Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

APRIL 2008

STATUS OF THE GRF

HIGHLIGHTS

— *Allan Lundell, Chief Economist, 614-644-7788*

Through March 2008, total GRF sources of $18,613.4 million were $517.0 million (2.7%) below estimate:

- Tax revenues were $262.4 million (1.9%) below estimate.
  - Below estimate: personal income tax, $149.5 million (2.4%); corporate franchise tax, $56.1 million (10.2%); auto sales and use tax, $45.2 million (6.4%); and public utility excise tax, $16.3 million (14.8%).
  - Above estimate: nonauto sales and use tax, $28.8 million (0.6%) and kilowatt hour excise tax, $1.8 million (0.8%).
- State-source receipts, 94% of which were made up by tax revenues, were below estimate by $316.1 million (2.2%). Federal grants were below estimate by $200.9 million (4.5%).
- Compared to FY 2007, tax revenue was up 0.4%; both state-source receipts and federal grants were up 2.3%. In total, GRF sources were up 2.3% as well.

Through March 2008, total GRF uses of $20,442.1 million were $193.7 million (0.9%) below estimate:

- Total GRF program expenditures of $19,823.4 million, which include all GRF uses except transfers out, were below estimate by $345.6 million (1.7%).
  - Medicaid expenditures were $18.8 million (0.3%) above estimate.
- Compared to FY 2007, total GRF program expenditures were up 4.0%.

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Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of March 2008
($ in thousands)
(Actual based on report run in OAKS on April 7, 2008)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$67,922	$90,900	-$22,978	-25.3%
Nonauto Sales and Use	$478,789	$519,500	-$40,711	-7.8%
Total Sales and Use Taxes	$546,711	$610,400	-$63,689	-10.4%
Personal Income	$465,875	$497,100	-$31,225	-6.3%
Corporate Franchise	$215,997	$236,500	-$20,503	-8.7%
Public Utility	$742	$200	$542	271.1%
Kilowatt Hour Excise	$16,587	$18,000	-$1,413	-7.8%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$77,816	$70,000	$7,816	11.2%
Domestic Insurance	$1	$400	-$399	-99.7%
Business and Property	$0	$0	$0	---
Cigarette	$76,957	$78,400	-$1,443	-1.8%
Alcoholic Beverage	$5,024	$4,600	$424	9.2%
Liquor Gallonage	$2,680	$2,600	$80	3.1%
Estate	$622	$1,500	-$878	-58.5%
Total Tax Revenue	**$1,409,013**	**$1,519,700**	**-$110,687**	**-7.3%**
NONTAX REVENUE				
Earnings on Investments	$81	$36,400	-$36,319	-99.8%
Licenses and Fees	$8,486	$9,200	-$714	-7.8%
Other Revenue	$6,224	$4,550	$1,674	36.8%
Total Nontax Revenue	**$14,792**	**$50,150**	**-$35,358**	**-70.5%**
TRANSFERS				
Liquor Transfers	$12,000	$12,000	$0	0.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$13,060	-$13,060	-100.0%
Total Transfers In	**$12,000**	**$25,060**	**-$13,060**	**-52.1%**
TOTAL STATE SOURCES	**$1,435,805**	**$1,594,910**	**-$159,105**	**-10.0%**
Federal Grants	$207,061	$419,090	-$212,029	-50.6%
TOTAL GRF SOURCES	**$1,642,866**	**$2,014,000**	**-$371,134**	**-18.4%**

* August 2007 estimates of the Office of Budget and Management.
**Commercial activity tax receipts in FY 2008 are non-GRF.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2008 as of March 31, 2008
($ in thousands)
(Actual based on report run in OAKS on April 7, 2008)

	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$658,226	$703,455	-$45,229	-6.4%	$657,142	0.2%
Nonauto Sales and Use	$5,042,874	$5,014,100	$28,774	0.6%	$4,858,831	3.8%
Total Sales and Use Taxes	$5,701,100	$5,717,555	-$16,455	-0.3%	$5,515,974	3.4%
Personal Income	$5,964,248	$6,113,700	-$149,452	-2.4%	$5,800,997	2.8%
Corporate Franchise	$494,741	$550,800	-$56,059	-10.2%	$705,454	-29.9%
Public Utility	$94,020	$110,300	-$16,280	-14.8%	$103,665	-9.3%
Kilowatt Hour Excise	$210,854	$209,100	$1,754	0.8%	$252,263	-16.4%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$272,305	$277,700	-$5,395	-1.9%	$269,270	1.1%
Domestic Insurance	$434	$1,200	-$766	-63.8%	$107	305.4%
Business and Property	$393	$840	-$447	-53.2%	$472	-16.7%
Cigarette	$654,158	$662,600	-$8,442	-1.3%	$682,898	-4.2%
Alcoholic Beverage	$42,342	$42,600	-$258	-0.6%	$41,941	1.0%
Liquor Gallonage	$26,318	$26,800	-$482	-1.8%	$25,801	2.0%
Estate	$31,648	$41,800	-$10,152	-24.3%	$34,032	-7.0%
Total Tax Revenue	**$13,492,562**	**$13,754,995**	**-$262,433**	**-1.9%**	**$13,432,874**	**0.4%**
NONTAX REVENUE						
Earnings on Investments	$83,849	$121,400	-$37,551	-30.9%	$130,656	-35.8%
Licenses and Fees	$59,788	$60,544	-$756	-1.2%	$58,952	1.4%
Other Revenue	$77,158	$52,004	$25,154	48.4%	$104,713	-26.3%
Total Nontax Revenue	**$220,794**	**$233,948**	**-$13,154**	**-5.6%**	**$294,321**	**-25.0%**
TRANSFERS						
Liquor Transfers	$128,000	$123,000	$5,000	4.1%	$105,000	21.9%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$523,610	$569,120	-$45,510	-8.0%	$206,304	153.8%
Total Transfers In	**$651,610**	**$692,120**	**-$40,510**	**-5.9%**	**$311,304**	**109.3%**
TOTAL STATE SOURCES	**$14,364,966**	**$14,681,063**	**-$316,097**	**-2.2%**	**$14,038,499**	**2.3%**
Federal Grants	$4,248,471	$4,449,408	-$200,937	-4.5%	$4,153,498	2.3%
TOTAL GRF SOURCES	**$18,613,437**	**$19,130,471**	**-$517,034**	**-2.7%**	**$18,191,997**	**2.3%**

* August 2007 estimates of the Office of Budget and Management.

**Commercial activity tax receipts in FY 2008 are non-GRF.

Detail may not sum to total due to rounding.

All major tax sources were below estimate and the year-to-date negative variance grew in March.

GRF receipts for March were $371.1 million (18.4%) below estimate, in part due to less than expected receipts from federal grants.

After three quarters, FY 2008 GRF receipts were $517.0 million (2.7%) below estimate.

Revenues

— Jean J. Botomogno, Senior Economist, 614-644-7758

Overview

GRF receipts in March were below estimate (Table 1), increasing the negative variance for the fiscal year (Table 2). All the major tax sources were below estimate. As the economy continues to slow and possibly goes through a recession, receipts are likely to remain below estimate for the remainder of the fiscal year.

Month of March

Total GRF receipts for March were $1,642.9 million, $371.1 million (18.4%) below estimate. The $1,435.8 million in state-source receipts were below estimate by $159.1 million (10.0%) and the $207.1 million in federal grants were below estimate by $212.0 million (50.6%).[1] Federal grants were less than estimate because a payment expected in March was received in April. State-source receipts included $1,409.0 million in tax revenues, which were below estimate by $110.7 million (7.3%); $14.8 million in nontax revenues; and $12.0 million in transfers in.

Most tax revenues were below estimate. The personal income tax was below estimate by $31.2 million (6.3%) and the corporate franchise tax was below estimate by $20.5 million (8.7%). The nonauto sales and use tax was below estimate by $40.7 million (7.8%) and the auto sales and use tax was below estimate by $23.0 million (25.3%). The cigarette tax was below estimate by $1.4 million (1.8%) and the kilowatt hour excise tax was below estimate by $1.4 million (7.8%). Only one tax, the foreign insurance tax, was significantly above estimate, by $7.8 million (11.2%).

FY 2008 to Date

After the first nine months of FY 2008, total GRF receipts were $18,613.4 million, $517.0 million (2.7%) below estimate. State-source receipts of $14,365.0 million were below estimate by $316.1 million (2.2%), and the $4,248.5 million in federal grants were below estimate by $200.9 million (4.5%). State-source receipts included $13,492.6 million in tax revenues, which were below estimate by $262.4 million (1.9%), $220.8 million in nontax revenues, which were below estimate by $13.2 million (5.6%), and $651.6 million in transfers in, which were below estimate by $40.5 million (5.9%).

