

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

MAY 2009

STATUS OF THE GRF

HIGHLIGHTS

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

April receipts from the personal income tax were over \$320 million below estimate, substantially worsening the budget picture for the current fiscal year. The shortfall was likely due to a slump in capital gains realizations, but data will not be available to confirm that hypothesis for at least two years. The Office of Budget and Management (OBM) revised GRF revenue estimates downward by between \$600 million and \$900 million, or more, for FY 2009 in response to the April tax revenue experience. As estimates are not yet available on a monthly basis for the revised revenue expectations, this edition of Budget Footnotes compares actual GRF sources to December estimates, as was done in the last edition.

Through April 2009, GRF sources totaled \$21.20 billion:

- Tax revenues were below estimate by \$541.6 million.
 - Personal income tax revenues were below estimate by \$396.9 million.
 - Revenues from the sales and use tax were below estimate by \$185.3 million.

Through April 2009, GRF uses totaled \$23.82 billion:

Total GRF uses were above estimate by \$36.3 million (0.2%). The largest negative variance was \$106.0 million in primary and secondary education spending; the largest positive variance was \$182.8 million in tax relief. Medicaid was \$42.3 million below estimate.

VOLUME 32, NUMBER 9

STATUS OF THE GRF

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

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on May 8, 2009)

| | Actual | Estimate* | Variance | Percent |
|----------------------------------|--------------------|--------------------|-------------------|----------------|
| STATE SOURCES | | | | |
| TAX REVENUE | | | | |
| Auto Sales | \$85,709 | \$85,895 | -\$186 | -0.2% |
| Nonauto Sales and Use | \$514,110 | \$537,845 | -\$23,735 | -4.4% |
| Total Sales and Use Taxes | \$599,819 | \$623,739 | -\$23,921 | -3.8% |
| Personal Income | \$1,129,374 | \$1,450,969 | -\$321,595 | -22.2% |
| Corporate Franchise | \$39,929 | \$46,314 | -\$6,385 | -13.8% |
| Public Utility | \$7,262 | \$198 | \$7,064 | 3574.5% |
| Kilowatt Hour Excise | \$16,772 | \$15,474 | \$1,299 | 8.4% |
| Commercial Activity Tax** | \$0 | \$0 | \$0 | --- |
| Foreign Insurance | -\$7 | \$0 | -\$7 | --- |
| Domestic Insurance | \$0 | \$0 | \$0 | --- |
| Business and Property | -\$725 | \$134 | -\$858 | -641.4% |
| Cigarette | \$73,916 | \$70,053 | \$3,863 | 5.5% |
| Alcoholic Beverage | \$4,751 | \$4,384 | \$367 | 8.4% |
| Liquor Gallonage | \$2,798 | \$2,826 | -\$28 | -1.0% |
| Estate | \$14,078 | \$19,400 | -\$5,322 | -27.4% |
| Total Tax Revenue | \$1,887,969 | \$2,233,491 | -\$345,522 | -15.5% |
| NONTAX REVENUE | | | | |
| Earnings on Investments | \$23,895 | \$33,500 | -\$9,605 | -28.7% |
| Licenses and Fees | \$6,178 | \$12,855 | -\$6,677 | -51.9% |
| Other Revenue | \$4,109 | \$5,850 | -\$1,741 | -29.8% |
| Total Nontax Revenue | \$34,182 | \$52,205 | -\$18,023 | -34.5% |
| TRANSFERS | | | | |
| Liquor Transfers | \$15,000 | \$12,000 | \$3,000 | 25.0% |
| Budget Stabilization | \$0 | \$0 | \$0 | --- |
| Other Transfers In | \$211,103 | \$360 | \$210,743 | 58539.6% |
| Total Transfers In | \$226,103 | \$12,360 | \$213,743 | 1729.3% |
| TOTAL STATE SOURCES | \$2,148,253 | \$2,298,056 | -\$149,803 | -6.5% |
| Federal Grants*** | \$665,969 | \$610,303 | \$55,666 | 9.1% |
| TOTAL GRF SOURCES | \$2,814,222 | \$2,908,359 | -\$94,137 | -3.2% |

* 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 April 30, 2009**

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on May 8, 2009)

| | Actual | Estimate* | Variance | Percent | FY 2008 | Percent Change |
|----------------------------------|---------------------|---------------------|-------------------|----------------|---------------------|-----------------------|
| STATE SOURCES | | | | | | |
| TAX REVENUE | | | | | | |
| Auto Sales | \$723,262 | \$714,875 | \$8,387 | 1.2% | \$764,876 | -5.4% |
| Nonauto Sales and Use | \$5,253,132 | \$5,446,814 | -\$193,682 | -3.6% | \$5,561,037 | -5.5% |
| Total Sales and Use Taxes | \$5,976,393 | \$6,161,688 | -\$185,295 | -3.0% | \$6,325,913 | -5.5% |
| Personal Income | \$6,536,444 | \$6,933,347 | -\$396,902 | -5.7% | \$7,711,497 | -15.2% |
| Corporate Franchise | \$408,632 | \$381,483 | \$27,149 | 7.1% | \$569,664 | -28.3% |
| Public Utility | \$129,756 | \$110,711 | \$19,045 | 17.2% | \$94,203 | 37.7% |
| Kilowatt Hour Excise | \$127,438 | \$123,559 | \$3,879 | 3.1% | \$225,524 | -43.5% |
| Commercial Activity Tax** | \$0 | \$0 | \$0 | --- | \$0 | --- |
| Foreign Insurance | \$261,380 | \$277,800 | -\$16,420 | -5.9% | \$272,307 | -4.0% |
| Domestic Insurance | -\$865 | -\$700 | -\$165 | 23.5% | \$435 | -298.8% |
| Business and Property | -\$346 | \$646 | -\$992 | -153.6% | \$542 | -163.8% |
| Cigarette | \$717,397 | \$702,025 | \$15,372 | 2.2% | \$726,803 | -1.3% |
| Alcoholic Beverage | \$46,590 | \$47,510 | -\$920 | -1.9% | \$46,406 | 0.4% |
| Liquor Gallonage | \$29,784 | \$30,498 | -\$713 | -2.3% | \$29,010 | 2.7% |
| Estate | \$46,365 | \$52,000 | -\$5,635 | -10.8% | \$50,413 | -8.0% |
| Total Tax Revenue | \$14,278,970 | \$14,820,567 | -\$541,597 | -3.7% | \$16,052,718 | -11.0% |
| NONTAX REVENUE | | | | | | |
| Earnings on Investments | \$121,665 | \$111,600 | \$10,065 | 9.0% | \$83,937 | 44.9% |
| Licenses and Fees | \$64,639 | \$72,399 | -\$7,760 | -10.7% | \$66,346 | -2.6% |
| Other Revenue | \$57,606 | \$57,855 | -\$249 | -0.4% | \$88,500 | -34.9% |
| Total Nontax Revenue | \$243,910 | \$241,854 | \$2,056 | 0.9% | \$238,783 | 2.1% |
| TRANSFERS | | | | | | |
| Liquor Transfers | \$137,000 | \$120,000 | \$17,000 | 14.2% | \$135,268 | 1.3% |
| Budget Stabilization | \$0 | \$0 | \$0 | --- | \$0 | --- |
| Other Transfers In | \$705,305 | \$631,485 | \$73,820 | 11.7% | \$523,610 | 34.7% |
| Total Transfers In | \$842,305 | \$751,485 | \$90,820 | 12.1% | \$658,878 | 27.8% |
| TOTAL STATE SOURCES | \$15,365,184 | \$15,813,906 | -\$448,722 | -2.8% | \$16,950,379 | -9.4% |
| Federal Grants*** | \$5,830,799 | \$5,948,367 | -\$117,568 | -2.0% | \$4,971,945 | 17.3% |
| TOTAL GRF SOURCES | \$21,195,983 | \$21,762,273 | -\$566,291 | -2.6% | \$21,922,324 | -3.3% |

* 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.

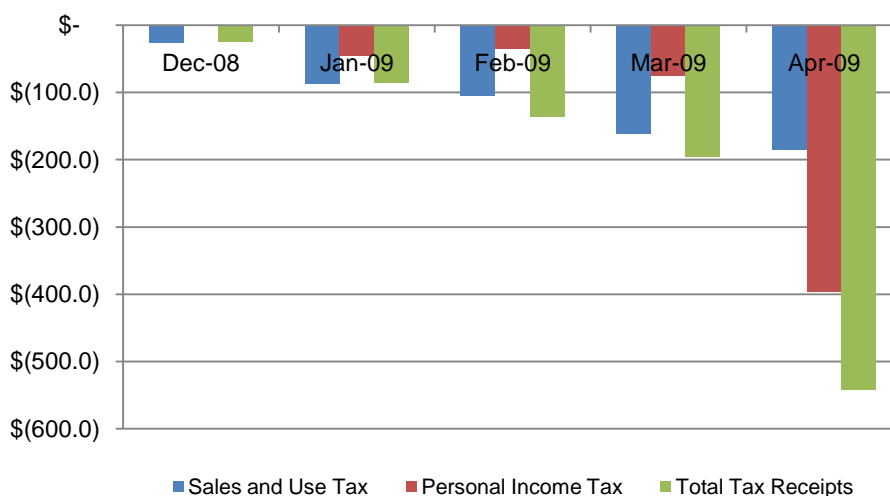
REVENUES

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

Overview

The performance of the personal income tax in April worsened the state's balance sheet. April personal income tax receipts were \$321.6 million (22.2%) below the estimate revised by the Office of Budget and Management (OBM) in December 2008.¹ GRF tax revenues as a whole totaled \$1,888.0 million in April, \$345.5 million (15.5%) below estimate. The underperformance in April tax receipts brought the year-to-date negative variance in tax revenues to \$541.6 million. The graph below shows the cumulative shortfall in total tax revenues, and in sales and personal income taxes. The dramatic decrease in actual revenues compared to estimates underscores the swiftness of the deterioration of Ohio's economy in the last few months, and sharp declines in financial markets which have reduced capital gains realizations.

