Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JULY 2007

FISCAL OVERVIEW

— *Allan Lundell*

FY 2007 was a mixed year, budget-wise. For the fiscal year, General Revenue Fund (GRF) receipts were $218.3 million below estimate, disbursements were $919.7 million below estimate, and the ending cash balance was $701.3 million above its expected level.[1]

Receipts

FY 2007 GRF receipts of $25,778.4 million were $218.3 million (0.8%) below estimate. State-source receipts were $258.3 million (1.3%) above estimate and federal grants were below estimate by $476.7 million (8.2%). Federal grants were below estimate primarily because state Medicaid spending was below estimate.[2]

Tax revenues were $195.6 million (1.0%) above estimate. Personal income tax revenue was above estimate by $235.3 million (2.7%) and corporate franchise tax revenue was above estimate by $181.5 million (20.3%). Revenue from the sales and use tax was below estimate by $185.5 million (2.4%); nonauto tax revenue was below estimate by $187.1 million (2.8%) and auto tax revenue was above estimate by $1.5 million (0.2%). Revenue from the cigarette tax was below estimate by $33.7 million (3.3%). Revenue from the public utility excise tax was below estimate by $16.0 million (9.1%) and revenue from the kilowatt-hour excise tax was below estimate by $3.1 million (0.9%). Earnings on investments were above estimate by $36.2 million (25.9%) and other transfers in were above estimate by $37.9 million (9.8%).

Compared to FY 2006, GRF receipts were down 0.3%. State-source receipts were up 0.9%, federal grants were down 4.3%,

Dear Reader:

***Budget Footnotes* will be on hiatus for the month of August. The next issue will be published in September, 2007.**

The writers and editors

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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 June	Fiscal Year 2007 to Date	Last Year	Difference
Beginning Cash Balance	**$1,031.2**	**$1,528.8**		
Plus Revenue and Transfers In	$2,067.1	$25,778.4		
Available Resources	**$3,098.3**	**$27,307.2**		
Less Disbursements and Transfers Out	$1,665.4	$25,874.3		
Ending Cash Balances	**$1,432.9**	**$1,432.9**	**$1,528.8**	**-$95.9**
Less Encumbrances and Accts. Payable		$1,217.4	$502.8	$714.5
Unobligated Balance		$215.5	$1,026.0	-$810.4
Plus BSF Balance		$1,012.3	$616.7	$395.6
Combined GRF and BSF Balance		$1,227.8	$1,642.6	-$414.8

and tax revenues were down 0.5%. If the GRF share of receipts from the commercial activity tax (CAT) is not included in the FY 2006 totals, then FY 2007 GRF receipts were up 0.5%, state-source receipts were up 1.8%, and tax revenues were up 0.5%.[3]

Disbursements

FY 2007 GRF program disbursements of $25,147.5 million were $925.3 million (3.5%) below estimate. Health Care/Medicaid disbursements were $669.2 million (6.7%) below estimate. Disbursements for primary and secondary education were $71.7 million (1.0%) below estimate and disbursements for higher education were $48.7 million (2.0%) below estimate. Disbursements for justice and corrections were above estimate by $13.2 million (0.7%) and disbursements for development were below estimate by $13.1 million (8.5%). Disbursements for debt service were below estimate by $26.8 million (4.4%) and disbursements for property tax relief were below estimate by $37.5 million (3.0%).

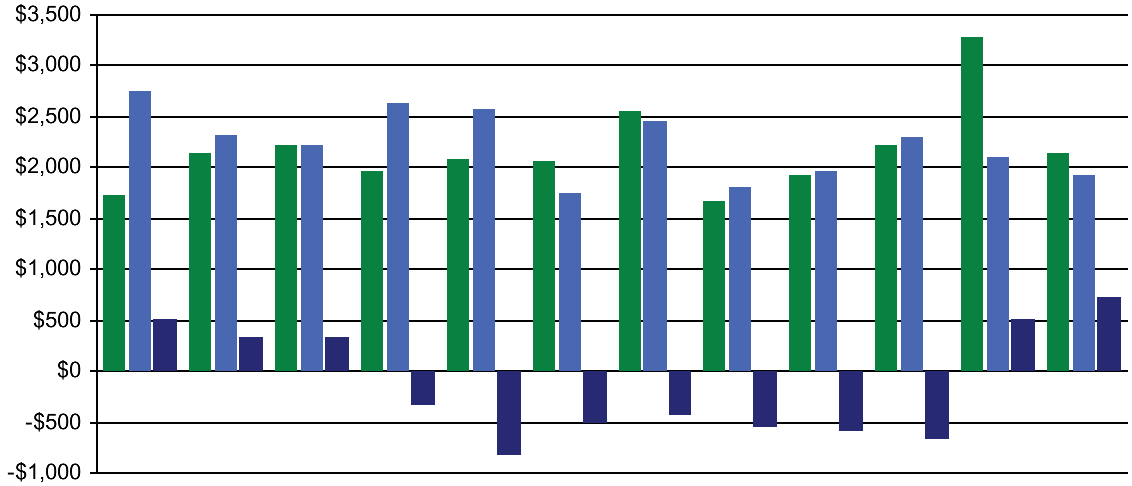
Compared to FY 2006, GRF program disbursements were up 1.1%. Disbursements for Health Care/Medicaid were down 0.1%. Disbursements for primary and secondary education were up 1.8% and disbursements for higher education were up 2.6%. Debt service was up 20.6% and property tax relief was down 7.9%.

Cash Balance

As shown in Table 1, the GRF began FY 2007 with a $1,528.8 million cash balance. Revenues plus transfers in totaled $25,778.4 million and disbursements plus transfers out totaled $25,874.3 million. The fiscal year deficit of $95.9 million reduced the cash balance to $1,432.9 million. If receipts and disbursements had equaled their estimates for the fiscal year, the cash balance would have been $731.6 million, $701.3 million lower than the actual level. Chart 1 presents a comparison of actual monthly ending cash balances and the estimated monthly ending cash balances based on the monthly estimates of receipts and disbursements. Chart 2 presents a comparison of actual and estimated month-end cash balances. The ending cash balance tracked higher (less negative) than the estimate for 11 of the 12 months of the fiscal year.

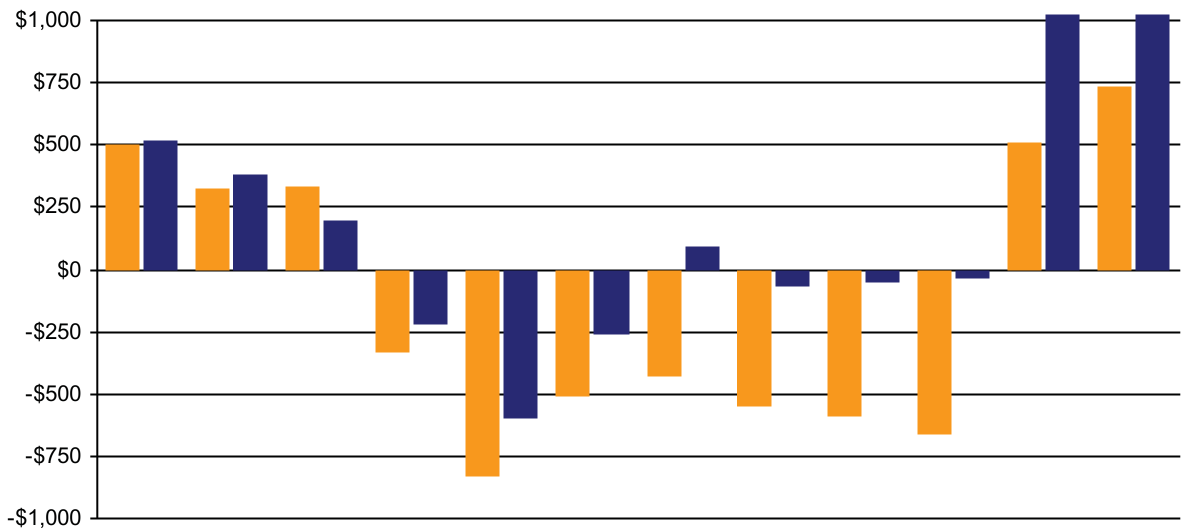
Encumbrances and accounts payable of $1,217.4 million reduce the unobligated balance to $215.5 million. This amount is $810.4 million lower than a year ago. The $1,012.3 million in

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

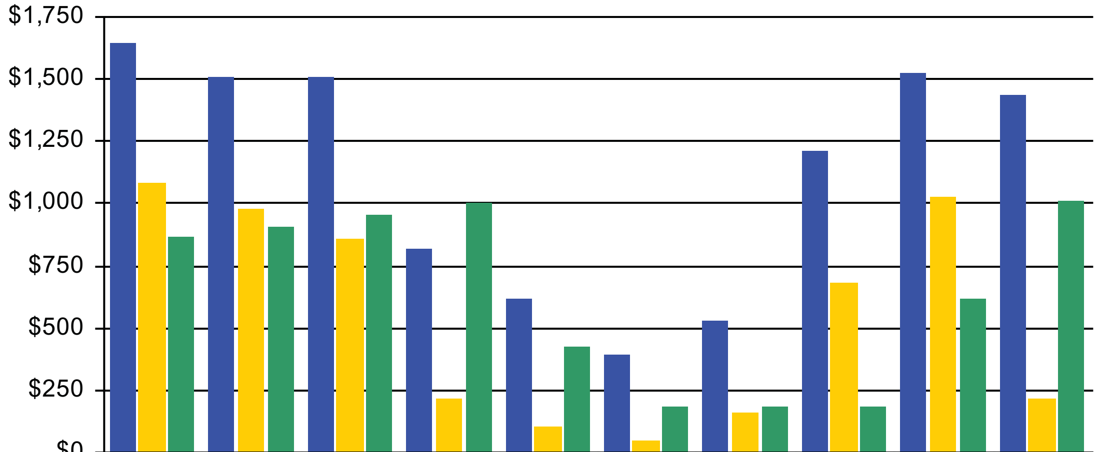
Chart 2: Actual and Estimated Ending Cash Balances
(FY 2007, in millions)



	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	$1,031	$1,433

the Budget Stabilization Fund (BSF) at the end of FY 2007 is $395.6 million higher than a year earlier. This amount is 3.9% of FY 2007 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 $1,227.8 million is $414.8 million lower than it was a year ago.

Chart 3: Fiscal Year-End Balances
(in millions)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Cash	$1,649	$1,513	$1,506	$817	$619	$397	$533	$1,209	$1,529	$1,433
Unobligated	$1,084	$977	$856	$219	$108	$52	$158	$683	$1,026	$216
BSF	$863	$907	$953	$1,003	$428	$181	$181	$181	$617	$1,012

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[1] "Estimate" refers to the monthly estimates for FY 2007 made by the Office of Budget and Management in August 2006; "receipts" include tax revenues, nontax revenues, and transfers in; and "disbursements" include program disbursements and transfers out.

[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] The GRF received $185.1 million from the CAT in FY 2006. Existing law requires all CAT revenue during FY 2007-FY 2011 to go to school districts and local governments.

TRACKING THE ECONOMY

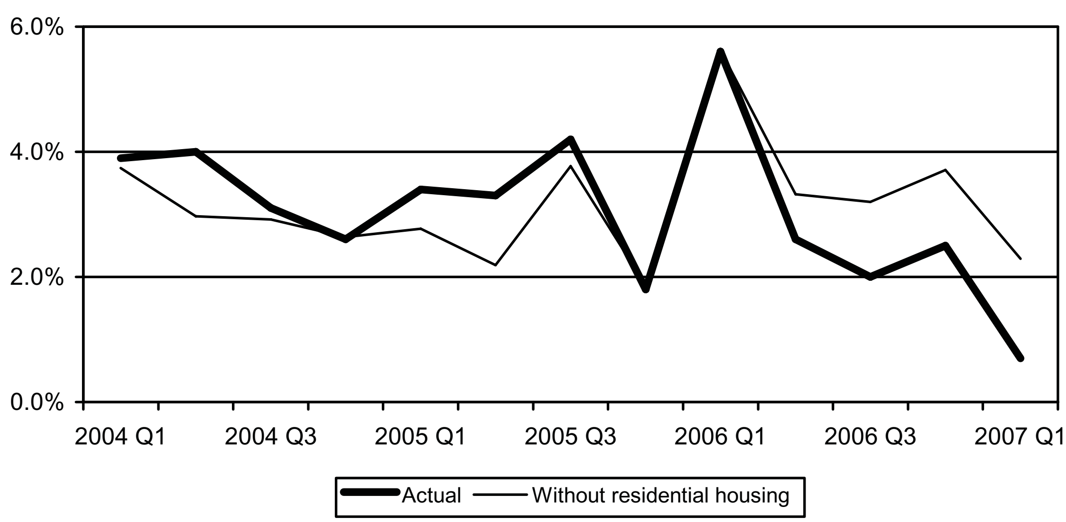
— Ross Miller

The final estimate of U.S. real[1] gross domestic product (GDP) growth in the first quarter was 0.7%. Despite a slight revision upward from the preliminary estimate, the growth rate is well below its long-term potential rate; some might describe it as anemic. Economic forecasters continue to expect stronger (if unspectacular) growth in the second quarter and the second half of the year. A recent forecast by the staff of the Federal Reserve, cited in Fed Chairman Ben Bernanke's July 18 testimony before Congress on monetary policy, indicates that overall growth for 2007 is expected to be between 2.25% and 2.5% despite the slow start, and to accelerate slightly to 2.5% to 2.75% in 2008. Bernanke indicated that weakness in the residential construction sector, due to slow sales of new homes, is expected to continue to act as a drag on overall economic growth in coming months, but that "the magnitude of the drag on growth should diminish over time."

While the role that residential construction will play in restricting growth over the coming months may be fairly certain, the role of problems in financial markets is much less certain. Concerns about the effects of subprime lending on the broader economy are ongoing and received notable boosts this month. On July 10, Standard & Poor's announced that it was likely to downgrade as many as 612 bonds that are backed by subprime mortgages, due to an increasing number of delinquencies on the underlying mortgages. Moody's responded soon after with an announcement that it, too, would downgrade up to 399 similar bonds. And on July 17, Bear Stearns announced that two of its hedge funds that were heavily invested in such bonds were nearly worthless.[2]

The problems in the subprime market have spread to other types of debt instruments, increasing the interest rates for higher-risk bonds relative to interest rates on U.S. Treasury securities. As Bernanke noted in his testimony, however, the difference, or "spread," between these interest rates remains fairly small by historical standards even after recent increases. So while there is a potential for the subprime market problems to impair businesses' access to credit, there is as yet little evidence of such impairment. Certainly the stock market seems untroubled by issues in other financial markets, with the Dow Jones Industrial Average closing over 14,000 for the first time on July 19.

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



Production and Income

The final estimate of real U.S. GDP indicated that the economy grew by (an annualized) 0.7% in the first quarter of 2007, after adjusting for inflation. This was revised upward from the preliminary estimate of 0.6%. In announcing the final estimate, the U.S. Bureau of Economic Analysis (BEA) indicated that the revision to growth in real GDP was due primarily to a revision to exports of goods and services. The general description of what was behind the slowdown (growth in the fourth quarter of 2006 was 2.5%) did not change from previous announcements. Subtractions from the growth rate came primarily from gross private domestic investment, especially fixed residential investment and investment in business inventories, and net exports of goods and services.[3] The chart on the preceding page shows real GDP growth in recent quarters and the change in the role residential construction has played (from aiding growth in 2005 to restricting it starting in mid-2006).

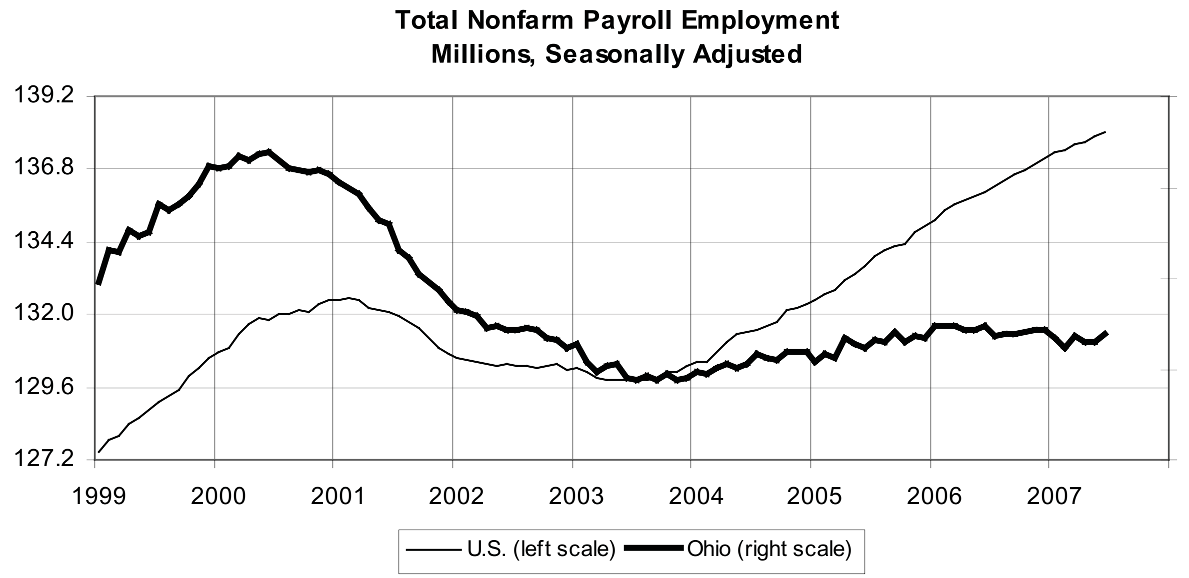
Personal income increased by 0.4% in May, after seasonal adjustment, a welcome reversal from the 0.2% decrease in April. Thanks to stronger growth during the first three months of the year, personal income increased by 2.7% during 2007 through May. Disposable personal income (DPI—personal income minus personal current taxes) increased by a matching 0.4% in May, but after adjusting for inflation it fell by 0.1%. For the year to date, DPI increased by 2.4%, and real DPI is up 0.6%.

Employment, Unemployment, and Productivity

U.S. nonfarm payroll employment increased by 132,000 in June, after seasonal adjustment, which brought total U.S. employment to 138.0 million. Payroll growth for the preceding month was revised upward from 157,000 to 190,000, meaning that the increase for the first half of the year (i.e., from December through June) was 871,000, or 0.6%. The increase in June came in spite of a decrease of 18,000 in manufacturing employment. Employment in construction rose for the month, after declining for two months, so that employment in goods-producing industries fell by just 3,000. In contrast, employment in service-providing industries increased by 135,000 for the month.

The U.S. unemployment rate remained unchanged, at 4.5%, for the second straight month (after seasonal adjustment). There has been little variation in this figure recently—August was the last month the unemployment rate was outside the range 4.4% to 4.6%. Despite the stability in this figure, the national labor market has improved. The Bureau of Labor Statistics tracks the number of discouraged workers each month—those who are classified as out of the labor force, rather than unemployed, because they did not look for a job during the four weeks preceding the survey specifically because they did not believe that they would find one. There were 401,000 discouraged workers in June nationwide, in addition to the 6.9 million unemployed workers. Both numbers have decreased over the last year: the number of discouraged workers was 481,000 the preceding June while the number of unemployed workers was 7.0 million.

