Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission — December 2006

Fiscal Overview

— *Allan Lundell*

Five months into FY 2007, General Revenue Fund (GRF) receipts are $276 million below estimate, disbursements are $507 million below estimate, and the cash balance is above its expected level.[1]

Receipts

For the month of November, total GRF receipts of $2,002.3 million were below estimate by $74.1 million (3.6%). State-source receipts were below estimate by $20.1 million (1.4%) and federal grants were below estimate by $54.0 million (8.5%). Federal grants are below estimate primarily because state Medicaid spending is below estimate.[2] Tax revenues were below estimate by $55.0 million (4.1%). Personal income tax revenue was $21.4 million (3.7%) above estimate. Revenue from the sales and use tax was below estimate by $18.8 million (3.1%); nonauto tax revenue was below estimate by $21.6 million (4.0%) and auto tax revenue was above estimate by $2.8 million (4.3%). Revenue from the corporate franchise tax was below estimate by $53.4 million.

Fiscal year-to-date GRF receipts of $9,851.0 million are $276.3 million (2.7%) below estimate and are down 2.2% compared to FY 2006. State-source receipts are $5.6 million (0.1%) above estimate and federal grants are $282.0 million (10.8%) below estimate. Tax revenues are below estimate by $33.5 million (0.5%). Personal income tax revenue is above estimate by $48.7 million (1.5%) and corporate franchise tax revenue is above estimate by $9.5 million (21.5%). Revenue from the sales and use tax is below estimate by $96.1 million (3.1%); nonauto tax revenue is below estimate by $89.5 million (3.3%) and auto tax revenue is below estimate by $6.6 million (1.7%).

Disbursements

November GRF program disbursements of $2,385.9 million were below estimate by $189.7 million (7.4%). Disbursements for property tax relief were below estimate by $79.1 million (49.8%), disbursements for health care/Medicaid were below estimate by $56.4 million (6.8%), and disbursements for primary and secondary

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Tracking the Economy 76
- The national economy continues to expand, but with weakness in housing and motor vehicles
- Inflation has slowed, but energy costs have risen after easing earlier
- Ohio's economy appears to be growing at a moderate pace, restrained by auto industry restructuring and housing market softness

STATUS OF THE GRF

Revenue 81
- Sales tax weakness continues
- Income tax shows signs of ongoing health
- Lower than estimated Medicaid spending results in lower than estimated revenue from federal grants

Disbursements............................. 89
- Medicaid spending drops to $350 million under estimate for the year to date
- Total GRF program disbursements under estimate by $478.8 million

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 November	Fiscal Year 2007 to Date	Last Year	Difference
Beginning Cash Balance	**-$217.6**	**$1,528.8**		
Plus Revenue and Transfers In	$2,002.3	$9,851.0		
Available Resources	**$1,784.6**	**$11,379.8**		
Less Disbursements and Transfers Out	$2,385.9	$11,981.0		
Ending Cash Balances	**-$601.2**	**-$601.2**	**-$827.2**	**$226.0**
Less Encumbrances and Accts. Payable		$887.6	$850.3	$37.3
Unobligated Balance		-$1,488.8	-$1,677.5	$188.7
Plus BSF Balance		$1,012.3	$576.6	$435.7
Combined GRF and BSF Balance		-$476.5	-$1,100.9	$624.3

education were $54.9 million (6.3%) below estimate. Disbursements for higher education were $15.2 million (4.8%) above estimate.

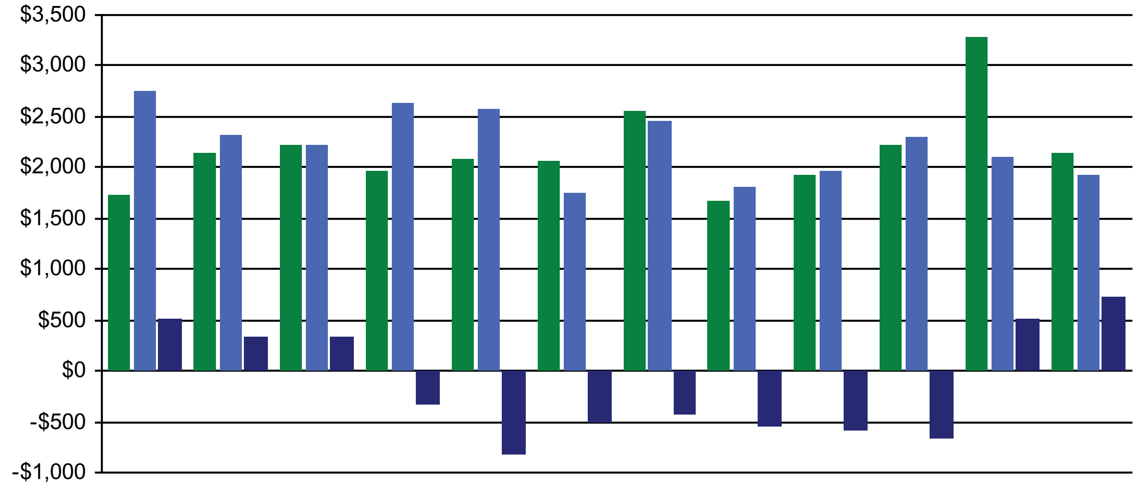
Fiscal year-to-date GRF program disbursements of $11,290.2 million are $478.8 million (4.1%) below estimate and are down 2.2% compared to FY 2006. Disbursements for health care/Medicaid are below estimate by $350.2 million (8.0%), disbursements for primary and secondary education are below estimate by $34.5 million (1.1%), and disbursements for higher education are $32.5 million (2.9%) below estimate. Transfers out are $28.3 million (3.9%) below estimate.

Cash Balance

As shown in Table 1, the GRF began FY 2007 with a $1,528.8 million cash balance. Through November, FY 2007 revenues plus transfers in totaled $9,851.0 million and disbursements plus transfers out totaled $11,981.0 million. The year-to-date deficit of $2,130.0 million reduced the cash balance to -$601.2 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 -$832.0 million, $230.8 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.

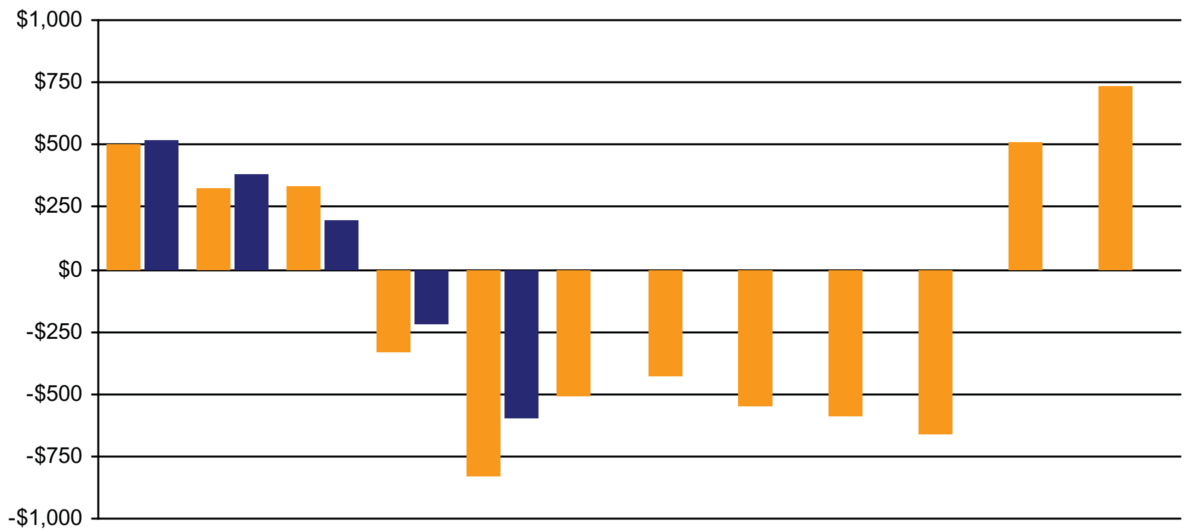
Encumbrances and accounts payable of $887.6 million combine with the cash balance to yield an unobligated balance of -$1,488.8 million, $188.7 million higher (less negative) than a year ago. The $1,012.3 million in the BSF is $435.7 million higher than a year ago. This amount is 3.9% of FY 2006 GRF receipts and is 1.1% less than the 5% target amount stated in section 131.44 of the Revised Code. The combined GRF and BSF balance of -$476.5 million is $624.3 million higher (less negative) 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	-$218	-$601							

[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.

