



October 10, 2007

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

FROM: J. Pari Sabety, Director

SUBJECT: Monthly Financial Report

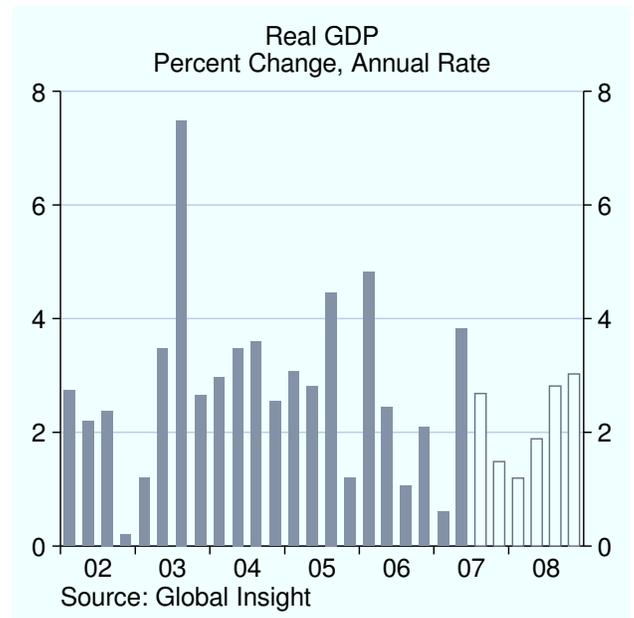
### ECONOMIC SUMMARY

After a 3.8% rise in real GDP during the second quarter, forecasters have revised projections lower in response to signs of weakness in production, employment and consumer spending. Housing construction and sales weakened further across the country and in the Midwest. Employment growth in the U.S. and Ohio has slowed year-to-date and the unemployment rate has moved modestly higher. Despite these challenges, economic activity continued to expand through September.

#### Economic Growth

**Real GDP** growth settled in at 3.8% in the second quarter after two sets of revisions. Growth was up from 0.6% in the first quarter but only 1.9% compared with a year earlier. Consumer spending growth slowed during the spring quarter, with real GDP growth coming mainly from nonresidential fixed investment, higher exports and lower imports, and stronger government outlays. Housing subtracted from overall growth for the sixth consecutive quarter.

In light of the liquidity events and the more serious than anticipated deterioration in housing over the summer, the positive second quarter GDP report is less relevant than usual. Forecasters have indicated heightened odds of a recession this year or next and revised growth projections lower. Global Insight estimates that real GDP expanded 2.7% in the third quarter and projects growth of less than 2% for each of the next three quarters. On a fourth-quarter to fourth-quarter basis, Global Insight projects growth of 2.1% this year and 2.2% in 2008. That would be the weakest growth over a two-year period since mid-2003.



The Federal Reserve reduced the federal funds rate target by one-half percentage point at its September meeting to 4.75%. The reduction was the first since the end of the last easing cycle in June 2003 and the first reversal in direction since January 2001. The Fed had last changed the rate with a one-quarter point increase in June 2006. The announcement of the rate cut made offered no assurances of additional future reductions, yet investors see more reductions in short-term interest rates likely before year-end.

The **coincident economic index** for Ohio (CEI) prepared by the Federal Reserve Bank of Philadelphia increased 0.2% in August, and previous months' values were revised substantially higher. Designed to track the growth rate of Ohio Gross Domestic Product, the index was up 2.8% compared with a year earlier.

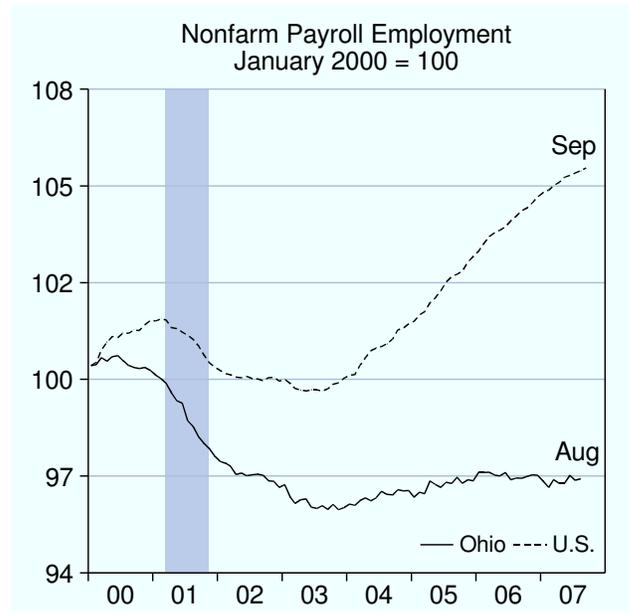
### Employment

The decrease of 4,000 in **U.S. employment** previously announced for August was revised up to an 89,000 job gain, and payrolls increased a preliminary 110,000 jobs in September. Employment growth in July was revised higher from 68,000 jobs to 93,000 jobs. Despite the much improved depiction, labor markets have unquestionably weakened this year. Monthly job growth has averaged 122,000 through September, compared with 189,000 during all of 2006. The slowdown in job growth from 2006 probably was a bit smaller than it currently appears, given that the March 2007 level is likely to be revised downward by about one-quarter million jobs when benchmark revisions are released in February, which should lower the trajectory of employment during 2006.

