Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission — June 2008

Status of the GRF

Highlights

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

Through May 2008, total GRF sources of $23,888.1 million were $560.1 million (2.3%) below estimate:

- Tax revenues were $475.1 million (2.6%) below estimate.
  - Below estimate: domestic insurance tax, $160.8 million (99.7%); personal income tax, $132.3 million (1.6%); corporate franchise tax, $63.1 million (8.8%); auto sales tax, $48.5 million (5.4%); public utility excise tax, $20.7 million (11.7%); dealers in intangibles tax, $18.3 million (97.1%); nonauto sales and use tax, $18.2 million (0.3%); and cigarette tax, $11.8 million (1.3%).
  - Above estimate: foreign insurance tax, $9.5 million (3.6%), and kilowatt hour excise tax, $0.1 million (0.1%).
- State-source receipts, 95% of which were made up by tax revenues, were below estimate by $642.5 million (3.4%). Federal grants were above estimate by $82.4 million (1.5%).
- Compared to FY 2007, tax revenues were down 1.9%; state-source receipts were down 0.8%; and federal grants were up 6.3%. In total, GRF sources were up 0.7%.

Through May 2008, total GRF uses of $25,200.4 million were $287.3 million (1.2%) above estimate:

- Total GRF program expenditures of $24,581.6 million, which included all GRF uses except transfers out, were above estimate by $135.3 million (0.6%).
  - Medicaid expenditures were $75.5 million (0.8%) above estimate.
- Compared to FY 2007, total GRF program expenditures were up 4.7%.

Volume 31, Number 10

Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215
Telephone: (614)466-3615

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

Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of May 2008
($ in thousands)
(Actual based on report run in OAKS on June 5, 2008)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$91,336	$89,800	$1,536	1.7%
Nonauto Sales and Use	$548,010	$560,600	-$12,590	-2.2%
Total Sales and Use Taxes	$639,346	$650,400	-$11,054	-1.7%
Personal Income	$529,189	$589,800	-$60,611	-10.3%
Corporate Franchise	$83,871	$98,800	-$14,929	-15.1%
Public Utility	$62,770	$67,400	-$4,630	-6.9%
Kilowatt Hour Excise	$1,017	$4,600	-$3,583	-77.9%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$133	-$15,000	$15,133	---
Domestic Insurance	$0	$160,000	-$160,000	-100.0%
Business and Property	$0	$17,800	-$17,800	-100.0%
Cigarette	$148,155	$149,000	-$845	-0.6%
Alcoholic Beverage	$4,387	$5,000	-$613	-12.3%
Liquor Gallonage	$2,770	$2,800	-$30	-1.1%
Estate	$9,021	$17,200	-$8,179	-47.6%
Total Tax Revenue	**$1,480,660**	**$1,747,800**	**-$267,140**	**-15.3%**
NONTAX REVENUE				
Earnings on Investments	$70	$0	$70	---
Licenses and Fees	$597	$4,800	-$4,203	-87.6%
Other Revenue	$6,425	$7,850	-$1,425	-18.2%
Total Nontax Revenue	**$7,092**	**$12,650**	**-$5,558**	**-43.9%**
TRANSFERS				
Liquor Transfers	$0	$11,000	-$11,000	-100.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$26,000	$98,360	-$72,360	-73.6%
Total Transfers In	**$26,000**	**$109,360**	**-$83,360**	**-76.2%**
TOTAL STATE SOURCES	**$1,513,752**	**$1,869,810**	**-$356,058**	**-19.0%**
Federal Grants	$451,551	$424,993	$26,558	6.2%
TOTAL GRF SOURCES	**$1,965,303**	**$2,294,803**	**-$329,500**	**-14.4%**

* 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 May 31, 2008
($ in thousands)
(Actual based on report run in OAKS on June 5, 2008)

	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$841,954	$890,471	-$48,517	-5.4%	$829,767	1.5%
Nonauto Sales and Use	$6,123,445	$6,141,600	-$18,155	-0.3%	$5,949,597	2.9%
Total Sales and Use Taxes	$6,965,399	$7,032,071	-$66,672	-0.9%	$6,779,364	2.7%
Personal Income	$8,245,915	$8,378,200	-$132,285	-1.6%	$8,107,734	1.7%
Corporate Franchise	$653,507	$716,600	-$63,093	-8.8%	$1,028,263	-36.4%
Public Utility	$156,973	$177,700	-$20,727	-11.7%	$163,294	-3.9%
Kilowatt Hour Excise	$226,540	$226,400	$140	0.1%	$307,846	-26.4%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$272,440	$262,900	$9,540	3.6%	$254,927	6.9%
Domestic Insurance	$435	$161,200	-$160,765	-99.7%	$169,464	-99.7%
Business and Property	$542	$18,840	-$18,298	-97.1%	$20,186	-97.3%
Cigarette	$874,959	$886,800	-$11,841	-1.3%	$903,331	-3.1%
Alcoholic Beverage	$50,794	$52,600	-$1,806	-3.4%	$51,170	-0.7%
Liquor Gallonage	$31,780	$32,500	-$720	-2.2%	$31,315	1.5%
Estate	$59,434	$68,000	-$8,566	-12.6%	$61,083	-2.7%
Total Tax Revenue	**$17,538,720**	**$18,013,811**	**-$475,091**	**-2.6%**	**$17,877,976**	**-1.9%**
NONTAX REVENUE						
Earnings on Investments	$84,007	$121,400	-$37,393	-30.8%	$130,656	-35.7%
Licenses and Fees	$66,953	$78,199	-$11,246	-14.4%	$77,026	-13.1%
Other Revenue	$90,015	$65,704	$24,311	37.0%	$114,904	-21.7%
Total Nontax Revenue	**$240,975**	**$265,303**	**-$24,328**	**-9.2%**	**$322,587**	**-25.3%**
TRANSFERS						
Liquor Transfers	$135,268	$145,000	-$9,732	-6.7%	$125,000	8.2%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$549,610	$682,940	-$133,330	-19.5%	$283,071	94.2%
Total Transfers In	**$684,878**	**$827,940**	**-$143,062**	**-17.3%**	**$408,071**	**67.8%**
TOTAL STATE SOURCES	**$18,464,573**	**$19,107,054**	**-$642,481**	**-3.4%**	**$18,608,634**	**-0.8%**
Federal Grants	$5,423,496	$5,341,120	$82,376	1.5%	$5,102,648	6.3%
TOTAL GRF SOURCES	**$23,888,069**	**$24,448,174**	**-$560,105**	**-2.3%**	**$23,711,282**	**0.7%**

* 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.

Timing issues affect GRF receipts; no reported revenues in May for domestic insurance and dealers in intangibles taxes.

Revenues

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

Overview

General Revenue Fund (GRF) receipts in May were $329.5 million below the amount estimated by the Office of Budget and Management in August 2007 (Table 1), increasing the negative variance for the fiscal year to $560.1 million (Table 2). Although a portion of the bad news for May was quite likely due to timing issues, revenues are almost certain to finish the fiscal year below the initial estimate and may even finish below the downwardly revised estimate announced in February.

Month of May

Total GRF receipts for May were $1,965.3 million, $329.5 million (14.4%) below estimate. The $1,513.8 million in state-source receipts was below estimate by $356.1 million (19.0%) and the $451.6 million in federal grants was above estimate by $26.6 million (6.2%).[1] State-source receipts included $1,480.7 million in tax revenues, which were below estimate by $267.1 million (15.3%); $7.1 million in nontax revenues, which were below estimate by $12.7 million (43.9%); and $26.0 million in transfers in, which were below estimate by $83.4 million (76.2%).

Only two taxes brought in revenue above estimate. Revenue from the auto sales tax was above estimate by $1.5 million (1.7%). Revenue from the foreign insurance tax was above estimate by $15.1 million. This positive variance, the difference between $133,000 in receipts and an estimate of $15.0 million in refunds, is most likely a timing issue that should be reversed in June. Revenue from the personal income tax was below estimate by $60.6 million (10.3%), revenue from the corporate franchise tax was below estimate by $14.9 million (15.1%), revenue from the nonauto sales and use tax was below estimate by $12.6 million (2.2%), and revenue from the estate tax was below estimate by $8.2 million (47.6%).

FY 2008 GRF receipts 2.3% below August estimate (and 1.2% below February revised estimate).

Revenue from the domestic insurance tax was below estimate by $160.0 million and revenue from the business and property (dealers in intangibles) tax was below estimate by $17.8 million. No revenue was reported for these two taxes in May. This may be a timing issue. For both taxes, tax liabilities are certified to the Treasurer of State by the first Monday in May, and within 20 days after that the Treasurer issues a tax bill with payment due 20 to 30 days from the date the tax bill is mailed. Thus, payments not received in May should be made in June.

FY 2008 to Date

Through May, total GRF receipts were $23,888.1 million, $560.1 million (2.3%) below estimate. State-source receipts of $18,464.6 million were below estimate by

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

$642.5 million (3.4%) and federal grants of $5,423.5 million were above estimate by $82.4 million (1.5%). State-source receipts included $17,538.7 million in tax revenues, which were below estimate by $475.1 million (2.6%); $241.0 million in nontax revenues, which were below estimate by $24.3 million (9.2%); and $684.9 million in transfers in, which were below estimate by $143.1 million (17.3%).

