Next

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION DECEMBER 2007

FISCAL OVERVIEW

— *Allan Lundell*

Timing issues continue to affect the reporting of receipts and expenditures. A portion of the federal grants[1] for October were received and reported in November, boosting November receipts above estimate[2] and bringing year-to-date receipts back in line with estimate. Some transfers in scheduled for November were not processed until early December, reducing both November and year-to-date through November receipts below estimate. Some payroll expenses have not yet been booked to specific agencies, which makes spending by agencies appear to be below estimate.

After five months of FY 2008, reported General Revenue Fund (GRF) receipts (including transfers in) were $375.1 million below estimate and reported expenditures (including transfers out) were $326.2 million above estimate.[3] After adjusting for the timing issues of federal grants and transfers in and for still unreported first quarter earnings on investments, total GRF receipts were below estimate by $104.3 million (1.0%). Below estimate tax revenues were partially offset by above estimate federal grants.

Receipts

Reported total GRF receipts for November were $1,952.2 million. This amount was $134.5 million (6.4%) below estimate. State-source receipts were below estimate by $342.8 million (21.4%) and federal grants were above estimate by $208.3 million (43.3%). Tax revenues were below estimate by $114.5 million (8.4%). Timing and processing issues once again affected monthly receipts. On the plus side were federal grants that made up the October shortfall. Federal grants for October were below estimate due to the timing of the receipt of the revenue associated with the last Medicaid payment for that month. The revenue was received in November, pushing November receipts above estimate. On the minus side were transfers in. Liquor transfers and a temporary transfer scheduled for November were not processed until early December.

GRF receipts for the fiscal year through November were $9,959.5 million, $375.1 million (3.6%) below estimate. State-source receipts were below estimate by $398.3 million (5.2%)

Volume 31, Number 4

Budget Footnotes examines the fiscal position of the state General Revenue Fund on a periodic basis.

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and federal grants were above estimate by $23.2 million (0.9%). Tax revenues were below estimate by $117.2 million (1.6%). The effects of the timing issues also show up in the year-to-date totals. After adjusting for the timing issues, total GRF receipts were below estimate by $104.3 million (1.0%). Below estimate tax revenues were partially offset by above estimate federal grants.

Expenditures

GRF program expenditures through the first five months of FY 2008 totaled $11,972.3 million, $191.6 million (1.6%) above estimate and 6.0% higher than year-earlier outlays. Including transfers out, total GRF uses of funds exceeded estimate by $326.2 million (2.7%) and were 4.9% higher than a year earlier. Expenditures for Primary, Secondary, and Other Education were above estimate by $129.9 million (4.2%) because of a timing issue, resulting from payments earlier than estimated that are expected to be reversed in December. Expenditures for Public Assistance and Medicaid were above estimate by $54.6 million (1.1%) because of timing and higher than estimated Medicaid caseloads. Most other categories were well under estimate, in large part reflecting booking of payroll not yet completed. Payroll expenditures totaling $296.1 million have not yet been booked to specific agencies.

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[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.

[2] "Estimate" refers to the August 2007 estimate of the Office of Budget and Management.

[3] For this purpose, LSC uses estimates as communicated to this agency by OBM early in the fiscal year and does not adjust for subsequent changes in estimate. Estimates shown here differ in some instances from those reported in OBM's Monthly Financial Report.

TRACKING THE ECONOMY

— *Ross Miller*

The story presented in last month's edition of *Budget Footnotes* continues to hold this month—backward looking economic data look favorable, yet there is growing pessimism among economic forecasters. Growth in real[1] gross domestic product (GDP) was revised upward to a healthy 4.9% (and 5.9% if the ailing residential construction sector is excluded), and U.S. employment continues to grow, if a bit slowly. Yet the Federal Reserve's Federal Open Market Committee decided to lower both the target federal funds rate (to 4.25%) and the discount rate (to 4.75%) at its December 11 meeting. The Fed followed up this decision the next day with an announcement that it would cooperate with four other central banks to auction off $40 billion worth of short-term loans to financial market institutions to promote liquidity in global credit markets.

All of the Fed's moves are intended to promote a continuation of economic growth in the face of a continuing slump in the housing market and in related financial markets. The short-term loan auction is suggestive that the Fed is even more concerned about credit markets than it is about housing markets. It is possible that a slump in one sector of the economy—even one as significant as residential housing—could be confined to the one sector. But many financial market participants suggest that there are signs of a credit crunch that would affect the ability of businesses and consumers to borrow to finance spending to keep the current expansion going.

Financial market developments since December 11 provide some support for that position. The Dow Jones Industrial Average lost over 294 points on December 11, after the Fed's decision was announced, and it has fallen further since. The December 12 edition of the *Wall Street Journal* contained reports of several interesting reactions to the Fed's moves, including those of individuals who believe that the Fed is not doing enough.[2] It is possible that these market participants are simply trying to talk the Fed into more cuts to help them with their investment positions. But they do point to a widening of the spread between interest rates on high-risk short-term assets and low-risk ones, indicating a reemergence of the apparent "flight to quality" that caused great concern in August. In particular, the ratio between the London Inter-bank Offer Rate (LIBOR), the rate that banks charge for loans to each other, and the three-month Treasury yield (considered a no-risk asset), which had fallen after its peak in early September, had increased again to 221 basis points as of December 11. Forbes.com reported that the LIBOR reached a five-year high that day, at 5.15%. This does provide support for the view that banks have restricted lending to each other, and that could have adverse effects on lending to other businesses and consumers.