The large revisions to employment during the summer months largely reflect updated information on the timing of teachers returning to school. Private sector payrolls continued to expand slowly – by only 105,000 during August and September combined and by an average of 101,000 per month year-to-date versus 169,000 per month in all of 2006.

The updated count brings employment data back into line with weekly claims for jobless benefits. Both initial and continuing claims remain consistent with a moderate but still-growing demand for labor. The greatest reason for concern was the uptick in the unemployment rate to 4.7%, up from its low for the cycle of 4.4% reached in March. The rate is low, yet the relatively modest six-month rise merits attention. The unemployment rate has signaled the onset of each of the last nine recessions with an increase of at least one-half percentage point regardless of the level.

U.S. employment continued to decline in construction (-14,000) and manufacturing (-18,000) during September. The drop in



construction employment was concentrated in residential specialty trade contractors. The drop in manufacturing was widespread. All major services-producing industries added to employment, except for financial activities (-14,000), where credit intermediation accounted for most of the loss, and other services (-4,000). Education and health services (+44,000) and leisure and hospitality (+35,000) made the largest contributions to private sector employment, followed by trade, transportation and utilities (+13,000) and information (+11,000). Government payrolls increased by 37,000 jobs, 27,000 of which were in state government education.

**Ohio employment** increased by 2,400 jobs in August, following a decrease of 8,000 jobs in July. Employment increased in professional and business services (+2,600) and education and health services (+2,300). Government, leisure and hospitality, and construction added a total of 1,500 jobs. Employment fell in manufacturing (-2,100), financial activities (-800), and other services (-700). Employment was down by 5,700 jobs year-to-date, with the decline centered in manufacturing (-11,500) and financial activities (-4,500), 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 (+10,400).

The **Ohio Metropolitan Statistical Areas (MSAs)** that made the largest contributions to statewide employment growth during the past year are Columbus (+5,300), Akron (+3,200), and Toledo (+1,600). The MSAs that subtracted the most from Ohio employment were Youngstown-Warren-Boardman (-2,200), Lima (-1,000), and Dayton (-900).

Indiana, Pennsylvania, Kentucky, and West Virginia led the way in employment growth among **contiguous states** during the twelve months ending in August with gains of 0.9%, 0.8%, 0.4%, and 0.4%, respectively. Employment in Michigan decreased 1.3% from a year ago, followed by essentially no change in Ohio. Nationally, employment increased 1.2% during the twelve months ending in August.

### Consumer Income and Consumption

**Personal income** increased 0.3% in August, as most components slowed. Wage and salary disbursements, which account for just under one-half of personal income, increased 0.2%. Compared with a year earlier, personal income and wage and salary disbursements increased 6.8% and 7.1%, respectively. The weaker growth in income reflected the unchanged level of hours worked during the month coupled with a 0.3% rise in average hourly earnings.

**Personal consumption expenditures** increased by 0.6% for a gain from the year earlier of 5.2%. Key contributors were a 5.4% rise in spending for motor vehicles and parts, which pushed up spending on durable goods by 2.4%, and a 7.7% increase in spending on electricity, which led to a 0.7% increase in spending for services. Spending on nondurable goods fell 0.5%, as a drop in gasoline sales offset small increases in spending for food and clothing.



**Mid-west retail sales** increased 0.3% in August to 3.4% above the year earlier level. U.S. retail sales increased 0.3% in August and 3.7% year-over-year.

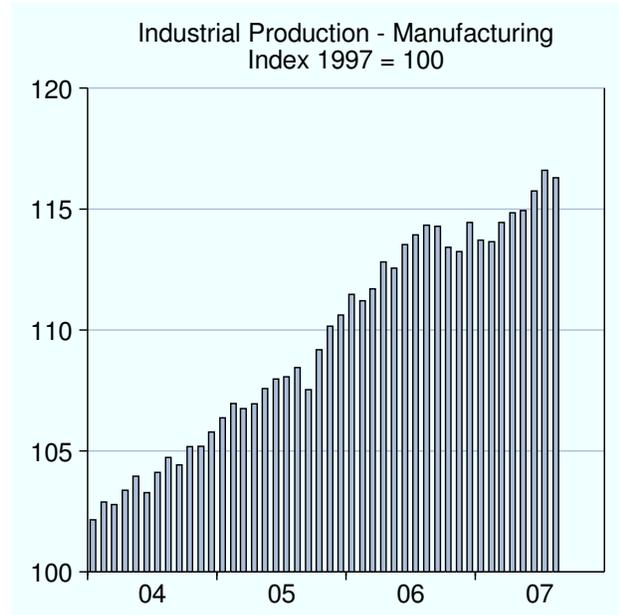
The light motor vehicle sales were 16.2 million at an annual rate in September – about the same as in August but well ahead of the depressed pace in July. The sales pace was 16.6 million units in September 2006. Through the first three quarters of 2007, sales are down 2.9% from the same period a year ago. Analysts expect a modest improvement during the fourth quarter.

## **Manufacturing**

**Industrial production** increased 0.2% in August, following an upwardly revised 0.5% increase in July. The gain was largely due to a weather-related jump in utility output. Manufacturing production fell 0.3% to only 1.7% above its year earlier level. The chief cause of the decline was a large decrease in production of motor vehicle parts and equipment. Production of business equipment also declined.

