

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

MAY 2007

FISCAL OVERVIEW

— Allan Lundell

With two months remaining in FY 2007, General Revenue Fund (GRF) receipts are \$163.1 million below estimate and disbursements are \$793.0 million below estimate, with the result that the cash balance is \$629.9 million above its expected level.¹

Receipts

For the month of April, total GRF receipts of \$2,215.2 million were below estimate by \$14.1 million (0.6%). State-source receipts were below estimate by \$23.4 million (1.3%) and federal grants were above estimate by \$9.3 million (2.6%). Tax revenues were below estimate by \$25.1 million (1.4%). Revenue from the corporate franchise tax was below estimate by \$57.7 million (33.5%) and personal income tax revenue was \$54.8 million (6.2%) above estimate. Revenue from the sales and use tax was below estimate by \$17.1 million (2.6%); nonauto tax revenue was below estimate by \$17.0 million (3.0%) and auto tax revenue was below estimate by \$0.1 million (0.1%). Revenue from the cigarette tax was below estimate by \$9.4 million (11.3%).

Fiscal year-to-date GRF receipts of \$20,407.2 million are \$163.1 million (0.8%) below estimate and are down 1.4% compared to FY 2006. State-source receipts are \$201.0 million (1.3%) above estimate and federal grants are \$364.1 million (7.5%) below estimate. Federal grants are below estimate primarily because state Medicaid spending is below estimate.² Tax revenues are above estimate by \$153.3 million (1.0%). Personal income tax revenue is above estimate by \$167.4 million (2.5%) and corporate franchise tax revenue is above estimate by \$158.3 million (23.9%). Revenue from the sales and use tax is below estimate by \$161.5 million (2.6%); nonauto tax revenue is below estimate by \$156.6 million (2.8%) and auto tax revenue is below estimate by \$4.9 million (0.6%). Revenue from the cigarette tax is below estimate by \$17.3 million (2.2%) and revenue from the estate tax is above estimate by \$8.2 million (25.5%).

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- Advance estimate of real GDP growth was 1.3% in the first quarter
- Ohio unemployment rate increased to 5.7% in April
- Energy prices up an annualized 25% in four months

STATUS OF THE GRF

Revenue 204

- Strong corporate franchise tax receipts continue to surprise
- Cigarette tax revenue on downward trend since January
- Sales and use tax revenue growth remains weak

Disbursements 212

- GRF program spending in FY 2007 through April totaled \$21,247.1 million, \$799.0 million under OBM's estimate
- Disbursements for Medicaid accounted for most of this variance but were particularly low in April because of a delay in an expected payment until early May

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 April	Fiscal Year 2007 to Date	Last Year	Difference
Beginning Cash Balance	-\$50.1	\$1,528.8		
Plus Revenue and Transfers In	\$2,215.2	\$20,407.2		
Available Resources	\$2,165.1	\$21,936.1		
Less Disbursements and Transfers Out	\$2,201.2	\$21,972.1		
Ending Cash Balances	-\$36.1	-\$36.1	\$197.8	-\$233.9
Less Encumbrances and Accts. Payable		\$442.9	\$458.1	-\$15.3
Unobligated Balance		-\$478.9	-\$260.3	-\$218.6
Plus BSF Balance		\$1,012.3	\$576.6	\$435.7
Combined GRF and BSF Balance		\$533.4	\$316.3	\$217.1

Disbursements

April GRF program disbursements of \$2,180.0 million were below estimate by \$121.4 million (5.3%). Disbursements for health care/Medicaid were below estimate by \$196.8 million (24.1%). Disbursements for primary and secondary education were \$47.9 million (7.9%) below estimate and disbursements for higher education were \$15.3 million (8.7%) below estimate. Disbursements for property tax relief were above estimate by \$145.7 million (88.4%).

Fiscal year-to-date GRF program disbursements of \$21,247.1 million are \$799.0 million (3.6%) below estimate and are up 0.6% compared to FY 2006. Disbursements for health care/Medicaid are below estimate by \$689.2 million (8.2%) and disbursements for "other welfare" are below estimate by \$59.8 million (11.1%). Disbursements for primary and secondary education are below estimate by \$126.9 million (2.1%) and disbursements for higher education are \$8.1 million (0.4%) above estimate. Disbursements for property tax relief are above estimate by \$124.7 million (14.8%) and debt service payments are \$29.2 million (5.4%)

below estimate. Human services disbursements are below estimate by \$11.6 million (1.0%) and development disbursements are below estimate by \$11.2 million (8.1%).

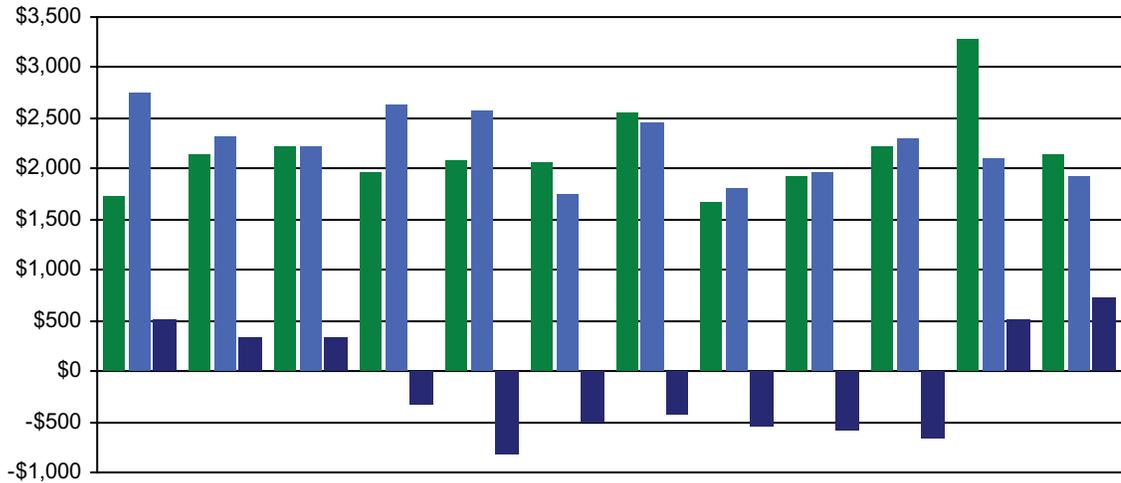
Cash Balance

As shown in Table 1, the GRF began FY 2007 with a \$1,528.8 million cash balance. Through April, FY 2007 revenues plus transfers in totaled \$20,407.2 million and disbursements plus transfers out totaled \$21,972.1 million. The year-to-date deficit of \$1,564.9 million reduced the cash balance to -\$36.1 million. If receipts and disbursements had equaled their estimates, the cash balance would have been -\$666.0 million, \$629.9 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 \$442.9 million combine with the cash balance to yield an unobligated balance of -\$478.9 million, \$218.6 million lower (more 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%

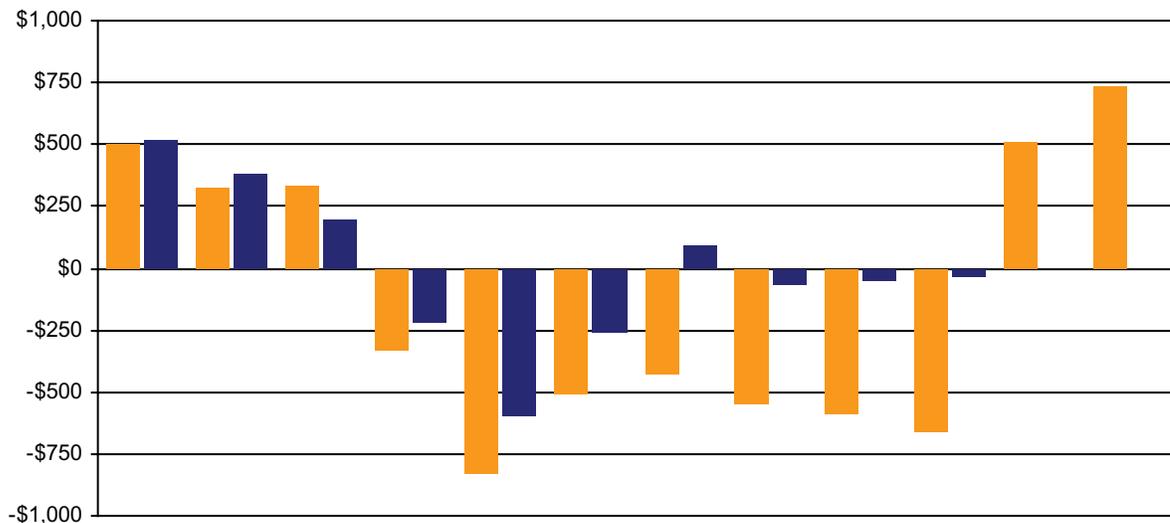
of FY 2006 GRF receipts and is 1.1 percentage points less than the 5% target amount that the General Assembly has stated in section 131.44 of the Revised Code that it intends to maintain in the BSF. The combined GRF and BSF balance of \$533.4 million is \$217.1 million higher than it was a year ago.

