

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JANUARY 2007

FISCAL OVERVIEW

— Allan Lundell

At the midpoint of FY 2007, General Revenue Fund (GRF) receipts are \$267 million below estimate, disbursements are \$523 million below estimate, and the cash balance is \$256 million above its expected level.¹

Receipts

For the month of December, total GRF receipts of \$2,072.5 million were above estimate by \$9.3 million (0.5%). State-source receipts were above estimate by \$53.3 million (3.4%) and federal grants were below estimate by \$44.0 million (8.9%). Federal grants are down primarily because state Medicaid spending is down.² Tax revenues were essentially on target for the month, coming in below estimate by \$323,308 (0.02%). Revenue from the sales and use tax was below estimate by \$36.6 million (5.2%); nonauto tax revenue was below estimate by \$35.2 million (5.5%) and auto tax revenue was below estimate by \$1.5 million (2.3%). Personal income tax revenue was \$20.5 million (3.0%) above estimate and revenue from the corporate franchise tax was above estimate by \$11.1 million. Earnings on investments were above estimate by \$10.3 million (32.2%). Other revenue was \$51.8 million above estimate primarily due to a transfer of unclaimed funds that was estimated for February but done in December instead.

Fiscal year-to-date GRF receipts of \$11,923.5 million are \$267.0 million (2.2%) below estimate and are down 1.9% compared to FY 2006. State-source receipts are \$59.0 million (0.6%) above estimate and federal grants are \$326.0 million (10.5%) below estimate. Tax revenues are below estimate by \$33.8 million (0.4%). Personal income tax revenue is above estimate by \$69.3 million (1.8%) and corporate franchise tax revenue is above estimate by \$20.6 million (55.7%). Revenue from the sales and use tax is below estimate by \$132.7 million (3.5%); nonauto tax revenue is below estimate by \$124.6 million (3.7%) and auto tax revenue is below estimate by \$8.1 million (1.7%). Earnings on investments are \$22.4 million (32.1%) above estimate and other revenue is above estimate by \$50.2 million.

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- Tracking the Economy 101
- The national economy expanded further in December
 - Inflation has eased but is continuing
 - The pace of growth in Ohio's economy substantially trails that of the nation

STATUS OF THE GRF

- Revenue 106
- 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..... 115
- Year-to-date GRF spending was \$495 million (3.7%) under OBM's estimate
 - Medicaid accounted for 84% of this variance, and more than accounted for the year-to-date decline, compared with FY 2006, in total GRF program disbursements

ISSUES OF INTEREST

- Lottery Ticket Sales and Profit
Transfers Second Quarter 123

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 December	Fiscal Year 2007 to Date	Last Year	Difference
Beginning Cash Balance	-\$601.2	\$1,528.8		
Plus Revenue and Transfers In	\$2,072.5	\$11,923.5		
Available Resources	\$1,471.3	\$13,452.3		
Less Disbursements and Transfers Out	\$1,729.5	\$13,710.5		
Ending Cash Balances	-\$258.2	-\$258.2	-\$413.6	\$155.4
Less Encumbrances and Accts. Payable		\$821.8	\$771.8	\$50.0
Unobligated Balance		-\$1,080.0	-\$1,185.4	\$105.4
Plus BSF Balance		\$1,012.3	\$576.6	\$435.7
Combined GRF and BSF Balance		-\$67.7	-\$608.8	\$541.1

Disbursements

December GRF program disbursements of \$1,729.5 million were below estimate by \$15.7 million (0.9%). Disbursements for property tax relief were below estimate by \$17.7 million (15.2%) and debt service payments were \$11.2 million (59.6%) below estimate. Disbursements for health care/Medicaid were below estimate by \$66.4 million (7.9%) and TANF disbursements were \$13.8 million (29.3%) below estimate. Disbursements for higher education were \$53.4 million (33.%) above estimate, disbursements for primary and secondary education were \$16.8 million (5.9%) above estimate, and disbursements for justice and corrections were above estimate by \$12.3 million (9.9%).

Fiscal year-to-date GRF program disbursements of \$13,019.7 million are \$494.5 million (3.7%) below estimate and are down 1.4% compared to FY 2006. Disbursements for health care/Medicaid are below estimate by \$416.6 million (8.0%) and disbursements for primary and secondary education are below estimate by \$17.7 million (0.5%). Disbursements for higher education are \$20.9 million (1.7%) above

estimate. Disbursements for property tax relief are below estimate by \$16.3 million (2.6%) and debt service payments are \$11.9 million (4.4%) below estimate.

Cash Balance

As shown in Table 1, the GRF began FY 2007 with a \$1,528.8 million cash balance. Through December, FY 2007 revenues plus transfers in totaled \$11,923.5 million and disbursements plus transfers out totaled \$13,710.5 million. The year-to-date deficit of \$1,787.0 million reduced the cash balance to -\$258.2 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 -\$514.0 million, \$255.8 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.

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

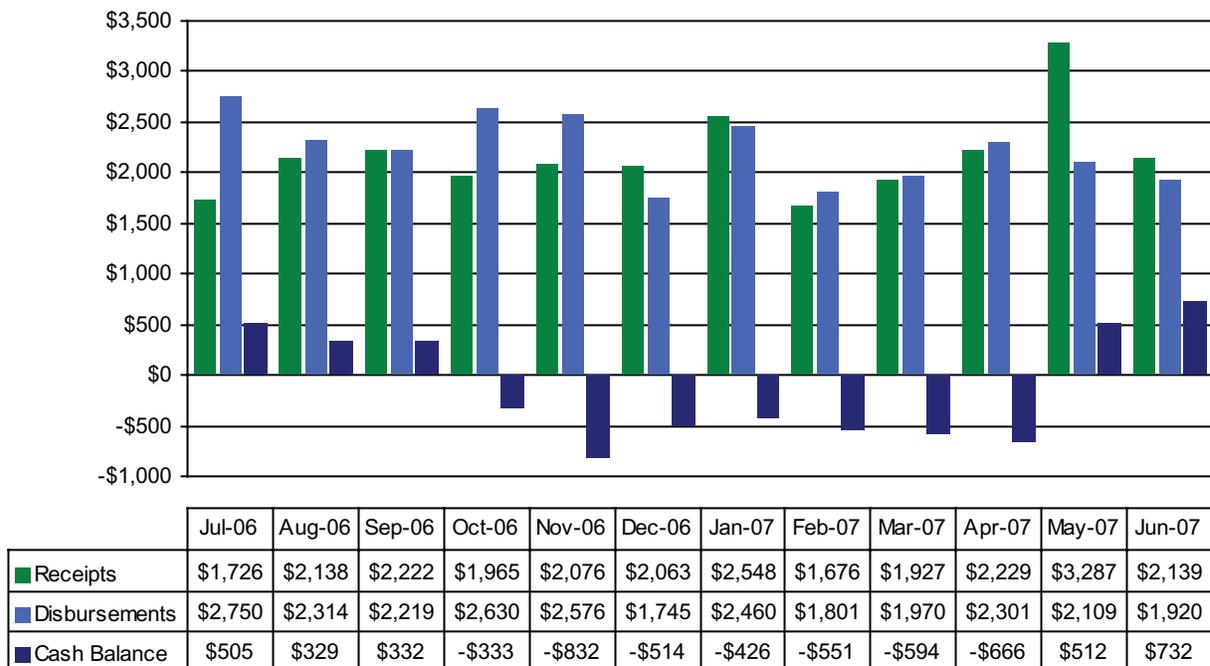
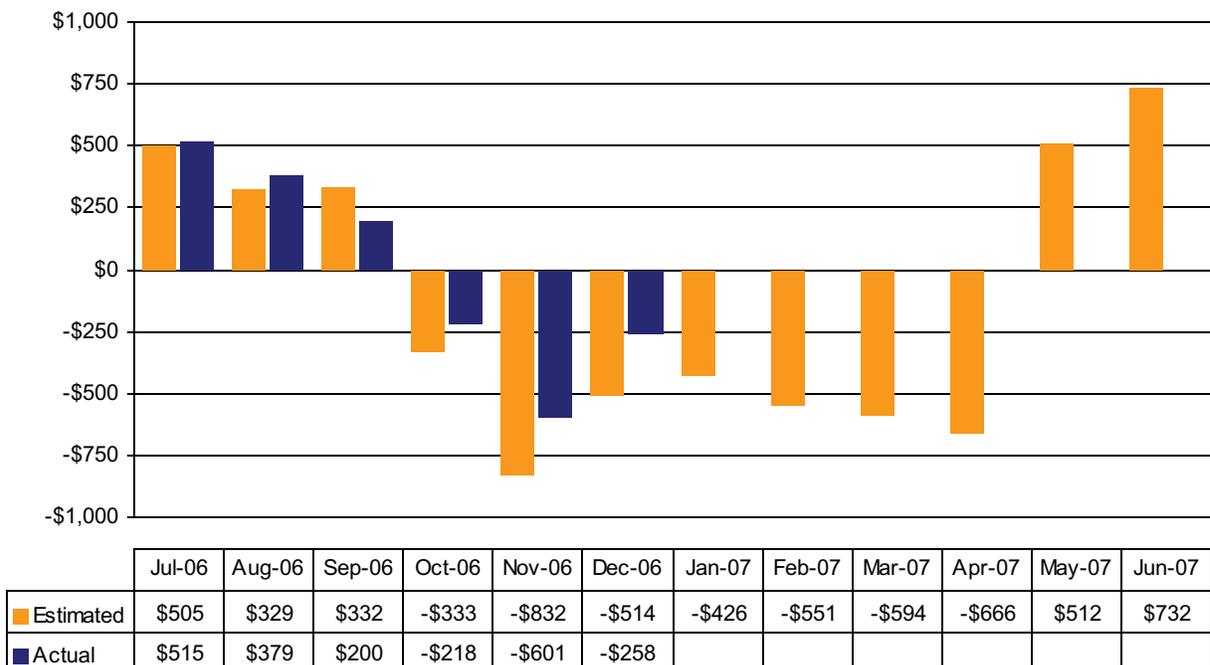


Chart 2: Actual and Estimated Ending Cash Balances
(FY 2007, in millions)



Encumbrances and accounts payable of \$821.8 million combine with the cash balance to yield an unobligated balance of -\$1,080.0 million, \$105.4 million higher (less negative) than a year ago. The \$1,012.3 million in the Budget Stabilization Fund (BSF) is \$435.7 million higher

than a year ago. This amount is 3.9% of FY 2006 GRF receipts and is 1.1 percentage points less than the 5% target amount stated in section 131.44 of the Revised Code. The combined GRF and BSF balance of -\$67.7 million is \$541.1 million higher (less negative) than it was a year ago.

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*

The national economy continued to expand through December. Employment, production, and retail sales rose. Economic activity is growing more slowly than earlier. Housing starts increased and sales of new and used homes rose in November. Excess inventories of houses are restraining activity in this sector. Price inflation has eased but is continuing, by most measures. The nation's inflation-adjusted gross domestic product (GDP) grew in last year's third quarter at a 2.0% annual rate (revised from 2.2% previously estimated), down from 2.6% in the second quarter, 5.6% in the first quarter, and 3.2% in all of last year.

