



September 10, 2007

MEMORANDUM TO: The Honorable Ted Strickland, Governor
The Honorable Lee Fisher, Lt. Governor

FROM: J. Pari Sabety, Director

A handwritten signature in black ink, appearing to read "J. Pari Sabety", written over the printed name.

SUBJECT: Monthly Financial Report

ECONOMIC SUMMARY

The economic outlook has turned decidedly mixed. Although industrial activity continued to expand through the summer, housing construction, sales, and prices fell further. Industrial production in the Midwest increased solidly in July. While personal income remained on its solid growth path, consumer spending began to slow in response to high gasoline prices, some weakening in labor markets, and fallout from the housing downturn. Forecasters lowered their outlooks for second-half growth, and markets have priced in expected substantial reductions in the Federal Reserve's target interest rates.

Forecasters have also lowered projections for real GDP in the second half. Global Insight predicts growth of 2.3% in the third quarter and 1.7% in the fourth quarter, followed by growth of 1.5% to 1.8% in the first half of 2008. A key factor behind reductions in growth forecasts and a risk to the outlook is the recent tightening in global credit conditions that has curtailed borrowing by consumers and corporations alike.

The Federal Reserve is widely expected to lower its target for the federal funds rate by one-quarter to one-half percentage point at its meeting on September 18 in recognition of credit market uncertainty and its potential effects on the economy. As indicated by yields on short-term and intermediate-term Treasury securities, investors expect substantial additional reductions in the federal funds rate at subsequent Federal Reserve meetings.

Economic Growth

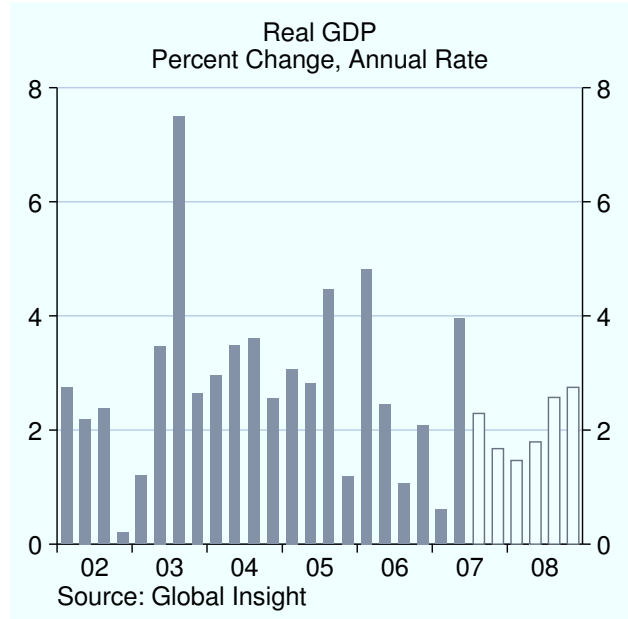
Real GDP expanded faster in the second quarter than originally reported, rising at an annual rate of 4.0%. Combined with the 0.6% growth rate in the first quarter, the economy grew 2.3% in the first half, up from a cyclical low of 1.3% during the half-year ending in the first quarter.

The upward revision to net exports made the greatest contribution to the revision, adding about a quarter of a percentage point to real GDP growth. The increase came from stronger growth in exports and slower growth in imports. Upward revisions to personal consumption expenditures, investment in nonresidential structures, investment in equipment and software, change in

inventories, and net exports were responsible for the adjustment to **real GDP** growth.

Stronger growth in exports was the biggest factor behind the upgrade in growth from the advance estimate of 3.4%. U.S. exports expanded 5.2% annualized, up from an initial estimate of 4.9%. U.S. firms are benefiting from the nearly 30% depreciation in the foreign exchange value of the dollar since early 2002 and the most rapid economic growth outside the U.S. in years.

Robust growth prospects overseas in combination with the trend toward rate increases by foreign central banks and the possibility that the Federal Reserve will lower rates could maintain the weakness in the dollar and the momentum behind exports.



Growth in personal income has outstripped growth in consumer spending during the year ending in July by 6.6% to 4.7%, as consumers have begun to rebuild savings. As recently as January, year-over-year growth was 5.8% for income and 5.6% for spending.

The **coincident economic index** for Ohio (CEI) prepared by the Federal Reserve Bank of Philadelphia increased 0.3% in July, and previous months' values were revised higher. Compared with a year earlier, the index was up 1.8% – about in line with year-over-year growth during the past year. The index is designed to track the growth rate of Ohio Gross Domestic Product.

Employment

U.S. employment decreased by 4,000 jobs in August – the first monthly decline since August 2003. Private sector payrolls increased by 24,000 jobs, as gains in education and health services (+63,000), retail trade (+12,500), and leisure and hospitality (+12,000) employment offset losses of 22,000 in construction and 46,000 in manufacturing. During the past year, construction employment has fallen by 96,000 jobs and manufacturing employment has fallen by 215,000 jobs.

Among the sectors hardest hit were residential specialty trade contractors (-18,100) and



motor vehicles and parts (-11,000). In the service-producing sector, credit intermediation and related activities fell by 6,000 jobs. Private sector employment increased by 24,000 jobs, as government payrolls shrank by 28,000 jobs, due to lower than normal seasonal hiring by local governments.

For the year to date, employment growth has averaged 109,000 jobs per month. That is down from 189,000 per month last year. The unemployment rate held steady at 4.6%, as a 316,000 worker drop in the household measure of employment was offset by a 340,000 reduction in the labor force. The number of people not in the labor force increased by 592,000 during the month.

Average hourly earnings increased 0.3% in August to 3.9% above the year earlier level – the same as in July and down from the peak for this cycle of 4.3% reached last December.

Ohio employment decreased by 8,400 jobs in July, partially offsetting an upwardly revised increase of 12,800 jobs in June. Employment increased in professional and business services (+800) and other services (+700). Employment in all other major categories was flat or declined, led by leisure and hospitality (-3,400), manufacturing (-2,400), government (-1,500), and construction (-1,300). Employment was down by 8,500 jobs year-to-date, with the decline centered in manufacturing (-9,100) and financial activities (-3,600), where the fallout in residential mortgage lending has led to cutbacks in staff. The only major increase in Ohio employment year-to-date has occurred in education and health services (+7,900).