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	-\$65	-\$50	-\$36		

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

Real gross domestic product (GDP)¹ grew by 1.3% in the first quarter according to the U.S. Bureau of Economic Analysis (BEA). This growth rate was below the 2.5% growth rate in the fourth quarter and was the slowest growth rate since the first quarter of 2003. It seems hard to avoid the question whether the longstanding sluggishness in manufacturing has combined with a sharp slowdown in residential construction to lead the broader economy to the point of contraction. Many economists suggest the answer is “no.” Global Insight (an economic forecasting firm), for one, projects that the growth rate will increase over the next several quarters.

The national economy continued to create jobs in April, adding 88,000 to payroll employment. Ohio saw a decrease in payroll employment of 5,800. Ohio’s unemployment rate rose from 5.0% to 5.2% in March and to 5.7% in April.

The Federal Reserve reported that manufacturers in the Cleveland District² reported stable to increasing production levels during the six weeks leading up to April 25. In addition, “almost all” of the Fed’s contacts in the Cleveland District manufacturing sector expected production levels to remain stable or to increase in coming months. Similarly good prognoses were offered by contacts in the district’s commercial construction and retail sectors, but residential construction remains very weak, and contacts in that sector do not expect a significant improvement “until late 2007 at the earliest.”

Energy prices have increased sharply in recent months according to both the U.S. Bureau of Labor Statistics (BLS) and the U.S. Energy Information Administration (EIA). The average retail price of regular grade gasoline in Ohio increased to \$3.148 per gallon during the week ending May 14, up by about \$0.65 per gallon in just two months. The sharp price increases have accompanied a similarly sharp decrease in commercial inventories of gasoline, which

both the EIA and Global Insight attribute to refinery outages (including both scheduled and unscheduled ones). The May 9 issue of *This Week in Petroleum*, an EIA publication, reported that gasoline inventories rose slightly during the preceding week, ending a series of sharp decreases that had lasted several weeks.³

Production and Income

Real U.S. GDP increased at an estimated annual rate of 1.3% in the first quarter of 2007, according to the BEA. Economic growth decelerated from 2.5% growth in real GDP in the fourth quarter. This deceleration came despite a positive (though slight) contribution to growth by motor vehicle production, which contributed 0.09 percentage point of growth in the first quarter. The first quarter rate is the “advance estimate,” i.e., the first estimate issued by BEA, and is subject to change.

Growth in consumer spending was the primary driver of GDP growth in the first quarter, contributing 2.66 percentage points of growth. The biggest drag on growth was gross private domestic investment, which subtracted 1.06 percentage points of growth, primarily due to residential construction, which subtracted 0.97 percentage point by itself. The change in private inventories, another component of domestic investment, subtracted 0.30 percentage point from growth; these drags were only partially offset by a positive contribution to GDP growth from nonresidential fixed investment. A source of some concern is exports—gross exports have contributed positively to GDP growth steadily each quarter since the second quarter of 2003, contributing over half a percentage point of growth in 11 of the 14 quarters it grew, and over 0.9 percentage point in half of the 14 quarters. But gross exports subtracted from growth during the most recent quarter. Global Insight suggests that this drop in exports may have been a statistical blip and expects exports to grow again in the second quarter. If correct, this expectation

would provide support for its view that GDP growth will accelerate in the second quarter.

A number of commentators have been referring to declining residential housing construction as a “drag” on economic growth for months. The following chart conveys this drag and shows how the contribution housing construction has made to economic growth changed recently. It shows annualized growth rates for real GDP for each quarter of the last three years and what the growth rate would have been without the contribution made by residential housing construction. As shown here, residential housing construction contributed positively to economic growth during several quarters prior to 2006 but starting in the second quarter of 2006 began to hold growth down. Over the last four quarters it has subtracted between 0.7 and 1.2 percentage points from economic growth each quarter on an annualized basis.

U.S. personal income (PI) increased by \$79.9 billion in March, an increase of 0.7%. Disposable personal income increased by \$65.5 billion, or 0.7%. The increase in PI was slightly higher than February’s increase in dollar terms but was the same in percentage terms. The increase in disposable PI was slightly higher than February’s increase in both dollar and percentage terms.

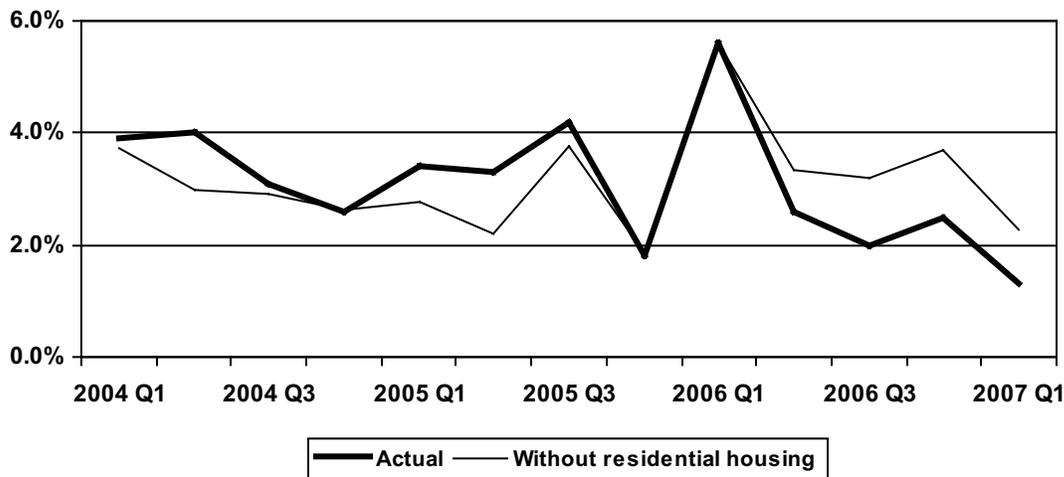
Employment and Unemployment

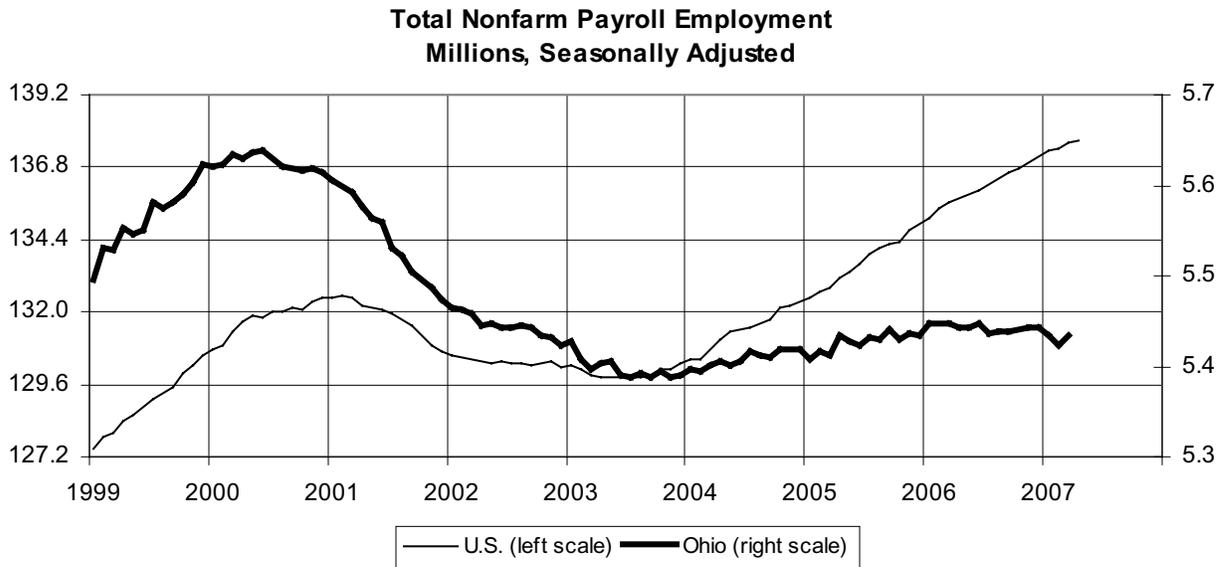
The BLS reported that U.S. nonfarm payroll employment increased by 88,000 in April, on a seasonally adjusted basis. The announcement pointed out evidence of a slowdown in employment growth, with increases averaging 129,000 per month so far in 2007, compared with a monthly average increase of 189,000 in 2006. Employment increased by 1.88 million, or 1.4%, during the 12 months ending in April. The increase from March to April was in service-providing industries, where employment increased by 116,000; this gain was partially offset by an employment loss of 28,000 in goods-producing industries (including a loss of 19,000 in manufacturing and a loss of 11,000 in construction).