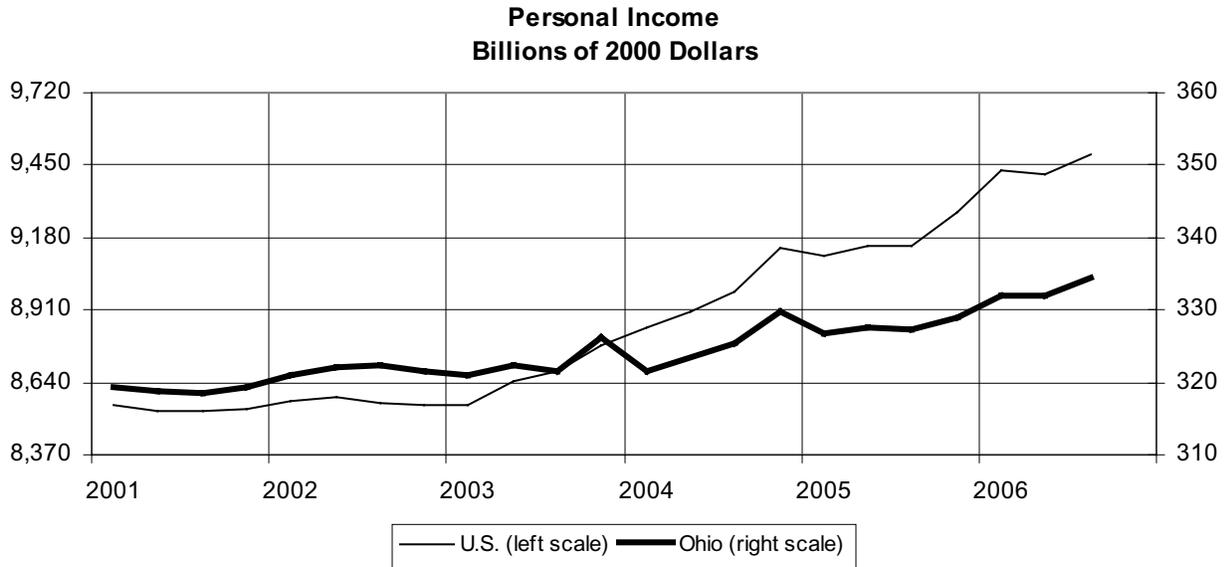
Ohio's Population Little Changed in 2006

Ohio's population is estimated by the United States Census Bureau at 11,478,006 on July 1, 2006, up 7,321 or 0.1% from a year earlier. The nation's population rose almost 2.9 million or 1.0% in the latest year to over 299 million. More than half of this growth was in the South and over one-third was in the West. Net migration from other countries is estimated to account for 1.2 million of the country's population rise in the latest year, while natural increase (births minus deaths) added 1.7 million people. Slow growth in Ohio resulted from net outmigration to other states as well as lower rates of immigration from abroad and of natural increase than in faster-growing states. The highest rates of growth were in Arizona, followed by Nevada, Idaho, and Georgia, each adding 2.5% or more to their populations. The largest increases, totaling more than 1.4 million people or half of the total nationwide increase, were in Texas, Florida, California, and Georgia. Ohio's growth rate in the latest year ranked 45th among the 50 states. Massachusetts' population also rose 0.1%, while the populations of New York, Michigan, and Rhode Island declined. Louisiana's population fell more than 200,000 or nearly 5% from July 1, 2005, reflecting the impact of Hurricane Katrina later that year.

An annual study of its traffic patterns by interstate mover United Van Lines found that in calendar year 2006, a high percentage of moves were outbound in states stretching from Illinois and Michigan east through Ohio to New Jersey and New York. Louisiana and North Dakota also had relatively high shares of moves outbound. Prime destinations were in the Southeast and West.

Personal Income Growth in Ohio Close to That of the Nation in the Third Quarter

Personal income in Ohio rose 1.3% from the second quarter to the third quarter, nearly matching the 1.4% increase for the nation. Over the past several years, however, personal income growth in Ohio has substantially trailed that of the nation, as shown in the accompanying chart. In its latest report on state personal income, the United States Bureau of Economic Analysis indicated that Michigan accounted for almost half of the national gain in earnings at durable goods manufacturers in the third quarter despite job losses of 3.1%, mainly due to employee buyouts by General Motors and Delphi. These buyouts also added to incomes in Ohio as well as in Delaware, Indiana, and Louisiana. Excluding buyouts, earnings growth at durable goods manufacturers was generally anemic. Other industries making sizable contributions to income growth in Ohio were professional and technical services, health care and social assistance, and state and local government. States with fast-growing incomes were again in the South and West—helped by expanding construction activity in those regions, strength in the oil and gas extraction sector, and hurricane recovery in Louisiana. The fastest growth in earnings was in the state of Washington as a result of huge gains on stock options exercised.



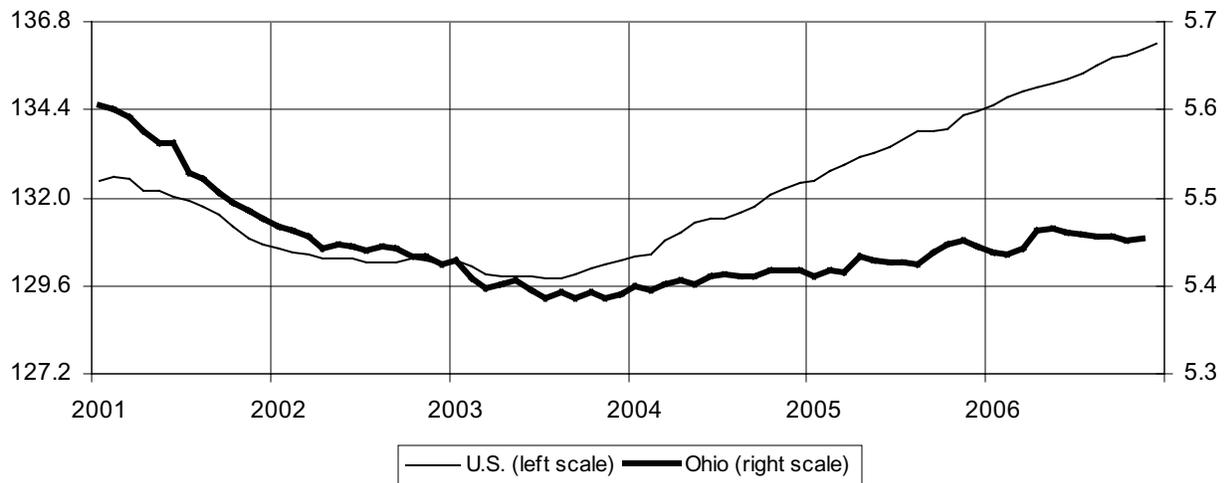
Employment Gains Continued Sizable Nationwide but Anemic in Ohio

Nonfarm payroll employment nationwide rose by 167,000 from November to December, to 1.8 million (1.4%) more employees than a year earlier. Job gains continued to be concentrated in various industries in the service sector, including professional and business services, health care, restaurants and bars, finance, transportation, and warehousing. Employment rose in nonresidential construction but fell in residential construction. The number of manufacturing jobs continued to shrink. Unemployment nationwide totaled 6.8 million people or 4.5% of the labor force,

equaling November's rate and just above the low for this business cycle of 4.4% in October.

In Ohio, total nonfarm payrolls in November, the latest month for which data are currently available, were only 300 above a month earlier and 1,200 (0.02%) above a year earlier. As in the nation as a whole, gains in the latest month and year were predominantly in various service industries. Statewide employment fell each month from January through October by a total of 12,400. Unemployment in the state rose in November to 5.4% of the labor force from 5.1% in October and a cyclical low of 5.0% in March.

Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



Production Growth Turns Higher in December

Industrial production nationwide rose 0.4% in December but declined in the previous three months. Manufacturing output rose 0.7% in December with gains in most major industry groups. However, factory production in the fourth quarter declined from the third quarter at a 1.4% annual rate, the first quarterly decline since the second quarter of 2003. Output of consumer goods slowed in the fourth quarter reflecting cuts in the production of motor vehicles and of appliances, furniture, and carpeting. Growth of output of home electronics equipment continued strong. Production of business equipment expanded again but not as rapidly as earlier, with sizable gains in output of commercial aircraft and of information processing equipment. Heavy truck production, which was strong last year ahead of tougher EPA standards for diesel engines, will likely slow sharply this year. Output of industrial equipment was about flat in last year's fourth quarter. Production of supplies for construction fell.

The Institute for Supply Management's monthly survey of purchasing managers at manufacturers showed modest improvement in production activity and orders in December, after allowance for usual seasonal slowdowns, but order backlogs, inventories, and employment continued to decline. More purchasing managers reported paying lower prices than reported paying higher prices for only the third month since early 2002. Among purchasing managers in the nonmanufacturing sector, most measures of activity indicated continued expansion. An exception was order backlogs, which fell. Those paying more continued to outnumber those paying less, but by a narrower margin than earlier in 2006, 2005, and most of 2004.

The "Beige Book," a compilation by Federal Reserve banks of comments on business conditions from contacts outside the central bank, indicated continued economic expansion in most parts of the country at a modest pace in recent weeks. An exception was the Cleveland Federal Reserve District, which reported softening

economic activity. In the Cleveland District, which includes Ohio and parts of three adjacent states, businesses and consumers were described as more cautious in their outlook. Production at District manufacturers was characterized as stable to increasing, though demand for steel continued soft reflecting weakness in motor vehicle, appliance, and residential construction markets. Commercial construction was described as mixed, in contrast with strong activity in some other parts of the country. Holiday sales at District retailers also were characterized as mixed.

Rising Consumer Spending Nationwide

The dollar value of retail sales rose strongly in December, increasing 0.9% after growing 0.6% in November. Robust buying of electronics boosted sales at electronics and appliance stores by 3.0% in December after a 5.8% jump in November. Gasoline station sales rose as gasoline prices increased from recent lows in October. Gasoline prices turned back down this month. Motor vehicle dealer sales edged higher in December as unit sales of cars rose. Adjusted for inflation, consumer spending advanced strongly in October and November and appears to have grown at around a 4% annual rate in the fourth quarter.

Weakness in Residential Construction Activity May Be Approaching an End

The dollar value of construction spending in the United States in November was an estimated 0.2% below October's rate, the fifth consecutive monthly decline in this measure (seasonally adjusted). Housing construction has slowed while most other types of construction spending have grown, with some sectors up at double-digit rates. Private residential construction has fallen 11% since a peak in December 2005. During the same period, private nonresidential building has grown 15% and public construction has expanded 9%.

Housing starts nationwide rose 4% in December, seasonally adjusted, and were 11% higher last month than the recent low in October. In the Midwest, housing starts last month were

2% higher than the recent low in November. The December upturn was strongest in the Northeast, followed by the West. Unseasonably warm weather in December may have allowed some starts that with more typical weather would have been deferred. Seasonal adjustment of these data is large in December through February, particularly in northern states, tending to boost small changes. For all of last year housing starts fell 13% nationwide and 22% in the Midwest. Permits for construction of new housing also turned higher in December, rising 5% nationwide from the recent low in November. No such upturn took place in the Midwest.

With the rise in other longer-term interest rates since early December, residential mortgage interest rates have retraced part of their decline from peaks last summer. A nationwide average of interest rates on 30-year fixed-rate mortgages (from the Freddie Mac weekly survey) climbed to 6.21% in the week ending January 11, above the recent low of 6.11% in early December but well down from the peak of 6.80% in July, the highest in about four years.

