

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JULY 2009

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax receipts for FY 2009 were \$2.33 billion (12%) below FY 2008 receipts. The personal income and sales and use taxes accounted for \$1.49 billion and \$501.3 million, respectively, of the decrease. The Office of Budget and Management lowered its revenue estimate for FY 2009 by a total of \$2.09 billion in three revisions. The Budget Stabilization Fund (BSF), which had a balance of \$1.01 billion at the beginning of FY 2009, was completely exhausted to help balance the FY 2009 budget. The Governor ordered three rounds of GRF appropriation reductions totaling \$332.5 million. Other measures taken include increasing the use of non-GRF funds, cancelling encumbrances, and freezing nonessential contracts in the last months of FY 2009. Overall, the GRF finished the year with an unobligated cash balance of \$389.1 million.

Simplified GRF Cash Statement, as of June 30, 2009 (\$ in millions)	
Beginning Cash Balance	\$1,682.0
Plus Revenues and Transfers In	\$26,684.5
Less Expenditures and Transfers Out	\$27,632.0
Ending Cash Balance	\$734.5
Less Encumbrances	\$345.4
Unobligated Ending Cash Balance	\$389.1
Plus BSF Balance	\$0
Combined GRF and BSF Unobligated Ending Balance	\$389.1

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Next Issue:
September 2009
Have a Great Summer!

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Table 1: General Revenue Fund Sources**Preliminary Actual vs. Estimate****Month of June 2009**

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on July 10, 2009)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$80,550	\$77,548	\$3,002	3.9%
Nonauto Sales and Use	\$504,420	\$574,847	-\$70,427	-12.3%
Total Sales and Use Taxes	\$584,970	\$652,395	-\$67,425	-10.3%
Personal Income	\$681,679	\$849,703	-\$168,024	-19.8%
Corporate Franchise	\$57,627	\$76,822	-\$19,195	-25.0%
Public Utility	\$566	\$861	-\$295	-34.2%
Kilowatt Hour Excise	\$4,792	\$4,188	\$604	14.4%
Commercial Activity Tax**	\$0	\$0	\$0	---
Foreign Insurance	-\$1,008	\$0	-\$1,008	---
Domestic Insurance	\$9,723	\$8,172	\$1,551	19.0%
Business and Property	\$2,570	\$1,140	\$1,430	125.4%
Cigarette	\$83,121	\$73,115	\$10,006	13.7%
Alcoholic Beverage	\$4,942	\$6,232	-\$1,290	-20.7%
Liquor Gallonage	\$3,135	\$3,469	-\$334	-9.6%
Estate	\$2,092	\$2,847	-\$755	-26.5%
Total Tax Revenue	\$1,434,209	\$1,678,944	-\$244,735	-14.6%
NONTAX REVENUE				
Earnings on Investments	\$15,848	\$48,400	-\$32,552	-67.3%
Licenses and Fees	\$664	\$801	-\$137	-17.1%
Other Revenue	\$7,901	\$35,596	-\$27,695	-77.8%
Total Nontax Revenue	\$24,412	\$84,797	-\$60,385	-71.2%
TRANSFERS				
Liquor Transfers	\$13,000	\$12,000	\$1,000	8.3%
Budget Stabilization	\$1,012,289	\$63,300	\$948,989	1499.2%
Other Transfers In	\$581,451	\$676,460	-\$95,009	-14.0%
Total Transfers In	\$1,606,740	\$751,760	\$854,980	113.7%
TOTAL STATE SOURCES	\$3,065,362	\$2,515,501	\$549,861	21.9%
Federal Grants***	\$530,424	\$552,818	-\$22,394	-4.1%
TOTAL GRF SOURCES	\$3,595,785	\$3,068,319	\$527,466	17.2%

* Revised estimates of the Office of Budget and Management released January 7, 2009.

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

*** Federal Grants based on information from OBM.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources**Preliminary Actual vs. Estimate****FY 2009 as of June 30, 2009**

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on July 10, 2009)

	Actual	Estimate*	Variance	Percent	FY 2008	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$873,638	\$874,978	-\$1,340	-0.2%	\$943,452	-7.4%
Nonauto Sales and Use	\$6,239,178	\$6,577,071	-\$337,893	-5.1%	\$6,670,679	-6.5%
Total Sales and Use Taxes	\$7,112,816	\$7,452,050	-\$339,233	-4.6%	\$7,614,131	-6.6%
Personal Income	\$7,627,989	\$8,257,610	-\$629,621	-7.6%	\$9,114,735	-16.3%
Corporate Franchise	\$520,771	\$494,993	\$25,778	5.2%	\$753,473	-30.9%
Public Utility	\$184,516	\$177,314	\$7,201	4.1%	\$157,712	17.0%
Kilowatt Hour Excise	\$135,946	\$132,815	\$3,131	2.4%	\$231,218	-41.2%
Commercial Activity Tax**	\$0	\$0	\$0	---	\$0	---
Foreign Insurance	\$249,214	\$264,800	-\$15,586	-5.9%	\$267,277	-6.8%
Domestic Insurance	\$155,347	\$167,700	-\$12,353	-7.4%	\$154,592	0.5%
Business and Property	\$25,062	\$20,046	\$5,016	25.0%	\$22,251	12.6%
Cigarette	\$924,764	\$916,961	\$7,803	0.9%	\$950,939	-2.8%
Alcoholic Beverage	\$57,050	\$58,534	-\$1,484	-2.5%	\$56,823	0.4%
Liquor Gallonage	\$35,800	\$36,744	-\$944	-2.6%	\$34,961	2.4%
Estate	\$64,403	\$65,000	-\$597	-0.9%	\$61,359	5.0%
Total Tax Revenue	\$17,093,678	\$18,044,568	-\$950,890	-5.3%	\$19,419,470	-12.0%
NONTAX REVENUE						
Earnings on Investments	\$137,522	\$160,000	-\$22,478	-14.0%	\$169,560	-18.9%
Licenses and Fees	\$65,835	\$78,000	-\$12,165	-15.6%	\$67,680	-2.7%
Other Revenue	\$74,765	\$101,300	-\$26,535	-26.2%	\$123,381	-39.4%
Total Nontax Revenue	\$278,122	\$339,300	-\$61,178	-18.0%	\$360,621	-22.9%
TRANSFERS						
Liquor Transfers	\$163,000	\$144,000	\$19,000	13.2%	\$174,268	-6.5%
Budget Stabilization	\$1,012,289	\$63,300	\$948,989	1499.2%	\$0	---
Other Transfers In	\$1,286,756	\$1,353,805	-\$67,049	-5.0%	\$1,060,769	21.3%
Total Transfers In	\$2,462,045	\$1,561,105	\$900,940	57.7%	\$1,235,037	99.3%
TOTAL STATE SOURCES	\$19,833,845	\$19,944,973	-\$111,128	-0.6%	\$21,015,128	-5.6%
Federal Grants***	\$6,850,656	\$7,007,385	-\$156,729	-2.2%	\$5,643,901	21.4%
TOTAL GRF SOURCES	\$26,684,501	\$26,952,358	-\$267,858	-1.0%	\$26,659,028	0.1%

* Revised estimates of the Office of Budget and Management released January 7, 2009.

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

*** Federal Grants based on information from OBM.

Detail may not sum to total due to rounding.

REVENUES

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

Overview

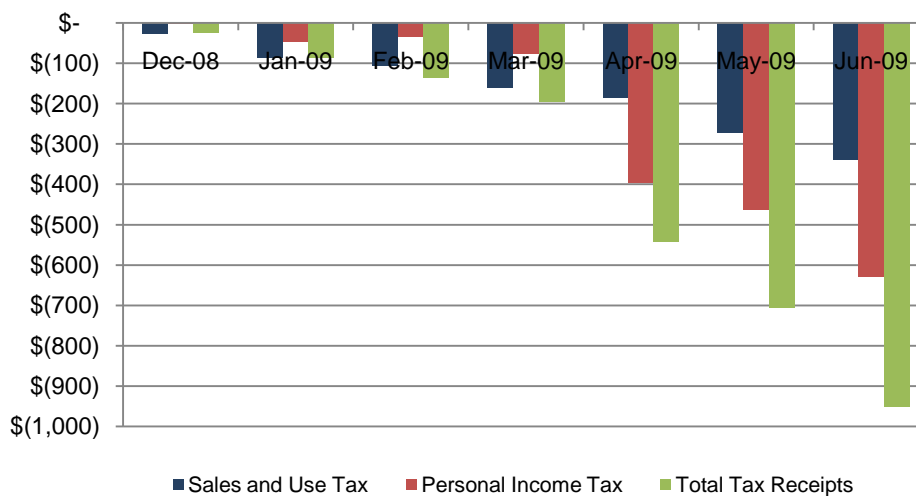
In June 2009, the Office of Budget and Management (OBM) transferred \$1.01 billion from the Budget Stabilization Fund (BSF) to the GRF to ensure a balanced budget for FY 2009. This action brought total GRF sources for the month to \$3.60 billion to close a very difficult fiscal year. In FY 2009, OBM thrice revised downward GRF revenue estimates, \$540.7 million in October 2008, \$640.4 million in December 2008, and \$912.1 million in May 2009. This edition of *Budget Footnotes*, however, compares actual GRF sources to December estimates.

GRF tax revenues were again poor in June. Tax receipts of \$1.43 billion were \$244.7 million below estimate, which increased the negative variance in tax revenues for the full year to \$950.9 million, up from \$706.3 million through May. The graph below shows the cumulative shortfall in total tax revenues, and in sales and personal income taxes since December 2008.

A transfer of \$1.01 billion in June 2009 from the BSF to the GRF concludes a difficult fiscal year.

GRF tax revenues were \$950.9 million below estimate in FY 2009 and \$2.33 billion below FY 2008 receipts.

Cumulative Shortfall of Tax Revenues in FY 2009
(Variance from December estimates, in millions)



Tables 1 and 2 show GRF sources for the month of June and FY 2009, 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.¹

For FY 2009, total GRF sources of \$26.68 billion were \$267.9 million below estimate. State-source receipts and federal grants were \$111.1 million and \$156.7 million below expectations, respectively. Total tax revenues of \$17.09 billion were \$950.9 million below estimate. The personal income tax and the sales and use tax were \$629.6 million and \$339.2 million, respectively, below estimates. Tax revenues that were above estimate included the corporate franchise tax (\$25.8 million), the cigarette tax (\$7.8 million), the public utility excise tax (\$7.2 million), the business and property tax (\$5.0 million), and the kilowatt hour tax (\$3.1 million). The remaining taxes were below expectations, including a shortfall of \$27.9 million in the insurance taxes.

Compared to FY 2008, FY 2009 GRF sources were \$25.5 million higher. Federal grants increased \$1.21 billion, more than offsetting the decline of \$1.18 billion in state-source receipts. Federal grants were higher this year due to additional revenue from the enhanced federal reimbursement for Medicaid as the result of the American Recovery and Reinvestment Act of 2009 (ARRA). Excluding the transfer from the BSF, state-source receipts would have been \$2.19 billion (10.4%) below FY 2008 levels.

