



January 10, 2008

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

FROM: J. Pari Sabety, Director

SUBJECT: Monthly Financial Report

## ***ECONOMIC SUMMARY***

Despite better than expected retail sales in November, economists believe real GDP growth slowed abruptly in the fourth quarter, and slow growth will continue in the first half of 2008. The trend of employment in Ohio remains flat, but the jump in the U.S. unemployment rate to 5.0% in December is a serious warning of imminent recession. Personal income growth is currently sufficient to support moderate growth in consumer spending, but a further downturn in employment would likely lead to declines in both income and spending. The outlook remains highly uncertain. At the same time, however, the message of the leading economic indicators is more negative than it has been since the 2001 recession.

### **Highlights of Economic Performance**

- U.S. employment increased by just 18,000 jobs in December, and the unemployment rate increased by 0.3% in December to 5.0%.
- In Ohio, employment increased by 7,800 jobs in November, but was less than the level of a year earlier by 8,300 jobs.
- Nationally, manufacturing production increased 0.4% from October and 2.2% from the year earlier level. Midwest manufacturing production increased 0.5% in November and 1.4% from the year earlier.
- The PMI sub-index for new orders from manufacturers, however, fell decisively to the lowest level since the 2001 recession.
- Midwest housing starts fell 6.8% in November, to 20.4% below the year earlier level.
- A December survey of state tax receipts conducted by the International Strategy & Investment Group showed the index of total tax receipts dropping to a nearly four-year low, and the index of income tax receipts dropping to a three-year low.

The International Strategy & Investment Group's (ISI) December index of state tax receipts fell from 52.4 to 49.0 in December (50 is considered neutral for the strength of state tax receipts), moving below 50 for the first time in almost four years. The ISI index for state income tax receipts dropped to the lowest level since December 2004, confirming a slowdown in employment.

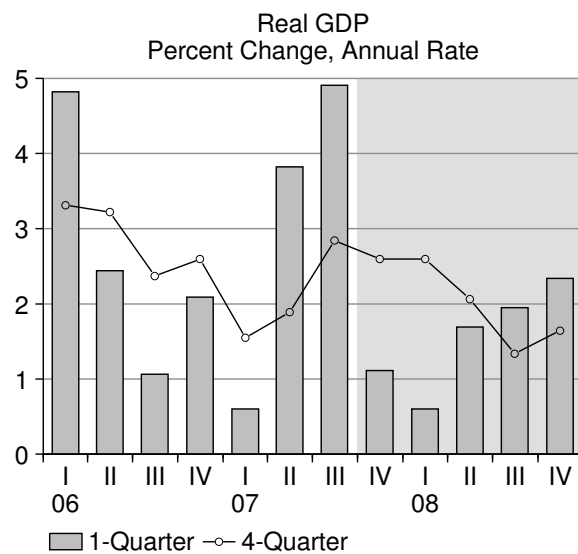
## Economic Growth

Evidence continues to mount that economic activity is decelerating in the wake of the latest surge in the price of oil and a tightening in lending terms. **Real GDP** grew at an annualized rate of about 4.5% in the second and third quarters, but is believed to have slowed to less than half that rate in the fourth quarter. That represents an upgrade from just a few weeks ago, but is viewed as only the beginning of a serious slowdown.

The consensus is for growth to remain below 2% in the first half of 2008 and below 3% in the second half. Many analysts conclude that the risks of recession are the highest they have been during this expansion. Consistent with the recent pattern in the Conference Board's leading economic index, which has fallen in three of the last four months and remains below its July peak, Global Insight estimates the probability to be about 40%.

On the positive side, employment is still growing, even if more slowly than a year ago, and monthly personal income continues to rise at approximately a 6% pace on a year-over-year basis. Exports are very strong and, outside of housing and related areas, economic activity is expanding.

On the negative side, the decline in housing activity has continued at an unexpectedly swift pace, consumer spending slowed in the fourth quarter, and measures of consumer confidence have weakened significantly. Still unknown are the effects of the 50% increase in the price of oil since mid-year on top of the 50% increase during the previous three and a half years and the recent tightening in credit by lenders.



Source: Global Insight, January 2008

Global Insight estimates that real GDP expanded by 1.1% in the fourth quarter and projects growth of only 0.6% in the first quarter and 1.9% for all of 2008. Consumer spending is projected to slow to a crawl in the first quarter under the weight of high energy prices, sagging home prices, and upward adjustments in mortgage payments. Growth in business investment is projected to grind to a halt in the first half of 2008, as spending on equipment and software slows and spending on structures turns decidedly negative. Housing is expected to continue to subtract from overall growth through the third quarter. Export growth will remain the lone bright spot in 2008, according to the latest outlook.

The Federal Reserve reduced the federal funds rate target by one-quarter percentage point at its December meeting to 4.25% – 100 basis points below the peak for this cycle. The widely expected move led to convulsive disappointment on Wall Street, where equity traders turned a modest gain on the day into a substantial rout in less than two hours. The announcement left

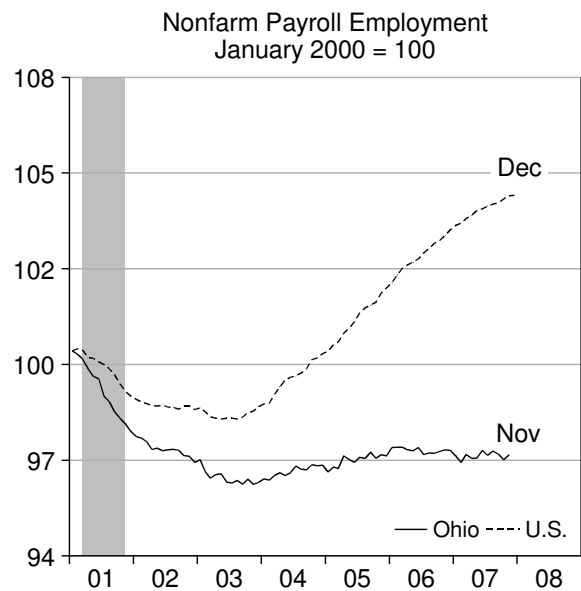
open the possibility of additional reductions in the future, but did not acknowledge the market's fear of imminent recession. In addition, the discount rate was notched down by only 25 basis points, rather than the 50-75 basis points that some preferred.

## Employment

**U.S. Employment** increased by just 18,000 jobs in December. The November change was revised up from 94,000 to 115,000, and the October change was revised down from 170,000 to 159,000. Labor market developments in December may mark a turning point, even though at 97,000 per month, the average increase in jobs during the most recent three months was not much different from the change during the previous six, nine, and twelve month periods.

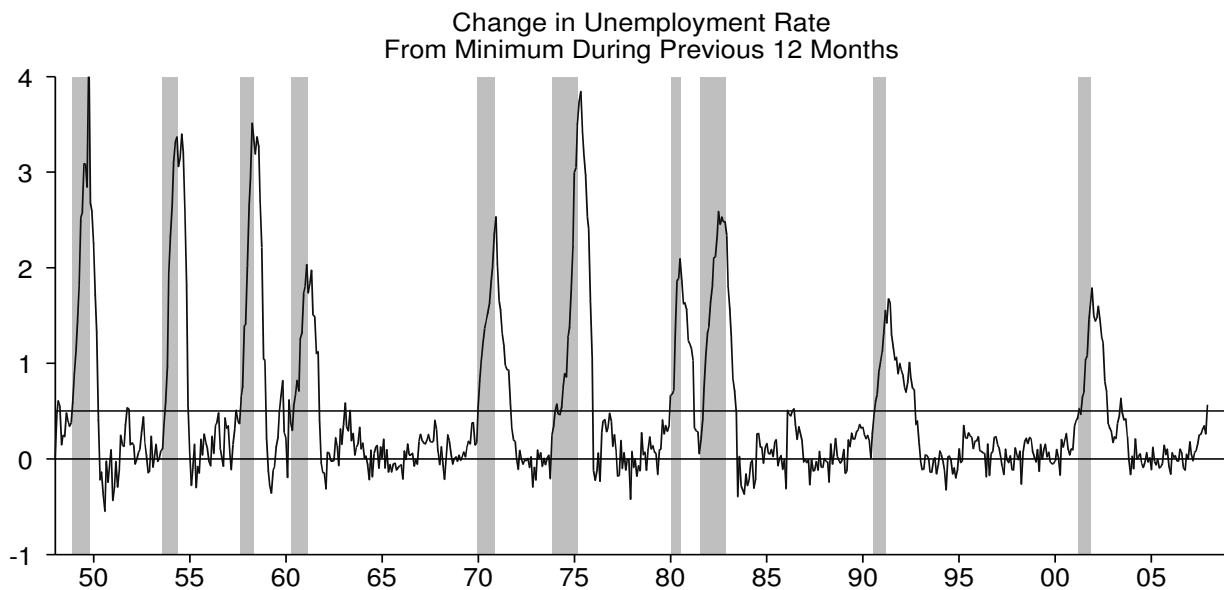
The latest employment report was marked by widespread declines and accompanied by an extended pattern of deterioration in weekly jobless claims and other measures of labor market activity. Employment fell in more than one half of 278 industries during December, including the major sectors of construction (-49,000), manufacturing (-31,000), and retail (-24,000). In line with the experience since mid-year, employment decreased in approximately two-thirds of the 84 manufacturing industries.

