Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION MARCH 2008

STATUS OF THE GRF

HIGHLIGHTS

— Allan Lundell, Chief Economist, 644-7788

Through February 2008, total GRF sources of $16,932.2 million were $184.3 million (1.1%) below estimate:

- Tax revenues were $151.7 million (1.2%) below estimate.
  - Below estimate: personal income tax, $118.2 million (2.1%); corporate franchise tax, $35.6 million (11.3%); auto sales tax, $22.3 million (3.6%); and public utility excise tax, $16.8 million (15.3%).
  - Above estimate: nonauto sales and use tax, $69.5 million (1.5%) and kilowatt hour excise tax, $3.2 million (1.7%).
- State-source receipts, 94% of which were made up by tax revenues, were below estimate by $195.3 million (1.5%). Federal grants were above estimate by $11.1 million (0.3%).
- Compared to FY 2007, tax revenue was up 1.1%; state-source receipts were up 3.2%; and federal grants were up 9.3%. In total, GRF sources were up 4.6%.

Through February 2008, total GRF uses of $18,320.1 million were $177.1 million (1.0%) below estimate:

- Total GRF program expenditures of $17,710.9 million, which include all GRF uses except transfers out, were below estimate by $319.4 million (1.8%). These expenditures include $125.2 million in payroll that has not yet been allocated to specific agencies.
  - Medicaid expenditures were $10.6 million (0.2%) above estimate.
- Compared to FY 2007, total GRF program expenditures were up 3.7%.

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

Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of February 2008
($ in thousands)
(Actual based on OBM Monthly Financial Report dated March 10, 2008)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$63,041	$60,830	$2,211	3.6%
Nonauto Sales and Use	$464,308	$465,700	-$1,392	-0.3%
Total Sales and Use Taxes	$527,349	$526,530	$819	0.2%
Personal Income	$264,734	$315,100	-$50,366	-16.0%
Corporate Franchise	$91,257	$88,800	$2,457	2.8%
Public Utility	$31,008	$40,800	-$9,792	-24.0%
Kilowatt Hour Excise	$8,650	$7,200	$1,450	20.1%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$61,707	$68,700	-$6,993	-10.2%
Domestic Insurance	$0	$200	-$200	-99.9%
Business and Property	-$2	$20	-$22	-111.4%
Cigarette	$66,148	$67,500	-$1,352	-2.0%
Alcoholic Beverage	$3,713	$4,300	-$587	-13.7%
Liquor Gallonage	$2,554	$2,600	-$46	-1.8%
Estate	$0	$500	-$500	-100.0%
Total Tax Revenue	**$1,057,119**	**$1,122,250**	**-$65,131**	**-5.8%**
NONTAX REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$9,200	$13,413	-$4,213	-31.4%
Other Revenue	$6,356	$5,650	$706	12.5%
Total Nontax Revenue	**$15,556**	**$19,063**	**-$3,507**	**-18.4%**
TRANSFERS				
Liquor Transfers	$11,000	$10,000	$1,000	10.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$219,818	$245,660	-$25,842	-10.5%
Total Transfers In	**$230,818**	**$255,660**	**-$24,842**	**-9.7%**
TOTAL STATE SOURCES	**$1,303,493**	**$1,396,973**	**-$93,480**	**-6.7%**
Federal Grants	$430,486	$428,540	$1,946	0.5%
TOTAL GRF SOURCES	**$1,733,980**	**$1,825,513**	**-$91,533**	**-5.0%**

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

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

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2008 as of February 29, 2008
($ in thousands)
(Actual based on OBM Monthly Financial Report dated March 10, 2008)

	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$590,304	$612,555	-$22,251	-3.6%	$574,650	2.7%
Nonauto Sales and Use	$4,564,086	$4,494,600	$69,486	1.5%	$4,378,026	4.2%
Total Sales and Use Taxes	$5,154,390	$5,107,155	$47,235	0.9%	$4,952,677	4.1%
Personal Income	$5,498,373	$5,616,600	-$118,227	-2.1%	$5,303,766	3.7%
Corporate Franchise	$278,744	$314,300	-$35,556	-11.3%	$471,984	-40.9%
Public Utility	$93,278	$110,100	-$16,822	-15.3%	$105,241	-11.4%
Kilowatt Hour Excise	$194,267	$191,100	$3,167	1.7%	$226,922	-14.4%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$194,489	$207,700	-$13,211	-6.4%	$189,308	2.7%
Domestic Insurance	$433	$800	-$367	-45.9%	$236	83.6%
Business and Property	$393	$840	-$447	-53.2%	$669	-41.2%
Cigarette	$577,201	$584,200	-$6,999	-1.2%	$606,604	-4.8%
Alcoholic Beverage	$37,318	$38,000	-$682	-1.8%	$37,399	-0.2%
Liquor Gallonage	$23,638	$24,200	-$562	-2.3%	$23,283	1.5%
Estate	$31,025	$40,300	-$9,275	-23.0%	$33,650	-7.8%
Total Tax Revenue	**$12,083,549**	**$12,235,295**	**-$151,746**	**-1.2%**	**$11,951,738**	**1.1%**
NONTAX REVENUE						
Earnings on Investments	$44,990	$85,000	-$40,010	-47.1%	$92,314	-51.3%
Licenses and Fees	$51,301	$51,344	-$43	-0.1%	$52,098	-1.5%
Other Revenue	$71,361	$47,454	$23,907	50.4%	$100,931	-29.3%
Total Nontax Revenue	**$167,652**	**$183,798**	**-$16,146**	**-8.8%**	**$245,343**	**-31.7%**
TRANSFERS						
Liquor Transfers	$116,000	$111,000	$5,000	4.5%	$95,000	22.1%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$523,610	$556,060	-$32,450	-5.8%	$193,604	170.5%
Total Transfers In	**$639,610**	**$667,060**	**-$27,450**	**-4.1%**	**$288,604**	**121.6%**
TOTAL STATE SOURCES	**$12,890,812**	**$13,086,153**	**-$195,342**	**-1.5%**	**$12,485,685**	**3.2%**
Federal Grants	$4,041,410	$4,030,318	$11,092	0.3%	$3,698,797	9.3%
TOTAL GRF SOURCES	**$16,932,222**	**$17,116,471**	**-$184,250**	**-1.1%**	**$16,184,482**	**4.6%**

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

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

Detail may not sum to total due to rounding.

Revenues

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

Overview

GRF receipts are likely to remain below estimate for the remainder of FY 2008.

GRF receipts in February were below the amount estimated by the Office of Budget and Management in August 2007 (Table 1), increasing the negative variance for the fiscal year (Table 2). As the economy continues to slow and possibly goes through a recession, receipts are likely to remain below estimate for the remainder of the fiscal year.

Month of February

Total GRF receipts for February were $1,734.0 million, $91.5 million (5.0%) below estimate. Total receipts included $1,303.5 million in state-source receipts, which were below estimate by $93.5 million (6.7%), and $430.5 million in federal grants, which were above estimate by $1.9 million (0.5%).[1] State-source receipts included $1,057.1 million in tax revenues, which were below estimate by $65.1 million (5.8%), $15.6 million in nontax revenues, and $230.8 million in transfers in.

GRF receipts for February were $91.5 million (5.0%) below estimate.

Tax collections contributing to the negative variance in tax revenues included those from the personal income tax, which were below estimate by $50.4 million (16.0%), the public utility excise tax, which were below estimate by $9.8 million (24.0%), and the foreign insurance tax, which were below estimate by $7.0 million (10.2%). Also below estimate were collections from the nonauto sales and use tax, which were below estimate by $1.4 million (0.3%), and the cigarette tax, which were below estimate by $1.4 million (2.0%). Tax collections slightly offsetting these negative variances were those from the corporate franchise tax, which were above estimate by $2.5 million (2.8%), the auto sales tax, which were above estimate by $2.2 million (3.6%), and the kilowatt hour tax, which were above estimate by $1.5 million (20.1%).

FY 2008 Year-to-Date

After the first eight months of FY 2008, total GRF receipts were $16,932.2 million, $184.3 million (1.1%) below estimate. These receipts included $12,890.8 million in state-source receipts, which were below estimate by $195.3 million (1.5%), and $4,041.4 million in federal grants, which were above estimate by $11.1 million (0.3%). State-source receipts included $12,083.5 million in tax revenues, which were below estimate by $151.7 million (1.2%), $167.7 million in nontax revenues, which were below estimate by $16.1 million (8.8%), and $639.6 million in transfers in, which were below estimate by $27.5 million (4.1%).