FY 2009 tax revenues were \$2.33 billion below FY 2008 receipts. Receipts from all three primary GRF tax sources were below the levels of 2008, including decreases of \$1.49 billion in personal income tax receipts, \$501.3 million in sales and use tax receipts, and \$26.2 million in cigarette tax receipts. Other taxes with notable year-to-year revenue variances included a decrease of \$95.3 million in kilowatt hour tax receipts due to an increase this year in the share of receipts distributed to local government funds, a decrease of \$232.7 million in corporate franchise tax receipts from a reduced tax rate this year, a decline of \$18.1 million in foreign insurance tax receipts, and an increase of \$26.8 million in public utility excise tax receipts.

Personal Income Tax

June GRF receipts from the personal income tax of \$681.7 million were \$168.0 million below estimate and \$187.1 million below receipts in June 2008. The GRF received \$7.63 billion from the personal income tax in

¹ The amount received depends on expenditures for human services programs that require federal participation. Any changes in state spending in these areas will change receipts from federal grants.

Income tax receipts were \$629.5 million below estimate and \$1.49 billion below last year's levels.

FY 2009. This amount was \$629.6 million below estimate and \$1.49 billion below receipts for 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.

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 (%)
<i>Withholding</i>	-\$200.6	-2.7%	-\$491.6	-6.3%
<i>Quarterly Estimated Payments</i>	-\$215.2	-14.9%	-\$381.9	-23.8%
<i>Trust Payments</i>	-\$40.3	-44.1%	-\$56.6	-52.6%
<i>Annual Return Payments</i>	-\$187.9	-15.7%	-\$469.8	-31.8%
<i>Miscellaneous Payments</i>	-\$9.3	-7.2%	-\$12.1	-13.1%
Gross Collections	-\$653.3	-6.8%	-\$1,412.0	-12.7%
Less Refunds	-\$7.3	-0.5%	\$113.2	9.1%
Less Local Government Fund Distribution	-\$16.5	-2.3%	-\$39.1	-5.3%
Income Tax Revenue	-\$629.5	-7.6%	-\$1,486.1	-16.3%

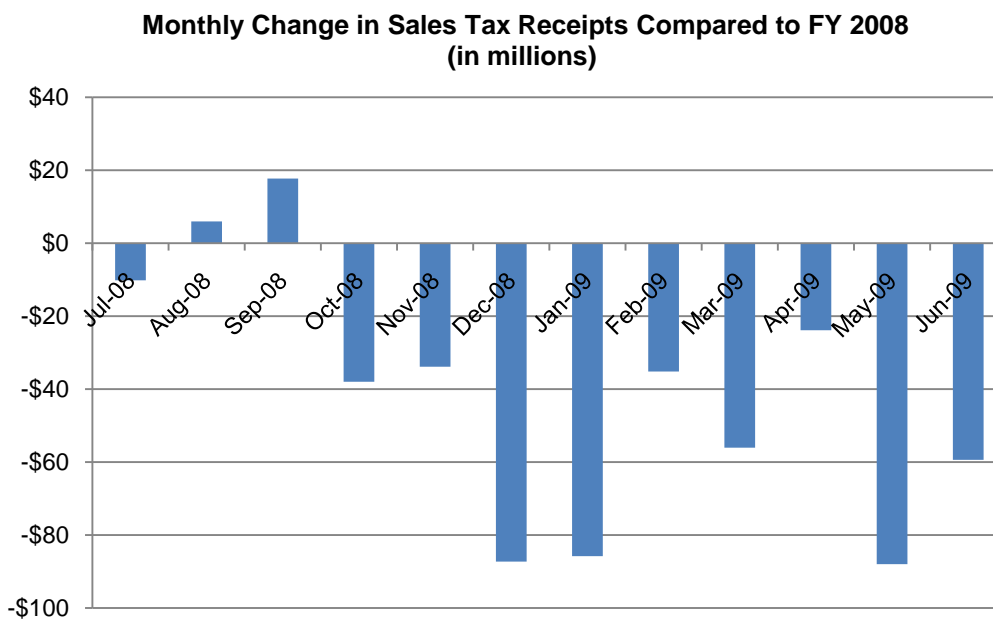
The table above summarizes FY 2009 income tax revenue variances from estimate and annual changes by component. Employer withholding, which accounted for about 76% of gross collections in the fiscal year, shows the effect of both shrinking payrolls from the recession, as well as the final reduction in tax rates enacted by H.B. 66 of the 126th General Assembly. After adjusting for the reduction in tax rates this fiscal year, withholding revenue implies that payrolls shrank about 1.5% when compared to FY 2008. Taxes paid with annual returns and estimated payments fell from reduced profits from the recession and decreased capital gains realizations as a result of an anemic stock market last year. The table also shows that the remaining components of the

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. Most estimated payments are made by high-income taxpayers.

personal income tax, except lower distributions to the Local Government Fund, have contributed to the shrinkage of collections from the tax this fiscal year compared to FY 2008.

Sales and Use Tax

June sales and use tax receipts of \$585.0 million were \$67.4 million below estimate and \$59.4 million below receipts in June 2008. The graph below shows the monthly variances in FY 2009 receipts compared to receipts in the same months in FY 2008. It shows persistent taxable spending declines on a year-ago basis for most of the fiscal year.



FY 2009 sales tax receipts were \$339.2 million below estimate and \$501.3 million below the FY 2008 level.

Severe headwinds from reduced employment, income, and wealth pressured sales and use tax receipts, particularly in the second half of the fiscal year. FY 2009 GRF receipts of \$7.11 billion were \$339.2 million below estimate and \$501.3 million below FY 2008 receipts. Based on total sales and use tax receipts (which include distributions to the GRF and to the Public Library Fund),³ consumers reduced their taxable spending by about \$9.8 billion in FY 2009. Even when this recession ends, a forecasted weak job market is likely to hinder sales and use tax receipts in the months ahead.

³ The Public Library Fund (PLF) receives 2.2% of total GRF tax revenues. Half of the amount, 1.1%, is allocated out of the nonauto sales and use tax. The other half is allocated out of kilowatt hour tax revenues.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections⁴ 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

Nonauto sales and use tax receipts were \$504.4 million in June 2009, \$70.4 million below estimate and \$59.1 million below June 2008 receipts. For the fiscal year, nonauto sales and use tax receipts of \$6.24 billion were \$337.9 million below estimate and \$431.5 million below receipts in the previous year. Consumers spent a higher share of their income on nontaxable items such as food, gasoline, and healthcare.⁵ Spending supported in previous years by the housing industry and mortgage equity withdrawals vanished, as home construction and home prices continue to fall. Individual and businesses' lines of credit were slashed during the fiscal year, and consumers reacted to the current economic uncertainty by raising the savings rate for the first time in years. The longest economic recession in the modern era, deepening job losses, and associated declines in consumer spending shrank nonauto sales and use tax receipts by 6.5% in FY 2009, the largest yearly decline in at least 30 years. Based on receipts, consumers reduced their taxable spending by \$8.2 billion in FY 2009, to approximately the level of taxable spending of FY 2005. The reduction in nonauto sales and use tax receipts is expected to continue in FY 2010.

Auto Sales and Use Tax

Auto sales and use tax receipts of \$80.6 million in June 2009 were \$3.0 million above estimate and \$0.3 million below receipts in June 2008. Auto sales and use tax receipts were consistently below prior-year receipts since the first quarter of FY 2009.

FY 2009 auto sales and use tax receipts of \$873.6 million were \$1.3 million below estimate and \$69.8 million below receipts in FY 2008.

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.

⁵ Spending on nonessentials (i.e., not food and not healthcare) minus autos and gasoline was below that of the previous year by 3.1%, the lowest since 1992.

Receipts from the auto sales and use tax have been declining since FY 2004, except in FY 2008 when revenues grew 2.4% from a new tax on vehicle purchases in Ohio by residents of other states (H.B. 119). Based on tax receipts, the reduction in taxable spending on vehicles was about \$1.6 billion in FY 2009. Nationwide, new light vehicle (autos and light trucks) sales were 30.5% below sales in FY 2008, reaching the historic lows of 1981. Sales of light trucks declined about 33% and those of autos dropped about 28%. The relative share of truck sales, which has been declining since a high of 56% of total unit sales in FY 2005, is now at 49%. The decrease in total unit sales and the increase in the share of auto sales (the average unit price of autos is lower than that of light trucks) both contributed to depress the auto sales and use tax base. Lower taxable spending and tax receipts from purchases of vehicles are expected in FY 2010.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products exceeded expectations. GRF receipts from the tax were \$83.1 million in June 2009, \$10.0 million above estimate and, more surprisingly, \$7.1 million above June 2008 receipts. FY 2009 receipts of \$924.8 million were \$7.8 million above estimate but \$26.2 million below FY 2008 receipts. Receipts from cigarette sales were \$883.0 million. Sales of other tobacco products provided \$41.7 million. Compared to FY 2008, receipts from the sale of cigarettes declined \$30.3 million and those from the sale of other tobacco products increased \$4.1 million. The yearly decline in cigarette tax receipts was less than expected, in part, due to Kentucky's doubling its tax rate in April 2009, which reduced some cross-border purchases by Ohioans in that state.⁶ The increase in receipts from other tobacco products, 11.1% in FY 2009, was most likely due to price increases by manufacturers and the federal rate increases on tobacco products other than cigarettes of April 1, 2009. Ohio's tax rate is 17% of the wholesale value of tobacco products other than cigarettes. Increases in prices and federal tax rates inflated the taxable value of other tobacco products by more than the associated reduction in consumption of the products. Receipts from the cigarette and other tobacco products tax are the third-largest tax revenue source in FY 2009, after the personal income tax and the sales and use tax.

Cigarette tax
receipts
were
\$7.8 million
above
estimate in
FY 2009.

⁶ Kentucky's rate on cigarettes, at \$0.60 per pack, is still lower than Ohio's \$1.25 per pack.

Corporate Franchise Tax

Corporate
franchise tax
payments
were
\$25.8 million
above
estimate in
FY 2009.

The last major corporate franchise tax (CFT) payment in FY 2009, due May 31, 2009 provided receipts of \$57.6 million in June 2009. Those receipts were \$19.2 million below estimate and \$42.4 million below revenues in June 2008. FY 2009 receipts of \$520.8 million were \$25.8 million above estimate but \$232.7 million below FY 2008 receipts. Two large settlements received during the fiscal year account for revenues being in excess of estimate, according to the Ohio Department of Taxation. In FY 2009, tax payments for nonfinancial corporations were based on 20% of the calculated liability, down from 40% in FY 2008, which explains the large decline in receipts this fiscal year. Except for filing amended returns and other reconciliations of tax accounts, the CFT report for 2009 was generally the last one for nonfinancial corporations. As part of the five-year phase-out of the corporate franchise tax that was enacted by H.B. 66 of the 126th General Assembly, the CFT for nonfinancial corporations will be eliminated in FY 2010 and the tax will become essentially a tax on financial institutions.

Commercial Activity Tax

CAT
receipts
were
\$98.2 million
below
estimate in
FY 2009.

