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Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission February 2007

Fiscal Overview

— *Allan Lundell*

With five months remaining in FY 2007, General Revenue Fund (GRF) receipts are $165.7 million below estimate and disbursements are $682.2 million below estimate, with the result that the cash balance is $516.5 million above its expected level.[1]

Receipts

For the month of January, total GRF receipts of $2,649.2 million were above estimate by $101.3 million (4.0%). State-source receipts were above estimate by $134.1 million (6.6%) and federal grants were below estimate by $32.8 million (6.4%). Federal grants are down primarily because state Medicaid spending is down.[2] Tax revenues were above estimate by $127.2 million (6.3%). Revenue from the corporate franchise tax was above estimate by $124.0 million (62.8%) and personal income tax revenue was $26.3 million (2.6%) below estimate. Revenue from the sales and use tax was above estimate by $26.3 million (3.8%); nonauto tax revenue was above estimate by $19.6 million (3.1%) and auto tax revenue was above estimate by $6.7 million (11.0%).

Fiscal year-to-date GRF receipts of $14,572.7 million are $165.7 million (1.1%) below estimate and are up 0.03% compared to FY 2006. State-source receipts are $193.1 million (1.7%) above estimate and federal grants are $358.8 million (9.9%) below estimate. Tax revenues are above estimate by $93.3 million (0.9%). Corporate franchise tax revenue is above estimate by $144.6 million (61.7%) and personal income tax revenue is above estimate by $42.9 million (0.9%). Revenue from the sales and use tax is below estimate by $106.4 million (2.3%); nonauto tax revenue is below estimate by $105.0 million (2.6%) and auto tax revenue is below estimate by $1.3 million (0.3%). Other revenue is above estimate by $49.9 million because of an earlier than estimated transfer of unclaimed funds.

Disbursements

January GRF program disbursements of $2,289.9 million were below estimate by $170.1 million (6.9%). Disbursements for health care/Medicaid were below estimate by $66.0 million

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

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

	Month of January	Fiscal Year 2007 to Date	Last Year	Difference
Beginning Cash Balance	**-$258.2**	**$1,528.8**		
Plus Revenue and Transfers In	$2,649.2	$14,572.7		
Available Resources	**$2,391.0**	**$16,101.5**		
Less Disbursements and Transfers Out	$2,300.5	$16,011.1		
Ending Cash Balances	**$90.5**	**$90.5**	**-$135.5**	**$225.9**
Less Encumbrances and Accts. Payable		$792.2	$765.3	$26.9
Unobligated Balance		-$701.7	-$900.7	$199.1
Plus BSF Balance		$1,012.3	$576.6	$435.7
Combined GRF and BSF Balance		$310.6	-$324.1	$634.7

(7.8%). Disbursements for primary and secondary education were $49.4 million (6.0%) below estimate, disbursements for justice and corrections were below estimate by $16.9 million (7.0%), and disbursements for higher education were $16.5 million (9.3%) below estimate. Debt service payments were $15.5 million (18.4%) below estimate.

Fiscal year-to-date GRF program disbursements of $15,309.6 million are $664.6 million (4.2%) below estimate and are down 0.2% compared to FY 2006. Disbursements for health care/ Medicaid are below estimate by $482.7 million (7.9%) and disbursements for primary and secondary education are below estimate by $67.1 million (1.5%). Disbursements for higher education are $4.4 million (0.3%) above estimate. Disbursements for property tax relief are below estimate by $16.2 million (2.6%) and debt service payments are $27.3 million (7.7%) below estimate.

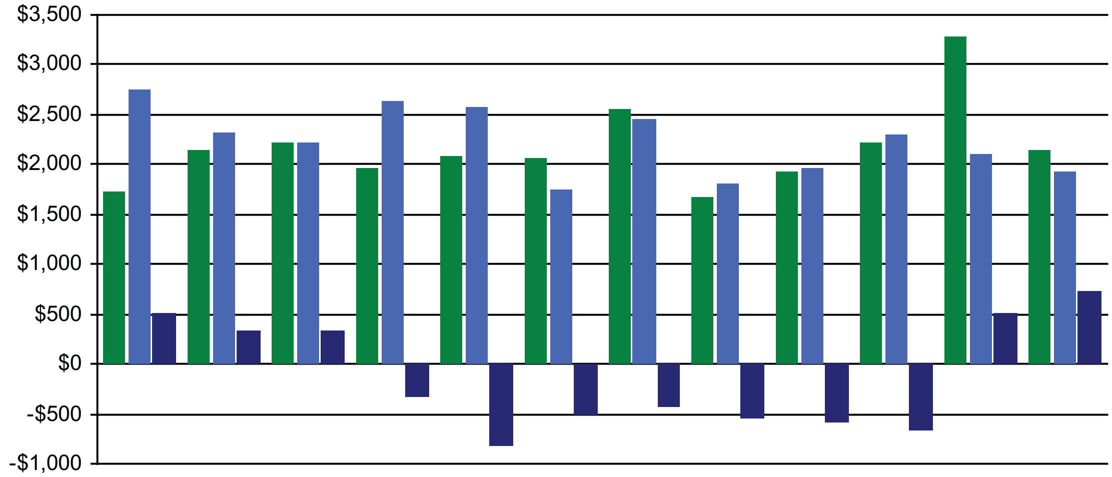
Cash Balance

As shown in Table 1, the GRF began FY 2007 with a $1,528.8 million cash balance. Through January, FY 2007 revenues plus transfers in totaled $14,572.7 million and disbursements plus transfers out totaled $16,011.1 million. The year-to-date deficit of $1,438.3 million reduced the cash balance to $90.5 million. If receipts and disbursements had equaled their estimates, the cash balance would have been -$426.1 million, $516.5 million lower than the actual level. Chart 1 presents the monthly estimates of FY 2007 receipts and disbursements and the month-end cash balances that would have resulted if receipts and disbursements had equaled the monthly estimates. The cash balance, because of the timing of revenues and disbursements, is generally negative early in the fiscal year and turns positive later in the year. Chart 2 presents a comparison of actual and estimated month-end cash balances.

Encumbrances and accounts payable of $792.2 million combine with the cash balance to yield an unobligated balance of -$701.7 million, $199.1 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 that the General Assembly has stated in section 131.44

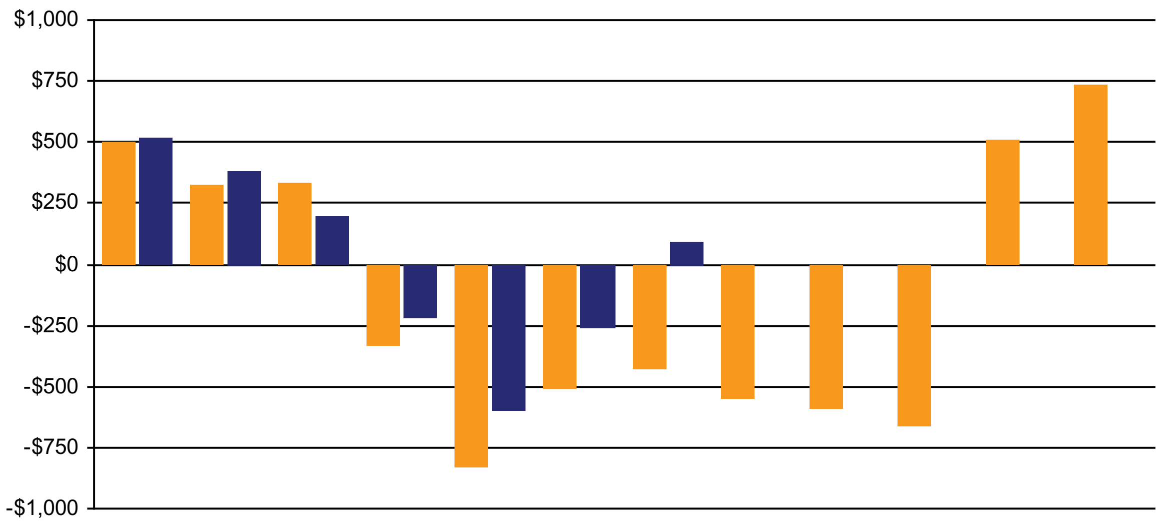
of the Revised Code that it intends to maintain in the BSF. The combined GRF and BSF balance of $310.6 million is $634.7 million higher (less negative) than it was a year ago.

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	-$258	$91					

[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

— *Ross Miller*

Recent data point toward steady growth for the national economy, while Ohio's economic growth continues to be much more tentative. Real[1] U.S. gross domestic product (GDP) grew by 3.5% in the fourth quarter, and employment nationally increased by 111,000 in January. Meanwhile, the unemployment rate in Ohio is a full percentage point higher than the national rate, due in part to employment that has grown sluggishly since its cyclical trough in late 2003 and early 2004.

