Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission — January 2009

Status of the GRF

Highlights

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

The recession has worsened recently, taking its toll on state revenues and Ohioans' budgets. Ohio consumers have reduced their spending, whether out of necessity or as a precautionary measure, reducing revenue from the sales and use tax sharply. Revenue from the personal income tax has held up better; after adjusting for tax rate reductions enacted by H.B. 66 of the 126th General Assembly, the tax base has increased somewhat for the year to date, compared to FY 2008. In contrast, sales and use tax revenue has fallen by 3.6% compared to last year, due to a decrease in the tax base.

Through December 2008, GRF sources totaled $12,140.0 million:

- Tax revenues were $206.9 million (2.4%) below estimate.
  - Sales and use tax revenue was below estimate by $160.6 million (4.1%).
  - Revenue from the personal income tax was $48.9 million (1.2%) below estimate.

Through December 2008, GRF uses totaled $15,146.3 million:

- Most program expenditures remained below estimated amounts, but property tax relief expenditures caused GRF uses as a whole to exceed estimates by $20.7 million (0.1%).

Volume 32, Number 5

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 December 2008
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 7, 2009)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$62,891	$59,967	$2,925	4.9%
Nonauto Sales and Use	$587,805	$676,714	-$88,908	-13.1%
Total Sales and Use Taxes	$650,696	$736,681	-$85,985	-11.7%
Personal Income	$771,381	$771,517	-$136	0.0%
Corporate Franchise	-$2,727	-$3,874	$1,147	-29.7%
Public Utility	$788	$0	$788	---
Kilowatt Hour Excise	$11,833	$12,019	-$186	-1.5%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	-$684	$0	-$684	---
Domestic Insurance	$0	$0	$0	---
Business and Property	$79	$0	$79	---
Cigarette	$85,318	$71,854	$13,464	18.7%
Alcoholic Beverage	$4,325	$4,578	-$253	-5.5%
Liquor Gallonage	$2,891	$3,087	-$196	-6.3%
Estate	$5,463	$2,000	$3,463	173.1%
Total Tax Revenue	**$1,529,363**	**$1,597,862**	**-$68,499**	**-4.3%**
NONTAX REVENUE				
Earnings on Investments	$37	$0	$37	---
Licenses and Fees	-$211	$700	-$911	-130.1%
Other Revenue	$3,469	$4,300	-$831	-19.3%
Total Nontax Revenue	**$3,295**	**$5,000**	**-$1,705**	**-34.1%**
TRANSFERS				
Liquor Transfers	$18,000	$12,000	$6,000	50.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$285,337	$7,860	$277,477	3530.2%
Total Transfers In	**$303,337**	**$19,860**	**$283,477**	**1427.4%**
TOTAL STATE SOURCES	**$1,835,995**	**$1,622,722**	**$213,273**	**13.1%**
Federal Grants	$541,478	$493,227	$48,250	9.8%
TOTAL GRF SOURCES	**$2,377,474**	**$2,115,949**	**$261,525**	**12.4%**

* 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 December 31, 2008
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 7, 2009)

	Actual	Estimate*	Variance	Percent	FY 2008	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$445,608	$442,619	$2,990	0.7%	$461,890	-3.5%
Nonauto Sales and Use	$3,297,257	$3,460,868	-$163,611	-4.7%	$3,420,723	-3.6%
Total Sales and Use Taxes	$3,742,865	$3,903,487	-$160,622	-4.1%	$3,882,613	-3.6%
Personal Income	$3,922,136	$3,971,048	-$48,912	-1.2%	$4,088,139	-4.1%
Corporate Franchise	-$1,525	-$3,709	$2,184	-58.9%	-$49,582	-96.9%
Public Utility	$76,123	$76,743	-$620	-0.8%	$62,209	22.4%
Kilowatt Hour Excise	$68,043	$70,724	-$2,681	-3.8%	$174,665	-61.0%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$136,554	$133,802	$2,752	2.1%	$132,777	2.8%
Domestic Insurance	-$772	-$158	-$614	388.4%	$391	-297.1%
Business and Property	$401	$376	$26	6.8%	$341	17.6%
Cigarette	$423,871	$420,608	$3,262	0.8%	$434,859	-2.5%
Alcoholic Beverage	$29,000	$30,064	-$1,064	-3.5%	$29,474	-1.6%
Liquor Gallonage	$17,862	$18,077	-$215	-1.2%	$17,378	2.8%
Estate	$30,716	$31,082	-$366	-1.3%	$30,091	2.1%
Total Tax Revenue	**$8,445,274**	**$8,652,144**	**-$206,870**	**-2.4%**	**$8,803,355**	**-4.1%**
NONTAX REVENUE						
Earnings on Investments	$51,463	$42,400	$9,063	21.4%	$83,590	-38.4%
Licenses and Fees	$19,561	$19,711	-$150	-0.9%	$20,578	-4.9%
Other Revenue	$35,777	$33,905	$1,872	5.5%	$62,417	-42.7%
Total Nontax Revenue	**$106,801**	**$96,016**	**$10,785**	**11.2%**	**$166,585**	**-35.9%**
TRANSFERS						
Liquor Transfers***	$87,000	$72,000	$15,000	20.8%	$95,000	-8.4%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$331,391	$291,840	$39,551	13.6%	$278,884	18.8%
Total Transfers In	**$418,391**	**$363,840**	**$54,551**	**15.0%**	**$373,884**	**11.9%**
TOTAL STATE SOURCES	**$8,970,466**	**$9,112,000**	**-$141,534**	**-1.6%**	**$9,343,824**	**-4.0%**
Federal Grants	$3,169,523	$3,405,325	-$235,802	-6.9%	$3,119,452	1.6%
TOTAL GRF SOURCES	**$12,139,989**	**$12,517,325**	**-$377,337**	**-3.0%**	**$12,463,276**	**-2.6%**

* Revised estimates of the Office of Budget and Management released October 6, 2008.
**Commercial activity tax receipts in FY 2009 are non-GRF.
*** Liquor transfers based on information from OBM
Detail may not sum to total due to rounding.

REVENUES

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

Overview

The Office of Budget and Management, on December 19, 2008, reduced estimated GRF tax revenues for FY 2009 by an additional $640.4 million.[1] The estimates used in this publication were released by OBM on October 6, 2008 and did not take into account the December revenue revision.

December tax revenues were below estimate by $68.5 million. Year-to-date tax revenues were below estimate by $206.9 million and below FY 2008 receipts by $358.1 million.

Tables 1 and 2 show GRF sources for the month of December and for FY 2009 through December, 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 December, total GRF sources of $2,377.5 million were above estimate by $261.5 million (12.4%). State-source receipts of $1,836.0 million were $213.3 million (13.1%) above estimate, from $283.5 million in higher-than-expected receipts from transfers in. Federal grants of $541.5 million were $48.3 million (9.8%) above estimate. Total GRF sources for December were skewed by the booking of receipts from auto sales and cigarette taxes, federal grants, and transfers in that were originally expected to be received at the end of November.[2] In fact, December 2008 was another bad month for state tax revenues. As in the previous months, tax sources performed poorly. Tax revenues of $1,529.4 million were $68.5 million (4.3%) below estimate, from a shortfall of $86.0 million (11.7%) in sales and use tax revenues. Revenues from the personal income tax matched estimates, and the cigarette tax, the third most important tax source, was $13.5 million (18.7%) above estimate.

Through December, FY 2009 total GRF sources of $12,140.0 million were below estimate by $377.3 million (3.0%). State-source receipts totaled $8,970.5 million, $141.5 million (1.6%) below estimate. Federal grants totaled $3,169.5 million, $235.8 million (6.9%) below estimate.

[1] This reduction is in addition to a $540.7 million reduction announced in October.

[2] Combined November and December total GRF sources were about 7% below estimate for the two-month period. November ended on a Sunday, meaning that some payments that would have been received on the last day of the month were instead received on Monday, December 1.

Total tax revenues of $8,445.3 million were $206.9 million (2.4%) below estimate. The personal income tax and the sales and use tax were $48.9 million (1.2%) and $160.6 million (4.1%), respectively, below estimate. Revenue from the cigarette tax was $3.3 million (0.8%) above estimate. Net refunds from the corporate franchise tax were below estimate. All the remaining taxes were also below expectations, except the foreign insurance tax which was above estimate by $2.8 million (2.1%).

