



August 10, 2007

MEMORANDUM TO: The Honorable Ted Strickland, Governor  
The Honorable Lee Fisher, Lt. Governor

FROM: J. Pari Sabety, Director

SUBJECT: Monthly Financial Report

## ECONOMIC SUMMARY

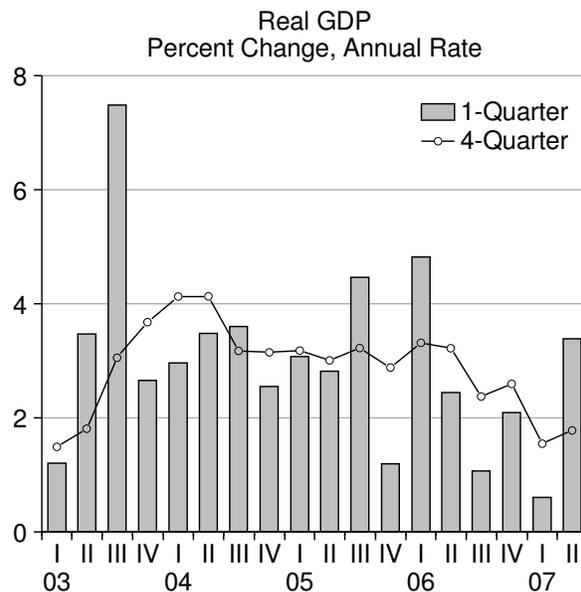
Growth rebounded as expected during the second quarter and appears likely to continue at a somewhat faster pace than in the first-half. U.S. employment increased by less than anticipated in July. Ohio employment jumped by 10,500 jobs in June to its highest level since last December. U.S. Industrial production posted a solid advance in June and purchasing managers reported further growth in July. Industrial production in the Midwest was unchanged in June for a second month. Nonresidential construction managed a small gain in June, while residential construction and housing more generally remained weak across the country and in the Midwest.

### Economic Growth

**Real GDP** growth rebounded to 3.4% in the second quarter from 0.6% in the first quarter, as expected. The composition of second quarter growth points toward continued expansion at a below-trend pace through year-end.

The primary contributors to second quarter growth were personal consumption expenditures for services, exports, nonresidential construction, and government spending. In addition, a greater share of spending was met by domestic production, as imports decreased. Residential construction subtracted from growth, but the decline was only about half as large as the first-quarter decline and was the best showing since the first quarter of 2006.

The acceleration in real GDP growth primarily reflected the drop in imports and the increases in government spending, the change in business inventories, and the acceleration in exports and investment in nonresidential structures. The smaller decline in investment in residential structures also contributed to the increase in real GDP growth from the first quarter to the second quarter. Subtracting

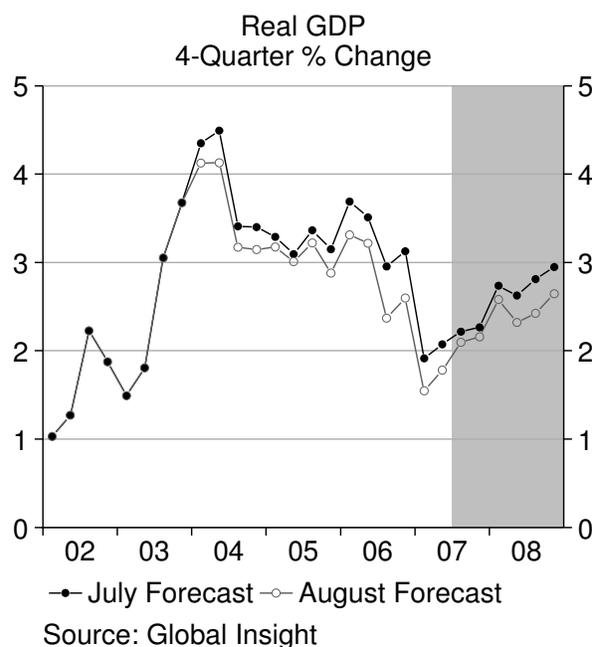


from the increase in growth was the major slowdown in consumer spending from 3.7% to 1.3%, which held growth in domestic final sales to 1.9%.

Revisions to real GDP data reduced growth during 2003-2006 by 0.3 percentage points to 3.2%. The annual average growth rate of disposable personal income was raised 0.3 percentage points to 2.8%. The year-to-year and fourth-quarter to fourth-quarter growth rates in real GDP were revised down for each of the three years from 2004 to 2006. Growth since the trough of the last recession in the third quarter of 2001 was revised down 0.2 percentage points to 2.7%.

After growing 2.0% in the first-half, real GDP is expected to accelerate modestly to 2.50% to 2.75% during the second half, according to the Federal Reserve's mid-year report to Congress. Growth in the second half is expected to come from some pick-up in consumer spending, modest gains in business investment (including some inventory building), and further gradual narrowing in the trade deficit. Residential construction is widely expected to continue declining in the second half.

Forecasters expect real GDP to grow at approximately a 2.75% annual pace in the second half, up somewhat from the growth rate of 2.0% in the first half. Consumer spending is projected to rise from 1.3% in the second quarter to 2.5% in the second half. Continued advances in corporate profits are expected to sustain growth in capital spending and investment in nonresidential structures. The still-high level of unsold homes on the market, past and projected weakness in housing prices, recent increases in interest rates, and tighter lending standards are likely to result in further declines in home building.



Global Insight projects real GDP to increase 2.2% from the fourth quarter of 2006 to the fourth quarter of 2007 and 2.6% from the fourth quarter of 2007 to the fourth quarter of 2008 – reductions of 0.4 percentage points and 0.6 percentage points, respectively, from the previous month's forecast. In part, the downward forecast adjustments reflect benchmark revisions to historical real GDP growth back to 2004. The *Blue Chip Economic Indicators* consensus is for growth of 2.3% in 2007 and 2.9% in 2008 on a fourth quarter to fourth quarter basis.

