



May 12, 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***

The economy expanded at a 0.6% rate in the first quarter, matching the pace of growth in the fourth quarter. Growth during the past half-year has been the slowest since the 2001 recession. Employment continued to decrease in April, leading to a consensus that real GDP will decrease in the second quarter. Most analysts expect that the second quarter will be the weakest of the year, as rebate checks and the lagged effects of Federal Reserve interest rate cuts and the extraordinary steps to increase liquidity begin to have results in the second half of the year. In the meantime, housing continued to deteriorate in March, with sales of new and existing homes falling and the inventory of homes for sale rising across the country and throughout the Midwest.

### **Highlights of Economic Performance**

- April's national unemployment rate was 5.0%, compared with 5.1% in March.
- High and rising gasoline prices and the ongoing decline in home prices undermined consumer confidence again in April. The Conference Board's measure of consumer confidence fell for the fourth consecutive month in April to more than 40% below the April 2007 level.
- While many expect the economy to be somewhat weaker in the second quarter of CY 2008, the major actions taken by the Federal Reserve since last September and the federal fiscal stimulus program are expected to support economic activity in the second half of the year.

### **Economic Growth**

The economy managed to grow by a small amount in the first quarter, matching diminished expectations. Real GDP increased 0.6% for the second quarter in a row. Compared with a year earlier, real GDP was higher by 2.5%, up from a recent low of 1.5% in the first quarter of 2007. Despite great concern about inflation, the GDP price index increased only 2.6% at an annual rate from the previous quarter and 2.2% compared with a year earlier.

Improvement in the trade deficit combined with a slight pick-up in inventory accumulation during the first quarter to offset a decrease in consumption by U.S. households and investment by U.S. businesses. Real final sales to domestic purchasers declined for the first time since the fourth quarter of 1991, as consumer spending slowed abruptly, business capital spending decreased modestly, and investment in residential structures fell at a record pace. Slower growth in state and local government expenditures was balanced by strong federal defense spending.

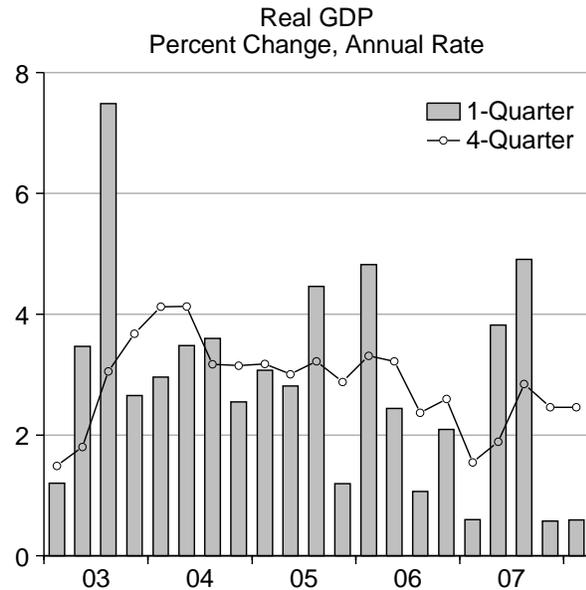
Final sales to domestic purchasers, which exclude exports and the change in inventories, fell by 0.4%. All major components were weak. Consumer spending gained only 1.0%, matching the 1.0% gain in the second quarter of 2001, which was the weakest quarter since 1995. In comparison, consumer spending expanded 2.6% in 2007 and 3.4% in 2006.

Business investment in nonresidential structures fell 6.2% after expanding 12.4% in the previous quarter and 15.1% in the previous year. Business investment in equipment and software fell 0.7% after rising 3.1% in the previous quarter and 3.6% in the previous year. Imports rebounded to a gain of 2.5% from a decrease of 1.4% in the previous quarter. Government expenditures increased by 2.0% – the same as in the fourth quarter – reflecting a 6.0% increase in federal defense outlays.

Adding to real GDP growth, exports expanded 5.5% and business inventories increased by \$1.8 billion at an annual rate. That was up from a decrease of \$18.3 billion in the fourth quarter, adding 0.8 percentage points to overall growth.

Looking ahead, the Conference Board's composite index of leading indicators stabilized in March, rising by 0.1% after decreasing in each of the previous five months. At -2.0%, the 12-month percent change stayed near a level that has been associated only with recessions, with the exception of the severe slowdown during 1966-67.

While many expect the economy to be somewhat weaker in the second quarter, the major actions taken by the Federal Reserve since last September – including reducing



short-term interest rates by a total of 3.25 percentage points – and the federal fiscal stimulus program are expected to support economic activity in the second half of the year.

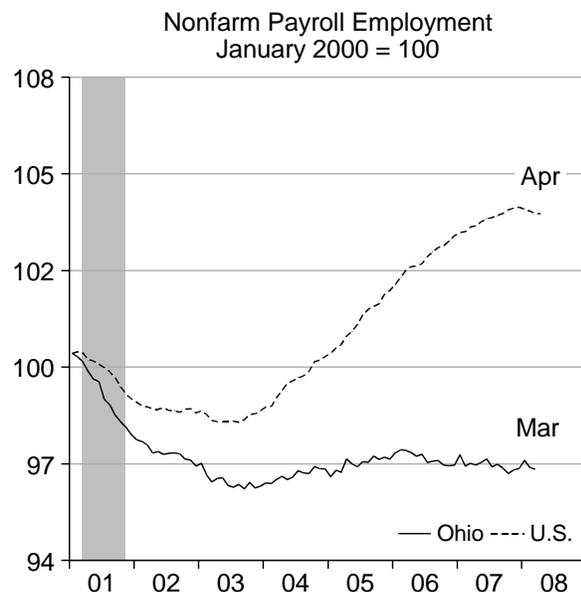
Analysts had expected a small gain in real GDP. The *Blue Chip Financial Forecasts* consensus, which was compiled shortly before the release of the first quarter numbers, was for the second quarter to be the weakest of the year with real GDP contracting by 0.3%. The consensus was for real GDP to expand at an annual rate of 1.6% in the second half and by approximately 2.5% in 2009.

## **Employment**

The deterioration in labor markets continued in April, but at a slower pace. **Total employment** decreased for the fourth straight month, this time by 20,000 jobs. The previously reported changes to employment in February and March were revised down by a net 8,000 jobs. Employment declined by an average of 80,000 jobs during the previous three months. In the fifth straight monthly decline, private sector payrolls decreased by 29,000 jobs, bringing the total private sector job loss to 326,000 since the start of the year.

At 5.0%, the **unemployment rate** was little changed, compared with 5.1% in March. The length of the workweek decreased slightly and total hours worked fell at an annual pace of about 4%. Average hourly earnings managed only a 0.1% increase during the month to 3.4% above the year earlier level – about in line with inflation during the period. The year-over-year change in hourly earnings peaked at 4.2% in March 2007.

Employment in goods producing sectors fell by 110,000 jobs, reflecting the loss of 61,000 jobs in construction and 46,000 jobs in manufacturing. More than one third of the decline in manufacturing jobs occurred in the automotive industry. Employment in service producing sectors increased by 90,000 jobs in April after gaining only about 3,000 jobs per month on average during the three previous months. The only major service sector to post a significant job loss was retail trade (-27,000). Most of the gains occurred in education and health service (+52,000), professional and business services (+39,000), and leisure and hospitality (+18,000).



Employment in temporary help services decreased for the sixth consecutive month to 5.7% below its December 2006 peak. Temporary help employment has led other measures of economic activity in the past, because of the ease with which temporary staff can be added or reduced. Prior to the start of the last recession in March 2001, temporary help employment decreased by 7.2% from its peak.

**Ohio employment** decreased by 2,600 jobs in March, reflecting the loss of 8,200 manufacturing jobs. The number of construction jobs was down by 600 after falling by 3,000 in February. Employment in all major service-producing sectors except information increased, led by a 2,200 increase in education and health services and a 1,200 increase in government.

Compared with a year earlier, Ohio employment was down by 9,600 jobs, reflecting a loss of 20,600 jobs in manufacturing and 2,700 each in construction and leisure and hospitality. Employment increased during the twelve months ending in March in educational and health services (+14,800), professional and business services (+3,900), and trade, transportation and utilities (+2,200).

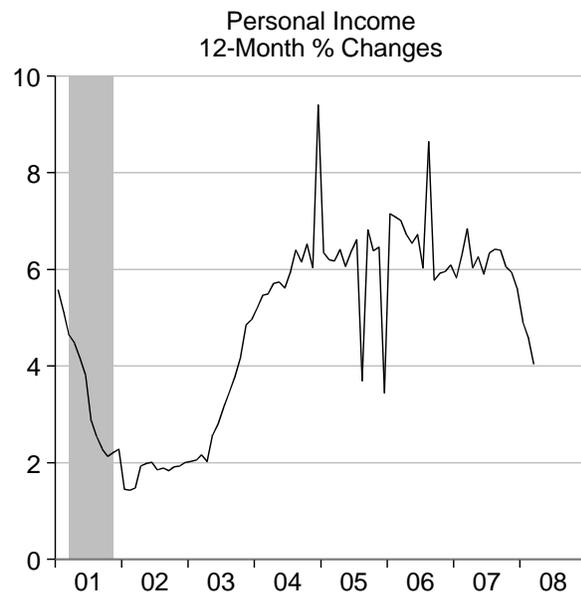
The **Ohio Metropolitan Statistical Areas** that made the largest contributions to statewide employment growth during the past year are Columbus (+9,900), Cincinnati-Middletown (+1,500), and Akron (+1,300). The MSAs that subtracted the most from Ohio employment were Cleveland (-6,300), Dayton (-5,000), and Toledo (-3,800).