The full phase-in of the commercial activity tax (CAT) started in the last quarter of FY 2009, for taxes due for taxable gross receipts booked in the first quarter of 2009. Except in the first quarter for the fiscal year, monthly CAT receipts were below estimate. In June 2009, receipts from the tax were \$9.0 million, \$4.1 million below estimate. The recession had an increasingly negative impact on the CAT during the fiscal year, and receipts in the April-June quarter were \$59.6 million (21.1%) below estimate.

FY 2009 CAT receipts totaled \$1.18 billion, \$98.2 million (7.7%) below estimate, but \$212.7 million (22.1%) above receipts in FY 2008, primarily due to a higher tax rate this fiscal year. 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 (TPP). 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%). Lower than expected CAT receipts in FY 2009 required a GRF subsidy of \$29.6 million to the two local funds, according to the Office of Budget and Management.

Foreign and Domestic Insurance Taxes

The domestic insurance tax yielded \$155.3 million for the GRF in FY 2009 (\$0.8 million more than in FY 2008), while the foreign insurance tax raised \$249.2 million (\$18.1 million less than in FY 2008). The domestic insurance tax is paid by insurance companies whose headquarters are located in Ohio, while the foreign insurance tax is paid by those headquartered in other states. Comparisons for the individual taxes to FY 2008 are skewed by a misclassification of receipts that year involving revenue from the domestic insurance tax having been attributed to the foreign insurance tax.

Total insurance tax revenue in FY 2009 was \$404.6 million, 4.1% less than FY 2008. The reduction in revenue was the biggest in percentage terms since FY 1983. The tax base is generally gross insurance premiums written to cover risks in Ohio. An industry source reports that, while sales of insurance products are not typically sensitive to the business cycle, the severity of the current recession has led to significantly reduced sales. The recession has thereby reduced revenues from both taxes. In addition, revenue from the domestic insurance tax has been reduced as a result of an expansion in the use of tax-exempt small employer health care alliances, due to certain provisions enacted by S.B. 5 of the 126th General Assembly. A Department of Insurance official reports that this expansion resulted in a decline of \$5.2 million in the domestic tax compared with FY 2008.

Revenue from the foreign insurance tax was reduced due to decreases in life and health insurance premiums, with much of that reduction falling under the so-called "retaliatory tax." When another state taxes an Ohio-based insurance company at a higher rate than Ohio taxes a company based in that state, the tax rate Ohio imposes on companies based in that state is automatically increased to the rate that that state imposes on Ohio companies under the retaliatory tax. Consequently, when another state reduces its tax rate, that triggers a reduction in revenue from Ohio's retaliatory tax. Some other states impose their foreign insurance taxes based on net income rather than gross premiums. As some insurance companies experienced losses during the year, that had the effect of lowering tax rates on Ohio companies, triggering a reduction in Ohio's retaliatory tax.

Kilowatt Hour Tax

GRF receipts from the kilowatt hour tax in FY 2009 were \$135.9 million, \$3.1 million higher than estimate, but \$95.3 million lower than FY 2008 receipts. The decline in receipts was mostly due to changes

in revenue distribution to the Public Library Fund (PLF) which took effect on January 1, 2008.⁷ Currently, 1.1% of total GRF tax revenues are credited to the PLF and allocated out of kilowatt hour tax revenues. Total kilowatt hour tax collections (all funds receipts) for FY 2009 were \$544.7 million, \$26.0 million or 4.6% less than in FY 2008. Total collections were negatively affected by the economic downturn and lower electricity consumption.

Public Utility Excise Tax

Receipts from the public utility excise tax totaled \$184.5 million in FY 2009, \$26.8 million more than in FY 2008. Taxes paid by natural gas companies account for more than 97% of total tax receipts from the public utility excise tax. Revenues from this tax are based on utilities' gross receipts. The increase in FY 2009 mainly reflected higher natural gas prices on average than in the previous fiscal year, as well as the lags between customer billing and payment, and between receipt of customer payments by utilities and remission of taxes due. Market prices for natural gas fell sharply in the second half of the fiscal year. The increase also reflects higher tax receipts from utilities other than natural gas utilities. About \$3.1 million of public utility excise tax receipts in FY 2008 were paid to the local government funds under the prior distribution formula; no public utility excise tax receipts were distributed to the local government funds in FY 2009.

Alcoholic Beverage Tax

Receipts from the alcoholic beverage tax were \$57.1 million in FY 2009, \$1.5 million below estimate, but \$0.2 million above FY 2008 receipts. Like most consumer discretionary products, sales of beer, wine, and spirits may have been hurt by rising unemployment and pervasive worries about the economy. Beer sales have generally been flat and those of wine have grown modestly, which, taken together, typically result in smaller yearly increases in total alcoholic beverage receipts. Beer and malt beverages generate about 83% of the total alcoholic beverage tax receipts. The next largest revenue source is the tax on wines at about 10%, followed by mixed beverages at about 5%. The remaining 2% comes from sales of vermouth, sparkling wines, and cider.

⁷ Am. Sub. H.B. 119 changed the distribution of receipts from the tax starting January 1, 2008. Receipts from the tax are distributed to the GRF, the PLF, the School District Property Tax Replacement Fund, and the Local Government Property Tax Replacement Fund.

Liquor Gallonage Tax

Liquor gallonage tax receipts were \$35.8 million in FY 2009, which were \$0.9 million below estimate, but \$0.8 million higher than FY 2008 receipts. Liquor consumption has increased steadily, shattering sales records year after year, as the market share for spirits grows at the expense of beer sales. Receipt growth averaged 2.8% between FY 2006 and FY 2008, and growth was reduced in FY 2009, probably by the effects of the recession.

Business and Property Tax

The business and property tax (also called the dealers in intangibles tax) is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money or buying and selling notes, mortgages, and securities. The distribution of receipts from the eight-mill tax depends on the taxpayer. All taxes paid by "qualified" dealers are credited to the GRF. For "nonqualified" dealers, a share of the tax revenues, three mills, is deposited into the GRF. Revenues from the remaining five mills are distributed to counties. GRF receipts from the dealers in intangibles tax were \$25.1 million in FY 2009, including \$17.6 million from qualified dealers and \$7.5 million from nonqualified dealers. FY 2009 receipts were \$5.0 million above estimate, and also \$2.8 million above FY 2008 receipts. Receipts from qualified dealers increased \$2.7 million while receipts from nonqualified dealers improved slightly. The reasons for the strong growth in taxes paid by the qualified dealers are still unclear. Revenue growth from this tax is highly dependent on investments by financial institutions and insurance companies in their subsidiary dealers and changes in the mortgage industry.

Estate Tax

The GRF received \$64.4 million from the estate tax in FY 2009. This amount was \$0.6 million lower than estimate, and higher than FY 2008 receipts by \$3.0 million. The estate tax is one of the most volatile state revenue sources as the estate of a very wealthy individual can account for 10% or more of the total state estate tax revenue. This revenue, 20% of which is distributed to the state GRF, depends on an estate's value at the time a person dies and the time of the settlement made by each county with the state.

Earnings on Investments

In FY 2009, GRF earnings on investments of \$137.5 million were \$22.5 million lower than estimate and \$32.0 million below FY 2008 receipts. The decline was due to reduced state revenues, which in turn gave the state less to invest, and lower than expected interest rates.

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

PROGRAM	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	\$355,574	\$302,522	\$53,052	17.5%
Higher Education	\$172,963	\$204,950	-\$31,987	-15.6%
Total Education	\$528,537	\$507,473	\$21,065	4.2%
Public Assistance and Medicaid	\$732,569	\$848,361	-\$115,792	-13.6%
Health and Human Services	\$40,903	\$53,617	-\$12,714	-23.7%
Total Welfare and Human Services	\$773,473	\$901,978	-\$128,506	-14.2%
Justice and Public Protection	\$99,764	\$108,760	-\$8,995	-8.3%
Environment and Natural Resources	\$729	\$2,404	-\$1,675	-69.7%
Transportation	\$1,674	\$1,232	\$443	35.9%
General Government	\$8,073	\$17,491	-\$9,418	-53.8%
Community and Economic Development	\$5,007	\$8,041	-\$3,034	-37.7%
Capital	\$25	\$513	-\$488	-95.2%
Total Government Operations	\$115,272	\$138,441	-\$23,169	-16.7%
Tax Relief and Other	\$94,150	\$130,368	-\$36,217	-27.8%
Debt Service	\$27,973	\$83,388	-\$55,416	-66.5%
Total Other Expenditures	\$122,123	\$213,756	-\$91,633	-42.9%
Total Program Expenditures	\$1,539,406	\$1,761,648	-\$222,242	-12.6%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$384	\$0	\$384	---
Total Transfers Out	\$384	\$0	\$384	---
TOTAL GRF USES	\$1,539,790	\$1,761,648	-\$221,858	-12.6%
* February 2009 estimates of the Office of Budget and Management. Detail may not sum to total due to rounding.				

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2009 as of June 30, 2009
(\$ in thousands)
(Actual based on OAKS reports run July 6, 2009)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2008	Percent Change
Primary, Secondary, and Other Education	\$7,005,036	\$7,024,625	-\$19,589	-0.3%	\$6,877,044	1.9%
Higher Education	\$2,632,584	\$2,611,651	\$20,934	0.8%	\$2,548,826	3.3%
Total Education	\$9,637,621	\$9,636,276	\$1,345	0.0%	\$9,425,870	2.2%
Public Assistance and Medicaid	\$11,108,523	\$11,301,093	-\$192,569	-1.7%	\$10,274,835	8.1%
Health and Human Services	\$1,194,590	\$1,199,752	-\$5,163	-0.4%	\$1,278,394	-6.6%
Total Welfare and Human Services	\$12,303,113	\$12,500,845	-\$197,732	-1.6%	\$11,553,229	6.5%
Justice and Public Protection	\$2,088,135	\$2,080,781	\$7,354	0.4%	\$2,063,545	1.2%
Environment and Natural Resources	\$89,600	\$89,078	\$522	0.6%	\$101,584	-11.8%
Transportation	\$21,433	\$22,410	-\$978	-4.4%	\$22,627	-5.3%
General Government	\$354,436	\$366,727	-\$12,291	-3.4%	\$357,730	-0.9%
Community and Economic Development	\$146,297	\$140,996	\$5,301	3.8%	\$133,771	9.4%
Capital	\$312	\$555	-\$243	-43.8%	\$146	113.7%
Total Government Operations	\$2,700,213	\$2,700,548	-\$334	0.0%	\$2,679,403	0.8%
Tax Relief and Other	\$1,526,226	\$1,347,702	\$178,523	13.2%	\$1,406,925	8.5%
Debt Service	\$616,248	\$683,518	-\$67,270	-9.8%	\$659,587	-6.6%
Total Other Expenditures	\$2,142,473	\$2,031,220	\$111,253	5.5%	\$2,066,512	3.7%
Total Program Expenditures	\$26,783,420	\$26,868,889	-\$85,469	-0.3%	\$25,725,014	4.1%
TRANSFERS						
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$848,557	\$852,439	-\$3,882	-0.5%	\$688,399	23.3%
Total Transfers Out	\$848,557	\$852,439	-\$3,882	-0.5%	\$688,399	23.3%
TOTAL GRF USES	\$27,631,977	\$27,721,328	-\$89,351	-0.3%	\$26,413,413	4.6%

* February 2009 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

EXPENDITURES

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

Overview

For the month of June, GRF uses of \$1.54 billion were \$221.9 million below the estimate revised by the Office of Budget and Management (OBM) in February 2009 (see Table 3). For the full fiscal year, GRF uses of \$27.63 billion were \$89.4 million below estimate (see Table 4). GRF uses consist primarily of program expenditures (97%) but also include transfers out (3%). GRF program expenditures totaled \$1.54 billion for June and \$26.78 billion for FY 2009 as a whole, which were below estimate by \$222.2 million and \$85.5 million, respectively.