Certainly the Fed's actions, and those of its fellow central banks, are intended to provide liquidity to the market and to head off any possible credit crunch. Many forecasters are projecting slower growth in the next few quarters though. Global Insight, for one, is projecting growth in real GDP averaging 0.9% over the current and next two quarters. Economists at Global Insight believe it is still likely we will avoid recession in the coming months, but they attribute that to strong exports and have raised their assessment of the probability of recession.

Production and Income

Real U.S. GDP grew by (an annualized) 4.9% in the third quarter of 2007. This "preliminary estimate" was revised upward from the "advance estimate" released earlier by a full percentage point (from 3.9%). The upward revision in GDP growth was attributable to upward revisions to private inventory investment and to exports, combined with a downward revision to imports. The effects of these revisions on growth were partially offset by a downward revision to consumer spending.

Contributions to growth came from all the major GDP categories, after the revisions. Consumer spending contributed 1.88 percentage points of growth, gross private domestic investment contributed 0.92 percentage points, net exports of goods and services contributed 1.37 points, and government consumption expenditures and gross investment contributed 0.75 points. The revisions did not change the fact that fixed residential investment (a subcomponent of gross private domestic investment) continued to act as a drag on growth, subtracting 1.03 percentage points from growth. This "preliminary estimate" of growth is subject to one more revision.

Growth in the third quarter accelerated somewhat from growth experienced during the second quarter (3.8%). The main reason for this acceleration was consumer spending, which contributed exactly 1.00 percentage point of growth in the second quarter. The slump in housing markets and related financial markets was contained in those sectors through the third quarter—real GDP growth excluding fixed residential investment was almost 6.0%. Output of goods and services for export should remain healthy due to the weak dollar.

The main question for the coming quarters is what will happen to consumer spending. Several factors lead many economists to foresee a slowdown in consumer spending. One of the drivers of consumer spending growth for several years was increased wealth as housing prices rose sharply. That source of growth is not only gone, but it has been reversed as housing prices decline. High oil prices, over $90 per barrel, along with high prices for other forms of energy, mean higher prices for necessities like gasoline and home heating. These developments may lead to lower spending. Those economists who do maintain some degree of optimism point to wage and salary income, which has continued to grow, as an income source that will support consumer spending going forward.

Another concern related to consumer spending is the level of household debt. To the extent that consumers have to use income to make payments on debt accumulated in the past, that is money that is unavailable for spending on current production. The Federal Reserve compiles and publishes data on consumer debt in the form of a debt service ratio (DSR)—an estimate of the ratio of debt payments to disposable personal income. The ratio reached an all-time high (since the series began in 1980) in the fourth quarter of 2006, at 14.48%. The DSR fell to 14.31% in the first quarter of 2007, increased slightly in the second quarter, and decreased again in the third quarter, to 14.32%. Although it has fallen in two of the last three quarters, the DSR is still high by historical standards. The ratio fluctuated between approximately 10.5% and 12.5% from 1980 until the third quarter of 2000, when it began trending upward.

The Federal Reserve's "Beige Book," released on November 28, reports that economic growth in the Cleveland district,[3] "although positive, has slowed since our last report."

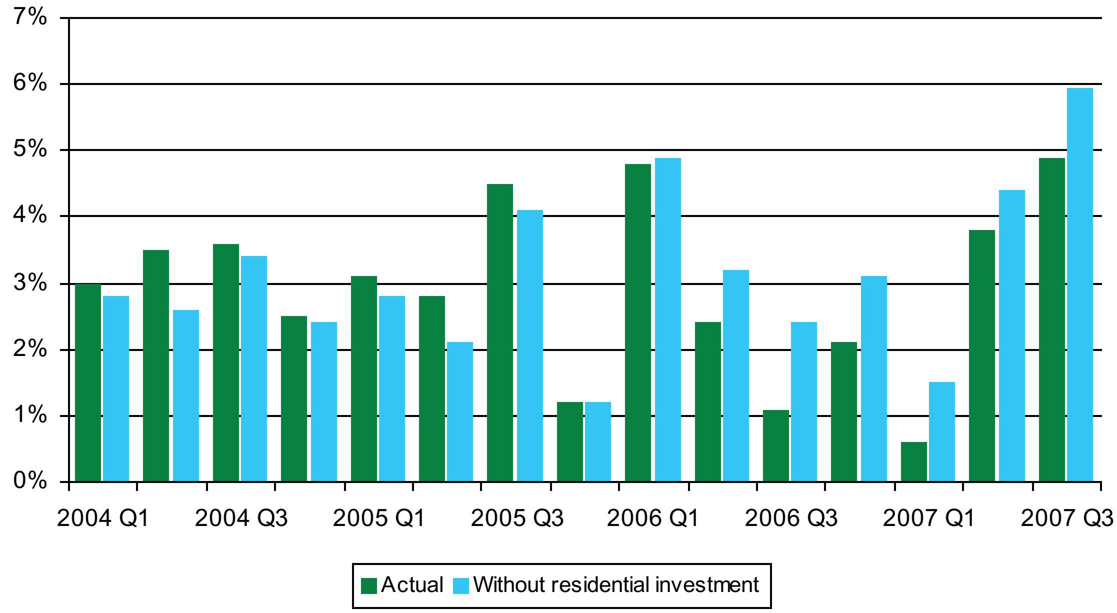
The chart entitled "Growth Rate in Real GDP" shows real GDP growth in recent quarters and the change in the role residential construction has played (from aiding growth in 2005 to restricting it starting in mid-2006).

