OBM

Ted Strickland
Governor

J. Pari Sabety
Director

March 10, 2008

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

FROM: J. Pari Sabety, Director

SUBJECT: Monthly Financial Report

ECONOMIC SUMMARY

The economy continued to deteriorate in February. Forecasters, including the Federal Reserve, lowered projections for real GDP growth further. Evidence of impending recession continued to accumulate, with the Leading Economic Index signaling that the economy is following the typical path toward recession. Growth in real personal income and consumer spending has weakened significantly. Labor markets have weakened, with total employment falling in two consecutive months for the first time since June 2003. Ohio employment fared much better than previously reported in 2007, and the number of jobs increased substantially in January.

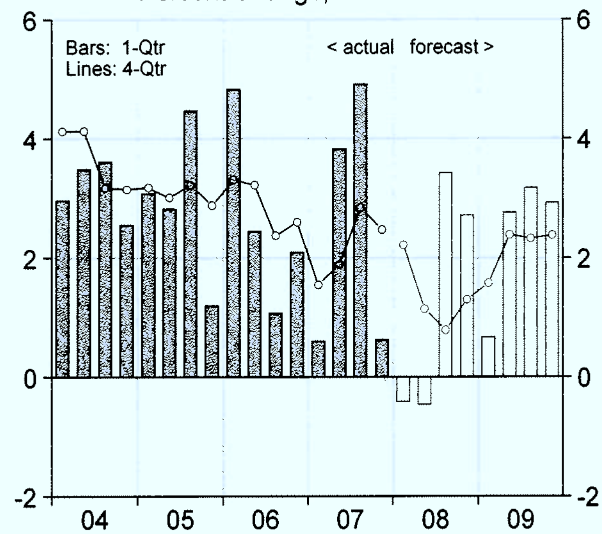
Highlights of Economic Performance

- In a key development, real gross domestic purchases fell 0.3% – the first decline since the 2001 recession.
- The Small Business Optimism Index of the National Federation of Independent Business fell sharply in January to the lowest level since January 1991.
- Global Insight predicts that real GDP will contract at an annual rate of approximately 0.5% in each of the first two quarters of 2008 before rebounding at about a 3.0% pace in the second half.
- U.S. employment decreased by 63,000 jobs in February – the largest monthly drop since March 2003 and the second monthly decline in a row.
- The Conference Board Consumer Confidence Index fell sharply in February to the lowest level, other than on the eve of the Iraq War, since November 1993.
- The PMI index fell to a five-year low, just below the December reading.

Economic Growth

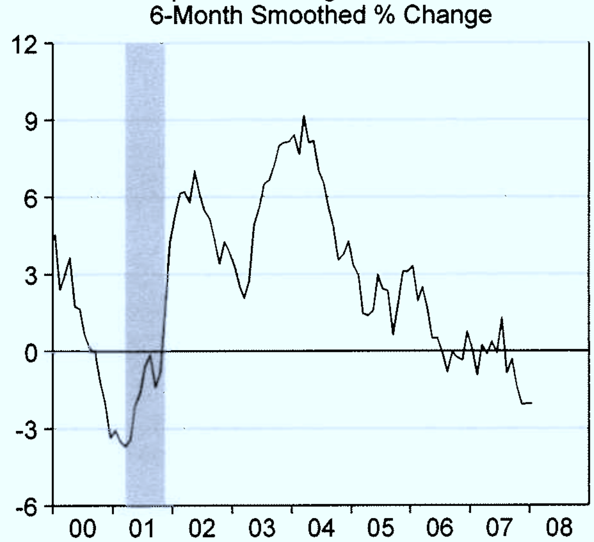
Real GDP expanded by 0.6% annualized in the fourth quarter – unchanged from the initial estimate released at the end of January. Growth was revised lower for all major categories of domestic spending, however, painting a slightly more negative picture of activity during the quarter. In addition, the change in imports was revised from 0.3% to -1.9%, reflecting weak demand. Growth in exports was revised higher to 4.8%.

In a key development, real gross domestic purchases fell 0.3% – the first decline since the 2001 recession. Domestic purchases represent spending by U.S. individuals and businesses on goods and services, wherever produced, and have declined on a quarter-to-quarter basis in the past only as the economy has been in or headed into a recession. The decline in the fourth quarter was slight, but bears watching.



Source: Global Insight

The decline in business inventories during the quarter was larger than originally reported, which could reduce the need for future production and employment cutbacks. However, the moderate level of inventories relative to sales at the outset of the 2001 recession did not prevent that downturn. At best, the relatively low level of inventories means that economic difficulties will not be compounded by an inventory overhang this year.



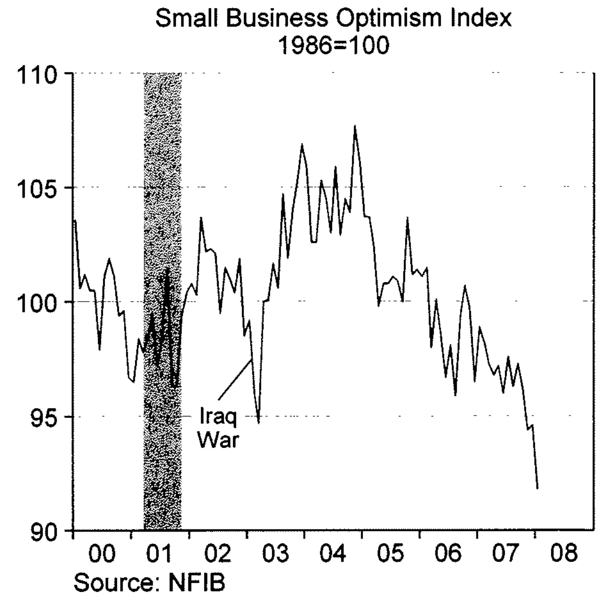
Source: Conference Board

The Conference Board's composite index of leading indicators decreased slightly in January – the fourth monthly setback in a row and the fifth in six months. The index is down 2.1% on a six-month smoothed rate of change basis – the weakest since the approach of the 2001 recession.

The reconstitution (actually, several) of the old Bureau of Economic Analysis composite leading economic index since it was taken over by the Conference Board raises some question about its reliability. Nonetheless, the recent pattern is at least consistent with the notion that the economy is headed for recession. In addition, the weekly leading index from the Economic Cycle Research Institute has deteriorated recently, taking the rate of change to a level not seen since the 2001 recession and, before that, the 1990-91 recession.

Small businesses, which produce roughly half of private GDP, are feeling the pinch, too. The Small Business Optimism Index of the National Federation of Independent Business fell sharply in January to the lowest level since January 1991. Expectations were a key factor behind the decline, as a net -22% of respondents expect business conditions to improve over the next six months, down by 12 percentage points from December.

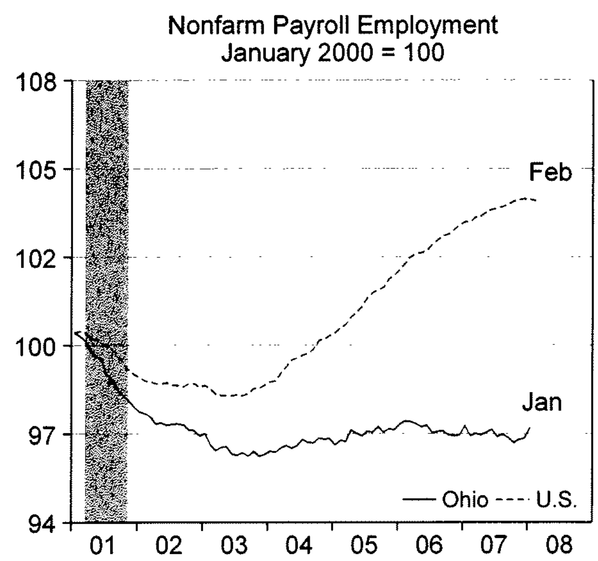
Economic forecasters have revised growth predictions downward. Not all forecasters expect recession, but the number of those who do has increased. Global Insight predicts that real GDP will contract at an annual rate of approximately 0.5% in each of the first two quarters of 2008 before rebounding at about a 3.0% pace in the second half.



The Federal Reserve lowered its forecast of real GDP growth for the year to a range of 1.3% to 2.0% from fourth-quarter 2007 through fourth-quarter 2008. Officials indicated in late February that monetary policy is focused on addressing downside risks to economic growth, not the recent run-up in inflation. The comments of Fed Chairman Bernanke and Vice Chairman Kohn reinforced market expectations for substantial further reductions in the federal funds rate target. The Fed is expected to reduce its interest rate target from the current level of 3.0% to 2.0% by mid-year and possibly lower if the economy deteriorates more than anticipated.

Employment

U.S. employment decreased by 63,000 jobs in February – the largest monthly drop since March 2003 and the second monthly decline in a row. Employment fell by 20,000 jobs in January. Declines were widespread across sectors, with manufacturing falling 52,000, construction down 39,000, and retail trade down 34,000. Private sector employment fell by 101,000 jobs after falling by 14,000 in December and 26,000 in January. Private sector employment has fallen in three consecutive months only during or immediately following recessions with exception of two brief instances in the early 1950s.



Note: Ohio employment prior to 2006 do not reflect annual benchmark revision.

The length of the workweek was unchanged in February, but still well off the peak reached last year. Total hours worked are on track to fall by approximately 1.5% from the fourth quarter to the first quarter, making a decline in real GDP likely. Average hourly earnings increased 0.3% from January and 3.7% from February 2007, down from the peak for this cycle of 4.3% in December 2006.

Employment levels in and around Ohio were largely unchanged in February, according to the Federal Reserve Bank of Cleveland. Payrolls at a number of national banks and trucking companies declined. Staffing firms reported a modest increase in the number of job openings with little change in the number of job seekers.