For reporting purposes, GRF program expenditures are grouped into 12 categories. Of the \$26.78 billion in total program expenditures for FY 2009, \$22.83 billion (85.3%) occurred in the following four areas: \$11.11 billion (41.5%) in Public Assistance and Medicaid, \$7.01 billion (26.2%) in Primary, Secondary, and Other Education, \$2.63 billion (9.8%) in Higher Education, and \$2.09 billion (7.8%) in Justice and Public Protection.

The OBM February estimate took into account GRF appropriation reductions ordered by the Governor in February, September, and December 2008. Excluding Medicaid, GRF appropriations for FY 2009 were reduced by a total of \$357 million (2%). The GRF appropriation for Medicaid was also reduced by \$332.5 million in FY 2009. However, that Medicaid reduction was offset by corresponding increased appropriations for non-GRF Medicaid line items approved by the Controlling Board at its June 1, 2009 meeting (see the June issue of this report for details). No Medicaid services or payments were reduced in FY 2009.

In addition to expenditures, the February estimate also projected year-end encumbrances of \$521.7 million. Funds encumbered as of June 30, 2009 are available for agencies to spend in FY 2010. Actual GRF encumbrances totaled \$345.4 million as of June 30, 2009, \$176.3 million below estimate. See the **Encumbrances** section of this report for additional information.

Programs with Significant Negative Variances in FY 2009

Public Assistance and Medicaid

The Public Assistance and Medicaid program category had the largest negative variance of \$192.6 million (1.7%) for FY 2009, of which \$115.8 million occurred in June. Medicaid accounts for approximately

GRF program
expenditures
for FY 2009
were
\$85.5 million
below
estimate.

Year-end
GRF
encumbrances
were
\$176.3 million
below
estimate.

GRF Medicaid
expenditures
were
\$150.8 million
below
estimate for
FY 2009.

92% of GRF expenditures in the Public Assistance and Medicaid program category. Table 5 details Medicaid expenditures by service category.

GRF expenditures for Medicaid totaled \$10.24 billion in FY 2009, \$150.8 million (1.5%) below the estimate revised by OBM in February 2009. The GRF represents almost 84% of all-fund Medicaid expenditures, which totaled \$12.21 billion for FY 2009, \$157.5 million (1.3%) below estimate. The OBM February estimate accounted for the revised Medicaid caseload forecast, the enhanced Medicaid reimbursement, and the then-anticipated increase in the use of non-GRF funding sources. For June, GRF Medicaid expenditures totaled \$701.4 million, \$91.8 million (11.6%) below estimate. The June and FY 2009 negative variances both were partially attributable to the timing of the final FY 2009 fee-for-service payment of \$70.9 million, which was disbursed in early July instead of June. Medicaid services are generally delivered through the fee-for-service system or the managed care system. Under the traditional fee-for-service system, Medicaid reimburses health care professionals and institutions for providing approved medical services and products based on set fees for the specific types of services rendered. Under the alternative managed care system, a Medicaid enrollee typically receives all care through a single point of entry. The state pays a fixed monthly premium per beneficiary for any health care included in the benefit package, regardless of the amount of services actually used.

Inpatient Hospital had the largest negative variance in FY 2009. Expenditures for this category were below estimate by \$78.1 million (7.0%), mainly due to lower than expected utilization of hospital services and lower cost per claim by the Aged, Blind, and Disabled (ABD) populations in the Northeast and Northwest regions.

The second largest negative variance occurred in the All Other category. This category's expenditures were below estimate for the fiscal year by \$29.5 million (2.8%) with a significant portion of this variance attributable to the delayed final fee-for-service payment; for June this category was below estimate by \$16.9 million (15.9%). The All Other category includes a wide range of services including hospice, medical equipment, home health, dental, and targeted case management.

The other categories with relatively large negative variances for FY 2009 include Waivers, Prescription Drugs, and ABD managed care plans. Expenditures for Waivers were below estimate by \$20.8 million (6.2%), as enrollment and cost per claim were consistently below estimates for most of the fiscal year. ODJFS runs Waiver programs to provide home and community-based services to individuals who would otherwise be eligible for Medicaid coverage in a nursing facility or

hospital. Expenditures for Prescription Drugs were below estimate by \$20.6 million (3.7%) in FY 2009, largely due to the delayed final fee-for-service payment; this category's expenditures were below estimate by \$15.2 million (26%) in June. Expenditures for ABD managed care plans were below estimate by \$15.0 million (1.1%) as a result of lower than expected caseload.

The Covered Families and Children (CFC) managed care plan category was the only one that had a significant positive variance for FY 2009. Expenditures for this category were above estimate by \$22.9 million (0.7%). This positive variance was mainly a result of CFC caseload increases in recent months. More Ohioans become eligible for Medicaid as the economy continues to underperform.

Debt Service

Debt Service had the second largest negative variance for FY 2009, at \$67.3 million (9.8%). Of this total, \$55.4 million occurred in June, reflecting a restructuring of the state's GRF-backed debt obligations. The variances in the Debt Service program category were also related to Ohio's securitization of payments from the Tobacco Master Settlement Agreement, which was completed October 29, 2007. This transaction provided \$5.05 billion cash to the state for funding capital projects in K-12 schools and institutions of higher education, lowering the need for the state to issue general obligation bonds for such purposes during FYs 2008 through 2010. Savings from not having to issue bonds that would otherwise be issued during this three-year period is used to help pay for the expanded Homestead exemption.

Primary, Secondary, and Other Education

Despite a positive variance of \$53.1 million (17.5%) in June, the Primary, Secondary, and Other Education program category finished the fiscal year with a negative variance of \$19.6 million (0.3%). Of the \$7.02 billion in FY 2009 total GRF spending for Primary, Secondary, and Other Education, \$6.09 billion was distributed to public schools through foundation formulas. School foundation payments are largely based on each district's property wealth and student enrollment. Generally speaking, the per pupil school foundation payment is higher for a lower wealth district than for a higher wealth district. Actual enrollments for FY 2009 were about 33,000 students lower than the projections used to make H.B. 119 appropriations for school foundation payments. Most of these effects were included in the OBM February estimate.

Lottery profits
share of
school
foundation
payments was
\$40 million
above
H.B. 119
appropriation.

The lottery profits share of FY 2009 school foundation payments was \$40 million higher than what was appropriated in H.B. 119. At its May 18, 2009 meeting, the Controlling Board increased the Department of Education's lottery profits appropriation item 200612, Foundation Funding, from \$667.9 million to \$707.9 million. The use of the additional lottery profits helps lower the need for using the GRF to pay school foundation payments for FY 2009. The Ohio Lottery Commission launched the newest on-line game, Keno, in August 2008. Keno terminals are placed in establishments such as bars, restaurants, and bowling alleys. Keno profits were about \$25 million for FY 2009, \$48 million below the original projection of \$73 million. The contributing factors for the lower Keno profits include a slower than expected pace of licensing and installing Keno terminals and the current economic recession, which has decreased household discretionary spending, including spending at restaurants and bars where Keno terminals are located.

General Government

The General Government program category posted the fourth largest negative variance in FY 2009, at \$12.3 million (3.4%). This program category includes legislative and judicial agencies, offices of the Governor, Attorney General, Auditor of State, Secretary of State, and Treasurer of State, and certain executive agencies such as the Department of Administrative Services, the Department of Commerce, the Department of Taxation, and the Office of Budget and Management.

Programs with Significant Positive Variances in FY 2009

Tax Relief and Other

The Tax Relief and Other program category registered the largest positive variance of \$178.5 million (13.2%) in FY 2009. As reported throughout the year, this positive variance reflected the fact that the OBM estimate did not account for the \$257 million appropriation for the expanded Homestead exemption instituted in H.B. 119 of the 127th General Assembly. Payments to local governments and school districts were complete in all but Licking and Hamilton counties. The state is required to make tax relief payments within 30 days of certification by county officials. The certifications from Licking and Hamilton counties arrived in late June, leading to a delay in making FY 2009 payments for most school districts and local governments in these two counties. The remaining payments for these two counties are to be made in July instead of June. This delay largely explained this program category's \$36.2 million (27.8%) negative variance for the month of June.

Higher Education

Higher Education finished the year with a positive variance of \$19.6 million (0.3%) despite a negative variance of \$32.0 million (15.6%) in June. The positive variance in Higher Education was largely due to higher than expected need-based student financial aid payments.

Encumbrances

As indicated earlier, as of June 30, 2009, state agencies encumbered a total of \$345.2 million in GRF funds for spending in FY 2010. 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.

The table below summarizes these encumbrances by the fiscal year for which funds were originally appropriated. As shown in the table, most of the encumbrances were originally appropriated in FY 2009, but smaller amounts were first appropriated for earlier years back to FY 2000.

FY 2009 Year-End Encumbrances by Fiscal Year for Which Appropriations Were Originally Made		
Fiscal Year	Amount	Percentage of Total
FY 2000	\$200,000	0.1%
FY 2001	\$103,393	0.0%
FY 2002	\$94,989	0.0%
FY 2003	\$428,930	0.1%
FY 2004	\$134,597	0.0%
FY 2005	\$878,758	0.3%
FY 2006	\$2,275,230	0.7%
FY 2007	\$6,694,914	1.9%
FY 2008	\$53,782,624	15.6%
FY 2009	\$280,829,224	81.3%
Total	\$345,422,660	100.0%

The amount of funds encumbered by each agency varies greatly. As can be seen from the table below, the Department of Education has the largest encumbrance amount at \$110.6 million, 32.0% of the total, followed by the Department of Job and Family Services at \$97.4 million (28.2%),

FY 2009
year-end
GRF
encumbrances
totaled
\$345.4 million.

Education
and Job and
Family
Services
account for
a little over
60% of
funds
encumbered
by all state
agencies.

and the Department of Development at \$65.7 million (19.0%). Together, these three agencies accounted for \$273.7 million (79.2%) of the total. All other agencies encumbered the remaining \$71.5 million, 10.8% of the total. The nine agencies with encumbrances over \$5 million are discussed in the sections below.