Corroborating the December employment report, the negative trend in both initial and continuing jobless claims continued and intensified in recent weeks. Initial claims averaged more than 340,000 per week in December, up from close to 300,000 in May. Of greater concern, the upward trend in continuing jobless claims has steepened in recent months.



The result was an increase in the unemployment rate during December of 0.3 percentage points to 5.0%. The unemployment rate is 0.6 percentage points higher than the low during the previous twelve months, a nearly sure sign that an economic recession is unfolding. The unemployment rate has increased at least 0.5 percentage points from its low during the previous twelve months near the beginning of every one of the ten recessions since World War II. The timing of the clearing of the 0.5 percentage point threshold ranged from the initial month of recession to six months after the onset of recession and averaged two to three months.

The unemployment rate is not a perfect indicator of recession. It has increased by at least 0.5 percentage points from the low during the previous twelve months for one or two months on three occasions that were not associated with recession. However, all three signals corresponded with notable slowdowns in the economy. It remains to be seen whether the latest signal will be confirmed by an unbroken string of months during which the unemployment rate remains more than 0.5 percentage points above the previous year's low-point, but at the moment it is the



clearest indication yet that the economy might be entering a recession.

**Ohio employment** increased by 7,800 jobs in November, following declines in the previous two months. Employment is down by 8,300 jobs from November 2006 and down by 7,500 jobs year-to-date. Employment increased during November in manufacturing (+2,900), educational and health services (+2,000), leisure and hospitality (+2,000), and other services (+300). Employment levels decreased in all other major sectors, including government (-900), construction (-700), and financial activities (-500). Employment levels have decreased year-to-date through November in all major sectors except educational and health services, professional and business services, government, and construction.

The **Ohio Metropolitan Statistical Areas** that made the largest contributions to statewide employment growth during the past year are Akron (+3,300), Cincinnati-Middletown (+3,000), and Columbus (+2,700). The MSAs that subtracted the most from Ohio employment were Youngstown-Warren-Boardman (-2,900), Dayton (-1,900), and Toledo (-900).

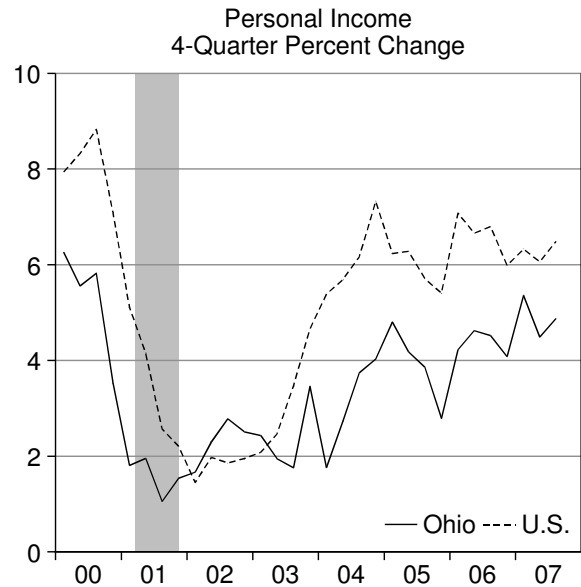
West Virginia, Kentucky, and Pennsylvania led the way in employment growth among **contiguous states** during the twelve months ending in November with gains of 0.4%, 0.3%, and 0.2%, respectively. Employment in Michigan decreased 0.8% from a year ago. Ohio employment fell 0.1%. Nationally, employment increased 1.1% during the twelve months ending in November.

While Ohio's unemployment rate improved from 5.9% to 5.6% in November, December marked the third month in a row in which monthly initial claims exceeded the claims for the same months in 2006. The last time that there were four consecutive months of initial increases in claims over the corresponding months in the prior year was at the start of the recession in 2000. Initial claims data from the first week in January show no signs of slowing.

## Consumer Income and Consumption

**Personal income** increased 0.4% in November, but decreased for the second consecutive month after adjustment for inflation. Wage and salary disbursements jumped 0.6% after no change the month before. Nonetheless, the trend in income growth has flattened out in recent months. Wage and salary disbursements were up 5.2% year-over-year in November, down from 6.3% during the late summer months. Growth in real disposable personal income slowed to less than 2% in October and November from roughly 4% in the summer. As a result, the saving rate turned negative again in November.

**Ohio personal income** advanced 5.1% in the third quarter following a 2.0% gain in the second quarter. Compared with a year earlier, Ohio personal income was higher by 4.9% in the third quarter. Wage and salary disbursements, which comprise more than one half of personal income, increased 4.4% from the second quarter and 4.3% from the year earlier quarter. The levels of both personal income and wage and salary disbursements were revised lower for the first and second quarters. In comparison, U.S. personal income was 6.5% higher than a year earlier in the third quarter, and wage and salary disbursements were 6.3% higher – one and a half to two percentage points faster than in Ohio.



Despite the recent slowdown in income growth, growth in **personal consumption expenditures** was strong in November, rising 1.1% in nominal terms and 0.5% after adjustment for inflation. Compared with a year earlier, consumer spending was up 6.7% in nominal terms and 3.0% after inflation. Midwest retail sales followed the pattern in national consumer spending in November, rising 1.3% to 6.3% above the year earlier level. The year-over-year gain is up from 1.8% in January 2007.

Consistent with the weakening in real income growth, **consumer confidence** generally held at November lows in December, but expectations deteriorated further, according to the Conference Board and the University of Michigan.

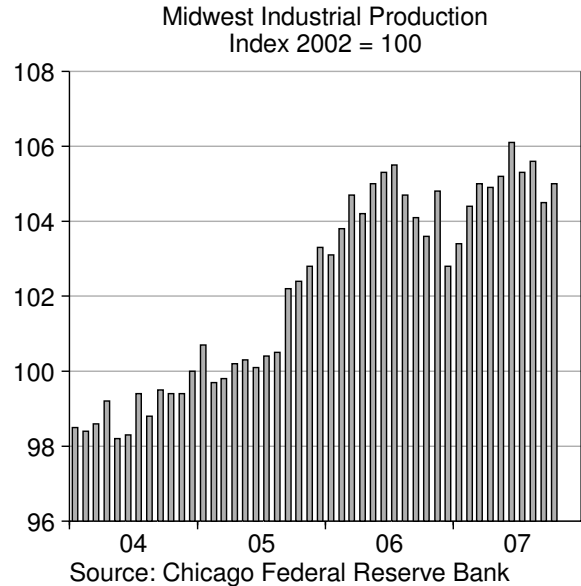
**Light motor vehicle sales** were a stronger-than-expected 16.2 million at an annual rate in December, the same as in November. The sales pace was 16.6 million units in December 2006. Sales decreased 2.5% from 2006 to 2007. Despite the run-up in gasoline prices, the share of light trucks in total sales was little changed from 2006. The market share of the domestic Big Three fell nearly a full percentage point to 52%. Global Insight predicts total U.S. sales to drop to 15.6 million units in 2008. U.S. production is expected to fall to 9.87 million units, or 5.7 less than in 2006.