Personal income increased by 0.2% in October, after seasonal adjustment, a slight deceleration from the 0.4% growth experienced in both August and September. Disposable personal income (DPI—personal income minus personal current taxes) increased by 0.1% for the month but decreased by 0.1% after adjusting for inflation. The overall increase in personal income of $21.2 billion included an increase in private wage and salary disbursements of $1.5 billion. The latter figure compares to an increase of $35.3 billion in September.

Employment and Unemployment

U.S. nonfarm payroll employment increased by 94,000 in November, after seasonal adjustment, which brought total U.S. employment to 138.5 million. Employment growth for October was revised upward slightly, to 170,000. Employment in service-providing industries grew by 127,000 in November, but this was partially offset by a decline of 33,000 in goods-producing industries (including a decline of

Growth Rate in Real GDP
Actual vs Without Residential Investment



11,000 in manufacturing employment). In its announcement the U.S. Bureau of Labor Statistics (BLS) noted employment declines in several industries related to homebuilding and financing: residential building (in which employment declined by 7,000), residential specialty trade contractors (13,000), real estate (8,000), and credit intermediation (13,000). Credit intermediation includes mortgage lending and related activities.

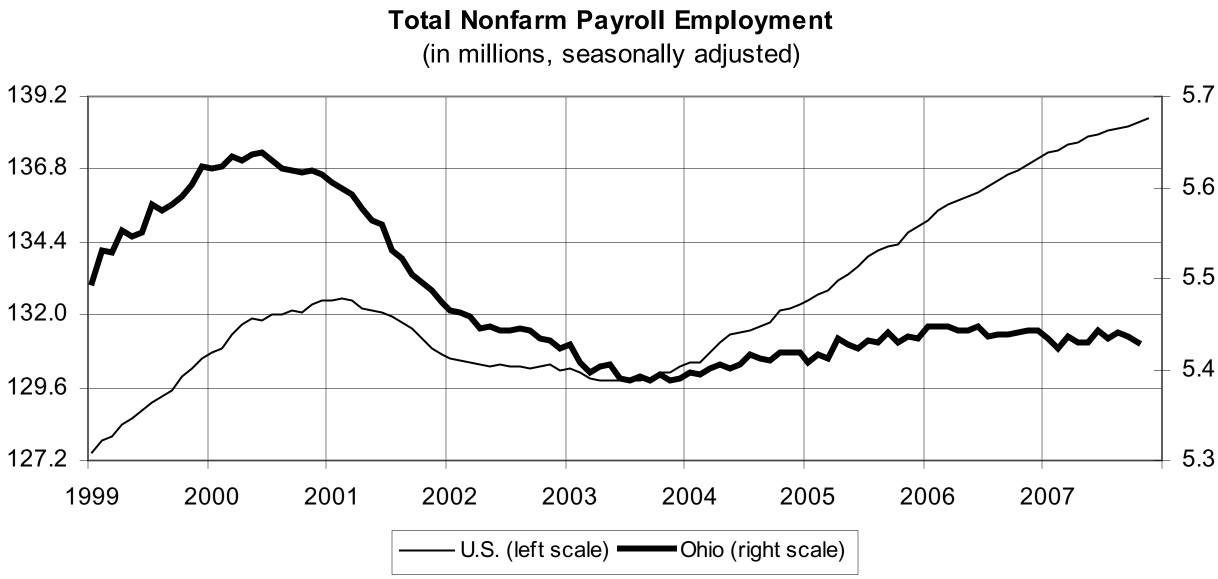
The U.S. unemployment rate remained unchanged, at 4.7% (after seasonal adjustment). November was the third straight month the unemployment rate has been at this level. In September the rate broke out of a range, from 4.4% to 4.6%, within which it had stayed for nearly a year, so the unemployment rate has been fairly stable despite the recent drift upward. In addition to the number of unemployed, BLS tracks the number of discouraged workers each month—those who are classified as out of the labor force, rather than unemployed, because they did not look for a job during the four weeks preceding the survey specifically because they did not believe that they would find one. There were 349,000 discouraged workers in November nationwide, in addition to the 7.2 million unemployed workers.

Ohio labor market data for November will be released on December 21. As reported last month, Ohio's October nonfarm payroll employment fell by 6,800, or 0.1%, and Ohio's unemployment rate in October was 5.9%. The Federal Reserve's "Beige Book" reports that employment levels in the Cleveland district were "largely unchanged" during the period leading up to its release.

Manufacturing

Manufacturing shipments grew in October, according to U.S. Census Bureau data, by 1.0% to $422.3 billion, the third increase in the last four months. Shipments of durable goods increased by 0.8% to $213.7 billion. Although growth was modest, it was fairly broad-based. Contributions to growth came from primary metals, which grew by 1.9%, fabricated metal products (by 0.7%), computers and electronic products (2.2%), electrical equipment, appliances, and components (1.3%), and transportation equipment (0.8%), as well as from other sectors. Shipments of machinery were a drag on growth, having fallen 1.9% for the month.

