

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

APRIL 2007

FISCAL OVERVIEW

— Allan Lundell

Three-fourths of the way through FY 2007, General Revenue Fund (GRF) receipts are \$149.0 million below estimate and disbursements are \$692.8 million below estimate, with the result that the cash balance is \$543.8 million above its expected level.¹

Receipts

For the month of March, total GRF receipts of \$2,007.5 million were above estimate by \$80.9 million (4.2%). State-source receipts were above estimate by \$93.8 million (6.4%) and federal grants were below estimate by \$12.9 million (2.8%). Tax revenues were above estimate by \$97.9 million (7.1%). Revenue from the corporate franchise tax was above estimate by \$79.1 million (51.2%) and personal income tax revenue was \$55.7 million (12.6%) above estimate. Revenue from the sales and use tax was below estimate by \$40.0 million (6.6%); nonauto tax revenue was below estimate by \$40.0 million (7.7%) and auto tax revenue was almost on target, finishing the month below estimate by \$16,000 (0.02%). Revenue from the cigarette tax was below estimate by \$5.7 million (7.0%) and revenue from the foreign insurance tax was \$8.4 million (11.8%) above estimate. Earnings on investments, reported quarterly, were above estimate by \$8.8 million (30.0%).

Fiscal year-to-date GRF receipts of \$18,192.0 million are \$149.0 million (0.8%) below estimate and are down 2.2% compared to FY 2006. State-source receipts are \$224.4 million (1.6%) above estimate and federal grants are \$373.4 million (8.2%) below estimate. Federal grants are down primarily because state Medicaid spending is down.² Tax revenues are above estimate by \$178.4 million (1.3%). Corporate franchise tax revenue is above estimate by \$216.1 million (44.1%) and personal income tax revenue is above estimate by \$112.6 million (2.0%). Revenue from the sales and use tax is below estimate by \$144.3 million (2.5%); nonauto tax revenue is below estimate by \$139.6 million (2.8%) and auto tax revenue is below estimate by \$4.8 million (0.7%). Earnings on investments are above estimate by \$31.3 million (31.4%).

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 - Ohio unemployment rate decreases to 5.0% in February
 - Subprime foreclosures in Ohio increase by 11.3% (fourth quarter)

STATUS OF THE GRF

- Revenue 177
- Fiscal year-to-date GRF receipts below estimate; state-source receipts above and federal grants below estimate
 - Major state sources above estimate: corporate franchise tax, personal income tax, and earnings on investments
 - Major state sources below estimate: nonauto sales tax, cigarette tax, and kilowatt-hour tax

- Disbursements 185
- GRF program spending in FY 2007 through March totaled \$19,067.0 million, \$677.5 million under OBM's estimate
 - Medicaid spending accounted for nearly three-fourths of this variance

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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 March	Fiscal Year 2007 to Date	Last Year	Difference
Beginning Cash Balance	-\$64.6	\$1,528.8		
Plus Revenue and Transfers In	\$2,007.5	\$18,192.0		
Available Resources	\$1,942.9	\$19,720.8		
Less Disbursements and Transfers Out	\$1,993.0	\$19,770.9		
Ending Cash Balances	-\$50.1	-\$50.1	-\$24.7	-\$25.4
Less Encumbrances and Accts. Payable		\$542.0	\$555.3	-\$13.3
Unobligated Balance		-\$592.1	-\$580.0	-\$12.1
Plus BSF Balance		\$1,012.3	\$576.6	\$435.7
Combined GRF and BSF Balance		\$420.1	-\$3.4	\$423.5

Disbursements

March GRF program disbursements of \$1,993.0 million were above estimate by \$23.2 million (1.2%). Disbursements for health care/Medicaid were below estimate by \$32.6 million (4.1%). Disbursements for primary and secondary education were \$21.1 million (3.8%) below estimate and disbursements for higher education were \$2.7 million (1.5%) below estimate. Disbursements for justice and corrections were above estimate by \$5.6 million (3.3%) and disbursements for "other government" were above estimate by \$15.0 million (27.7%). Debt service payments were \$64.1 million (428.3%) above estimate.

Fiscal year-to-date GRF program disbursements of \$19,067.0 million are \$677.5 million (3.4%) below estimate and are down 0.9% compared to FY 2006. Disbursements for health care/Medicaid are below estimate by \$492.4 million (6.5%) and disbursements for "other welfare" are below estimate by \$65.9 million (13.4%). Disbursements for primary and secondary

education are below estimate by \$79.0 million (1.5%) and disbursements for higher education are \$23.4 million (1.3%) above estimate. Disbursements for property tax relief are below estimate by \$21.0 million (3.1%) and debt service payments are \$29.4 million (6.2%) below estimate.

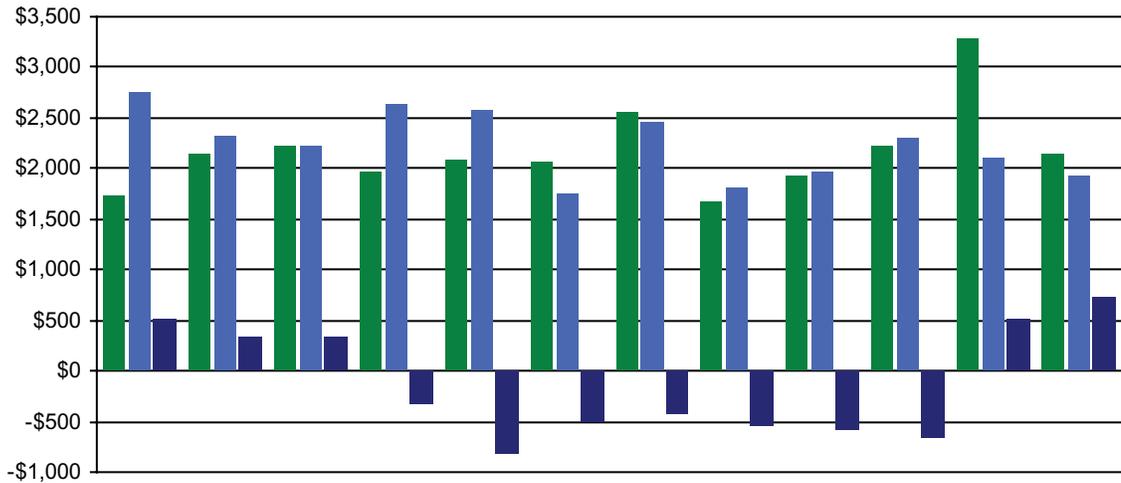
Cash Balance

As shown in Table 1, the GRF began FY 2007 with a \$1,528.8 million cash balance. Through March, FY 2007 revenues plus transfers in totaled \$18,192.0 million and disbursements plus transfers out totaled \$19,770.9 million. The year-to-date deficit of \$1,578.9 million reduced the cash balance to -\$50.1 million. If receipts and disbursements had equaled their estimates, the cash balance would have been -\$593.9 million, \$543.8 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.

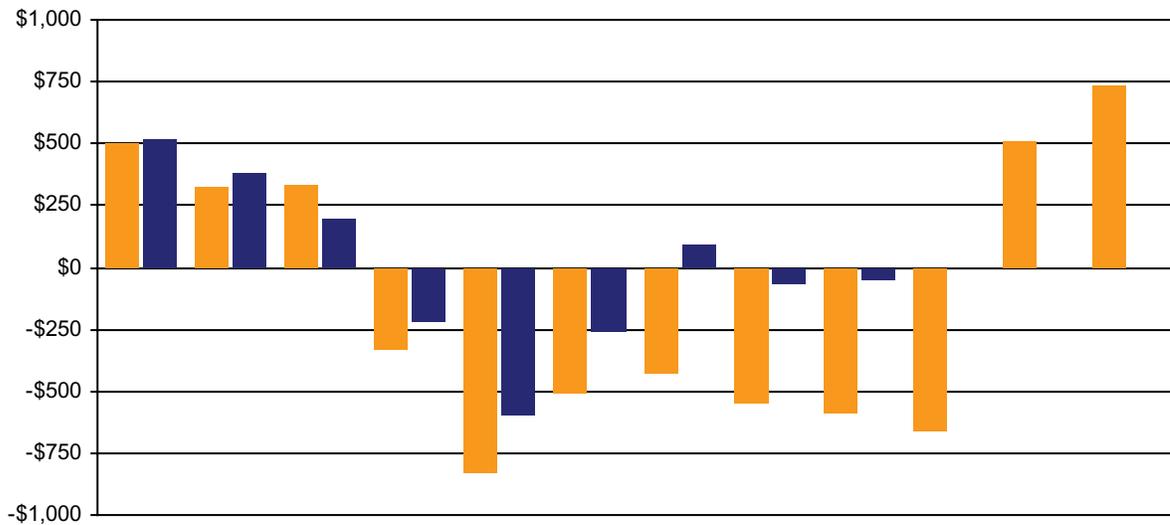
Encumbrances and accounts payable of \$542.0 million combine with the cash balance to yield an unobligated balance of -\$592.1 million, \$12.1 million lower (more negative) than a year ago. The \$1,012.3 million in the Budget

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	-\$65	-\$50			

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 \$420.1 million is \$423.5 million higher 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

— Ross Miller

The final estimate of growth in real gross domestic product (GDP)¹ in the fourth quarter was announced by the Bureau of Economic Analysis (BEA) on March 29. BEA revised its preliminary estimate upward from (an annual rate of) 2.2% to 2.5%. April brought good news in the labor market, on the national level, with announcements of an increase in employment of 180,000 and a drop in the unemployment rate to 4.4%. Ohio's unemployment rate also dropped, from 5.3% to 5.0%, but the news was a bit mixed, as payroll employment fell.

