Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission

May 2008

Status of the GRF

Highlights

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

Through April 2008, total GRF sources of $21,922.6 million were $230.8 million (1.0%) below estimate:

- Tax revenues were $208.0 million (1.3%) below estimate.
  - Below estimate: personal income tax, $71.7 million (0.9%); auto sales tax, $50.1 million (6.3%); corporate franchise tax, $48.2 million (7.8%); public utility excise tax, $16.1 million (14.6%); cigarette tax, $11.0 million (1.5%); and nonauto sales and use tax, $5.6 million (0.1%).
  - Above estimate: kilowatt hour excise tax, $3.7 million (1.7%).
- State-source receipts, 95% of which were made up by tax revenues, were below estimate by $286.6 million (1.7%). Federal grants were above estimate by $55.8 million (1.1%).
- Compared to FY 2007, tax revenues were up 5.4%; state-source receipts were up 6.7%; and federal grants were up 10.0%. In total, GRF sources were up 7.4%.

Through April 2008, total GRF uses of $22,704.7 million were $179.0 million (0.8%) below estimate:

- Total GRF program expenditures of $22,086.0 million, which include all GRF uses except transfers out, were below estimate by $330.9 million (1.5%).
  - Medicaid expenditures were $40.8 million (0.5%) above estimate.
- Compared to FY 2007, total GRF program expenditures were up 3.9%.

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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 April 2008
($ in thousands)
(Actual based on report run in OAKS on May 5, 2008)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$92,392	$97,216	-$4,824	-5.0%
Nonauto Sales and Use	$532,560	$566,900	-$34,340	-6.1%
Total Sales and Use Taxes	$624,952	$664,116	-$39,164	-5.9%
Personal Income	$1,752,477	$1,674,700	$77,777	4.6%
Corporate Franchise	$74,896	$67,000	$7,896	11.8%
Public Utility	$183	$0	$183	---
Kilowatt Hour Excise	$14,670	$12,700	$1,970	15.5%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$1	$200	-$199	-99.4%
Domestic Insurance	$0	$0	$0	---
Business and Property	$149	$200	-$51	-25.5%
Cigarette	$72,645	$75,200	-$2,555	-3.4%
Alcoholic Beverage	$4,064	$5,000	-$936	-18.7%
Liquor Gallonage	$2,692	$2,900	-$208	-7.2%
Estate	$18,765	$9,000	$9,765	108.5%
Total Tax Revenue	**$2,565,496**	**$2,511,016**	**$54,480**	**2.2%**
NONTAX REVENUE				
Earnings on Investments	$88	$0	$88	---
Licenses and Fees	$6,567	$12,855	-$6,288	-48.9%
Other Revenue	$6,160	$5,850	$310	5.3%
Total Nontax Revenue	**$12,815**	**$18,705**	**-$5,890**	**-31.5%**
TRANSFERS				
Liquor Transfers	$7,268	$11,000	-$3,732	-33.9%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$15,460	-$15,460	-100.0%
Total Transfers In	**$7,268**	**$26,460**	**-$19,192**	**-72.5%**
TOTAL STATE SOURCES	**$2,585,579**	**$2,556,181**	**$29,398**	**1.2%**
Federal Grants	$723,474	$466,719	$256,755	55.0%
TOTAL GRF SOURCES	**$3,309,053**	**$3,022,900**	**$286,153**	**9.5%**

* 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 April 30, 2008
($ in thousands)
(Actual based on report run in OAKS on May 5, 2008)

	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$750,618	$800,671	-$50,053	-6.3%	$747,037	0.5%
Nonauto Sales and Use	$5,575,434	$5,581,000	-$5,566	-0.1%	$5,406,268	3.1%
Total Sales and Use Taxes	$6,326,053	$6,381,671	-$55,618	-0.9%	$6,153,305	2.8%
Personal Income	$7,716,725	$7,788,400	-$71,675	-0.9%	$6,739,837	14.5%
Corporate Franchise	$569,636	$617,800	-$48,164	-7.8%	$819,933	-30.5%
Public Utility	$94,203	$110,300	-$16,097	-14.6%	$103,829	-9.3%
Kilowatt Hour Excise	$225,524	$221,800	$3,724	1.7%	$283,119	-20.3%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$272,307	$277,900	-$5,593	-2.0%	$269,356	1.1%
Domestic Insurance	$435	$1,200	-$765	-63.8%	$107	305.8%
Business and Property	$542	$1,040	-$498	-47.9%	$602	-10.0%
Cigarette	$726,803	$737,800	-$10,997	-1.5%	$756,336	-3.9%
Alcoholic Beverage	$46,406	$47,600	-$1,194	-2.5%	$46,843	-0.9%
Liquor Gallonage	$29,010	$29,700	-$690	-2.3%	$28,677	1.2%
Estate	$50,413	$50,800	-$387	-0.8%	$40,292	25.1%
Total Tax Revenue	**$16,058,058**	**$16,266,011**	**-$207,953**	**-1.3%**	**$15,242,238**	**5.4%**
NONTAX REVENUE						
Earnings on Investments	$83,937	$121,400	-$37,463	-30.9%	$130,656	-35.8%
Licenses and Fees	$66,355	$73,399	-$7,044	-9.6%	$73,925	-10.2%
Other Revenue	$83,412	$57,854	$25,558	44.2%	$110,788	-24.7%
Total Nontax Revenue	**$233,704**	**$252,653**	**-$18,950**	**-7.5%**	**$315,369**	**-25.9%**
TRANSFERS						
Liquor Transfers	$135,268	$134,000	$1,268	0.9%	$115,000	17.6%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$523,610	$584,580	-$60,970	-10.4%	$213,904	144.8%
Total Transfers In	**$658,878**	**$718,580**	**-$59,702**	**-8.3%**	**$328,904**	**100.3%**
TOTAL STATE SOURCES	**$16,950,640**	**$17,237,244**	**-$286,604**	**-1.7%**	**$15,886,511**	**6.7%**
Federal Grants	$4,971,945	$4,916,127	$55,818	1.1%	$4,520,731	10.0%
TOTAL GRF SOURCES	**$21,922,585**	**$22,153,371**	**-$230,786**	**-1.0%**	**$20,407,243**	**7.4%**

* 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.

Revenues

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

Overview

GRF revenues in April were above the amount estimated by the Office of Budget and Management (Table 1), reducing the negative variance for the fiscal year (Table 2). Although the bottom line news for April was good, the details paint a less than optimistic picture for the remainder of the fiscal year.

Month of April

Monthly GRF receipts were above estimate for the first time since January.

Total GRF receipts for April were $3,309.1 million, $286.2 million (9.5%) above estimate. The $2,585.6 million in state-source receipts were above estimate by $29.4 million (1.2%) and the $723.5 million in federal grants were above estimate by $256.8 million (55.0%).[1] Federal grants were above estimate because a payment expected in March was received in April. State-source receipts included $2,565.5 million in tax revenues, which were above estimate by $54.5 million (2.2%), $12.8 million in nontax revenues, which were below estimate by $5.9 million (31.5%), and $7.3 million in transfers in, which were below estimate by $19.2 million (72.5%).

Tax revenues were above estimate because of the personal income tax. Revenue from the personal income tax was $77.8 million (4.6%) above estimate, which, as explained below, is largely due to a timing issue. Also above estimate for the month were revenues from the estate tax by $9.8 million (108.5%), the corporate franchise tax by $7.9 million (11.8%), and the kilowatt hour excise tax by $2.0 million (15.5%). Revenues from the nonauto sales tax were below estimate by $34.3 million (6.1%), the auto sales tax by $4.8 million (5.0%), and the cigarette tax by $2.6 million (3.4%).