Taxes contributing to the negative variance in tax revenues included the personal income tax, which brought in $118.2 million (2.1%) less than estimated, the corporate

[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.

franchise tax, $35.6 million (11.3%) less, and the auto sales tax, $22.3 million (3.6%) less. Additionally, the public utility excise tax brought in $16.8 million (15.3%) less than estimated, the foreign insurance tax, $13.2 million (6.4%) less, the estate tax, $9.3 million (23.0%) less, and the cigarette tax, $7.0 million (1.2%) less. Only two taxes brought in more than estimated—the nonauto sales and use tax, which brought in $69.5 million (1.5%) more, and the kilowatt hour excise tax, which brought in $3.2 million (1.7%) more.

The negative variance in nontax revenues was due to earnings on investments, which were $40.0 million (47.1%) below estimate. This negative variance arose because earnings for the second quarter that were scheduled to be posted in December were not posted. Receipts from all state sources other than earnings on investments were below estimate by $155.3 million (1.2%).

Year-to-Year Comparison

Total FY 2008 GRF receipts through February 2008 were $747.7 million (4.6%) higher than total FY 2007 GRF receipts through February 2007. State-source receipts were up $405.1 million (3.2%) from this time last year and federal grants were up $342.6 million (9.3%). Tax revenues were up $131.8 million (1.1%) compared to last year. Tax revenues that increased from FY 2007 included those from the personal income tax, which were up 3.7%, the nonauto sales tax, up 4.2%, and the auto sales tax, up 2.7%. Tax revenues that decreased from FY 2007 included those from the corporate franchise tax, which were down 40.9%, due in part to the scheduled phaseout of this tax on nonfinancial corporations, the kilowatt hour excise tax, which were down 14.4%, the public utility excise tax, which were down 11.4%, the cigarette tax, which were down 4.8%, and the estate tax, which were down 7.8%.

Personal Income Tax

Withholding, which is expected to account for 70.8% of gross collections for the fiscal year, was below estimate for the second consecutive month and the third month in the last four, slipping from $78.4 million (3.1%) above estimate at the end of October to $4.6 million (0.1%) below estimate at the end of February. Quarterly estimated payments,[2] which are expected to account for 14.9% of gross collections for the fiscal year, have tracked below estimate throughout the fiscal year and are now $18.3 million (1.7%) below estimate. The slowing economy will act to continue these trends in revenue collection, increasing the likelihood that income tax revenue will finish FY 2008 below estimate.

Income tax withholding, which reflects the condition of Ohio's labor market, was below estimate in three of the last four months.

Month of February. In February, the GRF received $264.7 million from the personal income tax, which was below estimate by $50.4 million (16.0%). GRF revenue from the personal income tax is equal to gross collections, which for February were $22.9 million (3.4%) less than estimate, after subtracting both refunds, which were $28.0 million (10.0%) greater than estimate, and distributions to the local government

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

Year-to-date income tax receipts were $118.2 million (2.1%) below estimate.

funds, which were $0.6 million (0.7%) less than estimate. Gross collections are the sum of withholding, which was below estimate by $22.8 million (3.6%), quarterly estimated payments, which were below estimate by $2.3 million (15.3%), trust payments, which were below estimate by $5.7 million (78.7%), and payments associated with annual returns, which were above estimate by $7.7 million (47.3%).

The monthly comparisons with estimates have probably been skewed by faster than expected filing by taxpayers responding to the federal economic stimulus package. Taxpayers need to file a 2007 return in order to be eligible for their stimulus checks.

FY 2008 Year-to-Date. The GRF received $5,498.4 million from the personal income tax in the first eight months of FY 2008. This amount is $118.2 million (2.1%) below estimate. Gross collections were $12.0 million (0.2%) below estimate and refunds were $103.2 million (19.7%) above estimate. Withholding was $4.6 million (0.1%) below estimate, quarterly estimated payments were $18.3 million (1.7%) below estimate, trust payments were $3.7 million (11.0%) above estimate, and payments associated with annual returns were $10.5 million (6.5%) above estimate.

Year-to-Year Comparison. Compared to a year ago, GRF revenue from the personal income tax in the first eight months of the fiscal year was up by $194.6 million (3.7%). Gross collections were up by $94.7 million (1.5%) and refunds were up by $43.3 million (7.4%). Withholding was up by $51.0 million (1.0%), quarterly estimated payments were up by $30.1 million (3.0%), trust payments were down by $0.2 million (0.5%), and payments associated with annual returns were up by $16.8 million (10.9%). Distributions to the local government funds were $142.6 million (23.2%) less than at this point in FY 2007 because of changes in the funding formula enacted in H.B. 119.

Sales and Use Tax

GRF sales and use tax revenues in February 2008 were $527.3 million, $0.8 million (0.2%) above projected revenues. Those receipts were $0.2 million (0.04%) above revenues in February 2007. Through February, FY 2008 year-to-date sales and use tax revenues were $5,154.4 million, $47.2 million (0.9%) above estimate, and $201.7 million (4.1%) above FY 2007 year-to-date tax receipts through February 2007. This year-over-year growth is likely to shrink in the last months of FY 2008.

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

Nonauto Sales and Use Tax

As economic growth falters and consumers continue to be under pressure from a weakening labor market and higher gas and food prices, it is unlikely that the good

[3] The clerks of court generally make auto 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.

performance for this tax source will continue in the remaining months of the fiscal year.

Month of February. Receipts from the nonauto sales and use tax during the month were $464.3 million, $1.4 million (0.3%) below estimate. More tellingly, nonauto sales and use tax receipts were also $10.3 million (2.2%) below revenues in the same month a year ago. For the first time this fiscal year, the monthly year-over-year growth for this tax source was decidedly negative.

FY 2008 Year to Date. Through February, FY 2008 nonauto sales and use tax receipts were $4,564.1 million, $69.5 million (1.5%) above estimate, and $186.1 million (4.2%) above receipts through February in FY 2007. Both positive variances are expected to diminish in the next few months.

Year-to-date nonauto sales and use tax receipts were $69.5 million above estimate.

Auto Sales and Use Tax

The slowdown in consumption has negatively affected the auto sales and use tax as consumers pull back on purchases of expensive items such as vehicles. However, the performance of the auto sales and use tax was surprisingly strong in February, in light of weak nationwide vehicle sales in the last two months.[4]

Month of February. For the second month in a row, auto sales and use tax receipts were above estimate. Receipts were $63.0 million in February 2008, $2.2 million (3.6%) above estimate. Auto sales and use tax receipts were $10.5 million (19.9%) higher than revenues in the same month last year.[5]

FY 2008 Year to Date. Through February, FY 2008 year-to-date auto sales and use tax receipts were $590.3 million, $22.3 million (3.6%) below estimate. The last two months helped reduce the negative variance that was $28.0 million at the end of December. Auto sales and use tax receipts were also $15.6 million (2.7%) above receipts through February in FY 2007.

Auto sales and use tax receipts were above estimate for the second month in a row.

Corporate Franchise Tax

The first major corporate franchise tax (CFT) estimated payment was due on January 31, 2008, with a portion of tax collections recorded in February. The remaining estimated payments of the fiscal year will be due on March 31 and May 31, 2008. CFT February receipts were $91.3 million, exceeding estimates by $2.5 million (2.8%). Compared to receipts in the same month last year, receipts were down $1.9 million (2.0%). Looking at the January-February period in FY 2008, receipts were $33.5 million (11.2%) above estimate and $88.5 million (19.7%) below receipts in the same period in FY 2007.

[4] Nationwide, auto and light trucks sales were down from a year-ago 4.5% and 6.5% in January and February, respectively. However, the correlation between nationwide vehicle sales and Ohio auto sales and use tax receipts is generally poor. Nevertheless, the discrepancy between the two variables for the month of February is striking.

[5] This performance may be due to the timing of remittances of tax receipts in February this year compared to last year. Thus, March receipts may be negatively affected.

