



November 10, 2007

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

FROM: J. Pari Sabety, Director 

SUBJECT: Monthly Financial Report

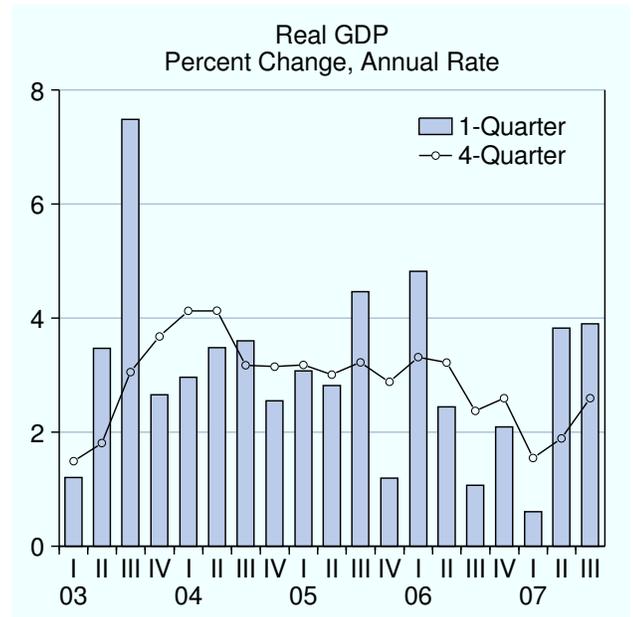
### ECONOMIC SUMMARY

Citing higher energy prices and rising mortgage loan payments resulting from mortgage rate resets, forecasters have lowered their growth predictions for the balance of the year and early 2008. Yet with some unexpected momentum, the economy expanded by 3.9% in the third quarter following a strong 3.8% advance during the second quarter. In a decidedly mixed picture, consumer spending and exports were leading contributors to the third quarter growth. With the continuing housing contraction, housing construction subtracted significantly from overall growth both nationally and in the Midwest. National labor markets remained solid through October, as employment increased by the largest amount since May and the unemployment rate held steady at 4.7%. Ohio employment decreased in September and remains below the level at the start of the year.

### Economic Growth

**Real GDP** expanded at an annual rate of 3.9% during the third quarter, somewhat ahead of expectations and on par with the 3.8% growth rate in the second quarter. Other than investment in residential structures, which contracted by 20.1%, all major sectors made positive contributions to growth.

Real personal consumption expenditures increased 3.9%, despite the negative effects of higher energy prices. Investment in plant and equipment increased 7.9% – much more strongly than suggested by the recent pattern in factory shipments. The accumulation of business inventories added modestly to growth for the second straight quarter. Most of the gain resulted from restocking at automotive dealers after four consecutive quarters of declines. Exports climbed 16.2%, accounting for 1.8 percentage points of real



GDP growth. A strong advance in defense spending and moderate rise in state and local outlays added almost three-quarters of a percentage point to overall growth.

Investment in residential structures decreased 20.1% in the third quarter, almost matching the peak rate of decline in the same quarter last year. The weakness continues to reflect waning demand, tightening credit and still-high inventories of unsold homes.

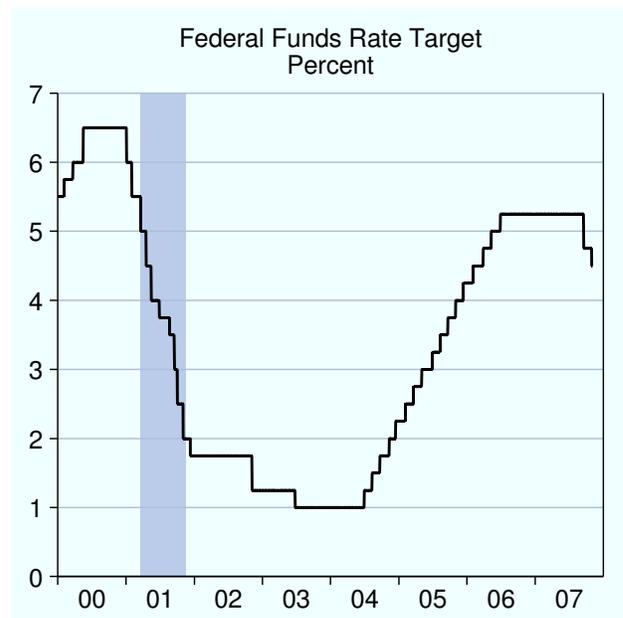
A key question is when or whether the pronounced contraction in residential building activity will pull down growth in other areas of the economy. Despite the six consecutive quarters of double-digit percentage declines in housing construction, real GDP excluding this category remains strong, having increased 5.1% in the most recent quarter. Outside of housing, real growth has accelerated from a low of 2.7% in 2005 to 3.6% during the most recent four quarters.

Looking ahead, the widespread consensus is for a significant slowing in growth in the current quarter and during the first half of next year. The reasons are the ongoing deterioration in housing, an expected slowdown in business investment, and a very significant expected slowdown in consumer spending in response to the recent run-up in energy prices.

While growth seems likely to slow from the nearly 4% pace of the past half-year, the extent of any slowdown remains very much uncertain. Forecasters have under-forecast current quarter real GDP growth by a wide margin at this juncture during the last two quarters. Joined by the consensus of forecasters, for example, Global Insight predicted in May that real GDP would grow 2.2% in the second quarter, when growth was 3.8%, and predicted in August that real GDP would grow 2.3% in the third quarter, when growth was 3.9%.

In early November, the *Blue Chip Financial Forecasts* consensus among 47 economists was for growth of 1.7% in fourth-quarter real GDP, followed by growth of 2.0% in the first quarter and 2.4% in the second quarter of 2008.

The Federal Reserve reduced the federal funds rate target by one-quarter percentage point at its October meeting to 4.50%. The reduction followed a half-point reduction at the September meeting. Policymakers noted that growth is likely to slow from the pace during the most recent half-year. But the announcement of the October move clearly stated that policymakers see the risks of higher inflation and weaker-than-expected economic growth as approximately equal, signaling no inclination to change the rate again at its final meeting of the year scheduled for December.



## Employment

**U.S. Employment** increased by 166,000 jobs in October, compared with sub-100,000 increases during the four previous months. Employment has increased by an average of 140,000 jobs per month during the past year, during which time roughly 63% of industries report increases in employment. Job gains during October were concentrated in professional and business services (+65,000), leisure and hospitality (+56,000), education and health services (+43,000), and government (+36,000, almost entirely local education).

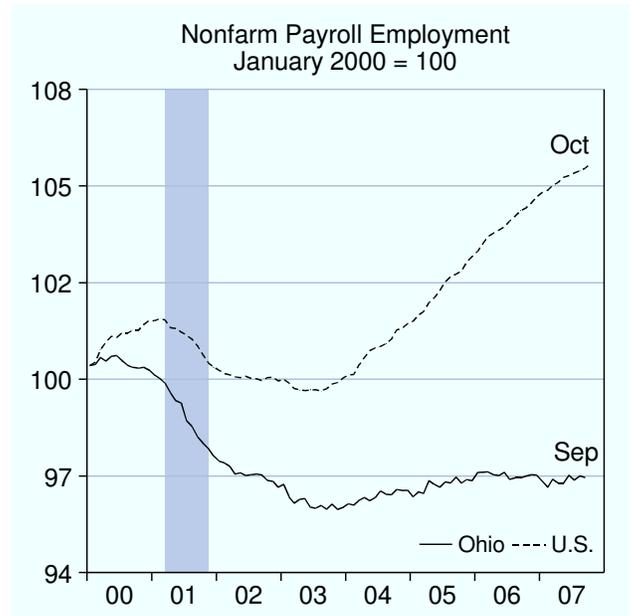
Manufacturing employment fell 21,000 for the sixteenth straight monthly decline. Computers, motor vehicles and chemicals accounted for two-thirds of the decline. Construction employment fell 5,000 for the fourth straight decline and the sixth in seven months. Once again, residential specialty trade jobs accounted for more than all of the decline, falling by 13,000. Retail employment decreased 21,500, with about one third of the decline occurring at building material and supply stores. Employment at financial firms increased 2,000, but mortgage-related jobs decreased by 4,900.