The August setback in manufacturing activity is consistent with the message from related indicators. New orders and shipments for all manufacturing industries fell in August, leaving both measures essentially flat compared with mid-2006. Activity has recovered from last winter's drop, but has failed to move higher. Purchasing managers at manufacturing firms added to the string of progressively less robust reports in September. The **Purchasing Managers Index** slipped for the third straight month, as reports of higher production, new orders, inventories and new export orders were less widespread than in August.

**Midwest industrial production** slipped in August, with three of the four sectors registering declines. Regional machinery output fell 0.9%. Steel sector output fell 0.5%. And resource sector production slipped 0.1%. Auto sector production edged higher by 0.1%.



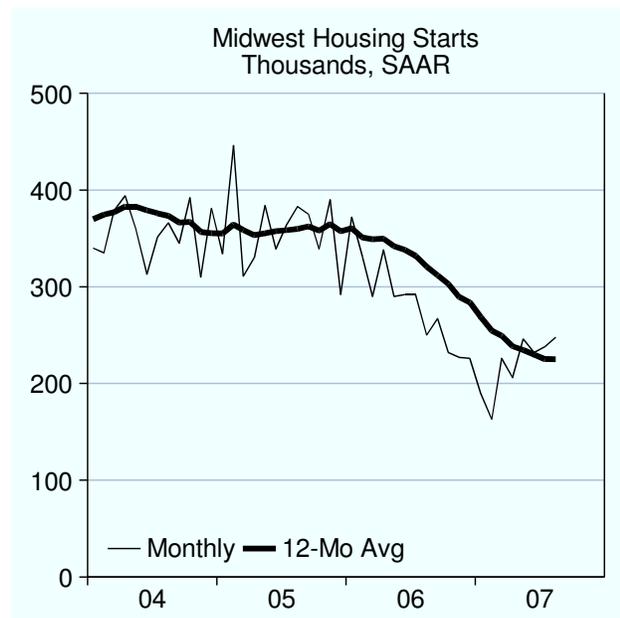
## Construction

Nonresidential construction won the tug-of-war with residential construction in August. **Construction put-in-place** increased 0.2% in August after back-to-back declines, as a 1.6% rise in nonresidential construction more than offset a 1.4% drop in residential construction. Public construction increased 0.7% for a sixth consecutive gain.

The downward trend in housing construction intensified in August. Housing permits fell 5.9% to 24.5% below the year earlier level. Single-family permits fell 8.1% for the month to 27.9% from the year before. Performance in Midwest markets has been similar.

**Housing sales** also deteriorated in August. Sales of newly built homes fell 8.3% to the lowest level since June 2000. The number of new homes for sale increased to an 8.2 month supply at the current sales pace – near its recent high. The median price of new homes sold was 7.5% below the year earlier level.

Existing home sales fell 4.3% in August – the sixth straight monthly decline to the slowest pace since August 2002. Single-family sales fell 3.8% and multi-family sales were off 8.0%. The supply of existing homes for sale increased to 9.8 months at the current sales pace. Prices fell in July in 15 of 20 major markets, with the average price down 3.9%, according to the Case-Shiller composite, which adjusts for differences in size and quality of houses.



## REVENUES AND DISBURSEMENTS

### FY 2008 Year-to-Date Highlights

- GRF tax receipts in the first three months were slightly below estimate by \$10.6 million (0.2%). Personal income tax, non-auto sales tax, and cigarette tax receipts were all ahead of estimate while the auto sales tax and corporate franchise tax were below estimate. (See Table 1.)
- Tax receipts declined \$36.6 million (0.8%) 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 under estimate by \$111.6 million (1.5%). (See Table 3.)
- Excluding transfers out, uses were \$215.0 million (3.2%) above last year's levels. Year-to-date spending increased for public assistance and Medicaid, higher education, and debt service and decreased for all other categories. (See Table 4.)

**Please Note:** While this month's report contains the most up-to-date data available, revenue and disbursement data presented are preliminary. 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 is expected with an enterprise project of this size, there have been some challenges with implementation. Most notably, GRF expenses for several state payrolls have not yet been assigned at the agency line item level. Final data will not be available until the general ledgers for the months of July, August, and September are closed. Also, 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 are recorded when received, and expenses were recognized when the cash was moved.

GRF tax receipts totaled \$1,547.8 million for the month of September and were below estimate by \$15.2 million (1.0%). For the year to date, total GRF tax receipts were \$4,289.7 million, which were also below estimate by \$11.6 million (0.3%). Due to a delay in posting earnings on investments in September, GRF total revenues for the month were below estimate by \$58.2 million (2.8%) with the majority of the variance (\$46.1 million) attributable to a delay in posting earnings on investments to the GRF.

In September, GRF disbursements were \$284.8 million (11.8%) under the estimate for all spending categories. The year-to-date negative variance is smaller at \$120.4 million (1.7%). The primary contributor to September's large variance was a Department of Education foundation payment that processed at the end of August instead of the beginning of September as anticipated.

For September, Public Assistance and Medicaid, Tax Relief and Other, and Debt Service had positive variances. All other spending categories had negative variances. Primary, Secondary,

and Other Education experienced the largest monthly variance at \$346.7 million below the estimate due to the foundation payment processing item noted above.

The personal income, non-auto sales tax, and cigarette tax all ended September with positive year-to-date variances, which were offset by the negative variances in the auto sales tax and corporate franchise tax. Year-to-date revenues from federal grants were slightly under estimate by \$4.1 million (0.3%). GRF total receipts for the year to date were below estimate by \$63.1 million (1.1%), with the majority of the variance (\$46.1 million) attributable to a delay in posting earnings on investments to the GRF.