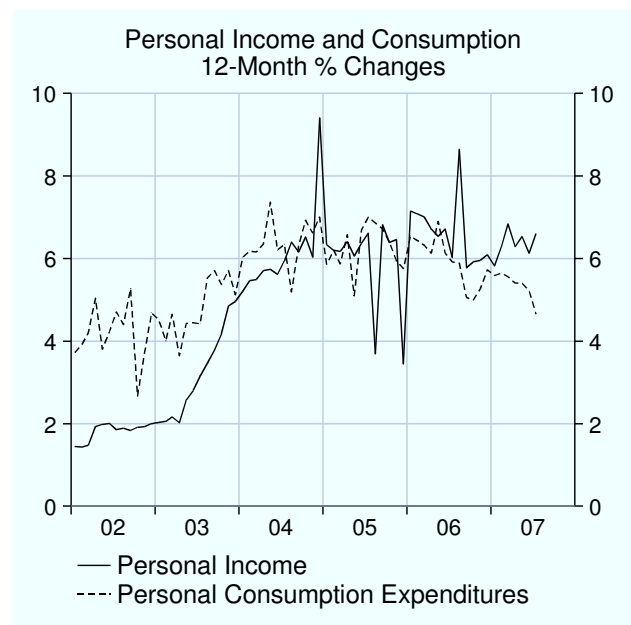
The **Ohio Metropolitan Statistical Areas (MSAs)** that made the largest contributions to statewide employment growth during the past year are Columbus (+4,700), Akron (+3,600), Cincinnati-Middletown (+1,700), and Toledo (+1,700). The MSAs that subtracted the most from Ohio employment were Youngstown-Warren-Boardman (-3,500), Lima (-900), and Dayton (-600).

Indiana, Kentucky, Pennsylvania, and West Virginia led the way in employment growth among **contiguous states** during the twelve months ending in July with gains of 0.9%, 0.8%, 0.8%, and 0.6%, respectively. Employment in Michigan decreased 1.5% from a year ago, followed by essentially no change in Ohio. Nationally, employment increased 1.4% during the twelve months ending in July.

Consumer Income and Consumption

Personal income rose 0.5% in July to 6.6% higher than in July 2006. Fueling the rise was a second monthly 0.5% increase in wage and salary disbursements, which were 7.2% above the year earlier level. The trend rate of growth in nominal personal income has been above 6% since mid-2004.

Personal consumption expenditures, on the



other hand, have slowed abruptly in recent months. Consumption increased 0.4% in July, but the year-over-year gain slowed to 4.7% from 5.7% as recently as last December.

Consumers appear to have slowed the pace of spending in reaction to turmoil in financial markets that has unsettled confidence, still-high gasoline prices, slower job growth this year, and repercussions from the ongoing weakness in the housing sector. The Mortgage Bankers Association reported that new home foreclosures increased to a new record in the second quarter and 5.12% of mortgage borrowers were past due or delinquent at the end of the first quarter. Measures of consumer confidence deteriorated to their lowest levels of the year in August after a solid improvement in July, according to both the Conference Board and the University of Michigan.

The light motor vehicle sales pace fell to a long-time low of 15.2 million units in July – the lowest since the aftermath of Hurricane Katrina and, before that, August 1998. Sales rebounded to 16.2 million in August, due in part to enhanced sales incentives, but credit difficulties in the housing market might limit the extent of the further increases.

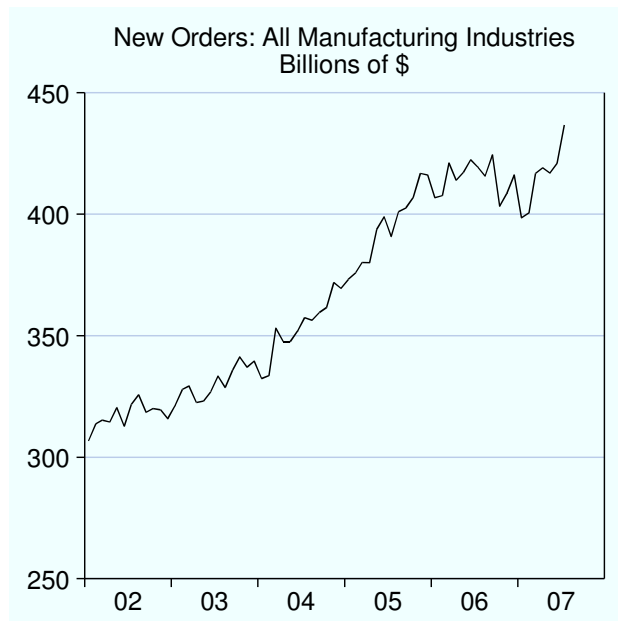
Midwest retail sales increased 0.1% in July, following an upwardly revised decrease of 0.8% in June. Compared with a year ago, sales were up 2.6%. U.S. retail sales increased 0.3% in July and were up 3.2% year-over-year. Retailers in and around Ohio reported mixed results during the mid-July to late August period, according to the Federal Reserve Bank of Cleveland. Sales declined at apparel stores, while general merchandise held steady or increased slightly. Retailers expect little change from recent trends in the near-term.

Manufacturing

Industrial production increased 0.3% in July, following a solid 0.6% gain in June. Production in manufacturing increased 0.6% for the second straight month. Despite the good report, industrial production was higher by only 1.4% compared with a year earlier. Production in several industries that are important for the Ohio economy increased significantly during July, led by primary metals (+1.5%), machinery (+1.1%), and motor vehicles and parts (+2.6%). Among the major industries, only textiles and apparel were weak. Total capacity utilization increased to 81.9%.

Midwest manufacturing production increased 0.6% in July and the June figure was revised from unchanged to an increase of 0.4%. All four sectors experienced higher production during the month. Resource output rose 1.0%. Machinery output was up 0.8%. And steel and auto output was up 0.7% and 0.3%, respectively.