Initial jobless claims jumped back into recession territory at the end of February. The increase resolved uncertainty about recent fluctuations that were caused in part by the difficulty in adjusting for regular seasonal variations. The four-week average of initial claims has increased to 360,000 workers, approximately the level reached at the beginning of previous recessions. The number of continuing claims increased by 12.6% from the end of September to late February.

The unemployment rate, which had signaled recession with its rise to 5.0% in December, edged down to 4.9% in January and 4.8% in February. Both declines, however, resulted from withdrawals from the labor force, apparently as discouraged job seekers stopped looking for work. The labor force decreased by 42,000 people in January and 450,000 people in February.

Ohio employment increased by 18,900 jobs in January, more than erasing a decrease of 5,600 jobs from December 2006 to December 2007. The decrease during 2007 was revised up from the previously reported decline of 15,300 jobs. Employment increased during the twelve months ending in January in educational and health services (+17,600), trade, transportation and utilities (+5,100), and professional and business services (+3,600). Employment levels decreased in manufacturing (-14,900), leisure and hospitality (-5,400), construction (-4,200), and financial activities (-3,300). Employment in mining and government was little changed on the year.

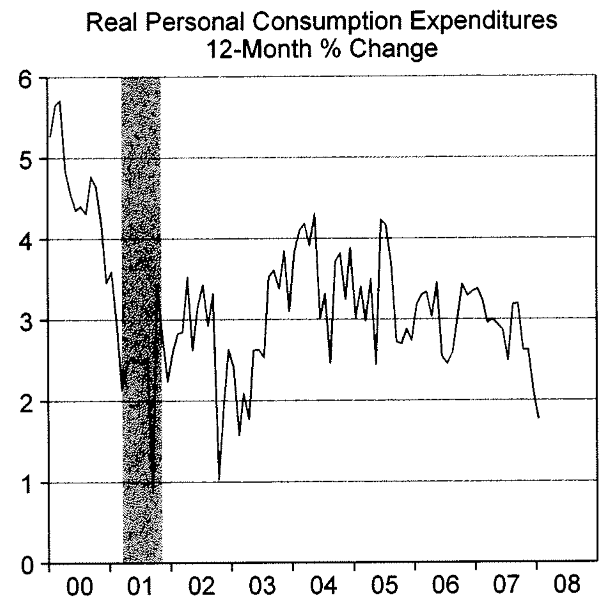
The **Ohio Metropolitan Statistical Areas** that made the largest contributions to statewide employment growth during the past year are Columbus (+10,600), Cincinnati-Middletown (+7,200), and Akron (+1,300). The MSAs that subtracted the most from Ohio employment were Cleveland (-3,100), Youngstown-Warren-Boardman (-1,600), Toledo (-1,100), and Springfield (-1,000).

Pennsylvania, West Virginia, and Kentucky led the way in employment growth among **contiguous states** during the twelve months ending in December with gains of 0.7%, 0.4%, and 0.3%, respectively. Employment in Michigan decreased 1.8% from a year ago. Ohio employment fell a revised 0.1%. In comparison, U.S. employment increased 0.7% during the twelve months ending in January.

Consumer Income and Consumption

Personal income and consumption have begun to show the effects of a half-year of financial strain. **Disposable personal income** increased 0.4% in January, but the year-over-year gain of 5.0% was down from 6.3% last March. Year-over-year growth in wage and salary disbursements fell to 4.1% in January from 6.5% last May. Personal consumption expenditures also rose 0.4%, but the year-over-year gain of 5.5% was down from a peak of 6.3% in September.

After adjusting for inflation, disposable income edged up only 0.1% for the second straight month, and the year-over-year gain fell to 1.2% from a peak of 4.0% in August. **Real consumer spending** was unchanged for the second consecutive month in January, and the year-over-year growth rate slipped to 1.8% from 3.2% in September.



Retail sales managed a 0.3% rise in January, led by strong gains at clothing stores, gasoline stations and in health and personal care. Motor vehicles and parts, food and beverages, and general merchandise also increased. Housing-related and highly discretionary categories were weak, led by declines in furniture, electronics and sporting goods.

Consumer confidence deteriorated in February, as assessments of both current and future conditions worsened. The Conference Board Consumer Confidence Index fell sharply in February to the lowest level, other than on the eve of the Iraq War, since November 1993. Respondents saying jobs were plentiful decreased to 20.6% in February from 23.8% in January. Those saying jobs were hard to get increased.

The Reuters/University of Michigan Index of Consumer Sentiment decreased 11.2% in early February to its lowest level since February 1992. The assessment of current conditions and expectations also fell sharply, also to long-time lows. Recent readings on consumer confidence are highly unlikely to have occurred during an economic expansion.

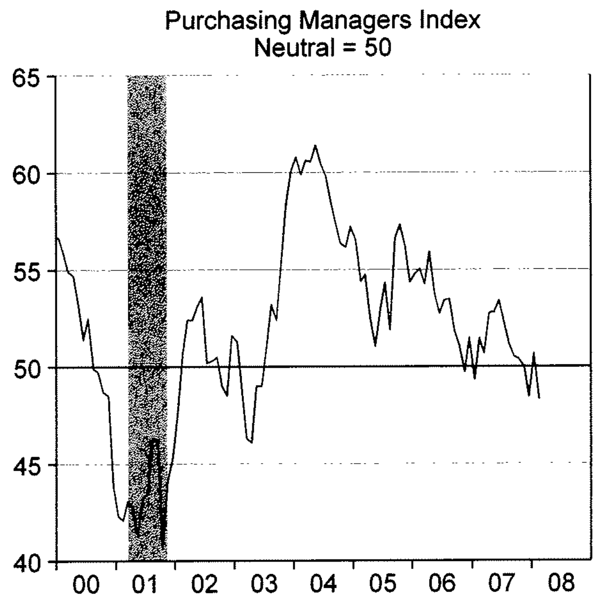
Manufacturing

Industrial production inched up by 0.1% for the second straight month in January. Manufacturing output was unchanged and remained below its July peak. December growth was revised higher, but weakness was pervasive in January, with few industries outside of computers and petroleum posting higher production. Motor vehicle assemblies fell to the lowest level in almost a decade during February. Compared with a year earlier, industrial production was up by 2.0% in January, about in line with readings during the past year.

Factory shipments decreased 2.5% in January, as a decrease of 5.1% in new orders for durable goods more than offset a modest increase in orders for nondurable goods. Orders for nondefense capital goods, excluding aircraft fell 1.5%, retracing part of a large December gain.

After temporarily stabilizing in January, conditions in the manufacturing sector weakened in February, according to purchasing managers surveyed by the Institute for Supply Management. The **PMI index** fell to a five-year low, just below the December reading. Most of the components of the index either weakened or remained below the neutral level. The two exceptions were prices paid and exports, both of which remained high.

Regional surveys of manufacturing activity were also weak in February. The **Chicago PMI** declined sharply to its lowest level since December 2001. The **Philadelphia Fed** manufacturing index fell to its lowest level since the beginning of the 2001 recession and the future general activity index fell to its lowest level since 1990. The **Empire State** Manufacturing Survey found the weakest general business conditions in New York since 2003. In and around Ohio, manufacturing production has been flat during the last six months, according to the **Cleveland Fed**, and manufacturers are cautious regarding the outlook.



Construction

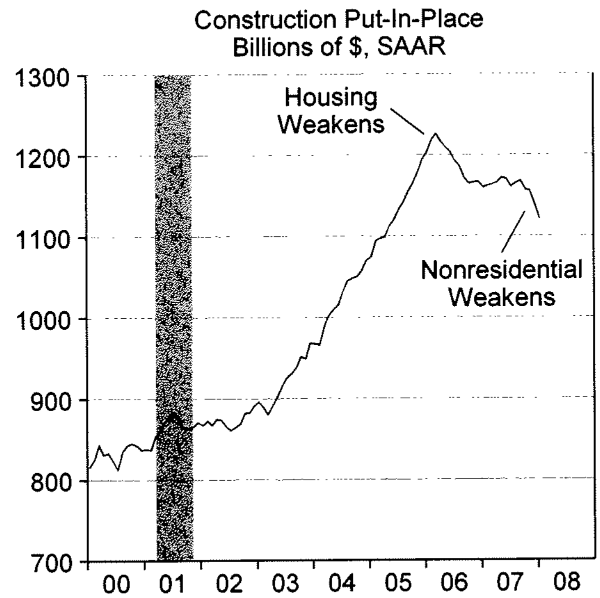
Construction put-in-place fell 1.7% in January – the fourth consecutive monthly decline. Residential construction posted its twenty-third consecutive monthly decline, contracting by 2.9%. Adding to the weakness, nonresidential construction fell for the second straight month for the first time in almost four years. In addition, commercial billings at architectural firms were down by 14% in January from the recent peak last summer, according to the American Institute of Architects

As mentioned in the January report, nonresidential construction historically has followed developments in the residential sector with a lag of twelve to eighteen months. The weakness that has gripped residential construction for the past two years finally appears to have arrived at the doorstep of the nonresidential sector. If nonresidential construction activity continues to decrease, high-wage jobs will be at risk with negative potential for consumer spending.

Sales of both new and existing homes decreased in January and on a three-month moving average basis. Compared with a year earlier, sales of new homes during the three months ending in January were down 37.1% across the country and 53.7% in the Midwest. Sales of existing homes were down 21.9% in the U.S. and 19.3% in the Midwest on the same basis.