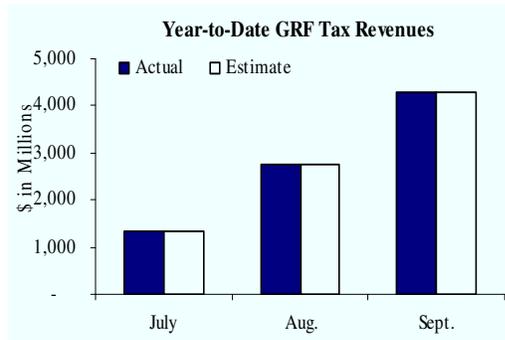
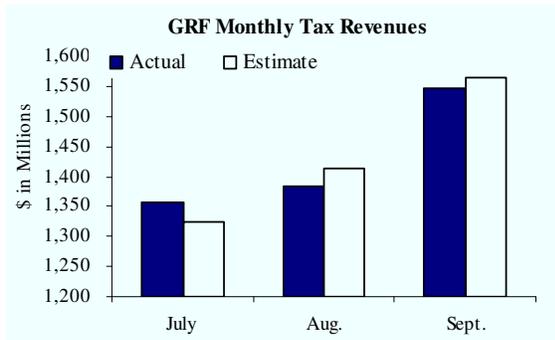
The tax reforms enacted in Am. Sub. H.B. 66 by the 126<sup>th</sup> General Assembly continue to phase in through FY 2008 and affect year-over-year variance of GRF tax revenues. Year-to-date GRF tax receipts fell behind the FY 2007 level by \$37.5 million (0.9%). GRF total sources produced \$53.2 million (0.9%) more in the first three months of FY 2008 than in the same period in FY 2007.

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 September and for FY 2008 year-to-date.

General Revenue Fund (\$ in millions)	September Variance		FY 2008 Variance	
Revenues				
Tax Receipts	-\$15.2	-1.0%	-\$11.6	-0.3%
All Sources	-\$58.2	-2.8%	-\$63.1	-1.1%
Total Uses (Including Transfers)	-\$284.8	-11.8%	-\$111.6	-1.5%

## REVENUES

GRF tax receipts in September were below estimate with a negative variance of \$15.2 million (1.0%). The negative variance was driven primarily by the underperformance of the non-auto and auto sales tax as well as the corporate franchise tax. Together these three tax streams were \$7.5 million (1.5%), \$13.0 million (15.4%), and \$10.2 million (136.4%) below estimates for the month. Offsetting the negative variance on the above taxes was a relatively solid performance of the personal income tax as receipts exceeded estimates by \$19.7 million (2.4%). As for non-tax revenues, they were \$37.9 million (7.3%) below estimate for the month of September, primarily as a result in a delay in the posting of investment earnings to the GRF. The negative variance on investment earnings was offset in part by a positive variance in federal revenues as they exceeded estimates by \$11.2 million (2.4%). As a result of the net negative variance with GRF tax receipts, and a delay in posting investment earnings in the OAKS system, total GRF revenues for September were \$58.2 million below estimate (2.8%).



Tax receipts in the first three months of FY 2008 declined \$37.5 million (0.9%) versus FY 2007. The annual decline in personal income tax and corporate franchise tax receipts contributed to the year-to-year slide, with the decline in personal income tax receipts affected by the withholding rate reduction. Corporate franchise tax receipts decreased by \$65.8 million, of which \$25.1 million is attributed to one-time settlement payments that occurred in July 2006. Offsetting the year-to-year decline was an increase in non-auto sales tax receipts of \$69.0 million (4.3%). In terms of non-tax sources, a decline from FY 2007 in investment earnings that resulted from a delay in posting kept the year-to-year growth from being larger. Federal revenues in the first three months grew by \$165.2 million (11.9%) from FY 2007. As a result of the combination of the above factors, year-to-date GRF revenues grew by \$53.2 million (0.9%) from FY 2007.

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

Sources Above Estimate Year-to-Date		Sources Below Estimate Year-to-Date	
Non-Auto Sales Tax	\$18.5	Auto Sales Tax	(\$ 20.7)
Cigarette Tax	11.1	Corporate Franchise Tax	(21.4)
Personal Income Tax	8.4	Federal Grants	(4.1)
Other above estimate sources	<u>4.7</u>	Investment Earnings	(46.1)
		Other below estimate sources	<u>(13.4)</u>
Total above	\$42.7	Total below	(\$105.7)

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

While the non-auto sales tax began FY 2008 with two consecutive above-estimate variances, that trend would not continue in September, as receipts were \$7.5 million (1.5%) below estimate. As a result of the relatively solid performance in the first two months of the fiscal year however, receipts for the year to date continue to exceed estimates by \$18.5 million (1.1%). As for year over year growth, September receipts were ahead of September 2007 receipts by \$22.2 million (4.6%) and year-to-date receipts were ahead of FY 2007 year-to-date receipts by \$69.8 million (4.4%).

