Next

Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission

January 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, $380 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 December 31, 2007):

- Tax revenues were $118.5 million (1.3%) below estimate.
  - Below estimate: corporate franchise tax, $69.1 million; personal income tax, $47.3 million (1.1%); and auto sales tax, $28.1 million (5.8%).
  - Above estimate: nonauto sales tax, $43.8 million (1.3%); kilowatt hour excise tax, $3.0 million (1.7%); and cigarette tax, $1.9 million (0.4%).
- Total GRF receipts of $12,434.5 million were $106.8 million (0.9%) below estimate. State-source receipts were below estimate by $135.4 million (1.4%) and federal grants were above estimate by $28.6 million (0.9%).
- Compared to FY 2007, tax revenue was up 1.3%, state-source receipts were up 1.7%, and federal grants were up 12.7%. Total GRF receipts were up 4.3%.

FY 2008 GRF uses (as of December 31, 2007):

- Total GRF program expenditures of $13,836.0 million were $70.3 million (0.5%) below estimate. This amount includes $380 million in unbooked payroll.
- Medicaid expenditures were $33.3 million (0.6%) above estimate.
- Compared to FY 2007, total GRF program expenditures were up 6.3%.

Volume 31, Number 5

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of December 2007
($ in thousands)
(Actual based on OBM's monthly financial report dated January 10, 2008)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$56,472	$70,100	-$13,628	-19.4%
Nonauto Sales and Use	$681,496	$655,000	$26,496	4.0%
Total Sales and Use Taxes	$737,968	$725,100	$12,868	1.8%
Personal Income	$802,903	$810,600	-$7,697	-0.9%
Corporate Franchise	-$3,520	-$11,250	$7,730	-68.7%
Public Utility	$0	$0	$0	---
Kilowatt Hour Excise	$26,551	$26,500	$51	0.2%
Commercial Activity Tax	$0	$0	$0	---
Foreign Insurance	$7	$0	$7	---
Domestic Insurance	$0	$0	$0	---
Business and Property	-$47	$30	-$77	-257.1%
Cigarette	$74,514	$84,400	-$9,886	-11.7%
Alcoholic Beverage	$4,447	$4,600	-$153	-3.3%
Liquor Gallonage	$2,940	$2,900	$40	1.4%
Estate	$2,198	$6,600	-$4,402	-66.7%
Total Tax Revenue	**$1,647,962**	**$1,649,480**	**-$1,518**	**-0.1%**
NONTAX REVENUE				
Earnings on Investments	$0	$38,800	-$38,800	-100.0%
Licenses and Fees	$577	$700	-$123	-17.6%
Other Revenue	$37,047	$4,300	$32,747	761.6%
Total Nontax Revenue	**$37,624**	**$43,800**	**-$6,176**	**-14.1%**
TRANSFERS				
Liquor Transfers	$31,000	$18,000	$13,000	72.2%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$10,307	$10,360	-$53	-0.5%
Total Transfers In	**$41,307**	**$28,360**	**$12,947**	**45.7%**
TOTAL STATE SOURCES	**$1,726,893**	**$1,721,640**	**$5,253**	**0.3%**
Federal Grants	$490,426	$485,002	$5,424	1.1%
TOTAL GRF SOURCES	**$2,217,319**	**$2,206,642**	**$10,678**	**0.5%**

* 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 December 31, 2007
($ in thousands)
(Actual based on OBM's monthly financial report dated January 10, 2008)

	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$456,608	$484,700	-$28,092	-5.8%	$454,375	0.5%
Nonauto Sales and Use	$3,433,484	$3,389,700	$43,784	1.3%	$3,259,095	5.4%
Total Sales and Use Taxes	$3,890,092	$3,874,400	$15,692	0.4%	$3,713,470	4.8%
Personal Income	$4,094,592	$4,141,900	-$47,308	-1.1%	$4,018,155	1.9%
Corporate Franchise	-$54,083	$15,000	-$69,083	-460.6%	$57,604	-193.9%
Public Utility	$62,209	$69,300	-$7,091	-10.2%	$68,859	-9.7%
Kilowatt Hour Excise	$174,665	$171,700	$2,965	1.7%	$167,872	4.0%
Commercial Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	$132,777	$139,000	-$6,223	-4.5%	$132,122	0.5%
Domestic Insurance	$391	$600	-$209	-34.8%	$235	66.2%
Business and Property	$341	$790	-$449	-56.8%	$632	-46.0%
Cigarette	$434,859	$433,000	$1,859	0.4%	$458,389	-5.1%
Alcoholic Beverage	$29,474	$29,200	$274	0.9%	$29,073	1.4%
Liquor Gallonage	$17,378	$17,500	-$122	-0.7%	$17,055	1.9%
Estate	$30,091	$38,900	-$8,809	-22.6%	$32,380	-7.1%
Total Tax Revenue	**$8,812,787**	**$8,931,290**	**-$118,503**	**-1.3%**	**$8,695,846**	**1.3%**
NONTAX REVENUE						
Earnings on Investments	$44,990	$85,000	-$40,010	-47.1%	$92,314	-51.3%
Licenses and Fees	$20,579	$19,711	$868	4.4%	$20,053	2.6%
Other Revenue	$59,365	$33,904	$25,461	75.1%	$87,903	-32.5%
Total Nontax Revenue	**$124,934**	**$138,615**	**-$13,681**	**-9.9%**	**$200,270**	**-37.6%**
TRANSFERS						
Liquor Transfers	$95,000	$92,000	$3,000	3.3%	$76,000	25.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$278,884	$285,140	-$6,256	-2.2%	$179,986	54.9%
Total Transfers In	**$373,884**	**$377,140**	**-$3,256**	**-0.9%**	**$255,986**	**46.1%**
TOTAL STATE SOURCES	**$9,311,605**	**$9,447,045**	**-$135,440**	**-1.4%**	**$9,152,102**	**1.7%**
Federal Grants	$3,122,894	$3,094,266	$28,628	0.9%	$2,771,417	12.7%
TOTAL GRF SOURCES	**$12,434,499**	**$12,541,311**	**-$106,812**	**-0.9%**	**$11,923,519**	**4.3%**

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

Detail may not sum to total due to rounding.

Tax revenues are expected to account for 73% of FY 2008 total GRF receipts and federal grants are expected to account for 22%.

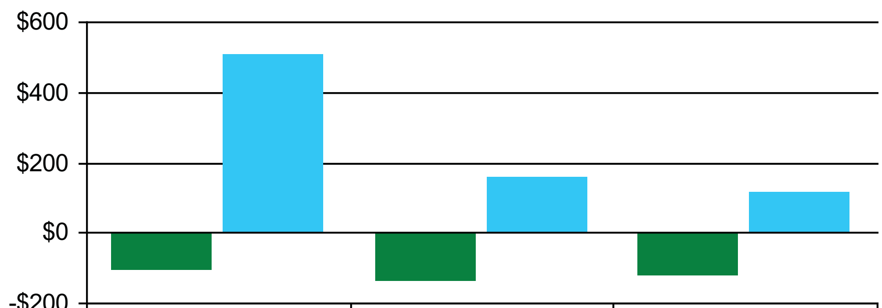
Revenues

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

Total GRF receipts for December were $2,217.3 million. This amount was $10.7 million (0.5%) above estimate.[1] State-source receipts were above estimate by $5.3 million (0.3%) and federal grants were above estimate by $5.4 million (1.1%).[2] Tax revenues were below estimate by $1.5 million (0.1%). Personal income tax revenue was below estimate by $7.7 million (0.9%), auto sales tax revenue was below estimate by $13.6 million (19.4%), and cigarette tax revenue was below estimate by $9.9 million (11.7%). Nonauto sales tax revenue was above estimate by $26.5 million (4.0%). Net refunds of the corporate franchise tax were $7.7 million (68.7%) less than estimate.