Tracking the Economy

— Phil Cummins

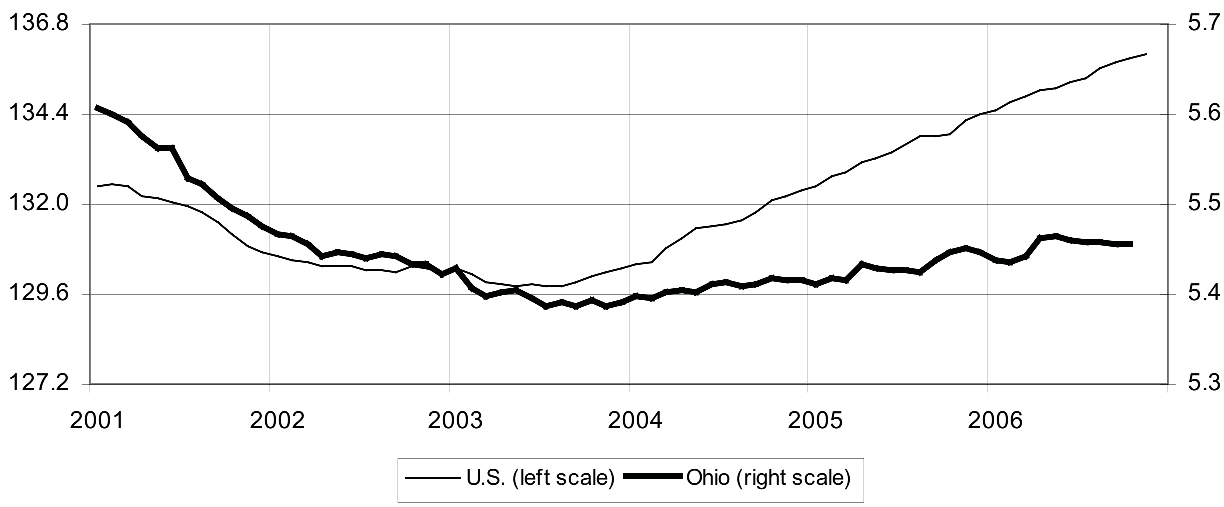
Expansion of the economy continues but with weakness persisting in housing markets and in motor vehicle sales. Inflationary pressures, overall, appear to have eased. Employment rose in November, with the increases almost all in service industries. Purchasing managers reported slowing in activity at the nation's manufacturers in November, after more than three years of expansion, but said activity elsewhere in the economy rose last month. In contrast, manufacturing in the industrial production index rose in November after two months of declines. Factory new orders fell, partly due to special factors that may prove temporary. Retail sales gained last month. Housing starts rose but remained well down from last year, and permits for new housing construction fell again. Consumer prices were unchanged in November. A sharp rise in producer prices for finished goods may have been due mainly to one-time fluctuations in energy and motor vehicle prices. Labor costs to business continue to rise more rapidly than in recent years. The nation's central bank in December again held its short-term interest rate target unchanged.

Gross domestic product (GDP) growth, adjusted for inflation, in this year's third quarter was revised to a 2.2% annual rate of increase, up from the previous estimate of 1.6%. Imports grew less than initially indicated, leaving more of demand growth to be met by domestic production, and businesses added more to inventories than first reported. Some of the inventories that have accumulated are in excess of desired levels, notably in the motor vehicle industry. Corporate profits in the third quarter rose to the highest share of GDP since 1950 and were 31% higher than a year earlier, when they were reduced by hurricane-related losses. In this year's first half, corporate profits were 19% above a year earlier. Personal income rose at a 5.5% annual rate in the third quarter, but growth in the second quarter, previously estimated at a strong 6.9% annual rate of increase, was revised downward substantially to a 3.2% rate of rise.

National Employment Growth Continuing

Total payroll employment nationwide rose by 132,000 in November, and the previous month's employment was revised upward by 42,000. Unemployment rose to 4.5% of the country's labor force in November from 4.4% in October, the lowest since May 2001. Rates of unemployment remained elevated particularly among younger people and those with less education. Employment increased last month in numerous service industries but fell again in construction and manufacturing. Cutbacks

Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



in factory jobs over the past year have been concentrated in motor vehicles and parts, wood products, furniture, and several nondurable goods producing industries. Employment fell again last month in residential construction and also declined in nonresidential construction, where the number of jobs has risen in most months since 2004. Mining employment rose, extending a three-and-one-half-year uptrend. General merchandise stores continued to shed jobs.

As noted in this space last month, statewide employment in Ohio was little changed in October. The modest uptrend in the number of jobs here has trailed national employment growth over the past three years.

Growth Mainly in Service Industries

Purchasing managers at manufacturers said that activity contracted in November after growing since June 2003, according to the monthly survey by the Institute for Supply Management (ISM). Declines in production, new orders and order backlogs, inventories, and employment were more frequently reported than increases by the managers participating in the survey. More said that the prices they paid rose than noted lower prices, but only by a narrow margin following a decline in prices in October. New export orders continued to rise. For nonmanufacturing organizations, the ISM's November survey of purchasing managers was more upbeat, with business activity reported higher than a month earlier for the 44th consecutive month. Increases in business activity, new and unfilled orders, and employment were more frequently reported than in October, though the trend in these measures over numerous months has been toward slower expansion. Prices paid rose for the 56th consecutive month but remained relatively tame compared with more widespread price increases in most months since mid-2003.

The nation's industrial production—output of factories, mines (including wells), and utilities—rose 0.2% in November to 3.8% above a year earlier. Manufacturing output rose 0.3% after declines in the previous two months. The latest rise was attributable in part to increased motor vehicle assemblies, which rose in November after two months of declines, but remained at an annual rate about one million units below assemblies in 2005. Production of home electronics also rose in November, while an index for output of appliances, furniture, and carpeting fell. Output of business equipment rose 1.2% in November to 10% above a year earlier, while output of construction supplies fell for a fourth straight month, and cutbacks continued in the production of steel and wood products.

Manufacturers' shipments and orders, though volatile from month to month, indicate some slackening in this segment of the economy. New orders for manufactured goods fell sharply by 4.7% in October to the lowest level, seasonally adjusted, since last February. The slowing reflected big month-to-month swings in aircraft orders, and to a lesser extent a sharp monthly decline, perhaps temporary, in orders for computers and other electronic products. Factory shipments edged higher in October, but this followed a sharp drop in September to the lowest level since late 2005. Shipments of nondefense capital goods, an indicator of business investment spending on equipment, fell 2.4% in October to the lowest point since last April. Order backlogs still appear healthy overall, even without large unfilled orders for civilian aircraft.[1]

Economic activity continued to expand at a "moderate pace" in October and early November, according to the latest "Beige Book," a compilation by the central bank of comments from business and other outside contacts. Consumer spending, most service industries, nonresidential construction, and much of manufacturing continued to grow. Weakness was noted in the housing and motor vehicle sectors. Labor markets were characterized as tight, particularly for certain professions and industries, but wage growth was said to be moderate except for those skills most in demand. The report from the Cleveland Federal Reserve District, which includes all of Ohio and parts of three other states, also characterized overall economic growth as moderate, with areas of weakness related to auto industry restructuring and the housing market slowdown. Buying of steel industry output is down, by makers of autos, appliances, electrical distribution equipment, and residential construction supplies. Some homebuilders have seen an upturn in sales since early October, but weakness in this sector is generally expected to persist until mid-2007 or longer. Nonresidential construction is expected to stay strong through next year's first half, based on current backlogs and inquiries, with work on health care facilities and public works at high levels. Demand for transportation services, which was vigorous earlier, continues to ease.

Total inventories of manufacturers, wholesalers, and retailers rose 0.4% in October following a 0.3% increase in September, the smallest increases since last February. Despite this slower pace of inventory accumulation, inventory-sales ratios, an indicator of whether inventories are insufficient or excessive, have risen as sales have slowed. Stronger growth of sales in November may reverse this upturn.

Consumer Spending Rises in November

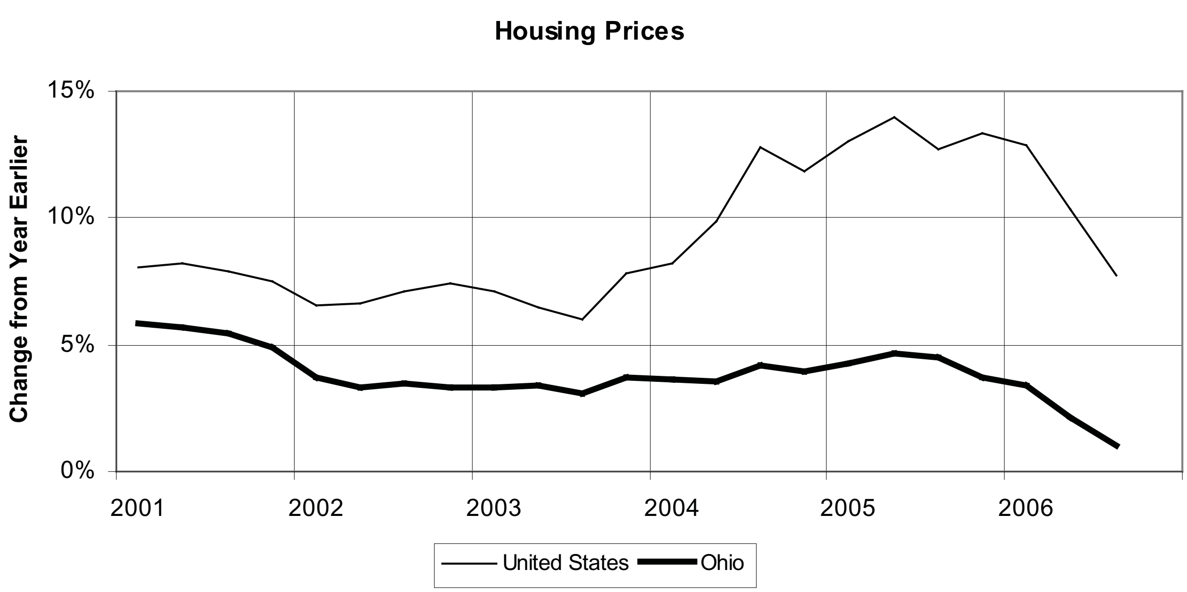
Retail sales strengthened in November, rising 1% from the previous month to 5.6% above a year earlier, after a 0.1% decline from September to October. The upturn in November reflected stronger sales of electronics and appliances, higher gasoline station sales following earlier declines, and improvement at several other types of stores as well as at nonstore retailers (catalog and Internet sales). The increase in gasoline station sales was due to a rise in gasoline prices from lows in October. Unit sales of light vehicles slowed in November, and for the first 11 months of the calendar year were 2.5% below a year earlier as consumers responded to high gasoline prices by reducing purchases of light trucks. Consumer spending grew at a 2.9% annual rate in the third quarter, adjusted for inflation, and appears to be continuing to rise in the current quarter.