### **Auto Sales Tax**

Auto sales tax receipts in September again fell below estimate by \$13.0 million (15.4%). For the year-to-date, receipts trailed estimates by \$20.7 million (7.7%). September receipts trailed receipts from September 2006 by \$5.3 million (7.0%) while receipts to date for FY 2008 have declined by \$6.2 million (2.5%) from FY 2007. Weak auto sales nationally have hurt the auto sales tax collections. In addition, national data show increasing use of leasing of new cars rather than outright purchasing. This impacts both the auto and non-auto portions of the sales tax. Taxes paid on leased vehicles are credited as non-auto receipts, while taxes from purchased vehicles are credited as auto sales tax receipts. This increase in leasing may explain some of the weakness in auto collections and strength in non-auto collections.

### **Personal Income Tax**

In September, personal income tax receipts exceeded estimates by \$19.7 million (2.4%). The majority of the monthly variance resulted largely from monthly withholding that was \$25.8 million above estimate and that has shown no signs of weakening. The solid performance in withholding offset a negative variance in third quarter estimated payments that were \$13.8 million below estimate. Total receipts for the year to date were slightly above estimate by \$8.4 million (0.4%). Withholding revenues in the first three months of the year remained over estimate with a robust positive variance of \$68.6 million. The following table shows the variances in different components of personal income tax for September and the year-to-date.

FY 2008 PERSONAL INCOME TAX RECEIPTS BY COMPONENT						
(\$ in thousands)						
	ESTIMATE SEPTEMBER	ACTUAL SEPTEMBER	\$ VAR SEPTEMBER	ESTIMATE Y-T-D	ACTUAL Y-T-D	\$ VAR Y-T-D
Withholding	\$561.2	\$587.0	\$25.8	\$1,842.2	\$1,910.8	\$68.6
Quarterly Est.	342.0	328.3	(13.8)	379.0	361.6	(17.4)
Trust Payments	3.4	5.8	2.4	6.6	10.1	3.5
Annual Returns & 40 P	10.3	17.1	6.8	35.6	36.7	1.1
Other	7.8	9.1	1.3	22.0	17.2	(4.8)
Less: Refunds	(18.0)	(20.3)	(2.3)	(62.5)	(104.6)	(42.1)
Local Distr.	(84.1)	(84.6)	(0.5)	(201.7)	(202.2)	(0.5)
Net to GRF	\$822.6	\$842.3	\$19.7	\$2,021.2	\$2,029.6	\$ 8.4

On a year-to-year comparison, September receipts increased by \$5.4 million (0.6%) from September 2007, but year-to-date receipts declined by \$28.1 million (1.4%) from FY 2007. The annual growth rates continue to be affected by the phased-in tax rate cut as enacted in Am. Sub. H.B. 66 by the 126<sup>th</sup> General Assembly. The withholding rate was reduced by 8.4% in July to September 2007 compared to July to September 2006.

### Corporate Franchise Tax

Variances in the 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. Due to higher than expected refunds, September receipts of negative \$2.7 million were \$10.2 million lower than expected. Receipts in the first three months of the fiscal year were net negative by \$9.4 million, \$21.4 million below estimate. The first quarter receipts also indicated an annual decline of \$65.8 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 school districts and local governments as the tangible personal property tax is phased out. Receipts in September totaled \$7.6 million, which represented a very minor negative variance of \$1.9 million. For the year-to-date, receipts continue to track very close to estimates, totaling \$217.0 million with a negative variance of \$0.3 million.

### Kilowatt Hour and Public Utility Excise Tax

Kilowatt hour and public utility tax revenues were \$0.3 million below estimate in September and are \$3.3 million below estimate for the fiscal year. Only revenues were due in September. For the year, KWH revenues are about \$0.4 million above estimate.

## **Cigarette Tax**

Cigarette tax receipts were \$0.1 million (0.1%) below estimate in September, after two strong months in July and August. Due to the performance of this tax in July and August, year-to-date receipts are still \$11.1 million (6.1%) above estimate. In comparing year-to-year performance, September receipts were \$5.8 million (6.6%) below September 2006. Based on the sharp declining trend in this tax source in the second half of FY 2007, a larger rate of decline was 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 are behind FY 2007 year-to-date receipts by \$0.8 million (0.4%).

## **Investment Earnings**

The largest negative variance occurring during the month of September and one that is also reflected in the negative variance for the year to date is for investment earnings. This negative variance of \$46.1 million is the result of a delay in posting first quarter interest to the general ledger for the months of July, August, and September. These amounts cannot be posted until the general ledger for these months is closed and daily cash balances calculated. This delay accounts for the majority of the negative variance for the month of September and for the year to date.