## Manufacturing

**Industrial production** increased 0.3% in November, but remained below the September level. The October decline was revised down to -0.7% from -0.5%. Compared with a year earlier, industrial production was up by 2.1%. Manufacturing output increased 0.4% from October and 2.2% from the year earlier level. Capacity utilization edged up to 81.5%, but remained below its July high of 82.2%.

**Midwest manufacturing** output increased 0.5% in November, according to the Chicago Federal Reserve Bank. Production increased in all four regional industry sectors, led by autos with a 1.1% gain. Midwest production was up 1.4% from November 2006, compared with a 2.2% year-over-year gain in U.S. manufacturing production.

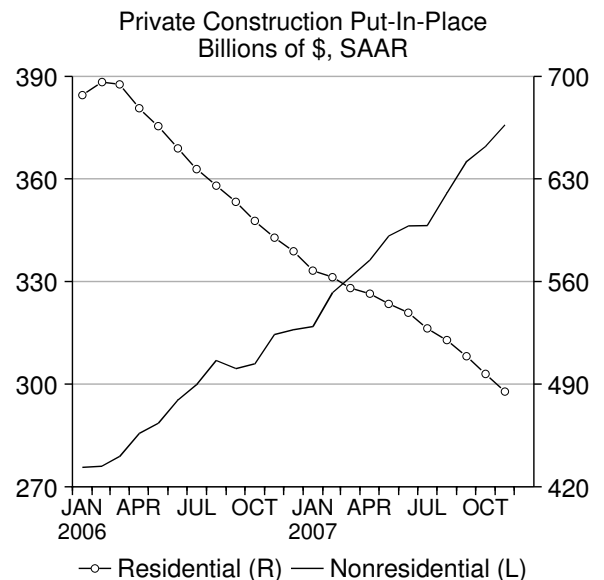
Conditions in the manufacturing sector deteriorated markedly in December, according to purchasing managers surveyed by the Institute for Supply Management. The **PMI index** fell decisively below the neutral level of 50, indicating that declines in manufacturing activity were broad-based. The key sub-index for new orders fell nearly 7 points to 45.7 – the lowest level since the 2001 recession. The production index also fell to a long-time low.



## Construction

**Construction put-in-place** was little changed in November, as a 2.1% increase in nonresidential offset a 2.4% decrease in residential. The October change was revised up from a decrease of 0.8% to a decrease of 0.4%. The end result is little different: after climbing rapidly during 2003-05 and retreating during most of 2006, rising nonresidential activity has largely offset residential activity, leaving the total flat. The key question going forward is whether non-residential construction will follow residential with the typical lag of twelve to eighteen months. If so, the year-over-year change in nonresidential activity will turn downward in the months immediately ahead.

The **housing sector** continues to be characterized by excess inventories of newly constructed homes for sale, a severe tightening of mortgage credit, and expectations of flat or falling home prices. The combination of these factors means that housing construction and home prices will fall further. The latest reports on construction, sales, and prices showed no convincing signs of improvement. The three-month average of



housing starts fell 4.3% in November to 24.3% below the year earlier level. In the Midwest, the three-month average of starts fell 6.8% in November to 20.4% below the year earlier level. Nonetheless, the inventory of homes for sale – both new and existing – remained near their highs in November, as sales of new and existing homes also fell on a three-month moving average basis.

The downward trend in prices continued in October, according to the S&P/Case-Shiller 10-city composite home price index, which was 6.7% below the year earlier level. Despite recent price decreases, analysts expect the high level of unsold homes to push prices even lower.

## ***REVENUES AND DISBURSEMENTS***

### **FY 2008 Year-to-Date Highlights**

- Through December, GRF tax receipts were below estimate by \$118.5 million (1.3%). Below estimate Personal Income Tax, Corporate Franchise Tax and Auto Sales Tax receipts contributed to the monthly shortfall. *(See Table 1.)*
- Tax receipts increased \$116.9 million (1.3%) versus to FY 2007. The increase was affected by the change in the mechanism to allocate money to the Local Government Funds. *(See Table 2.)*
- Year-to-date GRF uses, including pending payroll and transfers, were under estimate by \$81.0 million (0.6%). All spending categories used less money than expected with the exception of Public Assistance and Medicaid. *(See Table 3.)*
- Excluding transfers out, GRF uses were \$816.4 million (6.3%) above last year's level. Year-to-date spending over last year's levels increased for Primary, Secondary, and Other Education, Higher Education, Public Assistance and Medicaid, Transportation, Tax Relief, and Debt Service and decreased for all other categories. *(See Table 4.)*

**Please Note:** This report presents the preliminary and the most up-to-date data on revenues and disbursements for December. Final data will be available as the General Ledgers are closed for November and December in the Ohio Administrative Knowledge System (OAKS). As mentioned in the previous reports, 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 recorded when received and expenses were recognized when the cash was moved.

After trailing the estimate by a large variance in November, **GRF tax receipts** stayed close to the target in December. Receipts totaled \$1,648.0 million and were slightly below estimate by \$1.5 million (0.1%). The year-to-date variance was thus little changed from November. Through the first half of FY 2008, \$8,812.8 million was collected through GRF tax receipts, which were under estimate by \$118.5 million (1.3%). As the collections from GRF non-tax sources were close to the overall estimate, the variance in GRF tax receipts dominated the variance in GRF total receipts. **GRF total revenues and transfers** through December were under estimate by \$106.8 million (0.9%).

The two tax sources that resulted in large November shortfalls, the Personal Income Tax and the Corporate Franchise Tax, both ended December with variances of a much smaller scale. In December, the Personal Income Tax receipts were slightly below estimate by \$7.7 million (0.9%) and the Corporate Franchise Tax receipts were over estimate by an offsetting \$7.7 million. For other tax sources, the positive monthly variance generated by the Non-Auto Sales Tax was offset by the negative variances resulted from the Auto Sales Tax, the Cigarette Tax and the Estate Tax.

For the year to date, Non-Auto Sales Tax receipts stayed above estimate. The below estimate variances from the Corporate Franchise Tax, the Personal Income Tax, and the Auto Sales Tax



caused the year-to-date GRF tax receipts to fall below estimate by \$118.5 million (1.3%). Overall the year-to-date variance has changed little since the end of November. With the economy continue to show weakening signs, the Department of Taxation and OBM will maintain close attention to indicators for future revenues.

In December, **GRF total uses** were \$266.6 million (12.5%) below estimate. Most of the spending categories used less money than expected, with the largest variances resulting from Primary, Secondary and Other Education, and Justice and Public Protection categories. Through the first six months, the GRF total uses fell below estimate by \$81.0 million (0.6%). Spending in Public Assistance and Medicaid was slightly above estimate. All other spending categories used less than expected due mostly to the fact that November and December are still open and payroll has not posted.

