# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION APRIL 2009

# STATUS OF THE GRF

## HIGHLIGHTS

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

The Office of Budget and Management (OBM) revised down GRF revenue estimate in October 2008 and again in December 2008. OBM also revised its estimate of FY 2009 GRF expenditures in February 2009, to account for budget reductions ordered for FY 2009 and the latest information on enhanced federal reimbursement for Medicaid. This edition of *Budget Footnotes* compares actual GRF sources and uses to the latest estimate revisions.

**Through March 2009, GRF sources totaled $18,381.8 million:**

- State-source receipts were $298.9 million below estimate.
  - Tax revenues were below estimate by $196.1 million.
    - Sales and use tax revenues were below estimate by $161.4 million.
    - Revenues from the personal income tax were below estimate by $75.3 million.

**Through March 2009, GRF uses totaled $21,546.0 million:**

Total GRF uses were below estimate by $223.9 million (1.0%). GRF program expenditures accounted for $219.2 million of the total. The Primary, Secondary, and Other Education program category had the largest negative variance at $181.6 million.

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STATUS OF THE GRF



ISSUE UPDATES



TRACKING THE ECONOMY



Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: (614) 466-3615

**Table 1: General Revenue Fund Sources**
**Preliminary Actual vs. Estimate**
**Month of March 2009**
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 7, 2009)

| | Actual | Estimate* | Variance | Percent |
|---|---|---|---|---|
| **STATE SOURCES** | | | | |
| ***TAX REVENUE*** | | | | |
| Auto Sales | $74,499 | $67,387 | $7,111 | 10.6% |
| Nonauto Sales and Use | $416,124 | $479,089 | -$62,966 | -13.1% |
| Total Sales and Use Taxes | $490,622 | $546,477 | -$55,855 | -10.2% |
| Personal Income | $359,252 | $399,939 | -$40,687 | -10.2% |
| Corporate Franchise | $144,808 | $131,366 | $13,441 | 10.2% |
| Public Utility | $1,072 | $801 | $272 | 33.9% |
| Kilowatt Hour Excise | $18,648 | $15,844 | $2,804 | 17.7% |
| Commercial Activity Tax** | $0 | $0 | $0 | --- |
| Foreign Insurance | $95,726 | $82,500 | $13,226 | 16.0% |
| Domestic Insurance | $7 | $0 | $7 | --- |
| Business and Property | $7 | $0 | $7 | --- |
| Cigarette | $81,567 | $74,211 | $7,356 | 9.9% |
| Alcoholic Beverage | $4,175 | $5,372 | -$1,198 | -22.3% |
| Liquor Gallonage | $2,625 | $2,813 | -$189 | -6.7% |
| Estate | $1,450 | $1,000 | $450 | 45.0% |
| **Total Tax Revenue** | **$1,199,958** | **$1,260,323** | **-$60,365** | **-4.8%** |
| ***NONTAX REVENUE*** | | | | |
| Earnings on Investments | $9 | $0 | $9 | --- |
| Licenses and Fees | $8,427 | $9,200 | -$773 | -8.4% |
| Other Revenue | $7,497 | $4,550 | $2,947 | 64.8% |
| **Total Nontax Revenue** | **$15,933** | **$13,750** | **$2,183** | **15.9%** |
| ***TRANSFERS*** | | | | |
| Liquor Transfers | $13,000 | $12,000 | $1,000 | 8.3% |
| Budget Stabilization | $0 | $0 | $0 | --- |
| Other Transfers In | $132,811 | $8,565 | $124,246 | 1450.6% |
| **Total Transfers In** | **$145,811** | **$20,565** | **$125,246** | **609.0%** |
| **TOTAL STATE SOURCES** | **$1,361,702** | **$1,294,638** | **$67,064** | **5.2%** |
| Federal Grants*** | $750,893 | $871,881 | -$120,988 | -13.9% |
| **TOTAL GRF SOURCES** | **$2,112,595** | **$2,166,519** | **-$53,924** | **-2.5%** |

* Revised estimates of the Office of Budget and Management in December 2008.
**Commercial activity tax receipts in FY 2009 are non-GRF.
*** Federal Grants based on information from OBM
*Detail may not sum to total due to rounding.*

**Table 2: General Revenue Fund Sources**
**Preliminary Actual vs. Estimate**
**FY 2009 as of March 31, 2009**
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 7, 2009)

| | Actual | Estimate* | Variance | Percent | FY 2008 | Percent Change |
|---|---|---|---|---|---|---|
| **STATE SOURCES** | | | | | | |
| ***TAX REVENUE*** | | | | | | |
| Auto Sales | $637,552 | $628,980 | $8,573 | 1.4% | $668,521 | -4.6% |
| Nonauto Sales and Use | $4,739,022 | $4,908,969 | -$169,947 | -3.5% | $5,026,833 | -5.7% |
| Total Sales and Use Taxes | $5,376,575 | $5,537,949 | -$161,374 | -2.9% | $5,695,354 | -5.6% |
| Personal Income | $5,407,071 | $5,482,378 | -$75,307 | -1.4% | $5,960,342 | -9.3% |
| Corporate Franchise | $368,703 | $335,169 | $33,534 | 10.0% | $494,666 | -25.5% |
| Public Utility | $122,494 | $110,513 | $11,981 | 10.8% | $94,020 | 30.3% |
| Kilowatt Hour Excise | $110,666 | $108,086 | $2,580 | 2.4% | $210,854 | -47.5% |
| Commercial Activity Tax** | $0 | $0 | $0 | --- | $0 | --- |
| Foreign Insurance | $261,387 | $277,800 | -$16,413 | -5.9% | $272,305 | -4.0% |
| Domestic Insurance | -$865 | -$700 | -$165 | 23.6% | $434 | -299.1% |
| Business and Property | $379 | $512 | -$133 | -26.0% | $393 | -3.7% |
| Cigarette | $643,481 | $631,972 | $11,509 | 1.8% | $654,158 | -1.6% |
| Alcoholic Beverage | $41,839 | $43,126 | -$1,287 | -3.0% | $42,342 | -1.2% |
| Liquor Gallonage | $26,986 | $27,671 | -$686 | -2.5% | $26,318 | 2.5% |
| Estate | $32,287 | $32,600 | -$313 | -1.0% | $31,648 | 2.0% |
| **Total Tax Revenue** | **$12,391,001** | **$12,587,077** | **-$196,076** | **-1.6%** | **$13,482,835** | **-8.1%** |
| ***NONTAX REVENUE*** | | | | | | |
| Earnings on Investments | $97,770 | $78,100 | $19,670 | 25.2% | $83,849 | 16.6% |
| Licenses and Fees | $58,461 | $59,544 | -$1,083 | -1.8% | $59,764 | -2.2% |
| Other Revenue | $53,497 | $52,005 | $1,492 | 2.9% | $78,281 | -31.7% |
| **Total Nontax Revenue** | **$209,728** | **$189,649** | **$20,079** | **10.6%** | **$221,894** | **-5.5%** |
| ***TRANSFERS*** | | | | | | |
| Liquor Transfers | $122,000 | $108,000 | $14,000 | 13.0% | $128,000 | -4.7% |
| Budget Stabilization | $0 | $0 | $0 | --- | $0 | --- |
| Other Transfers In | $494,202 | $631,125 | -$136,923 | -21.7% | $523,610 | -5.6% |
| **Total Transfers In** | **$616,202** | **$739,125** | **-$122,923** | **-16.6%** | **$651,610** | **-5.4%** |
| **TOTAL STATE SOURCES** | **$13,216,931** | **$13,515,851** | **-$298,919** | **-2.2%** | **$14,356,339** | **-7.9%** |
| Federal Grants*** | $5,164,831 | $5,338,064 | -$173,233 | -3.2% | $4,246,936 | 21.6% |
| **TOTAL GRF SOURCES** | **$18,381,762** | **$18,853,915** | **-$472,153** | **-2.5%** | **$18,603,274** | **-1.2%** |

* Revised estimates of the Office of Budget and Management in December 2008.
**Commercial activity tax receipts in FY 2009 are non-GRF.
*** Federal Grants based on information from OBM
*Detail may not sum to total due to rounding.*

# REVENUES

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

March tax revenues were below estimate by $60.4 million. Year-to-date tax revenues were below FY 2008 receipts by $1.1 billion.

## Overview

The Office of Budget and Management (OBM) twice revised down revenue estimates for FY 2009. OBM reduced estimates by $540.7 million in October 2008. In previous issues, *Budget Footnotes* compared actual receipts to those estimates. Through March, state-source receipts were $671.4 million (4.8%) below the October estimate; a shortfall in tax revenue accounted for $568.6 million of that. In December 2008, OBM reduced estimated GRF tax revenues by an additional $640.4 million. Starting this month, the latter revised estimates are used in this publication. The general implication of using the December 2008 estimate is smaller variances than those compared to the October 2008 estimate.

Tables 1 and 2 show GRF sources for the month of March and for FY 2009 through March, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for human service programs such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding. As of March 31, 2009, the GRF had received $402.4 million in enhanced federal reimbursement for Medicaid as a result of the American Recovery and Reinvestment Act of 2009.