The contrast between slowing output growth and a fairly healthy national labor market was a topic of conversation during the May 9 meeting of the Federal Reserve's Federal Open Market Committee.[4] Minutes of that meeting record that there was discussion of whether measurement error (in measuring output) could explain the contrast, or whether it might be due to a lag in the adjustment of employment to slowing output growth, especially in the construction sector. Participants noted that the latter explanation would result in a reduction in the growth in labor productivity, since the denominator of the labor productivity measure (labor employed) was growing faster than the numerator of the measure (output produced by that labor). Certainly productivity growth has slowed during recent quarters.[5] As pointed out in the minutes, an alternative explanation is that productivity growth, which accelerated significantly during the mid-1990s, may be decelerating again. The correct reason for the contrast is important, in part because it holds implications for the potential growth rate of the economy. Bloomberg.com reports that Federal Reserve staff presented slightly lower estimates of future productivity



growth to the FOMC members at the May 9 meeting, and that research papers written by Fed economists indicate that they believe the potential growth rate in real GDP has slowed to around 2.5% per year. The minutes from the May 9 meeting state that "many participants commented that their view of potential output growth was somewhat more optimistic than that of the staff."

Ohio nonfarm payroll employment also rose in June, by 9,600 (0.2%), to just under 5.44 million. Employment increased in both goods-producing (1,100) and service-providing (8,500) industries. June's increase in employment is the third increase since January.

For the year ending in June, nonfarm payroll employment fell by 7,900. There was a drop of 18,300 jobs in goods-producing industries, including 18,000 in manufacturing alone. This was partially offset by an increase of 10,400 in employment in service-providing industries. The increase in service-providing industries was led by educational and health services (12,100) and professional and business services (4,600). Employment fell in some service-providing industries, though, such as financial activities (4,000) and government (3,000).

Despite the increase in payroll employment, Ohio's (seasonally adjusted) unemployment rate rose in June from 5.7% to 6.1%. Although there was a drop in the number of employed people measured by the Current Population Survey (CPS, which is the source of unemployment statistics), the primary reason for the increase in the rate was a 21,120 increase in the number of unemployed workers. The number of unemployed includes both individuals who have lost jobs and are looking for new ones and individuals who have recently started looking for work after a period spent out of the labor force. Thus an increase in the number of unemployed workers may, in part, result from an improvement in labor market conditions such that discouraged workers begin looking for jobs again because they are more optimistic.[6] In contrast to the payroll employment figures above, Ohio's employment as measured by the CPS has increased by nearly 27,000 over the last year. Steady increases in employment during the last half of 2006 (as measured by the CPS), together with the unemployment rate dropping to 5.0% in February this year, may have convinced workers to start looking again. This phenomenon is often observed in unemployment statistics during the early stages of an economic recovery and may be the silver lining in the cloud of recently rising unemployment rates in Ohio.

Manufacturing

Shipments of manufactured durable goods increased by 0.5% in May to a seasonally adjusted $214.6 billion. This represented the third straight monthly increase. New orders for manufactured goods decreased by 0.5% (to $416.9 billion), after having increased each of the three preceding months. Similarly, new orders for durable manufactured goods decreased by 2.4% (to $213.7 billion), and as with the broader measure, the May decrease was the first after a three-month string of increases.

Shipments of transportation equipment rose by 2.0% for the month, the second increase in the last three months. Within the category, shipments of automobiles and of light trucks and utility vehicles both rose (by 2.8% and 2.7%, respectively), while shipments of heavy-duty trucks fell (by 4.4%). For the first five months of the year, shipments of transportation equipment are 0.6% lower than during the corresponding months of 2006.

A number of industries important to Ohio contributed to the overall decline in new orders. Among the notable decreases in new orders were: primary metals (down 3.6%), transportation equipment (down 6.9%); electrical equipment, appliances, and components (down 3.9%); and machinery (down 1.4%).

Housing Markets and Construction

Housing markets remain weak, with many analysts suggesting that recovery may not really take hold until 2008. Nationally, sales of new one-family homes decreased by 1.6% from April to May,[7] and the May sales figure was 15.8% lower than it was in May 2006. Corresponding figures for the Midwest were somewhat better: sales rose by 30.8% for the month but were still 14.5% below the level of the preceding May. The median sales price nationally was 0.9% lower in May than it had been the preceding May.

Forward-looking statistics provided little ground for optimism regarding the near future. Building permits for new U.S. residential construction increased by 4.3% from April to May but decreased by 7.5% from May to June. The June figure was 25.2% below the figure for June 2006. June housing starts were 2.3% higher than May's figure but 19.4% below the preceding June's. Midwest building permit figures were slightly more favorable than the national ones, but housing starts were slightly worse. The number of building permits issued in the Midwest decreased by 4.2% from May to June and decreased by 21.9% compared with the preceding June. Midwest housing starts fell by 3.7% from May to June and were 20.2% below the preceding June figure.

The National Association of Realtors reported that sales of existing homes nationally dropped by 0.3% in May and that the median price was 2.1% below its level of May 2006. In Ohio, the Ohio Association of Realtors reported that 13,386 units were sold in May, 3.4% fewer than during the previous May. The average price in Ohio in May was $152,385, about 2.7% lower than the previous May.

Retail Sales

The advance estimate of U.S. retail and food services sales was $373.9 billion in June, 0.9% less than May's figure[8] but 3.8% greater than the figure for June 2006. The sharpest drops in sales for June were in furniture and home furnishing stores (3.0%), motor vehicle and parts dealers (2.9%), and building material and garden equipment and supplies dealers (2.3%). Taking a longer view, the only retail sectors to lose sales from June 2006 to June 2007 were furniture and home furnishing stores (1.8%) and building material and garden equipment and supplies dealers (0.1%).[9] Retail sectors that experienced significant gains from the previous June were nonstore retailers (9.5%), health and personal care stores (7.0%), and food and beverage stores (5.4%).

Inflation and Prices

The consumer price index for all urban consumers (CPI-U) increased by 0.2% in June after seasonal adjustment and by 2.7% for the year ending in June. The June increase reflected a dramatic change in the role of energy prices, which have fueled inflation the last four months but which decreased by 0.5% last month. Excluding food and energy prices, the CPI-U rose by a matching 0.2% in June[10] and by 2.2% for the year ending in June.

CPI-U has increased by 5.0% at a seasonally adjusted annual rate (SAAR) for the first half of 2007, significantly higher than the 2.5% increase for all of 2006. The high rate of growth this year is due primarily to higher energy prices, which have increased 27.8%[11] (SAAR) thus far in spite of the June drop. Food prices have also risen significantly this year, with the food component of the index increasing by 6.2%. Excluding food and energy CPI-U has increased by 2.3% (SAAR) thus far in 2007, suggesting that core inflation is still under control.

The producer price index for finished goods decreased by (a seasonally adjusted) 0.2% in June, after having increased by 0.9% in May and by 0.7% in April. Excluding food and energy, though, the index increased by 0.3% in June, the second straight increase after the index had remained unchanged in each of the two months preceding May.

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[1] Economists use the term "real" to indicate that a number, in this case gross domestic product, has been adjusted for inflation.

[2] Investors had over $1.5 billion (combined total) invested in the two funds as recently as March of this year.

[3] Federal government spending also subtracted from real GDP growth, but to a lesser degree.

[4] The Federal Open Market Committee, or FOMC, is the entity that actually decides monetary policy in the U.S.

[5] Output per hour worked in the nonfarm business sector grew by an annualized 2.4% in the first and third quarters of 2005 but has not exceeded 2% (on an annualized basis) since the fourth quarter of 2005 (and was just 1% in the first quarter of 2007).

[6] Such workers are counted as "out of the labor force" while they are not looking for jobs and are counted as unemployed once they start looking again.

[7] The growth rate is based on annualized and seasonally adjusted sales volumes. Growth rates for other housing statistics are on the same basis.

[8] After adjusting for seasonal variation, holidays, and trading day differences.

[9] Sales at department stores, a subsector of general merchandise stores, also fell by 2.1%; however, sales for the whole sector experienced fairly robust (4.8%) growth.

[10] The drop in energy prices was offset by higher food prices—food and beverage prices rose 0.5% in June.

[11] Petroleum-based energy prices have been the main driver, with prices up over 48% (SAAR) for the first half of the year.

Status of the General Revenue Fund

REVENUE

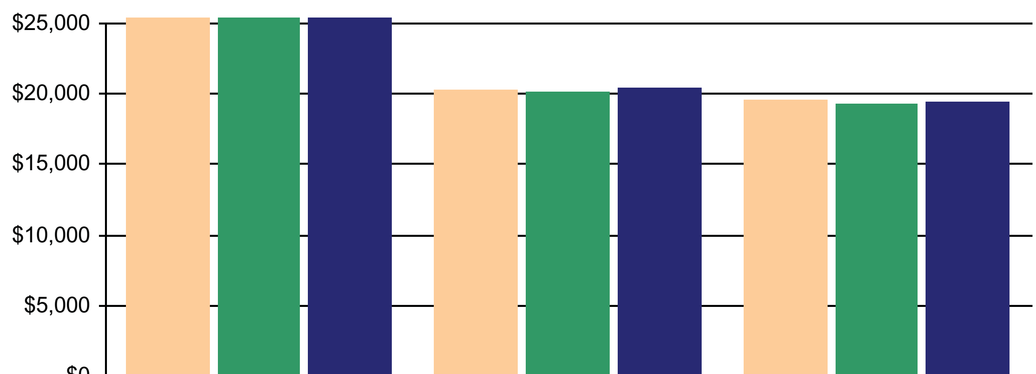
— Jean Botomogno, Ross Miller, Ruhaiza Ridzwan, and Allan Lundell

For the month of June, total GRF receipts of $2,067.1 million were below estimate by $71.8 million (3.4%).[1] State-source receipts were above estimate by $25.7 million (1.4%) and federal grants were below estimate by $97.5 million (28.1%). Tax revenues were below estimate by $62.2 million (3.8%). Revenue from the personal income tax was $33.7 million (4.2%) below estimate and corporate franchise tax revenue was below estimate by $4.9 million (9.3%). Revenue from the sales and use tax was below estimate by $5.6 million (0.9%); nonauto tax revenue was below estimate by $11.1 million (2.0%) and auto tax revenue was above estimate by $5.5 million (6.3%). Revenue from the cigarette tax was below estimate by $5.3 million (6.0%). Earnings on investments were above estimate by $4.9 million (12.2%) and other transfers in were $92.7 million (190.2%) above estimate.

FY 2007 GRF receipts of $25,778.4 million were $218.3 million (0.8%) below estimate. State-source receipts were $258.3 million (1.3%) above estimate and federal grants were below estimate by $476.7 million (8.2%). Federal grants were below estimate primarily because state Medicaid spending was below estimate.[2]

Tax revenues were $195.6 million (1.0%) above estimate. Personal income tax revenue was above estimate by $235.3 million (2.7%) and corporate franchise tax revenue was above estimate by $181.5 million (20.3%). Revenue from the sales and use tax was below estimate by $185.5 million (2.4%); nonauto tax revenue was below estimate by $187.1 million (2.8%) and auto tax revenue was above estimate by $1.5 million (0.2%). Revenue from the cigarette tax was below estimate by $33.7 million (3.3%). Revenue from the public utility excise tax was below estimate by $16.0 million (9.1%) and revenue from the kilowatt-hour excise tax was below estimate by $3.1 million (0.9%). Earnings on investments were above estimate by $36.2 million (25.9%) and other transfers in were above estimate by $37.9 million (9.8%).

Year-to-Date GRF Receipts
(in millions)



	Total GRF Receipts	Total GRF Receipts less Federal Grants	Total Tax Revenue
FY 2006	$25,846.0	$20,250.8	$19,563.4
FY 2007 Estimate	$25,996.7	$20,167.6	$19,273.3
FY 2007 Actual	$25,778.4	$20,425.9	$19,468.9

Compared to FY 2006, GRF receipts were down 0.3%. State-source receipts were up 0.9%, federal grants were down 4.3%, and tax revenues were down 0.5%. If the GRF share of receipts from the commercial activity tax (CAT) is not included in the FY 2006 totals, then FY 2007 GRF receipts were up 0.5%, state-source receipts were up 1.8%, and tax revenues were up 0.5%.[3] Revenue from the personal income tax was up 1.1% and revenue from the corporate franchise tax was up 2.0%. These increases occurred in spite of the reduction in income tax rates and the phaseout of the corporate franchise tax. Revenue from the sales and use tax was up 0.8%; nonauto tax revenue was up 1.1% and auto tax revenue was down 1.6%. Revenue from the cigarette tax was 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.[4]

Personal Income Tax

The GRF received $777.6 million from the personal income tax in June. This amount was $33.7 million (4.2%) less than estimated. The $967.1 million in gross collections for all funds (not just the GRF) was above estimate by $23.6 million (2.5%) and the $143.1 million in refunds was $58.9 million (70.0%) more than estimated. The $596.4 million collected through withholding was below estimate by $8.5 million (1.4%). Quarterly estimated payments of $314.5 million were $15.5 million (5.2%) above estimate.[5] Payments associated with annual returns totaled $37.5 million, which were above estimate by $12.6 million (50.7%). The $17.0 million in trust payments was above estimate by $13.0 million (324.4%).

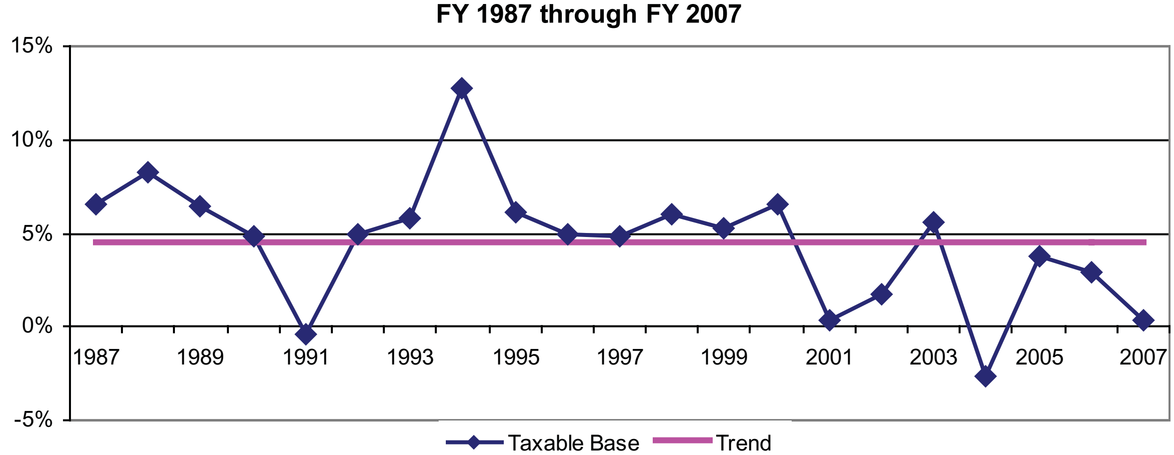
The GRF received $8,885.3 million from the personal income tax in FY 2007. This amount was $235.3 million (2.7%) above estimate. Gross collections were above estimate by $233.0 million (2.2%) and refunds were $2.1 million (0.2%) below estimate. The $7,773.3 million collected through withholding was $48.7 million (0.6%) above estimate. Quarterly estimated payments of $1,586.2 million were $35.3 million (2.3%) above estimate. The $132.0 million in trust payments was $63.2 million (91.8%) above estimate and the $1,359.6 million in payments associated with annual returns was above estimate by $84.2 million (6.6%).

Compared to FY 2006, GRF revenue from the personal income tax was up 1.1% even with reductions in the tax and withholding rates. Gross collections were up 0.4% and refunds were down 4.6%. Withholding, which depends on the condition of Ohio's labor market, was down 2.9%.[6] Quarterly estimated payments were up 6.7%. Trust payments were up 55.2% and payments associated with annual returns were up 10.0%.

Sales and Use Tax

Total sales and use tax revenues in June 2007 were $645.1 million, $5.6 million (0.9%) below projected revenues. Auto sales and use tax receipts were $5.5 million (6.3%) above

Sales and Use Tax Taxable Base Growth
FY 1987 through FY 2007



estimate. Nonauto sales and use tax receipts were $11.1 million (2.0%) below estimate. Total sales and use tax receipts were $10.3 million (1.6%) above revenues in June 2006. Tax receipts partly reflect taxable retail sales activity in the prior month and partly taxable retail sales during the current month.[7]

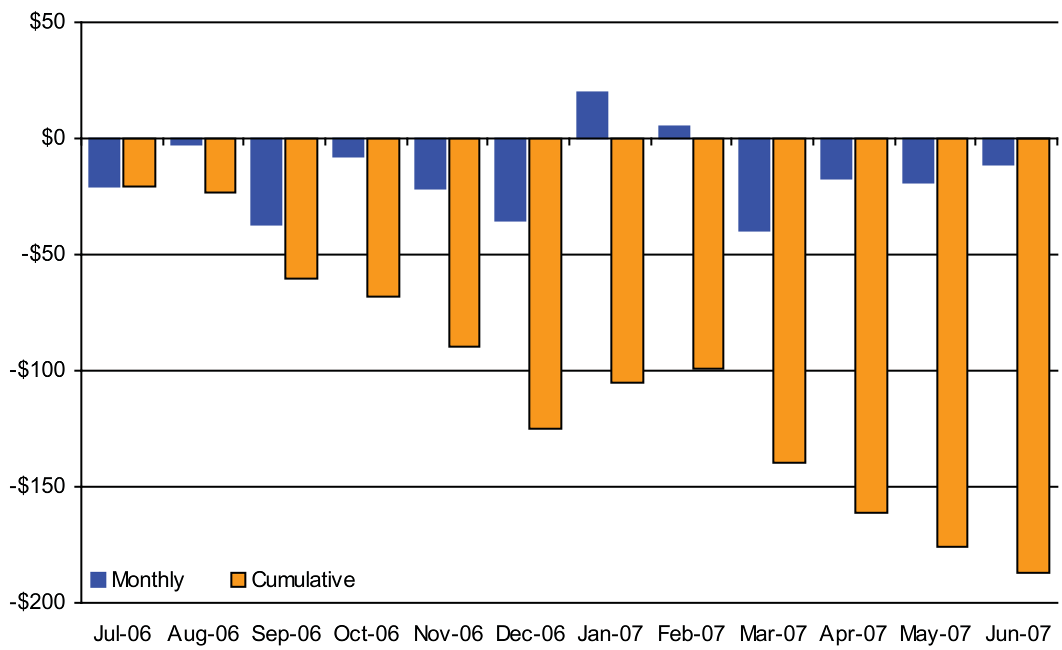
FY 2007 total sales and use tax revenues were $7,424.5 million, $185.5 million (2.4%) below estimate. These receipts were also $56.2 million (0.8%) above FY 2006 receipts. Growth in the sales and use tax taxable base was poor and below trend throughout FY 2007. Various measures of Ohio income, income tax withholding, and other income payments have held up reasonably well during FY 2007. Thus, the poor performance of the sales and use tax is most likely due to restrained spending on taxable items from continued high gasoline prices, a weak housing industry, and poor general economic conditions in Ohio. For the FY 2006-2007 biennium, growth of the sales and use tax taxable base was estimated at 1.7%.