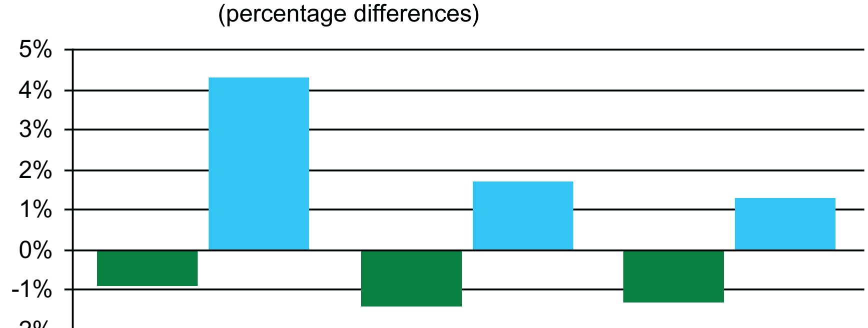
At the midpoint of FY 2008 total GRF receipts were $12,434.5 million, $106.8 million (0.9%) below estimate. State-source receipts were below estimate by $135.4 million (1.4%) and federal grants were above estimate by $28.6 million (0.9%). Tax revenues were below estimate by $118.5 million (1.3%). Corporate franchise tax

FY 2008 GRF Receipts
(difference in millions)



	Total GRF Receipts	State-source Receipts	Tax Revenues
Compared to FY 2008 Estimates	-$106.8	-$135.4	-$118.5
Compared to FY 2007 Actual	$511.0	$159.5	$116.9

FY 2008 GRF Receipts
(percentage differences)



	Total GRF Receipts	State-source Receipts	Tax Revenues
Compared to FY 2008 Estimates	-0.9%	-1.4%	-1.3%
Compared to FY 2007 Actual	4.3%	1.7%	1.3%

revenue was $69.1 million (460.6%) below estimate, personal income tax revenue was $47.3 million (1.1%) below estimate, and auto sales tax revenue was $28.1 million (5.8%) below estimate. Estate tax revenue was $8.8 million (22.6%) below estimate and foreign insurance tax revenue was $6.2 million (4.5%) below estimate. Nonauto sales tax revenue was above estimate by $43.8 million (1.3%) and cigarette tax revenue was above estimate by $1.9 million (0.4%). Kilowatt hour tax revenue was $3.0 million (1.7%) above estimate. Although earnings on investments for the first quarter were posted in December, earnings for the second quarter that were scheduled to be posted in December were not posted. Therefore, reported earnings on investment for the fiscal year are below estimate by $40.0 million.

Total tax revenues are expected to grow 1% in FY 2008.

Compared to FY 2007 fiscal year-to-date total GRF receipts were up 4.3%. State-source receipts were up 1.7% and federal grants were up 12.7%. Tax revenues were up 1.3%. Personal income tax revenue was up 1.9%, nonauto sales tax revenue was up 5.4%, and auto sales tax revenue was up 0.5%. Corporate franchise tax revenue was down 193.9%, cigarette tax revenue was down 5.1%, and estate tax revenue was down 7.1%. The accompanying charts present comparisons of FY 2008 GRF receipts with estimated receipts for FY 2008 and with FY 2007 receipts for the first six months of the fiscal year.

Personal Income Tax

The personal income tax is expected to account for 47% of FY 2008 total tax revenues (34% of total GRF receipts).

In December the GRF received $802.9 million from the personal income tax. This amount was below estimate by $7.7 million (0.9%). Although an improvement from the $82.1 million (12.1%) shortfall in November, receipts were still below estimate, resulting in a negative second quarter variance (2.7%) compared to the slight positive variance (0.4%) for the first quarter of FY 2008. Gross collections for December were below estimate by $4.3 million (0.5%) and refunds were $2.6 million (13.9%) above estimate. Withholding was above estimate by $24.5 million (3.6%) and quarterly estimated payments were below estimate by $27.4 million (20.6%).[3]

The GRF received $4,094.6 million from the personal income tax in the first half of FY 2008. This amount was $47.3 million (1.1%) below estimate. Gross collections were below estimate by $15.0 million (0.3%) and refunds were $31.4 million (20.3%) above estimate. Withholding was $29.9 million (0.8%) above estimate and quarterly estimated payments of $514.4 million were $38.2 million (6.9%) below estimate.

Compared to a year ago, GRF revenue from the personal income tax was up by 1.9%. Gross collections were up by 0.7% and refunds were up by 10.6%. Withholding was up by 1.2% and quarterly estimated payments were down by 2.5%.

Withholding, which is expected to account for 70.8% of gross collection for the fiscal year, has slipped from $78.4 million (3.1%) above estimate at the end of October to $29.9 million (0.8%) above estimate at the end of December. Quarterly estimated payments, which were 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 possibility that income tax revenue may finish FY 2008 below estimate.

Sales and Use Tax

GRF sales and use tax revenues in December 2007 were $738.0 million, $12.9 million (1.8%) above projected revenues. Auto sales and use tax receipts were $13.6 million (19.4%) below estimate. Nonauto sales and use tax receipts were $26.5 million (4.0%) above estimate. Total sales and use tax receipts were $73.4 million (11.0%) above December 2006 revenues. Through December, FY 2008 sales and use tax revenues were $3,890.1 million, $15.7 million (0.4%) above estimate. FY 2008 sales and use tax receipts were also $176.6 million (4.8%) above year-to-date tax receipts in December 2006. On a quarterly basis, second-quarter receipts were $113.1 million (6.0%) above second-quarter receipts in FY 2007. The year-over-year growth in December and in the second quarter overstates the actual performance of the tax. As required by the transition to the new distribution of tax revenue to local government funds (H.B. 119), no deposits were made in December to the local government funds and monthly amounts that would otherwise be credited to the local funds were credited to the GRF.

Also, the triple threat of rising energy prices, falling home values, and declining stock market prices is weighing heavily on consumers. Consumer spending slowed abruptly in December for most income groups and this may not have been fully reflected in the sales and use tax receipts for the month.[4]

Nonauto Sales and Use Tax

The nonauto sales tax is expected to account for 34% of FY 2008 total tax revenues (25% of total GRF receipts).

Nonauto sales and use tax receipts in December were $681.5 million, $26.5 million (4.0%) above estimate. Nonauto sales and use tax receipts were also $80.0 million (13.3%) above revenues in the same month a year ago. Through December, FY 2008 nonauto sales and use tax receipts were $3,433.5 million, $43.8 million (1.3%) above estimate, and $174.4 million (5.4%) above receipts through December in FY 2007. Second-quarter receipts were $104.6 million (6.3%) above second-quarter receipts in FY 2007. As explained previously, this annual growth is affected by the timing of the distribution of tax receipts to the local government funds. If the slowdown in consumer spending persists in January and future months, growth in receipts from the nonauto sales and use tax may decline in the second half of the fiscal year.

