Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION NOVEMBER 2008

STATUS OF THE GRF

HIGHLIGHTS

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

October's GRF tax revenues were disappointing given the September figures, but not too surprising given the economic environment. Tax revenues were $95.8 million (6.0%) below the estimate for the month that was issued by the Office of Budget and Management the week of October 6. The personal income tax was below estimate by $66.7 million and the sales and use tax by $45.0 million.

Recent financial market turmoil had its effect on labor markets, with the national unemployment rate jumping from 6.1% in September to 6.5% in October. Ohio's unemployment rate fell unexpectedly in September, but at 7.2% is still above the national rate. U.S. real gross domestic product decreased in the third quarter, sales of light vehicles plummeted in October, and reports indicate that economic growth has weakened (or disappeared) in major U.S. trading partners.

Through October 2008, GRF sources totaled $8,313.7 million:

- Tax revenues were $61.0 million (1.0%) below estimate.
  - Revenue from the personal income tax was below estimate by $38.8 million (1.4%).
  - Revenue from the sales and use tax was below estimate by $41.7 million (1.6%).
- State-source receipts, 97% of which were made up by tax revenues, were below estimate by $70.1 million (1.2%).

Through October 2008, GRF uses totaled $11,152.7 million:

- GRF program expenditures amounted to $10,317.5 million, $108.2 million (1.1%) above estimate, largely due to an overage in the Tax Relief and Other category of $238.8 million.

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STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of October 2008
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on November 5, 2008)*

	Actual	Estimate**	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$77,965	$77,858	$108	0.1%
Nonauto Sales and Use	$511,864	$556,997	-$45,132	-8.1%
Total Sales and Use Taxes	$589,829	$634,855	-$45,026	-7.1%
Personal Income	$645,712	$712,363	-$66,651	-9.4%
Corporate Franchise	$14,160	$10,037	$4,123	41.0%
Public Utility	$1,788	$5,786	-$3,998	-69.1%
Kilowatt Hour Excise	$11,027	$10,179	$848	8.3%
Commercial Activity Tax***	$0	$0	$0	---
Foreign Insurance	$124,258	$127,900	-$3,642	---
Domestic Insurance	$8,516	$100	$8,416	8415.9%
Business and Property	$75	$100	-$25	-25.4%
Cigarette	$85,246	$80,243	$5,003	6.2%
Alcoholic Beverage	$5,103	$4,595	$508	11.1%
Liquor Gallonage	$2,750	$2,811	-$61	-2.2%
Estate	$18,736	$14,000	$4,736	33.8%
Total Tax Revenue	$1,507,201	$1,602,969	-$95,768	-6.0%
NONTAX REVENUE				
Earnings on Investments	$51,146	$42,400	$8,746	20.6%
Licenses and Fees	$5,400	$4,158	$1,242	29.9%
Other Revenue	$4,489	$5,300	-$811	-15.3%
Total Nontax Revenue	$61,034	$51,858	$9,176	17.7%
TRANSFERS				
Liquor Transfers	$13,000	$12,000	$1,000	8.3%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$25,360	-$25,360	-100.0%
Total Transfers In	$13,000	$37,360	-$24,360	-65.2%
TOTAL STATE SOURCES	$1,581,236	$1,692,187	-$110,951	-6.6%
Federal Grants	$753,106	$726,664	$26,441	3.6%
TOTAL GRF SOURCES	$2,334,342	$2,418,851	-$84,509	-3.5%

* Liquor and other transfers based on information from OBM.

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

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

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2009 as of October 31, 2008
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on November 5, 2008)*

	Actual	Estimate**	Variance	Percent	FY 2008	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$338,189	$325,212	$12,978	4.0%	$329,757	2.6%
Nonauto Sales and Use	$2,170,067	$2,224,778	-$54,711	-2.5%	$2,203,759	-1.5%
Total Sales and Use Taxes	$2,508,256	$2,549,990	-$41,734	-1.6%	$2,533,516	-1.0%
Personal Income	$2,653,220	$2,692,031	-$38,811	-1.4%	$2,748,016	-3.4%
Corporate Franchise	$46,293	$35,696	$10,597	29.7%	$5,730	707.9%
Public Utility	$49,265	$53,177	-$3,912	-7.4%	$40,723	21.0%
Kilowatt Hour Excise	$48,577	$48,906	-$329	-0.7%	$120,400	-59.7%
Commercial Activity Tax***	$0	$0	$0	---	$0	---
Foreign Insurance	$128,553	$133,802	-$5,249	-3.9%	$133,187	-2.4%
Domestic Insurance	$7,744	-$258	$8,002	3101.7%	$253	2962.5%
Business and Property	$321	$346	-$24	-7.1%	$354	-9.2%
Cigarette	$274,925	$269,382	$5,542	2.1%	$278,036	-1.1%
Alcoholic Beverage	$20,058	$20,307	-$249	-1.2%	$19,997	0.3%
Liquor Gallonage	$11,917	$12,048	-$131	-1.1%	$11,635	2.4%
Estate	$23,404	$18,082	$5,322	29.3%	$16,523	41.4%
Total Tax Revenue	$5,772,534	$5,833,509	-$60,975	-1.0%	$5,908,371	-2.3%
NONTAX REVENUE						
Earnings on Investments	$51,374	$42,400	$8,974	21.2%	$44,990	14.2%
Licenses and Fees	$19,266	$18,411	$855	4.5%	$19,334	-0.4%
Other Revenue	$21,730	$21,705	$25	0.1%	$17,915	21.3%
Total Nontax Revenue	$92,370	$82,516	$9,854	11.9%	$82,239	12.3%
TRANSFERS						
Liquor Transfers	$57,000	$48,000	$9,000	18.8%	$64,000	-10.9%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$5,681	$33,620	-$27,939	-83.1%	$55,677	-89.8%
Total Transfers In	$62,681	$81,620	-$18,939	-23.2%	$119,677	-47.6%
TOTAL STATE SOURCES	$5,927,585	$5,997,645	-$70,060	-1.2%	$6,110,287	-3.0%
Federal Grants	$2,386,152	$2,406,704	-$20,552	-0.9%	$1,942,689	22.8%
TOTAL GRF SOURCES	$8,313,737	$8,404,349	-$90,613	-1.1%	$8,052,977	3.2%

* Liquor and other transfers based on information from OBM.

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

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

October 2008 tax revenues were 6.0% below estimate and 6.8% below tax revenues in October 2007.

FY 2009 year-to-date tax revenues were 1.0% below estimate and 2.3% below last year's tax revenues through October.

Revenues

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

Overview

Tables 1 and 2 show GRF sources for October and FY 2009 through October, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, 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. The revised estimates released by the Office of Budget and Management in October 2008 were used for the comparison with actual receipts. In September, OBM reduced its tax revenue projections for FY 2009 by $540.7 million and subsequently revised its monthly revenue estimates for the remainder of FY 2009.