The month saw the release of data on mortgage delinquencies and foreclosures from the Mortgage Bankers Association (MBA). The data showed both delinquency and foreclosure rates increasing from the third quarter to the fourth and the foreclosure rate reaching a record high of 0.54%. In response to the data release, one prominent business economist, Mark Zandi of Moody's Economy.com, stated that "the erosion in mortgage quality is currently the most serious threat to the economic expansion." Ohio featured prominently in the report because the number of foreclosures related to subprime lending increased in Ohio at the highest rate in the country.

Production and Income

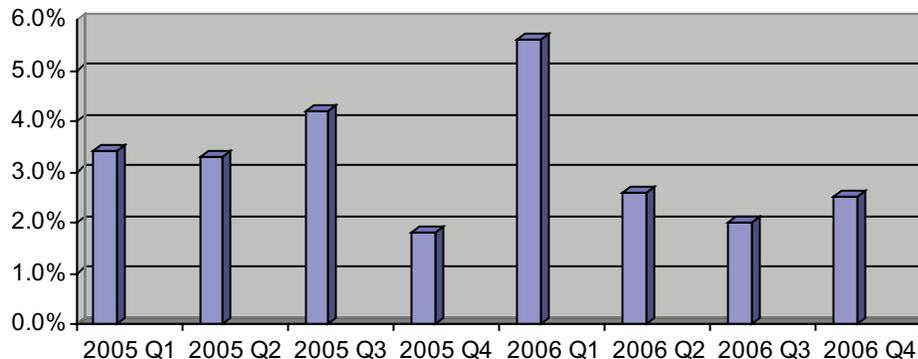
BEA revised upward its preliminary estimate of growth in real GDP in the fourth quarter of 2006. The preliminary estimate had been 2.2%

(revised downward from the advance estimate of 3.5%). The final estimate of growth is 2.5%. The most recent revision is due primarily to an upward revision to investment in business inventories; this revision was partially offset by a revision downward in investment in equipment and software.

Growth in real GDP accelerated slightly from the third quarter to the fourth, having grown by 2.0% in the third quarter. The acceleration in growth came despite a decrease in motor vehicle production that subtracted 1.18 percentage points from the fourth-quarter growth rate. Growth in consumer spending was the primary driver of growth in GDP, accounting for 2.9 percentage points of the growth. It was followed by net exports, which accounted for 1.6 percentage points of growth, and government spending, which accounted for 0.6 percentage points of growth. Growth in GDP was held back by gross private domestic investment, which subtracted 2.7 percentage points from the overall growth rate; of that amount, the change in business inventories was responsible for subtracting 1.2 percentage points. The following chart shows annualized growth rates for real GDP for each quarter of the last two years.

U.S. personal income increased by \$65.4 billion in February, an increase of 0.6% compared with January. Disposable personal income increased by \$53.8 billion, or 0.5%. The increases were slightly smaller than January's increases in both

Annualized Growth Rates in Real GDP



percentage and dollar terms, but income growth in January was high due to special factors.² Growth in personal income was higher than in any of the three months preceding January.

BEA also released an estimate of corporate profits in the fourth quarter, and they were estimated to have increased by 18% compared with the fourth quarter of the preceding year. The increase was led by profits of financial corporations, which increased by 27%. For 2006 as a whole, corporate profits increased 21.4%, accelerating from a growth rate of 12.5% for 2005.

Employment and Unemployment

The U.S. Bureau of Labor Statistics (BLS) reported that U.S. nonfarm payroll employment increased by 180,000 in March, on a seasonally adjusted basis. Employment increased by 1.96 million, or 1.4%, during the 12 months ending in March. The pace of growth has remained fairly steady in recent months: during the three months since December, employment increased by 455,000, or an annualized rate of 1.3%. The increase in employment in March was primarily in service-providing industries, which accounted for 137,000 of the 180,000 jobs.

Consistent with the steady increase in employment, the U.S. unemployment rate fell to 4.4% in March. The rate has fluctuated within the range of 4.4% to 4.6% for the last seven months. Perhaps the most significant negative report regarding the national labor market was an increase in the median duration of unemployment among those unemployed, which increased from 8.1 weeks in February to 8.5 weeks in March. The increase returned the median duration to its level of March 2006.

In Ohio, payroll employment fell in February (but see below). Ohio's nonfarm payroll employment decreased by 9,700, or slightly less than 0.2%, from slightly over 5.43 million in January to slightly over 5.42 million in February (all these figures are seasonally adjusted). Job losses were experienced in both goods-producing industries, where employment fell by 5,600 for the month, and service-providing industries

(-4,100). Within the goods-producing sector, the reduction in employment was particularly heavy in construction, which lost 4,300 jobs; the Ohio Department of Job and Family Services reported that this was probably due to adverse weather conditions that month. This is the third straight month of decreases in payroll employment in Ohio.

During the 12 months ending in February Ohio payroll employment fell by 24,100, or about 0.4%. A decline in employment in goods-producing industries of 31,800 was partially offset by a gain in service-providing employment of 7,700. The bulk of the job loss in goods-producing industries was in manufacturing, which lost 21,900 jobs for the year. The largest source of job gains in the service-providing industries was in educational and health services (+9,100). The reduction in manufacturing employment is a particularly long-lived phenomenon. Ohio employment reached a cyclical bottom in November of 2003; since then it has added 36,600 jobs. This overall increase has come despite a loss of 45,500 jobs in manufacturing over that period.

Payroll employment figures are derived from a monthly survey of employers, while unemployment rate figures are derived from a survey of households—the Current Population Survey (CPS). Ohio's employment figures as derived from the CPS have been moving in the opposite direction recently—increasing steadily each month since February 2004. According to the household survey, 69,330 more Ohioans were employed in February 2007 than had been in the year before, an increase of 1.2%. Combined with a decrease in the number of unemployed in each of the last two months, this has decreased Ohio's unemployment rate from 5.6% in December to 5.3% in January and to 5.0% in February.

The two surveys have different designs and different purposes. The employer survey is based on a larger sample size (400,000 worksites nationwide, operated by 160,000 different employers, versus 60,000 households surveyed in CPS) and is designed to be a “highly reliable gauge of monthly employment change.” The CPS is designed to “provide highly accurate rates, including estimates of unemployment rates

and labor force participation rates.”³³ Hence, one would expect the trends in employment described by the employer survey to be more accurate, especially when looking at month-to-month changes. However, the divergence between the two survey measures for Ohio in recent months resembles a similar divergence between the two measures for the U.S. as a whole following the trough of the most recent recession in November 2001. The reasons for the earlier divergence on the national level are not completely understood; however, in that instance the upturn in employment measured by CPS was followed by an upturn in payroll employment. Perhaps recent steady growth in Ohio’s employment as measured by CPS will be followed by steadier growth in payroll employment.

Manufacturing

The U.S. Department of Commerce reported that new orders for manufactured goods rose by 1.0% in February, after seasonal adjustment. New orders increased in three of the last four months, but the drop in January was sizable (5.7%). New orders for durable goods increased by 1.7% for the month and also have increased in three of the last four months. Recent patterns for new orders excluding defense have been similar: they increased by 1.0% in February after having fallen by 5.5% in January. New orders were higher in February for motor vehicle bodies, parts, and trailers (by 1.1%) but lower for primary metals (3.8%), fabricated metal products (2.2%), and machinery (1.0%). The decrease for primary metals was due in part to a particularly sharp fall for iron and steel mills (down 8.4%) and ferrous metal foundries (down 6.9%), while the decrease for machinery came despite a sharp (19.8%) increase in orders for industrial machinery (which followed an even sharper fall in January).

Manufacturers’ shipments were down by 0.5% in February, after having decreased by 1.7% in January. Excluding defense, shipments were down by the same percentages in both February and January. Shipments of heavy-duty trucks fell by 20.7% in February (the third decrease in as many months), and shipments of automobiles fell by 0.9%, but shipments of light trucks and

utility vehicles increased by 4.3%. Shipments of primary metals fell by 1.5%, due in part to shipments by iron and steel mills (which decreased by 3.1%) and by ferrous metal foundries (-3.0%). Shipments of machinery increased by 2.4% due partly to a sharp (20.0%) increase in shipments of industrial machinery.

Housing Markets and Construction

The U.S. Census Bureau reports that the number of new homes sold in February was 3.9% less than the number sold in January and 18.3% less than the number sold in February 2006. In the Midwest, the number was 20.0% less than the number for January and 32.2% less than the number sold the preceding February. The number of housing starts was 9.0% above the number in January, nationally, but 28.5% below the number in February 2006. In the Midwest, the number decreased by 14.4% since January and by 50.6% since the preceding February.

Existing home sales, as reported by the National Association of Realtors, increased by 3.9% in February for both the U.S. as a whole and for the Midwest, on a seasonally adjusted, annualized basis. As compared with the preceding February, they decreased by 3.6% for the U.S. and by 1.9% for the Midwest. The median sales price fell by 1.3% compared with the preceding February for both the U.S. and the Midwest.