Firms in and around Ohio reported stable to increasing production during the six weeks ending



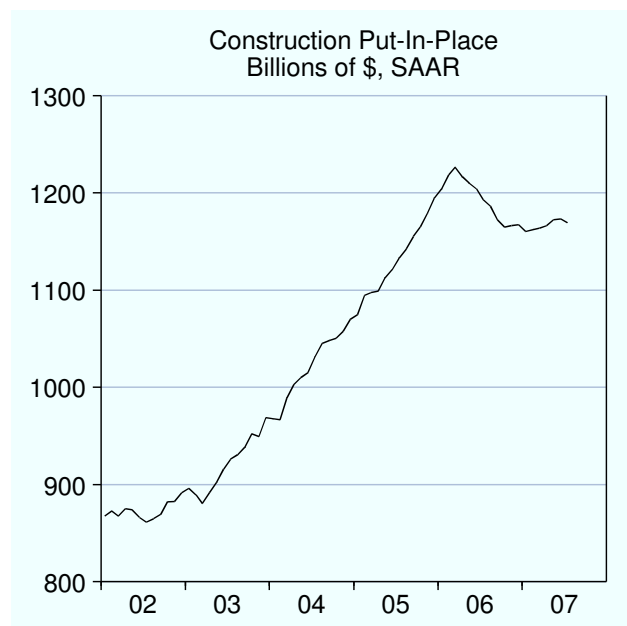
in late August, according to the Cleveland Federal Reserve Bank. A majority of the firms contacted said that they had increased production from a year earlier. Almost all of the firms expect the same or higher production levels at this time next year. The housing slump, tighter credit conditions, and higher commodity prices are expected to limit growth.

Factory shipments and **new orders** rebounded sharply in July, after faltering in June. Shipments increased 2.6% and new orders rose 3.7% to a record-high. Purchasing managers reported somewhat less widespread improvement in business conditions in manufacturing again during August. The **Purchasing Managers Index** slipped further, but remained squarely above the 50 threshold that separates improving from deteriorating activity in manufacturing. Reports of new orders were somewhat less widespread than in July, but reports of higher production were slightly more common. The backlog of orders fell, but export orders remained strong.

Construction

Recent trends in construction and housing continued over the summer, as nonresidential construction increased and residential construction decreased. **Construction put-in-place** fell 0.4% in July, after five consecutive monthly increases. Nonresidential construction increased 0.4%, the tenth straight rise. Private construction increased 0.4% (the 24th gain in 25 months) and public construction increased 0.7%.

The downward trend in housing construction intensified, as residential construction put-in-place dropped 1.4% – the largest setback since January. Single-family construction put-in-place was down 2.2% (the 17th straight decline), as **housing starts** fell 6.1%. Multi-family construction fell 1.1% (the eighth straight drop), and the May and June figures were revised from increases to decreases. The reduced availability and higher cost of mortgage loans will be obstacles to a near-term turnaround.



Housing sales were stable-to-higher in July, but prices weakened further and the inventory of unsold homes on the market deteriorated. Sales of existing homes were essentially unchanged in July and sales of new homes actually gained 2.8%. But the more current pending homes sales index fell 12.2% and the inventory of unsold existing homes increased to a new cyclical high. Prices continued to adjust as a result over the summer. The S&P/Case-Shiller **home price index** declined 0.4% in June and 3.4% year-over-year.

REVENUES AND DISBURSEMENTS

FY 2008 Year-to-Date Highlights

- GRF tax receipts in the first two months were slightly above estimate by \$3.6 million (0.1%). Non-auto sales tax and cigarette tax receipts were both ahead of estimate while personal income tax receipts fell slightly below estimate. *(See Table 1.)*
- Tax receipts declined \$34.5 million (1.2%) relative to FY 2007. Tax reforms continued to affect year-to-year growth. *(See Table 2.)*
- GRF total uses, including pending payrolls and transfers out were over estimate by \$189.7 million (3.8%). *(See Table 3.)*
- Excluding transfers out, uses were \$393.9 million (8.9%) above last year's levels. Year-to-date spending increased for primary and second education and decreased for justice and public protection. *(See Table 4.)*

Please Note: The State of Ohio implemented the financial component of the Ohio Administrative Knowledge System (OAKS), the new integrated accounting system, at the beginning of FY 2008. As a result, the figures cited in the text and tables of this report may be revised as additional information from the OAKS system becomes available. The OAKS system has moved the state to a modified accrual basis of accounting, where revenues are recorded when received, and expenses are recognized when the liability is incurred. Under CAS, the state's old accounting system, the state operated on a cash basis, where revenues were recognized when they were received, and expenditures were recognized when the cash was moved. An example of the impact of this in this month's report is that the first September education foundation payment was posted to the OAKS system in August, showing a significant variance above estimate. But the cash did not leave the state's bank accounts until September. We expect that there will be a similar level of under spending in this account in September. Also, in this month's report we report on corrections to July's revenue categories and ongoing issues related to posting payroll that has impacted several agencies.

GRF tax receipts totaled \$2,741.9 million in the first two months of FY 2008 and stayed slightly above estimate by \$3.6 million (0.1%). As Federal grants were below estimate because of under spending in Medicaid, **GRF total revenues** in July and August were slightly below estimate by \$4.9 million (0.1%). The two-month **GRF disbursements** were over estimate by \$189.7 million (3.8%).

Both the non-auto sales tax and the cigarette tax ended August with positive year-to-date variances, which were offset by the negative year-to-date variances in the auto sales tax, personal income tax and corporate franchise tax. Year-to-date revenues from federal grants were under estimate by \$15.3 million (1.4%). GRF total receipts were slightly below estimate by \$4.9 million (0.1%).

Year-to-date variances in GRF disbursements resulted from higher than expected spending in primary and secondary education and under spending in justice and public protection, health and human services, and public assistance and Medicaid.

In August, GRF tax receipts were below estimate by \$29.1 million (2.1%), which resulted primarily from the negative variance in personal income tax. However, higher than expected refunds, which reflected tax year 2006 performance, was the main reason that personal income tax receipts fell below estimate. Federal revenues also fell below estimate. **August GRF total revenues** were under estimate by \$35.9 million (1.6%).

In August, primary and secondary education **spending** was over estimate by \$289.6 million (52.8%). Most other GRF uses, including spending on justice and public protection, public assistance and Medicaid, and higher education, were under estimate.