Housing Markets Remain Weak

Housing starts nationwide rose 7% in November, but permits for new housing construction continued to decline. Starts on new privately owned housing units last month were at their lowest level since 2001, except for October. Permits for new construction, which generally precede starts, were the lowest since 1997. For the year to date, housing starts were 13% below a year earlier in the nation and 22% lower in the Midwest. In all of last year, more housing units were started in all parts of the country than in any year since 1972.

Interest rates on 30-year fixed-rate home mortgage loans averaged 6.11% and 6.12% in the latest two weeks, down from a peak of 6.80% last summer and the lowest since early this year. Rates on adjustable-rate loans have also eased.

New home sales nationwide fell 3.2% from September to October, seasonally adjusted, after gains in the previous two months from a low point in July. Year-to-date new home sales were 18%



lower than a year earlier for the nation and 23% lower in the Midwest. The nationwide inventory of new homes completed and awaiting sale at the end of October was more than 50% higher than a year earlier. At $248,500, the median price of new homes sold in October was 2% higher than a year earlier.

Sales of used homes, reported by the National Association of Realtors, rose 0.5% in October, seasonally adjusted, after slowing sharply earlier this year. Year-to-date unit sales were 8% lower than a year earlier in the nation and 6% lower in the Midwest. The inventory of homes listed for sale nationwide in October was 34% higher than a year earlier, an increase of nearly one million units. Prices for these homes were lower than a year earlier in most parts of the country, with declines steepest in the South and Northeast. Nationwide, the median house price in October was 3.5% below a year earlier; in the Midwest, the median price was 1.2% lower. In this state, the Ohio Association of Realtors said that year-to-date unit sales of homes through October were 2.5% below a year earlier and the average selling price was 2% lower.

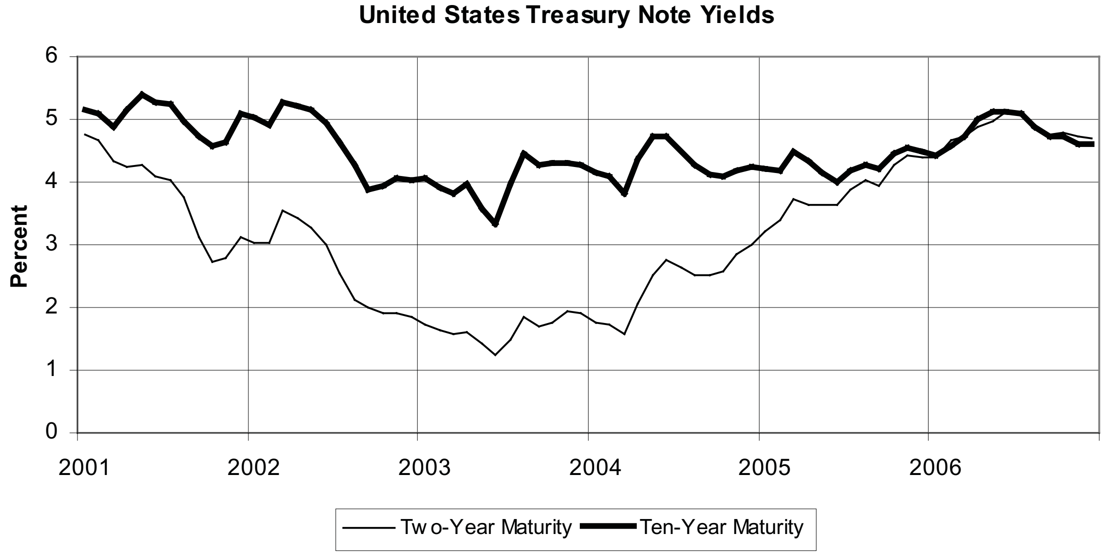
An index of house prices in Ohio rose 0.1% from the second to the third quarter, to 1.0% above a year earlier. For the nation, the comparable index rose 0.9% in the third quarter to 7.7% higher than a year earlier. These indexes, from the Office of Federal Housing Enterprise Oversight, track changes in the prices at which homes are sold or appraised for refinancing. The indexes are based on repeat transactions for the same properties. This reduces distortion resulting from shifts in the mix of homes being priced, compared with some other home price indexes. The latest report showed declines in the third quarter in five states—Michigan, New York, and three New England states—and in more than half the cities in California. In the second quarter, the index of Ohio housing prices declined, its first drop since 1984. Housing prices in Michigan in the third quarter were below a year earlier, the first year-over-year decline for any state in more than six years. Housing prices continued to rise rapidly in a few western states and in some Gulf Coast communities affected by last year's Hurricane Katrina.

Inflation Statistics Diverge Sharply

The consumer price index was unchanged from October to November and 2.0% above a year earlier. Energy and food prices edged down slightly in November; the index for all items less food and energy also was unchanged from a month earlier and 2.6% higher than in November 2005, a smaller year-over-year rise than in the previous four months. The latter index, closely watched by the nation's central bank, rose at only a 1.6% annual rate in the latest three months. Separately, prices for regular grade gasoline in Ohio averaged $2.29 a gallon on December 18, up from $2.09 in mid-October but well below the $3.01 peak in July.

The producer price index (PPI) for finished goods soared 2.0% in November, the largest monthly rise in this index since 1974. The increase in November followed declines in the previous two months and left this index only 0.9% above a year earlier. Excluding food and energy prices, the PPI rose 1.3% in November, its largest rise since 1980, following a 0.9% decline in October. Much of this month-to-month volatility appears attributable to motor vehicles, particularly light trucks, prices of which rose 14% in November after falling 10% in October—wide fluctuations following new model introductions that may be a result of difficulties in seasonally adjusting the underlying data. At earlier stages in the production process, intermediate goods prices rose 0.7% to 2.4% above a year earlier. Crude materials prices jumped 16%, reflecting sharply higher energy prices—particularly for natural gas—following two months of declines.

As noted above, personal income was revised lower with the release of the GDP report. The downward revision implies less spending power in the hands of consumers but also less upward pressure on business costs that might be passed along as higher prices. In the third quarter, hourly compensation, including wages paid plus benefit costs, for workers in the nonfarm business sector was 4.3% higher than a year earlier, revised downward from 6.7% in the previous report. Nonfarm business productivity (real or inflation-adjusted output per labor hour) was 1.4% higher in the third quarter than a year earlier, about as



previously reported. As a consequence, unit labor costs (the compensation paid per unit of output) were 2.9% higher than a year earlier, sharply lower than the 5.3% rise previously reported. Unit labor costs are nevertheless running ahead of rates of increase in recent years. At nonfarm businesses, unit labor costs rose 2% in 2005 and less than this in the previous four years.

Interest Rates Reflect Easing of Inflation

Interest rates on longer-term notes and bonds have fallen since mid-year, though rates have backed up somewhat in December. The declines appear attributable to more widespread indications that inflation pressures have eased and a perception that the nation's central bankers may lower their short-term interest rate target in response. In contrast with this market perception, the nation's central bank continues to focus on the possibility of further increases, not reductions.

The central bank, at the December meeting of its Federal Open Market Committee (FOMC), held its target interest rate unchanged. This interest rate, for overnight federal funds (loans between commercial banks), has remained at 5.25% since June 29. In announcing its latest decision, the FOMC recognized the "substantial" slowdown in housing markets and current uncertainties about the economy, reflected in "mixed" economic indicators. The group nevertheless continued to expect moderate economic expansion with an easing of inflation and again made reference in its press release to the possibility of raising its interest rate target but not to lowering the target. As in the previous three meetings, one FOMC member dissented from the group's decision, preferring a higher interest rate target.

In a recent speech,[2] Federal Reserve Board Chairman Bernanke predicted moderate economic expansion in the coming year, accompanied by gradual slowing in core inflation (price increases for consumer goods and services excluding food and energy). He described the risks to the forecast for economic activity as balanced but thought uncertainties associated with the inflation forecast were skewed toward more rapid price increases, associated with faster increases in labor costs. Release of the revised third quarter gross domestic product report the day after his remarks, showing sharply slower increases in personal income in the second quarter, may have eased this concern, though any such easing was not reflected in the latest FOMC decision.