Auto Sales and Use Tax

Auto sales and use tax receipts were $56.5 million in December 2007, $13.6 million (19.4%) below estimate. 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. Compared to revenues a year ago, auto sales and use tax receipts were $6.4 million (10.2%) lower than receipts in December 2006. Through December, FY 2008 year-to-date auto sales and use tax receipts were $456.6 million, $28.1 million (5.8%) below estimate. Year-to-date auto sales and use tax receipts were also $2.2 million (0.5%) above receipts through December 2006 last year. For CY 2007, 16.2 million cars and light trucks were sold nationwide, down 2.5% from CY 2006. The sales rate was the weakest since CY 1998. Sales of both cars and light trucks declined. Auto buyers are under pressure from higher mortgage payments and energy costs, and overall uncertain economic conditions. The most optimistic economic forecasters project no growth in sales in CY 2008. Global Insight, a national economic forecasting firm, predicts a decline to 15.8 million units this calendar year. Other forecasts predict even lower sales. Thus, the auto sales and use tax may underperform this fiscal year.

Corporate Franchise Tax

Activities under the franchise tax in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations. Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year. The first major CFT estimated payment is due on January 31, 2008. Refunds exceeded tax receipts in December. Net refunds of $3.5 million were paid to taxpayers in December 2007, less than an estimate of $11.3 million in net refunds. Through December, FY 2008 year-to-date CFT net refunds were $54.1 million. OBM expected net receipts of $15.0 million in the period. Last year, FY 2007 year-to-date receipts through December 2006 were $57.6 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 $69.1 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. Banks and other financial companies have been among the most visible casualties of the profit slump. Because of the phaseout of the tax for nonfinancial corporations, the contribution of financial corporations to total CFT receipts is increasing each fiscal year. Thus, the profit woes of financial corporations may have an oversized negative impact on the CFT.

H.B. 66 phased out the corporate franchise tax on most nonfinancial corporations.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products in December 2007 were $74.5 million, $9.9 million (11.7%) below estimate. Revenues in December 2007 were $13.4 million (2.5%) below receipts in December 2006. Through December, FY 2008 year-to-date receipts were $434.9 million, $1.9 million (0.4%) above estimate. Those receipts were also $23.5 million (5.1%) below FY 2007 receipts through December 2006. Second-quarter receipts were poor. They were $9.3 million (3.7%) below estimate and $22.7 million (8.6%) below second-quarter receipts in FY 2007.

Commercial Activity Tax

December receipts from the commercial activity tax (CAT) were $8.8 million, $1.2 million (12.0%) below estimate. Through December, FY 2008 CAT receipts were $457.3 million, $2.4 million (0.5%) below estimate. FY 2008 CAT receipts are to be distributed to two non-GRF funds, the School District Tangible Property Tax Replacement Fund and the Local Government Tangible Property Tax Replacement Fund.

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

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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] 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.

[4] December sales for most retail stores were soft and grew the slowest in seven years, including surprisingly weak performances of high-end stores catering to wealthier consumers, who are generally considered immune to rising energy prices or falling home values.

Expenditures

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

General Revenue Fund program expenditures through the first six months of FY 2008 totaled $13,836.0 million, $77.7 million (0.6%) below estimate[1] but 6.3% above total GRF program spending in the comparable period a year earlier. These figures are shown in the first of three tables accompanying this report. Year-to-date expenditures in all of the program categories except Public Assistance and Medicaid were below estimate.

Year-to-date GRF program spending was $77.7 million (0.6%) below estimate.

Expenditures in most program categories, and by the agencies included in the program categories, understate that portion of spending that is used for payrolls since entry of payroll transactions into the new Ohio Administrative Knowledge System (OAKS) continues to lag. Pending payroll, for which accounting entries have not been completed, totaled $380.0 million for November and December, in excess of estimate by the same amount since no estimate was made for that category. Once booking of payroll is completed for November and December, year-to-date expenditures in most other categories will generally be closer to estimates.

In late December, the state closed the accounting books for the month of October. The fiscal year's first quarter was closed earlier. Through the first four months of the fiscal year, total program expenditures exceeded estimate by $127.8 million (1.3%). The spending in excess of estimate reflected in part temporary factors, but it was also in part a result of Medicaid caseloads rising more than had been expected. Details are shown in the second table accompanying this report.

Delays continue in completion of payroll accounting entries.

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.

Health Care/Medicaid

Spending in the Health Care/Medicaid category in December was $836.0 million, $21.6 million (2.5%) under estimate. For the fiscal year to date, outlays of $5,270.6 million in this category were $33.3 million (0.6%) over estimate. Medicaid spending by category is reported in the third table of this report. Health Care/Medicaid spending accounts for about 90% of outlays in the Public Assistance and Medicaid program category.

The largest contributor to the December variance in Medicaid spending was the timing of the disbursement for the Medicare Premium Assistance program, referred to as the Medicare Buy-In program in Ohio. The Ohio Department of Job and Family Services made the December payment to the federal government in November.

Spending for the Inpatient Hospital category exceeded estimate by $14.3 million (20.7%) in December and by $107.5 million (27.0%) for the year to date. Similarly, outlays for the Outpatient Hospital category exceeded estimate by $5.2 million (19.3%) in December and by $34.3 million (22.1%) for the year to date, with a higher than projected Aged, Blind, and Disabled (ABD) caseload possibly accounting for most of

General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2008 as of December 31, 2007
($ in thousands)
(Actual based on OBM's Monthly Financial Report dated January 10, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2007**	**Percent Change**
Primary, Secondary, and Other Education	$3,592,736	$3,651,270	-$58,534	-1.6%	$3,505,918	2.5%
Higher Education	$1,349,233	$1,372,839	-$23,606	-1.7%	$1,282,879	5.2%
Total Education	$4,941,969	$5,024,109	-$82,140	-1.6%	$4,788,797	3.2%
Public Assistance and Medicaid	$5,741,693	$5,729,572	$12,121	0.2%	$5,290,167	8.5%
Health and Human Services	$591,114	$676,514	-$85,400	-12.6%	$658,754	-10.3%
Total Welfare and Human Services	$6,332,807	$6,406,086	-$73,279	-1.1%	$5,948,921	6.5%
Justice and Public Protection	$912,306	$1,111,434	-$199,128	-17.9%	$1,041,766	-12.4%
Environment and Natural Resources	$54,750	$67,730	-$12,980	-19.2%	$60,726	-9.8%
Transportation	$15,367	$16,835	-$1,468	-8.7%	$14,079	9.1%
General Government	$178,641	$224,535	-$45,894	-20.4%	$202,930	-12.0%
Community and Economic Development	$73,032	$84,185	-$11,153	-13.2%	$85,227	-14.3%
Capital	$56	$793	-$737	-92.9%	$63	-11.6%
Total Government Operations	$1,234,152	$1,505,512	-$271,360	-18.0%	$1,404,791	-12.1%
Tax Relief and Other	$642,528	$652,272	-$9,744	-1.5%	$617,254	4.1%
Debt Service	$304,560	$325,767	-$21,207	-6.5%	$259,895	17.2%
Total Other Expenditures	$947,088	$978,039	-$30,951	-3.2%	$877,150	8.0%
Pending Payroll	$380,014	$0	$380,014	---	$0	---
Total Program Expenditures	**$13,836,029**	**$13,913,745**	**-$77,716**	**-0.6%**	**$13,019,659**	**6.3%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$394,034	-100.0%
Other Transfers Out	$601,424	$466,800	$134,624	28.8%	$296,828	102.6%
Total Transfers Out	$601,424	$466,800	$134,624	28.8%	$690,862	-12.9%
TOTAL GRF USES	**$14,437,453**	**$14,380,545**	**$56,908**	**0.4%**	**$13,710,521**	**5.3%**

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

Detail may not sum to total due to rounding.

the variance in both categories. In addition, a number of inpatient and outpatient hospital claims totaling $35.1 million were budgeted for FY 2007 but were paid in FY 2008, causing a one-time increase in FY 2008 spending.