FY 2008 to Date

After ten months of the fiscal year, total GRF receipts were $21,922.6 million, $230.8 million (1.0%) below estimate. State-source receipts of $16,950.6 million were below estimate by $286.6 million (1.7%) and federal grants of $4,971.9 million were above estimate by $55.8 million (1.1%). State-source receipts included $16,058.1 million in tax revenues, which were below estimate by $208.0 million (1.3%), $233.7 million in nontax revenues, which were below estimate by $19.0 million (7.5%), and $658.9 million in transfers in, which were below estimate by $59.7 million (8.3%).

Through April, the kilowatt hour excise tax is the only tax above estimate.

Through April, revenue from only one tax was above estimate. Kilowatt hour excise tax revenue was above estimate by $3.7 million (1.7%). Revenues from the personal income tax were below estimate by $71.7 million (0.9%), the auto sales and use tax by $50.1 million (6.3%), and the corporate franchise tax by $48.2 million (7.8%). Revenues from the public utility excise tax were below estimate by $16.1 million (14.6%), the

[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.

cigarette tax by $11.0 million (1.5%), the foreign insurance tax by $5.6 million (2.0%), and the nonauto sales and use tax by $5.6 million (0.1%).

Year-to-Year Comparison

Total FY 2008 GRF receipts through April 2008 were $1,515.3 million (7.4%) higher than total FY 2007 GRF receipts through April 2007. State-source receipts were up $1,064.1 million (6.7%) and federal grants were up $451.2 million (10.0%). Tax revenues were up $815.2 million (5.4%). Revenue from the personal income tax was up by $976.9 million (14.5%). This comparison, however, is distorted by accelerated processing of returns compared to the previous year. Revenue from the nonauto sales and use tax was up by $169.2 million (3.1%) and revenue from the auto sales and use tax was up by $3.6 million (0.5%). Revenue from the estate tax was up by $10.1 million (25.1%). Revenue from the corporate franchise tax was down by $250.3 million (30.5%), due in part to the scheduled phaseout of this tax on nonfinancial corporations. Revenue from the kilowatt hour excise tax was down by $57.6 million (20.3%) and revenue from the public utility excise tax was down by $9.6 million (9.3%). Revenue from the cigarette tax was down by $29.5 million (3.9%).

Personal Income Tax

In April, GRF revenue from the personal income tax was above estimate for the first time in six months (since October 2007). This was largely due to a concerted effort made by the Department of Taxation to speed up its processing of tax returns this year. However, April was also the first month since December that withholding was above estimate. Revenue from tax returns is based on past economic activity. Withholding is based on current economic activity, and the good news for April offers some hope for personal income tax revenue for the remainder of the fiscal year.

Monthly income tax revenue was above estimate for the first time since October.

Month of April. In April, the GRF received $1,752.5 million from the personal income tax, which was above estimate by $77.8 million (4.6%). GRF revenue from the personal income tax is equal to gross collections, which for April were $97.0 million (5.0%) greater than estimate, after subtracting both refunds, which were $20.8 million (9.3%) greater than estimate, and distributions to the local government funds, which were $1.6 million (2.7%) below estimate. Gross collections are the sum of withholding, which was above estimate by $20.5 million (3.3%), quarterly estimated payments,[2] which were above estimate by $4.1 million (1.9%), trust payments, which were above estimate by $17.6 million (172.1%), payments associated with annual returns, which were above estimate by $51.3 million (4.7%), and miscellaneous payments, which were above estimate by $3.6 million (31.3%).

FY 2008 to Date. The GRF received $7,716.7 million from the personal income tax in the first ten months of FY 2008. This amount was $71.7 million (0.9%) below estimate. Gross collections were $100.7 million (1.1%) above estimate and refunds were $166.6 million (17.5%) above estimate. Withholding was $6.2 million (0.1%)

[2] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. 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.

above estimate, quarterly estimated payments were $13.8 million (1.1%) below estimate, trust payments were $21.2 million (46.5%) above estimate, payments associated with annual returns were $672.9 million (92.5%) above estimate, and miscellaneous payments were $5.7 million (7.3%) below estimate.

Year-to-Year Comparison. Compared to a year ago, GRF revenue from the personal income tax in the first ten months of the fiscal year was up by $976.2 million (14.5%). Gross collections were up by $897.8 million (10.5%) and refunds were up by $101.1 million (9.9%). Withholding was up by $64.8 million (1.0%), quarterly estimated payments were up by $40.8 million (3.3%), trust payments were down by $22.9 million (25.5%), payments associated with annual returns were up by $819.3 million (140.9%), and miscellaneous payments were down by $4.2 million (5.5%). Distributions to the local government funds were $179.5 million (23.8%) less than at this point in FY 2007 because of changes in the distribution formula enacted in H.B. 119.

Sales and Use Tax

Federal stimulus checks may boost sales tax receipts.

In April, the GRF received $625.0 million in revenue from the sales and use tax. The amount received was below estimate by $39.2 million (5.9%) and was also below the amount received in the same month last year by $12.4 million (1.9%). Through April, total GRF sales and use tax revenue was $6,326.1 million, $55.6 million (0.9%) below estimate but $172.7 million (2.8%) above revenues at the same point in the previous fiscal year.

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

The $532.6 million in nonauto sales and use tax revenue received in April was below estimate by $34.3 million (6.1%). The $5,575.4 million in revenue received through April was below estimate by $5.6 million (0.1%) but was up by $169.2 million (3.1%) compared to a year ago.

April receipts suggest that the growth in the nonauto sales and use tax base and purchases of taxable items and services stalled in the last three months. As economic growth falters and consumers continue to be under pressure from weakening labor markets and high gas and food prices, this tax source will remain under significant pressure in the remaining months of the fiscal year. The federal stimulus checks may provide some boost to tax receipts, depending on how the money is used by households.

[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.

Auto Sales and Use Tax

The $92.4 million in auto sales and use tax revenue received in April was below estimate by $4.8 million (5.0%). The $750.6 million in revenue received through April was below estimate by $50.1 million (6.3%) and was up by $3.6 million (0.5%) compared to a year ago.

The slowdown in consumer spending has negatively affected auto sales and use tax receipts as consumers hold back on purchases of durable goods such as vehicles. Weaker automobile demand and higher lending standards for vehicles have combined to create one of the worst periods in several years for the vehicle industry.

Corporate Franchise Tax

The $74.9 million in revenue received from the corporate franchise tax in April was above estimate by $7.9 million (11.8%). The $569.6 million in revenue received through April was below estimate by $48.2 million (7.8%) and was down by $250.3 million (30.5%) compared to a year ago.

Although above estimate in April, the corporate franchise tax remains below estimate for the fiscal year.

The year-over-year decline was, in part, due to the scheduled phaseout of the tax for nonfinancial corporations. Also, corporate profits growth turned negative in the third quarter of CY 2007.[4] On a year-ago basis, 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 decline. Because of the phaseout of the tax for nonfinancial corporations, the relative contribution of financial corporations to total corporate franchise tax receipts is increasing each fiscal year.

Cigarette and Other Tobacco Products Tax

The $72.6 million in revenue received in April from the cigarette and other tobacco products tax was below estimate by $2.6 million (3.4%). The $726.8 million in revenue received through April was below estimate by $11.0 million (1.5%) and was down by $29.5 million (3.9%) compared to last year.

Lottery Profits Transfers (Non-GRF)

Profits from lottery operations are transferred to the Lottery Profits Education Fund (LPEF) and then blended with the GRF to help pay state education formula aid for schools. Third-quarter transfers were $157.2 million, $3.5 million (2.2%) below projected transfers. Through March, FY 2008 year-to-date transfers were $498.8 million, $8.2 million (1.7%) above projected transfers but $15.6 million (3.0%) below transfers through March in FY 2007. Transfers were 28.4% of ticket sales. The State Lottery Commission anticipates transferring $657.9 million to the LPEF in FY 2008.