Revenues from all but two taxes were below estimate for the fiscal year. The personal income tax was below estimate by $149.5 million (2.4%), the corporate franchise tax was below estimate by $56.1 million (10.2%), and the auto sales and use tax was below estimate by $45.2 million (6.4%). The public utility excise tax was below estimate by $16.3 million (14.8%), and the estate tax was below estimate by

[1] Federal grants are federal reimbursements for programs administered by the Department of Job and Family Services, such as Medicaid and Temporary Assistance for Needy Families (TANF). The amount received depends on expenditures for human services programs that require federal participation. Any changes in state spending in these areas will change receipts from federal grants.

$10.2 million (24.3%). The cigarette tax was below estimate by $8.4 million (1.3%), and the foreign insurance tax was below estimate by $5.4 million (1.9%). The two taxes above estimate were the nonauto sales and use tax, above estimate by $28.8 million (0.6%), and the kilowatt hour excise tax, above estimate by $1.8 million (0.8%).

The negative variance in nontax revenues was again due to earnings on investments, which were $37.6 million (30.9%) below estimate. Although earnings for the second quarter have been posted, earnings for the third quarter, scheduled to be posted in March, have not been posted.

Year-to-Year Comparison

Total FY 2008 GRF receipts through March 2008 were $421.4 million (2.3%) higher than total FY 2007 GRF receipts through March 2007. State-source receipts were up $326.5 million (2.3%) from this time last year and federal grants were up $95.0 million (2.3%). Tax revenues were up $59.7 million (0.4%) compared to last year. The personal income tax was up 2.8%, the nonauto sales and use tax was up 3.8%, and the auto sales and use tax was up 0.2%. The corporate franchise tax was down 29.9%, due in part to the scheduled phaseout of this tax on nonfinancial corporations; the kilowatt hour excise tax was down 16.4%; the public utility excise tax was down 9.3%; and the estate tax was down 7.0%. The cigarette tax was down 4.2%; the alcoholic beverage tax was up 1.0%; and the liquor gallonage tax was up 2.0%.

Personal Income Tax

Withholding, which is expected to account for 70.8% of gross personal income tax collections for the fiscal year, was below estimate for the third consecutive month and the fourth month in the last five, slipping from $78.4 million (3.1%) above estimate at the end of October to $14.3 million (0.2%) below estimate at the end of March. Quarterly estimated payments,[2] which are expected to account for 14.9% of gross collections for the fiscal year, continued to track below estimate and are now $17.9 million (1.7%) below estimate. Further signs of a weakening economy suggest that income tax revenue is likely to finish FY 2008 below estimate.

Income tax withholding, which reflects the condition of the labor market, was below estimate in four of the last five months.

Month of March. In March, the GRF received $465.9 million from the personal income tax, which was below estimate by $31.2 million (6.3%). GRF revenue from the personal income tax is equal to gross collections, which were $15.7 million (2.1%) greater than estimate, after subtracting both refunds, which were $42.5 million (21.0%) greater than estimate, and distributions to the local government funds, which were $4.4 million (10.1%) greater than estimate. Gross collections are the sum of withholding, which was below estimate by $9.7 million (1.5%), quarterly estimated payments, which were above estimate by $0.3 million (1.9%), trust payments, which were below estimate by $83,000 (4.9%), payments associated with annual returns, which were above estimate by $31.2 million (58.3%), and miscellaneous payments, which were below

[2] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. These payments are usually made by taxpayers with significant nonwage income. This income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

Year-to- date income tax receipts were $149.5 million (2.4%) below estimate.

estimate by $6.0 million (41.1%). The monthly comparisons with estimates continue to be impacted by an accelerated rate of filing by taxpayers responding to the federal economic stimulus package. Taxpayers need to file a 2007 return in order to be eligible for their stimulus checks.

FY 2008 to Date. The GRF received $5,964.2 million from the personal income tax in the first three quarters of FY 2008. This amount was $149.5 million (2.4%) below estimate. Gross collections were $3.7 million (0.1%) above estimate and refunds were $145.8 million (20.0%) above estimate. Withholding was $14.3 million (0.2%) below estimate, quarterly estimated payments were $17.9 million (1.7%) below estimate, trust payments were $3.6 million (10.3%) above estimate, payments associated with annual returns were $41.6 million (19.4%) above estimate, and miscellaneous payments were $9.3 million (13.9%) below estimate.

Year-to-Year Comparison. Compared to a year ago, GRF revenue from the personal income tax in the first three quarters of the fiscal year was up by $163.3 million (2.8%). Gross collections were up by $102.6 million (1.4%) and refunds were up by $75.4 million (9.4%). Withholding was up by $27.8 million (0.5%), quarterly estimated payments were up by $30.5 million (2.9%), trust payments were down by $0.3 million (0.7%), payments associated with annual returns were up by $53.0 million (26.1%), and miscellaneous payments were down by $8.4 million (12.8%). Distributions to the local government funds were $135.4 million (20.7%) less than at this point in FY 2007 because of changes in the funding formula enacted in H.B. 119.

Sales and Use Tax

Year-to-date sales and use tax receipts fell below estimate for the first time since October.

In March 2008, sales and use tax receipts finally reflected continuing months of lethargic economic activity. GRF sales and use tax revenues were $546.7 million, $63.7 million (10.4%) below projected revenues. March 2008 receipts were also $16.7 million (2.9%) below revenues in March 2007. For the third quarter of FY 2008, receipts were 1.7% below estimate and 0.5% above receipts in the third quarter of FY 2007. In contrast, second-quarter sales and use tax receipts were 0.9% above estimate and 6.0% above receipts in the second quarter of FY 2007. The performance of the tax in March turned the fiscal year-to-date variance of receipts against estimate negative. Through March, FY 2008 year-to-date sales and use tax revenues were $5,701.1 million, $16.5 million (0.3%) below estimate, and $185.1 million (3.4%) above FY 2007 year-to-date receipts through March 2007.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[3] arise from the sale of motor vehicles. Nonauto sales and use tax collections arise from other sales. Auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto sales and use tax, instead of the auto sales and use tax.

[3] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

Nonauto Sales and Use Tax

Receipts in March 2008 suggest that the growth in the nonauto sales and use tax base and purchases of taxable items and services stalled in the last two months. As economic growth falters and consumers continue to be under pressure from weakening labor markets and high gas and food prices, this tax source will remain under significant pressure in the remaining months of the fiscal year.

Month of March. Receipts from the nonauto sales and use tax during the month were $478.8 million, $40.7 million (7.8%) below estimate. Monthly receipts were also $2.0 million (0.4%) below revenues a year ago in March 2007. For the second month in a row, the monthly year-over-year growth of receipts from the nonauto sales and use tax was negative. For the third quarter (January - March), nonauto sales and use tax receipts were 0.9% below estimate and 0.6% above receipts in the same quarter a year ago. In contrast, in the second quarter, receipts were 1.4% above estimate and 6.3% above those of the second quarter of 2007.

FY 2008 to Date. Through March, FY 2008 nonauto sales and use tax receipts were $5,042.9 million, $28.8 million (0.6%) above estimate, and $184.0 million (3.8%) above receipts through March in FY 2007.

Monthly nonauto sales and use tax receipts substantially fell below estimate for the first time this fiscal year.

Auto Sales and Use Tax

The slowdown in consumption has negatively affected auto sales and use tax receipts as consumers hold back on purchases of expensive items such as vehicles. Weaker automobile demand and higher lending standards for vehicles have combined to create one of the worst periods in several years for the vehicle industry. March sales were down 12% from a year ago; for the quarter, sales were off 8%.

Month of March. After posting surprising positive results in January and February, receipts from the auto sales and use tax were poor. Receipts were $67.9 million in March 2008, $23.0 million (25.3%) below estimate. Auto sales and use tax receipts were $14.6 million (17.7%) lower than revenues in the same month last year. Revenues have generally been below estimate throughout the year, and the overall trend of receipts from the auto sales and use tax worsened in the third quarter. For the third quarter, auto sales and use tax revenues were 7.8% below estimate and 0.6% below third-quarter receipts in FY 2007. In the preceding quarter, receipts were 3.4% below estimate, but were 4.2% above second-quarter receipts in FY 2007.

