Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION   DECEMBER 2008

STATUS OF THE GRF

HIGHLIGHTS

—Ross Miller, Chief Economist, 614-644-7768

The economy was officially declared to be in recession this month, with the start determined to have been in December 2007. Payroll employment fell by 533,000 nationally in November. Ohio's unemployment rate has been above 7.0% since July.

November's total tax revenues were $77.4 million (6.3%) below the revised estimate issued by the Office of Budget and Management (OBM) in October. OBM announced a further reduction in revenue estimates for FY 2009, totalling $640 million.

Through November 2008, GRF sources totaled $9,762.5 million:

- Tax revenues were $138.4 million (2.0%) below estimate.
  - Personal income tax revenues were below estimate by $48.8 million (1.5%).
  - Revenue from the sales and use tax was below estimate by $74.6 million (2.4%).

Through November 2008, GRF uses totaled $13,477.4 million:

- GRF program expenditures were $141.9 million (1.1%) above estimate, due almost entirely to spending for property tax relief.

VOLUME 32, NUMBER 4

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of November 2008
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 4, 2008)*

	Actual	Estimate**	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$44,528	$57,440	-$12,911	-22.5%
Nonauto Sales and Use	$539,385	$559,376	-$19,990	-3.6%
Total Sales and Use Taxes	$583,913	$616,816	-$32,903	-5.3%
Personal Income	$497,535	$507,500	-$9,965	-2.0%
Corporate Franchise	-$45,092	-$35,531	-$9,561	26.8%
Public Utility	$26,070	$23,566	$2,504	10.6%
Kilowatt Hour Excise	$7,632	$9,799	-$2,167	-22.1%
Commercial Activity Tax***	$0	$0	$0	---
Foreign Insurance	$8,685	$0	$8,685	---
Domestic Insurance	-$8,516	$100	-$8,616	-8615.9%
Business and Property	$1	$30	-$29	-95.1%
Cigarette	$63,628	$79,372	-$15,744	-19.8%
Alcoholic Beverage	$4,617	$5,179	-$562	-10.9%
Liquor Gallonage	$3,054	$2,942	$112	3.8%
Estate	$1,849	$11,000	-$9,151	-83.2%
Total Tax Revenue	**$1,143,377**	**$1,220,773**	**-$77,396**	**-6.3%**
NONTAX REVENUE				
Earnings on Investments	$51	$0	$51	---
Licenses and Fees	$506	$600	-$94	-15.6%
Other Revenue	$10,577	$7,900	$2,677	33.9%
Total Nontax Revenue	**$11,135**	**$8,500**	**$2,635**	**31.0%**
TRANSFERS				
Liquor Transfers***	$12,000	$12,000	$0	0.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In***	$40,373	$250,360	-$209,987	-83.9%
Total Transfers In	**$52,373**	**$262,360**	**-$209,987**	**-80.0%**
TOTAL STATE SOURCES	**$1,206,886**	**$1,491,633**	**-$284,747**	**-19.1%**
Federal Grants	$241,893	$505,394	-$263,502	-52.1%
TOTAL GRF SOURCES	**$1,448,779**	**$1,997,027**	**-$548,248**	**-27.5%**

* Liquor and other transfers based on information from OBM

** Revised estimates of the Office of Budget and Management released October 6, 2008.

***Commercial activity tax receipts in FY 2009 are non-GRF.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2009 as of November 30, 2008
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 4, 2008)*

	Actual	Estimate**	Variance	Percent	FY 2008	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$382,717	$382,652	$66	0.0%	$405,543	-5.6%
Nonauto Sales and Use	$2,709,452	$2,784,154	-$74,702	-2.7%	$2,745,729	-1.3%
Total Sales and Use Taxes	$3,092,169	$3,166,806	-$74,637	-2.4%	$3,151,272	-1.9%
Personal Income	$3,150,755	$3,199,531	-$48,776	-1.5%	$3,290,290	-4.2%
Corporate Franchise	$1,201	$165	$1,036	628.0%	-$50,631	-102.4%
Public Utility	$75,336	$76,743	-$1,407	-1.8%	$62,209	21.1%
Kilowatt Hour Excise	$56,210	$58,705	-$2,495	-4.3%	$148,445	-62.1%
Commercial Activity Tax***	$0	$0	$0	---	$0	---
Foreign Insurance	$137,238	$133,802	$3,436	2.6%	$132,770	4.5%
Domestic Insurance	-$772	-$158	-$614	388.4%	$391	-297.0%
Business and Property	$323	$376	-$52	-14.1%	$388	-16.7%
Cigarette	$338,553	$348,754	-$10,202	-2.9%	$360,345	-6.0%
Alcoholic Beverage	$24,675	$25,486	-$811	-3.2%	$25,027	-1.4%
Liquor Gallonage	$14,971	$14,990	-$19	-0.1%	$14,438	3.7%
Estate	$25,253	$29,082	-$3,829	-13.3%	$27,893	-9.7%
Total Tax Revenue	**$6,915,911**	**$7,054,282**	**-$138,371**	**-2.0%**	**$7,162,838**	**-3.4%**
NONTAX REVENUE						
Earnings on Investments	$51,426	$42,400	$9,026	21.3%	$45,415	13.2%
Licenses and Fees	$19,772	$19,011	$761	3.9%	$19,978	-1.0%
Other Revenue	$32,307	$29,605	$2,702	9.1%	$23,348	38.4%
Total Nontax Revenue	**$103,505**	**$91,016**	**$12,489**	**13.7%**	**$88,741**	**16.6%**
TRANSFERS						
Liquor Transfers***	$69,000	$60,000	$9,000	15.0%	$64,000	7.8%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In***	$46,054	$283,980	-$237,926	-83.8%	$268,577	-82.9%
Total Transfers In	**$115,054**	**$343,980**	**-$228,926**	**-66.6%**	**$332,577**	**-65.4%**
TOTAL STATE SOURCES	**$7,134,471**	**$7,489,278**	**-$354,807**	**-4.7%**	**$7,584,156**	**-5.9%**
Federal Grants	$2,628,045	$2,912,098	-$284,053	-9.8%	$2,629,912	-0.1%
TOTAL GRF SOURCES	**$9,762,515**	**$10,401,376**	**-$638,862**	**-6.1%**	**$10,214,068**	**-4.4%**

* Liquor and other transfers based on information from OBM

** Revised estimates of the Office of Budget and Management released October 6, 2008.

***Commercial activity tax receipts in FY 2009 are non-GRF.

Detail may not sum to total due to rounding.

REVENUES

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

Overview

November tax revenues were below estimate by $77.4 million. Year-to-date tax revenues were below estimate by $138.4 million and below FY 2008 receipts by $246.9 million.

Economic data over the past several weeks have been uniformly negative. At a year old, the recession seems to be getting deeper and job losses are accelerating. The worsening economic conditions resulted in another bad month for state revenues. Tables 1 and 2 show GRF sources for November and FY 2009 through November, 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. For the month of November, total GRF sources of $1,448.8 million were below estimate by $548.2 million (27.5%). State-source receipts of $1,206.9 million were $284.7 million (19.1%) below estimate, primarily from a shortfall of $210.0 million in receipts from transfers in. Federal grants of $241.9 million were $263.5 million (52.1%) below estimate, primarily due to a timing issue. Federal grants that would have been received at the end of November were booked on December 1.[1] Although transfers in accounted for 73.7% of the shortfall in state-source receipts, tax sources also performed poorly. Tax revenues of $1,143.4 million were $77.4 million (6.3%) below estimate. Revenues from the two primary GRF sources, the personal income tax and sales and use tax, were below estimates by $10.0 million (2.0%) and $32.9 million (5.3%), respectively. The cigarette tax, the third most important tax source, was $15.7 million (19.8%) below estimate.