The unemployment rate remained at 4.7%, up from its low for this cycle of 4.4% reached in March. Initial jobless claims have increased to average approximately 330,000 per week during the final three weeks of October. Although the reading is toward the top end of the range during the last two years, a recession will remain no more than a forecast unless and until claims rise on a sustained basis to at least 350,000 per week.

**Ohio employment** decreased by 2,600 jobs in September. The August change was revised up from 2,400 to 8,600. Employment is up by 700 jobs from September 2006 and down by 3,900 jobs year-to-date. Employment increased during October in government (+3,300), manufacturing (+700), financial activities (+500) and construction (+300). Employment decreased in professional and business services (-3,600), education and health services (-3,400), leisure and hospitality (-1,400) and other services (-700).

The **Ohio Metropolitan Statistical Areas** that made the largest contributions to statewide employment growth during the past year are Columbus (+7,100) and Akron (+3,900). The MSAs that subtracted the most from Ohio employment were Youngstown-Warren-Boardman (-2,300), Lima (-700) and Mansfield (-700).

Pennsylvania, Indiana, Kentucky and West Virginia led the way in employment growth among **contiguous states** during the twelve months ending in September with gains of 0.8%, 0.6%, 0.4% and 0.4%, respectively. Employment in Michigan decreased 1.5% from a year ago,

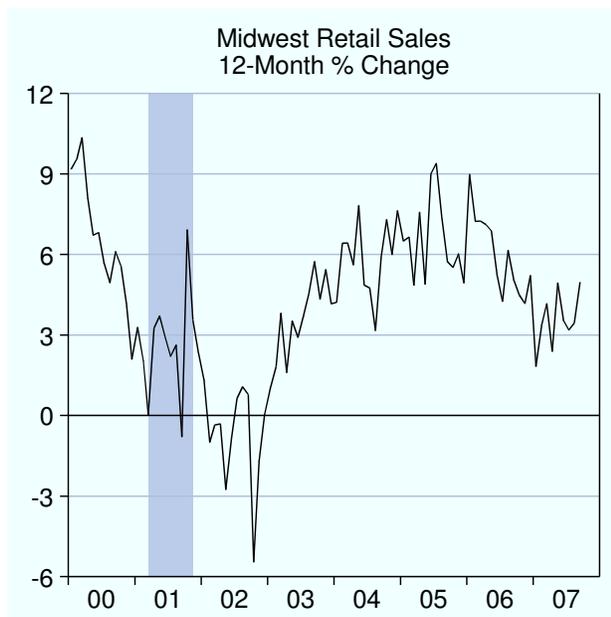


followed by essentially no change in Ohio. Nationally, employment increased 1.2% during the twelve months ending in September.

### **Consumer Income and Consumption**

**Personal income** increased 0.4% in September to 6.8% above the year ago level, extending the long string of healthy income growth. Wage and salary disbursements increased 0.6% on the month and 7.1% year-over-year. **Personal consumption expenditures** increased by 0.3% for a gain from the year earlier of 5.6%. At 0.9% of disposable personal income, saving remained toward the high end of the range of the last two years.

Spending by consumers in the Midwest has accelerated this year, with **Midwest retail sales** rising 0.6% in September to 5.0% above the year earlier level. As recently as January, the year-over-year growth rate was 1.8%. Retailers in and around Ohio reported a slight increase in general merchandise sales from August to early October. Expectations for the holiday shopping season were subdued.



The **light motor vehicle sales** were 16.0 million at an annual rate in October, down from 16.2 million in August and September. The sales pace was 16.1 million units in October 2006. New and used car sales were reported as flat to declining in and around Ohio into early October. A majority of dealers are optimistic about sales in upcoming months due to changes in the model mix and a reduction in loan rates.

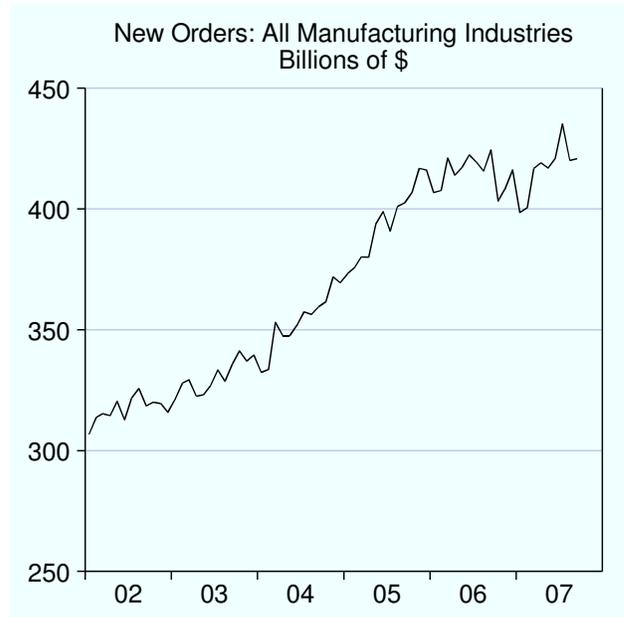
**Consumer confidence** continued to erode during October. Both the Conference Board and University of Michigan measures have trended down all year, with especially abrupt drop-offs since mid-year. The 16-point three-month decline in the Conference Board index as of October could be consistent with slower growth in spending this quarter. A contributing negative factor will be the recent rise in energy prices and resetting of mortgage loan rates at higher levels.

### **Manufacturing**

Manufacturing activity weakened over the summer and into early fall. **Industrial production** increased 0.1% in September, and the August gain was revised down from 0.2% to no change. Manufacturing output also increased 0.1%, reflecting a 3.3% decrease in motor vehicle and parts production. Motor vehicle assemblies decreased 5.2%. Excluding motor vehicles, manufacturing output was up 0.3%. The brief strikes by autoworkers cut into production that was already scheduled to be lower than in August.

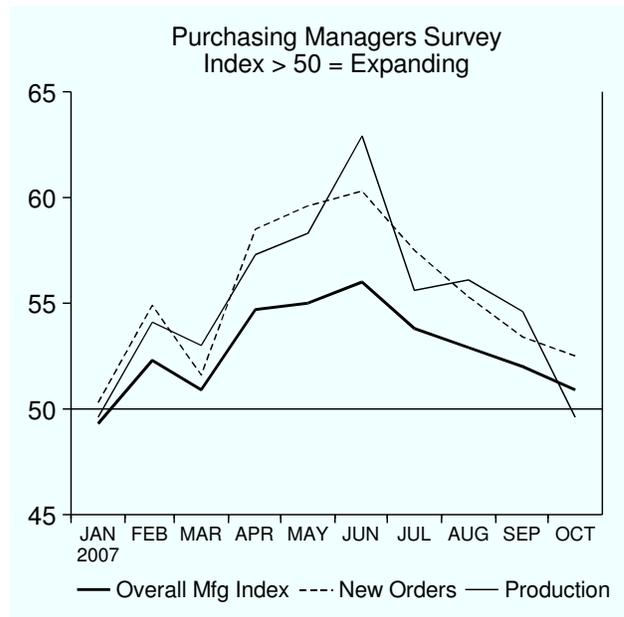
Outside the auto industry, manufacturing activity showed some resilience. Production of primary metals and fabricated metal products – two industries of importance for Ohio – increased 0.5% and 0.6%, respectively on the month. Compared with a year earlier, total industrial production was higher by 1.9%, down from a year-over-year growth rate of 4.0% to 5.0% as recently as a year ago.

The recent weakening in manufacturing activity is consistent with the message from related indicators. **New orders and shipments** for all manufacturing industries were weak again in September, extending an approximately year and a half long streak that has left activity little changed on balance. Shipments were unchanged after a 1.7% decrease in August. New orders increased 0.2% after a 3.5% drop. New orders posted the largest percentage declines in construction machinery, industrial machinery, material handling equipment, transportation equipment and several categories of defense equipment.



Compared with a year earlier, shipments were up by a modest 3.3%, whereas new orders were down 0.9%. Non-defense capital good orders, excluding aircraft, which is considered a good gauge of the underlying trend, increased 0.6% in September, but fell to 4.6% below the year earlier level.