Looking forward, the news was somewhat mixed. New orders for manufactured goods rose by 0.5% in October, the fourth increase in the



last five months. New orders for durable goods were down though, by 0.2% (the third straight decrease). There was growth in several durable goods sectors, though, such as primary metals (up 3.2%), electrical equipment, appliances, and components (up 2.9%), and transportation equipment (up 0.5%). Growth in these sectors was more than offset by decreases in new orders for machinery (down 1.9%) and, especially, computers and electronic products (down 7.1%).

The "Beige Book" reported that conditions in the Cleveland Federal Reserve district manufacturing sector were generally stable. Specifically, it reported that most of its manufacturing contacts told Federal Reserve staff that "production has been steady over the past six weeks with reports of increased production being offset by slowdowns attributed to seasonal factors and scheduled maintenance. On a year-over-year basis, contacts reported output has been unchanged to declining slightly. . . . Looking forward, almost all of our contacts anticipate production and shipping volume to remain at current levels or decrease slightly." Steel producers indicated that recent production was flat, while automobile assembly plants reported higher production during October. Contacts indicated that capital spending was "on plan" and that they expected that capital spending levels would be maintained in upcoming months.

Housing Markets and Construction

Sales of new homes rose a seasonally adjusted 1.7% in October nationally. The increase was helped by falling prices, with the median price for a new home decreasing from $238,400 to $217,800. Despite the increase in sales since September, the market remains weak: sales in October were 23.5% lower than in the preceding October. New home sales in the Midwest were also weak but the data were better, with sales increasing by 14.2% since September, to a level 11.7% below the previous year.

Nationally, housing starts in November were 3.7% below October's level and 24.2% below the preceding November's. At slightly under 1.19 million (at a seasonally adjusted annual rate), housing starts were barely above their level of September, which was the lowest level in over 14 years. Building permits were also down, by 1.5% for the month and by 24.6% compared to November 2006. Midwest housing starts fell by 1.5% in November and by 11.0% for the year ending in November. Midwest building permits actually increased by 1.1% in November but were still down 18.2% for the year.

The "Beige Book" indicates that most industry contacts in the Cleveland district do not expect a turnaround in the market until 2009. However they also indicate that their workforces are in line with current market conditions and do not expect further layoffs.

Retail Sales

U.S. retail and food services sales in November increased by 1.2% for the month, to a level 6.3% higher than they were the preceding November. The results were driven in part by gasoline station sales, which grew by 6.8% for the month, due presumably to high gasoline prices, but several other retail sectors experienced monthly growth over 2%: clothing and clothing accessories stores (2.6%), electronics and appliance stores (2.5%), and sporting goods, hobby, book, and music stores (2.2%). Only two retail sectors experienced decreases in sales in November: motor vehicle and parts dealers, whose sales fell by 1.0% for the month, and miscellaneous store retailers (0.5%).

For the three months ending in November, retail and food services sales grew by 5.4% compared with the corresponding three months of 2006. Retail sales growth was led by gasoline stations at 17.7%, followed by nonstore retailers (9.5%) and sporting goods, hobby, book, and music stores and food and beverage stores (5.7%). Sales growth at motor vehicle and parts dealers was 3.5% on this basis. The only two retail sectors to experience declines were department stores (1.5%) and building material and garden equipment and supplies dealers (0.1%).

The "Beige Book" depicted sales of general merchandise in the Cleveland district as flat to declining in October, with increasing sales of food, pharmaceuticals, and personal care products. Automobile dealers reported a decline in sales in October for both new and used vehicles.

Inflation and Prices

The consumer price index for all urban consumers (CPI-U) increased by 0.8% in November after seasonal adjustment, its sharpest increase in over two years. Energy prices were the primary reason for the magnitude of the increase, with the energy index having increased by 5.7% for the month, accounting for nearly 70% of the increase. The index excluding food and energy, often referred to as measuring core inflation, rose by 0.3% for the month and increased by 2.3% since the preceding November.

The producer price index for finished goods increased by 3.2% in November (seasonally adjusted). As with the CPI-U, energy prices played a major role, having risen by 14.1% for the month. Excluding food and energy the index increased by 0.4% in November. For the year, the index increased by 7.2% overall, and by 2.0% excluding food and energy.

The U.S. Energy Information Administration (EIA) projects that heating oil prices this winter heating season will be about 30% higher than last year, due to higher prices for crude oil. Natural gas prices are higher too, but not as sharply. EIA projects that households that heat with natural gas will spend about 7% more this heating season than they did last year.

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[1] Economists use the term "real" to indicate that a variable, in this case gross domestic product, has been adjusted for inflation.

[2] An economist with Morgan Stanley was quoted as saying "there's a growing sense the Fed doesn't get it," while one article in that issue was entitled "A Snub for the Fed's Gift."

[3] The Cleveland district includes all of Ohio, plus parts of Pennsylvania, West Virginia, and Kentucky.