[1] The United States Bureau of the Census data on manufacturers' orders do not include unfilled orders for some manufacturing industries. More than half of the dollar value of manufacturers' new orders are in industries for which unfilled orders data are not reported.

[2] "The Economic Outlook," remarks by Federal Reserve Board Chairman Ben S. Bernanke before the National Italian American Foundation, November 28, 2006.

Status of the General Revenue Fund

REVENUE

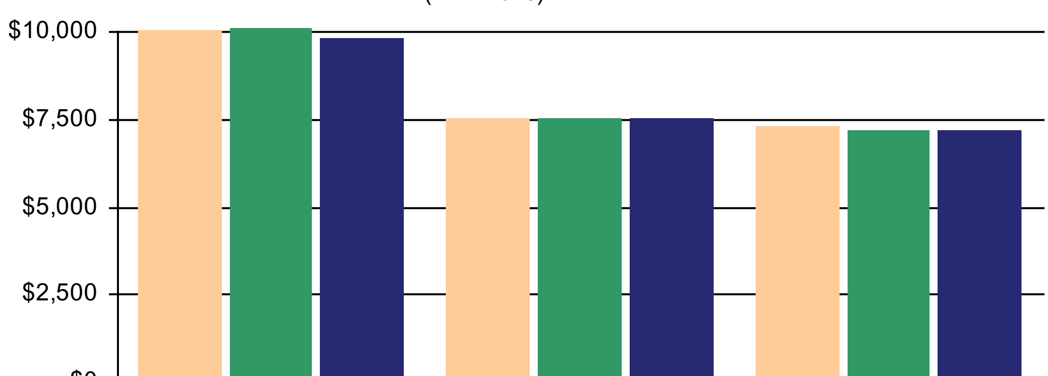
— *Jean Botomogno and Allan Lundell*

For the month of November, General Revenue Fund (GRF) receipts of $2,002.3 million were below estimate by $74.1 million (3.6%).[1] State-source receipts were below estimate by $20.1 million (1.4%) and federal grants were below estimate by $54.0 million (8.5%).[2] Federal grants are below estimate because state Medicaid spending is below estimate. Tax revenues were below estimate by $55.0 million (4.1%). Personal income tax revenue was $21.4 million (3.7%) above estimate and revenue from the cigarette tax was above estimate by $6.6 million (8.1%). Revenue from the sales and use tax was below estimate by $18.8 million (3.1%); nonauto tax revenue was $21.6 million (4.0%) below estimate and auto tax revenue was above estimate by $2.8 million (4.3%). Revenue from the corporate franchise tax was below estimate by $53.4 million.

Five months into FY 2007, total GRF receipts of $9,851.0 million are $276.3 million (2.7%) below estimate. State-source receipts are $5.6 million (0.1%) above estimate and federal grants are $282.0 million (10.8%) below estimate. Tax revenues are below estimate by $33.5 million (0.5%). Revenue from the personal income tax is above estimate by $48.7 million (1.5%), corporate franchise tax revenue is above estimate by $9.5 million, and revenue from the cigarette tax is above estimate by $6.0 million (1.6%). Revenue from the sales and use tax is below estimate by $96.1 million (3.1%); revenue from the nonauto tax is below estimate by $89.5 million (3.3%) and revenue from the auto tax is below estimate by $6.6 million (1.7%).

For the fiscal year to date, total GRF receipts are down 2.2% compared to FY 2006. State-source receipts are up 0.1% and federal grants are down 9.0%. Tax revenue is down 1.9%. Revenue from the personal income tax is down 0.1%, reflecting reduced withholding rates. Revenue from the sales and use tax is down 1.3%; nonauto tax revenue is down 0.1% and auto tax revenue is down 8.6%. Revenue from the cigarette tax is down 11.1%, largely due to a comparison with FY 2006 revenues that included receipts from

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



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Total Tax Revenue
FY 2006	$10,071	$7,522	$7,327
FY 2007 Estimate	$10,127	$7,526	$7,224
FY 2007 Actual	$9,851	$7,532	$7,191

the "floor" tax associated with the July 2005 increase in the cigarette tax.[3] Chart 1 compares FY 2007 receipts with FY 2006 receipts and FY 2007 estimates.

Personal Income Tax

The GRF received $593.5 million from the personal income tax in November. This amount was $21.4 million (3.7%) more than estimated. Gross collections were above estimate by $18.2 million (2.7%) and refunds were $3.3 million (11.1 %) less than estimated. Withholding was above estimate by $19.7 million (3.1%) and trust payments were $1.8 million (65.2%) below estimate.

The GRF has received $3,311.0 million from the personal income tax thus far this fiscal year. This amount is $48.7 million (1.5%) above estimate. Gross collections are above estimate by $67.2 million (1.8%) and refunds are $17.4 million (13.1%) above estimate. The $3,216.5 million collected through withholding is $40.1 million (1.3%) above estimate. Withholding is expected to account for 72% of gross income tax collections for FY 2007. Year-to-date quarterly estimated payments are $14.1 million (3.7%) above estimate.[4] Trust payments are $2.2 million (11.7%) above estimate and payments associated with annual returns are above estimate by $2.4 million (2.2%).

Compared to a year ago, GRF revenue from the personal income tax is down 0.1%. Gross collections are up 0.9% and refunds are up 32.7%. Withholding, which reflects the condition of Ohio's labor market, is down 0.1%.[5] Quarterly estimated payments are up 7.6%. Trust payments are down 5.7% and payments associated with annual returns are up 3.6%.

Sales and Use Tax

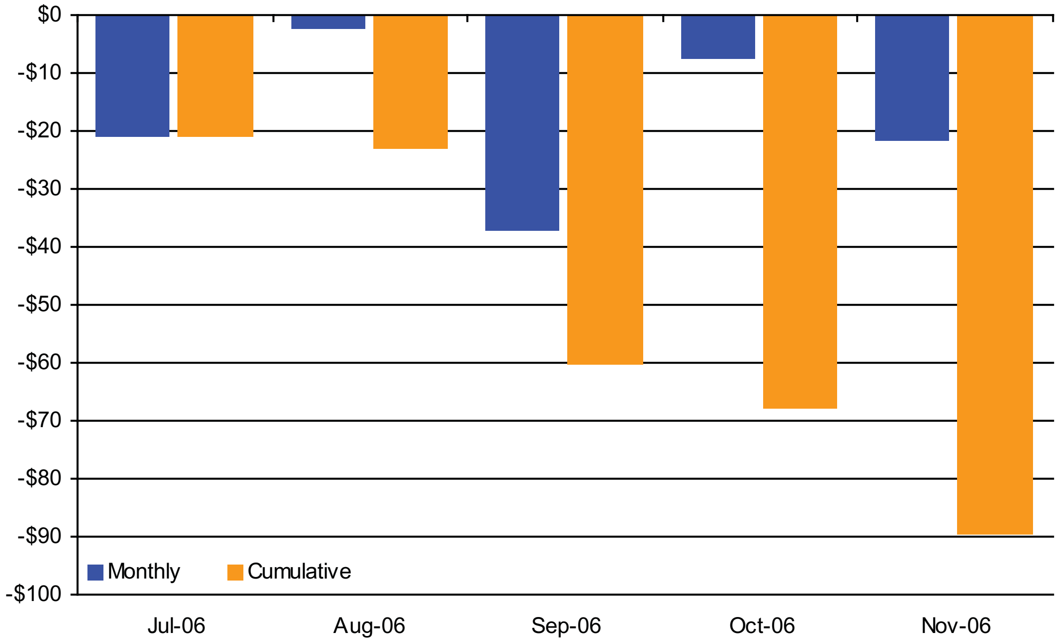
Total sales and use tax revenues in November were $589.0 million, $18.8 million (3.1%) below projected revenues. Auto sales and use tax receipts were $2.8 million (4.3%) above estimate and nonauto sales and use tax receipts were $21.6 million (4.0%) below estimate. Total sales and use tax receipts in November 2006 were $23.4 million (4.1%) above sales and use tax revenues in November 2005. 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]

Through November, FY 2007 total sales and use tax revenues were $3,048.9 million, $96.1 million (3.1%) below estimate. FY 2007 sales and use tax receipts were also $39.4 million (2.5%) below fiscal year-to-date tax receipts in November 2005. Most of this negative variance ($36.9 million) is from the volatile auto sales and use tax, which has amplified the weakness in the nonauto sales and use tax. The sales and use tax rate decreased from 6% to 5.5% on July 1, 2005. Because of the lag between taxable sales and certain tax collections, July 2005 (FY 2006) included receipts from taxable sales in June 2005 that were taxed at 6%. Excluding receipts in the month of July in both FY 2007 and FY 2006, FY 2007 sales and use tax revenues from August through November were $43.3 million, 1.8% above revenues during the same period in FY 2006.