Total GRF sources of $2,112.6 million for March 2009 were $53.9 million (2.5%) below the December 2008 estimate, primarily due to shortfalls in the sales and use tax and the personal income tax. March 2009 continued the string of several months of poor GRF tax receipts in FY 2009. Tax revenues of $1,200.0 million were $60.4 million (4.8%) below estimate. The sales and use and the personal income taxes were below estimate by $55.9 million (10.2%) and $40.7 million (10.2%), respectively. These shortfalls were partially offset by positive variances in the corporate franchise tax ($13.4 million or 10.2%) and the cigarette tax ($7.4 million or 9.9%). Receipts from the foreign insurance tax were also $13.2 million (16.0%) above estimate, from receipts expected in February that were booked in March.

Through March, FY 2009 total GRF sources of $18,381.8 million were below estimate by $472.2 million (2.5%). State-source receipts totaled $13,216.9 million, $298.9 million (2.2%) below estimate. Federal grants were $5,164.8 million, $173.2 million (3.2%) below estimate. Total tax revenues of $12,391.0 million were $196.1 million (1.6%) below estimate. The personal income tax and the sales and use tax were $75.3 million (1.4%) and $161.4 million (2.9%), respectively, below estimates. Revenue from the cigarette tax was $11.5 million (1.8%) above estimate. Receipts from the corporate franchise tax and the public utility tax were $33.5 million (10.0%) and $12.0 million (10.8%), respectively, above estimates. The kilowatt hour tax was $2.6 million (2.4%) above estimate. All the remaining taxes, except the domestic insurance tax, were below expectations. Nontax revenues were above estimate by $20.1 million (10.6%).

Compared to FY 2008, FY 2009 year-to-date GRF sources through March were $221.5 million (1.2%) lower. Federal grants were $917.9 million (21.6%) above last year's levels, but state-source receipts declined $1,139.4 million (7.9%), primarily from a decrease in tax revenues of $1,091.8 million (8.1%). Year-to-date receipts from all three primary GRF tax sources were below the levels of March 2008, including decreases of $553.3 million (9.3%) in personal income tax receipts, $318.8 million (5.6%) in sales and use tax receipts, and $10.7 million (1.6%) in cigarette tax receipts. Other taxes with notable year-to-year revenue variances included a decrease of $100.2 million (47.5%) in kilowatt hour tax receipts due to an increase this year in the share of receipts distributed to local government funds, a decrease of $126.0 million (25.5%) in corporate franchise tax receipts from a reduced tax rate this year, and an increase of $28.5 million (30.3%) in public utility excise tax receipts. FY 2009 year-to-date nontax revenues were $12.2 million (5.5%) below the FY 2008 level in the corresponding period, from a decline of $24.8 million (31.7%) in various miscellaneous state revenues. FY 2009 year-to-date transfers in were $35.4 million (5.4%) below the FY 2008 level in the corresponding period.

March income tax receipts were $106.6 million below last year's levels.

## Personal Income Tax

Personal income tax receipts of $359.3 million in March were $40.7 million (10.2%) below estimate and $106.6 million (22.9%) below March 2008 receipts. The decline in March receipts compared to the year-earlier level was due to a decrease of $55.5 million (8.6%) in withholding revenue and an increase of $53.0 million (21.6%) in refunds to taxpayers, reflecting shrinking payrolls, reduced taxable income, and also lower tax rates this year. After adjusting for the change in tax rates, payrolls in the last three months appear to have declined about 4% compared to FY 2008.

Through March, FY 2009 personal income tax receipts of $5,407.1 million were $75.3 million (1.4%) below estimate and $553.3 million (9.3%) below receipts in the corresponding period in FY 2008. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government funds. Gross collections are the sum of withholding, quarterly estimated payments,[1] trust payments, payments associated with annual returns, and miscellaneous payments.

| FY 2009 Year-to-date<br>Income Tax Revenue Variances and Changes by Component | | | | |
|---|---|---|---|---|
| Category | Year-to-date Variance from Estimate | | Year-to-date Changes from FY 2008 | |
| | Amount ($ in millions) | Percentage (%) | Amount ($ in millions) | Percentage (%) |
| *Withholding* | -$80.6 | -1.4% | -$307.1 | -5.2% |
| *Quarterly Estimated Payments* | -$35.7 | -3.9% | -$183.6 | -17.2% |
| *Trust Payments* | -$7.0 | -20.4% | -$11.6 | -29.8% |
| *Annual Return Payments* | $19.8 | 8.0% | $11.4 | 4.4% |
| *Miscellaneous Payments* | -$2.2 | -3.9% | -$4.7 | -8.1% |
| **Gross Collections** | -$105.8 | -1.6% | -$495.5 | -7.2% |
| Less Refunds | -$32.5 | -3.4% | $62.2 | 7.1% |
| Less Local Government Fund Distribution | $1.8 | 0.4% | -$0.2 | -0.0% |
| **Income Tax Revenue** | -$75.2 | -1.4% | -$557.2 | -9.3% |

The table above summarizes FY 2009 year-to-date income tax revenue variances from estimate and annual changes by components. Employer withholding (which accounted for about 70% of gross collections in FY 2008) reflects real-time labor conditions and the dismal performance of that component of the tax reflects deepening job losses in the current economic downturn, as well as the final reduction in tax rates enacted by H.B. 66 of the 126th General Assembly. Recent forecasts of Ohio personal income and wage growth suggest a continuation of poor performances for this tax in the last quarter of FY 2009. April receipts, (which were about 19% of receipts for the year in FY 2008) will largely determine the overall performance of the tax this fiscal year.

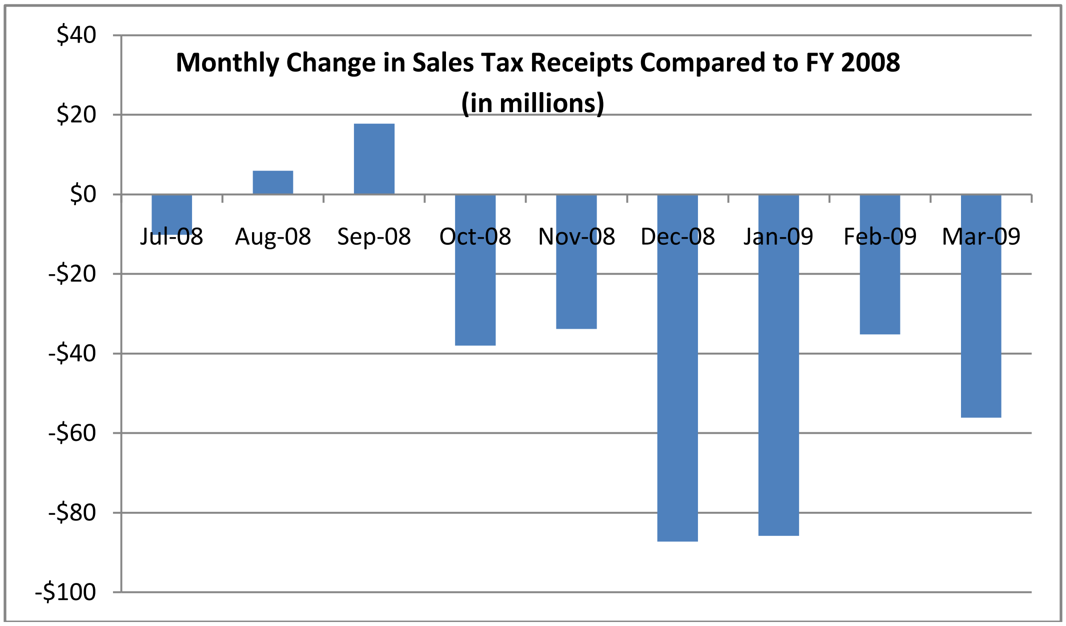
[1] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

## Sales and Use Tax

The performance of the sales and use tax in March mirrored that of previous months, and receipts were again below year-ago receipts for the sixth consecutive month. The graph below shows the monthly variance in FY 2009 receipts compared to receipts in the same month in FY 2008.

March receipts of $490.6 million were $55.9 million (10.2%) below estimate and $56.1 million (10.3%) below receipts in March 2008. Through March, FY 2009 receipts of $5,376.6 million were $161.4 million (2.9%) below estimate and also $318.8 million (5.6%) below FY 2008 receipts through March 2008.

Monthly sales tax receipts were below FY 2008 level for the sixth consecutive month.




For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[2] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

### Nonauto Sales and Use Tax

Severe headwinds from reduced employment, income, and wealth continue to pressure nonauto sales and use tax receipts. Although nationwide consumer spending appeared to stabilize in January and

[2] 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.

February, a rebound in taxable retail sales is still months away. The U.S. Commerce Department reported that consumer spending rose 0.2% in February, following an increase of 1.0% in January. However, incomes are still sagging from job losses, and consumers are increasing their savings or spending mostly on nontaxable essentials such as food and healthcare.

March nonauto sales and use tax receipts of $416.1 million were $63.0 million (13.1%) below estimate and $61.0 million (12.8%) below receipts in March 2008. Through March, FY 2009 year-to-date nonauto sales and use tax receipts of $4,739.0 million were $169.9 million (3.5%) below estimate and $287.8 million (5.7%) below receipts during the comparable period in FY 2008.

### Auto Sales and Use Tax

March auto sales and use tax receipts of $74.5 million were $7.1 million (10.6%) above estimate and $4.9 million (7.0%) above receipts in March 2008. Through March, FY 2009 year-to-date auto sales and use tax receipts of $637.6 million were $8.6 million (1.4%) above estimate; however, they were $31.0 million (4.6%) below receipts through March in FY 2008.