FY 2009 Year-End Encumbrances by Agency		
Agency	Amount	Percentage of Total
Education	\$110,579,041	32.0%
Job and Family Services	\$97,406,119	28.2%
Development	\$65,698,368	19.0%
Rehabilitation and Correction	\$15,594,745	4.5%
Transportation	\$9,855,132	2.9%
Regents	\$8,661,691	2.5%
Developmental Disabilities	\$8,373,793	2.4%
Arts Council	\$5,207,798	1.5%
Youth Service	\$5,176,884	1.5%
All Other Agencies	\$18,869,090	5.5%
Total	\$345,422,660	100.0%

Department of Education

The Department of Education (ODE) encumbered \$110.7 million for expenditures in FY 2010, including \$57.1 million under the Foundation Funding program to meet FY 2009 potential year-end formula payment adjustments. As indicated earlier, student enrollments are one of the key factors affecting each district's foundation payments. The final enrollment reconciliation for a given fiscal year generally occurs within the first few months of the following fiscal year. In addition, ODE encumbered \$24.6 million in the Student Assessment program to pay contractors for scoring tests this summer that were administered in the spring and other bills not yet received from vendors, \$4.3 million in the Early Childhood Education program for outstanding payments to providers of preschool programs for low-income children, and smaller amounts relating to outstanding subsidy obligations for STEM initiatives, special education and career-technical education enhancement programs, and school improvement initiatives.

Department of Job and Family Services

The Department of Job and Family Services (ODJFS) encumbered a total of \$97.4 million to be carried into FY 2010. Of this amount, \$66.6 million was from funds that were originally appropriated in

FY 2009, \$30.7 million from FY 2008, and the remaining \$100,000 from fiscal years prior to FY 2008. About 71% (\$69.0 million) of these encumbrances was from line item 600525, Health Care/Medicaid. Of this total, approximately \$49.8 million was related to payments that were withheld due to changes of ownership of Medicaid providers. These payments will be disbursed once the change of ownership process is complete and financial obligations between ODJFS and the provider are resolved (most of the providers that change ownership regularly are nursing facilities). In December 2008, the Controlling Board created the Exiting Operator Fund (Fund 5FX0) for ODJFS to deposit funds withheld for this purpose. As a result, similar encumbrances in 600525 will no longer occur in future fiscal years. Other encumbrances from line item 600525 included approximately \$12.0 million for targeted case management and county administration and \$6.1 million for children's hospitals supplemental payments.

In addition to encumbrances made in line item 600525, ODJFS encumbered \$7.7 million in line item 600521, Entitlement Administration – Local, for the state share of county administrative expenditures for Medicaid, the Food Assistance Program (formerly Food Stamps), and other public assistance programs, and \$6.1 million in line item 600416, Computer Projects, for information technology. Other smaller encumbrances included \$3.0 million in line item 600523, Children and Families Services, for program management for children and families programs (which include foster care, child welfare, and Title XX social services), and \$2.1 million in line item 600321, Support Services, for administrative activities related to all ODJFS programs.

Department of Development

The Department of Development (DOD) encumbered \$65.7 million for expenditures in FY 2010. Of this total, \$37.6 million was encumbered from funds that were originally appropriated in FY 2009, \$19.8 million from FY 2008, and \$8.3 million from previous fiscal years. These encumbered amounts are largely attributable to economic development incentive awards that have been approved but not yet disbursed. Many of DOD's grant programs are operated on a reimbursement basis, whereby grant recipients do not receive money from the state until a project has been completed or certain conditions have been met. For example, a grantee may be awarded grants in FY 2009 but not receive them until FY 2010 or later.

The line item with the largest encumbrance was 195422, Technology Action, with \$26.8 million encumbered for grants under the Third Frontier Program. Other line items with large encumbrances

Many of the state's economic development grant and loan programs are operated on a reimbursement basis.

include: 195412, Rapid Outreach Grants (\$11.7 million), 195434, Industrial Training Grants (\$11.3 million), 195416, Governor's Office of Appalachia (\$6.2 million), 195401, Thomas Edison Program (\$3.7 million), and 195410, Defense Conversion Assistance (\$1.9 million). A number of other line items comprised the remaining approximately \$4.0 million. These include support for DOD's minority business development grants, regional economic development offices, international trade offices, and tourism marketing costs.

Department of Rehabilitation and Correction

The Department of Rehabilitation and Correction closed FY 2009 with encumbrances totaling \$15.6 million, mostly traceable to its 505321, Institution Medical Services (\$7.7 million), and 501321, Institutional Operations (\$5.1 million), line items. The encumbrances from line item 505321 included funds to pay for a mix of purchased personal services, supplies, maintenance, repairs, materials, and other minor expenditures, the largest of which was in excess of \$4.7 million to pay for physician services. The amounts encumbered from line item 501321 were for paying for a similar mix of purposes, the largest of which was \$2.2 million to pay for the private management and operation of the Lake Erie Correctional Institution and the North Coast Correctional Treatment Facility.

Department of Transportation

The Department of Transportation encumbered approximately \$9.9 million at the end of FY 2009. Of this amount, \$6.8 million was from funds that were originally appropriated for FY 2009 and \$3.1 million was from FYs 2006 through 2008. All but \$17,000 (for purchased personal contracts) of the encumbered funds were related to grants or loans that were awarded but not yet disbursed, including \$4.4 million for public transit grants, \$4.1 million for rail development grants or loans, and \$1.1 million for airport improvement grants. The timing of grant or loan awards and actual disbursements of those grants or loans may be different for a number of reasons, including bill delays, project delays, or projects being completed for less than the estimated amounts. Timing may also be different as a result of certain grants that are disbursed on a reimbursement basis. For example, the Ohio Rail Development Commission encumbers funds at the time projects are approved but does not disburse funds until the recipients demonstrate that they have incurred costs.

Board of Regents

The Board of Regents (BOR) encumbered \$8.7 million at the end of FY 2009, less than half the amount of encumbrances in each of the previous two fiscal years. A majority of the FY 2009 year-end encumbrances were to meet the state's obligations to recipients of scholarships through various programs, including the Choose Ohio First Scholarship (\$4.3 million), the National Guard Scholarship (\$0.5 million), and the War Orphan Scholarship (\$0.4 million). An additional \$2.4 million was encumbered for outstanding FY 2009 payments to Adult Workforce Education service providers. Ohio's adult workforce education and literacy training programs were transferred from the Department of Education to BOR in January 2009. The remaining \$1.1 million includes encumbrances from 11 other programs.

Department of Developmental Disabilities


The Department of Developmental Disabilities encumbered almost \$8.4 million at the end of FY 2009, largely to cover the cost of community-based services provided to Individual Options (I/O) waiver recipients in compliance with the Martin Settlement. The Settlement, which was accepted by the court in March 2007, ends a class-action lawsuit that sought to allow individuals with developmental disabilities to receive community-based rather than institutional-based services. It requires the state, within two years, to make community-based services available for 1,500 individuals who have developmental disabilities. Encumbered funds will be used to pay the state share of I/O services that were rendered but not yet billed in FY 2009. Service providers have up to one year to bill for such services.

Arts Council

The Ohio Arts Council encumbered \$5.2 million at the end of FY 2009. All but \$1,500 was attributable to committed but undisbursed grant awards to various arts organizations.

Youth Services

The Department of Youth Services closed FY 2009 with encumbrances totaling \$5.2 million, the largest of which were to make RECLAIM Ohio county subsidy payments (\$2.4 million) and to finance juvenile correctional facility operations (\$1.5 million). The latter have been encumbered for the purpose of paying for institutional operating costs, including purchased personal services, supplies, utilities, and maintenance and repair services.



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

Medicaid (600-525) Payments by Service Category	June				Year to Date			
	Actual	Estimate	Variance	Percent Variance	Actual thru June	Estimate thru June	Variance	Percent Variance
Nursing Facilities	\$223,917	\$220,158	\$3,759	1.7%	\$2,574,191	\$2,574,525	-\$334	0.0%
ICFs/MR	\$45,318	\$46,833	-\$1,515	-3.2%	\$536,159	\$541,873	-\$5,714	-1.1%
Inpatient Hospitals	\$87,487	\$123,965	-\$36,478	-29.4%	\$1,044,425	\$1,122,568	-\$78,143	-7.0%
Outpatient Hospitals	\$32,774	\$40,889	-\$8,115	-19.8%	\$399,838	\$400,821	-\$983	-0.2%
Physicians	\$27,864	\$34,651	-\$6,787	-19.6%	\$351,891	\$353,577	-\$1,686	-0.5%
Prescription Drugs	\$43,399	\$58,617	-\$15,218	-26.0%	\$539,764	\$560,392	-\$20,628	-3.7%
ODJFS Waivers	\$24,691	\$35,432	-\$10,741	-30.3%	\$312,630	\$333,423	-\$20,793	-6.2%
MCP - CFC	\$292,096	\$286,854	\$5,242	1.8%	\$3,480,241	\$3,457,319	\$22,922	0.7%
MCP - ABD	\$105,393	\$109,319	-\$3,926	-3.6%	\$1,374,560	\$1,389,550	-\$14,990	-1.1%
Medicare Buy-In	\$26,576	\$27,145	-\$569	-2.1%	\$310,782	\$313,679	-\$2,897	-0.9%
All Other	\$89,516	\$106,380	-\$16,864	-15.9%	\$1,025,865	\$1,055,367	-\$29,502	-2.8%
DA Medical	\$700	\$994	-\$294	-29.6%	\$10,341	\$10,995	-\$654	-5.9%
Total Payments	\$999,731	\$1,091,237	-\$91,506	-8.4%	\$11,960,687	\$12,114,089	-\$153,402	-1.3%
Offsets								
Drug Rebates	-\$17,056	-\$17,122	\$66	-0.4%	-\$97,995	-\$99,494	\$1,499	-1.5%
Revenue and Collections	-\$7,429	-\$7,595	\$166	-2.2%	-\$74,650	-\$75,330	\$680	-0.9%
ICF/MR Franchise Fees	-\$1,250	-\$1,250	\$0	0.0%	-\$11,250	-\$11,250	\$0	0.0%
NF Franchise Fees	-\$19,444	-\$19,444	\$0	0.0%	-\$175,000	-\$175,000	\$0	0.0%
IMD/DSH Payments	-\$8,750	-\$8,750	\$0	0.0%	-\$61,250	-\$61,250	\$0	0.0%
MCP Assessments	-\$38,115	-\$38,115	\$0	0.0%	-\$221,484	-\$222,667	\$1,183	-0.5%
Health Care Federal	-\$228,133	-\$228,535	\$402	-0.2%	-\$1,333,118	-\$1,336,516	\$3,398	-0.3%
Total Offsets	-\$320,177	-\$320,811	\$634	-0.2%	-\$1,974,747	-\$1,981,507	\$6,760	-0.3%
Total 600-525 (net of offsets)	\$679,554	\$770,426	-\$90,872	-11.8%	\$9,985,940	\$10,132,582	-\$146,642	-1.4%
Medicare Part D (600-526)	\$21,828	\$22,801	-\$973	-4.3%	\$251,076	\$255,206	-\$4,130	-1.6%
Total GRF	\$701,382	\$793,227	-\$91,845	-11.6%	\$10,237,016	\$10,387,788	-\$150,772	-1.5%
Total All Funds	\$1,021,559	\$1,114,038	-\$92,479	-8.3%	\$12,211,763	\$12,369,295	-\$157,532	-1.3%

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

Department of Development Accepts Applications from Small Communities for Federal Stimulus Funds for Water and Sewer Projects

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

On June 15, 2009, the Ohio Department of Development (ODOD) began accepting applications for federal stimulus dollars for water and sewer projects in small communities in rural areas, mainly in counties with populations of under 200,000 and cities with populations under 50,000. ODOD received just under \$13 million in supplemental Community Development Block Grant (CDBG) funding under the American Recovery and Reinvestment Act of 2009 (ARRA) and is allocating this funding for the CDBG Water and Sanitary Sewer Program. The bulk of the funding, nearly \$12 million, will be awarded to local projects through the application process. Of the remainder, the state will retain about \$732,000 for administrative expenses, and will allocate about \$240,000 among grant recipients for their share of administrative costs. The application period is expected to stay open until all awards are committed.