For the month of October, total GRF sources of $2,334.3 million were below estimate by $84.5 million (3.5%). State-source receipts of $1,581.2 million were $111.0 million (6.6%) below estimate, while federal grants of $753.1 million were $26.4 million (3.6%) above estimate. Tax revenues performed poorly in October, accounting for $95.8 million (86.3%) of the $111.0 million negative variance in state-source receipts. Revenues from the two primary GRF sources, the personal income tax and sales and use tax, were below estimates by $66.7 million (9.4%) and $45.0 million (7.1%), respectively.

Through October, FY 2009 total GRF sources of $8,313.7 million were below estimate by $90.6 million (1.1%). State-source receipts totaled $5,927.6 million, $70.1 million (1.2%) below estimate. Federal grants totaled $2,386.2 million, $20.6 million (0.9%) below estimate. Total tax revenues were $61.0 million (1.0%) below estimate. The personal income tax and sales and use tax were $38.8 million (1.4%) and $41.7 million (1.6%), respectively, below estimate. Revenue from the third major GRF source, the cigarette tax, was $5.5 million (2.1%) above estimate. Other taxes with year-to-date positive revenue variances included: auto sales ($13.0 million), corporate franchise ($10.6 million), domestic insurance ($8.0 million), and estate ($5.3 million). However, these positive variances were not necessarily indicators of strong performance of these taxes, especially for the remainder of FY 2009.

Compared to FY 2008, FY 2009 year-to-date GRF sources were $260.8 million (3.2%) above the level of October 2007, primarily due to the $443.5 million (22.8%) increase in federal grants. This increase was a result of a timing issue related to higher spending in the Public Assistance and Medicaid program category. State-source receipts through October 2008 totaled $5,927.6 million, $182.7 million (3.0%) below October 2007's level. Tax revenues accounted for $135.8 million (74.3%) of the $182.7 million decrease. Year-to-date receipts from all three primary GRF sources were below the levels of October 2007, including decreases of $94.8 million (3.4%) in personal income tax receipts, $25.3 million (1.0%) in sales and use tax receipts, and $3.1 million (1.1%) in cigarette tax receipts. Other taxes with notable year-to-year revenue variances included a decrease of $71.8 million (59.7%) in kilowatt-hour tax receipts due to an increase this year in the share of receipts distributed to local government funds, an increase of $8.5 million (21.0%) in public utility excise tax receipts, and an increase of $40.6 million in corporate franchise tax receipts.

Personal Income Tax

After a relatively good performance in September, receipts from the personal income tax plunged in October 2008. The GRF received $645.7 million from this tax during the month. This amount was $66.7 million (9.4%) below estimate and $72.1 million (10.0%) below October 2007 receipts. Through October, FY 2009 receipts of $2,653.2 million were $38.8 million (1.4%) below estimate and $94.8 million (3.4%) below receipts in the corresponding period in FY 2008. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government funds. Gross collections are the sum of withholding, quarterly estimated payments,[1] trust payments, payments associated with annual returns, and miscellaneous payments. The table below summarizes changes from FY 2008 to FY 2009 in components of the income tax from information provided by the Department of Taxation. Changes are shown for the month of October and for FY 2009 year to date. Compared to October 2007 receipts, October 2008 receipts from employer withholding declined 5.3%, reflecting a weaker labor market.

October 2008 personal income tax receipts were 9.4% below estimate and 10.0% below October 2007 receipts.

FY 2009 Monthly and Year-to-date Monthly Income Tax Revenue Variances and Changes by Component

Category	Monthly Changes from FY 2008		Year-to-date Changes from FY 2008	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$36.0	-5.3%	-$106.9	-4.1%
Quarterly Estimated Payments	-$12.3	-32.2%	-$14.9	-3.7%
Trust Payments	-$4.0	-56.2%	-$3.9	-22.9%
Annual Return Payments	$8.0	11.6%	$20.4	19.2%
Miscellaneous Payments	-$1.4	-20.5%	-$4.5	-18.8%
Gross Collections	**-$45.6**	**-5.7%**	**-$109.8**	**-3.5%**
Less Refunds	$28.3	117.5%	$9.9	7.7%
Less Local Government Fund Distribution	-$0.8	-1.3%	-$24.6	-9.2%
Income Tax Revenue	**-$73.1**	**-10.2%**	**-$95.1**	**-3.5%**

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

Spending on taxable items declined, reducing FY 2009 year-to-date sales and use tax receipts.

Sales and Use Tax

The performance of the sales and use tax dramatically worsened in October 2008, after a slight improvement the previous month. October GRF receipts of $589.8 million were $45.0 million (7.1%) below estimate and $38.0 million (6.1%) below sales and use tax receipts in October 2007. Through October, FY 2009 receipts of $2,508.3 million were $41.7 million (1.6%) below estimate and also $25.3 million (1.0%) below FY 2008 receipts through October 2007.

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

Nonauto Sales and Use Tax

The performance of the nonauto sales and use tax, which had been mediocre in the first quarter of FY 2009, took a turn for the worse in October. Nonauto sales and use tax monthly receipts of $511.9 million were $45.1 million (8.1%) below estimate and $33.1 million (6.1%) below receipts in the same month last year.

Through October, FY 2009 year-to-date nonauto sales and use tax receipts of $2,170.1 million were $54.7 million (2.5%) below estimate and $33.7 million (1.5%) below receipts in FY 2008, which suggests a contraction of the taxable base in the first four months of FY 2009. Nonauto sales and use tax receipts reflect a decline in consumer spending in the last few months. Overall personal consumption expenditures declined in the third quarter of 2008 for the first time since the recessionary period of 1991. Spending on both taxable consumer durables ("big ticket" items such as appliances and furniture) and nondurables (items such as clothing) decreased. Retailers reported steep declines in sales nationally in October 2008. Compared to sales in October 2007, the index of same-store sales (which tallies sales at stores opened at least a year) declined 0.9% in October 2008, which was the weakest growth rate in several years. Consumer fundamentals (primarily employment, unemployment, wage growth, and income gains),[3] which determine nonauto sales and use tax receipts, have continued to deteriorate. If current economic problems deepen, consumer spending will continue to weaken, thus darkening the outlook for the holiday season and nonauto sales and use tax receipts.

Auto Sales and Use Tax

October 2008 receipts of $78.0 million were $0.1 million (0.1%) above estimate, but $4.9 million (5.9%) below receipts in October 2007. Through October, FY 2009

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

[3] Recent trends in employment have not been favorable, the unemployment rate increased, wage growth slowed, and real disposable income growth has been anemic.

year-to-date auto sales and use tax receipts of $338.2 million were $13.0 million (4.0%) above estimate and also $8.4 million (2.6%) above receipts through October in FY 2008. The increase in year-to-date receipts over FY 2008 is mostly due to additional receipts received from the tax on nonresident vehicle purchases in July and August this year. Last year, collections from this tax source commenced in September 2007. The portion of auto sales tax revenues from Ohio residents was flat.