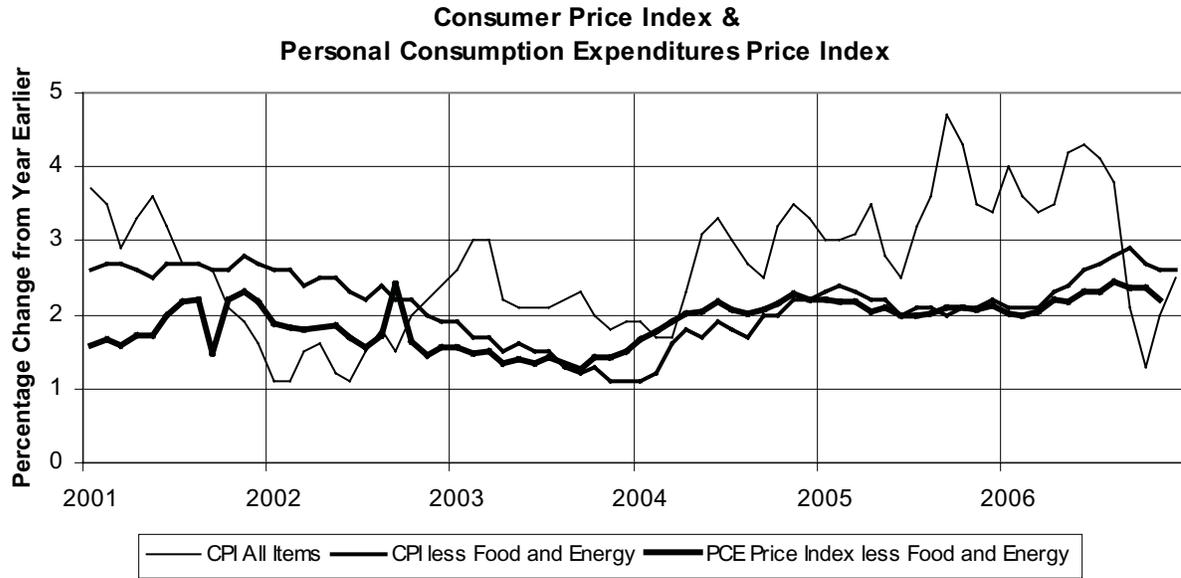
Home sales may be beginning a recovery, but inventories of unsold units remain high. Excess inventories will continue to weigh on construction activity even if sales keep improving. Sales of new homes nationwide in November rose 3%, seasonally adjusted, from October to November, and were 7% above the recent low point for home sales in July. However, reflecting the sharp drop in sales earlier, year-to-date new home sales were 17% below their year-earlier pace nationwide and 21% lower in the Midwest. The number of finished homes waiting to be sold was 57,000 or 51% higher than a year earlier, while the inventory of homes under construction has been worked down to below the year-earlier level. This may understate the severity of the inventory overhang, since the United States Census Bureau counts a home as sold when a sales contract is entered into and does not follow up to determine if the sale is closed or canceled. A home counted as sold is not counted in the inventory of completed homes after it is finished, even if the sale is canceled and the builder continues to own it. Sales of used homes in the United States, reported by the

National Association of Realtors, rose slightly in November, seasonally adjusted, and are up 1% from a low in September. Year-to-date unit sales were 8% lower than a year earlier in the nation and 6% lower in the Midwest. The inventory of unsold listings nationwide is nearly 1 million homes or 31% above a year earlier, but has been reduced 1% from a peak at the end of July. In Ohio, year-to-date unit sales through November were 3% below a year earlier.

Inflation Continued in December

The consumer price index (CPI) rose 0.5% in December to 2.5% above a year earlier. The December increase in the all-items index followed no change in November and declines in September and October. Energy prices rose 4.6% in December, including an 8% increase in gasoline prices. The index for food prices was unchanged last month. Freeze damage this month to California crops will tend to be reflected in an increase in this index when it is reported a month from now. Excluding energy and food prices, the consumer price index rose 0.2% in December to 2.6% above a year earlier, its most rapid rise in a full calendar year since 2001. The rate of increase in this measure has, however, moderated since the second quarter of 2006. Year-over-year increases in the consumer price index for all items and excluding food and energy prices are shown in the accompanying chart, along with another inflation measure monitored by monetary policy makers, the personal consumption expenditures (PCE) price index excluding food and energy.

The producer price index rose 0.9% in December to 1.1% above a year earlier, mainly as a result of higher energy and food prices. Excluding food and energy, finished goods prices rose 0.2% in December to 2.0% above December 2005. At earlier stages in the production process, intermediate goods prices rose 0.5% last month to 1.0% above a year earlier, and crude materials prices rose 2.9% but were 2.4% below December 2005. Separately, crude oil prices fell this month to their lowest levels since May 2005. Gasoline prices have fallen in response, with regular gasoline in Ohio averaging \$2.05 per gallon in mid-January.



Rise in Interest Rates

Market interest rates have risen over the past month, apparently reflecting a lessened expectation among market participants that the Federal Reserve will lower its short-term interest rate target in the near future. Yields on ten-year United States Treasury notes have risen from less than 4.5% in December to over 4.75% recently, still well below the 5.25% peak last summer. Other longer-term borrowing rates have also climbed. The nation's monetary policy makers

remained concerned, at the December meeting of their policy-setting Federal Open Market Committee, about the outlook for inflation. They regarded increases in inflation measures excluding food and energy as “uncomfortably high” even with the improvement that has taken place since last spring, according to minutes of the meeting. This group next meets January 30-31, ahead of the Federal Reserve chairman's semiannual testimony to Congress next month on monetary policy.

Status of the General Revenue Fund

REVENUE

— Jean Botomogno and Allan Lundell

For the month of December, General Revenue Fund (GRF) receipts of \$2,072.5 million were above estimate by \$9.3 million (0.5%).¹ State-source receipts were above estimate by \$53.3 million (3.4%) and federal grants were below estimate by \$44.0 million (8.9%).² Federal grants are below estimate because state Medicaid spending is below estimate. Tax revenues were below estimate by \$323,308 (0.02%). Revenue from the sales and use tax was below estimate by \$36.6 million (5.2%); nonauto tax revenue was \$35.2 million (5.5%) below estimate and auto tax revenue was below estimate by \$1.5 million (2.3%). Personal income tax revenue was \$20.5 million (3.0%) above estimate and revenue from the corporate franchise tax was above estimate by \$11.1 million. Earnings on investments were \$10.3 million (32.2%) above estimate. Other revenue was above estimate by \$51.8 million, primarily due to an earlier than estimated transfer of unclaimed funds. The transfer was estimated for February but done in December instead.

At the midpoint of FY 2007, total GRF receipts of \$11,923.5 million are \$267.0 million (2.2%) below estimate. State-source receipts are \$59.0 million (0.6%) above estimate and federal grants are \$326.0 million (10.5%) below estimate. Tax revenues are below estimate by \$33.8 million (0.4%). Revenue from the sales and use tax is below estimate by \$132.7 million (3.5%); revenue from the nonauto tax is below estimate by \$124.6 million (3.7%) and revenue from the auto tax is below estimate by \$8.1 million (1.7%). Revenue from the personal income tax is above estimate by \$69.3 million (1.8%) and corporate franchise tax revenue is above estimate by \$20.6 million (55.7%). Earnings on investments are above estimate by \$22.4 million (32.1%) and other revenue, boosted by the early transfer of unclaimed funds, is above estimate by \$50.2 million (132.9%).

For the fiscal year to date, total GRF receipts are down 1.9% compared to FY 2006. State-source receipts are up 0.4% and federal grants are down 8.8%. Tax revenue is down 2.0%. Revenue from the personal income tax is down 1.2%, reflecting reduced withholding rates. Revenue from the sales and use tax is down 1.8%; nonauto tax revenue is down 0.9% and auto tax revenue is down 8.0%. Revenue from the cigarette tax is down 8.8%, largely due to a comparison with FY 2006 revenues that included receipts from the floor tax associated with the July 2005 increase in the cigarette tax.³ Earnings on investments are up 95.0%, due to higher interest rates and larger investment balances. Chart 1 compares FY 2007 receipts with FY 2006 receipts and FY 2007 estimates.

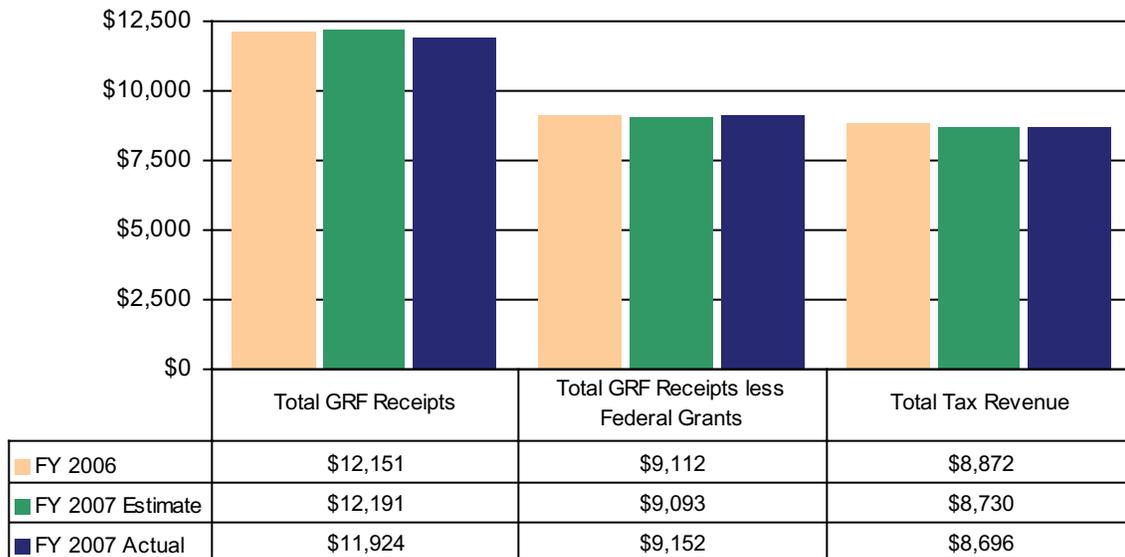
Personal Income Tax

The GRF received \$707.1 million from the personal income tax in December. This amount was \$20.5 million (3.0%) more than estimated. Gross collections were above estimate by \$23.8 million (3.1%) and refunds were \$3.0 million (20.7%) more than estimated. Withholding was above estimate by \$5.1 million (0.8%) and quarterly estimated payments were \$11.5 million (10.0%) above estimate.⁴

The GRF has received \$4,018.2 million from the personal income tax thus far this fiscal year. This amount is \$69.3 million (1.8%) above estimate. Gross collections are above estimate by \$90.9 million (2.0%) and refunds are \$20.4 million (13.8%) above estimate. The \$3,857.3 million collected through withholding is \$45.2 million (1.2%) above estimate. Withholding is expected to account for 72% of gross income tax collections for FY 2007. Year-to-date quarterly estimated payments are \$25.7 million (5.1%) above estimate. Trust payments are \$2.5 million (12.9%) above estimate and payments associated

Chart 1: Year-to-Date GRF Receipts

(in millions)



with annual returns are above estimate by \$9.4 million (7.9%).

Compared to a year ago, GRF revenue from the personal income tax is down 1.2%. Gross collections are down 0.1% and refunds are up 33.5%. Withholding, which reflects the condition of Ohio's labor market, is down 1.7%.⁵ Quarterly estimated payments are up 9.3%. Trust payments are down 4.2% and payments associated with annual returns are up 9.5%.