Despite the increase in employment, the U.S. unemployment rate rose to 4.5% in April. The rate has fluctuated within the range of 4.4% to 4.6% for the last eight months. The median duration of unemployment among those unemployed increased from 8.5 weeks in March to 8.7 weeks in April. Despite this increase the median duration is below its level of April 2006 (which was 9.8 weeks).

In Ohio, payroll employment decreased in April (after rising in March). Ohio’s nonfarm payroll

Growth Rate in Real GDP, Actual vs. Without Residential Housing Contribution





employment decreased by 5,800, or slightly over 0.1%, but remained slightly over 5.43 million in April (all these figures are seasonally adjusted). Employment in goods-producing industries fell by 900, while employment in service-providing industries fell by 4,900. A gain in employment in March represented a reversal from three straight months of decreases in payroll employment in the months leading up to March, but it was followed by this decline in April.

During the 12 months ending in April Ohio payroll employment fell by 13,200, or slightly over 0.2%. A decline in employment in goods-producing industries of 22,100 was partially offset by a gain in service-providing employment of 8,900. The bulk of the job loss in goods-producing industries was in manufacturing, which lost 19,400 jobs for the year. The largest source of job gains in the service-providing industries was in educational and health services (10,900), followed by professional and business services (3,800), and trade, transportation, and utilities (1,800).

The number of unemployed Ohioans increased for the month by 32,000, to a total of 339,000. Combined with decreases in the number of employed, as measured by the Current Population Survey (CPS),⁴ Ohio's seasonally adjusted unemployment rate rose from 5.0% in February to 5.2% in March and then to 5.7% in April. The

rate now stands above its level of the previous April (5.4%).

Manufacturing

The U.S. Department of Commerce reported that new orders for manufactured goods rose by 3.1% in March, after seasonal adjustment. New orders have now increased in four of the last five months. New orders for durable goods increased by 3.7% for the month and also have increased in four of the last five months. Excluding defense new orders rose 3.5%, and excluding transportation they increased 1.9%. There is an implication of strong growth in orders for transportation equipment in the preceding figures, and they did in fact increase by 9.5%. This increase was driven by nondefense aircraft and parts (which rose by 38.1%).

The increase was fairly broad-based. New orders in primary metals were higher in March by 3.0%, including a 5.3% increase for iron and steel mills; both categories saw falls in new orders in February, however, that were somewhat larger in percentage terms. New orders for machinery grew by 4.7%, led by construction machinery (65.0%) and turbines, generators, and other power transmission equipment (33.3%); there was significant weakness in this category associated with orders for ventilation, heating, air-conditioning, and refrigeration equipment,

which fell by 24.8%. New orders for motor vehicle bodies, parts, and trailers increased by 3.8% for the month.

Manufacturers' shipments increased by 1.5% in March, after having decreased by 0.6% in February. Excluding defense, shipments were up by 1.7% in March after having fallen by 0.6% in February. Shipments of automobiles increased by 4.5%, reversing direction compared with recent months. Shipments of heavy-duty trucks fell by 0.7%, not a large decrease but it comes on the heels of a full 20.6% decrease in February. Shipments of light trucks and utility vehicles increased by 2.5%. Shipments of primary metals increased by 1.6%, due in part to shipments by iron and steel mills (which increased by 4.3%), and shipments of machinery increased by 2.9%.

Housing Markets and Construction

As noted above, residential housing construction was a significant drag on economic growth during the first quarter, and there is little sign of a turnaround yet. The U.S. Census Bureau reported that both housing starts and building permits issued increased nationally by 0.8% from February to March,⁵ and housing starts increased by 2.5% from March to April. But the number of building permits issued fell by 8.9% from March to April and both numbers are well below their levels of a year ago. The number of housing starts in April was 16.1% less than in the preceding April, and the number of building permits issued was 28.1% less. In the Midwest, the number of building permits issued decreased by 8.2% in April and was 21.5% less than the number issued during April 2006, while the number of housing starts decreased by 14.2% in April, putting it at a level 42.6% below its level in April 2006.

Existing home sales, as reported by the National Association of Realtors, decreased by 8.4% in March for the U.S. as a whole and by 10.9% for the Midwest. As compared with the preceding March, they decreased by 11.3% for

the U.S. and by 13.7% for the Midwest. The median sales price fell by 0.3% compared with the preceding March for the U.S. and by 0.2% for the Midwest. The median price has increased for two consecutive quarters nationally, though, and did increase from February to March for the Midwest.

Inflation and Prices

The consumer price index for all urban consumers (CPI-U) increased by 0.4% in April, after seasonal adjustment, and by 2.6% for the year ending in April 2007. The BLS included in its announcement some discussion of the inflation rate for the first four months of 2007. Energy prices have increased sharply, by an annualized 25.3% after seasonal adjustment, over this period (and petroleum-based energy prices rose even more sharply); food prices increased by 6.7%. But so-called "core inflation" seems to be under control—excluding food and energy the CPI-U has increased by an annualized 2.2% so far in 2007, compared to an increase of 2.6% for all of 2006. For the year ending in April 2007, the CPI-U excluding food and energy increased by 2.3%.

The BLS reports that the producer price index (PPI) for finished goods increased by 0.7% in April, seasonally adjusted. This increase follows significant increases in March (1.0%) and February (1.3%). But as with the CPI-U, these increases are generally due to sharp increases in food and energy prices; the PPI excluding food and energy was unchanged in both March and April. The PPI has increased by 3.2% since April 2006.

It appears that financial market participants believe that the Federal Reserve has inflation under control. Fed data indicate that the average yield on ten-year constant maturity Treasury securities was 4.65% on May 11. The yield has been fairly stable for several months, fluctuating within a range of 25 basis points higher and lower than its current level since August.

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

² The Cleveland District includes all of Ohio, plus western Pennsylvania, eastern Kentucky, and the West Virginia panhandle.

³ The May 16 issue reported a second straight increase in gasoline inventories.

⁴ Last month’s edition of this article included a discussion of the difference between employment as measured by CPS and payroll employment measured by the establishment survey. Interestingly, that discussion was prompted by the opposite phenomenon: in February Ohio’s payroll employment fell while employment measured by CPS rose. See that article for a partial explanation of why this could occur.

⁵ All figures in this section are annualized and seasonally adjusted.