A faltering economy and the virtual lockdown of credit sank nationwide auto sales, sinking light vehicles (autos and light trucks) sales to their lowest pace in 25 years (lowest total since January 1982). Nationwide, sales of light vehicles through October in FY 2009 were 21.4% below unit sales in the corresponding period in FY 2008. Sales of auto and light trucks declined about 12.6% and 29.1%, respectively. It is likely that the consumer retrenchment will negatively affect Ohio auto sales and use tax receipts in the next few months.

Cigarette and Other Tobacco Products Tax

October GRF receipts from the cigarette and other tobacco products tax were $85.2 million, $5.0 million (6.2%) above estimate and also $2.0 million (2.4%) above October 2007 receipts. Through October, FY 2009 receipts from the tax were $274.9 million, $5.5 million (2.1%) above estimate. Those receipts were $3.1 million (1.1%) below FY 2008 receipts in the same period. Revenues from taxed cigarettes were $260.1 million, down $3.8 million (1.5%) from last year's level. Revenues from the tax on other tobacco products were $14.8 million, up $0.8 million (5.1%). Receipts from the cigarette and other tobacco products tax are expected to be the third largest tax source in FY 2009, after the personal income tax and the sales and use tax.

Corporate Franchise Tax

GRF receipts from the corporate franchise tax were $14.2 million in October 2008, $4.1 million (41.0%) above estimate, but $1.0 million (6.4%) below receipts in October 2007. Through October, FY 2009 receipts from this tax source were $46.3 million, $10.6 million (29.7%) above estimate. In FY 2008, receipts through October were $5.7 million. Activities under this tax through December of a fiscal year are generally refunds, tax payments due to audit findings, late payments, and other tax reconciliations. Although year-to-date results may portend a strong performance of the corporate franchise tax this year, major tax payments are due January 31, March 31, and May 31. As part of the five-year phase out of the corporate franchise tax enacted in H.B. 66 of the 126th General Assembly, the corporate franchise tax for nonfinancial corporations will be eliminated in FY 2010.

Commercial Activity Tax

In October 2008, CAT receipts were $33.2 million, $5.8 million (21.1%) above estimate. Through October, FY 2009 total CAT receipts were $363.4 million, $37.3 million (11.4%) above estimate, and $117.9 million (48.0%) above receipts in FY 2008, primarily due to a higher tax rate this fiscal year. Through FY 2011, revenues from the commercial activity tax (CAT) are not deposited into the GRF as they are earmarked for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property.[4] Taxpayers pay 80% of their liability in FY 2009, and the tax will be fully phased in in FY 2010.

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

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of October 2008
($ in thousands)
(Actual based on OAKS reports run November 7, 2008)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	$840,004	$866,240	-$26,236	-3.0%
Higher Education	$221,343	$212,846	$8,498	4.0%
Total Education	$1,061,347	$1,079,086	-$17,738	-1.6%
Public Assistance and Medicaid	$890,000	$914,835	-$24,835	-2.7%
Health and Human Services	$139,923	$144,174	-$4,251	-2.9%
Total Welfare and Human Services	$1,029,922	$1,059,009	-$29,087	-2.7%
Justice and Public Protection	$186,909	$179,586	$7,324	4.1%
Environment and Natural Resources	$8,827	$23,395	-$14,568	-62.3%
Transportation	$2,076	$7,110	-$5,034	-70.8%
General Government	$18,156	$19,045	-$888	-4.7%
Community and Economic Development	$14,060	$12,811	$1,250	9.8%
Capital	-$5	$42	-$47	-111.9%
Total Government Operations	$230,024	$241,988	-$11,964	-4.9%
Tax Relief and Other	$251,291	$69,307	$181,983	262.6%
Debt Service	$46,198	$46,147	$51	0.1%
Total Other Expenditures	$297,488	$115,454	$182,034	157.7%
Total Program Expenditures	$2,618,782	$2,495,536	$123,246	4.9%
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$445,355	$461,546	-$16,191	-3.5%
Total Transfers Out	$445,355	$461,546	-$16,191	-3.5%
TOTAL GRF USES	$3,064,137	$2,957,082	$107,055	3.6%

* October 2008 estimates of the Office of Budget and Management
Detail may not sum to total due to rounding.

41% of year-to-date GRF program expenditures was for Public Assistance and Medicaid; 26% was for Primary, Secondary, and Other Education.

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2009 as of October 31, 2008
($ in thousands)
(Actual based on OAKS reports run November 7, 2008)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2008	Percent Change
Primary, Secondary, and Other Education	$2,676,046	$2,714,171	-$38,124	-1.4%	$2,567,239	4.2%
Higher Education	$835,366	$863,271	-$27,905	-3.2%	$796,597	4.9%
Total Education	$3,511,412	$3,577,442	-$66,029	-1.8%	$3,363,836	4.4%
Public Assistance and Medicaid	$4,273,688	$4,313,234	-$39,546	-0.9%	$3,945,270	8.3%
Health and Human Services	$479,460	$490,806	-$11,347	-2.3%	$464,654	3.2%
Total Welfare and Human Services	$4,753,147	$4,804,040	-$50,893	-1.1%	$4,409,925	7.8%
Justice and Public Protection	$829,760	$820,749	$9,011	1.1%	$806,832	2.8%
Environment and Natural Resources	$36,422	$47,427	-$11,005	-23.2%	$36,578	-0.4%
Transportation	$5,494	$10,355	-$4,861	-46.9%	$5,677	-3.2%
General Government	$164,916	$173,820	-$8,904	-5.1%	$161,753	2.0%
Community and Economic Development	$60,963	$59,592	$1,372	2.3%	$57,834	5.4%
Capital	$7	$42	-$35	-83.6%	$6	20.1%
Total Government Operations	$1,097,562	$1,111,985	-$14,423	-1.3%	$1,068,679	2.7%
Tax Relief and Other	$653,083	$414,297	$238,786	57.6%	$475,478	37.4%
Debt Service	$302,250	$301,477	$772	0.3%	$283,008	6.8%
Total Other Expenditures	$955,333	$715,774	$239,559	33.5%	$758,487	26.0%
Total Program Expenditures	$10,317,454	$10,209,241	$108,213	1.1%	$9,600,927	7.5%
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$835,268	$852,439	-$17,171	-2.0%	$610,839	36.7%
Total Transfers Out	$835,268	$852,439	-$17,171	-2.0%	$610,839	36.7%
TOTAL GRF USES	$11,152,723	$11,061,681	$91,042	0.8%	$10,211,766	9.2%

* October 2008 estimates of the Office of Budget and Management
Detail may not sum to total due to rounding.