Home sales will likely fall further before conditions stabilize. Home prices decreased further in the fourth quarter. OFHEO reported a decline of 1.3%. The S&P/Case-Shiller National Home Price Index fell 5.4%. The number of existing homes for sale edged up in January, but to only the second-lowest level since last March. In a sign of continuing adjustment, however, the number of new homes for sale decreased for the tenth straight month.

Housing starts were essentially unchanged in January, due to a large rebound in multi-family starts from the depressed December level. Single-family starts fell 5.2%. Permits decreased by 3.0%, suggesting further declines in building lie ahead. Favorable weather boosted activity in the Northeast and Midwest. No end to the deterioration in housing is yet in sight. Real recovery requires a substantial drop in the inventory of homes for sale.



REVENUES AND DISBURSEMENTS

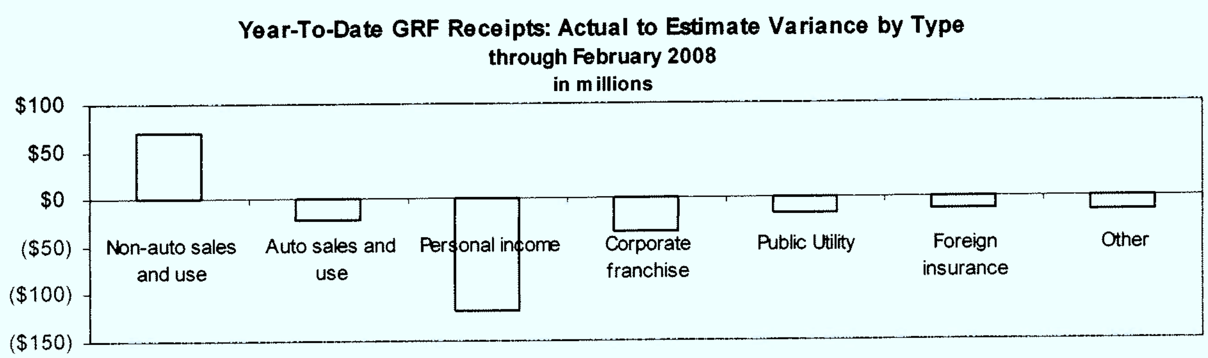
This report contains the most recent data available on GRF revenues and disbursements for February 2008. Final data for February will be available when the General Ledgers are closed for January and February in the Ohio Administrative Knowledge System (OAKS.) As General Ledgers are closed for past months, notice will be made in a General Ledger Appendix to this report. (As an example, please note that final information regarding December 2008 revenues and expenditures is appended to this month's report.)

Much of the additional time necessary to close a month's General Ledger in OAKS is attributable to the need to resolve errors in agencies' payroll journals. In the past sixty days OBM has implemented steps to expedite the payroll resolution process. Beginning with the pay period ending January 26th, the single GRF payroll journal was disaggregated into agency-specific journals, thereby enabling agencies to resolve errors much more quickly. Ultimately, this reduces the time necessary to finalize a month's General Ledger. We appreciate the ongoing collaboration & patience of agency staff as we work through these General Ledger challenges.

FY 2008 Year-to-Date Highlights

- Through February, GRF tax receipts are below estimate by $151.7 million (1.2%).
  - ✓ See **Table 1** – GRF Receipts: Preliminary Actual FY 2008 vs. Estimate
- Tax receipts increased $131.8 million (1.1%) 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 $310.3 million (1.7%).
  - ✓ See **Table 3** – GRF Disbursements: Preliminary Actual FY 2008 vs. Estimate
- Excluding transfers out, GRF uses were $636.9 million (3.7%) above last year's level.
  - ✓ See **Table 4** – GRF Disbursements: Preliminary Actual FY 2008 vs. FY 2007

Ohio's **February GRF tax receipts** totaled $1,057.1 million, which was $65.1 million below the estimate. This compounded the January shortfall for a total year-to-date variance of $151.7 million through February 29th. The personal income tax category comprised the greatest share of this shortfall ($118.2 million.) The exhibit below provides a summary of the aggregate variance.



In reviewing the year-to-date GRF tax receipts, non-auto sales & use is the only category of note that is performing significantly higher than estimate ($69.5 million); however, note that this is only 1.5% above estimate on a percentage basis. Non-auto sales & use will be discussed in detail later in this report.

GRF non-tax receipts include items such as federal grants, investment interest and revenue from licenses & fees. For the month of February, non-tax receipts were $1.6 million below estimate (0.3%.) The year-to-date receipts are $5.1 million below estimate (0.1%.) The largest year-to-date variance in GRF non-tax receipts remains a $40.0 million variance in earnings on investments, and stemming mostly from the timing of second 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 15th 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.

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 $184.2 million below estimate (1.1%.) The majority of this variance is related to a shortfall in tax receipts ($151.7 million.)

For the month of February, **GRF total uses** were $52.7 million (2.7%) below estimate. Year-to-date GRF total uses fell below estimate by $310.3 million (1.7%). All spending categories used less than expected through the first eight months of the fiscal year. 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 February and for FY 2008 year-to-date.

General Revenue Fund ($ in millions)	February Variance		FY 2008 Variance	
Revenues				
Tax Receipts	$65.1	(5.8%)	($151.7)	(1.2%)
All Sources	$91.5	(5.0%)	($184.2)	(1.1%)
Total Uses (Including Transfers)	($52.7)	(2.7%)	($310.3)	(1.7%)

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. This practice begins with this month's report and 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

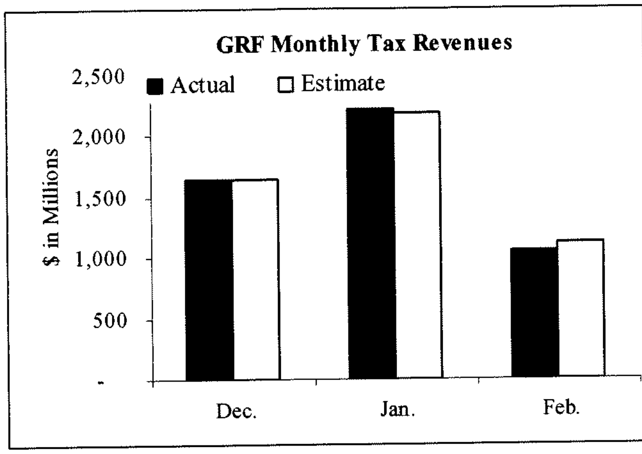
During the month of February, **GRF tax receipts** totaled $1,057.1 million, which was $65.1 million, or 5.8% below estimate, while total GRF revenues were $91.5 million or 5.0% below estimate. As a result of this monthly negative variance, tax receipts for the fiscal year to date are now are $151.7 million below the estimate (1.2%), while total GRF revenues are $184.4 million below the estimate (-1.1%). In addition to decidedly negative performance of the personal income tax during the month, the performance of the other individual tax sources was also slightly negative, as the positive variances in the auto sales and corporate franchise taxes were more than offset by less than estimated revenues in the other taxes. In a nutshell, shortfalls in the non-auto sales tax, cigarette tax, and a number of the minor taxes combined with the sizeable negative variance in the personal income tax to drive the variance in February.

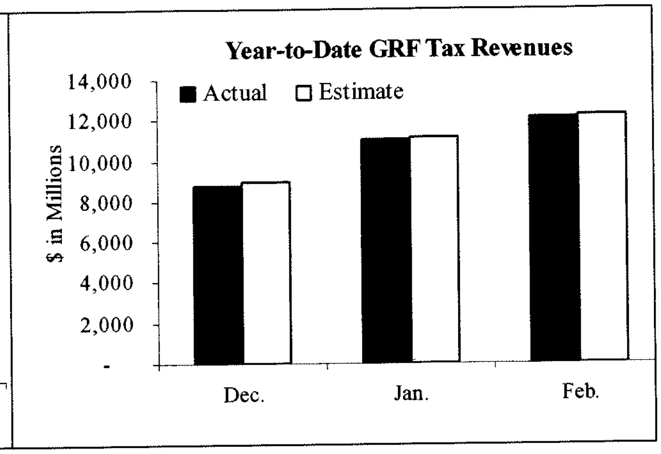
The personal income tax fell below the original H.B. 119 estimates in February for the fourth month in a row, as the February shortfall was $50.4 million, or 16.0%, following shortfalls of $82.1 million in November, $7.7 million in December, and $20.6 million in January. The February income tax shortfall was due to below estimate performance in withholding and greater than expected refunds. Specifically, withholding was $22.8 million below estimate, while refunds exceeded estimate by $28.0 million. A small portion of the impact of withholding and refunds was offset by greater than anticipated performance in other areas.

The corporate franchise tax was above estimate by $2.5 million in February, following a January overage of $31.1 million. The overage in these two months was still not enough to erase a pre-existing shortfall, but did reduce it to $35.6 million. As mentioned in last month's report, predicting January and February revenues for the franchise tax is difficult because the payment – the first of three payments that are supposed to sum to the corporation's liability – is due January 31. The split of the revenues between January and February is thus in part a function of exactly when EFT payments are made and how quickly they are processed, which can vary considerably from year to year.

Following a positive performance in January, non-auto sales tax receipts posted a slight negative variance in February of $1.4 million. As with January, the auto sales tax was again surprisingly above estimate, by $2.2 million. Despite, the slightly negative performance in February, the continued strength of the non-auto sales tax continues to be somewhat surprising in light of negative economic reports on retail sales, consumer confidence, home sales, and consumer credit. While the year-to-date positive performance is welcome, it is unclear as to whether this can continue in the face of a weakening national economy.

Cigarette tax receipts posted another negative performance in February. While the shortfall of $1.4 million in February was down from the $9.9 million and $7.5 million shortfalls experience in December and January respectively, it still increased the negative year-to-date performance of the tax to $7.0 million.