Status of the General Revenue Fund

REVENUE

— Jean Botomogno and Allan Lundell

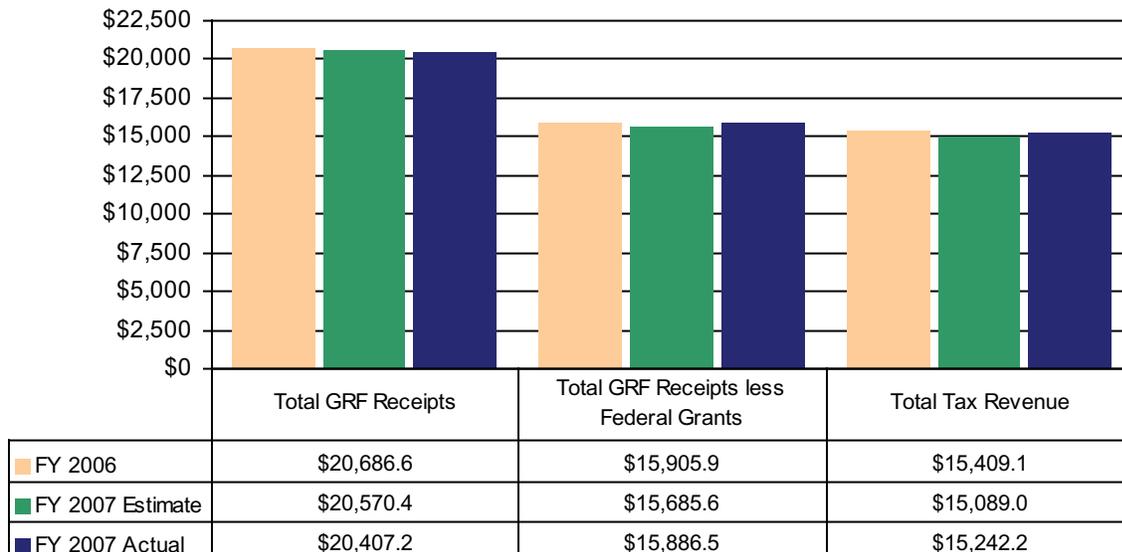
For the month of April, total GRF receipts of \$2,215.2 million were below estimate by \$14.1 million (0.6%).¹ State-source receipts were below estimate by \$23.4 million (1.3%) and federal grants were above estimate by \$9.3 million (2.6%). Tax revenues were below estimate by \$25.1 million (1.4%). Revenue from the corporate franchise tax was below estimate by \$57.7 million (33.5%) and personal income tax revenue was \$54.8 million (6.2%) above estimate. Revenue from the sales and use tax was below estimate by \$17.1 million (2.6%); nonauto tax revenue was below estimate by \$17.0 million (3.0%) and auto tax revenue was below estimate by \$0.1 million (0.1%). Revenue from the cigarette tax was below estimate by \$9.4 million (11.3%).

Fiscal year-to-date GRF receipts of \$20,407.2 million are \$163.1 million (0.8%) below estimate and are down 1.4% compared to FY 2006. State-source receipts are \$201.0 million (1.3%) above estimate and federal grants are \$364.1 million (7.5%) below estimate. Federal

grants are below estimate primarily because state Medicaid spending is below estimate.² Tax revenues are above estimate by \$153.3 million (1.0%). Personal income tax revenue is above estimate by \$167.4 million (2.5%) and corporate franchise tax revenue is above estimate by \$158.3 million (23.9%). Revenue from the sales and use tax is below estimate by \$161.5 million (2.6%); nonauto tax revenue is below estimate by \$156.6 million (2.8%) and auto tax revenue is below estimate by \$4.9 million (0.6%). Revenue from the cigarette tax is below estimate by \$17.3 million (2.2%) and revenue from the estate tax is above estimate by \$8.2 million (25.5%).

For the fiscal year to date, total GRF receipts are down 1.4% compared to FY 2006. State-source receipts are down 0.1% and federal grants are down 5.4%. Tax revenue is down 1.1%. Revenue from the corporate franchise tax is up 3.8%, a surprising performance in light of the phaseout of the tax for nonfinancial corporations. Revenue from the personal income tax is down 0.5%, reflecting reduced tax and withholding

Year-to-Date GRF Receipts
(in millions)



rates. Revenue from the sales and use tax is up 0.3%; nonauto tax revenue is up 0.7% and auto tax revenue is down 2.7%. Revenue from the cigarette tax is down 8.9%, 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

Personal Income Tax

The GRF received \$938.8 million from the personal income tax in April. This amount was \$54.8 million (6.2%) greater than estimated. The \$1,257.8 million in gross collections for all funds (not just the GRF) was above estimate by \$52.8 million (4.4%) and the \$218.7 million in refunds was \$2.3 million (1.0%) less than estimated. The \$610.9 million collected through withholding was above estimate by \$5.9 million (1.0%). Quarterly estimated payments of \$207.7 million were \$5.5 million (2.7%) above estimate.⁴ Payments associated with annual returns totaled \$377.8 million, which were below estimate by \$8.4 million (2.2%). The \$50.3 million in trust payments were above estimate by \$46.6 million.

The GRF has received \$6,739.8 million from the personal income tax thus far this fiscal year. This amount is \$167.4 million (2.5%) above estimate. Gross collections are above estimate by \$156.3 million (1.9%) and refunds are \$12.8 million (1.2%) below estimate. The \$6,520.6 million collected through withholding is \$71.5 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 \$1,242.9 million are \$25.8 million (2.1%) above estimate. Trust payments are \$53.3 million (147.0%) above estimate and payments associated with annual returns are below estimate by \$5.4 million (0.9%).

Compared to a year ago, GRF revenue from the personal income tax is down 0.5% because of reductions in the tax and withholding rates. Gross collections are down 0.2% and refunds are up 1.6%. Withholding, which depends on the condition of Ohio's labor market, is down 2.2%.⁵ Quarterly estimated payments are up 6.4%. Trust

payments are up 101.7% and payments associated with annual returns are up 0.1%.

Sales and Use Tax

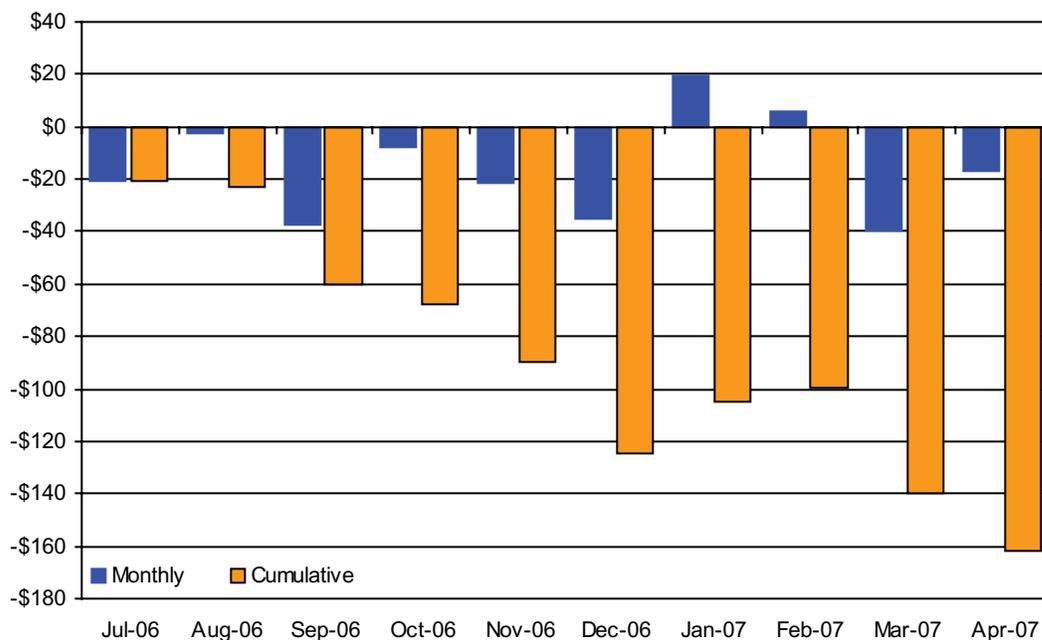
Monthly sales and use tax collections in April 2007 were below estimate but strongly above last year's receipts in the same month. Total sales and use tax revenues were \$637.3 million, \$17.1 million (2.6%) below projected revenues. Nonauto and auto sales and use taxes were 3.0% and 0.1% below estimate, respectively. Total sales and use tax receipts in April 2007 were also \$54.4 million (9.3%) above April 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 Combining March and April receipts, total sales and use tax receipts were 0.9% above receipts in the same period in FY 2006. Through April, FY 2007 sales and use tax revenues were \$6,153.3 million, \$161.5 million (2.6%) below estimates. Growth in sales and use tax receipts has been generally weak throughout the fiscal year. FY 2007 sales and use tax receipts through April were \$19.4 million (0.3%) above year-to-date tax receipts in FY 2006.

Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were again below estimate this month, after a poor performance in March. Revenues in April 2007 were \$547.4 million, \$17.0 million (3.0%) below estimate. Nonauto sales and use tax receipts were also \$38.8 million (7.6%) above revenues in the same month a year ago.⁷ However, combining March and April receipts, nonauto sales and use tax receipts were \$2.0 million (0.2%) below receipts in the same period in FY 2006. Through April, FY 2007 nonauto sales and use tax receipts were \$5,406.3 million, \$156.6 million (2.8%) below estimate and \$40.0 million (0.7%) above receipts through April in FY 2006.