The Federal Reserve left its target for short-term interest rates unchanged at its early August meeting. The announcement acknowledged recent volatility in financial markets and the tightening in credit conditions for some households and businesses. While these developments pose some risks to the outlook, policy makers still expect the economy to expand at a moderate pace, supported by healthy labor markets and strong overseas economies. The Fed's main concern is that inflation might not continue to slow.

The **coincident economic index** (CEI) for Ohio, prepared by the Federal Reserve Bank of Philadelphia, declined by 0.1% in June for the second consecutive month. Year-over-year growth fell to 1.2%, down from a recent peak of 2.3% in September of last year. The June level of the index, which is designed to have the same trend growth rate as Ohio Gross Domestic Product, is about the same as in January.

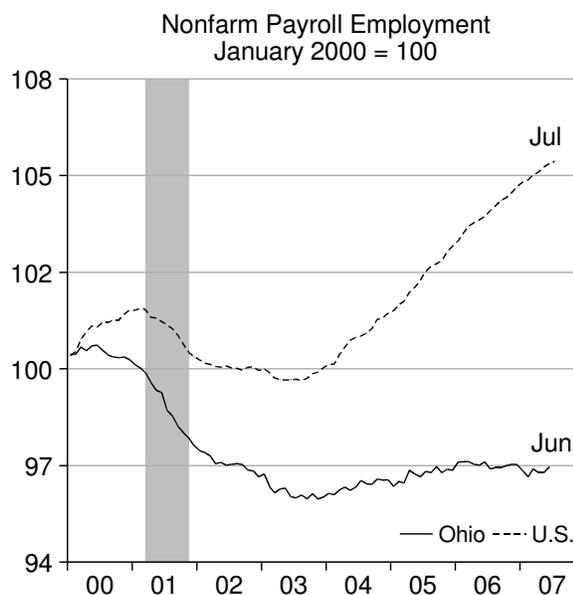
## **Employment**

**U.S. employment** increased by 92,000 jobs in July, compared with a consensus expectation of about 130,000. Monthly employment growth has averaged 136,000 per month this year, down from 189,000 for all of 2006. The July change was held down by declines in manufacturing (-2,000) and construction (-12,000). Government employment decreased by 28,000 jobs, 18,700 of which were in education, where irregular seasonal patterns can distort summer readings. Private sector jobs increased by 120,000, which is the average for the year but down from an average of 169,000 per month in 2006.

The **unemployment rate** edged up to the top end of the 4.4% to 4.6% range it has been in since last September. Initial jobless claims remain low and stable, but continuing claims remain slightly elevated. The number of unemployed workers who lost their jobs is up from a year ago and the number of unemployed workers who left their last job is down, as is the number of reentrants and new entrants to the labor force – all indications of some weakening in labor markets. In addition, the median length of unemployment increased to 8.9

weeks from 8.2 weeks in June and July 2006, and help-wanted advertising and the Manpower survey of hiring intentions are consistent with moderate hiring. A positive indication is that consumers reported a brighter assessment of job prospects in July, according to the Conference Board.

**Ohio employment** increased by 10,500 jobs in June to the highest level since December. Employment increased in professional and business services (+4,400), leisure and hospitality (+3,000), manufacturing (+2,500), educational and health services (+1,900), and other services (+1,800). For the year to date, Ohio employment is lower by 3,300 jobs. Since December, strength in construction (+2,300), educational and health services (+7,500), leisure and hospitality (+4,700), and other services (+1,400) has been offset by weakness in manufacturing (-6,200), trade, transportation and utilities (-2,000), information (-1,600), financial activities (-3,700), professional and business services (-1,400), and government (-3,900).



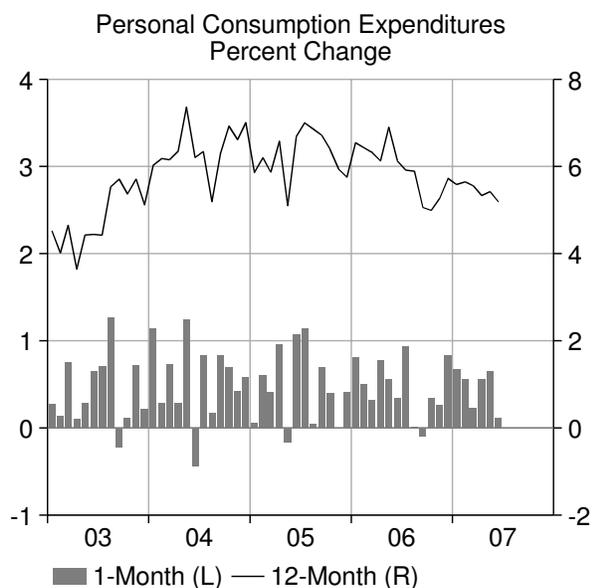
The **Ohio Metropolitan Statistical Areas (MSA)** that made the largest contributions to statewide employment growth during the past year are Akron (+3,700), Cincinnati-Middletown (+2,500), and Columbus (+1,900). The MSAs that subtracted the most from Ohio employment were Cleveland (-5,600), Dayton (-4,800), and Youngstown-Warren (-4,100).

West Virginia, Pennsylvania, and Kentucky led the way in employment growth among **contiguous states** during the twelve months ending in June with gains of 0.9%, 0.8%, and 0.6%, respectively. Employment in Michigan decreased 1.3% from a year ago, followed by a decrease of 0.2% in Ohio and an increase of 0.1% in Indiana. Nationally, employment increased 1.5% during the twelve months ending in June.

