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Updated Information on CY 2008 Local Distributions

May 21, 2008

This is an update pertaining to this year's Local Government Fund (LGF) and Public Library Fund (PLF)¹ distributions.

1. Monthly cash flow

Beginning in calendar year 2008, the LGF and PLF monthly distribution patterns will be much different than experienced in recent years under the so-called "freeze." In the document below we discuss those changes and also provide an estimate of the monthly cash flow patterns for CY 2008. http://tax.ohio.gov/channels/other/documents/local_distribution_fund_cash_flow_changes.pdf

2. May 2008 and June 2008 distributions

When the above-referenced monthly cash flow document was prepared we did not anticipate a shift that occurred in the timing of state annual income tax return payments (on returns that were due April 15, 2008). In past years, a majority of the annual income tax return payments were deposited in the state treasury during May, but this year processing was expedited and therefore the annual personal income tax payments were primarily deposited in April. As a result, approximately \$580 million in state General Revenue Fund (GRF) tax revenue was deposited in April instead of May.

In order to put this timing shift into appropriate scale for your community, simply multiply your community's May 2008 distribution by 22 percent. This represents approximately the amount of money that was originally expected to be distributed in June but was instead distributed in May.

3. Year-to-date distribution performance

Through April 2008, this calendar year's distributions from both the LGF and PLF were approximately 1.7 percent below our original projections. However, because of fairly strong state tax revenue performance in April 2008 and its corresponding effect on May 2008 distributions, the calendar year 2008 distributions made through May are very close to our original projections.² In spite of April's strong revenue performance, economic conditions remain tepid and we anticipate further weakness in several important tax revenue sources - especially the state sales tax. For this reason, we should be prepared for calendar year 2008 distributions to decline slightly from the original projections, most likely somewhere in the 1 percent to 2 percent range. We should have a better sense of CY 2008 distribution levels once several more months of distributions are made.

4. Upcoming events

Ohio law requires the Department of Taxation to provide the following to the county auditors:

¹ Beginning June 20, 2008 a law change goes into effect that changes the name of the Library and Local Government Support Fund to the Public Library Fund (SB 185, 127th General Assembly). We use the new name of the fund in this document.

² Note that this comparison is based on netting out the distributions that were made in May instead of June due to expedited income tax processing.

- a. In June 2008, updated PLF distribution estimates for calendar year 2008.³
- b. In July 2008, LGF and PLF distribution estimates for calendar year 2009.

The estimates for calendar years 2008 and 2009 will reflect our best projections of state tax revenue performance during those time periods. To reiterate, the figures for both 2008 and 2009 are merely *estimates*, and are subject to the many factors – especially developments related to the state’s economy - that drive state tax revenues. The calendar year 2009 distributions will be particularly fraught with measurement uncertainty due to the inherent difficulty in accurately forecasting revenues so far in advance.

As time goes by, we will provide periodic updates related to the local distribution funds, including actual distributions to-date and projected future state tax revenue (and associated local distribution fund) performance. For this reason, some time next month we expect to produce a revision of the local distribution fund “monthly cash flow” document referenced at the beginning of this document.

³ Updated calendar year 2008 LGF distribution estimates are not required by Ohio law. Barring unforeseen circumstances, we do not expect to issue revised county-by-county LGF estimates for CY 2008. We advise local government officials to keep apprised of LGF information updates by periodically referring to the Department of Taxation web site.