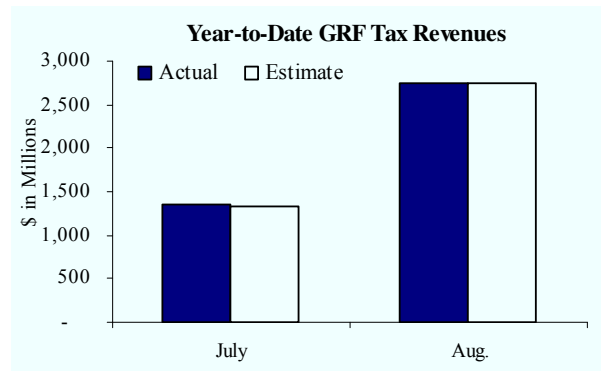
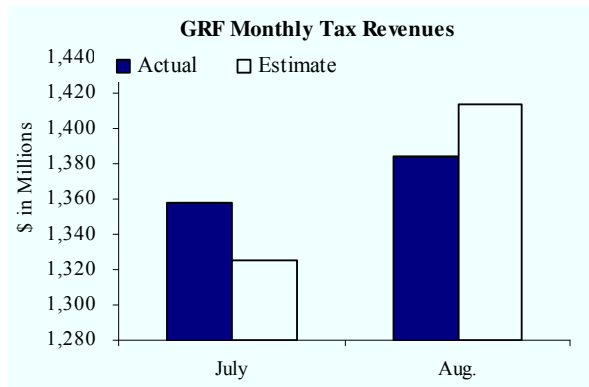
The tax reforms enacted in Am. Sub. H.B. 66 by the 126th General Assembly continue to phase in through FY 2008 and affect **year-over-year variance** of GRF tax revenues. GRF tax receipts in the first two months of FY 2008 fell behind the FY 2007 level by \$34.5 million (1.2%). GRF total sources produced \$126.2 (3.3%) more revenues in July and August than in July and August 2006. Year-to-date GRF total disbursements were ahead of FY 2007 level by \$204.7 million (4.2%).

FY 2008 GRF revenues and disbursements that appear in the figures and tables of this report reflect the Am. Sub. H.B. 119 biennial budget framework. The following table shows the variance from the estimate for total GRF revenues and disbursements for August and for FY 2008 year-to-date.

General Revenue Fund (\$ in millions)	August Variance		FY 2008 Variance	
Revenues				
Tax Receipts	-\$29.1	-2.1%	\$3.6	0.1%
All Sources	-\$35.9	-1.6%	-\$4.9	-0.1%
Total Uses (Including Transfers)	\$190.3	7.7%	\$189.7	3.8%

REVENUES

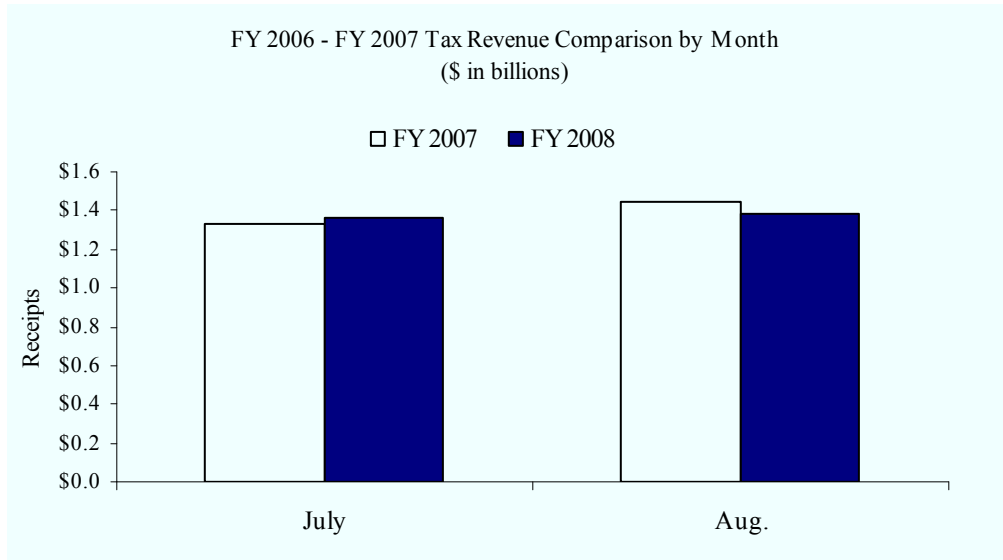
GRF tax receipts in July and August were on target with a small positive variance of \$3.6 million (0.1%). The positive variance generated in non-auto sales tax and cigarette tax contributed \$26.0 million and \$11.2 million, respectively, towards the overage. Personal income tax receipts were slightly below estimate by \$11.4 million (0.9%), which reflected higher than expected tax refunds. Corporate franchise tax receipts trailed the estimate by \$11.1 million. As a result of weak automobile sales in July and August, receipts from auto sales tax were under estimate by \$7.7 million (4.2%). Due to below estimate expenditures in Medicaid, Federal revenues were below estimate by \$15.3 million (1.4%). **Total GRF revenues** in July and August were also close to estimate with a small negative variance of \$4.9 million (0.1%).



In **August, GRF tax receipts** were below estimate by \$29.1 million (2.1%). The discrepancy resulted primarily from the below estimate variance in personal income tax, which was \$28.8 million (4.7%). However, higher than expected refunds, which reflected liabilities for tax year 2006, contributed to most of the negative variance in personal income tax but withholding revenues, which reflected current year tax liabilities, were close to estimate. Non-auto sales tax, corporate franchise tax, and cigarette tax all generated positive variances in August, while auto sales tax and public utility excise tax produced negative variances. High gasoline prices and the deteriorating housing market both depressed vehicle sales in August.

August Federal revenues were under estimate by \$8.1 million (1.1%) due to lower than expected expenditures in Medicaid. This added to the variances in August tax receipts and resulted in a below estimate variance in **August GRF revenues** of \$35.9 million (1.6%).

Tax receipts in the first two months of FY 2008 declined \$34.5 million (1.2%) versus FY 2007. The annual decline in personal income tax and corporate franchise tax receipts contributed to the year to year slide. The decline in personal income tax receipts were affected by the withholding rate reduction. Corporate franchise tax receipts decreased by \$45.9 million, of which \$25.1 million were attributed to the one-time settlement payments in July 2006. Offsetting the decline was the increase in non-auto sales tax receipts of \$46.8 million (4.2%). Federal revenues in the first two months grew by \$141.4 million (15.1%) from FY 2007. As a result, year-to-date GRF revenues grew by \$126.2 million (3.3%) from FY 2007.



The table below summarizes the major revenue variances, in millions of dollars, for FY 2008.