FY 2008 to Date. Through March, FY 2008 year-to-date auto sales and use tax receipts were $658.2 million, $45.2 million (6.4%) below estimate, but $1.1 million (0.2%) above receipts through March in FY 2007. In February, year-to-date receipts were $15.6 million (2.7%) above receipts in the same period in FY 2007.

Poor March auto sales and use tax receipts increased the year-to-date negative variance against estimate.

Corporate Franchise Tax

The second major corporate franchise tax (CFT) estimated payment was due on March 31, 2008. A portion of the tax collections were recorded in April. The remaining estimated payment of the fiscal year is due May 31, 2008. CFT March receipts were

March CFT payments were $20.5 million (8.7%) below estimate.

$216.0 million, $20.5 million (8.7%) below estimate. Compared to receipts in the same month last year, receipts were $17.5 million (7.5%) less.

The CFT underperformed in the first half of the fiscal year. Through December, CFT receipts were $69.1 million below estimate. In the third quarter of FY 2008, CFT receipts were $13.0 million above estimate, thus reducing the cumulative underage through December. Through March, FY 2008 year-to-date CFT receipts were $494.7 million, $56.1 million (10.2%) below estimate. Those receipts were also $210.7 million (29.9%) below FY 2007 receipts through March 2007. The year-over-year decline was, in part, due to the scheduled phaseout of the CFT for nonfinancial corporations. Also, corporate profits growth turned negative in the third quarter of CY 2007.[4] On a year-ago basis, profits declined 6.5% in the fourth quarter of CY 2007, the worst showing since the third quarter of CY 2001 (when the economy was in recession). Banks and other financial companies, which are not affected by the phaseout, have been particularly affected by the profit decline. Because of the phaseout of the tax for nonfinancial corporations, the relative contribution of financial corporations to total CFT receipts is increasing each fiscal year.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products have been below estimate for four consecutive months. Receipts in March 2008 were $77.0 million, $1.4 million (1.8%) below estimate. Revenues in March 2008 were $0.4 million (0.5%) above receipts in March 2007. Third-quarter receipts from this tax were poor, $10.3 million (4.5%) below estimate. Through December, FY 2008 receipts were 0.4% above estimate. Through March, FY 2008 year-to-date receipts were $654.2 million, $8.4 million (1.3%) below estimate. Those receipts were also $28.7 million (4.2%) below receipts through March in FY 2007. Receipts from taxed cigarette sales were about 5% below last year's levels and revenues from the sale of other tobacco products were up 21%.

Year-to-date receipts from the CAT remained below estimate.

Commercial Activity Tax

Receipts from the commercial activity tax (CAT) in March 2008 were $11.0 million, $1.7 million (13.2%) below estimate. For the third quarter, CAT receipts were $15.7 million, 5.7% below estimate. Through March, FY 2008 year-to-date CAT receipts were $730.4 million, $18.1 million (2.4%) below estimate. The next quarterly payment is due May 9, 2008 for taxable sales in the first quarter of CY 2008. Like other tax sources, economic headwinds have affected the growth of receipts from the CAT and it is probable CAT receipts will finish the year below estimate. FY 2008 CAT receipts are to be distributed to two non-GRF funds, the School District Tangible Property Tax Replacement Fund (70% of receipts) and the Local Government Tangible Property Tax Replacement Fund (30% of receipts). Taxpayers generally make quarterly payments, although those subject to the minimum tax make annual payments.

[4] Compared to profits in the second quarter, one measure of profit growth declined about 33% for financial firms and 14% for nonfinancial firms.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of March 2008
($ in thousands)
(Actual based on OAKS reports run April 7, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$661,583	$543,844	$117,739	21.6%
Higher Education	$175,932	$216,480	-$40,548	-18.7%
Total Education	$837,515	$760,324	$77,191	10.2%
Public Assistance and Medicaid	$832,259	$846,453	-$14,194	-1.7%
Health and Human Services	$75,217	$73,530	$1,687	2.3%
Total Welfare and Human Services	$907,476	$919,984	-$12,508	-1.4%
Justice and Public Protection	$186,950	$178,243	$8,707	4.9%
Environment and Natural Resources	$5,000	$5,376	-$377	-7.0%
Transportation	$990	$1,779	-$789	-44.4%
General Government	$56,968	$63,527	-$6,559	-10.3%
Community and Economic Development	$17,344	$20,152	-$2,808	-13.9%
Capital	$0	$160	-$160	-100.0%
Total Government Operations	$267,252	$269,237	-$1,985	-0.7%
Tax Relief and Other	$63,566	$101,552	-$37,986	-37.4%
Debt Service	$86,853	$87,462	-$609	-0.7%
Total Other Expenditures	$150,419	$189,014	-$38,595	-20.4%
Unbooked Payroll	$38,674	$0	$38,674	---
Total Program Expenditures	**$2,201,335**	**$2,138,559**	**$62,777**	**2.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$3	$0	$3	---
Total Transfers Out	$3	$0	$3	---
TOTAL GRF USES	**$2,201,338**	**$2,138,559**	**$62,780**	**2.9%**

* August 2007 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

40% of total GRF program spending is for Public Assistance and Medicaid; 27% is for Primary, Secondary, and Other Education.

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2008 as of March 31, 2008
($ in thousands)
(Actual based on OAKS reports run April 7, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2007**	**Percent Change**
Primary, Secondary, and Other Education	$5,245,307	$5,397,000	-$151,693	-2.8%	$5,216,421	0.6%
Higher Education	$1,919,649	$2,020,960	-$101,311	-5.0%	$1,855,971	3.4%
Total Education	$7,164,956	$7,417,960	-$253,004	-3.4%	$7,072,392	1.3%
Public Assistance and Medicaid	$8,261,743	$8,276,648	-$14,905	-0.2%	$7,814,198	5.7%
Health and Human Services	$958,932	$995,184	-$36,252	-3.6%	$963,887	-0.5%
Total Welfare and Human Services	$9,220,675	$9,271,832	-$51,157	-0.6%	$8,778,085	5.0%
Justice and Public Protection	$1,643,836	$1,613,715	$30,122	1.9%	$1,572,829	4.5%
Environment and Natural Resources	$83,939	$86,631	-$2,693	-3.1%	$81,234	3.3%
Transportation	$19,486	$23,757	-$4,272	-18.0%	$19,235	1.3%
General Government	$306,241	$328,106	-$21,865	-6.7%	$307,114	-0.3%
Community and Economic Development	$110,345	$125,155	-$14,810	-11.8%	$117,294	-5.9%
Capital	$66	$1,263	-$1,197	-94.8%	$90	-27.4%
Total Government Operations	$2,163,912	$2,178,627	-$14,715	-0.7%	$2,097,796	3.2%
Tax Relief and Other	$717,777	$764,554	-$46,777	-6.1%	$677,941	5.9%
Debt Service	$517,375	$535,959	-$18,584	-3.5%	$440,835	17.4%
Total Other Expenditures	$1,235,152	$1,300,513	-$65,361	-5.0%	$1,118,776	10.4%
Unbooked Payroll	$38,674	$0	$38,674	---	$0	---
Total Program Expenditures	**$19,823,368**	**$20,168,932**	**-$345,564**	**-1.7%**	**$19,067,049**	**4.0%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$394,034	-100.0%
Other Transfers Out	$618,686	$466,800	$151,886	32.5%	$309,862	99.7%
Total Transfers Out	$618,686	$466,800	$151,886	32.5%	$703,896	-12.1%
TOTAL GRF USES	**$20,442,055**	**$20,635,732**	**-$193,678**	**-0.9%**	**$19,770,945**	**3.4%**

* August 2007 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Expenditures

*— Philip A. Cummins, Economist, 614-387-1687**

Overview

Tables 3 and 4 show GRF uses for March and for FY 2008 through March, respectively. GRF uses consist primarily of program expenditures but also include transfers out. In March, GRF program expenditures totaled $2,201.3 million, $62.8 million (2.9%) more than the estimate made by the Office of Budget and Management in August 2007. Through the first nine months of FY 2008, GRF program expenditures totaled $19,823.4 million, $345.6 million (1.7%) below estimate but 4.0% above total GRF program spending in the comparable period a year earlier.

GRF program expenditures in FY 2008 through March were $345.6 million (1.7%) below estimate.

Spending in March exceeded estimate in the Primary, Secondary, and Other Education program category, by $117.7 million (21.6%), and in the Justice and Public Protection category, by $8.7 million (4.9%). The large overage in Primary, Secondary, and Other Education was caused by timing issues related to auxiliary services and foundation program payments by the Department of Education. Outlays in most other program categories last month were below estimate, including Higher Education by $40.6 million (18.7%), Tax Relief and Other by $38.0 million (37.4%), and Public Assistance and Medicaid by $14.2 million (1.7%).