Status of the General Revenue Fund

REVENUE

— *Jean Botomogno, Isabel Louis, and Allan Lundell*

Total General Revenue Fund (GRF) receipts for November were $1,952.2 million. This amount was $134.5 million (6.4%) below estimate.[1] State-source receipts were below estimate by $342.8 million (21.4%) and federal grants were above estimate by $208.3 million (43.3%).[2] Timing and processing issues once again affected monthly receipts. On the plus side were federal grants that made up the October shortfall. Federal grants for October were below estimate due to the timing of the receipt of the revenue associated with the last Medicaid payment for that month. The revenue was received in November, pushing November receipts above estimate. On the minus side were transfers in. Liquor transfers and a temporary transfer scheduled for November were not processed until early December.

Tax revenues were below estimate by $114.5 million (8.4%). Revenue from the personal income tax was below estimate by $82.1 million (13.1%) and corporate franchise tax receipts were below estimate by $43.5 million (341.5%). Revenue from the nonauto sales tax was above estimate by $7.6 million (1.4%) and revenue from the auto sales tax was above estimate by $5.7 million (8.8%).

GRF receipts for the fiscal year through November were $9,959.5 million, $375.1 million (3.6%) below estimate. State-source receipts were below estimate by $398.3 million (5.2%) and federal grants were above estimate by $23.2 million (0.9%). Tax revenues were below estimate by $117.2 million (1.6%). Corporate franchise tax receipts were below estimate by $76.8 million (292.5%), personal income tax receipts were below estimate by $40.1 million (1.2%), and revenue from the auto sales tax was below estimate by $14.5 million (3.5%). Revenue from the cigarette tax was above estimate by $11.7 million (3.4%) and revenue from the nonauto sales tax was above estimate by $17.2 million (0.6%). Earnings on investments remain below estimate by $46.2 million as a result of delay in posting first-quarter interest to the general ledger.

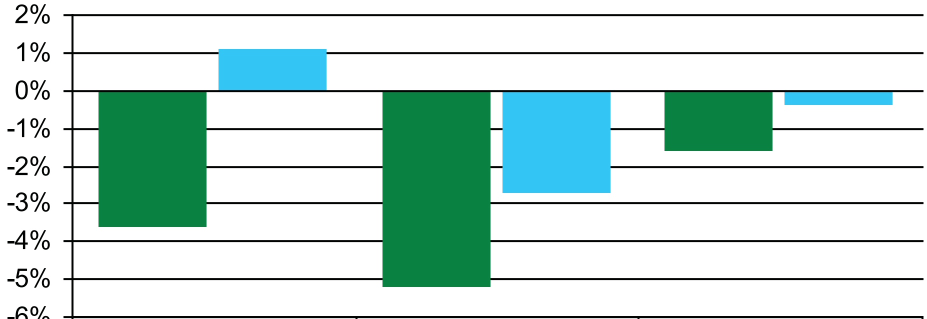
The effects of the timing issues also show up in the year-to-date totals. After adjusting for

FY 2008 GRF Receipts
(difference in millions)

	Total GRF Receipts	State-source Receipts	Tax Revenues
Compared to FY 2008 Estimates	-$375.1	-$398.3	-$117.2
Compared to FY 2007 Receipts	$108.5	-$205.0	-$26.2

FY 2008 GRF Receipts

(percentage differences)



	Total GRF Receipts	State-source Receipts	Tax Revenues
Compared to FY 2008 Estimates	-3.6%	-5.2%	-1.6%
Compared to FY 2007 Receipts	1.1%	-2.7%	-0.4%

the timing issues, total GRF receipts are below estimate by $104.3 million (1.0%). Below estimate tax revenues are partially offset by above estimate federal grants.

Compared to FY 2007, fiscal year-to-date total GRF receipts are up 1.1%. State-source receipts are down 2.7% and federal grants are up 13.5%. Tax revenues are down 0.4%. Personal income tax revenue is down 0.6% and corporate franchise tax receipts are down 194.1%. Revenue from the public utility excise tax is down 10.0% and cigarette tax revenue is down 2.7%. Nonauto sales tax revenue is up 3.6% and auto sales tax revenue is up 2.2%. The accompanying charts present comparisons of FY 2008 GRF receipts with estimated receipts for FY 2008 and with FY 2007 receipts.

Personal Income Tax

In November the GRF received $543.7 million from the personal income tax. This amount was below estimate by $82.1 million (13.1%). Gross receipts were below estimate by $74.4 million (10.4%) and refunds were $7.6 million above estimate. Withholding was below estimate by $73.0 million (10.7%), thus almost wiping out the cumulative positive variances of $78.4 million recorded in July through October. The reversal in withholding could be due to the fall in nonfarm employment in Ohio in September (0.12%) and October (0.22%).[3]

The GRF has received $3,291.0 million from the personal income tax thus far this fiscal year. This amount is $40.3 million (1.2%) below estimate. Gross collections were below estimate by $10.7 million (0.3%) and refunds were $28.8 million (21.2%) above estimate. Withholding was $5.4 million (0.2%) above estimate and quarterly estimated payments of $409.2 million were $10.8 million (2.6%) below estimate.[4]

Compared to a year ago, GRF revenue from the personal income tax is down by $19.9 million (0.6%). Gross collections are down by $6.5 million (0.2%) and refunds are up by $13.5 million (9.0%). Withholding, which reflects the condition of Ohio's labor market, is down by $10.5 million (0.3%).[5]

Sales and Use Tax

Total sales and use tax revenues in November 2007 were $618.6 million, $13.3 million (2.2%) above projected revenues.[6] Auto sales and use tax receipts were $5.7 million (8.8%) above estimate. Nonauto sales and use tax receipts were $7.6 million (1.4%) above estimate. Total sales and use tax receipts in November 2007 were $29.6 million (5.0%) above sales and use tax revenues in November 2006. Through November, FY 2008 total sales and use tax revenues were $3,152.1 million, $2.8 million (0.1%) above estimate. FY 2008 sales and use tax receipts were also $103.2 million (3.4%) above year-to-date tax receipts through November in FY 2007.