Core retail sales (total sales excluding sales of motor vehicle dealers and gas stations) declined 0.2% in April and grew 4.0% compared to sales in April 2006. The year-over-year growth in core retail sales has declined markedly compared to growth rates at the end of CY 2006. Sales at

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



clothing and apparel, general merchandise, and building supply stores were down in April 2007. The chain stores sales index (sales at comparable stores open at least a year at 80 major department, apparel, chain, and discount stores) also declined in April. This index, although based on only about 10% of total retail sales, is an important indicator of consumer spending trends. Outright declines in the index are extremely rare and have previously occurred only twice in three decades of recordkeeping. The weak housing industry has kept building supply store sales on a steep downward trajectory since the beginning of CY 2007. High gasoline prices are again overstressing household finances and may be a drag on sales and use tax receipts in the remaining months of FY 2007.

Auto Sales and Use Tax

Auto sales and use tax receipts were \$89.9 million, \$0.1 million (0.1%) below estimates in April 2007. These receipts were also \$15.5 million (20.9%) above receipts in April 2006.⁸ 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.

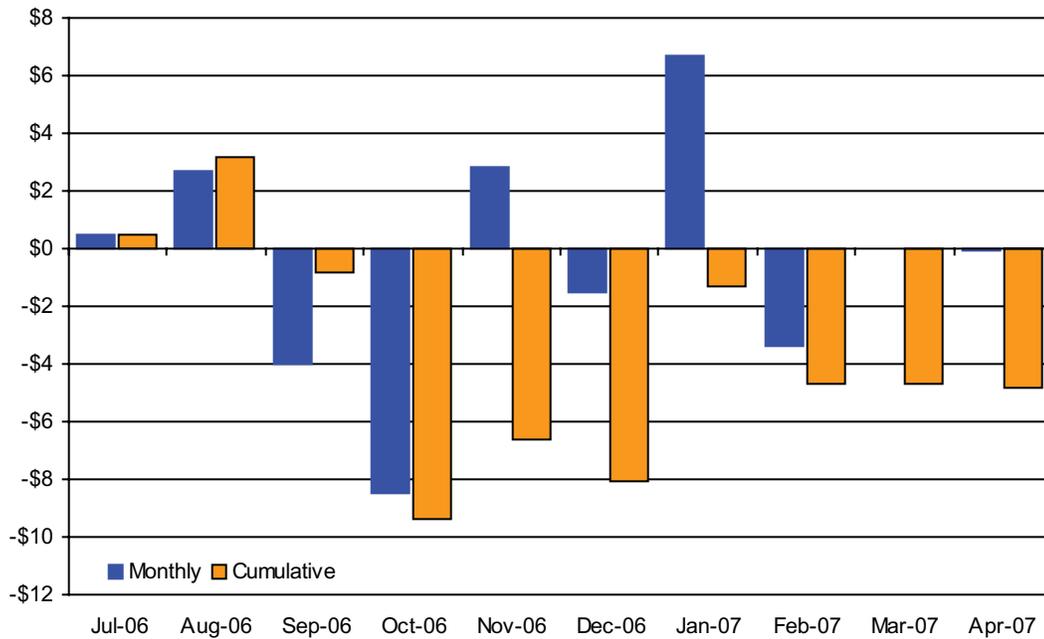
Through April, FY 2007 year-to-date auto sales tax receipts were below both estimate and FY 2006 receipts. Receipts from the auto sales and use tax were \$747.0 million, \$4.9 million (0.6%) below estimate. FY 2007 year-to-date auto sales and use tax receipts were also \$20.5 million (2.7%) below receipts through April in FY 2006. Light vehicle unit sales were down 0.1% compared to April 2006. Sales at motor vehicle dealers were down 1.0% in April and grew 1.3% compared to April 2006. The year-over-year growth is less than half the growth in February and March. To boost sales, auto manufacturers are responding with a new round of incentives, with some manufacturers reviving the popular “zero percent financing” on new models.

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.

Auto Sales Tax Variance from August 2006 Estimates

(in millions)



In FY 2007, nonfinancial corporations are paying only 60% of their full tax liability. April CFT receipts were \$114.5 million, \$57.7 million (33.5%) below estimate. These receipts were also \$55.4 million (93.9%) above April 2006 receipts. With two of the three estimated payments already made by corporations, the performance of the CFT is surprising. The table below presents the performance of the CFT in FY 2007. In the first half of FY 2007, CFT receipts were 55.7% above estimate and 24.3% below FY 2006 receipts. Activities under the franchise tax in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations. In the January-April period (which includes two of the three CFT payments), receipts were 22.0% above estimate and 6.8% above FY 2006 receipts in the same period.

Through April, FY 2007 CFT receipts were \$819.9 million, \$158.3 million (23.9%) above

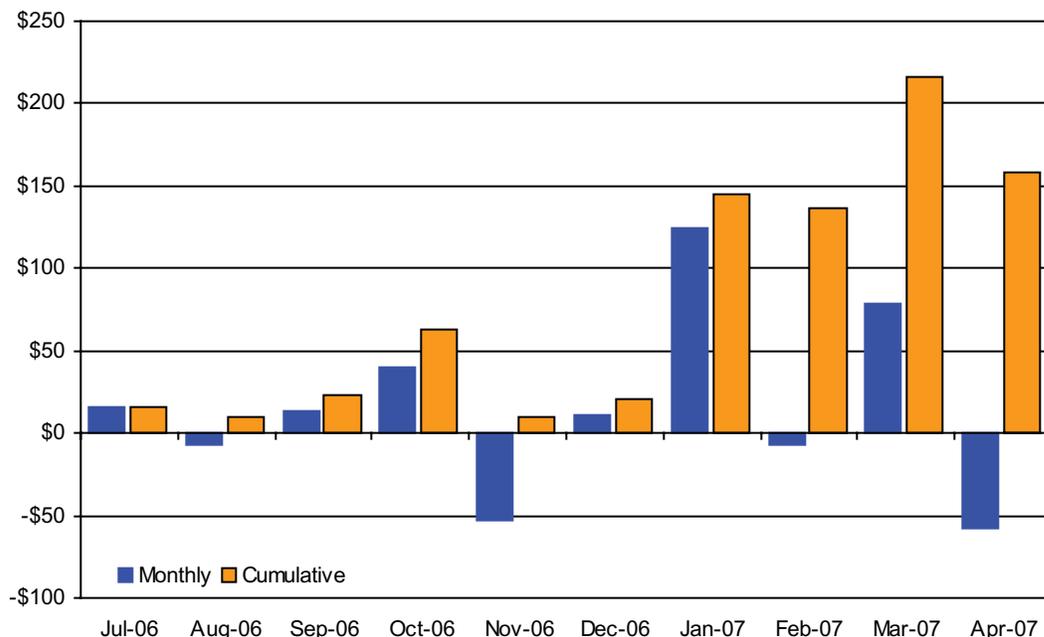
estimate. FY 2007 year-to-date receipts were also \$29.9 million (3.8%) above year-to-date receipts through April 2006. If receipts from the third CFT payment meet estimate, FY 2007 CFT receipts will be approximately \$1,053.0 million, down from \$1,054.9 million in FY 2006. This would be remarkable because nonfinancial corporations are paying 60% of their tax liability this year instead of 80% in FY 2006.

Although corporate profits have been strong in the last few years,⁹ CFT receipts suggest that changes in the behavior of certain taxpayers may be occurring. Large multistate corporations pay most of the nonfinancial corporate franchise tax. Those corporations also must apportion income to the various states in which they do business. As the result of the phaseout of the franchise tax, some multistate corporations may have increased their apportionment of taxable income into Ohio, resulting in increased Ohio CFT revenues.