Consumer Debt

For months, various economists and other commentators have expressed concern that the slowdown in the housing market, evidenced by falling sales prices and volumes, will do more than create a drag on the economy—that it will send the economy into another recession. This view received some support this month when MBA released data on loan delinquencies and foreclosures for the fourth quarter of 2006. Both delinquency rates and foreclosure rates increased, reflecting budgetary stress in many households. Ohio had the unfortunate distinction of experiencing the largest percentage increase among the 50 states in its foreclosure rate for subprime borrowers, at 11.3%—more than twice

the national percentage increase (which was 4.5%).

More broadly, the Federal Reserve reports that the U.S. household debt service ratio, i.e., the estimated ratio of debt payments to disposable personal income, exceeded 14.5% in each of the last three quarters of 2006. The ratio, at 14.53% in the fourth quarter, is at its highest level since the Fed began publishing the series in 1980. The ratio basically fluctuated between 10.5% and 12.5% for 20 years until it rose above that range in the second quarter of 2000, and it has risen gradually since then to its current level.

Both the MBA data and the household debt service ratio raise concerns for the broader economy. They both indicate that many households are having budget problems, which suggests that these households may not be in a position to do much spending in the future. Consumer spending accounts for about 70% of U.S. GDP.

Inflation and Prices

The BLS reports that the producer price index (PPI) increased by 1.0% in March. The increase

follows a significant increase in February (1.3%) but a decline in January (0.6%). The PPI has increased by 3.2% since March 2006. The overall increase in March was heavily influenced by a 3.6% increase in energy prices; the PPI excluding food and energy did not change from February to March. Excluding food and energy the index increased by 1.7% over the year.

The consumer price index for all urban consumers (CPI-U) increased by 0.6% in March, after seasonal adjustment, and by 2.8% for the year ending in March 2007. The March increase was primarily due to energy prices, which rose 5.9%. Excluding prices for food and energy, which are more variable month to month than most other components of the index, the CPI-U increased by 0.1% in March and by 2.5% for the year. In its announcement, BLS noted a recent acceleration in inflation, with the inflation rate increasing from 2.5% in CY 2006 to an annualized (and seasonally adjusted) 4.7% in the first quarter of 2007. But BLS also noted that inflation measured by CPI-U excluding food and energy, sometimes referred to as “core inflation,” decelerated during the first quarter of 2007, with the rate falling from 2.6% for CY 2006 to an annualized 2.3% for the first quarter of 2007.

¹ The word “real” in economic writing means that the variable in question has been adjusted for inflation.

² The special factors included pay increases for federal employees, annual cost-of-living adjustments for several federal transfer payment programs, and unusually large private sector bonuses and gains that resulted from the exercise of stock options.

³ Both descriptions are taken from “Understanding the Employment Measures from the CPS and CES Survey,” an article in the February 2006 edition of the U.S. Department of Labor publication *Monthly Labor Review*. This article provides an in-depth discussion of the differences between the surveys, the historical episodes of divergence between their employment measures, and research that has been done on the sources of such divergence.

Status of the General Revenue Fund

REVENUE

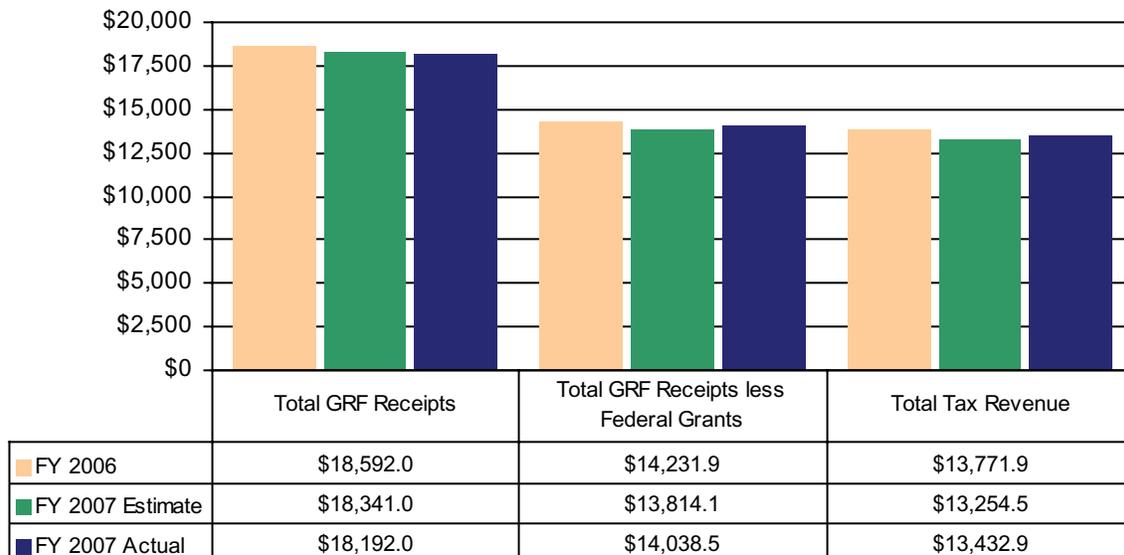
— Jean Botomogno and Allan Lundell

For the month of March, total GRF receipts of \$2,007.5 million were above estimate by \$80.9 million (4.2%).¹ State-source receipts were above estimate by \$93.8 million (6.4%) and federal grants were below estimate by \$12.9 million (2.8%). Tax revenues were above estimate by \$97.9 million (7.1%). Revenue from the corporate franchise tax was above estimate by \$79.1 million (51.2%) and personal income tax revenue was \$55.7 million (12.6%) above estimate. Revenue from the sales and use tax was below estimate by \$40.0 million (6.6%); nonauto tax revenue was below estimate by \$40.0 million (7.7%) and auto tax revenue was almost on target, finishing the month below estimate by \$16,000 (0.02%). Revenue from the cigarette tax was below estimate by \$5.7 million (7.0%) and revenue from the foreign insurance tax was \$8.4 million (11.8%) above estimate. Earnings on investments, credited to the GRF the third month of each quarter, were above estimate by \$8.8 million (30.0%).

Fiscal year-to-date GRF receipts of \$18,192.0 million are \$149.0 million (0.8%) below estimate and are down 2.2% compared to FY 2006. State-source receipts are \$224.4 million (1.6%) above estimate and federal grants are \$373.4 million (8.2%) below estimate. Federal grants are down primarily because state Medicaid spending is down.² Tax revenues are above estimate by \$178.4 million (1.3%). Corporate franchise tax revenue is above estimate by \$216.1 million (44.1%) and personal income tax revenue is above estimate by \$112.6 million (2.0%). Revenue from the sales and use tax is below estimate by \$144.3 million (2.5%); nonauto tax revenue is below estimate by \$139.6 million (2.8%) and auto tax revenue is below estimate by \$4.8 million (0.7%). Earnings on investments are above estimate by \$31.3 million (31.4%).

For the fiscal year to date, total GRF receipts are down 2.2% compared to FY 2006. State-source receipts are down 1.4% and federal grants

Year-to-Date GRF Receipts
(in millions)



are down 4.7%. Tax revenue is down 2.5%. Revenue from the corporate franchise tax is down 3.5%, the result of the phaseout of the tax for nonfinancial corporations. Revenue from the personal income tax is down 1.6%, reflecting reduced tax and withholding rates. Revenue from the sales and use tax is down 0.6%; nonauto tax revenue is up 0.02% and auto tax revenue is down 5.2%. Revenue from the cigarette tax is down 9.0%, 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 81.9% because of higher interest rates and larger fund balances.

Personal Income Tax

The GRF received \$497.2 million from the personal income tax in March. This amount was \$55.7 million (12.6%) greater than estimated. The \$751.2 million in gross collections for all funds (not just the GRF) was above estimate by \$9.7 million (1.3%) and the \$213.1 million in refunds was \$46.1 million (17.8%) less than estimated. The \$668.2 million collected through withholding was above estimate by \$19.6 million (3.0%). Quarterly estimated payments of \$18.7 million were \$1.1 million (6.2%) above estimate.⁴ Payments associated with annual returns totaled \$48.5 million, which was below estimate by \$12.2 million (20.1%).