[4] Compared to profits in the second quarter, one measure of profit growth declined about 33% for financial firms and 14% for nonfinancial firms.

Table A: Lottery Ticket Sales and Transfers to LPEF in FY 2008 (in millions of dollars)							
Quarter	Tickets Sales	Actual Transfers	Projected Transfers	Dollar Variance	FY 2007 Transfers	Dollar Change	Percent Change
Q1	$565.7	$165.5	$153.6	$11.9	$163.0	$2.5	1.5%
Q2	$599.7	$176.1	$176.3	-$0.2	$173.8	$2.3	1.3%
Q3	$588.5	$157.2	$160.7	-$3.5	$177.5	-$20.3	-11.4%
Total	$1,753.8	$498.8	$490.6	$8.2	$514.4	-$15.6	-3.0%

Details may not sum to total due to rounding.

Ticket sales in the third quarter of FY 2008 were $588.5 million, $5.2 million (0.9%) below third-quarter sales in FY 2007. Instant ticket sales were $347.3 million, $13.2 million (3.9%) higher than sales in the same quarter last year. On-line ticket sales were $241.1 million, $18.3 million (7.1%) less than sales in the third quarter of FY 2007, due to lower Mega Millions sales this year. Through March 2008, FY 2008 year-to-date ticket sales were $1,753.8 million, $48.8 million (2.9%) higher than sales during the same period in FY 2007. Both on-line and Instant ticket sales were higher than last year by $32.3 million (4.7%) and $16.5 million (1.6%), respectively. Growth of on-line sales was mostly due to the addition of Sunday drawings and Ten-OH, a new game, this fiscal year.

Table B: Year-to-Date Ticket Sales by Games in FY 2008 and FY 2007 (in millions of dollars)											
	Pick 3	Pick 4	Kicker	Raffles To Riches	Rolling Cash 5	Classic Lotto	Mega Millions	Ten-OH	On-line	Instants	Total
FY 2008	$290.3	$147.9	$16.3	$10.0	$53.9	$28.7	$155.3	$14.8	$717.2	$1,036.6	$1,753.8
FY 2007	$276.4	$136.0	$16.5	$14.3	$55.3	$31.8	$154.5	N/A	$684.8	$1,020.2	$1,705.0
$ Change	$13.9	$11.9	-$0.2	-$4.3	-$1.4	-$3.1	$0.9	$14.8	$32.4	$16.5	$48.8
% Change	5.0%	8.8%	-1.4%	-30.1%	-2.5%	-9.6%	0.6%	N/A	4.7%	1.6%	2.9%

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$581,698	$571,297	$10,402	1.8%
Higher Education	$196,777	$184,954	$11,823	6.4%
Total Education	$778,476	$756,251	$22,225	2.9%
Public Assistance and Medicaid	$833,844	$820,240	$13,605	1.7%
Health and Human Services	$135,129	$146,968	-$11,839	-8.1%
Total Welfare and Human Services	$968,973	$967,207	$1,766	0.2%
Justice and Public Protection	$157,185	$183,225	-$26,040	-14.2%
Environment and Natural Resources	$5,645	$5,055	$589	11.7%
Transportation	$1,326	$1,468	-$141	-9.6%
General Government	$17,078	$18,128	-$1,050	-5.8%
Community and Economic Development	$5,638	$12,312	-$6,674	-54.2%
Capital	$0	$150	-$150	-100.0%
Total Government Operations	$186,872	$220,338	-$33,466	-15.2%
Tax Relief and Other	$298,177	$236,482	$61,696	26.1%
Debt Service	$68,922	$67,647	$1,275	1.9%
Total Other Expenditures	$367,099	$304,129	$62,970	20.7%
Total Program Expenditures	**$2,301,420**	**$2,247,925**	**$53,495**	**2.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	$0	$0	$0	---
TOTAL GRF USES	**$2,301,420**	**$2,247,925**	**$53,495**	**2.4%**

* 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 April 30, 2008
($ in thousands)
(Actual based on OAKS reports run May 5, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2007**	**Percent Change**
Primary, Secondary, and Other Education	$5,827,005	$5,968,296	-$141,291	-2.4%	$5,776,826	0.9%
Higher Education	$2,116,426	$2,205,914	-$89,488	-4.1%	$2,016,766	4.9%
Total Education	$7,943,432	$8,174,211	-$230,779	-2.8%	$7,793,592	1.9%
Public Assistance and Medicaid	$9,095,536	$9,096,887	-$1,352	0.0%	$8,522,173	6.7%
Health and Human Services	$1,094,061	$1,142,152	-$48,091	-4.2%	$1,115,977	-2.0%
Total Welfare and Human Services	$10,189,597	$10,239,039	-$49,443	-0.5%	$9,638,151	5.7%
Justice and Public Protection	$1,801,022	$1,796,939	$4,082	0.2%	$1,753,327	2.7%
Environment and Natural Resources	$89,583	$91,686	-$2,103	-2.3%	$87,232	2.7%
Transportation	$20,812	$25,225	-$4,413	-17.5%	$20,027	3.9%
General Government	$323,273	$346,234	-$22,961	-6.6%	$325,879	-0.8%
Community and Economic Development	$115,938	$137,468	-$21,529	-15.7%	$127,356	-9.0%
Capital	$66	$1,413	-$1,347	-95.4%	$134	-50.9%
Total Government Operations	$2,350,693	$2,398,965	-$48,272	-2.0%	$2,313,956	1.6%
Tax Relief and Other	$1,015,954	$1,001,036	$14,919	1.5%	$988,649	2.8%
Debt Service	$586,297	$603,606	-$17,309	-2.9%	$512,711	14.4%
Total Other Expenditures	$1,602,251	$1,604,641	-$2,390	-0.1%	$1,501,359	6.7%
Total Program Expenditures	**$22,085,973**	**$22,416,857**	**-$330,884**	**-1.5%**	**$21,247,058**	**3.9%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$394,034	-100.0%
Other Transfers Out	$618,686	$466,800	$151,886	32.5%	$331,042	86.9%
Total Transfers Out	$618,686	$466,800	$151,886	32.5%	$725,076	-14.7%
TOTAL GRF USES	**$22,704,659**	**$22,883,657**	**-$178,998**	**-0.8%**	**$21,972,134**	**3.3%**

* 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 April and for FY 2008 through April, respectively. GRF uses consist primarily of program expenditures but also include transfers out. In April, GRF program expenditures totaled $2,301.4 million, $53.5 million (2.4%) more than the Office of Budget and Management's estimate for the month. Through the first ten months of FY 2008, GRF program expenditures totaled $22,086.0 million, $330.9 million (1.5%) below estimate but 3.9% above total GRF program spending in the comparable period a year earlier.

GRF program expenditures in FY 2008 through April were $330.9 million (1.5%) below estimate.

In April, spending in the Tax Relief and Other program category was over estimate by $61.7 million (26.1%), virtually all of which was reimbursements to units of local government for revenues forgone because of property tax relief programs. Spending was also in excess of estimate last month in Public Assistance and Medicaid, by $13.6 million (1.7%), in Higher Education, by $11.8 million (6.4%), and in Primary, Secondary, and Other Education, by $10.4 million (1.8%). Expenditures were under estimate in the Justice and Public Protection program category, by $26.0 million (14.2%) and in Health and Human Services, by $11.8 million (8.1%). Other variances were smaller in amount.