Purchasing managers at manufacturing firms delivered the most lackluster report on business conditions in October in a year, indicating that manufacturing activity has slowed abruptly in the past four months. The **Purchasing Managers Index** fell to an approximately neutral reading of 50.9, down from a recent peak of 56.0 in June. The new orders index fell to a slightly better 52.5, down from 60.3 in June. The most severe declines have occurred in production, which fell to 49.6 from a June level of 62.9 and order backlogs, which were down to 46.0 from 53.5.



The pattern was similar in the Midwest, where **Midwest industrial production** slipped again in September, with two of the four sectors registering declines, according to the Federal Reserve Bank of Chicago. The majority of manufacturers responding to a survey by the Federal Reserve Bank of Cleveland reported that production flattened out in mid-August and that they anticipated little if any near-term

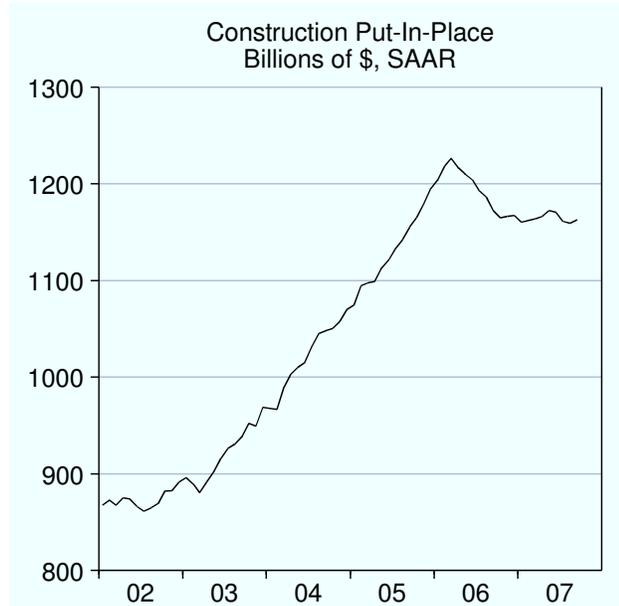
improvement.

The Chicago Fed reported that regional auto output fell 1.2% and steel sector output fell 0.3% in September. Production reportedly improved in October, as factories returned to full shifts after the brief autoworkers strikes. Resource sector production increased 0.1%. Machinery sector production rose 0.7%. Regional output was 0.5% above the year earlier level, compared with an increase of 1.6% nationally.

## **Construction**

**Construction put-in-place** managed an increase of 0.3% in September, the first in four months. An increase of 1.8% in nonresidential construction outpaced the 1.4% decrease in residential construction. Excluding the volatile residential improvements category, overall construction was unchanged. Compared with a year earlier, construction was lower by 0.8%. During 2003-2006, construction-put-in-place grew at an annual rate of approximately 10%.

The national trends were also evident in and around Ohio into early October, according to the Cleveland Fed. Residential builders reported a slight rise in cancellations, which they attributed to buyers having difficulty qualifying for mortgage loans. Commercial contractors reported that business remained steady on a year-over-year basis.



Single-family **housing starts** fell 10.2% to the lowest monthly level since March 1993. The three-month moving average of 1.00 million units at an annual rate was the slowest pace of single-family construction since June 1992. The low during the 1990-91 recession was 0.70 million units reached in March 1991 – the final month of recession. Total housing starts decreased 30.8% in the U.S. and 34.8% in the Midwest during the twelve months ending in September.

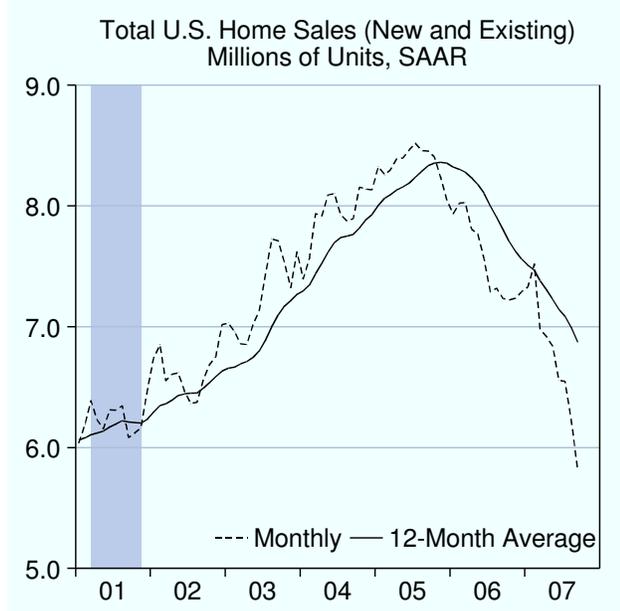
Other reports indicate that weakness continued into October. Forward-looking single-family building permits fell 7.1% to 0.87 million units. The National Association of Home Builders announced an eighth straight monthly decrease in its survey of homebuilders in October. Taken together, the latest reports point toward the seventh consecutive double-digit percentage decline in investment in residential structures during the fourth quarter.

**New home sales** increased 4.8% in September, and the inventory of unsold homes declined to the lowest level since January 2006. The September sales pace was still the slowest – other than August's – in more than ten years, and sales during the previous three months were revised down

by a total of 6.7%. New home sales decreased 23.3% in the U.S. and 28.3% in the Midwest during the twelve months ending in September.

**Sales of existing homes** fell 8.0%, and the inventory of homes on the market increased to 4.4 million units. At the September pace of sales, it would take 10.5 months to sell all of the homes listed for sale. Existing home sales decreased 19.1% in the U.S. and 16.2% in the Midwest during the twelve months ending in September.

The combination of tightening in lending standards and still-high inventories of both new and existing homes for sale suggests continued weakness in residential construction.



## REVENUES AND DISBURSEMENTS

### FY 2008 Year-to-Date Highlights

- Through October, GRF tax receipts were on target. In aggregate, the shortfalls from auto-sales tax and corporate franchise tax were offset by above-estimate variances from non-auto sales tax, personal income tax, and cigarette tax. (See Table 1.)
- Tax receipts declined \$10.6 million (0.2%) versus to FY 2007. Full implementation of tax reform continues to affect year-to-year growth. (See Table 2.)
- GRF total uses, including pending payrolls and transfers out were over estimate by \$117.7 million (1.2%). (See Table 3.)
- Excluding transfers out, uses were \$694.6 million (7.8%) above last year's levels. Year-to-date spending increased for primary, secondary and other education, higher education, public assistance and Medicaid, tax relief, and debt service and decreased for all other categories. (See Table 4.)

**Please Note: Utilizing the newly implemented financial component of the Ohio Administrative Knowledge System (OAKS), the state continued to improve its financial operations. The General Ledger for July, August, and September has been closed. Included in the appendix are final disbursements for each of those months.**

**This report presents the preliminary and the most up-to-date data on revenues and disbursements for October. Final data will be available as progress continues and the General Ledgers are closed. As mentioned in the previous reports, the OAKS system has moved the state to a modified accrual basis of accounting, where revenues are recorded when received and expenses are recognized when the liability is incurred. Under CAS, the state's old accounting system, the state operated on a cash basis, where revenues were recorded when received and expenses were recognized when the cash was moved.**

In October, GRF tax receipts totaled \$1,617.2 million, which was above estimate by \$8.0 million (0.5%). Primarily due to timing in revenue posting, federal grants experienced large shortfalls in October, but these will be reversed in November. As a result, including transfers, GRF total sources in October fell below estimate by \$178.6 million (7.9%). GRF tax receipts in the first four months of the year stood at \$5,907.9 million, which were on target with a very small negative variance of \$2.7 million (0.0%). Year-to-date total GRF sources were below estimate by \$240.6 million (2.9%). This year-to-date variance will be largely reversed in November when federal grants are posted.

The personal income tax concluded October with a strong above estimate variance of \$33.5 million (4.9%). The below-estimate monthly variances from the non-auto sales tax, corporate franchise tax, foreign insurance tax and estate tax offset some of the positive variance from the personal income tax. Total GRF tax receipts were slightly above estimate by \$8.0 million (0.5%) in October. October federal grants fell below estimate by \$181.0 million (31.5%). This shortfall caused October total GRF revenues to fall behind estimate by \$178.6 million (7.9%).