Through November, FY 2009 total GRF sources of $9,762.5 million were below estimate by $638.9 million (6.1%). State-source receipts totaled $7,134.5 million, $354.8 million (4.7%) below estimate. Federal grants totaled $2,628.0 million, $284.1 million (9.8%) below estimate. Total tax revenues were $138.4 million (2.0%) below estimate. The personal income tax and the sales and use tax were $48.8 million (1.5%) and $74.6 million (2.4%), respectively, below estimate. Revenue from the cigarette tax was $10.2 million (2.9%) below estimate. All the remaining

[1] Other GRF sources, including transfers in, may have been similarly affected by the same calendar issue.

taxes were below expectations, except the corporate franchise and the foreign insurance taxes, which were above estimate by small amounts.

Compared to FY 2008, FY 2009 year-to-date GRF sources were $451.6 million (4.4%) below the level of November 2007, due to the $449.7 million (5.9%) decrease in state-source receipts. Tax revenues accounted for $246.9 million of the decrease in state-source receipts and were 3.4% below FY 2008 tax receipts through November. FY 2009 year-to-date transfers in were $217.5 million (65.4%) below the FY 2008 level in the corresponding period. Year-to-date receipts from all three primary GRF sources were below the levels of November 2007, including decreases of $139.5 million (4.2%) in personal income tax receipts, $59.1 million (1.9%) in sales and use tax receipts, and $21.8 million (6.0%) in cigarette tax receipts. Other taxes with notable year-to-year revenue variances included a decrease of $92.2 million (62.1%) in kilowatt-hour tax receipts due to an increase this year in the share of receipts distributed to local government funds, an increase of $13.1 million (21.1%) in public utility excise tax receipts, and an increase of $51.8 million in corporate franchise tax receipts.

Personal Income Tax

After a relatively good performance in September, receipts from the personal income tax were dreadful in the last two months. In October, GRF income tax receipts were $66.7 million (9.4%) below estimate. In November, receipts of $497.5 million were $10.0 million (2.0%) below estimate and $45.3 million (8.3%) below November 2007 receipts. Through November, FY 2009 receipts of $3,150.8 million were $48.8 million (1.5%) below estimate and $139.5 million (4.2%) 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,[2] trust payments, payments associated with annual returns, and miscellaneous payments.

Income tax base is shrinking; withholding receipts fall below last year's levels.

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

FY 2009 Year-to-date 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	-$13.5	-0.4%	-$149.8	-4.7%
Quarterly Estimated Payments	-$8.0	-2.0%	-$15.0	-3.7%
Trust Payments	-$1.5	-9.4%	-$4.6	-24.5%
Annual Return Payments	$15.3	12.6%	$19.4	16.6%
Miscellaneous Payments	-$9.5	-26.7%	-$5.5	-18.1%
Gross Collections	-$17.1	-0.5%	-$155.4	-4.1%
Less Refunds	$32.0	22.4%	$10.5	6.4%
Less Local Government Fund Distribution	-$0.4	-0.1%	-$24.6	-7.6%
Income Tax Revenue	-$48.8	-1.5%	-$141.3	-4.3%

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 so far in FY 2009 is of concern. Revenue from employer withholding was below estimate the last two months. Also, when compared to the same month in 2007, withholding revenue declined 5.3% and 7.0% in October and November, respectively. Although some of the shortfall is a result of lower tax rates this fiscal year, due to a combination of job losses and reduced income gains, the personal income tax base has clearly decreased in this quarter compared to the same period last year. Recent forecasts of Ohio personal income and wage growth have been downgraded, which suggests poor performances for this tax in the months ahead.

Sales and Use Tax

The performance of the sales and use tax was wretched for consecutive months. In October 2008, GRF sales and use tax receipts were $45.0 million (7.1%) below estimate and $38.0 million (6.1%) below

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income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

receipts in October 2007. November receipts of $583.9 million were $32.9 million (5.3%) below estimate and $33.8 million (5.5%) below receipts in November 2007. Through November, FY 2009 receipts of $3,092.2 million were $74.6 million (2.4%) below estimate and also $59.1 million (1.9%) below FY 2008 receipts through November 2007.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[3] 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

The performance of the nonauto sales and use tax, which had been mediocre in the first quarter of FY 2009, took a turn for the worse in the current quarter. Nonauto sales and use tax GRF receipts in October 2008 were 8.1% below estimate and 6.1% below October 2007 receipts. November receipts of $539.4 million were $20.0 million (3.6%) below estimate and $6.1 million (1.1%) below receipts in the same month last year.

Non auto sales tax receipts were again below FY 2008 level in November.

Through November, FY 2009 year-to-date nonauto sales and use tax receipts of $2,709.5 million were $74.7 million (2.7%) below estimate and $36.3 million (1.3%) below receipts in FY 2008, which suggests a contraction of the taxable base in the first five months of FY 2009. Overall personal consumption expenditures declined in the third quarter of 2008 for the first time since the recessionary period of 1991, and the trend appears to continue this quarter. National retail figures were awful in November. The International Council of Shopping Centers' index of same-store sales (which tallies sales at stores open at least a year from major retailers) fell 2.7% in the month, the worst since 1969.[4] Even discount stores, some of which had limited sales growth in October, suffered. Most department stores had double-digit declines. Compared

[3] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

[4] Excluding Wal-Mart, the index of same-stores sales fell 7.1%.

to November last year, sales of apparel were down 20.2%, sales of electronics declined 25.2%, and luxury stores sales were off 24.4%, despite apparently respectable sales over the Thanksgiving weekend.

Employment, unemployment, wage growth, and income gains, which determine nonauto sales and use tax receipts, have continued to deteriorate. The unemployment rate is increasing steadily, wage growth is slowing, and disposable income growth has been anemic. Gasoline prices have fallen by more than 50% since July 2008, which would typically be a boon to consumers. However, the positive effect of lower gasoline prices has been drowned out by the deepening recession, as consumers continue to shut their wallets. As a consequence, the outlook for the nonauto sales and use tax for December and the remainder of the fiscal year is increasingly bleak.

Auto Sales and Use Tax

Auto sales tax receipts were 22.5% below estimate in November.

November auto sales and use tax receipts of $44.5 million were $12.9 million (22.5%) below estimate, and $27.7 million (38.4%) below receipts in November 2007. November receipts were so weak they erased October's 2.6% fiscal year-to-date growth compared to the same period in FY 2008. Through November, FY 2009 year-to-date auto sales and use tax receipts of $382.7 million matched the estimate and were $22.8 million (5.6%) below receipts through November in FY 2008.

Buyers ignored manufacturers' discounts and lower gas prices, and nationwide light vehicle (autos and light trucks) sales in November plummeted 37%, when compared to year-ago sales. For the month, on an annualized basis, 5.0 million autos and 5.2 million light trucks were sold. Sales of light vehicles through November in FY 2009 were 24.2% below unit sales in the corresponding period in FY 2008. Sales of autos and light trucks declined about 17.0% and 30.5%, respectively. It is likely that the consumer retrenchment will continue to negatively affect auto sales and use tax receipts in the next few months.

Cigarette and Other Tobacco Products Tax

November GRF receipts from the cigarette and other tobacco products tax were $63.6 million, $15.7 million (19.8%) below estimate and $18.7 million (22.7%) below November 2007 receipts. Through November, FY 2009 year-to-date receipts from the tax were $338.6 million, $10.2 million (2.9%) below estimate. Those receipts were $21.8 million (6.0%) below FY 2008 receipts in the corresponding period. Revenues from taxed cigarettes were $321.9 million, down $21.5 million (6.3%) from last year's level. Revenues from the tax on other tobacco products were $16.6 million, down $0.3 million (1.6%). 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

Refunds from the corporate franchise tax were $45.1 million in November, $9.6 million (26.8%) above estimate, and $11.3 million (20.0%) below refunds in November 2007. Through November, FY 2009 receipts from this tax source were $1.2 million, $1.0 million above estimate. In FY 2008 through November, refunds exceeded payments by $50.6 million. Activities under this tax through December of a fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations. Although year-to-date results may portend a strong performance of the corporate franchise tax this year, major tax payments are due January 31, March 31, and May 31. As part of the five-year phase out of the corporate franchise tax enacted in H.B. 66 of the 126th General Assembly, the corporate franchise tax for nonfinancial corporations will be eliminated in FY 2010.