The GRF has received \$5,801.0 million from the personal income tax thus far this

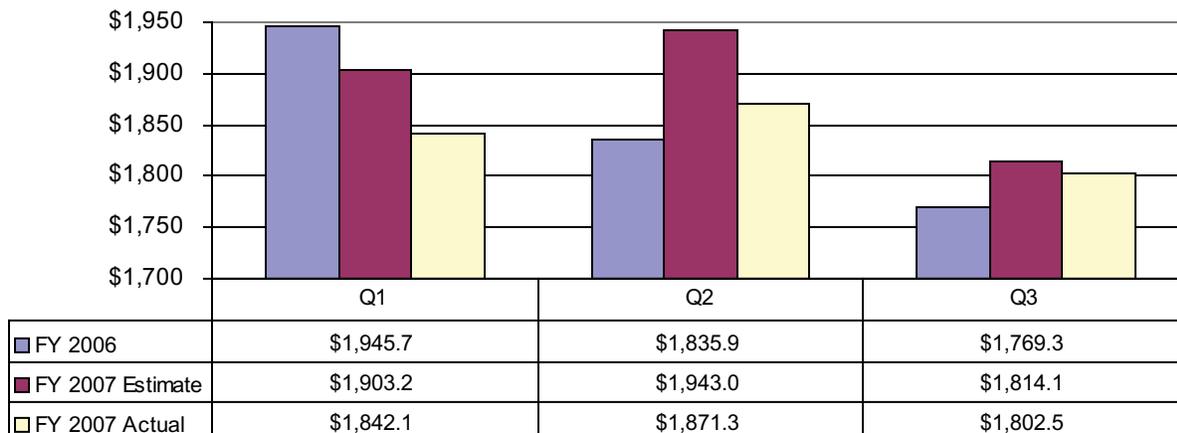
fiscal year. This amount is \$112.6 million (2.0%) above estimate. Gross collections are above estimate by \$103.5 million (1.4%) and refunds are \$10.5 million (1.3%) below estimate. The \$5,909.7 million collected through withholding is \$65.6 million (1.1%) above estimate. Withholding is expected to account for 72% of gross income tax collections for FY 2007. Year-to-date quarterly estimated payments of \$1,035.2 million are \$20.3 million (2.0%) above estimate. Trust payments are \$6.7 million (20.6%) above estimate and payments associated with annual returns are above estimate by \$3.0 million (1.5%).

Compared to a year ago, GRF revenue from the personal income tax is down 1.6% because of reductions in the tax and withholding rates. Gross collections are down 1.3% and refunds are up 0.4%. Withholding, which depends on the condition of Ohio's labor market, is down 2.4%.⁵ Quarterly estimated payments are up 6.2%. Trust payments are down 1.4% and payments associated with annual returns are down 6.4%.

Sales and Use Tax

Monthly sales and use tax collections in March 2007 were below both estimate and last year's receipts in the same month. Total sales and use tax revenues were \$563.3 million, \$40.0 million (6.6%) below projected revenues. The negative variance was almost entirely from the nonauto sales and use tax. Total sales and use tax receipts in March 2007 were also \$44.0 million (7.2%)

Year-to-Date Quarterly Sales and Use Tax Receipts
(in millions)



below March 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

The performance of the sales and use tax has gradually improved throughout FY 2007, although quarterly receipts from this tax source have consistently been below estimates. In the first quarter of FY 2007, sales and use tax receipts were 3.2% below estimates and also 5.3% below first-quarter receipts in FY 2006. FY 2007 second-quarter receipts were 3.7% below estimates and 1.9% above prior-year receipts in the same quarter. In the third quarter of FY 2007, total sales and use tax receipts were \$11.6 million (0.6%) below estimates and \$33.2 million (1.9%) above FY 2006 receipts in the same period. Through March, FY 2007 sales and use tax revenues were \$5,516.0 million, \$144.3 million (2.5%) below estimates. FY 2007 sales and use tax receipts were also \$34.9 million (0.6%) below year-to-date tax receipts in FY 2006.

Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were again below estimate, after an apparent two-month resurgence. Revenues in March 2007 were

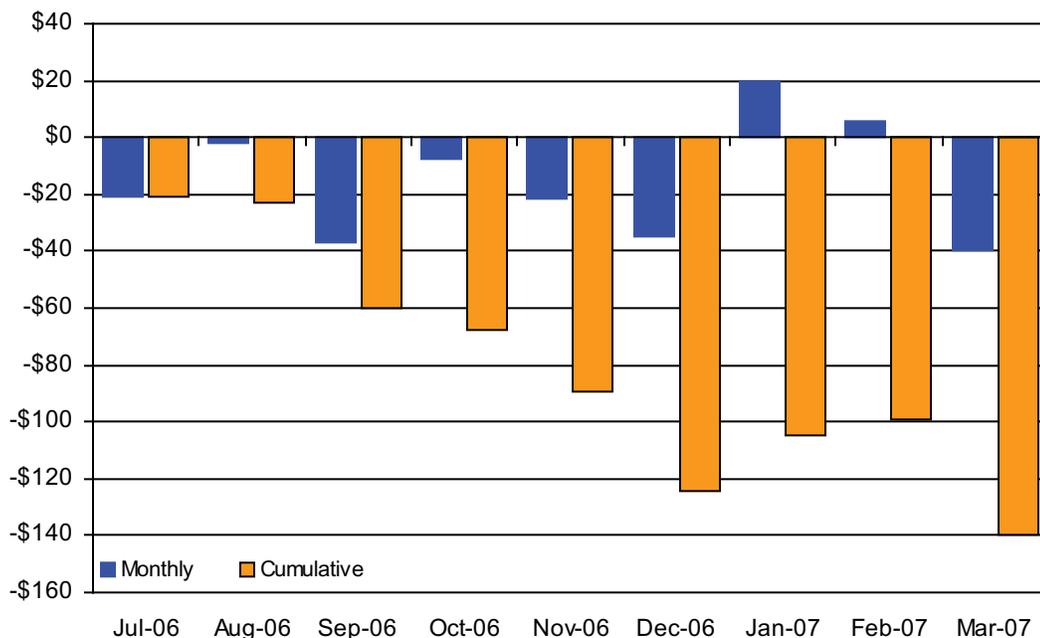
\$480.8 million, \$40.0 million (7.7%) below estimate. Nonauto sales and use tax receipts were also \$40.8 million (7.8%) below revenues in the same month a year ago. Third-quarter receipts from the nonauto sales and use tax were \$14.9 million (0.9%) below estimate and \$30.0 million (1.9%) above third-quarter receipts in FY 2006. Through March, FY 2007 nonauto sales and use tax receipts were \$4,858.8 million, \$139.6 million (2.8%) below estimate, and \$1.1 million (0.02%) above receipts through March in FY 2006.

Auto Sales and Use Tax

Auto sales and use tax receipts were \$82.5 million in March 2007, about matching estimates. These receipts were \$3.2 million (3.7%) less than receipts in March 2006. 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.

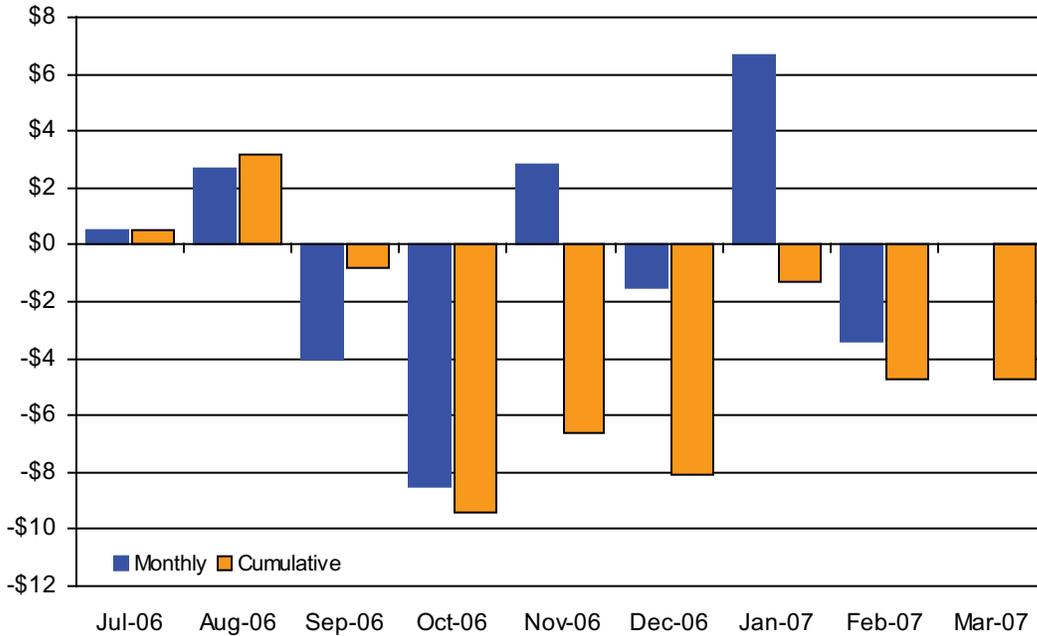
Third-quarter receipts from the auto sales and use tax were above both estimates and last year's receipts. Revenues were \$3.3 million

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



Auto Sales Tax Variance from August 2006 Estimates

(in millions)



(1.7%) above estimate and \$3.1 million (1.6%) above FY 2006 third-quarter receipts. However through March, FY 2007 year-to-date auto sales tax receipts were below estimates and FY 2006 receipts. Receipts from the auto sales and use tax were \$657.1 million, \$4.8 million (0.7%) below estimate. FY 2007 year-to-date auto sales and use tax receipts were also \$36.1 million (5.2%) below receipts through March in FY 2006. The