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 April and for FY 2009 through April, 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

¹ The Office of Budget and Management twice revised down GRF revenue estimates for FY 2009, \$540.7 million in October 2008, and \$640.4 million in December 2008. This publication began using the December 2008 revised estimate in April's edition. The general implication of using those estimates is smaller variances compared to using previous FY 2009 estimates.

programs such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding.

Total GRF sources of \$2,814.2 million for April 2009 were \$94.1 million (3.2%) below estimate. Tax and nontax revenues were \$345.5 million and \$18.0 million, respectively, below estimate. These negative variances were largely offset by positive variances in transfers in (\$213.7 million) and federal grants (\$55.7 million). April continued the string of several months of disappointing GRF tax receipts in FY 2009. In addition to poor performance of the personal income tax, the sales and use tax was below estimate by \$23.9 million, the corporate franchise tax by \$6.4 million, and the estate tax by \$5.3 million. These shortfalls were partially offset by positive variances in the cigarette tax (\$3.9 million), the public utility tax (\$7.1 million) and the kilowatt hour tax (\$1.3 million). The April transfers in included \$205 million that was transferred from the Medicaid Reserve Fund. H.B. 119 required the Director of Budget and Management, at the beginning of FY 2009, to transfer \$205 million cash from the GRF to the Medicaid Reserve Fund for contingency purposes and allowed the unused reserve funds to be transferred back to the GRF at the end of FY 2009.

Through April, FY 2009 total GRF sources of \$21,196.0 million were below estimate by \$566.3 million (2.6%). State-source receipts were \$448.7 million below estimate, which was compounded by a negative variance of \$117.6 million in federal grants. Total tax revenues of \$14,279.0 million were \$541.6 million below estimate. The personal income tax and the sales and use tax were \$396.9 million (5.7%) and \$185.3 million (3.0%), respectively, below estimates. Tax revenues that were above estimate include the cigarette tax (\$15.4 million), the corporate franchise tax (\$27.1 million), the public utility tax (\$19.0 million), and the kilowatt hour tax (\$3.9 million). All other taxes were below expectations.

Compared to FY 2008, FY 2009 year-to-date GRF sources through April were \$726.3 million (3.3%) lower. Federal grants were \$858.9 million (17.3%) above last year's levels, due to additional revenue, \$620.7 million so far in FY 2009, from the enhanced federal reimbursement for Medicaid as a result of the American Recovery and Reinvestment Act of 2009 (ARRA). State-source receipts declined \$1,585.2 million (9.4%) from a decrease in tax revenues of \$1,773.7 million (11.0%). Year-to-date receipts from all three primary GRF tax sources were below the levels of April 2008, including decreases of \$1,175.1 million (15.2%) in personal income tax receipts, \$349.5 million (5.5%) in sales and use tax receipts, and \$9.4 million (1.3%) in cigarette tax receipts. Other taxes with notable year-to-year revenue variances included a decrease of \$98.1 million in kilowatt

Year-to-date
tax
revenues in
April were
\$1.8 billion
below
FY 2008
level
through
April.

April income
tax receipts
were
\$321.6 million
below
estimate
and
\$623.1 million
below last
year's
levels.

hour tax receipts due to an increase this year in the share of receipts distributed to local government funds, a decrease of \$161.0 million (28.3%) in corporate franchise tax receipts from a reduced tax rate this year, and an increase of \$35.6 million in public utility excise tax receipts.

Personal Income Tax

April receipts generally determine the overall performance of the personal income tax for a given fiscal year. Much lower-than-expected income tax revenue in April 2009 made worse an already bad year for FY 2009. 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.

Personal income tax receipts of \$1,129.4 million in April were \$321.6 million (22.2%) below estimate and \$623.1 million (35.6%) below April 2008 receipts. Taxes paid with annual returns and estimated payments accounted for \$191.8 million (21.5%) and \$64.7 million (31.2%), respectively, of the negative variance against estimate for the month of April. The shortfall in April was largely due to the anemic performance of the stock market last year, which greatly reduced capital gains realizations. Also, the continuing recession dampened profits of individuals, partnerships, and other pass-through entities, which reduced estimated payments and increased refunds to taxpayers. Finally, deepening job losses continue to pressure revenue from withholding taxes. The decline in April receipts compared to the year-earlier level was due to decreases of \$444.1 million (38.8%) in taxes due with annual tax returns, \$76.1 million (34.9%) in estimated payments, \$34.9 million (5.5%) in withholding revenue, and an increase of \$48.5 million (19.8%) in refunds to taxpayers.

Through April, FY 2009 personal income tax receipts of \$6,536.4 million were \$396.9 million (5.7%) below estimate and \$1,175.1 million (15.2%) below receipts in the corresponding period in FY 2008.

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.

| 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> | -\$94.2 | -1.5% | -\$342.4 | -5.0% |
| <i>Quarterly Estimated Payments</i> | -\$100.4 | -8.9% | -\$259.2 | -20.2% |
| <i>Trust Payments</i> | -\$18.5 | -32.7% | -\$28.7 | -42.9% |
| <i>Annual Return Payments</i> | -\$172.1 | -15.1% | -\$432.6 | -30.9% |
| <i>Miscellaneous Payments</i> | -\$12.2 | -17.5% | -\$15.1 | -22.0% |
| Gross Collections | -\$397.4 | -4.9% | -\$1,077.8 | -14.3% |
| Less Refunds | -\$1.1 | -0.1% | \$110.7 | 9.9% |
| Less Local Government Fund Distribution | \$0.4 | 0.1% | -\$8.9 | -1.5% |
| Income Tax Revenue | -\$396.8 | -5.7% | -\$1,179.6 | -15.3% |

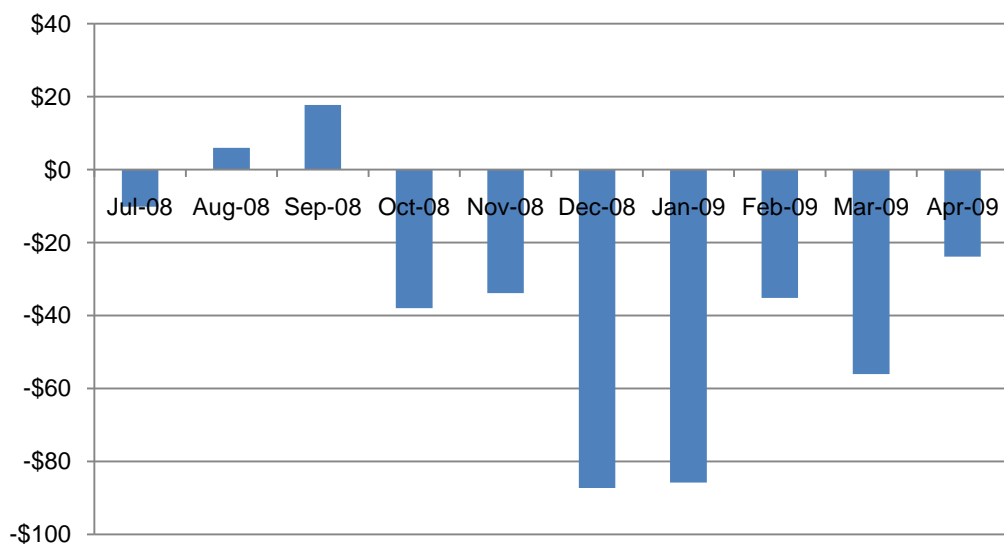
The table above summarizes FY 2009 year-to-date income tax revenue variances from estimate and annual changes by components. Data are from the Department of Taxation and may differ slightly from information obtained from the Ohio Administrative Knowledge System (OAKS). Employer withholding (which accounted for about 70% of gross collections in FY 2008) reflects real-time labor conditions and the dismal performance of that component of the tax reflects 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. In addition to withholding, the other components of the personal income tax have also contributed to the shrinkage of income tax revenues this fiscal year. All forecasts of Ohio personal income and wage growth suggest a continuation of poor performances for this tax into next fiscal year.

Sales and Use Tax

The performance of the sales and use tax in April mirrored that of previous months, and taxable sales were again below year-ago sales for the seventh consecutive month. The graph below shows the monthly variance in FY 2009 receipts compared to receipts in the same month in FY 2008. The recent trend is one of modest declines on a year-ago basis, in contrast to large declines in December 2008 and January 2009.

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

**Monthly Change in Sales Tax Receipts Compared to FY 2008
(in millions)**



April receipts of \$599.8 million were \$23.9 million (3.8%) below estimate and \$25.1 million (4.0%) below receipts in April 2008. Through April, FY 2009 receipts of \$5,976.4 million were \$185.3 million (3.0%) below estimate and also \$349.5 million (5.5%) below FY 2008 receipts through April 2008.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections³ 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

April nonauto sales and use tax receipts of \$514.1 million were \$23.7 million (4.4%) below estimate and \$18.4 million (3.5%) below receipts in April 2008. Through April, FY 2009 year-to-date nonauto sales and use tax receipts of \$5,253.1 million were \$193.7 million (3.6%) below estimate and \$307.9 million (5.5%) below receipts during the comparable period in FY 2008.