Through October, GRF tax receipts were on target with a small negative variance of \$2.7 million (0.0%). The year-to-date positive variances in the personal income tax, non-auto sales tax and cigarette tax were offset by the negative variances from the corporate franchise tax and the auto sales tax. The personal income tax and the cigarette tax had robust performance in the first four months of the year. Auto-sales tax receipts were on target in October after falling below estimate consecutively from July to September. The below-estimate October federal grants also caused the year-to-date GRF total revenues to fall short of estimate by \$237.0 million (2.9%). This will be reversed in November when federal grants are posted.

In October, GRF disbursements were \$273.2 million (10.0%) over estimate for all spending categories. The year-to-date variance is smaller at \$117.7 million (1.2%). The primary contributor to October's large variance was a Department of Education foundation payment that processed at the end of October instead of at the beginning of November as anticipated.

For October, Primary, Secondary, and Other Education, and Tax Relief and Other categories had positive variances. All other spending categories had negative variances. Justice and Public Protection experienced the largest monthly variance at \$83.9 million below the estimate because the GRF payroll was not posted due to persistent expense coding issues.

The tax reforms enacted in Am. Sub. H.B. 66 of the 126<sup>th</sup> General Assembly continue to phase in through FY 2008 and to affect the **year-over-year variance** in GRF tax revenues. GRF tax receipts in the first four months of FY 2008 fell slightly below the FY 2007 level by \$10.6 million (0.2%). GRF all sources produced \$158.7 (2.0%) more revenues than in July through October 2006 due to an increase in federal grants. Year-to-date GRF total disbursements were \$605.0 million (6.3%) above FY 2007.

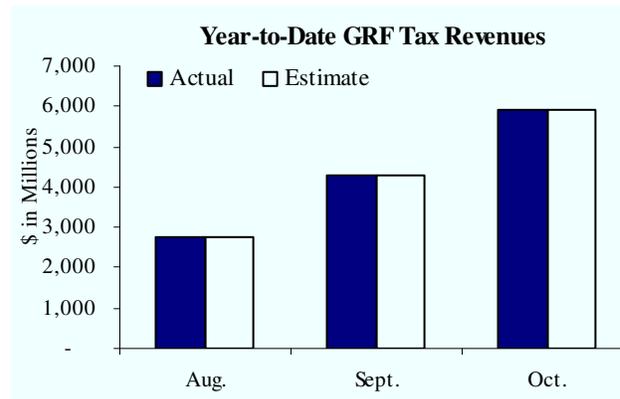
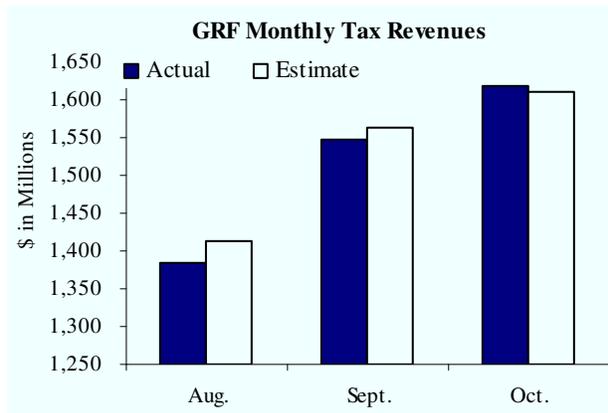
FY 2008 GRF revenues and disbursements that appear in the figures and tables of this report reflect the Am. Sub. H.B. 119 biennial budget framework. The following table shows the variance from the estimate for GRF revenues and disbursements for October and for FY 2008 year-to-date.

General Revenue Fund (\$ in millions)	October Variance		FY 2008 Variance	
<b>Revenues</b>				
<b>Tax Receipts</b>	\$8.0	0.5%	(\$2.7)	0.0%
<b>All Sources</b>	(\$178.6)	(7.9%)	(\$240.6)	(2.9%)
<b>Total Uses (Including Transfers)</b>	\$273.2	10.0%	\$117.7	1.2%

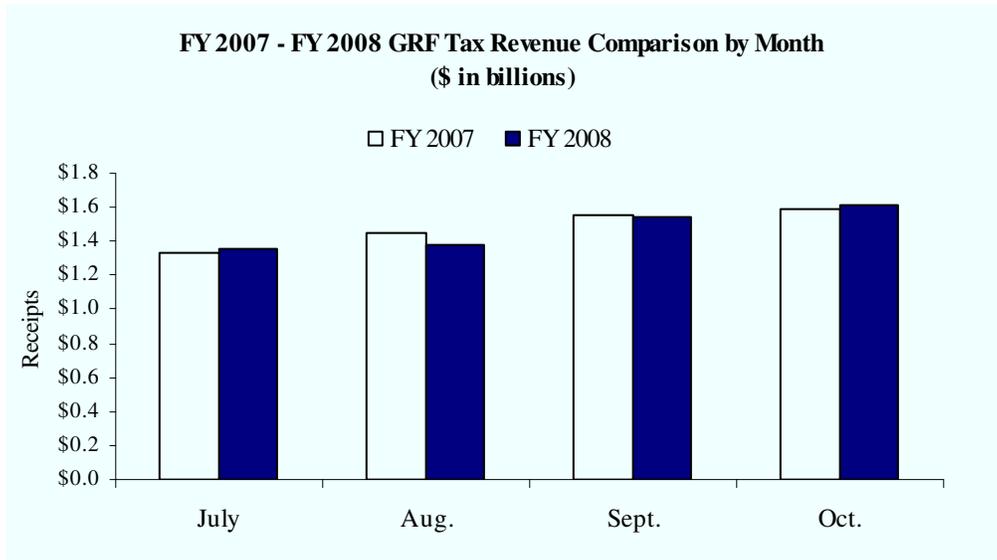
## **REVENUES**

In October, GRF tax receipts totaled \$1,617.2 million and were over estimate by \$8.0 million (0.5%). The personal income tax concluded the month with a strong positive variance of \$33.5 million (4.9%). The robust performance is attributed to higher than expected withholding revenues and lower than expected refunds. Reversing the below estimate trend, October auto sales tax receipts were above estimate by \$0.5 million (0.6%). The cigarette tax continued the above estimate trend with a monthly variance of \$0.5 million (0.6%). Offsetting negative variances resulted primarily from the non-auto sales tax, corporate franchise tax and foreign insurance tax; the negative variances from these tax sources were \$9.7 million (1.7%), \$11.9 million (44.0%), and \$4.3 million (3.2%), respectively. Federal grants were below estimate by \$181.0 million (31.5%) due to the delays in posting revenue. The shortfall drove October GRF total revenues, including transfers, to fall below estimate by \$178.6 million (7.9%).

Through October, GRF tax receipts remained close to estimate with a very small negative variance of \$2.7 million (0.0%). Personal income tax receipts were over estimate by \$42.0 million (1.6%). Withholding revenues performed robustly by being \$78.4 million higher than expected. Due to its strong performance in July and August, the non-auto sales tax remained above estimate by \$9.7 million although the variance shrank in both September and October. The cigarette tax continued to be above estimate by \$11.6 million (4.4%). Major offsetting negative variances were \$20.1 million from the auto sales tax and \$33.2 million from the corporate franchise tax. Both federal grants and investment earnings generated large year-to-date shortfalls, \$185.1 million and \$46.1 million, respectively, due to delays in revenue postings. As a result, year-to-date GRF total sources were below estimate by \$240.6 million (2.9%).



On a year-over-year basis, year-to-date GRF tax receipts declined by \$10.6 million (0.2%) from FY 2007. Throughout the first four months, the non-auto sales tax has consistently posted positive annual growth. Due to robust collections in October, the auto sales tax and the personal income tax also posted positive growth. The slide of \$102.6 million in the corporate franchise tax accounted for most of the annual decline. About \$30 million of the decline resulted from the one-time settlement payments in July to October 2006. As federal grants were ahead of the FY 2007 level by \$202.7 million (11.6%), year-to-date GRF total revenues from all sources posted an annual growth of \$158.7 million (2.0%).