Kentucky, West Virginia, and Pennsylvania led the way in employment growth among **contiguous states** during the twelve months ending in March with gains of 1.0%, 0.4%, and 0.2%, respectively. Employment in Michigan decreased 1.7% from a year ago. Employment fell by 0.2% in Ohio and was unchanged in Indiana. In comparison, U.S. employment increased 0.4% during the twelve months ending in March and 0.3% during the twelve months ending in April.

### **Consumer Income and Consumption**

**Personal income** increased 0.3% in March and 4.0% from a year earlier. The year-over-year growth rate was as high as 6.4% last September. Real disposable personal income was flat in March and up only 0.9% from a year earlier. Year-over-year growth was as high as 4.0% last August. Wage and salary distributions, which comprise about 55% of personal income, increased a solid 0.5% in March, but the year-over-year rate of growth has slowed to 3.3% from 6.2% last August.

**Personal consumption expenditures** increased 0.4% in March to 5.3% above the year earlier level. After adjusting for inflation, however, consumption edged up just 0.1% in the month to only 2.0% above the year earlier level. In contrast, real personal consumption expenditures increased 3.0% from a year earlier in April 2007.



**Retail sales** increased 0.2% in March, following an upwardly revised February decline of 0.4%. In the weakest quarterly performance since the first quarter of 2002, retail sales were unchanged from the fourth to the first quarter. The year-over-year rate of change slipped to 2.0% in March.

Sales at gasoline stations, sporting goods stores, and nonstore retailers posted solid increases. Sales at furniture, electronics, clothing and general merchandise stores declined. Sales at building supply stores decreased for the fourth consecutive month, reflecting the ongoing contraction in housing. Excluding sales at gasoline stations and auto dealers, retail sales were unchanged from February to March and remained slightly below the July 2007 level.

The high and rising gasoline prices and ongoing decline in home prices undermined **consumer confidence** again in April. The Conference Board's measure of consumer confidence fell for the fourth consecutive month in April to more than 40% below the year earlier level. Consumers' assessment of future conditions was little changed at a long-time low, but the assessment of current conditions fell to the lowest level since the economy was climbing out of the 2001 recession.

### **Manufacturing**

**Industrial production** increased 0.3% in March, as a 1.9% rise in utility output combined with a 0.1% gain in manufacturing. Mining output rose 0.9%. The small gain in manufacturing obscured divergent trends beneath the surface, and the rise in utility output was a rebound from a weather-induced drop of 3.6% in February.

Motor vehicle output decreased 5.4%, due to the strike at parts-maker American Axle, which led to the shutdown of assembly plants. Light motor vehicle assemblies fell to an annual rate of 9.17 million units from an already-low 9.86 million unit rate in February. Elsewhere within manufacturing, primary metal production fell 2.6% and machinery production edged down by 0.1%. Production gains in high-technology, which increased by 2.6%, and other areas largely offset the weakness in transportation equipment.



Even so, downward revisions to February data left the March level below the original February level, and the sector carried little momentum into the spring. During the first quarter, manufacturing production fell 0.5% annualized, following a 0.6% annualized decline in the fourth quarter.

Manufacturers in and around Ohio reported little change to output during the six weeks ending in early April, according to the Cleveland Federal Reserve. The outlook by manufacturers is

cautious, with some firms noting a softening in demand. Steel shipments were an area of some strength, especially to energy and capital goods companies. Exports remained a source of growth, and most producers expect capital spending to be the same or higher than in 2007.

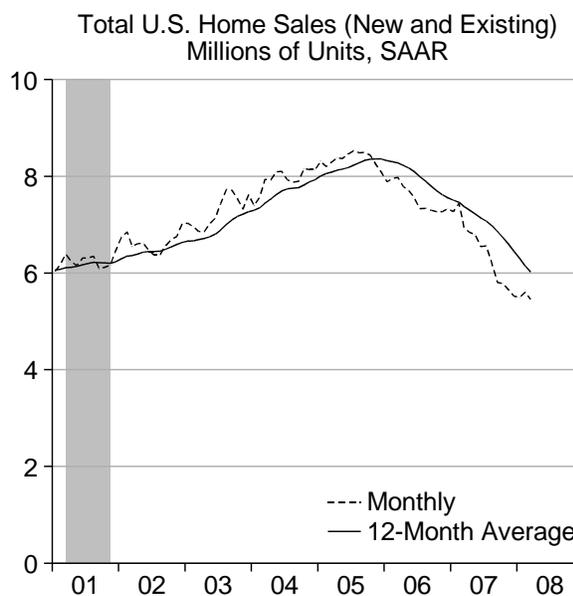
**Midwest industrial production** decreased 0.7% in March after a downwardly revised decrease of 0.7% in February, according to the Federal Reserve Bank of Chicago. Production declined again in the auto and steel sectors, and increased in the machinery and resource sectors. Auto production fell by a sharp 5.4%, and the February decline was revised down to -1.5% from the initial -1.1%. Compared with a year earlier, auto production was down 7.5%.

Surveys of manufacturers in different regions uncovered mixed conditions in April. The **Philadelphia Fed Manufacturing Index** deteriorated to a new low for the year, as both orders and shipments declined. The **Empire State Manufacturing Survey** conducted by the Federal Reserve Bank of New York improved in April, mainly reflecting better shipments.

**Purchasing managers** across the country reported a contraction in manufacturing activity that was consistent with slow growth in real GDP. The PMI composite index was unchanged in April, just below the neutral level of 50. The new orders index was also unchanged at the lowest level since the last recession. The production index moved a bit higher, but remained below neutral. The employment index fell sharply to a new low since 2003. Exports remained strong.

### Construction

Construction put-in-place fell 1.1% in March, dragged down by an implausibly large decline in residential improvements. Excluding residential improvements, construction was off 0.4%. Compared with a year earlier, construction was down 3.4%. Private sector construction decreased 1.7% to 6.7% below the year earlier level. Residential construction fell 4.6% to 19.9% below the year earlier level, as single-family home construction dropped by more than 5% for the fourth time in five months. Nonresidential construction increased 1.3% and was up 11.8% from a year ago.



**Housing starts** decreased 11.9% to 947,000 units at an annual rate in March. For the quarter, starts were down at an annual rate of 34.5%, indicating that residential investment remained a significant drag on real GDP growth in the first quarter. New permits declined 5.8% in March, pointing toward additional declines in starts in the months ahead.

**Sales of existing homes** decreased by 2.0% in March, offsetting much of the 2.9% gain in February. The year-over-year rate of decline slowed to -19.3% from -23.8% in February.

Midwest home sales fell 6.5% in March after rising 4.3% and 2.5% in January and February, respectively. The year-over-year rate of decline in Midwest sales slowed to -15.9% from -21.1% in December. The inventory of unsold existing homes was little changed in March and stood at 9.9 months' supply at the March sales pace, down slightly from the peak of 10.5 months' supply last October.

**Sales of new homes** also fell in March, down 8.5% on the month and 36.6% from a year earlier. Sales of new homes in the Midwest fell 12.5% after a 10.0% drop the month before to 50.0% below the year earlier level. The supply of unsold new homes fell again in March for the thirteenth straight month, but not by enough to reduce the supply relative to the pace of sales. The number of months' supply of new homes on the market increased to 11.0 in March – the highest since April 1980.