Slightly improved credit conditions, including resumption of credit to subprime borrowers and increased incentives offered by manufacturers, buoyed sales in March. Nationwide new vehicle sales rebounded to an annualized sales pace of 9.8 million units, up from 9.1 million in February, although the level is still historically low. Light vehicle (autos and light trucks) sales in March fell about 36%, when compared to year-ago sales. For the month, on an annualized basis, 5.1 million autos and 4.8 million light trucks were sold. Sales of light vehicles through March in FY 2009 were 30.0% below unit sales in the corresponding period in FY 2008. Sales of autos and light trucks declined about 25.2% and 34.2%, respectively.

## Cigarette and Other Tobacco Products Tax

March GRF receipts from the cigarette and other tobacco products tax were $81.6 million, $7.4 million (9.9%) above estimate and $4.6 million (6.0%) above March 2008 receipts. Higher receipts this month were largely due to consumers buying ahead of the federal tax increase on tobacco products that took effect April 1, 2009. Some of those revenue gains are likely to be reversed in the coming months.

Through March, FY 2009 year-to-date receipts from the tax were $643.5 million, $11.5 million (1.8%) above estimate. Those receipts were $10.7 million (1.6%) below FY 2008 receipts in the corresponding period.

Revenues from taxed cigarettes were $613.1 million, down $12.0 million (1.9%) from last year's level. Revenues from the tax on other tobacco products were $30.3 million, up $1.4 million (4.7%). Receipts from the cigarette and other tobacco products tax are the third-largest tax source in FY 2009, after the personal income tax and the sales and use tax.

## Corporate Franchise Tax

The second major corporate franchise tax (CFT) payment in FY 2009, due March 31, provided receipts of $144.8 million in the month of March. Those receipts were $13.4 million (10.2%) above estimate, but $71.2 million (33.0%) below revenues in the same period in FY 2008. Through March, FY 2009 receipts were $368.7 million, $33.5 million (10.0%) above estimate, due to two large settlements. Excluding these two settlements, total CFT receipts would have been about 6% below year-to-date estimate. The next major tax payment is due May 31. As part of the five-year phase-out of the corporate franchise tax that was enacted by H.B. 66 of the 126th General Assembly, the corporate franchise tax for nonfinancial corporations will be eliminated in FY 2010, and the tax will become essentially a tax on financial institutions. In FY 2009 tax payments for nonfinancial corporations are based on 20% of the calculated liability, down from 40% in FY 2008.

Second corporate franchise tax payment was $13.4 million above estimate.

## Commercial Activity Tax

In March 2009, commercial activity tax (CAT) receipts were $12.7 million, $3.1 million (19.7%) below revised estimate.[3] This follows a negative CAT variance of $22.6 million in February. Through March, FY 2009 total CAT receipts were $953.4 million, $38.6 million (3.9%) below estimate, but $221.9 million (30.2%) above receipts in FY 2008, primarily due to a higher tax rate this fiscal year. Taxpayers pay 80% of their liability in FY 2009, and in FY 2010 the tax will be fully phased in. The next payment for taxpayers who pay their tax liability on a quarterly basis is due on May 9, 2009, for taxable gross receipts booked in the first quarter of calendar year 2009. Through FY 2011, revenues from the tax are not deposited into the GRF as they are earmarked for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property.[4]

Year-to-date CAT receipts $38.6 million below estimate.

[3] FY 2009 CAT estimates were revised to $1,274 million in February 2009, down from the original $1,349 million.

[4] CAT receipts are distributed to the School District Tangible Property Tax Replacement Fund (70%) and to the Local Government Tangible Property Tax Replacement Fund (30%).

**Table 3: General Revenue Fund Uses**
**Preliminary Actual vs. Estimate**
**Month of March 2009**
($ in thousands)
(Actual based on OAKS reports run April 6, 2009)

| ***PROGRAM*** | **Actual** | **Estimate*** | **Variance** | **Percent** |
|---|---|---|---|---|
| Primary, Secondary, and Other Education | $467,582 | $606,248 | -$138,666 | -22.9% |
| Higher Education | $192,427 | $199,367 | -$6,940 | -3.5% |
| **Total Education** | $660,009 | $805,615 | -$145,606 | -18.1% |
| | | | | |
| Public Assistance and Medicaid | $895,310 | $917,078 | -$21,768 | -2.4% |
| Health and Human Services | $57,454 | $67,335 | -$9,881 | -14.7% |
| **Total Welfare and Human Services** | $952,764 | $984,413 | -$31,650 | -3.2% |
| | | | | |
| Justice and Public Protection | $204,558 | $179,587 | $24,971 | 13.9% |
| Environment and Natural Resources | $3,586 | $3,417 | $169 | 4.9% |
| Transportation | $1,059 | $2,054 | -$995 | -48.5% |
| General Government | $59,327 | $58,286 | $1,041 | 1.8% |
| Community and Economic Development | $20,058 | $17,770 | $2,288 | 12.9% |
| Capital | $101 | $0 | $101 | --- |
| **Total Government Operations** | $288,689 | $261,115 | $27,574 | 10.6% |
| | | | | |
| Tax Relief and Other | $44,966 | $178,118 | -$133,152 | -74.8% |
| Debt Service | $84,305 | $86,310 | -$2,005 | -2.3% |
| **Total Other Expenditures** | $129,271 | $264,428 | -$135,157 | -51.1% |
| | | | | |
| **Total Program Expenditures** | **$2,030,732** | **$2,315,571** | **-$284,838** | **-12.3%** |
| | | | | |
| ***TRANSFERS*** | | | | |
| | | | | |
| Budget Stabilization | $0 | $0 | $0 | --- |
| Other Transfers Out | $3,161 | $0 | $3,161 | --- |
| **Total Transfers Out** | $3,161 | $0 | $3,161 | --- |
| | | | | |
| **TOTAL GRF USES** | **$2,033,894** | **$2,315,571** | **-$281,677** | **-12.2%** |

* February 2009 estimates of the Office of Budget and Management.
*Detail may not sum to total due to rounding.*

**Table 4: General Revenue Fund Uses**
**Preliminary Actual vs. Estimate**
**FY 2009 as of March 31, 2009**
($ in thousands)
(Actual based on OAKS reports run April 6, 2009)

| ***PROGRAM*** | **Actual** | **Estimate*** | **Variance** | **Percent** | **FY 2008** | **Percent Change** |
|---|---|---|---|---|---|---|
| Primary, Secondary, and Other Education | $5,477,848 | $5,659,418 | -$181,570 | -3.2% | $5,256,269 | 4.2% |
| Higher Education | $2,000,914 | $1,968,243 | $32,670 | 1.7% | $1,919,649 | 4.2% |
| **Total Education** | $7,478,762 | $7,627,662 | -$148,900 | -2.0% | $7,175,918 | 4.2% |
| Public Assistance and Medicaid | $8,743,254 | $8,780,918 | -$37,664 | -0.4% | $8,261,691 | 5.8% |
| Health and Human Services | $927,777 | $964,818 | -$37,041 | -3.8% | $958,932 | -3.2% |
| **Total Welfare and Human Services** | $9,671,031 | $9,745,736 | -$74,705 | -0.8% | $9,220,623 | 4.9% |
| Justice and Public Protection | $1,665,916 | $1,638,000 | $27,917 | 1.7% | $1,643,836 | 1.3% |
| Environment and Natural Resources | $77,830 | $75,034 | $2,797 | 3.7% | $83,939 | -7.3% |
| Transportation | $16,145 | $19,188 | -$3,043 | -15.9% | $19,486 | -17.1% |
| General Government | $307,438 | $313,819 | -$6,381 | -2.0% | $306,195 | 0.4% |
| Community and Economic Development | $119,181 | $116,022 | $3,158 | 2.7% | $110,300 | 8.1% |
| Capital | $288 | $25 | $263 | 1050.1% | $66 | 338.0% |
| **Total Government Operations** | $2,186,798 | $2,162,088 | $24,710 | 1.1% | $2,163,821 | 1.1% |
| Tax Relief and Other | $842,633 | $855,907 | -$13,274 | -1.6% | $717,777 | 17.4% |
| Debt Service | $519,034 | $526,048 | -$7,014 | -1.3% | $506,412 | 2.5% |
| **Total Other Expenditures** | $1,361,667 | $1,381,955 | -$20,288 | -1.5% | $1,224,189 | 11.2% |
| **Total Program Expenditures** | **$20,698,257** | **$20,917,441** | **-$219,183** | **-1.0%** | **$19,784,553** | **4.6%** |
| ***TRANSFERS*** | | | | | | |
| Budget Stabilization | $0 | $0 | $0 | --- | $0 | --- |
| Other Transfers Out | $847,768 | $852,439 | -$4,671 | -0.5% | $618,683 | 37.0% |
| **Total Transfers Out** | $847,768 | $852,439 | -$4,671 | -0.5% | $618,683 | 37.0% |
| **TOTAL GRF USES** | **$21,546,026** | **$21,769,880** | **-$223,854** | **-1.0%** | **$20,403,236** | **5.6%** |

* February 2009 estimates of the Office of Budget and Management.
*Detail may not sum to total due to rounding.*

# EXPENDITURES

—*Russ Keller, Economist, 614-644-1751**

## Overview

For the first nine months of FY 2009, GRF uses were $223.9 million below revised estimate.

Tables 3 and 4 show GRF uses for the month of March and for FY 2009 through March, respectively. Beginning with this April issue, *Budget Footnotes* will compare actual uses with the revised estimate made by the Office and Budget and Management (OBM) in February 2009. Prior issues used the October 2008 OBM estimate, which accounted for the first two rounds of budget reductions for FY 2009. The new February 2009 estimate also takes into account the third round of budget reductions ordered in December 2008 and the then-available information on enhanced federal reimbursement for Medicaid under the American Recovery and Reinvestment Act of 2009 (ARRA). A comparative summary of these two estimates is provided at the end of this report.