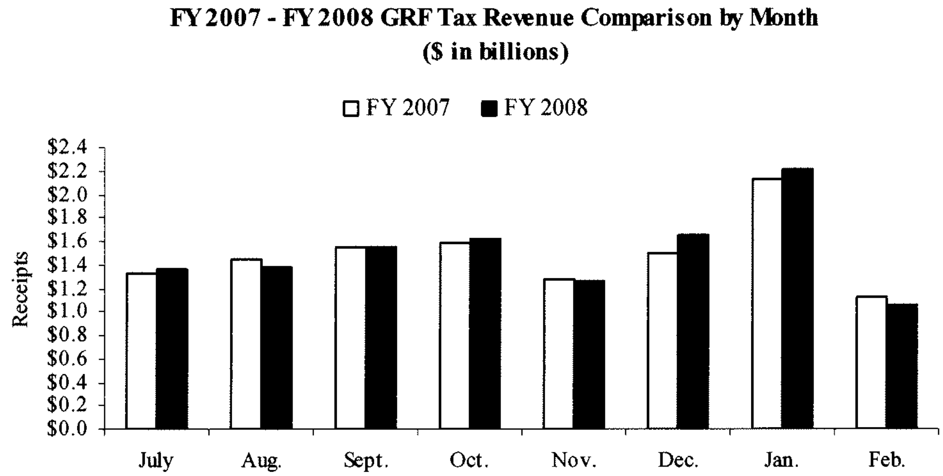
GRF non-tax receipts were close to the estimate in January, with the exception of licenses and fees, which were $4.2 million below estimate. The largest year-to-date variance in GRF non-tax receipts is a $40 million variance in earnings on investments, is mostly a timing issue as second quarter earnings have yet to be posted the GRF. Although the Treasury has reported the state's total investment earnings for the second 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 15th 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 November, these earnings were slightly below estimate by ($1.2 million, or 2.6%). 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 February were $24.8 million below estimate, as a result of an error in the February OBM monthly revenue estimate that included a $25 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 15th. As part of the revised monthly revenue estimates that OBM generated in response to Budget Directive #2 issued on February 20th, monthly transfer estimates will be adjusted to reflect the error in the original estimates.

Without the error in the monthly estimate related to the CAT transfer, 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 $157.0 million below estimate, while GRF revenues from all sources would be $159.4 million below estimate.

On a **year-over-year basis**, through February, GRF tax receipts have increased by $131.8 million (1.1%) from FY 2007 receipts. As mentioned in last month's report, some of this increase is due to the change in allocating tax revenues to the local government funds; this change accompanied the ending of the freeze on local government fund allocations that had been in place since FY 2002. Total GRF receipts through February show much higher growth than GRF tax revenues, but that additional growth is mostly in federal grants. Total GRF sources through February are $747.7 million above FY 2007 levels, or 4.6%. As stated above, $131.8 million is growth in tax receipts. Of the remainder of the $747.7 million in growth, $342.6 million is from federal grants, as they have grown by 9.3% from their FY 2007 levels.



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

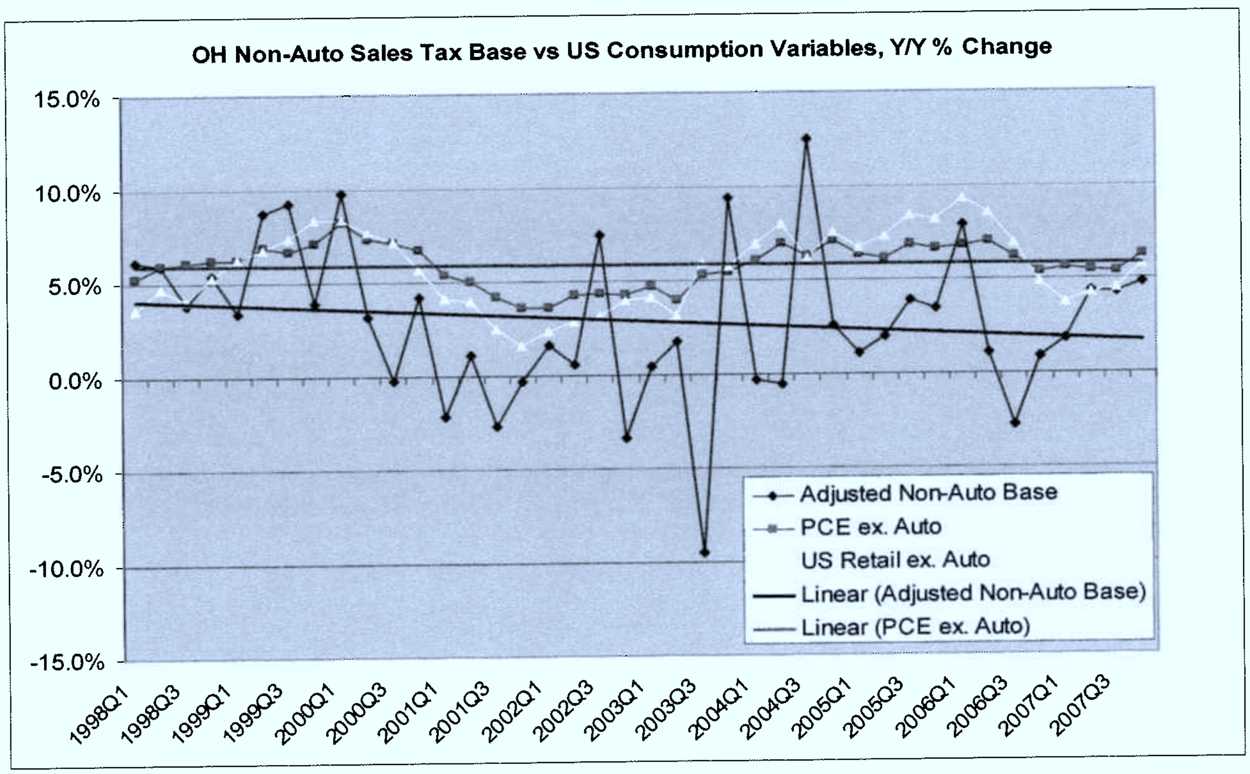
Sources Above Estimate Year-to-Date		Sources Below Estimate Year-to-Date	
Non-Auto Sales Tax	$69.5	Auto Sales Tax	($22.3)
Kilowatt Hour Tax	$3.2	Personal Income Tax	($118.2)
Federal Grants	$11.1	Corporate Franchise Tax	($35.6)
Other Income	$27.1	Public Utility Excise Tax	($16.8)
Liquor Transfers	$5.0	Foreign Insurance Tax	($13.2)
		Earnings on Investments	($40.0)
		Cigarette Tax	($7.0)
		Estate Tax	($9.3)
		ISTV	($3.2)
		Transfers In – Other	($32.5)
		Other Sources Below Estimate	($2.5)
Total above	**$115.9**	**Total below**	**-$300.6**

Non-Auto Sales and Use Tax

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 under the estimate by $1.4 million in the month of February. Despite this one month decline however, this tax source has generated higher than expected revenues in five of the first eight months of the fiscal year as receipts for the year-to-date are still over estimate by $69.5 million (1.5%).

As touched on above, the FY 2008 non-auto sales tax revenues have grown surprisingly well, despite a barrage of negative economic news. Specifically, year-over-year growth is 4.2%, although adjusting for the change in LGF allocation, growth is somewhat lower, at 3.7%. Still, this compares favorably with extremely anemic FY 2007 growth of 1.1%. Observing the consistently strong performance of Ohio's sales tax, one must ask, was FY 2007 Ohio consumption (at least of taxable items) so low that it generated what economists used to call "pent-up demand" among Ohio consumers, which has buoyed the sales tax so far in FY 2008? If so, what would this imply for the remainder of the fiscal year? As of now, there is not enough evidence to explain why Ohio sales tax growth has been so much better than last year, and so much better than expected. However, economists at OBM and the Department of Taxation remain skeptical that this rate of growth can be maintained, given all the headwinds that consumers face (see the following section), and given how poorly the is faring in retail sales, jobless claims, and consumer credit.

The graph below shows that the growth rate of the Ohio non-auto sales tax base and of broad indicators of national purchases, such as U.S. retail sales or U.S. personal consumption expenditure (PCE) can diverge significantly for several quarters, although the trend growth rate of the Ohio sales tax base is much lower than the trend growth rate of the U.S. consumption variables.



Auto Sales Tax

Following the month of January where it exceeded estimates by $3.6 million, auto sales tax receipts were $2.2 million over estimate in February (3.6%). After a terrible first quarter, in which auto sales tax revenues were $20.8 million below estimate, revenues from this source have stabilized and have even made slight gains in recent months. The year-to-date shortfall is $22.3 million, meaning that the auto sales tax has only fallen $1.5 million below estimate since September. Nevertheless, the short run outlook for this tax remains weak, due to the by-now familiar litany of issues 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.

For calendar year 2007, U.S. sales of cars and light trucks slipped to 16.15 million units, down 2.5 percent from 2006 and the lowest level in a decade. Most analysts predict that unit sales will be below 16 million units in 2008. In addition, the consumer price index (CPI) for new cars is falling, perhaps indicating increased difficulty for dealers in selling inventory.

Personal Income Tax

After posting a very large one-month shortfall in November, the personal income tax had shown smaller losses in December and January. However, during the month of February, the negative variance for the personal income tax jumped back up to $50.4 million, or 16.0%. This February income tax shortfall was due to below estimate performance in withholding and greater than expected refunds. Specifically, withholding was $22.8 million below estimate, while refunds exceeded estimate by $28.0 million. As a result of another negative variance in February, the year-to-date shortfall increased to $118.2 million or 2.1%.