## **REVENUES AND DISBURSEMENTS**

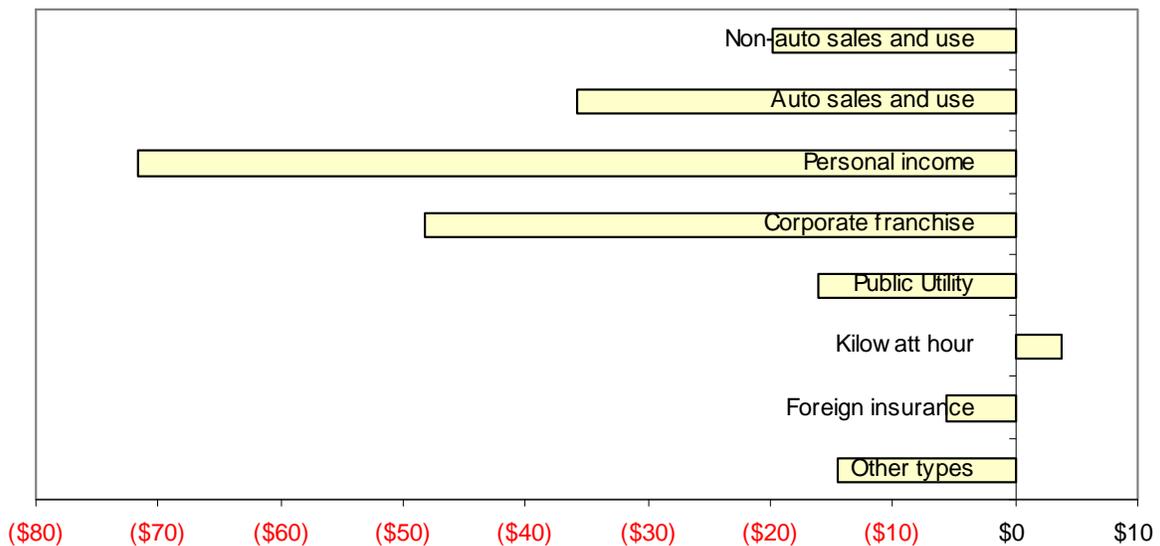
This report contains the most recent data available on GRF revenues and disbursements for April 2008. Final data for April will be available when the General Ledgers is closed for the month in the Ohio Administrative Knowledge System (OAKS.) As General Ledgers are closed for past months, notice will be made in a General Ledger Appendix to this report. This month's appendix contains final information for March 2008.

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

- Through April, GRF tax receipts are below estimate by \$208.0 million (1.3%).  
 ✓ See **Table 1** – GRF Receipts: Preliminary Actual FY 2008 vs. Estimate
- Tax receipts increased \$815.8 million (5.4%) compared to FY 2007.  
 ✓ See **Table 2** – GRF Receipts: Preliminary Actual FY 2008 vs. FY 2007
- GRF uses, including pending payroll & transfers, are below estimate by \$337.0 million (1.5%).  
 ✓ See **Table 3** – GRF Disbursements: Preliminary Actual FY 2008 vs. Estimate
- Excluding transfers out, GRF uses were \$840.9 million (4.0%) above last year's level.  
 ✓ See **Table 4** – GRF Disbursements: Preliminary Actual FY 2008 vs. FY 2007

Ohio's **April GRF tax receipts** totaled \$2,565.5 million, which was \$54.5 million above the estimate. This results in a total negative year-to-date variance of \$208.0 million through April 30<sup>th</sup>. The personal income tax category continues to comprise the greatest share of this shortfall (\$71.7 million.) The exhibit below provides a summary of the aggregate variance.

**Year-To-Date GRF Receipts: Actual to Estimate**  
**Variance by Type through April 2008, in millions**



In reviewing the year-to-date GRF tax receipts, kilowatt hour is the only tax category that is performing higher than estimate (\$3.7 million). Reviewing all tax sources in the aggregate, however, April's positive performance means that the year-to-date negative variance relative to estimate has decreased from last month, which is good news.

**GRF non-tax receipts** include items such as federal grants, investment interest and revenue from licenses & fees. For the month of April, non-tax receipts were \$250.9 million above estimate (51.7%). The largest April variance in this category is a \$256.8 million positive variance in federal grants, which is related to a timing issue that arose in March: the monthly Medicaid managed care payment was made very close to the end of March and the revenue was received in April instead of March as planned. As discussed in last month's report, this resulted in a negative variance for March and a corresponding positive variance in April.

The year-to-date GRF non-tax receipts are \$36.9 million above estimate (0.7%). The largest variance in year-to-date GRF non-tax receipts is related to the timing of Medicaid federal reimbursement explained above. The second largest item of note is a \$38.3 million negative variance in earnings on investments, stemming largely from the timing of third quarter earnings which have yet to be posted. This is because prior to OAKS, OBM policy was to close the last month of the quarter on the 15<sup>th</sup> day of the month, to allow enough time to calculate the allocation of interest across GRF and non-GRF accounts. Today, OBM closes each month on the last day of the month, and posts investment earnings in the next period or quarter. As of this writing, the third quarter interest earnings have not yet posted.

**Total GRF sources** include both tax and non-tax receipts as well as transfers. To summarize the year-to-date status regarding receipts: total GRF sources are \$230.8 million below estimate (1.0%.) The majority of this variance is related to a shortfall in tax receipts (\$208.0 million).

For the month of April, **GRF total uses** were \$38.8 million (1.7%) above estimate. Year-to-date GRF total uses were below estimate by \$337.0 million (1.5%). Please reference Table 3 as well as the category-specific narratives for more information. Table 4 contains a comparison of FY 2007 vs. FY 2008 disbursements by spending category.

**Variance Summary**

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 April and year-to-date.

General Revenue Fund (\$ in millions)	April Variance		FY 2008 Variance	
<b>Revenues</b>				
<b>Tax Receipts</b>	\$54.5	2.2%	(\$208.0)	(1.3%)
<b>All Sources</b>	\$286.2	9.5%	(\$230.8)	(1.0%)
<b>Total Uses (Including Transfers)</b>	\$38.8	1.7%	(\$337.0)	(1.5%)

An appendix item contains the revised revenue information related to budget recalibration as a reference. This report will continue to tie to the HB 119 revenue estimates.

#### **Notes Regarding the FY 2008 Budget Recalibration**

- **Revenues** – On February 20, 2008, OBM released Budget Directive #2: Revised Revenue Estimates FY 08 and FY 09. This directive indicated that future Monthly Financial Reports will include an Appendix that illustrates revised revenue estimates in light of the Administration’s budget recalibration activities. While the Monthly Financial Report will continue to use HB 119 appropriations as a benchmark, the additional appendix information is available for your reference as well (shown in Table 1A). This practice will continue through the end of the biennium.
- **FY 08 Disbursements** – For the remaining months of FY 2008, the Administration’s budget recalibration plan will be referenced each month in the narrative disbursement section of this report to the extent that the recalibration has a discernable impact on the disbursement patterns of a spending category. The specific FY 2008 disbursement estimates for each appropriation line item will not be revised as a result of recalibration activities.
- **FY 09 Disbursements** – OBM anticipates that FY 09 disbursement estimates will reflect the recalibrated budget figures rather than the HB 119 appropriations; thus, narratives in the Monthly Financial Reports will describe actual spending relative to the recalibrated budget estimates throughout the entire fiscal year.

## *REVENUES*

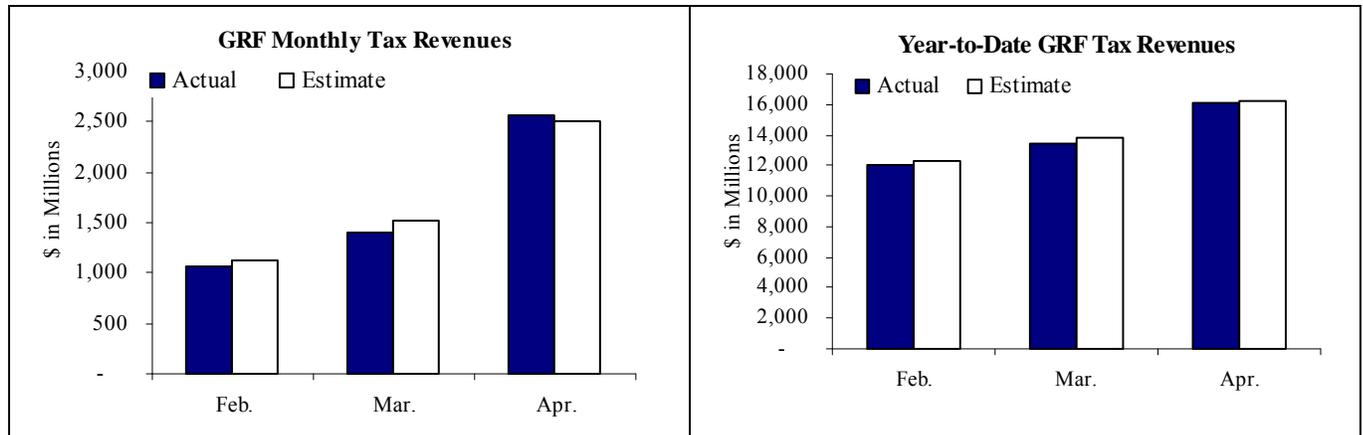
During the month of April, **GRF tax receipts** totaled \$2,565.5 million, which was \$54.5 million, or 2.2% above estimate, while total GRF revenues were \$305.4 million or 10.2% above estimate. As a result of this positive monthly variance, the deficit of tax receipts for the fiscal year to date decreased to \$208.0 million below estimates (1.3%), while total GRF revenues are now \$171.1 million below the estimate (0.8%). Driving the positive performance of tax receipts for the month of April was the personal income and corporate franchise taxes, which combined to offset the negative performance of several of the other individual major tax sources including the non-auto and auto sales tax, and the cigarette tax.

For the first time since October, April personal income tax receipts exceeded the original H.B. 119 estimates, as the tax recorded a positive variance of \$77.8 million (4.6%), that at least in part made up for the combined shortfall of \$191.0 million incurred during the November to March timeframe. The April income tax performance was primarily driven by greater than expected annual payments and positive employer withholding that together combined to offset another month of greater than estimated refunds. Specifically, annual filings and withholding were above estimate by \$51.3 million and \$20.5 million respectively, while refunds again exceeded estimates by \$20.8 million.