### **Consumer Income and Consumption**

**Personal income** and disposable personal income both rebounded 0.4% for the second straight month in June. The gains reflected increases in all major sources of income, especially wage and salary disbursements. **Personal consumption expenditures** increased only 0.1% in June, and were unchanged after adjustment for inflation.

Consumer spending for durable goods decreased 1.6% and was flat for non-durable goods. Spending on services increased 0.5%. Outlays were held back somewhat by the recent run-up in gasoline prices, which has left less income available for other purchases. Motor vehicle sales fell to a 15.5 million unit rate in June from 16.1 million units in May. Sales remained near 15.5 million in July.



**Midwest retail sales** fell 1.0% in June after rising 1.8% in May. Compared with a year ago, sales were up 3.4%. U.S. retail sales fell 0.9% in June and were up 3.8% year-over-year.

The **saving rate** was revised notably higher in the regular benchmark revision extending back to January 2004. The revised data show that saving out of disposable personal income has been positive, though minimal, with the exception of August 2005, when Hurricane Katrina hit, and July and August 2006, when auto sales incentives temporarily boosted motor vehicle purchases. The saving rate was 0.6% in June.

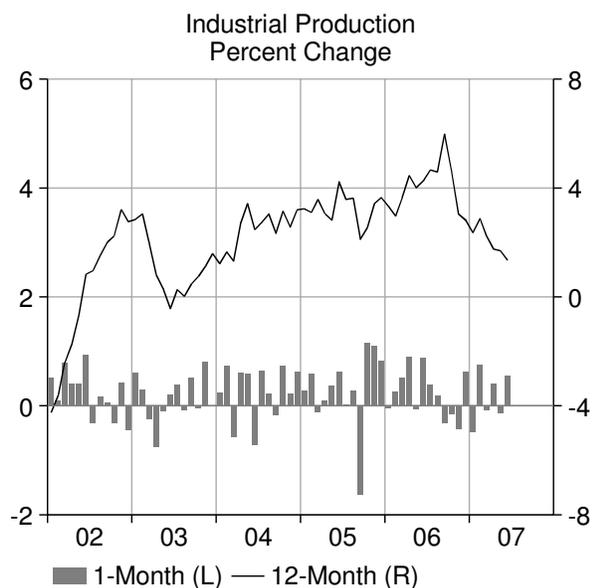
Compared with a year earlier, disposable personal income was 5.5% higher, up from 5.1% last November. Real personal consumption expenditures were 2.8% higher than a year earlier, down from year-over-year growth of 3.4% as recently as January.

The price of regular gasoline has fallen by approximately 10% from its peak in late May. The decline in Ohio has been about twice as large in percentage terms, reflecting the larger increase during the first half. The price declines might have helped bolster consumer confidence, which rebounded nicely in July. Consumers' assessments of the current situation were the best since August 2001, according to the Conference Board survey, and expectations were the best since late last fall, according to both the Conference Board and the University of Michigan surveys.

## Manufacturing

**Industrial production** increased 0.5% in June due to a 0.6% rise in manufacturing output and a 0.3% rise in utility output. Production of motor vehicles and parts was strong (+2.5%), but even excluding the motor vehicle sector, manufacturing production increased 0.4%. Most major sectors posted gains, with only non-electrical machinery displaying real weakness (-1.2%).

**Midwest manufacturing production** was unchanged in June for the second straight month. The change from April to May was originally reported as -0.2%. Output increased only in the resource sector. Production was unchanged in steel and fell in both auto and machinery. Firms in and around Ohio reported stable to increasing production during the six weeks ending in mid-July, according to the Cleveland Federal Reserve Bank. Strength was notable in the aerospace, power generation, machined products, food processing, and construction supply industries. Plans to maintain or increase production were common.



In contrast to strong production in June, **factory shipments** and **new orders** were weak. Shipments fell 0.6% after rising by a total of 1.8% in the prior two months. New orders increased 0.6%, but the gain was concentrated in aircraft. Outside the aircraft industry, new orders fell 0.4%. Despite the relatively disappointing results for June, the industrial sector has recovered significantly from downdraft over the winter.

Purchasing managers reported somewhat less widespread improvement in business conditions in manufacturing during July. The **Purchasing Managers Index** slipped a bit in July, but remained squarely above the 50 threshold that separates improving from deteriorating activity in manufacturing. Less widespread improvement in new orders, production and employment contributed to the softening in the index. The pace of supplier deliveries improved a bit, and reports on exports and imports were essentially unchanged.

## Construction

Total **construction put-in-place** decreased 0.3% in June for the first monthly decline since January, as the 0.7% decline in residential more than offset the 0.1% increase in nonresidential.

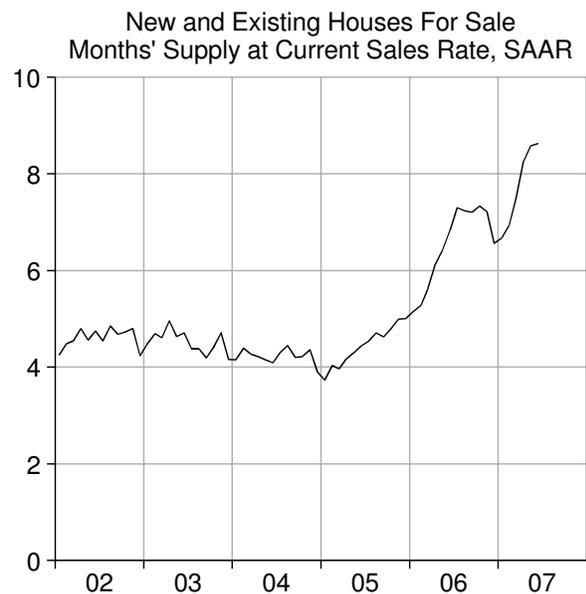
The rise in **nonresidential construction put-in-place** was the weakest performance since an outright decline last September, but construction levels in April and May were revised higher. Contractors in and around Ohio reported that business is steady to improving but has slowed on a year-over-year basis.