Severe headwinds from reduced employment, income, and wealth continue to pressure nonauto sales and use tax receipts. Although

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

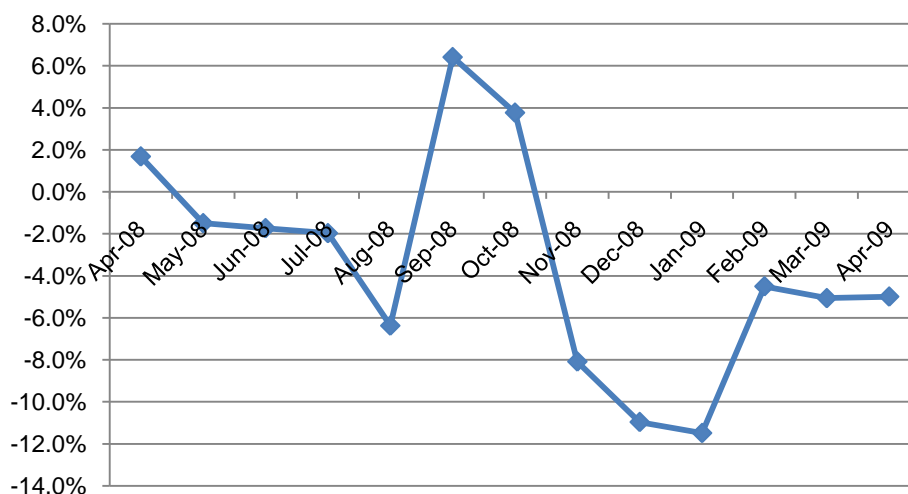
nationwide consumer spending appeared to stabilize in the first quarter of 2009, any substantial rebound in taxable sales and sales tax receipts is unlikely in the final two months of the fiscal year. Incomes are still sagging, falling wealth from declining house and stock prices are still weighing heavily on consumers who have little ability or desire to spend. The increase in take-home pay consumers are receiving due to increased government payments and reduced withholding taxes (ARRA), and larger tax refunds might be lifting consumer spending, but from very low levels. Consumers continue to focus on food and other necessities, cut back or trade down.⁴

Auto Sales and Use Tax

April auto sales and use tax receipts of \$85.7 million were \$0.2 million (0.2%) below estimate and \$6.7 million (7.2%) below receipts in April 2008. Through April, FY 2009 year-to-date auto sales and use tax receipts of \$723.3 million were \$8.4 million (1.2%) above estimate; however, they were \$41.6 million (5.4%) below receipts through April in FY 2008. Auto sales and use tax receipts have consistently been below prior-year receipts since the first quarter of FY 2009. The graph below, which compares monthly receipts with prior-year receipts in the same period, indicates a persistent downward trend in auto sales and use tax receipts. (The graph shows a three-month moving average which smoothes the monthly variation and provides a better indication of trends.) However, compared to the first half of FY 2009, the rates of decline in auto sales and use tax receipts compared to year-ago receipts appear to have slowed of late.

⁴ In CY 2009, including April, discount and drug stores have led sales growth. Sales at department stores and apparel stores have fallen sharply, and sales at luxury stores have plunged.

Auto Sales and Use Tax Receipts Trends
Actual vs Prior Year
(Three-month Moving Average)



Nationwide new vehicle sales weakened again in April to an annualized sales pace of 9.3 million units, down from 9.8 million in March, and remains near its historical low of 1981. Light vehicle (autos and light trucks) sales in April fell about 34%, when compared to year-ago sales. For the month, on an annualized basis, 4.8 million autos and 4.5 million light trucks were sold. Sales of light vehicles through April in FY 2009 were 30% below unit sales in the corresponding period in FY 2008. Sales of autos and light trucks declined about 26% and 34%, respectively.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were surprisingly strong in April. GRF receipts from the tax were \$73.9 million, \$3.9 million (5.5%) above estimate and \$1.3 million (1.7%) above April 2008 receipts. In the previous month, receipts were \$7.4 million above estimate and \$4.6 million above receipts in March 2008. Higher receipts in the last two months may have been due to consumers buying ahead of the federal tax increase on tobacco products that took effect April 1, 2009. Some of those revenue gains are likely to be reversed in May and June.

Through April, FY 2009 year-to-date receipts from the tax were \$717.4 million, \$15.4 million (2.2%) above estimate. Those receipts were \$9.4 million (1.3%) below FY 2008 receipts in the corresponding period. Revenues from taxed cigarettes were \$684.0 million, down \$11.5 million (1.7%) from last year's level. Revenues from the tax on other tobacco products were \$33.4 million, up \$2.1 million (6.8%). Receipts from the

Cigarette receipts were \$11.3 million above estimate in the last two months.

cigarette and other tobacco products tax are the third-largest tax source in FY 2009, after the personal income tax and the sales and use tax.

Corporate Franchise Tax

The second major corporate franchise tax (CFT) payment in FY 2009, due March 31, provided receipts of \$39.9 million in the month of April. Those receipts were \$6.4 million (13.8%) below estimate, and \$35.0 million (46.7%) below revenues in the same period in FY 2008. Combined revenue for the March-April period was \$7.1 million (4.0%) above estimate. Through April, FY 2009 receipts were \$408.6 million, \$27.1 million (7.1%) above estimate, due to two unexpected large settlements received this fiscal year. Excluding these two settlements, total CFT receipts would have been about 6% below year-to-date estimates. The next major tax payment is due May 31. As part of the five-year phase-out of the corporate franchise tax that was enacted by H.B. 66 of the 126th General Assembly, the corporate franchise tax for nonfinancial corporations will be eliminated in FY 2010 and the tax will become essentially a tax on financial institutions. In FY 2009 tax payments for nonfinancial corporations are based on 20% of the calculated liability, down from 40% in FY 2008.

Second
corporate
franchise tax
payment
was
\$7.1 million
above
estimate.

Commercial Activity Tax

In April 2009, commercial activity tax (CAT) receipts were \$14.2 million, \$19.0 million (57.2%) below revised estimate.⁵ Monthly CAT receipts have been below estimate for the last seven months. Through April, FY 2009 total CAT receipts were \$967.6 million, \$57.6 million (5.6%) below estimate, but \$208.5 million (27.5%) above receipts in FY 2008, primarily due to a higher tax rate this fiscal year. Taxpayers pay 80% of their liability in FY 2009, and in FY 2010 the tax will be fully phased in. The next payment for taxpayers who pay their tax liability on a quarterly basis was due May 11, 2009, for taxable gross receipts booked in the first quarter of CY 2009. Estimated receipts for the month of May are \$235.8 million. 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.⁶

Year-to-date
CAT
receipts
were
\$46.9 million
below
estimate.

⁵ FY 2009 CAT estimates were revised to \$1,274 million in February 2009, down from the original \$1,349 million.

⁶ CAT receipts are distributed to the School District Tangible Property Tax Replacement Fund (70%) and to the Local Government Tangible Property Tax Replacement Fund (30%).

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of April 2009
(\$ in thousands)
(Actual based on OAKS reports run May 7, 2009)

| PROGRAM | Actual | Estimate* | Variance | Percent |
|---|--------------------|--------------------|------------------|----------------|
| Primary, Secondary, and Other Education | \$459,821 | \$384,222 | \$75,599 | 19.7% |
| Higher Education | \$183,557 | \$187,557 | -\$4,000 | -2.1% |
| Total Education | \$643,378 | \$571,779 | \$71,599 | 12.5% |
| Public Assistance and Medicaid | \$850,708 | \$885,093 | -\$34,385 | -3.9% |
| Health and Human Services | \$148,969 | \$102,470 | \$46,498 | 45.4% |
| Total Welfare and Human Services | \$999,676 | \$987,563 | \$12,113 | 1.2% |
| Justice and Public Protection | \$150,831 | \$168,519 | -\$17,689 | -10.5% |
| Environment and Natural Resources | \$5,381 | \$5,378 | \$3 | 0.1% |
| Transportation | \$1,889 | \$1,067 | \$822 | 77.1% |
| General Government | \$18,148 | \$16,990 | \$1,158 | 6.8% |
| Community and Economic Development | \$9,707 | \$8,949 | \$757 | 8.5% |
| Capital | \$0 | \$17 | -\$17 | -100.0% |
| Total Government Operations | \$185,955 | \$200,920 | -\$14,966 | -7.4% |
| Tax Relief and Other | \$374,251 | \$178,209 | \$196,042 | 110.0% |
| Debt Service | \$69,241 | \$74,082 | -\$4,841 | -6.5% |
| Total Other Expenditures | \$443,492 | \$252,291 | \$191,201 | 75.8% |
| Total Program Expenditures | \$2,272,501 | \$2,012,553 | \$259,948 | 12.9% |
| TRANSFERS | | | | |
| Budget Stabilization | \$0 | \$0 | \$0 | --- |
| Other Transfers Out | \$173 | \$0 | \$173 | --- |
| Total Transfers Out | \$173 | \$0 | \$173 | --- |
| TOTAL GRF USES | \$2,272,673 | \$2,012,553 | \$260,120 | 12.9% |

* 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 April 30, 2009
(\$ in thousands)