Commercial Activity Tax

November CAT receipts were 6.3% below estimate; taxable base affected by economic slowdown.

In November 2008, commercial activity tax (CAT) receipts were $272.2 million, $18.2 million (6.3%) below estimate. Through November , FY 2009 total CAT receipts were $635.8 million, $19.3 million (3.1%) above estimate, and $187.3 million (41.7%) above receipts in FY 2008, primarily due to a higher tax rate this fiscal year. November receipts were generally for taxable gross receipts in the July-September period for taxpayers who pay this tax on a quarterly basis. Although year-to-date receipts are above estimate, receipts this month suggest that growth of the CAT tax base (on a year-ago basis) may have stalled. 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.[5] Taxpayers pay 80% of their liability in FY 2009, and the tax will be fully phased in in FY 2010.

[5] 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 November 2008
($ in thousands)
(Actual based on OAKS reports run December 8, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$618,934	$629,593	-$10,659	-1.7%
Higher Education	$338,854	$329,106	$9,747	3.0%
Total Education	$957,788	$958,699	-$912	-0.1%
Public Assistance and Medicaid	$899,143	$883,657	$15,486	1.8%
Health and Human Services	$96,018	$97,835	-$1,817	-1.9%
Total Welfare and Human Services	$995,162	$981,493	$13,669	1.4%
Justice and Public Protection	$182,619	$175,863	$6,756	3.8%
Environment and Natural Resources	$20,989	$5,144	$15,845	308.0%
Transportation	$3,023	$2,629	$394	15.0%
General Government	$22,235	$19,152	$3,082	16.1%
Community and Economic Development	$8,769	$13,348	-$4,579	-34.3%
Capital	$30	$0	$30	---
Total Government Operations	$237,666	$216,137	$21,529	10.0%
Tax Relief and Other	$134,019	$134,623	-$603	-0.4%
Debt Service	$0	$0	$0	---
Total Other Expenditures	$134,019	$134,623	-$603	-0.4%
Total Program Expenditures	**$2,324,634**	**$2,290,952**	**$33,682**	**1.5%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	$0	$0	$0	---
TOTAL GRF USES	**$2,324,634**	**$2,290,952**	**$33,682**	**1.5%**

* October 2008 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 November 30, 2008
($ in thousands)
(Actual based on OAKS reports run December 8, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2008**	**Percent Change**
Primary, Secondary, and Other Education	$3,294,980	$3,343,764	-$48,783	-1.5%	$3,193,386	3.2%
Higher Education	$1,174,220	$1,192,377	-$18,158	-1.5%	$1,180,834	-0.6%
Total Education	$4,469,200	$4,536,141	-$66,941	-1.5%	$4,374,220	2.2%
Public Assistance and Medicaid	$5,172,831	$5,196,891	-$24,060	-0.5%	$4,854,278	6.6%
Health and Human Services	$575,478	$588,642	-$13,164	-2.2%	$573,525	0.3%
Total Welfare and Human Services	$5,748,309	$5,785,533	-$37,224	-0.6%	$5,427,803	5.9%
Justice and Public Protection	$1,012,379	$996,612	$15,767	1.6%	$942,789	7.4%
Environment and Natural Resources	$57,411	$52,572	$4,839	9.2%	$57,991	-1.0%
Transportation	$8,517	$12,984	-$4,467	-34.4%	$10,854	-21.5%
General Government	$187,151	$192,973	-$5,822	-3.0%	$179,199	4.4%
Community and Economic Development	$69,732	$72,940	-$3,207	-4.4%	$66,865	4.3%
Capital	$37	$42	-$5	-11.9%	$56	-33.6%
Total Government Operations	$1,335,228	$1,328,122	$7,105	0.5%	$1,257,754	6.2%
Tax Relief and Other	$787,102	$548,920	$238,183	43.4%	$568,732	38.4%
Debt Service	$302,250	$301,477	$772	0.3%	$283,008	6.8%
Total Other Expenditures	$1,089,352	$850,397	$238,955	28.1%	$851,740	27.9%
Total Program Expenditures	**$12,642,088**	**$12,500,193**	**$141,895**	**1.1%**	**$11,911,517**	**6.1%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$835,268	$852,439	-$17,171	-2.0%	$610,839	36.7%
Total Transfers Out	$835,268	$852,439	-$17,171	-2.0%	$610,839	36.7%
TOTAL GRF USES	**$13,477,357**	**$13,352,632**	**$124,725**	**0.9%**	**$12,522,356**	**7.6%**

* October 2008 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 month of November, total GRF uses of $2,324.6 million were $33.7 million (1.5%) above the estimate released by the Office of Budget and Management in October 2008 (Table 3). This estimate takes into account the executive-ordered budget reductions that were announced in September.[6] For the first five months of FY 2009, GRF uses of $13,477.4 million were $124.7 million (0.9%) above estimate (Table 4). GRF uses consist primarily of program expenditures but also include transfers out. No transfers out occurred in November, so this month's GRF uses equaled program expenditures, which totaled $2,324.6 million, $33.7 million (1.5%) above estimate. Through November, GRF uses included $12,642.1 million in program expenditures, which was $141.9 million (1.1%) above estimate, and $835.3 million in transfers out, which was $17.2 million (2.0%) below estimate. The year-to-date positive variance in total GRF program expenditures was almost entirely attributable to property tax relief payments.

Year-to-date GRF program expenditures were above estimate by $141.9 million, which was almost entirely attributable to expenditures for property tax relief.

Major Year-to-date Positive Variances

Through November, expenditures for the Tax Relief and Other program category were $238.2 million (43.4%) above estimate. The vast majority of expenditures in this program category are for property tax relief payments for school districts and local governments. School districts and local governments are reimbursed semi-annually. The first half payments are based on the property tax bills due at the February settlement period and the second half are based on the property tax bills due at the August settlement period. Semi-annual reimbursements for the August 2008 property tax settlement period, totaling $753.9 million, are now complete.[7] Expenditures in the Tax Relief and Other program category will be modest in coming months until the next semi-annual reimbursement payments begin. Year-to-date positive variances in this program category, however, will continue in future months because the OBM estimate did not account for increased expenditures attributable to

[6] In December, OBM lowered its revenue estimates for FY 2009 by another $640 million. Additional budget reductions for FY 2009 may occur.

the Homestead exemption expansion enacted in H.B. 119 of the 127th General Assembly.

Justice and Public Protection was the only other program category with a notable positive variance in year-to-date expenditures; it was above estimate by $15.8 million (1.6%). The Department of Rehabilitation and Correction's (DRC) Institutional Operations line item registered a year-to-date variance of $14.0 million due to the timing of transfer payments from this line item. According to DRC, it appears that the OBM estimate did not reflect a transfer payment of $23.6 million that was made in October. DRC is required by statute to make quarterly transfers from its GRF main operations line item into its General Services Fund Group line item, Services and Agriculture, to support service industries and agricultural production within DRC.

Major Year-to-date Negative Variances

Through November, expenditures for the Primary, Secondary, and Other Education program category were $48.8 million (1.5%) below estimate. This variance was attributable to the Department of Education's (ODE) Foundation Program line item ($20.6 million) and Student Assessments line item ($25.6 million). Foundation payments for schools are driven by a formula that is largely based on each district's student enrollment and property wealth. The difference between estimated and actual student enrollment is a common cause for variances in this line item. Expenditures for student assessments often varies from month to month depending on the timing of invoices from vendors.

Year-to-date Medicaid expenditures were $45.6 million below estimate.

Medicaid accounts for about 95% of expenditures in the Public Assistance and Medicaid program category. Table 5 details Medicaid expenditures by service category. Through the first five months of FY 2009, GRF Medicaid expenditures totaled $4,770.0 million, $45.6 million (0.9%) below estimate. Almost 38% of total year-to-date GRF program expenditures were for Medicaid.