February withholding revenues were below estimate by $22.8 million as withholding revenues have become much more volatile over the past few months. After posting steady overages through October, withholding had a huge shortfall in November, followed by an overage in December and additional shortfalls in January and February. As a result of the performance of the past four months, year-to-date withholding revenues are now $4.8 million below estimate. Given the current and expected weakening of both the national and the Ohio labor market, this revenue source will continue to be watched very closely.

In addition to weakness in withholding, the other major factor in the shortfall in personal income tax revenue for the month of February were greater than expected payment of refunds, as they exceeded estimates by $28.0 million, which also increased the year to date variance to $103.2 million. This is due largely to the timing submissions and of processing refunds. The Department of Taxation anticipates that the variance for this revenue source will be reduced during the remainder of the year as both the expected number of refunds and the average size of refunds are expected to be below estimates.

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 the Department of Taxation has set targets for faster processing of both annual payments and refunds in FY 2008. OBM has attempted to adjust the monthly estimates for this processing change.

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

FY 2008 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	ESTIMATE FEBRUARY	ACTUAL FEBRUARY	$ VAR FEBRUARY	ESTIMATE Y-T-D	ACTUAL Y-T-D	$ VAR Y-T-D
Withholding	$634.8	$612.0	($22.8)	$5,297.1	$5,292.4	($4.7)
Quarterly Est.	$13.0	$15.3	($2.3)	$1,064.9	$1,046.6	($18.3)
Trust Payments	$1.5	$7.2	($5.7)	$33.7	$37.4	$3.7
Annual Returns & 40 P	$23.9	$16.2	$7.7	$161.4	$171.9	$10.5
Other	$6.1	$5.9	$0.2	$52.1	$48.8	($3.3)
Less: Refunds	($309.2)	($281.2)	$28.0)	($525.3)	($628.5)	($103.2)
Local Distr.	($83.1)	(82.5)	$0.6	($467.2)	($470.8)	($3.6)
Net to GRF	**$315.1**	**$264.7**	**($50.4)**	**$5,616.6**	**$5,497.7**	**($118.9)**

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 31st, March 31st, and May 31st. 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 mentioned in the January report, what is more important than February collections alone is the sum of January and February collections. For the month of February, Corporate Franchise Tax receipts were $88.8 million, or $2.5 million above estimate. When combined with January collections which were $31.1 million above the estimate, total collections for both months were $33.6 million above estimate. While the combination of exceeding the estimates these two months have not come close to erasing the year-to-date negative variance, it has nearly cut the amount in half, reducing it from $69.1 million at the end of December to $35.6 million through the end of February.

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. While receipts in January were $10.7 million above the estimate, receipts for the month of February were $24.7 million below the estimate, thereby increasing the year-to-date negative variance to $16.6 million.

The 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. There is still some potential to reduce the year-to-date shortfall in March, if it turns out that there are more late payments for the payment and return due in February than anticipated.

Cigarette Tax

Cigarette tax receipts posted another shortfall in February. While the shortfall of $1.4 million in February was down from the $9.9 million and $7.5 million shortfalls experienced in December and January respectively, it still increased the negative year-to-date performance of the tax to $7.0 million and is an indication that the tax could be experiencing a downward trend.

Public Utility Tax

During the month of February the public utility tax generated $31.0 million, which was $9.8 million below the monthly estimate of $40.8 million (24.0%). This monthly negative variance, which is attributed primarily to a relatively mild fall and less than anticipated natural gas consumption, contributed to increase the year-to-date negative variance to $16.8 million (15.3%).

Foreign Insurance Tax

Foreign insurance tax receipts for the month of February were $7.0 million below the estimate of $68.7 million (10.2%). Since the payment of the tax was not due until March 3, we believe at this time that the shortfall in February is due to timing. For the year-to-date, an already negative variance for this tax nearly doubled to $13.2 million (6.4%).

Table 1*

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

	Month				Year-to-Date			
REVENUE SOURCE	ACTUAL FEBRUARY	ESTIMATE FEBRUARY	$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	464,308	465,700	(1,392)	-0.3%	4,564,086	4,494,600	69,486	1.5%
Auto Sales & Use	63,041	60,830	2,211	3.6%	590,304	612,555	(22,251)	-3.6%
Subtotal Sales & Use	527,349	526,530	819	0.2%	5,154,390	5,107,155	47,235	0.9%
Personal Income	264,734	315,100	(50,366)	-16.0%	5,498,373	5,616,600	(118,227)	-2.1%
Corporate Franchise	91,257	88,800	2,457	2.8%	278,744	314,300	(35,556)	-11.3%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	31,008	40,800	(9,792)	-24.0%	93,278	110,100	(16,822)	-15.3%
Kilowatt Hour	8,650	7,200	1,450	20.1%	194,267	191,100	3,167	1.7%
Foreign Insurance	61,707	68,700	(6,993)	-10.2%	194,489	207,700	(13,211)	-6.4%
Domestic Insurance	0	200	(200)	N/A	433	800	(367)	-45.9%
Other Business & Property Tax	(2)	20	(22)	-111.4%	393	840	(447)	-53.2%
Cigarette	66,148	67,500	(1,352)	-2.0%	577,201	584,200	(6,999)	-1.2%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	3,713	4,300	(587)	-13.7%	37,318	38,000	(682)	-1.8%
Liquor Gallonage	2,554	2,600	(46)	-1.8%	23,638	24,200	(562)	-2.3%
Estate	0	500	(500)	-100.0%	31,025	40,300	(9,275)	-23.0%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,057,119	1,122,250	(65,131)	-5.8%	12,083,549	12,235,295	(151,746)	-1.2%
NON-TAX RECEIPTS								
Federal Grants	430,486	428,540	1,946	0.5%	4,041,410	4,030,318	11,092	0.3%
Earnings on Investments	0	0	0	N/A	44,990	85,000	(40,010)	-47.1%
License & Fees	9,200	13,413	(4,213)	-31.4%	51,301	51,344	(43)	-0.1%
Other Income	3,266	3,650	(384)	-10.5%	62,420	35,344	27,076	76.6%
ISTV'S	3,090	2,000	1,090	54.5%	8,941	12,110	(3,169)	-26.2%
Total Non-Tax Receipts	446,043	447,603	(1,560)	-0.3%	4,209,063	4,214,116	(5,053)	-0.1%
TOTAL REVENUES	1,503,162	1,569,853	(66,692)	-4.2%	16,292,612	16,449,411	(156,799)	-1.0%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	11,000	10,000	1,000	10.0%	116,000	111,000	5,000	4.5%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	18	25,860	(25,842)	-99.9%	56,810	89,260	(32,450)	-36.4%
Temporary Transfers In	219,800	219,800	0	N/A	466,800	466,800	0	N/A
Total Transfers	230,818	255,660	(24,842)	-9.7%	639,610	667,060	(27,450)	-4.1%
TOTAL SOURCES	1,733,980	1,825,513	(91,534)	-5.0%	16,932,222	17,116,471	(184,249)	-1.1%

***Amounts will be finalized once the general ledger is closed for January and February.**

Table 2*

GENERAL REVENUE FUND RECEIPTS

PRELIMINARY ACTUAL - FY 2008 VERSUS FY 2007

($ in thousands)

	Month				Year-to-Date			
REVENUE SOURCE	ACTUAL 2008	ACTUAL 2007	$ VAR	% VAR	ACTUAL 2008	ACTUAL 2007	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	464,308	474,564	(10,256)	-2.2%	4,564,086	4,378,026	186,060	4.2%
Auto Sales & Use	63,041	52,561	10,480	19.9%	590,304	574,650	15,654	2.7%
Subtotal Sales & Use	527,349	527,125	225	0.0%	5,154,390	4,952,677	201,714	4.1%
Personal Income	264,734	308,728	(43,994)	-14.3%	5,498,373	5,303,766	194,607	3.7%
Corporate Franchise	91,257	93,128	(1,871)	-2.0%	278,744	471,984	(193,240)	-40.9%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	31,008	36,370	(5,361)	-14.7%	93,278	105,241	(11,963)	-11.4%
Kilowatt Hour	8,650	29,463	(20,813)	-70.6%	194,267	226,922	(32,655)	-14.4%
Foreign Insurance	61,707	55,081	6,627	12.0%	194,489	189,308	5,181	2.7%
Domestic Insurance	0	1	(0)	N/A	433	236	197	83.6%
Other Business & Property Tax	(2)	9	(12)	-124.3%	393	669	(276)	-41.2%
Cigarette	66,148	64,042	2,106	3.3%	577,201	606,604	(29,403)	-4.8%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	3,713	3,961	(248)	-6.3%	37,318	37,399	(81)	-0.2%
Liquor Gallonage	2,554	2,541	14	0.5%	23,638	23,283	355	1.5%
Estate	0	1,270	(1,270)	N/A	31,025	33,650	(2,624)	-7.8%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,057,119	1,121,719	(64,600)	-5.8%	12,083,549	11,951,738	131,811	1.1%
NON-TAX RECEIPTS								
Federal Grants	430,486	451,187	(20,700)	-4.6%	4,041,410	3,698,797	342,613	9.3%
Earnings on Investments	0	0	0	N/A	44,990	92,314	(47,324)	-51.3%
License & Fee	9,200	12,642	(3,442)	-27.2%	51,301	52,098	(797)	-1.5%
Other Income	3,266	4,585	(1,319)	-28.8%	62,420	88,654	(26,234)	-29.6%
ISTV'S	3,090	738	2,352	318.9%	8,941	12,277	(3,335)	-27.2%
Total Non-Tax Receipts	446,043	469,152	(23,110)	-4.9%	4,209,063	3,944,139	264,923	6.7%
TOTAL REVENUES	1,503,162	1,590,871	(87,709)	-5.5%	16,292,612	15,895,878	396,735	2.5%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	11,000	10,000	1,000	10.0%	116,000	95,000	21,000	22.1%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	18	0	18	N/A	56,810	46,055	10,756	23.4%
Temporary Transfers In	219,800	10,900	208,900	N/A	466,800	147,550	319,250	216.4%
Total Transfers	230,818	20,900	209,918	1004.4%	639,610	288,604	351,006	121.6%
TOTAL SOURCES	1,733,980	1,611,771	122,209	7.6%	16,932,222	16,184,482	747,741	4.6%

***Amounts will be finalized once the general ledger is closed for January and February.**

DISBURSEMENTS

February's GRF disbursements, including pending payroll and transfers out of the GRF, totaled $1,901.6 million, which was $52.7 million (2.7%) under the estimate. Through the first eight months of FY 2008, GRF disbursements totaled $18,320.1 million, which was $310.3 million (1.7%) under the estimate. Adjusting for transfers out of the GRF, year-to-date expenditures increased 3.7% 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

February disbursements in Primary, Secondary, and Other Education were $604.9 million, which was $19.6 million (3.1%) under estimate. Year-to-date disbursements were $4,703.2 million, representing a variance of $160.9 million (3.3%) under the estimate.