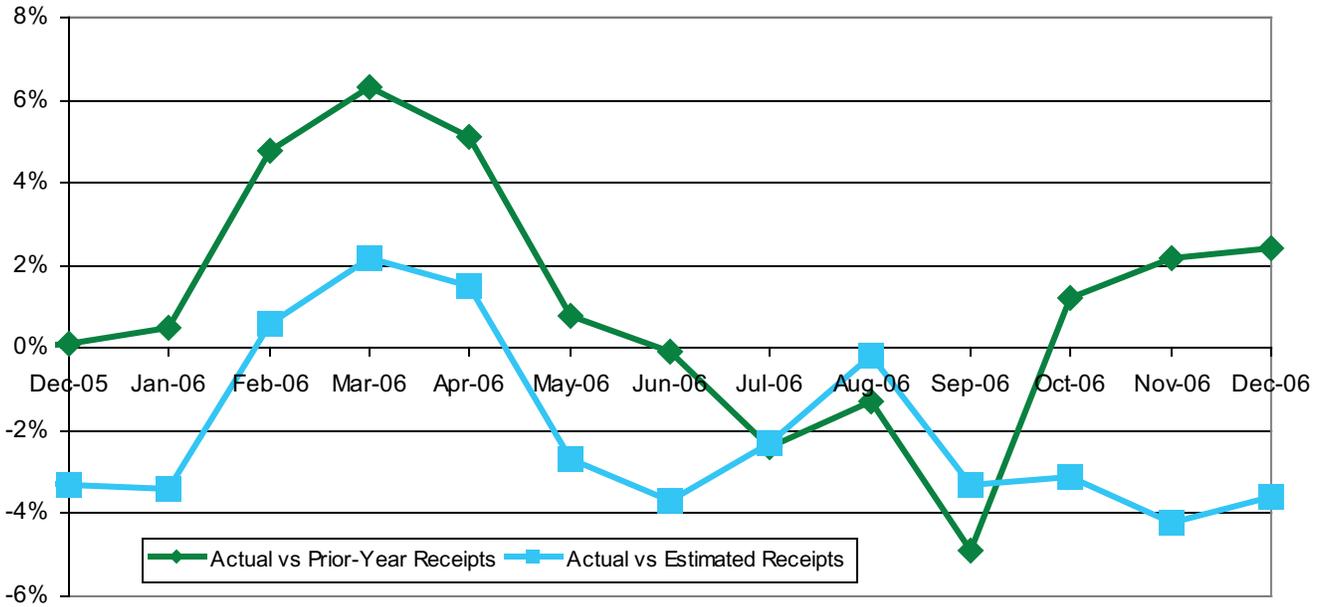
Sales and Use Tax

Total sales and use tax revenues in December 2006 were \$664.6 million, \$36.6 million (5.2%) below projected revenues. Auto sales and use tax receipts were \$1.5 million (2.3%) below estimate. Nonauto sales and use tax receipts were \$35.2 million (5.5%) below estimate. Total sales and use tax receipts in December 2006 were \$28.8 million (4.2%) below December 2005 revenues. Tax receipts for a given month partly reflect taxable retail sales activity during that month and partly taxable retail sales during the prior month.⁶ Through December, FY 2007 sales and use tax revenues were \$3,713.5 million, \$132.7 million (3.5%) below estimate. FY 2007 sales and use tax receipts were also \$68.1 million (1.8%) below year-to-date tax receipts in FY 2006. On a quarterly basis, first-quarter receipts in FY 2007 were \$103.5 million (5.3%)

below receipts in the same period in FY 2006. Sales and use tax receipts improved in the second quarter. Second-quarter receipts in FY 2007 were \$35.4 million (1.9%) above second-quarter receipts in FY 2006.

The performance of the sales and use tax has been troubling in FY 2007. Chart 2 presents the growth in sales and use tax receipts from December 2005 to December 2006. Actual monthly receipts are compared to estimated receipts and also to prior-year receipts in the same month. Starting July 1, 2005, the sales and use tax rate declined from 6.0% to 5.5%. (The sales and use tax rate was 6.0% in FY 2005.) To allow for a better comparison with prior-year receipts, receipts from July 2004 to June 2005 were adjusted for the rate change. When required, the growth in year-over-year monthly receipts was based on the change in the calculated monthly tax base. The chart shows the three-month moving average of receipts, which provides a better indication of trends in receipts. For example, the calculated growth rate for December 2005 is the average growth rate for October, November, and December. A moving average also reduces the impact of the lag between sales activity and tax collections that occurs with the sales and use tax. Finally, a moving average smoothes the effects of the tax rate change on consumer purchases and tax receipts. (Generally, consumers will postpone certain purchases when facing an impending rate

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



decrease in the sales and use tax, which impact receipts before and after the rate change).

Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were again below estimate in December. Revenues in December were \$601.7 million, \$35.2 million (5.5%) below estimate. Nonauto sales and use tax receipts were also \$26.4 million (4.2%) below

revenues in the same month a year ago. Through December, FY 2007 nonauto sales and use tax receipts were \$3,259.1 million, \$124.6 million (3.7%) below estimate, and \$68.1 million (0.9%) below receipts through December in FY 2006. First-quarter receipts in FY 2007 were \$1,588.9 million, \$60.2 million (3.7%) below estimate, and \$44.0 million (2.7%) below first-quarter receipts in FY 2006. Second-quarter receipts were \$1,670.1 million, \$64.4 million

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

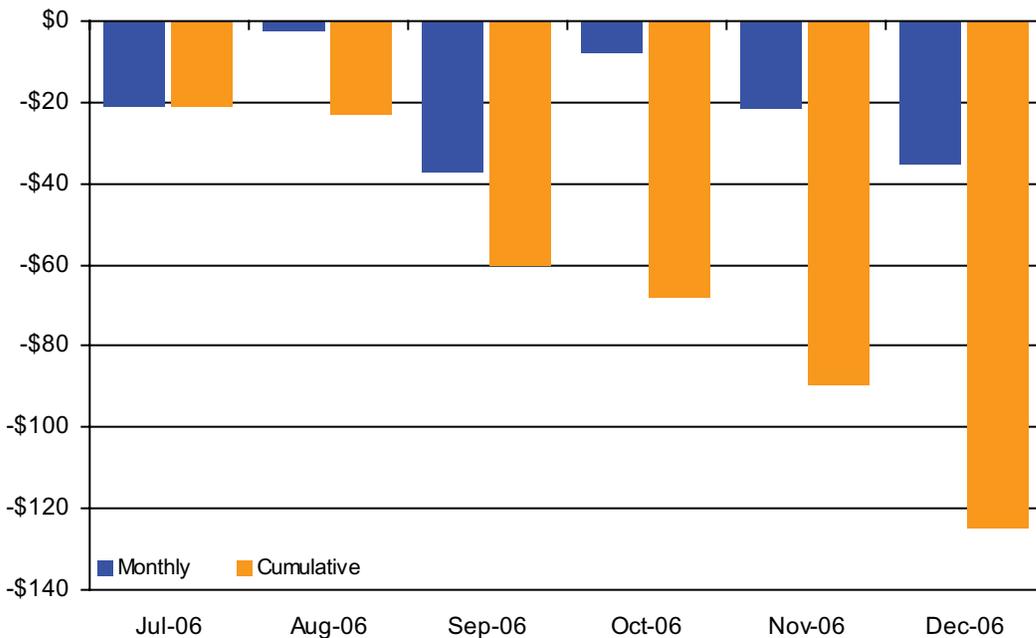
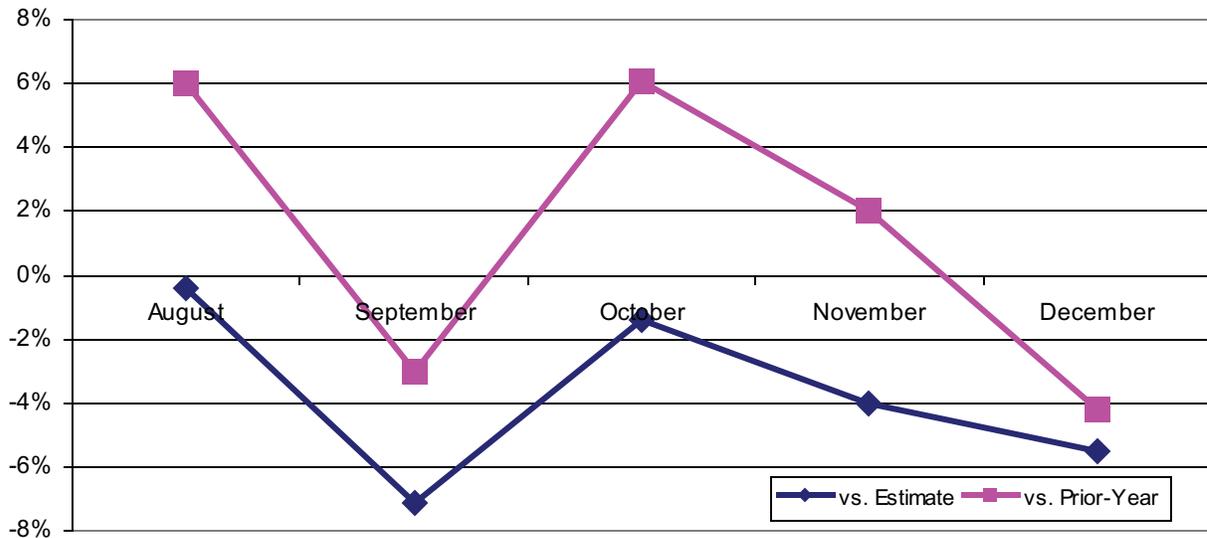


Chart 4: Monthly Nonauto Sales Tax Variance



(3.7%) below estimate, and \$15.1 million (0.9%) above second-quarter receipts in FY 2006.

Weaknesses in housing and manufacturing are taking a toll on spending growth and prolonging the slump in receipts from the nonauto sales and use tax. Taxable retail sales during the holiday season through December appear to have solidified the inferior performance of the nonauto sales and use tax.

Core retail sales (sales excluding autos and gasoline) grew 0.5% and 0.7% in November and December, respectively. This growth was much better than the 0.2% increase in the previous two-month period. Compared to monthly sales last year, core retail sales grew 5.6% and 6.1% in November and December 2007.

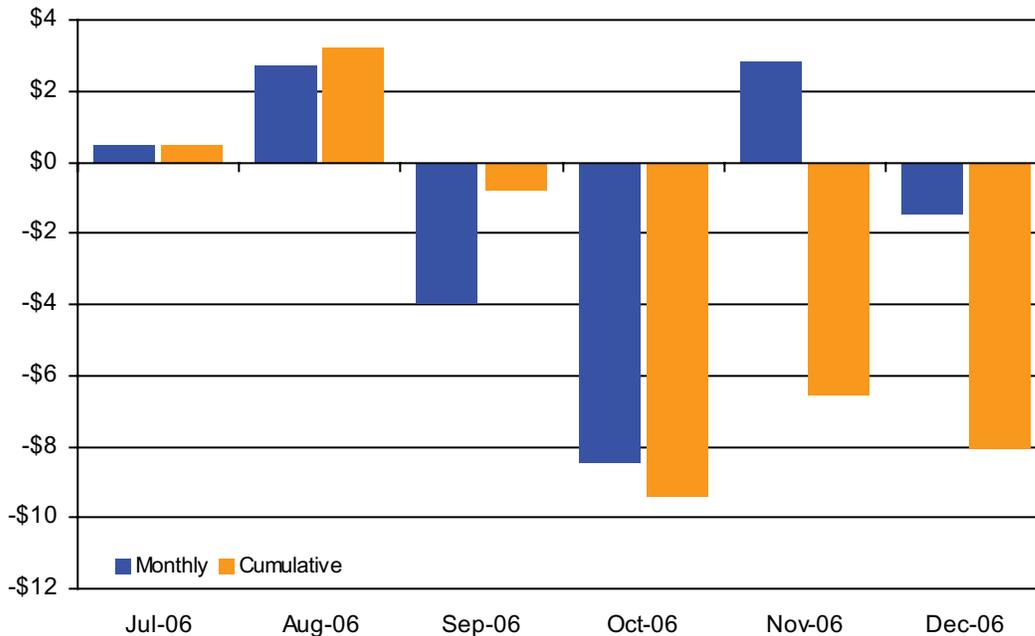
However, nonauto sales and use tax receipts in recent months are reflective of a genuine weakening in consumption trends that has accelerated in the latter part of CY 2006. Compared to the previous year, the average growth in monthly core retail sales was 8.7% in the first quarter, 7.3% in the second, 7.1% in the third, and finally 5.7% in the last quarter of CY 2006. Ohio is not alone in reporting poor sales and use tax receipts. Fewer than 25% of states met or exceeded their sales and use tax projections in December 2006.⁷ Chart 4 shows the monthly variance in nonauto sales and use

tax receipts in the last four months compared to estimates and to year-ago receipts. The chart does not include receipts for July 2006 to eliminate the impact of the tax rate change on monthly receipts in the year-ago comparison. Nonauto sales and use tax receipts were 3.7% below estimate in both the first and the second quarters. Most disconcerting, however, is the negative monthly trend in receipts when comparing actual revenues against estimates and year-ago receipts. The monthly variance has declined since October and became negative in December when compared with year-ago receipts. To achieve the full year revenue estimate, revenue growth in the second half of the fiscal year for this tax will need to increase sharply. However, it is more likely that the tax receipts will finish the year below estimate.