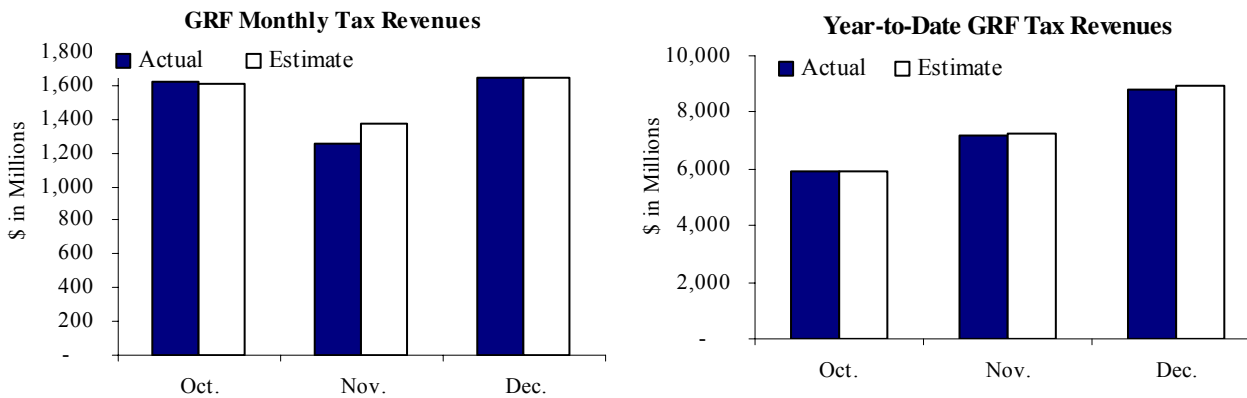
The tax reforms enacted in Am. Sub. H.B. 66 of the 126<sup>th</sup> General Assembly continue to phase in through FY 2008 and to affect the **year-over-year growth** of GRF tax revenues. In December, partially due to the change in the mechanism to pay to the local government funds, the GRF tax receipts were \$143.0 million (9.5%) higher than the receipts in December 2006. Through the first half of FY 2008, GRF tax receipts were above FY 2007 level by \$116.9 million (1.3%). As both the Federal Grants and Temporary Transfers generated greater revenues than during previous year, year-to-date GRF total receipts were \$511.0 million (4.3%) higher than the FY 2007 year-to-date revenues. Year-to-date GRF total disbursements were \$726.9 million (5.3%) above the FY 2007 level due in large part to the increase use within public assistance and Medicaid which disbursed \$451.5 million (8.5%) above the FY 2007 level.

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 December and for FY 2008 year-to-date.

General Revenue Fund (\$ in millions)	December Variance		FY 2008 Variance	
<b>Revenues</b>				
<b>Tax Receipts</b>	(\$1.5)	(0.1%)	(\$118.5)	(1.3%)
<b>All Sources</b>	\$10.7	0.5%	(\$106.8)	(0.9%)
<b>Total Uses (Including Transfers)</b>	(\$266.6)	(12.5%)	(\$81.0)	(0.6%)

## *REVENUES*

In December, **GRF tax receipts** totaled \$1,648.0 million and stayed close to the overall estimate with a small negative variance of \$1.5 million (0.1%). Compared to November's variances, December's variances for individual tax sources were generally smaller. After falling below estimate with a large monthly variance in November, the Personal Income Tax receipts were below estimate in December with a much smaller monthly variance of \$7.7 million (0.9%). Withholding revenues were over estimate in December. Also contrasting the November result was a positive variance in the Corporate Franchise Tax. The Non-Auto Sales Tax receipts continued above the estimated trend in December with a positive variance of \$26.5 million (4.0%). Offsetting negative variances resulted primarily in the Auto Sales Tax, the Cigarette Tax and the Estate Tax. The Auto Sales Tax receipts trailed the estimate by \$13.6 million (19.4%), which continued to reflect the soft sales. Cigarette Tax receipts were under estimate by \$9.9 million (11.7%), which marked the largest monthly shortfall of the year for this tax source.



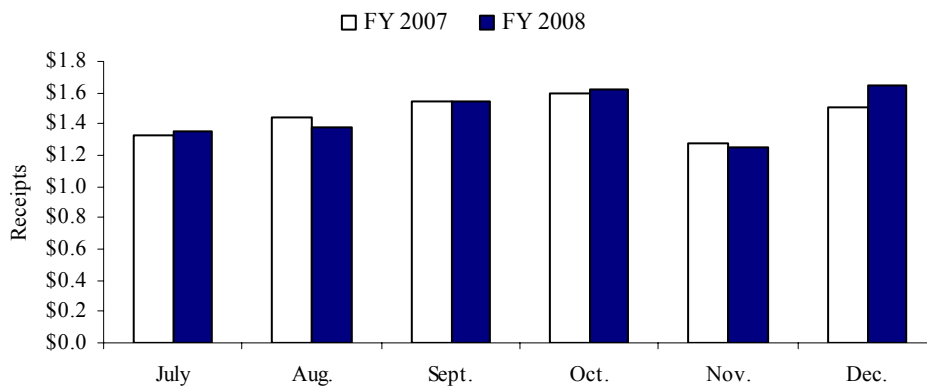
As the December tax receipts were close to the target, the **year-to-date variance in GRF tax receipts** has changed little since the end of November. Through the first half of the fiscal year, GRF tax receipts were below estimate by \$118.5 million (1.3%). The major tax sources that contributed to the negative year-to-date variances were the Corporate Franchise Tax, the Personal Income Tax and the Auto Sales tax. November shortfalls in the Personal Income Tax receipts resulted in most of the year-to-date under estimate variance for this tax source. Year-to-date withholding revenues, however, stayed above estimate. The Auto Sales Tax receipts have generally been weak for the first six months, reflecting the soft auto sales. The large variance in the Corporate Franchise Tax was the result of higher than expected refunds in the first half of the fiscal year. However, the Non-Auto Sales Tax receipts stayed above estimate through the first half of the fiscal year and concluded December with a positive year-to-date variance of \$43.8 million (1.3%). Year-to-date Cigarette Tax Receipts remained slightly above estimate by \$1.9 million (0.4%) though the variance shrank in December. With many warning signs in the economy including the continually deteriorating housing market, weakening consumer confidence and record high oil prices, OBM will closely monitor any indicators of the economy and state revenues.

The variances in the **GRF non-tax receipts** were attributed mostly to timing. The first quarter Earnings on Investments were posted in December, which were \$45.0 million and were slightly

below estimate by \$1.2 million (2.6%). The Earnings on Investments for the second quarter, scheduled for December, have not been posted at the time of this report. The higher than estimated Other Income was the result of money from Unclaimed Funds being collected earlier than expected. Both Liquor Transfers and Temporary Transfers In caught up with the estimated schedule by the end of December and were close to and on target, respectively, for year to date. The year-to-date variance in total GRF receipts was very close to the year-to-date variance in GRF tax receipts. GRF all sources generated \$12,434.5 million revenues in the first six months, which was under estimate by \$106.8 million (0.9%).

On a **year-over-year basis**, December GRF tax receipts were \$143.0 million (9.5%) higher than the GRF tax receipts in December 2006. The increase was partially due to the change in the mechanism to allocate money to the local government funds. The annual increase in December receipts caused the GRF tax receipts in the first half of FY 2008 to be \$116.9 million (1.3%) higher than the receipts in the first half of FY 2007. Because of the large increase posted for the Federal Grants and the Temporary Transfers In, year-to-date GRF total receipts increased \$511.0 million (4.3%) versus to FY 2007 level.

**FY 2007 - FY 2008 GRF Tax Revenue Comparison by Month**  
(\$ in billions)



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

<b>Sources Above Estimate Year-to-Date</b>		<b>Sources Below Estimate Year-to-Date</b>	
Non-Auto Sales Tax	\$43.8	Auto Sales Tax	(\$28.1)
Kilowatt Hour Tax	3.0	Personal Income Tax	(47.3)
Cigarette Tax	1.9	Corporate Franchise Tax	(69.1)
Federal Grants	28.6	Public Utility Excise Tax	(7.1)
Other Income	28.7	Foreign Insurance Tax	(6.2)
Liquor Transfers	3.0	Estate Tax	(8.8)
Other above Estimate Sources	<u>1.1</u>	Earnings on Investments	(40.0)
		ISTV's	(3.2)
		Transfers In – Other	(6.3)
		Other below Estimate Sources	<u>(0.8)</u>
<b>Total above</b>	<b>\$110.1</b>	<b>Total below</b>	<b>-\$216.9</b>

## **Non-Auto Sales and Use Tax**

The Non-Auto Sales Tax receipts were above estimate in December by \$26.5 million (4.0%) adding to the year-to-date positive variance. This tax source has generated higher than expected revenues in four of the first six months. Receipts in the first half of the fiscal year were over estimate by \$43.8 million (1.3%).

December receipts were \$79.8 million (13.3%) higher than December 2006 receipts. The annual growth is partially due to the change in the mechanism to allocate money from this tax source to the local government funds. Receipts in the first six months indicated a robust year-over-year growth of \$174.4 million (5.4%). The annual growth partially reflected relatively weak performance of this tax source in FY 2007.