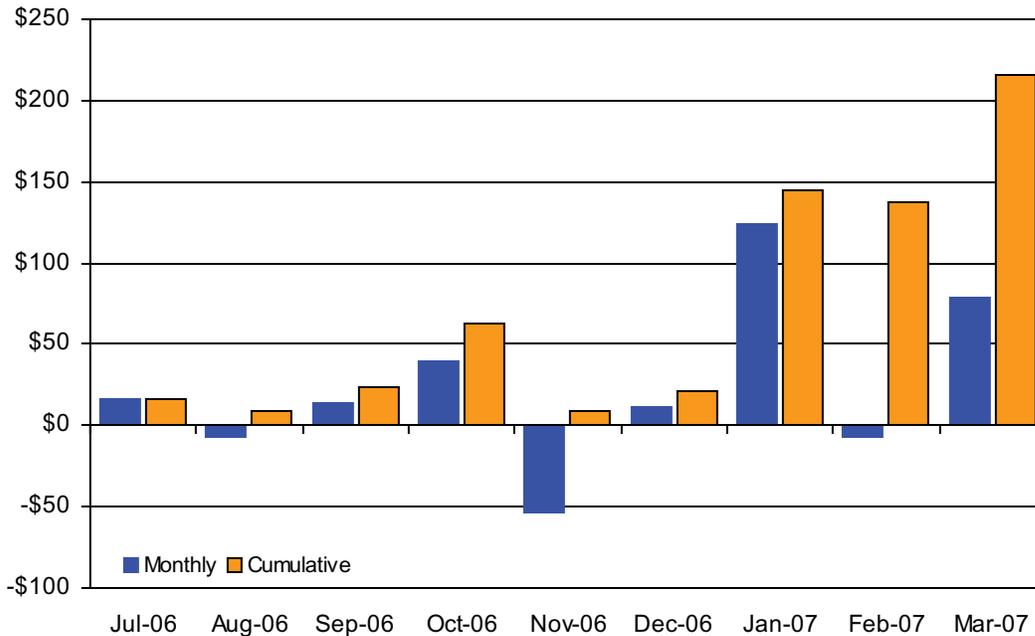
auto sales and use tax taxable base may decline 2% to 3% in FY 2007.

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

Corporate Franchise Tax Variance from August 2006 Estimates

(in millions)



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. March CFT receipts were \$233.5 million, \$79.1 million (51.2%) above estimate. These receipts were also \$100.6 million (30.1%) below March 2006 receipts. With two of the three estimated payments already made by corporations, the performance of the CFT is astounding. Through March, FY 2007 CFT receipts were \$705.5 million, \$216.1 million (44.1%) above estimate. FY 2007 year-to-date receipts were also \$25.5 million (3.5%) below year-to-date receipts through March 2006.

Cigarette and Other Tobacco Products Tax

March receipts from the tax on cigarette and other tobacco products (COTP) were \$76.3 million, \$5.7 million (7.0%) below estimate. COTP revenues were \$9.9 million (11.5%) lower than receipts in March 2006.

Through March, FY 2007 year-to-date receipts were \$682.9 million, \$7.9 million (1.1%) below estimate. Those receipts were also \$67.7 million (9.0%) below FY 2006 receipts through March. However, excluding receipts from the one-time inventory tax of about \$66.1 million last year, FY 2007 year-to-date receipts were \$1.5 million (0.2%) below FY 2006 year-to-date receipts through March.

Commercial Activity Tax

Commercial activity tax (CAT) payments for taxable receipts in the last quarter of CY 2006 were due February 9, 2007. CAT receipts for March were \$9.1 million, \$3.4 million (27.7%) below estimate. Through March, FY 2007 CAT receipts were \$456.5 million, \$63.9 million (16.3%) above estimate. 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 March, FY 2007 distributions to the SDRF and the LGRF were \$319.5 million and \$136.9 million, respectively.

Cigarette Tax Variance from August 2006 Estimates
(in millions)

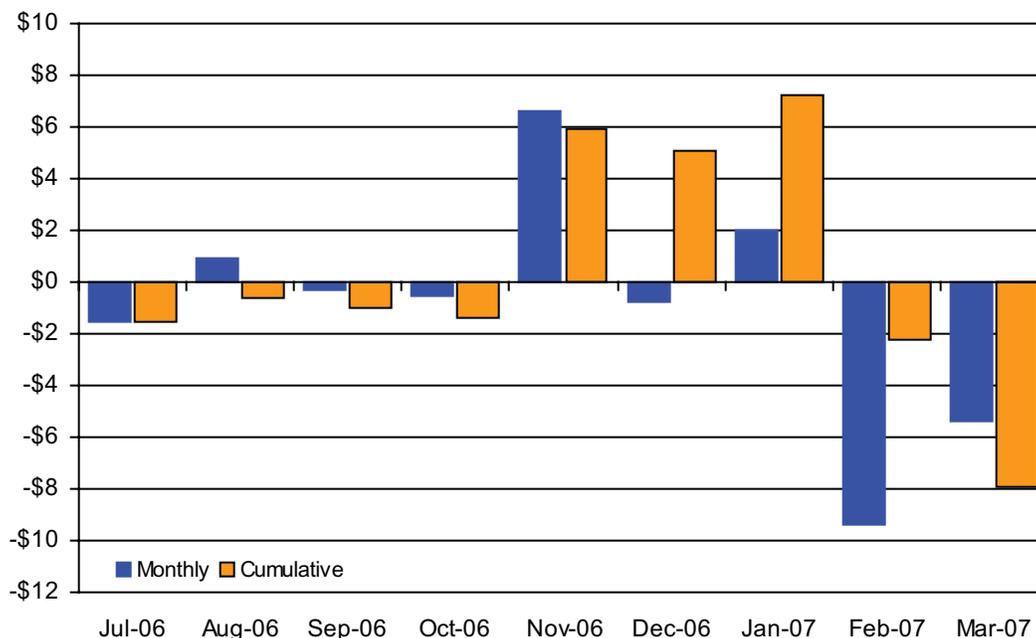


Table 2
General Revenue Fund Sources
Actual vs. Estimate
Month of March 2007
(\$ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	\$82,492	\$82,508	-\$16	0.0%
Nonauto Sales and Use	\$480,805	\$520,834	-\$40,029	-7.7%
Total Sales and Use Taxes	\$563,297	\$603,342	-\$40,045	-6.6%
Personal Income	\$497,230	\$441,500	\$55,730	12.6%
Corporate Franchise	\$233,470	\$154,400	\$79,070	51.2%
Public Utility	-\$1,576	-\$2,500	\$924	-37.0%
Kilowatt Hour Excise	\$25,341	\$24,700	\$641	2.6%
Commercial Activity Tax**	\$0	\$0	\$0	---
Foreign Insurance	\$79,962	\$71,533	\$8,429	11.8%
Domestic Insurance	-\$129	\$500	-\$629	-125.8%
Business and Property	-\$197	\$40	-\$237	-593.3%
Cigarette	\$76,294	\$82,000	-\$5,706	-7.0%
Alcoholic Beverage	\$4,543	\$4,669	-\$126	-2.7%
Liquor Gallonage	\$2,518	\$2,525	-\$7	-0.3%
Estate	\$382	\$500	-\$118	-23.5%
Total Tax Revenue	\$1,481,136	\$1,383,209	\$97,926	7.1%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	\$38,342	\$29,500	\$8,842	30.0%
Licenses and Fees	\$6,854	\$7,400	-\$546	-7.4%
Other Revenue	\$3,782	\$12,200	-\$8,418	-69.0%
Nontax State-Source Revenue	\$48,978	\$49,100	-\$122	-0.2%
TRANSFERS				
Liquor Transfers	\$10,000	\$14,000	-\$4,000	-28.6%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$12,700	\$12,700	\$0	0.0%
Total Transfers In	\$22,700	\$26,700	-\$4,000	-15.0%
TOTAL GRF before Federal Grants	\$1,552,814	\$1,459,009	\$93,804	6.4%
Federal Grants	\$454,702	\$467,626	-\$12,925	-2.8%
TOTAL GRF SOURCES	\$2,007,515	\$1,926,636	\$80,880	4.2%

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

** Existing law requires all CAT revenue during FY 2007-FY 2011 to go to school districts and local governments.

Detail may not sum to total due to rounding.