The growth in the national economy is uneven, however, with the service sector expanding at a healthy rate while growth in manufacturing and residential housing construction remain weak. The slowdown in housing construction was noted by Federal Reserve Board Chairman Ben Bernanke in testimony before Congress on February 14 and 15. He also noted that weakness in this sector has evidently not spilled over to other sectors of the economy to date. Consumer spending, in particular, continued to grow at a healthy rate during the second half of 2006, despite the slowdown in the housing market. During this period, consumer spending was supported by growth in employee compensation at an annual rate of around 3%, after adjusting for inflation. Chairman Bernanke reiterated at both hearings that inflation remains the Federal Open Market Committee's predominant policy concern.

Production and Income

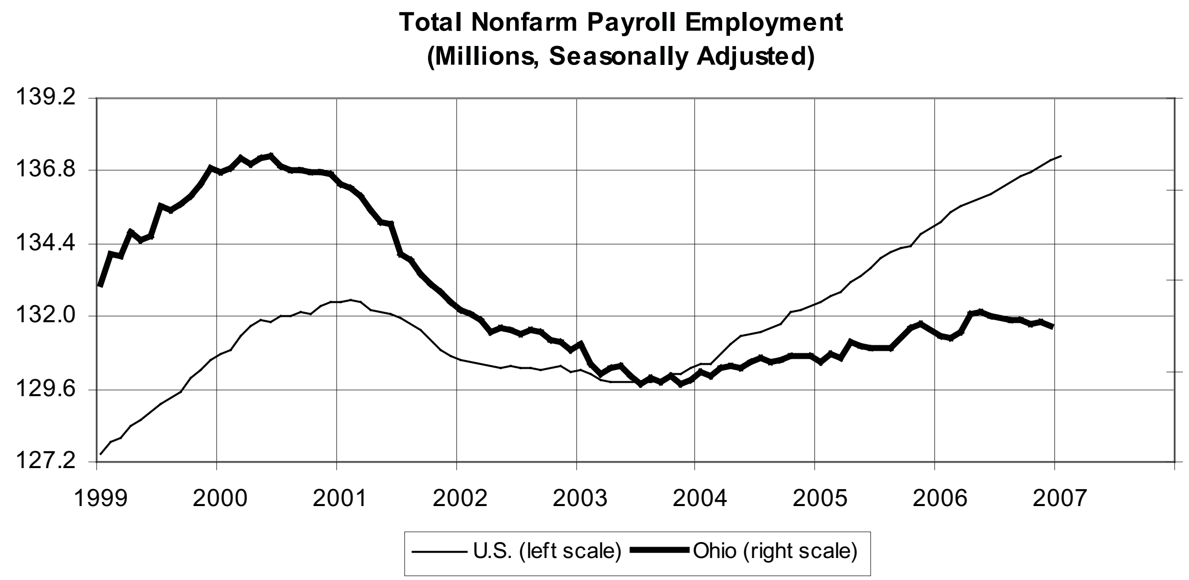
Real U.S. GDP increased by an estimated 3.5% in the fourth quarter of 2006, according to the Bureau of Economic Analysis (BEA). Economic growth accelerated from 2.0% growth in real GDP in the third quarter. This acceleration came despite a slowdown in motor vehicle production, which subtracted 1.17 percentage points from growth in the fourth quarter. The fourth quarter rate is the "advance estimate," that is, the first estimate issued by BEA, and is subject to change.[2]

U.S. personal income increased by $60.6 billion (0.5%) in December; disposable personal income (DPI) increased by a matching 0.5%. Income growth accelerated slightly in December, from growth rates for both measures of 0.3% in November. The largest category of personal income, employee compensation, rose by 0.6%, as did the wage and salary disbursements component of employee compensation. Growth in employee compensation also accelerated from November's growth of 0.4%. Despite the growth in income, the personal savings rate fell to –1.2% of DPI in December, indicating that U.S. consumers as a whole spent more than they earned and financed some purchases either by borrowing or by reducing accumulated savings.

Employment and Unemployment

Nationally, employment statistics continue to indicate an improving labor market. The U.S. Bureau of Labor Statistics (BLS) reports that total nonfarm payroll employment in the U.S. increased by 111,000 in January, after seasonal adjustment. This represented somewhat slower growth as compared with December (when employment increased by 206,000) and November (196,000). After seasonal adjustment, employment nationally stood at 137.3 million in January, compared to 135.1 million in January 2006. The overall January increase of 111,000 was primarily due to an increase in employment in the service sector, where employment increased by approximately 104,000. The remaining increase of 7,000 was in employment in the goods-producing sector.

The unemployment rate in the U.S. was 4.6% in January, after seasonal adjustment. This was slightly higher than the 4.5% rate for December, but below the rate of 4.7% in January 2006. Other unemployment-related measures also indicate improvement in the labor market over the last year. The average length of time a worker has been unemployed fell from 16.8 weeks to 16.2 weeks.[3] And the number of individuals who report wanting a job, but who are classified as not in the labor force rather than unemployed, fell by slightly over 400,000 over the last year.



Conditions in Ohio's labor market have been less favorable than those for the U.S. as a whole, according to the usual measures, since before the most recent recession, and that situation continued in December. Ohio's unemployment rate was 5.6% in December after seasonal adjustment, up from 5.4% in November. Total nonfarm payroll employment in Ohio declined by 5,100 from November to December, to approximately 5,449,400 jobs, a decline of slightly less than 0.1%. Ohio's employment levels fell in December in both goods-producing industries (by 1,300) and service-providing industries (3,800).

Taking a longer view, Ohio employment has fallen in six of the last seven months, after seasonal adjustment, and is now 15,400 (0.3%) below its recent peak in May.[4] Despite this recent trend, strong job gains in March and April contributed to an increase in Ohio employment over the 12 months ending December 2006. Employment is currently 3,700 (0.1%) higher than it was in December 2005. For the year, the number of jobs in service industries rose 21,000, led by leisure and hospitality (which gained 10,700 jobs), education and health services (+8,700), and professional and business services (+7,100). These gains for the year were partially offset by employment losses in other service-providing industries, mainly trade, transportation, and utilities (which lost 4,500 jobs). In Ohio goods-producing industries, the number of jobs in December was 17,300 lower than a year earlier, with almost all of the decline attributable to manufacturing.

Retail Sales

U.S. retail sales increased by 0.1% in January, according to the U.S. Census Bureau's advance estimate, and increased by 2.0% compared to January 2006.[5] Excluding motor vehicle and parts dealers, retail sales increased by 0.3% in January and by 3.4% from the preceding January. The fastest-growing retail sectors for the year were nonstore retailers (up 8.4% from January 2006), health and personal care stores (up 8.1%), and food and beverage stores (up 6.3%). Sales of motor vehicles and parts decreased by 1.3% in January, and by 1.7% from January 2006.

Manufacturing

Nationally, the Federal Reserve reported that industrial production decreased by 0.5% in January, and the manufacturing component of the index declined by 0.7%. Approximately half of the decline in the manufacturing component was attributable to a 6% drop in the production of motor vehicles and parts. Although the magnitudes of these decreases are a concern, the index is above its level of January 2006 by 2.6%, and the manufacturing component increased by 1.8% over its level of a year ago.

Midwest manufacturing output increased in December by 0.6%, according to the Federal

Reserve Bank of Chicago,[6] the first increase in the index since July. The overall increase was led by automobile production, which increased by 1.8%, and production of machinery (up 1.3%). Steel production, in contrast, fell in the Chicago district by 1.2%. For the year as a whole, the index increased by 1.9% from December 2005 to December 2006, led by a 4.9% increase in production of machinery. Steel production was 1.0% higher than in December 2005, but automobile production was 0.5% lower.

Forward-looking indicators for U.S. manufacturing look favorable. The U.S. Department of Commerce reported that new orders for manufactured goods grew by 2.4% in December, and shipments of manufactured goods were up by 1.4%. Both numbers represented accelerations from the corresponding figures for November, which were 1.2% and 0.2%, respectively. The growth in new orders was the third increase in four months, while the growth in shipments was the fourth increase in five months. The unfilled orders-to-shipments ratio rose from 4.64 in November to 4.70 in December.

