Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION FEBRUARY 2008

STATUS OF THE GRF

HIGHLIGHTS

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

Timing issues continue to affect the reporting of GRF sources and uses. Thus far, $398 million of payroll expenditures have not been booked to specific agencies, making spending by agencies appear to be below estimate. Comparisons with estimates and prior year amounts are affected by changes in the state's accounting system.

FY 2008 GRF sources (as of January 31, 2008)

- Tax revenues were $86.6 million (0.8%) below estimate.
  - o Below estimate: personal income tax, $67.9 million (1.3%); corporate franchise tax, $38.0 million (16.9%); and auto sales tax, $24.5 million (4.4%).
  - o Above estimate: nonauto sales and use tax, $70.9 million (1.8%) and kilowatt hour excise tax, $1.7 million (0.9%).
- Total GRF receipts of $15,197.9 million were $93.0 million (0.6%) below estimate. State-source receipts were below estimate by $102.2 million (0.9%) and federal grants were above estimate by $9.1 million (0.3%).
- Compared to FY 2007, tax revenue was up 1.8%. Total GRF receipts were up 4.3%, state-source receipts were up 2.3%, and federal grants were up 11.2%.

FY 2008 GRF uses (as of January 31, 2008)

- Total GRF program expenditures of $15,895.5 million were below estimate by $175.9 million (1.1%). This amount includes $397.7 million in unboked payroll.
- Medicaid expenditures were $5.6 million (0.1%) above estimate.
- Total GRF program expenditures were up 3.8% compared to FY 2007.

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Variance is the difference between actual receipts and estimated receipts; a positive variance means receipts were above estimate, and a negative varianace means receipts were below estimate.

Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of January 2008
($ in thousands)
(Actual based on OBM's Monthly Financial Report dated February 12, 2008)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$70,655	$67,025	$3,630	5.4%
Nonauto Sales and Use	$666,294	$639,200	$27,094	4.2%
Total Sales and Use Taxes	$736,949	$706,225	$30,724	4.4%
Personal Income	$1,139,047	$1,159,600	-$20,553	-1.8%
Corporate Franchise	$241,570	$210,500	$31,070	14.8%
Public Utility	$60	$0	$60	---
Kilowatt Hour Excise	$10,952	$12,200	-$1,248	-10.2%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$5	$0	$5	---
Domestic Insurance	$42	$0	$42	---
Business and Property	$55	$30	$25	83.3%
Cigarette	$76,194	$83,700	-$7,506	-9.0%
Alcoholic Beverage	$4,131	$4,500	-$369	-8.2%
Liquor Gallonage	$3,705	$4,100	-$395	-9.6%
Estate	$934	$900	$34	3.8%
Total Tax Revenue	**$2,213,643**	**$2,181,755**	**$31,888**	**1.5%**
NONTAX REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$21,519	$18,220	$3,299	18.1%
Other Revenue	$5,204	$7,900	-$2,696	-34.1%
Total Nontax Revenue	**$26,723**	**$26,120**	**$603**	**2.3%**
TRANSFERS				
Liquor Transfers	$10,000	$9,000	$1,000	11.1%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$24,908	$25,260	-$352	-1.4%
Total Transfers In	**$34,908**	**$34,260**	**$648**	**1.9%**
TOTAL STATE SOURCES	**$2,275,274**	**$2,242,135**	**$33,139**	**1.5%**
Federal Grants	$488,030	$507,512	-$19,482	-3.8%
TOTAL GRF SOURCES	**$2,763,305**	**$2,749,647**	**$13,657**	**0.5%**

* 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 January 31, 2008
($ in thousands)
(Actual based on OBM's Monthly Financial Report dated February 12, 2008)

	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$527,263	$551,725	-$24,462	-4.4%	$522,090	1.0%
Nonauto Sales and Use	$4,099,778	$4,028,900	$70,878	1.8%	$3,903,462	5.0%
Total Sales and Use Taxes	$4,627,041	$4,580,625	$46,416	1.0%	$4,425,552	4.6%
Personal Income	$5,233,639	$5,301,500	-$67,861	-1.3%	$4,995,038	4.8%
Corporate Franchise	$187,487	$225,500	-$38,013	-16.9%	$378,855	-50.5%
Public Utility	$62,270	$69,300	-$7,030	-10.1%	$68,871	-9.6%
Kilowatt Hour Excise	$185,617	$183,900	$1,717	0.9%	$197,458	-6.0%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$132,782	$139,000	-$6,218	-4.5%	$134,228	-1.1%
Domestic Insurance	$433	$600	-$167	-27.8%	$235	83.9%
Business and Property	$396	$820	-$424	-51.7%	$660	-40.0%
Cigarette	$511,053	$516,700	-$5,647	-1.1%	$542,562	-5.8%
Alcoholic Beverage	$33,605	$33,700	-$95	-0.3%	$33,438	0.5%
Liquor Gallonage	$21,084	$21,600	-$516	-2.4%	$20,742	1.6%
Estate	$31,025	$39,800	-$8,775	-22.0%	$32,380	-4.2%
Total Tax Revenue	**$11,026,430**	**$11,113,045**	**-$86,615**	**-0.8%**	**$10,830,020**	**1.8%**
NONTAX REVENUE						
Earnings on Investments	$44,990	$85,000	-$40,010	-47.1%	$92,314	-51.3%
Licenses and Fees	$42,100	$37,931	$4,169	11.0%	$39,456	6.7%
Other Revenue	$64,707	$41,804	$22,903	54.8%	$95,608	-32.3%
Total Nontax Revenue	**$151,797**	**$164,735**	**-$12,938**	**-7.9%**	**$227,377**	**-33.2%**
TRANSFERS						
Liquor Transfers	$105,000	$101,000	$4,000	4.0%	$85,000	23.5%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$303,792	$310,400	-$6,608	-2.1%	$182,704	66.3%
Total Transfers In	**$408,792**	**$411,400**	**-$2,608**	**-0.6%**	**$267,704**	**52.7%**
TOTAL STATE SOURCES	**$11,587,019**	**$11,689,180**	**-$102,161**	**-0.9%**	**$11,325,101**	**2.3%**
Federal Grants	$3,610,924	$3,601,778	$9,146	0.3%	$3,247,610	11.2%
TOTAL GRF SOURCES	**$15,197,944**	**$15,290,958**	**-$93,014**	**-0.6%**	**$14,572,711**	**4.3%**

* 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.

Revenues

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

A slowing economy will dampen revenue collections.