Through February, FY 2008 year-to-date CFT receipts were $278.7 million, $35.6 million (11.3%) below estimate. Receipts were also $193.2 million (40.9%) below FY 2007 receipts. The year-over-year decline is, in part, due to the scheduled phaseout of the CFT for nonfinancial corporations. Also, corporate profits growth turned negative in the third quarter of CY 2007,[6] which decreases receipts from the CFT. Banks and other financial companies, which are not affected by the phaseout, have been particularly affected by the profit growth decline. Because of the phaseout of the tax for nonfinancial corporations, the contribution of financial corporations to total CFT receipts is increasing each fiscal year.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarette and other tobacco products in February 2008 were $66.1 million, $1.4 million (2.0%) below estimate, but $2.1 million (3.3%) above receipts in February 2007. Through February, FY 2008 year-to-date receipts were $577.2 million, $7.0 million (1.2%) below estimate. Those receipts were also $29.4 million (4.8%) below receipts through February in FY 2007. Receipts from the tax on other tobacco products grew 19.6% while receipts from the sale of taxable cigarettes declined 5.7%. Receipts in February continued the downward trend started in the second quarter of the fiscal year. The decline in receipts from the sale of taxable cigarettes may be attributable to an increase in cigarette prices, the effects of the statewide cigarette smoking ban, and increased consumption of chewing tobacco, dipping tobacco, and snuff.

Commercial Activity Tax

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

Receipts from the commercial activity tax (CAT) in February 2008 were $230.6 million, $24.7 million (9.7%) below estimate. Through February, FY 2008 year-to-date CAT receipts were $719.4 million, $16.4 million (2.2%) below estimate. FY 2008 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). Taxpayers generally make quarterly payments, although those subject to the minimum tax make annual payments. The next quarterly payment is due May 9, 2008.

[6] Compared to profits in the second quarter, one measure of profit growth declined about 33% for financial firms and 14% for nonfinancial firms. The Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce will publish estimates of corporate profits for CY 2007 on March 27, 2008.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of February 2008
($ in thousands)
(Actual based on OBM Monthly Financial Report dated March 10, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$604,853	$624,487	-$19,635	-3.1%
Higher Education	$232,434	$240,294	-$7,860	-3.3%
Total Education	$837,287	$864,781	-$27,495	-3.2%
Public Assistance and Medicaid	$773,006	$797,092	-$24,085	-3.0%
Health and Human Services	$82,712	$88,772	-$6,060	-6.8%
Total Welfare and Human Services	$855,719	$885,864	-$30,146	-3.4%
Justice and Public Protection	$96,559	$131,689	-$35,130	-26.7%
Environment and Natural Resources	$6,489	$6,493	-$4	-0.1%
Transportation	$1,267	$1,837	-$569	-31.0%
General Government	$16,051	$22,160	-$6,109	-27.6%
Community and Economic Development	$10,200	$7,926	$2,274	28.7%
Capital	$10	$150	-$140	-93.4%
Total Government Operations	$130,576	$170,255	-$39,679	-23.3%
Tax Relief and Other	$81	$50	$31	62.1%
Debt Service	$34,203	$37,968	-$3,765	-9.9%
Total Other Expenditures	$34,284	$38,018	-$3,734	-9.8%
Unbooked Payroll	$43,697	$0	$43,697	---
Total Program Expenditures	**$1,901,562**	**$1,958,918**	**-$57,356**	**-2.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	$0	$0	$0	---
TOTAL GRF USES	**$1,901,562**	**$1,958,918**	**-$57,356**	**-2.9%**

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

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2008 as of February 29, 2008
($ in thousands)
(Actual based on OBM Monthly Financial Report dated March 10, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2007**	**Percent Change**
Primary, Secondary, and Other Education	$4,703,226	$4,853,156	-$149,930	-3.1%	$4,688,514	0.3%
Higher Education	$1,743,454	$1,804,481	-$61,027	-3.4%	$1,676,983	4.0%
Total Education	$6,446,680	$6,657,636	-$210,956	-3.2%	$6,365,497	1.3%
Public Assistance and Medicaid	$7,414,804	$7,430,194	-$15,390	-0.2%	$6,990,687	6.1%
Health and Human Services	$862,177	$921,654	-$59,477	-6.5%	$896,045	-3.8%
Total Welfare and Human Services	$8,276,981	$8,351,849	-$74,867	-0.9%	$7,886,732	4.9%
Justice and Public Protection	$1,368,225	$1,435,472	-$67,247	-4.7%	$1,397,087	-2.1%
Environment and Natural Resources	$76,722	$81,255	-$4,532	-5.6%	$74,814	2.6%
Transportation	$18,355	$21,979	-$3,624	-16.5%	$16,892	8.7%
General Government	$234,507	$264,579	-$30,072	-11.4%	$243,160	-3.6%
Community and Economic Development	$92,847	$105,003	-$12,156	-11.6%	$103,122	-10.0%
Capital	$66	$1,103	-$1,037	-94.0%	$90	-27.4%
Total Government Operations	$1,790,722	$1,909,390	-$118,668	-6.2%	$1,835,165	-2.4%
Tax Relief and Other	$653,822	$663,002	-$9,180	-1.4%	$624,855	4.6%
Debt Service	$417,576	$448,497	-$30,921	-6.9%	$361,761	15.4%
Total Other Expenditures	$1,071,398	$1,111,499	-$40,101	-3.6%	$986,616	8.6%
Unbooked Payroll	$125,150	$0	$125,150	---	$0	---
Total Program Expenditures	**$17,710,931**	**$18,030,373**	**-$319,443**	**-1.8%**	**$17,074,009**	**3.7%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$394,034	-100.0%
Other Transfers Out	$609,168	$466,800	$142,368	30.5%	$309,862	96.6%
Total Transfers Out	$609,168	$466,800	$142,368	30.5%	$703,896	-13.5%
TOTAL GRF USES	**$18,320,099**	**$18,497,173**	**-$177,075**	**-1.0%**	**$17,777,905**	**3.0%**

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

Expenditures

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

Overview

Tables 3 and 4 show GRF uses for the month of February and for FY 2008 through February, respectively. GRF uses consist primarily of program expenditures but also include transfers out. In February, GRF program expenditures totaled $1,901.6 million, $57.4 million (2.9%) below the estimate made by the Office of Budget and Management in August 2007. Through the first eight months of FY 2008, GRF program expenditures totaled $17,710.9 million, $319.4 million (1.8%) below estimate but 3.7% above total GRF program spending in the comparable period a year earlier.

GRF program expenditures in FY 2008 through February were $319.4 million (1.8%) below estimate.

Total program expenditures may remain below estimate through the end of the fiscal year, since the Executive branch is implementing a budget reduction plan totaling approximately $202 million in FY 2008. This budget reduction plan is in response to an anticipated shortfall in revenue relative to expenditures in the current biennium.

Spending in most program categories in February and in the fiscal year through February was below estimate. This is partly because the allocation of payroll transactions in the state's new accounting system continues to lag beyond the end of each month. As a result, the books for January and February have not yet closed. Payroll for which accounting entries have not been completed totaled $43.7 million for February and $125.2 million for January and February combined. These amounts are shown in tables 3 and 4 as "unbooked payroll." Partly because of this unbooked payroll, expenditures in most program categories understate spending. One area that is not affected by the delay in allocating payroll is the "other" category, which includes expenditures for tax relief and debt service. This category's expenditures for February and for the first eight months of FY 2008 were also below estimate, by $3.7 million and $40.1 million, respectively.

For the first half of the fiscal year, with no remaining incomplete payroll entries, program spending was $134.3 million (1.0%) under estimate, with all categories below estimate except Public Assistance and Medicaid, $34.2 million (0.6%) over estimate, and Justice and Public Protection, $31.3 million (2.8%) over estimate. The largest amount of underspending in the first half of the fiscal year was in Primary, Secondary, and Other Education, $104.1 million (2.9%) below estimate.

School Funding

A major portion of expenditures in the Primary, Secondary, and Other Education category consists of subsidy payments to public school districts and community schools. These payments are calculated based on the school funding formula established in the Revised Code. The funding formula is sensitive to several data variables. One of the most important of these data variables is the average daily membership (ADM) of each district. School funding estimates for FY 2008 are based on the ADM projected by the Ohio Department of Education (ODE) in June 2007, but actual school funding for FY 2008 is based on the actual ADM.

Statewide ADM is approximately 18,000 students lower in February than projected for H.B. 119.