Among specific industries, new orders for motor vehicle bodies, parts, and trailers were up by 2.8% in December; new orders for primary metals were 5.4% higher than in November, led by iron and steel mills whose orders increased by 6.7%; and new orders for electrical equipment, appliances, and components were 1.6% lower than in November. For the year as a whole, new orders for motor vehicle bodies, parts, and trailers were 0.7% lower than in 2005; for primary metals they were 13.7% higher; and for electrical equipment, appliances, and components they were 8.7% higher. Shipments of primary metals, automobiles, light trucks and utility vehicles, and electrical equipment, appliances, and components were all up in December as well, by 3.1%, 6.3%, 13.8%, and 2.4%, respectively.

Construction

U.S. Census Bureau figures on nationwide construction spending in December show a 0.4% decline in spending from November, with the percentage calculated as an annual rate. Increases in spending on public construction (0.6%) and on nonresidential private construction (0.9%) failed to compensate for a decrease in spending on private residential construction (1.6%). For 2006 as a whole, total spending on construction was 4.8% higher than for 2005. For the year, growth in public construction spending (10.1%) and in private nonresidential spending (16.2%) was more than enough to offset the decline in spending on residential construction (1.9%).

Data on housing starts strongly reinforce the view that residential construction is declining. January data indicate 1.408 million housing starts nationally, at a seasonally adjusted annual rate. This represents a drop of 14.3% from December's figure and a full 37.8% decrease from January 2006. While both declines are very likely due in part to weather factors (that is, a relatively warm November and December, followed by a cold January), the housing start figure for January is the lowest in nearly ten years. Midwest housing starts increased by 10.2% in January, but as with the national figures they decreased sharply (32.3%) since January 2006.

Housing Markets

New home sales in the U.S. rose 5% in December, seasonally adjusted, from November and were 14% higher than the recent low last July. In the Midwest, seasonally adjusted sales increased 27% in December to 45% above the July low point.[7] Unusually warm weather in December may have contributed to outsized gains in reported housing sales in states like Ohio, which are more subject to large swings in real estate market activity in response to weather. For all of 2006, new home sales fell 17% nationwide from the all-time high in 2005. Sales fell 20% last year in the Midwest, after falling 2% the previous year from the highest ever sales pace in the region in 2004. Inventories of homes under construction have been reduced 16% since last May, but the number of completed homes rose in December to a new high.

Sales of existing homes, reported by the National Association of Realtors, fell by a seasonally adjusted 1% nationwide in December but increased 4% in the Midwest. For the year, the number of homes sold nationwide declined

8% from the highest ever rate the year before, so that unit sales in 2006 were the third highest on record. In the Midwest, home sales last year fell 7%. The Ohio Association of Realtors reported that unit sales of homes in Ohio in 2006 were 3% lower than the record pace of the previous year.

Inflation and Prices

January data may have eased the fears of inflation hawks, as the BLS reported that the producer price index (PPI) decreased by 0.6% in January. The decline followed significant increases in both November (1.8%) and December (0.9%), but despite that the PPI increased by just 0.2% since January 2006. The overall decrease in January was heavily influenced by a 4.6% decline in energy prices; the PPI excluding food and energy increased by 0.2% for the month. Excluding food and energy the index increased by 1.8% over the year.

The consumer price index for all urban consumers (CPI-U) increased by 0.2% in January, after seasonal adjustment, and by 2.1% for the year ending in January 2007. Excluding food and energy, which are more variable month to month than most other components of the index, the CPI-U increased by 2.7% for the year. The largest percentage increases in January were for medical care, which rose 0.8%, and for other goods and services, which rose by the same percentage. The increase for other goods and services was driven by tobacco and smoking products, for which prices rose by 3.1%, accounting for about 80% of the monthly increase for the category. Prices for medical care rose by 4.3% for the year, the largest percentage increase of any CPI-U component.

[1] Economists use the term “real” to refer to data that have been adjusted for inflation.

[2] Analysis by Global Insight, an economic forecasting firm, of data that became available since the release of the advance estimate leads its economists to believe that growth in GDP will be revised down to slightly over 2%. Although several BEA assumptions were too optimistic, Global Insight indicates that the fact that inventory accumulation was smaller than assumed accounts for most of the revision that they expect.

[3] The median length of time a worker has been unemployed has also fallen during the year, from 8.5 weeks to 8.1 weeks.

[4] In May, Ohio’s employment reached its highest level in more than four years.

[5] Retail sales figures are adjusted for seasonal variation but not for inflation.

[6] The Chicago Fed publishes an index that measures output in the Chicago Federal Reserve District, which does not include Ohio. However, the Chicago district includes Michigan and parts of Indiana, Illinois, and Wisconsin, states that have economies similar to Ohio’s in that they have durable goods manufacturing sectors that constitute relatively large shares of economic output compared with the U.S. as a whole. Thus, the index probably gives a better picture of what is happening with Ohio’s manufacturing sector than national data.

[7] Sales also jumped 27% in December in the Northeast, after seasonal adjustment, but were flat or down in the South and West.

Status of the General Revenue Fund

REVENUE

— *Jean Botomogno and Allan Lundell*

For the month of January, General Revenue Fund (GRF) receipts of $2,649.2 million were above estimate by $101.3 million (4.0%).[1] State-source receipts were above estimate by $134.1 million (6.6%) and federal grants were below estimate by $32.8 million (6.4%). Federal grants are down primarily because state Medicaid spending is down.[2] Tax revenues were above estimate by $127.2 million (6.3%). Revenue from the corporate franchise tax was above estimate by $124.0 million (62.8%) and personal income tax revenue was $26.3 million (2.6%) below estimate. Revenue from the sales and use tax was above estimate by $26.3 million (3.8%); nonauto tax revenue was above estimate by $19.6 million (3.1%) and auto tax revenue was above estimate by $6.7 million (11.0%).

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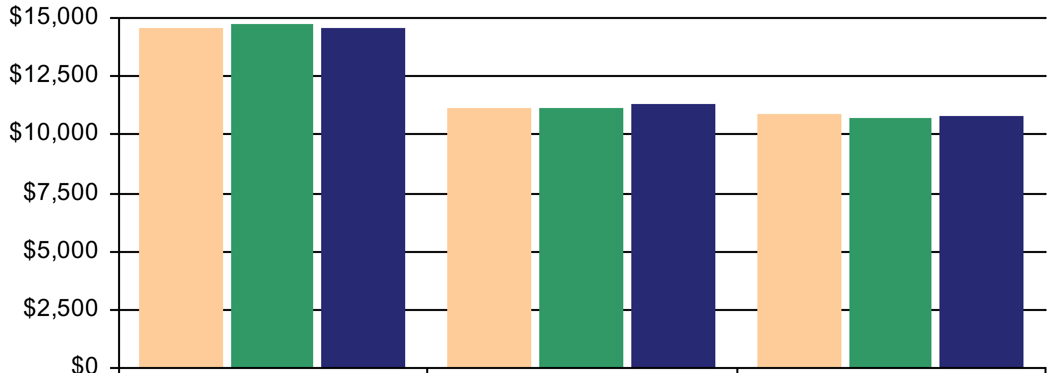
For the fiscal year to date, total GRF receipts are up 0.03% compared to FY 2006. State-source receipts are up 1.7% and federal grants are down 5.4%. Tax revenue is down 0.3%. Revenue from the corporate franchise tax is up 42.8%. Revenue from the personal income tax is down 2.0%, reflecting reduced tax and withholding rates. Revenue from the sales and use tax is up 0.1%; nonauto tax revenue is up 0.9% and auto tax revenue is down 5.1%. Revenue from the cigarette tax is down 8.2%, 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] Chart 1 compares FY 2007 receipts with FY 2006 receipts and FY 2007 estimates.

Personal Income Tax

The GRF received $976.9 million from the personal income tax in January. This amount was $26.3 million (2.6%) less than estimated. Gross collections were below estimate by $19.5 million (1.5%) and refunds were $6.7 million (7.2%) more than estimated. Withholding was below estimate by $16.9 million (2.2%). In January, the state made a bookkeeping "transfer" (or reattribution), from income tax receipts to corporate franchise tax receipts, of $37.9 million of what it had collected from the entity tax on corporate investors in pass-through entities. The pass-through entity (PTE) tax is not so much a separate tax as a mechanism designed to collect individual or corporate franchise tax payable by PTE investors to Ohio. A transfer of $15 million had been planned for May. Quarterly estimated payments were $6.5 million (1.4%) below estimate.[4] Payments associated with annual returns were above estimate by $3.4 million (60.1%).