For the fiscal year through nine months, expenditures were under estimate in most program categories, including Primary, Secondary, and Other Education by $151.7 million (2.8%), Higher Education by $101.3 million (5.0%), Tax Relief by $46.8 million (6.1%), Health and Human Services by $36.3 million (3.6%), General Government by $21.9 million (6.7%), Public Assistance and Medicaid by $14.9 million (0.2%), and Community and Economic Development by $14.8 million (11.8%). Year-to-date spending in the Justice and Public Protection program category exceeded estimate by $30.1 million (1.9%). Reasons for the variances in some of these programs are discussed below.

In the remaining months of this fiscal year, expenditures in program categories will tend to remain below the amounts OBM estimated last August, as the executive branch continues to implement its budget reduction plan. The plan is aimed at reducing FY 2008 GRF spending by about $202 million.

Higher Education

About 61.1% of the year-to-date underspending in the Higher Education category is from three new grant programs established by the General Assembly in H.B. 119: the Choose Ohio First Scholarship Program, the Ohio Research Scholars Program, and the James A. Rhodes Scholarship Program. The Choose Ohio First and Ohio Research Scholars programs are designed to recruit students and scientists in the fields of science, technology, engineering, mathematics, and medicine. The James A. Rhodes Scholarship Program is designed to provide aid to students attending Ohio's public community colleges. H.B. 119 appropriates a total of $90.0 million from the GRF in FY 2008 for these three programs. Spending for these programs, however, has been delayed until

Spending for three new grant programs in the Higher Education category is being delayed until FY 2009.

FY 2009, so spending in the Higher Education category should remain below estimate through the end of the fiscal year.

Tax Relief and Other

Total Tax Relief payments to local governments were below estimate in March but will rise in April-June; the timing of these outlays is quite variable.

State reimbursements to local governments for tax revenues forgone as a result of state-mandated tax rollbacks and certain tax exemptions on real and tangible personal property totaled $63.6 million in March, $38.0 million (37.4%) less than estimate, and $717.8 million through the fiscal year's first nine months, $46.8 million (6.1%) less than estimate. Reimbursements to school districts in March for the 10% rollback on residential and agricultural real property, the 2.5% rollback, and the homestead exemption were estimated at $54.5 million, but no payments were made. Reimbursements for the tax revenues forgone from the January real property tax payment for the preceding tax year are sizable in March in some years, though most of the reimbursements associated with this payment are made in April through June. But the timing is variable and these reimbursements to schools were zero in March four and five years ago. Payments to units of local government other than school districts of $63.6 million, $16.5 million more than estimate, accounted for all of the March tax relief payments. Reimbursements for the $10,000 tangible property tax exemption, totaling $30.6 million for the current fiscal year, were completed in January. These reimbursements have been declining since FY 2003 and are being phased out after FY 2009. The total of all tax relief payments in FY 2008 is projected at nearly $1.3 billion.

Medicaid

GRF expenditures in the Medicaid category in March were $759.5 million, $6.5 million (0.9%) over estimate. For the fiscal year to date, outlays of $7,508.1 million in this category were $18.8 million (0.3%) over estimate. Details are shown in Table 5. Medicaid spending accounts for about 90% of outlays in the Public Assistance and Medicaid program category.

GRF year-to-date Medicaid spending was 0.3% over estimate .

In March, higher Aged, Blind, and Disabled (ABD) caseloads continued to account for some of the higher than estimated payments for inpatient and outpatient hospital services. Total ABD caseloads were over estimate by about 5,000 in February 2008: ABD fee-for-service caseloads were over estimate by about 20,000, while ABD managed care caseloads were below estimate by about 15,000. This enrollment disparity between fee-for-service and managed care caseloads is reflected in lower than expected payments to ABD managed care plans (MCPs) and higher than expected fee-for-service payments in the other service categories, particularly the hospital categories. Expenditures for ABD MCPs fell below estimate by $18.7 million (13.8%) for the month, while expenditures exceeded estimate by $21.1 million (29.1%) for inpatient hospitals and by $7.7 million (28.4%) for outpatient hospitals.

Year-to-date spending was under estimate by $148.4 million (12.7%) for ABD MCPs and by $74.9 million (3.7%) for Nursing Facilities, while spending exceeded estimate by $156.3 million (26.7%) for Inpatient Hospitals, by $47.6 million (21.2%) for Outpatient Hospitals, and by $44.3 million (6.9%) for the All Other service category. The year-to-date variance for hospital expenditures is affected by $35.1 million of inpatient and outpatient hospital claims that were budgeted for FY 2007 but were paid in FY 2008, causing a one-time increase in FY 2008 spending.

The year-to-date Medicaid spending estimate assumed a start date of January 2008 for implementation of all Medicaid population expansions and rate increases for hospitals and community providers. While most of these expansions and the rate increases have been delayed, higher than expected caseloads and unrealized cost savings have contributed to year-to-date Medicaid expenditures being slightly over estimate.

** Todd A. Celmar, Economist, 614-466-7358, contributed to the Medicaid section of this Expenditures report; Mary E. Morris, Budget Analyst, 614-466-2927, contributed to the Higher Education section.*

Table 5: Medicaid Spending in FY 2008
($ in thousands)

Medicaid (600-525) Payments by Service Category	March Actual	March Estimate	March Variance	March Percent Variance	Year to Date Actual thru March	Year to Date Estimate thru March	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$200,627	$211,323	-$10,696	-5.1%	$1,933,941	$2,008,855	-$74,914	-3.7%
ICFs/MR	$41,088	$41,576	-$488	-1.2%	$396,257	$396,977	-$720	-0.2%
Inpatient Hospitals	$93,730	$72,585	$21,145	29.1%	$742,522	$586,208	$156,314	26.7%
Outpatient Hospitals	$34,653	$26,983	$7,670	28.4%	$272,387	$224,746	$47,641	21.2%
Physicians	$31,609	$29,921	$1,688	5.6%	$238,982	$226,133	$12,849	5.7%
Prescription Drugs	$47,291	$41,829	$5,462	13.1%	$359,123	$339,581	$19,542	5.8%
ODJFS Waivers	$28,841	$30,078	-$1,237	-4.1%	$235,292	$246,840	-$11,548	-4.7%
MCP - CFC	$236,666	$238,084	-$1,418	-0.6%	$2,075,480	$2,089,615	-$14,135	-0.7%
MCP - ABD	$117,062	$135,746	-$18,684	-13.8%	$1,024,040	$1,172,400	-$148,360	-12.7%
Medicare Buy-In	$24,566	$28,353	-$3,787	-13.4%	$223,479	$237,338	-$13,859	-5.8%
All Other	$88,651	$80,611	$8,040	10.0%	$689,025	$644,720	$44,305	6.9%
DA Medical	$1,380	$1,482	-$102	-6.9%	$12,417	$12,675	-$258	-2.0%
Total Payments	$946,164	$938,571	$7,593	0.8%	$8,202,945	$8,186,088	$16,857	0.2%
Offsets								
Drug Rebates	-$10,937	-$11,333	$396	-3.5%	-$55,557	-$59,000	$3,443	-5.8%
Revenue and Collections	-$6,616	-$6,496	-$120	1.8%	-$32,764	-$32,479	-$285	0.9%
ICF/MR Franchise Fees	-$910	-$910	$0	0.0%	-$4,551	-$4,551	$0	0.0%
NF Franchise Fees	-$21,875	-$21,875	$0	0.0%	-$109,375	-$109,375	$0	0.0%
IMD/DSH Payments	-$12,500	-$12,500	$0	0.0%	-$37,500	-$37,500	$0	0.0%
MCP Assessments	-$28,339	-$28,339	$0	0.0%	-$105,679	-$105,679	$0	0.0%
Health Care Federal	-$125,379	-$125,962	$583	-0.5%	-$530,882	-$536,132	$5,250	-1.0%
Total Offsets	-$206,556	-$207,415	$859	-0.4%	-$876,308	-$884,716	$8,408	-1.0%
Total 600-525 (net of offsets)	$739,608	$731,156	$8,452	1.2%	$7,326,637	$7,301,372	$25,265	0.3%
Medicare Part D (600-526)	$19,847	$21,840	-$1,993	-9.1%	$181,426	$187,889	-$6,463	-3.4%
Total GRF	**$759,455**	**$752,996**	$6,459	**0.9%**	**$7,508,063**	**$7,489,261**	$18,802	**0.3%**
Total All Funds	**$966,011**	**$960,411**	$5,600	**0.6%**	**$8,384,371**	**$8,373,977**	$10,394	**0.1%**

Source: Ohio Department of Job & Family Services.