Compared to FY 2008, FY 2009 year-to-date GRF sources were $323.3 million (2.6%) below the level of December 2007, due to a $373.4 million (4.0%) decrease in state-source receipts. Tax revenues accounted for $358.1 million of that decrease and were 4.1% below FY 2008 tax receipts through December. FY 2009 year-to-date nontax revenues were $59.8 million (35.9%) below the FY 2008 level in the corresponding period, in part, from lower earnings on investments. FY 2009 year-to-date transfers in were $44.5 million (11.9%) above the FY 2008 level in the corresponding period. Year-to-date receipts from all three primary GRF tax sources were below the levels of December 2007, including decreases of $166.0 million (4.1%) in personal income tax receipts, $139.7 million (3.6%) in sales and use tax receipts, and $11.0 million (2.5%) in cigarette tax receipts. Other taxes with notable year-to-year revenue variances included a decrease of $106.6 million (61.0%) in kilowatt-hour tax receipts due to an increase this year in the share of receipts distributed to local government funds, an increase of $13.9 million (22.4%) in public utility excise tax receipts, and an increase of $48.1 million in corporate franchise tax receipts.

Income tax base growth is weak; receipts are below last year's levels due to tax rate reductions.

Personal Income Tax

After dreadful performances in October and November, the personal income tax rebounded somewhat in December. In October, GRF income tax receipts were $66.7 million (9.4%) below estimate and $72.1 million below receipts in October 2007. November receipts were $10.0 million (2.0%) below estimate and $45.3 million (8.3%) below November 2007 receipts. December receipts of $771.4 million were in line with estimate, but were $26.5 million (3.3%) below December 2007 receipts. Through December, FY 2009 receipts of $3,922.1 million were $48.9 million (1.2%) below estimate and $171.8 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,[3] trust payments, payments associated with annual returns, and miscellaneous payments.

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	-$24.9	-0.7%	-$139.4	-3.6%
Quarterly Estimated Payments	-$6.2	-1.2%	-$18.4	-3.6%
Trust Payments	-$1.5	-9.2%	-$4.6	-23.9%
Annual Return Payments	$10.9	7.9%	$15.0	11.3%
Miscellaneous Payments	-$6.6	-16.3%	-$1.7	-4.7%
Gross Collections	-$28.2	-0.6%	-$149.1	-3.2%
Less Refunds	$23.6	14.4%	$2.1	1.1%
Less Local Government Fund Distribution	-$3.0	-0.8%	$20.6	6.3%
Income Tax Revenue	-$48.9	-1.2%	-$171.8	-4.2%

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 the current economic downturn. When compared to the same month in 2007, withholding revenue declined 5.3% and 7.0% in October and November, respectively. However, December revenue from withholding was $10.3 million (1.5%) above receipts in December 2007. Overall, FY 2009 second-quarter receipts from withholding were 3.4% below second-quarter receipts in FY 2008, resulting from a tax rate cut of 4.8% this fiscal year compared to FY 2008. Due to a combination of job losses and reduced income gains, the personal income tax base is exhibiting weak growth. Recent forecasts of Ohio personal income and wage growth have been downgraded,

[3] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. These payments are usually made by taxpayers with significant nonwage income. This income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

which suggests a continuation of poor performances for this tax in the months ahead.

Sales and Use Tax

The performance of the sales and use tax was very weak in the second quarter of FY 2009. In October and November, GRF sales and use tax receipts were below receipts in the corresponding months of FY 2008 by $38.0 million (6.1%) and $33.8 million (5.5%), respectively. December receipts of $650.7 million were $86.0 million (11.7%) below estimate and $80.6 million (11.0%) below receipts in December 2007. Through December, FY 2009 receipts of $3,742.9 million were $160.6 million (4.1%) below estimate and also $139.7 million (3.6%) below FY 2008 receipts through December 2007.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4] 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

Monthly nonauto sales tax receipts were again below FY 2008 level in December.

The performance of the nonauto sales and use tax, which had been poor in the previous two months, deteriorated further in December 2008. The nonauto sales and use tax was flat in the first quarter of FY 2009. In the second quarter, receipts from the tax were below both OBM's estimate and the previous year's level. Nonauto sales and use tax GRF receipts in October and November were $33.1 million (6.1%) and $6.1 million (1.1%) below receipts in the corresponding months in FY 2008. The cumulative shortfall increased in December. Receipts of $587.8 million were $88.9 million (13.1%) below estimate and $87.2 million (12.9%) below receipts in December 2007.

Through December, FY 2009 year-to-date nonauto sales and use tax receipts of $3,297.3 million were $163.6 million (4.7%) below estimate and $123.5 million (3.6%) below receipts in FY 2008. Overall personal consumption expenditures declined in the third quarter of 2008 for the first time since the recessionary period of 1991, and the slowdown in taxable spending continued in the fourth quarter. National retail figures

[4] 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.

Monthly and year-to-date auto sales tax receipts are above estimates.

were again awful in December. The International Council of Shopping Centers' index of same-store sales (which tallies sales at stores open at least a year from major retailers) is expected to fall about 1% in December, following a drop of 2.7% in November, which would ensure the worst holiday season sales in several decades. Most large retailers, except Wal-Mart, suffered sales declines from a combination of fewer purchases and heavy discounting.

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 the remainder of the fiscal year has worsened.

Auto Sales and Use Tax

December auto sales and use tax receipts of $62.9 million were $2.9 million (4.9%) above estimate, and $6.5 million (11.6%) above receipts in December 2007. Receipts this month partly reversed November's steep drop in revenues. Through December, FY 2009 year-to-date auto sales and use tax receipts of $445.6 million were $3.0 million (0.7%) above estimate. However, they were $16.3 million (3.5%) below receipts through December in FY 2008.

The freefall in vehicle sales continued in December, as buyers ignored manufacturers' discounts, lower gas prices, and better credit conditions. Nationwide light vehicle (autos and light trucks) sales in December fell 36%, when compared to year-ago sales. For the month, on an annualized basis, 5.2 million autos and 5.1 million light trucks were sold. Sales of light vehicles through December in FY 2009 were 26.2% below unit sales in the corresponding period in FY 2008. Sales of autos and light trucks declined about 19.8% and 31.8%, respectively. For 2008, total light vehicle unit sales were 13.2 million, about 20% below the previous year total sales, and as low as sales in 1992. The weak economic outlook means sales in 2009 and possibly 2010 may not be appreciably better. Therefore, auto sales and use tax receipts will very likely remain weak in the next several months.

Cigarette and Other Tobacco Products Tax

December GRF receipts from the cigarette and other tobacco products tax were $85.3 million, $13.5 million (18.7%) above estimate and $10.8 million (14.5%) above December 2007 receipts. Through December, FY 2009 year-to-date receipts from the tax were $423.9 million, $3.3 million (0.8%) above estimate. Those receipts were $11.0 million (2.5%) below FY 2008 receipts in the corresponding period. Revenues from taxed cigarettes were $403.9 million, down $11.1 million (2.7%) from last year's level. Revenues from the tax on other tobacco products were $20.0 million, up $0.1 million (0.8%). 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 $2.7 million in December, $1.1 million (29.7%) below estimate. Through December, FY 2009 net refunds from this tax source were $1.5 million, $2.2 million below estimate. In FY 2008, through December refunds exceeded payments by $49.6 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. Year-to-date results portend a strong performance of the corporate franchise tax this year. However, 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

Second-quarter CAT receipts were 3.3% below estimate; taxable base stalls, affected by economic slowdown.