Although GRF receipts in January were above the amount estimated by the Office of Budget and Management in August 2007 (Table 1), they remain below estimate for the fiscal year (Table 2). As the economy slows and possibly goes through a recession, receipts may remain below estimate for the remainder of the fiscal year.

Month of January

Total GRF receipts for January were $2,763.3 million, $13.7 million (0.5%) above estimate. These receipts included $2,275.3 million in state-source receipts, which were above estimate by $33.1 million (1.5%), and $488.0 million in federal grants, which were below estimate by $19.5 million (3.8%).[1] State-source receipts included $2,213.6 million in tax revenues, which were above estimate by $31.9 million (1.5%), $26.7 million in nontax revenues, and $34.9 million in transfers in.

Tax collections contributing to the positive variance in tax revenues included those from the corporate franchise tax, which were above estimate by $31.1 million (14.8%), the nonauto sales and use tax, which were above estimate by $27.1 million (4.2%), and the auto sales tax, which were above estimate by $3.6 million (5.4%). Tax collections offsetting these positive variances included those from the personal income tax, which were below estimate by $20.6 million (1.8%), the cigarette tax, which were below estimate by $7.5 million (9.0%), and the kilowatt hour tax, which were below estimate by $1.2 million (10.2%).

FY 2008 Year to Date

Total tax revenues are growing more slowly than expected.

After the first seven months of FY 2008, total GRF receipts were $15,197.9 million, $93.0 million (0.6%) below estimate. These receipts included $11,587.0 million in state-source receipts, which were below estimate by $102.2 million (0.9%), and $3,610.9 million in federal grants, which were above estimate by $9.1 million (0.3%). State-source receipts included $11,026.4 million in tax revenues, which were below estimate by $86.6 million (0.8%), $151.8 million in nontax revenues, which were below estimate by $12.9 million (7.9%), and $408.8 million in transfers in, which were below estimate by $2.6 million (0.6%).

Taxes contributing to the negative variance in tax revenues included the personal income tax, which brought in $67.9 million (1.3%) less than estimated, the corporate franchise tax, $38.0 million (16.9%) less, and the auto sales tax, $24.5 million (4.4%) less. Additionally, the public utility excise tax brought in $7.0 million (10.1%) less than estimated, the estate tax, $8.8 million (22.0%) less, the foreign insurance tax, $6.2 million (4.5%) less, and the cigarette tax, $5.6 million (1.1%) less. Only two taxes brought in

[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.

more than estimated—the nonauto sales and use tax, which brought in $70.9 million (1.8%) more, and the kilowatt hour excise tax, which brought in $1.7 million (0.9%) more.

The negative variance in nontax revenues was due to earnings on investments, which were $40.0 million (47.1%) below estimate. This negative variance arose because earnings for the second quarter that were scheduled to be posted in December were not posted. Receipts from all state sources other than earnings on investments were below estimate by $62.2 million (0.5%).

Year-to-Year Comparison

Total FY 2008 GRF receipts through January 2008 were $625.2 million (4.3%) higher than total FY 2007 GRF receipts through January 2007. State-source receipts were up $261.9 million (2.3%) from this time last year and federal grants were up $363.3 million (11.2%). Tax revenues were up $196.4 million (1.8%) compared to last year. Tax revenues that increased from FY 2007 included those from the personal income tax, which were up 4.8%, the nonauto sales tax, up 5.0%, and the auto sales tax, up 1.0%. Tax revenues that decreased from FY 2007 included those from the corporate franchise tax, which were down 50.5%, due in part to the scheduled phaseout of this tax on nonfinancial corporations, the kilowatt hour excise tax, down 6.0%, the cigarette tax, down 5.8%, and the estate tax, down 4.2%.

Personal Income Tax

Withholding, which is expected to account for 70.8% of gross collections for the fiscal year, slipped from $78.4 million (3.1%) above estimate at the end of October to $18.2 million (0.4%) above estimate at the end of January. Quarterly estimated payments,[2] which are expected to account for 14.9% of gross collections for the fiscal year, have tracked below estimate throughout the fiscal year. A slowing economy would act to continue these trends in revenue collection and increase the likelihood that income tax revenue will finish FY 2008 below estimate.

Income tax withholding reflects the condition of Ohio's labor market.

Month of January. In January, the GRF received $1,139.0 million from the personal income tax, which was below estimate by $20.6 million (1.8%). GRF revenue from the personal income tax is equal to gross collections, which for January were $25.9 million (2.0%) greater than estimate, after subtracting both refunds, which were $43.8 million (48.9%) greater than estimate, and distributions to the local government funds, which were $2.7 million (4.6%) greater than estimate. Gross collections are the sum of withholding, which was below estimate by $11.7 million (1.5%), quarterly estimated payments, which were above estimate by $22.3 million (4.5%), trust payments, which were above estimate by $7.5 million (82.0%), and payments associated with annual returns, which were above estimate by $5.9 million (65.1%).

[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. Taxpayers with significant nonwage income usually make these payments. This income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

Reduced consumer spending on durable goods both auto and nonauto sales tax receipts.

FY 2008 Year to Date. The GRF received $5,233.6 million from the personal income tax in the first seven months of FY 2008. This amount is $67.9 million (1.3%) below estimate. Gross collections were $10.9 million (0.2%) above estimate and refunds were $75.2 million (30.8%) above estimate. Withholding was $18.2 million (0.4%) above estimate, quarterly estimated payments were $15.9 million (1.5%) below estimate, trust payments were $9.4 million (35.4%) above estimate, and payments associated with annual returns were $2.8 million (1.9%) above estimate.

Year-to-Year Comparison. Compared to a year ago, GRF revenue from the personal income tax in the first seven months of the fiscal year was up by $237.9 million (4.8%). Gross collections were up by $103.2 million (1.8%) and refunds were up by $51.1 million (19.0%). Withholding was up by $59.8 million (1.3%), quarterly estimated payments were up by $32.4 million (3.2%), trust payments were up by $5.3 million (17.3%), and payments with annual returns were up by $9.2 million (6.6%). Distributions to the local government funds were $185.8 million (32.4%) less than at this point in FY 2007 because of changes in the funding formula enacted in H.B. 119.

Sales and Use Tax

GRF sales and use tax revenues in January 2008 were $736.9 million, $30.7 million (4.4%) above estimate for the month, and $24.5 million (3.5%) above January 2007 revenues. Through January, FY 2008 year-to-date sales and use tax revenues were $4,627.0 million, $46.4 million (1.0%) above estimate, and $201.5 million (4.6%) above FY 2007 year-to-date tax receipts through January 2007. This year-over-year growth is expected to shrink in the last months of FY 2008.