For the month of April, the corporate franchise tax exceeded estimates by \$7.9 million (11.8%), which served to reduce the year to date negative variance for the tax to \$48.2 million (7.8%). However, as discussed in the March report, the fact that the second of three payments was due March 31<sup>st</sup> and that month was \$20.5 million below estimate, performance of the tax in April might have made up for the March negative variance. While the performance of the corporate franchise tax exceeded the April estimate, the amount was insufficient to erase the March deficit and as a result receipts for the two month period were \$12.6 million below estimate.

Following a positive performance in January and negative performances in February and March, the non-auto sales tax again posted a large negative variance in April of \$36.3 million (4.5%). Adding to the negative variance posted by the non-auto sales tax, the auto sales tax was also again below estimate by \$2.9 million (0.4%). As a result of the decidedly negative performance in both March and April, what had been a year-to-date positive variance for the non-auto sales tax has completely disappeared and appears to be reflecting the negative economic reports on retail sales, consumer confidence, home sales, employment, and consumer credit. Additionally, some unexplained variations have surfaced in sales tax remittances by some taxpayers that may result in changes in future months.

Cigarette tax receipts also posted another negative performance in April of \$2.6 million below estimate (3.4%). While the shortfall is relatively small compared to the months of December and January, the continued underperformance of this tax has increased its negative year-to-date variance to \$11.0 million (1.5%) and it is unlikely that this amount will be made up during the remainder of the fiscal year.



**GRF non-tax receipts** were \$250.9 million (51.7%) above estimate during the month of April, primarily due to the timing of the receipt of federal grants at the end of the month, which were \$256.8 million above estimate. As a result of this positive monthly variance, GRF non-tax receipts are now \$36.9 million (0.7%) above estimate for the year-to-date. Helping to suppress the positive year-to-date performance is a negative variance of \$38.3 million that results from a delay in posting third quarter investment earnings. Although the Treasury has timely reported the state’s total investment earnings for the third quarter, and these figures have been processed and recorded, the earnings distribution process performed by OBM has been delayed. This is because prior to OAKS, OBM policy was to close the last month of the quarter on the 15<sup>th</sup> day of the month, to allow enough time to calculate the allocation of interest across GRF and non-GRF accounts. Today, OBM closes each month on the last day of the month, and posts investment earnings in the next period or quarter. Through the end of December, these earnings were slightly below estimate by (\$1.9 million, or 2.2%). The continued overage in the “Other Income” category is the result of money from Unclaimed Funds being collected earlier than expected.

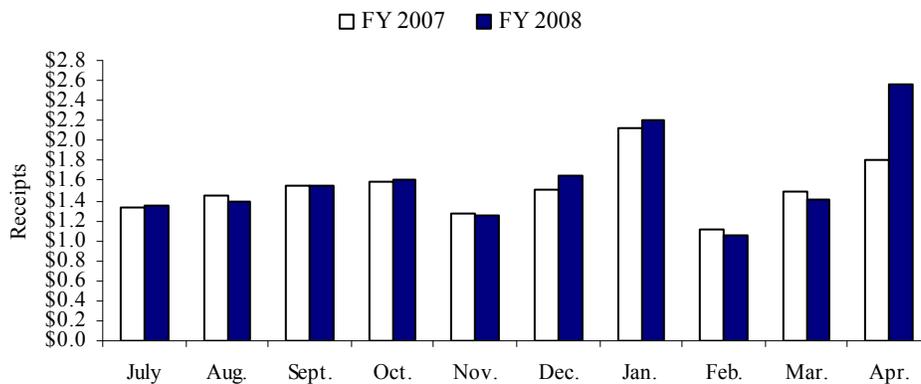
**GRF Transfers**

GRF transfers for the month of April were \$19.2 million below estimate, primarily as a result of an error in the original OBM monthly revenue estimate that included a \$15.5 million permanent transfer from excess Commercial Activity Tax receipts to the GRF. In reality, to the extent that excess revenue is realized from the CAT, those funds may not be transferred to the GRF sooner than June 15<sup>th</sup>. As part of the revised monthly revenue estimates that OBM generated in response to Budget Directive #2 issued on February 20<sup>th</sup>, monthly transfer estimates will be adjusted to reflect the error in the original estimates. In addition to the error tied to the estimated CAT transfer, there was also a processing delay with liquor transfers which resulted in less than the full amount of the transfer being posted to April. As a result, liquor transfers during the month of May should be above estimate by approximately \$6.7 million.

Without the error in the monthly estimate related to the CAT transfer, the timing issue with federal grants, and the posting of earnings on investments, total year-to-date GRF receipts would be very close to the year-to-date variance in GRF tax receipts, as GRF tax revenues are \$208.0 million below estimate, while GRF revenues from all sources would be \$187.5 million below estimate.

Due to the accelerated processing of tax returns by the Department of Taxation a **year-over-year** comparison of GRF tax receipts through the month of April shows an have increase of \$815.8 million (5.4%) over FY 2007 receipts. Total GRF receipts through April show greater growth than GRF tax revenues, largely due an increase in federal grants. Total GRF sources through April are \$1,515.2 million above FY 2007 levels, or 7.4%, based largely on the \$1,092.8 million positive variance experienced in the month just ended. As stated above, \$815.8 million of this variance is in tax receipts and driven largely by the accelerated processing of tax returns. Of the remaining \$699.4 million in growth, \$451.2 million is from federal grants and \$299.0 million is from temporary transfers, as they have grown by 178.1% from their FY 2007 levels.

**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.

<u>Sources Above Estimate Year-to-Date</u>		<u>Sources Below Estimate Year-to-Date</u>	
Kilowatt Hour Tax	\$3.7	Non-Auto Sales Tax	(\$19.8)
Other Income	\$28.7	Auto Sales Tax	(\$35.8)
Liquor Transfers	\$1.3	Personal Income Tax	(\$71.7)
Federal Grants	\$55.8	Corporate Franchise Tax	(\$48.2)
		Public Utility Excise Tax	(\$16.1)
		Foreign Insurance Tax	(\$5.5)
		Earnings on Investments	(\$38.3)
		Cigarette Tax	(\$11.0)
		Licenses and Fees	(\$7.0)
		Transfers In – Other	(\$61.0)
		ISTV	(\$2.4)
		Other Sources Below Estimate	(\$3.5)
<b>Total above</b>	<b>\$89.5</b>	<b>Total below</b>	<b>(\$320.4)</b>

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

For the third consecutive month following the month of January during which non-auto sales tax receipts were \$27.1 million above estimate, the non-auto sales and use tax was significantly under the estimate by \$36.3 million (6.4%) in the month of April. While this tax source generated higher than expected revenues in five of the first ten months of the fiscal year, the sizeable negative variance that occurred during the month of April combined with recent trends, erased what had been a year-to-date surplus, as the tax is now under the estimate by \$19.8 million.

While non-auto sales and use tax receipts have increased by \$154.9 million (2.9%) on a year-over-year basis, adjusting for changes to how Local Government Fund contributions are calculated and credited, the tax has only increased by about 2.7 percent compared to FY 2007. As discussed in previous monthly reports, economists at OBM and the Department of Taxation had been skeptical as to whether the growth that had been occurring in the non-auto sales tax earlier in the year could be maintained given the amount of bad news regarding retail sales, jobless claims, and consumer credit. Given the performance of this tax source during the last two months, the bad news in the economy is beginning to be felt in Ohio consumer spending.

## **Auto Sales Tax**

Following the months of January and February where it exceeded estimates by \$3.6 million and \$2.2 million respectively, auto sales tax collections in April were below estimate for the second consecutive month as it recorded a negative variance of \$2.9 million, thereby driving the year-to-date negative variance to \$35.8 million. This reversed a trend earlier in the year that had seen the tax source stabilize after a terrible first quarter, in which auto sales tax revenues were \$20.8 million below estimate. While, OBM expected the short run outlook for this tax to remain weak, due to the by-now familiar litany of headwinds facing consumers: the very weak housing market, tightening credit, high oil prices and gasoline prices, an uncertain labor market with rising unemployment claims, and sliding consumer confidence, the performance during the months of March and April has been worse than anticipated.

## **Personal Income Tax**

During the month of April, income tax revenues halted their five month skid as they were \$77.8 million above estimate, thereby decreasing the year-to-date negative variance to \$71.7 million. This positive variance was driven by a combination of better than expected employer withholding and annual payments, which along with better than anticipated performance in trust payments helped offset another month of higher than expected refunds.

April marks only the second time in the last six months and the first time in four months that withholding was above estimate. Specifically, during the month of April, withholding totaled \$647.9 million or \$20.5 million above estimates. In addition to the somewhat unexpected recovery in withholding, payments from annual returns exceeded estimates in April by \$51.3 million in part as a result of an accelerated processing schedule adopted by the Department of

Taxation. Given the sudden improvement in withholding, and the state of the labor market, OBM and the Department of Taxation will continue to monitor this component of the tax closely.