Year-to-date expenditures for the Higher Education category were $18.2 million (1.5%) below estimate. This variance was largely attributable to the Board of Regents' Ohio Research Scholars line item. OBM estimates assume a payment of $26.0 million for Ohio Research

[7] The payment data came from the Department of Taxation.

Scholars in September. However, no expenditures have yet occurred under this line item this year. Furthermore, taking into account the executive-ordered budget reductions, the FY 2009 GRF appropriation for Ohio Research Scholars totals only $14.6 million. Year-to-date postive variances in this line item are therefore expected to continue through the remainder of FY 2009.

Prior Year Encumbrances

As reported in the July issue of *Budget Footnotes*, state agencies carried into FY 2009 more than $874 million in encumbered funds that were originally appropriated for fiscal years prior to FY 2009. An agency generally has five months to spend prior year encumbrances for operating expenses. Any unspent operating expense encumbrances generally will lapse at the end of the five-month period and will become part of the GRF cash balance. Subject to the approval of the Director of Budget and Management, an agency may carry funds encumbered for purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

As of December 1, 2008, outstanding prior year encumbrances totaled $219.5 million.

Prior Year Encumbrances by Agency

Agency	Prior Year Encumbrances as of July 1, 2008	Amount Spent	Outstanding Encumbrances as of December 1, 2008	Amount Lapsed
Job and Family Services	$505.4	$371.3	$92.6	$41.5
Education	$169.3	$134.0	$32.8	$2.5
Development	$107.0	$25.7	$81.1	$0.2
Regents	$21.0	$18.1	$1.5	$1.3
Rehabilitation & Correction	$17.9	$16.1	$0.3	$1.6
All other agencies	$53.6	$37.2	$11.2	$5.3
Total	**$874.2**	**$602.3**	**$219.5**	**$52.5**

As shown in the table above, as of December 1, 2008, $602.3 million (68.9%) of the $874.2 million in total encumbrances was spent, $219.5 million was still outstanding, and the remaining $52.5 million lapsed. The Ohio Department of Job and Family Services (ODJFS) had the largest share (42.2%) of the total outstanding encumbrances, followed by the Department of Development (DOD) at 36.9% and ODE at 14.9%. Together, these three agencies had $206.5 million (94.1%) of the

$219.5 million in total outstanding encumbrances. Medicaid alone accounted for $65.5 million (70.7%) of ODJFS's total outstanding encumbrances. The vast majority of DOD's outstanding encumbrances were for various economic development grants. Many of these grant programs are operated on a reimbursement basis, under which grantees have to carry out the programs and certify that certain requirements or objectives have been met before they are reimbursed by the state. For example, a grantee may be awarded grants in FY 2007 but not receive them until FY 2009 or later, depending on the scope of the project. Included in ODE's outstanding encumbrances was $9.1 million for various literacy improvement initatives, $8.6 million under the Foundation Funding program for potential year-end school formula aid payment adjustments for FY 2007 and FY 2008, and payments for various grants such as teacher professional development.

** 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	November Actual	November Estimate	November Variance	November Percent Variance	Year to Date Actual thru Nov	Year to Date Estimate thru Nov	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$216,855	$217,152	-$297	-0.1%	$1,081,780	$1,073,792	$7,988	0.7%
ICFs/MR	$45,600	$46,725	-$1,125	-2.4%	$222,596	$228,951	-$6,355	-2.8%
Inpatient Hospitals	$79,881	$79,802	$79	0.1%	$428,177	$434,182	-$6,005	-1.4%
Outpatient Hospitals	$31,941	$29,705	$2,236	7.5%	$157,124	$154,046	$3,078	2.0%
Physicians	$27,499	$25,330	$2,169	8.6%	$138,411	$131,981	$6,430	4.9%
Prescription Drugs	$42,937	$43,422	-$485	-1.1%	$207,412	$210,913	-$3,501	-1.7%
ODJFS Waivers	$23,402	$25,892	-$2,490	-9.6%	$131,677	$140,966	-$9,289	-6.6%
MCP - CFC	$255,781	$258,869	-$3,088	-1.2%	$1,505,561	$1,518,488	-$12,927	-0.9%
MCP - ABD	$98,849	$102,376	-$3,527	-3.4%	$639,786	$651,016	-$11,230	-1.7%
Medicare Buy-In	$25,628	$26,158	-$530	-2.0%	$126,594	$129,963	-$3,369	-2.6%
All Other	$80,214	$81,771	-$1,557	-1.9%	$410,466	$423,823	-$13,357	-3.2%
DA Medical	$826	$874	-$48	-5.5%	$4,764	$5,107	-$343	-6.7%
Total Payments	$929,413	$938,076	-$8,663	-0.9%	$5,054,348	$5,103,228	-$48,880	-1.0%
Offsets								
Drug Rebates	-$7,972	-$8,155	$183	-2.2%	-$24,503	-$24,918	$415	-1.7%
Revenue and Collections	-$7,424	-$7,595	$171	-2.3%	-$22,546	-$23,134	$588	-2.5%
ICF/MR Franchise Fees	-$1,250	-$1,250	$0	0.0%	-$2,500	-$2,500	$0	0.0%
NF Franchise Fees	-$19,444	-$19,444	$0	0.0%	-$38,888	-$38,888	$0	0.0%
IMD/DSH Payments	$0	$0	$0	--	$0	$0	$0	--
MCP Assessments	-$20,000	-$20,000	$0	0.0%	-$60,000	-$60,000	$0	0.0%
Health Care Federal	-$91,982	-$92,384	$402	-0.4%	-$238,765	-$240,775	$2,010	-0.8%
Total Offsets	-$148,072	-$148,828	$756	-0.5%	-$387,202	-$390,215	$3,013	-0.8%
Total 600-525 (net of offsets)	$781,341	$789,248	-$7,907	-1.0%	$4,667,146	$4,713,013	-$45,867	-1.0%
Medicare Part D (600-526)	$19,870	$20,057	-$187	-0.9%	$102,899	$102,630	$269	0.3%
Total GRF	**$801,211**	**$809,305**	-$8,094	**-1.0%**	**$4,770,045**	**$4,815,643**	-$45,598	**-0.9%**
Total All Funds	**$949,283**	**$958,133**	-$8,850	**-0.9%**	**$5,157,247**	**$5,205,858**	-$48,611	**-0.9%**

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

FY 2009 Research Incentive Grants Help Ohio Universities Leverage over $1 Billion in External Funding

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

For FY 2009, the Board of Regents (BOR) awarded $17.5 million through the Research Incentive Program to supplement $1.3 billion in external funding raised by participating higher education institutions in FY 2007. This equates to nearly $76 in external funding for every $1 of research incentive funding. In FY 2009, $6.0 million of the funding for the research incentive awards is from the proceeds of the sale of Third Frontier bonds. The remaining funding is from the GRF. The program is designed to encourage and supplement nonstate funding obtained by research programs at Ohio universities. Awards are allocated based on the amount of outside funding raised, collaboration with other institutions and businesses, and whether a project's focus is on issues critical to the state. Research Incentive projects include objectives such as product development, alternative energy solutions, and scientific discovery, and are primarily in science, technology, engineering, and mathematics (STEM) fields. The following table lists the FY 2009 awards by institution.