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

<u>Sources Above Estimate Year-to-Date</u>		<u>Sources Below Estimate Year-to-Date</u>	
Non-Auto Sales Tax	\$ 9.7	Auto Sales Tax	\$ (20.1)
Personal Income Tax	42.0	Corporate Franchise Tax	(33.2)
Cigarette Tax	11.6	Foreign Insurance Tax	(5.6)
Liquor Transfers	3.0	Estate Tax	(5.3)
Other above estimate sources	<u>2.5</u>	Federal Grants	(185.1)
		Earnings on Investments	(46.1)
		Transfers In – Other	(6.6)
		Other below estimate sources	<u>(7.4)</u>
<b>Total above</b>	<b>\$68.8</b>	<b>Total below</b>	<b>\$(309.4)</b>

## Non-Auto Sales and Use Tax

The non-auto sales tax receipts fell below estimate for the second month in October. The monthly variance was \$9.7 million (1.7%) under estimate. Even after being under estimate in both September and October, year-to-date receipts remained above estimate due to the strong performance in July and August. The variance in year-to-date receipts was \$9.7 million (0.4%). Year-to-date receipts increased \$68.3 million (3.2%) versus FY 2007. The outlook for this tax source remains soft with the continuing deteriorating housing market, rising oil prices and sliding consumer confidence.

## Auto Sales and Use Tax

For the first month in the year, auto sales tax receipts were over estimate. The October variance was \$0.5 million (0.6%) over estimate. While year-to-date receipts remained below estimate by \$20.1 million (5.8%), they were ahead of FY 2007 year-to-date receipts by \$5.3 million (1.6%).

## Personal Income Tax

October concluded with strong personal income tax receipts. Receipts were over estimate by \$33.5 million (4.9%). About two thirds of the positive variance resulted from below estimate refunds. Withholding revenues were over estimate by \$9.9 million. Estimated payments were above estimate by \$7.1 million. Receipts from other components were slightly below estimate.

The strong performance in October increased the positive variance in year-to-date receipts to \$42.0 million. Most of the positive variances resulted from higher than expected withholding revenues; year-to-date withholding revenues were over estimate by \$78.4 million. Trust payments were slightly over estimate by \$1.4 million. All the other components of the tax generated negative year-to-date variances with the largest variances coming from estimated payments and refunds. The following table shows the variances for different components of personal income tax for October and year-to-date.

FY 2008 PERSONAL INCOME TAX RECEIPTS BY COMPONENT (\$ in millions)						
	ESTIMATE OCTOBER	ACTUAL OCTOBER	\$ VAR OCTOBER	ESTIMATE Y-T-D	ACTUAL Y-T-D	\$ VAR Y-T-D
Withholding	\$675.1	\$685.0	\$9.9	\$2,517.3	\$2,595.7	\$78.4
Quarterly Est.	31.0	38.1	7.1	410.0	399.6	(10.4)
Trust Payments	9.2	7.1	(2.1)	15.8	17.2	1.4
Annual Returns & 40 P	71.4	69.4	(2.0)	107.0	106.1	(0.9)
Other	6.9	6.9	(0.0)	28.9	24.2	(4.7)
Less: Refunds	(45.0)	(24.1)	20.9	(107.5)	(128.7)	(21.2)
Local Distr.	(64.3)	(64.5)	(0.2)	(266.0)	(266.7)	(0.7)
Net to GRF	\$684.3	\$717.8	\$33.5	\$2,705.5	\$2,747.5	\$42.0

October receipts were ahead of October 2006 receipts by \$57.9 million (8.8%), and year-to-date receipts were ahead of FY 2007 year-to-date receipts by \$30.0 million (1.1%).

## **Corporate Franchise Tax**

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. Receipts in October were \$11.9 million (44.0%) below estimate. Year-to-date receipts were \$33.2 million (85.2%) below estimate and \$102.6 million (94.7%) below last year's level. About \$30 million of the annual decline was attributed to the one-time settlement payments in July to October 2006.

## **Commercial Activity Tax**

In FY 2008, receipts from this tax source are distributed to non-GRF funds to pay school districts and local governments as the tangible personal property tax is phased out. October receipts stood at \$28.5 million, which were over estimate by \$8.4 million (41.9%). Year-to-date receipts totaled \$245.5 million, which were over estimate by \$8.1 million (3.4%).

## **Cigarette Tax**

Cigarette tax receipts were on target for October with a small positive variance of \$0.5 million (0.6%). Year-to-date receipts continued to be above estimate by \$11.6 million (4.4%). Year-to-date receipts registered an annual decline of \$3.5 million (1.2%).

## **Federal Grants**

Revenue from federal grants was under the estimate by \$181.0 million for the month and \$185.1 million for the year due to timing of the receipt of the revenue associated with the last Medicaid payment of the month. Managed care premiums, which represent the largest area of expense in the Medicaid program, are paid on the last Monday of each month. In October, a system issue delayed the disbursement of these payments until November. As federal revenue cannot be drawn into the state treasury until payment has been made, the revenue associated with the managed care payments, which totaled \$202.2 million, was received on November 2nd. Factoring in this revenue, the federal grants category is over the estimate by \$21.2 million for the month and \$16.3 million for the year.

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

REVENUE SOURCE	Month				Year-to-Date			
	ACTUAL OCTOBER	ESTIMATE OCTOBER	\$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	\$ VAR	% VAR
<b>TAX RECEIPTS</b>								
Non-Auto Sales & Use	544,997	554,700	(9,703)	-1.7%	2,203,764	2,194,100	9,664	0.4%
Auto Sales & Use	82,833	82,300	533	0.6%	329,757	349,900	(20,143)	-5.8%
Subtotal Sales & Use	627,829	637,000	(9,171)	-1.4%	2,533,521	2,544,000	(10,479)	-0.4%
Personal Income	717,811	684,300	33,511	4.9%	2,747,487	2,705,500	41,987	1.6%
Corporate Franchise	15,132	27,000	(11,868)	-44.0%	5,753	39,000	(33,247)	-85.2%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	(922)	(1,700)	778	-45.7%	40,723	43,200	(2,477)	-5.7%
Kilowatt Hour	26,015	25,000	1,015	4.1%	120,400	118,900	1,500	1.3%
Foreign Insurance	127,826	132,100	(4,274)	-3.2%	133,187	138,800	(5,613)	-4.0%
Domestic Insurance	59	0	59	N/A	253	600	(347)	-57.9%
Other Business & Property Tax	139	60	79	131.2%	354	740	(386)	-52.1%
Cigarette	83,213	82,700	513	0.6%	278,036	266,400	11,636	4.4%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,366	4,500	(134)	-3.0%	19,997	19,900	97	0.5%
Liquor Gallonage	2,678	2,800	(122)	-4.3%	11,635	11,700	(65)	-0.6%
Estate	13,073	15,500	(2,427)	-15.7%	16,523	21,800	(5,277)	-24.2%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,617,219	1,609,260	7,959	0.5%	5,907,869	5,910,540	(2,671)	0.0%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	393,545	574,523	(180,977)	-31.5%	1,942,689	2,127,824	(185,134)	-8.7%
Earnings on Investments	37	0	37	N/A	82	46,200	(46,118)	-99.8%
License & Fees	5,181	5,160	21	0.4%	19,334	18,411	923	5.0%
Other Income	3,849	4,800	(951)	-19.8%	15,025	17,794	(2,769)	-15.6%
ISTV'S	1,831	500	1,331	266.3%	2,672	3,910	(1,238)	-31.7%
Total Non-Tax Receipts	404,444	584,983	(180,539)	-30.9%	1,979,803	2,214,139	(234,336)	-10.6%
TOTAL REVENUES	2,021,662	2,194,243	(172,580)	-7.9%	7,887,672	8,124,679	(237,006)	-2.9%
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	12,000	12,000	0	0.0%	64,000	61,000	3,000	4.9%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	40,007	46,060	(6,053)	-13.1%	55,677	62,320	(6,643)	-10.7%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	52,007	58,060	(6,053)	-10.4%	119,677	123,320	(3,643)	-3.0%
TOTAL SOURCES	2,073,669	2,252,303	(178,633)	-7.9%	8,007,349	8,247,999	(240,649)	-2.9%