Expenditures

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

For the month of October, total GRF uses of $3,064.1 million were $107.1 million (3.6%) above the estimate released by the Office of Budget and Management in October 2008 (Table 3). This estimate takes into account the latest executive-ordered budget reductions that were announced in September. For the first four months of FY 2009, GRF uses of $11,152.7 million were $91.0 million (0.8%) above estimate (Table 4). GRF uses consist primarily of program expenditures but also include transfers out. In October, GRF uses included $2,618.8 million in program expenditures, which was above estimate by $123.2 million (4.9%), and $445.4 million in transfers out, which was below estimate by $16.2 million (3.5%). Through October, GRF uses included $10,317.5 million in program expenditures, which was $108.2 million (1.1%) above estimate, and $835.3 million in transfers out, which was $17.2 million (2.0%) below estimate.

GRF program expenditures were $108.2 million (1.1%) above estimate through October, which was entirely attributable to spending for tax relief.

Both the largest monthly and year-to-date variances occurred in the Tax Relief and Other program category, which was $182.0 million (262.6%) above estimate in October and $238.8 million (57.6%) above estimate through the first four months of FY 2009. Timing is a major factor behind these variances as some of the property tax relief payments occurred sooner than expected. Semi-annual reimbursements for August tax settlements have been made to school districts in 85 of 88 counties, and to local governments in all but one county. Moreover, the OBM estimates do not account for increased expenditures attributable to the Homestead exemption expansion enacted in H.B. 119 of the 127th General Assembly.

In October, other program categories that had significant variances included: Primary, Secondary, and Other Education ($26.2 million or 3.0% below estimate), Public Assistance and Medicaid ($24.8 million or 2.7% below estimate), Environment and Natural Resources ($14.6 million or 62.3% below estimate), and Justice and Public Protection ($7.3 million or 4.1% above estimate). An estimated $11.9 million debt service payment for revenue bonds isssued for various parks and recreational facilities did not occur in October as planned, which accounted for the negative variance in the Environment and Natural Resources category.

Most of October's Medicaid managed care payment was paid with a $304.3 million encumbrance from FY 2008.

Through October, GRF expenditures in five program categories were below estimates by a total of $127.8 million, including $39.5 million (0.9%) in Public Assistance and Medicaid, $38.1 million (1.4%) in Primary, Secondary, and Other Education, $27.9 million (3.2%) in Higher Education, $11.3 million (2.3%) in Health and Human Services, and $11.0 million (23.2%) in Environment and Natural Protection, which was largely due to the October variance. Justice and Public Protection was the only program category other than Tax Relief and Other with a notable positive variance in year-to-date expenditures; it was above estimate by $9.0 million (1.1%).

Over 38% of total year-to-date GRF program expenditures was for Medicaid. Table 5 details Medicaid expenditures by service category. For the month of October, GRF Medicaid expenditures were $784.4 million, $11.5 million (1.4%) below estimate. For the fiscal year-to-date, outlays of $3,968.8 million in this category were $37.5 million (0.9%) below estimate. Of the $358.2 million managed care payment made in October,

$304.3 million (85%) was paid with the encumbered FY 2008 funds. The final managed care payment for FY 2008 was made on July 1 with FY 2009 appropriations, allowing $304.3 million in FY 2008 appropriation (which would have been used for the managed care payment in FY 2008) to be encumbered into FY 2009. The Department of Job and Family Services was permitted to spend FY 2008 encumbrances for FY 2009 managed care payments under section 309.30.10 of H.B. 119.

** 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	October Actual	October Estimate	October Variance	October Percent Variance	Year to Date Actual thru Oct	Year to Date Estimate thru Oct	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$214,822	$209,916	$4,906	2.3%	$864,925	$856,640	$8,285	1.0%
ICFs/MR	$43,510	$45,152	-$1,642	-3.6%	$176,996	$182,227	-$5,231	-2.9%
Inpatient Hospitals	$72,785	$79,261	-$6,476	-8.2%	$348,296	$354,381	-$6,085	-1.7%
Outpatient Hospitals	$28,878	$29,329	-$451	-1.5%	$125,183	$124,341	$842	0.7%
Physicians	$25,860	$24,833	$1,027	4.1%	$110,911	$106,651	$4,260	4.0%
Prescription Drugs	$41,039	$42,244	-$1,205	-2.9%	$164,474	$167,491	-$3,017	-1.8%
ODJFS Waivers	$24,066	$25,975	-$1,909	-7.3%	$108,275	$115,074	-$6,799	-5.9%
MCP - CFC	$259,601	$258,621	$980	0.4%	$1,249,780	$1,259,620	-$9,840	-0.8%
MCP - ABD	$98,556	$101,219	-$2,663	-2.6%	$540,937	$548,640	-$7,703	-1.4%
Medicare Buy-In	$25,420	$26,071	-$651	-2.5%	$100,966	$103,805	-$2,839	-2.7%
All Other	$76,713	$80,420	-$3,707	-4.6%	$330,252	$342,052	-$11,800	-3.4%
DA Medical	$841	$889	-$48	-5.4%	$3,938	$4,233	-$295	-7.0%
Total Payments	$912,091	$923,930	-$11,839	-1.3%	$4,124,933	$4,165,155	-$40,222	-1.0%
Offsets								
Drug Rebates	-$8,369	-$8,155	-$214	2.6%	-$16,531	-$16,763	$232	-1.4%
Revenue and Collections	-$7,423	-$7,595	$172	-2.3%	-$15,122	-$15,539	$417	-2.7%
ICF/MR Franchise Fees	-$1,250	-$1,250	$0	0.0%	-$1,250	-$1,250	$0	0.0%
NF Franchise Fees	-$19,444	-$19,444	$0	0.0%	-$19,444	-$19,444	$0	0.0%
IMD/DSH Payments	$0	$0	$0	0.0%	$0	$0	$0	0.0%
MCP Assessments	-$20,000	-$20,000	$0	0.0%	-$40,000	-$40,000	$0	0.0%
Health Care Federal	-$91,982	-$92,384	$402	-0.4%	-$146,783	-$148,391	$1,608	-1.1%
Total Offsets	-$148,468	-$148,828	$360	-0.2%	-$239,130	-$241,387	$2,257	-0.9%
Total 600-525 (net of offsets)	$763,623	$775,102	-$11,479	-1.5%	$3,885,803	$3,923,768	-$37,965	-1.0%
Medicare Part D (600-526)	$20,788	$20,761	$27	0.1%	$83,029	$82,573	$456	0.6%
Total GRF	$784,411	$795,863	-$11,452	-1.4%	$3,968,832	$4,006,341	-$37,509	-0.9%
Total All Funds	$932,879	$944,691	-$11,812	-1.3%	$4,207,962	$4,247,728	-$39,766	-0.9%

Source: Ohio Department of Job & Family Services.