## **Auto Sales Tax**

The Auto Sales Tax receipts trailed the estimate in December by \$13.6 million (19.4%), after being on target in October and over estimate in November. Despite the zero percent financing offered by many car dealers, auto sales remained generally weak. The monthly shortfall added to the already below estimate variance from this tax source. Year-to-date receipts were under estimate by \$28.1 million (5.8%).

Through the first six months of the fiscal year, the Non-Auto and Auto Sales Tax together stayed slightly above estimate by \$15.7 million (0.4%) and were above FY 2007 level by \$176.6 million (4.8%). The outlook for the sales tax remained soft with the weak economic conditions caused by the deteriorating housing market, tightening credit, record high oil prices, uncertain labor market, and sliding consumer confidence.

## **Personal Income Tax**

After posting a large one-month shortfall in November, the Personal Income Tax was closer to estimate in December. December receipts were slightly under estimate by \$7.7 million (0.9%) while year-to-date receipts remained slightly under estimate by \$47.3 million (1.1%), largely due to the under performance in November.

December withholding revenues were over estimate by \$24.5 million. Through the first half of the fiscal year, November is the only month when withholding revenues fell below estimate by a significant amount. Overall the withholding revenues have stayed above estimate consistently and the positive variance through December totaled \$29.9 million.

For December, the main component that contributed to the under estimate variance was the quarterly estimated payments, which were below estimate by \$27.4 million. For the year to date, both the quarterly estimated payments and the refunds contributed to the negative variance. Quarterly estimated payments were \$38.2 million below expectation and refunds paid in July through December were \$31.4 million higher than expected. Other components of the Personal Income Tax stayed close to estimate for both December and year to date. The table below

reflects the variances from different components of December 2007 Personal Income Tax and for FY 2008 Year-To-Date.

<b>FY 2008 PERSONAL INCOME TAX RECEIPTS BY COMPONENT (\$ in millions)</b>						
	<b>ESTIMATE DECEMBER</b>	<b>ACTUAL DECEMBER</b>	<b>\$ VAR DECEMBER</b>	<b>ESTIMATE Y-T-D</b>	<b>ACTUAL Y-T-D</b>	<b>\$ VAR Y-T-D</b>
Withholding	674.7	699.2	24.5	3,875.3	3,905.2	29.9
Quarterly Est.	132.6	105.2	(27.4)	552.6	514.4	(38.2)
Trust Payments	0.5	0.5	(0.0)	17.3	19.1	1.8
Annual Returns & 40 P	15.4	15.6	0.2	136.1	133.0	(3.1)
Other	6.4	4.8	(1.6)	40.7	36.0	(4.7)
Less: Refunds	(19.0)	(21.6)	(2.6)	(154.5)	(185.9)	(31.4)
Local Distr.	0.0	(0.8)	(0.8)	(325.6)	(327.2)	(1.6)
<b>Net to GRF</b>	<b>810.6</b>	<b>802.9</b>	<b>(7.7)</b>	<b>4,141.9</b>	<b>4,094.6</b>	<b>(47.3)</b>

December receipts were \$95.8 million (13.5%) higher than December 2006 receipts. The increase was partially due to the change in the mechanism that allocates money to the local government funds. Receipts in July through December were \$76.4 million (1.9%) higher than the receipts in July through December 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 than later in the year. In July through December, refunds paid were higher than expected and higher than the payments collected. Negative receipts resulted for both December and for year-to-date. December receipts were \$7.7 million higher than expected. Year-to-date receipts, however, stayed below estimate by \$69.1 million.

### **Commercial Activity Tax**

In FY 2008, receipts from the Commercial Activity Tax are distributed to non-GRF funds to pay to school districts and local governments as the tangible personal property tax is phased out. Receipts in December were \$8.8 million and below estimate by \$1.2 million. Receipts in the first half of the fiscal year stayed close to target with a small negative variance of \$2.4 million (0.5%).

### **Cigarette Tax**

December's Cigarette Tax receipts were below estimate by \$9.9 million (11.7%). This marked the first month in the year that this tax source fell below estimate by a large variance. The monthly shortfall also wrote-off the year-to-date positive variance. Through December, receipts stayed slightly above estimate by \$1.9 million (0.4%).

### **Earnings on Investments**

The first quarter Earnings on Investments was posted in December, which was \$45.0 million and slightly below estimate by \$1.2 million (2.6%). The Earnings on Investments for the second quarter, which were scheduled for December, were not posted at the time of this report due to OAKS processing. Year-to-date receipts from this source appear below estimate by \$40.0 million.

### **Other Income**

Receipts through Other Income were over estimate by \$31.0 million in December and by \$28.7 million in July through December. The above estimate variance was due to the earlier than expected collections from Unclaimed Funds.

### **Liquor Transfers and Temporary Transfers In**

As noted in the December financial report, both of these transfers caught up with the schedule by the end of December. Through December, Liquor Transfers were thus above estimate by a relatively small variance of \$3.0 million (3.3%) and Temporary Transfers In stayed right on estimate.

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

REVENUE SOURCE	Month				Year-to-Date			
	ACTUAL DECEMBER	ESTIMATE DECEMBER	\$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	\$ VAR	% VAR
<b>TAX RECEIPTS</b>								
Non-Auto Sales & Use	681,496	655,000	26,496	4.0%	3,433,484	3,389,700	43,784	1.3%
Auto Sales & Use	56,472	70,100	(13,628)	-19.4%	456,608	484,700	(28,092)	-5.8%
Subtotal Sales & Use	737,968	725,100	12,868	1.8%	3,890,092	3,874,400	15,692	0.4%
Personal Income	802,903	810,600	(7,697)	-0.9%	4,094,592	4,141,900	(47,308)	-1.1%
Corporate Franchise	(3,520)	(11,250)	7,730	-68.7%	(54,083)	15,000	(69,083)	-460.6%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	0	0	0	N/A	62,209	69,300	(7,091)	-10.2%
Kilowatt Hour	26,551	26,500	51	0.2%	174,665	171,700	2,965	1.7%
Foreign Insurance	7	0	7	N/A	132,777	139,000	(6,223)	-4.5%
Domestic Insurance	0	0	0	N/A	391	600	(209)	-34.8%
Other Business & Property Tax	(47)	30	(77)	-257.1%	341	790	(449)	-56.8%
Cigarette	74,514	84,400	(9,886)	-11.7%	434,859	433,000	1,859	0.4%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,447	4,600	(153)	-3.3%	29,474	29,200	274	0.9%
Liquor Gallonage	2,940	2,900	40	1.4%	17,378	17,500	(122)	-0.7%
Estate	2,198	6,600	(4,402)	-66.7%	30,091	38,900	(8,809)	-22.6%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,647,962	1,649,480	(1,518)	-0.1%	8,812,787	8,931,290	(118,503)	-1.3%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	490,426	485,002	5,424	1.1%	3,122,894	3,094,266	28,628	0.9%
Earnings on Investments	0	38,800	(38,800)	-100.0%	44,990	85,000	(40,010)	-47.1%
License & Fees	577	700	(123)	-17.6%	20,579	19,711	868	4.4%
Other Income	35,344	4,300	31,044	722.0%	54,988	26,294	28,694	109.1%
ISTV'S	1,703	0	1,703	N/A	4,377	7,610	(3,233)	-42.5%
Total Non-Tax Receipts	528,051	528,802	(751)	-0.1%	3,247,828	3,232,881	14,947	0.5%
TOTAL REVENUES	2,176,012	2,178,282	(2,270)	-0.1%	12,060,615	12,164,171	(103,556)	-0.9%
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	31,000	18,000	13,000	72.2%	95,000	92,000	3,000	3.3%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	307	360	(53)	-14.7%	56,784	63,040	(6,256)	-9.9%
Temporary Transfers In	10,000	10,000	0	N/A	222,100	222,100	0	N/A
Total Transfers	41,307	28,360	12,947	45.7%	373,884	377,140	(3,256)	-0.9%
TOTAL SOURCES	2,217,319	2,206,642	10,678	0.5%	12,434,499	12,541,311	(106,812)	-0.9%