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

Table 2\*

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

	Month				Year-to-Date			
	ACTUAL 2008	ACTUAL 2007	\$ VAR	% VAR	ACTUAL 2008	ACTUAL 2007	\$ VAR	% VAR
<b>REVENUE SOURCE</b>								
<b>TAX RECEIPTS</b>								
Non-Auto Sales & Use	544,997	546,533	(1,536)	-0.3%	2,203,764	2,135,475	68,289	3.2%
Auto Sales & Use	82,833	71,248	11,584	16.3%	329,757	324,419	5,338	1.6%
Subtotal Sales & Use	627,829	617,782	10,048	1.6%	2,533,521	2,459,895	73,626	3.0%
Personal Income	717,811	659,870	57,940	8.8%	2,747,487	2,717,532	29,955	1.1%
Corporate Franchise	15,132	51,922	(36,789)	-70.9%	5,753	108,313	(102,560)	-94.7%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	(922)	2,115	(3,037)	-143.6%	40,723	47,176	(6,452)	-13.7%
Kilowatt Hour	26,015	23,570	2,444	10.4%	120,400	117,366	3,035	2.6%
Foreign Insurance	127,826	124,185	3,641	2.9%	133,187	131,045	2,141	1.6%
Domestic Insurance	59	0	59	N/A	253	235	17	7.4%
Other Business & Property Tax	139	140	(2)	-1.2%	354	507	(153)	-30.1%
Cigarette	83,213	85,897	(2,684)	-3.1%	278,036	281,544	(3,509)	-1.2%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,366	4,270	96	2.3%	19,997	19,972	25	0.1%
Liquor Gallonage	2,678	2,818	(140)	-5.0%	11,635	11,453	181	1.6%
Estate	13,073	18,646	(5,573)	N/A	16,523	23,408	(6,884)	-29.4%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,617,219	1,591,215	26,004	1.6%	5,907,869	5,918,446	(10,577)	-0.2%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	393,545	356,093	37,452	10.5%	1,942,689	1,740,030	202,659	11.6%
Earnings on Investments	37	(93)	130	-140.0%	82	50,157	(50,074)	-99.8%
License & Fee	5,181	5,046	135	2.7%	19,334	18,679	655	3.5%
Other Income	3,849	3,809	41	1.1%	15,025	21,025	(6,000)	-28.5%
ISTV'S	1,831	1,248	583	46.7%	2,672	4,646	(1,974)	-42.5%
Total Non-Tax Receipts	404,444	366,103	38,340	10.5%	1,979,803	1,834,537	145,266	7.9%
TOTAL REVENUES	2,021,662	1,957,318	64,344	3.3%	7,887,672	7,752,983	134,689	1.7%
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	12,000	12,000	0	0.0%	64,000	47,000	17,000	36.2%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	40,007	0	40,007	N/A	55,677	43,337	12,340	28.5%
Temporary Transfers In	0	0	0	N/A	0	5,380	(5,380)	N/A
Total Transfers	52,007	12,000	40,007	333.4%	119,677	95,716	23,960	25.0%
TOTAL SOURCES	2,073,669	1,969,318	104,351	5.3%	8,007,349	7,848,699	158,650	2.0%

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

## **DISBURSEMENTS**

In October, GRF disbursements, including pending payroll and transfers out of the GRF, totaled \$3,009.9 million, which was \$273.2 million (10.0%) above the estimate. For the year to date, GRF disbursements totaled \$10,200.2 million, which was \$117.7 million (1.2%) over the estimate. Adjusting for transfers out of the GRF, year-to-date expenditures were up 7.8% compared to last year.

As a result of the OAKS Financials implementation, there have been inevitable transaction coding issues to resolve in order to have payroll, vouchers and other state expenses post correctly against FY 2007 encumbrances and FY 2008 appropriations. The General Ledger remains open for October while state agencies continue to work to resolve a dwindling number of payroll coding issues. As a result, expenses from October – most notably, GRF payroll – will still post to the month once correctly coded. Thus, GRF disbursements for October will continue to be updated as additional expenses post and will not be final until all ledgers are closed.

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

October disbursements in Primary, Secondary, and Other Education were \$858.4 million, which was \$257.1 million (42.7%) more than estimated. For the fiscal year to date, however, disbursements were more in line with expectations at \$2,563.0 million, which was \$119.1 million (4.9%) above the estimate.

- The Department of Education foundation funding line items were over estimate by \$315.2 million (53.6%) for the month, which was attributed to three foundation payments posting to October instead of two. The first of two November payments posted in October as a result of accrued accounting practices in the OAKS system. Two foundation payments will reflect a November accounting date, resulting in only one payment with a December accounting date. Therefore, December disbursements will be much lower than estimated.
- October GRF disbursements for the eTech Ohio Commission were \$2.7 million, representing a variance of \$2.2 million (44.6%) below the estimate for the month. Year-to-date disbursements were \$8.7 million, representing a variance totaling \$3.8 million (30.2%) below the estimate. It is anticipated that under spending in both of these line items will be offset by increased spending in future months.

### **Higher Education**

October disbursements for Higher Education were \$199.5 million, representing a variance of \$10.8 million (5.1%) below the estimate for the month. Year-to-date disbursements were \$796.1 million, representing a variance totaling \$19.3 million (2.4%) below the estimate. Disbursements for the Economic Growth Challenge and the Ohio College Opportunity Grant were \$6.8 million more than estimated for the month due to delayed processing by the Board of Regents. This variance was countered by Choose Ohio First scholarship, Ohio Instructional

Grant, and Student Choice Grant distributions for the month that were \$20.3 million less than estimated. Ohio Instructional Grant disbursements have been lower than expected due to a new review process implemented by the Board of Regents, while Student Choice Grant payment requests from campuses are running lower than expected based on last fiscal year's history.

### **Public Assistance and Medicaid**

The factors described below that are driving this month's higher than estimated spending, and the likelihood that they will continue, have increased concerns about the Medicaid budget for the remainder of the biennium. October disbursements for Public Assistance and Medicaid were \$1,107.8 million, representing a variance of \$34.6 million (3.2%) above the estimate for the month. Year-to-date disbursements were \$3,931.9 million, representing a variance of \$12.6 million (0.3%) above the estimate. Medicaid disbursements, the largest item in this category, totaled \$983.2 million for the month of October, which was over the estimate by \$33.8 million (3.6%). Year-to-date Medicaid disbursements totaled \$3,618.8 million, \$30.0 million (0.9%) above the estimate.

- For three consecutive months Medicaid caseloads have exceeded the estimate. Currently there are 15,000 more recipients in the Covered Children and Families (CFC) population than expected with enrollment in the Healthy Families and Children in Care categories driving this increase. CFC caseloads peaked in August 2006 and declined steadily through June 2007. This decline has been attributed to increased citizenship requirements under the federal Deficit Reduction Act (DRA) of 2005. The forecast for FY 2008 and FY 2009 assumed that caseloads would increase; however, it now appears that the increase may be steeper than anticipated. The Healthy Families category includes children and their parents with incomes up to 90% of the federal poverty limit. Enrollment increases in this category may be due to economic factors or successful outreach to eligible families who had not previously sought Medicaid coverage. At the end of the first quarter Aged, Blind, and Disabled (ABD) caseloads have exceeded the estimate by 3,500 recipients. It is important to note that while this increase is small, this is the most expensive population group in the Medicaid program and is driving spending above the estimate in many categories of service (ABD per member per month costs average \$1,328 and CFC per member per month costs average \$217).
- Spending in the inpatient and outpatient hospital category of service has exceeded the estimate for the year-to-date by \$100 million due to three factors. First, in June 2007 changes to the National Provider Identifier (NPI) caused a number of inpatient and outpatient hospital claims to be automatically rejected due to compliance issues. These claims, totaling \$35.1 million, were budgeted for in FY 2007 but paid in July 2007 instead, causing a one-time increase in FY 2008 spending. Second, slower-than-expected enrollment into ABD managed care in the North East Central region is leading to increased fee for service expenses, particularly in this category. Note that under spending in the ABD managed care category partially offsets this increase. Finally, higher-than-expected caseloads, particularly in the ABD eligibility category, have increased spending in this category.