**Single-family construction** fell 1.4% for its sixteenth straight monthly decline. Construction of multi-family homes increased for the second consecutive month.

New home sales improved slightly in and around Ohio in early summer, according to the Cleveland Federal Reserve Bank. Builders in the area remain uncertain as to when conditions will turn around, with speculation that meaningful improvement might be 12 to 24 months away.

Housing starts increased in June, but single-family starts declined and sales of new and existing homes both declined. The supply of unsold homes – both new and existing – increased relative to the sales rate. An index of pending sales of existing homes improved in June, but declined on a three-month average basis.

The increase in mortgage rates, tightening in lending standards, and weakness in house prices may make for a lengthy recovery process. Several large mortgage lenders raised rates on 30-year fixed rate loans appreciably, reflecting the increased difficulty in recent days of securitizing and selling loans. **Home prices** remained under continued pressure through May, with prices in all major markets falling or slowing abruptly according to the Case-Shiller Home Price Indices.



## ***REVENUES AND DISBURSEMENTS***

### **FY 2008 Year-to-Date Highlights**

- Tax revenues started the fiscal year \$32.7 million (2.5%) above estimate. This variance was driven by higher than expected non-auto sales tax and personal income tax and receipts. (*See Table 1.*)
- GRF tax receipts increased by \$26.6 million (2.0%) compared to July 2006. Most of the positive variance was due to non-auto sales tax and personal income tax receipts. (*See Table 2.*)
- Total uses were \$2,258.0 million in July. This was \$486.7 million (17.7%) less than prior year disbursements. (*See Tables 3&4.*)

Please Note: The State of Ohio implemented the financial component of the Ohio Administrative Knowledge System (OAKS), the new integrated accounting system, at the beginning of FY 2008. As a result, the figures cited in the text and tables of this report may be revised as additional information from the OAKS system becomes available.

Tax receipts, which totaled \$1,357.5 million, began the fiscal year with a positive variance of \$32.7 million (2.5%). Total GRF sources were \$1,729.5 million. Most of the non-tax source estimates were not available for July; as a result, the total source variance of \$32.8 million was close to the tax source variance. Total sources were 1.9% above estimate. No estimates were available for July disbursements. As true at this point of every fiscal year, the Office of Budget and Management (OBM) is currently working with state agencies to finalize and estimate a monthly schedule for disbursements, transfers, and outstanding encumbrances for FY 2008. The FY 2008 estimated disbursements will be completed in August and included in the September Monthly Financial Report.

As noted, GRF tax receipts began the fiscal year over estimate by \$32.7 million (2.5%). This resulted from positive variances in the non-auto sales tax, personal income tax, and cigarette tax. These variances more than made up for negative variances in the auto sales tax and corporate franchise tax.

In July, GRF tax sources generated \$26.6 million (2.0%) more than last July. However, federal grants were \$48.1 million (12.8%) below FY 2007 levels. This resulted in July 2007 total GRF sources being \$1.5 million (0.1%) below July 2006 levels.

In the first month of the fiscal year, GRF disbursements totaled \$2,258.0 million for all spending categories. Medicaid and Education Foundation payments were the biggest components of July expenditures. The Disbursements section includes more information about the preparation of agency disbursement estimates.

The FY 2008 GRF disbursements that appear in the figures and tables of this report reflect the Am. Sub. H.B. 119 biennial budget framework. The following table shows the variance from the estimate for total GRF revenues and disbursements for the month of July 2007 and for FY 2008 year-to-date.

| <b>General Revenue Fund<br/>(\$ in millions)</b> | <b>July Variance</b> |      | <b>FY 2008 Variance</b> |      |
|--|----------------------|------|-------------------------|------|
|  |                      |      |                         |      |
| <b>Revenues</b>                                  |                      |      |                         |      |
| <b>Tax Receipts</b>                              | \$32.7               | 2.5% | \$32.7                  | 2.5% |
| <b>All Sources</b>                               | \$32.8               | 1.9% | \$32.8                  | 1.9% |
| <b>Total Uses (Including Transfers)</b>          | \$0.0                | 0.0% | \$0.0                   | 0.0% |

## ***REVENUES***

The non-auto sales tax, the personal income tax, and the cigarette tax started FY 2008 with positive variances. The overage from these three sources totaled \$48.7 million (4.1%). Negative variances in the auto sales tax and the corporate franchise tax counter balanced these positive variances and totaled \$17.6 million (19.0%). The July receipts from the non-auto sales tax and cigarette tax reverse the under estimate trend of last fiscal year. However, with only one month of data, it is still unknown if July marks a rebound in these sources. Overall, tax receipts were \$32.7 million (2.5%) over estimate in July. Federal grants receipts totaled \$327.2 million in July and GRF sources were \$1,729.5 million.

On a year-over-year basis, tax receipts grew by \$26.6 million (2.0%). The auto and non-auto sales tax, the personal income tax, and the cigarette tax have positive year-over-year variances. The corporate franchise tax had a negative year-over-year variance. In July total sources dropped compared to July 2007 by \$1.5 million (0.1%). Federal grants contributed to this drop with receipts \$48.1 million (12.8%) below last year's levels.