Through the first ten months of FY 2008, spending for Primary, Secondary, and Other Education was less than the estimate by $141.3 million (2.4%) and outlays for Higher Education were below estimate by $89.5 million (4.1%). These two program categories account for more than two-thirds of the total year-to-date variance for all program categories. The underspending in Primary, Secondary, and Other Education is a result of fewer public school students in the system than projected earlier, as discussed in more detail in the March issue of this report. The Department of Education has also cut spending in other areas in response to the executive-ordered budget reductions. In Higher Education, delays in starting new grant programs, described in this report's April issue, account for much of the underspending.

In other program categories, year-to-date spending was below estimate by $48.1 million (4.2%) in the Health and Human Services program category, by $23.0 million (6.6%) in General Government, and by $21.5 million (15.7%) in Community and Economic Development. The shortfall in the Health and Human Services category was largest in the Department of Mental Health, with expenditures $20.2 million less than estimate. This underspending is due to slower than expected disbursement of subsidies for community mental health boards. The boards are given flexibility as to when they may choose to drawn down these subsidies. Spending below estimate in the General Government category was spread across a number of agencies. Year-to-date expenditures for Tax Relief and Other exceeded estimate by $14.9 million (1.5%), as the above-estimate reimbursements to local governments in April offset generally below-estimate disbursements in the preceding five months. As mentioned in a prior report, the executive branch plans to reduce FY 2008 GRF spending by approximately $202 million.

Development

The Department of Development's FY 2008 GRF disbursements, not including those for debt service, through April 2008 were $61.0 million, $20.4 million (25.1%) below estimate. This shortfall is largely attributable to timing issues related to several of the financial assistance programs offered by the Department, which disburse their awards on a reimbursement basis. Programs that operate in this way include the Third Frontier Action Fund, with spending $6.7 million below estimate, the Thomas Edison Program, $4.5 million below estimate, the Governor's Office of Appalachia matching funds program, $4.5 million below estimate, and the Rapid Outreach Grant Program, $2.7 million below estimate. These programs typically do not disburse awards until recipients have performed certain qualifying work or fulfilled qualifying requirements and provided the Department with documentation that these requirements have been met. Thus, it can be difficult to predict accurately when expenditures will actually be made and variances, therefore, often occur.

GRF year-to-date Medicaid spending was 0.5% over estimate.

Medicaid

GRF expenditures in the Medicaid category in April were $739.2 million, $22.0 million (3.1%) over estimate. For the fiscal year to date, outlays of $8,247.3 million in this category were $40.8 million (0.5%) over estimate. Medicaid spending accounts for about 90% of outlays in the Public Assistance and Medicaid program category.

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

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.

** Brian Hoffmeister, Budget Analyst, 614-644-0089, contributed to the Department of Development section of this Expenditures report, and 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	April Actual	April Estimate	April Variance	April Percent Variance	Year to Date Actual thru April	Year to Date Estimate thru April	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$205,157	$223,405	-$18,248	-8.2%	$2,139,098	$2,232,261	-$93,163	-4.2%
ICFs/MR	$45,386	$44,899	$487	1.1%	$441,643	$441,876	-$233	-0.1%
Inpatient Hospitals	$74,446	$58,233	$16,213	27.8%	$816,968	$644,441	$172,527	26.8%
Outpatient Hospitals	$26,263	$22,047	$4,216	19.1%	$298,650	$246,793	$51,857	21.0%
Physicians	$21,603	$23,474	-$1,871	-8.0%	$260,586	$249,606	$10,980	4.4%
Prescription Drugs	$37,232	$35,027	$2,205	6.3%	$396,355	$374,608	$21,747	5.8%
ODJFS Waivers	$23,030	$24,567	-$1,537	-6.3%	$258,322	$271,406	-$13,084	-4.8%
MCP - CFC	$239,740	$238,932	$808	0.3%	$2,315,220	$2,328,547	-$13,327	-0.6%
MCP - ABD	$119,073	$135,784	-$16,711	-12.3%	$1,143,113	$1,308,184	-$165,071	-12.6%
Medicare Buy-In	$24,752	$28,479	-$3,727	-13.1%	$248,231	$265,817	-$17,586	-6.6%
All Other	$66,328	$66,687	-$359	-0.5%	$755,354	$711,407	$43,947	6.2%
DA Medical	$1,009	$1,204	-$195	-16.2%	$13,426	$13,879	-$453	-3.3%
Total Payments	$884,019	$902,738	-$18,719	-2.1%	$9,086,966	$9,088,825	-$1,859	0.0%
Offsets								
Drug Rebates	-$11,313	-$11,333	$20	-0.2%	-$66,870	-$70,333	$3,463	-4.9%
Revenue and Collections	-$6,212	-$6,496	$284	-4.4%	-$38,975	-$38,975	$0	0.0%
ICF/MR Franchise Fees	-$910	-$910	$0	0.0%	-$5,461	-$5,461	$0	0.0%
NF Franchise Fees	-$21,875	-$21,875	$0	0.0%	-$131,250	-$131,250	$0	0.0%
IMD/DSH Payments	-$9,573	-$12,500	$2,927	-23.4%	-$47,073	-$50,000	$2,927	-5.9%
MCP Assessments	-$15,000	-$28,339	$13,339	-47.1%	-$120,679	-$134,018	$13,339	-10.0%
Health Care Federal	-$100,022	-$125,962	$25,940	-20.6%	-$630,905	-$662,095	$31,190	-4.7%
Total Offsets	-$164,905	-$207,415	$42,510	-20.5%	-$1,041,213	-$1,092,132	$50,919	-4.7%
Total 600-525 (net of offsets)	$719,114	$695,323	$23,791	3.4%	$8,045,753	$7,996,693	$49,060	0.6%
Medicare Part D (600-526)	$20,094	$21,856	-$1,762	-8.1%	$201,520	$209,745	-$8,225	-3.9%
Total GRF	**$739,208**	**$717,179**	$22,029	**3.1%**	**$8,247,273**	**$8,206,438**	$40,835	**0.5%**
Total All Funds	**$904,113**	**$924,594**	-$20,481	**-2.2%**	**$9,288,486**	**$9,298,570**	-$10,084	**-0.1%**

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

Ohio Maintains Favorable Credit Ratings on Its General Obligations

—Ruhaiza Ridzwan, Economist, 614-387-0476

Ohio's outstanding general obligation bonds, totaling $6.3 billion, continue to receive the second highest credit rating from the three major rating agencies. As of April 2008, Ohio received ratings of AA+ with stable outlook from both Fitch and Standard & Poor's, and Aa1 with negative outlook from Moody's. Bond ratings range from a high of AAA (high credit quality) to a low of C (low credit quality or "junk" bonds), with an additional rating of D for bonds in default for nonpayment. Ratings reflect a rating agency's evaluation of an issuer's ability to make principal and interest payments. The rating agencies examine a state's finances and debt structure on a regular basis to determine the state's financial strengths and its credibility in managing debt. Higher bond ratings indicate greater strength and ability to pay, which allow a state to issue bonds at lower interest rates, resulting in lower debt service payments. For example, as of April 18, 2008, the average yield rates for state and local general obligation bonds with a 20-year maturity period were 4.65% for AAA, 4.85% for AA, and 5.05% for A.[1] At these rates, the debt service payments for $100 million of AA-rated general obligation bonds would be $2.7 million lower over the life of the bonds than the payments for the same amount of A-rated bonds.

H.B. 429 Reverts Intrastate Sales Tax Sourcing to Rate at Vendor's Location

— Jean Botomogno, Senior Economist, 614-644-7758

On April 18, 2008, Governor Strickland signed H.B. 429 into law. This act repeals destination-based sourcing for *intra*state sales, returning Ohio to taxing sales within the state based on the tax rate at the sale's origin – generally where the vendor is located or the order is received. Ohio's sales and use tax sourcing rules had been amended over the preceding several years in efforts to conform to the multistate Streamlined Sales and Use Tax Agreement (SSUTA), which originally required destination-based sourcing. Switching to destination-based sourcing caused losses for some counties and gains for others, although the statewide net fiscal effect on all local governments was small.