<u>Sources Above Estimate Year-to-Date</u>		<u>Sources Below Estimate Year-to-Date</u>	
Non-Auto Sales Tax	\$26.0	Auto Sales Tax	-\$ 7.7
Cigarette Tax	11.2	Personal Income Tax	-11.4
Transfers In - Other	5.5	Corporate Franchise Tax	-11.1
Other above estimate sources	<u>4.6</u>	Federal Grants	-15.3
		Other below estimate sources	<u>-6.7</u>
Total above	\$47.3	Total below	-\$52.2

Non-Auto Sales and Use Tax

The non-auto sales tax began FY 2008 with two consecutive above-estimate variances. August receipts were above estimate by \$1.8 million (0.3%) and the positive variance in the first two months totaled \$26.0 million (2.3%). August receipts were also ahead of August 2007 receipts by \$4.7 million (0.9%) and year-to-date receipts were ahead of FY 2007 year-to-date receipts by \$46.8 million (4.2%). August chain-store sales came a little higher than expected but still soft from a historical perspective. With the housing market continually worsening and gasoline prices staying high, no conclusion can be made on two-month tax receipts.

Auto Sales Tax

Receipts in August fell below estimate by \$4.6 million (4.8%). Year-to-date receipts trailed estimate by \$7.7 million (4.2%). High gasoline prices, weakening housing market, and tight financial credit all depressed motor vehicle purchases. Monthly light vehicle sales declined in both July and August compared to the level a year ago.

Personal Income Tax

NOTE: In the process of reconciling the data from the Department of Taxation and OAKS, errors were detected for July receipts for different components of the personal income tax. The following table presents the correct receipts from different components in July. July total receipts remained the same. However, the overage in withholding revenues was higher than earlier reported, \$44.6 million versus \$35.7 million. These revenues were mistakenly categorized as other receipts in the August report.

CORRECTED JULY 2007 PERSONAL INCOME TAX RECEIPTS BY COMPONENT			
(\$ in thousands)			
	<u>ESTIMATE</u>	<u>ACTUAL</u>	<u>\$ VAR</u>
Withholding	615,800	660,381	44,581
Quarterly Est. Payments	25,000	18,723	(6,277)
Trust Payments	2,500	3,606	1,106
Annual Returns	11,200	9,467	(1,733)
Other	7,000	5,175	(1,825)
Less: Refunds	(16,000)	(34,290)	(18,290)
Local Distribution	(55,400)	(55,562)	(162)
Net to GRF	590,100	607,500	17,400

In August, personal income tax receipts fell below estimate by \$28.8 million (4.7%). The majority of the monthly variances resulted from higher than expected refunds and lower than expected annual returns, both of which were based on income from tax year 2006 rather than current tax year 2007. The negative variances in these two components contributed \$25.5 million towards the negative monthly variance. Withholding revenues were very close to the estimate with a small negative variance of \$1.8 million.

Total receipts combined in July and August were slightly below estimate by \$11.4 million (0.9%). Again, higher than expected refunds and lower than expected annual returns were major contributors to this negative variance. As annual returns and refunds in the first half of the fiscal year are usually late payments resulting from the filing season, they are based on the previous tax year income (tax year 2006 in this case). For the tax payments that were based on tax year 2007 income, year-to-date receipts were over estimate. Withholding revenues in the first two months of the year remained over estimate with a robust positive variance of \$42.7 million. The following table shows the variances in different components of personal income tax for August and year-to-date.

FY 2008 PERSONAL INCOME TAX RECEIPTS BY COMPONENT (\$ in thousands)						
	ESTIMATE	ACTUAL	\$ VAR	ESTIMATE	ACTUAL	\$ VAR
	<u>AUGUST</u>	<u>AUGUST</u>	<u>AUGUST</u>	<u>Y-T-D</u>	<u>Y-T-D</u>	<u>Y-T-D</u>
Withholding	665,200	663,366	(1,834)	1,281,000	1,323,747	42,747
Quarterly Est.	12,000	14,590	2,590	37,000	33,313	(3,687)
Trust Payments	700	723	23	3,200	4,329	1,129
Annual Returns & 40 P	14,100	10,079	(4,021)	25,300	19,546	(5,754)
Other	7,200	2,988	(4,212)	14,200	8,163	(6,037)
Less: Refunds	(28,500)	(49,979)	(21,479)	(44,500)	(84,269)	(39,769)
Local Distr.	(62,200)	(62,040)	160	(117,600)	(117,602)	(2)
Net to GRF	608,500	579,727	(28,773)	1,198,600	1,187,227	(11,373)

On a year-to-year comparison, August receipts declined by \$56.0 million (8.8%) from August 2006 and year-to-date receipts declined by \$33.5 million (2.7%) from FY 2007. The annual growth rates continued to be affected by the phased-in tax rate cut as enacted in Am. Sub. H.B. 66 by the 126th General Assembly. The withholding rate was reduced by 8.4% in July and August 2007 compared to July and August 2006.

Corporate Franchise Tax

Corporate franchise tax receipts in the first half of the fiscal year usually result from filing extensions and are less predictable. August receipts of \$4.8 million were \$3.3 million higher than expected. Receipts in the first two months were negative by \$6.6 million, \$11.1 million below estimate. The two-month receipts also indicated an annual decline of \$45.9 million from FY 2007. One-time settlements of \$25.1 million were received in July 2006 which contributed to the year-to-year decline.

Commercial Activity Tax

In FY 2008, receipts from this tax source will be distributed to non-GRF funds to pay to school districts and local governments as the tangible personal property tax is phased out. August 9 was the first due date in the fiscal year for the commercial activity tax. Receipts in August totaled \$188.7 million, which were on target with a very small negative variance of \$88,000. Year-to-date receipts totaled \$209.4 million and were slightly over estimate by \$1.6 million (0.8%).

Public Utility Excise Tax

A majority of the tax payments due in August were levied on public utility companies' gross receipts in the April to June quarter. As no receipts were collected in July, August and year-to-date receipts were the same. They were below estimate by \$3.3 million (7.3%)

Cigarette Tax

Cigarette tax receipts were ahead of estimate in both July and August. In August, the positive variance generated in this tax source was \$4.1 million (4.7%). Year-to-date receipts were over estimate by \$11.2 million (11.0%).

August receipts were \$2.5 million (2.7%) below August 2006 receipts. Based on the sharp declining trend in this tax source in the second half of FY 2007, a higher declining rate had been built into the estimate in the first few months of FY 2008. More results need to be seen before any conclusion can be made for this tax source. Year-to-date receipts were ahead of FY 2007 year-to-date receipts by \$5.0 million (4.6%).