The table below summarizes the major revenue variances, in millions of dollars, for FY 2008.

| <b><u>Sources Above Estimate Year-to-Date</u></b> |               | <b><u>Sources Below Estimate in Year-to-Date</u></b> |                 |
|---|---------------|--|-----------------|
| Non-Auto Sales Tax                                | \$24.2        | Auto Sales Tax                                       | (\$ 3.2)        |
| Personal Income                                   | 17.4          | Corporate Franchise                                  | (14.4)          |
| Cigarette   | 7.1           | Other below estimate sources                         | <u>(0.2)</u>    |
| Other above estimate sources                      | <u>1.9</u>    |  |                 |
| <b>Total above</b>                                | <b>\$50.6</b> | <b>Total below</b>                                   | <b>(\$17.8)</b> |

## Non-Auto Sales and Use Tax

The non-auto sales tax was above estimate in July by \$24.2 million (4.1%). In addition, compared to last July, receipts grew by \$42.1 million (7.3%). July results reversed the trend in this tax source in FY 2007. There was no definitive explanation for the underperformance of the non-auto sales tax in FY 2007 nor is there an explanation for the rebound in July. Factors cited for the underperformance include a decline in Ohio employment, the housing downturn, tapped out mortgage equity, and high gas prices. Ohio employment did improve recently which could be the reason for the rebound in receipts. However, with data from only one month it is too early to determine if this reversal is temporary or if it will continue.

## Auto Sales Tax

Auto sales tax receipts totaled \$86.1 million in July and began the fiscal year below estimate by \$3.2 million (3.5%). Receipts, however, grew by \$1.0 million (1.2%) compared to last July.

## Personal Income Tax

In July, personal income tax receipts totaled \$607.5 million. They were over estimate by \$17.4 million (2.9%). Withholding revenues were over estimate by \$35.7 million and contributed to the majority of the monthly overage. Refunds paid in July were \$18.3 million higher than expected. Receipts in July were \$22.5 million (3.9%) above the receipts in July 2006.

| <b>July 2007 PERSONAL INCOME TAX RECEIPTS BY COMPONENTS (\$ in thousands)</b> |                        |                      |                      |
|---|------------------------|----------------------|----------------------|
|   | <b><u>ESTIMATE</u></b> | <b><u>ACTUAL</u></b> | <b><u>\$ VAR</u></b> |
| <b>Withholding</b>  | 615,800                | 651,460              | 35,660               |
| <b>Quarterly Est. Payments</b>  | 25,000                 | 18,723               | (6,277)              |
| <b>Trust Payments</b>   | 2,500                  | 3,606                | 1,106                |
| <b>Annual Returns</b>   | 11,200                 | 8,607                | (2,593)              |
| <b>Other</b>  | 7,000                  | 14,956               | 7,956                |
| <b>Less: Refunds</b>  | (16,000)               | (34,290)             | (18,290)             |
| <b>Local Distribution</b>   | (55,400)               | (55,562)             | (162)                |
| <b>Net to GRF</b>   | 590,100                | 607,500              | 17,400               |

## Corporate Franchise Tax

Corporate franchise tax receipts in the first half of the fiscal year usually result from filing extensions and are less predictable. As refunds paid in July were higher than the tax payments collected, receipts in July were negative \$11.4 million. They were \$14.4 million below estimate and \$43.1 million below July 2006 receipts.

### **Commercial Activity Tax**

In FY 2008, receipts from this tax source will be distributed to non-GRF funds to pay to school districts and local governments as the tangible personal property tax is phased out. Receipts in July totaled \$20.7 million, which were over estimate by \$1.7 million (8.9%).

### **Cigarette Tax**

In July, cigarette tax receipts totaled \$21.2 million. They were \$7.1 million (50.6%) above the estimate and \$7.5 million (54.3%) above July 2006 receipts.

Table 1\*  
GENERAL REVENUE FUND RECEIPTS  
ACTUAL FY 2008 VS ESTIMATE FY 2008  
(\$ in thousands)