For March, GRF uses of $2,033.9 million were $281.7 million (12.2%) below estimate. For the first nine months of FY 2009, GRF uses of $21,546.0 million were $223.9 million (1.0%) below estimate. GRF uses consist primarily of program expenditures and also include transfers out. Through March, GRF program expenditures totaled $20,698.3 million, which was $219.2 million (1.0%) below estimate, and transfers out totaled $847.8 million, which was $4.7 million (0.5%) below estimate.

Expenditures for the Primary, Secondary, and Other Education program category continued to be below estimate, by $138.7 million (22.9%) in March. This negative variance was primarily due to lower than expected student enrollments as reported in previous issues. It was also due to timing of payments such as auxiliary services, which support secular services provided to chartered nonpublic schools. The appropriation for auxiliary services totals $129.2 million for FY 2009. Through March, FY 2009 year-to-date expenditures for Primary, Secondary, and Other Education totaled $5,477.8 million, $181.6 million (3.2%) below estimate.

Due to a timing issue, expenditures for the Tax Relief and Other program category reversed its previous trend and registered a negative variance of $133.2 million (74.8%) in March. This March variance also led to the category's year-to-date expenditures being $13.3 million (1.6%) below estimate. These negative variances are likely to be reversed in April when the state escalates payments for the first of the semi-annual reimbursements for property tax relief programs in calendar year 2009. This program category should end the year above estimate because the OBM estimate did not include the expanded Homestead exemption instituted in H.B. 119 of the 126th General Assembly. The appropriation for these payments amounts to $257.0 million for FY 2009. The expanded Homestead exemption cost $245.4 million in 2008, its first full calendar year.

Two other program categories with relatively large negative year-to-date variances were Public Assistance and Medicaid ($37.7 million, 0.4%) and Health and Human Services ($37.0 million, 3.8%). Higher Education and Justice and Public Protection program categories, in contrast, had relatively large positive year-to-date variances of $32.7 million (1.7%) and $27.9 million (1.7%), respectively.

## Public Assistance and Medicaid

GRF expenditures for Public Assistance and Medicaid totaled $895.3 million in March, $21.8 million (2.4%) below estimate. Through March this program category's expenditures were $8,743.3 million, $37.7 million (0.4%) below estimate. Medicaid accounts for about 92% of GRF expenditures in the Public Assistance and Medicaid program category. Table 5 details Medicaid expenditures by service category. For the month of March, GRF Medicaid expenditures were $850.0 million, $4.9 million (0.6%) below estimate. Through March 2009, GRF Medicaid expenditures totaled $8,067.6 million, $4.8 million (0.1%) below estimate.

Year-to-date GRF Medicaid expenditures were $4.8 million below revised estimate.

These variances were based on the revised estimate made by OBM in February 2009. The Medicaid estimate was revised to account for changes made to the Medicaid caseload forecasts, an anticipated increase in the use of non-GRF funding sources, and enhanced federal Medicaid reimbursement under ARRA. Through February, FY 2009 year-to-date expenditures for Medicaid were about $100.0 million below the October 2008 OBM estimate.

The revised caseload estimates align more closely with the actual caseload growth in FY 2009. Based on the original caseload forecast for FY 2009, total Medicaid caseloads in January were at about 1.863 million, 1.37% above the estimate of 1.844 million. Now, based on the revised estimates, caseloads of 1.863 million in January were 0.29% above the estimate of 1.857 million. The general effect of this caseload estimate adjustment tends to increase the Medicaid expenditure estimate.

However, the GRF Medicaid expenditure estimate has been reduced to reflect an anticipated increase in the use of non-GRF revenue sources for Medicaid. The October 2008 estimate had assumed $1,653.7 million in non-GRF funding; the revised estimate assumes $1,709.5 million in non-GRF funding, an increase of $55.8 million (3.4%). The source of this additional non-GRF revenue is expected to be

GRF share of Medicaid expenditures is expected to total $10.39 billion in FY 2009.

prescription drug rebates. Drug rebates have been higher than expected. These rebates are deposited in Fund 5P50 and appropriated in line item 600692, Health Care Services; the federal share received from expenditures from that line item is deposited in Fund 3F00 and appropriated in line item 600623, Health Care Federal. It is anticipated that the Department of Job and Family Services will submit a request to the Controlling Board sometime this fiscal year to seek additional spending authority in the 600692 and 600623 line items.

The revised estimate also assumes $276.7 million in enhanced federal reimbursement for Medicaid expenditures under ARRA. When combined with the increase in non-GRF funding, this totals $332.5 million for FY 2009. In January 2009, the executive ordered reductions in spending from GRF line item 600525, Health Care/Medicaid, of $332.5 million. This reduction was reflected in Budget Directive #11 issued by OBM.

Based on the February 2009 OBM estimate, GRF Medicaid expenditures for FY 2009 total $10.39 billion. This spending will be partially supported by additional appropriations to GRF line item 600525, Health Care/Medicaid made in H.B. 119 and H.B. 562. These include an appropriation of $205 million state share ($525.6 million all funds) from the Medicaid Reserve Fund authorized in H.B. 119, as well as an additional appropriation of $63.3 million state share ($145.7 million all funds) from the Budget Stabilization Fund in H.B. 562.

## Summary of February 2009 Estimate

As indicated earlier, OBM revised its estimate for FY 2009 GRF expenditures in February 2009. This revised estimate was made available in March 2009. In addition to program expenditures, the OBM estimate also includes projections for encumbrances and lapsed funds, respectively, as of June 30, 2009.

The revised GRF program expenditure estimate for FY 2009 totals $26.88 billion, $521.1 million below the previous estimate.

**Summary of February 2009 OBM Estimate**
**($ in millions)**

| Program Category | Program Expenditures | Year-end Encumbrances | Year-end Lapsed Funds |
|---|---|---|---|
| Primary, Secondary, and Other Education | $7,024.6 | $90.1 | $258.7 |
| Higher Education | $2,611.7 | $7.0 | $0.0 |
| Public Assistance and Medicaid | $11,309.0 | $146.8 | $38.0 |
| Health and Human Services | $1,199.8 | $18.4 | $6.2 |
| Justice and Public Protection | $2,080.8 | $19.6 | $27.8 |
| Environment and Natural Resources | $89.1 | $0.2 | $2.3 |
| Transportation | $22.4 | $9.0 | $0.0 |
| General Government | $366.7 | $3.5 | $12.3 |
| Community and Economic Development | $141.0 | $100.9 | $5.4 |
| Capital | $0.6 | $0.0 | $0.0 |
| Tax Relief and Other | $1,347.7 | $0.0 | $19.0 |
| Debt Service | $683.5 | $126.1 | $14.0 |
| **TOTAL** | **$26,876.8** | **$521.7** | **$383.7** |

As seen from the table above, estimated GRF program expenditures for FY 2009 total $26,876.8 million. Of this amount, $11,309.0 million (42.1%) is expected to occur in the Public Assistance and Medicaid program category. The Primary, Secondary, and Other Education and Higher Education program categories account for another $7,024.6 million (26.1%) and $2,611.7 million (9.7%), respectively. Together, these three program categories make up almost 80% of the total estimated GRF program expenditures in FY 2009.

Program categories that are expected to have significant year-end encumbrances include Public Assistance and Medicaid ($146.8 million), Debt Service ($126.1 million), Community and Economic Development ($100.9 million), and Primary, Secondary, and Other Education ($90.1 million). Together, these four program categories account for $463.9 million (88.9%) of the $521.7 million in estimated total year-end encumbrances. The encumbered funds as of June 30, 2009 will be available for spending in FY 2010.

A total of $383.7 million in FY 2009 GRF appropriations are expected to lapse as of June 30, 2009. The lapsed funds will become part of the General Revenue Fund year-end balance. Of the $383.7 million in estimated total lapsed funds, $258.7 million (67.4%) is expected to occur in the Primary, Secondary, and Other Education program category, mainly due to lower than expected student enrollments. As of March 2009, student enrollments for FY 2009 were about 37,500 lower than the projection used for making appropriations for school foundation payments for FY 2009. School foundation payments, which are largely based on a district's student enrollment and property wealth, make up about 90% of the total expenditures for the Primary, Secondary, and Other Education program category.

The table below summarizes the differences in program expenditures, year-end encumbrances, and year-end lapsed funds between the February 2009 estimate and the October 2008 estimate.