Disbursements in February for the Department of Education totaled $545.6 million, which is $74.5 million (12.0%) below the estimated for the month. The variance is caused by delays of expenditures in 200-511(Auxiliary Services), 200-437 (Student Assessment), and 200-514 (Postsecondary Adult Career-Tech). For the fiscal year to date, disbursements are $4,924.9 million, or $270.4 million (5.2%) below the estimate. The year-to-date variance is driven by under-expenditures in 200-550 (Foundation Funding), 200-511 (Auxiliary Services) and 200-503 (Bus Purchase Allowance). However, disbursements in Auxiliary Services, Student Assessments, and Postsecondary Adult Career-tech are expected to pick up in the coming months and meet estimates.

Higher Education

February disbursements for Higher Education were $232.4 million, representing a variance of $7.9 million (3.3%) below the estimate for the month. Year-to-date disbursements were $1,743.5 million, representing a variance totaling $61.0 million (3.4%) below the estimate. Of the year-to-date variance, $44.0 million is a function of underspending in the Choose Ohio First Scholarship program, the Ohio Research Scholars program, and the James A. Rhodes Scholarship program. February disbursements for these three programs were $10.0 million less than estimated for the month.

Public Assistance and Medicaid

February GRF disbursements for Public Assistance and Medicaid, which includes all spending in the Department of Job and Family Services (JFS), were $773.0 million, representing a variance of $24.1 million (3.0%) below the estimate for the month. Year-to-date disbursements were $7,414.8 million, representing a variance of $15.4 million (0.2%) below the estimate.

Medicaid

Medicaid GRF disbursements in February totaled $719.4 million, which was $5.0 million above estimate. Year-to-date Medicaid GRF disbursements totaled $6,746.9 million, which was $10.6 million above estimate.

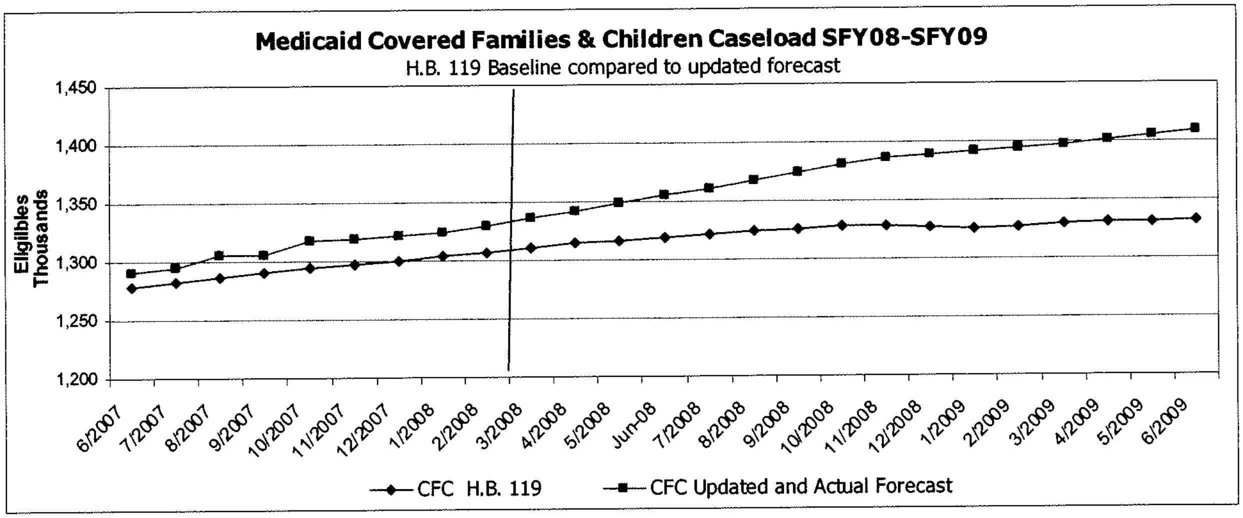
Note that while Medicaid spending appears to be on target, H.B. 119 estimates assumed that rate increases for hospitals and community providers, as well as the implementation of all of the expansions included in Am. Sub. H.B. 119 would begin January 1, 2008. Due to higher-than-expected caseloads, the Administration has taken the initiative to effectively manage the costs associated with the unexpected accelerated increase in caseloads and unrealized cost containment measures by delaying the implementation of provider rate increases and program expansions. Increased caseloads, unrealized cost containment measures, net of the delayed implementation of initiatives contained in Am. Sub. H.B. 119 are expected to increase spending by $132.4 million in FY 2008.

The share 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. Medicaid disbursements, across all funds, totaled $925.7 million for the month of February, which was over estimate by $3.9 million (0.43%). Year-to-date Medicaid disbursements totaled $7,416.5 million, $2.9 million (0.04%) above the estimate.

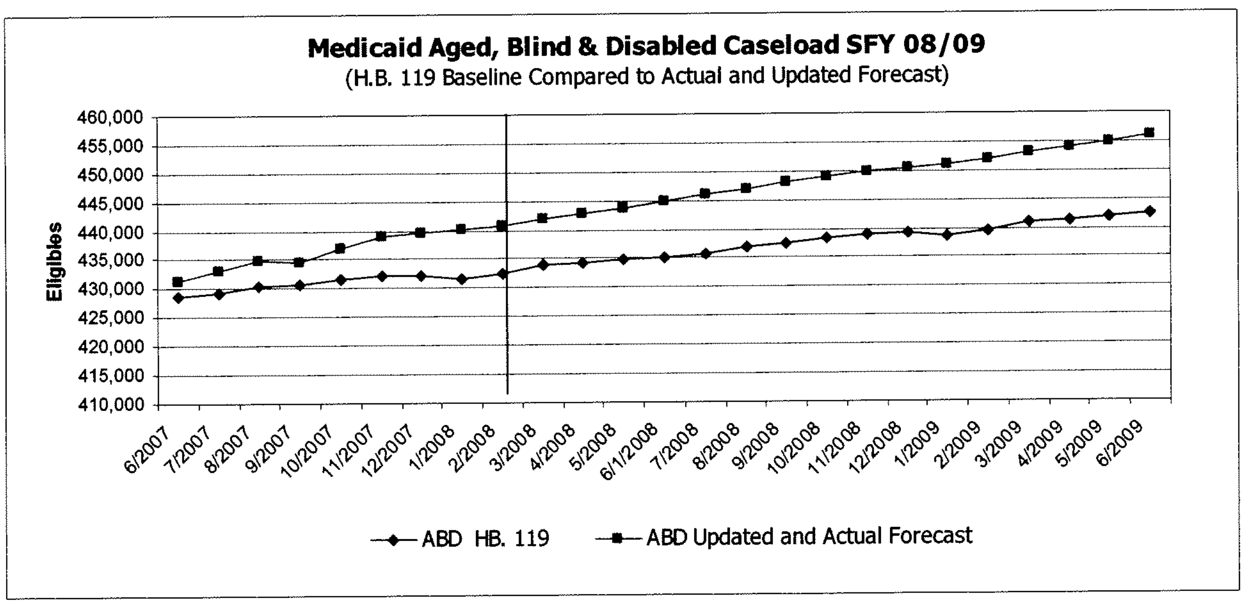
Caseloads

For seven consecutive months, Medicaid caseloads have continued to exceed the estimate. Through January (the most recent data available), Medicaid enrollment totaled 1.75 million recipients, which was 18,500 or 1.07% 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. The following graphs show CFC and ABD caseloads as estimated in Am. Sub. H.B. 119 compared to actual caseloads for the first half of the fiscal year and the updated caseload forecast for the remainder of FY 2008.

Currently there are over 15,000 more recipients in the Covered Children and Families (CFC) category than expected. Enrollment in the Healthy Families and Children in Care categories continues to drive this increase. 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 (DRA) of 2005. The forecast for FY 2008 and FY 2009 assumed that caseloads would increase; however, the increase is steeper than anticipated. One category that is increasing at an alarming rate is the Healthy Families Expansion category which includes children and their parents with incomes up to 90% of the federal poverty limit, to date enrollment in this category is over projection by 9,000 or 6%. Enrollment increases in the Healthy Families Expansion 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 continue to exceed the estimate. Through January caseloads were over by 1.2% or 5,000 recipients. It is important to note that while this increase is small, this is the most expensive population group in the Medicaid program and is driving spending above the estimate in many categories of service (ABD per member per month costs average $1,328 and CFC per member per month costs average $217).