Corporate Franchise Tax Receipts (in millions)

Period	Actual Receipts	Estimate	Variance	Percent	FY 2006	Percent Change
July-December 2006	\$57.6	\$37.0	\$20.6	55.7%	\$76.1	-24.3%
January-April 2007	\$762.3	\$624.6	\$137.7	22.0%	\$713.9	6.8%
Year-to-date	\$819.9	\$661.6	\$158.3	23.9%	\$790.0	3.8%

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

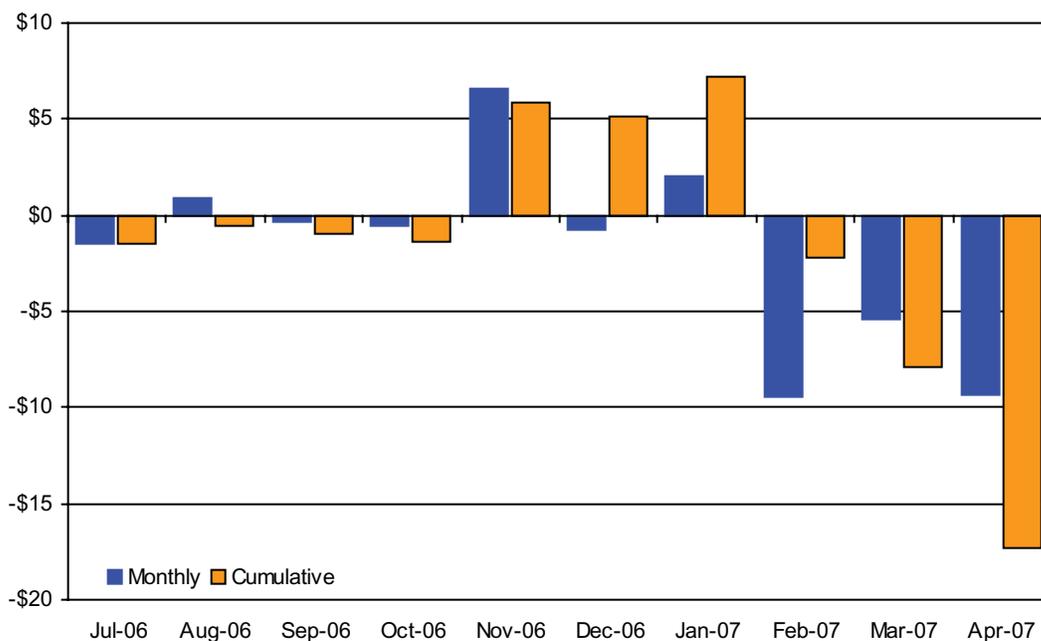


Cigarette and Other Tobacco Products Tax

For the third straight month, revenues from the tax on cigarette and other tobacco products (COTP) were below estimates made in August. April receipts were \$73.4 million, \$9.4 million (11.3%) below estimate. April revenues were also \$6.4 million (8.1%) lower than receipts in

April 2006. Through April, FY 2007 year-to-date receipts were \$756.3 million, \$17.3 million (2.2%) below estimate. Those receipts were also \$74.1 million (8.9%) below FY 2006 receipts through April. However, excluding receipts from the one-time inventory tax of about \$66.1 million last year, FY 2007 year-to-date receipts were \$8.0 million (1.0%) below FY 2006 year-to-date receipts through April. Receipts from the excise

Cigarette Tax Variance from August 2006 Estimates
(in millions)



tax on cigarettes were down 1.4%. Receipts from the tax on other tobacco products were up 9.5%.

Receipts from the COTP have been on a downward trajectory in CY 2007. Increases in cigarette prices by manufacturers, a tax increase in Cuyahoga County, and a smoking ban in public places approved in November 2006 appear to have negatively affected consumption of taxed cigarettes in the last few months. Through December, COTP receipts were 1.1% above estimate and 5.0% above receipts in the same period in FY 2006 (excluding inventory tax receipts in FY 2006). From January 2007 through April 2007, COTP receipts were about 7.0% below estimate and 9.2% below receipts in the same period in FY 2006. The variance in receipts is entirely from the cigarette excise tax.

Commercial Activity Tax

Commercial activity tax (CAT) revenues for taxable gross receipts in the first quarter of CY 2007 were due May 10, 2007. CAT receipts for April were \$13.4 million, \$5.8 million (27.7%) below estimate. Through April, FY 2007 CAT receipts were \$469.9 million, \$69.7 million (17.4%) 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 April, FY 2007 distributions to the SDRF and the LGRF were \$328.9 million and \$141.0 million, respectively.

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

² Federal grants are federal reimbursements for programs administered by the Department of Job and Family Services, such as Medicaid and Temporary Assistance for Needy Families (TANF). The amount received depends on expenditures for human services programs that require federal participation. Any changes in state spending in these areas will change receipts from federal grants.

³ Am. Sub. H.B. 66 imposed a floor tax of \$0.70 on cigarettes in inventory on July 1, 2005, when the rate increased to \$1.25 per pack. These cigarettes had the old stamp of \$0.55 per pack. The floor tax was paid in the first half of FY 2006.

⁴ Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than \$500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. These payments are usually made by taxpayers with significant nonwage income. This income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

⁵ Year-over-year withholding growth understates the health of the labor market due to a change in employer withholding tables to account for the reduction in marginal income tax rates enacted in Am. Sub. H.B. 66. FY 2007 withholding amounts are based on lower withholding tax rates than FY 2006 amounts. H.B. 66 reduced the marginal personal income tax rates by 21% over five years (4.2% per year), starting with tax year 2005. Withholding tax rates were not reduced during tax year 2005 but were reduced by 4.2% starting January 1, 2006 and by an additional 8.4% starting October 1, 2006.

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

⁷ Calendar issues may affect this year-over-year comparison. Easter was celebrated earlier this year than in CY 2006, which potentially affects the timing of taxable purchases and the timing of sales and use tax payments.

⁸ Calendar issues may affect this year-over-year comparison. April 2007 had an extra Monday when compared to April 2006.

⁹ Corporate taxable income grew 26%, 32%, and 19% in CY 2004, CY 2005, and CY 2006, respectively.

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

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	\$89,895	\$90,014	-\$119	-0.1%
Nonauto Sales and Use	\$547,437	\$564,458	-\$17,021	-3.0%
Total Sales and Use Taxes	\$637,332	\$654,472	-\$17,140	-2.6%
Personal Income	\$938,841	\$884,000	\$54,841	6.2%
Corporate Franchise	\$114,480	\$172,200	-\$57,720	-33.5%
Public Utility	\$164	\$0	\$164	---
Kilowatt Hour Excise	\$30,856	\$29,900	\$956	3.2%
Commercial Activity Tax**	\$0	\$0	\$0	---
Foreign Insurance	\$86	\$193	-\$107	-55.4%
Domestic Insurance	\$0	\$0	\$0	---
Business and Property	\$130	\$200	-\$70	-34.8%
Cigarette	\$73,438	\$82,800	-\$9,362	-11.3%
Alcoholic Beverage	\$4,901	\$4,942	-\$41	-0.8%
Liquor Gallonage	\$2,876	\$2,770	\$106	3.8%
Estate	\$6,260	\$3,000	\$3,260	108.7%
Total Tax Revenue	\$1,809,364	\$1,834,477	-\$25,113	-1.4%
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	\$0	\$0	\$0	---
Licenses and Fees	\$14,973	\$12,855	\$2,118	16.5%
Other Revenue	\$6,075	\$5,500	\$575	10.5%
Nontax State-Source Revenue	\$21,048	\$18,355	\$2,693	14.7%
TRANSFERS				
Liquor Transfers	\$10,000	\$11,000	-\$1,000	-9.1%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$7,600	\$7,600	\$0	0.0%
Total Transfers In	\$17,600	\$18,600	-\$1,000	-5.4%
TOTAL GRF before Federal Grants	\$1,848,012	\$1,871,432	-\$23,420	-1.3%
Federal Grants	\$367,233	\$357,952	\$9,281	2.6%
TOTAL GRF SOURCES	\$2,215,245	\$2,229,384	-\$14,138	-0.6%

* 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 April 2007
(\$ in thousands)