Nonauto Sales and Use Tax

Nonauto sales and use tax revenues in November were $521.9 million, $21.6 million (4.0%) below estimate. Nonauto sales and use tax receipts were also $10.1 million (2.0%) above revenues in the same month last year. Through November, FY 2007 nonauto sales and use tax receipts were $2,657.4 million, $89.5 million (3.3%) below estimate. These receipts were also $2.4 million (0.1%) below fiscal year-to-date receipts in November 2005. The year-over-year comparison of tax receipts slightly overstates the weakness of nonauto sales and use tax revenues. The first month of FY 2006 included receipts from June 2005 sales that were taxed at 6% because of the lag between taxable sales and receipts. Excluding the impact of the timing of receipts collected in July 2005, the revenue picture for the year-ago comparison is not so dire. FY 2007 revenues from August through November were $56.7 million (2.8%) above revenues during the same period in FY 2006. Thus, growth in the nonauto sales and use tax base is not negative or flat, but instead weak. Receipts have failed to

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



meet estimates each month this fiscal year, and the year-to-date negative variance has increased each month. Five months into the fiscal year, the nonauto sales and use tax has definitely established a downward trend.

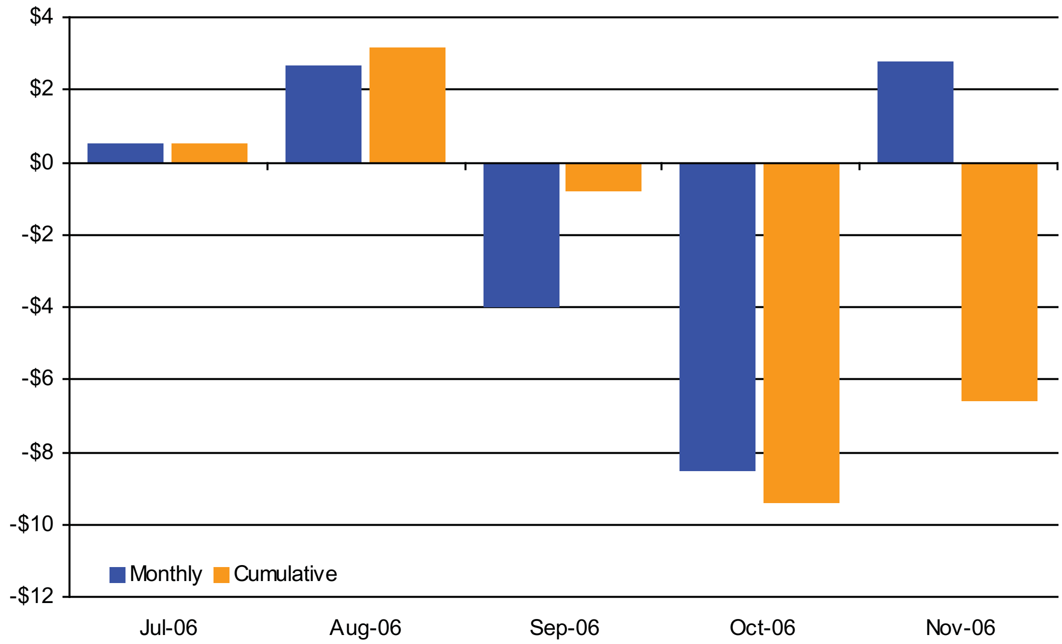
Consumers appear not to be spending the dollars saved from receding gas prices in recent months.[7] Repayment of debt by households has inched up in the last few months, which diverts dollars from spending on items in household budgets taxable under the sales and use tax. Also, consumers have decreased the use of their homes as "virtual ATM machines," as amounts of equity extraction from homes has waned throughout CY 2006. Quarterly mortgage equity withdrawals (MEWs) in the second half of CY 2006 are below levels registered in the first half of the year. MEWs will also likely decline to less than half of the levels reached a year ago in the second half of CY 2005.[8] Thus, a significant support of consumer spending has weakened in FY 2007. The decline in MEWs may partly explain the decline in year-over-year growth in monthly retail sales throughout CY 2006. Through June 2006, the average growth in unadjusted retail sales was about 8%. From July through November, the average growth was about 6%, two percentage points lower.

Thus, the benefit of the fall in gasoline prices has not outweighed the effects of the slowdowns in housing and manufacturing. These slowdowns may be taking a toll on spending growth and suggest that the current slump in the nonauto sales and use tax receipts may be prolonged. November tax receipts do not reflect the beginning of the busiest shopping time of the year. Taxable retail sales during the holiday season through December may help stabilize the negative trend in sales and use tax receipts, or they may further solidify the slump.

Auto Sales and Use Tax

Auto sales and use tax receipts were $67.0 million in November, $2.8 million (4.3%) 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 a year ago, auto sales and use tax receipts in November 2006 were $13.3 million (24.8%) above receipts in November 2005. This follows a 15% year-over-year growth in revenues in October 2006 compared to October 2005. The apparent strength in receipts in the last two

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



months may be misleading. Auto sales and use tax receipts in October and November 2005 were still depressed following outsized auto sales and use tax receipts from an aggressive manufacturer incentive campaign in the first quarter of FY 2006.[9] Also, aggressive year-end manufacturing incentives started earlier this year than in the previous years.

Through November, FY 2007 year-to-date auto sales tax receipts were $391.5 million, $6.6 million (1.7%) below estimate. These receipts were also $36.9 million (8.6%) below revenues through November in FY 2006.[10] Excluding the impact of the timing of receipts due to the tax rate change, FY 2007 revenues from August through November were $13.5 million (4.2%) below revenues during the same period in FY 2006. The negative variance in this year-ago comparison may continue to shrink over the next few months.

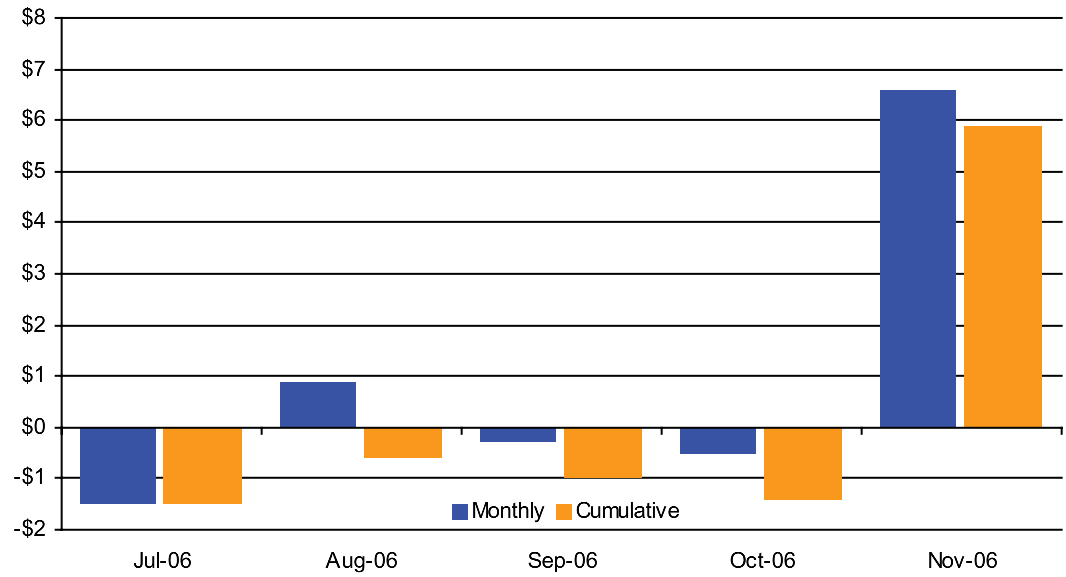
Nationwide, vehicle unit sales were flat in November 2006 compared to a year ago, and also flat compared to October 2006, despite manufacturer and dealer incentives reaching record highs. Incentives were 10% higher than last year in November, but they have not boosted total unit sales higher. However, a boost in the share of light trucks relative to cars increased sales at motor vehicle dealers 0.9% compared to sales in October 2006, and 6.4% compared to sales in November 2005.

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. Refunds exceeded tax receipts in November. Net refunds of $54.6 million were paid to taxpayers in November, compared to an estimate of $1.2 million in net refunds for the month. Last year, CFT receipts in November were $47.4 million. November results balance out the monthly variance recorded in October 2006, when CFT receipts were $51.9 million, $40.0 million above estimates.

Through November, FY 2007 year-to-date CFT receipts were $53.7 million, $9.5 million (21.5%) above estimate. However, FY 2007 year-to-date receipts fell $40.7 million (43.1%)

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



below year-to-date receipts through November 2005. At the end of October, year-to-date CFT receipts were $61.3 million above FY 2006 year-to-date receipts through October 2005. The large swings in monthly and fiscal year-to-date CFT receipts are due to the timing and processing of CFT returns in FY 2007 compared to FY 2006, according to the Office of Budget and Management.

Cigarette and Other Tobacco Products Tax

Receipts from the cigarette and other tobacco products tax in November were $88.9 million, $6.6 million (8.1%) above estimate. Compared to year-ago receipts, revenues in November 2006 were $1.9 million (2.2%) above receipts in November 2005. In FY 2007, total year-to-date receipts from the cigarette and other tobacco products tax were $370.5 million, $6.0 million (1.6%) below estimate and $46.2 million (11.1%) below revenues in FY 2006. Excluding about $65.9 million in floor tax receipts in FY 2006, FY 2007 year-to-date receipts are $19.7 million (5.6%) above FY 2006 year-to-date receipts through November 2005.