The SSUTA was amended in December 2007 to permit states with local taxing jurisdictions, such as Ohio, to apply origin-based sourcing to transactions for which both vendor and purchaser were within the same state. H.B. 429 implements this reversion to the manner in which the sales and use tax had historically been determined in Ohio. Vendors must use origin-based sourcing for *intra*state sales by 2010, but may change sooner. The state will provide compensation for costs incurred by vendors that previously switched to destination-based sourcing and are now being required to switch back.

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[1] Source: www.Fmsbonds.com.

State Allocates $10.5 million for Handicapped-Accessible Housing Related to the Martin Settlement

— Stephanie Suer, Budget Analyst, 614-387-6118

The Ohio Department of Mental Retardation and Developmental Disabilities has allocated $10.5 million in capital funds for the purchase, construction, or renovation of handicapped-accessible housing related to the Martin Settlement. The settlement, which was accepted by the court in March 2007, ends a class-action lawsuit that sought to allow individuals with mental retardation or developmental disabilities to receive community-based rather than institutional-based services. It requires the state, within two years, to make community-based services available for 1,500 individuals who have mental retardation or developmental disabilities. As part of providing these services, the settlement requires the state to allocate $4.2 million in capital funds. However, based on its determination of the housing needs for the 1,500 individuals, the Department allocated $6.3 million more in capital funds than is required by the settlement. As of March 4, 2008, $6.0 million in capital funds had been expended or committed, including $5.1 million for 43 homes and $0.9 million for residential handicapped accessibility projects.

Enrollment in the Assisted Living Medicaid Program Increases

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

On April 21, 2008, enrollment in the Assisted Living Medicaid Program totaled 531 individuals, more than double the 220 enrolled at the end of FY 2007. Two H.B. 119 provisions help spur this enrollment increase. The first provision requires that individuals who are admitted to a nursing facility and who are eligible for Medicaid be provided with information about applying for the program. The second provision that just received federal approval in March 2008 allows certain individuals who currently live in assisted living facilities and who are eligible for Medicaid to qualify for the program. Assisted living combines a home-like setting with personal support services to provide more intensive care than is available through home care services. Assisted living also provides older adults with an alternative to nursing facility care that is both less expensive and less restrictive.

The Assisted Living Medicaid Program was launched on July 1, 2006. The program enrollment is capped at 1,800 slots. H.B. 119 provided $27.6 million in FY 2008 for these 1,800 slots. Of this $27.6 million, the GRF share is $12.6 million and the federal share is $15.0 million. As part of the executive-ordered budget reductions in January 2008, GRF appropriations for the program were reduced by $6.6 million for FY 2008. However, since enrollment remains well below the number of funded slots, the reductions should not affect services in FY 2008. The executive-ordered budget reductions also reduced GRF funding for the program by $5.2 million for FY 2009. This level of funding will provide 1,250 slots in FY 2009.

Auditor of State Finds Three Community Schools Unauditable for FY 2007

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

As of April 29, 2008, the Auditor of State had found three community schools unauditable for FY 2007: the Phoenix Village Academy located in Summit County and sponsored by the Ashe Culture Center, Inc., the Montessori Renaissance Experience located in Franklin County and sponsored by Kids Count of Dayton, Inc., and the former Performing Arts School of Metropolitan Toledo located in Lucas County and sponsored by the Ohio Council of Community Schools. H.B. 119 prohibits the sponsor of a community school that has been declared unauditable from entering into contracts with any additional community schools until the Auditor completes a financial audit of the school. In addition, the sponsor has 45 days after receiving notification of the unauditable status of the school to submit a corrective action plan to the Auditor. If a community school fails to make reasonable efforts and continuing progress to bring its records into an auditable condition within 90 days of being declared unauditable, H.B. 119 requires that the Department of Education cease all payments to the school until a financial audit has been completed.

The Phoenix Village Academy was declared unauditable on April 29, 2008 and has until June 13, 2008, to submit a corrective action plan to the Auditor's office. The Montessori Renaissance Experience was declared unauditable on March 6, 2008. A corrective action plan for the school was submitted to the Auditor's office on April 22, 2008. The Performing Arts School of Metropolitan Toledo was declared unauditable on December 28, 2007. This school was also declared unauditable for FY 2006, before H.B. 119 went into effect. The school closed at the end of FY 2007.

During FY 2008, the Auditor has established a series of regional training workshops for community school sponsors and fiscal officers regarding financial statements, accounting, and state reporting requirements. Approximately 270 representatives of community schools throughout the state have participated in the voluntary workshops.

Department of Education Completes Phase I of the Education Fiscal Data Project

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

As part of its most recent quarterly project update to the Governor, the Department of Education included its report on the first phase of the Education Fiscal Data Project. The project stems from an earmark in H.B. 119 that provides up to $250,000 in each fiscal year of the current biennium for developing and implementing financial analytic tools for promoting the effective and efficient use of resources by Ohio's school districts. Phase I of the project focuses primarily on describing the current state of school district financial data reporting, collection, and utilization. The report also includes proposed financial effectiveness and efficiency measures that could be used to help districts evaluate and improve their provision of educational services.

The report, entitled "Improving the Collection and Use of Financial Data by School Districts: Where Are We Today?" highlights analytic measures that can be gleaned from current financial data such as a resource effectiveness measure based on districts' value added gains and per pupil expenditures. In addition, the report identifies the District Resource Allocation Modeler (DREAM) as a tool that district and building managements may be able to use to increase both effectiveness and efficiency. DREAM, currently being piloted in six school districts, is a web-based tool designed to help managers understand the interactions between money, time, and people by modeling different allocations of these resources. The six pilot districts are: Centerville, Chillicothe, Delaware, Toledo, Warrensville Heights, and Mentor Exempted Village.

Phase II of the project will explore the potential for improving building-level data collection and use as well as the development of efficiency and effectiveness measures, diagnostic tools and reports, and other mechanisms to support use of school districts' resources for improving student academic achievement. The report on the second phase of the project is to be completed by June 30, 2008.

School Districts Use Interest from Facilities Projects for Other Purposes

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

As of April 24, 2008, five school districts had opted to use interest earned on the local shares of their state-assisted school facilities project construction funds[2] to pay part of the cost of locally funded initiatives or to transfer the interest to their permanent improvement funds. Prior to H.B. 119, districts were required to leave the interest in their construction funds until after the project's completion, at which time it was transferred to the district's maintenance fund to help maintain facilities acquired during the project.

H.B. 119 permits a school district, while work is still underway on a project, to use all or part of this interest for locally funded initiatives.[3] H.B. 119 also adds two options for use of the interest after a project is completed. In addition to transferring the interest to its maintenance fund, a school district may leave it in the construction fund for future facilities projects or transfer it to its permanent improvement fund. The following table lists the districts that have taken advantage, so far, of the options permitted by H.B. 119.

School Districts Opting to Transfer Local Interest			
County	**School District**	**Purpose of Transfer**	**Amount of Transfer**
Columbiana	East Liverpool City	Locally Funded Initiative	$312,603
Defiance	Defiance City	Locally Funded Initiative	$60,915
		Permanent Improvement Fund	$590,000
Shelby	Fairlawn	Locally Funded Initiative	$600,000
Shelby	Fort Laramie Local	Permanent Improvement Fund	$221,550
Williams	Stryker Local	Locally Funded Initiative	$154,560

[2] Both the state and local shares of a district's project cost are deposited into a project construction fund from which obligations related to the project are paid.