Table 3
General Revenue Fund Sources
Actual vs. Estimate
FY 2007 as of March 2007
(\$ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
TAX REVENUE						
Auto Sales	\$657,142	\$661,896	-\$4,754	-0.7%	\$693,231	-5.2%
Nonauto Sales and Use	\$4,858,831	\$4,998,396	-\$139,565	-2.8%	\$4,857,683	0.02%
Total Sales and Use Taxes	\$5,515,974	\$5,660,292	-\$144,318	-2.5%	\$5,550,913	-0.6%
Personal Income	\$5,800,997	\$5,688,401	\$112,596	2.0%	\$5,897,000	-1.6%
Corporate Franchise	\$705,454	\$489,400	\$216,054	44.1%	\$730,990	-3.5%
Public Utility	\$103,665	\$100,400	\$3,265	3.3%	\$101,315	2.3%
Kilowatt Hour Excise	\$252,263	\$257,300	-\$5,037	-2.0%	\$259,346	-2.7%
Commercial Activity Tax**	\$0	\$0	\$0	---	\$118,158	-100.0%
Foreign Insurance	\$269,270	\$267,585	\$1,685	0.6%	\$261,171	3.1%
Domestic Insurance	\$107	\$2,300	-\$2,193	-95.3%	\$1,109	-90.3%
Business and Property	\$472	\$800	-\$328	-41.0%	\$1,150	-58.9%
Cigarette	\$682,898	\$690,800	-\$7,902	-1.1%	\$750,560	-9.0%
Alcoholic Beverage	\$41,941	\$42,271	-\$330	-0.8%	\$42,692	-1.8%
Liquor Gallonage	\$25,801	\$25,827	-\$26	-0.1%	\$25,152	2.6%
Estate	\$34,032	\$29,100	\$4,932	16.9%	\$32,360	5.2%
Total Tax Revenue	\$13,432,874	\$13,254,476	\$178,398	1.3%	\$13,771,916	-2.5%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	\$130,656	\$99,400	\$31,256	31.4%	\$71,824	81.9%
Licenses and Fees	\$58,952	\$52,544	\$6,408	12.2%	\$50,640	16.4%
Other Revenue	\$104,713	\$112,500	-\$7,787	-6.9%	\$134,515	-22.2%
Nontax State-Source Revenue	\$294,321	\$264,444	\$29,877	11.3%	\$256,979	14.5%
TRANSFERS						
Liquor Transfers	\$105,000	\$101,000	\$4,000	4.0%	\$105,000	0.0%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$206,304	\$194,200	\$12,104	6.2%	\$97,993	110.5%
Total Transfers In	\$311,304	\$295,200	\$16,104	5.5%	\$202,993	53.4%
TOTAL GRF before Federal Grants	\$14,038,499	\$13,814,120	\$224,379	1.6%	\$14,231,888	-1.4%
Federal Grants	\$4,153,498	\$4,526,878	-\$373,379	-8.2%	\$4,360,073	-4.7%
TOTAL GRF SOURCES	\$18,191,997	\$18,340,997	-\$149,000	-0.8%	\$18,591,962	-2.2%

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

** Existing law requires all CAT revenue during FY 2007-FY 2011 to go to school districts and local governments.

Detail may not sum to total due to rounding.

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.

DISBURSEMENTS

— Phil Cummins*

Through the end of March, cumulative FY 2007 General Revenue Fund (GRF) disbursements for program spending totaled \$19,067.0 million, which was under estimate by \$677.5 million (3.4%).¹ Compared with program spending through the same nine-month period in the prior fiscal year, disbursements were \$180.6 million (0.9%) lower this year. In March, total GRF program disbursements were \$1,993.0 million, over estimate by \$23.2 million.

Disbursements for each of the state's four major GRF program categories (Welfare and Human Services, Education, Government Operations, and Property Tax Relief) were 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. Debt service payments in March were \$64.1 million over estimate, attributable to a School Facilities Commission debt service payment originally planned for the last day of February. Within the GRF program subcategories, the Health Care/Medicaid program posted the largest year-to-

date variance. 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.

Welfare and Human Services (-\$555.2 million)

Disbursements in the Welfare and Human Services category were \$32.5 million (3.5%) under estimate in March. For the fiscal year to date, outlays in this category were \$555.2 million (5.9%) under estimate. Within the category, Health Care/Medicaid spending accounted for most of the variance, with year-to-date disbursements under estimate by \$492.4 million (6.5%). Other components of the category include the Temporary Assistance for Needy Families (TANF) program, the Other Welfare subcategory, and the Human Services subcategory. Fiscal year-to-date disbursements for TANF, through March, were \$22.2 million (9.7%) over estimate. Disbursements for the Other Welfare

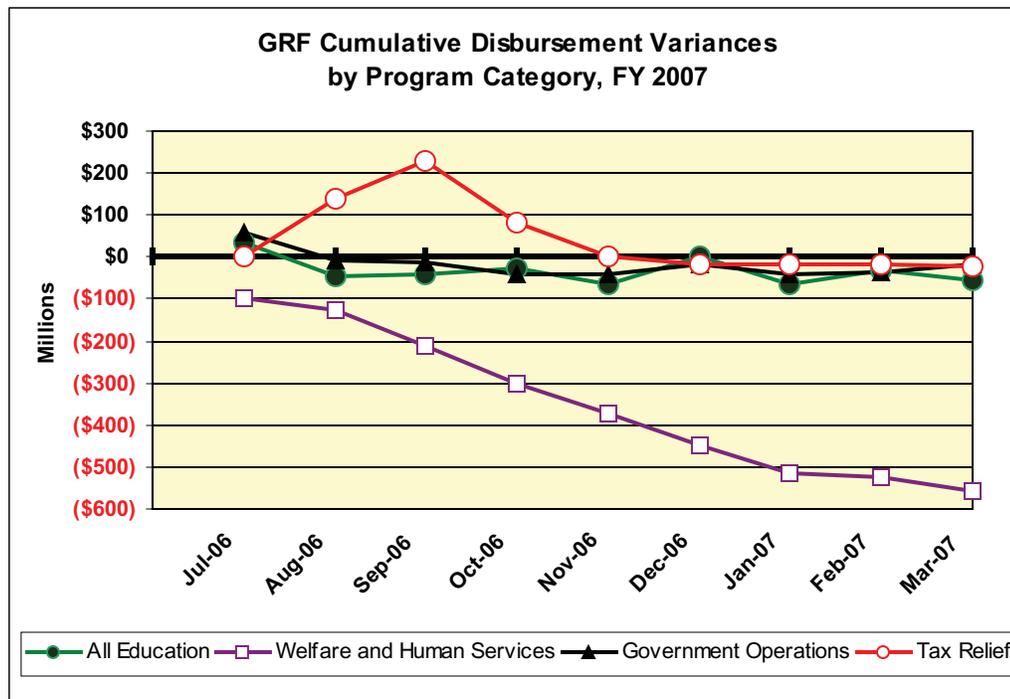


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of March 2007
(\$ in thousands)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education (1)	\$527,907	\$549,008	-\$21,101	-3.8%
Higher Education	\$178,988	\$181,665	-\$2,677	-1.5%
Total Education	\$706,895	\$730,673	-\$23,778	-3.3%
Health Care/Medicaid	\$754,281	\$786,851	-\$32,570	-4.1%
Temporary Assistance for Needy Families (TANF)	\$33,083	\$16,000	\$17,083	106.8%
Other Welfare (2)	\$36,147	\$43,105	-\$6,958	-16.1%
Human Services (3)	\$67,842	\$77,890	-\$10,047	-12.9%
Total Welfare and Human Services	\$891,354	\$923,846	-\$32,492	-3.5%
Justice and Corrections	\$175,742	\$170,174	\$5,568	3.3%
Environment and Natural Resources	\$6,420	\$5,769	\$651	11.3%
Transportation	\$2,343	\$974	\$1,369	140.5%
Development	\$14,172	\$19,336	-\$5,165	-26.7%
Other Government	\$68,977	\$53,995	\$14,983	27.7%
Capital	\$0	\$0	\$0	---
Total Government Operations	\$267,654	\$250,249	\$17,406	7.0%
Property Tax Relief (4)	\$48,063	\$50,097	-\$2,034	-4.1%
Debt Service	\$79,074	\$14,966	\$64,107	428.3%
Total Other Disbursements	\$127,137	\$65,063	\$62,073	95.4%
Total Program Disbursements	\$1,993,040	\$1,969,831	\$23,209	1.2%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$0	\$0	\$0	---
Total Transfers Out	\$0	\$0	\$0	---
TOTAL GRF USES	\$1,993,040	\$1,969,831	\$23,209	1.2%

(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.

subcategory, which includes various operating and subsidy programs within the Department of Job and Family Services other than Medicaid and TANF, were under estimate by \$65.9 million

(13.4%). Disbursements in the Human Services subcategory, which includes services provided by more than 20 agencies, were under estimate by \$19.1 million (1.9%).

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

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
Primary and Secondary Education (1)	\$5,216,421	\$5,295,435	-\$79,014	-1.5%	\$5,138,717	1.5%
Higher Education	\$1,855,971	\$1,832,556	\$23,414	1.3%	\$1,799,583	3.1%
Total Education	\$7,072,392	\$7,127,991	-\$55,599	-0.8%	\$6,938,300	1.9%
Health Care/Medicaid	\$7,138,521	\$7,630,963	-\$492,442	-6.5%	\$7,322,842	-2.5%
Temporary Assistance for Needy Families (TANF)	\$251,414	\$229,204	\$22,211	9.7%	\$254,563	-1.2%
Other Welfare (2)	\$424,262	\$490,113	-\$65,851	-13.4%	\$450,837	-5.9%
Human Services (3)	\$963,887	\$982,965	-\$19,078	-1.9%	\$958,054	0.6%
Total Welfare and Human Services	\$8,778,085	\$9,333,246	-\$555,160	-5.9%	\$8,986,295	-2.3%
Justice and Corrections	\$1,572,829	\$1,572,499	\$330	0.0%	\$1,509,524	4.2%
Environment and Natural Resources	\$81,234	\$81,490	-\$256	-0.3%	\$81,797	-0.7%
Transportation	\$19,235	\$21,581	-\$2,347	-10.9%	\$23,170	-17.0%
Development	\$117,320	\$131,795	-\$14,475	-11.0%	\$124,127	-5.5%
Other Government	\$330,178	\$329,908	\$270	0.1%	\$322,935	2.2%
Capital	\$65	\$0	\$65	---	\$285	-77.4%
Total Government Operations	\$2,120,859	\$2,137,272	-\$16,413	-0.8%	\$2,061,839	2.9%
Property Tax Relief (4)	\$654,878	\$675,865	-\$20,988	-3.1%	\$872,196	-24.9%
Debt Service	\$440,835	\$470,215	-\$29,380	-6.2%	\$389,043	13.3%
Total Other Disbursements	\$1,095,713	\$1,146,081	-\$50,368	-4.4%	\$1,261,239	-13.1%
Total Program Disbursements	\$19,067,049	\$19,744,590	-\$677,541	-3.4%	\$19,247,673	-0.9%
TRANSFERS						
Budget Stabilization	\$394,034	\$394,034	\$0	0.0%	\$394,205	0.0%
Other Transfers Out	\$309,862	\$325,113	-\$15,250	-4.7%	\$184,017	68.4%
Total Transfers Out	\$703,896	\$719,147	-\$15,250	-2.1%	\$578,222	21.7%
TOTAL GRF USES	\$19,770,945	\$20,463,736	-\$692,791	-3.4%	\$19,825,895	-0.3%

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

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

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

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

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

Detail may not sum to total due to rounding.