Auto Sales and Use Tax

Auto sales and use tax receipts were \$62.9 million in December 2006, \$1.5 million (2.3%) 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 revenues a year ago, auto sales and use tax receipts in December were \$2.3 million (3.6%) lower than receipts in

Chart 5: Auto Sales Tax Variance from August 2006 Estimates
(in millions)



December 2005. As of December 2006, FY 2007 year-to-date auto sales and use tax receipts were \$454.4 million, \$8.1 million (1.7%) below estimate. Year-to-date auto sales and use tax receipts were also \$39.3 million (8.0%) below receipts through December 2005 in FY 2006.

Auto sales are strongly linked to the success of incentives offered by manufacturers and dealers. Incentives had limited success in the first quarter of FY 2007 when compared to those offered in the first quarter of FY 2006. As a result, first-quarter auto sales and use tax receipts were \$59.5 million (19.0%) below receipts in the first quarter of FY 2006. Second-quarter receipts were \$20.3 million (11.2%) above receipts in the second quarter in FY 2006.

Nationwide, light vehicle (auto and light truck) sales at motor vehicle dealers were flat in November but grew 0.3% in December 2006. Similarly, sales at dealers grew 4.4% in December 2006 when compared to sales in December 2005. Following a gain of 2.8% in November 2006, unit sales in December 2006 fell 3.7% compared to unit sales in December 2005, despite huge promotions by automakers.

For CY 2006, 16.5 million light vehicles were sold, down 0.5 million (2.6%) from CY 2005.

Higher gas prices decreased by 6% unit sales of light trucks, and sales of cars increased only 1.5%. Nationwide, consumers and businesses spent \$15.5 billion less for new vehicles in 2006 compared to 2005 (according to Global Insight, a national forecasting firm). Incentives are increasingly less effective, consumer debt is high, and interest rates may remain higher than in the past few years. Consequently, most economic forecasters project flat light vehicle sales at best in CY 2007.

Corporate Franchise Tax

Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year. Corporate franchise tax (CFT) estimated payments are due January 31, March 31, and May 31. By May 31 of each year, a corporation must pay the difference between its full tax year liability and the first two estimated payments. In FY 2007, nonfinancial corporations will pay only 60% of their full tax liability because the corporate franchise tax is being gradually phased out (as part of the five-year tax revision enacted in Am. Sub. H.B. 66). Activities under the franchise tax in the first half of the fiscal year were generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations.

December CFT receipts were \$3.9 million, \$11.1 million above estimate. As of December 2006, FY 2007 year-to-date CFT receipts were \$57.6 million, \$20.6 million (55.7%) above estimate. Year-to-date CFT receipts were \$18.5 million (24.3%) below year-to-date receipts in December 2005.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarette and other tobacco products in December 2006 were \$87.9 million, \$0.8 million (0.9%) below estimate. Compared to year-ago receipts, revenues in December 2006 were \$2.1 million (2.5%) higher than December 2005 tax receipts. Through December, FY 2007 year-to-date receipts were \$458.4 million, \$5.2 million (1.1%) above estimate. Those receipts were \$44.1 million (8.8%) below FY 2006 receipts through December 2005. However, excluding receipts from the one-time floor tax⁸ of about \$66.1 million last year, FY 2007 year-to-date receipts were \$22.0 million (5.1%) above FY 2006 year-to-date receipts through December 2005. FY 2007 year-to-date receipts from the excise tax on cigarettes were \$442.1 million, 5.0% higher than receipts in the same period

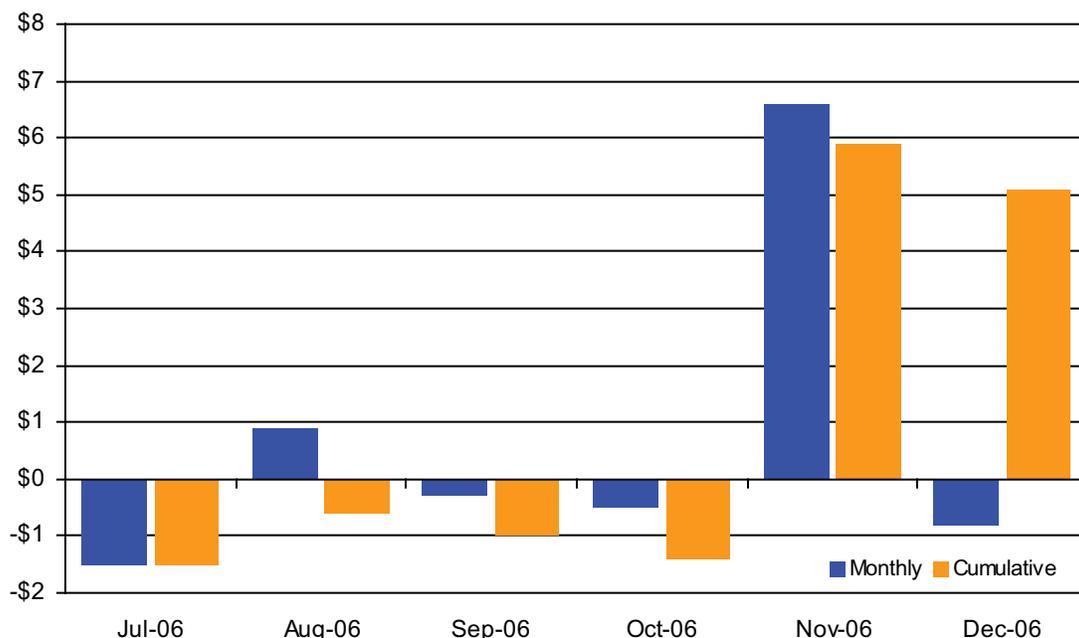
in FY 2006. Year-to-date receipts from the tax on other tobacco products were \$16.2 million, 7.6% higher than receipts in FY 2006.

In the first quarter of FY 2007, receipts from the tax on the cigarettes and other tobacco products were \$195.6 million, \$1.0 million (0.5%) below estimate. Second-quarter receipts from the tax were \$262.7 million, \$6.1 million (2.4%) above estimate. Excluding receipts from the floor tax, first-quarter receipts were 3.4% above first-quarter receipts in FY 2006, and second-quarter receipts were 6.3% higher than second-quarter receipts in FY 2006.

Commercial Activity Tax

The commercial activity tax (CAT) payment was due on November 13, 2006 for taxable receipts in the first quarter of FY 2007. December receipts, which were late CAT payments, were \$5.5 million. Total second-quarter CAT receipts were \$139.0 million. Through December, FY 2007 CAT receipts were \$279.2 million. FY 2007 CAT receipts are required to be distributed to two non-GRF funds, the School District Tangible Property Tax Replacement Fund and the Local Government Tangible Property Tax Replacement Fund.

Chart 6: Cigarette Tax Variance from August 2006 Estimates
(in millions)



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, when the rate increased to \$1.25 per pack. These cigarettes had the old stamp of \$0.55 per pack. The floor tax was paid in the first half of FY 2006.

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 *The Liscio Report*, volume 16, number 2 (January 11, 2007).

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

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	\$62,914	\$64,373	-\$1,459	-2.3%
Nonauto Sales & Use	\$601,696	\$636,850	-\$35,154	-5.5%
Total Sales & Use Taxes	\$664,610	\$701,223	-\$36,613	-5.2%
Personal Income	\$707,117	\$686,600	\$20,517	3.0%
Corporate Franchise	\$3,883	-\$7,200	\$11,083	---
Public Utility	-\$297	-\$400	\$103	-25.7%
Kilowatt Hour Excise	\$25,525	\$25,400	\$125	0.5%
Commercial Activity Tax	\$0	\$0	\$0	---
Foreign Insurance	\$788	\$49	\$739	1507.8%
Domestic Insurance	\$0	\$0	\$0	---
Business & Property	\$9	\$40	-\$31	-77.8%
Cigarette	\$87,905	\$88,700	-\$795	-0.9%
Alcoholic Beverage	\$4,595	\$4,798	-\$203	-4.2%
Liquor Gallonage	\$2,867	\$2,721	\$146	5.4%
Estate	\$8,007	\$3,400	\$4,607	135.5%
Total Tax Revenue	\$1,505,008	\$1,505,331	-\$323	0.0%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	\$42,157	\$31,900	\$10,257	32.2%
Licenses and Fees	\$858	\$700	\$158	22.5%
Other Revenue	\$55,045	\$3,200	\$51,845	1620.2%
Nontax State-Source Revenue	\$98,060	\$35,800	\$62,260	173.9%
TRANSFERS				
Liquor Transfers	\$17,000	\$16,000	\$1,000	6.3%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$9,600	-\$9,600	-100.0%
Total Transfers In	\$17,000	\$25,600	-\$8,600	-33.6%
TOTAL GRF before Federal Grants	\$1,620,067	\$1,566,731	\$53,336	3.4%
Federal Grants	\$452,455	\$496,490	-\$44,036	-8.9%
TOTAL GRF SOURCES	\$2,072,522	\$2,063,221	\$9,301	0.5%

* 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 December 2006
(\$ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
TAX REVENUE						
Auto Sales	\$454,375	\$462,445	-\$8,070	-1.7%	\$493,631	-8.0%
Nonauto Sales & Use	\$3,259,095	\$3,383,744	-\$124,649	-3.7%	\$3,287,977	-0.9%
Total Sales & Use Taxes	\$3,713,470	\$3,846,189	-\$132,719	-3.5%	\$3,781,608	-1.8%
Personal Income	\$4,018,155	\$3,948,900	\$69,254	1.8%	\$4,065,613	-1.2%
Corporate Franchise	\$57,604	\$37,000	\$20,604	55.7%	\$76,132	-24.3%
Public Utility	\$68,859	\$65,700	\$3,159	4.8%	\$68,148	1.0%
Kilowatt Hour Excise	\$167,872	\$171,100	-\$3,228	-1.9%	\$171,918	-2.4%
Commercial Activity Tax	\$0	\$0	\$0	---	\$0	---
Foreign Insurance	\$132,122	\$131,509	\$613	0.5%	\$130,498	1.2%
Domestic Insurance	\$235	\$1,200	-\$965	-80.4%	\$1,081	-78.2%
Business & Property	\$632	\$710	-\$78	-11.0%	\$1,047	-39.7%
Cigarette	\$458,389	\$453,200	\$5,189	1.1%	\$502,452	-8.8%
Alcoholic Beverage	\$29,073	\$29,094	-\$21	-0.1%	\$29,446	-1.3%
Liquor Gallonage	\$17,055	\$16,980	\$75	0.4%	\$16,474	3.5%
Estate	\$32,380	\$28,100	\$4,280	15.2%	\$27,074	19.6%
Total Tax Revenue	\$8,695,846	\$8,729,682	-\$33,836	-0.4%	\$8,871,492	-2.0%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	\$92,314	\$69,900	\$22,414	32.1%	\$47,345	95.0%
Licenses and Fees	\$20,053	\$19,511	\$542	2.8%	\$19,364	3.6%
Other Revenue	\$87,903	\$37,750	\$50,153	132.9%	\$60,575	45.1%
Nontax State-Source Revenue	\$200,270	\$127,161	\$73,109	57.5%	\$127,284	57.3%
TRANSFERS						
Liquor Transfers	\$76,000	\$68,000	\$8,000	11.8%	\$69,000	10.1%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$179,986	\$168,300	\$11,686	6.9%	\$44,449	304.9%
Total Transfers In	\$255,986	\$236,300	\$19,686	8.3%	\$113,449	125.6%
TOTAL GRF before Federal Grants	\$9,152,102	\$9,093,143	\$58,959	0.6%	\$9,112,224	0.4%
Federal Grants	\$2,771,417	\$3,097,403	-\$325,987	-10.5%	\$3,038,721	-8.8%
TOTAL GRF SOURCES	\$11,923,519	\$12,190,547	-\$267,028	-2.2%	\$12,150,945	-1.9%

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

DISBURSEMENTS

— Phil Cummins*

Through the end of December, cumulative FY 2007 General Revenue Fund (GRF) disbursements for program spending totaled \$13,019.7 million, which was under estimate by \$494.5 million (3.7%).¹ Compared with program spending through the same six-month period in the prior fiscal year, disbursements were \$186.7 million (1.4%) lower this year. In December, total GRF program disbursements were \$1,729.5 million, under estimate by \$15.7 million.