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 all other sales. Auto taxes arising from auto leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

Nonauto Sales and Use Tax

According to the International Center for Shopping Centers, U.S. chain store sales deteriorated in January, posting the weakest monthly growth since CY 2002. As economic growth falters and forecasters revise their predictions downward, the good performance of this tax source is unlikely to continue in the remaining months of the fiscal year.

Month of January. Receipts from the nonauto sales and use tax during the month were surprisingly strong, despite a reported slowing in consumer spending in December and January. Nonauto sales and use tax receipts in January were $666.3 million, $27.1 million (4.2%) above estimate. Nonauto sales and use tax receipts were also $21.9 million (3.4%) above revenues in the same month a year ago.

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[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.

FY 2008 Year to Date. Through January, FY 2008 nonauto sales and use tax receipts were $4,099.8 million, $70.9 million (1.8%) above estimate, and $196.3 million (5.0%) above receipts through January in FY 2007.

Auto Sales and Use Tax

The slowdown in consumption has negatively affected auto sales and use tax collections, and the outlook for the remainder of the fiscal year is poor, as consumers pull back on purchases of expensive and durable items such as vehicles.

Month of January. Auto sales and use tax receipts were $70.7 million in January 2008, $3.6 million (5.4%) above estimate. Auto sales and use tax receipts were also $2.9 million (4.3%) higher than revenues in the same month last year.

FY 2008 Year to Date. Through January, FY 2008 year-to-date auto sales and use tax receipts were $527.3 million, $24.5 million (4.4%) below estimate. However, auto sales and use tax receipts were $5.2 million (1.0%) above receipts through January of FY 2007.

Corporate Franchise Tax

The first major corporate franchise tax (CFT) estimated payment of the fiscal year was due on January 31, 2008. The remaining estimated payments of this fiscal year will be due March 31 and May 31. CFT receipts in January were $241.6 million, exceeding estimates by $31.1 million (14.8%). Compared to receipts in the same month last year, receipts were down $79.7 million (24.8%). Through January, FY 2008 year-to-date CFT receipts were $187.5 million, $38.0 million (16.9%) below estimate. Receipts were also $191.4 million (50.5%) below FY 2007 receipts. The year-over-year decline is due in part to the scheduled phaseout of the CFT for nonfinancial corporations. Also, corporate profits growth has turned negative for the first time since the recession of CY 2001, which decreases receipts from the CFT. Banks and other financial companies 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.

The H.B. 66 phaseout of the tax for nonfinancial corporations increases the relative contribution of financial corporations to total CFT receipts.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products in January 2008 were $76.2 million, $7.5 million (9.0%) below estimate for the month and $8.0 million (9.5%) below actual receipts in January 2007. Through January, FY 2008 year-to-date receipts were $511.1 million, $5.6 million (1.1%) below estimate. Those receipts were also $31.5 million (5.8%) below FY 2007 receipts through January 2007. Much of this decrease occurred because second-quarter receipts were poor. They were $22.7 million (8.6%) below second-quarter receipts in FY 2007. Compared to receipts through January of FY 2007, receipts from the cigarette tax have declined 6.8%, while receipts from the tax on other tobacco products have increased 22.8%. Cigarette tax receipts have declined 1.5% to 2.5% each year for several years, as smokers quit smoking or purchased nontaxed cigarettes (through smuggling or Internet purchases). There is no apparent explanation for the more than expected decline in cigarette tax receipts that started in the second quarter of this fiscal year and continued in January.

Commercial Activity Tax – Non-GRF Revenues

The GRF receives no direct distribution of CAT revenues in FY 2008.

January receipts from the commercial activity tax (CAT) were $31.5 million, $10.7 million (34.0%) above estimate. Through January, FY 2008 CAT receipts were $488.8 million, $8.3 million (1.7%) above estimate. FY 2008 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. Taxpayers generally make quarterly CAT payments, although those subject to the minimum tax make annual payments. The February payment, which was due February 10, includes both the annual payments for those who pay the minimum tax and the quarterly payments for taxable sales during the last quarter of CY 2007 for others.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of January 2008
($ in thousands)
(Actual based on OBM's Monthly Financial Report dated February 12, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$551,250	$577,398	-$26,148	-4.5%
Higher Education	$160,473	$191,348	-$30,875	-16.1%
Total Education	$711,723	$768,746	-$57,023	-7.4%
Public Assistance and Medicaid	$877,988	$903,530	-$25,542	-2.8%
Health and Human Services	$117,760	$156,368	-$38,608	-24.7%
Total Welfare and Human Services	$995,748	$1,059,898	-$64,150	-6.1%
Justice and Public Protection	$129,026	$192,349	-$63,323	-32.9%
Environment and Natural Resources	$4,665	$7,031	-$2,366	-33.7%
Transportation	$1,403	$3,307	-$1,904	-57.6%
General Government	$10,511	$17,885	-$7,374	-41.2%
Community and Economic Development	$5,035	$12,892	-$7,857	-60.9%
Capital	$0	$160	-$160	-100.0%
Total Government Operations	$150,640	$233,624	-$82,984	-35.5%
Tax Relief and Other	$11,602	$10,680	$922	8.6%
Debt Service	$78,813	$84,762	-$5,949	-7.0%
Total Other Expenditures	$90,415	$95,441	-$5,026	-5.3%
Unbooked Payroll	$168,367	$0	$168,367	---
Total Program Expenditures	**$2,116,893**	**$2,157,710**	**-$40,817**	**-1.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$7,744	$0	$7,744	---
Total Transfers Out	$7,744	$0	$7,744	---
TOTAL GRF USES	**$2,124,637**	**$2,157,710**	**-$33,073**	**-1.5%**