Health Care/Medicaid. March and year-to-date disbursements for the Health Care/Medicaid program are shown in Tables 6 and 7. The largest contributor to the year-to-date variance

was the HMO categories, which combined were \$242.8 million (11.8%) under estimate with spending of \$1,820.8 million through March. The Department of Job and Family Services is

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

Service Category	March				Year-to-Date Spending			
	Actual	Estimate	Variance	Percent Variance	Actual thru March.	Estimate thru March.	Variance	Percent Variance
Nursing Facilities Payments	\$194,590	\$232,238	(\$37,648)	-16.2%	\$1,935,016	\$2,034,547	(\$99,531)	-4.9%
ICF/MR Payments	\$39,532	\$44,166	(\$4,634)	-10.5%	\$387,906	\$388,279	(\$373)	-0.1%
Inpatient Hospitals	\$83,021	\$99,233	(\$16,212)	-16.3%	\$967,836	\$1,070,553	(\$102,717)	-9.6%
Outpatient Hospitals	\$35,709	\$35,283	\$426	1.2%	\$437,496	\$430,949	\$6,547	1.5%
Physicians	\$34,134	\$30,354	\$3,780	12.5%	\$404,814	\$374,358	\$30,456	8.1%
Prescription Drugs	\$63,229	\$71,323	(\$8,094)	-11.3%	\$741,821	\$786,997	(\$45,176)	-5.7%
ODJFS Waiver	\$26,021	\$20,100	\$5,921	29.5%	\$271,612	\$203,829	\$67,783	33.3%
HMO - CFC*	\$219,718	\$272,402	(\$52,684)	-19.3%	\$1,683,386	\$2,063,613	(\$380,227)	-18.4%
HMO - ABD*	\$67,372	\$0	\$67,372	N/A	\$137,458	\$0	\$137,458	N/A
Medicare Buy-In	\$23,396	\$22,950	\$446	1.9%	\$200,822	\$201,077	(\$255)	-0.1%
Home Health	\$12,666	\$15,556	(\$2,890)	-18.6%	\$113,892	\$149,931	(\$36,039)	-24.0%
Dental	\$4,214	\$2,813	\$1,401	49.8%	\$56,585	\$49,857	\$6,728	13.5%
Hospice	\$12,378	\$9,632	\$2,746	28.5%	\$105,107	\$94,693	\$10,414	11.0%
All Other	\$55,657	\$43,820	\$11,837	27.0%	\$402,657	\$469,196	(\$66,539)	-14.2%
Total Medicaid Payments	\$871,637	\$899,870	(\$28,233)	-3.1%	\$7,846,408	\$8,317,879	(\$471,471)	-5.7%
Medicare Part D	\$19,877	\$23,630	(\$3,753)	-15.9%	\$176,086	\$200,178	(\$24,092)	-12.0%
Capital Compensation Program	\$1,255	\$2,500	(\$1,245)	-49.8%	\$4,500	\$7,500	(\$3,000)	-40.0%
DA Medical	\$1,819	\$2,168	(\$349)	-16.1%	\$19,910	\$25,577	(\$5,667)	-22.2%
Drug Rebates Offsets	(\$33,432)	(\$39,641)	\$6,209	-15.7%	(\$323,476)	(\$332,287)	\$8,811	-2.7%
Revenue and Collections	(\$12,475)	(\$14,474)	\$1,999	-13.8%	(\$92,157)	(\$94,079)	\$1,922	-2.0%
ICF/MR Franchise Fee Offsets	(\$1,542)	(\$1,515)	(\$27)	1.8%	(\$13,684)	(\$13,657)	(\$27)	0.2%
NF Franchise Fee Offsets	(\$37,184)	(\$37,184)	\$0	N/A	(\$261,174)	(\$260,491)	(\$683)	0.3%
DSH Rebate Offsets	(\$35,843)	(\$28,674)	(\$7,169)	N/A	(\$98,908)	(\$100,669)	\$1,761	-1.7%
MCP Assessments	(\$19,831)	(\$19,831)	\$0	N/A	(\$118,986)	(\$118,989)	\$3	0.0%
Total Health Care (Net of Offsets)	\$754,281	\$786,849	(\$32,568)	-4.1%	\$7,138,519	\$7,630,962	(\$492,443)	-6.5%
Est. Federal Share	\$452,064	\$471,583	(\$19,519)		\$4,278,335	\$4,573,471	(\$295,136)	
Est. State Share	\$302,217	\$315,266	(\$13,049)		\$2,860,184	\$3,057,491	(\$197,307)	

*In reports prior to January, 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 has been \$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.

expanding managed care to Covered Families and Children and to Aged, Blind, and Disabled Medicaid consumers around the state. Below-estimate spending is attributed to slower than projected enrollment in the Covered Families

and Children program, though the program is now reaching full enrollment.

Disbursements in the Nursing Facilities Payments category were under estimate by

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	FY 2006	Dollar Change	Percent Increase
	Yr.-to-Date as of March '07	Yr.-to-Date as of March '06		
Nursing Facilities Payments	\$1,935,016	\$1,981,991	(\$46,975)	-2.4%
ICF/MR Payments	\$387,906	\$384,471	\$3,435	0.9%
Inpatient Hospitals	\$967,836	\$1,127,084	(\$159,248)	-14.1%
Outpatient Hospitals	\$437,496	\$505,562	(\$68,066)	-13.5%
Physicians	\$404,814	\$484,345	(\$79,531)	-16.4%
Prescription Drugs	\$741,821	\$1,364,710	(\$622,889)	-45.6%
ODJFS Waiver	\$271,612	\$167,971	\$103,641	61.7%
HMO	\$1,820,844	\$1,020,583	\$800,261	78.4%
Medicare Buy-In	\$200,822	\$171,069	\$29,753	17.4%
Home Health	\$113,892	\$134,387	(\$20,495)	-15.3%
Dental	\$56,585	\$94,412	(\$37,827)	-40.1%
Hospice	\$105,107	\$91,622	\$13,485	14.7%
All Other	\$402,657	\$448,848	(\$46,191)	-10.3%
Total Medicaid Payments	\$7,846,408	\$7,977,055	(\$130,647)	-1.6%
Medicare Part D	\$176,086	\$0	N/A	N/A
Capital Compensation Program	\$4,500	N/A	N/A	N/A
DA Medical	\$19,910	\$35,770	(\$15,860)	-44.3%
Drug Rebates Offsets	(\$323,476)	\$35,770	(\$359,246)	-1004.3%
Revenue and Collections	(\$92,157)	N/A	N/A	N/A
ICF/MR Franchise Fee Offsets	(\$13,684)	(\$17,423)	\$3,739	-21.5%
NF Franchise Fee Offsets	(\$261,174)	(\$177,186)	(\$83,988)	47.4%
DSH Rebate Offsets	(\$98,908)	\$0	N/A	N/A
MCP Assessments	(\$118,986)	N/A	N/A	N/A
Total Health Care (Net of Offsets)	\$7,138,519	\$7,853,986	(\$715,467)	-9.1%
Est. Federal Share	\$4,278,335	\$4,707,136	(\$428,801)	
Est. State Share	\$2,860,184	\$3,146,850	(\$286,666)	

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 has been \$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 and 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.

\$99.5 million (4.9%) through March with spending of \$1,935.0 million. Utilization of this program continues to be lower than projected. Spending in the All Other category

was \$66.5 million (14.2%) below estimate with spending of \$402.7 million through March. The Other Practitioners subcategory comprises most of the variance. Elimination

of the Core Plus program has caused a shift from the home health service categories to the Waiver category. The Waiver category was over estimate by \$67.8 million (33.3%) with spending of \$271.6 million through March. The same factors have affected the Home Health category, which was \$36.0 million (24.0%) below estimate with spending of \$113.9 million through March.

Outlays in the Inpatient Hospitals category were \$102.7 million (9.6%) below estimate with spending of \$967.8 million through March. This variance is attributed to an overestimate of per member monthly spending. Disbursements under the Prescription Drugs category were \$45.2 million (5.7%) below estimate with spending of \$741.8 million through March. The variance in this category is attributed to lowering of the cost per claim and to utilization trends over the last year or so. Underspending has narrowed because managed care enrollment has been lower than projected, driving higher spending in fee-for-service categories. Spending in the Physicians category was \$30.5 million (8.1%) over estimate with spending of \$404.8 million through March and outlays in the Dental category were \$6.7 million (13.5%) over estimate with spending of \$56.6 million through March. These variances are due to the slower than expected rollout of Covered Families and Children managed care, which has increased fee-for-service spending.