(Actual based on OAKS reports run May 7, 2009)

| PROGRAM | Actual | Estimate* | Variance | Percent | FY 2008 | Percent Change |
|---|---------------------|---------------------|------------------|----------------|---------------------|-----------------------|
| Primary, Secondary, and Other Education | \$5,937,669 | \$6,043,640 | -\$105,971 | -1.8% | \$5,837,968 | 1.7% |
| Higher Education | \$2,184,471 | \$2,155,800 | \$28,671 | 1.3% | \$2,116,426 | 3.2% |
| Total Education | \$8,122,140 | \$8,199,441 | -\$77,301 | -0.9% | \$7,954,394 | 2.1% |
| Public Assistance and Medicaid | \$9,593,961 | \$9,666,011 | -\$72,050 | -0.7% | \$9,095,536 | 5.5% |
| Health and Human Services | \$1,076,746 | \$1,067,289 | \$9,457 | 0.9% | \$1,094,061 | -1.6% |
| Total Welfare and Human Services | \$10,670,707 | \$10,733,300 | -\$62,592 | -0.6% | \$10,189,597 | 4.7% |
| Justice and Public Protection | \$1,816,747 | \$1,806,519 | \$10,228 | 0.6% | \$1,801,022 | 0.9% |
| Environment and Natural Resources | \$83,211 | \$80,412 | \$2,800 | 3.5% | \$89,584 | -7.1% |
| Transportation | \$18,034 | \$20,255 | -\$2,221 | -11.0% | \$20,812 | -13.3% |
| General Government | \$325,586 | \$330,809 | -\$5,223 | -1.6% | \$325,242 | 0.1% |
| Community and Economic Development | \$128,887 | \$124,972 | \$3,916 | 3.1% | \$115,938 | 11.2% |
| Capital | \$288 | \$42 | \$246 | 584.6% | \$66 | 338.0% |
| Total Government Operations | \$2,372,753 | \$2,363,008 | \$9,745 | 0.4% | \$2,352,663 | 0.9% |
| Tax Relief and Other | \$1,216,883 | \$1,034,116 | \$182,768 | 17.7% | \$1,015,954 | 19.8% |
| Debt Service | \$588,275 | \$600,130 | -\$11,855 | -2.0% | \$575,334 | 2.2% |
| Total Other Expenditures | \$1,805,159 | \$1,634,245 | \$170,913 | 10.5% | \$1,591,288 | 13.4% |
| Total Program Expenditures | \$22,970,758 | \$22,929,994 | \$40,765 | 0.2% | \$22,087,943 | 4.0% |
| TRANSFERS | | | | | | |
| Budget Stabilization | \$0 | \$0 | \$0 | --- | \$0 | --- |
| Other Transfers Out | \$847,941 | \$852,439 | -\$4,498 | -0.5% | \$618,686 | 37.1% |
| Total Transfers Out | \$847,941 | \$852,439 | -\$4,498 | -0.5% | \$618,686 | 37.1% |
| TOTAL GRF USES | \$23,818,699 | \$23,782,433 | \$36,266 | 0.2% | \$22,706,629 | 4.9% |

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

Detail may not sum to total due to rounding.

EXPENDITURES

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

Overview

For the first
ten months
of FY 2009,
GRF uses
were
\$36.3 million
above
revised
estimate.

Tables 3 and 4 show GRF uses for the month of April and for FY 2009 through April, respectively. GRF uses consist primarily of program expenditures but also include transfers out. For April, GRF uses of \$2,272.7 million were \$260.1 million (12.9%) above the estimate revised by the Office of Budget and Management (OBM) in February 2009. Through April, FY 2009 GRF uses of \$23,818.7 million were \$36.3 million (0.2%) above estimate. Year-to-date GRF program expenditures totaled \$22,970.8 million, which was \$40.8 million (0.2%) above estimate. This positive variance was partially offset by a negative variance of \$4.5 million (0.5%) in transfers out, which totaled \$847.9 million for the first ten months of FY 2009.

Year-to-date program expenditures for the Primary, Secondary, and Other Education category were \$106.0 million (1.8%) below estimate despite a positive variance of \$75.6 million (19.7%) in April. The April variance was primarily due to a timing issue of school foundation payments. The first of the two monthly foundation payments was disbursed on April 3. The OBM estimate assumed these expenditures would have to be booked into the state accounting system at the end of March in order for the payments to be disbursed in early April. However, they were booked into the accounting system and disbursed to school districts in April. The year-to-date negative variance in this program category was primarily due to lower-than-expected student enrollments as reported in previous issues of this report.

GRF expenditures for Public Assistance and Medicaid were \$34.4 million (3.9%) below estimate in April, which brought this program category's year-to-date expenditures to \$72.1 million (0.7%) below estimate. Table 5 and the Medicaid section of this report provide more detailed information on this program category's variances.

The Primary, Secondary, and Other Education and Public Assistance and Medicaid program categories registered a combined negative variance of \$178.0 million in year-to-date expenditures. This negative variance was entirely offset by positive variances in program categories such as the Tax Relief and Other (\$182.8 million or 17.7%), Higher Education (\$28.7 million or 1.3%), Justice and Public Protection (\$10.2 million or 0.6%), and Health and Human Services (\$9.5 million or 0.9%).

As anticipated in the last month of this report, once the state accelerated payments for the first of the semi-annual reimbursements for property tax relief for calendar year 2009, the Tax Relief and Other program category's expenditures would continue to be above estimate, reflecting the fact that the estimate did not account for the \$257.0 million appropriation for the expanded Homestead exemption instituted in H.B. 119 of the 127th General Assembly. The Tax Relief and Other program expenditures were \$196.0 million (110.0%) above estimate in April. At the close of April, approximately 54.1% of FY 2009 property tax relief payments were disbursed. Payments to local governments and school districts in 54 of Ohio's 88 counties were complete, and the remaining 34 counties will be paid in May and June.

GRF expenditures for the Higher Education program category were \$4.0 million (2.1%) below estimate in April. However, this category's year-to-date expenditures were \$28.7 million (1.3%) above estimate, largely due to higher-than-expected need-based student financial aid payments. Similarly, April expenditures for the Justice and Public Protection program category were \$17.7 million (10.5%) below estimate while the program category's year-to-date expenditures were \$10.2 million (0.6%) above estimate.

April expenditures for the Health and Human Services program category exceeded estimate by \$46.5 million (45.4%), of which \$31.8 million occurred in the Department of Mental Health. As detailed in prior issues of this report, in FY 2009 an entire quarter's worth of subsidy payments for local mental health boards have been disbursed in the first month of each quarter. However, the estimate assumed the monthly disbursement pattern, leading to a timing issue for each quarter. Through April, FY 2009 year-to-date expenditures for the Health and Human Services program category were \$9.5 million (0.9%) above estimate.

Medicaid

Medicaid accounts for approximately 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 \$754.9 million in April, which were \$37.5 million (4.7%) below estimate. Through April, year-to-date expenditures totaled \$8,822.5 million, \$42.3 million (0.5%) below estimate. These variances were based on the February 2009 OBM estimate, which accounted for changes to the Medicaid caseload forecast, the enhanced federal Medicaid reimbursement, and an anticipated increase in the use of non-GRF funding sources.

Year-to-date
GRF
Medicaid
expenditures
were
\$42.3 million
below
estimate.

The Department of Job and Family Services (ODJFS) submitted requests to the Controlling Board (May 4 meeting) for additional spending authority for Medicaid in non-GRF line items 600692, Health Care Services (\$17.9 million), and 600623, Health Care Federal (\$314.5 million). The additional \$17.9 million of general service fund revenue from prescription drug rebates is the source for the proposed appropriation increase to the 600692 line item. The sources of the additional \$314.5 million in proposed spending authority for the 600623 appropriation item are federal matching funds for expenditures made from the 600692 line item (\$37.9 million) and an enhanced federal match from other non-GRF Medicaid expenditures (\$276.7 million). However, the Controlling Board deferred these items at the request of ODJFS. It is expected that ODJFS will resubmit these requests to the Controlling Board before the end of the fiscal year.

Significant expenditure variances for the month of April occurred in the service categories of Inpatient Hospitals, ODJFS Waivers, and Prescription Drugs. Expenditures for the Inpatient Hospitals category were below estimate by \$20.8 million (21.1%). This negative variance was attributable to lower-than-expected utilization of hospital services and costs per claim by the Aged, Blind, and Disabled (ABD) populations in the Northeast and Northwest regions. In keeping with the trend of previous months, expenditures for the ODJFS Waivers category were below estimate in April by \$4.1 million (14.9%), as enrollment and cost per claim figures remained below projections. April expenditures for the Prescription Drugs service category were below monthly estimate by \$2.8 million (5.8%). Lower-than-expected prescription drug utilization as well as the fact that costs per claim were below estimate induced the negative variance. These circumstances may be indicative of higher use of generic drugs relative to brand-name drugs.