Through May, revenues from only two taxes were above estimate. Kilowatt hour excise tax revenue was above estimate by $140,000 (0.1%) and foreign insurance tax revenue was above estimate by $9.5 million (3.6%). Through April, revenue from the foreign insurance tax was below estimate by $5.6 million and in May revenues were above estimate by $15.1 million (see above). This positive variance will probably be reversed in June.

Revenues from the personal income tax were below estimate by $132.3 million (1.6%), the corporate franchise tax by $63.1 million (8.8%), and the auto sales and use tax by $48.5 million (5.4%). Revenues from the public utility excise tax were below estimate by $20.7 million (11.7%), the nonauto sales and use tax by $18.2 million (0.3%), the cigarette tax by $11.8 million (1.3%), and the estate tax by $8.6 million (12.6%).

The lack of reported revenues in May put revenue from the domestic insurance tax $160.8 million (99.7%) below estimate for the fiscal year and revenue from the business and property (dealers in intangibles) tax $18.3 million (97.1%) below estimate. Revenues from both taxes were below estimate through April, and the payments received in June may only partially erase the current negative variances.

Income tax withholding, which reflects the condition of the labor market, below estimate in six of the last seven months.

Year-to-Year Comparison

Total FY 2008 GRF receipts through May 2008 were $176.8 million (0.7%) higher than total FY 2007 GRF receipts through May 2007. State-source receipts were down $144.1 million (0.8%) while federal grants were up $320.8 million (6.3%). Tax revenues were down $339.3 million (1.9%) overall. Revenue from the personal income tax was up by $138.2 million (1.7%). Revenue from the nonauto sales and use tax was up by $173.8 million (2.9%) and revenue from the auto sales and use tax was up by $12.2 million (1.5%). Revenue from the corporate franchise tax was down by $374.8 million (36.4%), due in part to the scheduled phaseout of this tax on nonfinancial corporations. Revenue from the kilowatt hour excise tax was down by $81.3 million (26.4%), reflecting the change in allocating revenues to the local government funds enacted in H.B. 119, and revenue from the public utility excise tax was down by $6.3 million (3.9%). Revenue from the cigarette tax was also down, by $28.4 million (3.1%).

Personal Income Tax

In May, GRF revenue from the personal income tax once again slid below estimate, following above-estimate performance in April. This could indicate that the excess of revenue over estimate in April, for the first time in six months, was indeed largely due to the concerted effort made by the Department of Taxation to speed up its processing of tax returns at the close of tax filing season. The return to below-estimate performance in the penultimate month of the fiscal year could point to the continuing adverse impact of the downward trends in major economic indicators for Ohio.

Month of May. In May, the GRF received $529.2 million from the personal income tax, which was below estimate by $60.6 million (10.3%). GRF revenue from the personal income tax is equal to gross collections, which for May were $32.2 million (4.2%) less than estimate, after subtracting both refunds, which were $5.5 million (5.6%) greater than estimate, and distributions to the local government funds, which were $23.0 million (30.5%) above estimate. Gross collections are the sum of withholding, which was below estimate by $26.0 million (4.0%); quarterly estimated payments,[2] which were below estimate by $13.0 million (45.3%); trust payments, which were above estimate by $5.1 million (19.6%); payments associated with annual returns, which were above estimate by $3.4 million (6.0%); and miscellaneous payments, which were below estimate by $1.6 million (20.4%).

FY 2008 to Date. The GRF received $8,245.3 million from the personal income tax in the first 11 months of FY 2008. This amount was $132.9 million (1.6%) below estimate. Gross collections were $68.5 million (0.7%) above estimate and refunds were $172.0 million (16.4%) greater than estimate. Withholding was $19.9 million (0.3%) below estimate, quarterly estimated payments were $26.9 million (2.0%) below estimate, trust payments were $26.3 million (36.7%) above estimate, payments associated with annual returns were $96.2 million (7.1%) above estimate, and miscellaneous payments were $7.3 million (8.5%) below estimate.

Year-to-Year Comparison. Compared to a year ago, GRF revenue from the personal income tax in the first 11 months of the fiscal year was up by $137.5 million (1.7%). Gross collections were up by $169.0 million (1.7%) and refunds were up by $149.1 million (13.9%). Withholding was up by $26.0 million (0.4%), quarterly estimated payments were up by $27.8 million (2.2%), trust payments were down by $17.0 million (14.8%), payments associated with annual returns were up by $137.7 million (10.4%), and miscellaneous payments were down by $5.4 million (6.4%). Distributions to the local government funds were $117.6 million (14.9%) less than at this point in FY 2007 because of changes in the distribution formula for allocating revenue to the local government funds.

Sales and Use Tax

Sales and use tax receipts below both estimate and prior year receipts in the last three months.

Sales and use tax receipts continue to reflect months of lethargic economic activity and high gasoline prices. For the third consecutive month, sales and use tax receipts were below estimate. May 2008 receipts were $639.3 million, $11.1 million (1.7%) below projected revenues and $13.3 million (2.1%) above May 2007 receipts. Through May, FY 2008 year-to-date sales and use tax revenues were $6,965.4 million, $66.7 million (0.9%) below estimate, and $186.0 million (2.7%) above year-to-date receipts through May in FY 2007. The year-to-date results mask a recent deterioration of the performance of the sales and use tax. In the first half of FY 2008, receipts were 1.8% above estimate. In the last three months, receipts from the sales and use tax were below both estimates (6.0%) and receipts (0.9%) in the same period last year.

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

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

Nonauto Sales and Use Tax

Receipts in CY 2008 suggest that the growth in the nonauto sales and use tax base has stalled. From January through May 2008, nonauto sales and use tax receipts were 2.3% below estimate and flat compared to receipts in the same period last year. As economic growth falters and consumers continue to be under pressure from weakening labor markets and high gas and food prices, this tax source remains under significant pressure. Receipts from the nonauto sales and use tax during the month were $548.0 million, $12.6 million (2.2%) below estimate but $4.7 million (0.9%) above revenues in May 2007. In the previous three months (February-April), monthly receipts were below receipts in the same period in FY 2007. Through May, FY 2008 nonauto sales and use tax receipts were $6,123.4 million, $18.2 million (0.3%) below estimate but $173.8 million (2.9%) above receipts through May in FY 2007.

Growth in nonauto sales and use tax base stalls.

Auto Sales and Use Tax

Weaker demand and higher lending standards have hurt vehicle sales throughout the fiscal year.[4] Nationwide, the lowest sales pace in ten years was recorded in May 2008. Surging gas prices have hastened a shift to smaller vehicles and away from larger vehicles. Sales of small sedans and hybrids have been brisk of late because of higher gas prices, but not enough to offset plunging sales of trucks and sports utility vehicles. The change in the sales mix has had a deleterious impact on the auto sales and use tax base in FY 2008. Receipts from the auto sales and use tax in May were $91.3 million, $1.5 million (1.7%) above estimate and $8.6 million (10.4%) higher than revenues in the same month last year. Through May, FY 2008 year-to-date auto sales and use tax receipts were $842.0 million, $48.5 million (5.4%) below estimate but $12.2 million (1.5%) above receipts through May in FY 2007. The year-to-year increase in revenues is due to a new tax on purchases of vehicles by nonresidents that started in August 2007.

Corporate Franchise Tax

The third and last major corporate franchise tax (CFT) estimated payment for the fiscal year was due on May 31, 2008. A portion of the tax collections was recorded in June. CFT May receipts were $83.9 million, $14.9 million (15.1%) below estimate. Receipts in May 2008 were $124.5 million (59.7%) below receipts in May 2007.

Corporate franchise tax set to finish below estimate for the first time in four years.

[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.

[4] Nationwide, unit sales were down about 6% through May in FY 2008. Auto sales declined about 2% and light truck sales were off about 9%. On a year-ago basis, May auto sales were up about 3% and light truck sales were down about 24%.

Major tax receipts under the corporate franchise tax are due in the second half of the fiscal year (January, March, and May). The CFT underperformed in the first half of the fiscal year. Through December, CFT receipts were $69.1 million below estimate, and net refunds to taxpayers were $54.1 million. From January through May, CFT receipts were above estimate, reducing the cumulative shortfall through December 2007. Through May, FY 2008 year-to-date CFT receipts were $653.5 million, $63.1 million (8.8%) below estimate. Those receipts were also $374.8 million (36.4%) below receipts through May in FY 2007. The year-over-year decline is, in part, due to the scheduled phaseout of the CFT for nonfinancial corporations. On a year-ago basis, corporate profits declined 6.5% in the fourth quarter of CY 2007, the worst showing since the third quarter of CY 2001 (when the economy was in recession). Banks and other financial companies, which are not affected by the phaseout, have been particularly affected by the profit growth decline. For CY 2007, profits for financial firms declined 2.4%, while profits for nonfinancial firms declined only 1.2%.[5] Because of the phaseout of the tax for nonfinancial corporations, the relative contribution of financial corporations to total CFT receipts is increasing each fiscal year.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products have been below estimate since December 2007. Receipts from this tax source in May 2008 were $148.2 million, $0.8 million (0.6%) below estimate and $0.8 million (0.6%) above receipts in May 2007. Through May, FY 2008 year-to-date receipts were $875.0 million, $11.8 million (1.3%) below estimate. Through December, FY 2008 receipts from the tax on cigarette and other tobacco products were 0.4% above estimate. Therefore, the slide in receipts from the cigarette and other tobacco products tax has occurred since January 2008. Through May, FY 2008 year-to-date receipts were $28.4 million (3.1%) below receipts through May in FY 2007. Receipts from the tax on cigarettes were about 4% below last year's levels and revenues from tax on other tobacco products were up 16%.