**Summary of Differences Between February 2009 OBM Estimate and October 2008 OBM Estimate ($ in millions)**

| Program Category | Program Expenditure Difference | Encumbrance Estimate Difference | Lapsed Fund Estimate Difference |
|---|---|---|---|
| Primary, Secondary, and Other Education | -$41.4 | $13.5 | $8.4 |
| Higher Education | -$26.8 | $0.0 | $2.0 |
| Public Assistance and Medicaid | -$435.9 | $7.1 | $67.8 |
| Health and Human Services | -$61.4 | $0.0 | -$6.8 |
| Justice and Public Protection | -$7.7 | -$6.3 | $5.7 |
| Environment and Natural Resources | -$4.4 | $0.0 | $0.0 |
| Transportation | -$0.6 | $0.0 | -$0.6 |
| General Government | -$4.0 | -$0.1 | $0.0 |
| Community and Economic Development | $1.2 | $0.0 | -$7.4 |
| Capital | $0.0 | $0.0 | $0.0 |
| Tax Relief and Other | $0.0 | $0.0 | $0.0 |
| Debt Service | $0.0 | $0.0 | $0.0 |
| **TOTAL** | **-$581.1** | **$14.3** | **$69.0** |

As can be seen from the table, the February 2009 estimate of the FY 2009 GRF program expenditures is $581.1 million lower than in the October 2008 estimate. The vast majority ($435.9 million or 75.0%) of this difference occurs in the Public Assistance and Medicaid program category, mainly due to the combination of enhanced federal reimbursement for Medicaid and the higher than expected non-GRF

Medicaid fund balances, reducing the need for using the GRF to pay for Medicaid expenditures. Medicaid, which is funded by both GRF and non-GRF funds, is one of the programs that have been exempted from the budget reductions for FY 2009. GRF Medicaid expenditures are expected to total $10,391.8 million in FY 2009, accounting for about 92% of GRF expenditures in the Public Assistance and Medicaid program category. Other program categories with lower estimated expenditures in the February 2009 estimate include Health and Human Services ($61.4 million), Primary, Secondary, and Other Education ($41.4 million), and Higher Education ($26.8 million), mainly reflecting the budget reductions ordered in December 2008.

While the February 2009 estimate projects lower GRF program expenditures for FY 2009, it increases the estimates for year-end encumbrances and lapsed funds by $14.3 million and $69.0 million, respectively. The Primary, Secondary, and Other Education program category accounts for $13.5 million of the $14.3 million in the increased encumbrance estimate. The Public Assistance and Medicaid program category accounts for $67.8 million of the $69.0 million in the increased lapsed fund estimate.

** Todd A. Celmar, Economist, 614-466-7358, contributed to this report.*

**Table 5: Medicaid Spending in FY 2009**
($ in thousands)

| Medicaid (600-525) Payments by Service Category | March Actual | March Estimate | March Variance | March Percent Variance | Year to Date Actual thru March | Year to Date Estimate thru March | Year to Date Variance | Year to Date Percent Variance |
|---|---|---|---|---|---|---|---|---|
| Nursing Facilities | $201,062 | $198,057 | $3,005 | 1.5% | $1,926,811 | $1,923,754 | $3,057 | 0.2% |
| ICFs/MR | $40,732 | $42,099 | -$1,367 | -3.2% | $401,590 | $402,957 | -$1,367 | -0.3% |
| Inpatient Hospitals | $112,704 | $120,300 | -$7,596 | -6.3% | $794,093 | $801,689 | -$7,596 | -0.9% |
| Outpatient Hospitals | $43,984 | $39,053 | $4,931 | 12.6% | $299,682 | $294,750 | $4,932 | 1.7% |
| Physicians | $40,558 | $35,912 | $4,646 | 12.9% | $267,036 | $262,390 | $4,646 | 1.8% |
| Prescription Drugs | $58,128 | $57,695 | $433 | 0.8% | $406,688 | $406,255 | $433 | 0.1% |
| ODJFS Waivers | $30,302 | $33,493 | -$3,191 | -9.5% | $239,206 | $242,397 | -$3,191 | -1.3% |
| MCP - CFC | $278,169 | $280,134 | -$1,965 | -0.7% | $2,601,103 | $2,603,067 | -$1,964 | -0.1% |
| MCP - ABD | $105,049 | $108,627 | -$3,578 | -3.3% | $1,058,534 | $1,062,111 | -$3,577 | -0.3% |
| Medicare Buy-In | $26,048 | $26,882 | -$834 | -3.1% | $231,729 | $232,563 | -$834 | -0.4% |
| All Other | $108,751 | $107,535 | $1,216 | 1.1% | $766,445 | $765,217 | $1,228 | 0.2% |
| DA Medical | $984 | $1,056 | -$72 | -6.8% | $8,233 | $8,304 | -$71 | -0.9% |
| Total Payments | $1,046,471 | $1,050,843 | -$4,372 | -0.4% | $9,001,150 | $9,005,454 | -$4,304 | 0.0% |
| **Offsets** | | | | | | | | |
| Drug Rebates | -$8,090 | -$8,155 | $65 | -0.8% | -$57,031 | -$57,096 | $65 | -0.1% |
| Revenue and Collections | -$7,427 | -$7,595 | $168 | -2.2% | -$52,378 | -$52,546 | $168 | -0.3% |
| ICF/MR Franchise Fees | -$1,250 | -$1,250 | $0 | 0.0% | -$7,500 | -$7,500 | $0 | 0.0% |
| NF Franchise Fees | -$19,444 | -$19,444 | $0 | 0.0% | -$116,667 | -$116,667 | $0 | 0.0% |
| IMD/DSH Payments | -$8,750 | -$8,750 | $0 | 0.0% | -$35,000 | -$35,000 | $0 | 0.0% |
| MCP Assessments | -$20,000 | -$20,000 | $0 | 0.0% | -$140,000 | -$140,000 | $0 | 0.0% |
| Health Care Federal | -$152,995 | -$153,397 | $402 | -0.3% | -$710,789 | -$711,191 | $402 | -0.1% |
| Total Offsets | -$217,956 | -$218,591 | $635 | -0.3% | -$1,119,365 | -$1,120,000 | $635 | -0.1% |
| Total 600-525 (net of offsets) | $828,515 | $832,252 | -$3,737 | -0.4% | $7,881,785 | $7,885,454 | -$3,669 | 0.0% |
| Medicare Part D (600-526) | $21,475 | $22,621 | -$1,146 | -5.1% | $185,839 | $186,985 | -$1,146 | -0.6% |
| **Total GRF** | **$849,990** | **$854,873** | -$4,883 | **-0.6%** | **$8,067,624** | **$8,072,439** | -$4,815 | **-0.1%** |
| **Total All Funds** | **$1,067,946** | **$1,073,464** | -$5,518 | **-0.5%** | **$9,186,989** | **$9,192,439** | -$5,450 | **-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

## Governor Announces Road and Bridge Projects Selected to Receive $774 Million in Federal Stimulus Funding

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

On March 26, 2009, Governor Strickland unveiled the road and bridge projects selected to receive $774 million in federal stimulus funding for highway infrastructure. To be selected, a project must have met federal requirements established in the American Recovery and Reinvestment Act of 2009 (ARRA) and criteria developed by the Federal Highway Administration (FHWA). The FHWA criteria emphasize projects (1) that are in economically distressed areas, (2) that may maximize job creation and economic growth, and (3) that may be advanced and completed within certain timeframes. The table below summarizes the amount of stimulus funds allocated to each of the Ohio Department of Transportation (ODOT) districts in order of the amount allocated.

| Federal Stimulus Road and Bridge Project Summary by ODOT District | | |
|---|---|---|
| **District** | **Counties** | **Stimulus Funds Allocated (millions)** |
| 12 | Cuyahoga, Lake | $223.1 |
| 10 | Athens, Gallia, Meigs, Morgan, Vinton, Washington | $153.3 |
| 6 | Delaware, Franklin, Madison, Morrow, Pickaway, Union | $62.8 |
| 8 | Butler, Clermont, Clinton, Greene, Hamilton, Preble, Warren | $61.9 |
| 4 | Ashtabula, Mahoning, Portage, Stark, Summit, Trumbull | $61.4 |
| 2 | Henry, Fulton, Lucas, Ottawa, Seneca, Williams | $34.8 |
| 3 | Ashland, Crawford, Erie, Huron, Lorain, Medina, Richland, Wayne | $22.7 |
| 11 | Belmont, Carroll, Columbiana, Harrison, Holmes, Jefferson, Tuscarawas | $20.8 |
| 9 | Adams, Brown, Highland, Jackson, Lawrence, Pike, Ross, Scioto | $20.2 |
| 7 | Auglaize, Clark, Darke, Logan, Mercer, Miami, Montgomery, Shelby | $20.1 |
| 1 | Allen, Defiance, Hancock, Hardin, Paulding, Putnam, Van Wert, Wyandot | $19.1 |
| 5 | Coshocton, Guernsey, Knox, Licking, Muskingum, Perry | $16.2 |
| | ***District Subtotal*** | ***$716.4*** |
| | Statewide Projects | $57.6 |
| | **Total** | **$774.0** |

As seen in the table, $716.4 million is allocated for projects in individual ODOT districts and the remaining $57.6 million is directed toward statewide projects, including project planning and design, as well as various rail projects. Over half of the total allocation – $376.4 million – is provided to districts 12 and 10, where the money is directed to large projects. In District 12, $200 million is slated for the Cleveland Innerbelt Bridge, while in District 10, $150 million is slated for the Nelsonville Bypass Project. Overall, most districts have at least nine projects funded with federal stimulus moneys. District 3, with 22 projects, has the largest number of projects among all districts.

Besides the $774.0 million allocated to individual district and statewide projects, an additional $161.5 million in federal stimulus funding for highway infrastructure will be distributed to local metropolitan planning organizations (MPOs) based on a federal formula. According to the Governor's Office, the MPOs will submit their stimulus-funded, local transportation project plans to ODOT in the near future.

In total, Ohio is to receive about $935.5 million in federal stimulus funding for highway infrastructure. The appropriation for these federal stimulus moneys is included in H.B. 2, the transportation budget bill for FY 2010-FY 2011.