In December 2008, commercial activity tax (CAT) receipts were $10.2 million, $1.7 million (20.2%) above estimate. Through December, FY 2009 total CAT receipts were $646.3 million, $21.0 million (3.4%) above estimate, and $189.0 million (42.1%) above receipts in FY 2008, primarily due to a higher tax rate this fiscal year. Although fiscal year year-to-date receipts are above both estimate and previous year's level, growth of the CAT tax base (on a year-ago basis) has stalled. Second-quarter revenues were $10.6 million (3.3%) below estimate, and taxable gross receipts were approximately 1% below second-quarter gross receipts in FY 2008. 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 December 2008
($ in thousands)
(Actual based on OAKS reports run January 7, 2009)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$288,366	$337,697	-$49,331	-14.6%
Higher Education	$185,200	$178,076	$7,124	4.0%
Total Education	$473,567	$515,773	-$42,207	-8.2%
Public Assistance and Medicaid	$916,020	$947,223	-$31,202	-3.3%
Health and Human Services	$74,642	$88,256	-$13,615	-15.4%
Total Welfare and Human Services	$990,662	$1,035,479	-$44,817	-4.3%
Justice and Public Protection	$122,589	$146,549	-$23,960	-16.3%
Environment and Natural Resources	$5,360	$5,712	-$353	-6.2%
Transportation	$4,857	$1,245	$3,612	290.1%
General Government	$25,128	$28,557	-$3,429	-12.0%
Community and Economic Development	$12,357	$7,959	$4,397	55.2%
Capital	$150	$25	$125	500.0%
Total Government Operations	$170,440	$190,048	-$19,608	-10.3%
Tax Relief and Other	$3,604	$8,842	-$5,238	-59.2%
Debt Service	$21,084	$22,830	-$1,745	-7.6%
Total Other Expenditures	$24,689	$31,671	-$6,983	-22.0%
Total Program Expenditures	**$1,659,357**	**$1,772,972**	**-$113,615**	**-6.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$9,236	$0	$9,236	---
Total Transfers Out	$9,236	$0	$9,236	---
TOTAL GRF USES	**$1,668,593**	**$1,772,972**	**-$104,380**	**-5.9%**

* 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 December 31, 2008
($ in thousands)
(Actual based on OAKS reports run January 7, 2009)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2008**	**Percent Change**
Primary, Secondary, and Other Education	$3,583,689	$3,681,461	-$97,772	-2.7%	$3,547,123	1.0%
Higher Education	$1,359,420	$1,370,454	-$11,034	-0.8%	$1,350,547	0.7%
Total Education	$4,943,109	$5,051,915	-$108,806	-2.2%	$4,897,670	0.9%
Public Assistance and Medicaid	$6,088,851	$6,144,114	-$55,263	-0.9%	$5,763,809	5.6%
Health and Human Services	$650,119	$676,898	-$26,779	-4.0%	$661,537	-1.7%
Total Welfare and Human Services	$6,738,971	$6,821,012	-$82,041	-1.2%	$6,425,346	4.9%
Justice and Public Protection	$1,134,968	$1,143,161	-$8,193	-0.7%	$1,142,714	-0.7%
Environment and Natural Resources	$62,771	$58,284	$4,487	7.7%	$65,568	-4.3%
Transportation	$13,374	$14,230	-$855	-6.0%	$15,685	-14.7%
General Government	$212,279	$221,530	-$9,251	-4.2%	$207,627	2.2%
Community and Economic Development	$82,089	$80,899	$1,190	1.5%	$75,679	8.5%
Capital	$187	$67	$120	179.1%	$56	235.6%
Total Government Operations	$1,505,668	$1,518,171	-$12,503	-0.8%	$1,507,329	-0.1%
Tax Relief and Other	$790,706	$557,761	$232,945	41.8%	$642,528	23.1%
Debt Service	$323,334	$324,307	-$973	-0.3%	$306,544	5.5%
Total Other Expenditures	$1,114,040	$882,068	$231,972	26.3%	$949,071	17.4%
Total Program Expenditures	**$14,301,787**	**$14,273,165**	**$28,622**	**0.2%**	**$13,779,416**	**3.8%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$844,504	$852,439	-$7,935	-0.9%	$610,939	38.2%
Total Transfers Out	$844,504	$852,439	-$7,935	-0.9%	$610,939	38.2%
TOTAL GRF USES	**$15,146,291**	**$15,125,604**	**$20,687**	**0.1%**	**$14,390,355**	**5.3%**

* 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

Tables 3 and 4 show GRF uses for the month of December and for FY 2009 through December, respectively. GRF uses consist primarily of program expenditures but also include transfers out. For December, GRF uses of $1,668.6 million were $104.4 million (5.9%) below the estimate released by the Office of Budget and Management (OBM) in October 2008. For the first six months of FY 2009, GRF uses of $15,146.3 million were $20.7 million (0.1%) above estimate.

In response to tax revenue shortfalls, the Governor ordered agency GRF budget reductions in February ($159.3 million), September ($198.3 million), and December ($180.5 million) of 2008. These three executive orders reduced FY 2009 GRF appropriations by a total of $538.1 million. The October OBM estimate takes into account the budget reductions ordered in February and September, but excludes the reductions ordered in December. As a result, for purposes of this publication, GRF program expenditures as a whole will likely finish the year below estimate.

GRF appropriations for FY 2009 were reduced by $538.1 million.

In December, GRF program expenditures totaled $1,659.4 million, $113.6 million (6.4%) below estimate. This negative variance was somewhat offset by a $9.2 million positive variance in transfers out. Through December, GRF program expenditures totaled $14,301.8 million, $28.6 million (0.2%) above estimate. This positive variance was partially offset by a $7.9 million negative variance in transfers out.

Year-to-date program expenditures as a whole were $28.6 million above estimate.

Fiscal year-to-date variances differ substantially from one program category to another. Categories with expenditures substantially lower than estimates include Primary, Secondary, and Other Education ($97.8 million), Public Assistance and Medicaid ($55.3 million), Health and Human Services ($26.8 million), and Higher Education ($11.0 million). These negative variances were completely offset by a $232.9 million positive variance in the Tax Relief and Other category. As reported in the November issue of this report, the positive variance in this program category will likely continue in future months because the OBM estimate did not account for increased expenditures attributable to the Homestead exemption enacted in H.B. 119 of the 127th General Assembly.

School Foundation payments were $57.4 million below estimate for the first six months of FY 2009.

Primary, Secondary, and Other Education

In December, expenditures for the Primary, Secondary, and Other Education program category were $49.3 million (14.6%) below estimate. Of this amount, $36.9 million was attributable to the Department of Education's (ODE) Foundation Program line item. Foundation payments for schools are driven by a formula that is largely based on each district's student enrollment and property wealth. For payment purposes, school districts count and report their enrollments twice a year, once in October and once in February. Generally, December is the month in which ODE begins using current year October enrollment data reported by school districts for payments. Prior to this, estimated enrollments are used.

Counting and reporting student enrollments is often complicated, especially for large districts. It may take a few months for a large district to resolve all enrollment counting and reporting issues. It is therefore not very unusual to see a relatively large negative variance in foundation payments for the month in which the current year enrollment data are used for the first time. Student enrollment counts used in the formula generally increase after that month as school districts continue to resolve their enrollment-related issues. For example, enrollments used in the formula increased by almost 18,000 students (1.0%) from December to June in FY 2008. Following this pattern, foundation payments are likely to increase in the next few months. However, expenditures from the Foundation Program line item still may finish the year below estimate because the projected enrollments used for appropriations are likely to be higher than actual enrollments and because additional lottery profits from the newly launched Keno game will be used for foundation payments in place of payments from the General Revenue Fund.

Through December, FY 2009 year-to-date expenditures for Primary, Secondary, and Other Education were $97.8 million (2.7%) below estimate. The bulk of this variance was attributable to the Foundation Program ($57.4 million) and Student Assessments ($27.7 million) line items. Expenditures from the latter line item often vary from month to month depending on the timing of vendor invoices.

Higher Education

December expenditures for the Higher Education program category were $7.1 million above estimate. This variance was attributable to the Board of Regents' student financial aid line items, Ohio College Opportunity Grant (OCOG, $3.9 million) and Ohio Instructional Grant (OIG, $2.1 million). OCOG is a need-based student financial aid program that started in FY 2007. Generally, students who had not received college credit prior to the start of the 2006-2007 academic year are eligible for OCOG. OCOG will be fully implemented in FY 2010; at that time, OIG – the state's need-based student financial aid program prior to FY 2007 – will be eliminated. OCOG uses the federally determined "Expected Family Contribution" (EFC) as the basis for determining the grant awards. EFC is calculated using the information that students provide when they fill out the Free Application for Federal Student Aid (FAFSA), and is the same calculation that the federal government uses to determine eligibility for Pell Grants. The EFC system is considered to be a more sophisticated measure of a family's ability to pay for higher education than using family income only (as is done in OIG); it takes into account a number of other factors, including family assets, student income, number of family members in college, and the ages of the parents. Students from families with income levels less than $75,000 are eligible for OCOG ($39,000 for OIG). Compared to OIG, OCOG provides larger grants to more students. Student financial aid expenditures may vary from month to month depending on the timing of requests for payments from campuses. Furthermore, higher education enrollment generally increases during an economic downturn. Given the current economic situation, it will not be very surprising if OCOG and OIG line items finish the year above estimates.