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded
ODJFS - Ohio Department of Job and Family Services
MCP - Managed Care Plan
CFC - Covered Families and Children
ABD - Aged, Blind, and Disabled
DA Medical - Disability Medical Assistance
NF - Nursing Facilities
IMD/DSH - Institutions for Mental Disease/Disproportionate Share

Issue Updates

Most Degree-Granting Proprietary Schools Complete Application for Authorization from the Board of Regents

— Mary E. Morris, Budget Analyst, 614-466-2927

As of March 15, 2008, most degree-granting proprietary schools had applied to receive certificates of authorization from the Board of Regents (BOR). H.B. 119 requires that proprietary schools receive authorization from BOR in order for new students enrolling after the 2007-2008 academic year to be eligible to receive an Ohio College Opportunity Grant (OCOG). OCOG is a statewide need-based aid program established in FY 2007 to replace the Ohio Instructional Grant, which is being phased out. In FY 2007, over 3,000 OCOG awards totaling about $9.1 million were made to students of 35 proprietary schools. Two of these schools, DeVry University and Bryant and Stratton College, already have certificates of authorization from BOR. All but two of the remaining schools have completed their applications. H.B. 119 requires that BOR complete the authorization review for schools within 22 weeks of the submission of their applications, so these schools are all on track to have the review completed before the 2008-2009 academic year. According to a spokesperson at BOR, staff are working with the institutions whose applications are not complete and expect the review of these schools' applications will also be completed before the OCOG eligibility changes take effect.

State Awards Funds to Additional School Districts for Early Childhood Education Programs

— Andy Plagenz, Budget Analyst, 614-728-4815

In FY 2008, the State Board of Education has awarded more than $11.3 million to 61 additional school districts for early childhood education programs. These programs serve preschool aged children from families earning up to 200% of the federal poverty level. H.B. 119 appropriates just over $31.0 million in GRF funding for the programs in FY 2008, a 52.5% increase over FY 2007 funding levels. It requires that the increase in the appropriation be directed to programs that did not receive funding in FY 2007. To be eligible for this funding, new providers must be eligible for poverty-based assistance, a subsidy provided to school districts with relatively high concentrations of students from low-income families. In FY 2008, 418 school districts (68.3%) are eligible for poverty-based assistance. The 61 newly funded programs increase the number of children served from 3,734 in 112 school districts in FY 2007 to 6,006 in 173 school districts in FY 2008. The districts with newly funded early childhood education programs are listed below.

School Districts with Newly Funded Early Childhood Education Programs in FY 2008					
County	School District	County	School District	County	School District
Allen	Lima	Hocking	Logan Hocking	Pike	Eastern
Ashtabula	Ashtabula Area	Jefferson	Toronto	Ross	Adena
Ashtabula	Conneaut Area	Lake	Painesville City	Ross	Union Scioto
Belmont	Bridgeport	Lawrence	Chesapeake Union	Scioto	Bloom-Vernon
Belmont	Martin's Ferry	Lawrence	Dawson-Bryant	Scioto	Clay
Butler	Hamilton	Lawrence	New Lexington	Scioto	Green
Butler	Middletown	Lawrence	Rock Hill	Scioto	Minford
Butler	New Miami	Lawrence	Symmes Valley	Scioto	New Boston
Clark	Springfield	Lorain	Oberlin	Scioto	Northwest
Columbiana	Wellsville	Mahoning	Campbell	Scioto	Portsmouth
Coshocton	Coshocton	Mahoning	Youngstown	Scioto	Valley
Cuyahoga	Maple Heights	Marion	Marion	Scioto	Washington-Nile
Cuyahoga	Warrensville Heights	Meigs	Meigs	Scioto	Wheelersburg
Erie	Sandusky	Meigs	Southern	Stark	Canton
Franklin	Hamilton	Montgomery	Jefferson Township	Stark	Sandy Valley
Gallia	Gallipolis	Montgomery	Trotwood Madison	Trumbull	Liberty
Greene	Fairborn	Muskingum	Franklin	Trumbull	Warren
Greene	Xenia	Muskingum	Zanesville	Tuscarawas	Claymont
Guernsey	Cambridge	Perry	Southern	Tuscarawas	Newcomerstown
Hamilton	Princeton	Pickaway	Circleville	Wayne	Wooster
Harrison	Harrison Hills				

Board of Education Approves Increase in Educator Licensure Fees

— Andy Plagenz, Budget Analyst, 614-728-4815

In February 2008, the State Board of Education approved increases, effective March 1, 2008, to the fee schedule for all educator licenses and permits in the state. In general, on an annualized basis, fees were increased from $12 to $40 per year. For example, the fee for the five-year professional teaching license increased from $60 ($12 x 5) to $200 ($40 x 5). Based on the total number of licenses and permits issued by the Ohio Department of Education (ODE) in the 2006-2007 school year, the fee increase is expected to generate approximately $5 million in additional revenue each year. Ohio law permits the State Board to annually establish the fee schedule for all educator licenses and permits such that the fee revenue is sufficient to cover the costs associated with the processing of licensure applications, technical assistance related to licensure, and the administration of the teacher disciplinary process.

In 1993, the General Assembly established the Teacher Certification and Licensure Fund to receive the revenues from educator license and permit fees. From FY 2002 to FY 2007, these revenues averaged about $4.2 million per year. From FY 2002 to FY 2005, expenditures averaged about $4.1 million per year so that the fund had a balance of about $6.6 million at the end of FY 2005. The State Board received Controlling Board approval for increased spending out of the fund in the amount of $1.2 million in both FY 2006 and FY 2007 for the development and implementation of the Connected Ohio Records for Educators (CORE) program. The CORE program allows educators and school districts to apply and pay for licenses, complete applications for jobs, register and apply for funding for the Entry Year program (a mentoring program for new teachers), and perform other tasks online. The increase in annual expenditures beginning in FY 2006 has led to a decline in the cash balance of the fund, to about $1.6 million at the end of FY 2007.

The State Board expects the additional revenue from the fee increase to cover the cost of CORE as well as a new program of case management related to professional misconduct and participation of educator license and permit holders in the "rap back" service provided by the Bureau of Criminal Identification and Investigation (BCII). The rap back service will allow ODE and the employing school district to receive automatic reports if a license holder is arrested.

Transfer of Telecommunications Towers from eTech to OIT Nears Completion

— Edward Millane, Budget Analyst, 614-995-9991

According to a spokesperson for the eTech Ohio Commission, eTech is currently working with the Department of Administrative Services (DAS) to complete the transfer of 18 telecommunications towers to the Office of Information Technology (OIT). This transfer is authorized by H.B. 119. OIT's Multi-Agency Radio Communications System (MARCS) has already assumed the responsibility for maintenance of these 18 tower sites and has been working with public broadcasters on transition issues. MARCS supplies a communications base for statewide public safety and emergency management in a single system shared by several state agencies. According to a spokesperson for MARCS, seven towers will be sold or torn down. The remaining 11 towers will continue to support Ohio's public television and radio affiliates, as well as the radio operations of MARCS.

For maintenance purposes and for costs associated with updating the towers to meet the federal government's requirement for digital signal conversion in February 2009, the MARCS spokesperson anticipates that, subject to approval by the MARCS Steering Committee, all entities using the towers will pay a $150 monthly fee, in addition to monthly antenna electricity usage fees, beginning July 1, 2009. The $150 monthly fee is the same amount that public safety agencies have been charged for using the towers since 2004, although, if approved, it will be a new cost for public broadcasters who did not pay for use of the towers when they were under eTech.

Job and Family Services to Receive $8.9 Million of Merck Settlement

—Todd A. Celmar, Economist, 614-466-7358

The Ohio Department of Job and Family Services (ODJFS) will receive $8.9 million as the state's share of the $30 million settlement with Merck & Co., Inc. The $8.9 million will be deposited into the Medicaid Revenue and Collections Fund to be used by ODJFS for the Medicaid program. The remainder of the settlement has been paid directly to the federal government as the federal share of Ohio's recovery.