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

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2008 as of January 31, 2008
($ in thousands)
(Actual based on OBM's Monthly Financial Report dated February 12, 2008)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
Primary, Secondary, and Other Education	$4,091,519	$4,228,668	-$137,149	-3.2%	$4,276,308	-4.3%
Higher Education	$1,510,232	$1,564,187	-$53,955	-3.4%	$1,444,182	4.6%
Total Education	$5,601,751	$5,792,855	-$191,104	-3.3%	$5,720,490	-2.1%
Public Assistance and Medicaid	$6,628,576	$6,633,102	-$4,526	-0.1%	$6,148,893	7.8%
Health and Human Services	$736,698	$832,882	-$96,184	-11.5%	$814,866	-9.6%
Total Welfare and Human Services	$7,365,274	$7,465,984	-$100,710	-1.3%	$6,963,758	5.8%
Justice and Public Protection	$1,132,022	$1,303,782	-$171,760	-13.2%	$1,264,879	-10.5%
Environment and Natural Resources	$64,031	$74,761	-$10,730	-14.4%	$69,100	-7.3%
Transportation	$16,893	$20,142	-$3,249	-16.1%	$15,664	7.8%
General Government	$200,463	$242,420	-$41,957	-17.3%	$227,232	-11.8%
Community and Economic Development	$79,874	$97,077	-$17,203	-17.7%	$95,233	-16.1%
Capital	$56	$953	-$897	-94.1%	$67	-16.5%
Total Government Operations	$1,493,339	$1,739,136	-$245,797	-14.1%	$1,672,174	-10.7%
Tax Relief and Other	$654,130	$662,952	-$8,822	-1.3%	$624,804	4.7%
Debt Service	$383,373	$410,529	-$27,156	-6.6%	$328,342	16.8%
Total Other Expenditures	$1,037,503	$1,073,480	-$35,977	-3.4%	$953,146	8.9%
Unbooked Payroll	$397,651	$0	$397,651	---	$0	---
Total Program Expenditures	**$15,895,519**	**$16,071,455**	**-$175,936**	**-1.1%**	**$15,309,569**	**3.8%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$394,034	-100.0%
Other Transfers Out	$609,168	$466,800	$142,368	30.5%	$307,455	98.1%
Total Transfers Out	$609,168	$466,800	$142,368	30.5%	$701,489	-13.2%
TOTAL GRF USES	**$16,504,687**	**$16,538,255**	**-$33,568**	**-0.2%**	**$16,011,058**	**3.1%**

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

Expenditures

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

Overview

The tables on General Revenue Fund uses report primarily program expenditures but also include transfers out. Tables 3 and 4 show GRF uses for the month of January and for FY 2008 though January. As can be seen from the tables, GRF program expenditures totaled $2,116.9 million in January, $40.8 million below estimate. Also, GRF program expenditures through the first seven months of FY 2008 totaled $15,895.5 million, $175.9 million (1.1%) below estimate[1] but 3.8% above total GRF program spending in the comparable period a year earlier.

Year-to-date GRF program spending through January was $175.9 million (1.1%) below estimate.

Beginning in FY 2008, the state is using a new accounting system called the Ohio Administrative Knowledge System (OAKS). Entry of payroll transactions into OAKS continues to lag. As a result, the books for December and January have not yet closed. Payroll for which accounting entries have not been completed totaled $168.4 million for January and $397.7 million for December and January combined. These amounts are shown on tables 3 and 4 as "unbooked payroll." Largely due to this unbooked payroll, expenditures in most program categories understate payroll spending. It is to be expected, therefore, that most program categories will have negative variances for January and for FY 2008 year to date, as is indeed the case. Once the booking of payroll is completed for December and January, expenditures in most categories will generally be closer to estimates. One area that is not affected by the delay in booking payroll is the "other" category, which includes expenditures for tax relief and debt service. This category's expenditures for January and for FY 2008 year to date were also below estimate, by $5.0 million and $36.0 million, respectively.

Medicaid

Unbooked payroll, for which accounting entries were incomplete, totaled $397.7 million.

The following Table 5 provides details of FY 2008 Medicaid spending for January and for the year to date. Medicaid spending accounts for about 90% of the expenditures in the Public Assistance and Medicaid program category included in tables 3 and 4. GRF Medicaid expenditures in January were $756.9 million, $27.7 million (3.5%) under estimate. For the fiscal year to date, expenditures of $6,027.5 million were $5.6 million (0.1%) over estimate.

The main reason the January variance in Medicaid spending is negative is that the estimates were based on plans to implement various Medicaid expansions and rate increases for hospitals and community providers beginning January 1, 2008. To date, only two expansions, one for pregnant women (up to 200% of the federal poverty guideline from 150%) and the other for children that age-out of foster care, have been implemented. Several other expansions and rate increases have been delayed. In spite of these delays, higher than estimated caseloads have increased year-to-date Medicaid expenditures to slightly over estimate.

[1] For the purpose of computing expenditure variances, LSC uses estimates as communicated to this agency by OBM early in the fiscal year and does not adjust for subsequent changes in these estimates. As a result, estimates shown here may differ in some instances from those reported in OBM's Monthly Financial Report.

In spite of delays in coverage expansions and rate increases, higher caseloads have resulted in year-to-date Medicaid expenditures that are slightly over estimate.

Another contributor to the variances in Medicaid spending is the lower than estimated expenditures for Aged, Blind, and Disabled (ABD) managed care plans. Expenditures for ABD managed care plans fell below estimate by $18.5 million (13.7%) in January and by $111.2 million (12.3%) for the year to date. Although expenditures in this category are below estimate, ABD caseloads have recently been above estimate (by about 3,600). These higher caseloads account for most of the variance in both the inpatient and outpatient hospital categories, as the 90-day delay in enrolling eligible ABD consumers into managed care plans increases fee-for-service payments to hospitals.

Expenditures for the Inpatient Hospital category exceeded estimate by $11.5 million (20.0%) in January and by $118.9 million (26.1%) for the year to date. Similarly, expenditures for the Outpatient Hospital category exceeded estimate by $1.2 million (5.5%) in January and by $35.4 million (20.1%) for the year to date. One contributor to the year-to-date variance, in addition to ABD caseloads, is $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.