ADM is the measure that the school funding formula uses for the number of students residing in each district. The ADM is important because the components of the funding formula are largely student-based so that if a district's actual ADM is lower than what was projected, state formula funding will also normally be lower than what was projected. Based on the school funding formula simulations released by ODE in July 2007 compared to the updated calculations made in February, statewide ADM for FY 2008 is lower than projected by about 18,000 students.[1] State formula funding is also lower by about $41.9 million.

Considering only the student-based components of the formula, funding may have been expected to fall even more. Each student generates at least $5,614 in the funding formula, which when multiplied by 18,000 students is equal to about $101.1 million. However, in FY 2008, 394 districts (64.4%) receive transitional aid. Transitional aid is a district-based component of the funding formula that guarantees that in FY 2008 districts are credited with at least as much state formula funding as they were credited with in FY 2007. Districts that were projected to receive transitional aid, therefore, will not have lower than projected state funding when their actual ADMs are lower than projected because they are still guaranteed the FY 2007 level of funding.

Medicaid

In February, lower than estimated Medicaid expenditures on ABD managed care plans continued to approximately offset overspending on hospitals and other providers.

Expenditures in the Medicaid category in February were $719.4 million, $5.0 million (0.7%) over estimate. For the fiscal year to date, outlays of $6,746.9 million in this category were $10.6 million (0.2%) over estimate. Medicaid spending accounts for about 90% of outlays in the Public Assistance and Medicaid program category.

In February, lower than estimated expenditures on Aged, Blind, and Disabled (ABD) managed care plans (MCPs) continued to approximately offset overspending on hospitals and other providers. Expenditures for ABD managed care plans fell below estimate by $18.5 million (13.6%) for the month. While these expenditures were below estimate, ABD caseloads have recently been above estimate (by about 5,000 in January 2008). These higher caseloads account for most of the overspending for inpatient and outpatient hospitals and physicians, as the delay in enrolling eligible ABD consumers into managed care plans and higher caseloads for ABD populations that are ineligible for managed care increase fee-for-service payments to hospitals and providers. Expenditures exceeded estimate by $16.2 million (28.0%) for inpatient hospitals, by $4.6 million (21.2%) for outpatient hospitals, and by $5.1 million (22.2%) for the physicians category for the month.

The pattern of variances for year-to-date Medicaid spending is similar to that for February. Spending on ABD managed care plans was under estimate by $129.7 million (12.5%) while inpatient hospital expenditures exceeded estimate by $135.2 million (26.3%) and outpatient hospital expenditures exceeded estimate by $40.0 million (20.2%) for the year to date. However, also contributing to the year-to-date variance for hospital expenditures is $35.1 million of inpatient and outpatient hospital claims that were budgeted for FY 2007 but were paid in FY 2008, causing a one-time increase in FY 2008 spending.

[1] The LSC publication, *ADM Update*, tracks movement in the ADM in the last six months of the fiscal year. This document is available on the LSC Web site.

The Medicaid spending estimates were based on an assumed January 2008 start date 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. However, in spite of these delays, increased caseloads and unrealized cost savings have increased year-to-date Medicaid expenditures to slightly above estimate (0.2%).

Justice and Public Protection

The major portion of spending in the Justice and Public Protection category occurs in the Department of Rehabilitation and Correction. Expenditures by the Department in July through December 2007 were $37.6 million over estimate. Approximately $29.2 million of this variance was in the main operations line, 501-321, Institutional Operations. This portion of the variance was primarily due to the timing of a quarterly transfer payment to line item 501-602, Services and Agriculture, used to support the service industries and agricultural production within the Department. OBM expected this transfer payment of about $20 million to be made in January 2008, but it was instead posted in December.

Another source of the year-to-date variance was in line item 505-321, Institution Medical Services, which accounted for about $7.3 million of the $37.6 million variance. Medical expenditures by the Department through December were over estimate largely due to significant recent increases in inmate population coupled with inflationary increases in the medical field.

** Melaney Carter, Fiscal Division Chief, 466-6274, contributed to the school funding section of this expenditures report; Todd A. Celmar, Economist, 466-7358, contributed to the Medicaid section; and Joe Rogers, Senior Budget Analyst, 644-9099, contributed to the Justice and Public Protection section.*

Spending in excess of estimate by the Department of Rehabilitation and Correction in the fiscal year's first half was due in part to increases in inmate population and rising medical costs.

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

Medicaid (600-525) Payments by Service Category	February Actual	February Estimate	February Variance	February Percent Variance	Year-to-Date Actual thru Feb.	Year-to-Date Estimate thru Feb.	Year-to-Date Variance	Year-to-Date Percent Variance
Nursing Facilities	$223,128	$226,494	-$3,366	-1.5%	$1,733,223	$1,797,533	-$64,310	-3.6%
ICFs/MR	$44,894	$45,006	-$112	-0.2%	$355,169	$355,402	-$233	-0.1%
Inpatient Hospitals	$74,102	$57,875	$16,227	28.0%	$648,793	$513,624	$135,169	26.3%
Outpatient Hospitals	$25,983	$21,430	$4,553	21.2%	$237,734	$197,764	$39,970	20.2%
Physicians	$28,244	$23,105	$5,139	22.2%	$207,373	$196,212	$11,161	5.7%
Prescription Drugs	$37,525	$33,680	$3,845	11.4%	$311,832	$297,751	$14,081	4.7%
ODJFS Waivers	$24,707	$24,370	$337	1.4%	$206,451	$216,761	-$10,310	-4.8%
MCP - CFC	$233,027	$237,065	-$4,038	-1.7%	$1,838,813	$1,851,530	-$12,717	-0.7%
MCP - ABD	$117,162	$135,623	-$18,461	-13.6%	$906,978	$1,036,654	-$129,676	-12.5%
Medicare Buy-In	$24,495	$28,239	-$3,744	-13.3%	$198,912	$208,985	-$10,073	-4.8%
All Other	$71,857	$65,850	$6,007	9.1%	$598,618	$564,109	$34,509	6.1%
DA Medical	$1,113	$1,215	-$102	-8.4%	$11,038	$11,193	-$155	-1.4%
Total Payments	$906,237	$899,952	$6,285	0.7%	$7,254,934	$7,247,518	$7,416	0.1%
Offsets								
Drug Rebates	-$10,811	-$11,333	$522	-4.6%	-$44,488	-$47,667	$3,179	-6.7%
Revenue and Collections	-$6,516	-$6,496	-$20	0.3%	-$26,148	-$25,983	-$165	0.6%
ICF/MR Franchise Fees	-$910	-$910	$0	0.0%	-$3,641	-$3,641	$0	0.0%
NF Franchise Fees	-$21,875	-$21,875	$0	0.0%	-$87,500	-$87,500	$0	0.0%
IMD/DSH Payments	-$12,500	-$12,500	$0	0.0%	-$25,000	-$25,000	$0	0.0%
MCP Assessments	-$28,339	-$28,339	$0	0.0%	-$77,339	-$77,339	$0	0.0%
Health Care Federal	-$125,379	-$125,962	$583	-0.5%	-$405,503	-$410,170	$4,667	-1.1%
Total Offsets	-$206,330	-$207,415	$1,085	-0.5%	-$669,619	-$677,300	$7,681	-1.1%
Total 600-525 (net of offsets)	$699,907	$692,537	$7,370	1.1%	$6,585,315	$6,570,218	$15,097	0.2%
Medicare Part D (600-526)	$19,496	$21,842	-$2,346	-10.7%	$161,579	$166,048	-$4,469	-2.7%
Total GRF	**$719,403**	**$714,379**	$5,024	**0.7%**	**$6,746,894**	**$6,736,266**	$10,628	**0.2%**
Total All Funds	**$925,733**	**$921,794**	$3,939	**0.4%**	**$7,416,513**	**$7,413,566**	$2,947	**0.0%**

Source: Ohio Department of Job & Family Services.

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

Issue Updates

The State Debt Service Ratio was Determined to be 4.07% on March 6, 2008

— Ruhaiza Ridzwan, Economist, 387-0476

On March 6, 2008, the state's debt service ratio was determined to be 4.07%. This ratio is only determined for general and special obligation bonds[1] that are backed by the GRF and net lottery profits and that are subject to the 5% debt service limit that was established in the state constitution by Ohio voters in November 1999. The ratio is calculated by dividing the highest debt service annual payment for those bonds by the total GRF and lottery profits revenues for FY 2008. In general, under the 5% limit, new obligations may not be issued if debt service for any future fiscal year on the new and outstanding bonds would exceed 5% of the estimated total GRF and net lottery profits revenues for the fiscal year of the issuance.[2] Whenever the state issues new bonds subject to the 5% limit, the Director of Budget and Management is required to issue a certification to indicate the state's compliance with this provision. The latest certification was made on March 6, 2008.