[3] These initiatives exceed state project specifications, so they do not receive state funding and are pursued as a local option. If a district chooses this option but the cost of its state-assisted project later exceeds the amount in the construction fund, the district must repay all of the interest before additional state funds will be released.

Public and Private Initiatives Launched to Reduce Foreclosures

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

In mid-March, the Department of Commerce launched a campaign designed to inform homeowners of their options when they face difficulty paying their mortgages. This was one of the recommendations outlined in the September 2007 report of the Ohio Foreclosure Prevention Task Force. The "Save the Dream" initiative, involving several state agencies and coordinated by the Division of Financial Institutions of the Department of Commerce, includes a web site, telephone hotline, and $135,000 statewide television and radio advertising campaign. The advertisements began airing in March and will run through August. They are funded by real estate broker and salesperson license application and renewal fees collected by the Department of Commerce.

In April, nine of Ohio's major mortgage loan servicers signed pledges with the Governor to address the rising number of foreclosures in the state. Each company agreed to modify certain mortgage loans, identify and contact at-risk or defaulting borrowers, create incentives for company staff and foreclosure counsel to modify loans rather than foreclose, and report progress on these goals to the Department of Commerce. The agreements are nonbinding and expire on June 30, 2009.

Lima Correctional Institution Study Committee Submits Findings

— Joseph Rogers, Senior Budget Analyst, 614-644-9099

On April 1, 2008, as required by H.B. 119, the Lima Correctional Institution Study Committee submitted its findings to the Governor, the President of the Senate, and the Speaker of the House of Representatives. H.B. 119 created the Committee to determine the best use for the Lima Correctional Institution, which was closed in 2003, and earmarked $50,000 in FY 2008 to fund its study and report.

The Committee determined that renovating or reopening Lima Correctional would be economically infeasible. The required one-time renovation and activation costs were estimated to be around $184 million, in addition to estimated annual operating expenses of approximately $38.5 million. The Committee recommended that Lima Correctional be demolished and the 80-acre site be sold for redevelopment.

Civil Rights Commission Spends Information Technology Earmark

— Jeffrey R. Kasler, Budget Analyst, 614-644-5231

The Civil Rights Commission has expended a $304,512 GRF earmark[4] for FY 2008 for computer and information technology equipment. The disposition of the earmarked funds is detailed in the following table. These equipment and related software purchases have allowed the Commission to remain compliant with the on-line case filing and reporting requirements of the federal Department of Housing and Urban Development (HUD) and the U.S. Equal Employment Opportunity Commission

[4] H.B. 119 originally earmarked $318,000 for this purpose. The executive-ordered budget reductions decreased this earmark to $304,512.

(EEOC). Meeting these requirements is necessary for the Commission to receive reimbursement payments for handling certain discrimination complaints that would otherwise be processed by these federal agencies. As a portion of the Commission's total annual operating budget, these federal reimbursement payments increased from 14.2% in FY 2001 to 32.4% in FY 2005, and are projected to increase to 39.1% by FY 2009.

Disposition of Civil Rights Commission's Earmarked FY 2008 Moneys	
Type of Expense	**Dollar Amount**
Desktop & Notebook Hardware	$229,772
Software	$56,627
Network Equipment	$12,622
Miscellaneous related information technology equipment	$5,491
Total	**$304,512**

Tracking the Economy

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

Overview

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

Despite widespread expectations to the contrary, the economy expanded in the first quarter – real gross domestic product (GDP) grew by 0.6% for a second straight quarter. The growth recorded in the first quarter was more fragile than that recorded in the final quarter of 2007, though, as the growth depended on an increase in business inventories. Without the increase in inventories economic activity would have decreased. Support for growth from inventory accumulation is not sustainable indefinitely.

Inflationary pressures that appeared to be building two months ago have eased somewhat. The consumer price index for all urban consumers (CPI-U) increased by an annualized 3.1% during the three months ending in March, down from a corresponding figure of 6.8% for the three months ending in January. This should give the Federal Reserve more room to maneuver in its monetary policy decisions. The Fed's Open Market Committee lowered the target federal funds rate from 2.25% to 2% at its meeting on April 30. The accompanying statement by the Committee emphasized both the weakness of economic activity recently and the risks of higher inflation. Two members of the Committee voted against the cut, preferring no change to the rate. Given this dissent and the fact that the target is now negative in real (i.e., inflation-adjusted) terms, some observers expect the Fed to leave its target unchanged at the next meeting, scheduled for June 24.

Monetary policy is not the only tool being employed by policymakers to support the economy. The Internal Revenue Service has begun implementing the federal economic stimulus package enacted by Congress in February. The initial payments to taxpayers who selected direct deposit of their payments were scheduled for distribution by May 2. Payments are scheduled to continue through July 11. The payment amounts are up to $1,200 per household, plus $300 for each qualifying child.

Financial markets remain under strain. Global Insight, an economic forecasting firm, reports that LIBOR[1] borrowing spreads increased during April, reflecting an increasing lack of trust that borrowers – even the large financial institutions that borrow in this market – will repay loans. However, the last month saw no emergencies comparable to the events leading up to the takeover of Bear Stearns. In response to the ongoing strains, the Fed expanded its new term auction facility program. Under the program the Fed auctions short-term loans to financial institutions on a regular basis (this program is in addition to its traditional discount lending function). The Fed increased the amounts it will auction from $50 billion to $75 billion starting with its May 5 auction.[2] These efforts should provide increased liquidity to financial markets.

[1] LIBOR stands for London Interbank Offered Rate and is based on the interest rates at which banks lend unsecured funds to each other in the London wholesale money market.

[2] It also expanded the types of collateral it would accept under the related term securities lending facility.

Ohio's labor market remains weak, with a decrease in payroll employment of 2,600 in March and an increase in the unemployment rate to 5.7%. The Federal Reserve's "Beige Book," released April 16, describes broader economic conditions in the Cleveland Federal Reserve District[3] as generally holding steady (since mid-February). It acknowledges continued weakness in district housing markets and in retail sales but also notes increases in steel shipments and automobile production. There may be some remaining debate nationally about the existence of a credit crunch, but the "Beige Book" reports that, though lending standards may have been tightened recently, credit is available for qualified borrowers in the Cleveland District.