| REVENUE SOURCE                 | Month          |                  |          |         | Year-to-Date    |                   |          |         |
|--------------------------------|----------------|------------------|----------|---------|-----------------|-------------------|----------|---------|
|                                | ACTUAL<br>JULY | ESTIMATE<br>JULY | \$ VAR   | % VAR   | ACTUAL<br>Y-T-D | ESTIMATE<br>Y-T-D | \$ VAR   | % VAR   |
| <b>TAX RECEIPTS</b>            |                |                  |          |         |                 |                   |          |         |
| Non-Auto Sales & Use           | 615,181        | 591,000          | 24,181   | 4.1%    | 615,181         | 591,000           | 24,181   | 4.1%    |
| Auto Sales & Use               | 86,136         | 89,300           | (3,164)  | -3.5%   | 86,136          | 89,300            | (3,164)  | -3.5%   |
| Subtotal Sales & Use           | 701,318        | 680,300          | 21,018   | 3.1%    | 701,318         | 680,300           | 21,018   | 3.1%    |
| Personal Income                | 607,500        | 590,100          | 17,400   | 2.9%    | 607,500         | 590,100           | 17,400   | 2.9%    |
| Corporate Franchise            | (11,409)       | 3,000            | (14,409) | -480.3% | (11,409)        | 3,000             | (14,409) | -480.3% |
| Commercial Activity Tax        | 0              | 0                | 0        | N/A     | 0               | 0                 | 0        | N/A     |
| Public Utility                 | 0              | 0                | 0        | N/A     | 0               | 0                 | 0        | N/A     |
| Kilowatt Hour                  | 30,009         | 28,900           | 1,109    | 3.8%    | 30,009          | 28,900            | 1,109    | 3.8%    |
| Foreign Insurance              | 15             | 0                | 15       | N/A     | 15              | 0                 | 15       | N/A     |
| Domestic Insurance             | 1              | 0                | 1        | N/A     | 1               | 0                 | 1        | N/A     |
| Other Business & Property Tax  | 36             | 180              | (144)    | -80.0%  | 36              | 180               | (144)    | -80.0%  |
| Cigarette                      | 21,237         | 14,100           | 7,137    | 50.6%   | 21,237          | 14,100            | 7,137    | 50.6%   |
| Soft Drink                     | 0              | 0                | 0        | N/A     | 0               | 0                 | 0        | N/A     |
| Alcoholic Beverage             | 5,745          | 5,200            | 545      | 10.5%   | 5,745           | 5,200             | 545      | 10.5%   |
| Liquor Gallonage               | 2,992          | 2,900            | 92       | 3.2%    | 2,992           | 2,900             | 92       | 3.2%    |
| Estate                         | 30             | 100              | (70)     | -70.2%  | 30              | 100               | (70)     | -70.2%  |
| Horse Racing                   | 0              | 0                | 0        | N/A     | 0               | 0                 | 0        | N/A     |
| Total Tax Receipts             | 1,357,475      | 1,324,780        | 32,695   | 2.5%    | 1,357,475       | 1,324,780         | 32,695   | 2.5%    |
| <b>NON-TAX RECEIPTS</b>        |                |                  |          |         |                 |                   |          |         |
| Federal Grants                 | 327,246        | 327,246          | 0        | 0.0%    | 327,246         | 327,246           | 0        | 0.0%    |
| Earnings on Investments        | 45             | 0                | 45       | N/A     | 45              | 0                 | 45       | N/A     |
| License & Fees                 | 6,073          | 6,068            | 5        | 0.1%    | 6,073           | 6,068             | 5        | 0.1%    |
| Other Income                   | 3,694          | 3,676            | 18       | N/A     | 3,694           | 3,676             | 18       | 0.5%    |
| ISTV'S                         | 10             | 10               | 0        | 0.0%    | 10              | 10                | 0        | 0.0%    |
| Total Non-Tax Receipts         | 337,069        | 337,001          | 68       | 0.0%    | 337,069         | 337,001           | 68       | 0.0%    |
| TOTAL REVENUES                 | 1,694,544      | 1,661,781        | 32,763   | 2.0%    | 1,694,544       | 1,661,781         | 32,763   | 2.0%    |
| <b>TRANSFERS</b>               |                |                  |          |         |                 |                   |          |         |
| Budget Stabilization           | 0              | 0                | 0        | N/A     | 0               | 0                 | 0        | N/A     |
| Liquor Transfers               | 25,000         | 25,000           | 0        | 0.0%    | 25,000          | 25,000            | 0        | 0.0%    |
| Transfers In - Capital Reserve | 0              | 0                | 0        | N/A     | 0               | 0                 | 0        | N/A     |
| Transfers In - Other           | 9,984          | 9,984            | 0        | 0.0%    | 9,984           | 9,984             | 0        | 0.0%    |
| Temporary Transfers In         | 0              | 0                | 0        | N/A     | 0               | 0                 | 0        | N/A     |
| Total Transfers                | 34,984         | 34,984           | 0        | 0.0%    | 34,984          | 34,984            | 0        | 0.0%    |
| TOTAL SOURCES                  | 1,729,528      | 1,696,765        | 32,763   | 1.9%    | 1,729,528       | 1,696,765         | 32,763   | 1.9%    |

\* Amounts subject to revision as a result of OAKS implementation.

Table 2\*  
GENERAL REVENUE FUND RECEIPTS  
ACTUAL - FY 2008 VERSUS FY 2007  
(\$ in thousands)

| REVENUE SOURCE                 | Month          |                |           |          | Year-to-Date   |                |           |          |
|--------------------------------|----------------|----------------|-----------|----------|----------------|----------------|-----------|----------|
|                                | ACTUAL<br>2008 | ACTUAL<br>2007 | \$<br>VAR | %<br>VAR | ACTUAL<br>2008 | ACTUAL<br>2007 | \$<br>VAR | %<br>VAR |
| <b>TAX RECEIPTS</b>            |                |                |           |          |                |                |           |          |
| Non-Auto Sales & Use           | 615,181        | 573,097        | 42,085    | 7.3%     | 615,181        | 573,097        | 42,085    | 7.3%     |
| Auto Sales & Use               | 86,136         | 85,104         | 1,032     | 1.2%     | 86,136         | 85,104         | 1,032     | 1.2%     |
| Subtotal Sales & Use           | 701,318        | 658,201        | 43,117    | 6.6%     | 701,318        | 658,201        | 43,117    | 6.6%     |
| Personal Income                | 607,500        | 584,970        | 22,530    | 3.9%     | 607,500        | 584,970        | 22,530    | 3.9%     |
| Corporate Franchise            | (11,409)       | 31,734         | (43,143)  | -136.0%  | (11,409)       | 31,734         | (43,143)  | -136.0%  |
| Commercial Activity Tax        | 0              | 0              | 0         | N/A      | 0              | 0              | 0         | N/A      |
| Public Utility                 | 0              | 0              | 0         | N/A      | 0              | 0              | 0         | N/A      |
| Kilowatt Hour                  | 30,009         | 28,103         | 1,906     | 6.8%     | 30,009         | 28,103         | 1,906     | 6.8%     |
| Foreign Insurance              | 15             | 36             | (20)      | -57.0%   | 15             | 36             | (20)      | -57.0%   |
| Domestic Insurance             | 1              | 571            | (570)     | -99.8%   | 1              | 571            | (570)     | -99.8%   |
| Other Business & Property Tax  | 36             | 104            | (68)      | -65.5%   | 36             | 104            | (68)      | -65.5%   |
| Cigarette                      | 21,237         | 13,763         | 7,474     | 54.3%    | 21,237         | 13,763         | 7,474     | 54.3%    |
| Soft Drink                     | 0              | 0              | 0         | N/A      | 0              | 0              | 0         | N/A      |
| Alcoholic Beverage             | 5,745          | 5,837          | (92)      | -1.6%    | 5,745          | 5,837          | (92)      | -1.6%    |
| Liquor Gallonage               | 2,992          | 2,925          | 68        | 2.3%     | 2,992          | 2,925          | 68        | 2.3%     |
| Estate                         | 30             | 4,631          | (4,601)   | -99.4%   | 30             | 4,631          | (4,601)   | -99.4%   |
| Horse Racing                   | 0              | 0              | 0         | N/A      | 0              | 0              | 0         | N/A      |
| Total Tax Receipts             | 1,357,475      | 1,330,876      | 26,599    | 2.0%     | 1,357,475      | 1,330,876      | 26,599    | 2.0%     |
| <b>NON-TAX RECEIPTS</b>        |                |                |           |          |                |                |           |          |
| Federal Grants                 | 327,246        | 375,368        | (48,122)  | -12.8%   | 327,246        | 375,368        | (48,122)  | -12.8%   |
| Earnings on Investments        | 45             | 0              | 45        | N/A      | 45             | 0              | 45        | N/A      |
| License & Fee                  | 6,073          | 5,886          | 187       | 3.2%     | 6,073          | 5,886          | 187       | 3.2%     |
| Other Income                   | 3,694          | 6,071          | (2,376)   | -39.1%   | 3,694          | 6,071          | (2,376)   | -39.1%   |
| ISTV'S                         | 10             | 483            | (473)     | -97.9%   | 10             | 483            | (473)     | -97.9%   |
| Total Non-Tax Receipts         | 337,069        | 387,808        | (50,739)  | -13.1%   | 337,069        | 387,808        | (50,739)  | -13.1%   |
| TOTAL REVENUES                 | 1,694,544      | 1,718,684      | (24,140)  | -1.4%    | 1,694,544      | 1,718,684      | (24,140)  | -1.4%    |
| <b>TRANSFERS</b>               |                |                |           |          |                |                |           |          |
| Budget Stabilization           | 0              | 0              | 0         | N/A      | 0              | 0              | 0         | N/A      |
| Liquor Transfers               | 25,000         | 11,000         | 14,000    | 127.3%   | 25,000         | 11,000         | 14,000    | 127.3%   |
| Transfers In - Capital Reserve | 0              | 0              | 0         | N/A      | 0              | 0              | 0         | N/A      |
| Transfers In - Other           | 9,984          | 1,388          | 8,596     | 619.1%   | 9,984          | 1,388          | 8,596     | 619.1%   |
| Temporary Transfers In         | 0              | 0              | 0         | N/A      | 0              | 0              | 0         | N/A      |
| Total Transfers                | 34,984         | 12,388         | 22,596    | 182.4%   | 34,984         | 12,388         | 22,596    | 182.4%   |
| TOTAL SOURCES                  | 1,729,528      | 1,731,073      | (1,545)   | -0.1%    | 1,729,528      | 1,731,073      | (1,545)   | -0.1%    |