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded
ODJFS - Ohio Department of Job and Family Services
MCP - Managed Care Plan
CFC - Covered Families and Children
ABD - Aged, Blind, and Disabled
DA Medical - Disability Medical Assistance
NF - Nursing Facilities
IMD/DSH - Institutions for Mental Disease/Disproportionate Share

Issue Updates

Ohio Colleges and Universities Enroll Students under GI Promise

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

Ohio public colleges and universities have enrolled their first students under the new GI Promise announced by Governor Strickland in July 2008. Beginning this fall, the GI Promise guarantees in-state tuition rates at any Ohio public institution of higher education to all out-of-state veterans and dependents eligible for the federal GI Bill. The Board of Regents received information on enrollment in the program from 20 of the 38 institutions. Based on this information, at least 9 institutions have 19 students currently enrolled. Of these GI Promise enrollees, 11 are attending four-year institutions and 8 are attending two-year institutions.

In another effort to attract veterans to Ohio's higher education system, the Board of Regents will host a conference on November 12, 2008, to examine best practices for providing educational services to veterans and their families. Each institution's office of veterans services will participate along with representatives of the U.S. military, the National Guard, the Ohio Department of Veterans Services, and other local and regional veterans organizations. The conference will address Ohio's scholarship resources for veterans, services for veterans with service-related disabilities, and the transferability of military education for college credit.

Department of Education Provides Funds to Connect Schools to Internet2

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

Beginning this school year, the Ohio Department of Education (ODE) is funding access to the Internet2 Network for all schools connected to the public Internet through the Ohio Educational Computer Network (OECN). The annual cost of providing Internet2 to schools is $70,000, which will be funded from GRF appropriation item 200426, Ohio Educational Computer Network. This is in addition to the cost of broadband access to the public Internet funded by the same line item. Internet2 is a private, ultra-high speed network led by a consortium of more than 200 universities nationwide in partnership with 70 corporations, 45 government agencies, several laboratories and other institutions of higher learning, and over 50 international organizations. ODE anticipates that many schools will use the Internet2 connection for interactive videoconferencing through communities such as the K20 initiative, which connects K-12 schools with universities and colleges, libraries, museums, zoos, aquariums, and science centers. Approximately 1,100 public school districts, joint vocational school districts, community schools, and chartered nonpublic schools connect to OECN and, therefore, have access to Internet2.

Four Additional Community Schools Declared Unauditable for FY 2007

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

Since the last update of the list of unauditable community schools in the May 2008 issue of Budget Footnotes, the Auditor of State has found four additional community schools unauditable for FY 2007, bringing the total, as of October 15, 2008, to seven. The additional four schools and their sponsors are:

- Toledo Charter School Council (sponsor)
  - Eagle Heights Academy (Mahoning County)
- Ashe Culture Center, Inc. (sponsor)
  - Arts Academy (Lorain County)
  - Arts Academy West (Cuyahoga County)
  - Greater Achievement Community School (Cuyahoga County)

The Eagle Heights Academy was declared unauditable on August 15, 2008, and the Arts Academy and Arts Academy West were declared unauditable on August 19, 2008. According to the Auditor of State's office, all three of these schools failed to submit a corrective action plan within 45 days of being declared unauditable as required by H.B. 119. If any of the community schools fails to make reasonable efforts and continuing progress to bring its records into an auditable condition within 90 days of being declared unauditable, the Department of Education is required to cease all payments to the schools until a financial audit has been completed. The Greater Achievement Community School was declared unauditable on October 9, 2008, and has until November 23, 2008, to submit a corrective action plan to the Auditor's office.

Of the three community schools previously declared unauditable for FY 2007, only the Phoenix Village Academy remains on the unauditable list. The Montessori Renaissance Experience was removed from the unauditable list on May 15, 2008, after the Auditor of State's office released the FY 2007 audit of the school, and the Performing Arts School of Metropolitan Toledo closed at the end of FY 2007.

Motor Fuel Tax Refunds to Ohio School Districts Totaled $1.3 Million in FY 2008

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

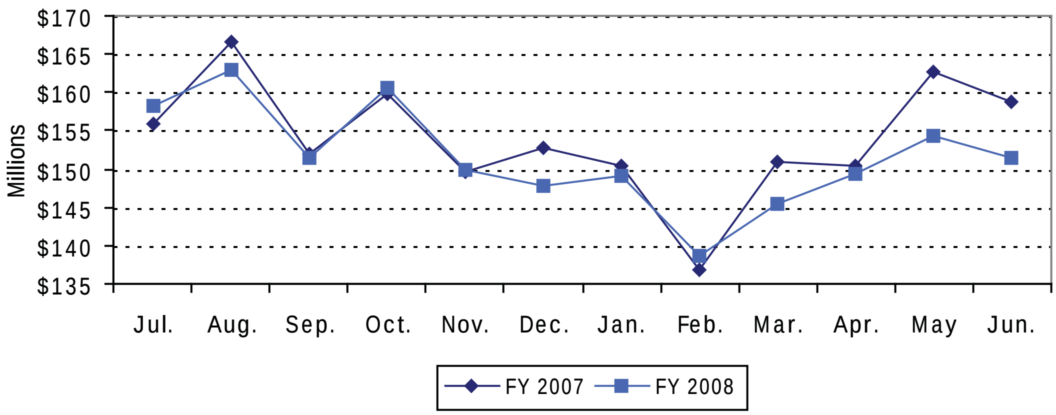
The Department of Taxation reports that 420 school districts received motor fuel tax refunds of $1.34 million during FY 2008. The state's motor fuel tax rate is currently 28 cents per gallon of gasoline, diesel fuel, and special fuels sold in Ohio; school districts are eligible for refunds on 6 cents per gallon. The tax rate most recently increased on July 1, 2005, the last of three increases totaling 6 cents per gallon enacted in H.B. 87 of the 125th General Assembly. However, H.B. 87 permitted a refund of this tax increase on motor fuel purchased by school districts to transport students. School districts apply to the Department of Taxation for this refund. H.B. 95 of the 125th General Assembly extended the authority to apply for these refunds to joint vocational school districts and to educational service centers, and permitted school districts to apply for the refunds on all motor fuel purchased for school district or service center operations.

Motor Fuel Consumption Fell in FY 2008, Causing Gas Tax Revenue to Decline by $27.7 million

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

State motor fuel tax (MFT) receipts in FY 2008 amounted to $1.82 billion, a decline of $27.7 million or 1.5% from FY 2007 receipts. As the chart below shows, the decline was especially pronounced in the last two months of FY 2008.

Net Motor Fuel Tax Collected, FY 2007-FY 2008



From December 2007 to June 2008, the average retail price of a gallon of gasoline (including all grades and formulations) in Ohio rose from $3.03 to $4.03, according to the U.S. Department of Energy. Higher motor fuel prices led to lower motor fuel consumption. The motor fuel tax is levied on the volume of fuel purchased, unlike a sales tax that is levied on the value of a product. So, when fuel consumption decreased, so did revenues. Federal traffic volume data indicate that the total miles driven in Ohio in FY 2008 decreased by 970 million miles, or 0.9%, compared to FY 2007. This drop in vehicle miles traveled was accompanied by a decline in the quantity of motor fuel taxed, which fell nearly 100 million gallons, or 1.5%, to the lowest total since FY 2002.