Commercial Activity Tax

The commercial activity tax (CAT) was due on November 13, 2006 for taxable receipts in the first quarter of FY 2007. CAT receipts in November were $123.1 million, $24.3 million above estimate. FY 2007 receipts through November were $237.6 million, $53.2 million (24.2%) over estimate. FY 2007 CAT receipts are distributed to two non-GRF funds, the School District Tangible Property Tax Replacement Fund and the Local Government Tangible Property Tax Replacement Fund.

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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] 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 understates 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. FY 2007 withholding amounts are based on lower withholding tax rates than FY 2006 amounts. H.B. 66 reduced the marginal personal income tax rates by 21% over five years (4.2% per year), starting with tax year 2005. Withholding tax rates were not reduced during tax year 2005, but were reduced by 4.2% starting January 1, 2006 and by an additional 8.4% starting October 1, 2006.

[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] Sales at gas stations declined 1.2%, 9.8%, and 5.3% in August, September, and October, respectively. Sales at gas stations rebounded 2.3% in November, as gas prices were generally flat in November.

[8] Quarterly MEWs (as a share of disposable personal income) peaked at 11.2% in the third quarter of CY 2005 and have declined precipitously since then. Quarterly MEWs were 5.4% in the third quarter and are expected to decline further in the fourth quarter of CY 2006. As support for consumer spending, had MEWs in the third quarter matched the rate of last year, they would have been $600 billion higher, or the equivalent of about three months of core retail sales (sales excluding autos and gasoline).

[9] A 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.

[10] Through October 2006, the year-ago variance was higher, $50.2 million (13.4%) below receipts through October 2005 in FY 2006.

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

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$67,041	$64,247	$2,794	4.3%
Nonauto Sales & Use	$521,925	$543,529	-$21,604	-4.0%
Total Sales & Use Taxes	$588,966	$607,776	-$18,810	-3.1%
Personal Income	$593,506	$572,100	$21,405	3.7%
Corporate Franchise	-$54,591	-$1,200	-$53,391	---
Public Utility	$21,980	$23,200	-$1,220	-5.3%
Kilowatt Hour Excise	$24,982	$26,800	-$1,818	-6.8%
Commercial Activity Tax	$0	$0	$0	---
Foreign Insurance	$289	$32	$257	803.8%
Domestic Insurance	$0	$0	$0	---
Business & Property	$116	$0	$116	---
Cigarette	$88,939	$82,300	$6,639	8.1%
Alcoholic Beverage	$4,506	$4,558	-$52	-1.1%
Liquor Gallonage	$2,735	$2,849	-$114	-4.0%
Estate	$965	$9,000	-$8,035	-89.3%
Total Tax Revenue	**$1,272,392**	**$1,327,415**	**-$55,023**	**-4.1%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$517	$600	-$83	-13.9%
Other Revenue	$7,186	$6,700	$486	7.3%
Nontax State-Source Revenue	**$7,703**	**$7,300**	**$403**	**5.5%**
TRANSFERS				
Liquor Transfers	$12,000	$10,000	$2,000	20.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$131,270	$98,700	$32,570	33.0%
Total Transfers In	**$143,270**	**$108,700**	**$34,570**	**31.8%**
TOTAL GRF before Federal Grants	**$1,423,365**	**$1,443,415**	**-$20,050**	**-1.4%**
Federal Grants	$578,932	$632,939	-$54,007	-8.5%
TOTAL GRF SOURCES	**$2,002,298**	**$2,076,355**	**-$74,057**	**-3.6%**

* 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 November 2006
($ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
TAX REVENUE						
Auto Sales	$391,461	$398,072	-$6,611	-1.7%	$428,370	-8.6%
Nonauto Sales & Use	$2,657,400	$2,746,894	-$89,494	-3.3%	$2,659,844	-0.1%
Total Sales & Use Taxes	$3,048,860	$3,144,966	-$96,106	-3.1%	$3,088,213	-1.3%
Personal Income	$3,311,038	$3,262,300	$48,738	1.5%	$3,314,396	-0.1%
Corporate Franchise	$53,722	$44,200	$9,522	21.5%	$94,383	-43.1%
Public Utility	$69,156	$66,100	$3,056	4.6%	$68,544	0.9%
Kilowatt Hour Excise	$142,347	$145,700	-$3,353	-2.3%	$146,918	-3.1%
Commercial Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	$131,334	$131,460	-$126	-0.1%	$130,408	0.7%
Domestic Insurance	$235	$1,200	-$965	-80.4%	$1,081	-78.2%
Business & Property	$623	$670	-$47	-7.0%	$1,011	-38.4%
Cigarette	$370,483	$364,500	$5,983	1.6%	$416,728	-11.1%
Alcoholic Beverage	$24,478	$24,296	$182	0.7%	$25,179	-2.8%
Liquor Gallonage	$14,188	$14,259	-$71	-0.5%	$13,711	3.5%
Estate	$24,373	$24,700	-$327	-1.3%	$26,834	-9.2%
Total Tax Revenue	**$7,190,838**	**$7,224,351**	**-$33,513**	**-0.5%**	**$7,327,405**	**-1.9%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$50,157	$38,000	$12,157	32.0%	$24,547	104.3%
Licenses and Fees	$19,195	$18,811	$384	2.0%	$18,713	2.6%
Other Revenue	$32,858	$34,550	-$1,692	-4.9%	$55,199	-40.5%
Nontax State-Source Revenue	**$102,210**	**$91,361**	**$10,849**	**11.9%**	**$98,459**	**3.8%**
TRANSFERS						
Liquor Transfers	$59,000	$52,000	$7,000	13.5%	$54,000	9.3%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$179,986	$158,700	$21,286	13.4%	$41,902	329.5%
Total Transfers In	**$238,986**	**$210,700**	**$28,286**	**13.4%**	**$95,902**	**149.2%**
TOTAL GRF before Federal Grants	**$7,532,035**	**$7,526,412**	**$5,622**	**0.1%**	**$7,521,765**	**0.1%**
Federal Grants	$2,318,962	$2,600,913	-$281,951	-10.8%	$2,548,909	-9.0%
TOTAL GRF SOURCES	**$9,850,997**	**$10,127,326**	**-$276,329**	**-2.7%**	**$10,070,674**	**-2.2%**

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

Disbursements

— *Steve Mansfield**

At the end of November, fiscal year (FY) 2007 General Revenue Fund (GRF) disbursements for program spending totaled $11,290.2 million, which is under estimate by $478.8 million (4.1%). Compared with program spending at the same point last fiscal year, disbursements are $249.5 million (2.2%) lower in the current fiscal year.[1] In November, total GRF program disbursements were $2,385.9 million, which was under estimate by $189.7 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), with the Welfare and Human Services category continuing to post the largest year-to-date variance, $373.4 million (6.9%). The fourth major program category, Property Tax Relief, is over estimate by $1.4 million (0.3%) for the year to date. Much of the year-to-date variance for Property Tax Relief was eliminated in November, when disbursements for the program were under estimate by $79.1 million (49.8%). Within the GRF program *sub*categories, the Health Care/Medicaid program posted the largest year-to-date variance ($350.2 million under estimate) and the largest variance for the month ($56.4 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 (-$373.4 million)

The Welfare and Human Services category posted a variance of $72.2 million (6.9%) under estimate in November disbursements. For the year to date, outlays in this category are $373.4 million (6.9%) under estimate. Within the category, the Health Care/Medicaid program registered the largest difference from the year-