Commercial Activity Tax

May payment ensures the CAT will finish the year below estimate.

FY 2008 commercial activity tax (CAT) receipts are distributed to two non-GRF funds, the School District Tangible Property Tax Replacement Fund (70% of receipts) and the Local Government Tangible Property Tax Replacement Fund (30% of receipts). The last quarterly payment for FY 2008 was due May 10, 2008 for taxable sales in the first quarter of CY 2008. Receipts for the month were $194.2 million, $18.1 million (8.5%) below estimate. Through May, FY 2008 year-to-date receipts were $948.5 million, $32.4 million (3.3%) below estimate. The poor performance of the tax in May ensures that the CAT will finish the year below estimate for the first time since its creation in FY 2006.

[5] Data are from the Bureau of Economic Analysis of the United States Department of Commerce.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of May 2008
($ in thousands)
(Actual based on OAKS reports run June 5, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$794,934	$572,201	$222,733	38.9%
Higher Education	$267,018	$265,040	$1,978	0.7%
Total Education	$1,061,952	$837,241	$224,711	26.8%
Public Assistance and Medicaid	$791,013	$760,196	$30,817	4.1%
Health and Human Services	$131,474	$106,644	$24,830	23.3%
Total Welfare and Human Services	$922,487	$866,840	$55,647	6.4%
Justice and Public Protection	$135,534	$137,738	-$2,205	-1.6%
Environment and Natural Resources	$9,028	$11,103	-$2,075	-18.7%
Transportation	$1,371	$1,234	$137	11.1%
General Government	$19,805	$18,395	$1,410	7.7%
Community and Economic Development	$7,390	$8,691	-$1,301	-15.0%
Capital	$80	$150	-$70	-46.7%
Total Government Operations	$173,208	$177,311	-$4,103	-2.3%
Tax Relief and Other	$324,194	$131,602	$192,592	146.3%
Debt Service	$11,819	$16,407	-$4,589	-28.0%
Total Other Expenditures	$336,013	$148,009	$188,004	127.0%
Total Program Expenditures	**$2,493,660**	**$2,029,402**	**$464,258**	**22.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$105	$0	$105	---
Total Transfers Out	$105	$0	$105	---
TOTAL GRF USES	**$2,493,765**	**$2,029,402**	**$464,363**	**22.9%**

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

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

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2008 as of May 31, 2008
($ in thousands)
(Actual based on OAKS reports run June 5, 2008)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
Primary, Secondary, and Other Education	$6,621,939	$6,540,497	$81,442	1.2%	$6,350,327	4.3%
Higher Education	$2,383,445	$2,470,955	-$87,510	-3.5%	$2,248,575	6.0%
Total Education	$9,005,383	$9,011,452	-$6,068	-0.1%	$8,598,902	4.7%
Public Assistance and Medicaid	$9,886,549	$9,857,083	$29,465	0.3%	$9,570,745	3.3%
Health and Human Services	$1,225,535	$1,248,796	-$23,261	-1.9%	$1,211,069	1.2%
Total Welfare and Human Services	$11,112,084	$11,105,880	$6,204	0.1%	$10,781,814	3.1%
Justice and Public Protection	$1,936,555	$1,934,678	$1,877	0.1%	$1,893,113	2.3%
Environment and Natural Resources	$98,612	$102,789	-$4,177	-4.1%	$97,164	1.5%
Transportation	$22,182	$26,459	-$4,276	-16.2%	$21,211	4.6%
General Government	$345,047	$364,629	-$19,581	-5.4%	$343,195	0.5%
Community and Economic Development	$123,328	$146,158	-$22,830	-15.6%	$134,176	-8.1%
Capital	$146	$1,563	-$1,417	-90.7%	$134	8.9%
Total Government Operations	$2,525,871	$2,576,276	-$50,405	-2.0%	$2,488,992	1.5%
Tax Relief and Other	$1,340,149	$1,132,638	$207,511	18.3%	$1,086,033	23.4%
Debt Service	$598,115	$620,013	-$21,897	-3.5%	$512,711	16.7%
Total Other Expenditures	$1,938,264	$1,752,651	$185,613	10.6%	$1,598,744	21.2%
Total Program Expenditures	**$24,581,603**	**$24,446,259**	**$135,344**	**0.6%**	**$23,468,452**	**4.7%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$394,034	-100.0%
Other Transfers Out	$618,791	$466,800	$151,991	32.6%	$346,429	78.6%
Total Transfers Out	$618,791	$466,800	$151,991	32.6%	$740,463	-16.4%
TOTAL GRF USES	**$25,200,393**	**$24,913,059**	**$287,335**	**1.2%**	**$24,208,915**	**4.1%**

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

Expenditures

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

Overview

Tables 3 and 4 show GRF uses for May and for FY 2008 through May, respectively. GRF uses consist primarily of program expenditures but also include transfers out. In May, GRF program expenditures totaled $2,493.7 million, $464.3 million (22.9%) more than the Office of Budget and Management's estimate for the month. As a result of May's expenditure in excess of estimate, year-to-date spending shifted from less than the cumulative estimate through the first 10 months of the fiscal year to more than estimate through the first 11 months. For FY 2008 to date, GRF program expenditures totaled $24,581.6 million, $135.3 million (0.6%) above estimate and 4.7% above total GRF program spending in the comparable period a year earlier.

GRF program expenditures in FY 2008 through May were $135.3 million (0.6%) above estimate.

In May, spending in the Primary, Secondary, and Other Education program category was over estimate by $222.7 million (38.9%), mainly as a result of foundation funding payments in excess of estimate. This variance was caused mostly by the booking of a third foundation payment to May and is expected to be reversed in June. Outlays for Tax Relief and Other were over estimate by $192.6 million (146.3%), reflecting reimbursements to local governments for revenues forgone to property tax relief programs. Spending was also in excess of estimate in Public Assistance and Medicaid by $30.8 million (4.1%) and in Health and Human Services by $24.8 million (23.3%). Smaller variances were recorded in other program categories.

Through the first 11 months of FY 2008, spending for Tax Relief and Other exceeded estimate by $207.5 million (18.3%). Outlays for Primary, Secondary, and Other Education were in excess of estimate by $81.4 million (1.2%). For the full fiscal year, however, education outlays appear likely to be below estimate, reflecting lower school enrollment than was projected last August. Expenditures for Public Assistance and Medicaid exceeded estimate by $29.5 million (0.3%), reflecting Medicaid spending in excess of estimate, as discussed below, and outlays less than estimate, on balance, in other Job and Family Services programs. Spending was below estimate in several program categories, including Higher Education, by $87.5 million (3.5%), Health and Human Services, by $23.3 million (1.9%), Community and Economic Development, by $22.8 million (15.6%), and General Government, by $19.6 million (5.4%). Spending under the original estimates is a result, in part, of executive-ordered budget cuts. Also, as noted in this space previously, delays in starting new grant programs in Higher Education account for part of the spending shortfall relative to estimate. Spending was less than estimate at most agencies in the Health and Human Services program category. Most of the variance in Community and Economic Development is attributable to the Department of Development, a result in part of lags in the distribution of funds until program objectives are met. Over half of the variance in year-to-date General Government spending occurred in the Department of Administrative Services, reflecting in part payments from non-GRF sources of obligations for which money was appropriated from the GRF, delayed hiring, and timing differences.

Medicaid

GRF expenditures in the Medicaid category in May were $741.9 million, $34.7 million (4.9%) over estimate. For the fiscal year to date, outlays of $8,989.2 million in this category were $75.5 million (0.8%) over estimate. Medicaid spending accounts for about 90% of outlays in the Public Assistance and Medicaid program category.

In May, it is likely that higher fee-for-service caseloads of the Aged, Blind, and Disabled populations continued to account for some of the higher than estimated payments for inpatient and outpatient hospital services. The spending variance in May was also affected by lower than estimated payments for nursing facilities. The Office of Budget and Management states that this underspending is the result of coding changes in nursing facilities' bills from Medicaid, and that some expenditures that were previously captured under the Nursing Facilities category are now included in the All Other service category.

GRF year-to-date Medicaid spending was 0.8% over estimate.

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

Property Tax Relief

In May payments reimbursing school districts and other units of local government for the percentage rollbacks and homestead exemption totaled $324.2 million, about 2.5 times the estimate for the month. The percentage rollbacks include a 10% reduction in the amount of taxes for all residential and agricultural real property and a 2.5% reduction for owner-occupied residences. Most of the outlays in excess of estimate in May were payments to school districts, a reversal of the pattern in April when payments to other units of local government were substantially higher than estimate. Reimbursements for the expanded homestead exemption are included in the payments in April and May, along with other reimbursements for the first half of tax year 2007. The homestead exemption was expanded by H.B. 119, the operating budget for FY 2008-FY 2009. For FY 2008 to date, payments of $1,287.9 million exceeded the estimate for the first 11 months by $206.8 million (19.1%), with payments both to school districts and to other local government units well above estimate, and exceed the estimate for the full fiscal year by about $55 million. This excess is a reflection of the expanded homestead exemption. Payments for the rollbacks and homestead exemption in FY 2007 totaled $1,168 million, and the expanded homestead exemption was estimated to add $128.5 million to reimbursements in FY 2008. This estimate implies that these reimbursements in FY 2008 would total about $1,297 million, plus or minus changes in other components.