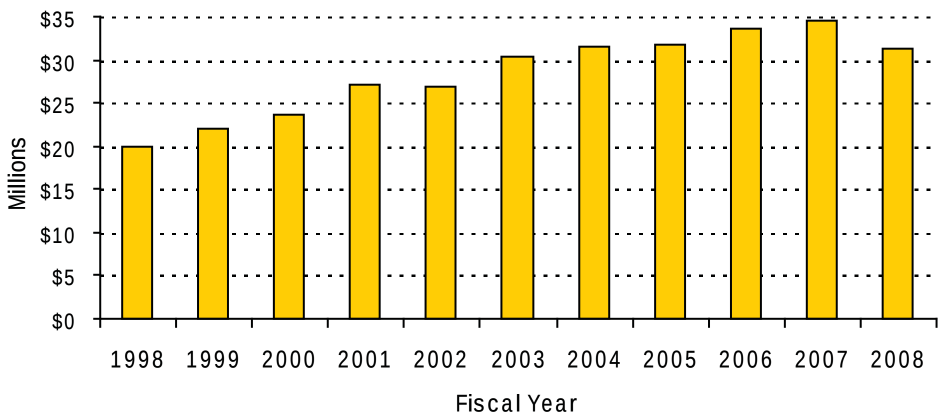
Revenue from the 28¢ per gallon state motor fuel tax, for both gasoline and diesel, is paid by wholesalers and refiners on fuel shipped to retailers. The revenue is distributed to various state agencies and local governments as specified by a statutory formula. The Ohio Department of Transportation's Highway Operating Fund, which finances road and bridge construction and maintenance, receives the majority of MFT revenue (60%) while local governments receive approximately 25%. The balance (15%) is used primarily to retire highway bond debt and provide additional funding to local governments for road and bridge projects through the Public Works Commission's Local Transportation Improvement Program.

State Spending on Outside Counsel Contracts Declined in FY 2008

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

In FY 2008, state spending on outside counsel appointed by the Attorney General totaled $31.2 million, a decrease of $3.3 million (9.5%) from FY 2007. As shown in the chart below, except for a small (about $300,000) decrease in FY 2002, state spending on outside counsel contracts increased annually through FY 2007, and rose from $19.8 million in FY 1998 to $31.2 million in FY 2008, an increase of $11.4 million (57.3%). Outside counsel contracts are negotiated jointly between the Office of the Attorney General and the state entity for which the legal services are being secured. The latter is responsible for paying the outside counsel's contract.

State Spending on Outside Counsel, FY 1998-FY 2008



Prison System Implements Pilot Program Testing for Sexually Transmitted Diseases

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

As required by H.B. 119, the Department of Rehabilitation and Correction (DRC) has developed and implemented a pilot program at the Mansfield Correctional Institution under which prisoners, prior to release from custody, are tested for HIV infection and other sexually transmitted diseases (STDs). DRC's preliminary review of the data from the pilot program suggests that, of the approximately 400 prisoners tested prior to their release in FY 2008, none appear to have contracted HIV during their time in prison, and very few appear to have contracted other STDs while incarcerated. The Mansfield Correctional Institution currently houses around 2,500 male prisoners and releases approximately 700 prisoners annually.

DRC is using three contractors to implement the pilot program. A medical doctor, Herbert R. Estis, is under contract to provide on-site examination, testing, and counseling of prisoners prior to their release from confinement. The Laboratory Corporation of America, located in Dublin, Ohio, was hired to collect and analyze test samples collected from those offenders. DRC is also partnering with Ohio State's Center for Health Outcomes, Policy, and Evaluation Studies (HOPES) to analyze STDs and related behavior of the population of prisoners released from the Mansfield Correctional Institution over a two-year period. The table below summarizes DRC's contract expenditures for the pilot program from December 2007 through September 2008.

Reentry Testing Pilot Program	
Contractor	**Expenditure Amount**
HOPES	$31,902
Herbert R. Estis	$64,167
Laboratory Corporation of America	$20,929
Total	**$116,998**

Treatment Services Funds Disbursed for Therapeutic Community Programs

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

The Ohio Department of Alcohol and Drug Addiction Services (ODADAS) disbursed $1.2 million in FY 2008 for nine therapeutic community programs serving 1,171 participants. The table below details dollars allocated to these programs in FY 2008. Prior to FY 2004, ODADAS funded three therapeutic community programs from GRF line item 038401, Treatment Services. In FY 2004, the General Assembly began earmarking additional dollars in that same line item for therapeutic community program expansion. The 'Original Programs' column in the table shows dollars provided in FY 2008 for the original three therapeutic community programs. The 'Program Expansions' column shows dollars disbursed in FY 2008 out of the $750,000 in earmarked funds in H.B. 119 for therapeutic community expansion.

The goal of a therapeutic community program is to help offenders abstain from alcohol and other drugs and eliminate antisocial behaviors. The clients in the program form a community that is a microcosm of the outside community. Counseling and peer support in the client community serves as a catalyst for changing the offender's behavior. In addition, therapeutic community programs provide a continuum of services by connecting clients who are reentering society to support systems for assistance in dealing with transitional issues such as employment, sobriety, family, and physical and mental health treatment.

FY 2008 Therapeutic Communities Funding by Program				
Program	**County**	**Provider**	**Original Programs**	**Program Expansions**
Tapestry	Union	CompDrug Corporation	$380,000	$50,000
Green Leaf	Greene	Green Leaf	$50,000	$7,237
Reception Center Coordination	Lucas	Lucas County TASC	$65,000	$0
Men's Therapeutic Community	Franklin	Columbus Area, Inc.	--	$200,000
OASIS (Staff Salaries)	Pickaway	Dept. of Rehabilitation & Correction	--	$171,169
CATS Community Expansion	Cuyahoga	Community Assessment & Treatment	--	$127,765
Bell Center Re-Entry IPP*	Franklin	Columbus Area, Inc.	--	$70,000
CATS	Cuyahoga	Community Assessment & Treatment	--	$68,868
Bell Center IPP*	Franklin	Columbus Area, Inc.	--	$13,235
Total			**$495,000**	**$708,274**

*IPP – Intensive Program Prison

Tracking the Economy

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

Overview

The credit crisis in interbank markets appears to have eased, at least for the moment, in response to massive injections of funds into banking systems by central banks and treasuries here and abroad. Economic indicators, however, show a steepening downturn in activity as uncertainty and deteriorating confidence along with tightened credit availability to businesses and households have taken a toll. Interest rates on tax-exempt securities remain elevated. Policy officials' aggressive responses to the crisis have allayed fears of a financial meltdown, but willingness to lend among financial institutions remains restrained by uncertainties about risks involved in these transactions.