Year-to-date expenditures for the Higher Education category were $11.0 million (0.8%) below estimate, which was attributable to the Ohio Research Scholars ($26.0 million) and Choose Ohio First Scholarship ($8.9 million) programs. These two programs focus on improving STEM (science, technology, engineering, and mathematics) education and research in Ohio. Both programs were established in FY 2008 and are expected to make first payments in FY 2009. The negative variances in these two programs are expected to decrease during the remainder of FY 2009. In contrast, line items Lease Rental Payments and Student Choice Grants posted positive year-to-date variances, $12.8 million and $3.8 million, respectively. These positive variances, which were likely due to timing, partially offset year-to-date negative variances in the two STEM-focused grant programs. The Lease Rental Payment line item pays debt service required for revenue bonds issued for higher education while the Student Choice Grants line item provides a uniform amount of grants to Ohio residents pursuing undergraduate studies in Ohio's independent nonprofit colleges and universities.

Year-to-date expenditures for Higher Education were $11.0 million below estimate.

Medicaid expenditures were $60.6 million below estimate in the first half of FY 2009.

Public Assistance and Medicaid

Medicaid accounts for about 95% of spending in the Public Assistance and Medicaid program category. For the month of December, GRF Medicaid expenditures were $850.6 million, $15.0 million (1.7%) below estimate. Through the first half of FY 2009, GRF Medicaid expenditures totaled $5,620.7 million, $60.6 million (1.1%) below estimate. Table 5 details Medicaid payments by service category.

Expenditures for managed care plans for the aged, blind, and disabled (ABD) were below estimate by $7.1 million (6.4%) in December and by $18.4 million (2.4%) in the first six months of FY 2009. According to OBM, these negative variances were largely due to lower-than-expected managed care enrollments of ABD populations in the Northeast and Northwest regions. There is only one managed care choice available for ABD populations in each of these two regions. Current law makes managed care voluntary when there is a single option. As a result, all ABD Medicaid recipients in the Northeast and Northwest regions may opt out of managed care and receive services through the fee-for-service system.

Year-to-date expenditures for Intermediate Care Facilities for the Mentally Retarded (ICFs/MR) were below estimate by $7.7 million (2.8%), primarily due to the delay in implementing the 2% provider rate increase. The OBM estimate assumed that the rate increase would begin in July 2008, but the federal government did not approve the rate increase until November. The cumulative cost of the retroactive rate increase for July through October was $2.5 million, and the state will pay providers this amount over the first four months of calendar year 2009. Once these payments are made, year-to-date expenditures for ICFs/MR should trend closer to the OBM estimate.

Health and Human Services

The Department of Mental Health (DMH), the Department of Mental Retardation and Developmental Disabilities (DMR), and the Department of Health (DOH) account for about 78% of expenditures in the Health and Human Services program category. Expenditures from this category were below estimate by $13.6 million (15.4%) in December and by $26.8 million in the first six months of FY 2009. Of the $26.8 million in year-to-date negative variance, $23.2 million was attributable to DMH ($9.8 million), DMR ($8.3 million), and DOH ($5.1 million). Some of these variances might be related to timing. However, as with many other state agencies, these three agencies' expenditures for FY 2009 are likely to be below OBM's October estimates because these estimates did not reflect the December budget reductions. The December reductions for DMH, DMR, and DOH are $30.0 million, $19.5 million, and $4.7 million, respectively.

Justice and Public Protection

Year-to-date expenditures for Health and Human Services were $26.8 million below estimate.

In December, expenditures for the Justice and Public Protection program category were $24.0 million (16.3%) below estimate. Of this amount, $11.5 million was attributable to the Department of Rehabilitation and Corrections (DRC). DRC's fiscal year-to-date expenditures of $856.4 million, however, were only $2.1 million below estimate, suggesting that part of the December variance was likely to be a timing issue. DRC accounts for about 75% of expenditures in the Justice and Public Protection program category. Expenditures for the Department of Youth Services (DYS), which accounts for about 13% of expenditures in this program category, were below estimate by $2.7 million in December but $1.2 million above estimate in the first six months of FY 2009.

Another $4.0 million of the December negative variance in the Justice and Public Protection program category occurred in the Attorney General's Office (AGO). FY 2009 monthly expenditure estimates for AGO assumed the same monthly distribution pattern as in FY 2008. Although there were only two bi-weekly payrolls in December 2008, the estimates had anticipated three payrolls in the month based on the December 2007 pattern. Almost all of GRF appropriations for AGO are for its Operating Expenses line item, which is mainly used for personnel costs. The December negative variance contributed to AGO’s $5.8 million in year-to-date negative variance. As a whole, the Justice and Public Protection program category had $8.2 million (0.7%) in year-to-date negative variance.

** 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	December Actual	December Estimate	December Variance	December Percent Variance	Year to Date Actual thru Dec	Year to Date Estimate thru Dec	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$213,766	$209,862	$3,904	1.9%	$1,295,546	$1,283,654	$11,892	0.9%
ICFs/MR	$43,842	$45,150	-$1,308	-2.9%	$266,438	$274,101	-$7,663	-2.8%
Inpatient Hospitals	$97,540	$98,976	-$1,436	-1.5%	$525,717	$533,159	-$7,442	-1.4%
Outpatient Hospitals	$36,822	$35,936	$886	2.5%	$193,946	$189,982	$3,964	2.1%
Physicians	$30,792	$30,893	-$101	-0.3%	$169,202	$162,873	$6,329	3.9%
Prescription Drugs	$54,086	$53,549	$537	1.0%	$261,497	$264,462	-$2,965	-1.1%
ODJFS Waivers	$29,301	$32,286	-$2,985	-9.2%	$160,978	$173,252	-$12,274	-7.1%
MCP - CFC	$272,972	$273,477	-$505	-0.2%	$1,778,533	$1,791,966	-$13,433	-0.7%
MCP - ABD	$103,978	$111,126	-$7,148	-6.4%	$743,765	$762,142	-$18,377	-2.4%
Medicare Buy-In	$26,148	$26,201	-$53	-0.2%	$155,638	$156,164	-$526	-0.3%
All Other	$91,618	$99,055	-$7,437	-7.5%	$499,189	$522,878	-$23,689	-4.5%
DA Medical	$976	$1,030	-$54	-5.2%	$5,740	$6,137	-$397	-6.5%
Total Payments	$1,001,841	$1,017,541	-$15,700	-1.5%	$6,056,189	$6,120,770	-$64,581	-1.1%
Offsets								
Drug Rebates	-$8,197	-$8,155	-$42	0.5%	-$32,700	-$33,072	$372	-1.1%
Revenue and Collections	-$7,421	-$7,595	$174	-2.3%	-$29,968	-$30,729	$761	-2.5%
ICF/MR Franchise Fees	-$1,250	-$1,250	$0	0.0%	-$3,750	-$3,750	$0	0.0%
NF Franchise Fees	-$19,444	-$19,444	$0	0.0%	-$58,333	-$58,333	$0	0.0%
IMD/DSH Payments	-$8,750	-$8,750	$0	0.0%	-$8,750	-$8,750	$0	0.0%
MCP Assessments	-$20,000	-$20,000	$0	0.0%	-$80,000	-$80,000	$0	0.0%
Health Care Federal	-$106,343	-$106,745	$402	-0.4%	-$345,108	-$347,520	$2,412	-0.7%
Total Offsets	-$171,405	-$171,939	$534	-0.3%	-$558,609	-$562,154	$3,545	-0.6%
Total 600-525 (net of offsets)	$830,436	$845,602	-$15,166	-1.8%	$5,497,580	$5,558,616	-$61,036	-1.1%
Medicare Part D (600-526)	$20,212	$20,063	$149	0.7%	$123,111	$122,693	$418	0.3%
Total GRF	**$850,648**	**$865,665**	-$15,017	**-1.7%**	**$5,620,691**	**$5,681,309**	-$60,618	**-1.1%**
Total All Funds	**$1,022,053**	**$1,037,604**	-$15,551	**-1.5%**	**$6,179,300**	**$6,243,463**	-$64,163	**-1.0%**

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

Keno Generated about $8 million in Net Profits through November

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

Introduced in August 2008, Keno sales totaled $34 million through November 2008, about half the amount of sales projected by the Lottery for the period. Gross margins (sales minus payments to players) were $12 million and net profits were about $8 million. As the Ohio Lottery's newest on-line game,[6] Keno sales and net profits were originally projected to be $292 million and $73 million, respectively, in FY 2009. Keno players can win up to $2 million by matching their numbers to the 20 numbers selected by the Lottery. Drawings occur every four minutes from 11:04 a.m. to 1:44 a.m. seven days a week.