\* Amounts subject to revision as a result of OAKS implementation.

## ***DISBURSEMENTS***

### **July Disbursements**

As true at this point of every fiscal year, the Office of Budget and Management (OBM) is currently working with state agencies to finalize and estimate a monthly schedule for disbursements, transfers, and outstanding encumbrances for FY 2008. The FY 2008 estimated disbursements will be completed in August and included in the September Monthly Financial Report. OBM prepared the August report using only the actual disbursements for July, as opposed to the actual versus estimated disbursements.

Total GRF uses of funds in July, as posted in the Ohio Administrative Knowledge System (OAKS), the state's new, integrated accounting system, amounted to \$2,258.0 million. This reflected a \$486.7 million (17.7%) decrease compared to July 2006 disbursements. Most of this reduction can be attributed to a \$394.0 million transfer to the Budget Stabilization Fund in July 2006. However, transfers out of the GRF last month totaled just \$21.1 million. Excluding such transfers out of the GRF, July 2007 disbursements declined by \$113.2 million (4.8%) compared to last July.

It should be noted that the OAKS Financials module went live at the beginning of the fiscal year, which ushered in an entirely new process for all state agencies to record financial transactions. State agencies successfully transacted the \$2,257.7 million in GRF disbursements noted above through the new OAKS system. Most of the amount disbursed in July was for Medicaid payments and Education Foundation payments to school districts. GRF disbursements for Medicaid totaled \$921.4 million, while those for Foundation-related payments totaled \$580.1 million.

As a result of the OAKS Financials implementation, there have been inevitable transaction coding issues to resolve in order to have payroll, vouchers, and other state expenses post correctly against FY 2007 encumbrances and FY 2008 appropriations. These issues have been handled as they are identified. In particular, there is currently an estimated \$237.5 million in payroll expenses – mostly affecting GRF line items – that have not yet posted against agencies' appropriations. OBM and state agencies are correcting errors in payroll transactions, and once that is completed, these transactions will post.