The GRF has received $4,995.0 million from the personal income tax thus far this fiscal year. This amount is $42.9 million (0.9%) above estimate. Gross collections are above estimate by $71.4 million (1.2%) and refunds are $27.1 million (11.3%) above estimate. The $4,620.6 million collected through withholding is $28.3 million (0.6%) above estimate. Withholding is expected to account for 72% of gross income tax collections for FY 2007. Year-to-date

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



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Total Tax Revenue
FY 2006	$14,567.6	$11,133.3	$10,859.3
FY 2007 Estimate	$14,738.4	$11,132.0	$10,736.7
FY 2007 Actual	$14,572.7	$11,325.1	$10,830.0

quarterly estimated payments of $1,001.2 million are $19.1 million (1.9%) above estimate. Trust payments are $2.0 million (7.0%) above estimate and payments associated with annual returns are above estimate by $12.9 million (10.2%).

Compared to a year ago, GRF revenue from the personal income tax is down 2.0%. Gross collections are down 0.8% and refunds are up 24.1%. Withholding, which depends on the condition of Ohio's labor market, is down 2.5%.[5] Quarterly estimated payments are up 6.2%. Trust payments are down 13.0% and payments associated with annual returns are up 6.0%.

Sales and Use Tax

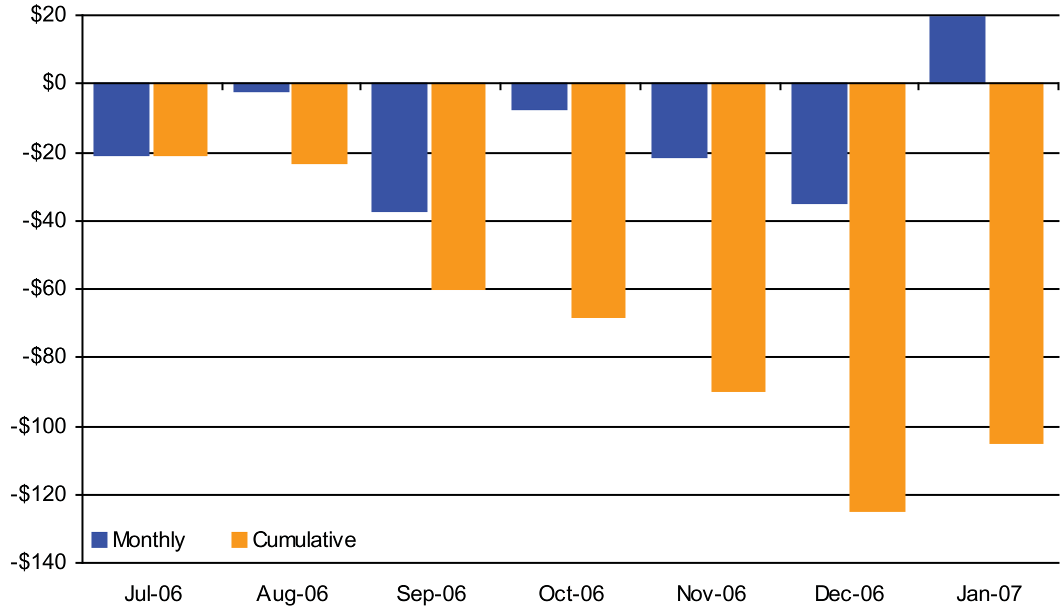
For the first time in FY 2007, monthly sales and use tax collections were above estimate. Total sales and use tax revenues in January 2007 were $712.1 million, $26.3 million (3.8%) above projected revenues. Auto sales and use tax receipts were $6.7 million (11.0%) above estimate. Nonauto sales and use tax receipts were $19.6 million (3.1%) above estimate. Total sales and use tax receipts were $73.5 million (11.5%) above January 2006 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 January, FY 2007 sales and use tax revenues were $4,425.6 million, $106.4 million (2.3%) below estimates. FY 2007 sales and use tax receipts were also $5.4 million (0.1%) above year-to-date tax receipts in FY 2006. Sales and use tax receipts in the last two months (which mostly reflect taxable retail activity during the holiday shopping season) were 0.7% below estimate, and 3.4% above receipts in the December-January period in FY 2006.

Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were above estimate for the first time in FY 2007. Revenues in January were $644.4 million, $19.6 million (3.1%) above estimate. Nonauto sales and use tax receipts were also $62.5 million (10.7%) above revenues in the same month a year ago. Through January, FY 2007 nonauto sales and use tax receipts were $3,903.5 million, $105.0 million (2.6%) below estimate, and $5.4 million (0.9%) above receipts through January in FY 2006.

The redemption of gift cards is extending the holiday shopping season into January and February.[7] In the last two months, combined nonauto sales and use tax receipts were 1.2% below estimate, and 3.0% above receipts in the December-January period in FY 2006. Weaknesses in housing and manufacturing are still restraining spending growth. However, after

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

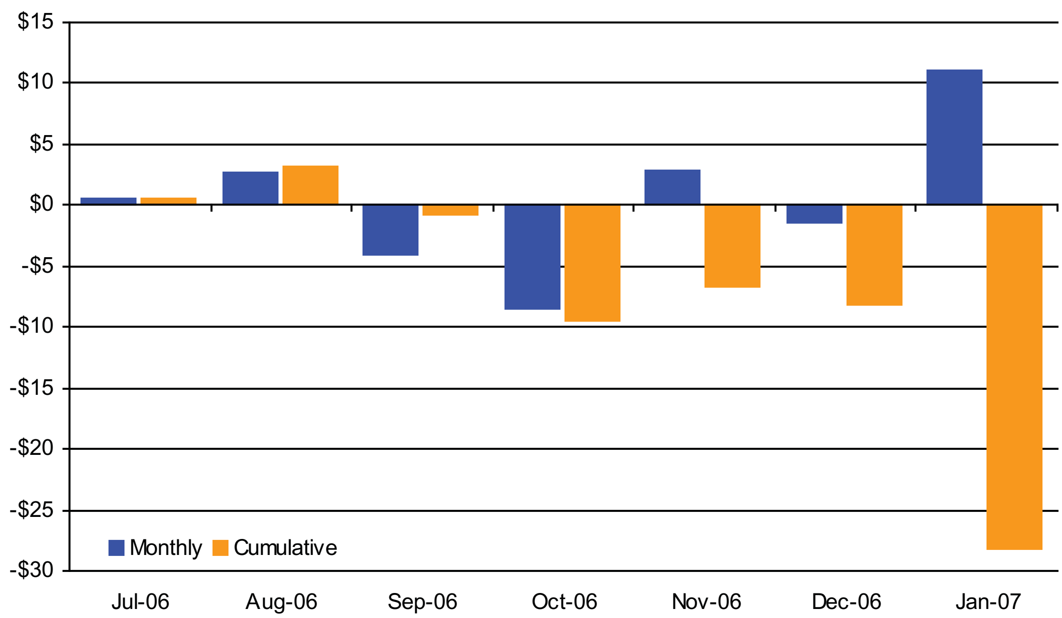


a dismal start to FY 2007, nonauto sales and use tax receipts in the last two months suggest that this tax source may be stabilizing.

Auto Sales and Use Tax

Auto sales and use tax receipts were $67.7 million in January, $6.7 million (11.0%) above 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. Receipts in January 2007 were $11.0 million (19.4%) higher than

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



Growth in Motor Vehicle Titles and Spending from July 2006 through December 2006						
	New Vehicles		Used Vehicles		All Vehicles	
Number of Titles	-18,080	-8.0%	-46,796	-5.6%	-64,876	-6.1%
Taxable Spending	-$426,983,480	-7.8%	$22,197,466	0.5%	-$404,786,015	-4.0%

receipts in January 2006. Through January, FY 2007 year-to-date auto sales tax receipts were $522.1 million, $1.3 million (0.3%) below estimate. FY 2007 year-to-date auto sales and use tax receipts were also $28.2 million (5.1%) below receipts in FY 2006 through January. This cumulative year-over-year negative variance has shrunk from 19% at the end of the first quarter and should continue to do so in the coming months.

Data provided by the Ohio Bureau of Motor Vehicles indicate that the number of titles issued, spending for vehicle purchases, and taxes paid on the transactions will again decrease in FY 2007. The number of titles issued declined 4.6% and 5.1% in FY 2005 and FY 2006, respectively. Total taxable spending on vehicles declined $0.9 billion in FY 2005 and $1.1 billion in FY 2006. Those downward trends are likely to continue in FY 2007. The following table shows the growth in motor vehicle titles[8] and taxable spending in FY 2007 through December. Compared to the same period in FY 2006, the number of titles declined 6.1% and taxable spending fell 4.0% in FY 2007.

Corporate Franchise Tax

Major tax receipts under the corporate franchise tax (CFT) are due in the second half of the fiscal year. CFT estimated payments are due January 31, March 31, and May 31. By the end of May each year, a corporation must pay the difference between its first two estimated payments and its entire tax liability. Am. Sub. H.B. 66 (126th General Assembly) eliminated over five years the CFT for nonfinancial corporations while maintaining the tax for financial corporations. In FY 2007, nonfinancial corporations will pay only 60% of their full tax liability. Activities under the CFT in the first half of the fiscal year were generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations.