** Todd Celmar, 466-7358, contributed to this expenditures report.*

[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.

General Revenue Fund Uses
Actual vs. Estimate
FY 2008 as of October 31, 2007
($ in thousands)
(Actual based on OAKS data run January 9, 2008, except transfers from OBM)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2007**	**Percent Change**
Primary, Secondary, and Other Education	$2,567,239	$2,443,959	$123,280	5.0%	$2,386,991	7.6%
Higher Education	$796,597	$815,456	-$18,859	-2.3%	$735,160	8.4%
Total Education	$3,363,836	$3,259,415	$104,421	3.2%	$3,122,152	7.7%
Public Assistance and Medicaid	$3,945,270	$3,919,331	$25,940	0.7%	$3,575,658	10.3%
Health and Human Services	$464,654	$489,657	-$25,002	-5.1%	$479,643	-3.1%
Total Welfare and Human Services	$4,409,925	$4,408,988	$937	0.0%	$4,055,301	8.7%
Justice and Public Protection	$806,832	$797,380	$9,451	1.2%	$777,199	3.8%
Environment and Natural Resources	$36,578	$37,409	-$830	-2.2%	$33,014	10.8%
Transportation	$5,677	$10,552	-$4,875	-46.2%	$8,507	-33.3%
General Government	$161,753	$174,446	-$12,693	-7.3%	$160,689	0.7%
Community and Economic Development	$57,834	$65,148	-$7,314	-11.2%	$66,768	-13.4%
Capital	$6	$481	-$475	-98.8%	$60	-90.9%
Total Government Operations	$1,068,679	$1,085,416	-$16,736	-1.5%	$1,046,235	2.1%
Tax Relief and Other	$475,478	$433,718	$41,760	9.6%	$428,283	11.0%
Debt Service	$283,008	$285,573	-$2,565	-0.9%	$252,328	12.2%
Total Other Expenditures	$758,487	$719,292	$39,195	5.4%	$680,611	11.4%
Pending Payroll	$0	$0	$0	---	$0	---
Total Program Expenditures	**$9,600,927**	**$9,473,110**	**$127,817**	**1.3%**	**$8,904,298**	**7.8%**
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	**$10,202,251**	**$9,939,910**	**$262,341**	**2.6%**	**$9,595,160**	**6.3%**

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

Detail may not sum to total due to rounding.

The books are now closed on July through October.

Medicaid Spending in FY 2008
($ in thousands)

Payments by Service Category	December Actual	December Estimate	December Variance	December Percent Variance	Year-to-Date Spending Actual thru Dec.	Year-to-Date Spending Estimate thru Dec.	Year-to-Date Spending Variance	Year-to-Date Spending Percent Variance
Nursing Facilities	$222,426	$221,004	$1,422	0.6%	$1,299,427	$1,343,831	($44,404)	-3.3%
ICFs/MR	$43,722	$43,417	$305	0.7%	$265,537	$265,296	$241	0.1%
Inpatient Hospitals	$83,525	$69,191	$14,334	20.7%	$505,865	$398,378	$107,487	27.0%
Outpatient Hospitals	$32,163	$26,949	$5,214	19.3%	$189,614	$155,350	$34,264	22.1%
Physicians	$29,676	$26,415	$3,261	12.3%	$157,465	$152,217	$5,248	3.4%
Prescription Drugs	$42,712	$41,913	$799	1.9%	$240,666	$229,648	$11,018	4.8%
ODJFS Waivers	$28,866	$30,220	($1,354)	-4.5%	$159,342	$167,957	($8,615)	-5.1%
MCP - CFC	$114,853	$133,964	($19,111)	-14.3%	$673,510	$766,221	($92,711)	-12.1%
MCP - ABD	$232,745	$235,120	($2,375)	-1.0%	$1,371,647	$1,378,445	($6,798)	-0.5%
Medicare Buy-In	$0	$25,708	($25,708)	-100.0%	$148,049	$152,652	($4,603)	-3.0%
All Other	$86,413	$84,644	$1,769	2.1%	$457,510	$429,859	$27,651	6.4%
Disability Assistance - Medical	$1,398	$1,581	($183)	-11.6%	$8,855	$8,735	$120	1.4%
Total Payments	$918,499	$940,126	($21,627)	-2.3%	$5,477,487	$5,448,589	$28,898	0.5%
Offsets								
Drug Rebates	($11,031)	($11,333)	$302	-2.7%	($22,861)	($25,000)	$2,139	-8.6%
Revenue and Collections	($6,508)	($6,496)	($12)	0.2%	($13,004)	($12,992)	($12)	0.1%
ICF/MR Franchise Fees	($910)	($910)	$0	0.0%	($1,820)	($1,820)	$0	0.0%
NF Franchise Fees	($21,875)	($21,875)	$0	0.0%	($43,750)	($43,750)	$0	0.0%
IMD DSH	$0	$0	$0	N/A	$0	$0	$0	N/A
MCP Assessments	$0	$0	$0	N/A	($49,000)	($49,000)	$0	0.0%
Health Care Federal	($62,063)	($62,646)	$583	-0.9%	($198,682)	($202,182)	$3,500	-1.7%
Total 600-525 (net of offsets)	$816,112	$836,866	($20,754)	-2.5%	$5,148,370	$5,113,845	$34,525	0.7%
Medicare Part D (ALI 600-526)	$19,858	$20,713	($855)	-4.1%	$122,222	$123,463	($1,241)	-1.0%
Total Medicaid Payments - GRF	**$835,970**	**$857,579**	**($21,609)**	**-2.5%**	**$5,270,592**	**$5,237,308**	**$33,284**	**0.6%**
Total Medicaid Payments - All F	**$938,357**	**$960,839**	**($22,482)**	**-2.3%**	**$5,599,709**	**$5,572,052**	**$27,657**	**0.5%**

Source: Ohio Department of Job & Family Services.

Issue Updates

Securitization of Ohio's Payments from the Tobacco Master Settlement Agreement Nets the State $5.05 billion

— Phil Cummins, Economist, 387-1687

Ohio's securitization of payments from the Tobacco Master Settlement Agreement (MSA) was completed October 29, 2007. The transaction immediately provided $5,050 million to the state. Of this amount, $4,112 million (81.4%) was transferred to the School Building Program Assistance Fund of the School Facilities Commission to be used to fund the state's share of school facilities projects over the next three years. On December 17, 2007, the Controlling Board approved an increase in appropriation authority from this fund to account for this additional revenue. The remaining money, $938 million (18.6%), is to be used for higher education capital projects. As of the end of December, about $34.1 million had been transferred to the Higher Education Improvement Fund for this purpose.