**\*Amounts will be finalized once the general ledger is closed for October, November and December**

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

REVENUE SOURCE	Month				Year-to-Date			
	ACTUAL 2008	ACTUAL 2007	\$ VAR	% VAR	ACTUAL 2008	ACTUAL 2007	\$ VAR	% VAR
<b>TAX RECEIPTS</b>								
Non-Auto Sales & Use	681,496	601,696	79,800	13.3%	3,433,484	3,259,095	174,388	5.4%
Auto Sales & Use	56,472	62,914	(6,442)	-10.2%	456,608	454,375	2,234	0.5%
Subtotal Sales & Use	737,968	664,610	73,359	11.0%	3,890,092	3,713,470	176,622	4.8%
Personal Income	802,903	707,117	95,787	13.5%	4,094,592	4,018,155	76,438	1.9%
Corporate Franchise	(3,520)	3,883	(7,403)	-190.7%	(54,083)	57,604	(111,687)	-193.9%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	0	(297)	297	-100.1%	62,209	68,859	(6,649)	-9.7%
Kilowatt Hour	26,551	25,525	1,027	4.0%	174,665	167,872	6,793	4.0%
Foreign Insurance	7	788	(781)	-99.1%	132,777	132,122	654	0.5%
Domestic Insurance	0	0	0	#DIV/0!	391	235	156	66.2%
Other Business & Property Tax	(47)	9	(56)	-631.0%	341	632	(291)	-46.0%
Cigarette	74,514	87,905	(13,391)	-15.2%	434,859	458,389	(23,530)	-5.1%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,447	4,595	(149)	-3.2%	29,474	29,073	401	1.4%
Liquor Gallonage	2,940	2,867	73	2.6%	17,378	17,055	323	1.9%
Estate	2,198	8,007	(5,809)	-72.6%	30,091	32,380	(2,289)	-7.1%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,647,962	1,505,008	142,954	9.5%	8,812,787	8,695,846	116,941	1.3%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	490,426	452,455	37,972	8.4%	3,122,894	2,771,417	351,477	12.7%
Earnings on Investments	0	42,157	(42,157)	-100.0%	44,990	92,314	(47,324)	-51.3%
License & Fee	577	858	(281)	-32.7%	20,579	20,053	526	2.6%
Other Income	35,344	54,753	(19,409)	-35.4%	54,988	79,341	(24,353)	-30.7%
ISTV'S	1,703	292	1,412	484.1%	4,377	8,562	(4,185)	-48.9%
Total Non-Tax Receipts	528,051	550,514	(22,464)	-4.1%	3,247,828	2,971,687	276,141	9.3%
TOTAL REVENUES	2,176,012	2,055,522	120,490	5.9%	12,060,615	11,667,533	393,082	3.4%
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	31,000	17,000	14,000	82.4%	95,000	76,000	19,000	25.0%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	307	(39,158)	39,465	-100.8%	56,784	43,337	13,447	31.0%
Temporary Transfers In	10,000	39,158	(29,158)	N/A	222,100	136,650	85,450	N/A
Total Transfers	41,307	17,000	24,307	143.0%	373,884	255,986	117,898	46.1%
TOTAL SOURCES	2,217,319	2,072,522	144,797	7.0%	12,434,499	11,923,519	510,980	4.3%

\*Amounts will be finalized once the general ledger is closed for October, November and December



## **DISBURSEMENTS**

In December, GRF disbursements, including pending payroll and transfers out of the GRF, totaled \$1,866.9 million, which was \$266.6 million (12.5%) under the estimate. For the year to date, GRF disbursements totaled \$14,437.5 million, which was \$81.0 million (0.6%) under the estimate. Adjusting for transfers out of the GRF, year-to-date expenditures were up 6.3% 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 General Ledger remains open for November and December while state agencies continue to work to resolve a dwindling number of payroll coding issues. As a result, expenses from November and December – most notably, GRF payroll – will still post to the month once correctly coded. Thus, GRF disbursements for November and December will continue to be updated as additional expenses post and will not be final until all ledgers are closed.

### **Primary, Secondary, and Other Education**

December disbursements in Primary, Secondary, and Other Education were \$346.9 million, which was \$192.7 million (35.7%) under estimate. Year-to-date disbursements were \$3,592.7 million, representing a variance of \$69.5 million (1.9%) under the estimate.

- Disbursements for the Department of Education in December totaled \$417.1 million, which was \$196.1 million (32.0%) below the estimate for the month. This variance is caused by the timing of foundation payments (ALI 200-550). The first of the two November payments posted in October and the second November payment plus the first December payment posted in November. Therefore, in December there was only one foundation payment, which offset the expenditures from previous months. For the fiscal year to date, disbursements were \$4,001.2 million, which was \$4.0 million (0.1%) below the estimate. Foundation payments should post as scheduled twice a month beginning with January, however, there is a possibility that three payments will post in May and one in June.

### **Higher Education**

December disbursements for Higher Education were \$168.9 million, representing a variance of \$33.3 million (16.5%) below the estimate for the month. Year-to-date disbursements were \$1,349.2 million, representing a variance totaling \$23.6 million (1.7%) below the estimate. Disbursements for the Ohio College Opportunity Grant were \$12.6 million less than estimated for the month due to lower than expected enrollment of eligible part-time students. Additionally, Choose Ohio First scholarship, Ohio Research Scholars, Student Choice Grants, and Ohio Instructional Grant distributions for the month were \$20.2 million less than estimated. Student Choice Grant payment requests from campuses are running lower than expected based on last

fiscal year's history, while the Choose Ohio First scholarship and Ohio Research Scholar grant programs are still being developed and will not be disbursed until later in the fiscal year.

### **Public Assistance and Medicaid**

December GRF disbursements for Public Assistance and Medicaid, which includes all spending in the Department of Job and Family Services, were \$896.3 million, representing a variance of \$50.8 million (5.4%) below the estimate for the month. Year-to-date disbursements were \$5,741.7 million, representing a variance of \$12.1 million (0.2%) above the estimate.

Medicaid disbursements from the GRF in December totaled \$836.0 million, which was \$21.6 million under the estimate, while Medicaid disbursements from the GRF for the year totaled \$5,270.6 million, which was over the estimate by \$33.3 million. Note that over the past three to four years, the share of Medicaid expenditures made from non-GRF sources has increased. In FY 2008 spending from non-GRF sources such as provider taxes, prescription drug rebates, and third party collections will support 13% of the Medicaid budget. Because of this fact, this report includes information on Medicaid spending across all funding sources. Medicaid disbursements, across all funds, totaled \$938.4 million for the month of December, which was under estimate by \$22.5 million (2.3%). Year-to-date Medicaid disbursements totaled \$5,599.7 million, \$27.7 million (0.5%) above the estimate.

Notable monthly variances across all funding sources were as follows:

- December's under spending is the result of timing of the disbursement of the Medicare Premium Assistance payment. As mentioned in the November report, the Department of Job and Family Services (JFS) made both the November and December payments in November to the federal government for the Medicare Premium Assistance Program. Therefore, no payment was disbursed in December. This program helps those consumers who are eligible for Medicaid and Medicare (dual-eligible), who otherwise cannot afford to pay for their Medicare Part A or Part B premiums.

Notable variances across all funding sources for the year to date are as follows:

- Medicaid caseloads continue to exceed the estimate. Through November, Medicaid enrollment totaled 1.75 million recipients, which was 26,000 or 1.5% more than the estimate. Medicaid caseloads can be broken down into two main enrollment categories: Covered Children and Families (CFC), which represents 75% of the total caseload, and Aged Blind and Disabled (ABD), which represents 25% of the caseload.
- Currently there are over 22,000 more recipients in the Covered Children and Families (CFC) population than expected. Enrollment in the Healthy Families and Children in Care categories continues to drive this increase. CFC caseloads peaked in August 2006 and declined steadily through June 2007. This decline has been attributed to increased citizenship requirements under the federal Deficit Reduction Act (DRA) of 2005. The forecast for FY 2008 and FY 2009 assumed that caseloads would increase; however, it now appears that the increase may be steeper than anticipated. The

Healthy Families category includes children and their parents with incomes up to 90% of the federal poverty limit. Enrollment increases in this category may be due to economic factors or successful outreach to eligible families who had not previously sought Medicaid coverage.