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

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

| Medicaid (600-525) Payments by Service Category | April | | | | Year to Date | | | |
|---|-------------------|--------------------|------------------|---------------------|----------------------|------------------------|------------------|---------------------|
| | Actual | Estimate | Variance | Percent Variance | Actual thru April | Estimate thru April | Variance | Percent Variance |
| Nursing Facilities | \$215,210 | \$219,099 | -\$3,889 | -1.8% | \$2,142,021 | \$2,142,853 | -\$832 | 0.0% |
| ICFs/MR | \$45,927 | \$46,831 | -\$904 | -1.9% | \$447,517 | \$449,788 | -\$2,271 | -0.5% |
| Inpatient Hospitals | \$77,786 | \$98,600 | -\$20,814 | -21.1% | \$871,879 | \$900,289 | -\$28,410 | -3.2% |
| Outpatient Hospitals | \$33,334 | \$32,594 | \$740 | 2.3% | \$333,016 | \$327,344 | \$5,672 | 1.7% |
| Physicians | \$28,314 | \$28,517 | -\$203 | -0.7% | \$295,350 | \$290,907 | \$4,443 | 1.5% |
| Prescription Drugs | \$45,323 | \$48,111 | -\$2,788 | -5.8% | \$452,011 | \$454,366 | -\$2,355 | -0.5% |
| ODJFS Waivers | \$23,547 | \$27,679 | -\$4,132 | -14.9% | \$262,753 | \$270,076 | -\$7,323 | -2.7% |
| MCP - CFC | \$287,154 | \$282,504 | \$4,650 | 1.6% | \$2,888,257 | \$2,885,571 | \$2,686 | 0.1% |
| MCP - ABD | \$105,273 | \$108,945 | -\$3,672 | -3.4% | \$1,163,807 | \$1,171,057 | -\$7,250 | -0.6% |
| Medicare Buy-In | \$26,140 | \$26,944 | -\$804 | -3.0% | \$257,869 | \$259,507 | -\$1,638 | -0.6% |
| All Other | \$84,021 | \$89,071 | -\$5,050 | -5.7% | \$850,466 | \$854,289 | -\$3,823 | -0.4% |
| DA Medical | \$729 | \$861 | -\$132 | -15.3% | \$8,962 | \$9,165 | -\$203 | -2.2% |
| Total Payments | \$972,758 | \$1,009,756 | -\$36,998 | -3.7% | \$9,973,908 | \$10,015,212 | -\$41,304 | -0.4% |
| Offsets | | | | | | | | |
| Drug Rebates | -\$8,170 | -\$8,155 | -\$15 | 0.2% | -\$65,201 | -\$65,250 | \$49 | -0.1% |
| Revenue and Collections | -\$7,420 | -\$7,595 | \$175 | -2.3% | -\$59,798 | -\$60,140 | \$342 | -0.6% |
| ICF/MR Franchise Fees | -\$1,250 | -\$1,250 | \$0 | 0.0% | -\$8,750 | -\$8,750 | \$0 | 0.0% |
| NF Franchise Fees | -\$19,444 | -\$19,444 | \$0 | 0.0% | -\$136,111 | -\$136,111 | \$0 | 0.0% |
| IMD/DSH Payments | -\$8,750 | -\$8,750 | \$0 | 0.0% | -\$43,750 | -\$43,750 | \$0 | 0.0% |
| MCP Assessments | -\$11,037 | -\$12,220 | \$1,183 | -9.7% | -\$151,037 | -\$152,220 | \$1,183 | -0.8% |
| Health Care Federal | -\$183,396 | -\$182,615 | -\$781 | 0.4% | -\$894,185 | -\$893,807 | -\$378 | 0.0% |
| Total Offsets | -\$239,467 | -\$240,029 | \$562 | -0.2% | -\$1,358,832 | -\$1,360,028 | \$1,196 | -0.1% |
| Total 600-525 (net of offsets) | \$733,291 | \$769,727 | -\$36,436 | -4.7% | \$8,615,076 | \$8,655,184 | -\$40,108 | -0.5% |
| Medicare Part D (600-526) | \$21,607 | \$22,680 | -\$1,073 | -4.7% | \$207,446 | \$209,664 | -\$2,218 | -1.1% |
| Total GRF | \$754,898 | \$792,407 | -\$37,509 | -4.7% | \$8,822,522 | \$8,864,848 | -\$42,326 | -0.5% |
| Total All Funds | \$994,365 | \$1,032,436 | -\$38,071 | -3.7% | \$10,181,354 | \$10,224,876 | -\$43,522 | -0.4% |

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 Issues First Round of Logistics and Distribution Stimulus Awards

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

On May 4, the Controlling Board approved three loans totaling approximately \$13.1 million from the Logistics and Distribution Infrastructure Fund (see table below). The loans are the first to be issued under a Department of Development program established in 2008 as part of the state's job stimulus legislation, H.B. 554 of the 127th General Assembly. The bill authorized funding of \$50 million in FY 2009 for a loan program geared toward creating jobs through projects that develop Ohio's network of logistics and distribution facilities. The projects are intended to construct and improve roads, utility lines, and other transportation and support infrastructure.

Logistics and Distribution Infrastructure loans, which must be approved by the Development Financing Advisory Council and the Controlling Board, are funded by the proceeds of bonds backed by liquor profits. To qualify for funding, projects must commit to creating jobs in the logistics industry, as well as jobs in the construction industry that are related to the infrastructure project. Award amounts are based on a project's economic impact, its need for state support, its ability to secure additional financing, and its impact on the local community. Awards are structured as loans with principal and interest repayment forgivable upon completion of the project and attainment of job creation targets.

| Recipient | Location | Award Amount | Estimated Job Creation | Purpose |
|----------------------------------|-----------------------------------|--------------|------------------------|---|
| Franklin County Engineer | Obetz (Franklin County) | \$7,000,000 | 44 | Roadway and interchange improvements to improve access to the Rickenbacker Intermodal Facility |
| City of Franklin | Franklin (Warren County) | \$1,635,000 | 10 | Facility renovations and capital equipment for R. Good Logistics at the Franklin Yards transload facility |
| Columbiana County Port Authority | Wellsville (Columbiana County) | \$4,500,000 | 135 | Land acquisition and site preparation for the Baard Energy Ohio River Clean Fuels Plant |

Adjutant General's Department Lands \$8.5 Million in Federal Stimulus Project Funding

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

The Adjutant General's Department has been awarded \$8.5 million in federal stimulus funds from the American Recovery and Reinvestment Act of 2009 (ARRA) to undertake various capital improvements projects around the state. The Department must spend the ARRA funds on 22 projects approved by the U.S. Department of Defense's National Guard Bureau. These 22 projects are spread among 14 sites in 11 counties (see table below). Each project falls into one of three categories: energy reduction (for example, window and door replacements), utilities modernization (for example, power system upgrades), or roof replacement. Project costs range from about \$60,000, for window and door replacements, up to \$1.5 million for renovating the heating, ventilation, and air conditioning system at the Beightler Armory in Columbus. Of the \$8.5 million in ARRA funding, \$6.4 million will be subject to the state's appropriation process. The federal government will directly disburse the remaining \$2.1 million. While some of the projects will be fully funded by ARRA funding, most will require a state match of either 25% or 50% of the project cost.

| Planned Allocation of Adjutant General's ARRA Capital Improvements Funds | | | |
|--|-----------------------------------|--|----------------|
| County | Location/Installation | Project Category | Federal Amount |
| Allen | Lima/Readiness Center | Roof Replacement | \$150,000 |
| Butler | Middletown/Readiness Center | Energy Reduction | \$125,000 |
| Cuyahoga | Cleveland/Readiness Center | Energy Reduction | \$59,375 |
| Erie | Sandusky/Readiness Center | Energy Reduction | \$125,000 |
| Franklin | Beightler Armory | Energy Reduction | \$2,435,000 |
| | Defense Supply Center | Energy Reduction | \$600,000 |
| | Rickenbacker | Roof Replacement/Utilities Modernization | \$1,341,013 |
| Lucas | Toledo/Readiness Center | Utilities Modernization | \$648,000 |
| Ottawa | Camp Perry Training Site | Energy Reduction/Utilities Modernization | \$2,044,000 |
| Portage | Ravenna Training & Logistics Site | Utilities Modernization/Roof Replacement | \$275,000 |
| Stark | Green/Readiness Center | Roof Replacement/Energy Reduction | \$475,000 |
| Summit | Akron/Readiness Center | Roof Replacement | \$150,000 |
| | Stow/Readiness Center | Energy Reduction | \$59,375 |
| Wood | Walbridge/Readiness Center | Energy Reduction | \$59,375 |
| Total | | | \$8,546,138 |

Ohio Meets Federal Maintenance of Effort Requirements for Higher Education in FY 2009

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

Ohio is on track to meet the federal maintenance of effort (MOE) requirements for higher education in FY 2009. The federal Higher Education Opportunity Act of 2008 requires each state to maintain higher education expenditures at or above average expenditures of the previous five years. FY 2009 is the first year an MOE is required. States that fail to meet the MOE will lose federal grants under the College Access Challenge Grant Program, which provides need-based financial aid. Ohio received \$2.3 million in College Access Challenge Grants in FY 2009. This represents approximately 1.3% of Ohio's need-based financial aid appropriations and less than 0.1% of total Board of Regents' expenditures.

In association with the tuition freeze in FY 2008 and FY 2009, the 127th General Assembly increased higher education spending by 8.8% in FY 2008 and 3.2% in FY 2009. These increases insure that Ohio will be well over the MOE's minimum requirement. In FY 2009, Ohio will spend an estimated \$2.09 billion on higher education expenses that are counted toward the MOE. This is approximately \$286.8 million above the state's five-year average spending.

BOR Announces Textbook Awards and Grants

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

In March 2009, the Board of Regents (BOR) announced the winners in two programs intended to decrease the price of textbooks at Ohio's institutions of higher education. The Ohio Faculty Innovator Awards and the Ohio Textbook Affordability Grants provide \$210,000 to faculty members at Ohio institutions of higher education for innovation in textbook affordability and the use of alternative resources. The Ohio Faculty Innovator Awards provided \$1,000 awards to ten faculty members who have developed innovative methods of using electronic textbook resources and who have reduced costs through online resources that are not available for purchase elsewhere. The Ohio Textbook Affordability Grants provided four grants of up to \$50,000 to faculty teams to develop, build, and package collections of course materials to be offered free to students. All of the four teams receiving a grant have the option of increasing the award if they convince other faculty and institutions to use the finished materials. Both of the textbook award programs are administered by BOR through the Ohio Learning Network (OLN). OLN is funded through GRF appropriation item 235417, Ohio Learning Network. The primary mission of OLN is to work with colleges and universities to provide a statewide collaborative electronic education system.

All Nursing Homes and Residential Care Facilities Now Eligible to Utilize Medication Aides

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

Effective March 2009, all nursing homes and residential care facilities in Ohio are permitted to use medication aides to administer prescription medication to residents. Medication aides are designed to help alleviate the duties of nurses. About 91,000 nurse aides who are currently employed across Ohio's nearly 1,000 nursing homes and residential care facilities are eligible to seek training and certification to become medication aides. The facilities may use medication aides if the aide holds a certificate from the Board of Nursing and the facility adheres to the law governing medication administration. Currently, 64 medication aides hold an interim certificate, which is valid until April 30, 2010. At that time, the Board of Nursing will begin issuing certificates that are valid for two years. The fee is \$15 for an interim certificate and \$50 for a two-year certificate.