The terms of the transaction commit future MSA payments to the Buckeye Tobacco Settlement Financing Authority through 2052. These payments will be used to pay the interest and principal on the securities until they are retired, after which the MSA payments will revert to the state. The overall interest rate of the securities, representing the cost of borrowing, was 6.29%.

Medicaid Rate Increases Delayed for Hospitals, Community Providers, and Dental Care

— Ivy Chen, Senior Economist, 644-7764

In December 2007, the Ohio Department of Job and Family Services (ODJFS) decided to postpone indefinitely planned rate increases for hospitals, physicians, and other community providers as well as full adult dental benefits that were set to go into effect January 1, 2008. The rates for Medicaid community-based providers were to increase by 3% in January 2008 and another 3% in January 2009. The rates for inpatient hospitals were also to increase by approximately 3% each year. According to ODJFS, had the new rates gone into effect as planned, the cost to the Medicaid program would have totaled about $65 million for FY 2008, of which the state share would have been approximately $26 million.

In addition, ODJFS planned to recalibrate Medicaid payments for all Diagnosis-Related Group hospitals in January 2008. Recalibrating tends to reduce payments to hospitals. To lessen the impact on hospitals in 2008, the Governor has delayed the recalibration until April.

Governor Requires Prior Authorization of Certain Mental Health Drugs under the Medicaid Program

— Ivy Chen, Senior Economist, 644-7764

H.B. 119 limited the types of mental health drugs that could be subjected to prior authorization, a preferred drug list, or generic substitution to brand name drugs with generic equivalents. Additional funding of $17.3 million in FY 2008 and $27.0 million in FY 2009 was added to the Medicaid appropriation in H.B. 119 to pay for the estimated cost of this provision. However, the Governor vetoed the provision[1] clearing the way for a new policy the Governor announced in December requiring prior authorization for certain specialized mental health drugs after January 1, 2008. According to the Governor, this policy will save the Medicaid program $20 million to $47 million annually, of which the state share is approximately $8 million to $19 million.

Federal Support for the State Children's Health Insurance Program is Extended through March 31, 2009

— Ivy Chen, Senior Economist, 644-7764

On December 29, 2007, President Bush signed "The Medicare, Medicaid and SCHIP Extension Act of 2007." This law extends the authorization of the State Children's Health Insurance Program through March 31, 2009. SCHIP allows states to provide health care coverage to "targeted low-income children" who are not eligible for Medicaid and who are uninsured. Even though the program is only authorized through the first six months of federal fiscal year[2] (FFY) 2009, this new law includes $5.0 billion for SCHIP for each of FFY 2008 and FFY 2009. This should allow Ohio to maintain current services. For FY 2007, Ohio spent approximately $266 million on SCHIP. Of this amount, approximately $191 million was federal funds.

Federal Government Rejects the Expansion of SCHIP Eligibility in Ohio that was Authorized by H.B. 119

— Ivy Chen, Senior Economist, 644-7764

H.B. 119 appropriated $5.6 million in FY 2008 and $38.6 million in FY 2009 in order to expand SCHIP, not earlier than January 1, 2008, by increasing the income eligibility limitations from 200% to 300% of the federal poverty guideline. ODJFS estimated that an additional 19,695 Ohio children would eventually be covered as a result of the expansion. This expansion, however, required approval from the Centers for Medicare and Medicaid Services (CMS). On September 28, 2007, ODJFS submitted a request to amend the Ohio Medicaid State Plan to allow for the expansion, but CMS rejected the request on December 20, 2007.

Ohio College Opportunity Grant Expenditures Begin to Count toward Ohio's TANF Maintenance of Effort

— Maria Seaman, Fiscal Supervisor, 466-5041
— Mary Morris, Budget Analyst, 466-2927

The state of Ohio must devote approximately $417 million each year for federally defined TANF purposes in order to receive the full amount of its TANF block grant of approximately $728 million per year. H.B. 119 requires eligible GRF expenditures for the need-based student financial aid program, Ohio College Opportunity Grant (OCOG), to be claimed to help meet the maintenance of effort requirement for TANF. As required by H.B. 119, the Board of Regents (BOR) and ODJFS established an interagency agreement to identify and report OCOG expenditures that could be claimed toward that $417 million. The agreement specifies that GRF expenditures for OCOG recipients who are unmarried and age 30 or younger be reported by BOR to be claimed by the state. ODJFS has planned to claim $31 million in OCOG expenditures annually for federal fiscal years 2007, 2008, and 2009. For FFY 2007, BOR reported a total of $47.7 million, well above the $31 million ODJFS planned to claim.

President Bush Signs Bill Reauthorizing Head Start

— Andy Plagenz, Budget Analyst, 728-4815
— Maria Seaman, Fiscal Supervisor, 466-5041

On December 12, 2007, President Bush signed into law the "Improving Head Start for School Readiness Act of 2007." Among other changes, this law:

- authorizes a 6.7% increase in appropriations for Head Start in FFY 2008;
- increases the income eligibility limitations from 100% to 130% of the federal poverty level; and
- increases education requirements for Head Start teachers.

Federal Head Start funding, which is not part of the state budget, goes directly to Head Start grantees. The state of Ohio provides additional funding for early learning education services. The two major state-funded programs are the Early Learning Initiative and Early Childhood Education. The following table provides a brief comparison of the newly reauthorized federal Head Start and the two state-funded early learning programs.

Comparison of Major State and Federal Early Learning Programs

Program Characteristics	Federal Head Start	Ohio Early Learning Initiative	Ohio Early Childhood Education
Funding Source	Federal funds provided directly to Head Start grantees	Ohio's federal TANF block grant, distributed by ODJFS	Ohio GRF, distributed by ODE
FY 2008 Appropriation	$243.3 million[1]	$125.3 million	$31.0 million
Approximate Number of Ohio Children Served	38,000	12,000	4,000
Income Limitations (% of federal poverty level)	130%	185% - FY 2008 200% - FY 2009	200%
% of Teachers Required to have Bachelor's Degree	50% by September 2013[2]	50% by July 2010 or 2012[3]	50% by July 2010 or 2012[3]
Teacher Professional Development	15 hours/year[2]	20 hours/2 years	20 hours/2 years

[1] Estimate based on authorized federal appropriation for FFY 2008 and Ohio's share of FFY 2007 funding, actual appropriation will depend on further legislation.
[2] Prior law required 50% of teachers have at least an associate degree and did not require any professional development.
[3] July 2010 for programs established prior to FY 2007, July 2012 for more recently established programs.

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[1] The additional funding, however, has not been removed.
[2] The federal fiscal year runs from October 1 through September 30.

Tracking the Economy

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

The U.S. unemployment rate jumped by 0.3 percentage points in December, the largest jump since the 2001 recession. Many analysts interpreted this as evidence of a significant likelihood of impending recession. On December 21, even before this estimate was released, *The Wall Street Journal* (*WSJ*) had run an article entitled "Why Economy Still May Avoid a Recession," signifying the increase in the likelihood of a downturn in many analysts' minds. Even though the third quarter estimate of real[1] GDP growth was reaffirmed to be 4.9%, a healthy rate of growth, it is getting more difficult to find positive economic data to point to.