The graph below presents the growth of the sales and use tax taxable base from FY 1987 through FY 2007. Between FY 1990 and FY 1999, the sales and use tax taxable base generally grew at or above the trendline, except during the 1991-1992 recession period. From FY 2000 through FY 2007, the growth of the taxable base, except for FY 2003, was consistently below the trendline. (Growth in FY 2003 and FY 2005 was due primarily to legislated tax changes.)

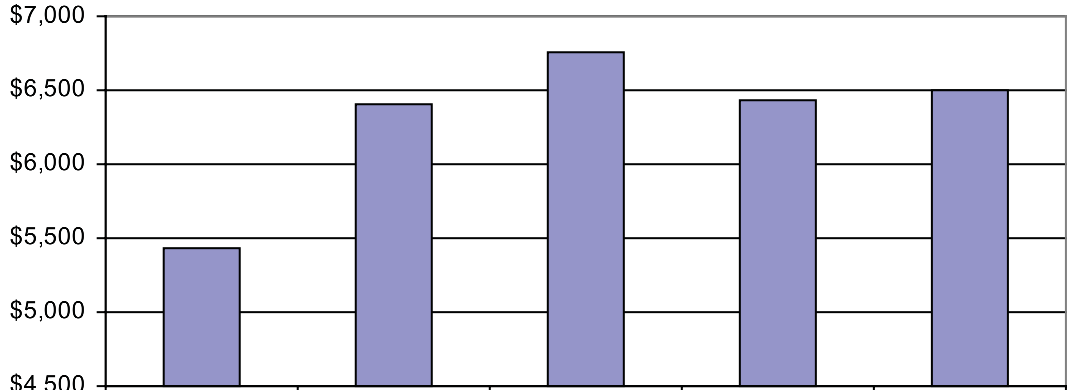
Nonauto Sales and Use Tax

Revenues from the nonauto sales and use tax in June 2007 were $553.3 million, $11.1 million (2.0%) below anticipated receipts. Nonauto sales and use tax receipts were also $3.1 million (0.6%) higher than revenues in the same month last year. FY 2007 nonauto sales and use tax receipts were $6,502.9 million, $187.1 million (2.8%) below estimate. Nonauto sales and use tax receipts were only $71.0 million (1.1%) above FY 2006 receipts. Spending on taxable items was uneven and subdued throughout the fiscal year. Consumers are spending an increasing share of their income on items not subject to the sales and use tax, such as gasoline, healthcare, or education. Also, spending support from heightened activity in the housing industry and from mortgage equity withdrawals (MEW) weakened considerably in FY 2007.[8] Reduced activity in residential and nonresidential construction decreases spending on taxable big-ticket items such as appliances and furniture. Declines in equity withdrawals also limit spending on housing-related remodeling and overall consumer spending.

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



Nonauto Sales and Use Tax Revenues
FY 2003 - FY 2007 (in millions)



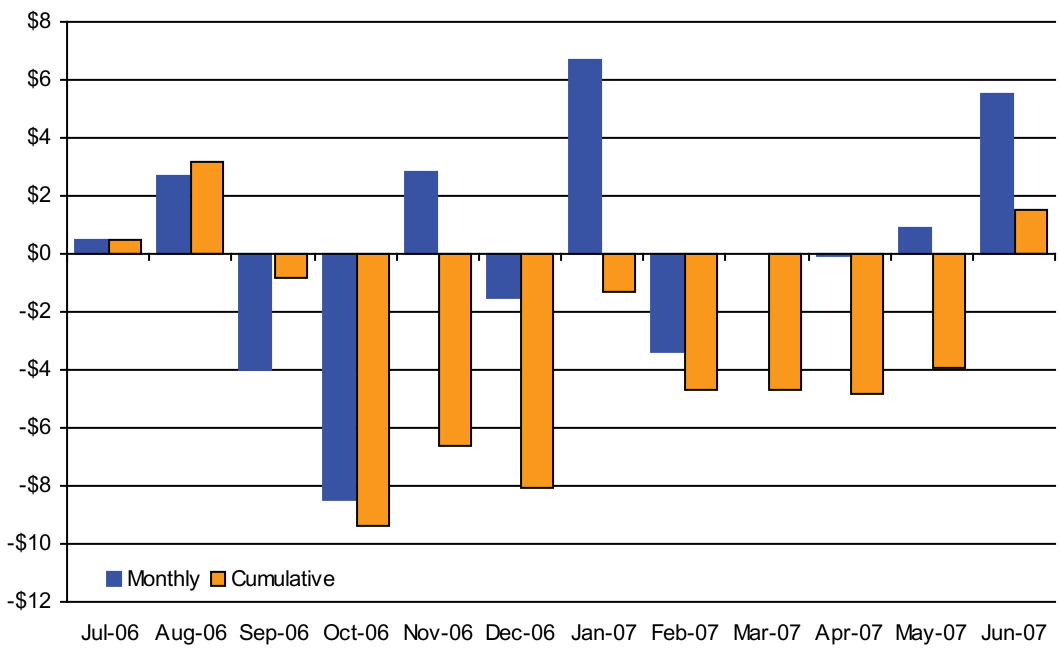
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	$5,431.7	$6,407.7	$6,763.0	$6,431.8	$6,502.9

From $5,431.7 million in FY 2003, nonauto sales and use tax revenues grew to $6,502.9 million in FY 2007. Although receipts rose, the performance of the nonauto sales and use tax remained uneven and weak during this period. Sales and use tax revenues grew 6.3% in FY 2003 primarily from the additional revenues received from the acceleration of sales and use tax payments in Am. Sub. H.B. 40 (125th General Assembly). Revenue growth of 18.0% in FY 2004 was from the rate increase from 5% to 6% on July 1, 2003 in Am. Sub. H.B. 95 (125th General Assembly). Revenues increased 5.5% in FY 2005 with the help of the sales and use tax base expansion, also in Am. Sub. H.B. 95. Revenue declined 4.9% in FY 2006 primarily from the 8.3% decrease in the tax rate on July 1, 2005 (to 5.5%, down from 6.0% in FY 2005), but growth of the taxable base, at 3.4%, was modest.

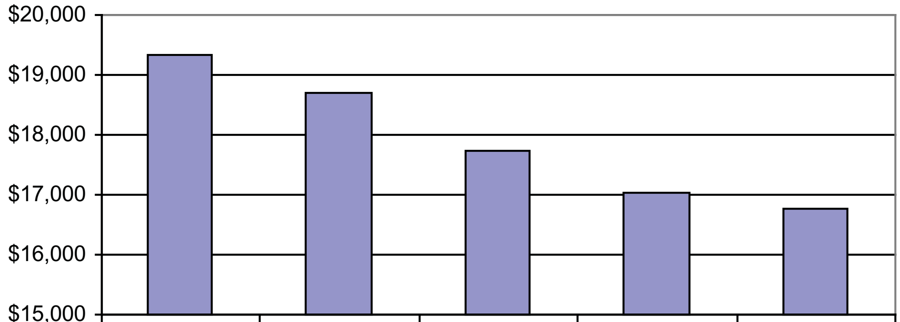
Auto Sales and Use Tax

Auto sales and use tax receipts were $91.8 million in June, $5.5 million (6.3%) above estimate. These tax receipts were also

Auto Sales Tax Variances from August 2006 Estimates
(in millions)



Auto Sales and Use Tax Taxable Base
FY 2003 - FY 2007 (in millions)



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Taxable Base	$19,324.0	$18,715.0	$17,735.0	$17,025.5	$16,755.3

$7.1 million (8.5%) above receipts in June 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.

FY 2007 auto sales and use tax receipts were $921.5 million, $1.5 million (0.2%) above estimate. FY 2007 auto sales and use tax receipts were also $14.8 million (1.6%) below receipts in FY 2006. Nationwide sales of light vehicles (autos and light trucks) were 2.2% below sales in FY 2006. Sales of autos and light trucks declined 0.6% and 3.6%, respectively. Persistently higher gasoline prices have weighed heavily on light truck sales. The share of light truck sales was 52.9% in FY 2007, down from 53.7% in FY 2006. In FY 2005, the share of light truck sales was 55.6%. Conversely, the share of auto sales improved. The decrease in unit sales and the increased share of auto sales (the average unit price of autos is lower than that of light trucks) both depress the auto sales and use tax base.

Auto sales and use tax receipts (and the taxable base) grew strongly in FY 2002 and in FY 2003, mainly as a result of innovative auto manufacturers incentives, which enticed buyers to replace their vehicles earlier than historically. The ensuing pullback has persisted in the last few years, and receipts from this tax source have been below expectations. Tax receipts (and the taxable base) declined 5.2% in FY 2005 from a drop in purchases of new vehicles. Receipts declined in FY 2006 from, primarily, the rate decrease from 6% to 5.5%. Receipts declined in FY 2007, again from a continued decline in new vehicle registrations, although the rate of decline eased. For the fourth consecutive year, the auto sales and use tax taxable base shrank, to about $16.7 billion, just above the FY 2001 level of $16.2 billion. The disappointing auto sales and use tax receipts occurred at the time when nationwide car and light trucks sales are historically high and incentives by auto manufacturers and dealers have continued unabated.

Corporate Franchise Tax

Receipts from the corporate franchise tax (CFT) in June 2007 were $48.3 million, $4.9 million (9.3%) below estimate. June 2007 receipts were also $14.4 million (42.4%) above June 2006 receipts. Through June, FY 2007 receipts were $1,076.5 million, $181.5 million (20.3%) above estimate. FY 2007 receipts were also $21.6 million (2.0%) above receipts in FY 2006. Am. Sub. H.B. 66 (126th General Assembly) eliminated over five years the CFT for nonfinancial corporations, while maintaining the tax for financial corporations. The tax rate cut was 20% in FY 2006 and 40% in FY 2007. The performance of the CFT was spectacular in the last biennium. Nonfinancial corporations[9] had to pay only 80% and 60% of their full tax liability, yet CFT receipts increased 0.3% in FY 2006 and 2.0% in FY 2007. In FYs 2004-2005, CFT receipts were $1,860.8 million. In FYs 2006-

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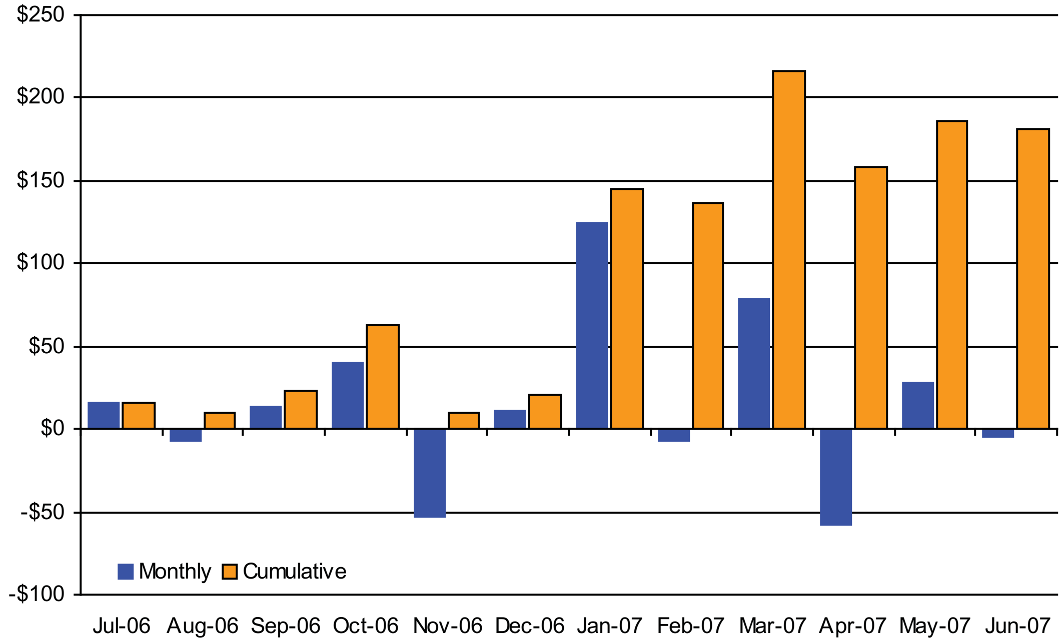
Corporate Franchise Tax Variances from August 2006 Estimates
(in millions)



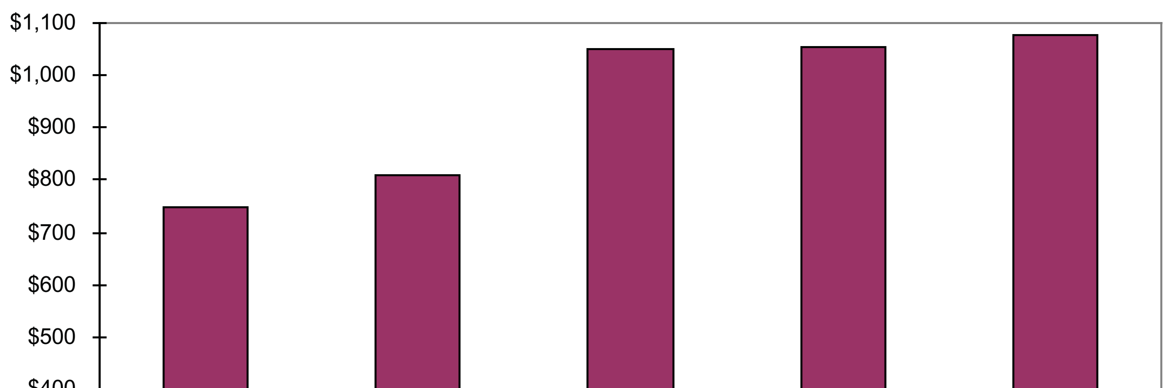
2007, CFT receipts were $2131.4 million, $270.6 million (14.5%) above receipts in the previous biennium.

CFT revenues grew 4.9% in FY 2003, 8.3% in FY 2004, 30.0% in FY 2005, and 0.3% in FY 2006. Following the economic recession of CY 2001, the profits recovery has been strong.

Corporate profits have increased steadily in most industries,[10] and balance sheets have been excellent. A notable exception is in the manufacturing of motor vehicles, body trailers, and parts, which lost $17.9 billion each in CY 2005 and CY 2006, according to the U.S. Bureau of Economic Analysis.

The growth in Ohio CFT revenues partly mirrors the improvement in corporate profits in the last few years. However, CFT receipts in the last two fiscal years suggest that changes in the behavior of certain taxpayers also may be occurring. Large corporations pay most of the tax. Those corporations also must apportion income

Corporate Franchise Tax Revenues
FY 2003 - FY 2007 (in millions)



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenue	$747.2	$809.2	$1,051.6	$1,054.9	$1,076.5

to the various states in which they do business. As the result of the phaseout of the franchise tax, some of the multistate corporations may have increased their apportionment of taxable income to Ohio, resulting in increased CFT revenues. However, the extent of this change in taxpayer behavior may not be known until the analysis of CFT returns is available.[11]

Utility taxes

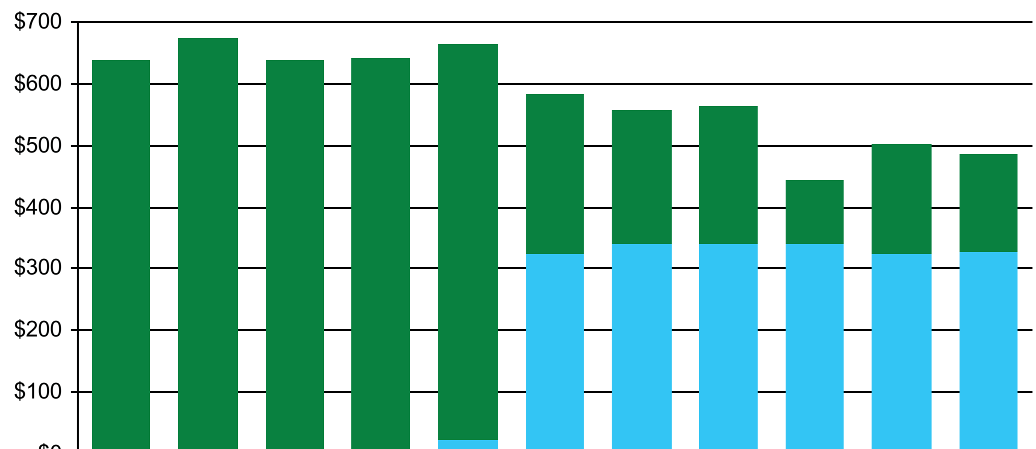
GRF revenue from the kilowatt-hour (KWH) tax was $326.9 million in FY 2007, about 0.9% less than estimate and about 0.5% higher than FY 2006 revenue. Receipts for the first half of FY 2007 were 2.4% less than they were for the equivalent period of FY 2006, but the shortfall was more than made up during the second half, when receipts were 3.7% higher. The decrease in receipts during the first half was primarily due to cooler weather during the late summer, reducing electricity usage for operating air conditioners. Part of the pickup in the second half was also weather-related, as all funds receipts from the tax in March were 9.7% higher than the preceding March, reflecting a jump in usage to heat homes during the relatively cold February we experienced.

GRF revenue from the public utility excise tax for FY 2007 was $160.2 million, about 9.1% lower than estimate and about 9.0% less than FY 2006 revenue. Of the $15.9 million drop in receipts from FY 2006 to FY 2007, $14.3 million was due to the difference between May 2007 receipts from natural gas utilities (which accounted for over 97% of receipts from the tax in FY 2007) and May 2006 receipts. The $14.3 million drop was primarily due to a decline in natural gas prices and the consequent effect on natural gas bills. Tax receipts for May depend on natural gas prices and usage for (roughly) the preceding December through February. Residential prices for natural gas in Ohio were over 13% lower on average between December 2006 and February 2007 than they had been during the corresponding period the previous year, according to data published by the U.S. Energy Information Administration. Commercial prices were over 16% lower. Receipts from natural gas companies for February were an additional $3.5 million lower in FY 2007 than in FY 2006, also due to lower gas prices during the relevant period. The drop in receipts from natural gas companies was partially offset by an increase in receipts from other regulated utilities subject to the tax, which increased by $0.9 million.

Insurance Taxes

The domestic insurance tax (paid by insurance companies headquartered in Ohio) raised $169.5 million for the GRF in FY 2007, while the foreign insurance tax (paid by insurance

Utility Taxes
(fiscal year revenues, in millions)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
PUET	$639.8	$673.0	$637.6	$642.1	$640.5	$260.1	$218.7	$226.4	$104.1	$176.2	$160.2
KWH				$0.0	$22.8	$323.3	$339.9	$339.0	$339.8	$325.3	$326.9

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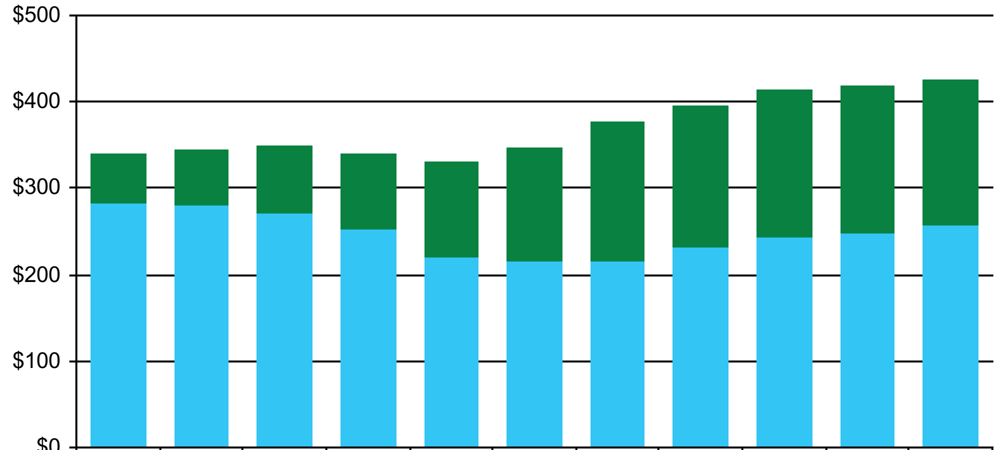
Insurance Taxes
(fiscal year revenues, in millions)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Domestic	$56.4	$63.2	$77.5	$88.2	$109.3	$132.4	$160.1	$165.9	$171.4	$170.3	$169.5
Foreign	$283.5	$280.9	$271.6	$252.3	$220.6	$214.3	$216.4	$230.5	$242.9	$248.8	$256.2

companies headquartered in other states) raised $256.2 million. Revenues from the domestic tax finished the fiscal year under estimate by $4.2 million (2.4%) and revenues from the foreign tax finished the year $0.5 million (0.2%) above estimate. Revenues from the domestic tax fell by 0.5% during FY 2007, while revenues from the foreign tax grew by 3.0%.