## Ohio Begins Borrowing to Pay Unemployment Compensation in January 2009

*—Deauna Hale, Budget Analyst, 614-995-0142*

In January 2009, Ohio began borrowing against its federally approved line of credit to pay unemployment compensation. Unemployment compensation is generally funded by a state tax on Ohio employers. The Department of Job and Family Services collects the tax quarterly and the revenue is transferred to a federal bank account (the Unemployment Compensation Trust Fund), which is then made available to the state to pay benefits. Each year since FY 2000, benefit expenditures have exceeded tax revenues. In January 2009, the balance of the trust fund was depleted. As of March 27, 2009, Ohio had borrowed about $607 million; additional lines of credit have been approved for April ($225 million) and May ($50 million). The amounts approved for borrowing decline in those months since at that time the state will begin to receive first quarter tax receipts and will not need to borrow as much.

The American Recovery and Reinvestment Act of 2009 includes a provision that essentially waives interest on borrowing for the next two years. On October 1, 2010, interest will begin to accrue on any remaining principal and future borrowings. Ohio's first interest payment, if any, will be due September 30, 2011. Payback of the principal on the moneys borrowed will come from Ohio's trust fund once a balance has been restored; interest must be paid from state revenue sources.

## Scripps Gerontology Center Releases Evaluation on Assisted Living Program

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

In March 2009, the Scripps Gerontology Center at Miami University released its evaluation of the Assisted Living Medicaid Waiver Program. The Department of Aging paid $113,840 in FY 2009 from GRF sources for the evaluation and will receive federal reimbursement of 50% for this expenditure. Among other things, the evaluation studied provider participation in the program, program costs, and the level of satisfaction of participants.

Launched on July 1, 2006, 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 program enrollment is capped at 1,800.

According to the Scripps report, as of February 2009, Assisted Living had 169 providers and over 1,000 participants. The 169 providers represent 46% of eligible facilities. The Cleveland, Columbus, and Cincinnati regions have the largest numbers of providers. The Rio Grande, Cambridge, and Youngstown regions have the highest participation rates among eligible providers. Approximately 40% of counties do not have a facility participating in the program. Currently, over 500 individuals are on the waiting list. While openings are available in the program, there are either no participating facilities in the area or the individuals are waiting for openings with the provider of their choice. The report recommends that the Department of Aging and the area agencies on aging, which administer the program at the local level, share successful strategies for attracting facilities to participate in the program.

Scripps reports the average annual Medicaid cost for Assisted Living participants was just over $30,600. That compares to an average annual Medicaid cost for nursing facility residents of more than $67,500. In general, the difference in costs can be attributed to the higher level of disability of nursing facility residents.

Scripps also found high levels of satisfaction among Assisted Living participants for both the program itself and the participating facilities. In fact, most participants that leave the program do so to enroll in a nursing facility, presumably because they need a higher level of care.

## Board of Regents Announces Choose Ohio First Awards

*—Mary Morris, Budget Analyst, 614-466-2927*

On March 13, 2009, the Board of Regents (BOR) announced the first Choose Ohio First Scholarship award recipients of FY 2009. The Choose Ohio First Program was established in H.B. 119 as part of the Ohio Innovation Partnership initiative. Awards are granted to colleges and universities for promising initiatives to recruit Ohio residents as students in the fields of science, technology, engineering, mathematics, and medicine (STEM). H.B. 119 appropriated $50 million in each year of the FY 2008-FY 2009 biennium for the program. Although BOR is awarding the grants in FY 2008 and FY 2009, BOR intends to disburse the total $100 million appropriation over the next five years to support scholarship recipients through their graduations.

The awards announced in March provide 11 collaborative programs with about $13.4 million. The table below provides the lead institution and award amounts for each of the 11 recipients. All projects involve collaboration between an Ohio institution of higher education and at least one other institution, business, or government entity. According to BOR, the next round of awards will be announced in late FY 2009 and will include approximately $32 million in awards.

| FY 2009 First Round Choose Ohio First Recipients | | |
|---|---|---|
| **Lead Institution** | **Program Name** | **Award** |
| Wright State University | STEM Degrees and Careers for Ohioans with Disabilities, Including Veterans | $2.7 million |
| University of Cincinnati | Enhancing the Success of Future Health Professionals Through Synergistic Cross-Collegiate Programming | $2.4 million |
| Wilmington College | Creating Affordable and Effective Educational Pathways in Information Technology | $1.7 million |
| University of Toledo | Building Ohio Talent for a Sustainable Energy Future | $1.6 million |
| Ohio State University | Future Scientists of Ohio | $1.5 million |
| Ohio University | Choose Appalachian Teaching | $1.0 million |
| University of Cincinnati | Masters Degrees as Conduits to Recruiting, Retaining, and Upgrading Ohio's STEM Workforce | $0.8 million |
| Cleveland State University | Engineering Across the Pipeline | $0.5 million |
| Ashland University | Northeast Ohio Biosciences Pathway Initiative | $0.5 million |
| Hiram College | Improving the Retention and Learning of Students in STEM Subjects Through Learning Communities | $0.4 million |
| University of Cincinnati | The Cincinnati STEM Hub Partnership | $0.3 million |
| **Total Award** | | **$13.4 million** |

## OCALI Awarded Contract to Serve Individuals with Autism and Other Low-Incidence Disabilities

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

In January 2009, the Ohio Department of Education (ODE) awarded a contract totaling $4.0 million in federal funds to the Ohio Center for Autism and Low Incidence (OCALI). OCALI is responsible for administering programs and coordinating services for infants, preschool and school-aged children, and adults with autism and other low-incidence disabilities. Of the $4.0 million contracted amount, $1.2 million is for the remainder of FY 2009 and $2.8 million is for FY 2010.

H.B. 66 of the 126th General Assembly codified OCALI, a then-existing program of ODE, by requiring ODE to establish it. ODE subsequently subgranted federal funds to the Franklin County Educational Service Center[5] as the fiscal agent of OCALI. H.B. 562 of the 127th General Assembly, effective September 23, 2008, required the Franklin County Educational Service Center to establish OCALI, effectively transferring OCALI from ODE to the Franklin County Educational Service Center.

H.B. 562 also required ODE to contract with an entity providing the services that had been provided by OCALI but with "primary consideration" given to OCALI. ODE issued a request for proposal (RFP) immediately after the effective date of H.B. 562. In October 2008, the Controlling Board approved an interim contract totaling $421,567 in federal funds for OCALI to provide services through December 2008. In Janaury 2009, ODE officially awarded the contract to OCALI.

[5] The Franklin County Educational Service Center merged with the Delaware-Union Educational Service Center to form the Educational Service Center of Central Ohio effective January 1, 2009.

## Supreme Court Plans Expansion of Legal Education Opportunity Program in Summer 2009

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

According to Court personnel, approximately 210 students will attend Law and Leadership classes in the summer of 2009, up from 35 in the previous year. H.B. 119 requires the Supreme Court to develop and provide activities under a Legal Education Opportunity Program that are designed to introduce low-income, minority, and educationally disadvantaged Ohio students to the field of law. The Law and Leadership classes are a part of this program. H.B. 119 appropriated $250,000 and $350,000 in fiscal years 2008 and 2009, respectively, for the program. Approximately $246,000 of the FY 2008 appropriation was spent on start-up costs, including staff training, travel, and purchasing of materials, in addition to providing the five-week Law and Leadership class to 35 students in Columbus and Cleveland during the summer of 2008.

The FY 2009 appropriation is sufficient to fund three separate sessions of the Law and Leadership class, scheduled to take place in Cleveland, Columbus, and Dayton. In addition, the Ohio State Bar Foundation has tentatively agreed to provide a maximum of $3.1 million over four years to enable an expansion of the program to cities such as Toledo, Cincinnati, and Akron. With these additional funds, the Court plans to conduct six sessions of the class in the summer of 2009, serving a total of 210 participants.

# TRACKING THE ECONOMY

—*Phil Cummins, Economist, 614-387-1687*

## Overview

Employment and production continued to decline through March, and unemployment continued to increase, nationwide and likely also in Ohio. Available data for the state show the downtrend in employment and rising unemployment continued through February. The decline in fourth quarter 2008 inflation-adjusted gross domestic product (real GDP) was revised to 6.3%, at an annual rate, the sharpest decline since 1982. Another steep decline appears likely to be reported for the 2009 first quarter. Falling employment and business activity continue to depress incomes and purchasing power.

The recession continued through March. However, some segments of the economy have shown tentative signs of an upturn or a slower rate of decline.

However, some segments of the economy have shown tentative indications of improvement. Factory new orders rose in February. Consumer spending rose in January and February, with improvement at a number of different types of stores. Light vehicle unit sales rose in March, from an exceptionally low level in February. Housing starts and unit sales of new and used homes rose in February, from low levels.

Inflation turned higher in January and February, after declines in broad price measures in the last three to five months of 2008. The upturn in inflation largely reflects increases from December lows in prices for gasoline, crude oil, and related energy products.

The Obama administration announced on March 30 that its Auto Task Force concluded its review of restructuring plans submitted by General Motors and Chrysler, and that these plans did not go far enough. GM was offered federal funding for 60 more days to complete an acceptable plan. Chrysler, seeking an alliance with Fiat, was offered federal funding for 30 days to complete an agreement with that company or another viable partner. Because of the concentration of motor vehicle and parts manufacturing and employment in Ohio, the extent of cutbacks and concessions that may be part of these plans is of particular interest in this state.