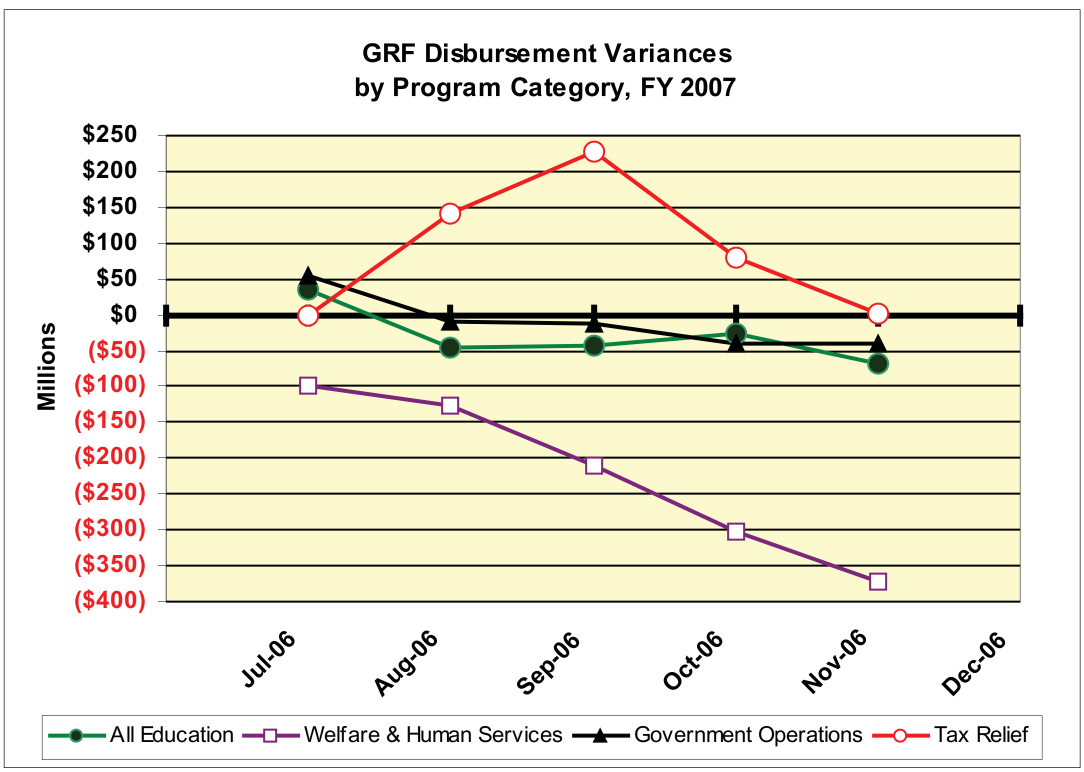

Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of November 2006
($ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	$815,015	$869,887	-$54,872	-6.3%
Higher Education	$334,328	$319,131	$15,197	4.8%
Total Education	$1,149,343	$1,189,018	-$39,675	-3.3%
Health Care/Medicaid	$767,917	$824,333	-$56,417	-6.8%
Temporary Assistance to Needy Families (TANF)	$63,231	$63,097	$134	0.2%
Other Welfare (2)	$36,924	$46,122	-$9,198	-19.9%
Human Services (3)	$102,746	$109,493	-$6,747	-6.2%
Total Welfare & Human Services	$970,818	$1,043,046	-$72,228	-6.9%
Justice & Corrections	$128,254	$124,459	$3,795	3.0%
Environment & Natural Resources	$22,866	$23,097	-$231	-1.0%
Transportation	$1,721	$1,551	$170	11.0%
Development	$9,880	$15,854	-$5,974	-37.7%
Other Government	$23,341	$19,784	$3,557	18.0%
Capital	$2	$0	$2	---
Total Government Operations	$186,064	$184,745	$1,318	0.7%
Property Tax Relief (4)	$79,662	$158,728	-$79,067	-49.8%
Debt Service	$0	$0	$0	---
Total Other Disbursements	$79,662	$158,728	-$79,067	-49.8%
Total Program Disbursements	**$2,385,886**	**$2,575,537**	**-$189,651**	**-7.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	$0	$0	$0	---
TOTAL GRF USES	**$2,385,886**	**$2,575,537**	**-$189,651**	**-7.4%**

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

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

to-date estimates and stands at $350.2 million (8.0%) under estimate. Among the other components of the category, disbursements in the Temporary Assistance for Needy Families (TANF) program are over estimate for the year to date by $11.7 million (8.8%); 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 $19.8 million (7.2%); and disbursements in the Human Services subcategory, which includes mental

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

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
Primary & Secondary Education (1)	$3,202,007	$3,236,521	-$34,514	-1.1%	$3,108,208	3.0%
Higher Education	$1,069,488	$1,101,980	-$32,492	-2.9%	$1,080,187	-1.0%
Total Education	$4,271,495	$4,338,501	-$67,006	-1.5%	$4,188,395	2.0%
Health Care/Medicaid	$4,041,101	$4,391,322	-$350,221	-8.0%	$4,334,334	-6.8%
Temporary Assistance to Needy Families (TANF)	$145,807	$134,071	$11,737	8.8%	$139,417	4.6%
Other Welfare (2)	$256,821	$276,616	-$19,795	-7.2%	$258,811	-0.8%
Human Services (3)	$582,389	$597,516	-$15,127	-2.5%	$578,021	0.8%
Total Welfare & Human Services	$5,026,119	$5,399,525	-$373,406	-6.9%	$5,310,583	-5.4%
Justice & Corrections	$905,453	$917,119	-$11,666	-1.3%	$864,244	4.8%
Environment & Natural Resources	$55,880	$55,418	$461	0.8%	$56,049	-0.3%
Transportation	$10,227	$14,433	-$4,206	-29.1%	$11,424	-10.5%
Development	$76,674	$87,643	-$10,969	-12.5%	$83,774	-8.5%
Other Government	$191,256	$204,032	-$12,776	-6.3%	$196,493	-2.7%
Capital	$36	$0	$36	---	$72	-51.0%
Total Government Operations	$1,239,526	$1,278,646	-$39,121	-3.1%	$1,212,055	2.3%
Property Tax Relief (4)	$500,718	$499,313	$1,406	0.3%	$623,099	-19.6%
Debt Service	$252,328	$253,048	-$720	-0.3%	$205,597	22.7%
Total Other Disbursements	$753,046	$752,360	$685	0.1%	$828,696	-9.1%
Total Program Disbursements	**$11,290,185**	**$11,769,032**	**-$478,847**	**-4.1%**	**$11,539,729**	**-2.2%**
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%	$173,181	71.4%
Total Transfers Out	$690,862	$719,147	-$28,285	-3.9%	$567,386	21.8%
TOTAL GRF USES	**$11,981,046**	**$12,488,179**	**-$507,132**	**-4.1%**	**$12,107,115**	**-1.0%**

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

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

health, mental retardation and developmental disabilities, and other human services, is under estimate by $15.1 million (2.5%).

Health Care/Medicaid. So far this fiscal year, the Health Care/Medicaid program (primarily line item 600-525) has had disbursements of $4,041.1 million. As noted earlier, this is $350.2 million (8.0%) under estimate. The variance is composed of an estimated federal share of $209.9 million and a state share of $140.3 million. The largest contributor to the

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

	November				Year-to-Date Spending			
Service Category	**Actual**	**Estimate**	**Variance**	**Percent Variance**	**Actual thru Nov.**	**Estimate thru Nov.**	**Variance**	**Percent Variance**
Nursing Facilities Payments	$220,042	$222,671	($2,629)	-1.2%	$1,090,567	$1,130,214	($39,647)	-3.5%
ICF/MR Payments	$44,408	$42,473	$1,935	4.6%	$217,382	$216,168	$1,214	0.6%
Inpatient Hospitals	$86,077	$112,045	($25,968)	-23.2%	$587,085	$645,594	($58,509)	-9.1%
Outpatient Hospitals	$41,807	$45,123	($3,316)	-7.3%	$270,573	$277,302	($6,729)	-2.4%
Physicians	$40,439	$39,781	$658	1.7%	$247,641	$241,782	$5,859	2.4%
Prescription Drugs	$78,254	$81,605	($3,351)	-4.1%	$441,790	$476,898	($35,108)	-7.4%
ODJFS Waiver	$29,373	$20,911	$8,462	40.5%	$147,215	$116,509	$30,706	26.4%
HMO	$189,148	$239,356	($50,208)	-21.0%	$819,865	$982,528	($162,663)	-16.6%
Medicare Buy-In	$44,520	$22,233	$22,287	100.2%	$130,903	$110,188	$20,715	18.8%
Home Health	$10,744	$15,503	($4,759)	-30.7%	$62,043	$83,887	($21,844)	-26.0%
Dental	$5,559	$5,657	($98)	-1.7%	$36,882	$36,473	$409	1.1%
Hospice	$11,428	$9,885	$1,543	15.6%	$58,167	$53,116	$5,051	9.5%
All Other	$40,277	$50,059	($9,782)	-19.5%	$197,283	$276,613	($79,330)	-28.7%
Total Medicaid Payments	**$842,076**	**$907,302**	**($65,226)**	-7.2%	**$4,307,396**	**$4,647,272**	**($339,876)**	-7.3%
Medicare Part D	$38,542	$21,982	$16,560	75.3%	$98,338	$108,870	($10,532)	-9.7%
Capital Compensation Program	$0	$0	$0	N/A	$1,963	$2,500	($537)	N/A
DA Medical	$1,965	$2,608	($643)	-24.7%	$12,032	$15,639	($3,607)	-23.1%
Drug Rebates Offsets	($33,657)	($34,554)	$897	-2.6%	($179,530)	($183,901)	$4,371	-2.4%
Revenue & Collections	($14,487)	($14,474)	($13)	0.1%	($32,603)	($32,566)	($37)	0.1%
ICF/MR Franchise Fee Offsets	($1,515)	($1,515)	$0	0.0%	($7,598)	($7,598)	$0	0.0%
NF Franchise Fee Offsets	($37,184)	($37,184)	$0	N/A	($111,758)	($111,756)	($2)	N/A
DSH Rebate Offsets	$0	$0	$0	N/A	($7,478)	($7,478)	$0	0.0%
MCP Assessments	($27,823)	($19,831)	($7,992)	N/A	($39,663)	($39,663)	$0	N/A
Total Health Care (Net of Offsets)	**$767,917**	**$824,334**	**($56,417)**	**-6.8%**	**$4,041,099**	**$4,391,319**	**($350,220)**	**-8.0%**
Est. Federal Share	$460,236	$494,049	($33,812)		$2,421,955	$2,631,853	($209,898)	
Est. State Share	$307,681	$330,285	($22,605)		$1,619,144	$1,759,466	($140,322)	

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 the federal poverty level (FPL). The state receives an enhanced federal medical assistance percentage (FMAP) for CHIP II.
5. DA Medical is a state-only funded program.
6. The 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.

variance is the HMO service category, which is now $162.7 million (16.6%) below estimate with spending of $819.9 million through November (see Table 6). The HMO disbursement variance stems from a slower than projected rollout of a planned managed care expansion. Enrollment in the managed care program is 209,477 (18.7%) under the budgeted level for this point in the fiscal year.