Prior to this statewide implementation, the Board of Nursing operated a three-year Medication Aide Pilot Program. Thirty-two facilities and 92 medication aides were approved to participate in the pilot program. Over the course of the pilot program, however, only nine of the 32 approved facilities utilized medication aides. According to the Board's final report, facilities expressed hesitancy to participate because of the reporting requirements and the \$1,935 participation fee; some nursing homes reported that nurse aides are not interested in obtaining medication aide certification due to increased responsibilities and minimal pay raises. The report can be accessed at www.nursing.ohio.gov/medicationaides.htm.

Buy-in for Workers with Disabilities Program Enrollment Nears 3,000

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

As of April 2009, the Ohio Department of Job and Family Services (ODJFS) has enrolled 2,910 individuals in the Medicaid Buy-In for Workers with Disabilities Program, which was authorized in H.B. 119 of the 127th General Assembly. Implemented in April 2008, the program allows disabled individuals to receive Medicaid services while working. The program is available to disabled persons whose annual income is at or below 250% of the federal poverty guideline (FPG). For FY 2009, disabled individuals with an annual income below \$27,075 are eligible for the program. ODJFS estimates a total net cost of \$25 million (\$9 million state share) over the current biennium. ODJFS expects the program to reach full enrollment of 7,300 participants by November of this year.

The program requires those with annual incomes of 150%-250% of FPG to pay monthly premiums into the program on a sliding scale; those making less than 150% of FPG (\$16,245 for an individual) are not required to pay premiums. Of the 2,910 current enrollees, 1,250 (43%) are paying premiums. The premium equals 10% of a participant's monthly income that is above \$1,354 (150% of FPG). For example, if an individual worker has a monthly income of \$1,854 (205% of FPG), that person's monthly premium would be \$50 [10% x (\$1,854 - \$1,354)]. Enrolled workers may deduct other qualified private medical insurance premiums from this amount, thereby reducing their monthly premiums. ODJFS estimates that premium revenue will total \$1.8 million over the FY 2008-FY 2009 biennium.

Federal Actions Increase Ohio's SCHIP Funding and Reduce Medicaid Payments for Medical Equipment

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

On April 1, 2009, two federal actions impacting the State Children's Health Insurance Program (SCHIP) and Ohio Medicaid went into effect. The first, the Children's Health Insurance Program Reauthorization Act of 2009, increases Ohio's SCHIP funding for federal fiscal year (FFY) 2009 from \$157.3 million to an estimated \$293.7 million, an increase of 87%. SCHIP, which is a public health insurance program for children in low-income families, provides states an enhanced federal match that is greater than the Medicaid match. In Ohio, SCHIP has been implemented as a Medicaid expansion. For FFY 2009, Ohio's enhanced federal match for SCHIP is 73.5%. Eligibility for SCHIP is currently capped at 200% of the federal poverty guidelines (FPG). The executive plans to expand eligibility to 300% FPG in July 2009.⁷ In FY 2008, there was an average of 144,460 children enrolled in SCHIP each month. ODJFS estimates that the expansion will increase enrollment by an average of about 35,600 children per month by the end of FY 2011, a 25% increase over the FY 2008 monthly average.

Also effective April 1, 2009, the federal government reduced by 9.5% its Medicare reimbursement for certain durable medical equipment. This has indirectly reduced state Medicaid expenditures for such equipment because Ohio Medicaid is prohibited from paying a higher reimbursement rate than Medicare. ODJFS estimates that the state may save \$5.8 million in FY 2010 and \$8.1 million in FY 2011 from the reduction in reimbursements due to this federal policy change. In FY 2008, Ohio Medicaid spent \$135 million on durable medical equipment.

⁷ For a family of three, the 200% and 300% FPG income limits equate to annual income of \$36,620 and \$54,930, respectively.

Ohio Submits Extension Request for SORNA Compliance

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

In January 2009, the U.S. Office of Sex Offender Sentencing, Monitoring, Apprehending, Registering and Tracking (SMART) issued a letter to the Ohio Office of the Attorney General stating that Ohio's current sex offender registration and notification system⁸ was not in "substantial compliance" with the Title I Sex Offender Registration and Notification Act (SORNA) provisions of the federal Adam Walsh Child Protection and Safety Act of 2006. Upon receipt of the determination, the Office of the Attorney General requested an extension to comply with the SORNA guidelines. The extension was granted and will expire at the end of July 2010. To date, no state has been found to be in "substantial compliance" with the SORNA guidelines. It appears that both the executive and legislative branches of the federal government are reexamining SORNA's final guidelines and funding resources.

The final, federal SORNA guidelines were released in July 2008. SORNA requires states to "substantially" implement the minimum criteria required for sex offender registration and notification by July 27, 2009. States are allowed to request up to two 1-year extensions to achieve substantial compliance. States found not to be in substantial compliance are subject to a 10% reduction in Byrne Justice Assistance Grant funds for each year of noncompliance. However, Congress has not yet provided any Byrne funding for SORNA compliance. Therefore, the actual implication of a 10% per year funding reduction for noncompliance is unclear at this time.

BWC Adjusts Premium Rates

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

The Bureau of Workers' Compensation (BWC) Board of Directors recently approved a series of rate changes for both public and private employers: an average 5.0% decrease for local government employers, an average 9.6% increase for private group employers, and an average 25.3% decrease for private nongroup employers. Group employers are those participating in BWC's Group Rating Program. This program allows employers in substantially similar industries or fields to pool together under a trade organization to obtain workers' compensation coverage. Participation typically results in lower premium rates. BWC also anticipates a 3.75% decrease in premium rates for state agencies to take effect on July 1, 2009; however, this proposed rate change has not yet been approved by BWC's Board of Directors.

⁸ Ohio's sex offender classification, registration, and notification statutes were amended by Am. Sub. S.B. 10 of the 127th General Assembly.

Overall, the new premium rates are expected to lower premium collections by 0.1% in policy year (PY) 2008 and 10.1% in PY 2009. As with the state fiscal year, the policy year runs from July 1 to June 30. However, the naming convention differs. For example, the period of July 1, 2008 through June 30, 2009 is PY 2008 but FY 2009. The table below shows premium collections for the past three policy years, as well as receipts anticipated for PYs 2008 and 2009.

| BWC Premium Receipts, PY 2006-PY 2009 (in millions) | | | | | | | |
|--|------------------------|-----------------|-------------------------|-----------------|-----------------------|--------------|-----------------|
| Policy Year | Public Employer | | Private Employer | | State Agencies | Total | % Change |
| | Group | Nongroup | Group | Nongroup | | | |
| 2005 | \$87.8 | \$283.7 | \$499.2 | \$1,280.8 | \$80.2 | \$2,231.7 | - |
| 2006 | \$97.7 | \$283.4 | \$626.2 | \$1,297.4 | \$84.1 | \$2,388.8 | 7.0% |
| 2007 | \$96.8 | \$318.2 | \$703.0 | \$1,329.7 | \$91.7 | \$2,539.4 | 6.3% |
| 2008 (est.) | \$93.3 | \$311.1 | \$780.0 | \$1,270.0 | \$83.4 | \$2,537.8 | (0.1)% |
| 2009 (est.) | \$90.5 | \$306.0 | \$855.0 | \$950.0 | \$81.1 | \$2,282.6 | (10.1)% |

Despite a higher per-claim cost due to medical inflation, BWC has seen a decrease in total compensation amounts over the last several years due to an overall reduction in the number of claims made. Although the exact cause of this is unclear, BWC believes that the reduction is primarily attributable to a general shift in Ohio jobs from the manufacturing sector to the service sector.

TRACKING THE ECONOMY

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

Overview

The U.S. recession appears to have continued through April but the tentative indications of improvement in some economic indicators also continued. April would be the sixteenth month of recession, equaling the duration of the longest previous post-World War II recessions in 1973-1975 and 1981-1982. Some pre-World War II recessions lasted much longer.

Employment nationwide fell 539,000 in April and the unemployment rate rose to 8.9%. The net job loss in April is one of the largest monthly declines in employment on record, but is a smaller decline than the number of jobs lost in each of the previous five months. Initial claims for unemployment insurance remain at very high levels, but fewer claims have been filed in the latest few weeks. In Ohio, employment continued to decline through March (latest available data), and unemployment rose to 9.7% of the state's labor force, the highest unemployment rate here since 1984.

The initial government estimates of gross domestic product in the year's first quarter showed a rapid 6.1% annual rate of decline, adjusted for inflation. Manufacturing output continued to fall through March, but not as rapidly as in earlier months. Factory orders and shipments continued to be soft through March, but did not drop as rapidly as in July 2008 through this January. Purchasing managers' reports for April showed continued declines in activity; however declines were less widespread than in earlier months. Consumer spending slowed in March but remained higher than in last year's fourth quarter. In April, however, light vehicle sales fell back near lows of February. Sales of large retailers in April registered only a small increase following a larger decline in March. Housing starts through March remained above the low point reached in January. New and used home sales, in units, also have been above January lows, but inventories remain high relative to the weak level of sales. Indications regarding housing prices were mixed: they rose in January and February as indicated by one measure but continued to fall by another. The dollar value of all construction spending in the U.S. rose in March after declining for five months. Broad price indexes declined in March and were below levels of a year earlier.