** Todd A. Celmar, Economist, 466-7358, contributed to the Medicaid section of this expenditures report.*

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

Medicaid (600-525) Payments by Service Category	January Actual	January Estimate	January Variance	January Percent Variance	Year-to-Date Actual thru Jan.	Year-to-Date Estimate thru Jan.	Year-to-Date Variance	Year-to-Date Percent Variance
Nursing Facilities	$210,669	$227,208	-$16,539	-7.3%	$1,510,095	$1,571,039	-$60,944	-3.9%
ICFs/MR	$44,738	$45,100	-$362	-0.8%	$310,274	$310,396	-$122	0.0%
Inpatient Hospitals	$68,826	$57,374	$11,452	20.0%	$574,691	$455,752	$118,939	26.1%
Outpatient Hospitals	$22,138	$20,983	$1,155	5.5%	$211,752	$176,333	$35,419	20.1%
Physicians	$21,664	$20,890	$774	3.7%	$179,129	$173,107	$6,022	3.5%
Prescription Drugs	$33,641	$34,423	-$782	-2.3%	$274,307	$264,071	$10,236	3.9%
ODJFS Waivers	$22,402	$24,434	-$2,032	-8.3%	$181,744	$192,391	-$10,647	-5.5%
MCP - CFC	$234,139	$236,020	-$1,881	-0.8%	$1,605,786	$1,614,466	-$8,680	-0.5%
MCP - ABD	$116,305	$134,810	-$18,505	-13.7%	$789,816	$901,030	-$111,214	-12.3%
Medicare Buy-In	$26,369	$28,094	-$1,725	-6.1%	$174,418	$180,746	-$6,328	-3.5%
All Other	$69,251	$68,400	$851	1.2%	$526,761	$498,259	$28,502	5.7%
DA Medical	$1,070	$1,244	-$174	-14.0%	$9,925	$9,979	-$54	-0.5%
Total Payments	$871,212	$898,980	-$27,768	-3.1%	$6,348,698	$6,347,569	$1,129	0.0%
Offsets								
Drug Rebates	-$10,815	-$11,333	$518	-4.6%	-$33,676	-$36,333	$2,657	-7.3%
Revenue and Collections	-$6,628	-$6,496	-$132	2.0%	-$19,632	-$19,488	-$144	0.7%
ICF/MR Franchise Fees	-$910	-$910	$0	0.0%	-$2,730	-$2,730	$0	0.0%
NF Franchise Fees	-$21,875	-$21,875	$0	0.0%	-$12,500	-$12,500	$0	0.0%
IMD DSH	-$12,500	-$12,500	$0	0.0%	-$65,625	-$65,625	$0	N/A
MCP Assessments	$0	$0	$0	N/A	-$49,000	-$49,000	$0	0.0%
Health Care Federal	-$81,442	-$82,026	$584	-0.7%	-$280,127	-$284,207	$4,080	-1.4%
Total Offsets	-$134,170	-$135,140	$970	-0.7%	-$463,290	-$469,883	$6,593	-1.4%
Total 600-525 (net of offsets)	$737,042	$763,840	-$26,798	-3.5%	$5,885,408	$5,877,686	$7,722	0.1%
Medicare Part D (600-526)	$19,860	$20,743	-$883	-4.3%	$142,082	$144,206	-$2,124	-1.5%
Total GRF	**$756,902**	**$784,583**	-$27,681	**-3.5%**	**$6,027,490**	**$6,021,892**	$5,598	**0.1%**
Total All Funds	**$891,072**	**$919,723**	-$28,651	**-3.1%**	**$6,490,780**	**$6,491,775**	-$995	**0.0%**

Source: Ohio Department of Job & Family Services.

Issue Updates

Ohio's Federal Reimbursement for Medicaid and SCHIP May Be $40 million Higher in FY 2009 than Previously Expected

— Todd A. Celmar, Economist, 466-7358

Ohio could receive approximately $40 million more in federal Medicaid reimbursement in FY 2009 than was assumed in H.B. 119. For federal fiscal year (FFY) 2009, Ohio's official FMAP (federal medical assistance percentage) rates are 62.14% for Medicaid and 73.50% for SCHIP (the State Children's Health Insurance Program). The rates assumed in H.B. 119 were 61.57% and 73.10%, respectively. The federal government calculates each state's FMAP rates annually based on the ratio of a state's three-year average per capita income to the national average. The lower a state's ratio is, the higher FMAP rates are. Ohio is one of 21 states that will receive FMAP rate increases in FFY 2009.

New Medicaid Administrative Claiming Program Provides Federal Reimbursement to Participating Local Public Health Departments

— Wendy Risner, Senior Budget Analyst, 644-0089

On January 14, 2008, the Controlling Board approved an increase in appropriation authority for FY 2008 of $700,000 in the Agency Health Services Fund of the Department of Health (DOH). These funds are used to reimburse local public health departments for Medicaid administrative costs through the newly created Medicaid Administrative Claiming Program that allows local public health departments to receive up to 50% federal reimbursement. Thus far, six departments have participated in the program and eight additional departments have expressed interest. The six current participants include the Mansfield/Ontario/Richland County, Columbus City, and Mahoning County health departments, which have served as the pilot sites since July 1, 2007, and the Summit County, Elyria City, and Defiance County health departments, which began participating on January 1, 2008. DOH has been notifying and educating the other local public health departments about the program. It anticipates that federal reimbursements will amount to approximately $2 million for FY 2009 and $5 million annually in the future if about one-half of local public health departments participate in the program.

Exemptions to Prior Authorization of Psychotropic Drugs Expected to Cost State $500,000 per Year

— Todd A. Celmar, Economist, 466-7358

As reported here last month, the Governor announced in December a new policy requiring prior authorization of certain specialized mental health drugs after January 1, 2008. This policy is expected to save the Medicaid program $20 million to $47 million annually, of which the state share is approximately $8 million to $19 million. In late January, the Ohio Department of Job and Family Services announced two exemptions from this prior authorization policy, which will cost the state approximately $500,000 annually. The first exemption allows psychiatrists contracted with Medicaid managed care plans or working within community mental health centers to prescribe those specialized mental health drugs without obtaining prior authorization. The second exemption allows mentally ill Medicaid patients who are currently stabilized on a particular drug to have ongoing access to the medication without obtaining prior authorization.

Funding for the Commission on African American Males Transferred to The Ohio State University African American and African Studies Community Extension Center

—Mary Morris, Budget Analyst, 466-2927

On January 8, 2008, as required by H.B. 119, appropriations totaling $683,255 in FY 2008 were transferred from the Commission on African American Males (CAAM) to the Ohio Board of Regents' GRF appropriation item 235-633, Commission on African American Males. The transferred appropriation is to be used by The Ohio State University African American and African Studies Community Extension Center to support CAAM, which identifies and promotes strategies and policies to improve the social, economic, and educational problems that affect African American males in Ohio. CAAM began in 1989 as the Governor's Commission on Socially Disadvantaged Black Males. From FY 1991 to FY 1999, the Ohio Civil Rights Commission oversaw CAAM activities. From FY 2000 to January 2008, CAAM operated as a state agency. The transfer effectively ends CAAM's existence as a state agency. It now operates under The Ohio State University African American and African Studies Community Extension Center. This center provides community outreach and education programs designed to enhance the opportunities of people who live and work in Ohio's urban communities.