** Todd A. Celmar, Economist, 614-466-7358, 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	May Actual	May Estimate	May Variance	May Percent Variance	Year to Date Actual thru May	Year to Date Estimate thru May	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$193,803	$216,578	-$22,775	-10.5%	$2,332,902	$2,448,839	-$115,937	-4.7%
ICFs/MR	$45,499	$43,268	$2,231	5.2%	$487,142	$485,145	$1,997	0.4%
Inpatient Hospitals	$77,807	$57,048	$20,759	36.4%	$894,775	$701,488	$193,287	27.6%
Outpatient Hospitals	$27,039	$21,880	$5,159	23.6%	$325,688	$268,673	$57,015	21.2%
Physicians	$24,256	$22,735	$1,521	6.7%	$284,841	$272,341	$12,500	4.6%
Prescription Drugs	$37,049	$34,223	$2,826	8.3%	$433,403	$408,830	$24,573	6.0%
ODJFS Waivers	$24,194	$24,642	-$448	-1.8%	$282,516	$296,048	-$13,532	-4.6%
MCP	$359,557	$375,647	-$16,090	-4.3%	$3,817,890	$4,012,378	-$194,488	-4.8%
Medicare Buy-In	$21,190	$28,574	-$7,384	-25.8%	$269,421	$294,391	-$24,970	-8.5%
All Other	$74,916	$67,019	$7,897	11.8%	$830,269	$778,426	$51,843	6.7%
DA Medical	$1,007	$1,160	-$153	-13.2%	$14,433	$15,039	-$606	-4.0%
Total Payments	$886,317	$892,774	-$6,457	-0.7%	$9,973,280	$9,981,598	-$8,318	-0.1%
Offsets								
Drug Rebates	-$11,101	-$11,333	$232	-2.0%	-$77,970	-$81,667	$3,697	-4.5%
Revenue and Collections	-$6,203	-$6,496	$293	-4.5%	-$45,179	-$45,471	$292	-0.6%
ICF/MR Franchise Fees	-$910	-$910	$0	0.0%	-$6,371	-$6,371	$0	0.0%
NF Franchise Fees	-$21,875	-$21,875	$0	0.0%	-$153,125	-$153,125	$0	0.0%
IMD/DSH Payments	-$9,573	-$12,500	$2,927	-23.4%	-$56,646	-$62,500	$5,854	-9.4%
MCP Assessments	-$15,000	-$28,339	$13,339	-47.1%	-$135,679	-$162,358	$26,679	-16.4%
Health Care Federal	-$100,022	-$125,962	$25,940	-20.6%	-$730,927	-$788,057	$57,130	-7.2%
Total Offsets	-$164,684	-$207,415	$42,731	-20.6%	-$1,205,897	-$1,299,549	$93,652	-7.2%
Total 600-525 (net of offsets)	$721,633	$685,359	$36,274	5.3%	$8,767,383	$8,682,049	$85,334	1.0%
Medicare Part D (600-526)	$20,300	$21,870	-$1,570	-7.2%	$221,819	$231,615	-$9,796	-4.2%
Total GRF	**$741,933**	**$707,229**	$34,704	**4.9%**	**$8,989,202**	**$8,913,664**	$75,538	**0.8%**
Total All Funds	**$906,617**	**$914,644**	-$8,027	**-0.9%**	**$10,195,099**	**$10,213,213**	-$18,114	**-0.2%**

Source: Ohio Department of Job & Family Services.

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded
ODJFS - Ohio Department of Job and Family Services
MCP - Managed Care Plan
DA Medical - Disability Medical Assistance
NF - Nursing Facilities
IMD/DSH - Institutions for Mental Disease/Disproportionate Share

Issue Updates

Federal Grant Awarded to a Carbon Sequestration Project in Ohio

— Isabel Louis, Economist, 614-644-7762

On May 6, 2008, the U.S. Department of Energy announced the award of $61.1 million to the Midwest Regional Carbon Sequestration Partnership (MRCSP) for a large-scale carbon sequestration project that will demonstrate carbon dioxide (CO_2) storage in the Mount Simon Sandstone formation in Darke County, Ohio. Led by Columbus-based Battelle, MRCSP is a collaborating group of more than 35 members from eight states, including the Ohio Coal Development Office of the Ohio Air Quality Development Authority. The total project cost is estimated at $92.8 million. In addition to the $61.1 million federal grant, the Ohio Coal Development Office contributes $3.0 million while the other members of MRCSP provide $28.7 million.

According to industry sources, carbon sequestration may be crucial for the future of the coal industry in Ohio. In addition to reducing greenhouse gases, carbon sequestration could bolster electric power generation using Ohio's abundant coal reserves. The MRSCP project will inject and store, over a four-year period, approximately one million tons of CO_2. CO_2 will first be captured from an ethanol production facility located in Greenville, Ohio and then be compressed to increase its density, thus reducing the needed storage volume. The compressed CO_2 will be injected into the Mount Simon Sandstone, which is more than 3,000 feet beneath the surface of the Greenville injection site. The target date for the first injection is autumn 2009.

The purpose of this demonstration project is to determine whether the injection and storage of carbon dioxide can be done safely, permanently, and economically. The project may be a major step in determining whether burning Midwestern coal without emitting the carbon dioxide into the atmosphere is commercially feasible. The Mount Simon Sandstone stretches across much of the Midwest region and has the potential to store more than 100 years of carbon dioxide emissions from major point sources in the region.

Thirty-four School Buildings Currently Registered for LEED Silver Certification

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

According to the School Facilities Commission (SFC), Ohio currently leads the nation with 34 school buildings registered for a silver LEED (Leadership in Energy and Environmental Design) certification, the second level of a four-level (certified, silver, gold, and platinum) LEED for Schools rating system. Registration, the first of a two-step certification process, serves as a declaration of intent to have a building LEED certified. The current 34 LEED registered schools are listed in the table below. With the exception of the Bowling Green City (Wood County), Buckeye Central Local (Crawford County), and Licking County Joint Vocational schools, registered schools received funding assistance from SFC. SFC anticipates that more than 250 school buildings will be registering for silver certification in the next two years.

In September 2007, SFC launched the Green School Initiative by adopting the LEED for Schools rating system as part of its school design standards. All school buildings assisted by SFC after September 2007 will be required to attain at least silver certification. In order to obtain a silver certification, a project must receive a minimum of 37 of 79 possible points. Prior to the establishment of the Green School Initiative, the SFC's school design standards had aligned with 20 to 28 of the those 37 points. Created by the U.S. Green Building Council, LEED is a third-party certification program and a widely used benchmark for the design, construction, and operation of high performance green buildings. LEED for Schools, which was launched in April 2007, recognizes the unique nature of K-12 school design and construction and addresses issues such as classroom acoustics, master planning, mold prevention, and environmental site assessment.

School Buildings Registered for LEED Silver Certification	
Names of School District and County	**School Building Name**
Ohio Valley Local Schools, Adams	North Adams Elementary School Peebles Elementary School West Union Elementary School
Hamilton City Schools, Butler	Brookwood Elementary School Crawford Woods Elementary School Highland Elementary School Riverview Elementary School
West Clermont Local Schools, Clermont	Amelia Elementary School
Buckeye Central Local Schools, Crawford	Buckeye Central Local Schools
Miami Trace Local Schools, Fayette	New Middle School for Miami Trace
Schools for the Deaf and Blind, Franklin	Campus Improvement Project
Gallipolis City Schools, Gallia	New Green Elementary School New Rio Grande Elementary School
Cincinnati Public Schools, Hamilton	Cincinnati Public Schools - AMIS College Hill PreK-8 School Dater Montessori School Hartwell PreK-8 School Pleasant Ridge Elementary School Sands Montessori School Taft Information Technology High School
Mount Healthy City Schools, Hamilton	Mount Healthy High School Mount Healthy North Elementary School Mount Healthy South Elementary School
Licking County JVS, Licking	Career and Technology Education Center
Toledo Public Schools, Lucas	Hawkins Elementary School
Dayton Public Schools, Montgomery	Belmont High School Charity Adams Earley Academy for Girls Eastmont Park Elementary Dayton Public Schools Boys Academy PreK-8 Residence Park PreK-8
Teays Valley Local Schools, Pickaway	South Bloomfield Elementary
Ravenna City Schools, Portage	New Ravenna High School
Akron City Schools, Summit	Science Math & Technology Community Center
Bowling Green City Schools, Wood	Bowling Green City Schools

Higher Educational Facility Commission to Issue $1.1 Billion Tax-Exempt Bonds for Cleveland Clinic

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

On May 21, 2008, the Higher Educational Facility Commission granted preliminary approval for the issuance of approximately $1.1 billion in tax-exempt bonds for the Cleveland Clinic for capital development and refinancing. Approximately $0.6 billion of the Cleveland Clinic bond proposal will be used to retire outstanding bonds that carry higher interest rates. The remaining $0.5 billion will be used for development and renovation of eight existing facilities. The bonds issued by the Commission are held by the state. However, the entity for which the bonds are issued makes all of the principal and interest payments, and the state disclaims any liability in the case of default. Default is the responsibility of the entity on whose behalf the bonds are issued. When the Commission approves the issuance of bonds for an eligible entity, it enters into an agreement under which the entity leases the assisted facility from the Commission and pays rent in the amount needed to retire the bonds. As a state agency, interest paid by the Commission to bondholders is exempt from state and federal income taxes. Accordingly, the bonds can be issued at lower interest rates, enabling the Commission to charge the institutions and hospitals financing rates that are lower than commercial market rates. Traditionally, the Commission issues bonds for nonprofit colleges and universities. In April 2005, the General Assembly granted the Commission the authority to issue bonds for nonprofit hospitals and healthcare systems. In March 2007, the Commission issued such bonds for the first time, totaling $442.0 million for the University Hospitals Health System.