Ohio's share of the settlement is part of a worldwide multi-party agreement with the drug manufacturer totaling $649 million. It was alleged that Merck concealed information on discounts it provided to some hospitals for certain brand name drugs (particularly Vioxx and Zocor), which resulted in smaller rebates paid to states' Medicaid programs. Federal regulations require all drug manufacturers to pay state Medicaid agencies quarterly rebates on brand name drugs equal to either 15.1% of the average manufacturer's price (AMP) or to the difference between AMP and the manufacturer's best price, whichever is greater, with an additional discount if the price of a drug increased faster than inflation since its inception. Rebates on generic drugs are 11% of AMP.

State Not Going Forward with Initiative to Seek Federal Medicaid Reimbursement for Prisoner Inpatient Services

— Joseph Rogers, Senior Budget Analyst, 614-644-9099

According to ODJFS, the H.B. 119 initiative seeking federal Medicaid reimbursement for inpatient hospital care for inmates in the state prison system will not be implemented due to its administrative complexity. In anticipation of the implementation of this initiative, H.B. 119 establishes spending authority for the Department of Rehabilitation and Correction's (DRC) federally funded line item 501-621, Medicaid Inpatient Services, in the amount of $11.6 million in FY 2008 and $15.5 million in FY 2009. The initiative was to take advantage of a specific exemption under federal law that allows federal funding for services provided to a Medicaid-eligible inmate when the inmate is admitted into a hospital for inpatient care. To implement this initiative, ODJFS or county departments of job and family services would have had to determine Medicaid eligibility for all inmates admitted to hospital for inpatient care. While DRC would have continued to be responsible for the costs as under current practice, ODJFS would have sought federal reimbursement for claims for inmates who had been determined as eligible for Medicaid. ODJFS would then have transferred the reimbursement to DRC to help defray the costs. According to ODJFS, in most cases only those inmates with severe disabilities would be eligible for Medicaid. Furthermore, the federal regulations would have required the state to seek federal reimbursement for Medicaid-eligible inmates in both the state prison system and local jails. The latter would have further increased the administrative complexity since local jails make various arrangements for medical treatment of inmates.

Recovery Healthcare Assistance Program Ends in FY 2008

— Deauna Hale, Budget Analyst, 614-995-0142

The Recovery Healthcare Assistance program ended in February 2008. This program provided limited medical coverage to individuals residing in a certified residential or halfway house program or supportive housing program operated by a provider certified by the Department of Alcohol and Drug Addiction Services (ODADAS). To close out the program, ODADAS set aside $400,000 in FY 2008 to pay for medical services for the 480 individuals who were in the program as of June 30, 2007, until either all of these individuals were discharged from the program or the set aside was fully expended. As of February 15, 2008, all 480 individuals had been discharged from the program. ODADAS disbursed approximately $319,000 for medical claims. Individuals who continued to need medical assistance could, if eligible, seek such assistance from the Disability Medical Assistance (DMA) program or Medicaid program. Individuals not eligible for DMA or Medicaid could seek medical assistance from local boards of alcohol and drug addiction services. Local boards may provide some medical assistance or refer individuals to local health care providers; however, the level of assistance depends on each local area's resources. Since its inception in January 2006, the Recovery Healthcare Assistance program provided medical assistance to 3,195 individuals with expenditures totaling $2.9 million.

Supreme Court Launches the Ohio Courts Network Pilot

— Jeffrey R. Kasler, Budget Analyst, 614-644-5231

The Supreme Court of Ohio has contracted with Unisys to launch the pilot phase of the Ohio Courts Network, a data warehouse intended to store information on all state court cases. With the technology currently in place, most courts across the state are only able to access their own records and are unable to cross-reference case information with other courts in the state. The vision of the Ohio Courts Network is to ultimately enable full connectivity between the courts and allow any one court to access specific and statewide case-related information via, for example, a single-name query. GRF funding totaling $9.5 million over the FY 2008-FY 2009 biennium has been provided for the Ohio Courts Network.[1]

The Unisys contract for the pilot phase costs approximately $2.9 million. This phase is tentatively scheduled for completion in the spring of 2008 and will service approximately 20 courts in 13 counties (see table below). The Supreme Court's plan currently calls for a full-scale statewide rollout of the Ohio Courts Network in the summer of 2008. Although no contractual obligations have been formally agreed upon for this next phase, the Supreme Court plans to fund the full rollout with the remaining $6.6 million in appropriated GRF funding.

Counties Participating in Ohio Courts Network Pilot Phase				
Allen	Butler	Clermont	Cuyahoga	Darke
Franklin	Gallia	Geauga	Hamilton	Lucas
Miami	Montgomery	Morgan		

Remaining Two Capital Cases from the 1993 Lucasville Prison Riot Expected to Complete State Appeals Process Soon

— Joseph Rogers, Senior Budget Analyst, 614-644-9099

The state appeals process for the remaining two of the five death penalty cases related to the 1993 Lucasville prison riot[2] is expected to end within the next year or so. The state pays for the prosecution and indigent defense costs related to the state appeals process. State agencies seeking payment or reimbursement for legal services related to these cases are permitted to request release of the necessary moneys from funds appropriated to the Controlling Board for this purpose. Thus far, the Controlling Board has approved $3.7 million in requests submitted by the Department of Public Safety's Division of Criminal Justice Services to pay for both prosecution and the local share of indigent

[1] The original H.B. 119 appropriations for the Ohio Courts Network total $10.5 million over the biennium. The Supreme Court voluntarily reduced the project funding by $1.0 million in response to the recent executive-ordered budget reductions.

[2] The 11-day prison riot in April 1993 at the Southern Ohio Correctional Facility located in Lucasville, Ohio, led to convictions of 47 inmates, of which five received the death penalty. Three of these five death penalty cases have completed the state court appeals process and are now in the federal court appellate process.

defense expenses related to the prison riot.[3] The Division of Criminal Justice Services pays the costs of the two special prosecutors representing the state in the last two state appeals. The Ohio Public Defender Commission pays the state indigent defense expenses related to these two appeals. Over the past several years, Commission spending on these cases has been averaging less than $1,000 annually. Commission staff, however, expects counsel expenses related to these two cases to increase as the state appeals process draws to a close. This is because once inmates receive execution dates appellate activities generally increase. Once the state appeals process is completed, the cases will likely move to the federal court system.

New Mechanism for Determining Local Government Funds Went Into Effect on January 1, 2008

— Ruhaiza Ridzwan, Economist, 614-387-0476

As required by H.B. 119, beginning in January 2008, the state began using a new mechanism to determine the amounts deposited into the Local Government Fund (LGF)[4] and the Library and Local Government Support Fund (LLGSF). Under this new mechanism, all tax revenues are initially credited to the GRF. Then, each month, a percentage of total tax revenues credited to the GRF in the preceding month is credited to each fund – 3.68% to the LGF and 2.22% to the LLGSF. Through these two funds, the state is expected to distribute over $1.2 billion in FY 2008 to local governments.

Previous statutory formulas specified the percentages of revenue credited to the local government funds from the five “major” taxes: (1) the state personal income tax, (2) the sales and use tax, (3) the corporation franchise tax, (4) the public utility excise tax, and (5) the kilowatt hour tax. Compared with previous formulas, the H.B. 119 formula uses a broader base (all GRF tax revenues) to determine the amount of money distributed to the local government funds. For any given percentage earmarked, the H.B. 119 formula would result in more moneys to local governments since the GRF also receives revenues from some smaller taxes in addition to those five major taxes. Note that H.B. 94 of the 124th General Assembly enacted the first “freeze” of the local government funds in FY 2002, under which the statutory formulas were suspended and the amounts credited to and distributed from the local government funds were specified in temporary law. The “freeze” continued through the first half of FY 2008, but starting in January revenues are being distributed according to the H.B. 119 formula.

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[3] In addition to the prosecution and indigent defense costs, the state has also spent $40 million to implement a series of redesign changes in order to incorporate security features to maximize security at the Lucasville facility.

[4] H.B. 119 merged the former Local Government Revenue Assistance Fund into the Local Government Fund.

Tracking the Economy

— *Ross Miller, Senior Economist, 614-644-7768*

Overview

The strains on the economy have widened in recent months, to the point that many analysts believe it is no longer an issue of whether we are in a recession, but when the economy will recover from it. U.S. payroll employment has fallen for three straight months, and the national unemployment rate has risen to 5.1%. Falling employment is likely to weaken consumer spending, which is already weak due to consumer debt service burdens that are at near-record levels[1] and high energy prices. Global Insight, an economic forecasting firm, has dropped any qualifications and says flatly that we are now in a recession.