	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
TAX REVENUE						
Auto Sales	\$747,037	\$751,910	-\$4,873	-0.6%	\$767,579	-2.7%
Nonauto Sales and Use	\$5,406,268	\$5,562,854	-\$156,586	-2.8%	\$5,366,295	0.7%
Total Sales and Use Taxes	\$6,153,305	\$6,314,764	-\$161,459	-2.6%	\$6,133,874	0.3%
Personal Income	\$6,739,837	\$6,572,401	\$167,437	2.5%	\$6,771,315	-0.5%
Corporate Franchise	\$819,933	\$661,600	\$158,333	23.9%	\$790,027	3.8%
Public Utility	\$103,829	\$100,400	\$3,429	3.4%	\$101,315	2.5%
Kilowatt Hour Excise	\$283,119	\$287,200	-\$4,081	-1.4%	\$288,017	-1.7%
Commercial Activity Tax**	\$0	\$0	\$0	---	\$121,371	-100.0%
Foreign Insurance	\$269,356	\$267,778	\$1,578	0.6%	\$261,225	3.1%
Domestic Insurance	\$107	\$2,300	-\$2,193	-95.3%	\$1,109	-90.3%
Business and Property	\$602	\$1,000	-\$398	-39.8%	\$1,196	-49.6%
Cigarette	\$756,336	\$773,600	-\$17,264	-2.2%	\$830,436	-8.9%
Alcoholic Beverage	\$46,843	\$47,213	-\$370	-0.8%	\$48,374	-3.2%
Liquor Gallonage	\$28,677	\$28,597	\$80	0.3%	\$27,929	2.7%
Estate	\$40,292	\$32,100	\$8,192	25.5%	\$32,905	22.5%
Total Tax Revenue	\$15,242,238	\$15,088,953	\$153,285	1.0%	\$15,409,092	-1.1%
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	\$130,656	\$99,400	\$31,256	31.4%	\$71,824	81.9%
Licenses and Fees	\$73,925	\$65,399	\$8,526	13.0%	\$68,445	8.0%
Other Revenue	\$110,788	\$118,000	-\$7,212	-6.1%	\$142,566	-22.3%
Nontax State-Source Revenue	\$315,369	\$282,799	\$32,570	11.5%	\$282,835	11.5%
TRANSFERS						
Liquor Transfers	\$115,000	\$112,000	\$3,000	2.7%	\$116,000	-0.9%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$213,904	\$201,800	\$12,104	6.0%	\$97,997	118.3%
Total Transfers In	\$328,904	\$313,800	\$15,104	4.8%	\$213,997	53.7%
TOTAL GRF before Federal Grants	\$15,886,511	\$15,685,552	\$200,960	1.3%	\$15,905,924	-0.1%
Federal Grants	\$4,520,731	\$4,884,829	-\$364,098	-7.5%	\$4,780,720	-5.4%
TOTAL GRF SOURCES	\$20,407,243	\$20,570,381	-\$163,138	-0.8%	\$20,686,644	-1.4%

* 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.

DISBURSEMENTS

— Phil Cummins*

Through the end of April, cumulative FY 2007 General Revenue Fund (GRF) disbursements for program spending totaled \$21,247.1 million, which was under estimate by \$799.0 million (3.6%).¹ Compared with program spending through the same ten-month period in the prior fiscal year, disbursements were \$130.5 million (0.6%) higher this year. In April, total GRF program disbursements were \$2,180.0 million, under estimate by \$121.4 million.

Disbursements for three of the state’s four major GRF program categories—Welfare and Human Services, Education, and Government Operations—were under estimate for the month and 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. Disbursements for the Property Tax Relief program exceeded the estimate in April and for the first ten months of the fiscal year. Within the GRF program subcategories, the Health Care/Medicaid program

again posted the biggest year-to-date variance, though the wider negative variance in the latest month was a result in part of a coding error that delayed an expected payment from April to May. The sections that follow discuss the most significant of these variances, 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 (-\$758.8 million)

Disbursements in the Welfare and Human Services category were \$203.6 million (19.1%) under estimate in April. For the fiscal year to date, outlays of \$9,638.2 million in this category were \$758.8 million (7.3%) under estimate. Within the category, Health Care/Medicaid spending accounted for more than 90% of the variance, with year-to-date disbursements under estimate by \$689.2 million (8.2%). A large payment estimated to be made in April

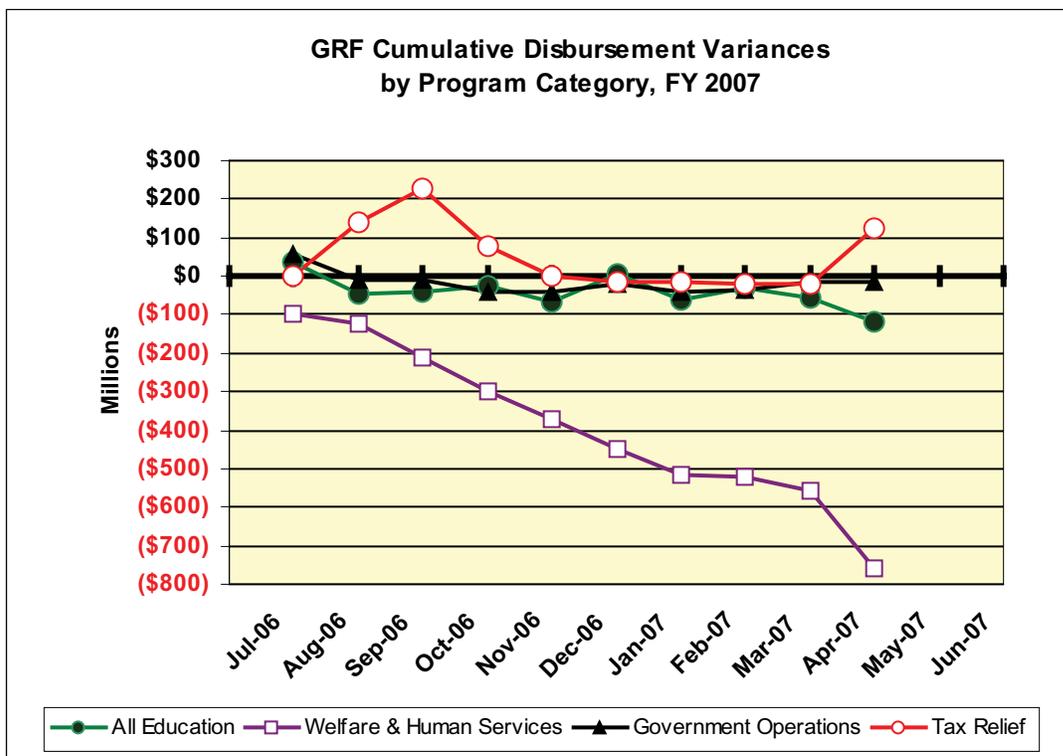


Table 4
General Revenue Fund Uses
Actual vs. Estimate
Month of April 2007
(\$ in thousands)

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent
Primary and Secondary Education (1)	\$560,404	\$608,265	-\$47,860	-7.9%
Higher Education	\$160,796	\$176,117	-\$15,322	-8.7%
Total Education	\$721,200	\$784,382	-\$63,182	-8.1%
Health Care/Medicaid	\$621,039	\$817,804	-\$196,765	-24.1%
Temporary Assistance for Needy Families (TANF)	\$32,991	\$53,411	-\$20,420	-38.2%
Other Welfare (2)	\$53,945	\$47,855	\$6,090	12.7%
Human Services (3)	\$152,090	\$144,612	\$7,478	5.2%
Total Welfare and Human Services	\$860,066	\$1,063,681	-\$203,616	-19.1%
Justice and Corrections	\$180,498	\$180,334	\$164	0.1%
Environment and Natural Resources	\$5,998	\$5,680	\$318	5.6%
Transportation	\$792	\$951	-\$159	-16.7%
Development	\$10,062	\$6,833	\$3,229	47.3%
Other Government	\$18,987	\$23,012	-\$4,025	-17.5%
Capital	\$43	\$0	\$43	---
Total Government Operations	\$216,381	\$216,810	-\$429	-0.2%
Property Tax Relief (4)	\$310,486	\$164,830	\$145,656	88.4%
Debt Service	\$71,876	\$71,721	\$155	0.2%
Total Other Disbursements	\$382,362	\$236,551	\$145,811	61.6%
Total Program Disbursements	\$2,180,009	\$2,301,424	-\$121,416	-5.3%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$21,180	\$0	\$21,180	---
Total Transfers Out	\$21,180	\$0	\$21,180	---
TOTAL GRF USES	\$2,201,189	\$2,301,424	-\$100,236	-4.4%

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

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

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

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

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

Detail may not sum to total due to rounding.