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Chrysler
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General
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announced
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Chrysler filed for bankruptcy protection at the end of April, having been unable to reach agreement on concessions from all stakeholders. The company also entered into an alliance with Fiat, under which Fiat is to receive a 20% ownership interest, and potentially up to a 35% interest, in the new Chrysler company expected to emerge from bankruptcy. Majority ownership of new Chrysler would be held by a trust being set up to provide health care benefits to Chrysler employees. The United Auto Workers union anticipates selling these shares in the future to fund retiree benefits. The U.S. and Canadian governments would also own part of the new company, and the U.S. is to provide financing during the bankruptcy restructuring. Chrysler indicated that the company would cease most manufacturing operations beginning Monday, May 4, and anticipated resuming normal production schedules when the transaction is completed in 30 to 60 days. A bankruptcy court filing indicates that eight of Chrysler's manufacturing plants would not be part of the new company, including a plant in Twinsburg, but some of them would continue to be operated for a transitional period.

General Motors (GM) in late April announced an updated restructuring plan, under which the company will focus on four core brands and phase out four others, reduce the number of its U.S. dealers by 42%, accelerate plant closings, and cut costs sufficiently that the company can break even (neither making a profit nor losing money) at a U.S. total industry sales rate of about ten million vehicles a year. The U.S. industry last year sold over 13 million light vehicles, but the year-to-date sales pace in 2009 has been below ten million units. The company also sought to restructure its debt. Separately, GM scheduled extended temporary shutdowns for multiple weeks at 13 North American assembly plants, in an effort to bring down excessive dealer inventories. These schedules vary by plant. Down time will also be scheduled at parts plants.

The Federal Reserve reported that of 19 large bank holding companies subjected to so-called "stress tests" intended to evaluate whether they were sufficiently well capitalized, ten were deemed to need a total of about \$75 billion in additional capital. Each of these companies was given one month to develop a plan to raise more capital or improve the quality of capital (common stock is preferred), and five months after that to implement the plan. The U.S. Treasury said that banks not identified as needing to raise more capital may begin repaying the government's current investment in those institutions, if they are able to borrow without FDIC guarantees.

The Federal Reserve's Open Market Committee (FOMC), its monetary policy decision-making body, met in late April and kept its interest rate target for federal funds, overnight loans between banks, unchanged at 0% to 0.25%. In announcing the decision, the FOMC reiterated its expectation that the federal funds rate would remain exceptionally low for an extended period. It also said it would keep previously announced programs in place, including purchases of federal agency and U.S. Treasury securities, support for extension of credit to households and businesses, and other programs. The FOMC continues to expect policy actions and market forces to bring about a resumption of economic growth with subdued inflation.

In testimony May 5 to Congress' Joint Economic Committee, the Federal Reserve Chairman reiterated the Fed's expectation that economic activity will bottom out and then begin to rise later this year. He cited indications that consumer and housing markets are starting to stabilize, declines in foreign economic activity may be moderating, and functioning of financial markets has improved somewhat. He also noted expectations that inventory liquidation will slow and government stimulus programs will support final demand. However, he characterized business investment as very weak, with equipment spending falling sharply and conditions poor in commercial real estate markets. The Fed expects recovery to be gradual and inflation to remain low.

Influenza caused by the H1N1 virus, also known as swine flu, could potentially cause substantial economy-wide disruptions if it were to become sufficiently widespread and severe. Initial reports raised concerns that this new virus could cause a worldwide pandemic. However, on May 5, the U.S. Centers for Disease Control and Prevention (CDC) issued revised guidance, indicating the disease caused by the H1N1 virus "appears to be similar with that typically caused by seasonal influenza . . . available data do not indicate we are facing an unusually severe influenza virus." Subsequently, the CDC emphasized that efforts are ongoing to monitor and understand the virus and prepare a vaccine.

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The National Economy

Employment and Unemployment

Nonfarm payroll employment nationwide fell by 539,000 in April and unemployment rose to 8.9% of the labor force. The decline in employment is the smallest decrease in six months, but is still a very large monthly change, one of the largest monthly declines ever. Job losses in April were widespread among private sector industries, in both the goods and service sectors. Since the recession began following the December

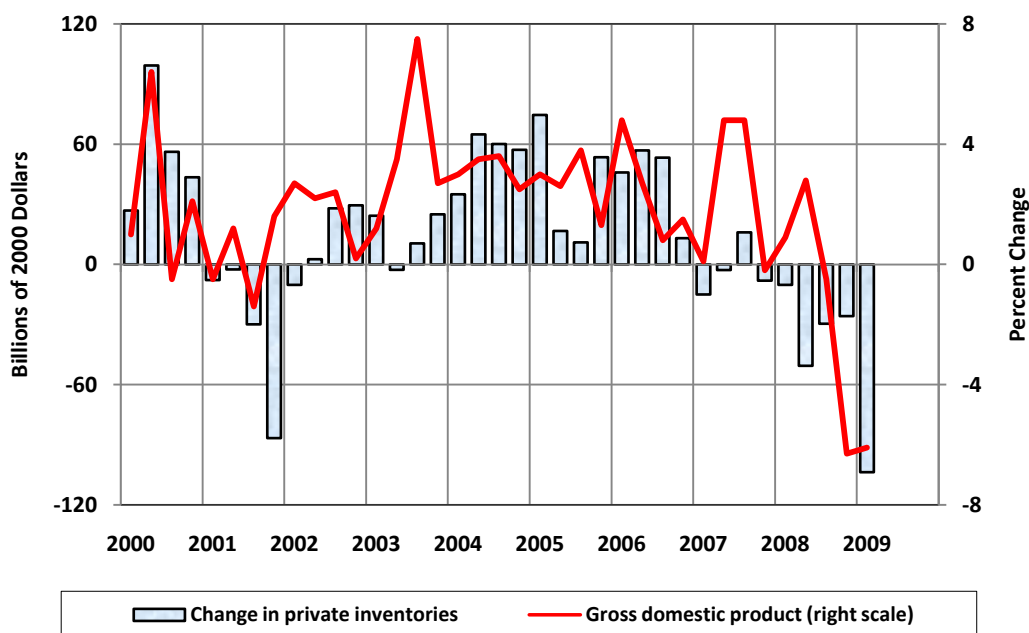
2007 business cycle peak, total nonfarm payroll employment has declined 5.7 million. The number of people unemployed rose in April to 13.7 million, and the unemployment rate was the highest in more than 25 years. In a separate report, weekly initial claims for unemployment compensation rose in the last week of March to the highest level since 1982 but trended lower since then.

Production

Gross domestic product adjusted for inflation (real GDP) fell in the first quarter at a 6.1% annual rate, following a 6.3% rate of decline in the 2008 fourth quarter. This is the second steepest two-quarter decline on records begun in 1947, exceeded only in the 1957-1958 recession. Nonresidential and residential fixed investment continued to plunge in the first quarter, each falling at a 38% annual rate. Exports dropped at a 30% annual rate. Government spending declined. Inventories were reduced very sharply as businesses, faced with slower sales, slashed production to limit further buildup of excess inventories. The change in real GDP and in inventories is shown in Chart 1. Ratios of inventories to sales remain elevated. However, consumer spending rose in the first quarter after declining sharply in the second half of last year. Imports fell again, for the sixth consecutive quarter.

Total U.S. production fell at a 6.1% annual rate in the first quarter.

Chart 1: Gross Domestic Product and Inventory Change
Inflation Adjusted, at Annual Rates



Industrial production continued to drop through March, as manufacturing output fell 1.7% following a 0.6% decline in February, and steeper declines in excess of 2% in November through January.

Factory output has fallen for five consecutive quarters. Declines in production were widespread among industries and market segments, though output of automotive products rose. Production of business equipment and construction supplies fell steeply.

The dollar value of manufacturers' new orders fell 0.9%, seasonally adjusted, after rising 0.7% in February. The fluctuations of the past two months appear relatively stable compared with the rapid declines from July through January when factory orders dropped more than 25%. Shipments of manufacturers decreased 1.2% in March and 0.5% in February after contracting by more than 20% from July through January. Manufacturers' unfilled orders fell 1.5% in the latest month and are down 8% from the all-time peak last September. Aircraft and parts, mostly nondefense, account for 45% of these order backlogs. Factory inventories declined by 0.8% in March, the seventh consecutive decline, but the ratio of inventories to sales at the end of March remained high.

The contraction in the manufacturing sector continued in April, as indicated by the Institute for Supply Management's survey of purchasing managers. However, the contraction was less widespread among survey respondents than in previous months, seasonally adjusted. The indexes for new orders and order backlogs rose to their highest values since last August; those for production and exports were highest since September. Reductions of factory inventories remained widespread, with the Inventories Index up slightly from March, its lowest level since 1982. Price reductions were reported by many survey respondents, but less so than in November through March. A comparable survey of purchasing managers with nonmanufacturing organizations also indicated continued contraction in April, but the indexes for business activity and new orders rose to the highest levels since September.

Consumer Spending

Personal consumption expenditures fell 0.2% in March, adjusted for inflation, after increasing in January and February. Despite the decline in the latest month, the rate of consumer spending in March remained higher than in last year's fourth quarter, when outlays reached a low point in December. Spending on durable and nondurable goods fell in March while outlays for services rose. Wages and salaries, proprietors' income, rental income, interest, and dividends continued to decline through March. But consumer spending has been supported by reduced tax payments and by increased transfer payments from government.

Consumer spending slowed in March but remained stronger than in last year's fourth quarter.

Housing starts and sales slowed in March but were above the pace in January.

Retail and food service sales in current dollars fell 1.1% in March after rising 0.3% in February. Declines in outlays were widespread among kinds of stores in March, after sales increases in many segments of retailing in February. Compared with a year earlier, total retail and food service sales in March were 9.4% lower, with double-digit percentage declines at motor vehicle dealers and at furniture and home furnishings stores. Gasoline station sales were 34% lower than a year earlier, mainly because of the drop in gasoline prices. Sales were higher than in March 2008 in a few segments including grocery stores and food service and drinking places, likely reflecting higher food prices, and at health and personal care stores. Retail sales of warehouse clubs and supercenters, available through February, were also higher than year-earlier levels.