In general, it will be difficult to compare income tax receipts for any given month in FY 2008 to the same month in FY 2007 from now until June, because as mentioned above, the Department of Taxation adopted targets for faster processing of both annual payments and refunds in FY 2008, a reality that OBM has attempted to reflect in its monthly estimates.

The table below reflects the variances for different components of the income tax, both for April 2008 and for FY 2008 year-to-date.

<b>FY 2008 PERSONAL INCOME TAX RECEIPTS BY COMPONENT (\$ in millions)</b>						
	<b>ESTIMATE APRIL</b>	<b>ACTUAL APRIL</b>	<b>\$ VAR APRIL</b>	<b>ESTIMATE Y-T-D</b>	<b>ACTUAL Y-T-D</b>	<b>\$ VAR Y-T-D</b>
Withholding	\$627.4	\$647.9	\$20.5	\$6,579.2	\$6,585.5	\$6.3
Quarterly Est.	\$213.9	\$218.0	\$4.1	\$1,297.5	\$1,283.9	(\$13.6)
Trust Payments	\$10.2	\$27.8	\$17.6	\$45.6	\$66.8	\$21.2
Annual Returns & 40 P	\$1,092.8	\$1,114.1	\$51.3	\$1,307.7	\$1,400.7	\$93.0
Other	\$11.6	\$15.2	\$3.6	\$78.4	\$72.8	(\$5.6)
Less: Refunds	(\$223.6)	(\$244.4)	(\$20.8)	(\$951.5)	(\$1,118.0)	(\$166.5)
Local Distr.	(\$57.6)	(\$56.0)	(\$1.6)	(\$568.5)	(\$575.0)	(\$6.5)
<b>Net to GRF</b>	<b>\$1,674.7</b>	<b>\$1,752.5</b>	<b>\$77.8</b>	<b>\$7,788.4</b>	<b>\$7,716.7</b>	<b>(\$71.7)</b>

### **Corporate Franchise Tax**

In July through December, corporate franchise tax refunds paid were higher than expected and higher than the payments collected. As of the end of December, year-to-date receipts were \$69.1 million below estimate. In the January through June period, the state will receive three payments from corporations for their tax year 2008 (taxable year 2007) liability. These payments are due January 31<sup>st</sup>, March 31<sup>st</sup>, and May 31<sup>st</sup>. Because the payments are due on the last days of three months, how much of the revenue is booked for accounting purposes in the month including the due date, and how much is booked the next month, is volatile from payment to payment and from year to year.

As with the January payment, what is more important than March collections alone is the sum of March and April collections. For the months of March and April, Corporate Franchise Tax receipts were \$284.0 million, or \$13.7 million below estimate, increasing the year to date negative variance to \$48.2 million. The shortfall over the combination of March and April was somewhat unexpected given the strength of the first payment the January-February timeframe and may be the result of firms deciding to accelerate payments during the January-February timeframe.

## **Commercial Activity Tax**

In FY 2008, receipts from the Commercial Activity Tax are distributed to non-GRF funds to reimburse school districts and local governments as the tangible personal property tax is phased out. For the first half of the fiscal year, revenues were \$2.4 million below estimate. Recovering slightly from the negative variance in receipts in January through March, receipts for the month of April were \$3.8 million above the estimate, thereby decreasing the year-to-date negative variance to \$15.0 million.

The year-to-date shortfall in the CAT appears to be the result of both somewhat slower than expected overall economic growth and slightly less revenue gain than expected from the expiration of the CAT exemption for motor fuel. Based on the slightly negative performance during the month of April, it appears unlikely that the CAT will make up the year-to-date shortfall in the final payment of the fiscal year that is day May 10<sup>th</sup>.

## **Cigarette Tax**

Cigarette tax receipts posted another shortfall in April. While the monthly shortfall of \$2.6 million in April was down from the much larger shortfalls experienced in December and January respectively, it further increased the negative year-to-date performance of the tax to \$11.0 million and is another indication that the tax could be experiencing a downward trend.

## **Public Utility Tax**

During the month of April the public utility tax generated \$183,000, which was above estimate by \$183,000. Despite this slight positive variance however, it is still not nearly enough to make up for the negative variance of \$40.8 million in February, which was attributed primarily to a relatively mild fall and less than anticipated natural gas consumption, contributed to increase the year-to-date negative variance to \$16.1 million (14.6%).

## **Earnings on Investments**

As discussed earlier in this month's report, there has been a delay in posting interest on investments and thus a negative variance of \$38.3 million exists for the year-to-date. While investment earnings have been booked to Fund 6080 prior to their distribution, they have yet to be allocated to the GRF. Once OBM completes these interest calculations, the appropriate amounts will be allocated and posted to the GRF as well as other funds in the state accounting system that receive interest. For the month of April, interest on investments booked to Fund 6080, totaled \$23.0 million. For the first quarter and second quarters of 2008, approximately 45% of the interest booked to Fund 6080 was eventually allocated to the GRF. Assuming that a similar percentage is allocated from the interest earned in April, the GRF should receive approximately \$10.4 million in earnings.

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

REVENUE SOURCE	Month				Year-to-Date			
	ACTUAL APRIL	ESTIMATE APRIL	\$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	\$ VAR	% VAR
<b>TAX RECEIPTS</b>								
Non-Auto Sales & Use	530,606	566,900	(36,294)	-6.4%	5,561,178	5,581,000	(19,822)	-0.4%
Auto Sales & Use	94,347	97,216	(2,869)	-3.0%	764,876	800,671	(35,795)	-4.5%
Subtotal Sales & Use	624,953	664,116	(39,163)	-5.9%	6,326,054	6,381,671	(55,617)	-0.9%
Personal Income	1,752,479	1,674,700	77,779	4.6%	7,716,726	7,788,400	(71,674)	-0.9%
Corporate Franchise	74,896	67,000	7,896	11.8%	569,636	617,800	(48,164)	-7.8%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	183	0	183	N/A	94,203	110,300	(16,097)	-14.6%
Kilowatt Hour	14,670	12,700	1,970	15.5%	225,524	221,800	3,724	1.7%
Foreign Insurance	1	200	(199)	-99.4%	272,307	277,900	(5,593)	-2.0%
Domestic Insurance	0	0	0	N/A	435	1,200	(765)	-63.8%
Other Business & Property Tax	149	200	(51)	-25.5%	542	1,040	(498)	-47.9%
Cigarette	72,645	75,200	(2,555)	-3.4%	726,803	737,800	(10,997)	-1.5%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,064	5,000	(936)	-18.7%	46,406	47,600	(1,194)	-2.5%
Liquor Gallonage	2,692	2,900	(208)	-7.2%	29,010	29,700	(690)	-2.3%
Estate	18,765	9,000	9,765	108.5%	50,413	50,800	(387)	-0.8%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	2,565,498	2,511,016	54,482	2.2%	16,058,061	16,266,011	(207,950)	-1.3%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	723,474	466,719	256,755	55.0%	4,971,945	4,916,127	55,818	1.1%
Earnings on Investments	0	0	0	N/A	83,073	121,400	(38,327)	-31.6%
License & Fees	6,567	12,855	(6,288)	-48.9%	66,355	73,399	(7,044)	-9.6%
Other Income	4,824	3,850	974	25.3%	72,199	43,444	28,755	66.2%
ISTV'S	1,501	2,000	(499)	-25.0%	12,074	14,410	(2,336)	-16.2%
Total Non-Tax Receipts	736,366	485,424	250,942	51.7%	5,205,646	5,168,780	36,866	0.7%
<b>TOTAL REVENUES</b>	<b>3,301,864</b>	<b>2,996,440</b>	<b>305,424</b>	<b>10.2%</b>	<b>21,263,707</b>	<b>21,434,791</b>	<b>(171,084)</b>	<b>-0.8%</b>
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	7,268	11,000	(3,732)	-33.9%	135,268	134,000	1,268	0.9%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	0	15,460	(15,460)	-100.0%	56,810	117,780	(60,970)	-51.8%
Temporary Transfers In	0	0	0	N/A	466,800	466,800	0	N/A
Total Transfers	7,268	26,460	(19,192)	-72.5%	658,878	718,580	(59,702)	-8.3%
<b>TOTAL SOURCES</b>	<b>3,309,132</b>	<b>3,022,900</b>	<b>286,232</b>	<b>9.5%</b>	<b>21,922,585</b>	<b>22,153,371</b>	<b>(230,786)</b>	<b>-1.0%</b>

\*Amounts will be finalized once the general ledger is closed for April.