Revenue growth was restrained by the increase in short-term interest rates from 2005 to 2006, which allowed insurance companies to maintain revenues in some business lines with smaller increases in premiums. Revenue from the domestic tax was further depressed by reduced premiums paid to health insuring corporations. Tax revenue attributable to such premiums fell by over 13% for the year, continuing a trend that has been going on since FY 2003. Department officials indicate that the trend is due to consumer preferences for health insurance, shifting from HMO-style health plans to PPO-type plans.

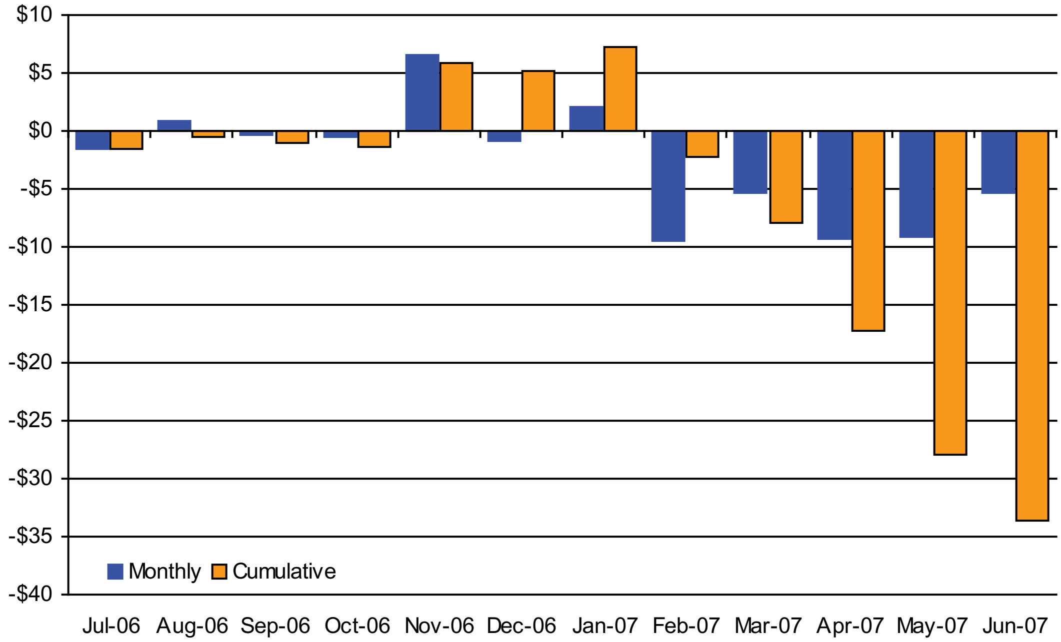
Cigarette and Other Tobacco Products Tax

Receipts from the cigarette and other tobacco products tax (COTP) in June 2007 were $82.9 million, $5.3 million (6.0%) below estimate. Compared to year-ago receipts in the same month, revenues were $9.9 million (10.7%) lower. FY 2007 receipts from the cigarette and other tobacco products tax were $986.2 million, $33.7 million (3.3%) below estimate. Revenues from the cigarette excise tax were $955.2 million, 96.9% of total receipts. Revenues from the tax on other tobacco products were $31.0 million, 3.1 % of total receipts.

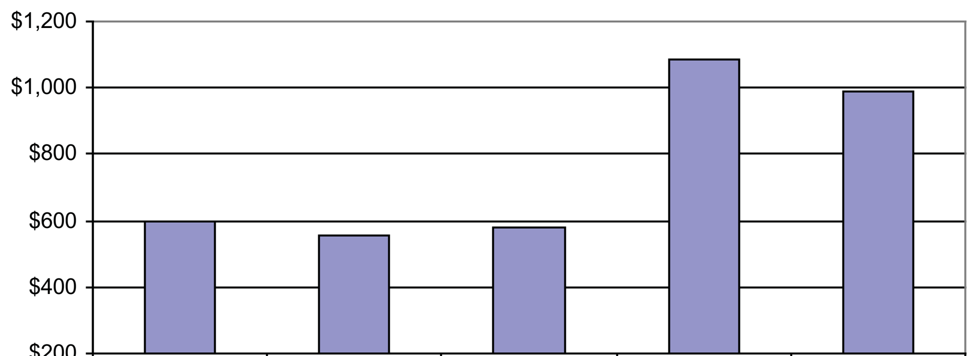
FY 2007 revenues from the COTP tax were $97.9 million (9.0%) below revenues in FY 2006. FY 2006 receipts included an additional tax of $0.70 on cigarettes in inventory on July 1, 2005. Excluding receipts from the tax on inventory, FY 2007 receipts were $31.7 million (3.1%) below FY 2006 receipts, higher than the long-term trend decline in COTP tax receipts. Receipts from the tax have been on a steep downward trajectory since January 2007. Increases in cigarette prices by manufacturers, a tax increase in Cuyahoga County, and a smoking ban in public places approved in November 2006 have negatively affected the consumption of taxed cigarettes in the second half of FY 2007. During this period, FY 2007 receipts were about 8.7% below prior-year receipts.

Receipts from the COTP tax more than doubled in FY 2003, since the tax rate on cigarettes increased from $0.24 to $0.55 per pack on July 1, 2002. Revenue increased 3.6% in FY 2005 because of advance purchases in anticipation of a $0.70 per pack increase on July 1, 2005.

Cigarette Tax Variances from August 2006 Estimates
(in millions)



Cigarette and Other Tobacco Products Tax Revenues
FY 2003 - FY 2007 (in millions)



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenue	$599.9	$557.5	$577.7	$1,084.1	$986.2

The same tax rate increase also substantially augmented revenues in FY 2006. As a result of the two tax rate increases, consumption of tax-paid cigarettes declined from about 1.1 billion packs in FY 2002 to less than 765 million packs in FY 2007.

Commercial Activity Tax

Am. Sub. H.B. 66 (126th General Assembly) created the commercial activity tax (CAT), a new privilege tax on business entities operating in Ohio. The tax is being phased in over five years. Revenues from the CAT are earmarked for the GRF and for reimbursing school districts and other local governments for the reductions and phaseout of local taxes on most tangible personal property. CAT revenues in FY 2006 were $273.4 million. Distributions to the GRF were $185.1 million. The School District Tangible Property Tax Replacement Fund (SDRF) received $61.8 million and the Local Government Tangible Property Tax Replacement Fund (LGRF) received $26.5 million.

Quarterly Commercial Activity Tax Receipts and Estimates in FY 2007 (in millions)					
	Q1	Q2	Q3	Q4	TOTAL
Actual	$139.4	$139.8	$177.2	$138.4	$594.9
Estimate	$114.0	$114.0	$164.6	$114.0	$506.6
Dollar Variance	$25.4	$25.8	$12.6	$24.4	$88.3
Percentage Variance	22.3%	22.6%	7.7%	21.5%	17.4%

Totals may not add up due to rounding.

From FY 2007 through FY 2011, revenues from the CAT are being distributed only to the SDRF (70%) and the LGRF (30%). Excess CAT revenues over required distributions to the two local funds will be transferred to the GRF. Conversely, the GRF will subsidize the SDRF and the LGRF if CAT receipts are insufficient. Taxpayers will pay an increasing share of their CAT liability, from 40% in FY 2007 to 100% in FY 2010, in even increments. FY 2007 CAT receipts were $594.9 million, $88.3 million (17.4%) above estimate. The SDRF received $416.5 million, $61.8 million above estimate. The LGRF received $178.5 million, $26.5 million above estimate.

Obligations to local governments were $571.3 million in FY 2007, and a balance of $23.6 million was to be transferred to the GRF.

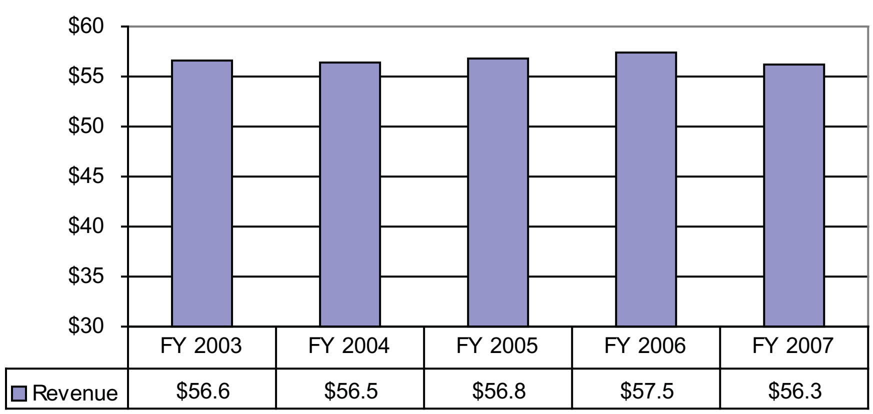
Alcoholic Beverage Tax

Receipts from the alcoholic beverage tax were $56.3 million in FY 2007, $1.1 million (1.9%) below estimates. Tax receipts were also $1.2 million (2.1%) below FY 2006 revenues, the result of a decline in receipts from the sale of beer and malt beverages. The alcoholic beverage tax applies to sales of beer, malt beverages, wine, and mixed alcoholic beverages. The tax is based on a per-container rate depending on the type of beverage sold. Beer is taxed at varying rates that are equivalent to 0.14 cents per ounce. Wine less than 14% alcohol by volume is taxed at 33 cents per gallon. Wine between 14% and 21% alcohol by volume is taxed at $1.00 per gallon. Mixed beverages are taxed at $1.20 per gallon. Major exemptions to the tax are sacramental wine, sales to the federal government, and sales in interstate commerce. Most revenue is deposited into the GRF.[12] Beer and malt beverages generate about 83% of tax receipts. The next largest source of revenue is the tax on wines, at about 10% of total tax receipts. Mixed beverages contribute about 5% of total tax revenues. Contributions to tax receipts from sales of vermouth, sparkling wines, and cider are small.

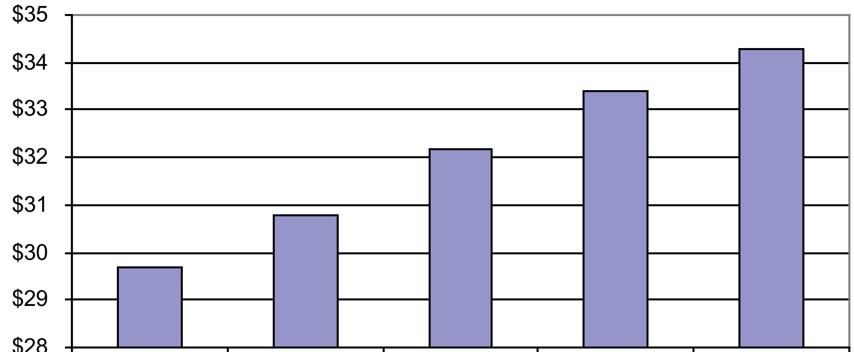
Liquor Gallonage Tax

Liquor gallonage tax receipts were $34.3 million in FY 2007, matching estimates. Receipts were $0.9 million (2.8%) higher than FY 2006 receipts. The liquor gallonage tax is levied at the rate of $3.38 per gallon of spirituous liquor. Receipts are deposited into the GRF. Liquor sales also contributed $29.1 million in sales and use tax revenues in FY 2007. Liquor sales have increased each year, as the market

Alcoholic Beverage Tax Revenues
FY 2003 - FY 2007 (in millions)



Liquor Gallonage Tax Revenues
FY 2003 - FY 2007 (in millions)



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenue	$29.7	$30.8	$32.2	$33.4	$34.30

share for spirits grows at the expense of beer sales.

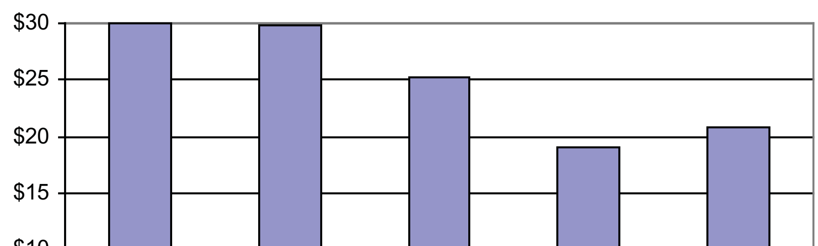
Dealers in Intangibles Tax

The dealers in intangibles tax (also called the business and property tax) is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money or buying and selling notes, mortgages, and securities. The distribution of receipts from the eight-mill tax depends on the taxpayer. All taxes paid by "qualified" dealers[13] are credited to the GRF. For "nonqualified" dealers, a share of the tax revenues, three mills, is deposited into the GRF. Revenues from the remaining five mills are distributed to counties. GRF receipts from the dealers in intangibles tax were $20.8 million in FY 2007, $1.8 million (9.3%) above estimates. Receipts from qualified and nonqualified dealers were $12.8 million and $7.9 million, respectively. FY 2007 receipts were also $1.7 million (8.7%) above FY 2006 receipts. FY 2007 receipts from qualified dealers increased $1.8 million (15.6%). Receipts from nonqualified dealers decreased $0.1 million (1.2%). Revenue growth from this tax is highly dependent on investments by financial institutions and insurance companies in their subsidiaries' dealers, changes in the mortgage industry, and tax policy changes.

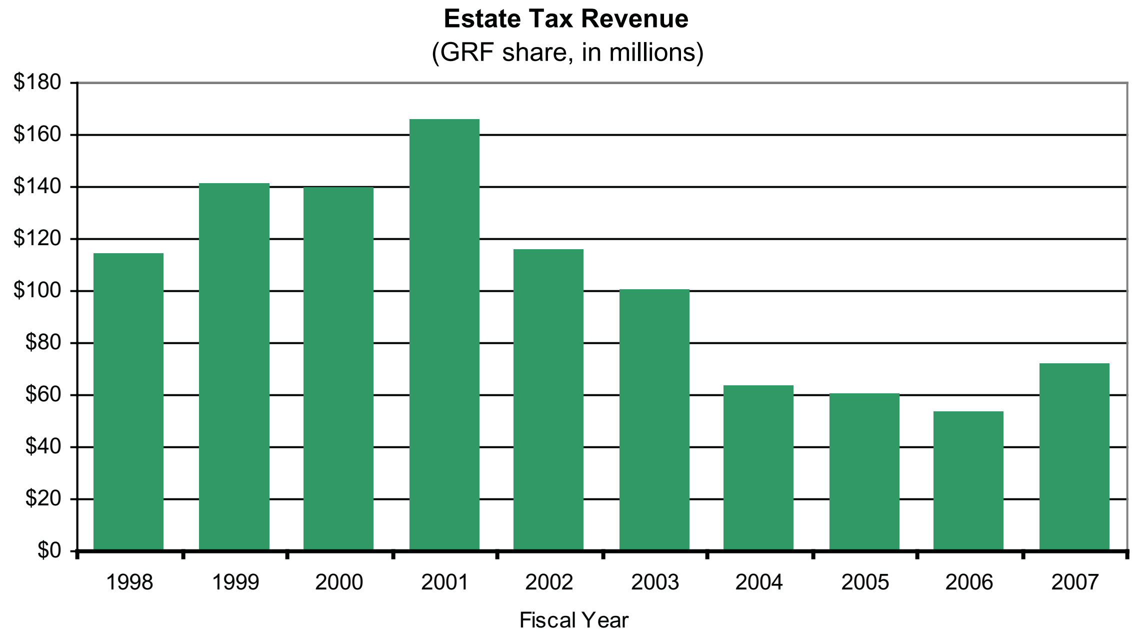
Estate Tax

In FY 2007, Ohio collected $72.1 million in estate tax revenue, $20.0 million (38.4%) above estimate. Collections in FY 2007 were up $18.0 million (33.4%) from FY 2006. The estate tax is one of the more volatile state

Dealers in Intangibles Tax Revenues
FY 2003 - FY 2007 (in millions)



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenue	$30.0	$29.9	$25.2	$19.1	$20.8



revenue sources. The estate of a very wealthy individual may account for 10% or more of the total state estate tax revenues. Revenue depends on an estate's value at the time a person dies and the time of settlement made by each county to the state. In recent years, collections have been reduced by an increase in the estate tax credit from $500 to $13,900.[14] GRF revenue from the estate tax has also been reduced by an increase, from 64% to 80%, in the share of the tax distributed to local governments.

Earnings on Investment

FY 2007 revenue from earnings on investment were $176.2 million, $36.2 million (25.9%) above estimate. FY 2007 collections were up $68.9 million (64.2%) from FY 2006. Investment earnings outperformed the estimate because of higher than anticipated state revenue receipts, which gave the state more to invest, and higher than anticipated average yields.