Board of Regents Sponsors Two Regional Foreign Language Academies

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

This summer, out of 270 applicants from around the state, 118 high school juniors and seniors have been selected to participate in the two foreign language academies sponsored by the Board of Regents. One will be hosted by Kent State University in collaboration with Bowling Green State University, University of Akron, Oberlin College, and the Summit County Educational Service Center. This academy will teach Arabic, Hindi, Japanese, Russian, and Chinese. The other academy is devoted solely to Chinese, and is hosted by The Ohio State University, Washington State Community College, and Miami University. The Board of Regents provides approximately $405,000 in earmarked GRF funding to fully fund the costs of these two academies. So the academies are free of charge to participating students. Both academies deliver their courses through a combination of intensive classroom instruction (four weeks for the academy hosted by Kent State and three weeks for the academy hosted by Ohio State) and follow-up lessons. Upon completion of both segments of the course, participants may receive one unit of high school language credit, one quarter or semester of college credit for a beginning foreign language, or both.

Financial Literacy Implementation Committee Releases Report

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

In April 2008, the Financial Literacy Implementation Committee (FLIC), a subcommittee of the Ohio Commission for Personal Finance Education, issued a report to the Achievement Committee of the State Board of Education on strategies schools can use to fulfill the economics and financial literacy provision of S.B. 311 of the 126th General Assembly. That legislation established the Ohio Core courses as a graduation requirement for students entering the 9th grade in school year 2010-2011 or later. As part of the Ohio Core, all high schools must incorporate the study of economics and financial literacy so that every student who has to meet the Ohio Core requirement receives instruction in those areas.

The report recommends guidelines, options, and procedures for schools and districts in complying with the Ohio Core requirement. Specifically, the report recommends including financial literacy as a stand-alone course rather than incorporating it into existing courses as allowed by the legislation. Other recommendations include enrolling instructors in financial literacy teacher training programs, incorporation of economic and financial principles in primary grades and across disciplines, and partnering with local organizations to enhance instruction.

The Ohio Department of Education has created a survey, to be distributed to schools in autumn 2008, to determine what steps schools have taken already and what steps they plan to take in future years to comply with the economic and financial literacy provision of the Ohio Core by July 2010. The Financial Literacy Implementation Committee intends to reconvene after collection of the survey data to make further recommendations to the State Board of Education.

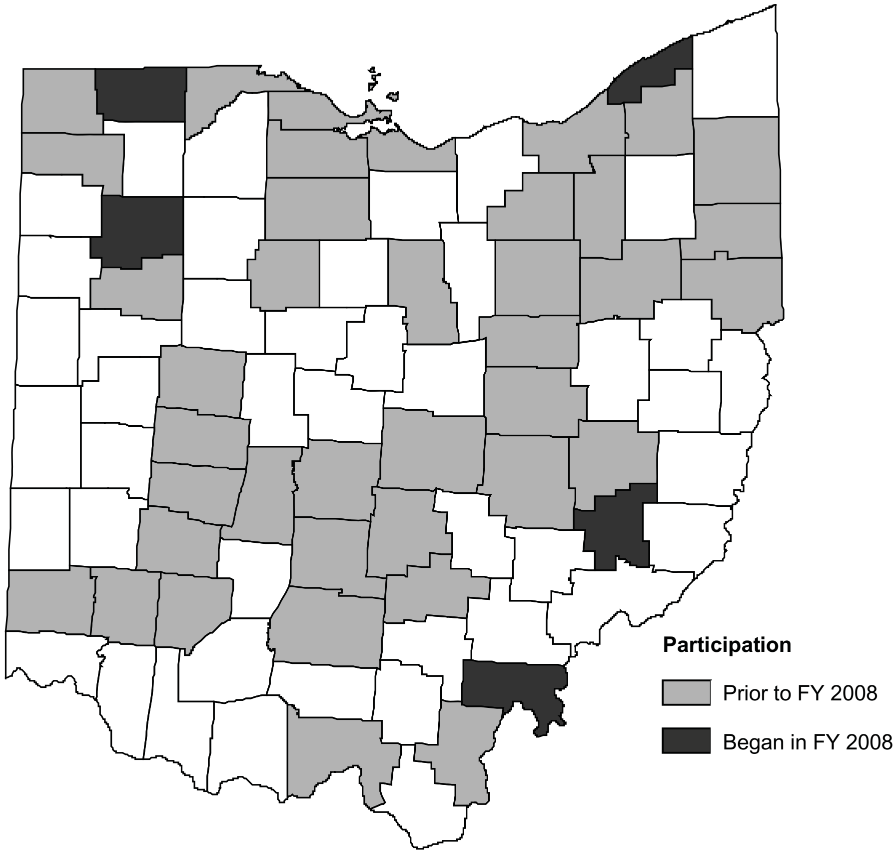
Partnerships for Success Program Continues Planned Expansion

— Matthew L. Stiffler, Budget Analyst, 614-466-5654

H.B. 119 earmarks $1.5 million of non-GRF Children’s Trust Fund moneys in each fiscal year to continue support for Partnerships for Success, an initiative of the Ohio Family and Children First Cabinet Council implemented in July 2003 and administered by the Department of Youth Services. As part of the FY 2008 expansion, five additional counties – Fulton, Lake, Meigs, Noble, and Putnam – have begun participating in the initiative, bringing the total number of participating counties to 44. These 44 participating counties are shown in the following map. The funding provided in FY 2009 will allow five more counties to be added, which will bring the total number of participating counties to 49 by the close of the current biennium.

The purpose of Partnerships for Success is to build capacity within counties to prevent and respond to child and adolescent problem behaviors while promoting positive youth development and to mobilize and strengthen local family and children first councils. A participating county receives state funding over an initial period of two years, after which technical assistance and training tailored to the circumstances of each county is provided.

Map of Partnerships for Success Counties



Department of Aging to Expand Choices Program to Toledo Area

— Wendy Risner, Senior Budget Analyst, 614-644-9098

The Department of Aging will expand the Choices Program to the Toledo area beginning July 1, 2008. According to the Department, 36 consumers in that area are expected to enroll in the program in FY 2009. Choices is a consumer-directed Medicaid program that provides home and community-based services and supports to older Ohioans. The program is only available to current PASSPORT consumers. Payments are made from PASSPORT funds. Currently, Choices has a caseload of 338 and is only available in the central Ohio, Marietta, and Portsmouth service areas. Choices providers can be professional or individual caregivers. Individual providers can include friends, neighbors, and certain relatives. For individual providers, the consumer is the "employer of record" so the consumer is responsible for hiring, firing, and completing all necessary tax forms and payroll duties. The average monthly service cost for Choices is $1,483, which is higher than the $1,115 average for PASSPORT. The main reason for the higher costs is that Choices consumers, on average, tend to be significantly more disabled than the average PASSPORT consumer.

Ohio Department of Development Fully Expends $45 Million TANF Earmark for Home Energy Assistance

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

The Ohio Department of Development (ODOD) has fully expended the $45 million earmark for FY 2008 of Temporary Assistance for Needy Families (TANF) funds for the Home Energy Assistance Program (HEAP). In addition, ODOD expended $50 million in other federal funds for a total of $95 million for HEAP benefits in FY 2008. HEAP is a federally funded program administered by ODOD that provides one-time seasonal benefits to eligible low-income families to help pay heating and cooling expenses. To be eligible for HEAP, annual family income must be at or below 175% of the federal poverty guidelines ($37,100 for a family of four). Heating assistance benefits in FY 2008 ranged from $90 to $442 with an average benefit of $244 per household. The maximum cooling assistance benefit was $175 with most households receiving that amount. Of the 386,700 households that received HEAP benefits in FY 2008, 165,000 (43%) received benefits paid with TANF funds.