While lottery games are traditionally sold primarily at gas stations, groceries, and convenience stores, Keno terminals are placed in establishments such as bars, restaurants, and bowling alleys. The Lottery licensed about 750 Keno vendors in August with a goal of achieving 2,000 licensed Keno establishments by the end of 2008. Through November, however, the number of establishments with Keno terminals totaled about 1,050. In addition, the current economic recession has decreased household discretionary spending, including spending at restaurants and bars where Keno terminals are located. So far, average Keno sales per retailer are below the expected $400 per day. If the current sales trend continues through the remainder of FY 2009, and even if the Lottery increases the number of licensed vendors, Keno sales are likely to be below $140 million in FY 2009 with net profits below $45 million.

Young Buckeye STEM Scholars Program Attracts 176 Participants

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

A total of 176 students are participating through nine schools in seven central Ohio school districts in the second year of the Young Buckeye STEM Scholars Program. The program is supported through an earmark of $350,000 in each fiscal year of GRF appropriation item 200457, STEM Initiatives. This project-based after-school and summer program, intended to develop interest in the areas of science, technology, engineering, and mathematics, was designed and is managed by the Ohio Academy of Science in partnership with the Ohio 4-H Youth Development Program. It utilizes student-selected 4-H projects to incorporate scientific inquiry, technological design,

[6] These on-line games, which are not Internet lottery games, are played via terminals that are located at sales agents and that are linked to computers at the Ohio Lottery headquarters.

teamwork, communication, and leadership development. Each of the nine program sites is led by two trained teachers. The table below summarizes the participating school districts.

Participation in Young Buckeye STEM Scholars Program for FY 2008 and FY 2009			
School District	**County**	**Number of Students**	**Trained Teachers**
Big Walnut	Delaware	21	2
Buckeye	Delaware	15	2
North Union	Union	21	2
River Valley	Marion	24	2
Teays Valley	Pickaway	26	2
Upper Sandusky	Wyandot	19	2
Worthington City*	Franklin	50	6

*The Worthington City School District summary includes programs at three participating schools.

In FY 2008, activities included student participation in ten specifically designed science/technology lessons, creation of a 4-H club at each site, management of meetings, attendance on field trips, and implementation of projects for county fairs. In FY 2009, students will focus on turning their 4-H projects into inquiry-based science fair projects and designing a club-wide technology project.

15 School Districts Secure Local Shares of Facilities Projects in November 2008 Election

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

In the November general election, 15 of 30 school districts secured required local funds, enabling them to proceed with new or continued School Facilities Commission (SFC) projects. To participate in an SFC project, school districts must first obtain SFC and Controlling Board conditional approval of their master facilities plans, which include the estimated cost of their projects as well as the state and local shares of that cost. Upon approval, districts have one year to secure local funding. Of the 15 school districts that failed to secure local funding in the November 2008 election, 13 have more opportunities to secure their local funds. The other two, Greeneview and Liberty Benton, have reached the one-year time limit; as a result, their state funding offers have now lapsed. The two districts may apply for SFC assistance at a later date.

November 2008 Election Results to Secure Local Share of SFC Projects			
School Districts with Successful Levies		**School Districts with Failing Levies**	
Columbus (Franklin)	Milton Union (Miami)	Crestline (Crawford)	South-Western (Franklin)
Franklin-Monroe (Darke)	New Boston (Scioto)	Eastwood (Wood)	Tuscarawas Valley (Tuscarawas)
Fremont (Sandusky)	Niles (Trumbull)	Fostoria (Seneca)	Vantage Career Center (Van Wert)
Genoa Area (Ottawa)	Ottawa-Glandorf (Putnam)	Greeneview (Greene)	Wellington (Lorain)
Huber Heights (Montgomery)	Pettisville (Fulton)	Hillsdale (Ashland)	Westfall (Pickaway)
Indian Creek (Jefferson)	Western Reserve (Mahoning)	Liberty Benton (Hancock)	Willard (Huron)
Louisville (Stark)	Whitehall (Franklin)	North Baltimore (Wood)	Xenia Community (Greene)
Miami East (Miami)		North Fork (Licking)	

Ohio Tuition Trust Authority Changes Investment Options

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

In fall 2008, the Ohio Tuition Trust Authority (OTTA) eliminated ten investment options and added two new options to the Variable Savings Plan under College Advantage, Ohio's 529 tax-advantaged college savings program. Of the ten investment options eliminated, eight were from Putnam Investments and two were from the Vanguard Group. According to OTTA, the eliminations were made to reduce investor-paid fees and redundancy among OTTA's options. Approximately 17,600 account owners with funds in eliminated options had their assets redirected into funds with similar investment objectives, nearly all of which had lower fees. OTTA estimates that $77 million was transferred. The two new options, both from Vanguard, have lower fees. Third-quarter performance in these two new options was comparable with or better than that of the eliminated options. OTTA expects to launch five additional options from various investment managers in February 2009.

Kinship Permanency Incentive Program Enrollment Increased 76% in FY 2008

— Todd A. Celmar, Economist, 614-466-7358

Enrollment in the Kinship Permanency Incentive (KPI) Program increased from 1,842 in FY 2007 to 3,245 in FY 2008, an increase of 76%. During the same period, the number of applications received, a measure of demand, increased from 2,164 in FY 2007 to 3,580 in FY 2008, an increase of 65%. Changes made in H.B. 119 helped to spur the increase in applications and enrollment. H.B. 119 expanded the eligibility criteria for the program by raising the income eligibility ceiling from 200% to 300% of the federal poverty guidelines (from $35,200 to $52,800 annually for a family of three), eliminating a special needs determination requirement, and making changes to eligibility related to custody or guardianship status.

The KPI Program, which is administered locally by county public children services agencies, provides financial assistance to family or friends who are caring for children who cannot live with their parents. Eligible families receive a benefit of $1,000 per child at the time of placement and are eligible to receive additional payments of $500 per child at six-month intervals up to a maximum of $3,500. The program has been funded each year by a $10 million earmark of Temporary Assistance for Needy Families dollars through the Department of Job and Family Services. Expenditures for the program increased from $2.6 million in FY 2007 to $5.8 million in FY 2008.

Disability Financial Assistance Caseload Decreases 6% in FY 2009

— Todd A. Celmar, Economist, 614-466-7358

The Disability Financial Assistance (DFA) caseload has declined 6% during FY 2009 from 17,900 recipients in July to 16,800 recipients in November. This decline is due to a decrease in the percentage of applicants determined to be disabled. This percentage fell from 78% in the last two quarters of FY 2008 to 57% in the first quarter of FY 2009. According to the Ohio Department of Job and Family Services (ODJFS), this decrease is a result of stricter application of Social Security Administration guidelines.

The DFA program, which is administered by ODJFS, provides cash benefits to persons who are unemployable due to physical or mental impairment, and who are not eligible for public assistance programs that are supported in whole or in part by federal funds (for example, Ohio Works First cash assistance or Supplemental Security Income). Under the DFA program, the maximum cash benefit is $115 per month for one person and $159 per month for an assistance group of two people.