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	530,606	547,437	(16,831)	-3.1%	5,561,178	5,406,268	154,909	2.9%
Auto Sales & Use	94,347	89,895	4,452	5.0%	764,876	747,037	17,839	2.4%
Subtotal Sales & Use	624,953	637,332	(12,379)	-1.9%	6,326,054	6,153,305	172,749	2.8%
Personal Income	1,752,479	938,841	813,638	86.7%	7,716,726	6,739,837	976,889	14.5%
Corporate Franchise	74,896	114,480	(39,584)	-34.6%	569,636	819,933	(250,297)	-30.5%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	183	164	19	11.8%	94,203	103,829	(9,626)	-9.3%
Kilowatt Hour	14,670	30,856	(16,186)	-52.5%	225,524	283,119	(57,595)	-20.3%
Foreign Insurance	1	86	(85)	-98.5%	272,307	269,356	2,951	1.1%
Domestic Insurance	0	0	0	N/A	435	107	328	305.8%
Other Business & Property Tax	149	130	19	14.3%	542	602	(60)	-10.0%
Cigarette	72,645	73,438	(792)	-1.1%	726,803	756,336	(29,532)	-3.9%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,064	4,901	(837)	-17.1%	46,406	46,843	(436)	-0.9%
Liquor Gallonage	2,692	2,876	(184)	-6.4%	29,010	28,677	333	1.2%
Estate	18,765	6,260	12,505	199.7%	50,413	40,292	10,121	25.1%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	2,565,498	1,809,364	756,134	41.8%	16,058,061	15,242,238	815,823	5.4%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	723,474	367,233	356,241	97.0%	4,971,945	4,520,731	451,214	10.0%
Earnings on Investments	0	0	0	N/A	83,073	130,656	(47,583)	-36.4%
License & Fee	6,567	14,973	(8,406)	-56.1%	66,355	73,925	(7,570)	-10.2%
Other Income	4,824	3,479	1,344	38.6%	72,199	95,872	(23,673)	-24.7%
ISTV'S	1,501	2,596	(1,095)	-42.2%	12,074	14,915	(2,842)	-19.1%
Total Non-Tax Receipts	736,366	388,281	348,084	89.6%	5,205,646	4,836,101	369,545	7.6%
<b>TOTAL REVENUES</b>	<b>3,301,864</b>	<b>2,197,645</b>	<b>1,104,219</b>	<b>50.2%</b>	<b>21,263,707</b>	<b>20,078,338</b>	<b>1,185,368</b>	<b>5.9%</b>
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	7,268	10,000	(2,732)	-27.3%	135,268	115,000	20,268	17.6%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	0	0	0	N/A	56,810	46,055	10,756	23.4%
Temporary Transfers In	0	7,600	(7,600)	N/A	466,800	167,850	298,950	178.1%
Total Transfers	7,268	17,600	(10,332)	-58.7%	658,878	328,904	329,974	100.3%
<b>TOTAL SOURCES</b>	<b>3,309,132</b>	<b>2,215,245</b>	<b>1,093,887</b>	<b>49.4%</b>	<b>21,922,585</b>	<b>20,407,243</b>	<b>1,515,342</b>	<b>7.4%</b>

\*Amounts will be finalized once the general ledger is closed for April.

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

REVENUE SOURCE	Month				Year-to-Date			
	ACTUAL APRIL	REVISED APRIL	\$ VAR	% VAR	ACTUAL Y-T-D	REVISED Y-T-D	\$ VAR	% VAR
<b>TAX RECEIPTS</b>								
Non-Auto Sales & Use	530,606	548,000	(17,394)	-3.2%	5,561,178	5,609,778	(48,600)	-0.9%
Auto Sales & Use	94,347	91,000	3,347	3.7%	764,876	763,463	1,413	0.2%
Subtotal Sales & Use	624,953	639,000	(14,047)	-2.2%	6,326,054	6,373,241	(47,187)	-0.7%
Personal Income	1,752,479	1,674,700	77,779	4.6%	7,716,726	7,724,939	(8,213)	-0.1%
Corporate Franchise	74,896	67,000	7,896	11.8%	569,636	563,687	5,949	1.1%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	183	0	183	N/A	94,203	100,970	(6,766)	-6.7%
Kilowatt Hour	14,670	12,000	2,670	22.2%	225,524	222,817	2,707	1.2%
Foreign Insurance	1	200	(199)	-99.4%	272,307	271,682	625	0.2%
Domestic Insurance	0	0	0	N/A	435	1,333	(898)	-67.4%
Other Business & Property Tax	149	200	(51)	-25.5%	542	596	(53)	-9.0%
Cigarette	72,645	77,500	(4,855)	-6.3%	726,803	736,053	(9,250)	-1.3%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,064	5,000	(936)	-18.7%	46,406	47,905	(1,498)	-3.1%
Liquor Gallonage	2,692	2,900	(208)	-7.2%	29,010	29,384	(373)	-1.3%
Estate	18,765	9,000	9,765	108.5%	50,413	41,025	9,388	22.9%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	2,565,498	2,487,500	77,998	3.1%	16,058,061	16,113,630	(55,570)	-0.3%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	723,474	475,808	247,666	52.1%	4,971,945	4,934,362	37,583	0.8%
Earnings on Investments	0	0	0	N/A	83,073	81,390	1,683	2.1%
License & Fees	6,567	12,855	(6,288)	-48.9%	66,355	77,569	(11,214)	-14.5%
Other Income	4,824	3,850	974	25.3%	72,199	70,904	1,295	1.8%
ISTV'S	1,501	2,000	(499)	-25.0%	12,074	10,151	1,922	18.9%
Total Non-Tax Receipts	736,366	494,513	241,853	48.9%	5,205,646	5,174,376	31,270	0.6%
TOTAL REVENUES	3,301,864	2,982,013	319,851	10.7%	21,263,707	21,288,006	(24,300)	-0.1%
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	7,268	11,000	(3,732)	-33.9%	135,268	138,000	(2,732)	-2.0%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	0	360	(360)	-100.0%	56,810	57,872	(1,062)	-1.8%
Temporary Transfers In	0	0	0	N/A	466,800	466,800	0	N/A
Total Transfers	7,268	11,360	(4,092)	-36.0%	658,878	662,672	(3,794)	-0.6%
TOTAL SOURCES	3,309,132	2,993,373	315,759	10.5%	21,922,585	21,950,679	(28,094)	-0.1%

\*Amounts will be finalized once the general ledger is closed for March.

## ***DISBURSEMENTS***

GRF disbursements for April, including pending payroll and transfers out of the GRF, totaled \$2,303.4 million, which was \$38.8 million (1.7%) above the estimate. Year to date, GRF disbursements totaled \$22,697.1 million, which was \$337.0 million (1.5%) below estimate. Adjusting for transfers out of the GRF, year-to-date expenditures increased 4.0% compared to last year.

GRF disbursements are reported according to functional reporting categories. Significant variances between FY 2008 actual disbursements and estimates are provided within these reporting categories:

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

April disbursements in Primary, Secondary, and Other Education were \$581.7 million, which was \$10.4 million (1.8%) above estimate. Year-to-date disbursements were \$5,838.0 million, representing a variance of \$141.3 million (2.4%) under the estimate.

Disbursements in April for the Department of Education totaled \$573.6 million, which is \$14.9 million (2.7%) below the estimated for the month. The variance is caused by lower than expected expenditures for the month in ALI 200-502 (Pupil Transportation). Year to date, disbursements are \$6,157.3 million, or \$270.3 million (4.6%) below the estimate. The year-to-date variance is primarily driven by lower than projected expenditures in 200-550 (Foundation Funding), 200-408 (Early Childhood Education), and 200-503 (Bus Purchase Allowance).

### **Higher Education**

April disbursements for Higher Education were \$193.7 million, representing a variance of \$8.7 million (4.7%) below the estimate for the month. Year-to-date disbursements were \$2,113.3 million, representing a variance of \$92.6 million (4.2%) below the estimate.

Board of Regents disbursements for the Ohio College Opportunity Grant (OCOG) were \$16.9 million less than anticipated for the month. This variance was offset by disbursements from the Ohio Instructional Grant (OIG), which were \$32.2 million more than estimated for the month. This variance is due to a slower than expected shift from the OIG program to the OCOG program as OIG-eligible students stay in the higher education system. Additionally, Choose Ohio First scholarship, Ohio Research Scholars, and James A. Rhodes scholarship distributions for the month were \$8 million less than estimated. Disbursements will not be made from these programs until fiscal year 2009.

### **Public Assistance and Medicaid**

April GRF disbursements for Public Assistance and Medicaid, which includes all spending in the Department of Job and Family Services (JFS), were \$833.8 million, representing a variance of \$13.6 million (1.7%) above the estimate for the month. Year-to-date disbursements were \$9,095.5 million, representing a variance of \$1.4 million (0.0%) above the estimate.

## Medicaid

For the month of April ODJFS Medicaid disbursements from the GRF totaled \$739.2 million, which was \$22.0 million above estimate. Year-to-date Medicaid disbursements from the GRF totaled \$8,247.3 million, which was \$40.8 million above estimate.

The percentage of Medicaid expenditures made from non-GRF sources has increased significantly over time. 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, which is otherwise limited to a discussion of General Revenue Fund revenues and expenditures, includes information on Medicaid spending across all funding sources. ODJFS Medicaid disbursements across all funds (including GRF) totaled \$904.1 million for the month of April, which was \$20.5 million (-2.2%) below estimate. Year-to-date Medicaid disbursements totaled \$9,288.5 million, which was \$10.1 million (-0.1%) below estimate.