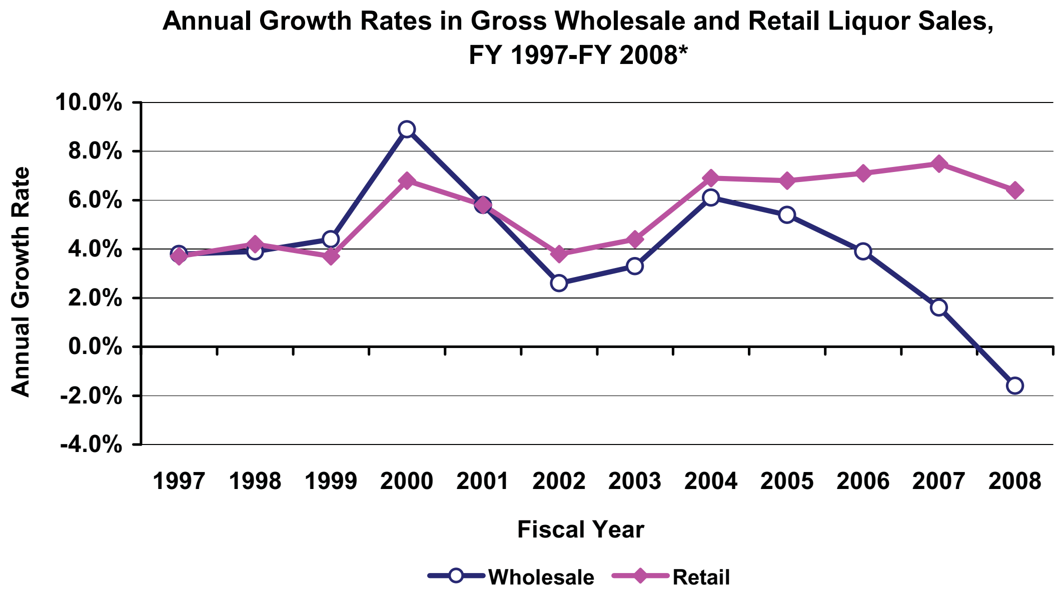
Wholesale Liquor Sales Decrease While Retail Sales Continue to Rise

— Jason Phillips, Budget Analyst, 614-466-9753

Wholesale liquor sales – those sales made by state liquor stores to retailers, such as restaurants and bars for the purpose of resale – appear to be on the way to registering the first annual decrease in over 12 years. Through April 2008, wholesale liquor sales were lower than at the same point last year by 1.6%, or $3.1 million. The Division of Liquor Control in the Department of Commerce attributes this decrease to the voter-approved statewide ban on indoor smoking in public places and places of employment that went into effect May 3, 2007 and the increase in gasoline prices, both of which appear to have been decreasing patronage in bars and restaurants. However, the annual growth rate in wholesale liquor sales, although it has remained positive until this year, has been declining steadily since FY 2004. This decline can be seen in the following chart. This four-year decline seems to imply that the weak overall economy as well as the more recent statewide smoking ban and increase in gasoline prices have combined to turn the wholesale liquor sales growth rate negative. A further indication that the wholesale growth rate is sensitive to the condition of the overall economy is the decline in the growth rate in the early 2000s when the economy was struggling.

Wholesale liquor sales on average account for 40% of total liquor sales. Retail liquor sales – those sales made by state liquor stores directly to consumers – which make up the other 60%, appear to be continuing to grow. Through April 2008, retail sales were 6.4%, or $23 million, higher than at the same point last year. Retail liquor sales increased every year from FY 1997 to FY 2007 with an average growth rate of 5.5% per year. As shown in the chart below, in comparison with the wholesale rate, the retail growth rate is more stable from year to year, especially in the period since FY 2004.

The proceeds of liquor sales are used to pay for the Division of Liquor Control's operating expenses, retire economic development and Clean Ohio revitalization bonds, and fund state liquor law enforcement, alcoholism treatment, and the training and certifying of law enforcement officials in the operation of alcohol testing devices. After these expenses have been paid, the profits are transferred to the GRF. In FY 2008, GRF transfers are estimated at $165 million.



* The FY 2008 annual figure is based on the comparison of the July-April sales with the same point in FY 2007.

DAS Consolidates State Printing Operations in Downtown Columbus

— Nick Thomas, Budget Analyst, 614-466-6285

H.B. 119 authorizes the Department of Administrative Services (DAS) to consolidate its printing and mailing services and expand its operations to include the distribution of mail generated by the Department of Job and Family Services. In February 2008, DAS moved its printing and mailing operations from Surface Road on the west side of Columbus to the Lazarus Building in downtown Columbus. By moving its main operations into downtown Columbus, where most of DAS's existing and potential new state agency clients are located, DAS expects to reduce shipping costs and have greater access to new customers. The annual rent of $85,000 for the Lazarus facility for FY 2009 is also lower than the $246,900 in FY 2007 for the former Surface Road location. The overall appropriations for DAS printing operations are $5.68 million in FY 2008 and $5.44 million in FY 2009. It is expected that the mail fulfillment operations of several other agencies – such as the Department of Public Safety, the Bureau of Workers' Compensation, and the Department of Transportation – will also be moved to the Lazarus Building in an effort to minimize statewide printing, mailing, and document distribution costs.

Tracking the Economy

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

Overview

The national labor market weakened significantly in May, with the unemployment rate jumping from 5.0% to 5.5% in one month. The last time the U.S. unemployment rate jumped by as much as half a percentage point in a single month was 1986. Payroll employment declined for the fifth straight month. The problems in housing and related financial markets that emerged last year have definitely spread throughout the economy.

Nevertheless it remains an open question whether the economy is actually in recession. The National Bureau of Economic Research (NBER) has not declared one as of this writing; however, there is typically a lag of 6 to 18 months from the onset of a recession to when NBER declares one; the lag is due in part to the time that elapses for the relevant data to be published. What are the key indicators that the NBER business cycle dating committee will analyze to determine whether a recession has started? The committee will rely primarily on four indicators: real personal income minus transfer payments,[1] payroll employment, industrial production, and the volume of sales of the manufacturing and wholesale-retail sectors adjusted for price changes.[2]

The slump in the housing sector continues. The number of building permits issued nationally remained below one million (on an annualized basis) for the third month in a row. The April number was 34% below the figure for April 2007. The Mortgage Bankers Association (MBA) reported that the percentage of home mortgages in foreclosure reached 2.47% at the end of the first quarter, up from 2.04% at the end of the fourth quarter, and a new high since the association began tracking these data in 1979. MBA indicated that recent increases in the foreclosure rate are being driven by other states, especially California, Florida, Arizona, and Nevada, but Ohio was still the fifth highest state in terms of the number of foreclosures initiated during the first quarter. And the U.S. Census Bureau reports that about 10% of the homes built since 2000 are currently vacant.

First quarter growth in U.S. real GDP was revised upward to 0.9%.

There were a couple of more positive items of news this month. First quarter growth in real gross domestic product (GDP) was revised upward from 0.6% to 0.9%. Inflation continued to moderate, with the annualized inflation rate over the three months ending in April falling to 2.3% (and the comparable figure for core inflation falling to 1.2%). Early reports from industry sources indicate that retail sales in May were doing well,

[1] Economists use the term "real" to describe variables, in this case personal income minus transfer payments, that have been adjusted for inflation.

[2] It may seem odd that the committee does not rely on real gross domestic product in making the determination, given the commonly used definition of a recession – two consecutive quarters of falling output. The committee actually determines the month that a recession begins, so it needs to use at least some data that are published monthly. The first two indicators it uses are published monthly, while the other two are published quarterly.

probably benefiting from economic stimulus checks that the Internal Revenue Service has begun to distribute to taxpayers.

The National Economy

Production and Income

The U.S. Bureau of Economic Analysis (BEA) revised upward the estimate of U.S. real GDP growth for the first quarter of 2008 from (an annualized) 0.6% to 0.9%. After the revision, the first quarter growth rate was slightly higher than the 0.6% rate of growth experienced in the fourth quarter of 2007 but still below the economy's long-term potential growth rate. The primary reasons for the revision were better contributions from nonresidential fixed investment and from imports, partially offset by a smaller contribution from exports and a smaller buildup of business inventories. The buildup of business inventories contributed 0.21 percentage point to growth for the quarter; in the advance estimate released last month, it contributed 0.81 percentage point to growth when the overall growth rate was estimated to be just 0.6%, meaning that although the economy did not contract, final sales did. The revised figures indicate that in fact final sales did increase for the quarter, however slightly.