Disbursements for three of the state's four major GRF program categories (Welfare and Human Services, Government Operations, and Property Tax Relief) were each under estimate for the year to date (see the chart titled "GRF Disbursement Variances by Program Category" and Table 5). The Welfare and Human Services category continued to have by far the largest year-to-date variance, at \$450.2 million (7.0%) under estimate. Disbursements for the fourth major program category, Education, about matched the estimate on a year-to-date basis, over estimate by

\$3.2 million (0.1%). Debt service payments in December were \$11.2 million under estimate as a result of a scheduled bond payment that was made in part from funds received for a premium (issue price above par value) on a bond sale in October. Within the GRF program *subcategories*, the Health Care/Medicaid program posted the largest year-to-date variance (\$416.6 million under estimate) and the largest variance for the month (\$66.4 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.

Welfare and Human Services (-\$450.2 million)

Disbursements in the Welfare and Human Services category were \$76.8 million (7.7%) under estimate in December. For the fiscal

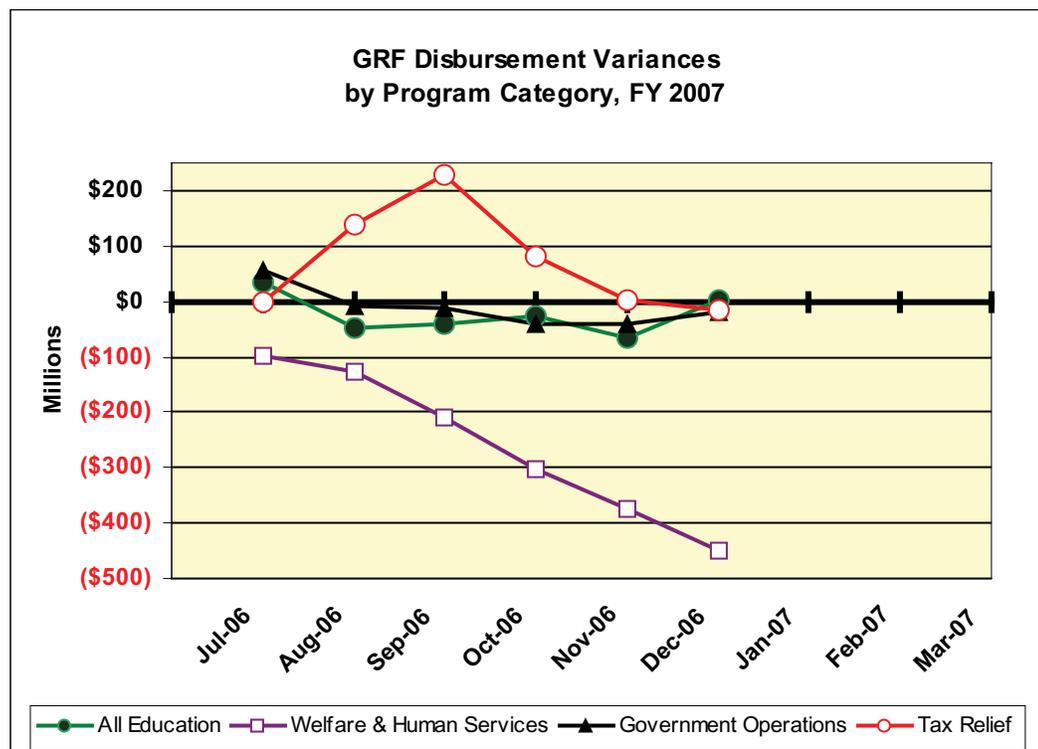


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of December 2006
(\$ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary & Secondary Education (1)	\$303,911	\$287,074	\$16,837	5.9%
Higher Education	\$213,391	\$160,031	\$53,360	33.3%
Total Education	\$517,302	\$447,106	\$70,197	15.7%
Health Care/Medicaid	\$772,591	\$838,995	-\$66,404	-7.9%
Temporary Assistance to Needy Families (TANF)	\$33,308	\$47,133	-\$13,825	-29.3%
Other Welfare (2)	\$40,539	\$36,365	\$4,174	11.5%
Human Services (3)	\$76,365	\$77,102	-\$737	-1.0%
Total Welfare & Human Services	\$922,803	\$999,594	-\$76,792	-7.7%
Justice & Corrections	\$136,313	\$124,047	\$12,267	9.9%
Environment & Natural Resources	\$4,846	\$5,056	-\$210	-4.2%
Transportation	\$3,852	\$1,121	\$2,731	243.5%
Development	\$8,579	\$8,978	-\$399	-4.4%
Other Government	\$29,099	\$23,681	\$5,417	22.9%
Capital	\$2	\$0	\$2	---
Total Government Operations	\$182,691	\$162,883	\$19,807	12.2%
Property Tax Relief (4)	\$99,111	\$116,841	-\$17,729	-15.2%
Debt Service	\$7,568	\$18,723	-\$11,155	-59.6%
Total Other Disbursements	\$106,679	\$135,564	-\$28,885	-21.3%
Total Program Disbursements	\$1,729,475	\$1,745,147	-\$15,672	-0.9%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$0	\$0	\$0	---
Total Transfers Out	\$0	\$0	\$0	---
TOTAL GRF USES	\$1,729,475	\$1,745,147	-\$15,672	-0.9%

(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.

year to date, outlays in this category were \$450.2 million (7.0%) under estimate. Within the category, Health Care/Medicaid spending continued far below expectation, with year-to-date disbursements \$416.6 million (8.0%) under estimate. Among the other components

of the category, disbursements in the Temporary Assistance for Needy Families (TANF) program were under estimate for the year to date by \$2.1 million (1.2%); disbursements in the Other Welfare subcategory, which includes various operating and subsidy programs other

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

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
Primary & Secondary Education (1)	\$3,505,918	\$3,523,595	-\$17,677	-0.5%	\$3,427,771	2.3%
Higher Education	\$1,282,879	\$1,262,011	\$20,868	1.7%	\$1,237,962	3.6%
Total Education	\$4,788,797	\$4,785,607	\$3,190	0.1%	\$4,665,732	2.6%
Health Care/Medicaid	\$4,813,692	\$5,230,317	-\$416,625	-8.0%	\$5,109,656	-5.8%
Temporary Assistance to Needy Families (TANF)	\$179,116	\$181,204	-\$2,088	-1.2%	\$166,284	7.7%
Other Welfare (2)	\$297,360	\$312,980	-\$15,620	-5.0%	\$295,251	0.7%
Human Services (3)	\$658,754	\$674,618	-\$15,864	-2.4%	\$652,137	1.0%
Total Welfare & Human Services	\$5,948,921	\$6,399,119	-\$450,197	-7.0%	\$6,223,329	-4.4%
Justice & Corrections	\$1,041,766	\$1,041,165	\$601	0.1%	\$990,470	5.2%
Environment & Natural Resources	\$60,726	\$60,475	\$251	0.4%	\$61,148	-0.7%
Transportation	\$14,079	\$15,555	-\$1,475	-9.5%	\$13,343	5.5%
Development	\$85,253	\$96,621	-\$11,368	-11.8%	\$91,988	-7.3%
Other Government	\$220,355	\$227,714	-\$7,359	-3.2%	\$220,466	-0.1%
Capital	\$37	\$0	\$37	---	\$166	-77.5%
Total Government Operations	\$1,422,216	\$1,441,530	-\$19,313	-1.3%	\$1,377,581	3.2%
Property Tax Relief (4)	\$599,829	\$616,153	-\$16,324	-2.6%	\$719,592	-16.6%
Debt Service	\$259,895	\$271,771	-\$11,875	-4.4%	\$220,122	18.1%
Total Other Disbursements	\$859,725	\$887,924	-\$28,199	-3.2%	\$939,714	-8.5%
Total Program Disbursements	\$13,019,659	\$13,514,179	-\$494,520	-3.7%	\$13,206,357	-1.4%
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	\$13,710,521	\$14,233,325	-\$522,804	-3.7%	\$13,773,743	-0.5%

(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.

than Medicaid and TANF in the Department of Job and Family Services, were under estimate by \$15.6 million (5.0%); and disbursements in the Human Services subcategory, which includes mental health, mental retardation and developmental disabilities, and other human

services, were under estimate by \$15.9 million (2.4%).

Health Care/Medicaid. Year-to-date disbursements of \$4,813.7 million through December in the Health Care/Medicaid program

(primarily line item 600-525) were \$416.6 million (8.0%) below estimate (see Table 6). The largest contributor to the year-to-date variance was the HMO-CFC (Covered Families with Children) category, which was \$226.3 million (18.1%) below estimate with spending of \$1,025.3 million through December. The HMO-CFC variance is attributed to the slower-than-projected rollout of managed care expansion. Enrollment in the CFC managed care program through November was 245,203 (20.3%) under the budgeted level.

Other categories within this program include the Nursing Facilities Payments category, which was below estimate by \$57.3 million (4.2%) through December with spending of \$1,303.0 million. The All Other category, with spending of \$246.8 million through December, was \$78.8 million (24.2%) below estimate because of several changes in home care programs. These changes have shifted clients to programs within the Job and Family Services' Waiver service category, which was over estimate by \$44.8 million (32.6%) with year-to-date spending of \$181.9 million. The Inpatient Hospital category was \$68.8 million (9.2%) below estimate with spending of \$681.7 million through December. The Prescription Drug category, with year-to-date spending of \$518.3 million, was \$34.1 million (6.2%) below estimate, attributed to reductions in the frequency and average cost of claims. Underspending in this category has narrowed recently as lower-than-projected managed care enrollment has driven spending higher in fee-for-service (FFS) categories. The Home Health category was \$24.4 million (24.6%) below estimate with spending of \$74.9 million through December. The Disability Assistance (DA) Medical category was \$4.1 million (22.5%) below estimate with disbursements of \$14.0 million through December. DA Medical has been "frozen" since September 2005 in order to stay within approved funding for the biennium. Under the freeze, the Department of Job and Family Services has allowed no new enrollments and denied coverage to those who "missed their eligibility re-determinations." Enrollment has been steadily declining since the freeze. The Medicare Part D category was under estimate by \$13.4 million (10.3%) with spending of \$117.5 million through December.

Disbursements under the Health Care/Medicaid program have been declining since FY 2005. These disbursements in the current fiscal year through December were 5.8% below those in the first half of FY 2006. Disbursements in all of FY 2006 were 4.0% lower than in FY 2005. Rapid growth during the previous eight years approximately doubled the size of the program. The declines last year and so far this year reflect Medicaid cost containment strategies included in the FY 2006-2007 main operating appropriations act.

TANF. Disbursements in the Temporary Assistance for Needy Families (TANF) program in December totaled \$33.3 million under estimated spending by \$13.8 million. As a condition for receiving federal funds, each state must spend enough on the program to satisfy a maintenance of effort (MOE) requirement. Ohio's MOE spending each year is about \$395 million. Part of this spending is from line item 600-410, TANF State, and part consists of a portion of line item 600-413, Child Care Match/MOE. Certain other state as well as county expenditures also count toward meeting the MOE requirement.

The TANF State MOE disbursements estimate for December was \$21.4 million and actual disbursements were \$11.6 million. Disbursements were \$9.8 million less than the estimate because county requests for advances were lower than anticipated and because Ohio Works First cash assistance funding reached its targeted level for the year.

The Child Care Match/Maintenance of Effort disbursement estimate for December was \$25.7 million and the actual disbursement was \$21.7 million, creating a variance of \$4.0 million under estimate for the month. The primary reason for this variance was greater-than-anticipated county advances for child care during October, which left less to disburse for this purpose in December.