Note that Medicaid spending appears to be on target because the Administration took the initiative to delay the implementation of planned provider rate increases and program expansions in the face of the unexpected accelerated increase in caseloads.

### *Caseloads*

Medicaid caseloads have been increasing since June 2007 and are continuing to exceed the estimate. Through March (the most recent data available), Medicaid enrollment totaled 1.77 million recipients, which was 28,000 or 1.6% more than the estimate. Medicaid caseloads can be broken down into two main enrollment categories: Covered Children and Families (CFC) represent 75% of the total caseload, and Aged Blind and Disabled (ABD), represent 25% of the caseload.

Currently there are over 23,000 more recipients in the Covered Children and Families (CFC) category than expected. CFC caseloads peaked in August 2006 and then declined steadily through June 2007. This decline has been attributed to increased citizenship requirements under the federal Deficit Reduction Act of 2005. The forecast for FY 2008 and FY 2009 assumed that caseloads would increase; however, the increase has been steeper than anticipated. Enrollment in the Healthy Families Expansion category, which includes children and their parents with incomes up to 90% of the federal poverty level, is over the projection by an average of more than 10,000 people or 6.6% for the year to date. Enrollment increases in this category may be due to economic factors or successful outreach to eligible families who had not previously sought Medicaid coverage.

Aged, Blind, and Disabled (ABD) caseloads are also exceeding the estimate. In March caseloads were over by 1.1% or 4,600 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 (The average per member per month cost for the a member of the ABD population is \$1,328 and for the CFC population the average is \$217).

## *Expenditures*

Areas of significant expenditure variance in the Medicaid program include the following:

- Managed Care – Year-to-date spending on managed care totaled \$3,458.3 million through April, which is \$178.4 million below estimate. There are two major reasons for this under spending in the managed care category:
  - Litigation affected managed care enrollment in the Northeast Central region through the first nine months of the year, which resulted in lower than anticipated expenditures for this category. The lawsuit has been settled and enrollment in managed care began in this region on March for the CFC population and April for the ABD population.
  - Overall managed care enrollment among the ABD population is somewhat lower than had been anticipated during the budget process.

While expenditures in managed care have been below estimate, the state has experienced related higher-than-estimated expenditures in fee for service categories such as inpatient and outpatient hospitals, physicians, and prescription drugs because the individuals' service needs are being met in fee for service since they are not enrolled in managed care.

- Nursing Facilities – Through April spending on nursing facilities totaled \$2.139 billion, which is \$93.2 million below the estimate. Lower-than-projected expenditures are due to lower utilization of nursing facility services, and also to coding changes that occurred in the post-direct bill environment that has led to some expenses being captured in a different category of spending.
- Inpatient and Outpatient Hospitals – Year-to-date expenditures for hospital services totaled \$1,115.6 million, which was \$224.4 million above the estimate. As noted above, slower-than-expected enrollment into managed care in the North East Central region led to increased fee for service expenses, particularly in these categories. In addition, higher-than-expected caseloads, particularly in the ABD eligibility category, have increased spending in this category. It should also be noted that changes to the National Provider Identifier (NPI) in June 2007, 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 resulting in a one-time increase in FY 2008.

## **Non-Medicaid**

In April, JFS non-Medicaid disbursements totaled \$94.6 million, producing a variance of \$8.2 million (7.9%) below the estimate. For the year-to-date, JFS non-Medicaid disbursements totaled \$846.8 million, producing a variance of \$34.6 million (3.9%) below the estimate.

- Spending in the support services line item was under estimate by \$2.4 million (36.8%). This is primarily attributable to postage not being paid in April as expected. Payment will be made in May. For the year to date, disbursements are \$2.6 million (5.3%).

- Spending in the computer projects line item is over estimate by \$1 million (12.5%). This is primarily attributable to vendor payments that were not anticipated in this month for the food stamp program and for the County Financial Information System (CFIS). For the year to date, disbursements are \$3.4 million (2.9%) over estimate.
- Spending in the entitlement administration line item is \$2.2 million (25.6%) under estimate. This is primarily attributable to the timing of county requests for funding. For the year to date, disbursements are \$4.2 million (3.9%) over estimate.
- Children and Family Subsidies is \$4.0 million (19.5%) under estimate. This is primarily attributable to the timing of the federal draw for the social services operating payments. JFS is required to draw federal funds prior to accessing state funds. As the federal funds have not been exhausted, state funds have not been accessed. For the year to date, disbursements are \$1.7 million (2.2%) under estimate.
- Spending in the adoption assistance line item is approximately \$1.9 million under estimate. At the beginning of the fiscal year coding between federal and state funds was incorrectly set up on the IV-E adoption assistance payments. Consequently, GRF was overspent during the first half of the fiscal year. In order to correct the imbalance, a coding adjustment occurred in February. As a result, GRF payments should be line with overall projections for remainder of the fiscal year. Further, adoption assistance payment requests were lower than anticipated. For the year-to-date, disbursements are \$3.4 million (5.3%) under estimate.

## **Health and Human Services**

March disbursements totaled \$135.1 million, which was \$11.8 million (8.1%) below the estimate. Year-to-date disbursements were \$1,094.2 million, which was \$47.9 million (4.2%) below estimate.

- The Department of Mental Health disbursed \$60.1 million in the month of April, which was \$1.5 million, or 2.4%, below the estimate. \$4.7 million in under spending within ALI 334408, Community and Hospital Mental Health Services, offset overspending in ALIs 335505, Local Mental Health Systems of Care and 333321, Central Administration. The \$1 million in overspending in Central Administration can be attributed to the costs associated with the Department's early retirement incentive plan. Variances across the subsidy lines are due to the timing of draw downs requested by County Boards. Year-to-date GRF spending totaled \$488.2 million, which is \$20.2 million, or 4.0%, below the estimate.
- The Department of Mental Retardation and Developmental Disabilities disbursed \$45.2 million in the month of April, which was \$458,000, or 1% below the estimate. Year-to-date GRF spending totaled \$317.0 million, which is \$5.8 million, or 1.8% below the estimate.

- In the month of April, the Department of Alcohol and Drug Addiction Services (ODADAS) disbursed \$7.1 million, which was \$2.5 million, or 26% below the estimate. The variance is primarily attributable to \$2.4 million in under spending within ALI 038401, Treatment Services. According to the Department's recalibration plan, ODADAS reduced FY08 GRF spending in this line by \$2.6 million.

### **Justice and Public Protection**

April's GRF disbursements for Justice & Public Protection totaled \$157.2 million, which produced a variance of \$26.0 million (14.2%) below the estimate. For the fiscal year, disbursements totaled \$1,800.9 million, which represents a variance totaling \$4.0 million (0.2%) above the estimate.

- April disbursements for the Department of Rehabilitation and Correction were \$124.0 million, producing a variance of \$21.2 million (14.6%) below the estimate. Year to date disbursements were \$1,359.0 million, producing a variance of \$9.9 million (0.7%) above the estimate.
- April disbursements for the Department of Youth Services (DYS) were \$12.6 million, producing a variance of \$4.1 million (24.6%) below the estimate. Year to date disbursements were \$226.1 million, producing a variance of \$0.7 million (0.3%) below the estimate.

### **Transportation**

April disbursements were \$1.3 million, producing a variance of \$141,000 (9.6%) below the estimate. For the fiscal year, disbursements totaled \$20.8 million, producing a variance of \$4.4 million (17.5%) below the estimate. This year-to-date variance is the result of the GRF recalibration activities and the timing of grant reimbursement payments.

### **Community and Economic Development**

April's GRF disbursements in the Community & Economic Development category totaled \$5.6 million, which is \$6.7 million (54.2%) below the estimate. Year-to-date expenditures are \$117.9 million, which is \$19.6 million (14.3%) below the estimate. The largest segment of this category is disbursed by the Department of Development. Budget recalibration efforts affected the Regional Offices & Economic Development line item (195-415) and resulted in under spending. The following line items disbursed less than estimate due to timing of payments to grantees: Thomas Edison (195-401), Defense Conversion Assistance (195-410), Labor/Management Cooperation (195-436) and the Economic Development Contingency (195-515).

### **Tax Relief and Other**

April tax relief disbursements totaled \$298.2 million, which exceeds the monthly estimate by \$61.6 million (26.0%). The resulting year-to-date spending is \$1,015.6 million, which exceeds estimates by \$13.9 million (1.4%). As mentioned in the March report, as we near the end of FY

2008 it is anticipated that the variance in tax relief payments against the HB 119 estimates will continue to increase as a result of additional payments that will be made under the expanded homestead exemption. These additional tax relief payments are supported by a combination of additional lapses in debt service made possible by tobacco securitization and excess interest earnings on the securitization proceeds. The adjustment of FY 2008 tax relief appropriations, which were increased in total by \$128.5 million (\$46.3 million for local governments and \$82.2 million for school districts) and the transfer of excess interest earnings to support these additional costs were authorized by the Controlling Board at its May 5<sup>th</sup> meeting. These payments are made by the Department of Taxation 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.