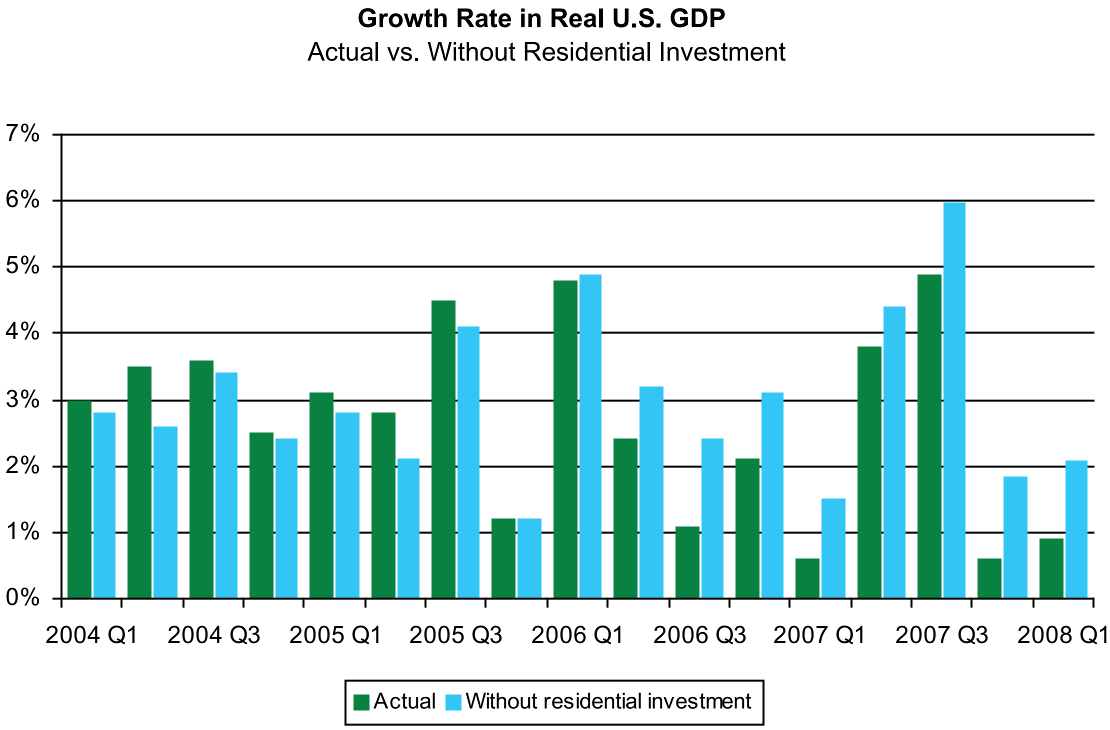
The revisions continue to portray a slowdown that was broadly based. Gross private domestic investment was the main culprit for slow growth, subtracting 0.98 percentage point from growth for the quarter. Although other GDP components contributed positively to growth, their contributions were weak: consumer spending contributed 0.70 percentage point to growth, net exports contributed 0.80 percentage point, and government spending contributed 0.38 percentage point. The drag on the broader economy from investment was attributable entirely to the housing slump. Residential fixed investment subtracted 1.17 percentage points from growth, while the revised figures show nonresidential fixed investment was essentially flat. Among specific industries, motor vehicle output subtracted 0.35 percentage point from growth.

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

Employment and Unemployment

U.S. unemploy-ment rate jumped to 5.5% in May.

The national labor market has been weakening for several months, but in April the weakening decelerated noticeably. Data released in May, however, point toward an acceleration of the recent weakening. U.S. nonfarm payroll employment fell by 49,000, after seasonal adjustment, making May the fifth straight month that employment decreased. April's employment loss was revised upward to 28,000, meaning that employment has fallen by 324,000, or 0.2%, so far in 2008. Employment in goods-producing industries decreased by 57,000 in May, with slightly more jobs lost in construction than in manufacturing. Employment in service-providing industries increased, but by a slight 8,000. A solid gain of 54,000 in the number of jobs in education and health services was nearly offset by a decline of 39,000 in professional and business services.



The unemployment rate jumped from 5.0% to 5.5% in May, after having fallen slightly in April. The number of U.S. workers unemployed increased to 8.5 million in May, an increase of 861,000 for the month. The number of workers unemployed for longer than 27 weeks increased by 197,000 for the month, to 1.6 million.[3]

Retail Sales

U.S. retail and food services sales decreased by 0.2% in April,[4] to a level 2.0% higher than April 2007. Total sales for the three months ending in April were 2.2% greater than during the corresponding three months of 2007. Sales growth was restrained primarily due to decreases in sales by motor vehicle and parts dealers, whose sales decreased by 2.8% from March to April, and whose sales during the three months ending in April were 5.0% lower than during the corresponding 2007 period. Overall retail and food services sales excluding that sector grew by 0.5% from March to April, and by 4.2% during the three months ending in April (compared to the year before).

The retail sectors that did experience sales growth from March to April were led by building material and garden equipment and supplies dealers at 1.9%, followed by electronics and appliance stores (1.4%) and food services and drinking places (0.9%). Despite the favorable experience last month for building material and garden equipment and supplies dealers, they have struggled recently; sales for the three months ending in April were 4.3% lower than during the corresponding months of 2007. Other than motor vehicle and parts dealers, the only retailers to experience sales declines in April were miscellaneous store retailers (1.2%), gasoline stations (0.4%), and department stores (0.1%).

[3] As is typically the case, slightly over one-third of the unemployed in May had been unemployed for fewer than five weeks.

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

Residential Construction and Housing Markets

U.S. housing starts increased by 8.2% in April, to above one million units.[5] Despite that seemingly healthy percentage increase the slump continues, as April housing starts were 30.6% below the April 2007 level. The numbers were somewhat better for the Midwest, as housing starts increased by 24.4% from March to April, to a level just 23.7% lower than the preceding April.

Data on building permits exhibited a similar pattern. The number of building permits issued nationally rose by 4.9% from March to April but remained below the one million-unit level for a third straight month. Compared with the preceding April, building permits were 34.3% lower. For the Midwest the percentage increase for the month was 27.0%, while the percentage decrease compared with the year before was 29.2%.

Manufacturing

Shipments of manufactured goods increased by 2.2% to $443.9 billion in April, after seasonal adjustment. This was the third increase in the last four months. Shipments of manufactured durable goods increased 1.6% in April, to $213.1 billion; this increase followed two straight monthly declines. Shipments of primary metals continued their recent strength, increasing 3.0%; within this sector, iron and steel mills' shipments increased by 6.4%. Other sectors that contributed to the (durable goods) increase included computers and electronic products, shipments of which increased by 5.1%, fabricated metal products (1.7%), and transportation equipment (1.3%). The increase in transportation equipment shipped was primarily due to aircraft and heavy-duty trucks; shipments of automobiles and light trucks fell. The only durable goods sector to experience decreased shipments during April was machinery, shipments of which decreased by 1.3%.

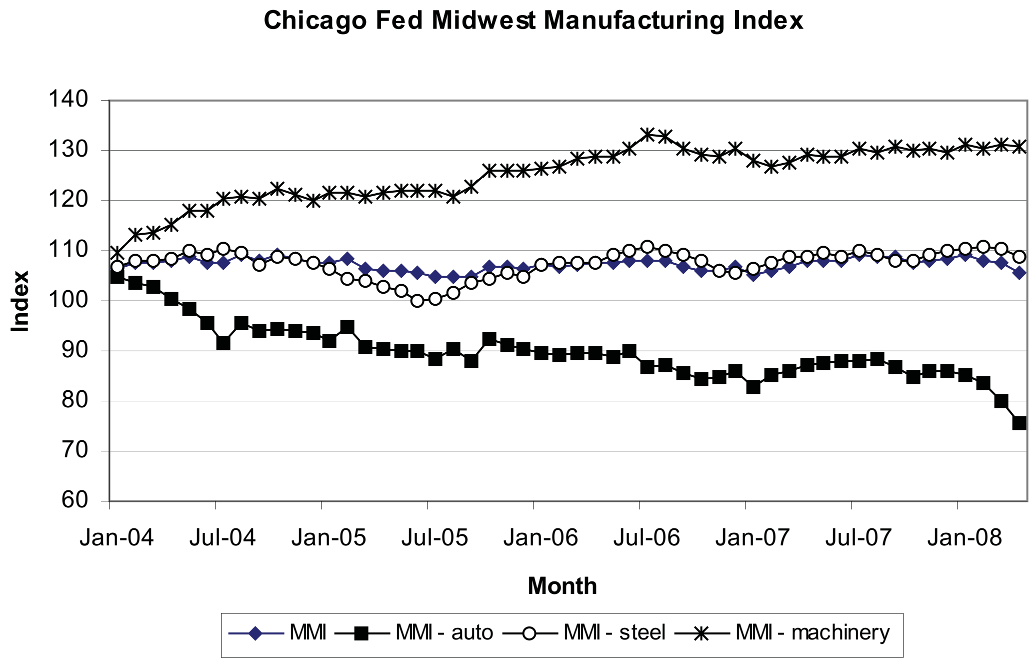
New orders for manufactured goods increased by 1.1% in April, but orders for durable goods decreased 0.6%. The latter decrease was the third decrease in four months. Durable goods orders declined in a number of sectors, most strongly for transportation equipment (7.9%), computers and electronic products (2.3%), furniture and related products (1.4%), and fabricated metal products (1.2%). The decrease in orders for transportation equipment also was the third in four months. New orders did increase for machinery (4.1%) and primary metals (2.6%).

The national data reported above is fairly current but applies to the entire U.S. economy. The Chicago Fed produces a Midwest Manufacturing Index (MMI) specific to its Federal Reserve District, which includes Michigan, northern Indiana, northern Illinois, southern Wisconsin, and Iowa. While Ohio is not in the Chicago District, Ohio's economy is more similar to that of the states that are in the district than it is to the national economy as a whole. So the MMI may provide a better idea of manufacturing conditions in Ohio than do the national data. The path of the MMI, and of its auto, steel, and machinery subcomponents, over the last few years up through April of 2008 is shown in the accompanying chart.

---

[5] Figures on housing starts and building permits are reported on a seasonally adjusted annual rate basis.