The Nursing Facilities Payments service category is below estimate by $39.6 million (3.5%) through November with spending of $1,090.6 million. The All Other category is $79.3 million (28.7%) below estimate with spending of $197.3 million through November. 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 $30.7 million (26.4%).

Other significant contributors to the year-to-date variance include the Inpatient Hospitals category, which is $58.5 million (9.1%) below estimate, and the Prescription Drugs category, which is $35.1 million (7.4%) below estimate. Compared to the same point in FY 2006, Health Care/Medicaid service payments are $223.5 million (4.9%) lower in the current fiscal year (see Table 7). Once offsets are taken into account, FY 2007 net spending to date is $293.2 million (6.8%) lower than at the same point in FY 2006.[3]

TANF. Under the Temporary Assistance for Needy Families (TANF) program, as a

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 Nov. '07	FY 2006 Yr.-to-Date as of Nov. '06	Dollar Change	Percent Increase
Nursing Facilities Payments	$1,090,567	$1,111,324	($20,757)	-1.9%
ICF/MR Payments	$217,382	$212,738	$4,644	2.2%
Inpatient Hospitals	$587,085	$663,008	($75,923)	-11.5%
Outpatient Hospitals	$270,573	$293,095	($22,522)	-7.7%
Physicians	$247,641	$269,967	($22,326)	-8.3%
Prescription Drugs	$441,790	$863,509	($421,719)	-48.8%
ODJFS Waiver	$147,215	$94,552	$52,663	55.7%
HMO	$819,865	$505,203	$314,662	62.3%
Medicare Buy-In	$130,903	$89,849	$41,054	45.7%
Home Health	$62,043	$72,479	($10,436)	-14.4%
Dental	$36,882	$56,360	($19,478)	-34.6%
Hospice	$58,167	$50,716	$7,451	14.7%
All Other	$197,283	$248,074	($50,791)	-20.5%
Total Medicaid Payments	**$4,307,396**	**$4,530,874**	**($223,478)**	**-4.9%**
Medicare Part D	$98,338	N/A	N/A	N/A
Capital Compensation Program	$1,963	N/A	N/A	N/A
DA Medical	$12,032	$22,085	($10,053)	-45.5%
Drug Rebates Offsets	($179,530)	($173,308)	($6,222)	3.6%
Revenue & Collections	($32,603)	N/A	N/A	N/A
ICF/MR Franchise Fee Offsets	($7,598)	($7,803)	$205	-2.6%
NF Franchise Fee Offsets	($111,758)	($37,514)	($74,244)	197.9%
DSH Rebate Offsets	($7,478)	N/A	N/A	N/A
MCP Assessments	($39,663)	N/A	N/A	N/A
Total Health Care (Net of Offsets)	**$4,041,099**	**$4,334,334**	**($293,235)**	**-6.8%**
Est. Federal Share	$2,421,955	$2,597,700	($175,745)	
Est. State Share	$1,619,144	$1,736,634	($117,490)	

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 the federal poverty level (FPL). The state receives an enhanced federal medical assistance percentage (FMAP) for CHIP II.
5. DA Medical is a state-only funded program.
6. The 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.

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.

As of November, the TANF program has a year-to-date variance of $11.7 million (8.8%) above estimate. The bulk of the variance was registered in line item 600-410, TANF State, which is now over estimate by $7.7 million (10.2%). The variance stems from higher than anticipated "auxiliary payments" for new cases in October and from other timing-related factors.

Line item 600-413, Day Care Match/MOE, is over estimate by $4.0 million (6.9%) for the year to date.

In November, the TANF caseload shrank to a new historical low point. The number of TANF recipients dropped to 169,000, and the number of assistance groups dropped to 78,900. The size of the average assistance group is now 2.14 members, also a new historical low point.

Job and Family Services. Disbursements for the Department of Job and Family Services' operating and subsidy programs were $9.2 million (19.9%) under the November estimate and stand at $19.8 million (7.2%) 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 $8.0 million (19.6%), and line item 600-321, Support Services, which was under estimate by $5.7 million (21.5%). 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, is largely due to postage payments for check mailings and general notices, payroll costs, and lease payments, 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 November, disbursements by the Department of Mental Health were under estimate by $10.3 million, largely offsetting the $10.8 million overage in October. For the year to date, the Department's disbursement variance shrank to $1.9 million (0.7%) over estimate. Most of November's variance is traceable to the timing of payments from two line items: 335-505, Local MH Systems of Care, and 334-408, Community and Hospital Mental Health Services.

Mental Retardation and Developmental Disabilities. November's disbursements by the Department of Mental Retardation and Developmental Disabilities were $2.4 million over estimate, which reduced the year-to-date variance to $11.3 million (6.5%) under estimate. The variance is largely traceable to the timing of Medicaid claims.

Education (-$67.0 million)

November outlays totaling $1,149.3 million in the Education category were $39.7 million (3.3%) under estimate. For the year to date, total outlays of $4,271.5 million in this category are $67.0 million (1.5%) under estimate, with the Department of Education and Board of Regents contributing about equally to the underspending.

Department of Education. November disbursements of $790.0 million by the Department of Education were $56.5 million (6.7%) under estimate. The Department's year-to-date disbursement variance stands at $27.7 million (0.9%) under estimate.

The largest contributor to the variance for the month was line item 200-550, Foundation Funding, which was under estimate by $54.6 million (7.8%). 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 first December payment posted as expected in late November, and it was the first payment of the fiscal year to use actual rather than estimated attendance data. Compared to the estimated enrollments used to calculate the second November payment, the enrollments used to calculate the first December payment were 22,000 less. Also affecting disbursements from this line item was a $20 million joint vocational school district payment that did not post in November as expected.

Board of Regents. With a disbursement variance of $15.2 million (4.8%) under estimate for November, year-to-date outlays from the Board of Regents' line items totaling $1,069.5 million are under estimate by $32.5 million (2.9%). The largest contributor to the variance for the year to date is underspending from line item 235-420, Success Challenge, which is under estimate by $13.1 million. This line item is used to support efforts to promote the completion of degrees by "at-risk" baccalaureate students, as well as by all baccalaureate students. The variance stems from the estimated payment not being made in either October or November. This variance should be offset in the coming months.

Another significant contributor to the variance for the year to date is disbursements from line item 235-563, Ohio College Opportunity Grants, which are $9.9 million (100%) under estimate for the year to date. Initial payments to campuses have not yet taken place. This new grant program is being phased in while the Ohio Instructional Grant and Part-time Instructional Grant programs are being phased out. The Ohio College Opportunity Grant program will provide need-based financial aid based on the federally determined "expected family contribution" measure, which is the same measure that the federal government uses to determine eligibility for Pell Grants. The initial payment is now expected in December.

Government Operations (-$39.1 million)

In November, outlays in the Government Operations category were $1.3 million (0.7%) above estimate. For the year to date, disbursements in the category are $39.1 million (3.1%) under estimate.

Among the category's more than 40 agencies, the largest variance for the year to date is the $11.5 million of underspending by the Department of Development. The remainder of the variance for the year to date was spread out among the rest of the agencies in the category.

Development. November outlays by the Department of Development were $5.8 million (40.8%) below estimate. For the year to date, the Department's disbursements are $11.5 million (23.1%) below estimate. The largest portion ($6.0 million) of the year-to-date variance is traceable to line item 195-515, Economic Development Contingency. This appropriation item provides grants similar in nature to the Business Development Grant program but supports larger capital investment projects. The variance is in disbursements from the FY 2006 appropriation. Disbursements from item 195-515 are made on a reimbursement basis when certain project deliverables or milestones are met. In FY 2007, this appropriation item is replaced with GSF 195-677, Economic Development Contingency, which draws revenue from a transfer of unclaimed funds.

Tax Relief ($1.4 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. Payments for the homestead exemption and for rollbacks continued in November to correct for the higher than estimated disbursements that were made 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). November's disbursements for the program as a whole were $79.1 million (49.8%) under estimate. For the year to date, tax relief payments have totaled $500.7 million out of a $1,243.8 million appropriation and are above estimate by $1.4 million (0.3%).

**LSC colleagues who contributed to the development of this disbursements report include, in alphabetical order, Phil Cummins, Deauna Hale, Brian Hoffmeister, Ed Millane, David Price, Wendy Risner, and Maria Seaman.*

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[1] Disbursements plus transfers out total $11,981.0 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 November, a transfer of $213.8 million was made. When transfers out are included, the amount disbursed for the year to date has decreased by 1.0% 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 actual disbursements in July, with differences added to the November 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.