Table 1\*

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

REVENUE SOURCE	Month				Year-to-Date			
	ACTUAL SEPTEMBER	ESTIMATE SEPTEMBER	\$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	\$ VAR	% VAR
<b>TAX RECEIPTS</b>								
Non-Auto Sales & Use	505,804	513,300	(7,496)	-1.5%	1,658,757	1,639,400	19,357	1.2%
Auto Sales & Use	70,940	83,900	(12,960)	-15.4%	246,925	267,600	(20,675)	-7.7%
Subtotal Sales & Use	576,744	597,200	(20,456)	-3.4%	1,905,682	1,907,000	(1,318)	-0.1%
Personal Income	842,333	822,600	19,733	2.4%	2,029,677	2,021,200	8,477	0.4%
Corporate Franchise	(2,731)	7,500	(10,231)	-136.4%	(9,380)	12,000	(21,380)	-178.2%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	4	0	4	N/A	41,646	44,900	(3,254)	-7.2%
Kilowatt Hour	32,942	33,200	(258)	-0.8%	94,386	93,900	486	0.5%
Foreign Insurance	5,344	6,700	(1,356)	-20.2%	5,360	6,700	(1,340)	-20.0%
Domestic Insurance	153	0	153	N/A	194	600	(406)	-67.6%
Other Business & Property Tax	(66)	190	(256)	-134.5%	216	680	(464)	-68.3%
Cigarette	81,692	81,800	(108)	-0.1%	194,823	183,700	11,123	6.1%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	5,043	4,800	243	5.1%	15,630	15,400	230	1.5%
Liquor Gallonage	3,018	3,000	18	0.6%	8,957	8,900	57	0.6%
Estate	3,291	6,000	(2,709)	-45.2%	3,451	6,300	(2,849)	-45.2%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,547,767	1,562,990	(15,223)	-1.0%	4,290,641	4,301,280	(10,639)	-0.2%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	473,425	462,261	11,164	2.4%	1,549,144	1,553,301	(4,157)	-0.3%
Earnings on Investments	45	46,200	(46,155)	-99.9%	45	46,200	(46,155)	-99.9%
License & Fees	977	1,801	(824)	-45.7%	14,153	13,251	902	6.8%
Other Income	3,231	4,700	(1,469)	-31.3%	11,173	12,994	(1,821)	-14.0%
ISTV'S	743	1,300	(557)	-42.9%	782	3,410	(2,628)	-77.1%
Total Non-Tax Receipts	478,421	516,262	(37,841)	-7.3%	1,575,297	1,629,156	(53,859)	-3.3%
TOTAL REVENUES	2,026,188	2,079,252	(53,064)	-2.6%	5,865,937	5,930,436	(64,499)	-1.1%
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	13,000	12,000	1,000	8.3%	52,000	49,000	3,000	6.1%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	284	6,360	(6,076)	-95.5%	15,670	16,260	(590)	-3.6%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	13,284	18,360	(5,076)	-27.6%	67,670	65,260	2,410	3.7%
TOTAL SOURCES	2,039,472	2,097,612	(58,140)	-2.8%	5,933,607	5,995,696	(62,089)	-1.0%

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

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	505,804	483,622	22,182	4.6%	1,658,757	1,588,942	69,815	4.4%
Auto Sales & Use	70,940	76,274	(5,334)	-7.0%	246,925	253,171	(6,246)	-2.5%
Subtotal Sales & Use	576,744	559,896	16,848	3.0%	1,905,682	1,842,113	63,569	3.5%
Personal Income	842,333	836,918	5,415	0.6%	2,029,677	2,057,662	(27,985)	-1.4%
Corporate Franchise	(2,731)	17,160	(19,891)	-115.9%	(9,380)	56,391	(65,771)	-116.6%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	4	26	(22)	-84.3%	41,646	45,061	(3,415)	-7.6%
Kilowatt Hour	32,942	34,645	(1,703)	-4.9%	94,386	93,796	590	0.6%
Foreign Insurance	5,344	6,812	(1,468)	-21.5%	5,360	6,860	(1,500)	-21.9%
Domestic Insurance	153	2	151	N/A	194	235	(41)	-17.5%
Other Business & Property Tax	(66)	175	(241)	-137.5%	216	367	(151)	-41.2%
Cigarette	81,692	87,486	(5,794)	-6.6%	194,823	195,647	(825)	-0.4%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	5,043	4,702	341	7.3%	15,630	15,701	(71)	-0.5%
Liquor Gallonage	3,018	2,864	154	5.4%	8,957	8,635	321	3.7%
Estate	3,291	131	3,160	N/A	3,451	4,762	(1,311)	-27.5%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,547,767	1,550,817	(3,050)	-0.2%	4,290,641	4,327,231	(36,590)	-0.8%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	473,425	449,590	23,835	5.3%	1,549,144	1,383,937	165,207	11.9%
Earnings on Investments	45	50,250	(50,205)	-99.9%	45	50,250	(50,205)	-99.9%
License & Fee	977	1,562	(584)	-37.4%	14,153	13,633	520	3.8%
Other Income	3,231	7,064	(3,833)	-54.3%	11,173	17,217	(6,044)	-35.1%
ISTV'S	743	177	566	320.2%	782	3,398	(2,617)	-77.0%
Total Non-Tax Receipts	478,421	508,642	(30,221)	-5.9%	1,575,297	1,468,434	106,863	7.3%
TOTAL REVENUES	2,026,188	2,059,459	(33,271)	-1.6%	5,865,937	5,795,665	70,272	1.2%
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	13,000	12,000	1,000	8.3%	52,000	35,000	17,000	48.6%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	284	40,948	(40,664)	-99.3%	15,670	43,337	(27,667)	-63.8%
Temporary Transfers In	0	0	0	N/A	0	5,380	(5,380)	N/A
Total Transfers	13,284	52,948	(39,664)	-74.9%	67,670	83,716	(16,046)	-19.2%
TOTAL SOURCES	2,039,472	2,112,407	(72,935)	-3.5%	5,933,607	5,879,381	54,226	0.9%

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

## **DISBURSEMENTS**

In September, GRF disbursements, including pending payroll and transfers out of the GRF, totaled \$2,129.5 million, which was \$284.8 million (11.8%) below the estimate. For the year to date, GRF disbursements totaled \$7,234.2 million, which was \$111.6 million (1.5%) less than estimated. Adjusting for transfers out of the GRF, year-to-date expenditures were up 3.2% 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 General Ledger will remain open for all of FY 2008 as state agencies continue to work to resolve payroll coding issues. As a result, expenses from prior months of FY 2008 – most notably, GRF payroll – will still post to those months once correctly coded. Thus, GRF disbursements for prior months will continue to be updated as additional expenses post and will not be final for any month until all ledgers are closed. It is anticipated that the General Ledger for July will be closed soon and the General Ledger for August sometime after that. Once the past months are closed, actual disbursement tables will be published. Currently, there is roughly \$206 million in GRF payroll pending for July, \$160 million for August, and \$151 million for September.