For October, JFS non-Medicaid disbursements totaled \$124.6 million, producing a variance of \$0.7 million (0.6%) above the estimate. Higher-than-estimated spending for October is primarily found in the Computer Projects, Entitlement Administration-Local, and Children and Families Subsidy line items. Higher-than-expected spending in these line items is due to timing. Spending in Computer Projects was above the estimate due to the timing of billings from the Office of Information Technology. Variances in the Entitlement Administration-Local and Children and Families Subsidy line items were largely due to the timing of payments to counties.

## **Health and Human Services**

October 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 \$99.6 million, which was \$44.2 million (30.7%) under estimate. For the fiscal year, disbursements totaled \$436.9 million, which represents a variance totaling \$52.8 million (10.8%) below estimate.

- The Department of Mental Health disbursed \$34.8 million in the month of October, which was \$26.9 million (43%) under estimate. Approximately \$15.0 million of this variance is due to payroll that has not posted. The remaining variances are due to the timing of payments to county boards.
- The Department of Mental Retardation and Developmental Disabilities disbursed \$36.3 million in the month of October, which was \$10.3 million (22%) below estimate. Year-to-date GRF spending totaled \$109.0 million, which is \$30.0 million (22%) below estimate. This variance is primarily due to GRF payroll that has not posted.
- The Department of Health disbursed \$10.3 million in the month of October, which was \$2.2 million (26.7%) more than estimates. This variance is largely due to subsidy payments with the Help Me Grow program that were originally planned to be disbursed in August. This delay was caused by a change in the submittal date for the subsidy agreements. Year-to-date spending totaled \$24.6 million, which is \$4.3 million (14.9%) less than projections.

## **Justice and Public Protection**

October disbursements in this category totaled \$93.0 million, which produced a variance of \$83.9 million (47.4%) below estimate. For the fiscal year, disbursements totaled \$721.5 million, which produced a similar variance of \$75.9 million (9.5%) below estimate.

- Personnel costs at the state's institutions make up the largest portion of their budgets as facilities must be staffed 24 hours a day, seven days a week. GRF payroll that will post as first-quarter disbursements totals roughly \$308.7 million for the Departments of Rehabilitation and Correction (DRC) and Youth Services (DYS). With first-quarter payroll now posted, much of the under spending shown for these agencies in previous months has

been eliminated. When considering pending payroll expenditures together with posted disbursements, the agencies combined are within 1.1% of estimates for the fiscal year. DRC spending in Institution Medical Services slowed in October, bringing the year-to-date positive variance to \$12.9 million (15.6%), down from \$13.3 million (21.0%) in September. This was expected, as drug purchases made before a price increase have now been completed. DYS had a negative variance of \$2.4 million in October (13.8%). It resulted from slower than expected payments to counties in the RECLAIM Ohio line.

## **Tax Relief and Other**

October disbursements in the Tax Relief and Other category totaled \$128.4 million, producing a variance of \$19.4 million (17.8%) above the estimate. For the fiscal year, disbursements were \$475.5 million, which was \$41.8 million (9.6%) 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 October, year-to-date tax relief payments to local governments were \$8.1 million (5.3%) above estimate. This variance is almost entirely attributed to \$131.2 million in spending in September that was \$50.2 million (61.9%) above the monthly estimate. As stated in the 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. Spending for this purpose during the month of October was \$20.5 million or \$18.6 million (50%) below the estimate of \$37.2 million.
- In October, reimbursements to school districts exceeded the estimate by \$34.3 million, and the corresponding year-to-date variance is \$33.6 million (12.5%) over estimate. The monthly and yearly variance is attributed to school districts requesting reimbursements sooner than expected and should be offset in November and/or December.

**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	\$	%
	OCTOBER	OCTOBER	VAR	VAR	PRELIMINARY	ESTIMATE	VAR	VAR
Primary, Secondary and Other Education	858,371	601,317	257,053	42.7%	2,563,029	2,443,959	119,070	4.9%
Higher Education	199,468	210,274	(10,806)	-5.1%	796,118	815,456	(19,337)	-2.4%
Public Assistance and Medicaid	1,107,802	1,073,233	34,569	3.2%	3,931,907	3,919,331	12,577	0.3%
Health and Human Services	99,607	143,770	(44,163)	-30.7%	436,875	489,657	(52,782)	-10.8%
Justice and Public Protection	92,995	176,885	(83,890)	-47.4%	721,491	797,380	(75,890)	-9.5%
Environmental Protection and Natural Resources	2,892	7,275	(4,383)	-60.2%	31,910	37,409	(5,499)	-14.7%
Transportation	1,284	5,534	(4,250)	-76.8%	5,564	10,552	(4,988)	-47.3%
General Government	6,259	19,310	(13,052)	-67.6%	151,944	174,446	(22,502)	-12.9%
Community and Economic Development	7,486	10,398	(2,912)	-28.0%	56,115	65,148	(9,033)	-13.9%
Tax Relief and Other	128,375	108,955	19,420	17.8%	475,478	433,718	41,760	9.6%
Capital Outlay	0	150	(150)	-100.0%	6	471	(465)	-98.8%
Debt Service	46,572	46,580	(8)	0.0%	283,008	282,880	129	0.0%
Pending Payroll	145,406	0	145,406	N/A	145,406	0	145,406	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>2,696,517</b>	<b>2,403,680</b>	<b>292,836</b>	<b>12.2%</b>	<b>9,598,853</b>	<b>9,470,406</b>	<b>128,447</b>	<b>1.4%</b>
<b>Transfers Out:</b>								
OPER TRF OUT-OTH	0	0	0	N/A	154,773	145,278	9,495	6.5%
OPER TRF OUT-TEMPORARY	313,379	333,000	(19,621)	-5.9%	446,551	466,800	(20,249)	-4.3%
<b>Total Transfers (Out)</b>	<b>313,379</b>	<b>333,000</b>	<b>(19,621)</b>	<b>N/A</b>	<b>601,324</b>	<b>612,078</b>	<b>(10,754)</b>	<b>-1.8%</b>
<b>Total Fund Uses</b>	<b>3,009,895</b>	<b>2,736,680</b>	<b>273,215</b>	<b>10.0%</b>	<b>10,200,177</b>	<b>10,082,485</b>	<b>117,692</b>	<b>1.2%</b>

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

**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	858,371	593,671	264,699	44.6%	2,563,029	2,386,991	176,038	7.4%
Higher Education	199,468	199,052	415	0.2%	796,118	735,160	60,958	8.3%
Public Assistance and Medicaid	1,107,802	930,357	177,445	19.1%	3,931,907	3,575,658	356,250	10.0%
Health and Human Services	99,607	143,811	(44,205)	-30.7%	436,875	479,643	(42,768)	-8.9%
Justice and Public Protection	92,995	169,148	(76,152)	-45.0%	721,491	777,199	(55,708)	-7.2%
Environmental Protection and Natural Resources	2,892	5,300	(2,408)	-45.4%	31,910	33,014	(1,104)	-3.3%
Transportation	1,284	4,387	(3,103)	-70.7%	5,564	8,507	(2,942)	-34.6%
General Government	6,259	18,325	(12,066)	-65.8%	151,944	160,689	(8,745)	-5.4%
Community and Economic Development	7,486	7,851	(365)	-4.6%	56,115	66,768	(10,653)	-16.0%
Tax Relief and Other	128,375	64,673	63,702	98.5%	475,478	428,283	47,195	11.0%
Capital Outlay	0	10	(10)	-100.0%	6	60	(54)	-90.4%
Debt Service	46,572	36,400	10,172	27.9%	283,008	252,328	30,681	12.2%
Pending Payroll	145,406	0	145,406	N/A	145,406	0	145,406	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>2,696,517</b>	<b>2,172,985</b>	<b>523,531</b>	<b>24.1%</b>	<b>9,598,853</b>	<b>8,904,298</b>	<b>694,555</b>	<b>7.8%</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	3,780	(3,780)	N/A	154,773	9,414	145,359	1544.1%
OPER TRF OUT-TEMPORARY	313,379	210,066	103,312	49.2%	446,551	287,414	159,138	55.4%
<b>Total Transfers (Out)</b>	<b>313,379</b>	<b>213,846</b>	<b>99,532</b>	<b>N/A</b>	<b>601,324</b>	<b>690,862</b>	<b>(89,538)</b>	<b>-13.0%</b>
<b>Total Fund Uses</b>	<b>3,009,895</b>	<b>2,386,832</b>	<b>623,063</b>	<b>26.1%</b>	<b>10,200,177</b>	<b>9,595,160</b>	<b>605,017</b>	<b>6.3%</b>

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

### **FUND BALANCE**

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

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

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

### **SPECIAL NOTE**

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

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

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

## Appendix

Since the publication of the October Governor's Monthly report, the general ledgers for the months of July, August and September have been closed. As stated in this report, preliminary disbursement data would be updated once final amounts were available. Final data for each month is included in this section.