Nonauto Sales and Use Tax

Nonauto sales and use tax revenues in November 2007 were $548.2 million, $7.6 million (1.4%) above estimate. Nonauto sales and use tax receipts were also $26.3 million (5.0%) above revenues in the same month last year. Through November, FY 2008 nonauto sales and use tax receipts were $2,751.9 million, $17.2 million (0.6%) above estimate. These receipts were also $94.5 million (3.6%) above FY 2007 receipts through November 2006.

Auto Sales and Use Tax

Auto sales and use tax receipts were $70.4 million in November 2007, $5.7 million (8.8%) above estimate.[7] Compared to the same month a year ago, auto sales and use tax receipts in November 2007 were $3.3 million (5.0%) higher. Despite the strong performance of the tax this month, FY 2008 year-to-date auto sales and use tax receipts of $400.1 million were $14.5 million (3.5%) below estimate. These receipts were also $8.7 million (2.2%) above revenues through November in FY 2007.

Monthly sales at auto dealers declined 0.6% and 1.0% in October and November, respectively. Compared to November last year, total unit sales were down 1.6%. From July through November this calendar year, nationwide unit sales were down about 3.5%. New auto sales have hit a pothole in the last several weeks and have decelerated in the last two months. Sales growth in September, October, and November was 5.1%, 3.6%, and 1.9%, respectively. It appears downshifts in the economy and weaknesses in consumer spending have started to weigh down auto sales.[8]

Corporate Franchise Tax

Activities under the corporate franchise tax (CFT) in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations. Refunds exceeded tax receipts in November. Net refunds of $56.3 million were paid to taxpayers in November 2007, compared to a monthly estimate of $12.7 million in net refunds. Through November, FY 2008 year-to-date CFT net refunds were $50.6 million. OBM expected net receipts of $26.3 million for the period. Last year, FY 2007 year-to-date receipts through November were $53.7 million. Although receipts from this tax are volatile and unpredictable in the first half of a fiscal year, the year-to-date negative variance of $104.0 million foreshadows a poor performance of the tax for the fiscal year. After several years of outstanding growth, corporate profits peaked last year and are now in retreat. Lately, banks and other financial companies, which have taken huge write-downs on subprime mortgages, have been among the most visible casualties of the profit slump.[9] Because of the phaseout of the tax for nonfinancial corporations, the contribution of financial corporations to total CFT receipts is increasing each year. Thus, the profit woes of financial corporations may have an oversized negative impact on the CFT.

Cigarette and Other Tobacco Products Tax

Receipts from the cigarette and other tobacco products tax in November 2007 were $82.3 million, $0.1 million (0.1%) above estimate. Compared to year-ago receipts, revenues in November 2007 were $6.6 million (7.5%) lower. Through November, FY 2008 year-to-date receipts from the cigarette and other tobacco products tax were $360.3 million, $11.7 million (3.4%) above estimate. FY 2008 year-to-date revenues were also $10.1 million (2.7%) below year-to-date revenues in FY 2007.

Commercial Activity Tax

The second due date for quarterly commercial activity tax (CAT) returns in FY 2008 was November 9. Taxpayers are paying 60% of the CAT liability on taxable gross receipts this year, higher than the rate of 40% of liability in FY 2007. This change affects the year-over-year comparison. Receipts in November were $203.0 million, $9.3 million (4.4%) less than expected. Through November, FY 2008 receipts were $448.5 million, $1.2 million (0.3%) below estimate. Receipts were also $174.9 million (63.9%) above FY 2007 receipts through November 2007. CAT receipts are distributed to two non-GRF funds, the School District Tangible Property Tax Replacement Fund and the Local Government Tangible Property Tax Replacement Fund.

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[1] "Estimate" refers to the August 2007 estimate of the Office of Budget and Management.

[2] 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.

[3] U.S. Bureau of Labor Statistics.

[4] Quarterly estimated payments are made by taxpayers who expect to be withheld 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.

[5] Year-over-year withholding growth may understate the health of the labor market due to changes in employer withholding tables to account for the reduction in marginal income tax rates enacted in Am. Sub. H.B. 66 of the 126th General Assembly.

[6] Tax receipts for a given month partly reflect taxable retail sales activity during that month and partly taxable retail sales in the prior month. Under current law, certain large taxpayers must remit sales and use tax payments in the same month the transactions occur. For smaller taxpayers, monthly sales and use tax receipts reflect taxable transactions in the prior month. Thus, monthly sales and use tax receipts reflect taxable transactions in both the current and the prior months.

[7] 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.

[8] Global Insight, a national forecasting firm, reports that the subprime crisis is spreading to the mainstream consumer and into the auto market. With the month of December left, auto and light truck sales are likely to finish below last year's level of 16.5 million units.