Second Chance to Apply for Expanded 2007 Homestead Exemption

— Phil Cummins, Economist, 387-1687

Persons who met the eligibility requirements for the 2007 homestead exemption on January 1, 2007, but who did not previously apply, may file a late application until June 2, 2008. H.B. 119 extended the homestead exemption to all homeowners 65 years of age or older, or permanently and totally disabled, exempting from real property taxation the first $25,000 of market value of each person's primary residence. Unlike the homestead exemption under previous law, there is no longer an income limit restricting eligibility. The value of this benefit varies with the effective tax rate, and averages about $400 per year for each eligible property. By last October's deadline, 565,614 applications for the new benefit had been submitted statewide. Adding in the 222,090 homeowners receiving property tax relief under the previous homestead exemption law, who did not need to reapply, implies 787,704 program participants (as of October 12, 2007).

Ohio Housing Finance Agency Approved $24 Million in Tax-Exempt Bonds for Multifamily Housing

— Brian Hoffmeister, Budget Analyst, 644-0089

On January 16, 2008, the Ohio Housing Finance Agency (OHFA) Board approved the issuance of $24.2 million in tax-exempt bonds to fund the development of multifamily housing projects.[1] These

[1] The federal government limits the amount of tax-exempt bonds that state and local governments, as well as certain public authorities, such as OHFA, may issue. This limit is referred to as the "volume cap." OHFA's volume cap allocation for multifamily projects is $120 million in calendar year 2008.

tax-exempt bonds help lower housing developers' costs, thus making the housing more affordable. Of this $24.2 million bond issue, $12.2 million has been allocated to fund the development and rehabilitation of four multifamily housing projects: $5 million for the Covenant House Apartments in Toledo, $1.9 million for Creston Station Limited in Creston, $3.3 million for Glenwood Apartments in Millersburg, and $2 million for Sunbury Heights in Sunbury. The remainder of the $24.2 million bond issuance is expected to provide funding for additional projects as they are approved by OHFA. Recipients of tax-exempt multifamily bond financing are subject to a federal requirement to commit to set aside a percentage of units for rentals and for low- and moderate-income households for a period of 15 years or the term of the bonds, whichever is greater.

Eight Districts Take Advantage of H.B. 66 Gap Aid Phase-Out

— *Melaney Carter, Fiscal Supervisor, 466-6274*

In FY 2008, eight districts continue to benefit from a gap aid phase-out policy instituted by H.B. 66, the main operating budget for the FY 2006-FY 2007 biennium. Gap aid provides supplemental state funding to make up any difference (gap) between a district's actual local operating revenue and the required local contribution assumed by the school funding formula. Voter approval of a school tax levy (i.e., an increase in actual local operating revenue), however, may reduce or eliminate a district's gap aid.

Under the phase-out policy, districts that cease to qualify for gap aid because of voter approval of a school tax levy continue to be eligible for gap aid at a reduced rate for three years if the levy exceeds the millage equivalent of the prior year's gap aid amount by at least one mill.[2] In each of the three phase-out years, the aid is equal to 75%, 50%, and 25%, respectively, of the amount of gap aid received before the levy. In FY 2007 eight school districts became eligible for the gap aid phase-out payments. These eight districts and their payment amounts for FY 2007 and FY 2008 are listed in the following table.[3]

School District Gap Aid Phase-out Payments			
County	**District**	**FY 2007 Payment**	**FY 2008 Payment**
Ashtabula	Pymatuning Valley Local	$338,478	$225,652
Darke	Versailles Ex Village	$173,223	$115,482
Medina	Cloverleaf Local	$123,279	$82,186
Ottawa	Genoa Area Local	$13,710	$9,140
Portage	Rootstown Local	$25,659	$17,106
Warren	Lebanon City	$1,351,717	$901,145
Wayne	Dalton Local	$149,070	$99,380
Wood	Eastwood Local	$14,414	$9,609
	Total	***$2,189,550***	***$1,459,700***

[2] When talking about property tax levies, a mill is $1.00 in taxes for every $1,000 of assessed value.

[3] Seven of these eight districts also receive transitional aid, which guarantees that each district is allocated the same amount of state aid for FY 2008 as for FY 2007. This indicates that even with the phase-out payments, the formula before taking account of transitional aid would allocate less funding to the districts this year than was allocated in FY 2007.

One District's Local Share of School Funding Includes Certain Tax-Exempt Property in FY 2008

— Melaney Carter, Fiscal Supervisor, 466-6274

In FY 2008, Berea City in Cuyahoga County has become the first district whose valuation used in calculating the district's local share of school foundation funding includes the value of certain tax-exempt property for which the district receives payment in lieu of taxes as required by a policy change made in H.B. 66. This policy change applies to property newly exempted after January 1, 2006.[4] Approximately $2.4 million was added to the district's valuation used in calculating its local share, increasing the local share by about $55,000 (0.2%). However, Berea City's total state education aid for FY 2008 is not lower as a result of this policy change because the district receives transitional aid that guarantees the same amount of state aid for FY 2008 as for FY 2007.

[4] Tax year 2006 valuation data are used in FY 2008 for purposes of school funding.

Tracking the Economy

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

Growth in the national economy slowed sharply in the fourth quarter of 2007, to an annualized rate of just 0.6%, and U.S. nonfarm payroll employment dropped in January. We are not officially in a recession as of this writing, according to the National Bureau of Economic Research (NBER), but most analysts have increased their assessments of the likelihood of recession over the last month. On February 10, Reuters reported that the Blue Chip Economic Forecast puts the odds of recession at "nearly 50 percent." As NBER itself acknowledges, NBER typically determines the beginning date of a recession from 6 to 18 months after that date, in part because of publication lags for the relevant data.

Economic policymakers have been actively attempting to forestall a recession and stimulate the economy. Congress passed a fiscal stimulus package on February 7, and the President signed it on February 13. The package included an estimated $168 billion in fiscal stimulus, to be distributed during federal fiscal years 2008 and 2009. Similarly, the Federal Reserve cut the federal funds rate from 4.25% to 3.5% on January 22, between regularly scheduled meetings of the Federal Open Market Committee (FOMC), and then cut it again to 3.0% at the January 30 FOMC meeting. Global Insight, an economic forecasting firm, expects that the combined effects of these actions will provide a significant benefit to the economy but that there will be a lag before it is felt. The firm anticipates that real GDP growth will return to the 3% range (annualized) by the third quarter of 2008.