Expenditures

It is important to note that variances seen in this category can largely be attributed to the delay in rate increases and delays in caseload expansions. If the administration had not delayed rate increases and eligibility expansions we would have continued to see the overspending we were experiencing in October and November.

While we have been seeing increased caseloads for seven months, it appears expenditures have not matched this increase; however, the caseload increase has been realized. This led to the Administration's rationale for delaying rate increases and eligibility expansions. Moreover, if the

Administration had not delayed rate increases and eligibility expansions, a negative variance in these categories would have been more definitive.

For instance, CFC managed care spending for February was $233 million which is $4.0 million or -1.7% under estimate. Year-to-date, CFC managed care spending is $1,838.8 million which is $12.7 million or -0.69% below the estimate. Spending for ABD managed care in February was $117 million which is $18.5 million or -13.6% below the estimate. Year-to-date spending for ABD managed care was $907.0 million which is $130.0 or -12.5% below estimate.

The impact of the increased caseloads is most pronounced in increased spending for inpatient and outpatient hospital services which continues to exceed the estimate for the year by $175 million due to several factors.

First, in June 2007 changes to the National Provider Identifier (NPI) caused a number of inpatient and outpatient hospital claims to be automatically rejected due to compliance issues. These claims, totaling $35.1 million, were budgeted for in FY 2007 but paid in July 2007 instead, causing a one-time increase in FY 2008 spending.

Second, slower-than-expected enrollment into ABD managed care in the North East Central region is leading to increased fee for service expenses, particularly in this category. These members have remained in the fee for service delivery system longer than expected, increasing expenditures in fee for service categories, which are offset by savings in the ABD managed care category. Consumers in this region are currently enrolling in managed care.

Finally, higher-than-expected caseloads, particularly in ABD eligibility categories not eligible for managed care, have increased spending in this category.

Non-Medicaid

In February JFS non-Medicaid disbursements totaled $82.7 million, producing a variance of $29.1 million (35.2%) below the estimate. For the year-to-date, JFS non-Medicaid disbursements totaled $687.4 million, producing a variance of $20.9 million (3.1%) below the estimate.

- Spending in the entitlement administration is $21.3 million under estimate. This is primarily attributable to the timing of the FY 2007 county close out process. For the year-to-date, disbursements are $11.7 million (10.6%) under estimate.
- Spending in the Disability Financial Assistance line item was $1.4 million below estimate. This is primarily attributable to recurring monthly payment expenditures having not yet posted. When the payments post, spending will be above estimates. For the year-to-date, disbursements are $480,000 (3%) above estimate, and, when the recurring payments post, year-to-date spending will exceed projections. Higher than anticipated spending is directly attributable to higher than anticipated caseloads.
- Spending in the adoption assistance line item is approximately $5.0 million under estimate. This is due to a posted adjustment processed during February. The adjustment was on IV-E adoption assistance payments that were incorrectly coded during the first half of the fiscal year. At the beginning of the fiscal year coding between federal and state funds was incorrectly set up on the IV-E adoption assistance payments. For the year-to-date, disbursements are $3.3 million (6.5%) under estimate.

- Outstanding payroll expenses for January and February across all Job and Family Services administrative line items total $9.4 million. Once payroll for these periods posts, this variance will be reduced.

Health and Human Services

February disbursements totaled $82.7 million, which was $6.1 million (6.8%) below the estimate. Year-to-date disbursements were $862.2 million, which was $59.5 million (6.5%) below estimate.

- The Department of Mental Health disbursed $41.8 million in the month of February, which was $197,000 (0.5%) below the estimate. Year-to-date GRF spending totaled $389.7 million, which is $28.3 million (6.7%) below the estimate. This variance is attributed to payroll that has not posted for the month of January, while the remaining variances are due to the timing of payments to local boards.

- The Department of Mental Retardation and Developmental Disabilities disbursed $18.2 million in the month of February, which was $114,000 (0.6%) below the estimate. Year-to-date GRF spending totaled $248.3 million, which is $10.0 million (3.9%) below the estimate. Approximately half of this variance is attributable to payroll that has not posted in the month of January.

- Spending in the Department of Health (adjusted to include unposted payroll) trailed the estimate by $2.5 million for the month and by $3.5 million for the year. In February spending in the Immunizations line item was below estimate by $1.0 million due to the timing of the purchase of a large vaccine order. An order planned for February will occur in March instead. February underspending was partially offset by overspending of $1.1 million in the AIDS Prevention and Treatment line item. Spending in this line item picked up in February over previous months as grant payments began to be disbursed. Spending in this line item is now in line with estimates for the year to date.

  Spending in the Help Me Grow program continues to trail the estimate by $2.7 million for the month and by $2.5 million for the year due to the timing of reporting from and related grant payments to program participants. Spending in the Medically Handicapped Children line item was below the estimate by $2.2 million for the year due to higher than expected spending from non-GRF sources.

- Spending in the Department of Aging trailed the estimate by $1.7 million for the month and by $6.3 million for the year. February's variance is driven by underspending in the Residential State Supplement and Assisted Living line items. Underspending for the month in the Residential State Supplement was due to timing of the disbursement of a transfer payment to the Department of Job and Family Services. This payment will be disbursed in March. Spending in the Assisted Living line item was below estimate by $1.0 million for the month and by $4.0 million for the year as actual caseloads are below estimated levels. Spending in the PASSPORT line item also trailed the estimate by $1.8 million for the year due to lower than expected caseloads.

Justice and Public Protection

February disbursements in this category totaled $96.6 million, which produced a variance of $35.1 million (26.7%) below the estimate. For the fiscal year, disbursements totaled $1,368.2 million, which represents a variance totaling $67.2 million (4.7%) below the estimate.

Transportation

February disbursements were $1.3 million, producing a variance of $569,000 (31.0%) below the estimate. For the fiscal year, disbursements totaled $18.4 million, producing a variance of $3.6 million (16.5%) below the estimate.

Community and Economic Development

February's GRF disbursements in the Community & Economic Development category totaled $10.2 million, which is $2.3 million (28.7%) above the estimate. Year-to-date expenditures are $92.8 million, which is $12.2 million (11.6%) below the estimate. The largest segment of this category is disbursed by the Department of Development:

- Year-to-date, the Department of Development GRF disbursements are $52.96 million, which is $12.4 million (23.5%) below the estimate. February disbursements were $9.3 million, producing a variance of $3 million (49.8%) above the estimate. This variance was caused by higher than expected spending in the Ohio Investment in Training Program and the Economic Development Contingency.

- The over-spending in the Economic Development Contingency was attributed to a $3 million grant payment made to Daimler Holding for the Toledo Jeep plant. The original contract was with DaimlerChrysler, but it was amended to reflect the new name causing the delay in payment. The Investment in Training over-spending was due to the unpredictability of the grant payments. There are more than one hundred different grantees with no fixed schedule for payments. Grantees are reimbursed once they complete their training as long as it occurs within the grant period.

Tax Relief and Other

While the $21,296 in disbursements for local government tax relief barely exceeded the estimate of zero for the month of February, year-to-date tax relief payments to local governments totaled $231.9 million and are still $8.8 million (3.7%) below estimate. While tax relief payments to local governments are generally in line with the monthly estimates, the year-to-date variance is largely attributable to $2.7 million in spending in December that was $30.6 million (92.0%) below the estimate for that month and that reversed what had been year to date overspending of $24.5 million (15.2%) through the end of November. The tax relief payments made by the Department of Taxation are to local governments to reimburse them for property tax revenue they forego as a result of the 10 percent and 2.5 percent reductions on taxable real and homestead properties.

February disbursements in the Tax Relief and Other category for education were on target with the monthly and year to date estimates. For the fiscal year, disbursements were $384 million.

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 FEBRUARY	ESTIMATED FEBRUARY	$ VAR	% VAR	YTD PRELIMINARY	YTD ESTIMATE	$ VAR	% VAR
Primary, Secondary and Other Education	604,853	624,487	(19,635)	-3.1%	4,703,226	4,864,128	(160,902)	-3.3%
Higher Education	232,434	240,294	(7,860)	-3.3%	1,743,454	1,804,481	(61,027)	-3.4%
Public Assistance and Medicaid	773,006	797,092	(24,085)	-3.0%	7,414,804	7,430,194	(15,390)	-0.2%
Health and Human Services	82,712	88,772	(6,060)	-6.8%	862,177	921,654	(59,477)	-6.5%
Justice and Public Protection	96,559	131,689	(35,130)	-26.7%	1,368,225	1,435,472	(67,246)	-4.7%
Environmental Protection and Natural Resources	6,489	6,493	(4)	-0.1%	76,722	81,255	(4,532)	-5.6%
Transportation	1,267	1,837	(569)	-31.0%	18,355	21,979	(3,623)	-16.5%
General Government	16,051	22,160	(6,108)	-27.6%	234,507	264,579	(30,072)	-11.4%
Community and Economic Development	10,200	7,926	2,274	28.7%	92,847	105,003	(12,157)	-11.6%
Tax Relief and Other	81	110	(29)	-26.2%	653,822	663,002	(9,180)	-1.4%
Capital Outlay	10	150	(140)	-93.4%	66	1,071	(1,005)	-93.9%
Debt Service	34,203	33,291	912	N/A	417,576	425,490	(7,914)	-1.9%
Pending Payroll	43,697	0	43,697	N/A	125,150	0	125,150	N/A
Total Expenditures & ISTV's	**1,901,562**	**1,954,301**	**(52,739)**	**-2.7%**	**17,710,931**	**18,018,307**	**(307,377)**	**-1.7%**
Transfers Out:								
OPER TRF OUT-OTH	0	0	0	N/A	162,617	145,278	17,339	11.9%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	446,551	466,800	(20,249)	-4.3%
Total Transfers (Out)	**0**	**0**	**0**	**N/A**	**609,168**	**612,078**	**(2,910)**	**-0.5%**
Total Fund Uses	**1,901,562**	**1,954,301**	**(52,739)**	**-2.7%**	**18,320,099**	**18,630,386**	**(310,287)**	**-1.7%**