U.S. payroll employment fell for a third straight month.

If we are in a recession, though, many analysts predict that it will be shallow with a quick recovery, thanks primarily to two factors still supporting the economy. One is the weak dollar, which promotes U.S. exports. Exports increased by 8.1% in 2007, and Global Insight projects an additional 8.2% growth in 2008. The second is the substantial fiscal and monetary stimulus that has been introduced. Distribution of federal tax rebates to households, authorized in the fiscal stimulus package that Congress passed in February, is scheduled to begin May 2 and continue through early July. With payments up to $1,200 per household, plus $300 for each qualifying child, this will provide support for consumer spending.[2] Due largely to the timing of the fiscal stimulus, Global Insight projects economic growth in the third quarter will exceed 2% at an annualized rate, after two quarters of slight contraction.

The Federal Reserve increased the amount of monetary stimulus it is providing again this month, lowering its target for the federal funds rate from 3.0% to 2.25% at its March 18 meeting. Some Fed watchers are becoming concerned that monetary stimulus has become too generous – since September the Fed has lowered the rate from 5.25% – worrying that the Fed may allow inflation to accelerate again. Indeed, two members of the Federal Open Market Committee voted against the March 18 decrease, preferring a smaller one. Fed policymakers may be reassured somewhat that core inflation for the three months ending in February was an annualized 2.3%; while a bit high, this was lower than the 3.1% figure recorded for the three months ending in January. Certainly the Fed is facing difficult monetary policy decisions in the current environment as it attempts to balance keeping inflation low with keeping unemployment low.

[1] The Federal Reserve has tracked the debt service ratio, the ratio of consumers' debt payments to their disposable personal income, since the first quarter of 1980. The ratio was less than 12.5% every quarter until 2000. In the fourth quarter of 2007 it stood at 14.32%, just below its record level of 14.49% reached during the fourth quarter of 2006.

[2] Exactly how much support it will provide depends on consumers' choices. Global Insight projects that households will spend 20% of their rebates within three months, on average, and 50% within a year, meaning they expect much of the money to be directed to saving or paying down debt.

The Fed has been very active recently in its lender-of-last-resort capacity. It helped to facilitate the takeover of Bear Stearns by J.P Morgan Chase, in the process guaranteeing $29 billion worth of Bear Stearns' securities. It opened its discount lending window to financial institutions other than commercial banks. And it continued its occasional auctions of short-term loans to dealers, the demand for which continues to be strong.

Ohio's economy continues its struggles. The unemployment rate fell to 5.3% in February, but there was a decrease in payroll employment. Personal income rose in the fourth quarter, but weakly. In light of the difficulties nationally, a return of strong economic growth in Ohio does not appear to be imminent.

The National Economy

Production and Income

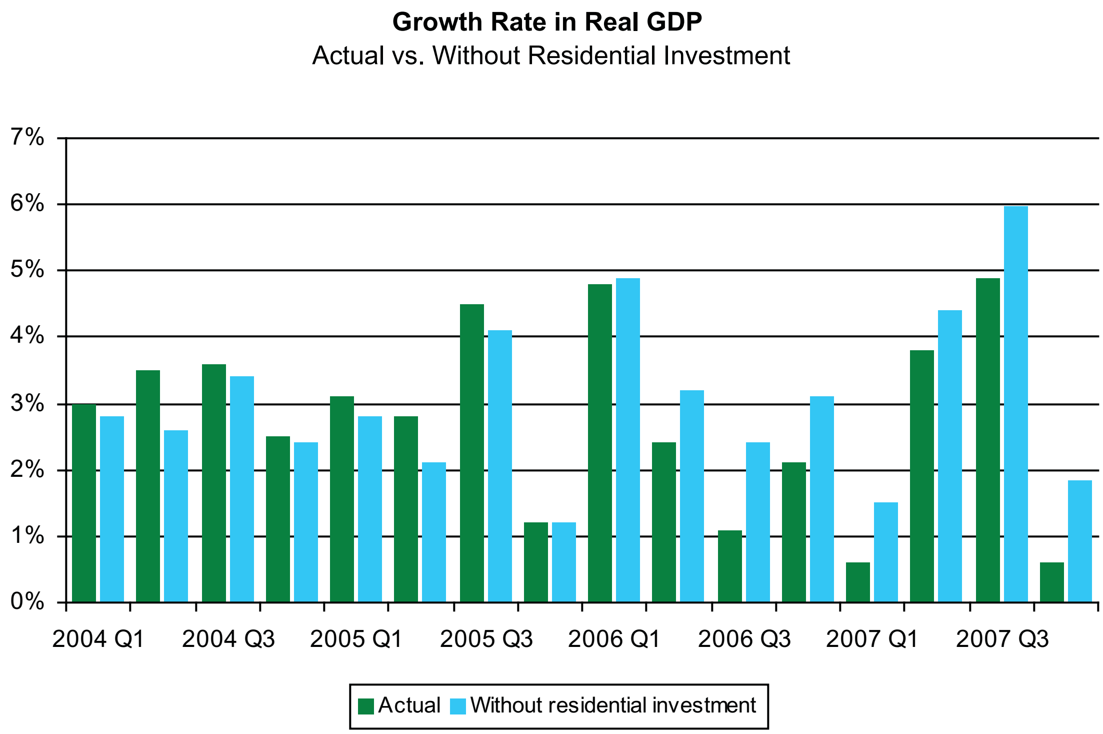
The U.S. Bureau of Economic Analysis (BEA) confirmed that U.S. real GDP grew by an annualized 0.6% in the fourth quarter, as it had estimated in both its advance and preliminary estimates. This was a sharp deceleration from the 4.9% rate in the third quarter. The first look at growth in the first quarter of 2008 is scheduled to be released on April 30.

The slowdown was primarily attributable to gross private domestic investment, which subtracted 2.40 percentage points from growth for the quarter, largely offsetting the growth contributed by consumer spending (1.58 percentage points), net exports (1.02 percentage points), and government spending (0.38 percentage point). The weakness in investment was attributable to residential fixed investment, which subtracted 1.25 percentage points from growth, and to private inventory investment, which subtracted 1.79 percentage points. The one remaining category of investment, fixed nonresidential investment, actually contributed 0.63 percentage point to growth. The chart below shows real GDP growth in recent quarters and the change in the role that residential construction has played (from aiding growth in 2005 to restricting it starting in mid-2006).

Corporate profits have also weakened. Profits from current production decreased by $52.9 billion in the fourth quarter, following a decrease of $20.5 billion in the third quarter. As one might expect, domestic profits of financial corporations were the leading cause of the decrease, having decreased by $74.4 billion for the quarter. Domestic profits of nonfinancial corporations also fell (by $34.3 billion), but profits derived from abroad grew (by $55.8 billion).

Employment, Unemployment, and Earnings

The national labor market weakened significantly in March. U.S. nonfarm payroll employment fell by 80,000, after seasonal adjustment. After revisions to the preceding two months' figures, employment fell by 232,000, or 0.2%, during the three months ending in March. This was the third straight month that employment decreased. Employment in goods-producing industries decreased by 93,000 in March. Among those industries, employment in construction fell by 51,000 and manufacturing employment fell by 48,000. Employment in the motor vehicles and parts industry accounted for about half of the decrease in overall manufacturing employment. The primary factor in the



decrease in that industry was a strike in auto parts manufacturing, which caused several plant shutdowns. Employment in service-providing industries increased by 13,000, led by education and health services employment, which increased by 42,000.

Similarly, the unemployment rate rose from 4.8% to 5.1% in March. The number of U.S. workers unemployed increased to 7.8 million, an increase of 1.1 million since the preceding March. In addition, there were 401,000 discouraged workers[3] in March, though this was about the same as a year earlier.

Average hourly earnings of production and nonsupervisory workers was $17.86 in March, after seasonal adjustment, up five cents for the month. Average hourly earnings have increased by 3.6% during the last year. Average weekly earnings rose by a slightly smaller 3.3% over the same period.

Retail Sales

U.S. retail and food services sales fell by 0.6% in February,[4] to a level 2.6% higher than February 2007. More details on February retail sales are described in the March issue of *Budget Footnotes*. Data on March retail sales are scheduled to be released on April 14, after the editorial deadline for this issue.

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[3] "Discouraged workers" is the term used to describe workers who are counted as out of the labor force, and therefore not counted as unemployed, because they did not look for a job during the four weeks preceding the survey because they believed that jobs were generally unavailable.

[4] Data on retail sales are adjusted for seasonal and trading day differences, but not for inflation.