Motor vehicle sales slipped in April, with light vehicle sales falling back to a 9.3 million unit seasonally adjusted annual rate from 9.8 million units in March. Except for February, when sales of cars and light trucks were at a 9.1 million unit rate, April's sales pace for light vehicles was the slowest since 1981.

Same-store sales in April were only 0.7% higher than a year earlier, in the compilation of individual store reports by Bank of Tokyo-Mitsubishi. This follows a 1.8% decline in March. The timing of the Easter holiday – in April this year and March last year – distorts year-over-year comparisons, but the two months in combination indicate that consumer spending is still weak.

Consumer credit outstanding fell at a 5.2% annual rate in March, with declines in both revolving and nonrevolving loans. Consumer borrowing rose, seasonally adjusted, in January but has declined since then, after falling in last year's fourth quarter. Spending on cars and other large-ticket items is closely tied to consumers' willingness and ability to access credit. This series on consumer credit excludes loans secured by real estate.

Construction and Real Estate

Home sales remain depressed by job losses and concerns about the economy and future employment and income prospects. Lenders have toughened standards for making home loans. However, declines in residential mortgage interest rates and in housing prices, coupled with the federal government's \$8,000 refundable tax credit to home buyers who have not owned a home in the past three years, have made home ownership relatively affordable for some people.

Nationwide average housing prices rose in January and February, seasonally adjusted, by one measure and continued to decline by another. The Federal Housing Finance Agency's monthly index rose 0.7% in February, after increasing 1.0% in January and declining in most previous months since the peak in April 2007. February's index value was 6.5% lower than in February 2008. This index is based on purchase prices of houses backing mortgages sold to or guaranteed by Fannie Mae or Freddie Mac. Another indicator, the S&P/Case-Shiller housing price index for 20 large metropolitan areas, continued its decline this year, falling 1.9% in February and 2.2% in January. The index was 18.6% lower in February than a year earlier.

Housing starts nationwide declined 11% in March after increasing 17% in February, seasonally adjusted, mainly reflecting fluctuations in starts on multifamily housing. Single-family starts have been little changed since January, when total and single-family starts fell to the lowest level in the history of this series begun in 1959. From the peak in January 2006 through March 2009, housing starts fell 78%.

Sales of new homes in the U.S., seasonally adjusted, declined 0.6% in March after rising 8% in February from their January low point. March new home sales were 31% lower than a year earlier. In the Midwest, sales declined 8% in March to their low for the current cycle. Builders' nationwide inventories of homes under construction or completed and awaiting sale have been reduced 44% from their peak in September 2006, but still appear high relative to the weak pace of sales.

Home sales nationwide in March reported by the National Association of Realtors (NAR), mainly of previously occupied units, declined 3% from the previous month's pace, seasonally adjusted, after rising 5% from the low to date for the current cycle in January. Sales in March were 7% lower than a year earlier. In the Midwest, sales in March were unchanged from February, 1% higher than the cyclical low in January, and 11% below a year earlier. The NAR indicated that more than half of March transactions were distressed property sales, which include foreclosures and sales at prices that do not cover payment of loans and all costs of sale. First-time buyers accounted for 53% of the month's sales. Listings of properties being offered for sale have been reduced 9% in the past year but still equal nearly a ten-month supply at the current sales rate. Another report from the NAR, on contracts signed for home sales, rose in March after increasing in February from a low point in January.

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The dollar value of new construction put in place in March increased 0.3%, the first increase since September, as private nonresidential construction rose 2.7%, public construction increased 1.1%, and private residential construction declined 4.2%. In the first three months of 2009, construction spending was 11% lower than a year earlier, reflecting a 32% drop in residential construction.

Inflation

The consumer price index (CPI) declined 0.1% in March after rising 0.4% in February and 0.3% in January. The decline in March was mainly a reflection of lower energy prices, down 3.0% for the month. Indexes for prices of food for consumption at home, lodging away from home, used cars and trucks, and airline fares declined. Prices increased in March for tobacco and smoking products, 11% higher than in February ahead of an April 1 federal excise tax increase. Prices also rose for new vehicles. Compared with a year earlier, the CPI in March was 0.4% lower, the first decline in a 12-month period since 1955.

The producer price index (PPI) for finished goods fell 1.2% in March, after increasing in the first two months of 2009 and falling throughout the last five months of 2008. This mirrors the pattern of energy prices, which turned back down in March after rising in January and February. The finished goods PPI in March was 3.5% lower than a year earlier. The PPI for intermediate goods and that for crude materials declined in each of the past eight months. The intermediate goods price index in March was 9% lower than a year earlier and the price index for crude materials was 39% lower.

Pay increases, on average, have slowed during the recession, as indicated by the survey-based Employment Cost Index. Wages and salaries in the U.S. private sector increased only 0.2% in the first three months of 2009, seasonally adjusted, after rising 0.5% in the last three months of 2008. The first quarter 2009 change equals the change in the first quarter of 1999, the smallest quarterly rise in the history of this series begun in 1980.⁹ Private sector benefit costs also rose only 0.2% from December to March.

The Ohio Economy

The number of Ohioans employed on nonfarm payrolls in March declined 37,500 from February, to about 5.2 million. Employment in

⁹ The data for years prior to 2001 are based on different industry and occupation categories from those used now, so are not fully comparable with currently published figures.

March was 229,600 (4.3%) lower than a year earlier. Declines in employment in the past year were widespread among industry segments but particularly large in manufacturing; construction; administrative, support, and waste services; and transportation, warehousing, and utilities. Employment in health care and social assistance, and in leisure and hospitality services, were higher in March than a year earlier but have edged lower in February and March. Statewide unemployment rose to 578,000 in March, 9.7% of the labor force, an increase of 211,000 people out of work compared with a year earlier. Ohio employment, compared with that of the U.S., is shown in Chart 2. Unemployment in the state and the nation is shown in Chart 3.

Business activity and employment remained weak in Ohio.

Chart 2: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted

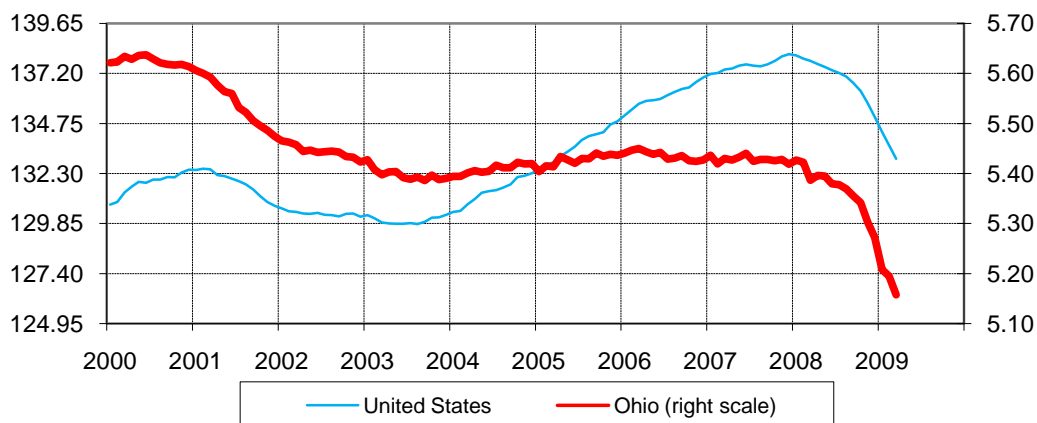
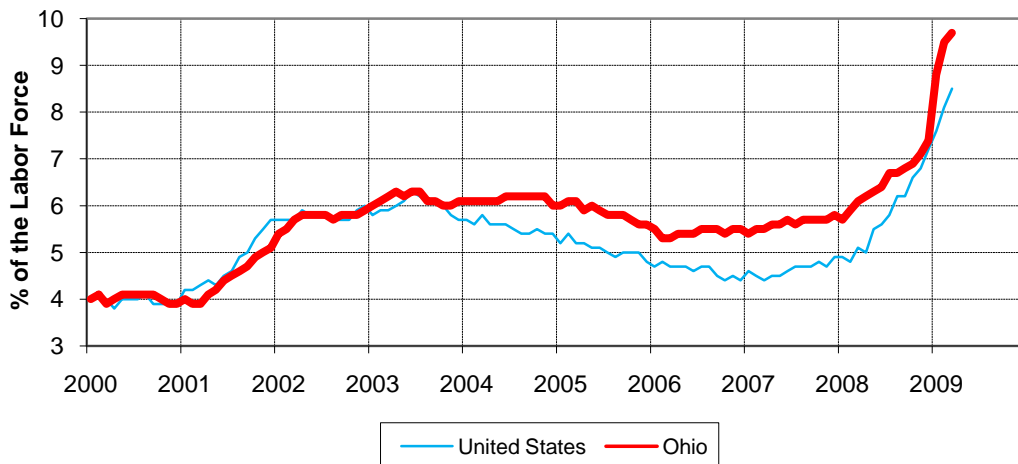


Chart 3: Unemployment Rate



Business activity remained weak through the end of March in Ohio and parts of nearby states, according to the Beige Book, a summary by the Federal Reserve of reports on business from sources outside that

organization. The report on conditions in the Cleveland Federal Reserve District (Ohio and parts of three other states) said that the downtrend in factory output continued, though there were some reports of leveling in new orders. Residential construction in the region was very weak. Slight improvement was noted in sales of retailers in the District. Employment fell at manufacturers and in transportation and banking, but hiring continued at providers of health care services.