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

September disbursements in Primary, Secondary, and Other Education were \$312.2 million, which was \$346.7 million (52.6%) under estimate. For the fiscal year to date, disbursements were more in line with expectations at \$1,749.6 million, which was \$93.0 million (5.0%) below the estimate.

- The Department of Education foundation funding line items were under estimate collectively by \$344 million for the month, which was attributed to only one foundation payment posting in September instead of two. The first of two September payments posted at the end of August as a result of the accrual accounting basis of the OAKS system. This month's spending counters August disbursements, which were much higher than estimated.

### **Higher Education**

September disbursements for Higher Education were \$170.8 million, representing a variance of \$4.2 million (2.4%) below the estimate for the month. Year-to-date disbursements were \$594.4 million, representing a similar variance totaling \$10.8 million (1.8%) below the estimate. Disbursements for the Student Choice Grants and the Ohio College Opportunity Grant were \$11.3 million more than estimated for the month, mostly due to colleges and universities submitting requests for payment earlier in the school year than expected. This variance was countered by Ohio Instructional Grant distributions for the month that were \$14 million less than estimated.

## **Public Assistance and Medicaid**

For September, GRF disbursements in this category totaled \$850.5 million and were over estimate by \$22.8 million (2.8%). Year-to-date disbursements in this category totaled \$2,793.9 million, which was \$52.2 million (1.8%) below estimate. Medicaid disbursements, the largest item in this category, totaled \$809.9 million for the month of September, which was over estimate by \$25.9 million (3.3%). Year-to-date Medicaid disbursements totaled \$2,630.6 million, which was just \$0.7 million (0.0%) below the estimate. Notable monthly variances were as follows:

- The August Medicaid Buy-In payment, which covers the Medicare premium for those eligible for both Medicaid and Medicare, was made in September rather than in August as estimated.
- The Medicare Part D line item was over estimate by \$4.9 million because Medicare Part A payments were incorrectly coded to this line item. An adjustment is pending in the OAKS system to correct the expenditure coding.
- Payments to counties for child welfare, child support, and entitlement administration were over the September estimate by \$6.4 million but remain under estimate by \$3 million for the year because subsidy payments to counties were different than estimated.

## **Health and Human Services**

September 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 \$44.1 million, which was \$33.0 million (42.8%) under estimate. For the fiscal year, disbursements totaled \$233.0 million, which represents a variance of \$112.9 million (32.6%) below estimate.

- Once GRF payroll posts for the first quarter, much of the variance for the Departments of Mental Health (DMH) and Mental Retardation and Developmental Disabilities (DMR) will be eliminated. As these two agencies 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 September and \$87 million for the year to date. When considering pending payroll expenditures together with posted disbursements, both agencies are within 4.0% of estimates for the fiscal year. DMR's variance was due primarily to under spending of waiver state match funds. These funds are paid to county MR/DD boards to pay waiver service costs. The variance occurs because of delays in providers submitting bills for services they have provided. DMH variances are due to the timing of payments to county boards.

- Year-to-date spending for the Department of Health totaling \$14.3 million was \$6.5 million (31.1%) less than projections. September disbursements were \$3.6 million, which was \$1.6 million (30.5%) less than estimates. The year-to-date variance is largely attributed to a change in the submittal date for subsidy agreements with the Help Me Grow program, thus delaying roughly \$4.8 million in subsidy payments.

## **Justice and Public Protection**

September disbursements in this category totaled \$137.1 million, which produced a variance of \$63.4 million (31.6%) below the estimate. For the fiscal year, disbursements totaled \$313.4 million, which produced a variance of \$307.0 million (49.5%) below estimate.

- As stated in the previous section, 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 first-quarter disbursements totals roughly \$274 million for the Departments of Rehabilitation and Correction (DRC) and Youth Services (DYS). Once first-quarter payroll posts, much of the under spending currently shown for these agencies will be eliminated. When considering pending payroll expenditures together with posted disbursements, both agencies are within 4.0% of estimates for the fiscal year. DRC's positive variance of 10.4% above the monthly estimate occurred because prisoner compensation for July and October was paid in September. In addition, September disbursements for Mental Health Services and Institution Medical Services both exceeded estimates. Institution Medical Services made payments for bills from the end of FY 2007 that were not included in the disbursement estimate. DYS's positive variance of 102.8% above the monthly estimate occurred because the expected August lease rental payment was paid in September.

## **Tax Relief and Other**

September disbursements in the Tax Relief and Other category totaled \$254.6 million, producing a variance of \$18.9 million (8.0%) above the estimate. For the fiscal year, disbursements were \$347.1 million, which was \$22.3 million (6.9%) above estimate. Tax relief payments made by the Department of Taxation go to school districts and 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.