H.B. 119 appropriates $25.3 million in GRF funding for FY 2009 for the DFA program. The appropriation level is based on a caseload of 16,000. ODJFS expects that the FY 2009 funding will be sufficient to pay program costs for the remainder of the fiscal year.

Supreme Court's FY 2008 Operating Appropriation Balance Reappropriated to FY 2009 for County Indigent Defense Reimbursement

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

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

On December 5, 2008, as required by H.B. 119, the Administrative Director of the Supreme Court of Ohio certified to the Director of Budget and Management that the FY 2008 unspent and unencumbered appropriation in the Court's GRF Operating Expenses line item (005321) was $153,915. H.B. 119 reappropriates these funds to FY 2009 for the Ohio Public Defender Commission's GRF County Reimbursement line item (019501), increasing the line item's FY 2009 total appropriation from $28.59 million to $28.75 million. When combined with other non-GRF appropriations, this level of funding is expected to result in the state reimbursing counties for around 25% of their costs of providing indigent defense in FY 2009.

State Spends $13.8 Million on Broadband Initiatives

— Nick Thomas, Budget Analyst, 614-466-6285

H.B. 119 and H.B. 562 provide a total of $25 million in bond funds within the Department of Development and Department of Administrative Services budgets to help state agencies migrate onto the Broadband Ohio network. Broadband Ohio includes the NextGen network—a centralized network that allows state agencies to combine resources and utilize modern technologies—and the OSCnet—a network used by educational institutions and administered by the Ohio Supercomputer Center. To date, approximately $13.8 million has been spent, primarily for hardware and infrastructure upgrades that will allow agencies to migrate to the NextGen network. In addition, $2.3 million has been slated for research and marketing services provided by Connect Ohio, a nonprofit organization created to improve broadband access in the state.

Transportation Review Advisory Council Revises New Project Scoring Criteria

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

On December 18, 2008, the Transportation Review Advisory Council (TRAC), a nine-member entity responsible for selecting new transportation capacity projects of more than $5 million, adopted a new project scoring method. The table below summarizes the new scoring criteria compared with the former criteria. In FY 2009, spending for new transportation capacity projects totals about $568 million.

Comparison of TRAC Project Scoring Criteria				
Factor	**Former Criteria Metric**	**Maximum Points**	**New Criteria Metric**	**Maximum Points**
Transportation	Average Daily Traffic	20	Public Return on Investment	20
	Volume-Capacity Ratio	20	Volume-Capacity Ratio	10
	Crash Factors	15	Crash Factors	10
	Macro Corridor Completion	10	Truck Percentage	5
	Roadway Classification	5	Air Quality	5
			Intermodal Connectivity	5
	Subtotal	**70**		**55**
Economic Development	Job Creation	10	Adopting Appropriate Land Use Measures	8
	Job Retention	5	Positioning Land for Redevelopment	7
	Level of Investment	5	Improving Access for Business Development	5
	Cost Effectiveness of Investment	5	Improving Investment and Employment Opportunities	5
	Economic Distress	5	Economic Distress	5
	Subtotal	**30**		**30**
Other	Public/Private/Local Participation	15	Project Sponsor Investment	15
	Urban Revitalization	10		
	Intermodal Connectivity	5		
	Subtotal	**30**		**15**
	Total	**130**		**100**

The former method uses a 130-point scoring system, including 70 points (54%) for Transportation factors, 30 points (23%) for Economic Development factors, and 30 points (23%) for Other factors. Under the new method's 100-point scoring system, Transportation, Economic Development, and Other factors account for 55 (55%), 30 (30%), and 15 (15%) points, respectively. The Transportation category now includes criteria such as Public Return on Investment (20 points), Air Quality (5 points), and

Intermodal Connectivity (5 points). The latter was previously included in the Other category. Although the total points for Economic Development remain the same at 30 under both methods, the new method awards these points based on very different criteria, taking into account the Urban Revitalization criterion that was previously included in the Other category. Finally, the only factor included in the Other category under the new method is Project Sponsor Investment, weighted at 15 points.

TRACKING THE ECONOMY

—Phil Cummins, Economist, 614-387-1687

Recession is continuing in the nation and in Ohio. Economic activity is contracting and prices are falling for many products.

Overview

Reports in the past month on U.S. and Ohio economic activity were generally dismal, with measures of aggregate production, incomes, employment, retail spending, and housing starts and sales all lower in the latest periods. Widespread business contraction was accompanied by falling prices. Energy prices declined until late December when heightened Mideast turmoil contributed to a rise in crude oil prices. To counter the recession underway since December 2007, a fiscal stimulus package is in the works and is expected to be one of the first orders of business of the new administration.

The current administration agreed to provide financial assistance under the $700 billion Troubled Asset Relief Program (TARP) to General Motors and Chrysler. The other member of the Big Three domestic automakers, Ford, did not seek this short-term financial help from the government. The U.S. Treasury said that the extension of funding to General Motors and Chrysler, when added to earlier use of TARP authority, effectively allocated the first $350 billion of funds under the program, and that Congress would need to release the rest of the TARP money. Also, GMAC, historically an integral source of lending for General Motors' customers and dealers, was granted commercial bank status and access to TARP funds and Federal Reserve credit.

In response to the deteriorating economic situation and continued credit market strains, the Federal Reserve in December cut its target for federal funds to a range of 0% to 0.25%. In announcing this latest shift toward more stimulative monetary policy, the central bank reiterated plans to buy large amounts of federal agency debt and mortgage-backed securities. The Fed is also evaluating the purchase of longer-term Treasury securities to support credit markets and economic activity. Federal Reserve staff revised expectations downward for economic activity in the first half of 2009, projecting a sharp drop in inflation-adjusted gross domestic product (real GDP), according to minutes of the Fed's December 15-16 meeting. The forecast shows slow recovery in this year's second half. The unemployment rate was projected to rise into 2010.

The U.S. Congressional Budget Office (CBO) released a forecast that shows real GDP in calendar year 2009 falling 2.2%, followed by slow recovery in 2010 with real GDP increasing 1.5%. The CBO forecast shows the unemployment rate exceeding 9% early in 2010, inflation measured by the consumer price index (CPI) falling to 0.1% this year, and a baseline federal budget deficit of $1.2 trillion in federal fiscal year 2009. The baseline forecast holds federal laws and policies unchanged on spending and taxes.

Interest rates on U.S. Treasury securities fell to exceptionally low levels in late December before rising somewhat in early 2009. Averages of interest rates on corporate and municipal securities and on residential mortgage loans also fell approaching the end of the year but remained elevated relative to Treasuries.

The National Economy

Employment and Unemployment

Nonfarm payroll employment nationwide fell by 524,000 in December, and at 135.5 million was 2.6 million lower than a year earlier. Employment fell in every month this year, but most (1.9 million) of the decline since December 2007 occurred in the past four months. In the latest month, employment fell in most industries, in the service sector as well as in goods production. Unemployment increased to 11.1 million people in December, 7.2% of the labor force, the highest nationwide average unemployment rate since 1993.