### **July**

Final GRF disbursements for July totaled \$2,423.3 million, which was \$1.8 million less than the estimate for the month and \$50.9 million less than the preliminary data for July. The preliminary data included \$237.5 million in pending payroll, much of which did not end up posting against the GRF. When OAKS went live in July, all payroll errors defaulted to the GRF, which led to the GRF obligation being overstated. Since the system went live, default codes have been changed to a valid non-GRF fund for each agency and invalid payroll codes have been corrected, which has helped reduce the variances between preliminary and final disbursements going forward.

### **August**

Final GRF disbursements for August totaled \$2,412.0 million, which was \$3.1 million more than the preliminary data. The allocation of pending payroll to the correct account explains most of the variance between the preliminary and final data. The categories with the largest changes are Health and Human Services and Justice and Public Protection. The largest agencies in these categories are the state's institutional agencies, which have significant payroll costs as they operate facilities 24 hours a day seven days a week.

Final disbursements exceeded the estimate for the month by \$184.6 million. Spending in the Department of Education's foundation payments line items were over the estimate by \$270.4 million for the month as three foundation payments posted in August instead of two. As noted in the August Monthly report, due to the move to a modified accrual basis of accounting and the resulting change in when disbursements are reported by the system, the first of two September foundation payments was posted in August.

### **September**

Final GRF disbursements for September totaled \$2,067.0 million, which was \$62.5 million less than the preliminary data. As stated in previous months, the posting of pending payroll accounted for much of the variances between the preliminary and final data. A notable exception is a variance of \$55.5 million from the preliminary to the final data in the category of Primary, Secondary, and Other Education. This change is the result of the GRF assuming the portion of obligation in the absence of the posted lottery journal for September, which posted in the beginning of October.

Final disbursements trailed the estimate by \$347.2 million. The under spending in September is in large part due to a \$402.2 million (61.0%) negative variance in Primary, Secondary, and Other Education caused by the September foundation payment posting in August. After November, there should not be any additional variances in foundation payments attributed to the State's movement to modified accrual accounting.

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

Functional Reporting Categories Description				Preliminary Actual vs Final Actual		Estimate VS Final Actual	
	JULY	JULY	JULY	\$	%	\$	%
	Estimate	Preliminary	Final Actual	VAR	VAR	VAR	VAR
Primary, Secondary and Other Education	635,184	612,673	605,519	(7,154)	-1.2%	(29,665)	-4.7%
Higher Education	202,298	259,810	247,222	(12,589)	-4.8%	44,923	22.2%
Public Assistance and Medicaid	1,019,923	998,310	1,006,315	8,005	0.8%	(13,608)	-1.3%
Health and Human Services	130,605	108,499	139,218	30,719	28.3%	8,613	6.6%
Justice and Public Protection	274,539	122,819	260,500	137,681	112.1%	(14,039)	-5.1%
Environmental Protection and Natural Resources	15,105	6,770	14,949	8,180	120.8%	(156)	-1.0%
Transportation	711	479	675	196	40.9%	(36)	-5.1%
General Government	29,247	11,245	30,705	19,460	173.1%	1,458	5.0%
Community and Economic Development	2,879	1,901	4,004	2,103	110.7%	1,125	39.1%
Tax Relief and Other	1,490	1,000	1,043	43	4.3%	(446)	-30.0%
Capital Outlay	21	0	0	0	N/A	(21)	-100.0%
Debt Service	113,139	113,162	113,162	0	0.0%	23	0.0%
Pending Payroll	0	237,500	0	(237,500)	N/A	0	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>2,425,141</b>	<b>2,474,167</b>	<b>2,423,312</b>	<b>(50,855)</b>	<b>-2.1%</b>	<b>(1,829)</b>	<b>-0.1%</b>

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

Functional Reporting Categories Description				Preliminary Actual vs Final Actual		Estimate VS Final Actual	
	AUGUST	AUGUST	AUGUST	\$	%	\$	%
	Estimate	Preliminary	Final Actual	VAR	VAR	VAR	VAR
Primary, Secondary and Other Education	548,598	838,189	842,471	4,282	0.5%	293,873	53.6%
Higher Education	227,900	177,170	177,692	523	0.3%	(50,208)	-22.0%
Public Assistance and Medicaid	998,513	947,428	958,634	11,206	1.2%	(39,879)	-4.0%
Health and Human Services	138,212	94,042	124,341	30,299	32.2%	(13,871)	-10.0%
Justice and Public Protection	145,446	51,325	142,428	91,103	177.5%	(3,017)	-2.1%
Environmental Protection and Natural Resources	7,793	214	5,648	5,434	2542.3%	(2,145)	-27.5%
Transportation	2,130	2,463	2,590	127	5.2%	460	21.6%
General Government	32,305	16,288	28,457	12,170	74.7%	(3,848)	-11.9%
Community and Economic Development	9,944	7,524	9,485	1,961	26.1%	(458)	-4.6%
Tax Relief and Other	87,510	91,417	91,417	(0)	0.0%	3,907	4.5%
Capital Outlay	150	0	0	0	N/A	(150)	-100.0%
Debt Service	28,848	28,825	28,825	(0)	0.0%	(23)	-0.1%
Pending Payroll	0	154,000	0	(154,000)	N/A	0	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>2,227,348</b>	<b>2,408,884</b>	<b>2,411,989</b>	<b>3,105</b>	<b>0.1%</b>	<b>184,642</b>	<b>8.3%</b>

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

Functional Reporting Categories Description				Preliminary Actual vs Final Actual		Estimate VS Final Actual	
	SEPTEMBER	SEPTEMBER	SEPTEMBER	\$	%	\$	%
	Estimate	Preliminary	Final Actual	VAR	VAR	VAR	VAR
Primary, Secondary and Other Education	658,860	312,166	256,668	(55,498)	-17.8%	(402,192)	-61.0%
Higher Education	174,984	170,779	171,736	958	0.6%	(3,247)	-1.9%
Public Assistance and Medicaid	827,662	850,461	859,157	8,695	1.0%	31,494	3.8%
Health and Human Services	77,070	44,072	73,710	29,638	67.2%	(3,360)	-4.4%
Justice and Public Protection	200,511	137,066	225,567	88,501	64.6%	25,056	12.5%
Environmental Protection and Natural Resources	7,236	3,259	8,420	5,161	158.4%	1,184	16.4%
Transportation	2,177	873	1,014	142	16.2%	(1,162)	-53.4%
General Government	93,584	77,142	86,523	9,381	12.2%	(7,061)	-7.5%
Community and Economic Development	41,927	33,244	35,140	1,896	5.7%	(6,787)	-16.2%
Tax Relief and Other	235,792	254,644	254,644	0	0.0%	18,851	8.0%
Capital Outlay	150	6	6	0	N/A	(144)	-96.2%
Debt Service	94,312	94,449	94,449	0	0.0%	137	0.1%
Pending Payroll	0	151,350	0	(151,350)	N/A	0	N/A
<b>Total Expenditures &amp; ISTV's</b>	<b>2,414,266</b>	<b>2,129,512</b>	<b>2,067,035</b>	<b>(62,477)</b>	<b>-2.9%</b>	<b>(347,231)</b>	<b>-14.4%</b>