The U.S. Treasury on March 23 announced more details of its plan to remove so-called toxic assets from the books of the nation's banks. Uncertainty about the value of certain bank assets, consisting of real estate loans and of securities backed by real estate loans, played a major role in the collapse of interbank credit markets last year following the downturn in home prices. The Treasury plan would use public-private partnerships to invest in these assets, buying up to $1 trillion of them from the banks, with private-sector investors competing with one another to set prices for these loans and securities, and a mix of public and private money sharing risks and profits. The willingness of banks to sell these assets at prices that may be offered, and of investors to participate, remains to be determined.

In March, the nation's central bank kept its target interest rate at 0% to 0.25%, announced expansion of its purchases of federal agency debt and agency mortgage-backed securities, and began a program of buying longer dated U.S. Treasury securities. These programs are aimed at providing greater support to mortgage lending and housing markets and at improving conditions in private credit markets. Members of the bank's Federal Open Market Committee, in their March meeting to set monetary policy, viewed downside risk to the outlook as predominant in the near term. Thereafter, however, they thought market forces plus monetary and fiscal policies already in place would result in economic recovery. Some anticipated the economic recovery later this year, while other members thought it would be delayed and weak.

The severe recession continues to afflict economies around the world. The World Bank on March 31 projected that global real GDP would fall in 2009 by 1.7%, with the volume of world trade shrinking 6.1% and the value falling by much more than this because commodity prices fell sharply last year and are expected to remain low. The World Bank projects that high-income economies as a group will contract by 2.9% this year – including the U.S. economy, expected to shrink 2.4% – and that developing economies will grow only 2.1% on average, with declines in the economies of a number of the developing nations.

Employment nationwide fell 663,000 in March. The unemployment rate rose to 8.5%.

In April, the Group of Twenty (G-20) nations reached agreement on a tripling of International Monetary Fund (IMF) lending capacity to $750 billion, providing additional resources for combating recession. In addition, the G-20 will back the IMF in creation of an additional $250 billion of special drawing rights, the IMF's own reserve asset that borrowing nations can draw on if needed, to increase global liquidity.

## The National Economy

### Employment and Unemployment

Nationwide employment on nonfarm payrolls declined by 663,000 in March and unemployment rose to 13.2 million people, 8.5% of the labor force. Since the business cycle peak in December 2007, nonfarm payrolls have fallen by 5.1 million (3.7%), with nearly two-thirds of the drop in the most recent five months. Declines in manufacturing, construction, and temporary help service employment have been particularly large. Health care employment, in contrast, has continued to trend upward. The 8.5% unemployment rate in March was the highest since 1983, rising from 4.9% in December 2007. In March, 8.2 million of the unemployed had lost their jobs or completed temporary jobs, up from 3.8 million at the start of the recession. The number of people working part-time who would prefer full-time jobs has nearly doubled in the past 15 months to 9.0 million.[6] The share of the working-age population with jobs has fallen to 59.9%, lowest since 1985.

### Production

The nation's real GDP declined at a 6.3% annual rate in the 2008 fourth quarter, in the latest estimate from the U.S. Bureau of Economic Analysis (BEA). Declines were widespread among broad components of GDP, with consumer spending, nonresidential and residential fixed investment, and exports falling sharply. Federal government purchases of goods and services rose while state and local government outlays declined. Inventories were liquidated in the fourth quarter, but not by as much as in the previous two quarters. Imports fell for the fifth consecutive quarter. Corporate profits fell 22% in the fourth quarter from fourth quarter 2007, and 10% in 2008 from 2007.[7] Despite price declines in parts of the economy, the GDP implicit price deflator rose at a 0.6% annual rate in the fourth quarter.

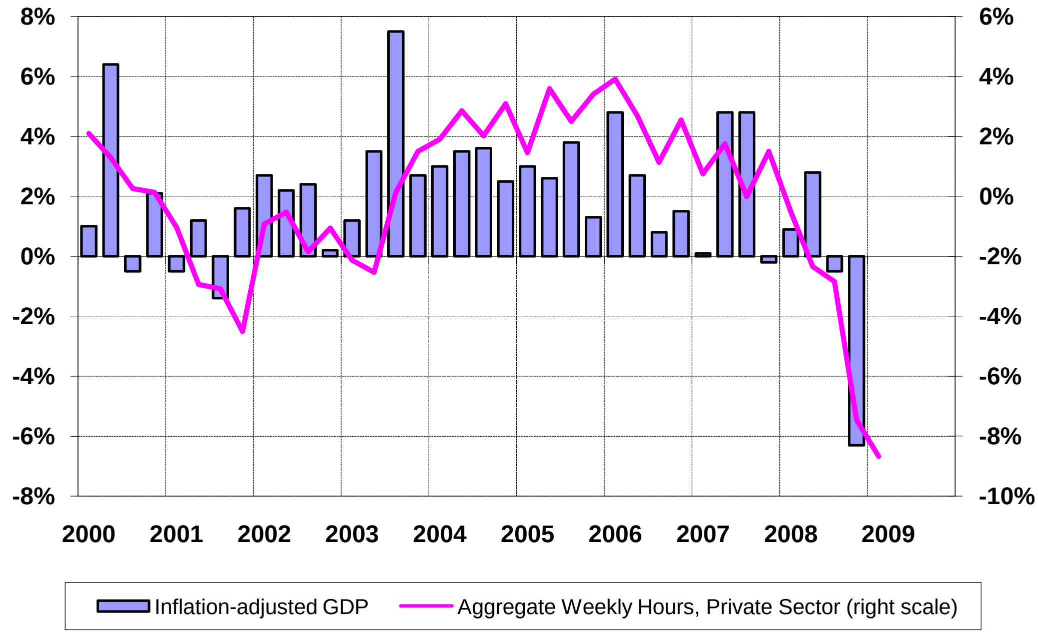
Real GDP fell at a 6.3% annual rate in the 2008 fourth quarter. Another sharp decline is likely to be reported for this year's first quarter.

A further sizable decline in first quarter 2009 real GDP appears likely to be reported later this month when BEA releases its first estimate. One indication of this is shown in Chart 1, where quarterly changes in GDP are graphed with changes in the total of weekly paid hours of production or nonsupervisory workers in the private sector (aggregate weekly hours), an input to the production process. Declines in numbers of employees and in average weekly hours paid to production workers have been depressing aggregate weekly hours.

[6] Most persons working part-time do so for noneconomic reasons, such as attendance at school, childcare or other family responsibilities, retirement or Social Security limits on earnings, or medical limitations.

[7] The corporate profits figures cited here are from the national income and product accounts and include inventory valuation and capital consumption adjustments.

**Chart 1: Gross Domestic Product and Aggregate Hours**
**Change from Previous Quarter at Annual Rate**




Industrial production fell 1.4% in February as utility output dropped sharply, in part reflecting above-average temperatures. Manufacturing output declined 0.7% with lower output in many industries, but with motor vehicle and parts production higher as plants ended extended shutdowns in January. Factory production in February was 13% lower than a year earlier.

Manufacturers' new orders rose 1.8% in February after declining in each of the previous six months. This series frequently is volatile from month to month. Factory shipments fell 0.1%, the seventh consecutive decline. Unfilled orders of manufacturers declined 1.4%, their fifth straight decline. Inventory levels dropped 1.2%, the sixth consecutive drop.

The downturn in manufacturing continued in March, as indicated by the Institute for Supply Management's monthly survey of purchasing managers. More survey respondents said their companies were experiencing declines in new orders than reported increases. Similarly, more reported lower production, inventories, order backlogs, and prices than noted increases. However, the percent of survey respondents seeing increased new orders has risen substantially since December, while the share with decreased new orders has declined. Also, inventory liquidation has become more widespread, which over time will reduce excess inventories toward more acceptable levels. A comparable survey of purchasing managers with nonmanufacturing organization also showed continued contraction last month in various measures of activity.

### Consumer Spending

The dollar value of consumer spending rose an estimated 0.2% in February, after increasing 1.0% in January and declining sharply in last year's fourth quarter. For the first two months of this year, the rate of consumer spending is higher than in last year's fourth quarter. After adjustment for price changes – rising prices in the first two months of this year, falling prices on average in October through December of last year – the pace of consumer outlays remains higher in January-February than in the fourth quarter. This pattern of improvement could change as March data become available, or as a result of data revisions. Wage and salary disbursements continued to decline through February, as did proprietors' income, rental income, and interest and dividend receipts. On the other hand, government transfer payments rose, for unemployment insurance, social security, and other programs.

Consumer spending rose in January and February after steep declines late last year.

Retail sales fell 0.1% in February following a 1.8% increase in January, and declining sales every month in the last five months of 2008. Retail sales rose in both January and February at several kinds of businesses, including electronics and appliance stores; health and personal care stores; clothing stores; sporting goods, hobby, book and music stores; general merchandise stores; and nonstore (Internet and catalog) retailers. Gasoline station sales also rose in January and February, probably reflecting the rise in gasoline prices since December.

Consumer credit outstanding, other than real estate loans, fell at a 3.5% annual rate in February, after an upturn in January, resuming the downturn of last year's fourth quarter. Consumer credit is particularly important for purchases of motor vehicles and other large-ticket items.

Wholesale sales rose 0.6% in February, following a 2.4% decline in January. Inventories at wholesalers were reduced 1.5% in February, lowering the ratio of wholesale inventories to sales for the first time since mid-2008. The largest decline was in inventories of automotive products, reduced 7.9% in February.

Sales of cars and light trucks in the U.S. rose in March to a 9.8 million unit seasonally adjusted annual rate from 9.1 million units in February, the slowest sales pace since December 1981. The upturn in sales in March may or may not be the start of a more extended improvement but leaves sales far below the annual sales pace in excess of 16 million units in 1999 to 2007.