[9] Financial companies' profits in the Standard and Poor's 500 Stock Index fell 27% in the third quarter and may fall another 47% in the fourth quarter according to the *Wall Street Journal*, 12/17/2007, page C1.

General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of November 2007
($ in thousands)
(Actual based on OBM's Monthly Financial Report dated December 10, 2007)

	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$70,378	$64,700	$5,678	8.8%
Nonauto Sales & Use	$548,176	$540,600	$7,576	1.4%
Total Sales & Use Taxes	$618,554	$605,300	$13,254	2.2%
Personal Income	$543,673	$625,800	-$82,127	-13.1%
Corporate Franchise	-$56,293	-$12,750	-$43,543	341.5%
Public Utility	$21,486	$26,100	-$4,614	-17.7%
Kilowatt Hour Excise	$28,045	$26,300	$1,745	6.6%
Commercial Activity Tax	$0	$0	$0	---
Foreign Insurance	-$417	$200	-$617	-308.5%
Domestic Insurance	$139	$0	$139	---
Business & Property	$34	$20	$14	68.9%
Cigarette	$82,310	$82,200	$110	0.1%
Alcoholic Beverage	$5,030	$4,700	$330	7.0%
Liquor Gallonage	$2,803	$2,900	-$97	-3.3%
Estate	$11,370	$10,500	$870	8.3%
Total Tax Revenue	**$1,256,733**	**$1,371,270**	**-$114,537**	**-8.4%**
NONTAX STATE-SOURCE REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$666	$600	$66	11.0%
Other Revenue	$4,202	$7,900	-$3,698	-46.8%
Nontax State-Source Revenue	**$4,868**	**$8,500**	**-$3,632**	**-42.7%**
TRANSFERS				
Liquor Transfers	$0	$13,000	-$13,000	-100.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$800	$212,460	-$211,660	-99.6%
Total Transfers In	**$800**	**$225,460**	**-$224,660**	**-99.6%**
TOTAL GRF before Federal Grants	**$1,262,401**	**$1,605,230**	**-$342,829**	**-21.4%**
Federal Grants	$689,778	$481,440	$208,338	43.3%
TOTAL GRF SOURCES	**$1,952,179**	**$2,086,670**	**-$134,491**	**-6.4%**

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

Detail may not sum to total due to rounding.

General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2008 as of November 2007
($ in thousands)
(Actual based on OBM's Monthly Financial Report dated December 10, 2007)

	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
TAX REVENUE						
Auto Sales	$400,136	$414,600	-$14,464	-3.5%	$391,461	2.2%
Nonauto Sales & Use	$2,751,940	$2,734,700	$17,240	0.6%	$2,657,400	3.6%
Total Sales & Use Taxes	$3,152,076	$3,149,300	$2,776	0.1%	$3,048,860	3.4%
Personal Income	$3,291,160	$3,331,300	-$40,140	-1.2%	$3,311,038	-0.6%
Corporate Franchise	-$50,540	$26,250	-$76,790	-292.5%	$53,722	-194.1%
Public Utility	$62,209	$69,300	-$7,091	-10.2%	$69,156	-10.0%
Kilowatt Hour Excise	$148,445	$145,200	$3,245	2.2%	$142,347	4.3%
Commercial Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	$132,770	$139,000	-$6,230	-4.5%	$131,334	1.1%
Domestic Insurance	$391	$600	-$209	-34.8%	$235	66.2%
Business & Property	$388	$760	-$372	-48.9%	$623	-37.7%
Cigarette	$360,345	$348,600	$11,745	3.4%	$370,483	-2.7%
Alcoholic Beverage	$25,027	$24,600	$427	1.7%	$24,478	2.2%
Liquor Gallonage	$14,438	$14,600	-$162	-1.1%	$14,188	1.8%
Estate	$27,893	$32,300	-$4,407	-13.6%	$24,373	14.4%
Total Tax Revenue	**$7,164,603**	**$7,281,810**	**-$117,207**	**-1.6%**	**$7,190,838**	**-0.4%**
NONTAX STATE-SOURCE REVENUE						
Earnings on Investments	$0	$46,200	-$46,200	-100.0%	$50,157	-100.0%
Licenses and Fees	$20,001	$19,011	$990	5.2%	$19,195	4.2%
Other Revenue	$21,981	$29,604	-$7,623	-25.8%	$32,858	-33.1%
Nontax State-Source Revenue	**$41,982**	**$94,815**	**-$52,833**	**-55.7%**	**$102,210**	**-58.9%**
TRANSFERS						
Liquor Transfers	$64,000	$74,000	-$10,000	-13.5%	$59,000	8.5%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$56,477	$274,780	-$218,303	-79.4%	$179,986	-68.6%
Total Transfers In	**$120,477**	**$348,780**	**-$228,303**	**-65.5%**	**$238,986**	**-49.6%**
TOTAL GRF before Federal Grants	**$7,327,062**	**$7,725,405**	**-$398,343**	**-5.2%**	**$7,532,035**	**-2.7%**
Federal Grants	$2,632,468	$2,609,264	$23,204	0.9%	$2,318,962	13.5%
TOTAL GRF SOURCES	**$9,959,528**	**$10,334,669**	**-$375,141**	**-3.6%**	**$9,850,997**	**1.1%**

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

Detail may not sum to total due to rounding.