Although it remains to be seen whether the anticipated recession will be averted, there are indications that a credit crunch may have been. The Federal Reserve held its third auction of short-term loans on January 28, and the volume of bids received dropped from $55.5 billion at the preceding auction to $37.5 billion at the more recent one. The number of bidders dropped as well. The three-month LIBOR (London Inter Bank Offer Rate, the interest rate at which banks lend to each other in the London market) dropped from 4.5% to 3.09% during the month ending February 8. Increases in the LIBOR in the early fall and in December had been interpreted by some analysts as indicating that we were approaching a credit crunch.

The National Economy

Production and Income

U.S. real GDP grew by 0.6% in the fourth quarter.

Real U.S. gross domestic product (GDP) grew by an annualized 0.6% in the fourth quarter of 2007. As widely expected, economic growth slowed sharply from a rate of 4.9% in the third quarter. For 2007 as a whole, real GDP grew 2.2%, a deceleration from 2.9% growth in 2006. This advance estimate of GDP growth is subject to revisions, the first of which is scheduled to be announced on February 28.

Despite the anemic growth, some analysts expressed (guarded) optimism due to the role played by inventories. The change in private inventories subtracted 1.25 percentage points from overall economic growth. Decreases in inventories can be helpful for economic growth in subsequent quarters, since businesses must eventually replenish inventories (at which time production must increase). The slowdown was due to a number of factors. Consumer spending, the primary driver of economic growth, contributed 1.37 percentage points to growth, down from 2.01 percentage points in the third quarter. Net exports contributed 0.41 percentage point to growth (down from 1.38 points in the third quarter), and government spending contributed 0.5 percentage point, almost all of that coming from state and local governments. The weakness shown by fixed residential investment continued, subtracting 1.18 percentage points from growth. The positive contribution of fixed nonresidential investment (0.79 percentage point) was not large enough to make the overall contribution of fixed investment positive. Motor vehicle production subtracted 0.9 percentage point from growth.

Personal income increased by $129.1 billion (4.5%) in the fourth quarter (before adjusting for inflation), a deceleration from 6.0% growth in the third quarter. Disposable personal income increased 4.2% in the fourth quarter (vs. 6.4% in the third). And real disposable personal income rose 0.3% in the fourth quarter (vs. 4.5%).

Employment and Unemployment

U.S. nonfarm payroll employment decreased by 17,000 in January, after seasonal adjustment, to 138.1 million jobs.[1] This slight decrease (the U.S. Bureau of Labor Statistics, or BLS, described employment as "essentially unchanged") was the first decrease in payroll employment nationally since August 2003. The news seemed to overshadow other labor market news released by BLS at the same time, such as an upward revision to December's increase in payroll employment from 18,000 to 82,000 and a drop in the unemployment rate from 5.0% to 4.9%. On average, total payroll employment increased by 95,000 per month during 2007, despite manufacturing employment decreasing by an average of 22,400 per month.

U.S. payroll employment fell in January.

The recent trend of job loss in manufacturing continued in January, with manufacturing employment decreasing by 28,000. Goods-producing industries lost 51,000 jobs overall for the month, reflecting a similar-sized (27,000) decrease in employment in construction and a slight gain in mining employment. Employment in service-providing industries increased by 34,000 in January, led by education and health services (which added 47,000 jobs). Employment in government fell by 18,000, meaning that payrolls in the private sector increased ever so slightly.

The unemployment rate reflected a decrease in the number of unemployed workers from 7.66 million to 7.58 million. In part this was due to an increase in employment as measured by the monthly household survey conducted by the Census Bureau. Changes in payroll employment, which is measured by surveying business and government establishments, do not necessarily match changes in employment measured by the household survey, in part due to differences in definitions (for example, the establishment survey does not count the self-employed, who are counted under the household survey). There were 467,000 discouraged workers in January, in addition to those counted as unemployed.

[1] The employment data for each month of 2007 were revised due to new "benchmarks" derived from unemployment insurance tax records. The revisions to job numbers were uniformly downward. December payroll employment, for example, was revised downward by 376,000 jobs after seasonal adjustment, from the originally reported 138.5 million to 138.1 million.

Manufacturing

Manufacturing shipments decreased in December by 0.3% to $427.5 billion. The decrease followed three straight monthly increases. Shipments of durable goods fell by 0.2%, to $212.0 billion. This was the fourth decrease in five months. Despite the overall decrease in December, some industries did have increases in shipments, including primary metals (which increased by 0.2%) and machinery (up 3.3%). Shipments of transportation equipment fell by 1.5%.

New orders for manufactured goods increased 2.3% in December to $441.6 billion. This was the sixth increase in the last seven months, and the index reached its highest level since 1992 (when new orders began to be reported according to the NAICS basis of industry classifications). New orders for durable goods increased by 5.0%, the second consecutive monthly increase. New orders increased particularly strongly for machinery (by 7.3%) and transportation equipment (by 11.5%); however, the latter increase was due to orders for boats and aircraft. New orders for motor vehicle bodies, parts, and trailers fell by 2.8%.

Housing Markets and Construction

Sales of new homes were estimated to be 604,000 nationally in December, at an annualized rate and after seasonal adjustment. This figure was 4.7% below November's sales figure and 40.7% below the figure for December 2006. The estimated sales for 2007 as a whole were 774,000 units, 26.4% less than the corresponding estimate for 2006. For the Midwest, sales in all of 2007 were down by a nearly identical 26.7% compared with 2006.

The President signed a fiscal stimulus package on February 13.