FY 2009 Research Incentive Awards			
Institution	**Award**	**Institution**	**Award**
Akron	$437,000	Ohio State	$7,678,000
Bowling Green	$223,000	Ohio University	$558,000
Central State	$62,000	Shawnee State	$24,000
Cincinnati	$4,235,000	Toledo	$866,000
Cleveland State	$207,000	Wright State	$610,000
Kent State	$342,000	Youngstown	$71,000
Miami University	$291,000	Case Western	$1,454,000
NEOUCOM	$102,000	Dayton	$291,000

Board of Regents Introduces Nursing Faculty Grants

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

In October, BOR received Controlling Board approval for the creation of the Nursing Faculty Fellowship Grant Program (NFFGP). The program, which is a collaboration between BOR and the Ohio Department of Job and Family Services, will provide fellowships to registered nurses enrolled in post-licensure Master's or Ph.D. nursing education programs who promise to serve as nursing faculty for four years after graduation. In FY 2009, the program is funded with $700,000 of federal Workforce Investment Act (WIA) discretionary funds. As many as 45 student fellows will receive awards of up to $15,000. The grant program is intended to encourage Ohio's registered nurses to teach after receiving a post-licensure degree. Ohio faces a shortage of nursing faculty because clinical positions tend to offer higher wages for individuals with a post-licensure degree. The faculty shortage limits the number of courses that nursing programs can offer, and it is believed that an increase in the number of nursing professors could translate into more openings for students in graduate nursing programs, leading to more trained nurses in the state.

Board of Regents Selects First Recipients of Ohio Teacher Corps Program Funds

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

As of the end of October, BOR has awarded professional enhancement funds to nine recipients under the new Ohio Teacher Corps Program. H.B. 119 created this program to provide up to $20,000 over five years in either professional enhancement or loan repayment funds to qualified first-year teachers. In order to qualify, first-year teachers must be licensed to teach in the areas of foreign language, science, or mathematics, and commit to a minimum of five years of service at one of approximately 200 schools deemed "hard to staff" by the Ohio Department of Education. Professional enhancement funds are paid directly to eligible teachers to use as they deem appropriate. Loan repayment funds are paid directly to lenders. H.B. 119 earmarked $4.0 million for professional enhancements and $2.0 million for loan repayments from GRF appropriation item 235435, Teacher Improvement Initiatives, to pay for the program in FY 2009.

Teachers have until May 15, 2009, to apply for the program this school year. Each of the nine current professional enhancement recipients has received $6,000 this school year, and will receive $3,000 in the second, third, and fourth years, and $5,000 in the fifth year of their contracts. Individuals choosing loan repayments are limited to 30% (up to $6,000) of the loan repaid in the first year, 15% (up to $3,000) in the second, third, and fourth years, and 25% (up to $5,000) in the fifth year. Teachers who do not complete the five-year commitment are required to refund the full amount received plus applicable interest.

Alternative Education Grants to Fund 117 Programs in FY 2009

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

The Department of Education (ODE) has granted nearly $11.8 million for FY 2009 to 117 alternative education programs through two earmarks of GRF appropriation item 200421, Alternative Education Programs. The grants, which require a minimum local match of 40%, fund programs that serve students who are at risk of school failure, dropout, and other related problems, with the majority of students placed in the programs in lieu of suspension or expulsion from school. Programs provide intervention services to these at-risk students in an effort to help them successfully re-enter their regular classroom or achieve other positive outcomes.

In FY 2008, the same 117 programs received more than $12.1 million in state support and served more than 25,000 students. According to ODE, 86% of students enrolled in long-term programs (ten days or more) achieved at least one successful outcome, meaning that they graduated from high school, advanced a grade level, earned credits for graduation, or transitioned back to their traditional school. The grant program was created in FY 2000 with an initial funding level of $20 million annually, and has served approximately 200,000 students. In FY 2009, the 117 funded programs will serve all of the state's 21 major urban school districts as well as 483 rural and suburban districts.

2008 State Fair Posts a Profit of Nearly $375,000

— Terry Steele, Budget Analyst, 614-387-3319

The Ohio Expositions Commission reported a profit of nearly $375,000 from the 2008 State Fair. Overall revenue from the event, held July 30th through August 10th, was $7.44 million, of which $5.27 million (70.8%) was derived from admission fees, ticket sales for entertainment and attractions, and exhibit space rental. The remaining $2.17 million (29.2%) came from event sponsorships, parking and camping fees, and other sources such as concession and livestock auction revenues. Expenses totaled

$7.06 million, with payroll and entertainment contracts accounting for $4.38 million (62.1%) of that amount. The remaining $2.68 million (37.9%) was spent on prizes, advertising, fairground maintenance, supplies, utilities, and other items. Attendance for this year's fair was more than 809,000, an increase of about 3,000 over the total in 2007.

The Expositions Commission has an FY 2009 budget of $14.69 million, of which $13.64 million is expected to be funded by revenues from the State Fair and approximately 200 other events held on the state fairgrounds throughout the year. A GRF appropriation of $400,000 is used to support the Junior Fair held in conjunction with the State Fair. Under certain conditions, the Commission may tap the State Fair Reserve Fund if receipts from the annual event fall short of expenses. The last time the Commission exercised this authority was in 2002. As of November 24, 2008, the reserve fund had a cash balance of approximately $125,000.

Ohio Historical Society Places Four Additional State Historic Sites under Local Management

— Brian Hoffmeister, Budget Analyst, 614-644-0089

Attempting to reduce operating expenses for historic sites under its stewardship, the Ohio Historical Society (OHS) has signed partnership agreements with local organizations in 2008 for the day-to-day management of four additional historic sites. These four sites and the anticipated savings to OHS are listed in the table below.

State Historic Sites Changed to Partnership Status in 2008			
Site	**Location (County)**	**Local Partner**	**Estimated Annual Savings**
Cedar Bog	Urbana (Champaign)	Cedar Bog Association	$47,000
Museum of Ceramics	East Liverpool (Columbiana)	Museum of Ceramics Foundation	$83,000
Schoenbrunn Village	New Philadelphia (Tuscarawas)	Dennison Railroad Depot Museum, Inc.	$76,000
Tallmadge Church	Tallmadge (Summit)	City of Tallmadge	$22,000
		Total Estimated Annual Savings	**$228,000**

All four sites are owned by the state of Ohio and will remain so under the operating agreements with the local partners. As a result of these four agreements, the number of sites directly operated and staffed by OHS falls from 25 to 21 and the number of sites operated by local partners increases from 25 to 29. In addition to these 50 staffed sites, OHS directly maintains eight unstaffed sites. Although OHS is a not-for-profit organization, it receives a state subsidy for site and museum operating costs, including routine maintenance, utilities, general upkeep, and staffing. H.B. 119 appropriated $8.5 million for this purpose in FY 2009, an amount that has been reduced to $7.9 million as a result of the recent executive-ordered budget reductions.

Pharmacy Board Receives New Federal Prescription Drug Monitoring Program Grant

— Jamie L. Doskocil, Senior Budget Analyst, 614-387-0477

The Ohio State Board of Pharmacy recently received a new federal grant in the amount of $400,000 from the federal Bureau of Justice Assistance to help fund Ohio's Prescription Monitoring Program (PMP). The program, which became fully operational in October 2006, involves the submission of information on certain prescriptions to an electronic database administered by the Board of Pharmacy for the purpose of monitoring the misuse and diversion of controlled substances and certain dangerous drugs, particularly at the retail level. To date, the Board has received five federal grants totaling $1.73 million to assist in funding Ohio's PMP.

Under Ohio's PMP, each pharmacy licensed as a terminal distributor of dangerous drugs that dispenses drugs to patients in the state and each wholesale distributor of dangerous drugs that delivers drugs to prescribers in the state are required to submit certain prescription and purchase information to the Board of Pharmacy for entry into the database. The database includes approximately 39 million prescription records for 8.6 million patients.[8] Since the program's inception, law enforcement officers have made almost 17,000 requests for database information. Prescribers and pharmacists have also submitted more than 456,000 requests for information from the database relating to client patients.