Recession indicators proliferated as employment, production, and sales fell nationwide in October.

Employment on nonfarm payrolls nationwide fell 240,000, seasonally adjusted, in October to 1.2 million (0.9%) lower than the peak at the end of last year, and the unemployment rate rose to 6.5%, the highest level since 1994. In Ohio, employment fell again in September to 47,200 (0.9%) below the recent peak in 2006 and 235,300 (4.2%) below the all-time peak in 2000. Ohio's unemployment rate, at 7.2% in September, down from 7.4% in August, has been at its highest levels since 1992. Nationwide, manufacturing production slowed abruptly in October as did dealer sales of motor vehicles and sales at large retailers. Widespread adverse repercussions from credit stringency and from uncertainty about the economic future, for various industries in the United States and elsewhere, are also indicated by falling commodity prices as well as by anecdotal reports. However, the housing sector in the U.S. and Ohio is showing some tentative signs of a bottoming out in sales, though the deteriorating economy may renew downward pressure on this sector.

On October 29, the Federal Reserve lowered its target policy rate on federal funds to 1%, equaling the lowest level for this policy target during the previous business cycle, in 2003 and 2004. In its statement announcing the reduction, the Federal Reserve noted the slowing in U.S. economic activity, slowing in many foreign economies dampening U.S. export prospects, and financial market turmoil. The announcement anticipated likely moderation of inflation as a result of weaker economic activity and in light of declines in energy and other commodity prices.

Lenders have continued to tighten credit standards and terms on loans to businesses and consumers.

An October survey of bank loan officers by the Federal Reserve indicated that, compared with three months earlier, banks continued to tighten their lending standards and terms on loans to businesses and households. The loan officers reported that demand for loans, from both businesses and households, continued to weaken. Banks reduced credit limits on credit card accounts of both prime and nonprime borrowers, responding to the economic outlook and lower customer credit scores as well as a reduced tolerance for risk.

The International Monetary Fund's *World Economic Outlook*, published November 6, projects declining output for advanced economies as a group in 2009, by 0.3%, the first such decline in the post-World War II period.[1] The IMF expects U.S. output to fall 0.7%. It predicts that emerging economies as a group will continue to grow but more slowly than in recent years. Growth of world output, combining advanced and emerging economies, is expected to slow to 2.2% next year from 3.7% this year and 5.0% in 2007.

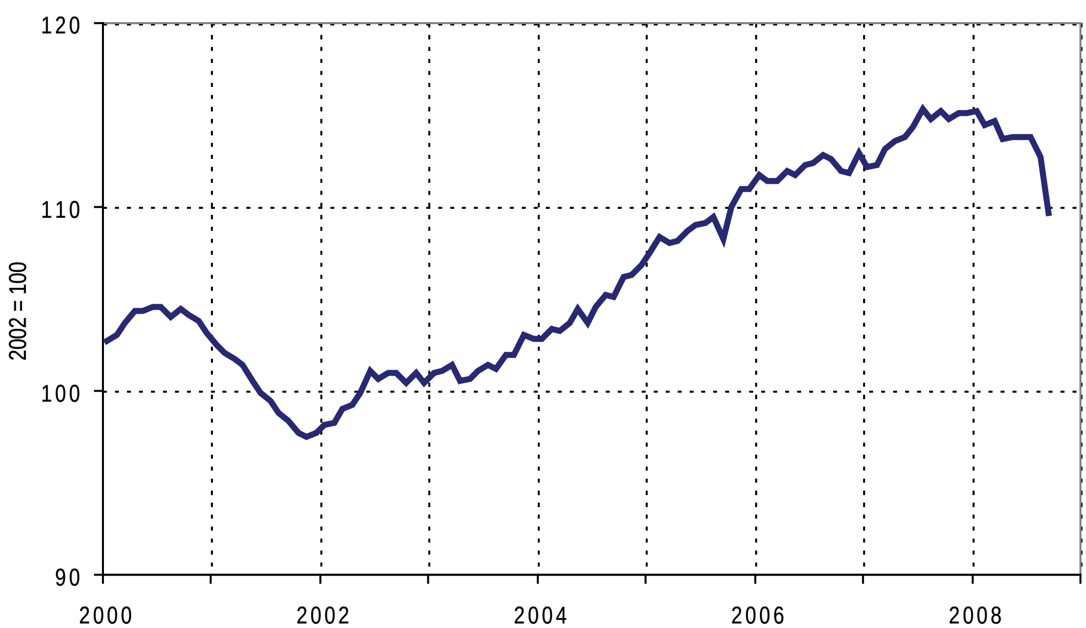
The National Economy

Gross domestic product, the broadest measure of the nation's output, fell in the July-September quarter at a 0.3% annual rate (in inflation-adjusted terms). Consumer spending declined at a 3.1% annual rate, the first drop in total consumer spending since 1991. Residential fixed investment fell again for the eleventh consecutive quarter, and business fixed investment also declined. Government spending and exports of goods and services continued to grow.

Production

Industrial production fell 2.8% in September, at least in part as a result of the adverse impact on output of hurricanes Gustav and Ike, and of a strike at Boeing which continued through October but has now been settled. As shown in Chart 1, manufacturing production, which accounts for the largest share of total industrial production, fell 2.6% in September to 4.7% below the level for this index at the end of last year, and 4.9% below the peak in July 2007. Declines in the past year have been widespread among industries but particularly sizable in output of automotive products and of appliances, furniture, and carpeting. Production of information processing equipment and home electronics continued to grow.

Chart 1: Manufacturing Production Index



[1] An annual index of real GDP in advanced economies barely grew, but did not decline, in 1982.

In October, a further sharp drop evidently occurred in manufacturing output. The Institute for Supply Management's monthly survey of purchasing executives at manufacturers showed widespread declines in production, new orders, and order backlogs, along with cutbacks in factory employment and reductions in prices paid. The report indicated that declines in new orders were the most widespread among survey respondents since 1980. Export orders fell for the first time in nearly six years. A comparable survey of purchasing executives at organizations other than manufacturers also indicated contraction in business activity at those organizations in October.

Shipments of manufacturers fell 2.8% in September following a 3.7% decline in August. Manufacturers' new orders decreased 2.5% in September after falling 4.3% in August. The September drop in shipments and new orders reflected in part the adverse impact on Gulf Coast refineries of Hurricane Ike. Factory unfilled orders increased 0.4%, to 12% above a year earlier, and have risen in 31 of the most recent 32 months. Nondefense aircraft and parts account for 62% of the rise in total unfilled orders of manufacturers since September 2007.