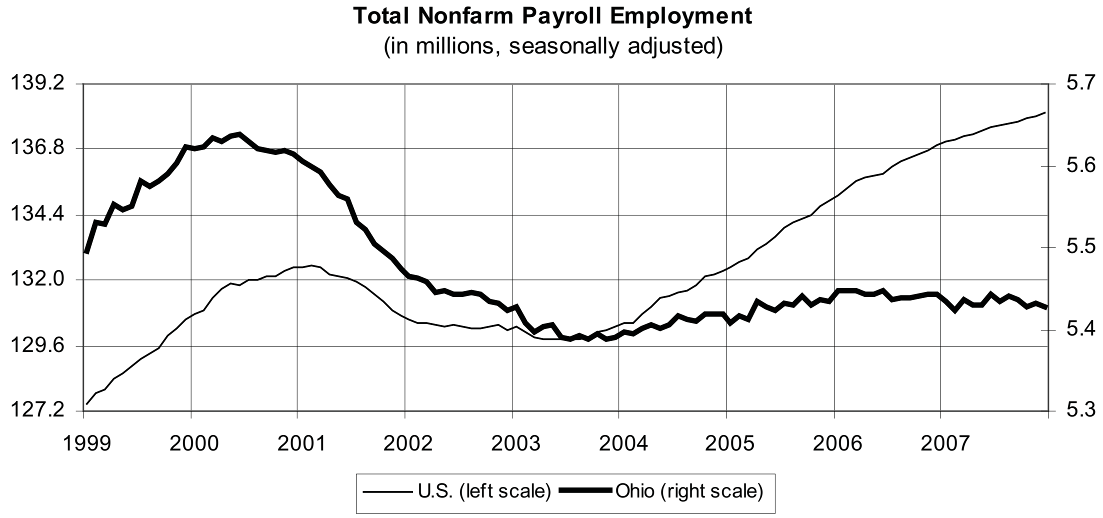
Foreclosure filings increased by 75% nationally in 2007, according to RealtyTrac, a private company that monitors home foreclosures. The company also reported that over 1% of U.S. households were in some stage of foreclosure during the year. According to the company's calculations, the states with the highest foreclosure rates were Nevada, Florida, and Michigan, followed by California and Colorado. The Mortgage Bankers Association (MBA), which has been tracking mortgage delinquencies since 1972, reported that foreclosure rates hit a record high in the third quarter of 2007. MBA also reported that about one-quarter of the properties in foreclosure in Nevada, Florida, and California in the third quarter were investor-owned.

Inflation and Prices

January figures for the consumer price index for all urban consumers (CPI-U) are scheduled to be released on February 20. As reported in last month's edition of *Budget Footnotes*, CPI-U increased by 0.3% in December after seasonal adjustment and by 4.1% for 2007 as a whole. Energy price increases drove inflation during much of the year. Excluding food and energy, CPI-U rose by 2.4% during 2007.

The Ohio Economy

Widespread mortgage problems afflict Ohio just as they do the nation as a whole. RealtyTrac reported that Ohio experienced the sixth-highest foreclosure rate among U.S. states in 2007, with 1.8% of Ohio households experiencing some stage of foreclosure



during the year. As reported above, the states with the highest foreclosure rates were Nevada, Florida, Michigan, California, and Colorado. Because Ohio's population is larger than that of three of those states, the sixth-highest foreclosure rate translated into the third-largest number of foreclosures, behind only California and Florida.

Ohio nonfarm payroll employment decreased by 3,900 (0.1%) in December, reducing the total to just under 5.43 million. Employment fell in both goods-producing industries (by 2,400) and service-providing industries (by 1,500). Ohio's unemployment rate rose from 5.6% to 6.0%, and the number of unemployed Ohioans rose from 334,000 to 361,000.

During the 12 months ending in December, nonfarm payroll employment fell by 15,300. This was almost entirely due to job losses in goods-producing industries (14,500), with most of those job losses being in manufacturing (13,800). But workers in service-providing industries also lost jobs (800) for the year, primarily in trade, transportation, and utilities (where employment fell by 4,300) and financial activities (3,600). The job losses in some service industries were partially made up by gains in educational and health services (which added 10,700 jobs) and professional and business services (2,900).

Economic Forecast Update

As explained in the January edition of *Budget Footnotes*, 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), wage disbursements (Ohio only), and unemployment rates (both). The forecasts used came from the economic forecasting firm Global Insight and from the Governor's Council of Economic Advisors.

Global Insight recently released its January 2008 forecast for Ohio (Global Insight issues state-level forecasts quarterly and national forecasts monthly). Its October forecast projected Ohio's real GDP to grow a half percentage point slower than the budget forecast for both FY 2008 and FY 2009. The firm's January forecast was slightly more optimistic about FY 2008 and much more pessimistic about FY 2009. Specifically, it now projects Ohio's real GDP to grow 0.3 percentage point slower than the budget forecast for FY 2008 and 1.1 percentage points slower than the budget forecast for FY 2009.

At first glance, the forecast for Ohio personal income and wage disbursements looks more optimistic. Both variables are now forecast to grow slightly faster during FY 2008 than they were during the budget process. These variables are "nominal" variables, which is economist-speak for a variable that has not been adjusted for inflation. Tax revenues, which are also nominal, are generally expected to track personal income and wage disbursements more closely than real GDP. In the October Global Insight forecast, both variables were expected to grow more than a full percentage point faster than they had been the preceding May. Now they are expected to grow a half-percentage point faster (wage disbursements) or less (personal income). And while both variables are now forecast to grow more slowly during FY 2009 than they were last May, that slower growth would be applied to a larger base, leaving the impact on tax revenues (compared with the budget revenue forecast) somewhat difficult to predict.

However, the slightly faster growth in these income measures that is expected for FY 2008 was due to the first quarter of the fiscal year, when the national economy was still growing strongly. As such, the good news is behind us, and we should have experienced the benefits of the faster income growth in tax revenue already. For the final three quarters of FY 2008, Ohio wage disbursements are now forecast to grow by the same amount they were forecast to increase last May—3.4% (at an annual rate). And Ohio personal income is now forecast to grow slightly more slowly: 4.1% (annualized) compared to 4.4% last May.

The forecast of Ohio unemployment rates also bodes poorly for the state budget. The unemployment rate is now forecast to average 5.9% during the current fiscal year (compared to a forecast of 5.5% in May) and to average 6.3% in FY 2009 (compared to 5.4%). The current FY 2008 forecast is slightly more optimistic than it was in October, but the forecast for FY 2009 is more pessimistic. Unemployment rates in Ohio are generally expected to affect not only tax revenues, but Medicaid caseloads as well. Thus, there is reason for concern about the expenditure side of the budget as well during coming months.

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

	FY 2008		FY 2009	
Variable name (national)	**Forecast for Budget**	**February 2008 Forecast**	**Forecast for Budget**	**February 2008 Forecast**
U.S. real GDP growth	2.3%	2.2%	3.2%	1.5%
U.S. personal income growth	5.5%	4.3%	5.6%	4.4%
U.S. CPI inflation	1.8%	2.5%	1.9%	1.6%
U.S. unemployment rate	4.8%	5.0%	4.8%	5.6%
Variable name (OH)	**Forecast for Budget**	**January 2008 Forecast**	**Forecast for Budget**	**January 2008 Forecast**
Ohio real GDP growth	1.9%	1.6%	2.5%	1.4%
Ohio personal income growth	4.2%	4.5%	4.6%	4.1%
Ohio wage disbursements growth	3.2%	3.7%	3.8%	3.5%
Ohio unemployment rate	5.5%	5.9%	5.4%	6.3%