The CDBG Water and Sanitary Sewer Program, administered by ODOD's Office of Housing and Community Partnerships, awards funds to small communities in rural areas to help them provide safe and clean drinking water, ensure proper sanitary sewage disposal and treatment, and comply with environmental regulations. Eligible projects include those that improve public water and sewer infrastructure, as well as projects on individual sites, such as water and sewer line extensions or upgrades or the installation of septic systems on residential or commercial sites. Awards made using the ARRA money are limited to \$500,000 for a public infrastructure improvement project and \$100,000 for an on-site improvement project. Also, at least 60% of the population served by a project must be residential users. All awards issued using ARRA funds must be disbursed within three years.

Federal Railroad Administration Issues Interim High-Speed and Intercity Passenger Rail Grant Program Guidance

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

On June 17, 2009, the Federal Railroad Administration (FRA) issued the interim guidance for federal funds for passenger rail made available through the federal American Recovery and Reinvestment Act of 2009 (ARRA) and other related rail project funding. H.B. 2 of the 128th General Assembly, the FY 2010-FY 2011

transportation budget act, authorized the Ohio Department of Transportation or the Ohio Rail Development Commission to apply for these federal funds, which included \$8 billion for high-speed and intercity passenger rail projects. The guidance includes the project grant application requirements and procedures, public comment on which will be accepted through July 10, 2009.

On that date, pre-applications for funding are due, while full grant applications must be submitted by August 24, 2009 or October 2, 2009, depending on the type of funding program (referred to as a "track") being applied for.⁸ There are four funding tracks available to applicants, each of which accommodates projects with different goals and stages of development. These four tracks are: (1) "shovel-ready" projects that will be entirely funded with federal funds, (2) "shovel-ready" projects that will have a 50% or more nonfederal share, (3) development of new high-speed rail corridors, and (4) planning activities designed to ensure a pipeline of future high-speed rail and passenger rail projects. Applicants must display the ability to absorb any potential project cost overruns and to cover the state's share of allocated operations costs associated with running the rail service.

Full grant applications will undergo a three-tiered review process. Initially, applications will be screened for completeness and eligibility. Next, the applications will be scored according to various criteria, such as the project's (1) transportation benefits, (2) potential for job creation and retention, (3) environmental impact, (4) management, (5) sustainable operating financial support, and (6) project readiness. Finally, project applications will be reviewed collectively to ensure consistency and to balance projects against national priorities and completion schedules. The initial round of grantees is likely to be announced within a few months of the full grant application deadlines noted above.

New Statehouse Museum Completed With Public and Private Support

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

The Ohio Statehouse Museum Education Center officially opened on June 10, 2009, featuring 5,000 square feet of exhibit space in the area formerly occupied by the Statehouse Museum Shop. Two phases of the three-phase project have now been completed at a total cost of approximately \$3.5 million. This total includes approximately \$2.25 million raised privately through the nonprofit Capitol Square Foundation, as well as \$1.29 million in state capital appropriations for the Capitol Square Review and Advisory Board (CSRAB). According to CSRAB, most (\$1.1 million)

⁸ FRA may extend those dates to allow applicants at least 30 days to submit their applications after a material change has been made to the guidance following the public comment period.

of the state dollars appropriated for the project have been expended, with some funds still encumbered for final outstanding payments.

State capital dollars were primarily used for the first phase of the project, involving the relocation of the travel office and gift shop and infrastructure improvements to the Statehouse. The second phase, involving construction of the museum itself, was primarily supported by the Foundation, including approximately \$1.5 million for exhibits and displays. The third and final phase will involve additional exhibit space. While final cost estimates are not yet available for the third phase, CSRAB does not intend to pursue additional state capital funding for the project, as the necessary improvements to the Statehouse were completed during the first phase.

Board of Regents Funds Summer Foreign Language and STEM Academies in 2009

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

The Ohio Board of Regents (BOR) is funding eight summer academies in 2009, its third year of support for Ohio high school juniors and seniors interested in pursuing collegiate work in the fields of science, technology, engineering, and mathematics (STEM), and in various foreign languages. BOR supported eight academies enrolling over 300 students in FY 2008 at a cost of about \$2.0 million. Although the appropriation for the academies has been reduced by nearly \$225,000, the number of enrolled students has increased to 345 in FY 2009. The academies are co-sponsored by various public and independent institutions, local school districts, and community organizations around the state. In addition to providing free instruction for students, some academies include free mentoring and accommodations. Upon completion of the courses, students may receive one unit of high school credit, one quarter or semester of college credit, or both. The following table lists the eight summer academies funded in the summer of 2009, their subjects of instruction, and the participating institutions.

Regional Foreign Language and STEM Academies				
Name of Academy	Institution	Subject	Enrollment	Funding
Foreign Language Chinese Academy	Ohio State University Washington State Community College Miami University	Foreign Language	50	\$176,000
The Fenn Academy Pathways to Engineering	Cleveland State University	Engineering	30	\$171,000
Igniting Streams of Learning in Science	Hiram College Kent State University University of Akron	Science	50	\$300,000
Emerging Technologies and Language Academy	Cincinnati State Technical and Community College	Science and Foreign Language	45	\$167,000
Problem-Based Learning Communities in Arabic, Chinese, Hindi, Japanese, and Russian	Kent State University Cleveland State University University of Akron Oberlin College	Foreign Language	60	\$287,000
College Science Investigation	Baldwin-Wallace College Cleveland State University	Science	30	\$245,000
Dayton Regional Summer STEM	Wright State University Clark State Community College Sinclair Community College	Science and Mathematics	30	\$228,000
Southern Ohio Youth Regents STEM and Foreign Language	Shawnee State University University of Rio Grande Ohio University – Southern Campus	Science, Mathematics, Foreign Language	50	\$201,000
		Total	345	\$1,775,000

Groundbreaking Ceremony Held for New Ohio State School for the Blind and Ohio School for the Deaf Facilities

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

On May 26, 2009, in a ceremony held at the site of the schools' adjacent campuses, the Ohio School Facilities Commission (SFC) broke ground for new school and residential facilities for the Ohio State School for the Blind (OSB) and the Ohio School for the Deaf (OSD). Plans for the \$40.0 million project include construction of a combined 170,000 square feet of residential and classroom facilities for both schools as well as renovation to some existing facilities.

In addition to new facilities, the plan includes a bridge connector over a ravine which currently separates the two campuses. The bridge connector will reduce the trip between the campuses from two miles to about one-half mile and allow the two schools to complete consolidation of many services. During the FY 2008-FY 2009 biennium, OSB and OSD created a joint human resources department, a joint business office, a joint information technology department, and shared custodial and maintenance services. The bridge connector will allow the two schools to complete consolidation of other services, including student health services, food services, and security.

H.B. 699 of the 126th General Assembly appropriated \$4.0 million in capital funds to SFC to administer the planning and design of the new campus. The design work for the project was completed by Cincinnati-based SHP Leading Design. H.B. 562 of the 127th General Assembly appropriated an additional \$37.0 million for the construction of the new facilities. International project management firm Bovis Lend Lease has been selected as the manager of the project. According to the latest timeline, construction is expected to be completed by early 2011.

State Board of Education Adopts Benchmarks and Indicators for Physical Education Standards

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

On June 8, 2009, the State Board of Education adopted benchmarks and indicators for each of the six physical education standards listed below.⁹ Generally, benchmarks for each standard have been developed for each of the four grade level spans, K-2, 3-5, 6-8, and 9-12, while indicators for each benchmark are grade specific. The benchmarks and indicators have been made available to school districts to help them in developing their physical education curricula.

H.B. 119 mandated that the State Board adopt the most current standards developed by the National Association of Sports and Physical Education (NASPE) or adopt its own standards for physical education. The State Board opted for the former approach and adopted NASPE's six standards in December 2007. It subsequently formed a committee to engage stakeholders in developing Ohio-specific benchmarks and indicators. The work of this committee resulted in the adoption of the benchmarks and indicators mentioned above.

Ohio's Physical Education Standards

1. Demonstrates competency in motor skills and movement patterns needed to perform a variety of physical activities.
2. Demonstrates understanding of movement concepts, principles, strategies, and tactics as they apply to the learning and performance of physical activities.
3. Participates regularly in physical activity.
4. Achieves and maintains a health-enhancing level of physical fitness.
5. Exhibits responsible personal and social behavior that respects self and others in physical activity settings.

⁹ The full report on the physical education standards, benchmarks, and indicators is available on the Department of Education's web site at www.ode.state.oh.us → Teaching → Instruction → Physical Education.

6. Values physical activity for health, enjoyment, challenge, self-expression, and/or social interaction.

Attorney General Awards One-Time Drug Use Prevention Grants

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

The Ohio Attorney General's Office has awarded a total of \$2.3 million in one-time special drug use prevention grants that will be distributed to a mix of 86 county, municipal, and township law enforcement agencies. The purpose of the one-time grants is to help pay the salaries of 195 Drug Abuse Resistance Education (DARE) officers, school resource officers, and others who perform drug prevention work in various local jurisdictions across Ohio. The grant will cover 50% of their time spent on drug use prevention work. These grants are in addition to over \$3 million in annual FY 2009 DARE funding that the Attorney General previously distributed to pay for 50% of the base salary of 200 DARE officers.

The award criteria for the one-time special grants gave priority to agencies that, in the face of serious budgetary challenges, had lost, or would lose, drug use prevention officers because of layoffs or attrition. The grant amounts ranged from a low of \$1,030 awarded to the Westerville Police Department to a high of \$292,656 awarded to the Toledo Police Department.

The money to support these one-time special grants was a cash surplus that had built up over time in the Drug Abuse Resistance Education Fund. The amounts deposited in this fund are generally restricted for grants to law enforcement agencies to establish and implement drug abuse resistance education programs in public schools. The fund's revenue stream consists of \$75 of the \$475 fee that a driver convicted of operating a vehicle while intoxicated pays to get their license reinstated. As of June 30, 2009, the fund had a cash balance of approximately \$2 million.

State Agencies Collaborate to Provide Breast and Cervical Cancer Screenings and Treatment

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

—*Ivy Chen, Principal Economist, 614-644-7764*

The Ohio Department of Health (ODH) and the Ohio Department of Job and Family Services (ODJFS) collaborate to provide breast and cervical cancer screenings and treatment to Ohio women. ODH provides the funds for diagnostic and screening services through the Breast and Cervical Cancer Project Program (BCCP), while ODJFS pays for the treatment portion through the BCCP Medicaid Program. In FY 2008, ODH expended \$6.0 million in state and federal funds for diagnostic and screening services.