- While caseloads are increasing, we are not yet seeing increased expenditures. It is important to look at what is happening in the Medicaid service delivery systems to understand this anomaly. Coverage through managed care, which is paid prospectively, is required for CFC recipients; however, recipients have 90 days to select a managed care plan. Until a managed care plan is selected, any medical costs are paid retrospectively under the fee for service delivery system. It may take thirty to ninety days for the state to receive and pay a claim for services rendered under the fee for service delivery system. Through November CFC enrollment in managed care was meeting the estimate; however, CFC enrollment in fee for service was over the estimate by more than 18,000 recipients. As these recipients roll onto managed care over the next several months, managed care expenses will begin to exceed the estimate and as fee for service claims are received and paid, expenses in the other categories of service will increase.
- At the end of the first quarter Aged, Blind, and Disabled (ABD) caseloads have exceeded the estimate by 4,000 recipients. It is important to note that while this increase is small, this is the most expensive population group in the Medicaid program and is driving spending above the estimate in many categories of service (ABD per member per month costs average \$1,328 and CFC per member per month costs average \$217).
- Some of the impact of the increase in caseloads can already be seen in the spending for inpatient and outpatient hospitals which exceeds the estimate for the year by \$141.8 million due to several factors.
  - First, in June 2007, changes to the National Provider Identifier (NPI) caused a number of inpatient and outpatient hospital claims to be automatically rejected due to compliance issues. These claims, totaling \$35.1 million, were budgeted for in FY 2007 but paid in July 2007 instead, causing a one-time increase in FY 2008 spending.
  - Second, slower than expected enrollment into ABD managed care in the North East Central region is leading to increased fee for service expenses, particularly in this category. Note that under spending (\$92.7 million) in the ABD managed care category partially offsets this increase.
  - Finally, higher than expected caseloads, particularly in the ABD eligibility category, have increased spending in this category. As noted above, it currently takes about ninety days to enroll in managed care, which the state pays for prospectively. While this transition is taking place, consumers will continue to utilize services that are paid for under the fee-for-service structure, which is paid for retrospectively. It may take thirty to sixty days for the state to receive and pay a claim for a service rendered

under the fee-for-service structure. Therefore, the state will continue to see a variance in the inpatient and outpatient hospitals for a few months and as the transition into managed care continues we will gradually see the impact of the increased caseload in the managed care expenditures.

- Other notable challenges that are not currently reflected in the monthly Medicaid analysis are assumptions that were made in the budget process. Certain cost containment efforts were budgeted for in Am. Sub. H.B. 119; will not be realized this biennium.
  - A delay in federal regulations has postponed increasing medical support collections which were estimated to save around \$50 million over the biennium. A medical support collection involves the collection of medical payments from the non-custodial parent who is paying child support.
  - Claims editing will be implemented in conjunction with the roll-out of the Medicaid Information Technology System (MITS). Claims editing is a process by which the department would verify that they are paying for the appropriate services for the indicated diagnosis. Claims editing was estimated to have saved around \$49 million over the biennium.

For December, JFS non-Medicaid disbursements totaled \$60.3 million, producing a variance of \$26.8 million (30.7%) below the estimate. For the year to date, JFS non-Medicaid disbursements totaled \$469.5 million, producing a variance of \$16.2 million (3.3%) below estimate. Lower than estimated spending for December, and the year to date, is primarily found in the following line items: TANF (600-410), support services (600-321), computer projects (600-416), and the Office of Ohio Health Plans (600-425). Higher than estimated spending for December is primarily found in Child Support Match (600-502).

- Spending in the TANF line item was under estimate by \$16.8 million due to an advance county child care payment posting in November instead of December as expected. As a result, spending is back in line for the fiscal year to date. The TANF line item is responsible for a portion of the state's maintenance of effort required under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The State must maintain funding at 80 percent of the 1995 spending level, which is capped at approximately \$416 million annually.
- Spending for computer projects, adjusted for payroll, was overestimate due to revised server rates for various computers systems used by JFS, but supported by the Office of Information Technology. The original purchase orders, as well as disbursement estimate, were based upon the prior year's rates. When revised rates for the current fiscal year were published, the purchase orders were increased, and, consequently, disbursements were overestimate.
- Spending for support services, when adjusted for payroll, is under the estimate due to several lease payments being made in November instead of December as planned.

- Spending in the Office of Ohio Health Plans is under the estimate due to payroll not posting for the month.
- Child Support Match was over the estimate due to a payment of \$1.1 million that occurred in December instead of November as expected. As a result, spending is back in line for the fiscal year to date.

## **Health and Human Services**

December disbursements in the Health and Human Services category – which includes spending for the Departments of Mental Health, Mental Retardation and Developmental Disabilities, Aging, and Health among others – were \$45.2 million, which was \$31.2 million (40.9%) under estimate. For the fiscal year, disbursements totaled \$591.1 million, which represents a variance totaling \$85.4 million (12.6%) below estimate.

- The Department of Mental Health disbursed \$16.2 million in the month of December, which was \$14.2 million, or 46.7% under the estimate. Approximately \$14.3 million of this variance is due to payroll that has not posted. Year-to-date GRF spending totaled \$258.3 million, which is \$45.6 million, or 15.0% below the estimate. This variance may be attributed to payroll that has not posted for the months of November and December while the remaining variances are due to the timing of payments to county boards.
- The Department of Mental Retardation and Developmental Disabilities disbursed \$9.8 million in the month of December, which was \$13.2 million, or 57.4% below the estimate. Approximately \$13.5 million of this variance is due to payroll that has not posted. Year-to-date GRF spending totaled \$165.9 million, which is \$26.7 million, or 14.6% below the estimate. This variance is primarily due to GRF payroll that has not posted.

## **Justice and Public Protection**

December disbursements in this category totaled \$60.3 million, which produced a variance of \$120.9 million (66.7%) below estimate. For the fiscal year, disbursements totaled \$912.3 million, which represents a variance totaling \$199.1 million (17.9%) below estimate. Personnel costs at the state's institutions make up the largest portion of their budgets as facilities must be staffed 24 hours a day, seven days a week. GRF payroll that will post as disbursements in November and December totals roughly \$123.6 million for the Departments of Rehabilitation and Correction and Youth Services.

- December disbursements for the Department of Rehabilitation and Correction were \$46.8 million, producing a variance of \$90.4 million (65.9%) below the estimate. For the fiscal year, disbursements totaled \$683.6 million, which represents a variance totaling \$139.7 million (17.0%) below estimate. Once all GRF payroll posts, disbursements for the year to

date will be approximately \$860.8 million, producing a variance of \$37.5 million (4.6%) above estimate.

- December disbursements for the Department of Youth Services (DYS) were \$2.5 million, producing a variance of \$14.7 million (85.4%) below the estimate. For the fiscal year, disbursements totaled \$124.0 million, which represents a variance totaling \$27.3 million (18.1%) below estimate. The delay in posting GRF payroll is most apparent in RECLAIM Ohio, which contains the overwhelming majority of DYS's payroll.

## **Transportation**

Disbursements in the Transportation category totaled \$4.6 million, producing a variance of \$2.2 million (88.7%) above the estimate. Year-to-date, the Department of Transportation disbursements were \$15.4 million, which were \$1.5 million (8.7%) below estimate. Disbursements within the State Public Transportation were \$2.7 million over the estimate for the month due to the fulfillment of planned commitments within the Elderly and Disabled Transit Fare Assistance Program and the Rural Transit Program. Both of these programs had experienced delays earlier in the year with their commitments due to administrative changes and staff issues. The programs are now on track to spend their funding as estimated through the end of the year barring unforeseen problems.

## **Community and Economic Development**

December disbursements in the Community and Economic Development category totaled \$6.0 million, which represented a variance of \$3.1 million, or 33.8%, below the estimate. For the year to date, disbursements were \$73.0 million, which was \$11.2 million (13.2%) below the estimate.