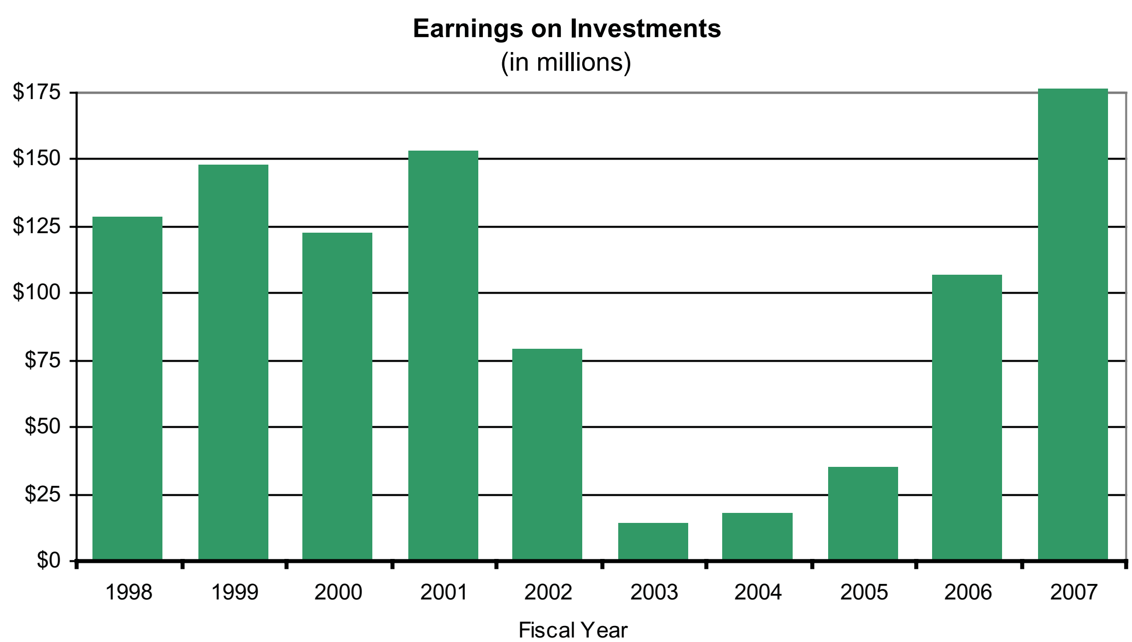


Table 2
General Revenue Fund Sources
Actual vs. Estimate
Month of June 2007
($ in thousands)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$91,775	$86,303	$5,472	6.3%
Nonauto Sales and Use	$553,329	$564,399	-$11,070	-2.0%
Total Sales and Use Taxes	$645,104	$650,702	-$5,598	-0.9%
Personal Income	$777,601	$811,300	-$33,699	-4.2%
Corporate Franchise	$48,255	$53,200	-$4,945	-9.3%
Public Utility	-$3,062	-$2,900	-$162	5.6%
Kilowatt Hour Excise	$19,083	$18,100	$983	5.4%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$1,251	$106	$1,145	1080.3%
Domestic Insurance	$20	$14,338	-$14,318	-99.9%
Business and Property	$575	$1,800	-$1,225	-68.0%
Cigarette	$82,921	$88,200	-$5,279	-6.0%
Alcoholic Beverage	$5,157	$5,341	-$184	-3.4%
Liquor Gallonage	$2,986	$2,951	$35	1.2%
Estate	$11,027	$10,000	$1,027	10.3%
Total Tax Revenue	**$1,590,918**	**$1,653,138**	**-$62,219**	**-3.8%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$45,535	$40,600	$4,935	12.2%
Licenses and Fees	$686	$801	-$115	-14.4%
Other Revenue	$28,668	$36,300	-$7,632	-21.0%
Nontax State-Source Revenue	**$74,888**	**$77,701**	**-$2,813**	**-3.6%**
TRANSFERS				
Liquor Transfers	$10,000	$12,000	-$2,000	-16.7%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$141,476	$48,746	$92,731	190.2%
Total Transfers In	**$151,476**	**$60,746**	**$90,731**	**149.4%**
TOTAL GRF before Federal Grants	**$1,817,283**	**$1,791,584**	**$25,698**	**1.4%**
Federal Grants	$249,828	$347,308	-$97,480	-28.1%
TOTAL GRF SOURCES	**$2,067,110**	**$2,138,892**	**-$71,782**	**-3.4%**

* 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.

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

	Actual	Estimate*	Variance	Percent	FY 2006	Percent Change
TAX REVENUE						
Auto Sales	$921,542	$920,000	$1,542	0.2%	$936,363	-1.6%
Nonauto Sales and Use	$6,502,926	$6,690,000	-$187,074	-2.8%	$6,431,881	1.1%
Total Sales and Use Taxes	$7,424,469	$7,610,000	-$185,531	-2.4%	$7,368,244	0.8%
Personal Income	$8,885,335	$8,650,000	$235,334	2.7%	$8,786,395	1.1%
Corporate Franchise	$1,076,517	$895,000	$181,517	20.3%	$1,054,901	2.0%
Public Utility	$160,232	$176,200	-$15,968	-9.1%	$176,171	-9.0%
Kilowatt Hour Excise	$326,929	$330,000	-$3,071	-0.9%	$325,308	0.5%
Commercial Activity Tax**	$0	$0	$0	---	$185,082	-100.0%
Foreign Insurance	$256,178	$255,688	$490	0.2%	$248,797	3.0%
Domestic Insurance	$169,485	$173,638	-$4,153	-2.4%	$170,318	-0.5%
Business and Property	$20,761	$19,000	$1,761	9.3%	$19,092	8.7%
Cigarette	$986,251	$1,020,000	-$33,749	-3.3%	$1,084,142	-9.0%
Alcoholic Beverage	$56,327	$57,400	-$1,073	-1.9%	$57,546	-2.1%
Liquor Gallonage	$34,301	$34,300	$1	0.0%	$33,370	2.8%
Estate	$72,109	$52,100	$20,009	38.4%	$54,070	33.4%
Total Tax Revenue	**$19,468,895**	**$19,273,326**	**$195,568**	**1.0%**	**$19,563,437**	**-0.5%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$176,191	$140,000	$36,191	25.9%	$107,281	64.2%
Licenses and Fees	$77,712	$71,000	$6,712	9.5%	$73,904	5.2%
Other Revenue	$143,572	$161,600	-$18,028	-11.2%	$190,973	-24.8%
Nontax State-Source Revenue	**$397,475**	**$372,600**	**$24,875**	**6.7%**	**$372,157**	**6.8%**
TRANSFERS						
Liquor Transfers	$135,000	$135,000	$0	0.0%	$138,000	-2.2%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$424,548	$386,646	$37,902	9.8%	$177,211	139.6%
Total Transfers In	**$559,548**	**$521,646**	**$37,902**	**7.3%**	**$315,211**	**77.5%**
TOTAL GRF before Federal Grants	**$20,425,917**	**$20,167,572**	**$258,345**	**1.3%**	**$20,250,806**	**0.9%**
Federal Grants	$5,352,475	$5,829,130	-$476,655	-8.2%	$5,595,196	-4.3%
TOTAL GRF SOURCES	**$25,778,392**	**$25,996,702**	**-$218,310**	**-0.8%**	**$25,846,001**	**-0.3%**

* 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] The GRF received $185.1 million from the CAT in FY 2006. Existing law requires all CAT revenue during FY 2007-FY 2011 to go to school districts and local governments.

[4] 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.

[5] 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.

[6] Year-over-year withholding growth understates the health of the labor market because of 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.

[7] 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.

[8] For example, MEWs were 4.5% of disposable income in the first quarter of CY 2007, about half of the peak in the third quarter of CY 2004. MEW funds used for personal consumption in the first quarter of CY 2007 were also about half of that of the peak. MEW funds used for home improvements were 56% of spending on residential improvements in the national income and product accounts, down from 86% last year.

[9] Nonfinancial and financial corporations provided about 87.1% and 12.9% of the total CFT liability (after credits) in tax year 2004 (latest data reported by the Department of Taxation).

[10] Corporate profits before tax grew 26%, 32%, and 19% in CY 2004, CY 2005, and CY 2006, respectively.

[11] Detailed analysis of tax returns is generally available two years after the end of a fiscal year.

[12] Revenue is deposited into the GRF with two exceptions. One percent of the tax is deposited into the Beverage Tax Administration Fund and five cents per gallon of wine is deposited into the Ohio Grape Industries Fund.

[13] A "qualified" dealer is a dealer that is a member of a "controlled group" of which a financial institution or insurance company is a member.

[14] The higher credit effectively exempts estates with net taxable values up to $338,333 from the estate tax. Estates with gross values of $338,333 or less are not required to file an estate tax return.

Disbursements

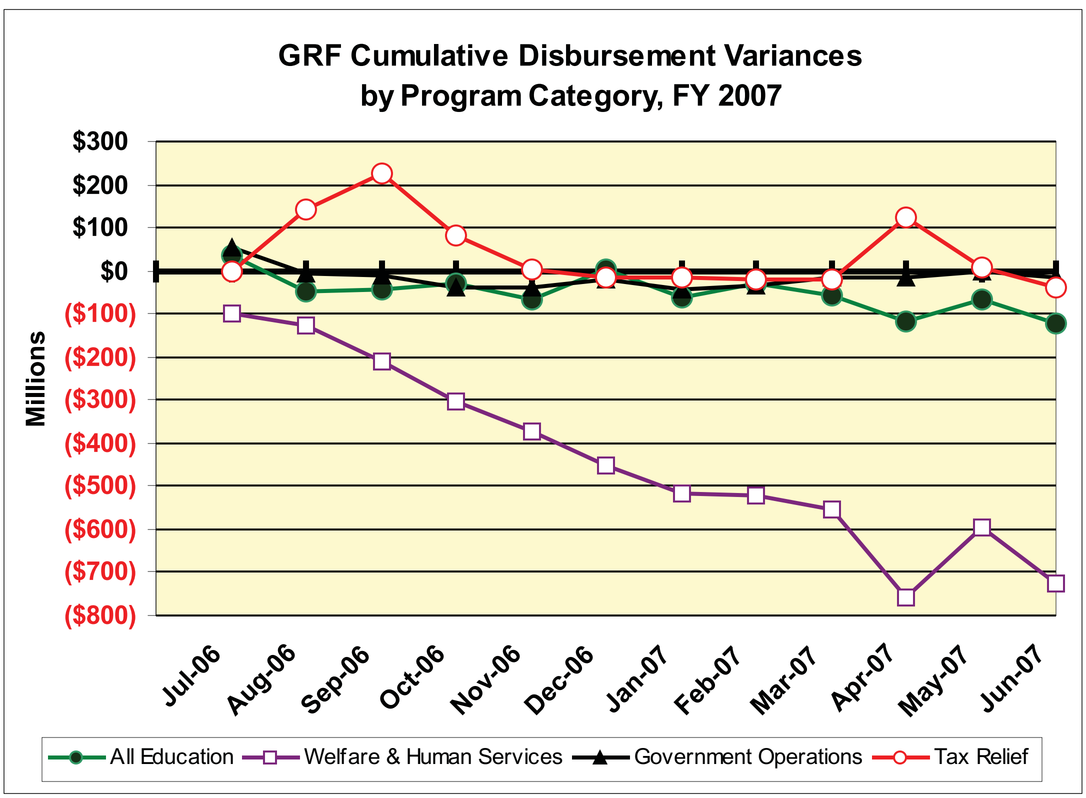
*— Phil Cummins**

General Revenue Fund (GRF) program expenditures in FY 2007 totaled $25,147.5 million, $925.3 million (3.5%) below OBM's estimate for the year but 1.1% higher than in the previous year. Including $726.8 million of transfers out, part of which added to the Budget Stabilization Fund, GRF spending last year totaled $25,874.3 million.[1]

Disbursements for each of the state's four major GRF program categories—Education, Welfare and Human Services, Government Operations, and Property Tax Relief—were under estimate for the fiscal year. These categories are summarized in Tables 4 and 5, and in the chart titled "GRF Cumulative Disbursement Variances by Program Category." The Welfare and Human Services category had by far the largest variance, $725.9 million under estimate. Within the GRF program subcategories, the Health Care/Medicaid program accounted for most of the spending shortfall for the year in the Welfare and Human Services category and for much of the shortfall in all GRF categories.

Debt service outlays were under estimate by $26.8 million. The largest portion of this variance was for the School Facilities Commission (SFC). Virtually all of the SFC's variance of $14.4 million (6.4%) under estimate was for GRF line item 230-908, Common Schools General Obligation Debt Service. The SFC lapsed $14.7 million, mostly from this line item. The large lapse and negative variance are mainly due to conservative (i.e., high) OBM estimates to guard against having insufficient funding appropriated for debt service. Much of the rest of the GRF debt service variance was for the Board of Regents, with disbursements for this purpose $9.6 million (6.3%) under estimate. Higher education bonds issued at lower-than-expected interest rates generated capital premiums that were used for one-time debt service reductions.

The sections that follow discuss 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.



The 1.1% growth of GRF program disbursements in FY 2007 noted above was slow relative to increases in some broad measures of economic activity in Ohio. For example, the dollar value of gross domestic product in this state in the latest period for which data are available, calendar year 2006, was 4.3% higher than a year earlier. Total personal income in Ohio during July 2006 through March 2007 was up from that in all of FY 2006 at about a 4.1% annual rate. State GRF spending also did not increase as much as measures of inflation, implying that the quantities of goods and services represented by those GRF dollars likely declined. The consumer price index for the Midwest, averaged for the period July 2006 through June 2007, was 1.9% higher at an annual rate than in FY 2006. For those types of goods and services that account for relatively large portions of state spending, price increases were more rapid than this. In FY 2007, the medical care component of the Midwest consumer price index rose at a 4.3% annual rate, and the education and communication component rose at a 3.2% rate.

In June, total GRF program disbursements of $1,679.1 million were $238.6 million (12.4%) under estimate. All four major categories of program spending were under estimate, with Welfare and Human Services accounting for more than half of the variance.

Welfare and Human Services (-$725.9 million)

Disbursements in the Welfare and Human Services category in June were $655.9 million, $131.2 million (16.7%) under estimate. For all of FY 2007, outlays of $11,437.7 million in this category were $725.9 million (6.0%) under estimate. Within the category, Health Care/Medicaid spending continued to account for most of the variance, with year-to-date disbursements under estimate by $669.2 million (6.7%). Other components of the category include the Temporary Assistance for Needy Families (TANF) program, the Other Welfare subcategory, and the Human Services subcategory. Disbursements for TANF in FY 2007 were about equal to OBM's 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 $44.5 million (7.3%). Disbursements in the Human Services subcategory, which includes services provided by more than 20 other agencies, were under estimate by $12.2 million (1.0%).

Health Care/Medicaid. In line item 600-525, which accounts for 97% of Health Care/Medicaid program spending, $643.7 million has been encumbered and $760,247 of the FY 2007 appropriation lapsed. The encumbered funds represent both the state and federal shares and will be used in FY 2008, along with the additional FY 2008 appropriations for the line item, to fund Medicaid services. The state share of the encumbrances in line item 600-525 is approximately $257.5 million.

The Controlling Board earlier approved a transfer of $4.0 million in line item 600-425, Office of Ohio Health Plans from FY 2006 to FY 2007. However, the funds were not spent, as approximately $5.8 million lapsed at the end of FY 2007. Furthermore, $3.8 million in line item 600-425 has been encumbered. The encumbrance is for many small contracts. This line item includes federal share, and only half of the lapsed amount is state share.

Appropriation line item 600-526, Medicare Part D, consists entirely of state funds. Effective January 2006, Medicare Part D, not Medicaid, began offering outpatient prescription drug coverage to dual eligibles (i.e., Medicare and Medicaid eligibles). As of that date, federal Medicaid matching funds are no longer available for the cost of outpatient prescription drugs for dual eligibles. The state share of these costs is the subject of a "clawback" payment, which is appropriated in line item 600-526. Of the FY 2007 appropriation, $22.0 million was encumbered and $108.3 million lapsed; most ($70 million) of the amount lapsed was planned.

In line item 600-529, Capital Compensation Program, $4.1 million has been encumbered. These funds are already committed and will

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

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education (1)	$497,852	$490,794	$7,057	1.4%
Higher Education	$156,159	$215,722	-$59,563	-27.6%
Total Education	$654,011	$706,516	-$52,506	-7.4%
Health Care/Medicaid	$517,616	$681,254	-$163,639	-24.0%
Temporary Assistance for Needy Families (TANF)	$32,422	$25,955	$6,468	24.9%
Other Welfare (2)	$53,213	$34,122	$19,092	56.0%
Human Services (3)	$52,685	$45,787	$6,898	15.1%
Total Welfare and Human Services	$655,936	$787,118	-$131,182	-16.7%
Justice and Corrections	$124,366	$132,471	-$8,105	-6.1%
Environment and Natural Resources	$5,263	$5,864	-$601	-10.2%
Transportation	$1,044	$369	$675	182.6%
Development	$7,714	$8,764	-$1,051	-12.0%
Other Government	$17,907	$19,940	-$2,032	-10.2%
Capital	$0	$0	$0	---
Total Government Operations	$156,294	$167,408	-$11,114	-6.6%
Property Tax Relief (4)	$143,627	$189,864	-$46,237	-24.4%
Debt Service	$69,200	$66,781	$2,418	3.6%
Total Other Disbursements	$212,827	$256,645	-$43,819	-17.1%
Total Program Disbursements	**$1,679,067**	**$1,917,688**	**-$238,620**	**-12.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	-$13,704	$2,000	-$15,704	-785.2%
Total Transfers Out	-$13,704	$2,000	-$15,704	-785.2%
TOTAL GRF USES	**$1,665,364**	**$1,919,688**	**-$254,324**	**-13.2%**

(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.

be expended in early FY 2008. This line item is used to make payments to nursing facilities and intermediate care facilities for the mentally retarded in accordance with Am. Sub. H.B. 530 of the 126th General Assembly. H.B. 530 contained language that appropriated the unencumbered balance in this line item at the end of FY 2006 for use in FY 2007.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2006**	**Percent Change**
Primary and Secondary Education (1)	$6,848,178	$6,919,895	-$71,717	-1.0%	$6,728,374	1.8%
Higher Education	$2,404,734	$2,453,384	-$48,650	-2.0%	$2,343,984	2.6%
Total Education	$9,252,913	$9,373,279	-$120,367	-1.3%	$9,072,358	2.0%
Health Care/Medicaid	$9,251,154	$9,920,376	-$669,223	-6.7%	$9,260,644	-0.1%
Temporary Assistance for Needy Families (TANF)	$356,740	$356,740	$0	0.0%	$356,740	0.0%
Other Welfare (2)	$566,103	$610,583	-$44,479	-7.3%	$549,059	3.1%
Human Services (3)	$1,263,753	$1,275,959	-$12,206	-1.0%	$1,231,571	2.6%
Total Welfare and Human Services	$11,437,750	$12,163,658	-$725,908	-6.0%	$11,398,014	0.3%
Justice and Corrections	$2,017,479	$2,004,314	$13,165	0.7%	$1,946,137	3.7%
Environment and Natural Resources	$102,427	$103,160	-$733	-0.7%	$102,692	-0.3%
Transportation	$22,255	$23,606	-$1,351	-5.7%	$26,188	-15.0%
Development	$141,916	$155,029	-$13,113	-8.5%	$150,009	-5.4%
Other Government	$384,479	$397,272	-$12,793	-3.2%	$378,936	1.5%
Capital	$108	$0	$108	---	$326	-66.9%
Total Government Operations	$2,668,663	$2,683,381	-$14,718	-0.5%	$2,604,288	2.5%
Property Tax Relief (4)	$1,206,284	$1,243,754	-$37,470	-3.0%	$1,309,275	-7.9%
Debt Service	$581,910	$608,718	-$26,807	-4.4%	$482,412	20.6%
Total Other Disbursements	$1,788,194	$1,852,471	-$64,277	-3.5%	$1,791,688	-0.2%
Total Program Disbursements	**$25,147,519**	**$26,072,789**	**-$925,269**	**-3.5%**	**$24,866,347**	**1.1%**
TRANSFERS						
Budget Stabilization	$394,034	$394,034	$0	0.0%	$434,250	-9.3%
Other Transfers Out	$332,726	$327,113	$5,613	1.7%	$225,802	47.4%
Total Transfers Out	$726,759	$721,147	$5,613	0.8%	$660,052	10.1%
TOTAL GRF USES	**$25,874,279**	**$26,793,935**	**-$919,656**	**-3.4%**	**$25,526,399**	**1.4%**

(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.