For FY 2009, ODH estimates that such expenditures will total \$6.2 million. H.B. 119 of the 127th General Assembly included \$2.5 million in each fiscal year in new GRF appropriations for this purpose; however, the appropriation for FY 2009 was reduced to \$2.2 million through executive-ordered budget reductions. Nearly 13,500 women received diagnostic and screening services during FY 2008 and an estimated 17,000 will receive these services in FY 2009. In FY 2008, ODJFS expended \$11.2 million in state and federal funds to treat 412 women. For the first three quarters of FY 2009, ODJFS has expended \$10.4 million in state and federal funds to treat 386 women.

Eleven regional, multi-county sites coordinate BCCP diagnostic and screening services. The services, which are provided at no cost to eligible women, include mammograms, Pap tests, clinical breast exams, diagnostic testing, and biopsies and ultrasounds, if needed. To be eligible for services women must meet the following criteria: (1) live in households with incomes less than 200% of the federal poverty guidelines, (2) have no insurance, (3) be 40 years of age or older in order to receive Pap tests, pelvic exams, and clinical breast exams, and (4) be 50 years of age or older in order to receive mammograms. If an eligible woman is diagnosed with breast or cervical cancer at one of the regional sites, she is eligible to receive treatment from any qualified provider through the Medicaid Program.

Department of Developmental Disabilities Issues Progress Report on Implementation of Futures Committee Recommendations

—Maggie Priestas, Budget Analyst, 614-995-9992

On April 29, 2009, the Department of Developmental Disabilities issued a progress report on the implementation of 31 recommendations made in 2008 by the Futures Committee.¹⁰ The Committee was established by H.B. 119 of the 127th General Assembly to review the effectiveness, efficiency, and sustainability of current uses of funding for the Department and make recommendations for improvement. The recommendations and implementation activities center on the following: improving service access, delivery, and quality; dissemination of information to consumers, families, providers, and the public; greater use of web-based applications to provide training and to communicate with families and providers; and increased involvement and support of families.

While most of the changes over the last year were implemented directly by the Department, the Department entered into contracts totaling more than \$100,000 to implement certain specific recommendations. As shown in the table below, the

¹⁰ The full recommendation and progress reports are available at the Department's web site: <http://odmrdd.state.oh.us/futures/MRDDFuturesUpdates.htm>.

Department has spent about \$84,000 on these services, which include using National Core Indicators to measure performance and improvement of the Department's service delivery system; implementing statewide Gentle Teaching training and Community Resource Networks to support individuals with challenging behaviors and their caregivers; and establishing the Disability Housing Network to examine housing corporations, planning processes, and funding for housing for individuals with disabilities.

Recommendation Implementation Contracts, FY 2009		
Contracted Service	Contracted Amount	Expended (As of 5/22/2009)
National Core Indicators	\$51,192	\$45,052
Gentle Teaching Training	\$17,360	\$13,020
Community Resource Networks	\$16,000	\$10,800
Disability Housing Network	\$30,000	\$15,000
Total	\$114,552	\$83,872

TRACKING THE ECONOMY

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

The U.S.

recession,

the longest

in the post-

World War II

period,

evidently

continued

through

June.

Overview

The "green shoots" evident this spring faded with release of the latest national employment report. In June, U.S. employment fell more sharply than in May, reversing a pattern of progressively smaller declines in each of the previous four months, and signaling that the recession continued through last month. The nation's unemployment rate rose to 9.5%, highest since 1983. Industrial production fell again in May, more sharply than in April. However, factory orders have edged higher since January. Also, the measures of activity included in a survey of purchasing managers generally continued the pattern of less rapid contraction, with manufacturing production in June shifting to an increase, the first since last August.

Consumer sector indicators remain decidedly mixed. Consumer spending rose slightly in May after two months of declines, but motor vehicle sales continued to be depressed in June and chain store sales were weak. New and used home sales appear to have bottomed out, with improvement in some local markets, driven partly by sales at much reduced prices, including dispositions of foreclosed properties. Inflation remains well contained. In Ohio, employment was 4.9% lower in May than a year earlier and unemployment rose to 10.8% of the labor force.

GM completed its transition through the bankruptcy process, following bankruptcy court approval of sale of most of its assets to a new corporate entity, to be named General Motors Company. The new GM is to be owned by the U.S. and Canadian governments, a United Auto Workers-related trust, and the old GM, which is to be wound down and liquidated.¹¹ GM plans to close a parts distribution center and warehouse in Columbus by the end of this year, a stamping plant in Mansfield by June 2010, and a parts plant in Parma by December 2010. Earlier, Chrysler also emerged from bankruptcy, as a smaller entity owned by Fiat, the U.S. and Canadian governments, and a UAW-related trust.

Following a meeting of the Federal Reserve's monetary policy decision-making group, the Open Market Committee, on June 23 and 24,

¹¹The old GM ownership interest will be comprised of bondholders of the former company, according to WardsAuto.com.

the meeting statement indicated that the target for short-term interest rates would remain in its zero to 0.25% range. The statement also reiterated plans to buy mortgage-backed securities, federal agency debt, and U.S. Treasury securities. The Fed believed that the contraction of the economy was slowing and financial market conditions had improved, and expected that policy actions and market forces would bring about a resumption of economic growth.

The ongoing recession, with the national unemployment rate climbing toward 10% and unemployment rates in some local areas well above that rate, has prompted calls for another round of fiscal stimulus. Last year's tax rebate program was implemented quickly, with most of the rebates distributed from April to July 2008. This year's American Recovery and Reinvestment Act (ARRA), however, is estimated by the Congressional Budget Office (CBO) to have only 24% of its fiscal impact—discretionary spending, increased entitlements, and revenue effects—in federal fiscal year (FFY) 2009, which ends September 30. Half of the fiscal stimulus was delayed until FFY 2010, with the balance of disbursements expected in subsequent years. Lags were anticipated particularly in the discretionary spending components: highways, mass transit, energy efficiency, broadband, education, and state aid. CBO expects the maximum impact of the ARRA on employment and the unemployment rate in calendar year 2010. The administration reportedly has been looking for ways to help federal agencies spend the ARRA money more quickly.¹²

The International Monetary Fund (IMF) released a revised World Economic Outlook on July 8, which showed that the pace of contraction in advanced and emerging economies has slowed or bottomed out recently. Output of advanced economies, on average, is projected to fall 3.8% in calendar year 2009, and grow only 0.6% in 2010 with no sustained upturn in activity until the year's second half. The recession reduces 2009 output in all advanced economies shown in the report. World output declines 1.4% in 2009 and grows 2.5% in 2010, reflecting downturns in some emerging and developing economies in 2009 and slower growth in others.

The National Economy

Employment and Unemployment

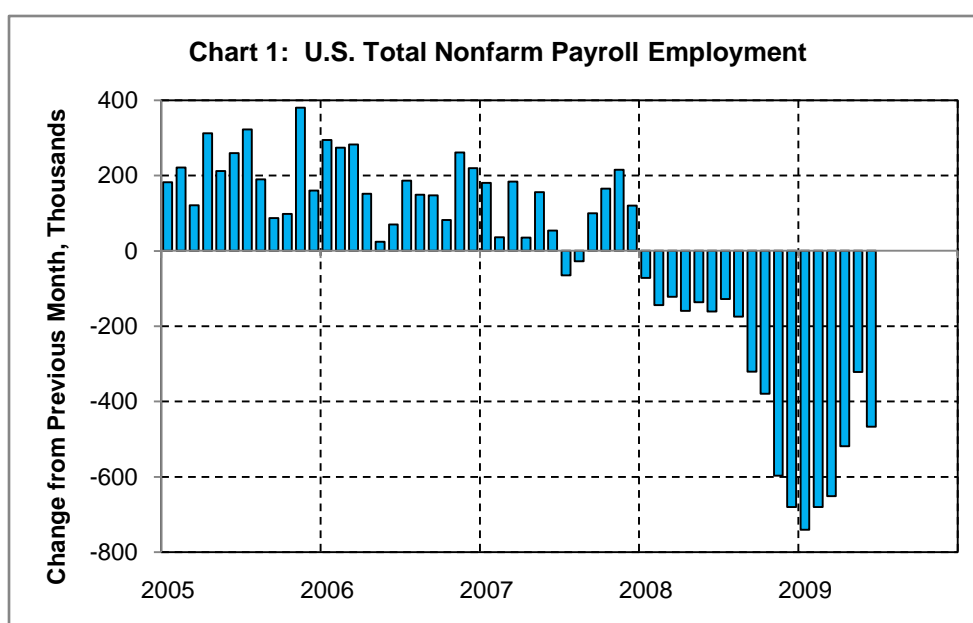
Nonfarm payroll employment nationwide fell 467,000 in June, its eighteenth consecutive drop. The declines in nonfarm payrolls had become progressively smaller in previous months since January, as

The pace of contraction in advanced and emerging economies has slowed or bottomed out recently. The IMF expects world output to decline 1.4% in 2009 and grow 2.5% in 2010.

¹² Wall Street Journal, July 11-12, 2009, page A4.

Unemployment
in the U.S.
rose to
14.7 million
persons in
June, 9.5%
of the labor
force.

shown in Chart 1, but the fall in employment in June reversed this pattern, falling by more than the 322,000 decline in May. Declines in June continued to be widespread among industries. Large declines were reported in June in employment in manufacturing, construction, and professional and business services. These three industry groups have accounted for nearly three-fourths of the 6.5 million jobs lost since the peak in December 2007. Federal employment fell as temporary Census workers were laid off. Health care employment continued to rise but more slowly than last year. Unemployment rose to 14.7 million persons in June, 9.5% of the labor force. People out of work for more than six months accounted for 4.4 million of the unemployed.



Production

The nation's gross domestic product, adjusted for inflation (real GDP), fell at a 5.5% annual rate in this year's first quarter after dropping at a 6.3% annual rate in the fourth quarter of 2008, in the U.S. Bureau of Economic Analysis' latest estimate. Nonresidential fixed investment, residential fixed investment, and exports all fell at annual rates in excess of 30%, and government spending also contracted. Inventories were reduced sharply. Consumer spending, however, rose in the first quarter after contracting in last year's second half. Imports declined. Economists project another, smaller decline in real GDP the second quarter, followed by slow growth in this year's second half.¹³

¹³ For instance, a survey of members by the National Association for Business Economics released in late May projected a 1.8% rate of decline in real

Total industrial production fell 1.1% in May after declining 0.7% in April. During the previous seven months, declines averaged 1.6% per month. Factory production fell 1.0% in May with declines in most industry groups. The largest declines were in motor vehicles and parts and in machinery. Production increased in primary metals and a few other industries. The factory operating rate fell to 65% of estimated capacity, lowest on record for this series which starts in 1948.

Manufacturers' new orders rose 1.2% in May and have increased in three of the last four months. Factory shipments, however, fell 0.9% in May, the tenth consecutive monthly decline. Unfilled orders of manufacturers declined for the eighth consecutive month. Inventories decreased 0.6%, the ninth consecutive monthly decline.