Job and Family Services Increases the Military Injury Relief Grant to $750

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

The Ohio Department of Job and Family Services (ODJFS) has increased the military injury relief grant amount from $500 in FY 2008 to $750 in FY 2009. During the first five months of FY 2009, ODJFS awarded 273 grants totaling $204,750. In FY 2008, 303 grants totaling $151,500 were awarded. In order to be eligible, an individual must

[8] Records are deleted weekly so that only two years of data is in the database at any one time. Records are added twice a month, which is the frequency that pharmacies are required to report.

have been injured while serving on active duty during Operation Enduring Freedom (Afghanistan) or Operation Iraqi Freedom or have been diagnosed with post traumatic stress disorder after having served in those operations. The injury must have occurred while the individual was receiving hazardous duty, combat, or hostile fire pay. Applicants are eligible for one grant per fiscal year. The grant program was created by H.B. 66 of the 126th General Assembly. Grants are paid from the Military Injury Relief Fund, which primarily receives donations made through the state income tax refund contributions system. Since its creation in FY 2006, the fund has received about $500,000 each year. At the beginning of FY 2009, the fund balance was $1.5 million.

Aging Served 905 Individuals Through PACE Program in FY 2008

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

The Department of Aging served 905 individuals in FY 2008 through PACE (Program for All-Inclusive Care for the Elderly) at a cost of $24.6 million. Of this amount, $10.0 million was funded with state general revenue funds and $14.6 million with federal funds. PACE is a managed care program that provides participants with all of their needed health and medical care, supplies, and support services in institutional and community settings. The program is currently operated at two sites: Concordia Care in Cleveland and TriHealth Senior Link in Cincinnati. To be eligible, participants must be age 55 or older, require a nursing home level of care, live in the Cleveland or Cincinnati area, and qualify for Medicaid coverage under the institutional financial eligibility standards. The table below highlights FY 2008 program statistics for each site, including funding by source as well as individuals served and on waiting lists.

PACE Program Statistics for FY 2008

Site	GRF	Federal	Individuals Served in FY 2008	Individuals on Waiting List at the End of FY 2008
Concordia Care	$3.5 million	$5.0 million	354	26
TriHealth Senior Link	$6.5 million	$9.6 million	551	30
Total	**$10.0 million**	**$14.6 million**	**905**	**56**

TRACKING THE ECONOMY

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

Overview

The economy is in a recession that began in December 2007.

Economic indicators show further slowing in activity in the nation and Ohio. Employment on payrolls nationwide fell 533,000 in November, the 11th consecutive monthly decline, as the national unemployment rate rose to 6.7%. Nonfarm payrolls in Ohio fell in October to the lowest level since 2003, and unemployment remained elevated. Industrial production recovered in October from effects of hurricanes and a labor strike in September, but fell in November as indicated by drops in employment and hours worked and by the Institute for Supply Management's monthly manufacturing survey. Consumer spending fell in October, and unit sales of light motor vehicles and sales at most large retailers declined further in November. Housing starts and sales declined in October. Sectors of the U.S. economy with strong or growing demand, at least in some geographic areas, include bankruptcy services, health care, information technology, telecommunications, and accounting. Total economic activity in several major foreign countries that are U.S. trading partners is contracting or growing more slowly. Retail and commodity prices have declined in recent months led by energy.

Interest rates on U.S. Treasury bills, notes, and bonds fell to very low levels as prices for these securities were pushed upward by flight-to-quality buying driven by fears about the economic outlook, and by expectations that the Federal Reserve, unable to lower short-term interest rates much further, may inject money into the economy by buying Treasury or agency securities with longer maturities. Interest rates for other borrowers – including state and local governments, corporations, and individuals buying or refinancing homes – remain high relative to those on U.S. Treasury securities, though some money market interest rates have come down relative to Treasury bills from peaks in September and October.

The U.S. economy has been in recession since December 2007. The Business Cycle Dating Committee of the National Bureau of Economic

Research (NBER), the arbiter of cyclical peaks and troughs in economic activity, announced that it had determined that month to be the end of the expansion that began in November 2001 and the beginning of recession. In making its announcement, the Committee noted that payroll employment, which it views as the most reliable broad measure of employment, peaked in December 2007 and had fallen each month since then. Other monthly measures that the Committee considers – including real[9] personal income less transfer payments, real manufacturing and trade sales, and industrial production – peaked between November 2007 and June 2008.

The Federal Reserve reported the revised projections for the economy of its top policy officers, developed in late October when the Federal Reserve lowered its key interest rate target, on federal funds, to 1%. Forecasts of members of this group for the change in real GDP in the four quarters of 2009 range from -1.0% to 1.8%, followed by an upturn in 2010 and 2011. Inflation, measured by the personal consumption expenditures deflator, is expected to slow to a range of 1.0% to 2.2% in 2009 and remain subdued in 2010 and 2011. Projections for the unemployment rate in the fourth quarter of next year range from 6.6% to 8.0%.

Economic activity in many other countries is also declining or is growing more slowly.

The United Nations on December 1 released its current forecast for world output. The report notes that "the world economy is now mired in the most severe financial crisis since the Great Depression" and that "massive public funding was made available to recapitalize banks.... Governments in both developed and developing countries have started to put together fiscal and monetary stimulus packages in order to prevent the global financial crisis from turning into another Great Depression." The authors of the United Nations report expect that "restoring of confidence ... will take months, if not years.... Consequently, it seems inevitable that the major economies will see significant economic contraction in the immediate period ahead." World output grows 1.0% in the report's "baseline scenario" for 2009, down from 2.5% in 2008, as developed economies shrink by 0.5% and growth slows in other economies. The report stresses the high uncertainties about the forecast,

[9] Economists sometimes use the term "real" to indicate that data, in this case related to personal income, have been adjusted for inflation.

and includes both a pessimistic scenario, with world output contracting 0.4% in 2009, as well as an optimistic scenario, with world output growing 1.6%.

A poll of forecasters published in *The Economist* newspaper's December 5 edition shows, in the average forecast for each country, real GDP contracting in 2009 in the United States, nine European countries, and Japan. The average projected economic growth slows but does not turn negative in the other two countries shown in the poll results, Australia and Canada.

The National Economy

Employment and Unemployment

Job losses in the nation were widespread in November and the unemployment rate rose to 6.7%.

Nonfarm payroll employment nationwide fell 533,000 in November, one of the largest monthly declines on record. Including the November payroll employment figures, the decline in employment nationwide this year totals 1.9 million jobs. Job losses were widespread across major industry sectors. About two-thirds of job losses in the past three months have been in industries that principally provide services. Earlier this year, most job losses were in manufacturing and construction. Aggregate hours worked, an indicator of production, declined in most industries and industry groups. The number of people unemployed in November rose to 10.3 million, 6.7% of the labor force, up from an unemployment rate of 5.0% last December, and highest since 1993. Persons unemployed for more than six months totaled 2.2 million last month, up from 1.4 million in November 2007.

Production

Total output of the country's economy, measured by U.S. gross domestic product (GDP), declined in this year's third quarter at a revised 0.5% annual rate, adjusted for inflation. GDP rose at about a 2% annual rate in this year's first half, and apart from a slight decline in last year's fourth quarter, had been expanding since 2001. GDP is estimated as the sum of final demand components and inventory change. The largest of these components, consumer spending, fell in the July-September period at a downward-revised 3.7% annual rate, after growing in every quarter since 1991. Residential fixed investment again fell sharply, to a rate 42% below the peak at the end of 2005. Business fixed investment in equipment and software declined, as it has throughout this year, but investment in business structures rose. Exports and government spending increased. U.S. imports of goods and services from abroad shrank for the fourth consecutive quarter.

Industrial production rose 1.3% in October following a downward-revised 3.7% fall in September when hurricanes and a strike at Boeing reduced output. The source agency for these statistics, the Federal Reserve, estimated that production would have fallen about two-thirds percent in both September and October excluding effects of the hurricanes and the Boeing strike. Manufacturing output rose 0.6% in October but declines in earlier months left the index 5.3% below its level a year earlier, and 5.8% below its all-time peak in July 2007. Declines in industrial production have been large since early last year in consumer durable goods and construction supplies.

The dollar value of manufacturers' new orders fell 5.1% in October, the third consecutive decline. Factory shipments fell 3.2% during that month, also the third straight monthly decline. The value of manufacturers' unfilled orders turned down in October, by 0.6%, after 26 consecutive monthly increases. Durable goods inventories accumulated in October, rising 0.4% to the highest level on record. The value of nondurable goods inventories fell 2.1% following a 2.3% fall in September, led by petroleum and coal product inventories, probably reflecting the fall in prices.