Residential Construction and Housing Markets

February data on U.S. housing starts showed that, at a seasonally adjusted annual rate of 1,065,000, housing starts had fallen 0.6% since January and 28.4% since February 2007. The trend was less bleak for the Midwest, as housing starts were flat from January to February and had fallen 2.5% since the preceding February.

Data on building permits gave no evidence of a recovery in the near term. The number of building permits issued nationally fell 7.8% (to below one million on an annualized basis) from January to February, with February's number 36.5% below that of February 2007. For the Midwest the corresponding percentage decreases were 22.0% and 32.7%, respectively.

Manufacturing

Shipments of manufactured goods decreased by 2.1% to $423.0 billion in February, after seasonal adjustment. This was the second decrease in the last three months, but the January figure was the highest since 1992. Shipments of manufactured durable goods decreased 2.7% in February, to $210.8 billion. Sectors that were major contributors to the decline included computers and electronic products (down 10.3%), transportation equipment (3.8%), electrical equipment, appliances, and components (1.7%), and fabricated metal products (1.5%). Despite the overall decreases, shipments of machinery and of primary metals managed to grow, by 3.3% and 0.4%, respectively.

New orders for manufactured goods decreased by 1.3% in February (a second straight monthly decline), and orders for durable goods decreased 1.1% (also down a second consecutive month). New orders for machinery fell by $3.8 billion, or 12.3%, which accounted for more than the overall decrease in durable goods orders (which was $2.5 billion); new orders also fell for fabricated metal products (by 0.8%). New orders increased for several sectors, including primary metals (by 1.0%), electrical equipment, appliances, and components (1.0%), and transportation equipment (1.8%).

Inflation and Prices

Inflation moderated in February. The consumer price index for all urban consumers (CPI-U) was unchanged for the month, after seasonal adjustment; excluding food and energy, CPI-U was also unchanged. The lack of change followed rather high inflation over the preceding three months. The annualized rate for the three months ending in February fell to 3.1%, from a figure of 6.8% for the three months ending in January. Similarly, the index excluding food and energy rose by an annualized 2.3% over the three months ending in February (compared to a corresponding figure for January of 3.1%).

Similarly, price increases measured by the producer price index for finished goods moderated in February. The index increased by 0.3% after seasonal adjustment, after having increased by 1.0% in January. Nevertheless, February saw a 0.8% increase in energy prices and a 0.5% increase in the index excluding food and energy. Thus, accelerating inflation remains a concern.

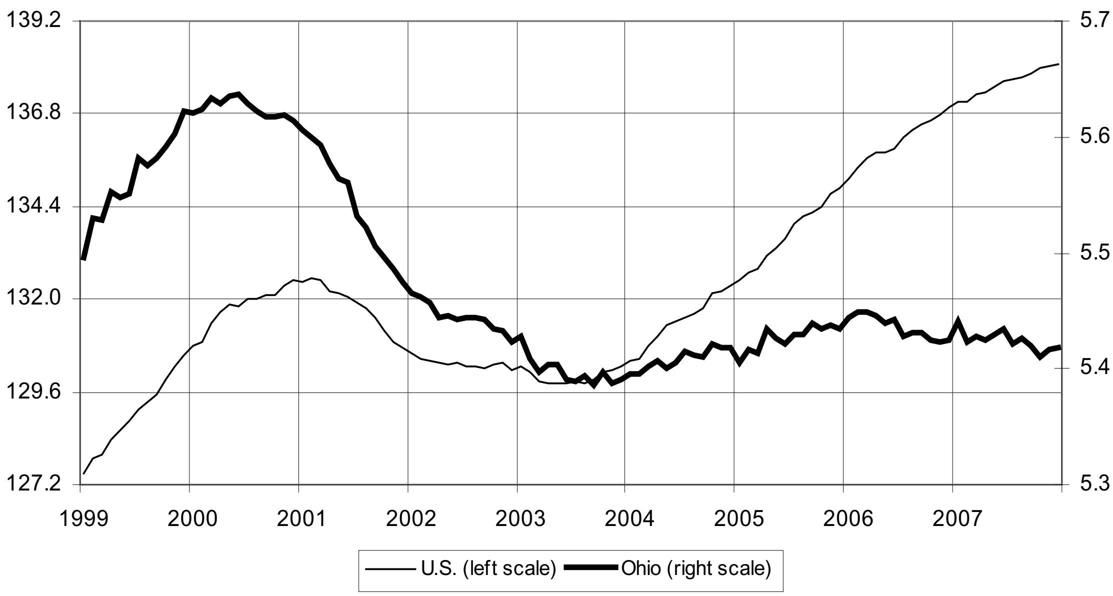
Increases in some energy prices have continued into March and April. The U.S. Energy Information Administration reports that the average price for all grades of (conventional formulas of) gasoline increased from $3.16 per gallon nationally at the end of February to $3.35 on April 7. Diesel fuel has been selling for nearly $4.00 per gallon since mid-March. The price of gasoline has been a bit lower in Ohio than nationally, with the average price rising from $3.09 in late February to $3.27 per gallon on April 7.

The Ohio Economy

Ohio's nonfarm payroll employment decreased by 11,600, or 0.2%, in February, after seasonal adjustment. The decrease reduced Ohio's employment to slightly over 5.42 million. Employment in goods-producing industries fell by 1,900, and employment in services fell by 9,700. Manufacturing employment rose slightly (by 400) for the month; the decline in goods-producing employment was due to construction employment, which fell by 2,300. The Ohio Department of Job and Family Services attributed the fall in construction employment to inclement weather. The decline in service sector employment was attributable to a variety of subsectors, including trade, transportation, and utilities (down 3,400), leisure and hospitality (1,900), financial activities (300), other services (1,000), and government (400). Even educational and health services, where employment had been growing fairly reliably, saw a decrease of 2,500. The chart below shows Ohio's payroll employment as compared with national figures since 1999.

Ohio unemployment rate fell to 5.3% in February.

Total Nonfarm Payroll Employment
(in millions, seasonally adjusted)



The news was better regarding the unemployment rate, which fell from 5.5% to 5.3% in February. The number of unemployed Ohio workers fell from 329,000 to 316,000.

Ohio's personal income grew by 0.9% in the fourth quarter,[5] bringing personal income for 2007 as a whole to $399.9 billion. Ohio ranked eighth highest among U.S. states in total personal income. Ohio's per capita personal income of $34,874 ranked 28th highest. For the year as a whole, personal income growth in 2007 was 4.7%, ranked the second-lowest growth rate among states and below the national rate of 6.2%. Growth in wage and salary disbursements accounted for 2.07 percentage points of the 4.7% growth; adding in other forms of employee compensation raised this to 2.54 percentage points. For the U.S. as a whole, growth in wages and salaries contributed 3.13 percentage points of the 6.2% growth.

The Ohio Association of Realtors reports that 14,344 homes were sold in Ohio during the first two months of 2008, a decrease of 13% compared with the corresponding months of 2007. The average sales price of $130,706 was 7.2% below that of the corresponding period.

Economic Forecast Update

Revenue forecasts that were made during the process of crafting the state's budget were based on forecasts of economic variables like real GDP (both for the U.S. and for Ohio), personal income (both U.S. and Ohio), and unemployment rates (both). The forecasts used came from the economic forecasting firm Global Insight and from the Governor's Council of Economic Advisors. This update is intended to provide legislators with a sense of how the outlook for the economy has changed since the budget bill was enacted so that they may anticipate, at least in general terms, the implications for the budget.

The table below presents the most recent (April) forecast available of selected U.S. variables compared to the forecast from May 2007. The next Ohio forecast is due next month. As the table shows, the April forecast values for FY 2008 are worse than those originally forecast for the budget, but the difference is very slight. The more recent values for FY 2009, though, are significantly less favorable. Based on the update to the forecast, the current FY 2008 revenue shortfall Ohio is experiencing is likely to be magnified in FY 2009.

Revisions to Global Insight Economic Forecast
(selected variables, state fiscal year basis)

	FY 2008		FY 2009	
Variable Name (national)	Forecast for Budget	April 2008 Forecast	Forecast for Budget	April 2008 Forecast
U.S. real GDP growth	2.3%	2.2%	3.2%	1.0%
U.S. personal income growth	5.5%	5.4%	5.6%	3.4%
U.S. CPI inflation	1.8%	3.5%	1.9%	2.4%
U.S. unemployment rate	4.8%	4.9%	4.8%	5.6%

[5] This is a seasonally adjusted annual rate.