The Institute for Supply Management's latest survey of manufacturing purchasing managers continued, in general, to show a pattern of contraction at less rapid rates than earlier. However, the percent of survey respondents saying production increased exceeded the percent saying production fell, after nine consecutive months of contraction. Seven of 18 manufacturing industries were reported to have expanded in June. On the other hand, new orders contracted in June, after growing in May. Those reporting decreases in unfilled orders continued to exceed those seeing increases. Inventory reductions remained widespread. A comparable survey of purchasing managers at nonmanufacturing organizations also showed a pattern of slower contraction in June, with various measures showing the most favorable readings since last September.

Consumer Spending

Personal income increased 1.4% in May, reflecting in part payments, under ARRA, of \$250 to eligible persons receiving social security, veterans' benefits, and benefits from other programs. Consumer spending rose 0.2% in May adjusted for inflation, after declines in the previous two months. For the second quarter, consumer spending is on track to decline, following the increase in the first quarter. Partly as a result of the one-time payments in May, the personal saving rate rose to 6.9%, highest since 1993.

The retail sales figures reported by the U.S. Department of Commerce show a mixed picture, with total retail sales higher by 0.5% in May but with sales lower in several kinds of businesses. Two-thirds of

Factory
production
fell 1.0% in
May with
declines in
most
industry
groups.
Factory new
orders rose
1.2% in May
and have
increased in
three of the
last four
months.

GDP in the second quarter, followed by a 1.2% rate of growth in the year's second half.

Light motor
vehicle
sales
remained
weak in
June at a
9.7 million
unit annual
rate.

the May increases resulted from higher sales at gasoline stations, probably reflecting the jump in gasoline prices during that month. In April, retail sales declined 0.2% with lower sales at most kinds of businesses.

Light motor vehicle sales slowed in June to a 9.7 million unit annual rate from a 9.9 million unit rate in May. The low point for car and light truck sales was a 9.1 million unit sales rate in February. The annual sales rate this year has been well below the 13.2 million units sold in all of last year and 16.1 million units sold in 2007. Since the mid-1970s, light vehicle sales have averaged nearly 15 million units yearly and have trended upward.

Sales in June of large retailers that report monthly were lower than a year earlier by 4.7%, in Bank of Tokyo-Mitsubishi UFJ's compilation of these results. Year-ago sales were boosted by spending of federal income tax rebate checks, and also by higher gasoline prices than currently. These sales figures are reported on a same-store basis, including only store locations open in both the current month and the year-earlier month. The chain store sales report no longer includes Wal-Mart, previously more than 40% of the total, which ceased monthly reporting earlier this year.

The amount of consumer credit outstanding continued to shrink in May, falling at a 1.5% annual rate. This rate of contraction, however, was smaller than in April and in the previous two quarters. These figures include credit cards, auto loans, and most other borrowing by individuals, but exclude real estate loans.

Housing
starts
nationwide
rose 17% in
May from
the low point
in April.

Construction and Real Estate

Housing starts nationwide rose 17% in May from the low point in April. The rise mainly reflected a 77% jump in starts on apartment buildings with five or more units. Starts on homes rose 8% from April to May, and were 12% above the cyclical low point (to date) in January and February. At a 0.5 million unit annual rate, total housing starts nationwide in May remained far below the recent peak year, 2005, when 2.1 million units were started. Last year, 0.9 million units were started. Permits for new housing construction also rose in May from the cyclical low in April, increasing 4%.

New home sales in the nation slowed 1% in May, as lower sales in the South about offset increases in the other three Census regions. More than half of new home sales are in the South. Nationwide home sales have stabilized this year, after falling by three-fourths from the all-time peak in 2005 (on records kept since 1963). Builder inventories of homes

for sale have been cut nearly in half since the 2006 peak but still appear excessive relative to the pace of sales. Sales prices have fallen about 16% from the peak in 2007.

Home sales reported by the National Association of Realtors (NAR), mostly previously occupied homes, rose 2% nationwide from April to May, seasonally adjusted, but were 4% below a year earlier. Sales of used homes have stabilized this year, helped in part by sales of foreclosed homes and other distressed sales, and have been higher this year in parts of the West and in some other local markets, according to the NAR. The nationwide median home price in May was 17% lower than a year earlier, reflecting in part low prices for foreclosed properties, and 25% below the 2006 peak.

Total construction spending nationwide during January through May is estimated by the U.S. Department of Commerce to have been 12% lower than a year earlier, including private residential construction, 34% lower; private nonresidential construction, 3% lower; and public construction, 4% higher. The year-to-date value of private nonresidential construction is lower in most categories, but is higher for manufacturing plants, power projects, and health care. Public construction is higher in most categories, with the largest increases in educational facilities and office buildings.

Inflation

The consumer price index (CPI) for all items rose 0.1% in May, its first increase since February, but was 1.3% lower in May than its year-earlier level. The year-over-year decline is the largest since 1950, and resulted mainly from a 27% decline in energy prices, most of which occurred last year. Excluding energy and food prices, the CPI rose 0.1% in May and was 1.8% above the May 2008 level.

Average nationwide retail prices for regular gasoline rose from \$2.05 per gallon in late April to \$2.44 in late May and to \$2.69 on June 22 before retreating, in the U.S. Energy Information Administration's weekly survey. Near the end of 2008, the average price was \$1.61. In Ohio, the average price of regular gasoline jumped from \$1.97 per gallon in late April to \$2.55 in late May and to \$2.81 on June 8 but has since fallen back to \$2.43. Crude oil prices, the main determinant of gasoline prices, have eased recently from highs above \$70 per barrel in June for the U.S. benchmark grade, up from about \$30 per barrel at year-end.

The producer price index (PPI) for finished goods rose 0.2% in May as prices of finished energy products rose 2.9% while food prices, on average, declined. Compared with a year earlier, finished goods prices

The
consumer
price index
was 1.3%
lower in May
than its
year-earlier
level, the
largest year-
over-year
decline
since 1950.

Employment

in Ohio

declined

again in

May.

Unemployment

rose to

10.8% of the

labor force,

highest

since 1983.

were 5.0% lower. At earlier stages in the production process, the PPI for intermediate goods rose 0.3% in May after declining for nine consecutive months, and the PPI for crude materials rose 3.6%, its second increase after eight straight months of declines. Both intermediate and crude materials price indexes were well below year-earlier levels.

The Ohio Economy

Employment in Ohio declined again in May and unemployment rose to 646,000 or 10.8% of the labor force, the highest unemployment rate in the state since 1983. The number of nonfarm payroll jobs in Ohio fell only 200 from April to May, but was 262,100 (4.9%) lower than its level a year earlier. The monthly change in the number of nonfarm payroll jobs in Ohio is shown in Chart 2. Large job losses in the past year were in manufacturing, particularly durable goods; construction; administrative, support, and waste services; transportation, warehousing, and utilities; retail trade; and professional and technical services. Employment was lower in May than a year earlier in most other goods-producing and service-providing industries, except for educational and health services, accommodation and food services, and state government. The increase in state employment was mostly in educational services, also in hospitals.

Chart 2: Ohio Total Nonfarm Payroll Employment

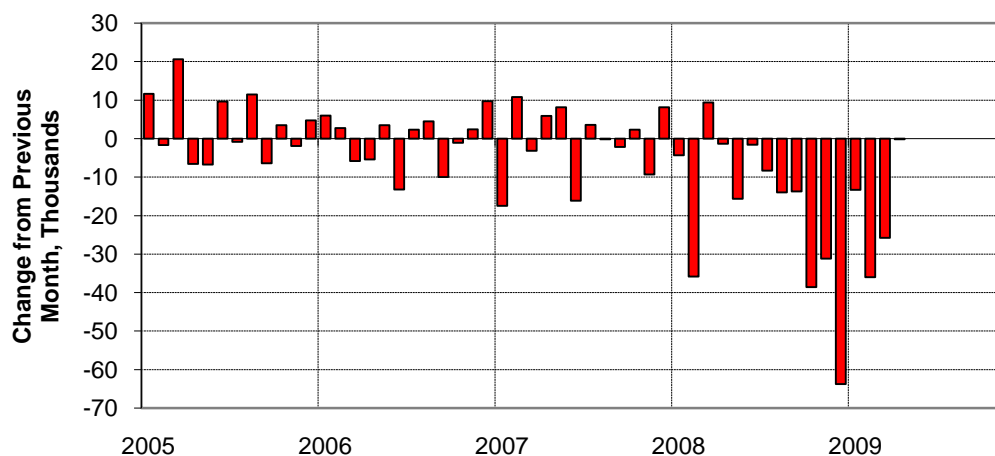
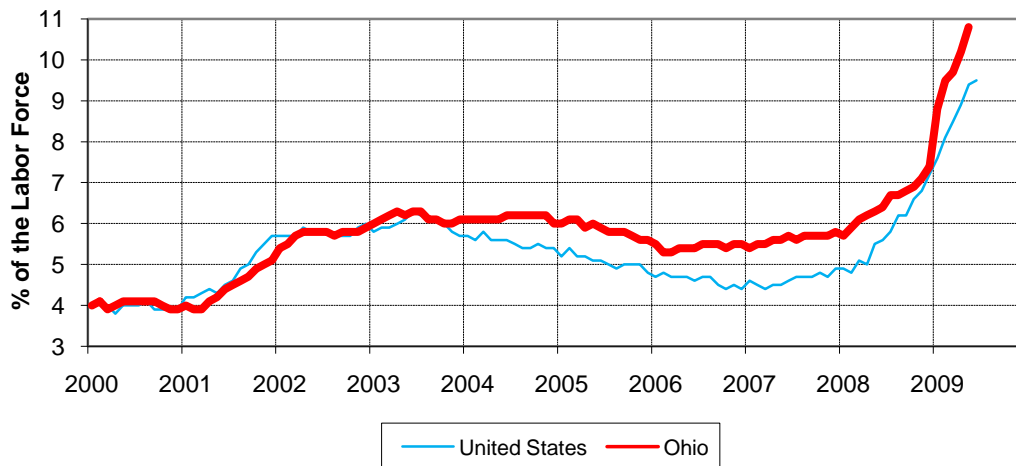


Chart 3: Unemployment Rate



Ohio personal income fell 0.5% between the fourth quarter of 2008 and the first quarter of 2009, as increased transfer payments partly offset lower earnings from work and lower payments from dividends, interest, and rent. Nationwide, personal income also fell 0.5%. Compared with a year earlier, Ohio personal income in the first quarter was 0.7% higher, slightly less than the 0.8% increase for the U.S.

Economic conditions weakened somewhat in this part of the country between early April and late May, according to the Federal Reserve Bank of Cleveland's summary in the Beige Book, a compilation of comments from business and other contacts. The Cleveland Fed's report covers Ohio and parts of three adjacent states. Factory new orders and production declined. Commercial and industrial construction slowed. Sales of new motor vehicles slowed while sales of used vehicles improved. Coal production fell. Residential building remained weak, though indications of interest among potential customers reportedly increased. Retail sales were characterized as stable. Employment declined. Freight shipping volumes remained low but were no longer dropping sharply.