Continued problems in housing markets and related financial markets are exemplified by Countrywide Financial Corp., the nation's biggest mortgage lender, which as of January 11 had experienced a reported 88% drop in stock price from its high point. Bank of America was in talks with Countrywide regarding what the *WSJ* described as "a rescue deal," resulting in a purchase offer. And Citigroup announced losses of $18.1 billion on its mortgage portfolio in the fourth quarter. The *WSJ* reported on December 21 (well before Citigroup's announcement) that financial firms had announced over $80 billion in write-downs of mortgage-related assets, including $9.4 billion written off by Morgan Stanley, $7.9 billion by Merrill Lynch & Co., and over $10 billion by UBS AG (a Swiss firm).

Losses on mortgage-related portfolios are a concern primarily because of fears of a broader credit crunch. If financial markets were to make less credit available to other businesses and to consumers, these actions could lead to the recession that some fear has already begun. The Federal Reserve has begun a new program to avert such a crunch, auctioning short-term loans to bidders. It auctioned $20 billion worth of 35-day loans on December 20 and another $30 billion in 28-day loans on January 14. In what may be a positive sign, the number of bidders dropped from 73 for the earlier auction to 56 at the more recent auction, and the volume of bids dropped somewhat. The Fed has scheduled another auction for January 28, the results of which will be worth watching.

Gross domestic product (GDP) is the value of the goods and services produced in an economy.

The National Economy

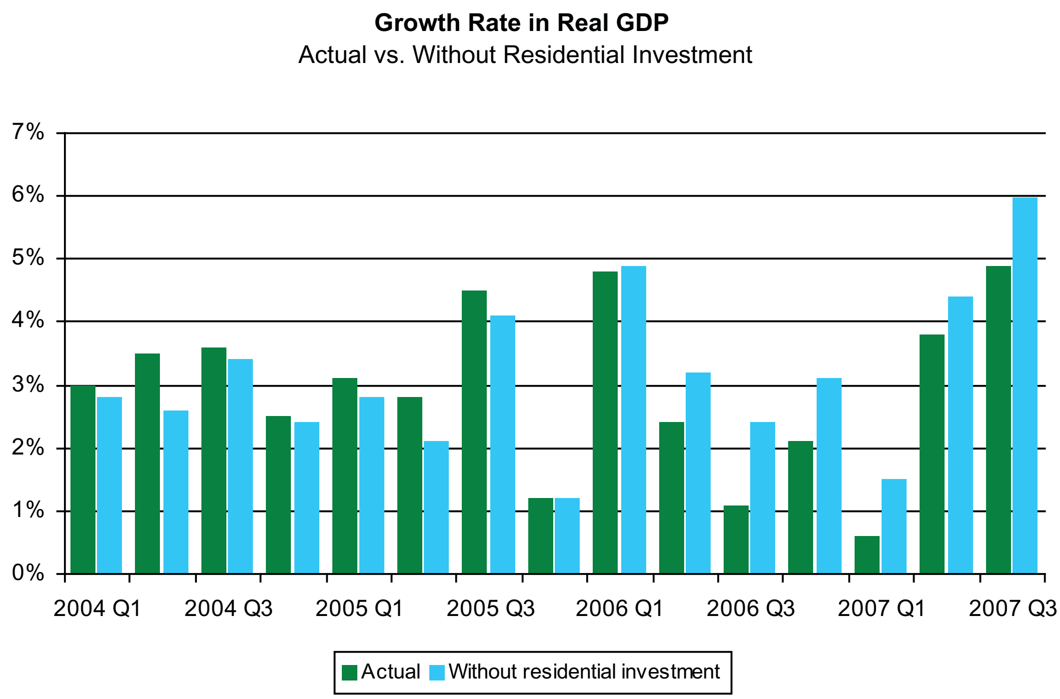
Production and Income

Real U.S. GDP grew by (an annualized) 4.9% in the third quarter of 2007. This "final estimate" was left unchanged from the "preliminary estimate" released earlier. Growth accelerated from 3.8% in the second quarter. This is the final revision to third-quarter growth. The U.S. Bureau of Economic Analysis (BEA) is scheduled to release the advance estimate of growth in the fourth quarter on January 30.

Although the overall GDP growth rate was left unchanged, there were changes to some of its components. As was the case with the preliminary estimate, contributions to growth came from all the major GDP categories. After revision, consumer spending contributed 2.01 percentage points of growth, gross private domestic investment contributed 0.77 percentage points, net exports of goods and services contributed 1.38 points, and government consumption expenditures and gross investment contributed 0.74 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 1.08 percentage points from growth. The slight upward adjustment to growth in consumer spending was offset by a slight downward adjustment to gross private domestic investment (due primarily to an adjustment to estimated nonfarm private inventories).

The following chart 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).

Real GDP has been adjusted for inflation, so changes in real GDP reflect changes in the quantity of goods and services produced.



U.S. corporate profits, including inventory valuation and capital consumption allowances, are estimated to have fallen by 1.2% in the third quarter, the second fall in profits in the last four quarters. This is a significant weakening as compared with the double-digit growth experienced in 2005 and 2006, suggesting that receipts under the corporate franchise tax may remain weaker than expected during FY 2008.

Employment and Unemployment

U.S. nonfarm payroll employment increased by 18,000 in December, after seasonal adjustment, an increase that the U.S. Bureau of Labor Statistics (BLS) described as “essentially unchanged.” The increase left total nonfarm payroll employment unchanged (after rounding) at 138.5 million. Employment growth for November was revised upward, from 94,000 to 115,000, but October’s growth was revised downward by nearly as much. Slight as it was, December’s increase was entirely due to government employment; private nonfarm payroll employment fell by 13,000. Employment in service-providing industries (including government) grew by 93,000 in December, but this was mostly offset by a decline of 75,000 in goods-producing industries. Within the latter category, there was a decline of 31,000 in manufacturing employment and a decline of 49,000 in construction employment (these losses were partially offset by an increase in mining employment).

To be counted as unemployed you must be out of a job and actively looking for one.

The U.S. unemployment rate increased to 5.0% (after seasonal adjustment), up from 4.7% in November (and the preceding two months). This was a relatively large increase—the last time the rate jumped by as much as 0.3 percentage points in one month was during the 2001 recession. Even with the jump, the rate has returned to its level of mid-2005 (i.e., it is not high by historical standards if a longer view is taken). The number of unemployed jumped to 7.7 million, its highest level since May 2005.

Average hourly earnings of production and nonsupervisory workers on private nonfarm payrolls rose to an estimated $17.71 in December, after seasonal adjustment, and average weekly earnings increased to $598.60. For the year ending in December, average hourly earnings rose 3.7% and average weekly earnings rose 3.4%. Real earnings fell, however, as BLS reported inflation of 4.1% for the year based on growth in CPI-U.

Manufacturing

In 2006, manufacturing accounted for 19% of Ohio GDP compared to 12% for the U.S. as a whole.

Manufacturing shipments grew in November, according to U.S. Census Bureau data, by 1.5% to $429.4 billion, the fourth increase in the last five months. Shipments of durable goods decreased by 0.1%, however, to $213.1 billion, the third decrease in four months. Decreases in shipments were recorded for several industries, including primary metals, which decreased by 0.4%, electrical equipment, appliances, and components (1.4%), transportation equipment (0.2%), and furniture and related products (1.3%), as well as for other sectors.