Other Job and Family Services programs. Disbursements for the Department of Job and Family Services' operating and subsidy programs were \$4.2 million (11.5%) over the December estimate and stand at \$15.6 million (5.0%)

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

Service Category	December				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru Dec.	Estimate thru Dec.	Variance	Percent Variance
Nursing Facilities Payments	\$212,478	\$230,093	(\$17,615)	-7.7%	\$1,303,046	\$1,360,308	(\$57,262)	-4.2%
ICF/MR Payments	\$42,712	\$43,889	(\$1,177)	-2.7%	\$260,094	\$260,056	\$38	0.0%
Inpatient Hospitals	\$94,646	\$104,961	(\$10,315)	-9.8%	\$681,732	\$750,555	(\$68,823)	-9.2%
Outpatient Hospitals	\$47,168	\$40,470	\$6,698	16.6%	\$317,741	\$317,773	(\$32)	0.0%
Physicians	\$40,730	\$35,526	\$5,204	14.6%	\$288,371	\$277,308	\$11,063	4.0%
Prescription Drugs	\$76,503	\$75,488	\$1,015	1.3%	\$518,293	\$552,386	(\$34,093)	-6.2%
ODJFS Waiver	\$34,684	\$20,621	\$14,063	68.2%	\$181,899	\$137,130	\$44,769	32.6%
HMO - CFC*	\$205,464	\$269,122	(\$63,658)	-23.7%	\$1,025,329	\$1,251,650	(\$226,321)	-18.1%
HMO - ABD*	\$1,455	\$0	\$1,455	N/A	\$1,455	\$0	\$1,455	N/A
Medicare Buy-In	\$23,284	\$22,329	\$955	4.3%	\$154,188	\$132,517	\$21,671	16.4%
Home Health	\$12,843	\$15,441	(\$2,598)	-16.8%	\$74,886	\$99,328	(\$24,442)	-24.6%
Dental	\$5,922	\$4,444	\$1,478	33.3%	\$42,805	\$40,918	\$1,887	4.6%
Hospice	\$11,206	\$9,766	\$1,440	14.7%	\$69,373	\$62,882	\$6,491	10.3%
All Other	\$49,508	\$48,944	\$564	1.2%	\$246,791	\$325,557	(\$78,766)	-24.2%
Total Medicaid Payments	\$858,603	\$921,094	(\$62,491)	-6.8%	\$5,166,003	\$5,568,368	(\$402,365)	-7.2%
Medicare Part D	\$19,116	\$22,017	(\$2,901)	-13.2%	\$117,454	\$130,887	(\$13,433)	-10.3%
Capital Compensation Program	\$0	\$2,500	(\$2,500)	N/A	\$1,963	\$5,000	(\$3,037)	-60.7%
DA Medical	\$1,997	\$2,472	(\$475)	-19.2%	\$14,030	\$18,110	(\$4,080)	-22.5%
Drug Rebates Offsets	(\$33,432)	(\$36,085)	\$2,653	-7.4%	(\$212,962)	(\$219,986)	\$7,024	-3.2%
Revenue & Collections	(\$14,484)	(\$14,473)	(\$11)	0.1%	(\$47,088)	(\$47,040)	(\$48)	0.1%
ICF/MR Franchise Fee Offsets	(\$1,515)	(\$1,515)	\$0	0.0%	(\$9,113)	(\$9,113)	\$0	0.0%
NF Franchise Fee Offsets	(\$37,864)	(\$37,184)	(\$680)	N/A	(\$149,622)	(\$148,940)	(\$682)	0.5%
DSH Rebate Offsets	\$0	\$0	\$0	N/A	(\$7,478)	(\$7,478)	\$0	0.0%
MCP Assessments	(\$19,831)	(\$19,831)	\$0	N/A	(\$59,494)	(\$59,494)	\$0	0.0%
Total Health Care (Net of Offsets)	\$772,590	\$838,995	(\$66,405)	-7.9%	\$4,813,693	\$5,230,314	(\$416,621)	-8.0%
Est. Federal Share	\$463,037	\$502,836	(\$39,799)		\$2,884,995	\$3,134,689	(\$249,694)	
Est. State Share	\$309,553	\$336,159	(\$26,606)		\$1,928,698	\$2,095,625	(\$166,927)	

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.

*In previous reports HMO was one category.

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

under estimate for the year to date. The largest contributors to the year-to-date variance continue to be line item 600-528, Adoption Services, which was under estimate by \$8.5 million (17.7%), and line item 600-321, Support Services, which was under estimate by \$5.9 million (19.7%). The underspending in line item 600-528, Adoption Services, was 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 due to a relatively minor timing issue related to expenditures on postage. In Tables 4 and 5, these disbursements are included in the Other Welfare subcategory.

Human Services. The Human Services category includes several agencies, and the \$15.9 million shortfall of total year-to-date disbursements relative to the estimates, cited above, resulted from spending below estimate at a number of these agencies.

Service Category	FY 2007	FY 2006	Dollar Change	Percent Increase
	Yr.-to-Date as of Dec. '07	Yr.-to-Date as of Dec. '06		
Nursing Facilities Payments	\$1,303,046	\$1,329,210	(\$26,164)	-2.0%
ICF/MR Payments	\$260,094	\$255,498	\$4,596	1.8%
Inpatient Hospitals	\$681,732	\$776,431	(\$94,699)	-12.2%
Outpatient Hospitals	\$317,741	\$345,539	(\$27,798)	-8.0%
Physicians	\$288,371	\$314,970	(\$26,599)	-8.4%
Prescription Drugs	\$518,293	\$1,022,867	(\$504,574)	-49.3%
ODJFS Waiver	\$181,899	\$112,428	\$69,471	61.8%
HMO	\$1,026,784	\$626,112	\$400,672	64.0%
Medicare Buy-In	\$154,188	\$107,571	\$46,617	43.3%
Home Health	\$74,886	\$87,623	(\$12,737)	-14.5%
Dental	\$42,805	\$66,210	(\$23,405)	-35.3%
Hospice	\$69,373	\$60,890	\$8,483	13.9%
All Other	\$246,791	\$296,413	(\$49,622)	-16.7%
Total Medicaid Payments	\$5,166,003	\$5,401,762	(\$235,759)	-4.4%
Medicare Part D	\$117,454	N/A	N/A	N/A
Capital Compensation Program	\$1,963	N/A	N/A	N/A
DA Medical	\$14,030	\$25,636	(\$11,606)	-45.3%
Drug Rebates Offsets	(\$212,962)	(\$262,467)	\$49,505	-18.9%
Revenue & Collections	(\$47,088)	N/A	N/A	N/A
ICF/MR Franchise Fee Offsets	(\$9,113)	(\$12,940)	\$3,827	-29.6%
NF Franchise Fee Offsets	(\$149,622)	(\$42,335)	(\$107,287)	253.4%
DSH Rebate Offsets	(\$7,478)	\$0	N/A	N/A
MCP Assessments	(\$59,494)	N/A	N/A	N/A
Total Health Care (Net of Offsets)	\$4,813,693	\$5,109,656	(\$295,963)	-5.8%
Est. Federal Share	\$2,884,995	\$3,062,375	(\$177,380)	
Est. State Share	\$1,928,698	\$2,047,281	(\$118,583)	

1. Some of the money generated from nursing home franchise permit fees is used to make payments to nursing
2. Waivers provide home-care alternatives to consumers whose medical conditions/functional abilities would
3. The Capital Compensation program, Medicare Part D, and Revenue & Collections were not included in Table 7 for December of FY 2006. HMO for FY 2006 was one category.
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
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.

Government Operations (-\$19.3 million)

In December, outlays in the Government Operations category were \$19.8 million (12.2%) above estimate. For the year to date, disbursements in the category were \$19.3 million (1.3%) under estimate. Among the category's more than 40 agencies, the largest variance for the year to date was \$11.4 million of underspending by the Department of Development.

Development. The largest portion (\$5.9 million) of the Department of Development's year-to-date variance below estimate continued to be in line item 195-515, Economic Development

Contingency, which provides grants similar to those of the Business Development Grant program but for larger capital investment projects. Disbursements reimburse program participants when project milestones are met. The variance was in disbursements from the FY 2006 appropriation; in FY 2007, this appropriation item is replaced with GSF 195-677, Economic Development Contingency.

Tax Relief (-\$16.3 million)

The Tax Relief program reimburses school districts and other units of local government for revenues forgone as a result of state programs

providing tax relief to property owners through the homestead exemption, the real property tax rollbacks, and the \$10,000 business tangible property tax exemption. In December, \$99.1 million was disbursed under this program, \$17.7 million (15.2%) under estimate; through the fiscal year's first six months, \$599.8 million was paid out, \$16.3 million (2.6%) under estimate. Total payments were higher than estimated in August and September and below estimates for October through December. Reimbursements for the homestead exemption and the rollbacks account for the bulk of outlays under the Tax Relief program. Reimbursements for the \$10,000 tangible property tax exemption are much smaller and are being phased out over the next three years. These reimbursements are \$6.0 million under estimate through the fiscal year's first six months and appear likely to be under estimate for the full fiscal year by \$7.6 million based on the accelerated phaseout schedule set in the main operating appropriations act for FYs 2006-2007.

Education (\$3.2 million)

December outlays totaling \$517.3 million in the Education category were \$70.2 million (15.7%) over estimate. For the year to date, total outlays of \$4,788.8 million in this category were \$3.2 million (0.1%) over estimate, with the Department of Education \$11.8 million under estimate, the Board of Regents \$20.9 million over estimate, and smaller variances for other agencies in this program category.

Department of Education. December disbursements of \$299.8 million by the Department of Education were \$15.9 million (5.6%) over

estimate. The Department's year-to-date variance was \$11.8 million (0.3%) under estimate on disbursements of \$3,441.5 million. The largest variance for the month and for the year to date was line item 200-550, Foundation Funding, which was over estimate by \$19.2 million (8.1%) in December but under estimate by \$12.3 million (0.3%) in the fiscal year's first six months. December's positive variance followed a large negative variance in November and positive variances in September and October. Payments twice a month under this line item, the main source of state foundation payments to all school districts and joint vocational school districts, are largely based on student enrollments and property wealth. Data on actual enrollments are available only with a delay, so estimated enrollments have been used in making payments.

Board of Regents. Year-to-date disbursements by the Board of Regents totaled \$1,282.9 million, \$20.9 million (1.7%) over estimate. December disbursements of \$213.4 million resulted in a variance of \$53.4 million (33.3%) above estimate for the year to date that reversed the year-to-date variance of \$32.6 million below estimate the month before. The main factors for the month were line item 235-503, Ohio Instructional Grants (OIG), which came in at \$33.4 million above estimate, and line item 235-563, Ohio College Opportunity Grants (OCOG), a new program that started with a \$12.9 million overpayment in December. Disbursements for OCOG had been estimated to begin in October. The largest year-to-date variance belongs to OIG at \$26.3 million above estimate. Overall, for most line items FY 2007 spending is still following the schedule of estimates more closely than it did in FY 2006.

**LSC colleagues who contributed to this disbursements report include, in alphabetical order, Brian Hoffmeister, Ed Millane, David Price, Wendy Risner, and Maria Seaman. Thanks also to Steve Mansfield, previously the primary author of this report, for help with the transition to new authorship.*

¹ Disbursements plus transfers out totaled \$13,710.5 million for the fiscal year through December, 3.7% under estimate. The largest component included in transfers out was the July transfer of \$394.0 million made to the Budget Stabilization Fund (Fund 013). Also, under the FY 2006-2007 main operating appropriations act (H.B. 66), 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 mandated to offset the shortfall. Temporary transfers under this requirement were made in August, \$77.3 million, and in November, \$213.8 million. When transfers out are included, the year-to-date amount disbursed was 0.5% less than in the same period in FY 2006.