Table 1*
GENERAL REVENUE FUND RECEIPTS
PRELIMINARY FY 2008 VS ESTIMATE FY 2008
(\$ in thousands)

REVENUE SOURCE	Month				Year-to-Date			
	ACTUAL AUGUST	ESTIMATE AUGUST	\$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	\$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	536,946	535,100	1,846	0.3%	1,152,128	1,126,100	26,028	2.3%
Auto Sales & Use	89,848	94,400	(4,552)	-4.8%	175,985	183,700	(7,715)	-4.2%
Subtotal Sales & Use	626,795	629,500	(2,705)	-0.4%	1,328,112	1,309,800	18,312	1.4%
Personal Income	579,727	608,500	(28,773)	-4.7%	1,187,227	1,198,600	(11,373)	-0.9%
Corporate Franchise	4,761	1,500	3,261	217.4%	(6,648)	4,500	(11,148)	-247.7%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	41,641	44,900	(3,259)	-7.3%	41,642	44,900	(3,258)	-7.3%
Kilowatt Hour	31,435	31,800	(365)	-1.1%	61,444	60,700	744	1.2%
Foreign Insurance	1	0	1	N/A	16	0	16	N/A
Domestic Insurance	40	600	(560)	-93.3%	41	600	(559)	-93.2%
Other Business & Property Tax	245	310	(65)	-20.9%	281	490	(209)	-42.6%
Cigarette	91,894	87,800	4,094	4.7%	113,130	101,900	11,230	11.0%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,842	5,400	(558)	-10.3%	10,587	10,600	(13)	-0.1%
Liquor Gallonage	2,946	3,000	(54)	-1.8%	5,939	5,900	39	0.7%
Estate	130	200	(70)	-34.9%	160	300	(140)	-46.7%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,384,456	1,413,510	(29,054)	-2.1%	2,741,931	2,738,290	3,641	0.1%
NON-TAX RECEIPTS								
Federal Grants	748,496	756,617	(8,121)	-1.1%	1,075,742	1,091,040	(15,298)	-1.4%
Earnings on Investments	0	0	0	N/A	45	0	45	N/A
License & Fees	7,096	5,347	1,749	32.7%	13,169	11,450	1,719	15.0%
Other Income	4,158	4,600	(442)	-9.6%	7,852	8,294	(442)	-5.3%
ISTV'S	29	2,100	(2,071)	-98.6%	39	2,110	(2,071)	-98.2%
Total Non-Tax Receipts	759,779	768,664	(8,885)	-1.2%	1,096,848	1,112,894	(16,046)	-1.4%
TOTAL REVENUES	2,144,235	2,182,174	(37,939)	-1.7%	3,838,779	3,851,184	(12,405)	-0.3%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	14,000	12,000	2,000	16.7%	39,000	37,000	2,000	5.4%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	5,402	5,400	2	0.0%	15,386	9,900	5,486	55.4%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	19,402	17,400	2,002	11.5%	54,386	46,900	7,486	16.0%
TOTAL SOURCES	2,163,637	2,199,574	(35,937)	-1.6%	3,893,165	3,898,084	(4,919)	-0.1%

*Amounts will be finalized once general ledger is closed for July and August.

Table 2*
GENERAL REVENUE FUND RECEIPTS
PRELIMINARY - FY 2008 VERSUS FY 2007
(\$ in thousands)

REVENUE SOURCE	Month				Year-to-Date			
	ACTUAL	ACTUAL	\$	%	ACTUAL	ACTUAL	\$	%
	2008	2007	VAR	VAR	2008	2007	VAR	VAR
TAX RECEIPTS								
Non-Auto Sales & Use	536,946	532,223	4,723	0.9%	1,152,128	1,105,320	46,808	4.2%
Auto Sales & Use	89,848	91,793	(1,945)	-2.1%	175,985	176,897	(913)	-0.5%
Subtotal Sales & Use	626,795	624,016	2,778	0.4%	1,328,112	1,282,217	45,895	3.6%
Personal Income	579,727	635,774	(56,047)	-8.8%	1,187,227	1,220,744	(33,517)	-2.7%
Corporate Franchise	4,761	7,497	(2,737)	-36.5%	(6,648)	39,231	(45,880)	-116.9%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	41,641	45,035	(3,394)	-7.5%	41,642	45,035	(3,393)	-7.5%
Kilowatt Hour	31,435	31,047	387	1.2%	61,444	59,151	2,293	3.9%
Foreign Insurance	1	13	(12)	-93.7%	16	48	(32)	-66.6%
Domestic Insurance	40	(338)	378	-111.8%	41	233	(192)	-82.4%
Other Business & Property Tax	245	87	158	181.3%	281	192	90	46.8%
Cigarette	91,894	94,397	(2,504)	-2.7%	113,130	108,161	4,970	4.6%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,842	5,162	(321)	-6.2%	10,587	11,000	(413)	-3.8%
Liquor Gallonage	2,946	2,847	99	3.5%	5,939	5,772	167	2.9%
Estate	130	0	130	N/A	160	4,631	(4,471)	-96.5%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,384,456	1,445,538	(61,082)	-4.2%	2,741,931	2,776,414	(34,483)	-1.2%
NON-TAX RECEIPTS								
Federal Grants	748,496	558,979	189,517	33.9%	1,075,742	934,347	141,395	15.1%
Earnings on Investments	0	0	0	N/A	45	0	45	N/A
License & Fee	7,096	6,185	912	14.7%	13,169	12,071	1,098	9.1%
Other Income	4,158	4,082	75	1.8%	7,852	10,153	(2,301)	-22.7%
ISTV'S	29	2,738	(2,709)	-98.9%	39	3,221	(3,182)	-98.8%
Total Non-Tax Receipts	759,779	571,984	187,795	32.8%	1,096,848	959,792	137,056	14.3%
TOTAL REVENUES	2,144,235	2,017,522	126,713	6.3%	3,838,779	3,736,206	102,573	2.7%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	14,000	12,000	2,000	16.7%	39,000	23,000	16,000	69.6%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	5,402	1,000	4,402	440.2%	15,386	2,388	12,997	544.2%
Temporary Transfers In	0	5,380	(5,380)	N/A	0	5,380	(5,380)	N/A
Total Transfers	19,402	18,380	1,022	5.6%	54,386	30,768	23,618	76.8%
TOTAL SOURCES	2,163,637	2,035,902	127,735	6.3%	3,893,165	3,766,974	126,190	3.3%

*Amounts will be finalized once general ledger is closed for July and August.