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

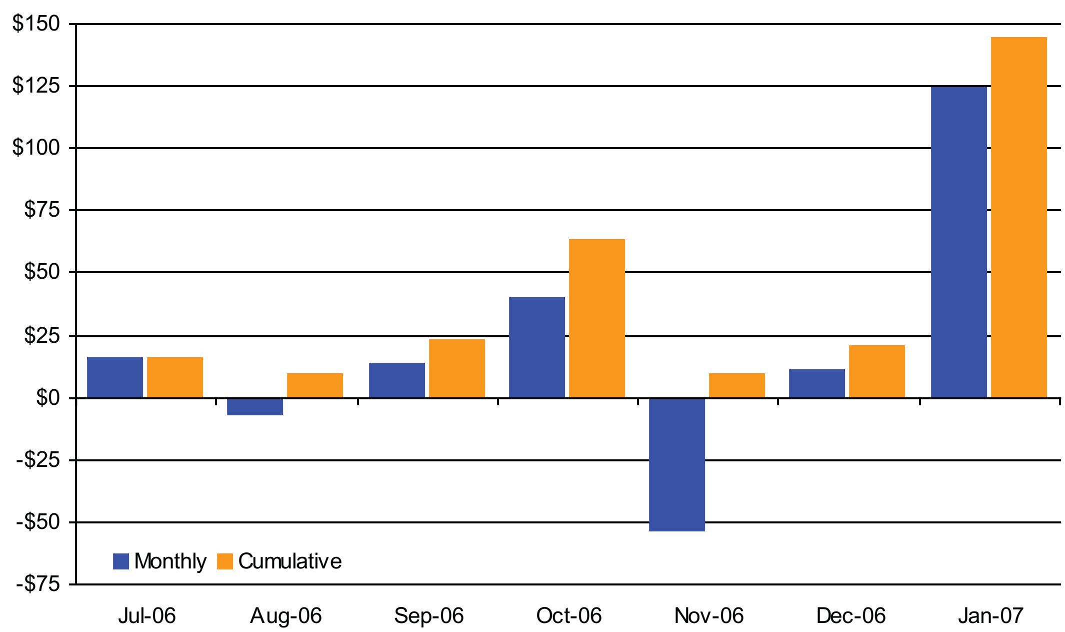


Table 2
General Revenue Fund Sources
Actual vs. Estimate
Month of January 2007
($ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$67,715	$60,989	$6,726	11.0%
Nonauto Sales & Use	$644,367	$624,750	$19,617	3.1%
Total Sales & Use Taxes	$712,082	$685,739	$26,343	3.8%
Personal Income	$976,883	$1,003,200	-$26,316	-2.6%
Corporate Franchise	$321,251	$197,300	$123,951	62.8%
Public Utility	$12	$0	$12	---
Kilowatt Hour Excise	$29,586	$30,000	-$414	-1.4%
Commercial Activity Tax	$0	$0	$0	---
Foreign Insurance	$2,105	$20	$2,085	10427.4%
Domestic Insurance	$0	$0	$0	---
Business & Property	$28	$30	-$2	-6.3%
Cigarette	$84,173	$82,200	$1,973	2.4%
Alcoholic Beverage	$4,365	$4,267	$98	2.3%
Liquor Gallonage	$3,687	$3,733	-$46	-1.2%
Estate	$0	$500	-$500	-100.0%
Total Tax Revenue	**$2,134,174**	**$2,006,989**	**$127,185**	**6.3%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$19,403	$14,670	$4,733	32.3%
Other Revenue	$7,705	$8,000	-$295	-3.7%
Nontax State-Source Revenue	**$27,107**	**$22,670**	**$4,437**	**19.6%**
TRANSFERS				
Liquor Transfers	$9,000	$7,000	$2,000	28.6%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$2,718	$2,200	$518	23.5%
Total Transfers In	**$11,718**	**$9,200**	**$2,518**	**27.4%**
TOTAL GRF before Federal Grants	**$2,172,999**	**$2,038,859**	**$134,140**	**6.6%**
Federal Grants	$476,193	$509,014	-$32,821	-6.4%
TOTAL GRF SOURCES	**$2,649,192**	**$2,547,873**	**$101,319**	**4.0%**

* 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 January 2007
($ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
TAX REVENUE						
Auto Sales	$522,090	$523,434	-$1,344	-0.3%	$550,331	-5.1%
Nonauto Sales & Use	$3,903,462	$4,008,494	-$105,032	-2.6%	$3,869,819	0.9%
Total Sales & Use Taxes	$4,425,552	$4,531,928	-$106,376	-2.3%	$4,420,151	0.1%
Personal Income	$4,995,038	$4,952,100	$42,938	0.9%	$5,096,500	-2.0%
Corporate Franchise	$378,855	$234,300	$144,555	61.7%	$265,347	42.8%
Public Utility	$68,871	$65,700	$3,171	4.8%	$68,148	1.1%
Kilowatt Hour Excise	$197,458	$201,100	-$3,642	-1.8%	$201,910	-2.2%
Commercial Activity Tax	$0	$0	$0	---	$1,346	-100.0%
Foreign Insurance	$134,228	$131,529	$2,699	2.1%	$129,908	3.3%
Domestic Insurance	$235	$1,200	-$965	-80.4%	$1,081	-78.2%
Business & Property	$660	$740	-$80	-10.8%	$1,049	-37.0%
Cigarette	$542,562	$535,400	$7,162	1.3%	$591,207	-8.2%
Alcoholic Beverage	$33,438	$33,361	$77	0.2%	$33,609	-0.5%
Liquor Gallonage	$20,742	$20,713	$29	0.1%	$20,215	2.6%
Estate	$32,380	$28,600	$3,780	13.2%	$28,873	12.1%
Total Tax Revenue	**$10,830,020**	**$10,736,671**	**$93,348**	**0.9%**	**$10,859,342**	**-0.3%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$92,314	$69,900	$22,414	32.1%	$47,345	95.0%
Licenses and Fees	$39,456	$34,181	$5,275	15.4%	$32,954	19.7%
Other Revenue	$95,608	$45,750	$49,858	109.0%	$72,182	32.5%
Nontax State-Source Revenue	**$227,377**	**$149,831**	**$77,546**	**51.8%**	**$152,481**	**49.1%**
TRANSFERS						
Liquor Transfers	$85,000	$75,000	$10,000	13.3%	$77,000	10.4%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$182,704	$170,500	$12,204	7.2%	$44,449	311.0%
Total Transfers In	**$267,704**	**$245,500**	**$22,204**	**9.0%**	**$121,449**	**120.4%**
TOTAL GRF before Federal Grants	**$11,325,101**	**$11,132,002**	**$193,099**	**1.7%**	**$11,133,271**	**1.7%**
Federal Grants	$3,247,610	$3,606,418	-$358,808	-9.9%	$3,434,355	-5.4%
TOTAL GRF SOURCES	**$14,572,711**	**$14,738,420**	**-$165,709**	**-1.1%**	**$14,567,626**	**0.0%**