***Amounts will be finalized once the general ledger is closed for January and February.**

Table 4*

GENERAL REVENUE FUND DISBURSEMENTS

PRELIMINARY ACTUAL FY 2008 VS ACTUAL FY 2007

($ in thousands)

Functional Reporting Categories	MONTH				YEAR-TO-DATE			
Description	PRELIMINARY 2008	ACTUAL 2007	$ VAR	% VAR	PRELIMINARY 2008	ACTUAL 2007	$ VAR	% VAR
Primary, Secondary and Other Education	604,853	412,206	192,647	46.7%	4,703,226	4,688,514	14,712	0.3%
Higher Education	232,434	232,801	(367)	-0.2%	1,743,454	1,676,983	66,471	4.0%
Public Assistance and Medicaid	773,006	841,794	(68,787)	-8.2%	7,414,804	6,990,687	424,118	6.1%
Health and Human Services	82,712	81,179	1,533	1.9%	862,177	896,045	(33,868)	-3.8%
Justice and Public Protection	96,559	132,208	(35,649)	-27.0%	1,368,225	1,397,087	(28,862)	-2.1%
Environmental Protection and Natural Resources	6,489	5,714	775	13.6%	76,722	74,814	1,908	2.6%
Transportation	1,267	1,228	39	3.2%	18,355	16,892	1,463	8.7%
General Government	16,051	15,929	123	0.8%	234,507	243,160	(8,653)	-3.6%
Community and Economic Development	10,200	7,888	2,311	29.3%	92,847	103,122	(10,275)	-10.0%
Tax Relief and Other	81	50	31	61.5%	653,822	624,855	28,968	4.6%
Capital Outlay	10	23	(13)	-57.4%	66	90	(25)	-27.4%
Debt Service	34,203	33,419	783	2.3%	417,576	361,761	55,815	15.4%
Pending Payroll	43,697	0	43,697	N/A	125,150	0	125,150	N/A
Total Expenditures & ISTV's	**1,901,562**	**1,764,441**	**137,122**	**7.8%**	**17,710,931**	**17,074,009**	**636,922**	**3.7%**
Transfers Out:								
OPER TRF OUT-BUD STABILIZATION	0	0	0	N/A	0	394,034	(394,034)	N/A
OPER TRF OUT-OTH	0	2,407	(2,407)	N/A	162,617	22,449	140,169	624.4%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	446,551	287,414	159,138	55.4%
Total Transfers (Out)	**0**	**2,407**	**(2,407)**	**N/A**	**609,168**	**703,896**	**(94,728)**	**-13.5%**
Total Fund Uses	**1,901,562**	**1,766,848**	**134,715**	**7.6%**	**18,320,099**	**17,777,905**	**542,194**	**3.0%**

***Amounts will be finalized once the general ledger is closed for January and February.**

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 February, interest on investments booked to Fund 6080, totaled \$29.3 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 February, the GRF should receive approximately \$13.1 million in earnings.

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

GENERAL LEDGER APPENDIX

Since the publication of the last Monthly Financial Report, the General Ledger for the month of December has been closed. As such, final data for December 2007 is included in this section.

December

Final GRF disbursements for December totaled $1,867.9 million, which was $1.1 million (0.1%) more than the preliminary data. All categories experienced an increase over the preliminary data, with the exception of Tax Relief and Other.

Final disbursements for December were $265.5 million (12.4%) below the estimate. As previously reported, the December variance is largely the result of under spending in Primary, Secondary, and Other Education.

- Final GRF disbursements for Primary, Secondary, and Other Education totaled $353.7 million, which were $185.8 million (34.4%) less than the estimates. This variance is the result of timing of foundation payments.

- Final GRF disbursements for Higher Education totaled $169.7 million, which was $32.6 million (16.1%) below the estimates. The variance is the result of lower than anticipated disbursements in the following areas: Ohio College Opportunity Grant, Choose Ohio First scholarship, Ohio Research Scholars, Student Choice Grants and Ohio Instructional Grant.

- Final GRF disbursements for Public Assistance and Medicaid totaled $909.5 million, which was $37.6 million (4.0%) below the estimates.

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

Jim Coons, Penny Rader, Susan Ackerman, Noah Browning, Russ Keller, Tamiyka Koger, Elena Lazarevska, Jessica Levy, David Lipthratt, Matthew Martin, Tracy Nâjera, Jeff Newman, Kevin Stockdale, Kurt Kauffman, Tracy Williams and Susan Kaderly

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				Preliminary Actual vs Final Actual		Estimate VS Final Actual	
Description	**DECEMBER Estimate**	**DECEMBER Preliminary**	**DECEMBER Final Actual**	**$ VAR**	**% VAR**	**$ VAR**	**% VAR**
Primary, Secondary and Other Education	539,538	346,883	353,737	6,854	2.0%	(185,801)	-34.4%
Higher Education	202,269	168,925	169,713	788	0.5%	(32,556)	-16.1%
Public Assistance and Medicaid	947,084	896,296	909,531	13,235	1.5%	(37,553)	-4.0%
Health and Human Services	76,403	45,176	88,012	42,836	94.8%	11,609	15.2%
Justice and Public Protection	181,135	60,269	200,045	139,776	231.9%	18,910	10.4%
Environmental Protection and Natural Resources	9,164	1,374	7,577	6,203	451.3%	(1,587)	-17.3%
Transportation	2,456	4,636	4,831	195	4.2%	2,375	96.7%
General Government	29,175	10,574	28,697	18,123	171.4%	(478)	-1.6%
Community and Economic Development	9,121	6,041	8,814	2,773	45.9%	(307)	-3.4%
Tax Relief and Other	112,392	73,796	73,407	(389)	-0.5%	(38,985)	-34.7%
Capital Outlay	150	0	0	0	N/A	(150)	-100.0%
Debt Service	24,558	23,536	23,536	0	N/A	(1,023)	N/A
Pending Payroll	0	229,284	0	(229,284)	N/A	0	N/A
Total Expenditures & ISTV's	**2,133,446**	**1,866,791**	**1,867,899**	**1,108**	**0.1%**	**(265,547)**	**-12.4%**

Table 1A*

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

REVENUE SOURCE	Month ACTUAL FEBRUARY	Month REVISED FEBRUARY	Month $ VAR	Month % VAR	Year-to-Date ACTUAL Y-T-D	Year-to-Date REVISED Y-T-D	Year-to-Date $ VAR	Year-to-Date % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	464,308	462,000	2,308	0.5%	4,564,086	4,561,778	2,308	0.1%
Auto Sales & Use	63,041	59,200	3,841	6.5%	590,304	586,463	3,841	0.7%
Subtotal Sales & Use	527,349	521,200	6,149	1.2%	5,154,390	5,148,241	6,149	0.1%
Personal Income	264,734	315,100	(50,366)	-16.0%	5,498,373	5,548,739	(50,366)	-0.9%
Corporate Franchise	91,257	88,800	2,457	2.8%	278,744	276,287	2,457	0.9%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	31,008	38,700	(7,692)	-19.9%	93,278	100,970	(7,692)	-7.6%
Kilowatt Hour	8,650	8,200	450	5.5%	194,267	193,817	450	0.2%
Foreign Insurance	61,707	68,700	(6,993)	-10.2%	194,489	201,482	(6,993)	-3.5%
Domestic Insurance	0	300	(300)	N/A	433	733	(300)	-40.9%
Other Business & Property Tax	(2)	0	(2)	N/A	393	396	(2)	-0.6%
Cigarette	66,148	67,500	(1,352)	-2.0%	577,201	578,553	(1,352)	-0.2%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	3,713	4,300	(587)	-13.7%	37,318	37,905	(587)	-1.5%
Liquor Gallonage	2,554	2,700	(146)	-5.4%	23,638	23,784	(146)	-0.6%
Estate	0	0	0	N/A	31,025	31,025	0	0.0%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,057,119	1,115,500	(58,381)	-5.2%	12,083,549	12,141,930	(58,381)	-0.5%
NON-TAX RECEIPTS								
Federal Grants	430,486	428,540	1,946	0.5%	4,041,410	4,039,464	1,946	0.0%
Earnings on Investments	0	0	0	N/A	44,990	44,990	0	0.0%
License & Fees	9,200	13,413	(4,213)	-31.4%	51,301	55,514	(4,213)	-7.6%
Other Income	3,266	3,650	(384)	-10.5%	62,420	62,804	(384)	-0.6%
ISTV'S	3,090	2,000	1,090	54.5%	8,941	7,851	1,090	13.9%
Total Non-Tax Receipts	446,043	447,603	(1,560)	-0.3%	4,209,063	4,210,623	(1,560)	0.0%
TOTAL REVENUES	1,503,162	1,563,103	(59,942)	-3.8%	16,292,612	16,352,554	(59,942)	-0.4%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	11,000	10,000	1,000	10.0%	116,000	115,000	1,000	0.9%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	18	360	(342)	-95.0%	56,810	57,152	(342)	-0.6%
Temporary Transfers In	219,800	219,800	0	N/A	466,800	466,800	0	N/A
Total Transfers	230,818	230,160	658	0.3%	639,610	638,952	658	0.1%
TOTAL SOURCES	1,733,980	1,793,263	(59,284)	-3.3%	16,932,222	16,991,506	(59,284)	-0.3%

***Amounts will be finalized once the general ledger is closed for January and February.**