Issues of Interest

LOTTERY TICKET SALES AND PROFIT TRANSFERS SECOND QUARTER, FISCAL YEAR 2007

— Jean Botomogno

Through December in FY 2007, Lottery ticket sales were \$27.4 million (2.5%) above estimate. Receipts from the sale of Instant ticket games were 7.1% above estimate. Receipts from the sale of on-line games were 4.1% below estimate. FY 2007 year-to-date receipts were also \$50.5 million (4.8%) above FY 2006 receipts in the same period.

Ticket Sales

Table 1 summarizes quarterly ticket sales by game in the first half of FY 2007. Ticket sales in the second quarter were \$577.6 million, \$43.8 million (8.2%) higher than sales in the first quarter. On-line ticket sales¹ were \$206.8 million, \$11.6 million (5.3%) lower than sales in the first quarter. (Excluding sales of “Raffle to Riches,”² second-quarter on-line ticket sales were \$1.4 million (0.8%) higher than first-quarter sales.) Instant ticket sales were \$370.7 million, \$55.4 million (17.6%) higher than sales in the

first quarter. Among on-line games, only Pick 4 sales grew, up 4.9%. Sales of Pick 3, Rolling Cash 5, and Kicker were flat. Sales of Super Lotto/Lot’O Play and Mega Millions declined 10.2% and 6.5%, respectively.

Compared to second-quarter results a year ago, ticket sales were up \$24.0 million (4.3%) this fiscal year. Instant ticket sales were up \$58.4 million (18.7%). On-line ticket sales were down \$34.5 million (14.3%), mainly because of a decline of \$19.0 million (33.2%) in sales of Mega Millions and \$14.8 million (62.1%) in sales of Super Lotto/Lot’O Play.

FY 2007 First-Half Summary

Table 2 compares ticket sales by game in FY 2007 and FY 2006. Through December 2006, FY 2007 year-to-date ticket sales were \$1,111.3 million, \$50.5 million (4.8%) higher than sales during the same period in FY 2006.

Table 1: Quarterly Lottery Ticket Sales by Game in FY 2007, in millions of dollars

	Pick 3	Pick 4	Kicker	Raffle to Riches	Rolling Cash 5	Super Lotto/Lot’O Play	Mega Millions	On-line	Instants	Total
Q1	\$90.6	\$43.6	\$4.7	\$10.0	\$18.5	\$10.1	\$40.9	\$218.5	\$315.3	\$533.8
Q2	\$90.7	\$45.7	\$4.7	\$0.0	\$18.5	\$9.1	\$38.3	\$206.8	\$370.7	\$577.6
\$ Change	\$0.1	\$2.1	\$0.0	N/A	\$0.0	-\$1.0	-\$2.6	-\$11.6	\$55.4	\$43.8
% Change	0.1%	4.9%	0.0%	N/A	0.0%	-10.2%	-6.5%	-5.3%	17.6%	8.2%

Totals may not add up due to rounding.

Table 2: First-Half Ticket Sales by Games in FY 2007 and FY 2006, in millions of dollars

Year	Pick 3	Pick 4	Kicker	Raffle to Riches	Rolling Cash 5	Super Lotto/Lot’O Play	Mega Millions	On-line	Instants	Total
FY 2007	\$181.4	\$89.3	\$9.4	\$10.0	\$37.0	\$19.2	\$79.2	\$425.3	\$686.0	\$1,111.3
FY 2006	\$182.6	\$85.0	\$10.2	N/A	\$36.3	\$49.0	\$116.2	\$479.3	\$581.5	\$1,060.8
\$ Change	-\$1.2	\$4.3	-\$0.8	N/A	\$0.7	-\$29.8	-\$37.0	-\$54.0	\$104.5	\$50.5
% Change	-0.7%	5.1%	-8.2%	N/A	1.8%	-60.9%	-31.9%	-11.3%	18.0%	4.8%

Totals may not add up due to rounding.

Instant ticket sales grew \$104.5 million (18.0%) from strong sales of \$10 and \$20 Instant games. On-line ticket sales declined \$54.0 million (11.3%), primarily from lower Mega Millions jackpots. Comparing sales of various on-line games in FY 2007 and FY 2006, sales of Pick 3 were down \$1.2 million (0.7%); sales of Super Lotto/Lot'O Play and Mega Millions sank \$29.8 million (60.9%) and \$37.0 million (31.9%), respectively; sales of Kicker decreased \$0.8 million (8.2%); and ticket sales for Pick 4 and Rolling Cash 5 grew \$4.3 million (5.1%) and \$0.7 million (1.8%), respectively.

The share of sales of Instant to total ticket sales increased dramatically to 61.7%, up from 54.8% in the first half of FY 2006. Through December, FY 2007 year-to-date gross profit margins (ticket sales minus payments to winners) were approximately 52% and 33% for on-line and Instant games, respectively. In FY 2006, gross profit margins were 49% for on-line games and 35% for Instant games. Also, compared to FY 2006, total gross profits increased about \$4.6 million through December 2006. However, the profitability of the two types of lottery games was dissimilar. Gross profits from sales of on-line games decreased \$13.8 million, whereas those from Instant games increased \$18.4 million.

Transfers to the Lottery Profits Education Fund

Table 3 summarizes transfers from operations to the Lottery Profits Education Fund (LPEF) in FY 2007. Second-quarter transfers were \$173.8 million, \$9.3 million above amounts projected for the quarter. Those transfers were also \$10.8 million above transfers in the first quarter. Through December 2006, FY 2007 were \$336.8 million, \$23.7 million (7.6%) above

projected transfers. Transfers were 30.3% of ticket sales.

Table 4 compares first-half transfers in FY 2007 and FY 2006. Through December 2006, transfers in FY 2007 were \$30.4 million (9.9%) higher than transfers in the same period in FY 2006.

Classic Lotto Replaces Lot'O Play

The Ohio Lottery replaced Super Lotto Plus with Lot'O Play in October 2005. The ticket price increased from \$1 per play (Super Lotto Plus) to \$2 per play (Lot'O Play). The odds to win the jackpot went from 1 in 14 million for Super Lotto Plus to 1 in 6.3 million with Lot'O Play. Also, the jackpot started at \$1 million instead of \$4 million. The change was to increase total profits, albeit at the cost of lower ticket sales. The gross profit margin for Lot'O Play increased to 48%, up from an average of 25% for Super Lotto Plus. At the same time, amounts received by players decreased to about \$0.50, down from \$0.75 per dollar spent. The combination of higher ticket prices and lower starting jackpots led to a decrease in sales by amounts larger than expected. Compared to FY 2006, year-to-date sales of Super Lotto Plus/Lot'O Play plunged \$29.8 million (60.9%). Hoping for a jump in sales, the Ohio Lottery is replacing Lot'O Play with Classic Lotto on January 20, 2007. Although the starting jackpot will remain at \$1 million, Classic Lotto tickets will be \$1 per play instead of \$2 per play with Lot'O Play.

Ticket Sales Trends

Although profit margins are generally higher for on-line games, the profitability of the Ohio Lottery and growth in total ticket sales are

Table 3: Quarterly Lottery Ticket Sales and Transfers to LPEF in FY 2007, in millions of dollars

Quarter	Tickets Sales	Actual Transfers	Projected Transfers	Dollar Variance	FY 2006 Transfers	Dollar Variance	Percent Variance
Q1	\$533.8	\$163.0	\$148.6	\$14.4	\$148.0	\$15.0	10.1%
Q2	\$577.6	\$173.8	\$164.5	\$9.3	\$158.4	\$15.4	9.7%
\$ Change	\$43.8	\$10.8	\$15.9	N/A	\$10.4	\$30.4	N/A
% Change	8.2%	6.6%	10.7%	N/A	7.0%	N/A	9.9%

Totals may not add up due to rounding.

**Table 4: First-Half Ticket Sales and Transfers to LPEF
in FY 2007 and FY 2006, in millions of dollars**

	Tickets Sales	Actual Trans- fers	Projected Transfers	Dollar Vari- ance	Percent Vari- ance	Transfers as a Percent of Sales
FY 2007	\$1,111.3	\$336.8	\$313.1	\$23.7	7.6%	30.3%
FY 2006	\$1,060.8	\$306.4	\$304.9	\$1.5	0.5%	28.9%
\$ Change	\$50.5	\$30.4	\$8.2	N/A	N/A	N/A
% Change	4.8%	9.9%	2.7%	N/A	N/A	N/A

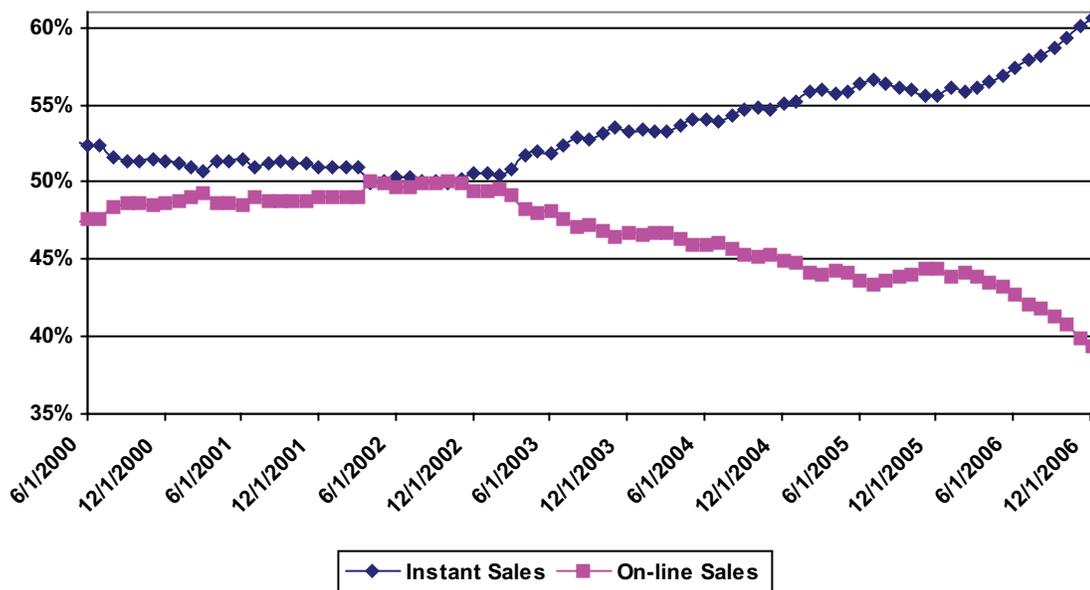
Totals may not add up due to rounding.

becoming more dependent on the performance of Instant games. Despite the notoriety and excitement provided by large jackpots for on-line games such as Mega Millions, to increase total sales, the Ohio Lottery has had to increase the number of weekly or daily drawings of other on-line games, and has introduced more Instant games with higher price points (\$10 or \$20 per game). The chart of ticket sales shows the importance of Instant sales to revenues of the Ohio Lottery. Monthly sales have a seasonal pattern of increases in November and December and also rise with Super Lotto and Mega Millions jackpots. A 12-month moving average of sales removes seasonal variations and provides a true indication of sales trends. Monthly receipts from Instant games have been growing, primarily from

the introduction of numerous and new higher-priced games every year.

The relative share of Instant to total sales surpassed 50% in FY 1997 but remained relatively close to that of on-line sales through FY 2003. On-line sales have been about flat in the last five fiscal years. Conversely, Instant ticket sales have been rising steadily. With Ohio's entry in the multistate Mega Millions game in 2002, the gap between monthly receipts from the two types of games briefly disappeared. Sales of on-line and Instant games were about even through March 2003. Then, the variance in monthly sales started widening dramatically and the share of Instant receipts to total sales reached a record 61% in December 2006.

**Relative Share of Sales of On-line and Instant Games
Monthly Sales (12-month moving average)**



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

² In the first quarter, the Ohio Lottery introduced "Raffle to Riches," a limited-print on-line game with a ticket price of \$20. The game offered four \$1 million prizes, five \$100,000 prizes, and 500 prizes of \$1,000.