Weakness in the manufacturing sector continued in November, as indicated by the Institute for Supply Management's monthly report. Respondents to the Institute's survey reporting declines in new orders and order backlogs, production, employment, and inventories outnumbered those reporting increases. The new orders index fell to its lowest level since 1980. The order backlogs index was lowest on records kept since 1993. Price declines were widespread, and the index of prices paid was lowest since 1949.

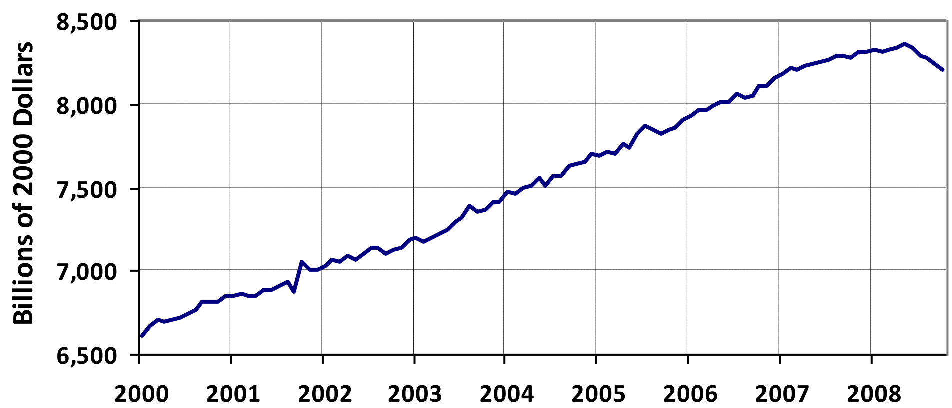
A comparable survey of purchasing and supply executives with nonmanufacturing organizations, also conducted by the Institute for Supply Management, reported the most widespread declines in business activity, new orders, employment, and prices paid since the inception of this survey in 1997. Only Health Care & Social Assistance, among the industry groups surveyed, expanded in November, and measures of activity contracted in 17 industries.

Consumer Spending

Consumer spending is slowing.

Personal consumption expenditures fell sharply in October, declining 1.0%, one of the largest declines in monthly records beginning in 1959. The drop resulted partly from a fall in the price index for consumer spending, reflecting lower prices for gasoline and other energy products. Adjusted for inflation, total consumer spending fell 0.5% from September to October, and has declined 1.9% from its all-time peak in May, as shown in Chart 1. Consumer spending is falling more sharply so far in the current quarter than the 3.7% annual rate of decline reported for the third quarter. The peak for inflation-adjusted consumer spending on durable goods was September 2007, and outlays have fallen 12% since then.

Chart 1: Total Personal Consumption Expenditures



The report on retail sales in October shows widespread declines among retail lines of business, with total retail sales 2.8% lower than a month earlier and 4.1% below a year earlier. Motor vehicle dealer sales fell 5.5%, to 23% lower than in October 2007. Sales at other durable goods stores were also down. General merchandise stores' sales fell 0.4% to 2.3% above a year earlier. Retail sales at gasoline stations fell 12.7% from September to October, reflecting the drop in fuel prices.

Motor vehicle unit sales slowed further in November. At a seasonally adjusted annual rate of 10.1 million units, total light vehicle sales in November were the weakest since 1982. The sales rate has fallen more than one-third since the beginning of this year. Light truck sales in November rose from October's rate but were slower than in any other month since 1993. Car sales, at a 5.0 million unit annual rate, were lowest in more than 40 years.

Sales at large retail chains that report monthly results, measured in dollars, were 2.7% lower than a year earlier, a record decline, the International Council of Shopping Centers reported.[10] Retail price discounting is widespread as retailers expect slow holiday sales.

The Federal Reserve in late November started a program to help meet credit needs of households and small businesses by lending up to $200 billion to holders of asset-backed securities collateralized by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration. The program is intended to support issuance of these asset-backed securities, historically a substantial source of funding for consumer and small business credit.

Construction

Housing starts and sales continue to fall.

Another of the government support programs for credit markets is a $600 billion initiative of the Federal Reserve, also announced in late November, to buy debt of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, and to invest in mortgage-backed securities backed by Fannie Mae, Freddie Mac, and Ginnie Mae. This program is intended to reduce the cost of credit for home purchases and increase availability of funds for this purpose.

Mortgage interest rates fell following this announcement, and are at relatively attractive levels, with 30-year fixed-rate loans averaging 5.53% in the latest week, according to Freddie Mac, down from 5.97% the week before and one of the lowest rates since 2003-2004. Mortgage loan application volume more than doubled in the last week of November, according to a Mortgage Bankers Association weekly survey, as prospective borrowers responded to the drop in mortgage interest rates. Much of the increase was in applications to refinance currently

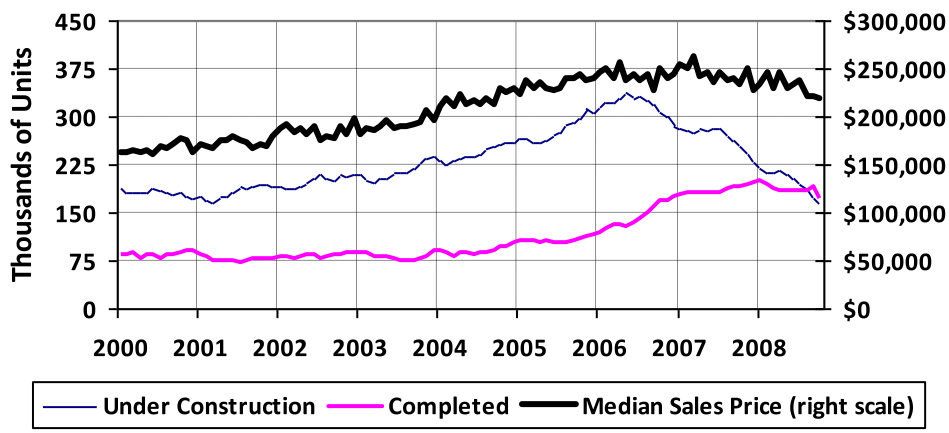
[10] The numbers for chain store sales are on a same-store basis, meaning that they include sales at store locations open both in the reference month and in the year-earlier month, and so exclude both those stores that opened and those that closed during the year.

outstanding loans, but applications for new purchases were also up sharply.

The number of new private housing units started fell 4.5% in October to the lowest rate on records kept since 1959, 38% lower than a year earlier. The number of permits issued for new housing construction fell 12% in October to 40% below a year earlier. The rate of starts on single-family homes has fallen nearly 70% from the recent peak year for starts, 2005. Multifamily housing units were started in October at a rate that also trailed the number in 2005, but by a smaller margin, 26%, than for single family housing.

Sales of new homes fell 5.3%, seasonally adjusted, in October to 40% lower than a year earlier. New home sales in the first 10 months of 2008 were 37% below the year-earlier pace. Builders' inventories of homes under construction have been reduced by more than half since spring 2006, but inventories of completed homes remain high, as shown in Chart 2. The nationwide median sales price of a new home in October, at $218,000, had fallen 17% from the peak in March 2007. New home prices have fallen before, including in the late 1960s and early 1970s and in the early 1990s. The combination of lower new home prices and a continued uptrend in incomes through last May imply that new home prices are now relatively low compared with average incomes.

Chart 2: New Homes for Sale and Median Sales Price



Sales of homes through real estate brokers, generally previously owned units, fell 3.1% in October, seasonally adjusted, to 1.6% below the sales rate in October 2007, in the National Association of Realtors' monthly report. The number of homes listed for sale declined but remained excessive at 10.2 months of sales. The median sales price, at

$183,300, was 11% below a year earlier, pushed downward by numerous sales of houses in foreclosure and other distress sales.