- December disbursements for the Department of Development were \$6.5 million, producing a variance of \$1.1 million (17.5%) below the estimate. Year-to-date, the disbursements are \$37.5 million, which was \$10.5 million (31.7%) below the estimate. The monthly variance was caused by lower than expected spending in Rapid Outreach Grant Program, Third Frontier Action Fund, and the Ohio Main Street Program. This is mostly the result of a combination of either pending encumbrances which were not expended during the month of December or the funds were spent earlier in the fiscal year. The only line item which overspent significantly was the Ohio Investment in Training Program, which disbursed \$677,961 producing a \$462,961 (215%) variance over the budget.

## **Tax Relief and Other**

December disbursements in the Tax Relief and Other category totaled \$73.8 million, producing a variance of \$38.6 million (34.3%) under the estimate. For the fiscal year, disbursements were \$642.5 million, which was \$9.7 million (1.7%) under estimate.

- Through the month of December, year-to-date tax relief payments to local governments totaled \$233.3 million and were \$6.1 million (2.6%) below estimate. This variance is largely

attributable to \$2.7 million in spending in December that was \$30.6 million (92.0%) below the estimate for the month and reversed what had been year to date overspending of \$24.5 million (15.2%) through the end of November. The tax relief payments made by the Department of Taxation are to local governments to reimburse them for property tax revenue they forego as a result of the 10 percent and 2.5 percent reductions on taxable real and homestead properties.

- In December, reimbursements to school districts were below the monthly estimate by \$8.0 million, and the corresponding year-to-date variance is \$1.6 million (0.4%) under estimate. The December variance, in conjunction with the November variance, offsets higher than expected expenditures in October.

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

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	PRELIMINARY	ESTIMATED	\$	%	YTD	YTD	\$	%
	DECEMBER	DECEMBER	VAR	VAR	PRELIMINARY	ESTIMATE	VAR	VAR
Primary, Secondary and Other Education	346,883	539,538	(192,655)	-35.7%	3,592,736	3,662,242	(69,506)	-1.9%
Higher Education	168,925	202,269	(33,344)	-16.5%	1,349,233	1,372,839	(23,606)	-1.7%
Public Assistance and Medicaid	896,296	947,084	(50,788)	-5.4%	5,741,693	5,729,572	12,120	0.2%
Health and Human Services	45,176	76,403	(31,227)	-40.9%	591,114	676,514	(85,400)	-12.6%
Justice and Public Protection	60,269	181,135	(120,865)	-66.7%	912,306	1,111,434	(199,128)	-17.9%
Environmental Protection and Natural Resources	1,374	9,164	(7,790)	-85.0%	54,750	67,730	(12,980)	-19.2%
Transportation	4,636	2,456	2,180	88.7%	15,367	16,835	(1,469)	-8.7%
General Government	10,574	29,175	(18,601)	-63.8%	178,641	224,535	(45,894)	-20.4%
Community and Economic Development	6,041	9,121	(3,079)	-33.8%	73,032	84,185	(11,153)	-13.2%
Tax Relief and Other	73,796	112,392	(38,596)	-34.3%	642,528	652,272	(9,744)	-1.5%
Capital Outlay	0	150	(150)	-100.0%	56	771	(715)	-92.8%
Debt Service	23,536	24,558	(1,023)	N/A	304,560	307,438	(2,878)	-0.9%
Pending Payroll	229,284	0	229,284	N/A	380,014	0	380,014	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>1,866,791</b>	<b>2,133,446</b>	<b>(266,654)</b>	<b>-12.5%</b>	<b>13,836,029</b>	<b>13,906,366</b>	<b>(70,337)</b>	<b>-0.5%</b>
<b>Transfers Out:</b>								
OPER TRF OUT-OTH	100	0	100	N/A	154,873	145,278	9,595	6.6%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	446,551	466,800	(20,249)	-4.3%
<b>Total Transfers (Out)</b>	<b>100</b>	<b>0</b>	<b>100</b>	<b>N/A</b>	<b>601,424</b>	<b>612,078</b>	<b>(10,654)</b>	<b>-1.7%</b>
<b>Total Fund Uses</b>	<b>1,866,891</b>	<b>2,133,446</b>	<b>(266,554)</b>	<b>-12.5%</b>	<b>14,437,453</b>	<b>14,518,445</b>	<b>(80,991)</b>	<b>-0.6%</b>

\*Amounts will be finalized once the general ledger is closed for November and December.



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

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	PRELIMINARY	ACTUAL	\$	%	PRELIMINARY	ACTUAL	\$	%
	2008	2007	VAR	VAR	2008	2007	VAR	VAR
Primary, Secondary and Other Education	346,883	303,911	42,972	14.1%	3,592,736	3,505,918	86,818	2.5%
Higher Education	168,925	213,391	(44,466)	-20.8%	1,349,233	1,282,879	66,354	5.2%
Public Assistance and Medicaid	896,296	846,438	49,859	5.9%	5,741,693	5,290,167	451,525	8.5%
Health and Human Services	45,176	76,365	(31,189)	-40.8%	591,114	658,754	(67,640)	-10.3%
Justice and Public Protection	60,269	136,313	(76,044)	-55.8%	912,306	1,041,766	(129,460)	-12.4%
Environmental Protection and Natural Resources	1,374	4,846	(3,472)	-71.6%	54,750	60,726	(5,976)	-9.8%
Transportation	4,636	3,852	784	20.4%	15,367	14,079	1,287	9.1%
General Government	10,574	24,076	(13,502)	-56.1%	178,641	202,930	(24,289)	-12.0%
Community and Economic Development	6,041	8,579	(2,538)	-29.6%	73,032	85,227	(12,195)	-14.3%
Tax Relief and Other	73,796	104,134	(30,338)	-29.1%	642,528	617,254	25,273	4.1%
Capital Outlay	0	2	(2)	-100.0%	56	63	(7)	-11.6%
Debt Service	23,536	7,568	15,968	211.0%	304,560	259,895	44,665	17.2%
Pending Payroll	229,284	0	229,284	N/A	380,014	0	380,014	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>1,866,791</b>	<b>1,729,475</b>	<b>137,316</b>	<b>7.9%</b>	<b>13,836,029</b>	<b>13,019,659</b>	<b>816,370</b>	<b>6.3%</b>
<b>Transfers Out:</b>								
OPER TRF OUT-BUD STABILIZATION	0	0	0	N/A	0	394,034	(394,034)	N/A
OPER TRF OUT-OTH	100	0	100	N/A	154,873	9,414	145,459	1545.1%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	446,551	287,414	159,138	55.4%
<b>Total Transfers (Out)</b>	<b>100</b>	<b>0</b>	<b>100</b>	<b>N/A</b>	<b>601,424</b>	<b>690,862</b>	<b>(89,438)</b>	<b>-12.9%</b>
<b>Total Fund Uses</b>	<b>1,866,891</b>	<b>1,729,475</b>	<b>137,416</b>	<b>7.9%</b>	<b>14,437,453</b>	<b>13,710,521</b>	<b>726,932</b>	<b>5.3%</b>

\*Amounts will be finalized once the general ledger is closed for November and December.

### **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	1,149,619
 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	612,078
 Total Estimated Uses	 27,492,720
 FY 2008 Estimated Ending Fund Balance	 \$ 934,224

## *Appendix*

Since the publication of the November Governor’s Monthly report, the General Ledger for the month of October has been closed. As stated in this report, preliminary disbursement data would be updated once final amounts were available. Final data for October is included in this section.

### **October**

Final GRF disbursements for October totaled \$2,698.6 million, which was \$2.1 million (0.1%) more than the preliminary data. The allocation of pending payroll to the correct accounts explains most of the variance between the preliminary and final data. The categories with the largest changes are Health and Human Services and Justice and Public Protection. The largest agencies in these categories are the state’s institutional agencies, which have significant payroll costs as they operate facilities 24 hours a day seven days a week.

Final disbursements for October were \$294.9 million (12.3%) above the estimate. The under spending in October is in large part due to a \$261.3 million (43.4%) negative variance in Primary, Secondary, and Other Education category caused by three foundation payments posting in October instead of the estimated two. The first of two November payments posted in October as a result of accrued accounting practices in the OAKS system.

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