Disbursements in the Disability Assistance (DA) Medical category were \$5.7 million (22.2%) under estimate with outlays of \$19.9 million through March. This program is closed to new enrollment and attrition has occurred at a higher than projected rate. The Hospice category variance was \$10.4 million (11.0%) over estimate with spending of \$105.1 million through March. Spending of \$176.1 million through March for the Medicare Part D category was under the estimate by \$24.1 million (12.0%).

Education (-\$55.6 million)

March outlays totaling \$706.9 million in the Education category were \$23.8 million

(3.3%) under estimate. Year-to-date outlays totaling \$7,072.4 million in this category were \$55.6 million (0.8%) under estimate, including the Department of Education with disbursements \$73.5 million under estimate, the Board of Regents with disbursements \$23.4 million over estimate, and other agencies with smaller variances.

Department of Education. Disbursements by the Department of Education totaled \$524.2 million in March, \$21.8 million (4.0%) under estimate, and were \$5,133.7 million through the fiscal year's first nine months, \$73.5 million (1.4%) under estimate. Most of the year-to-date variance is attributable to line item 200-550, Foundation Funding. 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 March of \$179.0 million were \$2.7 million (1.5%) under estimate, reducing the gap between year-to-date disbursements and expected outlays to \$23.4 million (1.3%) over estimate. The largest year-to-date variance, \$19.6 million over estimate, was in the Ohio Instructional Grants program, used to provide need-based grants for tuition assistance to full-time undergraduate students who are Ohio residents from low and moderate-income families. A \$40.0 million December payout, in addition to offsetting earlier payment delays, took \$14.3 million of FY 2007 funds to help pay campuses for the prior fiscal year's larger than projected enrollments. As a result, total payouts this fiscal year for the Ohio Instructional Grants program probably will exceed the budgeted appropriation.

Government Operations (-\$16.4 million)

In March, outlays in the Government Operations category were \$17.4 million (7.0%) over estimate. For the year to date, disbursements in the category were \$16.4 million (0.8%) under estimate. Among subcategories, year-to-date disbursements were under estimate by \$14.5 million (11.0%)

in the Development category, most of which is accounted for by the Department of Development. Part of this spending shortfall at the Department of Development is spending below the estimate from the “Third Frontier Action Fund” (a GRF account). The variance is for funds encumbered from the prior year and is due to timing issues. Grants are made on a reimbursement basis, and funds go to the grantees only after certain requirements are met. Awards are made toward the end of the year either because of the timing of Third Frontier Commission meetings or because of projects that come late in the fiscal year. The time involved in processing and approving the grants delays their disbursement.

Within the Justice and Corrections subcategory, disbursements by the Department of Rehabilitation and Correction in March were \$6.3 million over the estimate. For the fiscal year through March, disbursements totaled \$1,188.6 million, \$13.3 million (1.1%) over estimate. The largest contributor to the year-to-date variance was the Institutional Medical Services line item, which was over estimate by \$11.5 million. This line item can show substantial variances depending on health conditions of inmates. Even one inmate with a severe disease or acute medical condition can cause spending to fluctuate significantly from the estimate. DRC has had recent experience with several inmates receiving medical treatments costing in the millions of dollars.

**LSC colleagues who contributed to this disbursements report were Brian Hoffmeister, Ed Millane, David Price, Joe Rogers, and Stephanie Suer.*

Tax Relief (-\$21.0 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 March, property tax relief payments totaled \$48.1 million, \$2.0 million under estimate, and year-to-date reimbursements through the month totaled \$654.9 million, \$21.0 million (3.1%) under estimate. Payments for the property tax rollbacks and homestead exemption turn higher in March, reimbursing first half payments for tax year 2006. 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 \$616.6 million, \$13.3 million (2.1%) 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 nine months, \$7.6 million (16.6%) under estimate, and appear to be completed for this fiscal year based on the accelerated phaseout schedule set in the main operating appropriations act for FYs 2006-2007.

¹ Disbursements plus transfers out totaled \$19,770.9 million for the fiscal year through March, 3.4% 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 because of the phaseout of the tangible personal property tax. Because of timing differences between the due dates for commercial activity tax payments and the dates when reimbursement payments must be made to local entities, temporary transfers from the GRF are made to offset the shortfall. Temporary transfers out 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 0.3% less than in the same period in FY 2006.

Issues of Interest

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

— Jean Botomogno

Through March, FY 2007 Ohio Lottery ticket sales were approximately \$26.6 million (1.6%) above the amount estimated by the Office of Budget and Management in August 2006. Receipts from the sale of Instant tickets were 3.1% above estimate. Receipts from the sale of on-line games¹ were 0.6% below estimate. FY 2007 year-to-date receipts were \$56.3 million (3.2%) above FY 2006 receipts. With sales of Lot'O Play lagging, the State Lottery Commission replaced it with Classic Lotto on January 20, 2007. Although the starting jackpot remained the same at \$1 million, Classic Lotto tickets are \$1 per play, instead of \$2 per play with Lot'O Play.

Ticket Sales

Ticket sales in the third quarter of FY 2007 were \$593.6 million, \$16.0 million (2.8%) higher than second-quarter sales. Instant ticket sales were \$334.2 million, \$36.5 million (9.9%) below sales in the previous quarter. On-line ticket sales were \$259.5 million, \$52.7 million (25.5%) higher than sales in the second quarter. Table 1 summarizes quarterly ticket sales by game in FY 2007.

Compared to third-quarter sales a year ago, total ticket sales were up \$3.1 million (0.5%) in

the third quarter of the current fiscal year. Instant ticket sales were down \$12.6 million (3.6%). On-line ticket sales grew \$15.7 million (6.4%).

Table 2 summarizes year-to-date ticket sales by game in FY 2007 and FY 2006. Through March 2007, FY 2007 ticket sales were \$1,705.0 million, \$53.6 million (3.2%) higher than sales during the same period in FY 2006. Instant ticket sales increased \$91.9 million (9.9%). Conversely, on-line ticket sales decreased \$38.3 million (5.3%). FY 2007 on-line receipts include \$14.3 million from Raffles to Riches, a game introduced in the first quarter.

Pick 3 sales were down \$7.5 million (2.6%). Sales of Lot'O Play/Classic Lotto decreased \$31.9 million (50.1%). Sales of Kicker increased \$0.4 million (2.2%). Pick 4 sales grew \$4.6 million (3.5%). Rolling Cash 5 sales increased \$0.8 million (1.5%). Mega Millions sales declined \$19.1 million (11.0%).

Transfers to the Lottery Profits Education Fund

Table 3 summarizes transfers from operations to the Lottery Profits Education Fund (LPEF) in FY 2007. FY 2007 quarterly transfers have been above estimates. Third-quarter transfers

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

Quarter	Pick 3	Pick 4	Kicker	Raffles to Riches	Rolling Cash 5	Lot'O Play/Classic Lotto	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
Q3	\$95.0	\$46.7	\$7.2	\$4.3	\$18.3	\$12.6	\$75.3	\$259.5	\$334.2	\$593.6
Total	\$276.4	\$136.0	\$16.6	\$14.3	\$55.3	\$31.8	\$154.5	\$684.8	\$1,020.1	\$1,705.0

Totals may not add up due to rounding.

Year	Pick 3	Pick 4	Kicker	Raffles to Riches	Rolling Cash 5	Lot'O Play/Classic Lotto	Mega Millions	On-line	Instants	Total
FY 2007	\$276.4	\$136.0	\$16.5	\$14.3	\$55.3	\$31.8	\$154.5	\$684.8	\$1,020.2	\$1,705.0
FY 2006	\$283.9	\$131.4	\$16.2	N/A	\$54.4	\$63.7	\$173.5	\$723.1	\$928.3	\$1,651.3
\$ Change	-\$7.5	\$4.6	\$0.4	N/A	\$0.8	-\$31.9	-\$19.1	-\$38.3	\$91.9	\$53.6
% Change	-2.6%	3.5%	2.2%	N/A	1.5%	-50.1%	-11.0%	-5.3%	9.9%	3.2%

Totals may not add up due to rounding.

Quarter	Tickets Sales	Actual Transfers	Projected Transfers	Dollars Variance	FY 2006 Transfers	Dollars 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%
Q3	\$593.6	\$177.5	\$165.8	\$11.7	\$166.4	\$11.1	6.7%
Total	\$1,705.0	\$514.3	\$479.9	\$35.4	\$472.8	\$41.5	8.8%

Totals may not add up due to rounding.

were \$177.5 million, \$11.7 million (7.1%) above projected transfers. Third-quarter transfers were also \$3.7 million (2.1%) above second-quarter transfers. Through March 2007, year-to-date transfers were \$514.3 million, \$35.4 million

(7.4%) above projected transfers. FY 2007 transfers were \$41.5 million (8.8%) higher than transfers in the same period in FY 2006. Transfers were 30.2% of ticket sales.

¹ On-line games refer to Pick 3, Pick 4, Kicker, Rolling Cash 5, Lot'O Play/Classic 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.