- Through the month of September, year-to-date tax relief payments to local governments were \$8.7 million (7.6%) above estimate. This variance is almost entirely attributable to \$111.9 million in spending in September that was \$30.8 million (38.1%) above the monthly estimate. As reported in last month's report, the variance in September erased what had been year-to-date under spending resulting from a delay in processing payments at the Department of Taxation during the month of August.

- In September, reimbursements to school districts were under estimate by \$26.3 million. The monthly variance offsets the over spending in August, and the year-to-date disbursements are within \$0.7 million of the estimate.

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

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	ACTUAL	ESTIMATED	\$	%	YTD	YTD	\$	%
	SEPTEMBER	SEPTEMBER	VAR	VAR	ACTUAL	ESTIMATE	VAR	VAR
Primary, Secondary and Other Education	312,166	658,860	(346,694)	-52.6%	1,749,621	1,842,642	(93,020)	-5.0%
Higher Education	170,779	174,984	(4,205)	-2.4%	594,369	605,182	(10,813)	-1.8%
Public Assistance and Medicaid	850,461	827,662	22,799	2.8%	2,793,852	2,846,098	(52,246)	-1.8%
Health and Human Services	44,072	77,070	(32,998)	-42.8%	232,967	345,887	(112,920)	-32.6%
Justice and Public Protection	137,066	200,511	(63,444)	-31.6%	313,448	620,495	(307,047)	-49.5%
Environmental Protection and Natural Resources	3,259	7,236	(3,977)	-55.0%	10,204	30,134	(19,930)	-66.1%
Transportation	873	2,177	(1,304)	-59.9%	3,814	5,018	(1,204)	-24.0%
General Government	77,142	93,584	(16,441)	-17.6%	105,689	155,135	(49,446)	-31.9%
Community and Economic Development	33,244	41,927	(8,683)	-20.7%	41,869	54,750	(12,881)	-23.5%
Tax Relief and Other	254,644	235,792	18,851	8.0%	347,104	324,788	22,316	6.9%
Capital Outlay	6	150	(144)	-96.2%	6	321	(315)	-98.2%
Debt Service	94,449	94,312	137	0.1%	236,437	236,300	137	0.1%
Pending Payroll	151,350	0	151,350	N/A	516,971	0	516,971	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>2,129,513</b>	<b>2,414,266</b>	<b>(284,753)</b>	<b>-11.8%</b>	<b>6,946,350</b>	<b>7,066,750</b>	<b>(120,400)</b>	<b>-1.7%</b>
<b>Transfers Out:</b>								
OPER TRF OUT-OTH	1	0	1	N/A	154,711	145,278	9,433	6.5%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	133,173	133,800	(627)	-0.5%
<b>Total Transfers (Out)</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>N/A</b>	<b>287,884</b>	<b>279,078</b>	<b>8,805</b>	<b>3.2%</b>
<b>Total Fund Uses</b>	<b>2,129,513</b>	<b>2,414,266</b>	<b>(284,753)</b>	<b>-11.8%</b>	<b>7,234,234</b>	<b>7,345,828</b>	<b>(111,595)</b>	<b>-1.5%</b>

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

**Table 4\***  
**GENERAL REVENUE FUND DISBURSEMENTS**  
**PRELIMINARY ACTUAL 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	312,166	603,246	(291,080)	-48.3%	1,749,621	1,793,320	(43,698)	-2.4%
Higher Education	170,779	153,569	17,210	11.2%	594,369	536,108	58,261	10.9%
Public Assistance and Medicaid	850,461	815,443	35,018	4.3%	2,793,852	2,645,300	148,552	5.6%
Health and Human Services	44,072	74,733	(30,660)	-41.0%	232,967	335,832	(102,865)	-30.6%
Justice and Public Protection	137,066	216,148	(79,081)	-36.6%	313,448	608,051	(294,603)	-48.5%
Environmental Protection and Natural Resources	3,259	6,623	(3,364)	-50.8%	10,204	27,713	(17,509)	-63.2%
Transportation	873	805	68	8.4%	3,814	4,120	(306)	-7.4%
General Government	77,142	95,225	(18,083)	-19.0%	105,689	142,364	(36,675)	-25.8%
Community and Economic Development	33,244	35,100	(1,855)	-5.3%	41,869	58,917	(17,048)	-28.9%
Tax Relief and Other	254,644	215,107	39,537	18.4%	347,104	363,611	(16,507)	-4.5%
Capital Outlay	6	3	3	81.2%	6	50	(44)	-88.5%
Debt Service	94,449	75,832	18,617	24.6%	236,437	215,928	20,509	9.5%
Pending Payroll	151,350	0	151,350	N/A	516,971	0	516,971	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>2,129,513</b>	<b>2,291,835</b>	<b>(162,322)</b>	<b>-7.1%</b>	<b>6,946,350</b>	<b>6,731,313</b>	<b>215,037</b>	<b>3.2%</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	1	0	1	N/A	154,711	5,634	149,077	N/A
OPER TRF OUT-TEMPORARY	0	0	0	N/A	133,173	77,347	55,825	72.2%
<b>Total Transfers (Out)</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>N/A</b>	<b>287,884</b>	<b>477,015</b>	<b>(189,132)</b>	<b>-39.6%</b>
<b>Total Fund Uses</b>	<b>2,129,513</b>	<b>2,291,835</b>	<b>(162,322)</b>	<b>-7.1%</b>	<b>7,234,234</b>	<b>7,208,328</b>	<b>25,906</b>	<b>0.4%</b>

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

### **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

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