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

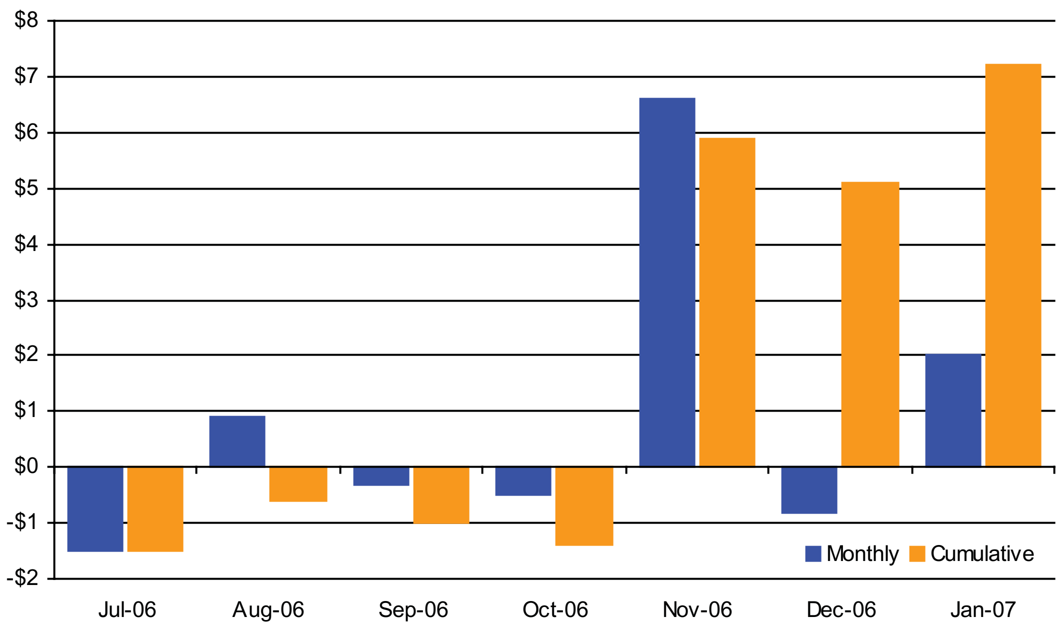
January CFT receipts were $321.3 million, $124.0 million (62.8%) above estimate. These receipts were also $132.0 million (69.8%) above January 2006 receipts. The Office of Budget and Management reported that a "transfer" (really, a reattribution) of $37.9 million was made from the pass-through entity (PTE) tax (which had been remitted to the state on behalf of corporate investors in pass-through entities and had been treated as individual income tax receipts) to the corporate franchise tax in January. Last year, the transfer was made in May.[9] Through January, FY 2007 year-to-date CFT receipts were $378.9 million, $144.6 million (61.7%) above estimate. FY 2007 year-to-date receipts were also $113.5 million (42.8%) above year-to-date receipts in January 2006. Excluding the PTE tax transfer, year-to-date CFT receipts were 45.5% above estimate, and 28.5% above last fiscal year receipts through January 2006.

This large positive variance in year-to-date CFT receipts is partly due to the timing of collections from estimated CFT payments. An increasing number of returns are filed electronically each year, with tax payments recorded in January. Manual returns are processed over several days, with certain payments collected and recorded in February. Thus, tax collections from the first estimated CFT payment is spread over the two months. February receipts are likely to be below estimate because of outsized January collections. January receipts also reflect stronger than expected corporate profits in CY 2006. Nonetheless, the current variance is expected to dwindle in the next few months, as corporations adjust their estimated payments to match better their actual tax liabilities. Year-to-date CFT receipts imply that FY 2007 receipts will be higher than estimated in August 2006. Total CFT receipts for FY 2007 were estimated at about $895.0 million for the full fiscal year, about 85% of CFT collected in FY 2006. Receipts through January 2007 suggest that full fiscal year receipts would largely surpass receipts in FY 2006. However, despite strong corporate profits in CY 2006, this is unlikely because corporations will be paying 60% of their full tax liability in FY 2007, smaller than the 80% share paid in FY 2006.

Cigarette and Other Tobacco Products Tax

January receipts from the tax on cigarettes and other tobacco products were $84.2 million, $2.0 million (2.4%) above estimate. These

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



revenues in January were $4.6 million (5.2%) lower than receipts in January 2006. Through January, FY 2007 year-to-date receipts were $542.6 million, $7.2 million (1.3%) above estimate. Those receipts were also $48.6 million (8.2%) below FY 2006 receipts through January. However, excluding receipts from the one-time floor tax of about $66.1 million last year, FY 2007 year-to-date receipts were $17.5 million (3.3%) above FY 2006 year-to-date receipts through January.

Commercial Activity Tax

Receipts from the commercial activity tax (CAT) were $14.1 million in January 2007. CAT remittances for taxable receipts in the last quarter of CY 2006 are due February 10, 2007 for calendar quarter taxpayers. Annual CAT taxpayers are also required to remit the tax during this quarter. FY 2006 CAT receipts were credited to the GRF; FY 2007 CAT receipts are distributed to two non-GRF funds, the School District Tangible Property Tax Replacement Fund (SDRF) and the Local Government Tangible Property Tax Replacement Fund (LGRF). Through January, FY 2007 year-to-date receipts were $293.4 million, $57.4 million (24.5%) above estimate. Distributions to the SDRF and the LGRF were $205.4 million and $88.0 million, respectively.

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[1] "Estimate" refers to the August 2006 estimate of the O ffice 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 National Retail Federation reported that $28.7 billion was spent on gift cards during the holiday season. More than half of the value of the gift cards is redeemed within a month.

[8] This includes titles for motor vehicles, watercraft, and outboard motors.

[9] A pass-through entity is an S corporation, a partnership, or a limited liability company that is treated as a partnership for federal income tax purposes. The entity itself pays no tax on its income; rather, the individual and corporate investors in the entity pay taxes on their distributive shares of the entity's income. However, there is a 5% withholding tax on income of individual investors and an 8.5% entity tax on the income of its corporate owners. Certain pass-through entities withhold PTE tax on the distributive shares of Ohio income passing through to corporations that are qualifying investors in the PTE. Those tax payments are generally credited to the CFT.

Disbursements

— *Phil Cummins**

Through the end of January, cumulative FY 2007 General Revenue Fund (GRF) disbursements for program spending totaled $15,309.6 million, which was under estimate by $664.6 million (4.2%).[1] Compared with program spending through the same seven-month period in the prior fiscal year, disbursements were $26.8 million (0.2%) lower this year. In January, total GRF program disbursements were $2,289.9 million, under estimate by $170.1 million.

Disbursements for the state's four major GRF program categories (Welfare and Human Services, Education, Government Operations, and Property Tax Relief) were each under estimate for the year to date (see the chart titled "GRF Cumulative 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 $515.8 million (6.9%) under estimate. Debt service payments in January were $15.4 million under estimate. Most of this variance is attributable to a one-time reduction of debt service payments which were made instead by the use of funds received for a premium (issue price above par value) on a recent issuance of higher education bonds. Within the GRF program *sub*categories, the Health Care/ Medicaid program posted the largest year-to-date variance ($482.7 million under estimate) and the largest variance for the month ($66.0 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 (-$515.8 million)

Disbursements in the Welfare and Human Services category were $65.6 million (6.1%) under estimate in January. For the fiscal year to date, outlays in this category were $515.8 million (6.9%) under estimate. Within the category, Health Care/Medicaid spending accounted for most of the variance, with year-to-date disbursements under estimate by $482.7 million (7.9%). Other components of the category include the Temporary Assistance for Needy Families (TANF) program, the Other