Sales in March at large retail stores that release results monthly were 2.1% below a year earlier, in the International Council of Shopping Centers (ICSC) compilation of these reports. The figures are on a same-store basis, including only store locations open in both months being compared. The ICSC attributed the decline in part to the timing of the Easter holiday, three weeks later this year than last year, and to one fewer Saturday in March this year than last year, and estimated that sales would have increased adjusted for these calendar shifts.

### Construction

Housing starts and sales rose in February, following large declines earlier.

Housing starts, seasonally adjusted, rose a surprising 22% from January to February. This sharp upturn, however, following three years of declines, left starts in February 47% lower than a year earlier, and 74% below the 2006 peak. The increase for the month was almost entirely in structures with five or more units, in all regions of the country except the West. Construction permits for starts on new housing, for which data are collected in a separate survey, rose much more modestly in February, increasing 3% from the low for this cycle (to date) in January.

New homes sold rose 5% in February, seasonally adjusted. January's sales rate was the lowest on records starting in 1963. Builders' inventories of homes under construction or completed and awaiting sale had been reduced by February to the lowest level since 2003, but were still high relative to the slow pace of sales. The median new home sales price in February was $200,900, 18% lower than a year earlier. The average price, $251,000, was 17% lower than in February 2008.

Another measure of housing prices, the S&P/Case-Shiller Home Price Indices, showed a 19% decline in January compared with a year earlier. The index measures single-family home resale prices in 20 metropolitan areas. The component of the index for the Cleveland area, the only part of Ohio included in this index, shows a 5% decline in January compared with January 2008.

Sales of homes in February reported by the National Association of Realtors (NAR), mostly previously occupied units, were 5% higher than a month earlier, seasonally adjusted, but 5% lower than a year earlier. In the Midwest, home sales in February were 14% lower than a year earlier. Sales were also lower in the Northeast and South, but were 30% higher in the West, where home prices have fallen most sharply. The NAR estimated that distressed sales, of properties in foreclosure or at prices less than remaining loan obligations plus other costs to close the sale, accounted for 40% to 45% of all sales in February. Compared with the recent peak for home sales in 2005, the pace of transactions in recent months was lower in the U.S. and in the Midwest by one-third or more.

Construction activity nationwide continued to decline through February. The value of new construction put in place, adjusted for seasonality but not for price changes, fell 0.9% in February. Year-to-date total construction activity was 11% lower than a year earlier, following declines of 6% in 2008 and 3% in 2007, and increases earlier in the decade. Private residential construction in the January through February period was 30% lower than a year earlier, after declining 28% in 2008; private nonresidential construction was 1% lower, after increasing 15% last year; and public construction was 1% higher, following a 7% increase in 2008.

### Inflation

The consumer price index rose 0.4% in February after increasing 0.3% in January. These increases followed declines in the last three months of 2008, and left the index only 0.2% higher in February than a year earlier. The upturn in consumer inflation in the latest two months chiefly reflects higher prices for gasoline, following sharp declines in the second half of 2008.

Regular gasoline prices nationwide averaged over $2 per gallon on Monday, April 6, in the U.S. Energy Information Administration's weekly survey. At $2.037 per gallon, the average price was about 42 cents per gallon higher than the recent low in December, but remained far lower than the peak in excess of $4 per gallon last summer.

The producer price index for finished goods rose 0.1% in February following a 0.8% increase in January and declines in the last five months of 2008. This index was 1.3% lower in February than a year earlier. Prices for finished energy goods rose in the latest two months after five months of declines, in part as a result of higher gasoline prices at the wholesale level. At earlier stages in the production process, the price indices for intermediate materials, supplies, and components and for crude materials both declined in February for the seventh consecutive month, though not as rapidly as late last year. Intermediate goods prices in February were 5.2% lower than a year earlier, and crude materials prices were 35% lower.

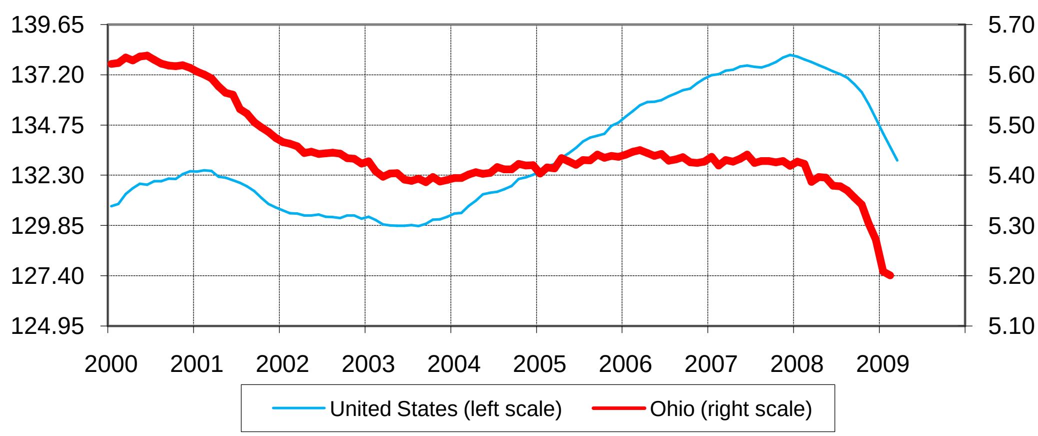
Crude oil prices have firmed this year. Prices for the U.S. benchmark grade rose to around $50 per barrel in March and early April from a low near $30 in late December.

Statewide employment fell 7,600 in Ohio in February. The unemployment rate rose to 9.4%.

## The Ohio Economy

Nonfarm payroll employment in Ohio fell, seasonally adjusted, in February for the tenth consecutive month. Employment in the state has been trending lower for nearly three years, as shown in Chart 2, but the rate of decline accelerated last year. The drop in employment in February, by 7,600 (0.1%), was relatively small but followed a particularly sharp decline in January. Since March 2006, employment statewide has declined nearly 250,000 (4.6%); compared with the peak in 2000, the number of nonfarm payroll jobs in Ohio has fallen nearly 440,000 (7.8%). Unemployment statewide rose in February 2009 to 9.4% of the labor force, seasonally adjusted, from 8.8% in January, and 5.9% in February 2008. The unemployment rate in February 2009 was 1.3 percentage points higher in Ohio than nationwide. Weekly unemployment insurance claims in Ohio, reported separately, continued well above year-earlier levels in March. Many of Ohio's metropolitan areas had unemployment rates above 10% in February. The metropolitan area data are not seasonally adjusted. Unemployment rates in the state's 13 largest metropolitan areas in February ranged from 13.5% in Sandusky down to 7.9% in Columbus.

**Chart 2: Total Nonfarm Payroll Employment**
**Millions, Seasonally Adjusted**




State personal income fell in the fourth quarter of 2008 in Ohio and 40 other states, as job losses accelerated. The decline in Ohio was relatively small, 0.3% at an annual rate. Nationwide, personal income fell at a 0.8% annual rate. Because of a sharp drop in prices, as measured by the personal consumption expenditures deflator, inflation-adjusted personal income rose in the last three months of 2008, as shown in Chart 3. Personal income in Ohio has about kept pace with that nationwide over the past year, but growth here has fallen far short of that in the country as a whole over longer time periods, as illustrated by the chart.

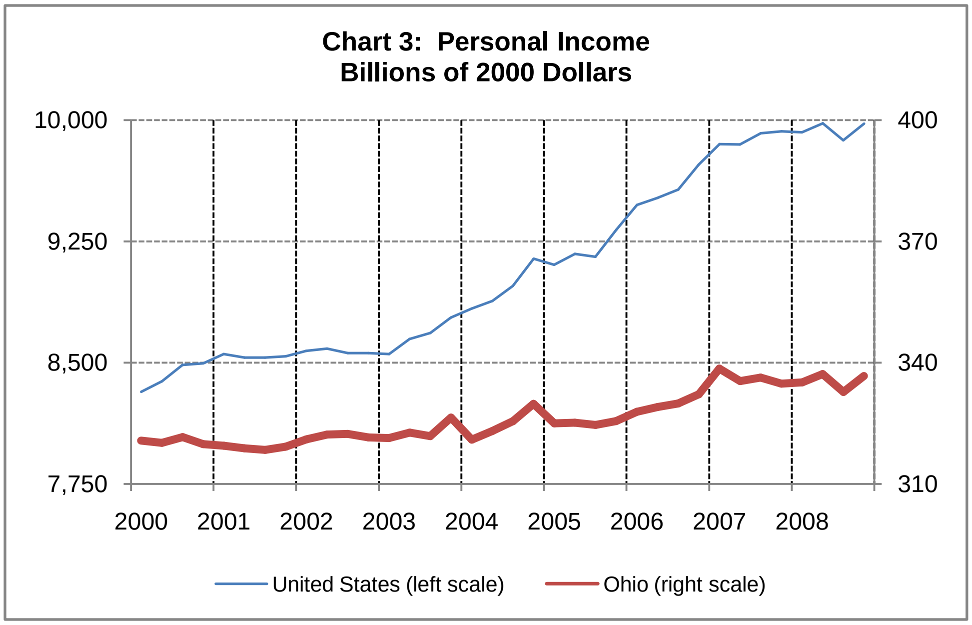


Chart 3: Personal Income
Billions of 2000 Dollars
10,000
9,250
8,500
7,750
400
370
340
310
2000
2001
2002
2003
2004
2005
2006
2007
2008
United States (left scale)
Ohio (right scale)