An index of housing prices from the Federal Housing Finance Agency, based on information from Fannie Mae and Freddie Mac on repeat sales or refinancings of single-family residences, shows average home prices in the third quarter of 2008 down 4.0% from a year earlier, the largest four-quarter decline in the series which starts in 1975. Prices were lower than a year earlier in 60% of metropolitan areas. In Ohio, average home prices in the third quarter were 2.1% lower than a year earlier. Excluding appraisals for refinancings, a national home price index for purchase transactions only was 6.0% lower in the third quarter than a year earlier.

Total construction spending fell 1.2% in October, seasonally adjusted, to 4.6% below a year earlier. In the first ten months of 2008, the value of construction put in place was 5.7% lower than a year earlier. Year-to-date private residential construction spending was 24% lower than a year earlier, private nonresidential building was 9% higher than in January-October 2007, and public construction was 7% higher.

Inflation

The consumer price index fell 1.0% in October, the largest seasonally adjusted monthly decline on records that begin in 1947. Consumer prices for all items were 3.7% higher in October than a year earlier. The precipitous drop from September to October resulted from sharply lower prices for gasoline and other energy products, the largest of three consecutive monthly declines in consumer energy prices which nevertheless remained 11.5% higher than a year earlier. Food prices averaged 6.3% higher than in October 2007. Excluding food and energy, consumer prices fell 0.1% in October to 2.2% above a year earlier.

Broad price indicators are declining, mainly because of lower energy prices.

Average prices of regular gasoline have fallen by more than half from last summer's peak. Nationwide, regular gasoline averaged $1.70 per gallon on December 8, down from a peak of $4.11 per gallon in July and lowest in nearly five years. In Ohio, the average price of a gallon of regular gasoline on December 8 was $1.59 per gallon, down from a peak of $4.05 per gallon in July. Sharply lower world crude oil prices are the principal reason for this fall in gasoline prices. The price of the U.S.

benchmark grade of crude oil has dropped from nearly $150 per barrel in early July to well below $50 per barrel recently.

The producer price index for finished goods fell 2.8% in October, the third consecutive monthly decline, to 5.2% above a year earlier. Most of the latest drop in the finished goods price index reflected lower energy prices, though finished producer food prices also were down in October. Prices also fell sharply in October at earlier stages in the production process. Intermediate materials, supplies, and components prices, on average, fell 3.9% in October, the largest of three consecutive declines in this index, mainly reflecting lower energy prices. Crude materials prices fell 18.6%, also the largest of three straight monthly declines. Decreases in crude materials prices continued to be widespread including not only prices for energy materials but also those for food and feed and for other crude materials.

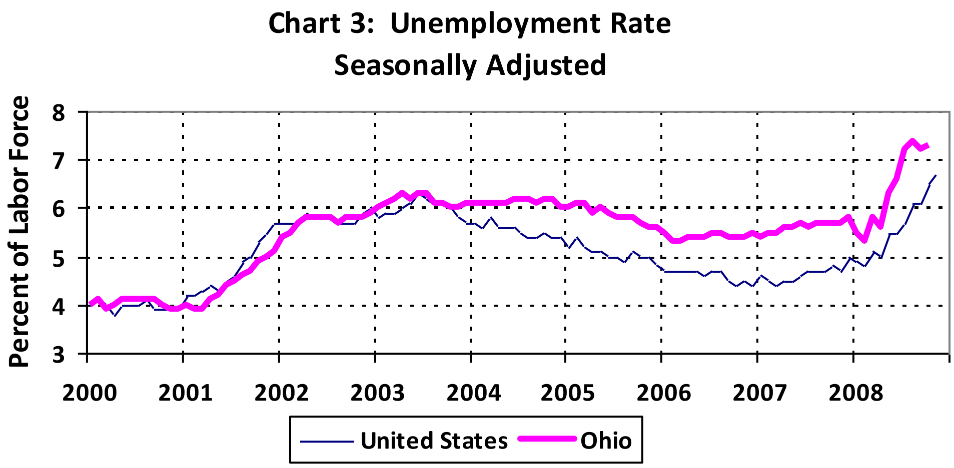
The Ohio Economy

Employment has fallen in Ohio and unemployment is up.

Employment on nonfarm payrolls in Ohio declined 9,000 in October, seasonally adjusted, to 17,300 (0.3%) lower than a year earlier. Declines over the past year were largest in durable goods manufacturing and construction. Total employment in services rose, though the number of jobs fell in some service industries. In the latest month, lower employment was reported in goods and in service producing industries with declines in services including trade, transportation, and utilities; professional and business services; and leisure and hospitality. Among metropolitan areas in the state, the largest declines in nonfarm payroll employment in the year to October were in the Cleveland area, followed by Toledo, Dayton, and Cincinnati-Middletown. Employment rose from October 2007 to October 2008 in the Columbus and Youngstown-Warren-Boardman metropolitan areas.

Unemployment in October statewide totaled 435,000, 7.3% of the state's labor force and 91,000 higher than a year earlier. Ohio's statewide average unemployment rate has been above 7% since July. Unemployment rates in October were highest in the Toledo area, followed by Mansfield and then Dayton, Lima, and the metropolitan area that includes Steubenville and Weirton, West Virginia. The unemployment rate was lowest in the Columbus metropolitan area.

Chart 3 shows the rise in the unemployment rate in the state through October, compared with the national rate through November.



Economic activity weakened markedly since early October in Ohio and parts of nearby states, according to the Cleveland Federal Reserve Bank's contribution to the latest Beige Book, a compilation of reports from business and other contacts.[11] Factory output and steel shipments continued a downtrend that started in the third quarter. Freight transport volume declined for most industry sectors. Retail sales were flat to lower, with the exception of one large discount chain. Seasonal hiring by retailers will be less than last year. New and used car sales have fallen, and auto dealers are cutting additional staff. Employment also declined in manufacturing and residential construction. Job openings through staffing firms were flat to down with openings mainly in health care and financial services. Home builders said sales remained extremely weak, with steep declines in numbers of prospective buyers. Credit was available to contractors and buyers, especially from community banks, but lending standards have tightened. Commercial builders said inquiries about new projects have fallen, attributed to difficulties obtaining financing, while backlogs remain relatively strong. Two-thirds of the Cleveland bank's contacts expected to reduce capital spending in 2009.

[11] Cleveland's section of the Beige Book covers Ohio and adjacent portions of Kentucky, Pennsylvania, and West Virginia. The most recent report is based on information gathered prior to November 24.

Ohio's housing market continues to be soft. The number of homes sold in Ohio in October was 8% lower than a year earlier, the Ohio Association of Realtors reported, and year-to-date unit sales for the first ten months of 2008 were 13% lower than the year-earlier selling rate. Sale prices averaged 8% lower in October and 7% lower for the year to date. Units sold and average sale prices fell in Ohio in 2007 and 2006, after rising to all-time highs in 2005.

Economic Forecast Update

The following table tracks changes in the economic outlook subsequent to the forecast used in projecting state revenues for the FY 2008-FY 2009 budget. Projections shown are those of forecasting firm Global Insight, which in the December forecast shown for the nation expects declining total economic activity through the second quarter of calendar year 2009, followed by an upturn. The Ohio forecast, based on Global Insight's December national outlook, also anticipates declining economic activity through the end of FY 2009.

Revisions to Global Insight Economic Forecast
(selected variables, state fiscal year basis)

	FY 2009	
Variable Name (National)	**Forecast for Budget**	**December 2008 Forecast**
U.S. real GDP growth	3.2%	-1.0%
U.S. personal income growth	5.6%	2.5%
U.S. CPI inflation	1.9%	1.0%
U.S. unemployment rate	4.8%	7.1%
Variable Name (OH)	**Forecast for Budget**	**December 2008 Forecast**
Ohio real GDP growth	2.5%	-1.0%
Ohio personal income growth	4.6%	2.7%
Ohio wage disbursements growth	3.8%	1.7%
Ohio unemployment rate	5.4%	8.3%