Similarly, new orders for manufactured goods rose by 1.5% in November, the fifth increase in the last six months, but new orders for durable goods were down by 0.1% (the fourth straight decrease). New orders decreased in several sectors, including machinery (down 2.0%) and computers and electronic products (1.2%). There was growth in some durable goods sectors, though, such as primary metals (up 0.7%), electrical equipment, appliances, and components (1.2%), and transportation equipment (1.5%).

Housing Markets and Construction

Sales of new homes fell by a seasonally adjusted 9.0% in November nationally. The median price for a new home increased from $229,500 to $239,100. Sales in November were 34.4% lower than in the preceding November. New home sales in the Midwest were even worse, with sales decreasing by 27.6% since October, to a level 38.7% below the previous year.

U.S. housing starts fell by 14.2% from November to December,[3] to a level 38.2% below the level of December 2006. For the year as a whole the number fell by 24.8% as compared with 2006. Corresponding figures for the Midwest were just as grim, with housing starts down 30.8% for the month and 35.4% since the preceding December.

There is no indication yet of an end to the slump in residential construction, as the number of building permits issued nationally fell 8.1% from November to December, to a level 34.4% below the preceding December. The corresponding figures for the Midwest were 10.6% and 28.8%, respectively.

Retail Sales

U.S. retail and food service sales decreased by 0.4% in December but were still estimated to be 4.1% higher than December 2006.[2] For the final three months of 2007, they were 4.9% higher than they were during the corresponding period of 2006. Growth in the fourth quarter was highest for gasoline station sales, which grew by 8.0% for the quarter, due presumably to high gasoline prices. Growth for the quarter exceeded 2% for electronics and appliance stores (whose sales grew by 2.5%) and nonstore retailers (2.3%). Several retail sectors experienced decreases in sales for the fourth quarter, with the largest percentage decreases experienced by building material and garden equipment and supply dealers (whose sales decreased by 1.8%), department stores (1.2%), and miscellaneous store retailers (1.2%). Sales of motor vehicle and parts dealers fell by 0.4% for the month of December but were still 0.5% higher in the fourth quarter than the third.

Consumer spending accounts for 70% of GDP.

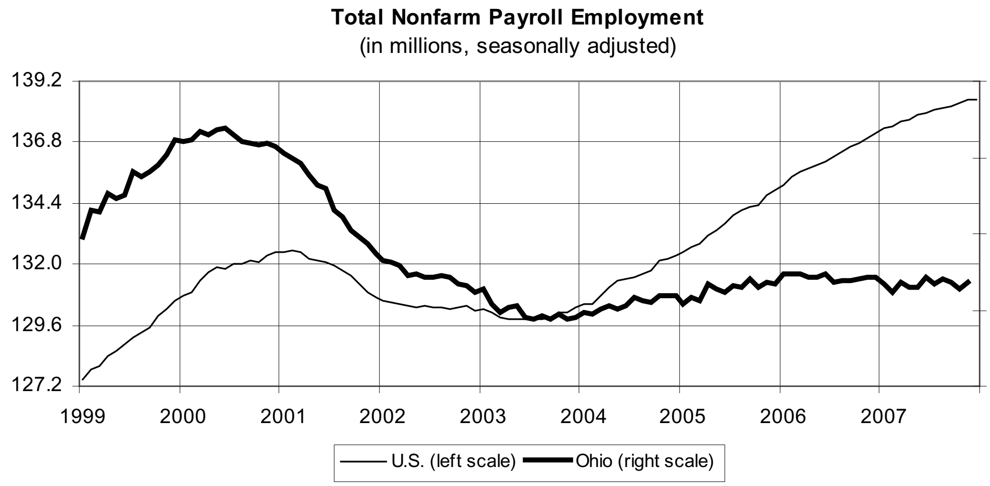
Inflation and Prices

The consumer price index for all urban consumers (CPI-U) increased by 0.3% in December after seasonal adjustment. For 2007 as a whole, it rose by 4.1%, the largest increase from one December to the next since 1990. Energy prices were the primary contributor to the high overall increases in prices, having increased by 0.9% in December and by 17.4% for the year. Excluding energy and food prices, the CPI-U increased 2.4% for 2007, actually slightly less than the 2006 increase of 2.6%. Often referred to as measuring "core inflation," the 2.4% increase is widely considered to be somewhat higher than the Fed would like despite the slight deceleration from the 2006 rate. Nevertheless this is not likely to drive the Fed's decisions regarding monetary policy, given the many reasons for concern about the possibility of a credit crunch.

The Midwest CPI-U was up 3.8% for 2007; energy prices were up 17.5%.

The producer price index for finished goods decreased by 0.1% in December (seasonally adjusted); the decrease was especially welcome following the very sharp 3.2% increase in November. Energy prices played a major role both months, rising 14.1% in November and falling 1.9% in December. Excluding food and energy the index increased by 0.4% in November and by 0.2% in December. For the year ending in December, the index increased by 6.3% overall and by 2.0% excluding food and energy.

The U.S. Energy Information Administration (EIA) projects that heating oil prices in the Midwest this winter heating season will be about 35.6% higher than last year, due to higher prices for crude oil. This translates into a projected 39.4% increase in expenditures when expected usage is factored in. Natural gas prices are higher too, but not as sharply. EIA projects that Midwest households that heat with natural gas will spend about 9.9% more this heating season than they did last year.



The Ohio Economy

> Between 1996 and 2006, growth in Ohio total personal income averaged 3.8% compared to the national growth rate of 5.3%.

Ohio personal income increased by 1.3% from the second quarter of 2007 to the third, and by 4.9% for the year ending in the third quarter. Ohio's growth rates are somewhat lower than the national ones of 1.4% and 6.5%, respectively. Ohio's third quarter growth rate accelerated slightly from the 0.6% growth experienced in the second quarter, a pattern that mirrored the corresponding national figures. The U.S. Bureau of Economic Analysis attributed slow growth in the second quarter (nationally) to unusually large personal income in the first quarter attributable in part to bonuses paid in the finance industry. Just under half of Ohio's third quarter growth was attributable to an increase in wage and salary disbursements, with the remainder attributable to employer contributions for employee fringe benefits, dividends, interest, rent, and receipts of transfer payments.

Ohio nonfarm payroll employment increased by 7,800 (0.1%) in November, increasing payroll employment to just under 5.44 million. Employment increased in both goods-producing industries (by 2,100) and in service-providing industries (by 5,700). Ohio's (seasonally adjusted) unemployment rate fell in November from 5.9% to 5.6%. The number of unemployed Ohioans dropped from 352,000 in October to 334,000 in November.

Ohio's nonfarm payroll employment has not followed any obvious trends over the last 12 months. Employment has increased slightly in five of the last 12 months and decreased slightly in the other seven months. For the year, employment fell by 8,300, or less than 0.2%. Looking at breakdowns by sector, though, does reveal noticeable trends. Employment in goods-producing industries fell by 14,900 for the year (1.4%), including a fall of 14,300 (1.8%) in manufacturing employment. Employment in construction fell by just 200 for the year. Employment in service-providing industries rose by 6,600 (0.1%) for the year, including increases in educational and health services (10,400) and professional and business services (3,900). The overall increase in employment in service-providing industries was limited by losses in some service industries, such as financial activities (4,200), leisure and hospitality (2,800), and information (2,000).