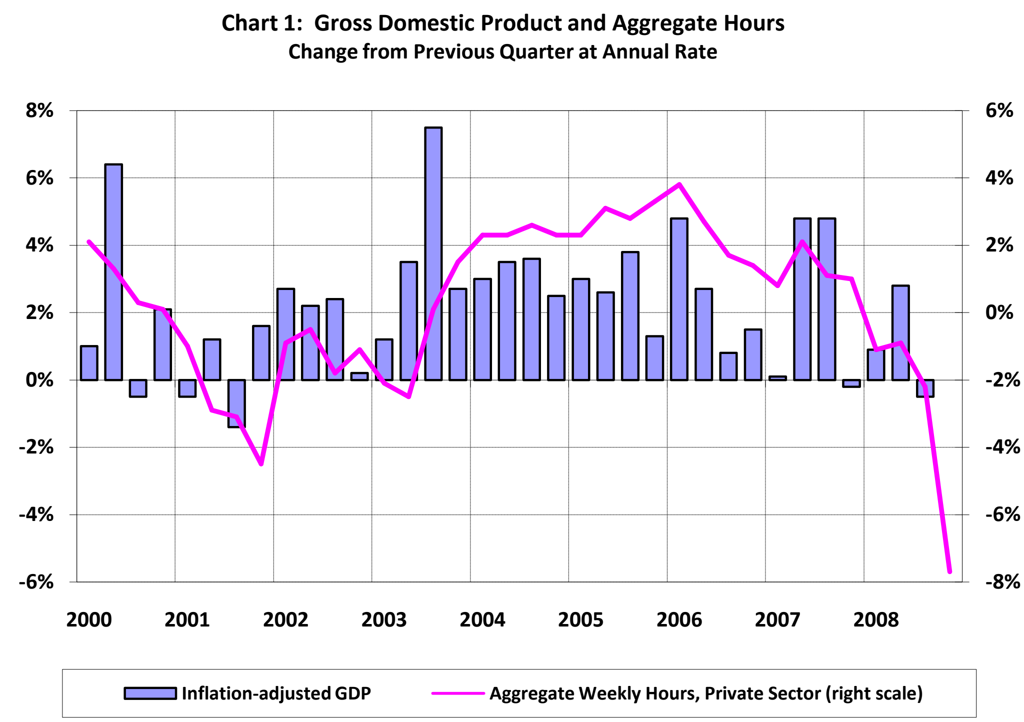
Employment nationwide fell sharply again in December. Unemployment rose to 7.2% of the labor force.

Production

The nation's GDP fell at a 0.5% annual rate in the third quarter, adjusted for inflation, after growing in the first half of 2008. Demand for goods and services declined in the latest quarter, as reduced consumer spending and lower residential and nonresidential fixed investment were only partly offset by increases in exports and government outlays. Imports fell, as they have in five of the most recent six quarters. Inventories declined for the fourth consecutive quarter.

Sharp declines in monthly indicators of demand and production point to a substantial drop in GDP in the fourth quarter. Chart 1, for example, shows quarterly changes in GDP along 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 this year in the number of people employed and in average hours paid per week to production workers have been depressing aggregate weekly hours. The U.S. Bureau of Economic

Analysis' initial estimate of fourth quarter GDP will be released later this month.



The downturn continued in December, indicated by monthly surveys of purchasing executives.

Manufacturing activity fell in December for the fifth consecutive month according to the Institute for Supply Management's monthly survey of purchasing executives. Declines were widespread, and none of the 18 industry groups covered in the survey expanded last month. The survey's new orders index, based on the percent of survey participants with higher orders minus the percent with lower orders, fell to its lowest level since the inception of that index in 1948. The order backlogs index was lowest since record keeping began in 1993. The index of prices paid was the lowest since 1949. A comparable survey of nonmanufacturing sectors of the U.S. economy also showed widespread contraction in activity, with declines in prices paid most widespread in the history of that index, reported since 1997.

Total industrial production fell 0.6% in November with declines in many manufacturing industries. Mining output continued to recover from the adverse impact of the hurricanes in September.[7] Utility output also rose. In the first two months of the fourth quarter, total industrial production was down from the third quarter at a 10% annual rate, with manufacturing production falling at a 14% annual rate. Cutbacks have been particularly sharp in durable goods manufacturing, including steel mills, motor vehicles and parts, and machinery. Separately, raw steel

[7] The hurricanes disrupted crude oil and natural gas production, which is classified as mining.

production in recent weeks has been less than half of the year-earlier rate, based on American Iron and Steel Institute figures.

Factory shipments fell 5.3% in November, the fourth consecutive monthly decline and the largest percent decrease since the series began publication on a NAICS basis in 1992.[8] The dollar value of shipments of petroleum and coal products fell 21% in November, likely in substantial part reflecting lower prices. Factory new orders also were lower for the fourth consecutive month, falling 4.6% in November, likely also a result of lower prices. Factory unfilled orders fell for the second straight month, while inventories excluding petroleum and coal products rose.

Consumer Spending

Personal income fell 0.2% in November, to a level 2.5% higher than a year earlier. The dollar value of personal consumption expenditures fell 0.6% in November, the fifth consecutive drop in consumer spending. However, adjusted to dollars of constant purchasing power, spending rose in November as consumer prices declined. Inflation-adjusted consumer spending fell in the previous five months, and through November was on pace to decline in the fourth quarter at a 2.6% annual rate with outlays for durable goods down sharply and spending for nondurable goods also lower.

Retail sales in November were 1.8% lower than in October and 7.4% below a year earlier. The dollar value of gasoline station sales was sharply lower than in the previous month, likely reflecting mainly the continued drop in fuel prices. Sales in November were also down at motor vehicle dealers, building materials stores, nonstore (catalog and Internet) retailers, and miscellaneous stores. The declines in November were less widespread than in October when sales fell for virtually every category of retailer. One category that has bucked the downtrend is retailers of general merchandise other than department stores, with sales in October more than 8% ahead of a year earlier. This category includes warehouse clubs and other general merchandisers that also sell a broad line of groceries.

Car and light truck sales remained very slow in December.

Retail sales of cars and light trucks in December were at a 10.3 million unit annual rate, up slightly from November's pace, which was the lowest seasonally adjusted sales rate since 1982. In calendar year 2008, light motor vehicle sales totaled 13.2 million, 18% lower than in 2007. Car sales fell 10% last year and light truck sales dropped 25%.

[8] NAICS, the North American Industry Classification System, replaced the Standard Industrial Classification (SIC) for organizing industry data.

The dollar value of retail sales in December was 1.7% below a year earlier at large stores that report their sales monthly, the International Council of Shopping Centers (ICSC) reported. Sales were 2.7% below a year earlier in November, described by ICSC as a record decline. These sales are reported on a same-store basis, including only store locations that were open for business in both months being compared, for example, December of both 2007 and 2008.

The net worth of households and nonprofit organizations fell an estimated $2.8 trillion (5%) in the third quarter, and was $7.1 trillion (11%) below the peak a year earlier. The value of tangible assets, chiefly real estate, declined by an estimated $1.8 trillion (7%) in the past year while the value of financial assets fell $4.8 trillion (10%). This $4.8 trillion figure includes decreases of $2.7 trillion in corporate stock held directly, $1.6 trillion in pension fund reserves, and $0.9 trillion in mutual fund shares, and an increase of $0.4 trillion in deposits with financial institutions. Liabilities of households and nonprofit organizations rose $0.4 trillion (3%) in the past year.

Construction

Housing starts fell 19% from October to November, to a 625,000 unit seasonally adjusted annual rate. This rate of housing starts was 47% lower than a year earlier, and the lowest on records kept since 1959. The total number of permits issued for construction of new homes and apartments was lowest on records maintained since 1960.

The number of new homes sold fell 3% in November, seasonally adjusted, and was 35% below a year earlier. The sales rate for new homes nationwide was lowest since 1991. The median sales price of a new home in November was about $220,000, 12% lower than a year earlier. Sales reported by the National Association of Realtors (NAR), mainly made up of previously occupied units, fell 9% in November, and were 11% below a year earlier. The median price, about $181,000, was 13% lower than a year earlier. The NAR reported rising sales activity in Arizona, California, Florida, and Nevada as numerous distressed property sales at discounted prices attracted "bargain hunters."

The average interest rate on a 30-year fixed-rate mortgage fell to 5.01% in the Freddie Mac survey conducted the week of January 8, the lowest level for this rate in the history of the survey begun in 1971. Mortgage interest rates fell sharply in the last few weeks as U.S. Treasury yields declined.