The National Economy

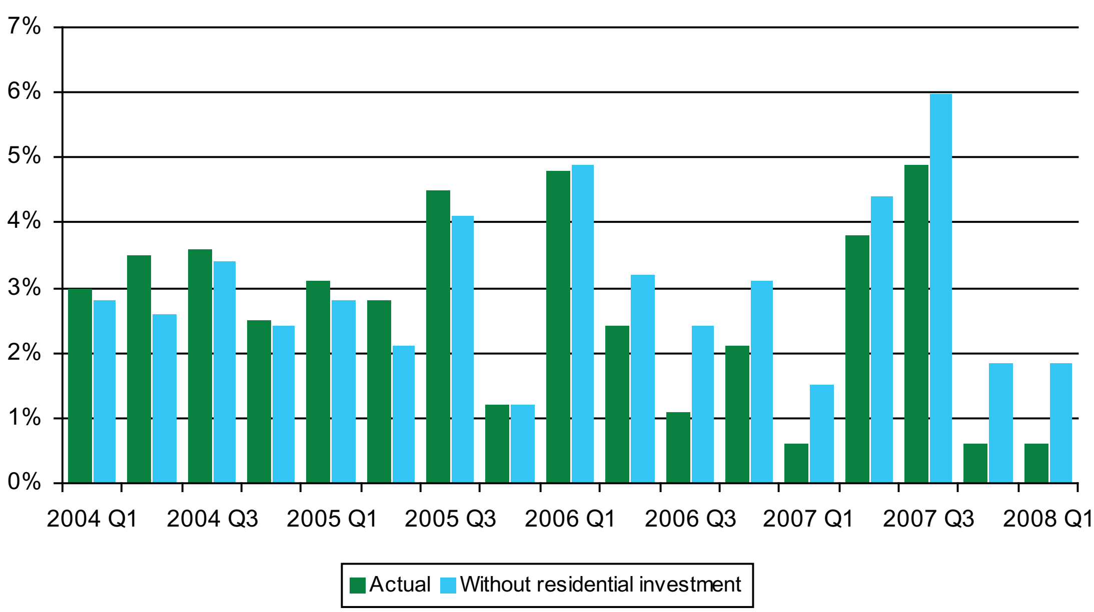
Production and Income

The U.S. Bureau of Economic Analysis (BEA) reported that U.S. real GDP grew by an annualized 0.6% in the first quarter, the same rate of growth experienced in the fourth quarter. Many observers had predicted the economy would contract during the quarter, so the first-quarter growth rate was widely considered to be good news. This slight growth rate was achieved in part due to the buildup of business inventories, however – growth in inventories contributed 0.81 percentage point to growth. The implication of this is that although the economy did not contract, final sales did. More to the point, changes in inventory levels are unsustainable for a long time – the buildup will be reversed at some point during coming months as businesses decide to reduce their inventories.

The slowdown was broadly based. In spite of the growth in inventories, gross private domestic investment, easily the main culprit for slow growth in the fourth

Growth Rate in Real GDP

Actual vs Without Residential Investment



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

quarter, subtracted 0.70 percentage point from growth for the quarter, thereby remaining the primary drag on growth. However, growth was weak, although positive, in all other categories: in consumer spending (which contributed 0.68 percentage point to growth), net exports (0.22 percentage point), and government spending (0.39 percentage point). The weakness in investment was attributable to both residential fixed investment, which subtracted 1.23 percentage points from growth, and to nonresidential fixed investment, which subtracted 0.28 percentage point; the increase in business inventories was not large enough to offset the contractionary effects of these subcomponents. The chart above 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

The national labor market changed little in April. U.S. nonfarm payroll employment fell by 20,000, after seasonal adjustment. April was the fourth straight month that employment decreased. Employment fell by a revised 240,000, or 0.2%, during the first three months of the year, or an average of 80,000 per month, so the rate of decrease was smaller in April. Employment in goods-producing industries decreased by 110,000. Among those industries, employment in construction fell by 61,000 and manufacturing employment fell by 46,000. The latter decrease was almost entirely due to durable goods manufacturing, particularly motor vehicle and parts manufacturing (where employment fell by 17,000) and fabricated metal products (11,000). Employment in service-providing industries increased by 90,000, led by health care employment, which increased by 37,000.

The unemployment rate fell from 5.1% to 5.0% in April. The number of U.S. workers unemployed decreased from March to 7.6 million, an increase of 0.8 million since the preceding April. In addition there were 412,000 discouraged workers[4] in April, an increase of about 13,000 for the year.

Retail Sales

U.S. retail and food services sales increased by 0.2% in March,[5] to a level 2.0% higher than March 2007. For the first quarter as a whole, sales were 2.9% greater than during the first quarter of 2007. Growth in quarterly sales was led by gasoline stations' sales, at 21.4%, followed by nonstore retailers (6.7%) and grocery stores (5.0%). The growth in sales of both gasoline stations and grocery stores is primarily due to higher prices. Some retail sectors did experience sales declines, including furniture and home furnishings stores (6.1%), building material and garden equipment and supplies dealers (4.6%), and department stores (4.2%). Motor vehicle and parts dealers also experienced a decline in sales (2.4%).

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[4] "Discouraged workers" is the term used to describe workers who are counted as out of the labor force, and therefore not counted as unemployed, because they did not look for a job during the four weeks preceding the survey because they believed that jobs were generally unavailable.

[5] 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 fell by 11.9% to below one million units in March.[6] They fell by 36.5% since March 2007. The numbers were worse for the Midwest, as housing starts fell by 21.4% from February to March, and by 46.5% since the preceding March.

Data on building permits gave no evidence of a recovery in the near term. The number of building permits issued nationally fell 5.8% from February to March, thereby remaining below the one million-unit level for a second straight month. The decrease for the year was 40.9%. For the Midwest the corresponding percentage decreases were 10.6% and 48.1%, respectively.

Manufacturing

Shipments of manufactured goods increased by 1.1% to $428.7 billion in March, after seasonal adjustment. This was the second increase in the last three months. Shipments of manufactured durable goods decreased 0.4% in March, to $210.1 billion. Sectors that contributed to the (overall) increase included primary metals, shipments of which increased 1.6%, fabricated metal products (1.1%), and electrical equipment, appliances, and components (0.7%). Sectors that experienced decreased shipments included transportation equipment (1.7%), computers and electronic products (1.0%), and machinery (0.5%).

New orders for manufactured goods increased by 1.4% in March, and orders for durable goods increased 0.1%. Durable goods orders increased for a number of industries but were constrained due to declines in orders for electrical equipment, appliances, and components (by 6.2%) and for transportation equipment (3.2%). New orders increased most strongly for machinery (6.4%) and fabricated metal products (3.2%).

Inflation and Prices

Inflation accelerated somewhat in March, but the three-month trend is less alarming. The CPI-U increased by 0.3% for the month, after seasonal adjustment and after having not changed from January to February. Core inflation, as measured by the CPI-U excluding food and energy, was 0.2% for the month following a similar lack of change in February. The annualized inflation rate over the three months ending in March was 3.1% – somewhat high, but equal to the corresponding figure for February and down from that for January (which was 6.8%). Moreover, core inflation over the latest three months was 2.0%, which is within what is generally considered an acceptable range and down from 2.3% in February. Although CPI-U was 4.0% higher in March than it had been the year before, the three-month trend provides some reassurance.

Similarly, price increases measured by the producer price index for finished goods increased by 1.1% in March, after seasonal adjustment, after having increased by 0.3% in February. As with CPI-U, energy prices were a primary reason for the March increase – excluding food and energy, the index rose 0.2% for the month. The index was 6.9% higher in March than it was the preceding March. Taking all the data together, there

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

has been some improvement in the inflation picture over the last two months, but there remains ample reason for the Fed to monitor developments carefully.