DISBURSEMENTS

August Disbursements

In August, GRF disbursements, including pending payroll and transfers out of the GRF, totaled \$2,675.8 million, which was \$190.3 million, or 7.7%, above the estimate. For the year to date, GRF disbursements totaled \$5,121.2 million, which was \$189.7 million, or 3.8%, above the estimate. Adjusting for transfers out of the GRF, year-to-date disbursements were up 4.2% compared to last year.

As a result of the OAKS Financials implementation, there have been inevitable transaction coding issues to resolve in order to have payroll, vouchers, and other state expenses post correctly against FY 2007 encumbrances and FY 2008 appropriations. The Accounts Receivable Ledger was closed for the months of July and August, but the General Ledger remains open for both months as OBM and state agencies continue to work to resolve payroll coding issues. GRF disbursements will not be final for July or August until all ledgers are closed. It is anticipated that the General Ledger for July will be closed the week of September 17 and the General Ledger for August soon thereafter. Once the months of July and August are closed, actual disbursement tables will be published. Currently, there is roughly \$231.6 million in GRF payroll pending for July and \$154 million for August.

Primary and Secondary Education

August disbursements in Primary and Secondary Education were \$838.2 million, which was \$289.6 million, or 52.8%, over the estimate. For the fiscal year, disbursements totaled \$1,437.5 million, which was \$253.7 million, or 21.4%, above the estimate.

- The Department of Education foundation funding line items were over estimate by \$270.4 million for the month, which was attributable to three foundation payments posting to August instead of two. The first of two September payments posted in August as a result of accrued accounting practices in the OAKS system. This will result in September disbursements being much lower than estimated.

Higher Education

August disbursements for Higher Education were \$177.2 million, representing a variance of \$50.7 million, or 22.3%, below the estimate for the month. Year-to-date disbursements were \$423.6 million, representing a variance of \$6.6 million, or 1.5%, below the estimate. State subsidy payments for August to Ohio University and Ohio State University posted in July instead of August as planned.

Public Assistance and Medicaid

For the month of August, GRF disbursements in this category totaled \$947.4 million and were under the estimate by \$51.1 million, or 5.1%. Year-to-date disbursements in this category

totaled \$1,940.3 million, which was \$78.1 million, or 3.9%, below the estimate. Medicaid disbursements, the largest item in this category, totaled \$876.7 million for the month of August, which was under estimate by \$26.5 million, or 2.9%. Year-to-date Medicaid disbursements totaled \$1,820.8 million, which was \$26.5 million, or \$1.4%, below the estimate.

- Under spending in the Medicaid program of \$26.5 million is the result of timing of the Medicaid Buy In payment. The Medicare premium payments for eligible Medicaid recipients were expected to be made in August, but will be made in September instead.
- The JFS Support Services line item was under estimate by \$6.0 million for the month. Under spending will be partially offset once GRF payroll posts for the month. In addition, many vendor payments, including those for central administration, maintenance and equipment, were not made in August as previously estimated.
- The JFS Computer Projects line item was under estimate by \$12.0 million for the month. Under spending will be partially offset once GRF payroll posts for the month. In addition, payments made against prior- year encumbrances for personal service contracts as well as software maintenance and equipment payments were not made in August as estimated.

Health and Human Services

August disbursements in the Health and Human Services category, which includes spending for the Departments of Mental Health, Mental Retardation, Aging, and Health, among others, were \$94.0 million, which was \$44.2 million, or 32.0%, under the estimate. For the fiscal year, disbursements totaled \$188.5 million, which represents a variance of \$80.3 million, or 29.9%, below the estimate.

- Once GRF payroll posts for July and August, much of the variance in the Departments of Mental Health and Mental Retardation will be eliminated. As these two agencies must staff the state's nine mental hospitals and ten developmental centers 24 hours a day seven days a week, payroll charges are a significant portion of each agency's overall spending. Pending GRF payroll for these two agencies totals roughly \$25 million for August and \$62 million for the year-to-date.
- A change in the submittal date for subsidy agreements for the Help Me Grow program delayed the disbursement of roughly \$4.7 million in subsidy payments in the Department of Health. Disbursements for this program will begin in September.

Justice and Public Protection

August disbursements in this category totaled \$51.3 million, which produced a variance of \$94.1 million, or 64.7%, below the estimate. For the fiscal year, disbursements totaled \$176.3 million, which produced a variance of \$243.6 million, or 58.0%, below the estimate.

- As stated in the previous section, personnel costs at the state's institutions make up the largest portion of their budget as facilities must be staffed 24 hours a day seven days per week. GRF payroll that will post as disbursements against July and August totals

roughly \$195 million for the Departments of Rehabilitation and Correction and Youth Services. Once July and August payroll posts, much of the underspending currently shown for these agencies will be eliminated.

Tax Relief and Other

August disbursements in the Tax Relief and Other category totaled \$91.4 million, producing a variance of \$3.9 million, or 4.5%, above the estimate. For the fiscal year, disbursements were \$92.5 million, which was \$3.5 million, or 3.9%, above the estimate.

- Through the month of August, year to date tax relief payments to local governments are \$22.2 million, or 67.4%, below the estimate. This variance is almost entirely attributable to \$9.7 million in spending in August that was \$21.7 million, or 69.1 %, below the monthly estimate. This variance in August was due in large part to a delay in the processing payments at the Department of Taxation. This delay was created by the need for the Department of Taxation to shut down its reimbursement process for approximately a week during August in order to complete necessary computer programming upgrades. The department has completed these upgrades and it is expected that a correction of this under spending will be seen in September and beyond. The tax relief payments made by the Department of Taxation are to local governments to reimburse them for property tax revenue they forgo as a result of the 10% and 2.5% reductions on taxable real and homestead properties. Tax Relief also reimburses school districts for losses incurred due to the \$10,000 tangible property tax exemption for both incorporated and unincorporated businesses.
- In August, reimbursements to school districts exceeded the estimate by \$25.6 million. The monthly variance is attributable to school districts requesting reimbursements sooner than expected and should be offset in the coming months.