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

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
Primary and Secondary Education (1)	\$5,776,826	\$5,903,699	-\$126,874	-2.1%	\$5,690,591	1.5%
Higher Education	\$2,016,766	\$2,008,674	\$8,092	0.4%	\$1,954,034	3.2%
Total Education	\$7,793,592	\$7,912,373	-\$118,781	-1.5%	\$7,644,625	1.9%
Health Care/Medicaid	\$7,759,561	\$8,448,767	-\$689,206	-8.2%	\$7,966,432	-2.6%
Temporary Assistance for Needy Families (TANF)	\$284,406	\$282,615	\$1,791	0.6%	\$292,623	-2.8%
Other Welfare (2)	\$478,207	\$537,968	-\$59,761	-11.1%	\$478,819	-0.1%
Human Services (3)	\$1,115,977	\$1,127,577	-\$11,600	-1.0%	\$1,068,974	4.4%
Total Welfare and Human Services	\$9,638,151	\$10,396,927	-\$758,776	-7.3%	\$9,806,847	-1.7%
Justice and Corrections	\$1,753,327	\$1,752,833	\$494	0.0%	\$1,683,960	4.1%
Environment and Natural Resources	\$87,232	\$87,170	\$62	0.1%	\$87,481	-0.3%
Transportation	\$20,027	\$22,532	-\$2,505	-11.1%	\$24,789	-19.2%
Development	\$127,382	\$138,628	-\$11,246	-8.1%	\$130,519	-2.4%
Other Government	\$349,164	\$352,919	-\$3,755	-1.1%	\$344,796	1.3%
Capital	\$108	\$0	\$108	---	\$285	-62.2%
Total Government Operations	\$2,337,241	\$2,354,082	-\$16,841	-0.7%	\$2,271,830	2.9%
Property Tax Relief (4)	\$965,363	\$840,695	\$124,668	14.8%	\$963,951	0.1%
Debt Service	\$512,711	\$541,936	-\$29,226	-5.4%	\$429,322	19.4%
Total Other Disbursements	\$1,478,074	\$1,382,631	\$95,443	6.9%	\$1,393,273	6.1%
Total Program Disbursements	\$21,247,058	\$22,046,014	-\$798,956	-3.6%	\$21,116,575	0.6%
TRANSFERS						
Budget Stabilization	\$394,034	\$394,034	\$0	0.0%	\$394,205	0.0%
Other Transfers Out	\$331,042	\$325,113	\$5,930	1.8%	\$187,285	76.8%
Total Transfers Out	\$725,076	\$719,147	\$5,930	0.8%	\$581,490	24.7%
TOTAL GRF USES	\$21,972,134	\$22,765,161	-\$793,027	-3.5%	\$21,698,065	1.3%

(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.

was instead delayed to May, accounting for the larger than usual shortfall in disbursements last month (see chart). 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 April were \$1.8 million (0.6%) over 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 by \$59.8 million (11.1%). Disbursements in the Human Services subcategory, which includes services provided by more than 20 other agencies, were under estimate by \$11.6 million (1.0%).

Health Care/Medicaid. The largest contributor to the year-to-date variance in Medicaid spending was in the HMO categories, which were \$516.5 million (21.9%) under estimate with spending of \$1,838.9 million through April. Medicaid managed care is being expanded statewide to 1.2 million Covered Families and Children (CFC) and 125,000 Aged, Blind, and Disabled (ABD) Medicaid consumers. This program focuses on care coordination and preventive services. The shortfall in disbursements widened in April in part because the state's April 30 payment to Medicaid providers, including large managed care payments, failed to post until May due to coding errors, according to the Office of Budget and Management. As a result of this delay, disbursements will be increased in May.

The Nursing Facilities Payments category was under estimate by \$92.0 million (4.1%) through April with spending of \$2,165.3 million. Lower than projected utilization earlier this year appears to be reversing in May. The All Other category, with spending of \$441.0 million through April, was \$82.6 million (15.8%) below estimate, in part due to many changes in the home care programs. Elimination of the Core Plus program caused a shift from the home health service categories to the Waiver category. As a result, the Waiver category was over estimate by \$54.2 million (23.5%) with spending of \$284.8 million through

April. Disbursements in the Home Health category were \$43.3 million (25.5%) below estimate with spending of \$126.7 million through April.

The Inpatient Hospital category was \$135.1 million (11.3%) below estimate with spending of \$1,058.7 million through April. Prescription Drug category spending of \$800.0 million through April was \$81.0 million (9.2%) below estimate. Lower than projected managed care enrollment shifted spending to fee-for-service categories. The Physicians category was \$23.2 million (5.6%) over estimate with spending of \$436.5 million through April and the Dental category was \$6.9 million (12.9%) over estimate with spending of \$60.4 million through April.

The Disability Assistance (DA) Medical category was \$6.6 million (23.4%) under estimate with actual outlays of \$21.6 million through April. This program is closed to new enrollment and attrition has been higher than projected. Spending in the Hospice category was \$116.1 million through April, \$9.0 million (8.5%) over the estimate. The Medicare Part D category was over estimate by \$27.9 million (12.5%) with spending of \$196.0 million through April.²

Education (-\$118.8 million)

Outlays of \$721.2 million in April in the Education category were \$63.2 million (8.1%) under estimate. Year-to-date outlays totaling \$7,793.6 million in this category were \$118.8 million (1.5%) under estimate, more than accounted for by the Department of Education.

Department of Education. Disbursements in April were \$47.5 million (8.0%) under estimate, and year-to-date disbursements were \$121.0 million (2.1%) under estimate, with Foundation Funding accounting for most of these variances. This line item appropriation is the main source of state foundation payments twice each month to all school districts and joint vocational school districts in the state. Both the estimates and subsequent payments are based on projections that frequently change as data become available.

FY 2007 is the first year in which payments are based on two average daily membership (ADM) counts, one in October and one in February. The February count showed a drop of 9,370 students statewide. This ADM decline was incorporated into the foundation payment calculations for April, leading to some of the variance for April. Foundation payments in January were also well below that month's estimate. The January and April variances account for most of the year-to-date shortfall. According to the Department of Education and OBM, under H.B. 119 (the budget bill for the FY 2008-FY 2009 biennium currently being considered by the General Assembly) OBM expects to encumber \$44.0 million of the FY 2007 appropriation for this item to pay FY 2008 state aid obligations.

Board of Regents. In April, disbursements for Higher Education totaled \$160.8 million, \$15.3 million less than estimate. The April shortfall reduced the year-to-date excess of Board of Regents disbursements over estimate to \$8.1 million. April's variance was caused mainly by a \$13.1 million shortfall in outlays under the Success Challenge program, reflecting a quarterly payment anticipated in OBM's estimates but not made last month. The pattern of quarterly payments to campuses under this program continues to track FY 2006, when the last payment for the fiscal year was made in May rather than April. The year-to-date variance for Board of Regents programs includes \$20.0 million of overspending in the Ohio Instructional Grants program, most of which will probably remain through the end of the fiscal year because \$14.3 million of FY 2007 funds appropriated for this program were used to complete payments to campuses for FY 2006.

Government Operations (-\$16.8 million)

In April, outlays in the Government Operations category were, in total, near OBM's estimate, and

year-to-date disbursements in the category were \$16.8 million (0.7%) under estimate. The largest variance was at the Department of Development, \$9.2 million under estimate.

Tax Relief (+\$124.7 million)

The Tax Relief program reimburses local governments for revenues forgone because of state programs that lower taxes of property owners receiving the homestead exemption, the 10% and 2.5% real property tax rollbacks, and the \$10,000 business tangible property tax exemption. In April, property tax relief payments rose to \$310.5 million, the highest monthly outlays this year, \$145.7 million over estimate, and year-to-date reimbursements through that month totaled \$965.4 million, \$124.7 million (14.8%) over estimate. Estimated payments in the last three months of the fiscal year total more than \$567 million, nearly half (46%) of the year's total disbursements, and these reimbursements appear to be taking place relatively quickly. A similar pattern was evident in the first half of the fiscal year, when outlays exceeded the estimate in August and September as payments were made earlier than expected and then trailed the estimate in October through 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 \$927.1 million, \$132.3 million (16.6%) over estimate. The making of tax relief payments for the \$10,000 tangible property tax exemption apparently was completed in January for this fiscal year. These reimbursements totaled \$38.3 million for the year to date, \$7.6 million (16.6%) under estimate but equaling the amount implied for FY 2007 by this program's phaseout schedule. These payments to local governments will be eliminated after FY 2009.

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

¹ Disbursements plus transfers out totaled \$21,972.1 million for the fiscal year through April, 3.5% 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 1.3% more than in the same period in FY 2006.

² Data for tables 6 and 7 detailing Medicaid spending, and usually shown in this space, were incomplete from the source agency at the time of publication of this issue of *Budget Footnotes* and are not included this month.