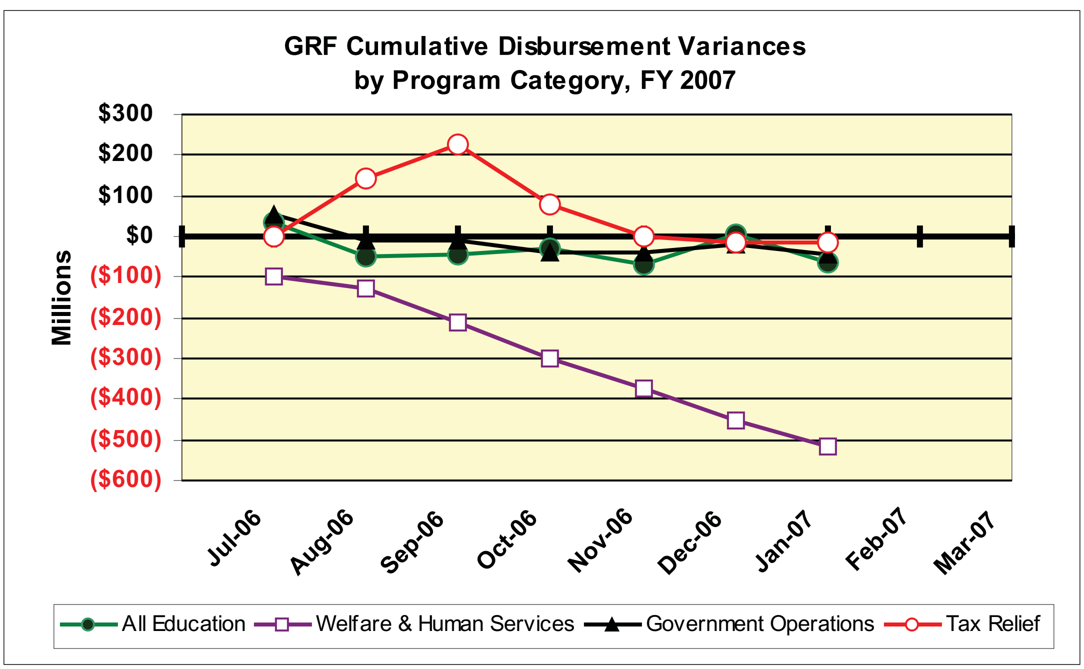

Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of January 2007
($ in thousands)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary & Secondary Education (1)	$770,390	$819,824	-$49,435	-6.0%
Higher Education	$161,303	$177,770	-$16,466	-9.3%
Total Education	$931,693	$997,594	-$65,901	-6.6%
Health Care/Medicaid	$785,029	$851,075	-$66,046	-7.8%
Temporary Assistance for Needy Families (TANF)	$15,644	$16,000	-$356	-2.2%
Other Welfare (2)	$58,052	$61,928	-$3,876	-6.3%
Human Services (3)	$156,112	$151,388	$4,723	3.1%
Total Welfare & Human Services	$1,014,837	$1,080,392	-$65,555	-6.1%
Justice & Corrections	$223,113	$240,013	-$16,900	-7.0%
Environment & Natural Resources	$8,374	$8,425	-$51	-0.6%
Transportation	$1,584	$3,958	-$2,374	-60.0%
Development	$10,006	$8,746	$1,260	14.4%
Other Government	$24,917	$30,159	-$5,243	-17.4%
Capital	$4	$0	$4	---
Total Government Operations	$267,998	$291,301	-$23,303	-8.0%
Property Tax Relief (4)	$6,935	$6,784	$150	2.2%
Debt Service	$68,446	$83,896	-$15,450	-18.4%
Total Other Disbursements	$75,381	$90,681	-$15,300	-16.9%
Total Program Disbursements	**$2,289,909**	**$2,459,967**	**-$170,058**	**-6.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$10,627	$0	$10,627	---
Total Transfers Out	$10,627	$0	$10,627	---
TOTAL GRF USES	**$2,300,537**	**$2,459,967**	**-$159,431**	**-6.5%**

(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.

Welfare subcategory, and the Human Services subcategory. Fiscal year-to-date disbursements for TANF, through January, were $2.4 million (1.2%) under estimate. Disbursements for the Other Welfare subcategory, which includes various operating and subsidy programs within the Department of Job and Family Services other than Medicaid and TANF, were under estimate

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2006**	**Percent Change**
Primary & Secondary Education (1)	$4,276,308	$4,343,420	-$67,112	-1.5%	$3,956,159	8.1%
Higher Education	$1,444,182	$1,439,781	$4,401	0.3%	$1,403,762	2.9%
Total Education	$5,720,490	$5,783,201	-$62,711	-1.1%	$5,359,921	6.7%
Health Care/Medicaid	$5,598,721	$6,081,392	-$482,671	-7.9%	$5,936,633	-5.7%
Temporary Assistance for Needy Families (TANF)	$194,760	$197,204	-$2,444	-1.2%	$180,315	8.0%
Other Welfare (2)	$355,411	$374,908	-$19,497	-5.2%	$352,769	0.7%
Human Services (3)	$814,866	$826,006	-$11,141	-1.3%	$805,472	1.2%
Total Welfare & Human Services	$6,963,758	$7,479,511	-$515,752	-6.9%	$7,275,189	-4.3%
Justice & Corrections	$1,264,879	$1,281,178	-$16,299	-1.3%	$1,216,288	4.0%
Environment & Natural Resources	$69,100	$68,899	$201	0.3%	$69,551	-0.6%
Transportation	$15,664	$19,513	-$3,850	-19.7%	$20,933	-25.2%
Development	$95,259	$105,367	-$10,108	-9.6%	$99,185	-4.0%
Other Government	$245,272	$257,873	-$12,601	-4.9%	$250,402	-2.0%
Capital	$41	$0	$41	---	$213	-80.7%
Total Government Operations	$1,690,214	$1,732,830	-$42,616	-2.5%	$1,656,572	2.0%
Property Tax Relief (4)	$606,764	$622,938	-$16,173	-2.6%	$742,337	-18.3%
Debt Service	$328,342	$355,667	-$27,325	-7.7%	$302,382	8.6%
Total Other Disbursements	$935,106	$978,605	-$43,499	-4.4%	$1,044,719	-10.5%
Total Program Disbursements	**$15,309,569**	**$15,974,146**	**-$664,578**	**-4.2%**	**$15,336,400**	**-0.2%**
TRANSFERS						
Budget Stabilization	$394,034	$394,034	$0	0.0%	$394,205	0.0%
Other Transfers Out	$307,455	$325,113	-$17,658	-5.4%	$181,696	69.2%
Total Transfers Out	$701,489	$719,147	-$17,658	-2.5%	$575,901	21.8%
TOTAL GRF USES	**$16,011,058**	**$16,693,293**	**-$682,235**	**-4.1%**	**$15,912,301**	**0.6%**

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

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

by $19.5 million (5.2%). Disbursements in the Human Services subcategory, which includes services provided by more than 20 agencies, were under estimate by $11.1 million (1.3%).

Health Care/Medicaid. Disbursements in January and for the fiscal year to date in the Health Care/Medicaid subcategory, primarily line item 600-525, are shown in more detail in

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

Service Category	January Actual	January Estimate	January Variance	January Percent Variance	Year-to-Date Spending Actual thru Jan.	Year-to-Date Spending Estimate thru Jan.	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Facilities Payments	$219,972	$232,238	($12,266)	-5.3%	$1,523,018	$1,592,546	($69,528)	-4.4%
ICF/MR Payments	$44,157	$44,166	($9)	0.0%	$304,252	$304,222	$30	0.0%
Inpatient Hospitals	$114,332	$121,609	($7,277)	-6.0%	$796,063	$872,164	($76,101)	-8.7%
Outpatient Hospitals	$45,249	$42,893	$2,356	5.5%	$362,990	$360,666	$2,324	0.6%
Physicians	$43,463	$36,521	$6,942	19.0%	$331,834	$313,830	$18,004	5.7%
Prescription Drugs	$90,127	$91,022	($895)	-1.0%	$608,419	$643,409	($34,990)	-5.4%
ODJFS Waiver	$35,756	$26,054	$9,702	37.2%	$217,654	$163,184	$54,470	33.4%
HMO - CFC*	$223,372	$269,583	($46,211)	-17.1%	$1,248,701	$1,521,233	($272,532)	-17.9%
HMO - ABD*	$27,199	$0	$27,199	N/A	$28,654	$0	$28,654	N/A
Medicare Buy-In	$0	$22,757	($22,757)	-100.0%	$154,188	$155,274	($1,086)	-0.7%
Home Health	$14,488	$19,394	($4,906)	-25.3%	$89,374	$118,723	($29,349)	-24.7%
Dental	$5,220	$3,312	$1,908	57.6%	$48,025	$44,230	$3,795	8.6%
Hospice	$12,998	$12,388	$610	4.9%	$82,371	$75,271	$7,100	9.4%
All Other	$52,355	$54,604	($2,249)	-4.1%	$299,146	$380,161	($81,015)	-21.3%
Total Medicaid Payments	**$928,688**	**$976,541**	**($47,853)**	-4.9%	**$6,094,689**	**$6,544,913**	**($450,224)**	-6.9%
Medicare Part D	$0	$22,071	($22,071)	-100.0%	$117,454	$152,958	($35,504)	-23.2%
Capital Compensation Program	$1,260	$0	$1,260	N/A	$3,223	$5,000	($1,777)	-35.5%
DA Medical	$2,255	$3,004	($749)	-24.9%	$16,284	$21,115	($4,831)	-22.9%
Drug Rebates Offsets	($43,623)	($38,078)	($5,545)	14.6%	($256,586)	($258,064)	$1,478	-0.6%
Revenue & Collections	($18,107)	($18,092)	($15)	0.1%	($65,195)	($65,132)	($63)	0.1%
ICF/MR Franchise Fee Offsets	($1,515)	($1,515)	$0	0.0%	($10,628)	($10,628)	$0	0.0%
NF Franchise Fee Offsets	($37,184)	($37,184)	$0	N/A	($186,806)	($186,124)	($682)	0.4%
DSH Rebate Offsets	($26,913)	($35,843)	$8,930	N/A	($34,391)	($43,320)	$8,929	-20.6%
MCP Assessments	($19,831)	($19,831)	$0	N/A	($79,326)	($79,326)	$0	0.0%
Total Health Care (Net of Offsets)	**$785,030**	**$851,073**	**($66,043)**	**-7.8%**	**$5,598,718**	**$6,081,392**	**($482,674)**	**-7.9%**
Est. Federal Share	$470,493	$510,074	($39,582)		$3,355,485	$3,644,766	($289,281)	
Est. State Share	$314,537	$340,999	($26,461)		$2,243,233	$2,436,626	($193,393)	

*In previous reports HMO was one category.

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: Because of 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.