**Table 3\***  
**GENERAL REVENUE FUND DISBURSEMENTS**  
**ACTUAL FY 2008 VS ESTIMATE FY 2008**  
(\$ in thousands)

| Functional Reporting Categories<br>Description | MONTH            |                   | YEAR-TO-DATE     |                 |
|--|------------------|-------------------|------------------|-----------------|
|  | ACTUAL<br>JULY   | ESTIMATED<br>JULY | YTD<br>ACTUAL    | YTD<br>ESTIMATE |
| Primary, Secondary and Other Education         | 612,673          | 0                 | 612,673          | 0               |
| Higher Education                               | 259,810          | 0                 | 259,810          | 0               |
| Public Assistance and Medicaid                 | 998,310          | 0                 | 998,310          | 0               |
| Health and Human Services                      | 108,499          | 0                 | 108,499          | 0               |
| Justice and Public Protection                  | 122,819          | 0                 | 122,819          | 0               |
| Environmental Protection and Natural Resources | 6,770            | 0                 | 6,770            | 0               |
| Transportation                                 | 479              | 0                 | 479              | 0               |
| General Government                             | 11,245           | 0                 | 11,245           | 0               |
| Community and Economic Development             | 1,901            | 0                 | 1,901            | 0               |
| Tax Relief and Other                           | 1,000            | 0                 | 1,000            | 0               |
| Capital Outlay                                 | 0                | 0                 | 0                | 0               |
| Debt Service                                   | 113,162          | 0                 | 113,162          | 0               |
| Pending Payroll                                | 238              | 0                 | 238              | 0               |
| <b>Total Expenditures &amp; ISTV's</b>         | <b>2,236,905</b> | <b>0</b>          | <b>2,236,905</b> | <b>0</b>        |
| <b>Transfers Out:</b>                          |                  |                   |                  |                 |
| OPER TRF OUT-OTH                               | 21,062           | 0                 | 21,062           | 0               |
| OPER TRF OUT-BUD STABILIZATION                 | 0                | 0                 | 0                | 0               |
| <b>Total Transfers (Out)</b>                   | <b>21,062</b>    | <b>0</b>          | <b>21,062</b>    | <b>0</b>        |
| <b>Total Fund Uses</b>                         | <b>2,257,967</b> | <b>0</b>          | <b>2,257,967</b> | <b>0</b>        |

\* Amounts subject to revision as a result of OAKS implementation.

**Table 4\***  
**GENERAL REVENUE FUND DISBURSEMENTS**  
**ACTUAL FY 2008 VS ACTUAL FY 2007**  
(\$ in thousands)

| Functional Reporting Categories<br>Description | MONTH            |                  |                  |               | YEAR-TO-DATE     |                  |                  |               |
|--|------------------|------------------|------------------|---------------|------------------|------------------|------------------|---------------|
|  | ACTUAL           | ACTUAL           | \$               | %             | ACTUAL           | ACTUAL           | \$               | %             |
|  | 2007             | 2006             | VAR              | VAR           | 2007             | 2006             | VAR              | VAR           |
| Primary, Secondary and Other Education         | 612,673          | 625,957          | (13,284)         | -2.2%         | 612,673          | 625,957          | (13,284)         | -2.2%         |
| Higher Education                               | 259,810          | 199,524          | 60,286           | 23.2%         | 259,810          | 199,524          | 60,286           | 23.2%         |
| Public Assistance and Medicaid                 | 998,310          | 970,891          | 27,419           | 2.7%          | 998,310          | 970,891          | 27,419           | 2.7%          |
| Health and Human Services                      | 108,499          | 110,421          | (1,922)          | -1.8%         | 108,499          | 110,421          | (1,922)          | -1.8%         |
| Justice and Public Protection                  | 122,819          | 267,017          | (144,198)        | -117.4%       | 122,819          | 267,017          | (144,198)        | -117.4%       |
| Environmental Protection and Natural Resources | 6,770            | 13,785           | (7,015)          | -103.6%       | 6,770            | 13,785           | (7,015)          | -103.6%       |
| Transportation                                 | 479              | 2,117            | (1,638)          | -341.5%       | 479              | 2,117            | (1,638)          | -341.5%       |
| General Government                             | 11,245           | 30,395           | (19,150)         | -170.3%       | 11,245           | 30,395           | (19,150)         | -170.3%       |
| Community and Economic Development             | 1,901            | 13,473           | (11,572)         | -608.9%       | 1,901            | 13,473           | (11,572)         | -608.9%       |
| Tax Relief and Other                           | 1,000            | 2,816            | (1,816)          | -181.5%       | 1,000            | 2,816            | (1,816)          | -181.5%       |
| Capital Outlay                                 | 0                | 21               | (21)             | N/A           | 0                | 21               | (21)             | N/A           |
| Debt Service                                   | 113,162          | 113,455          | (293)            | -0.3%         | 113,162          | 113,455          | (293)            | -0.3%         |
| Pending Payroll                                | 238              | 0                | 238              | 100.0%        | 238              | 0                | 238              | 100.0%        |
| <b>Total Expenditures &amp; ISTV's</b>         | <b>2,236,905</b> | <b>2,349,872</b> | <b>(112,967)</b> | <b>-5.1%</b>  | <b>2,236,905</b> | <b>2,349,872</b> | <b>(112,967)</b> | <b>-5.1%</b>  |
| <b>Transfers Out:</b>                          |                  |                  |                  |               |                  |                  |                  |               |
| OPER TRF OUT-OTH                               | 21,062           | 759              | 20,303           | 96.4%         | 21,062           | 759              | 20,303           | 96.4%         |
| OPER TRF OUT-BUD STABILIZATION                 | 0                | 394,034          | (394,034)        | N/A           | 0                | 394,034          | (394,034)        | N/A           |
| <b>Total Transfers (Out)</b>                   | <b>21,062</b>    | <b>394,793</b>   | <b>(373,731)</b> | <b>N/A</b>    | <b>21,062</b>    | <b>394,793</b>   | <b>(373,731)</b> | <b>N/A</b>    |
| <b>Total Fund Uses</b>                         | <b>2,257,967</b> | <b>2,744,665</b> | <b>(486,698)</b> | <b>-21.6%</b> | <b>2,257,967</b> | <b>2,744,665</b> | <b>(486,698)</b> | <b>-21.6%</b> |

\* Amounts subject to revision as a result of OAKS implementation.

## ***FUND BALANCE***

The Office of Budget and Management is currently working to complete the analysis required for the preparation of the Fiscal Year 2008 General Revenue Fund balance. As mentioned above, OBM is currently finalizing the Fiscal Year 2008 projections of disbursements, transfers and encumbrances. The analysis will be completed in August and reflected in the September 2007 Monthly Financial Report.

## ***SPECIAL NOTE***

The State of Ohio implemented the financial component of the Ohio Administrative Knowledge System (OAKS), the new integrated accounting system, at the beginning of FY 2008. As a result, the figures cited in the text and tables of this report may be revised as additional information from the OAKS system becomes available.

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