The table below lists the general and special obligation bonds, including their outstanding amounts, that are counted toward the 5% limit as specified under Section 17 of Article VIII of the Ohio Constitution. As can be seen from the table, as of March 1, 2008, Ohio had approximately $8.8 billion

Bonds Subject to the 5% Limit and their Outstanding Amounts as of March 1, 2008	
General Obligations	**Amount**
Infrastructure Improvement Bonds	$1,355.2 million
Natural Resources Capital Facilities Bonds	$168.9 million
Coal Development Bonds	$32.4 million
Common Schools Capital Facilities Bonds	$2,859.3 million
Higher Education Capital Facilities Bonds	$1,619.6 million
Conservation Projects Bonds	$166.4 million
Subtotal	***$6,201.8 million***
Special Obligations	
Mental Health Capital Facilities Bonds	$220.0 million
Parks and Recreation Capital Facilities Bonds	$124.2 million
Higher Education Capital Facilities Bonds	$501.2 million
Elementary and Secondary Education Capital Facilities Bonds	$11.5 million
Cultural and Sports Facilities Capital Facilities Bonds	$160.9 million
State Facilities Bonds (Departments of Rehabilitation and Correction, Youth Services, Administrative Services, and Natural Resources)	$1,577.0 million
Subtotal	***$2,594.8 million***
Grand Total	**$8,796.6 million**

[1] Both general and special obligations are considered direct debt of the state. However, general obligation bonds are backed by the full faith and credit of the state. Because of this additional backing, general obligation bonds generally can be issued at lower interest rates than are required by special obligation bonds.

[2] Application of the 5% limit may be waived in a particular instance by a three-fifths vote of each house of the General Assembly. The limit does not apply to bonds issued to retire bond anticipation notes for which the requirements were met when the notes were issued or to bonds issued to defend the state in time of war.

of outstanding bonds subject to the 5% limit. In addition to these amounts shown in the table, there were $550.4 million of authorized bonds that had not yet been sold. Note that the 5% limit does not apply to general obligation bonds payable from non-GRF funds, such as highway bonds that are paid from highway user receipts. Also excluded are GRF-backed general obligation bonds issued for Third Frontier research and development and for the development of sites for industry, commerce, distribution, and research and development.

First Round of Choose Ohio First Scholarship Awards Announced

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

On March 7, 2008 the Board of Regents (BOR) announced the recipients of the first round of Choose Ohio First Scholarship awards. The Choose Ohio First program is a part of the Ohio Innovation Partnership, established in H.B. 119 to recruit students and scientists in the fields of science, technology, engineering, mathematics, and medicine (STEM). The Choose Ohio First program assigns funds to state institutions of higher education to recruit Ohio residents as undergraduate or graduate students in STEM fields. The first round awards total $22.7 million and are granted to seven collaborative STEM recruiting programs, including 21 Ohio institutions of higher education, several public schools, and many local businesses. BOR is currently accepting proposals for the remaining $27.3 million to be awarded in the Choose Ohio First program's second round. H.B. 119 appropriates $50 million in each of FY 2008 and FY 2009 for these scholarships. According to BOR, however, awards will not be paid until FY 2009. Recipients of the awards under the Ohio Innovation Partnership's other program, Ohio Research Scholars, are expected to be announced in May and, also, be paid in FY 2009. H.B. 119 appropriates $30 million in FY 2008 and $20 million in FY 2009 for the Ohio Research Scholars Program.

Choose Ohio First Award Recipients - First Round		
Lead Institution	**Program Name**	**Award**
Cleveland State University	Student Success in Mathematics	$4.50 million
University of Akron	STEM Undergraduate Engagement in an Engineering Environment	$6.50 million
Ohio University	Ohio Consortium for Bioinformatics	$4.48 million
Central State University	Diversifying Ohio in STEM (DO-STEM)	$3.10 million
University of Cincinnati	Coming out of the Pipeline: The UC Interdisciplinary Pathway to STEM Professionals	$3.08 million
Case Western Reserve	Building the Nursing Workforce in Northeastern Ohio	$0.68 million
Ursuline College	Pharmacy Scholarships	$0.36 million
Total First Round Award		**$22.7 million**

New PSEO Supplement Earmark to be Used for Grants to Support the Governor's Seniors to Sophomores Program

— Andrew Plagenz, Budget Analyst, 728-4815

On February 28, 2008, Governor Strickland and Board of Regents Chancellor Fingerhut announced a new grant program designed to support early adopters of the Governor's Seniors to Sophomores Program. In his State of the State address, the Governor unveiled the Seniors to Sophomores

Program that will enable high school seniors to take college courses and earn both a year of high school and a year of college credit at the same time. The new grant program announced in February will use up to $4 million of a $5.675 million earmark for FY 2009 from the Department of Education's GRF appropriation item 200-536, Ohio Core Support. H.B. 119 requires that the earmarked funds be distributed to public school districts for supplemental post-secondary enrollment option (PSEO) participation.[3] The new grant program will distribute planning grants of up to $100,000 each to qualified public school districts or community schools. To be eligible, schools, through partnerships with University System campuses, must offer the Seniors to Sophomores Program to high school students beginning in the 2008-2009 school year. Applicants must also demonstrate how the program will become fiscally self-sustaining in future years by utilizing current state funding paid to schools, state share of instruction funding paid to higher education institutions, or private and partnering organization funds.

STEM Subcommittee Announces First Grant Recipients

— Edward Millane, Budget Analyst, 995-9991

On February 13, 2008, the STEM (Science, Technology, Engineering, and Mathematics) Subcommittee of the Partnership for Continued Learning[4] announced the first recipients of the STEM schools and the K-8 STEM programs of excellence grants for FY 2008. These recipients are listed below. H.B. 119 created the Subcommittee and appropriates $3.0 million for the school grants and $3.3 million for the program grants in both FY 2008 and FY 2009.

H.B. 119 authorizes the STEM Subcommittee to offer grants to establish up to five STEM schools. The Subcommittee received five proposals, but as can be seen from the list above, only two proposals, those submitted by Cleveland Metropolitan School District (CMSD) and Wright State University, were accepted. The CMSD proposal is to establish the MC²STEM (Metropolitan Cleveland Consortium for STEM) High School. This year-round school will open in July 2008 with 100 freshmen, 75 from CMSD and 25 from surrounding districts. The Wright State proposal is to establish the Dayton Regional STEM School. This school will open for the 2009-2010 school year with a class of 80 freshmen from Clark, Greene, and Montgomery counties. By the 2012-2013 school year the school will offer grades six

FY 2008 STEM Schools Grant Recipients	
1. Cleveland Metropolitan School District (and partners)	2. Wright State University (and partners)
FY 2008 K-8 STEM Programs of Excellence Grant Recipients	
1. Westlake City School District	6. Miller City-North Cleveland School District
2. New Lebanon Local School District	7. Columbus City School District
3. Fort Recovery Local School District	8. Dayton Public School District
4. Cincinnati Public School District	9. Canton Local School District
5. Worthington City School District	

[3] Participation of public school students in the traditional PSEO program continues to be funded by transferring part of state education aid from a participating student's resident district to a higher education institution offering courses to the student. In FY 2007, a total of $20.2 million was transferred for 12,195 students participating in PSEO. Participation of nonpublic school students in PSEO is funded by an earmark ($2.0 million in FY 2008) of GRF appropriation item 200-511, Auxiliary Service.

[4] The Partnership was created in 2005 to make policy recommendations related to the alignment of early, primary, secondary, and higher education systems in Ohio. It is comprised of leaders in education, business and industry, economic development, government, and local communities.

through 12. The other three STEM school applicants, Akron City Schools, STRIVE, and the Education Council, have been given until April 4, 2008, to revise their proposals for possible approval this fiscal year. Applicants receiving school grants are expected to have a school in operation for the 2009-2010 school year, while those receiving program grants will be able to expand existing programs or establish new ones with funds set to be received in March.

In addition to establishing these new grants, H.B. 119 also requires that the STEM Subcommittee select a nonprofit enterprise to coordinate the state's STEM education initiatives, including the programs offered by the grant recipients. On January 24, 2008, the Subcommittee selected Batelle to fill this role; Batelle was the only organization to offer a proposal.