The overall index shows little change during the period as a whole. None of the months shown experienced industrial production as much as 10% higher than it was in 2002, the base year for the index, but it did reach 9.2% higher in a couple of months since then, most recently in January of this year. From January through April, however, the index fell by 3.2%.



The overall stability in the index masks a sharp difference between the experience for the auto sector compared to the other subcomponents. As shown, the auto sector index fell by nearly 16% during the two years ending in April, during which time the steel index rose by 1.1% and the machinery index rose by 1.3%. It appears that the weak U.S. dollar has provided better support for the steel and machinery industries than it has the auto industry.

Inflation and Prices

The consumer price index for all urban consumers (CPI-U) increased by 0.2% from March to April, after seasonal adjustment. Core inflation, as measured by the CPI-U excluding food and energy, was 0.1% for the month. There was no change overall in the energy component of CPI-U in April, but the food component increased by 0.9%. Among the foods contributing most notably to the increase in this component were butter, which increased in price by 7.8%, margarine (6.5%), processed fruits and vegetables (3.4%), pork products (3.4%), fresh fruits (3.2%), and fish and seafood (2.6%). BLS noted that the price of bread is 14.1% higher than a year ago, and milk prices are 13.5% higher.

The annualized inflation rate over the three months ending in April was 2.3%. While this is still a bit high, the three-month moving average has been moderating over the last few months. The corresponding figure for the three months ending in March was 3.1%, and the corresponding figure for January was 6.8%. Annualized core inflation over the three months ending in April was 1.2%, which is well within what is generally considered an acceptable range. Ben Bernanke is reportedly emphasizing his concerns about inflation in recent days, and with CPI-U 3.9% higher in April than it was a year ago, that is an understandable stance for the Chairman of the Fed. But recent trends in the three-month moving average inflation rate suggest that inflation is decelerating.

Price increases measured by the producer price index for finished goods were 0.2% in April, after seasonal adjustment. The increase in March was 1.1%, and the index is 6.5% higher than a year ago. As with CPI-U, the increase over the past year has been driven primarily by prices of energy and of food. Excluding these items the index increased by 0.4% from March to April, and by 3.0% over the last year.

The U.S. Energy Information Administration provides information about more recent price movements for gasoline and diesel fuel, and recent trends have not reversed. The average price for all grades of conventional formulas of gasoline increased from around $3.60 per gallon nationally at the end of April and beginning of May to $3.98 per gallon on June 2. Diesel fuel was selling for around $4.70 per gallon by the end of May. The average price of gasoline in Ohio reached $4.00 on May 26 and remained there on June 2.

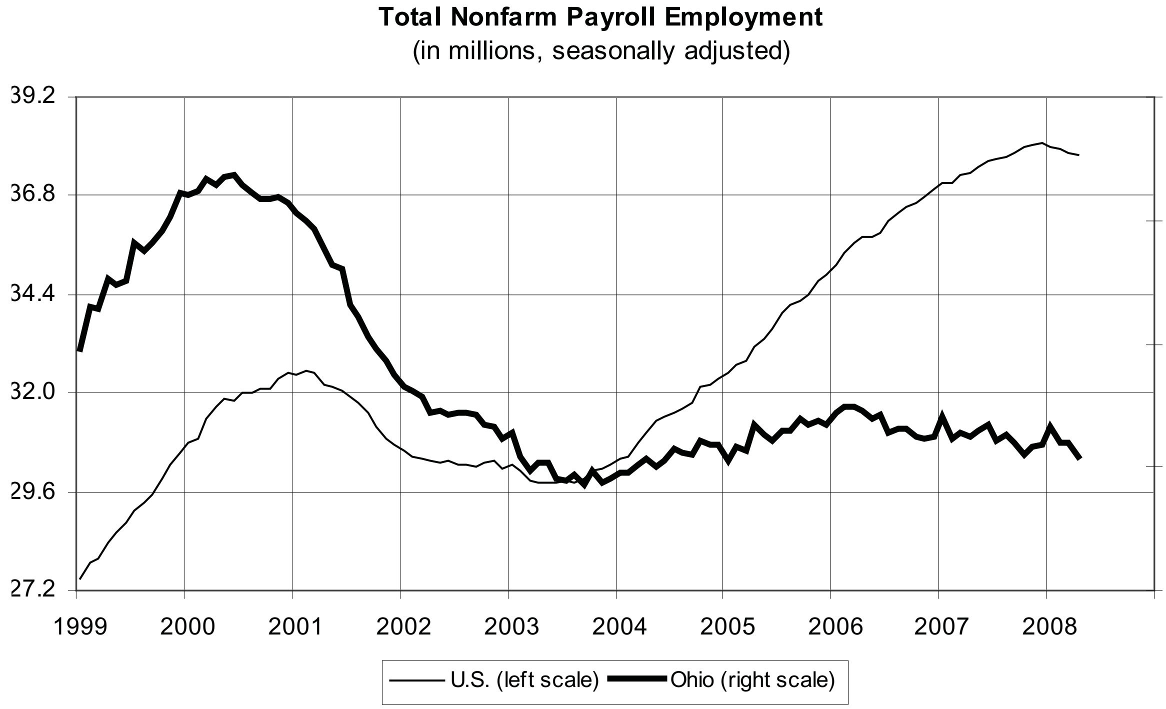
The Ohio Economy

Ohio's unemployment rate decreased to 5.6% in April.

Ohio's nonfarm payroll employment decreased by 11,200, or about 0.2%, in April, after seasonal adjustment. The decrease reduced Ohio's employment to slightly under 5.41 million. Employment in goods-producing industries fell by 2,900, and employment in service-providing industries decreased by 8,300. The decline in goods-producing employment was attributable to construction employment, which fell by 3,200 for the month. Employment in leisure and hospitality declined by 3,300 for the month. In spite of the decreases in payroll employment, Ohio's unemployment rate decreased from (a revised) 5.8% in March to 5.6% in April, and the number of unemployed Ohio workers decreased to 335,000.

During the year ending in April Ohio payroll employment fell by 15,800. This was the net result of a decrease of 20,400 jobs in goods-producing industries and an increase of 4,600 in services. Manufacturing lost 17,000 jobs over the year, and construction lost 4,000. Employment increased in educational and health services (by 13,500) and in professional and business services (2,500), which offset declines in employment in other service sectors. Declining service sectors, as measured by employment, were led by leisure and hospitality (3,800), other services (2,500), and financial activities (2,100). The chart below shows Ohio's payroll employment as compared with national figures since 1999.

Recent announcements by General Motors and by DHL (a package shipping company) imply the possible future loss of several thousand Ohio jobs. The General Motors announcement affects a plant in Moraine, Ohio that employs about 2,500 workers. The company announced that the plant will close at the end of the 2010 model production run, or sooner if demand dictates. The DHL announcement that it would replace ABX Air as its air cargo carrier in the U.S. puts at risk as many as 8,000 or 9,000 jobs in or near Wilmington.



The U.S. Bureau of Economic Analysis reported that Ohio's real GDP grew by just 0.4% from 2006 to 2007, but this improved on the preceding year, when real GDP decreased by 0.3%. This improvement bucked a national trend – 36 states experienced slower growth in 2007 than in 2006. Despite the improvement Ohio was in the bottom quintile of states as measured by percentage growth. But Ohio's economy did avoid shrinking – unlike the economies of Delaware, Michigan, and New Hampshire. Ohio's growth rate also exceeded that of Florida (0.0%), Rhode Island (0.1%), West Virginia (0.1%), Alaska (0.3%), and Indiana (0.3%).

The Ohio Association of Realtors reports that 33,167 homes were sold in Ohio during the first four months of 2008, a decrease of 14.5% compared with the corresponding months of 2007. The OAR reported that sales have increased for three straight months and are now approaching a level that would have been considered typical prior to 2003 (i.e., pre-boom in real estate). The average sales price of $132,225 was 8.2% below that of the corresponding year-earlier period.

Economic Forecast Update

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

Since the May edition of *Budget Footnotes*, Global Insight has updated its national forecast, but not its forecast for Ohio. The table below presents the most recent U.S. forecast. As discussed in previous issues of *Budget Footnotes*, the picture for FY 2008 looks only slightly worse than was projected for the budget, meaning that one would not expect the economy to have created significant budget problems this year. As the table shows, however, the June 2008 forecast values for FY 2009 are significantly less favorable. The forecast for U.S. real GDP growth is 2.5 percentage points lower than had been forecast for the budget, personal income is now projected to grow over two percentage points slower during FY 2009, and the unemployment rate is now projected to be 0.8 percentage points higher. All of these revisions to the original forecast are negative from the perspectives of state tax revenues and Medicaid caseloads (not to mention for many Ohioans' household budgets). As reported last month, the May 2008 updates to Ohio's economic indicators for FY 2009 were revised, since the budget, in similar fashion, so as to make budgetary problems likely for Ohio in FY 2009.

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

	FY 2008		FY 2009	
Variable Name (national)	**Forecast for Budget**	**June 2008 Forecast**	**Forecast for Budget**	**June 2008 Forecast**
U.S. real GDP growth	2.3%	2.4%	3.2%	0.7%
U.S. personal income growth	5.5%	5.7%	5.6%	3.5%
U.S. CPI inflation	1.8%	3.7%	1.9%	4.4%
U.S. unemployment rate	4.8%	4.9%	4.8%	5.6%