Economic Forecast Update

Given the abundance of grim economic news and the fact that we are halfway through the fiscal year, this is probably a good time to take stock of where the economy is compared to where it was forecast to be when the budget bill (Am. Sub. H.B. 119, hereafter H.B. 119) was enacted. This will be a regular feature of "Tracking the Economy" in coming months. It is hoped that this will help legislators to anticipate the likelihood of positive or, more likely in the current environment, negative developments for the state's budget.

The forecasts of revenue and Medicaid caseload that were used to craft the state budget were based partly on forecasts by Global Insight (GI), an economic forecasting firm, and partly on forecasts by members of the Governor's Council of Economic Advisors (GCEA). The economic variables that were forecast by both entities include real U.S. GDP growth, real growth in personal income (for both the U.S. and Ohio), Ohio wage disbursements, and U.S. and Ohio unemployment rates. GI updates its forecasts of national economic variables monthly and updates state forecasts quarterly. The table below compares the forecast for several variables that were used for the budget (Forecast for Budget) to the most recent forecast issued by GI: in the case of national data the most recent forecast was issued in late December (January 2008 Forecast) and in the case of Ohio data it was issued in October (October 2007 Forecast). It is worth emphasizing that the Ohio forecast was generated prior to the reemergence of financial market turmoil in early December and so may be more favorable than the forecast that is scheduled for release later this month.

Revenue and caseload forecasts depend on economic forecasts. Actual revenues and caseloads will differ from their forecasts to the extent that the actual performance of the economy differs from the economic forecast.

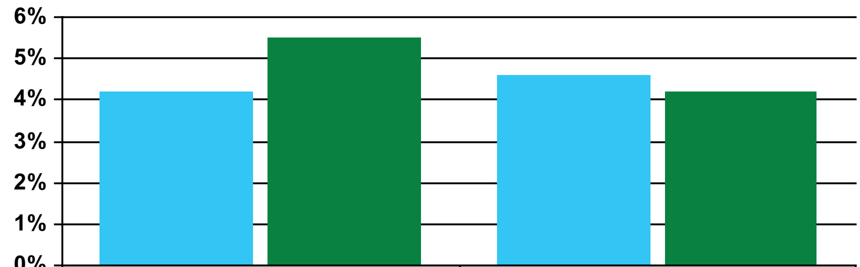
Revisions to Global Insight Economic Forecast
(selected variables, state fiscal year basis)

	FY 2008		FY 2009	
Variable name (national)	**Forecast for Budget**	**January 2008 Forecast**	**Forecast for Budget**	**January 2008 Forecast**
U.S. real GDP growth	2.3%	2.5%	3.2%	2.0%
U.S. personal income growth	5.5%	5.6%	5.6%	4.7%
U.S. CPI inflation	1.8%	3.0%	1.9%	1.5%
U.S. unemployment rate	4.8%	4.8%	4.8%	5.2%
Variable name (OH)	**Forecast for Budget**	**October 2007 Forecast**	**Forecast for Budget**	**October 2007 Forecast**
Ohio real GDP growth	1.9%	1.4%	2.5%	2.0%
Ohio personal income growth	4.2%	5.5%	4.6%	4.2%
Ohio wage disbursements growth	3.2%	5.5%	3.8%	3.7%
Ohio unemployment rate	5.5%	6.0%	5.4%	6.1%

Since the deliberations on H.B. 119, credit and financial markets were struck by significant volatility in August (prompting the Federal Reserve to begin lowering its target rate for the federal funds rate) and again in early December. These episodes were probably not foreseen by forecasters in the spring. Given this unexpected economic news and the continuation of high energy prices (which many analysts expected to ease), it should not be surprising to see that growth in Ohio real GDP is now projected to be slower than it was in May—GI has knocked half a percentage point off its forecast of growth for each fiscal year. Nor should it be surprising to see U.S. real GDP growth revised downward for FY 2009. The revision upward for FY 2008 growth in U.S. real GDP may be surprising, but is likely explained by the solid growth in the third quarter of 2007 (i.e., the first quarter of the new fiscal year), which was stronger than many analysts expected.

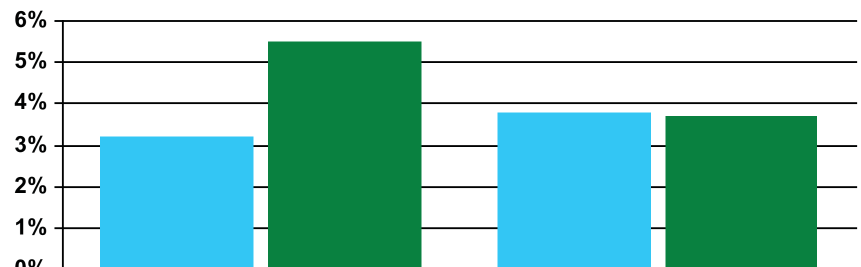
The more important variables for purposes of revenue forecasts, however, are those for Ohio personal income and Ohio wage disbursements (see charts below). The revisions to these variables, though mixed, should be positive on balance for Ohio tax revenues. Both variables were revised upward significantly for FY 2008, somewhat surprising given the revision to Ohio real GDP. The apparent inconsistency is explained, at least in part, by the fact that these variables are nominal—that is, they are not adjusted for inflation. Thus the upward adjustment to the inflation forecast explains why these variables could be revised upward despite the downward revision to real GDP growth. Since tax revenues are also nominal values, they are based more closely on nominal income measures than on real GDP—so on balance this news is good for FY 2008 revenues. Of course growth in both these key variables was revised downward for FY 2009, but even this may not be so bad, since this slower growth may be applied to

Forecast Growth in Ohio Personal Income



	FY 2008	FY 2009
Forecast for Budget	4.2%	4.6%
October 2007 Forecast	5.5%	4.2%

Forecast Growth in Ohio Wage Disbursements



	FY 2008	FY 2009
Forecast for Budget	3.2%	3.8%
October 2007 Forecast	5.5%	3.7%

a larger figure for FY 2008 tax revenue.

As noted above, the October forecast of Ohio variables is somewhat dated, and this picture could be less favorable when the next Ohio forecast update is released later this month. It is also worth noting that corporate profits, an important driver of revenue from the corporate franchise tax, have weakened significantly since the budget forecasts.

The generally favorable news in the economic outlook does not extend to the expenditure side of the budget, though. Personal income and wage disbursements (and therefore tax revenues) are influenced primarily by what happens to upper-income households. In contrast, Medicaid caseloads are influenced primarily by what happens to lower-income households. For lower-income households the more relevant economic variable is the unemployment rate—and revisions to forecast unemployment rates were unambiguously negative. The rate now forecast for FY 2008 is half a percentage point higher than the rate forecast when the budget bill was enacted, and the rate for FY 2009 was revised upward by more than that. Forecasts aside, Ohio's unemployment rate jumped from 5.7% to 6.1% in June, and even though it fell in July, November is the first month it has been below its level of April and May (5.7%). This economic variable indicates reason for concern about Medicaid caseloads, and therefore spending, over the remainder of the current biennium.

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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] Retail sales figures are adjusted for seasonal differences and holiday and trading day differences but are not inflation-adjusted.

[3] All monthly comparisons shown in this section are on a seasonally adjusted basis.