State Board of Education Adopts K-12 Physical Education Standards and Department of Education Reports Survey Data

— Andy Plagenz, Budget Analyst, 728-4815

As mandated by H.B. 119, the State Board of Education has adopted standards for physical education in grades K-12. H.B. 119 gives the State Board the option of adopting the standards of the National Association of Sports and Physical Education (NASPE) or developing its own standards. The State Board adopted the NASPE standards in December 2007, and began in February 2008 to form a writing team to develop Ohio-specific benchmarks and grade-level indicators for each standard. The NASPE standards are as follows:

(1) Demonstrates competency in motor skills and movement patterns needed to perform a variety of physical activities;
(2) Demonstrates understanding of movement concepts, principles, strategies, and tactics as they apply to the learning and performance of physical activities;
(3) Participates regularly in physical activity;
(4) Achieves and maintains a health-enhancing level of physical fitness;
(5) Exhibits responsible personal and social behavior that respects self and others in a physical activity setting; and
(6) Values physical activity for health, enjoyment, challenge, self-expression, and/or social interaction.

H.B. 119 also required all school districts, community schools, and chartered nonpublic schools to report, by the end of October 2007, the number of minutes and classes per week of physical education provided to K-8 students in the 2006-2007 school year and scheduled for the 2007-2008 school year. Approximately 91% of Ohio schools reported the required information. These schools offered students in grades K-8 an average of approximately 71.3 minutes or 1.8 classes of physical education per week during the 2006-2007 school year and have scheduled, on average, approximately the same amount of time for the 2007-2008 school year. The average time offered increases with increasing grade levels from a low of about 57 minutes for kindergarteners to a high of about 87 minutes for 7th and 8th graders. These reported data are available on the Department of Education's web site, www.ode.state.oh.us; follow the links Standards and Instruction → Academic Content Standards → Physical Education in Ohio.

TANF Surplus Balance Expected to be Fully Liquidated in FY 2009

— Maria Seaman, Fiscal Supervisor, 466-5041

The Ohio Department of Job and Family Services (ODJFS) expects that all existing surplus TANF dollars (unobligated and unliquidated dollars from previous grant years) will be liquidated by early FY 2009. Ohio's cumulative unspent TANF balance reached an all-time high of $894 million in federal fiscal year 2005 (a large portion of which was surplus). Since FY 2006, the state has increased its TANF spending. As of December 31, 2006, the total amount of the TANF surplus was approximately $402.5 million and by December 31, 2007, $147.4 million remained. Federal regulations require that unobligated and unliquidated TANF dollars at the end of a grant year may only be used in subsequent years to pay for services that meet the federal definition of "assistance." In Ohio, the Ohio Works First cash assistance program is the only one that meets this definition. ODJFS plans to spend approximately $120 million from the TANF surplus during the second half of FY 2008 on cash assistance payments. This will leave a balance of approximately $20 million to $30 million, which is expected to be liquidated in early FY 2009.

State Share of Medicaid Cost Avoidance Increases by $9.6 Million So Far in FY 2008

— Ivy Chen, Senior Economist, 644-7764

Through the first seven months of FY 2008, Medicaid cost avoidance totaled $178.4 million in all funds, $24.1 million higher than in the same period in FY 2007 (see table below).[5] Of this $24.1 million increase, the state share is approximately $9.6 million or 40%. Under federal law, Medicaid is intended to be the payer of last resort; that is, all other available third parties must meet their legal obligations to pay claims before Medicaid pays for the care of an eligible individual. Cost avoidance occurs when a service provider bills and collects from liable third parties before sending the claim to Medicaid. Changes made in H.B. 119 require health insurers to provide the state with the coverage, eligibility, and claims data needed to identify potentially liable third parties. These changes have helped the state to avoid more Medicaid costs in FY 2008 than in FY 2007.

Medicaid Cost Avoidance – All Funds			
Month	**FY 2007**	**FY 2008**	**Difference**
July	$17,029,593	$23,322,443	$6,292,850
August	$18,865,623	$25,397,186	$6,531,563
September	$17,801,981	$25,578,831	$7,776,850
October	$18,395,171	$28,647,910	$10,252,739
November	$38,883,744	$20,919,681	-$17,964,063
December	$18,367,009	$24,603,133	$6,236,124
January	$24,959,105	$29,926,778	$4,967,673
Total	**$154,302,224**	**$178,395,960**	**$24,093,737**

[5] ODJFS is required to report cost avoidance data to the federal government quarterly. It reports the amount billed by a provider instead of the actual cost avoidance amount. On average Medicaid pays providers 50% of the billed amount. Therefore, actual cost avoidance is about half of the amount reported by ODJFS.

New Workforce and Talent Division Established in Department of Development

— Brian Hoffmeister, Budget Analyst, 644-0089

The creation of a new Workforce and Talent Division within the Department of Development (DOD) was announced on February 11, 2008. This is one result of a provision of H.B. 119 that permits DOD to enter into an interagency agreement with ODJFS to implement a comprehensive workforce development strategy. This new division will oversee the Ohio Investment in Training Program, the Workforce Guarantee Program, and the Third Frontier Internship Program, with spending of approximately $42.1 million over the FY 2008-FY 2009 biennium.

The new division will also be responsible for administering grants to businesses and training organizations under the Incumbent Worker Training Program, recently created by H.B. 372. This new initiative is to be funded by federal Workforce Investment Act transfers from ODJFS of at least $6.0 million in FY 2008 and $9.0 million in FY 2009.

Tracking the Economy

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

The U.S. Bureau of Economic Analysis (BEA) confirmed its advance estimate that growth in U.S. real[1] gross domestic product (GDP) was just 0.6% in the fourth quarter. Nationally, private sector employment decreased by over 100,000 in February. Many analysts take it as a given that we are now in a recession. Warren Buffett, the well-known investor, stated in an interview on March 3 that the U.S. economy is in a recession "by any commonsense definition." Global Insight, an economic forecasting firm, responded to the national employment figures for February by saying that "this should end the debate about whether or not the economy is slipping into recession." Still, the National Bureau of Economic Research has not declared it officially,[2] and at least one respected economic forecaster, Edward Leamer (Director of the Anderson Forecast at UCLA), recently reported that he believes we will avoid a recession.

The slump in housing and related financial markets has continued. One new indicator of the trauma emerged with the Federal Reserve's report that, in aggregate, the equity that American homeowners have in their homes fell below 50% in 2007. As the *Wall Street Journal* noted in citing the report, the percentage has been falling steadily since World War II, but the driving force behind the trend has switched recently to falling home prices. The more familiar indicators continue to paint a stark picture. The Mortgage Bankers Association (MBA) reports that the percentage of mortgage loans in foreclosure nationally exceeded 2% at the end of the fourth quarter, having increased by 35 basis points since the third quarter. This was the highest percentage recorded since MBA started tracking these rates in 1972. Ohio continues to have one of the highest percentages of any state, along with Michigan and Indiana.

Perhaps the primary concern for the future health of the economy is whether there will be sufficient credit available to businesses of all types and to consumers during coming months. The business press has been regularly raising the question whether we are experiencing a credit crunch, meaning that credit is not being made available by lenders in sufficient amounts to finance continuing economic expansion, due to turmoil in financial markets. The Federal Reserve, attempting to ensure that sufficient credit is available, began holding periodic auctions of short-term loans in December.

It is difficult to say whether the Fed has been successful, because new financial battlefronts seem to materialize monthly (maybe weekly). Since the last issue of *Budget Footnotes*, it was reported that companies that provide insurance for municipal bonds (e.g., Ambac and MBIA) had lost money in other lines of business, raising questions about their financial stability. Financial markets reacted negatively. Bidding volume at loan auctions the Fed has held since January has grown significantly, from $37.5 billion on January 28, to $58.4 billion on February 11, to $68.0 billion on February 25. The

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[1] Economists use the word "real" to indicate that a variable, in this case GDP, has been adjusted for inflation.

[2] The NBER acknowledges that it is usually 6 to 18 months after the beginning of a recession when it determines that the recession began. In part, this is due to publication lags for the relevant data.