EXPENDITURES

— *Phil Cummins*

General Revenue Fund program expenditures through the first five months of FY 2008 totaled about $12.0 billion, $191.6 million (1.6%) above estimate[1] and 6.0% above total GRF uses of funds in the comparable period a year earlier. Expenditures in two categories, for Primary, Secondary, and Other Education and for Public Assistance and Medicaid, substantially exceeded estimates, by $129.9 million (4.2%) and $54.6 million (1.1%), respectively. The overage in the former category was described by the Office of Budget and Management (OBM) as a timing issue, resulting from payments earlier than estimated and expected to be reversed in December. That in the latter category, which encompasses the Department of Job and Family Services, was also partly identified as timing, but Medicaid caseloads have risen above estimates during this fiscal year. Expenditures for Higher Education exceeded estimate by $9.3 million (0.8%). Most other categories were well under estimate, in large part reflecting booking of payroll not yet completed in the new Ohio Administrative Knowledge System (OAKS).

The delay in booking payroll is attributed by OBM to coding issues with OAKS. As of early December, pending payroll for October and November totaled $296.1 million. Issues with pending payroll were resolved for July, August, and September. The books for the first quarter are closed but remain open for October and November. Pending payroll is identified in OAKS by agency. Nearly half (46%) of pending payroll for October and November is associated with the Department of Rehabilitation and Correction (DRC), and nearly three-fourths with five agencies including, in addition to DRC, the Departments of Mental Health, Youth Services, Job and Family Services, and Mental Retardation and Developmental Disabilities.

Expenditures in the Tax Relief and Other category in the first five months of the fiscal year totaled $568.7 million, $28.5 million over estimate. Most of this category is reimbursements to school districts and other units of local government for percentage rollbacks and the homestead exemption, which are $27.9 million (5.5%) above estimate so far this year, and 12% above a year earlier. The sizable increase may reflect more prompt submission and processing of reimbursement requests, or may be due to rising market values of properties two and three years ago coupled with lags in reflecting these increases in current tax rolls.[2]

As noted here previously, spending is recognized in OAKS when a liability is incurred, in contrast to the previous system, in which spending was recorded when cash was disbursed. Revenues continue to be recognized when received.

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[1] For this purpose, LSC uses estimates as communicated to this agency by OBM early in the fiscal year and does not adjust for subsequent changes in estimate. Estimates shown here differ in some instances from those reported in OBM's Monthly Financial Report.

[2] The increased reimbursements required for the enhanced homestead exemption, enacted by the current General Assembly, will not begin until the first half of calendar year 2008. The reduction in state reimbursements resulting from elimination of the rollback for commercial and industrial (Class 2) property, enacted two years ago, was fully in place in FY 2007 and so is not a factor in the current year-to-year comparison.

General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2008 as of November 30, 2007
($ in thousands)
(Actual based on OBM's Monthly Financial Report dated December 10, 2007)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
Primary and Secondary Education (1)	$3,241,664	$3,111,731	$129,933	4.2%	$3,202,007	1.2%
Higher Education	$1,179,829	$1,170,570	$9,259	0.8%	$1,069,488	10.3%
Total Education	$4,421,493	$4,282,301	$139,192	3.3%	$4,271,495	3.5%
Public Assistance and Medicaid	$4,837,040	$4,782,488	$54,552	1.1%	$4,443,730	8.9%
Health and Human Services	$517,999	$600,111	-$82,111	-13.7%	$582,389	-11.1%
Total Welfare and Human Services	$5,355,040	$5,382,599	-$27,559	-0.5%	$5,026,119	6.5%
Justice and Public Protection	$766,874	$930,299	-$163,425	-17.6%	$905,453	-15.3%
Environment and Natural Resources	$48,707	$58,566	-$9,859	-16.8%	$55,880	-12.8%
Transportation	$10,618	$14,379	-$3,761	-26.2%	$10,227	3.8%
General Government	$158,353	$195,360	-$37,006	-18.9%	$178,854	-11.5%
Community and Economic Development	$63,289	$75,065	-$11,776	-15.7%	$76,648	-17.4%
Capital	$56	$643	-$587	-91.3%	$61	-9.6%
Total Government Operations	$1,047,897	$1,274,311	-$226,414	-17.8%	$1,227,123	-14.6%
Tax Relief and Other	$568,732	$540,234	$28,498	5.3%	$513,121	10.8%
Debt Service	$283,008	$301,223	-$18,214	-6.0%	$252,328	12.2%
Total Other Expenditures	$851,740	$841,457	$10,283	1.2%	$765,448	11.3%
Pending Payroll	$296,136	$0	$296,136	---	$0	---
Total Program Expenditures	**$11,972,306**	**$11,780,668**	**$191,638**	**1.6%**	**$11,290,185**	**6.0%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$394,034	-100.0%
Other Transfers Out	$601,324	$466,800	$134,524	28.8%	$296,828	102.6%
Total Transfers Out	$601,324	$466,800	$134,524	28.8%	$690,862	-13.0%
TOTAL GRF USES	**$12,573,630**	**$12,247,468**	**$326,162**	**2.7%**	**$11,981,046**	**4.9%**

(1) Includes Other Education.

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

Detail may not sum to total due to rounding.