Table 3*
GENERAL REVENUE FUND DISBURSEMENTS
PRELIMINARY FY 2008 VS ESTIMATE FY 2008
(\$ in thousands)

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	ACTUAL	ESTIMATED	\$	%	YTD	YTD	\$	%
	AUGUST	AUGUST	VAR	VAR	ACTUAL	ESTIMATE	VAR	VAR
Primary, Secondary and Other Education	838,189	548,598	289,592	52.8%	1,437,451	1,183,782	253,669	21.4%
Higher Education	177,170	227,900	(50,730)	-22.3%	423,590	430,199	(6,609)	-1.5%
Public Assistance and Medicaid	947,428	998,513	(51,085)	-5.1%	1,940,295	2,018,436	(78,141)	-3.9%
Health and Human Services	94,042	138,212	(44,170)	-32.0%	188,532	268,817	(80,285)	-29.9%
Justice and Public Protection	51,325	145,446	(94,121)	-64.7%	176,349	419,985	(243,635)	-58.0%
Environmental Protection and Natural Resources	214	7,793	(7,579)	-97.3%	6,945	22,898	(15,953)	-69.7%
Transportation	2,463	2,130	333	15.6%	2,941	2,841	100	3.5%
General Government	16,288	32,305	(16,017)	-49.6%	28,379	61,552	(33,172)	-53.9%
Community and Economic Development	7,524	9,944	(2,420)	-24.3%	8,625	12,822	(4,197)	-32.7%
Tax Relief and Other	91,417	87,510	3,907	4.5%	92,460	88,995	3,465	3.9%
Capital Outlay	0	150	(150)	-100.0%	0	171	(171)	-100.0%
Debt Service	28,825	28,848	(23)	-0.1%	141,987	141,987	0	0.0%
Pending Payroll	154,000	0	154,000	N/A	385,800	0	385,800	N/A
Total Expenditures & ISTV's	2,408,884	2,227,348	181,537	8.2%	4,833,354	4,652,484	180,870	3.9%
Transfers Out:								
OPER TRF OUT-OTH	133,710	124,278	9,432	7.6%	154,710	145,278	9,432	6.5%
OPER TRF OUT-TEMPORARY	133,173	133,800	(627)	-0.5%	133,173	133,800	(627)	-0.5%
Total Transfers (Out)	266,883	258,078	8,805	3.4%	287,883	279,078	8,805	3.2%
Total Fund Uses	2,675,767	2,485,426	190,341	7.7%	5,121,237	4,931,562	189,674	3.8%

*Amounts will be finalized once general ledger is closed for July and August.

Table 4*
GENERAL REVENUE FUND DISBURSEMENTS
PRELIMINARY FY 2008 VS ACTUAL FY 2007
(\$ in thousands)

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	ACTUAL	ACTUAL	\$	%	ACTUAL	ACTUAL	\$	%
	2008	2007	VAR	VAR	2008	2007	VAR	VAR
Primary, Secondary and Other Education	838,189	564,116	274,073	48.6%	1,437,451	1,190,073	247,377	20.8%
Higher Education	177,170	183,014	(5,844)	-3.2%	423,590	382,538	41,052	10.7%
Public Assistance and Medicaid	947,428	858,965	88,463	10.3%	1,940,295	1,829,857	110,438	6.0%
Health and Human Services	94,042	150,678	(56,637)	-37.6%	188,532	261,099	(72,567)	-27.8%
Justice and Public Protection	51,325	124,886	(73,561)	-58.9%	176,349	391,903	(215,554)	-55.0%
Environmental Protection and Natural Resources	214	7,304	(7,091)	-97.1%	6,945	21,090	(14,145)	-67.1%
Transportation	2,463	1,198	1,265	105.6%	2,941	3,315	(374)	-11.3%
General Government	16,288	16,743	(456)	-2.7%	28,379	47,139	(18,759)	-39.8%
Community and Economic Development	7,524	10,344	(2,820)	-27.3%	8,625	23,818	(15,193)	-63.8%
Tax Relief and Other	91,417	145,688	(54,272)	-37.3%	92,460	148,504	(56,044)	-37.7%
Capital Outlay	0	26	(26)	-100.0%	0	46	(46)	-100.0%
Debt Service	28,825	26,641	2,185	8.2%	141,987	140,096	1,892	1.4%
Pending Payroll	154,000	0	154,000	N/A	385,800	0	385,800	N/A
Total Expenditures & ISTV's	2,408,884	2,089,604	319,281	15.3%	4,833,354	4,439,478	393,876	8.9%
Transfers Out:								
OPER TRF OUT-BUD STABILIZATION	0	0	0	N/A	0	394,034	(394,034)	N/A
OPER TRF OUT-OTH	133,710	4,875	128,836	N/A	154,710	5,634	149,076	N/A
OPER TRF OUT-TEMPORARY	133,173	77,347	55,825	72.2%	133,173	77,347	55,825	72.2%
Total Transfers (Out)	266,883	82,222	184,661	224.6%	287,883	477,015	(189,132)	-39.6%
Total Fund Uses	2,675,767	2,171,826	503,941	23.2%	5,121,237	4,916,493	204,744	4.2%

*Amounts will be finalized once general ledger is closed for July and August.

FUND BALANCE

Table 5 describes the General Revenue Fund (GRF) ending fund balance for FY 2008. Based on the estimated revenue for FY 2008 and the estimated FY 2008 disbursements, transfers, and encumbrances, the GRF ending fund balance for FY 2008 is an estimated \$934.2 million.

The GRF ending fund balance should not be considered as a balance available for expenditure in FY 2008 nor should it be considered as equivalent to the FY 2008 surplus calculation as defined in Section 131.44 of the Ohio Revised Code.

It is important to note that the GRF ending fund balance will be impacted by any GRF expenditures or transfers that may be authorized by the General Assembly or by the Controlling Board during the course of the fiscal year.

SPECIAL NOTE

The State of Ohio implemented the financial component of the Ohio Administrative Knowledge System (OAKS), the new integrated accounting system, at the beginning of FY 2008. As a result, the figures cited in the text and tables of this report will be revised as additional information from the OAKS system becomes available.

Table 5
 FUND BALANCE
 GENERAL REVENUE FUND
 FY 2008
 (\$ in thousands)

July 1, 2007 Beginning Cash Balance	\$ 1,432,925
Plus FY 2008 Estimated Revenues	20,034,921
Plus FY 2008 Estimated Federal Revenues	5,809,479
Plus FY 2008 Estimated Transfers to GRF	<u>1,149,619</u>
 Total Estimated Sources Available for Expenditure & Transfer	 28,426,944
Less FY 2008 Estimated Total Disbursements	26,431,975
Less FY 2008 Estimated Total Encumbrances as of June 30, 2008	448,667
Less FY 2008 Estimated Transfers Out	<u>612,078</u>
 Total Estimated Uses	 27,492,720
 FY 2008 Estimated Ending Fund Balance	 \$ 934,224

OBM staff that contributed to the development of this report were:
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