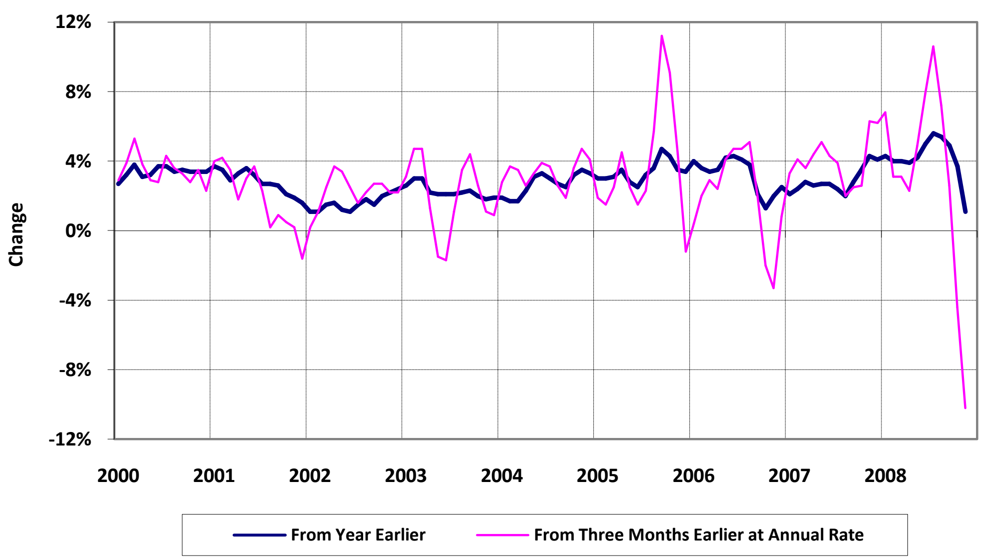
The value of new construction declined an estimated 0.6% in November, seasonally adjusted, and was 3.3% below a year earlier.

Construction spending in the first 11 months of 2008 was 5.3% below a year earlier, as private residential construction fell 28% while private nonresidential construction rose 16% and public construction increased 7%. Last year was the second consecutive year of declining total construction activity.

Inflation

Prices paid by individuals and households, as measured by the consumer price index (CPI), fell 1.7% in November. This was the second consecutive record monthly decline.[9] The decline was mainly a reflection of falling prices for energy, particularly for gasoline, though prices for consumer durable goods also fell. Consumer prices have been falling for four months after rising earlier in 2008. The CPI in the latest month was 1.1% higher than a year earlier, its smallest rise since 2002. Excluding food and energy, the CPI in November was 2.0% higher than a year earlier, and little changed in the latest three months. Changes in consumer prices are shown in Chart 2.

Chart 2: Consumer Price Index



Broad price indexes are declining at the retail and wholesale levels.

Gasoline averaged $1.82 per gallon for regular grade in Ohio on January 5, according to the U.S. Energy Information Administration's weekly survey, up from $1.55 near the end of December and highest since mid-November. The national average price for regular gasoline rose to $1.68 per gallon, up from $1.61. These higher gasoline costs reflect increases in crude oil prices since late December that appear to be related to escalation of fighting in and along the Gaza Strip, and to reduced

[9] Monthly seasonally adjusted data are available for the CPI starting in 1947.

Employment fell again in November in Ohio and unemployment remained elevated.

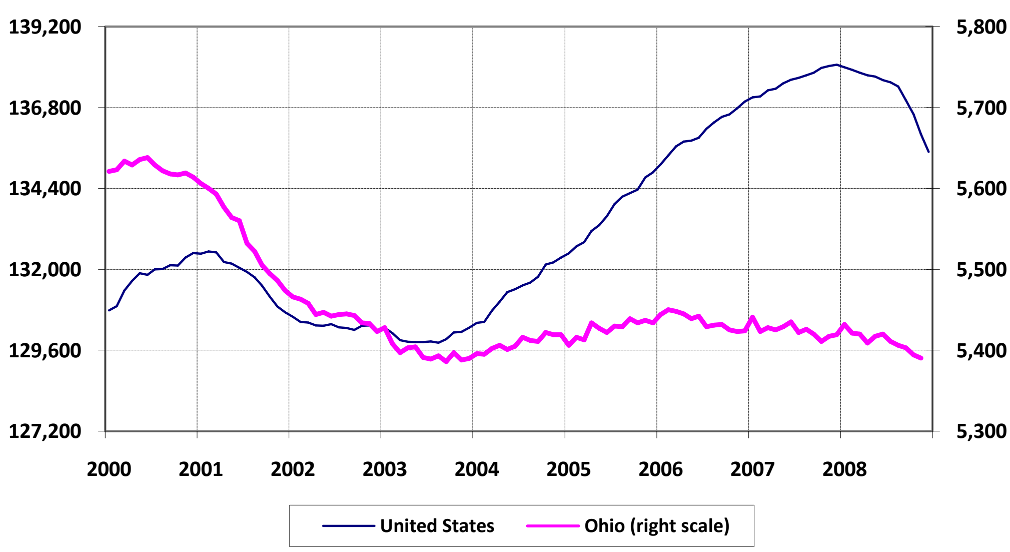
OPEC crude oil production quotas. Prices for regular gasoline and crude oil remain far below peaks last summer.

Producer prices for finished goods, for intermediate goods, and for crude materials all fell in November, with each of these indexes lower for the fourth consecutive month. At the finished goods level, falling energy prices accounted for virtually all of the declines since July. The index for finished goods prices in November was little changed (+0.4%) from a year earlier. At earlier stages in the production process, price declines were more widespread, with prices for foods and feeds and for goods other than foods and energy declining in each of the most recent four months. Intermediate goods prices in November were 2.6% higher than a year earlier, and crude materials prices were 19% below year-earlier levels.

The Ohio Economy

Nonagricultural wage and salary employment in Ohio of about 5.4 million persons in November was 4,200 (0.1%) lower than in October, and 26,600 (0.5%) below a year earlier. Job losses in the past year have been heaviest in goods production, particularly durable goods manufacturing but also in construction and nondurable goods manufacturing. Employment in services rose, with the largest gains in education and health services, followed by leisure and hospitality industries. Total nonfarm payroll employment in Ohio, compared with that nationwide, is shown in Chart 3. The number of unemployed persons in Ohio in November was estimated at 435,000, 7.3% of the labor force, up from 5.7% a year earlier.

Chart 3: Nonfarm Payroll Employment
Thousands



Personal income fell in Ohio in the third quarter of 2008 by 0.2%, and was 3.1% above a year earlier. Income growth in Ohio ranked 31st among the 50 states. Nationwide, personal income was little changed from the second to the third quarter, and 3.7% higher than a year earlier. Personal income was boosted in the second quarter by federal economic stimulus payments.[10]

The number of housing units sold in Ohio in November, reported by the Ohio Association of Realtors, was 22% lower than a year earlier. The average sales price was about $118,000, 17% lower than in November 2007. Through the first 11 months of 2008, unit sales were 14% lower than a year earlier, at an average sales price of about $138,000, 8% below the year-earlier average. Unit sales and average sales prices have been falling in Ohio since 2005.

The Census Bureau released its annual estimates of state population. Ohio's population as of July 1, 2008, was estimated at 11.5 million, about 8,000 (0.1%) higher than a year earlier and 3.8% of the approximately 304.1 million residents of the United States reported for that date. Ohio remained the seventh most populous state, trailing Pennsylvania with 12.4 million residents and ahead of Michigan with an estimated population of 10.0 million. Ohio's rate of population growth ranked 48th among the 50 states, ahead of only Rhode Island and Michigan, both of which lost population.[11]

[10] For persons whose economic stimulus payments exceed their income tax liabilities, or who owe no income taxes, the payments are treated as government social benefit payments, adding to personal income. For others, the payments are recorded as offsets to personal current taxes.

[11] The largest increase in state population was in Texas, which added 484,000 people, followed by California, North Carolina, Georgia, and Arizona.

Economic Forecast Update

The table below compares the current economic outlook, as predicted by forecasting firm Global Insight, with the forecast at the time that the budget for the current fiscal year was being enacted. The economic outlook has continued to deteriorate, and the forecast has been revised downward further. The latest forecast shows national and Ohio GDP declining in each of the four quarters of FY 2009 before beginning to recover in FY 2010.

Revisions to Global Insight Economic Forecast (selected variables, state fiscal year basis)		
	FY 2009	
Variable Name (National)	**Forecast for Budget**	**January 2009 Forecast**
U.S. real GDP growth	3.2%	-1.4%
U.S. personal income growth	5.6%	2.0%
U.S. CPI inflation	1.9%	0.6%
U.S. unemployment rate	4.8%	7.2%
Variable Name (Ohio)	**Forecast for Budget**	**January 2009 Forecast**
Ohio real GDP growth	2.5%	-1.3%
Ohio personal income growth	4.6%	2.0%
Ohio wage disbursements growth	3.8%	1.1%
Ohio unemployment rate	5.4%	8.4%