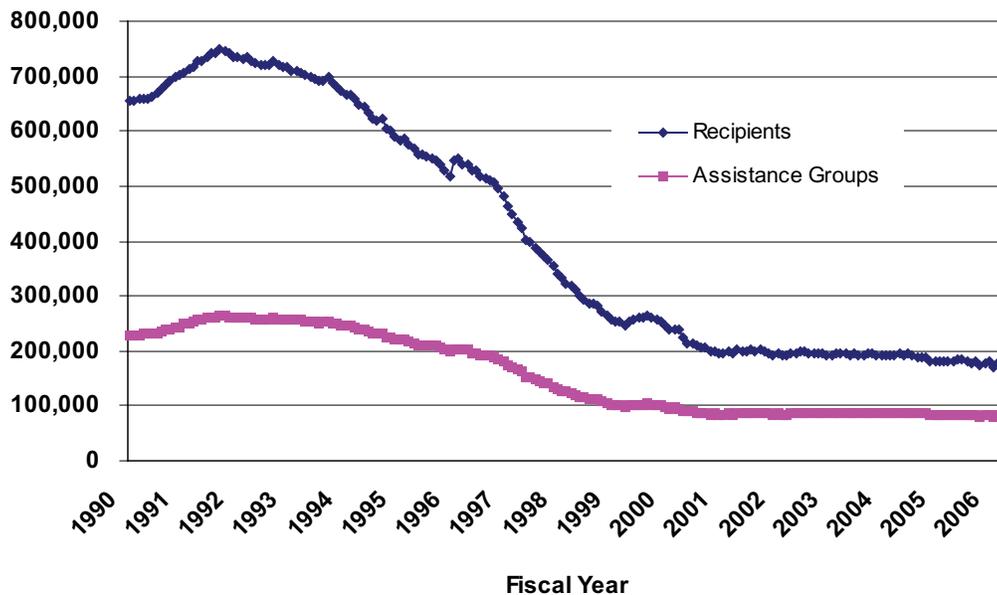
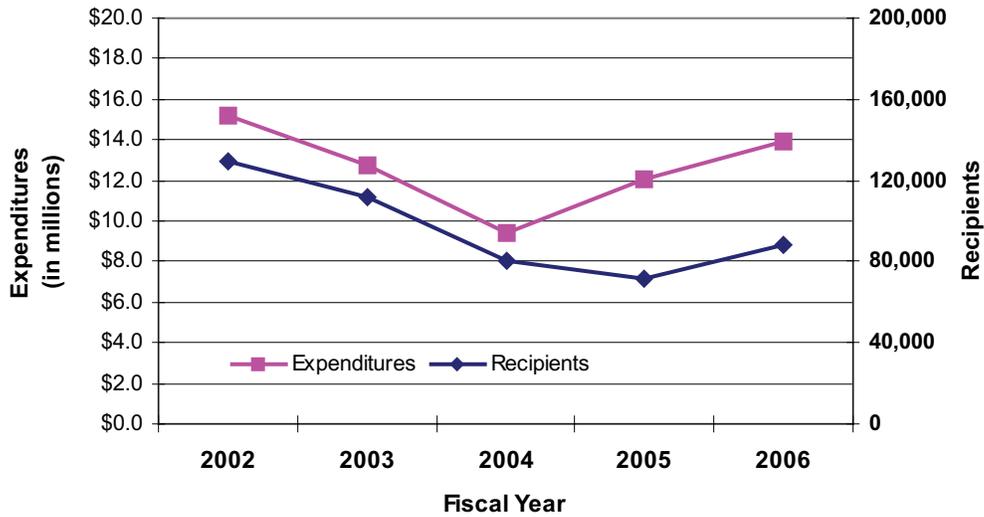


Figure 4. PRC Average Monthly Expenditures and Recipients
SFY 2002 - SFY2006



and several other family support services. A report on the services delivered through the PRC program during the fourth quarter of fiscal year 2006 can be found on the Department of Job

and Family Services' web site at the following Internet address: http://jfs.ohio.gov/oraa/PRC_SummaryAprilJune.pdf.

¹ In this report at the end of FFY 2005, the cumulative unspent balance was reported as \$913.5 million. The unspent balance was subsequently revised in December 2005 by the Department of Job and Family Services to \$894.6 million.