The tax relief disbursements are divided between two recipients – school districts and local governments. The \$173.4 million in disbursements for school district tax relief during the month of April was below monthly estimate by \$18.6 (10%) million and as a result the year-to-date spending of \$579.2 million is now underestimate by \$73.6 million (11.3%). The \$119.7 million in disbursements for local government tax relief during the month of April exceeded the estimate for the month by \$80.2 million and as a result the year-to-date spending of \$406.2 million, now exceeds estimates by \$87.9 million.

### ***NOTE REGARDING INTEREST ON INVESTMENT***

As discussed earlier in this month's report, with the implementation of OAKS, interest on investments for the second quarter is not allocated to the appropriate GRF accounts until the subsequent quarter. Under the previous state accounting system, the month ending each quarter was closed 15 days early to allow for this distribution to be calculated. While investment earnings have been booked to Fund 6080 prior to their distribution, they have yet to be allocated to the GRF. Once OBM completes these interest calculations, the appropriate amounts will be allocated and posted to the GRF as well as other funds in the state accounting system that receive interest. For the month of March, interest on investments booked to Fund 6080, totaled \$32.8 million. For the first quarter of 2008, approximately 45% of the interest booked to Fund 6080 was eventually allocated to the GRF. Assuming that a similar percentage is allocated from the interest earned in April, the GRF should receive approximately \$10.4 million in earnings.

**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	\$	%
	APRIL	APRIL	VAR	VAR	PRELIMINARY	ESTIMATE	VAR	VAR
Primary, Secondary and Other Education	581,698	571,297	10,402	1.8%	5,837,968	5,979,269	(141,301)	-2.4%
Higher Education	193,697	184,954	8,743	4.7%	2,113,346	2,205,914	(92,568)	-4.2%
Public Assistance and Medicaid	833,844	820,240	13,605	1.7%	9,095,536	9,096,887	(1,352)	0.0%
Health and Human Services	135,129	146,968	(11,839)	-8.1%	1,094,229	1,142,152	(47,923)	-4.2%
Justice and Public Protection	157,185	183,225	(26,040)	-14.2%	1,800,948	1,796,939	4,008	0.2%
Environmental Protection and Natural Resources	5,645	5,055	590	11.7%	89,584	91,686	(2,102)	-2.3%
Transportation	1,326	1,468	(141)	-9.6%	20,812	25,225	(4,413)	-17.5%
General Government	19,047	18,128	919	5.1%	325,561	346,234	(20,673)	-6.0%
Community and Economic Development	5,638	12,312	(6,674)	-54.2%	117,872	137,468	(19,596)	-14.3%
Tax Relief and Other	298,177	236,622	61,555	26.0%	1,015,565	1,001,696	13,869	1.4%
Capital Outlay	0	150	(150)	-100.0%	66	1,371	(1,305)	-95.2%
Debt Service	72,002	84,169	(12,167)	N/A	576,431	597,121	(20,690)	-3.5%
Pending Payroll	0	0	0	N/A	0	0	0	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>2,303,390</b>	<b>2,264,587</b>	<b>38,803</b>	<b>1.7%</b>	<b>22,087,916</b>	<b>22,421,963</b>	<b>(334,047)</b>	<b>-1.5%</b>
<b>Transfers Out:</b>								
OPER TRF OUT-OTH	0	0	0	N/A	162,620	145,278	17,341	11.9%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	446,551	466,800	(20,249)	-4.3%
<b>Total Transfers (Out)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>N/A</b>	<b>609,171</b>	<b>612,078</b>	<b>(2,907)</b>	<b>-0.5%</b>
<b>Total Fund Uses</b>	<b>2,303,390</b>	<b>2,264,587</b>	<b>38,803</b>	<b>1.7%</b>	<b>22,697,087</b>	<b>23,034,041</b>	<b>(336,954)</b>	<b>-1.5%</b>

\*Amounts will be finalized once the general ledger is closed for March.

**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	581,698	560,404	21,294	3.8%	5,837,968	5,776,826	61,142	1.1%
Higher Education	193,697	160,796	32,901	20.5%	2,113,346	2,016,766	96,580	4.8%
Public Assistance and Medicaid	833,844	707,976	125,869	17.8%	9,095,536	8,522,173	573,362	6.7%
Health and Human Services	135,129	152,090	(16,961)	-11.2%	1,094,229	1,115,977	(21,749)	-1.9%
Justice and Public Protection	157,185	180,498	(23,313)	-12.9%	1,800,948	1,753,327	47,621	2.7%
Environmental Protection and Natural Resources	5,645	5,998	(353)	-5.9%	89,584	87,232	2,352	2.7%
Transportation	1,326	792	534	67.4%	20,812	20,027	785	3.9%
General Government	19,047	18,765	282	1.5%	325,561	325,879	(318)	-0.1%
Community and Economic Development	5,638	10,062	(4,424)	-44.0%	117,872	127,356	(9,484)	-7.4%
Tax Relief and Other	298,177	310,708	(12,530)	-4.0%	1,015,565	988,649	26,917	2.7%
Capital Outlay	0	43	(43)	N/A	66	134	(68)	-50.9%
Debt Service	72,002	71,876	126	0.2%	576,431	512,711	63,720	12.4%
Pending Payroll	0	0	0	N/A	0	0	0	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>2,303,390</b>	<b>2,180,009</b>	<b>123,381</b>	<b>5.7%</b>	<b>22,087,916</b>	<b>21,247,058</b>	<b>840,858</b>	<b>4.0%</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	0	21,180	(21,180)	N/A	162,620	43,629	118,991	272.7%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	446,551	287,414	159,138	55.4%
<b>Total Transfers (Out)</b>	<b>0</b>	<b>21,180</b>	<b>(21,180)</b>	<b>N/A</b>	<b>609,171</b>	<b>725,076</b>	<b>(115,905)</b>	<b>-16.0%</b>
<b>Total Fund Uses</b>	<b>2,303,390</b>	<b>2,201,189</b>	<b>102,201</b>	<b>4.6%</b>	<b>22,697,087</b>	<b>21,972,134</b>	<b>724,953</b>	<b>3.3%</b>

\*Amounts will be finalized once the general ledger is closed for March.

## ***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 \$924.3 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	26,441,908
Less FY 2008 Estimated Total Encumbrances as of June 30, 2008	448,667
Less FY 2008 Estimated Transfers Out	612,078
 Total Estimated Uses	 27,502,653
 FY 2008 Estimated Ending Fund Balance	 \$ 924,292

## ***GENERAL LEDGER APPENDIX***

Since the publication of the last Monthly Financial Report, the General Ledger for the month of March has been closed. As such, final data for March is included in this section. Addendum tables for March follow this page.

### **March**

Final GRF disbursements for March totaled \$2,162.5 million, which was \$141,000 (0.0%) less than the preliminary data. Approximately one-third of the adjustment was shared by each of the following categories: Public Assistance and Medicaid, General Government, and Community & Economic Development.

Final disbursements for March were \$24.0 million (1.1%) above the estimate. As previously reported, the March variance is largely the result of spending in the Primary, Secondary, and Other Education category that was higher than estimate.

**FY 2008 VS ESTIMATE FY 2008 VS PRELIMINARY ACTUAL FY 2008 and FINAL ACTUAL FY 2008**  
**ADDENDUM TABLE**  
**GENERAL REVENUE FUND DISBURSEMENTS**  
(\$ in thousands)

Functional Reporting Categories Description				Preliminary Actual vs Final Actual		Estimate VS Final Actual	
	MARCH	MARCH	MARCH	\$	%	\$	%
	Estimate	Preliminary	Final Actual	VAR	VAR	VAR	VAR
Primary, Secondary and Other Education	543,844	661,583	661,583	0	0.0%	117,739	21.6%
Higher Education	216,480	175,932	175,932	(0)	0.0%	(40,548)	-18.7%
Public Assistance and Medicaid	846,453	832,259	832,208	(51)	0.0%	(14,246)	-1.7%
Health and Human Services	73,530	75,217	75,217	1	0.0%	1,687	2.3%
Justice and Public Protection	178,243	186,950	186,950	0	0.0%	8,707	4.9%
Environmental Protection and Natural Resources	5,376	5,000	5,000	0	0.0%	(377)	-7.0%
Transportation	1,779	990	990	0	0.0%	(789)	-44.4%
General Government	63,527	56,968	56,923	(45)	-0.1%	(6,604)	-10.4%
Community and Economic Development	20,152	17,344	17,299	(45)	-0.3%	(2,853)	-14.2%
Tax Relief and Other	101,536	63,566	63,566	0	0.0%	(37,970)	-37.4%
Capital Outlay	150	0	0	0	N/A	(150)	-100.0%
Debt Service	87,462	86,853	86,853	0	N/A	(609)	N/A
Pending Payroll	0	0	0	0	N/A	0	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>2,138,532</b>	<b>2,162,661</b>	<b>2,162,520</b>	<b>(141)</b>	<b>0.0%</b>	<b>23,988</b>	<b>1.1%</b>