National foreclosure rate highest since 1972.

most recent auction, held on March 10, saw bidding volume increase to $92.6 billion, though this may be due in part to an increase in the volume of loans on offer ($50 billion vs. $30 billion for the preceding auctions). It appears that the danger of a credit crunch has not yet passed. On March 11 the Fed announced a new initiative, involving cooperating with the European Central Bank, the Bank of England, the Bank of Canada, and the Swiss National Bank to make available $200 billion in loans of U.S. Treasury securities to primary bond dealers. The 28-day loans would be secured by a roughly equivalent amount of mortgage-backed securities—effectively taking such securities off the books of the dealers. Largely as a response to the announcement (presumably) the Dow Jones Industrial Average rose by over 416 points that day—the largest one-day increase in five years.

In light of the sobering news nationally, the most recent news about Ohio's economy may be surprising. Ohio's payroll employment increased by 18,700 in January, and the unemployment rate dropped to 5.5%. Although the Federal Reserve's "Beige Book," which describes economic conditions both nationally and in each Fed district, reported that economic activity in the Cleveland District[3] had slowed somewhat since January, activity in some sectors was reportedly stable. Steel and automobile factories, in particular, were reported to have increased production, though that may be due to seasonal factors. It may be that the weak U.S. dollar is providing some cushion to the Ohio economy by making prices for Ohio products competitive internationally.

The National Economy

Production and Income

The BEA issued its preliminary estimate of growth in real U.S. GDP, confirming its advance estimates of 0.6% (annualized) in the fourth quarter and 2.2% for all of 2007. This represented a sharp slowdown from the third quarter's growth rate of 4.9%. The slowdown showed up in all components of GDP but was especially pronounced in gross private domestic investment. That component includes residential fixed investment, which subtracted 1.25 percentage points from growth, and change in private inventories, which subtracted 1.49 percentage points from growth. As noted in last month's issue of *Budget Footnotes*, the restraining effect of the change in private inventories is necessarily temporary, leaving some optimists hopeful that growth will accelerate again within the near future.

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).

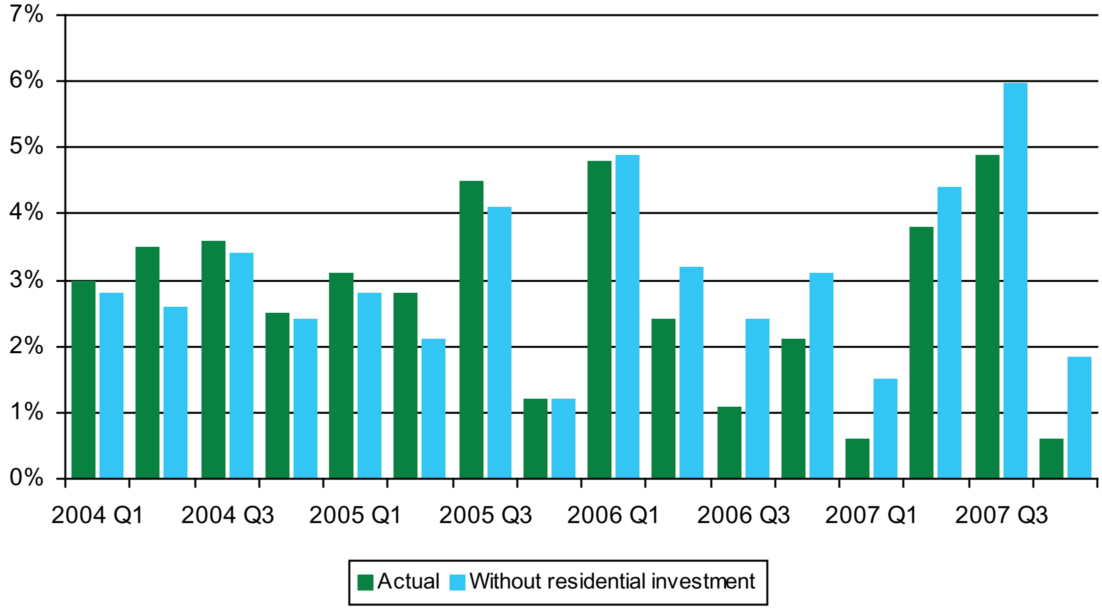
Employment and Unemployment

U.S. payroll employment fell in February.

U.S. nonfarm payroll employment fell by 63,000 in February, after seasonal adjustment, and private sector employment fell by 101,000. This is the third month in a row that private sector employment has fallen, according to the revised figures for December and January. Manufacturing employment accounted for a significant portion of the February decrease, with employment falling by 52,000; employment in

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

Growth Rate in Real GDP
Actual vs Without Residential Investment



construction accounted for an additional reduction of 39,000. Although some service-providing industries experienced employment declines (notably retail trade), overall employment grew in those industries by 26,000, providing a partial offset to the decline in goods-producing industries.

In spite of the negative payroll figures, the unemployment rate fell slightly, from 4.9% in January to 4.8% in February. The number of unemployed workers also fell (from 7.58 million to 7.38 million), enough to offset the fall in employment, leading to the overall fall in the unemployment rate. Readers who are familiar with the way that labor force statistics are constructed may immediately suspect that the fall in the number of unemployed workers (by 195,000) must be due to formerly unemployed workers who stopped looking for work within the last four weeks because they believed no jobs were available. Such individuals are classified as out of the labor force, rather than unemployed, and are frequently referred to as "discouraged workers." In fact, the number of discouraged workers also fell in February, by 71,000 (these figures are not seasonally adjusted). More broadly, the number of persons who are out of the labor force and who report wanting a job decreased by an estimated 288,000. Why so many workers might stop wanting a job in a single month is something of a mystery.

Retail Sales

U.S. retail and food services sales fell by 0.6% in February[4] to a level 2.6% higher than in February 2007. For the three months ending in February, retail sales were 3.3% higher than during the corresponding period the previous year. Weak sales continued for furniture and home furnishings stores (as sales fell by 0.5% in February), for building material and garden equipment and supplies dealers (whose sales fell by 0.7%), for

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

motor vehicle and parts dealers (with sales down 1.9%), and for department stores (down 0.2%). Electronics and appliance stores and even gasoline stations also had reductions in sales in February. Retail sectors that registered increases in sales in February included health and personal care stores (0.5%), clothing and clothing accessories stores (0.2%), and sporting goods, hobby, book, and music stores (0.4%).

Comparing sales during the three months ending in February with sales during the corresponding period of 2006-2007, the sectors with the weakest results were department stores (whose sales fell by 4.0%), furniture and home furnishings stores (down 3.4%), building material and garden equipment and supplies dealers (down 3.3%), and motor vehicle and parts dealers (down 2.3%). The strongest sales growth (besides gasoline stations, for which sales growth is mostly about price) was experienced by nonstore retailers (up 6.3%), food and beverage stores (up 5.1%), and sporting goods, hobby, book, and music stores (up 5.1%).

Manufacturing

Shipments of manufactured goods increased by 1.1% to $431.8 billion in January, after seasonal adjustment. This was the fourth increase in the last five months and brought the level of shipments up to its highest level since 1992 (when the U.S. Census Bureau began reporting shipments based on the NAICS industrial classification system). Shipments of manufactured durable goods rose by 1.9% to $215.7 billion. Among the sectors that experienced growth in shipments were automobiles (shipments of which rose by 2.1%, after having fallen by 3.0% in December), heavy-duty trucks (3.4%), primary metals (0.9%), fabricated metal products (1.5%), and electrical equipment, appliances, and components (2.9%). Among the sectors that experienced a decrease in shipments were machinery (shipments of which declined by 2.0%), furniture and related products (2.4%), light trucks and utility vehicles (0.5%), and motor vehicle bodies, parts, and trailers (1.8%).

New orders for manufactured goods fell by 2.5% in January to $429.2 billion. New orders for manufactured durable goods fell by 5.1%. New orders for transportation equipment fell by 13.0%, accounting for a substantial share of the overall reduction in new orders. The decline in that sector was largely due to a fall in orders for aircraft and parts for aircraft; excluding aircraft and aircraft parts, new orders for transportation equipment fell by 1.8%. Orders fell in a number of other sectors as well, including fabricated metal products (by 3.6%), machinery (1.9%), and furniture and related products (1.9%). Orders increased in primary metals (by 0.7%) and electrical equipment, appliances, and components (1.4%).

Inflation and Prices

CPI-U increased by 0.4% in January.