Disbursements for Health Care/Medicaid are also tracked by health services category. FY 2007 disbursements for the Health Care/Medicaid program (line item 600-525) were $665.0 million (6.7%) below estimate (see Table 6) with spending of $9,252.2 million. The largest contributors to the variance were the HMO categories, which combined were

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

Service Category	June Actual	June Estimate	June Variance	June Percent Variance	YTD Actual thru June	YTD Estimate thru June	YTD Variance	YTD Percent Variance
Nursing Facilities Payments	$213,384	$222,770	($9,386)	-4.2%	$2,590,751	$2,710,284	($119,533)	-4.4%
ICF/MR Payments	$44,022	$42,243	$1,779	4.2%	$519,227	$516,416	$2,811	0.5%
Inpatient Hospitals	$64,203	$91,857	($27,654)	-30.1%	$1,214,765	$1,379,479	($164,714)	-11.9%
Outpatient Hospitals	$24,819	$32,284	($7,465)	-23.1%	$534,743	$542,728	($7,985)	-1.5%
Physicians	$24,075	$28,823	($4,748)	-16.5%	$496,669	$472,840	$23,829	5.0%
Prescription Drugs	$43,100	$63,840	($20,740)	-32.5%	$903,684	$1,016,685	($113,001)	-11.1%
ODJFS Waiver	$24,171	$22,991	$1,180	5.1%	$339,781	$276,122	$63,659	23.1%
HMO - CFC*	$222,936	$270,730	($47,794)	-17.7%	$2,349,998	$2,875,030	($525,032)	-18.3%
HMO - ABD*	$109,756	$105,411	$4,345	4.1%	$443,005	$189,159	$253,846	134.2%
Medicare Buy-In	$23,687	$23,238	$449	1.9%	$271,617	$270,503	$1,114	0.4%
Home Health	$11,339	$15,743	($4,404)	-28.0%	$154,375	$202,019	($47,644)	-23.6%
Dental	$3,011	$2,788	$223	8.0%	$68,305	$59,276	$9,029	15.2%
Hospice	$10,804	$10,375	$429	4.1%	$141,075	$127,544	$13,531	10.6%
All Other	$49,674	$58,732	($9,058)	-15.4%	$541,082	$626,695	($85,613)	-13.7%
Total Medicaid Payments	**$868,981**	**$991,825**	**($122,844)**	-12.4%	**$10,569,077**	**$11,264,780**	**($695,703)**	-6.2%
Medicare Part D	$19,785	$22,841	($3,056)	-13.4%	$235,818	$270,469	($34,651)	-12.8%
Capital Compensation Program	$1,388	$1,500	($112)	-7.5%	$6,869	$8,000	($1,131)	N/A
DA Medical	$1,615	$1,921	($306)	-15.9%	$25,412	$32,167	($6,755)	-21.0%
Drug Rebates Offsets	($51,321)	($39,641)	($11,680)	29.5%	($435,887)	($444,440)	$8,553	-1.9%
Revenue and Collections	($20,989)	($14,474)	($6,515)	45.0%	($136,192)	($141,119)	$4,927	-3.5%
ICF/MR Franchise Fee Offsets	($4,518)	($1,515)	($3,003)	198.2%	($18,202)	($18,202)	$0	0.0%
NF Franchise Fee Offsets	($154,757)	($82,077)	($72,680)	88.6%	($415,930)	($416,936)	$1,006	-0.2%
DSH Rebate Offsets	($28,651)	($28,674)	$23	-0.1%	($178,677)	($193,861)	$15,184	-7.8%
MCP Assessments	($37,073)	($121,468)	$84,395	-69.5%	($246,431)	($290,035)	$43,604	-15.0%
ABD Managed Care	($76,847)	($51,231)	($25,616)	50.0%	($153,694)	($153,694)	$0	0.0%
Total Health Care (Net of Offsets)	**$517,613**	**$679,007**	**($161,394)**	**-23.8%**	**$9,252,163**	**$9,917,129**	**($664,966)**	**-6.7%**
Est. Federal Share	$310,221	$406,950	($96,728)		$5,545,107	$5,943,642	($398,535)	
Est. State Share	$207,392	$272,057	($64,666)		$3,707,056	$3,973,487	($266,431)	

*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.

$271.2 million (8.9%) under estimate with spending of $2,793.0 million.

The Department of Job and Family Services is completing the process of expanding Medicaid managed care statewide. When the expansion is complete, approximately 1.2 million Covered Families and Children (CFC) and 125,000 Aged, Blind, and Disabled (ABD) Medicaid consumers will be placed in a managed care

Table 7
FY 2007 to FY 2006 Comparison of Year-to-Date Health Care/Medicaid Spending
(ALI 600-525 Only)
($ in thousands)

Service Category	FY 2007 Yr.-to-Date as of June '07	FY 2006 Yr.-to-Date as of June '06	Dollar Change	Percent Increase
Nursing Facilities Payments	$2,590,751	$2,650,205	($59,454)	-2.2%
ICF/MR Payments	$519,227	$516,538	$2,689	0.5%
Inpatient Hospitals	$1,214,765	$1,488,941	($274,176)	-18.4%
Outpatient Hospitals	$534,743	$679,115	($144,372)	-21.3%
Physicians	$496,669	$641,076	($144,407)	-22.5%
Prescription Drugs	$903,684	$1,636,313	($732,629)	-44.8%
ODJFS Waiver	$339,781	$224,095	$115,686	51.6%
HMO	$2,793,003	$1,434,111	$1,358,892	94.8%
Medicare Buy-In	$271,617	$235,877	$35,740	15.2%
Home Health	$154,375	N/A	N/A	N/A
Dental	$68,305	N/A	N/A	N/A
Hospice	$141,075	N/A	N/A	N/A
All Other	$541,082	$0	$541,082	#DIV/0!
Total Medicaid Payments	**$10,569,077**	**$9,506,271**	**$1,062,806**	**11.2%**
Medicare Part D	$235,818	$89,973	$145,845	162.1%
Capital Compensation Program	$6,869	N/A	N/A	N/A
DA Medical	$25,412	$44,219	($18,807)	-42.5%
Drug Rebates Offsets	($435,887)	($781,988)	$346,101	-44.3%
Revenue and Collections	($136,192)	N/A	N/A	N/A
ICF/MR Franchise Fee Offsets	($18,202)	($20,524)	$2,322	-11.3%
NF Franchise Fee Offsets	($415,930)	($377,524)	($38,406)	10.2%
DSH Rebate Offsets	($178,677)	($165,361)	($13,316)	8.1%
MCP Assessments	($246,431)	($45,426)	($201,005)	442.5%
Total Health Care (Net of Offsets)	**$9,405,857**	**$8,249,640**	**$1,156,217**	**14.0%**
Est. Federal Share	$5,637,221	$4,944,264	$692,957	
Est. State Share	$3,768,636	$3,305,376	$463,260	

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.

program that bases the delivery of health care services on a "medical home" model that focuses on care coordination and preventive services. CFC managed care enrollment was slower than projected but is now reaching full enrollment. ABD managed care enrollment in FY 2007 was ahead of schedule. Prior to December 2006, the HMO-CFC and HMO-ABD categories were combined in the table published in this report, and the monthly estimates for the HMO-ABD category were zero until April 2007.

The Nursing Facilities Payments category was under estimate by $119.5 million (4.4%) in FY 2007 with spending of $2,590.8 million. For the year, Nursing Facility Payments have been overestimated. This was largely driven by the one-time pickup from the implementation of direct billing. The impact was more significant and over a longer period of time than expected.

The All Other category was $85.6 million (13.7%) below estimate with spending of $541.1 million. The category was below estimate in part because of the many changes in the home care programs. The Other Practitioners subcategory comprises most of the variance. The elimination of the Core Plus program has caused a shift from the home health service categories to the Waiver category. Consequently, underspending this year in many of the categories was offset by overspending in other categories. ODJFS has implemented corrections with its care management vendor, and month-to-month data reflect the shifting of spending in these categories back to where it was originally projected to be. The Department saw a shift from waiver nursing to private duty nursing and state plan home care nursing. As a result, the Waiver category was over estimate by $63.7 million (23.1%) with spending of $339.8 million. The same factors also had an impact on the Home Health category, which was $47.6 million (23.6%) below estimate with spending of $154.4 million.

The Inpatient Hospitals category was $164.7 million (11.9%) below estimate with spending of $1,214.8 million. This variance is attributed to overestimates per member per month.

The Prescription Drugs category was $113.0 million (11.1%) below estimate with spending of $903.7 million. ODJFS has stated that the variance in this category was caused by the lowering of the cost per claim and utilization trends over the last year or so. The percentage of underspending has narrowed more recently as managed care enrollment is lower than projected and thus driving higher spending in the fee-for-service categories.

The Physicians category was $23.8 million (5.0%) over estimate with spending of $496.7 million and the Dental category was $9.0 million (15.2%) over estimate with actual spending of $68.3 million. These variances are again due to a slower than expected rollout of CFC managed care, which has increased fee-for-service spending and lowered managed care expenditures.

The Disability Assistance (DA) Medical category was $6.8 million (21.0%) under estimate with actual spending of $25.4 million. The variance in this category is due to the fact that the program is closed to new enrollment and attrition has occurred at a higher than projected rate.

The Hospice category variance was 10.6%, with spending $13.5 million more than estimate. The actual spending in this category was $141.1 million. The variance in this category can be attributed to higher than projected utilization.

The Medicare Part D category was under estimate by $34.7 million (12.8%) with spending of $235.8 million.

Other Welfare. Disbursements in FY 2007 for programs of the Department of Job and Family Services other than Medicaid or TANF totaled $566.1 million, $44.5 million less than estimate. Of this amount, $5.4 million was funds originally appropriated for FY 2007, and $39.1 million was prior-year dollars. By far, the largest contributor to the underspending was $33.2 million reappropriated from FY 2006 in appropriation item 600-521, Entitlement Administration-Local. Payments to counties from line item 600-521 are advanced and any remaining dollars are encumbered until year-end reconciliation is completed during the following fiscal year. According to the Department, final reconciliation for FY 2006 was completed in FY 2007 and the $33.2 million that remained of the encumbrance was allowed to lapse.

Mental Retardation and Developmental Disabilities. For FY 2007, spending by the Department of Mental Retardation and Developmental Disabilities was $7.9 million (2.2%) under estimate. The largest variance was in line item 322-416, Waiver – State Match. Spending from this appropriation was $4.0 million below estimate. The appropriation provides state funding for the Individual Options (IO) and Level 1 home and community-based Medicaid waivers. Most of the remaining variance was in line item 323-321, Residential Facilities Operations ($3.8 million below estimate). This line item supports the Department's developmental centers.

The Department encumbered $3.6 million, mostly from line item 323-321, DC Operations ($2.5 million). The appropriation is for Developmental Center purchases in FY 2007 for which payment will be made in FY 2008. In line item 322-413, Residential and Support Services, $591,471 was encumbered. Of this amount, $589,140 had been planned to be encumbered. In line item 322-416, Waiver–State Match, $491,428 was encumbered.

Overall, approximately $862,000 in GRF funding went unspent. This amount included $589,745 from line item 322-413, Residential and Support Services, $452,827 of which had been planned to be unspent. Rather than lapsing, the unspent funds were transferred to the Community MR and DD Trust Fund (Fund 4U4).

Aging. The Department of Aging expended approximately $167.3 million in FY 2007 against an estimate of $159.5 million and thus finished the year with a $7.8 million (4.9%) variance. There are three main contributors to the variance. The primary contributor was line item 490-403, PASSPORT, with actual expenditures of approximately $125.9 million against estimated expenditures of approximately $121.0 million, for a variance of approximately $4.9 million. The additional expenditures for this appropriation item were due to Home First activity. The Home First program was authorized by Am. Sub. H.B. 66 of the 126th General Assembly. The program allows nursing facility residents on Medicaid to enter the PASSPORT program and return home, without waiting for an enrollment slot. This transfer utilizes a "money follows the person" concept. The Department certified expenditures for the Home First program, and the Office of Budget and Management subsequently increased line item 490-403, PASSPORT, by $5.2 million. This accounts for the additional expenditures from this line item.

Another contributor was appropriation line item 490-411, Senior Community Services, with actual expenditures of $8.5 million against an estimate of $7.8 million, for a variance of $687,000. The Department had also planned an encumbrance of $2.8 million in this line item, but instead the actual encumbrance was $2.1 million. In this line item, the Department expended more than estimated for subsidy payments because grantees requested funds more quickly than anticipated. Since funds were disbursed more quickly, a smaller encumbrance remained at year-end.

In line item 490-422, Assisted Living, estimated expenditures were approximately $360,000 and actual expenditures were approximately $2.2 million, for a variance of $1.8 million. The estimated expenditures for this line item included only state administration funds. A mechanism allowing OBM to transfer GRF appropriations throughout the year from the Department of Job and Family Services (ODJFS) to line item 490-422 was established in Am. Sub. H.B. 66. The transfers from ODJFS were for the subsidy payments for the program. The total amount of the subsidy spending from this line item was not included in the disbursement plan.

Lastly, the Controlling Board approved the transfer of $7.1 million to appropriation item 490-440, Ohio's Best Rx Start-Up Costs. Ohio's Best Rx program was transferred from the Department of Job and Family Services to the Department of Aging on July 1, 2007.

Health. The Department of Health expended approximately $70.4 million in FY 2007 against an estimate of $77.3 million and thus finished the year with a $6.9 million (8.9%) variance. There are two main contributors to the variance. The primary contributor was line item 440-418, Immunizations. The Department disbursed $3.9 million less and encumbered $3.9 million more than anticipated, for a total encumbrance of $6.9 million. The variance is timing-related and happens every year in the process of ordering vaccines for the high-usage period just prior to the start of the school year. Of the $6.9 million encumbered from this appropriation item, $6.3 million was encumbered for vaccinations and medical and lab supplies.

Another contributor to the variance was appropriation item 440-507, Targeted Health Care Services Over 21, with actual expenditures of approximately $971,000 against estimated expenditures of approximately $2.0 million, for a variance of approximately $1.0 million. The Department encumbered approximately $577,000 from this appropriation item. This encumbrance is for obligations incurred in FY 2007. The bills could not be paid in FY 2007 because of provider billing cycles. The Department lapsed approximately $818,000 from this appropriation item. Enrollment in the program was cut in the FY 2004-2005 biennium. However, in FY 2006, the Department began reenrolling individuals who were cut from the program in the previous biennium, and $683,000 was transferred from FY 2006 to FY 2007 to deal with the lag time in reenrolling individuals. The lapse for FY 2007 was due to the reenrollment of a lower number of eligible clients than had been projected. The appropriation item also pays for essential medications for the cystic fibrosis program. Medicare Part D is a primary payer for many of the drugs utilized for the individuals in this program. As a result, the actual expenditures for the drugs were less than had been estimated.

The Department allowed approximately $125,000 of appropriation item 440-431, Free Clinic Liability Insurance, to lapse. This program is new, having begun in FY 2006. According to the Department, in FY 2006 there were 16 clinics funded. That number grew to 22 clinics in FY 2007. The Department believes that the number of applicants in the program will grow in FY 2008, as a result of Am. Sub. H.B. 119 language that includes federally qualified health center look-alikes in the list of eligible candidates for the program.

Mental Health. For FY 2007, Department of Mental Health (DMH) disbursements were $2.3 million (0.4%) under estimate. Three line items account for most of this variance: line item 335-505, Local Mental Health Systems of Care ($2.4 million under estimate); 333-415, Rental Payments ($580,000 over estimate); and 334-408, Community and Hospital Mental Health Services ($370,000 over estimate). The variances in line items 335-505 and 334-408 related to the timing of requests from local community mental health and alcohol and drug addiction and mental health boards for funding from the Department for locally administered services and hospital operating costs. Local boards draw funds when necessary and hospital expenses are paid when billed. Funds in line item 335-505 are expected to be disbursed by August 15, 2007. Spending from line item 333-415, Rental Payments, increased by approximately $500,000 in FY 2007 because bonds were issued in July 2006, sooner than expected. The Department encumbered $5.5 million in eight line items and lapsed $7,000.

Alcohol and Drug Addiction Services. The Department of Alcohol and Drug Addiction Services disbursed approximately $1 million (2.5%) less than estimated. The largest variance was in line item 038-401, Treatment Services ($1.1 million). This line item is allocated to local Alcohol and Drug Addiction Services (ADAS)/Alcohol and Drug Addiction Mental Health Services (ADAMHS) boards for a range of alcohol and drug addiction and community support services and special projects. The Department encumbered approximately $1.4 million, all from line item 038-401; disbursed approximately $327,000 from prior year appropriations; and lapsed approximately $6,000.

Education (-$120.4 million)

Outlays of $654.0 million in June in the Education category were $52.5 million (7.4%) under estimate. FY 2007 outlays totaling $9,252.9 million in this category were $120.4 million (1.3%) under estimate. Primary and secondary education accounted for $71.7 million of this variance and higher education for $48.6 million.

Primary and Secondary Education. Department of Education (ODE) spending of $6,736.2 million in FY 2007 was $66.7 million (1.0%) under estimate. The largest variance was in line item 200-550, Foundation Funding, which was $53.2 million (0.9%) under estimate. This line item is the main source of state foundation payments to all school districts and joint vocational school districts in the state. Allocations are determined by the school foundation (SF-3) formulas. Estimates and payments twice each month are based on data projections that change as new information becomes available. FY 2007 was the first year in which payments were based on two ADM (average daily membership) counts, one in October and the second in February. The February data, showing fewer students than earlier, were incorporated into the ADM calculations in April. For FY 2007, $57.3 million of line item 200-550 was encumbered and $62.5 million was allowed to lapse. In addition, over $10.0 million was transferred from this line item, including $9.6 million to line item 200-437, Student Assessment, to meet testing requirements.

The Department started fiscal year 2007 with $155.5 million in GRF reappropriations from prior years back to FY 2000. As of June 30, 2007, $90.6 million had been disbursed, $13.5 million was encumbered, and $51.4 million was allowed to lapse. In addition, the Department at year-end also encumbered $142.9 million in FY 2007 appropriations, including the $57.3 million in foundation funding referenced above; $437.0 million for line item 200-437, Student Assessment, to pay for student proficiency and achievement testing; $14.1 million for line item 200-536, Ohio Core Support; and smaller amounts for other programs.

ODE allowed $100.6 million of its FY 2007 appropriations to lapse. This includes the $62.5 million for line item 200-550, Foundation Funding, as described above, because enrollment was lower than anticipated. In addition, $2.9 million was lapsed from line item 200-540, Special Education Enhancements, used for special education and related services at county MR/DD boards and state institutions for school-aged students and for preschool special education and related services at school districts, educational service centers, and county MR/DD boards. Declining enrollments at county MR/DD boards accounted for the lapse.

Higher Education. Spending on higher education in June 2007 totaled $156.2 million. This amount was $29.6 million less than the $185.7 million that OBM had originally estimated but $59.6 million less than the $215.7 million estimate subsequently made by OBM. This addition of $30.0 million to the estimate for June apparently arose from OBM's conclusion that the appropriation for line item 235-503, Ohio Instructional Grants (OIG), would eventually need to be increased to ensure that the state's obligations for need-based financial aid could be met. As it happened, the appropriation was increased in June 2007 by $30 million (and by another $24.4 million in association with transfers from other line items). However, the entire amount was encumbered rather than disbursed. Of the remaining $29.6 million of June's negative variance, the main factor was the $20.2 million shortfall from the original estimate for OIG because the funds estimated for that month had been disbursed earlier in the year.