Table 6 and Table 7. The largest contributor to the year-to-date variance was the HMO-CFC (Covered Families and Children) program, which was $272.5 million (17.9%) below estimate with spending of $1,248.7 million through January. The Department of Job and Family Services is in the process of expanding Medicaid managed care statewide to 1.2 million Covered Families and

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 Jan. '07	FY 2006 Yr.-to-Date as of Jan. '06	Dollar Change	Percent Increase
Nursing Facilities Payments	$1,523,018	$1,548,353	($25,335)	-1.6%
ICF/MR Payments	$304,252	$299,805	$4,447	1.5%
Inpatient Hospitals	$796,063	$915,783	($119,720)	-13.1%
Outpatient Hospitals	$362,990	$402,865	($39,875)	-9.9%
Physicians	$331,834	$379,768	($47,934)	-12.6%
Prescription Drugs	$608,419	$1,189,824	($581,405)	-48.9%
ODJFS Waiver	$217,654	$134,154	$83,500	62.2%
HMO	$1,277,355	$752,183	$525,172	69.8%
Medicare Buy-In	$154,188	$128,890	$25,298	19.6%
Home Health	$89,374	$104,965	($15,591)	-14.9%
Dental	$48,025	$77,662	($29,637)	-38.2%
Hospice	$82,371	$72,255	$10,116	14.0%
All Other	$299,146	$350,228	($51,082)	-14.6%
Total Medicaid Payments	**$6,094,689**	**$6,356,735**	**($262,046)**	**-4.1%**
Medicare Part D	$117,454	$0	N/A	N/A
Capital Compensation Program	$3,223	N/A	N/A	N/A
DA Medical	$16,284	$29,733	($13,449)	-45.2%
Drug Rebates Offsets	($256,586)	($262,467)	$5,881	-2.2%
Revenue & Collections	($65,195)	N/A	N/A	N/A
ICF/MR Franchise Fee Offsets	($10,628)	($12,940)	$2,312	-17.9%
NF Franchise Fee Offsets	($186,806)	($42,335)	($144,471)	341.3%
DSH Rebate Offsets	($34,391)	$0	N/A	N/A
MCP Assessments	($79,326)	N/A	N/A	N/A
Total Health Care (Net of Offsets)	**$5,598,718**	**$6,068,726**	**($470,008)**	**-7.7%**
Est. Federal Share	$3,355,485	$3,637,175	($281,690)	
Est. State Share	$2,243,233	$2,431,551	($188,318)	

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, Medicare Part D, and Revenue & Collections were not included in Table 7 for Dec. 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 (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.

Children and 125,000 Aged, Blind, and Disabled Medicaid consumers. The HMO-CFC variance through January was due to slower than projected enrollment. This underspending is expected to narrow but not be eliminated this fiscal year.

The Nursing Facilities Payments category was below estimate by $69.5 million (4.4%) through January with spending of $1,523.0 million. This variance is attributed to lower than projected utilization, and to the effects of implementing (in

August 2005) direct billing by nursing facilities for reimbursement for Medicaid bed days provided, which has reduced overpayments by the Department of Job and Family Services.

The Prescription Drug category was $35.0 million (5.4%) below estimate with spending of $608.4 million through January. This underspending is attributed by the Department of Job and Family Services to reduction of costs per claim and of utilization over the last year, but has narrowed as lower-than-projected managed care enrollment has driven fee-for-service spending higher.

The Home Health category was $29.3 million (24.7%) below estimate with spending of $89.4 million through January. This variance results from attrition at a higher than projected rate in a program closed to new enrollment.

The All Other category was $81.0 million (21.3%) below estimate with spending of $299.1 million through January. This category was below estimate in part due to changes in home care programs. As a consequence, underspending in some categories this fiscal year will be offset by overspending in others.

Other Job and Family Services programs. Disbursements for programs of the Department of Job and Family Services, other than Health Care/Medicaid and Temporary Assistance for Needy Families, were $3.9 million (6.3%) under estimate in January and $19.5 million (5.2%) under estimate for the year to date. Line item 600-528, Adoption Services, was under estimate by $8.8 million for the fiscal year's first seven months, mainly reflecting underspending of $5.5 million in July as a result of a payment that was to have been made from FY 2007 funds but instead was paid out of encumbered funds appropriated for FY 2006. We can expect this line item to be under estimate for all of FY 2007 by about $4.7 million or more. Line item 600-321, Support Services, was under estimate for the fiscal year to date by $8.0 million, reflecting variation in the timing of postage purchases as well as a delay from January to February in incurring some costs of moving (to the former Lazarus building). Line item 600-416, Computer Projects, was under estimate for the year to date by $5.2 million, as a result of less-than-expected payments to vendors.

Education (-$62.7 million)

January outlays totaling $931.7 million in the Education category were $65.9 million (6.6%) under estimate. Year-to-date outlays totaling $5,720.5 million in this category were $62.7 million (1.1%) under estimate, including the Department of Education with disbursements $60.8 million under estimate, the Board of Regents with disbursements $4.4 million over estimate, and other agencies with smaller variances.

Department of Education. Disbursements by the Department of Education totaled $758.9 million in January, $49.0 million (6.1%) under estimate, and $4,200.5 million through the fiscal year's first seven months, $60.8 million (1.4%) under estimate. Most of these variances can be attributed to line item 200-550, Foundation Funding, which was under estimate by $49.4 million (7.0%) in January and by $61.7 million (1.7%) in the July-January period. This line item is the main source of twice-monthly state foundation payments. Amounts paid to school districts are determined mostly by their student enrollments and property wealth. Enrollment data are available only with a delay, so estimated enrollments are used in figuring payments.

Board of Regents. Disbursements for higher education in January of $161.3 million were $16.5 million under estimate, mainly caused by underspending in line item 235-420, Success Challenge, which was $13.1 million less than estimate. The second fiscal quarter's estimated October payment of $13.1 million has yet to be paid. The third quarter's January payment has also been missed. In FY 2006, two of the four quarterly disbursements were paid in February. Campuses usually are on time with their quarterly submittals, but the Board of Regents has some in-house request-processing problems that it is looking to correct. For the year to date, underspending in this program is more than offset by spending in excess of estimates in other programs.

Government Operations (-$42.6 million)

In January, outlays in the Government Operations category were $23.3 million (8.0%) under estimate. For the year to date, disbursements in the category were $42.6 million (2.5%) under estimate. Among subcategories, year-to-date disbursements were under estimate by $16.3 million (1.3%) in Justice and Corrections; by $12.6 million (4.9%) in Other Government, which includes 19 agencies, all but two of which have year-to-date disbursements below estimate; and by $10.1 million (9.6%) in Development, which includes the Department of Development and four smaller agencies.

Justice and Corrections. Most of January's variance in the Government Operations category was attributable to the Department of Rehabilitation and Correction, with disbursements last month of $175.0 million, $10.2 million under estimate. The largest component of this spending shortfall was ALI 501-405, Halfway Houses, $4.4 million under estimate, apparently as a result of timing issues. The total appropriation in this line item is expected to be fully disbursed to Halfway Houses by the end of the fiscal year.

Development. The Department of Development line item with the largest year-to-date variance continues to be 195-515, Economic Development Contingency, which was $5.8 million below estimate through January. The program funded by this line item provides grants that are paid once grantees meet specified deliverables. The variance was in disbursements from the encumbered FY 2006 appropriation. Funding of the program in FY 2007 is with non-GRF funds.

Tax Relief (-$16.2 million)

The Tax Relief program reimburses school districts and other units of local government for revenues forgone because of state programs that lower taxes of property owners through the homestead exemption, the real property tax rollbacks, and the $10,000 business tangible property tax exemption. In January, $6.9 million was disbursed under this program, $0.2 million (2.2%) over estimate. Year-to-date reimbursements totaled $606.8 million, which was $16.2 million (2.6%) under estimate. Total payments were above estimate in August and September, as a result of payments requested by local governments sooner than expected, and below estimate in October-December. Reimbursements for the homestead exemption and the rollbacks account for most of the outlays under this program. Year-to-date outlays for the homestead exemption and rollbacks totaled $568.5 million, $11.2 million (1.9%) under estimate. Reimbursements for the $10,000 tangible property tax exemption are much smaller and are being phased out. These reimbursements totaled $38.3 million through the fiscal year's first seven months, $4.9 million (11.4%) under estimate, and appear to be finished for the fiscal year based on the accelerated phaseout schedule set in the main operating appropriations act for FYs 2006-2007.

**LSC colleagues who contributed to this disbursements report include, in alphabetical order, Brian Hoffmeister, Ed Millane, David Price, Joe Rogers, Maria Seaman, and Stephanie Suer.*

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[1] Disbursements plus transfers out totaled $16,011.1 million for the fiscal year through January, 4.1% 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 October, $210.1 million. When transfers out are included, the year-to-date amount disbursed was 0.6% more than in the same period in FY 2006.