The Consumer Price Index for All Urban Consumers (CPI-U) increased by 0.4% in January, after seasonal adjustment. Increases in CPI-U have been somewhat high in recent months: the annualized increase over the most recent three months (ending with January) was 6.8%. Much of that increase was due to food and energy prices, however; excluding them, prices have increased by an annualized 3.1% over the last three months.

Federal Reserve policymakers may look at the index excluding food and energy to attempt to discern signs of accelerating "core inflation," but certainly higher prices for such items create budgetary pressures for many households. Energy prices were 19.6% higher in January than they were the preceding year, and food prices were 4.9% higher. Looking more closely, prices for food at home (as opposed to prices for food purchased from a restaurant) were up 5.8%, due especially to prices for dairy and related products (12.8% higher) and fruits and vegetables (6.1%). A closer examination of energy prices reveals that the sharp increases in the past year are primarily due to motor fuels, which are over one-third higher than they were a year ago; prices for household energy are up a more modest 5.3% for the year (though households heating with fuel oil experienced an increase in home heating prices similar to those for motor fuel).

The story is even more pronounced for producer prices. The Producer Price Index for Finished Goods increased by 1.0% in January, after seasonal adjustment, and by 7.4% for the year ending in January. As with CPI-U, the increase for the year was driven by food and energy prices. Excluding them, the Producer Price Index increased 2.3% during the year ending in January.

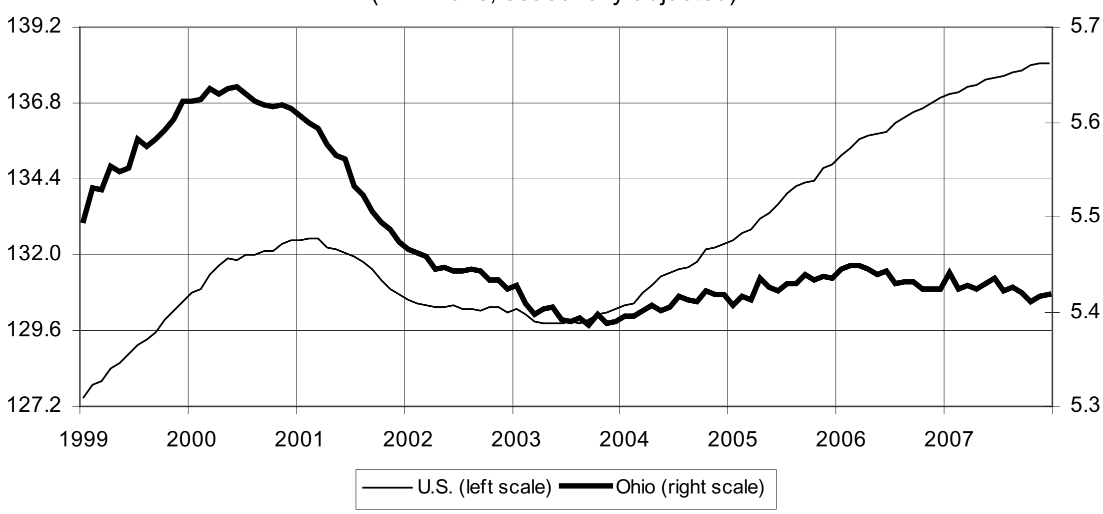
The Ohio Economy

Ohio's nonfarm payroll employment rose by 18,700, or 0.3%, in January, after seasonal adjustment. The increase brought total Ohio employment up to 5.44 million. Most of the increase, 17,900 jobs, was in service-providing industries. But employment grew by 800 in goods-producing industries as well, despite a fall in manufacturing employment by 1,200. The increase in employment was mirrored by a lower unemployment rate: the rate fell from 5.8% in December to 5.5% in January. The number of unemployed Ohio workers was estimated to be 328,000 in January.

Ohio's unemployment rate fell from 5.8% in December to 5.5% in January.

During the 12 months ending in January, Ohio's nonfarm payroll employment fell by 3,800, or less than 0.1%. Employment in manufacturing fell by 14,900 for the year, and employment in construction fell by 4,200. But losses in these sectors were partially offset by increases in employment in educational and health services (by 17,600), in trade, transportation, and utilities (5,100), and in professional and business services

Total Nonfarm Payroll Employment
(in millions, seasonally adjusted)



(3,600). Some service-providing industries lost jobs, including leisure and hospitality (5,400) and financial activities (3,300).

The Federal Reserve released its "Beige Book" on March 5, and the description of conditions in the Cleveland District was remarkably un-apocalyptic. The "Beige Book" reported that economic activity had "slowed somewhat" in the district since early January. Factory output was described as "flat," or essentially unchanged, overall. But steel shipments and output of automobiles rose somewhat, the latter due to foreign nameplates (though output of domestic nameplates held steady). Increases in manufacturing output were generally attributed to seasonal factors, according to the Fed. Interestingly, conditions in manufacturing were more favorable in the Cleveland District than they were nationally. This was also true of the Chicago District and the St. Louis District. Like the Cleveland District, economic production in the Chicago District is somewhat more heavily concentrated in durable goods manufacturing. This may be evidence of the benefits of a weak U.S. dollar, which should benefit Ohio exporters (and Ohio firms that compete with imports).[5]

A weak U.S. dollar may have benefited Ohio exporters.

The overall weakness in economic conditions in the Cleveland District seems to have been primarily due to weakness in residential construction, retail sales, and the transportation sector. Despite declines in residential construction during the past year, most home builders were reported to be carrying inventories that are larger than desired. Fed staff indicated that they had heard some reports of residential contractors entering the commercial side of the business. Retail sales in January were flat to down in most sectors, both compared to the preceding month and to the preceding January. And trucking industry contacts reported that freight volume had dropped somewhat over the preceding six weeks. Conditions in the banking sector were somewhat mixed, with consumer lending having been weak, but with an increase in business lending.

Economic Forecast Update

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

The table below presents the most recent forecast available of selected U.S. and Ohio variables compared to the forecast from May 2007. The March forecast of the U.S. variables is shown, while the Ohio variables are from the January forecast (unchanged from the February issue of *Budget Footnotes*).

[5] Faster growth abroad should also help exporters. In announcing fourth quarter 2007 financial results, Eaton Corporation Chairman and CEO Alexander Cutler reported the expectation that end markets in the U.S. would grow by 2% to 3% in 2008, while growth in foreign end markets would be 5% to 6%.

Revisions to Global Insight Economic Forecast (selected variables, state fiscal year basis)				
	FY 2008		FY 2009	
Variable name (national)	**Forecast for Budget**	**March 2008 Forecast**	**Forecast for Budget**	**March 2008 Forecast**
U.S. real GDP growth	2.3%	2.2%	3.2%	1.2%
U.S. personal income growth	5.5%	5.4%	5.6%	3.7%
U.S. CPI inflation	1.8%	3.5%	1.9%	2.1%
U.S. unemployment rate	4.8%	5.0%	4.8%	5.7%
Variable name (OH)	**Forecast for Budget**	**January 2008 Forecast**	**Forecast for Budget**	**January 2008 Forecast**
Ohio real GDP growth	1.9%	1.6%	2.5%	1.4%
Ohio personal income growth	4.2%	4.5%	4.6%	4.1%
Ohio wage disbursements growth	3.2%	3.7%	3.8%	3.5%
Ohio unemployment rate	5.5%	5.9%	5.4%	6.3%

As noted last month, the updated forecast for Ohio personal income growth looks somewhat positive for tax revenues, as the lower growth rate projected for FY 2009 would be applied to a larger tax base achieved during FY 2008. In fact, the apparently favorable figure for FY 2008 is attributable to the first quarter of the fiscal year, when growth significantly exceeded expectations. Thus the apparent good news for FY 2008 should already have shown up in tax receipts. The following table provides a comparison of the two forecasts for Ohio personal income by quarter.

Ohio's personal income grew significantly higher than expected in the first quarter of FY 2008.

Quarterly Comparison, Global Insight Forecasts of Ohio Personal Income		
Quarter	**Forecast for Budget**	**January 2008 Forecast**
FY 2008, Q1	3.9%	5.0%
FY 2008, Q2	4.0%	3.0%
FY 2008, Q3	4.3%	2.4%
FY 2008, Q4	4.2%	2.4%
FY 2009, Q1	4.5%	3.1%
FY 2009, Q2	4.3%	3.2%
FY 2009, Q3	4.8%	4.2%
FY 2009, Q4	4.7%	3.8%