For the full fiscal year 2007, spending for higher education totaled $2,404.7 million. This amount is $48.7 million less than the revised OBM estimate (as augmented by the $30 million for OIG). Of this $48.7 million, OIG accounted for $30.3 million. Total spending was $65.9 million less than the adjusted appropriation of $2,470.6 million (which includes the $54.4 million increase to OIG, smaller adjustments to other line items, and the amounts encumbered from prior years). As of the end of FY 2007, the Board of Regents had encumbered $62.4 million, of which $54.7 million was for OIG.

Ohio School for the Deaf. In FY 2007, the Ohio School for the Deaf (OSD) spent $348,950 (3.5%) less than estimate, $260,714 of which was in line item 221-100, Personal Services. OSD encumbered $464,526, mostly for maintenance, and lapsed $11,322.

Ohio School for the Blind. The Ohio School for the Blind (OSB) spent $30,163 (0.4%) less than estimate in FY 2007. OSB encumbered $199,276, mostly for maintenance, and lapsed $22,390. During the year, the Controlling Board approved transfer requests to line item 226-200, Maintenance, from other agency line items to cover unanticipated increases in utility and maintenance costs ($75,000) and to replace obsolete Braille textbooks ($40,000).

eTech Ohio Commission. In FY 2007, the eTech Ohio Commission (ETC) disbursed $2,040,093 (7.5%) less than OBM's estimate, with line items 935-321, Operations, and 935-406, Technical and Instructional Professional Development, accounting for most of the variance. ETC encumbered $1,923,920, mainly for these same line items, to cover outstanding contracts with equipment and service companies. The agency lapsed $212,330, most of which had been for professional development grants allocated to Ohio schools that applied for the funding but were unable to fulfill all application requirements by the end of the fiscal year.

Government Operations (-$14.7 million)

In June, outlays in the Government Operations category totaled $156.3 million, $11.1 million (6.6%) under OBM's estimate. Disbursements in this category in all of FY 2007 were $2,668.7 million, $14.7 million (0.5%) under estimate. Among subcategories, spending in the full fiscal year exceeded the estimate for Justice and Corrections by $13.2 million, was under estimate for Development (which includes the Department of Development and four smaller agencies) by $13.1 million, and was under estimate for Other Government by $12.8 million.

Rehabilitation and Correction. Disbursements by the Department of Rehabilitation and Correction in FY 2007 exceeded estimate by $14.4 million. Of this total, $3.5 million was in the main operations line item, 501-321, Institutional Operations, and resulted at least in part from rising numbers of inmates. Between July 1, 2005, and mid-March 2007, the inmate population grew 10.7% to 49,025, the highest since 1998. By June, the total inmate population rose further, to 49,199. This growth is projected to continue through the FY 2008-2009 biennium. In response, the Department has reactivated all prison pods, wings, and dormitories that had been closed in previous years, making more than 1,700 additional beds available.

Because of the growth in inmate population, the Department delayed maintenance expenditures and purchases. Any maintenance not of high priority was suspended to create a contingency reserve large enough to cover anticipated increases in utility costs, as well as the need to transfer funds to ALI 505-321, Institution Medical Services, to meet rising health care obligations. Approximately half of the Department's $14.4 million variance for the year was in the main medical line, 501-321, Institution Medical Services. The Department's inflation rate for medical services has been around 10%.

Midway through FY 2007, the Department requested, and the Controlling Board approved, the transfer of $14.2 million in unspent GRF funds originally appropriated for debt service. This transfer included $5.6 million to shore up institutional operations, $3.2 million to support the prison system's institutional medical services program, and $5.0 million for community sanctions programs designed to divert low-level felony offenders from prison and into community-based programs.

For FY 2007, the Department encumbered a total of $21.2 million in appropriation items 501-321, Institutional Operations, and 505-321, Institution Medical Services, to cover remaining FY 2007 costs. Of this total, the Institutional Operations encumbrances, about $14.4 million, are spread across 32 institutions, for final payments on end-of-year maintenance, equipment, and utility purchases. Payments totaling about $7 million expected to be made in June were instead delayed to FY 2008 because of the early cut off for conversion to the new OAKS financial system and funds were encumbered for this purpose.

Public Defender. The FY 2007 variance for the Ohio Public Defender Commission (PUB) was

$0.5 million (1.4%) above estimate. A transfer of $631,840 from the Controlling Board's line item 911-404, Mandate Assistance, supported this overage. Am. Sub. H.B. 66 of the 126th General Assembly allows PUB to request all unallocated money in this line item. This request is generally made during the first Controlling Board meeting in June of the year of the appropriation, and all disbursements must occur in June. The money is used to increase available funding to reimburse counties for indigent defense services. OBM does not make an estimate for this line item.

Ohio counties are required to provide and pay for legal counsel for indigent persons where a right to counsel exists and are reimbursed part of those costs by the state. The County Reimbursement program, under current law, reimburses up to 50% of these costs. FY 2007 funding allowed the Commission to reimburse 28% of counties' costs. Disbursements by the Commission in FY 2007, $38.7 million, were the same as in FY 2006 and below those in FY 2005, $40.5 million. This decline in GRF spending reflects recent legislative and executive-ordered reductions in the Commission's GRF budget. The Commission has responded by reducing GRF expenditures over the past several years, including cutting payroll, largely through attrition, cutting maintenance costs, and delaying equipment purchases. In addition, the Commission has increased its non-GRF revenues and shifted some expenses to these funding streams.

Court of Claims. The Court of Claims finished FY 2007 with a variance of $1.7 million (32.8%) above estimate, primarily due to spending for line item 015-402, Wrongful Imprisonment Compensation. During the past fiscal year, $4.26 million of emergency funds was transferred, with Controlling Board approval, to this line item to pay three wrongfully imprisoned individuals. These awards totaled $1.76 million more than estimate. The timing and magnitude of such wrongful imprisonment payments are inherently difficult to predict. When a wrongful imprisonment judgment has been determined by a court of common pleas, the Controlling Board, upon certification by the Court of Claims, transfers the sum necessary to pay that judgment to the Court's GRF line item 015-402, Wrongful Imprisonment Compensation. Since the Controlling Board provides this money on an as-needed basis, the Court does not receive a direct appropriation for the purpose through the main operating appropriations act. Instead, funds typically are transferred from the Controlling Board's GRF line item 911-401, Emergency Purposes/Contingencies, used to assist state agencies and political subdivisions in responding to unexpected events, disasters, and emergency situations.

Judiciary/Supreme Court. A the notable feature of the disbursements activity within the Judiciary/Supreme Court's GRF budget is the continued absence of any expenditures from line item 005-502, Commission for Legal Education Opportunity. In FYs 2006 and 2007, the line item was appropriated $435,000 and $875,000, respectively, for the purpose of assisting minority, low-income, or educationally disadvantaged college graduates in pursuing a law degree at an Ohio law school. None of the appropriated money was disbursed in either fiscal year. Apparently, for a variety of reasons, implementation of this initiative has been delayed.

Adjutant General. In FY 2007, the Adjutant General's Department (ADJ) disbursed $773,085 (6.4%) less than estimate. ADJ encumbered $1,447,924, including line item 745-404, Air National Guard, $186,685; line item 745-409, Central Administration, $188,404; and line item 745-499, Army National Guard, $1,072,808. The agency lapsed $1,469,117, mostly from line item 745-407, National Guard Benefits. For FY 2007, $1.4 million was added to this line item appropriation to cover the cost of $100,000 death benefit payments and reimbursements for life insurance coverage for certain National Guard members while serving on active duty. During FY 2007, the Controlling Board approved two requests totaling $60,957 that allowed ADJ to transfer funds from the Controlling Board's line item 911-401, Emergency Purposes/Contingencies, to line item 745-409, Central Administration, to pay workers' compensation costs associated with state active duty for 2006.

African-American Males. During FY 2007, the Commission on African-American Males

(AAM) spent about $12,000 (4.1%) less than estimate and encumbered $5,500. The main operating appropriations act, Am. Sub. H. B. 119, transfers the Commission's appropriations and oversight authority to The Ohio State University effective October 1, 2007. On or after October 1, the Board of Trustees of Ohio State is to certify to the Director of Budget and Management an estimate of the amount to be transferred to the University's receiving fund. Within 30 days of certifying the estimated amount, the Board of Trustees must submit the final amount to the Director, who must then transfer to the receiving fund the difference between any amounts previously transferred and the final amount certified.

Natural Resources. For FY 2007, disbursements by the Department of Natural Resources were $801,285 less than estimate. This variance resulted mainly from line items 725-413, OPFC Rental Payments, and 736-321, Division of Engineering. Spending from line item 725-413 is not under the Department's control but instead is determined by OBM's payment and timing schedule. The underspending from line item 736-321 as well as other line items resulted from unfilled staff positions. Under the new administration, the Department did not fill positions so that the administration could have more flexibility. Encumbrances include $95,000 in the Division of Geological Survey for the new FutureGen project and upgrading geology mapping software. The FutureGen project involves drilling to determine the availability of deep geologic formations that could store carbon gases produced in coal power generation. Excluding debt service line items 725-404, 725-413, and 725-903, in total the Department disbursed $82 million from FY 2007 appropriations, disbursed $902,000 from previous years' appropriations, and encumbered $486,000 from the FY 2007 adjusted appropriation total of $106 million.

Transportation. The Department of Transportation's GRF spending accounts for less than 1% of the Department's $3.9 billion annual budget. Of this GRF portion, 68% is spent on public transportation and the rest on capital improvements at regional airports and on loans and grants for rail economic development projects. In FY 2007, the Department disbursed $13.8 million from FY 2007 GRF appropriations and $8.4 million encumbered from previous fiscal years. Disbursements were $1.35 million less than estimate. This underspending was spread among all modes. Specifically, line items 775-451, Public Transportation-State, which provides operating and capital assistance to urban and rural transit systems; 776-465, Ohio Rail Development Commission, the Commission's main operating line item and grant and loan disbursement line item; and 777-471, Airport Improvements-State, the line item from which funds are disbursed under the Airport Improvement Program, had negative variances of $596,569, $201,934, and $435,695, respectively. The main factor contributing to these variances was payouts from encumbrances from prior years that came in below estimate due to project timing and grant payouts. In many cases projects are delayed by weather conditions, the need to rebid because of high bids, the lack of qualified responses, or delays in project sponsor invoice submittals. The Department encumbered $8.0 million of the FY 2007 adjusted appropriation of $35.8 million. Encumbrances of $5.3 million for public transportation and $900,692 for airport improvements will be used to provide grants for enhancing urban and rural transit systems and to rehabilitate county and municipal airport taxiways and aprons. The Rail Commission encumbered $1.5 million, which will be used primarily for rail transportation loans and grants and rail crossing improvements.

Development. The Department of Development disbursed $84.6 million in FY 2007, $10.4 million (10.9%) less than estimate. Of the total disbursed, $42.6 million was from prior year appropriations. The Department disbursed $42.1 million of current year appropriations and encumbered $46.1 million. These amounts do not include debt service paid out of the GRF. Six line items had encumbrances as of the end of FY 2007 of over $1 million, and three of these were over $10 million. The largest encumbrance was in line item 195-422, Third Frontier Action Fund ($14.9 million), followed by 195-434, Investment in Training Grants ($10.9 million), and 195-412, Rapid Outreach Grants ($10.6 million). The remaining line items with large encumbrances were line items 195-416, Governor's Office of Appalachia ($3.1 million); 195-401, Thomas Edison Program ($2.3 million); and 195-407, Travel and Tourism ($2.0 million).

The line items that more than account for the $10.4 million variance for the year are 195-515, Economic Development Contingency ($4.6 million); 195-422, Third Frontier Action Fund ($2.7 million); 195-401, Thomas Edison Program ($2.2 million); 195-412, Rapid Outreach Grants ($1.8 million); and 195-434, Investment in Training Grants ($1.3 million). For most of these line items, the large encumbrances and underspending are due to grants issued on a reimbursement basis. Terms of the grants and cash flow needs vary across these programs, but open encumbrances are generally spent for specific projects before newer funds are expended. Line item 195-407, Travel and Tourism, does not involve grants; instead the encumbered funds represent contracts for media buys and other purchases for which invoices have not yet been received. Underspending for line item 195-515, Economic Development Contingency, is entirely composed of prior year funds, since the function of this line item has been assumed by non-GRF funds. All outstanding encumbrances for this line item are committed to specific grants for disbursement to grantees upon performance.

Agriculture. With an FY 2007 total disbursement estimate of $18.8 million, the Department of Agriculture ended the year with a variance of $333,312 (1.8%) below estimate. Five line items factor heavily into the variance: line items 700-412, Weights and Measures ($81,611 below estimate); 700-407, Food Safety ($81,540 below); 700-321, Operating Expenses ($75,318 below); 700-409, Farmland Preservation ($24,795 below); and 700-406, Consumer Analytical Lab ($24,251 below). Much or all of the amounts not spent were encumbered. These encumbrances are mostly for routine items, such as Voyager gasoline fleet card payments, janitorial services, office and lab supplies, and equipment. Other encumbrances are for title companies, which are not paid by the Department's Farmland Preservation program until there is a clear title on a piece of land involved in an agricultural easement, and purchases related to a large scale truck used by the Division of Weights and Measures.

Budget and Management. Disbursements by the Office of Budget and Management in FY 2007 were $241,700 (9.7%) under estimate, the primary cause of which was unanticipated staff vacancies in the agency's Budget section. Employees in this section are paid out of line item 042-321, Budget Development and Implementation, from which $1.84 million was disbursed last year compared with a $2.13 million appropriation. The balance of available spending authority (approximately $283,500) was encumbered to pay part of the costs of the state data theft.

Am. Sub. H.B. 699 of the 126th General Assembly authorized the transfer of $1 million to new line item 042-416, Medicaid Agency Transition, which allowed the Director of Budget and Management to retain Medicaid Administrative Study Council staff, hire new staff, enter into contracts, and take other steps necessary in creating a new Department of Medicaid in FY 2008. Of the $1 million allotted for these purposes, only $25,536 was spent, and the remainder of the appropriation lapsed. The Office of Budget and Management explained that, during the budget process, the current administration decided that it was not feasible to move forward with creation of the new Department in FY 2008 given the limited time frame for implementation and other priorities of the administration.

Commerce. The Department of Commerce, with total (all funds) appropriations of over $600 million for FY 2007, has only one GRF line item, which is 800-410, Labor and Worker Safety. This line item supports the operations of the Wage and Hour Bureau, which administers and enforces Ohio's minimum wage, prevailing wage, and child labor laws and had an FY 2007 appropriation of $2.0 million. Disbursements from line item 800-410 were under estimate by $71,000 (3.6%) due mostly to staff vacancies and money encumbered from FY 2006 that was not spent.

Tax Relief (-$37.5 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% rollback for residential and agricultural real property, the 2.5% rollback for owner-occupied homes, and the $10,000 business tangible property tax exemption. In June, property tax relief payments totaled $143.6 million, $46.2 million (24.4%) under estimate. FY 2007 reimbursements totaled $1,206.3 million, $37.5 million (3.0%) under estimate. Reimbursements for the homestead exemption and the rollbacks account for most of the outlays under this program. Total outlays for the homestead exemption and rollbacks in FY 2007 were $1,168.0 million, $29.8 million (2.5%) under estimate. Reimbursements for the $10,000 tangible property tax exemption, which were completed in January for the fiscal year, totaled $38.3 million, $7.6 million (16.6%) under estimate but equal to the amount implied for FY 2007 by this program's phaseout schedule. Local governments will no longer be reimbursed for the $10,000 tangible property tax exemption after FY 2009.

**LSC colleagues who contributed to this disbursements report were Jamie Doskocil, Deauna Hale, Brian Hoffmeister, Jonathan Lee, Ed Millane, Mary Morris, Jason Phillips, David Price, Wendy Risner, Joe Rogers, Jenna Scheurman, Maria Seaman, Matt Stiffler, and Stephanie Suer.*

[1] Disbursements plus transfers out were $25,874.3 million in FY 2007, 3.4% under estimate. The largest component included in transfers out was the July 2006 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 School District Tangible Property Tax Replacement Fund and the Local Government Tangible Property Tax Replacement Fund receive revenues from the commercial activity tax as reimbursement for revenues lost from the tangible personal property tax, which is being phased out. Timing differences between the dates when these reimbursement payments must be made to local entities and the due dates for commercial activity tax payments result in shortfalls that are offset with temporary transfers from the GRF. Temporary transfers out under this requirement were made in August, $77.3 million, and in October, $210.1 million. When all transfers out are included, total GRF disbursements in FY 2007 were 1.4% more than in the previous year.

Issues of Interest

Lottery Ticket Sales and Profit Transfers Fourth Quarter, Fiscal Year 2007

— Jean Botomogno

Fourth-Quarter Lottery Ticket Sales by Game in FY 2007 (dollars in millions)										
	Pick 3	Pick 4	Kicker	Raffles to Riches	Rolling Cash 5	Lot' O Play/ Classic Lotto	Mega Millions	On-line	Instants	Total
April	$30.8	$15.2	$1.6	$3.5	$5.5	$4.2	$13.4	$74.1	$111.6	$185.7
May	$32.2	$16.0	$1.7	$0.0	$6.0	$4.2	$15.0	$75.1	$111.7	$186.9
June	$31.4	$15.7	$1.6	$0.0	$6.1	$3.4	$13.3	$71.5	$111.8	$183.3
Total	$94.5	$46.9	$4.8	$3.5	$17.6	$11.8	$41.7	$220.8	$335.1	$555.9

Totals may not add up due to rounding.

Ticket Sales

In the fourth quarter of FY 2007, total lottery ticket sales were $555.9 million, $37.7 million (6.4%) lower than ticket sales in the third quarter. On-line ticket sales[1] were $220.8 million (39.7% of quarterly sales), and Instant ticket sales were $335.1 million (60.3% of quarterly sales).

Compared to fourth-quarter results a year ago, ticket sales were down $12.3 million (2.2%) this fiscal year. Instant ticket sales declined $9.2 million (2.7%). On-line ticket sales decreased $3.1 million (1.4%). Sales of Kicker declined $0.6 million (11.0%). Sales of Mega Millions decreased $8.2 million (16.4%). Sales of Lot' O Play/Classic Lotto fell $0.8 million (6.6%). Pick 4 and Pick 3 sales increased $2.6 million (5.9%) and $1 million (1.1%), respectively. Excluding sales of Raffles to Riches (which started in FY 2007), fourth-quarter sales in FY 2007 would have been $6.6 million (2.9%) below sales in the same period in FY 2006.

Ticket sales were lowest in the first quarter and highest in the third quarter. Historically, second-quarter sales have been highest due to various holiday Instant ticket sales offered during the period. For the fiscal year, Pick 3 sales were 16.4% of total ticket sales. Mega Millions provided 8.7% of ticket sales. Pick 4 sales were 8.1% of ticket sales. Lot' O Play/Classic Lotto, Rolling Cash 5, and Kicker contributed to ticket sales by 1.9%, 3.2%, and 0.9%, respectively. On-line and Instant sales were 40.1% and 59.9% of total ticket sales, respectively.