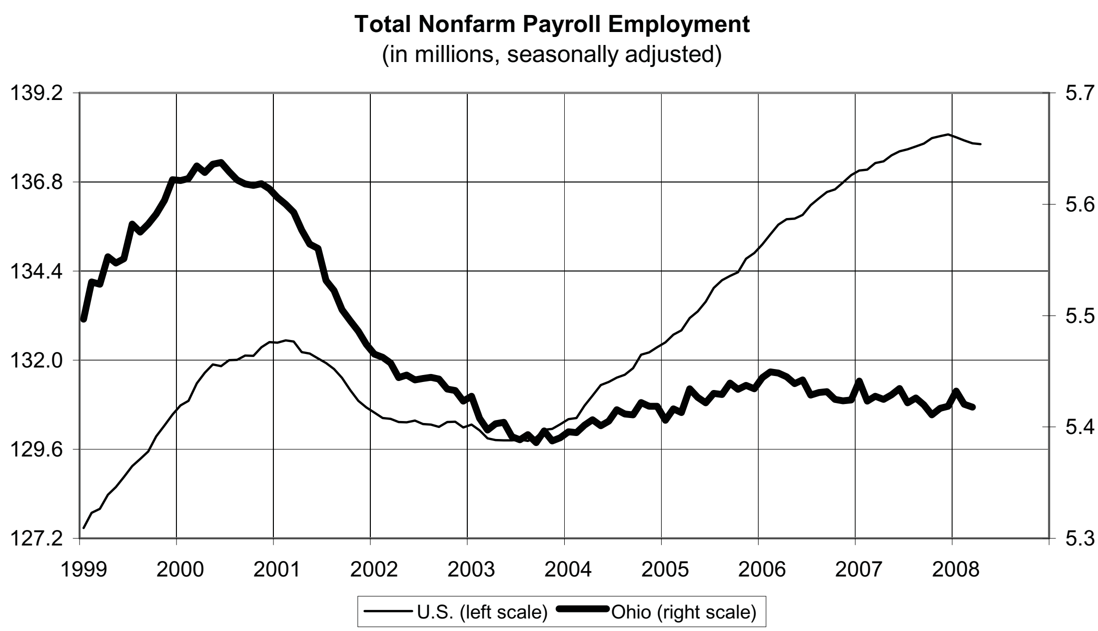
Increases in some energy prices have continued into April and May. The U.S. Energy Information Administration reports that the average price for all grades of (conventional formulas of) gasoline increased from $3.31 per gallon nationally at the end of March to $3.62 on May 5. Diesel fuel was selling for nearly $4.15 per gallon as of May 5. The price of gasoline in Ohio was a bit lower than the national average at $3.24 in late March but then increased to equal the national average of $3.62 per gallon on May 5.

The Ohio Economy

Ohio unemployment rate increased to 5.7% in March.

Ohio's nonfarm payroll employment decreased by 2,600, or less than 0.1%, in March, after seasonal adjustment. The decrease reduced Ohio's employment to slightly under 5.42 million. Employment in goods-producing industries fell by 8,700, and employment in services increased by 6,100. The decline in goods-producing employment was primarily due to manufacturing employment, which fell by 8,200 for the month. Ohio's unemployment rate jumped from 5.3% in February to 5.7% in March, and the number of unemployed Ohio workers increased to 344,000.

During the year ending in March, Ohio payroll employment fell by 9,600. This was the net result of a decrease of 22,800 jobs in goods-producing industries and an increase of 13,200 jobs in services. Manufacturing lost 20,600 jobs over the year, and construction lost 2,700. Employment increased in educational and health services (by 14,800), professional and business services (3,900), and trade, transportation, and utilities (2,200). The chart below shows Ohio's payroll employment as compared with national figures since 1999.



The Fed's "Beige Book" description of economic conditions in the Cleveland District was generally rather neutral. Fed contacts in the manufacturing sector generally reported no significant change in output since February; though some contacts did report decreases in production, the decreases were attributed to the weakness in residential construction or to seasonal factors. Contacts reported increases in steel shipments and in automobile production. Several contacts noted an increase in exports, which are receiving support from a weak dollar. Residential construction remains weak, but commercial contractors reported that business was steady to increasing. The most notable weaknesses other than housing markets were probably retail sales and commercial freight. Contacts in retail described sales as flat to declining. Contacts in the transportation sector indicated that "business was soft" and that companies were feeling squeezed between higher fuel prices and demands for lower prices for their services.

In the Cleveland District financial sector, contacts reported a slight improvement in consumer lending, but that demand for business loans was steady or declining. A majority of banking contacts reported that they were tightening lending standards but that credit was available to qualified borrowers. This agrees with Fed contacts in manufacturing and commercial construction, who reported that access to credit has not been a problem.

The Ohio Association of Realtors reports that 23,330 homes were sold in Ohio during the first three months of 2008, a decrease of 15.3% compared with the corresponding months of 2007. The average sales price of $132,005 was 7.8% 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.

The table below presents the most recent U.S. and Ohio forecasts available. As the table shows, the May 2008 forecast values for FY 2008 are similar to those originally forecast for the budget, with the most notable exceptions being higher forecast inflation nationally and lower forecast Ohio real GDP growth. The updated forecasts for FY 2009, though, are significantly less favorable. The forecasts for Ohio's real GDP growth and personal income growth during FY 2009 have been revised downward by 1.8 percentage points and 1.3 percentage points, respectively, and Ohio's unemployment rate is now expected to average nearly a full percentage point higher.

Revisions to Global Insight Economic Forecast (selected variables, state fiscal year basis)				
	FY 2008		FY 2009	
Variable Name (national)	**Forecast for Budget**	**May 2008 Forecast**	**Forecast for Budget**	**May 2008 Forecast**
U.S. real GDP growth	2.3%	2.3%	3.2%	0.8%
U.S. personal income growth	5.5%	5.5%	5.6%	3.2%
U.S. CPI inflation	1.8%	3.6%	1.9%	3.0%
U.S. unemployment rate	4.8%	4.9%	4.8%	5.6%
Variable Name (OH)	**Forecast for Budget**	**May 2008 Forecast**	**Forecast for Budget**	**May 2008 Forecast**
Ohio real GDP growth	1.9%	1.2%	2.5%	0.7%
Ohio personal income growth	4.2%	4.3%	4.6%	3.3%
Ohio wage disbursements growth	3.2%	3.0%	3.8%	3.3%
Ohio unemployment rate	5.5%	5.7%	5.4%	6.3%

The March edition of *Budget Footnotes*, drawing upon Global Insights' January forecast, pointed out that the updated FY 2008 numbers for Ohio were somewhat misleading due to the lumping together of the full year's experience into a single number. The January forecast predicted 4.5% growth in Ohio personal income in FY 2008, compared with the May 2007 forecast of 4.2% growth. As shown in the table that accompanied that article, the increased forecast growth for the year was entirely attributable to faster growth in the first quarter of FY 2008, and the updated growth rates were lower in each of the remaining three quarters of the year.

The BEA has recently revised its estimates of Ohio personal income. The following table shows a comparison of the original forecast of Ohio (annualized) personal income growth with the most recent forecast, which incorporates BEA's revisions for quarters in calendar year 2007, broken down by quarter.

Quarterly Comparison, Global Insight Forecasts of Ohio Personal Income		
Quarter	**Forecast for Budget**	**May 2008 Forecast**
FY 2008, Q1	3.9%	3.7%
FY 2008, Q2	4.0%	3.6%
FY 2008, Q3	4.3%	4.0%
FY 2008, Q4	4.2%	8.3%
FY 2009, Q1	4.5%	-0.7%
FY 2009, Q2	4.3%	2.7%
FY 2009, Q3	4.8%	4.1%
FY 2009, Q4	4.7%	3.5%

The updated figures change the story significantly. Whereas the previous figures led LSC economists to conclude that any positive effects of higher FY 2008 personal income on tax revenues should already have been received, the most recent forecast has personal income growing more slowly than originally forecast in the first three quarters, followed by a jump in personal income in the fourth quarter, fueled by the federal economic stimulus rebates. The (annualized) 8.3% jump in the fourth quarter allows personal income growth for the year to recover to slightly above its originally forecast growth rate.

Despite the change in the details, the story remains negative for Ohio's tax revenues. First, the average annualized growth rate for the final quarter of FY 2008 and the first quarter of FY 2009 drops from a bit over 4.3% to 3.8%. Second, to the extent that the jump in personal income in the fourth quarter of FY 2008 is attributable to the stimulus rebates, there is little tax benefit to Ohio. The rebates are not taxable income under Ohio's income tax, so any benefit for Ohio tax revenue would be limited to purchases by Ohio consumers of items taxable under the sales tax or some other state tax. To the extent that the rebates are spent on motor fuel, as many observers expect, there would be no revenue benefit at all. Unfortunately, then, the updated forecast gives no reason to expect a recovery in Ohio's tax revenue during the remainder of the biennium.