Quarterly Lottery Ticket Sales by Game in FY 2007 (dollars in millions)										
	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
Q4	$94.5	$46.9	$4.8	$3.5	$17.6	$11.8	$41.7	$220.8	$335.1	$555.9
Total	$370.8	$182.9	$21.4	$17.8	$73.0	$43.6	$196.2	$905.5	$1,355.3	$2,260.9

Totals may not add up due to rounding.

Quarterly Lottery Transfers to LPEF in FY 2007 (dollars in millions)							
Quarter	Tickets Sales	Actual Transfers	Projected Transfers	Dollars Variance	FY 2007 Transfers	Dollar Variance	Percentage 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%
Q4	$555.9	$155.0	$159.0	-$4.0	$173.4	($18.4)	-10.6%
Total	$2,260.9	$669.4	$637.9	$31.5	$646.3	$23.1	3.6%

Totals may not add up due to rounding.

Transfers to the Lottery Profits Education Fund

Transfers in the fourth quarter were $155.0 million, down from $177.5 million in the third quarter. Fourth-quarter transfers were also $4.0 million (2.5%) lower than the State Lottery Commission estimated at the beginning of the fiscal year. Transfers to the LPEF for FY 2007 were $669.4 million, $23.1 million (3.6%) higher than transfers in FY 2006. Transfers from operations were about 29.6% of ticket sales. The State Lottery Commission made no transfers to the Deferred Prizes Trust Fund (DPTF) in FY 2007. In FY 2006, $5.8 million was transferred to the DPTF.

Year in Review

Total ticket sales in FY 2007 were $2,260.9 million, $41.4 million (1.9%) higher than sales in FY 2006. The improvement was due to sales of Raffles to Riches and to increased Instant ticket sales.

In the first quarter, the State Lottery Commission introduced "Raffle to Riches," a limited-print On-line game with a ticket price of $20. The game offered four $1 million prizes, five $100,000 prizes, and 500 prizes of $1,000. Sales for the first game were $10.0 million. Sales for the second raffle game, from February to May, were $7.8 million.

The State Lottery Commission replaced the short-lived Lot' O Play with Classic Lotto in January 2007. Previously, Lot' O Play had replaced Super Lotto Plus in October 2005. High ticket prices and lower starting jackpots for Lot' O Play led to a decrease of sales by amounts larger than the State Lottery Commission expected. Hoping for a jump in sales in its lotto-type game, the State Lottery Commission introduced Classic Lotto on January 20, 2007. Although the starting jackpot remained at $1 million, Classic Lotto tickets are $1 per play instead of $2 per play with Lot' O Play. Adopting another strategy to boost sales, the State Lottery Commission started Sunday drawings for its daily On-line games (Pick 3, Pick 4, and Rolling Cash 5).

Compared to sales in FY 2006, Instant ticket sales surged $82.7 million (6.5%). On-line ticket sales slumped $41.4 million (4.4%). Among On-line games, Pick 4, Kicker, and Rolling Cash 5 gained sales over the previous year. Pick 4 and Kicker sales grew $7.2 million (4.1%) and $5.2 million (32.3%), respectively. Rolling Cash 5 sales were higher by $0.3 million (0.4%). These gains were negated by the poor performance of the remaining games. Kicker sales declined

Ticket Sales by Game in FY 2007 and FY 2006 (dollars in millions)										
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	$370.8	$182.9	$21.4	$17.8	$73.0	$43.6	$196.2	$905.5	$1,355.3	$2,260.9
FY2006	$377.3	$175.7	$16.2	N/A	$72.6	$76.3	$223.4	$946.9	$1,272.6	$2,219.5
$ Change	-$6.5	$7.2	$5.2	N/A	$0.3	-$32.7	-$27.2	-$41.4	$82.7	$41.4
% Change	-1.7%	4.1%	32.3%	N/A	0.4%	-42.9%	-12.2%	-4.4%	6.5%	1.9%

Totals may not add up due to rounding.

$3.7 million (18.8%). Lot' O Play/Classic Lotto sales decreased $32.7 million (42.9%). Mega Millions sales dropped $27.2 million (12.2%). Pick 3 sales fell $6.5 million (2.7%).

Payout to Winners and Profitability of Lottery Operations

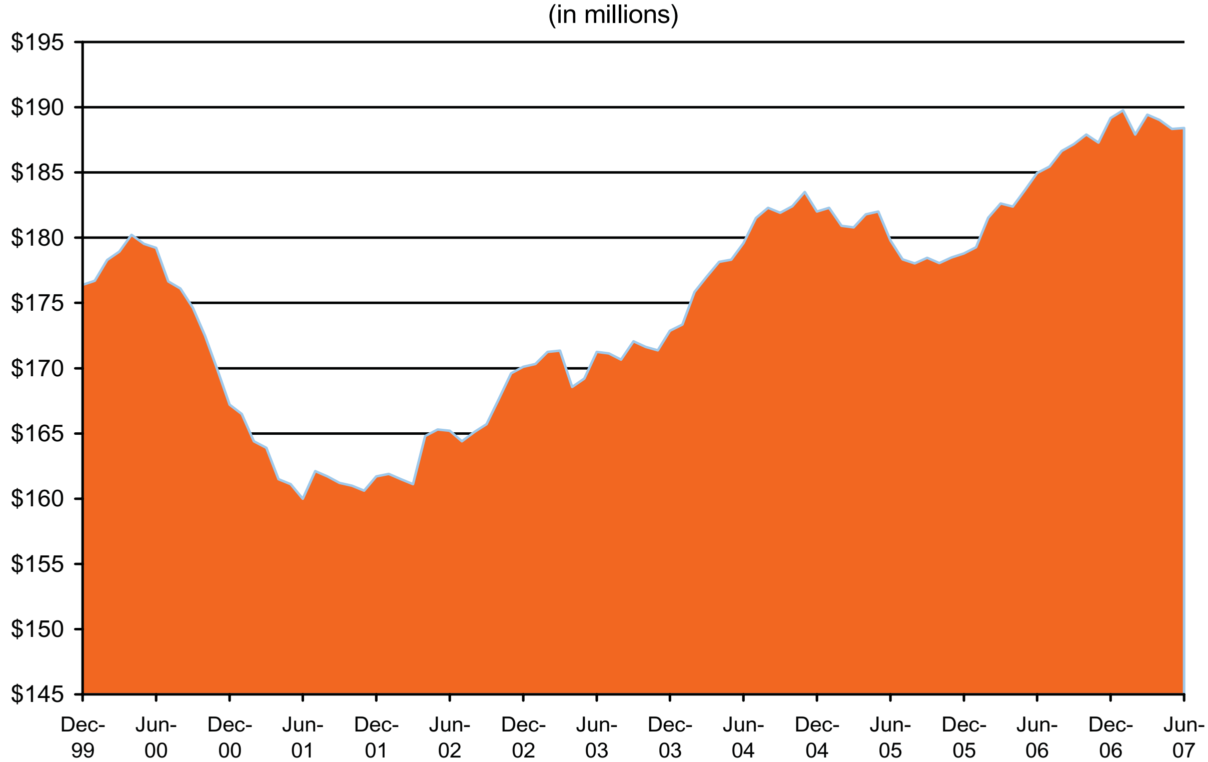
The overall profitability of Lottery operations declined in FY 2007. This fiscal year, the payout for Instant games was about 67.1%, while that of On-line games was 48.7%, for an overall payout of 59.7% for all ticket sales. In FY 2006, the payouts for Instant and On-line games were 65.3% and 48.7%, for an overall payout of 56.6%. Gross profit margins (ticket sales minus payments to winners) are inversely related to the payout ratio. In FY 2007, gross profit margins per dollar of sale were about 33 cents for Instant ticket sales and 51 cents for On-line ticket sales, for an overall gross profit margin of 40.2%. In FY 2006, the overall gross profit margin was 43.3%. Although the overall gross profit margin declined, gross profits increased as a result of the increase in total ticket sales in FY 2007.

Ticket Sales Trends

Ticket sales have improved in the last few years, but they remain below the $2.3 billion in sales recorded in FY 1996. Sizable negative variances in transfers from operations occurred in FY 2003 ($31.3 million). Since then, transfers from operations have been above expectations. Transfers from operations were below 30% of ticket sales in the last three years.

At the apex of Lottery sales, in FY 1996, monthly sales were about $192 million. Monthly sales have a seasonal pattern of increases in November and December and also rise with Super Lotto and Mega Millions jackpots. A 12-month moving average of sales removes seasonal variations and provides a true indication of sales trends. The graph shows that sales grew from the nadir of about $160 million in June 2001 to almost $188 million per month in June 2007. A key factor in the improvement in sales in recent years has been yearly increases in Instant ticket sales. Instant sales grew 7.1%, 4.3%, 4.6%, and 6.4% in the last four fiscal years from

Lottery Ticket Sales
Monthly Sales (12-Month Moving Average)
(in millions)



Tickets Sales and Transfers to LPEF, FY 2002 to FY 2007 (dollars in millions)						
	Ticket Sales	Actual Transfers	Projected Transfers	Dollar Variance	Percentage Variance	Transfers as Percentage of Sales
FY 2002	$1,983.1	$610.1	$608.7	$1.4	0.2%	30.8%
FY 2003	$2,078.2	$606.4	$637.7	($31.3)	-4.9%	29.2%
FY 2004	$2,154.9	$648.1	$637.9	$10.2	1.6%	30.1%
FY 2005	$2,158.1	$645.1	$637.9	$7.2	1.1%	29.9%
FY 2006	$2,219.5	$646.3	$637.8	$8.4	1.3%	29.1%
FY 2007	$2,260.9	$669.4	$637.9	$31.5	4.9%	29.6%

the introduction of numerous new higher priced games. Despite the entry in the Mega Millions game, which stabilized On-line sales temporarily, growth in On-line sales has again turned negative. On-line sales were flat in FY 2004 and declined 4.7% in FY 2005. On-line sales increased 0.5% in FY 2006 and declined 4.4% in FY 2007. Thus, it appears total ticket sales growth will continue to depend on the growth in Instant ticket sales and the introduction of new games. The State Lottery Commission will add a new On-line game in August 2007.

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

School Facilities Update, Fiscal Year 2007

— *Edward Millane*

Historical Trend of SFC Disbursements

Since its inception in 1997, the School Facilities Commission (SFC) has received appropriations of over $7.0 billion and disbursed more than $5.5 billion. Through its various programs, SFC has served approximately 290 school districts and provided support for 480 new or renovated buildings in those districts.

In FY 2007, SFC's disbursements totaled $899.0 million, an increase of $155.9 million (21.0%) over FY 2006. These disbursements are funded by bonds ($595.1 million, or 66.2%), tobacco settlement revenue ($286.7 million, or 31.9%), as well as cash, federal funds, and lottery profits ($17.2 million, or 1.9%). The $899.0 million of disbursements in FY 2007 represent the most funds spent in any one fiscal year in the ten-year history of SFC (see Chart 1).

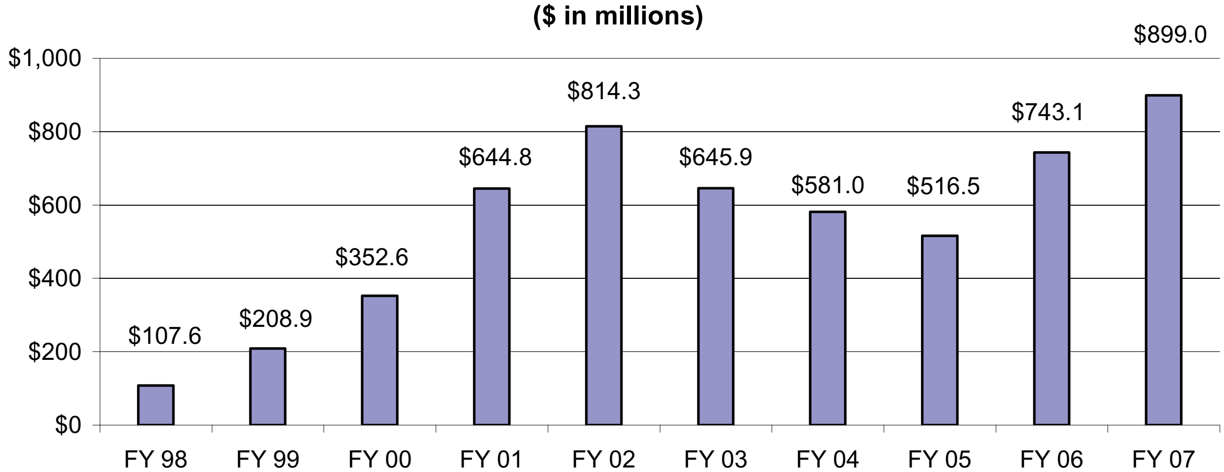
As shown in the chart, disbursements increased substantially from FY 1998 through FY 2002, followed by a three-year period of declining disbursements as the six large urban districts that were offered state funding in FY 2003 assembled their facilities construction and renovation programs. Disbursements again accelerated in FY 2006 and reached a new high of $899.0 million in FY 2007.

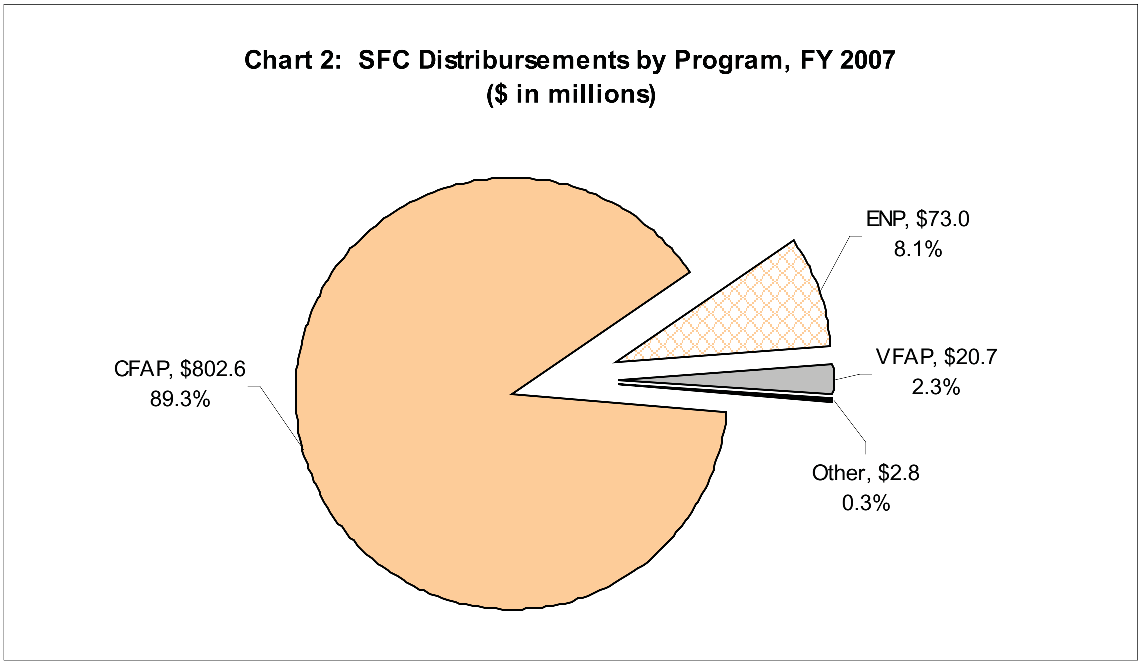
Am. Sub. H.B. 119, the main operating appropriations act of the 127th General Assembly, authorizes the securitization of Ohio's payments to be received over the next 40 or more years under the Tobacco Master Settlement Agreement. SFC anticipates receiving approximately $4.1 billion of the estimated $5.0 billion of net proceeds to be used for school facilities projects over the next three years, which will help continue the trend of increases in both appropriations and disbursements in the next few years.

FY 2007 Disbursements by Program

Chart 2 shows SFC's disbursements of $899.0 million in FY 2007 by program. As seen from the chart, the Classroom Facilities Assistance Program (CFAP) is the key program of SFC; 89.3% of its total disbursements in FY 2007 occurred in this program. The other three major programs of SFC are the Exceptional Needs Program (ENP), the Vocational Facilities Assistance Program (VFAP), and the Expedited Local Partnership Program (ELPP). ENP and VFAP combined accounted for another 10.4% of its total disbursements in FY 2007. While no state funds are disbursed directly under this program, ELPP has helped many districts move forward with their facilities projects. Each of these four major programs is briefly discussed below.

Chart 1: SFC Disbursements by Fiscal Year
($ in millions)





Classroom Facilities Assistance Program. As the key program of SFC, CFAP addresses a school district's entire facilities needs. The determinations of eligibility in the program and of the state and local shares of project costs are based largely on an annually updated school district property wealth-ranking list ("the equity list"). Lower wealth districts generally are served first and receive a greater state share of project costs. In FY 2007, 26 districts were offered funding to participate in CFAP, 19 of which had secured their local funding by the end of the fiscal year. This brought the total number of districts served by this program to around 180.

The six major urban districts (Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo) were provided with CFAP funding in FY 2003 under the Accelerated Urban Initiative. Because of the size and complexity of these districts, their projects are divided into multiple phases and require a longer lead time before construction starts and funds are disbursed. This was the main reason why SFC disbursements declined from FY 2003 through FY 2005 (see Chart 1). Now that these districts are well into their facilities construction phases, disbursements for these six district projects have increased accordingly in the last two years. Currently, Cincinnati and Dayton have reached their final phases; Cleveland and Toledo have entered into phase four of their projects; Akron and Columbus have reached phase two. Through FY 2007, SFC has disbursed $718.0 million, which has helped to build or renovate more than 39 buildings in these six districts.

Exceptional Needs Program. In contrast to CFAP, where eligibility is generally based on the equity list and the entire district's facilities needs are addressed, ENP addresses special instances where a school district has significant health or safety needs associated with a specific building. Eligibility for ENP is open to any district at or below the 75th percentile in the equity list and to any district covering at least 300 square miles, regardless of wealth. In FY 2007, two school districts were offered funding under ENP but neither had secured funding by the end of the fiscal year. Since inception, ENP has served 37 districts.

Expedited Local Partnership Program. Unlike CFAP and ENP, which provide state funds to districts immediately after they participate in the program, ELPP does not directly provide state funding to its participating districts. Under ELPP, school districts use local funds to begin their school facilities projects before becoming eligible for CFAP. Once the school district becomes eligible for CFAP funding, it will receive a credit for the local funds it has spent against its required local contribution under CFAP. Since its establishment in 2000, ELPP has served about 90 school districts. These 90 districts have accumulated a total credit of $1.9 billion against state funds. In FY 2007 seven ELPP districts became eligible for and were served by the CFAP or ENP; these seven districts had a combined ELPP credit of $120.0 million.

Vocational Facilities Assistance Program. The 49 joint vocational school districts are served by the parallel VFAP and the Vocational Facilities Assistance Expedited Local Partnership Program. SFC has the authority to spend up to 2% of its annual appropriations for VFAP. Since its creation in 2003, VFAP has served eight joint vocational school districts. Another two joint vocational school districts have been approved for participating in the Vocational Facilities Assistance Expedited Local Partnership Program; they have accumulated a combined $7.7 million of credit against state funds.

Districts Offered Funding for FY 2008 and Beyond. In May 2007 SFC offered funding to 44 new districts (37 CFAP, 3 ENP, and 4 VFAP). In anticipation of the tobacco securitization proceeds, SFC offered funding to another 57 districts in July 2007. With these two rounds of funding, over half of all school districts in the state have been offered state assistance through SFC.