Employment and Unemployment

Employment on nonfarm payrolls fell 240,000 in October, and 651,000 in the most recent three months including downward revisions. Since the end of 2007, payroll employment has declined 1.2 million. Declines last month were widespread among manufacturing industries but were largest at durable goods makers, partly as a result of the strike at Boeing. Employment in construction fell again last month, and has declined 663,000 since its peak about two years ago. The number of jobs also fell in numerous service-sector industries. Exceptions, where employment rose, included health care and government, particularly local government employment in education. The number of people counted as unemployed in October rose 603,000 to 10.1 million, higher than a year earlier by about 2.8 million. Out of the total number unemployed, 2.3 million had been out of work for 27 weeks or more, 0.9 million more long-term unemployed than a year earlier.

Consumer Spending

Retail sales nationwide declined 1.2% in September, in seasonally adjusted dollars, to 1.0% below a year earlier. Motor vehicle dealer sales fell 4.2% in September. Declines were widespread among other categories of stores selling predominantly durable goods as well as among nondurables retailers. Total retail sales also fell in August, by 0.4%, as sales slowed at furniture, appliance, and building materials stores, at department stores and other general merchandise retailers, and at gasoline stations reflecting lower fuel prices.

Motor vehicle unit sales slowed sharply in October. At a seasonally adjusted annual rate of 10.5 million units, total light vehicle sales in October were the weakest since February 1983. Light truck sales were slower than in any month since 1993. Car sales, at a 5.6 million unit annual rate, were lowest in more than 40 years (as indicated by a U.S. Bureau of Economic Analysis series that starts in 1967).

Sales at retail chains that report monthly results were 0.9% lower, measured in dollars, in October than a year earlier at stores open in both periods, the International

The credit crisis in interbank markets appears to have eased in response to massive official intervention.

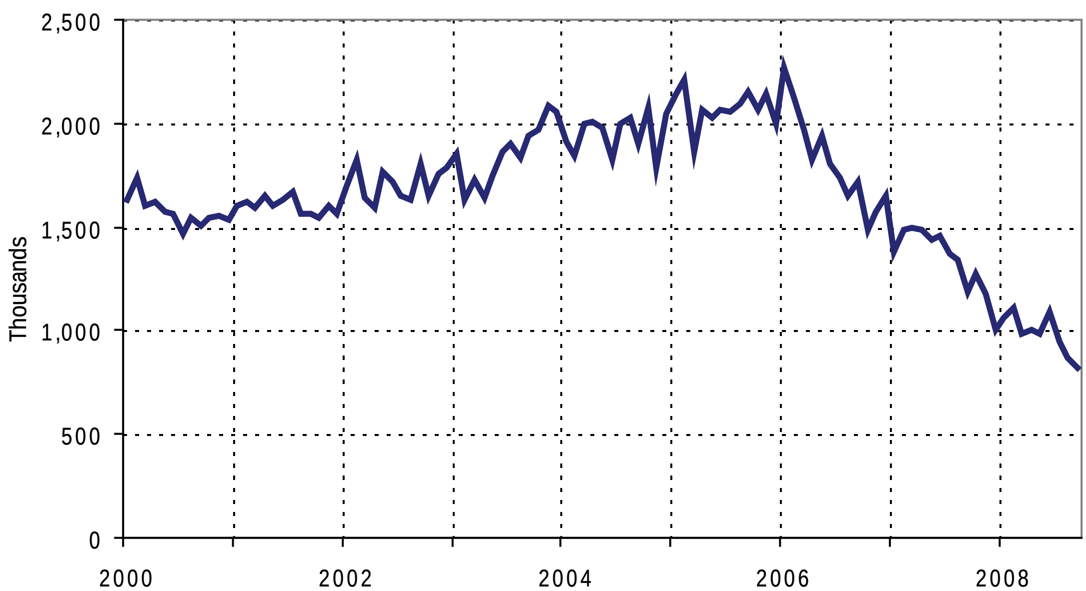
Council of Shopping Centers reported. This weak performance does not bode well for the holiday shopping season.

Consumer credit outstanding grew more slowly in the third quarter and fell in August, seasonally adjusted, the first monthly decline in loans outstanding to consumers since 1998. The growth rate for the third quarter slowed to a 1.3% annual rate from 4.7% in the first half and 5.0% on average in the previous five years. This series includes auto loans, credit cards, and other types of secured and unsecured consumer credit, but excludes loans secured by real estate. Availability of consumer credit greatly facilitates consumer spending for big-ticket items as well as day-to-day purchases.

Housing Markets and Construction Spending

Housing starts nationwide fell again in September, by 6% to 31% lower than a year earlier. The number of housing units on which construction was begun each month has been declining, seasonally adjusted, since early 2006, and is down by 64% during this period, as shown in Chart 2. The weakness has been concentrated this year in starts of single-family homes, which in the first nine months of 2008 were 40% lower than a year earlier. Housing starts in buildings with five units or more were 10% higher during January through September than a year earlier.

Chart 2: Housing Starts
Seasonally Adjusted Annual Rate



Sales of new homes rose 2.7%, seasonally adjusted, in September but were 33% lower than a year earlier. New home sales in the first 9 months of 2008 were 36% below the year-earlier pace. Builders' inventories of homes under construction have been reduced by nearly half since spring 2006, but inventories of completed homes remain heavy. The nationwide average sales price of a new home in September, at $275,500, had fallen 16% from the peak in March 2007.

Sales through real estate brokers, generally previously owned homes, also rose in September, increasing 5.5% seasonally adjusted. The National Association of Realtors said in its monthly report that unit sales in September were 1.4% higher than a year earlier, the first year-over-year increase since November 2005. Foreclosures or other distressed sales were said to account for 35% to 40% of transactions. The number of homes listed for sale declined in the latest two months but was still large, equivalent to nearly ten months of sales. Sales prices on average were 9% below a year earlier.

Construction spending declined 0.3% in September, seasonally adjusted, to 6.6% below a year earlier. For the first nine months of 2008, the value of construction put in place was 6.2% lower than a year earlier, as private residential construction spending fell 29% but private nonresidential building rose 17% and public construction rose 7%.

Inflation

The consumer price index was unchanged in September, but was 4.9% higher than a year earlier. Prices paid by consumers for energy were 23% above a year earlier but fell in the most recent two months, as gasoline and household energy prices declined. Food prices in September were 6.2% higher than a year ago, and continued to rise in recent months. Excluding food and energy, the consumer price index increased 0.1% in September to 2.5% higher than a year earlier.

Based on the rise in the consumer price index, the Social Security Administration announced a 5.8% increase in benefits, starting in January 2009, the largest yearly adjustment since 1982. Social Security benefits are increased annually as an offset to the adverse effects of inflation on purchasing power.

The average prices of regular gasoline fell nearly in half from last summer's peak. In Ohio, prices declined from $4.054 per gallon on July 14 to $2.087 on November 3, in the U.S. Energy Information Administration's weekly survey. This drop in prices at the pump chiefly reflects the plunge in crude oil prices, from nearly $150 per barrel for the U.S. benchmark grade in early July to under $75 per barrel recently.

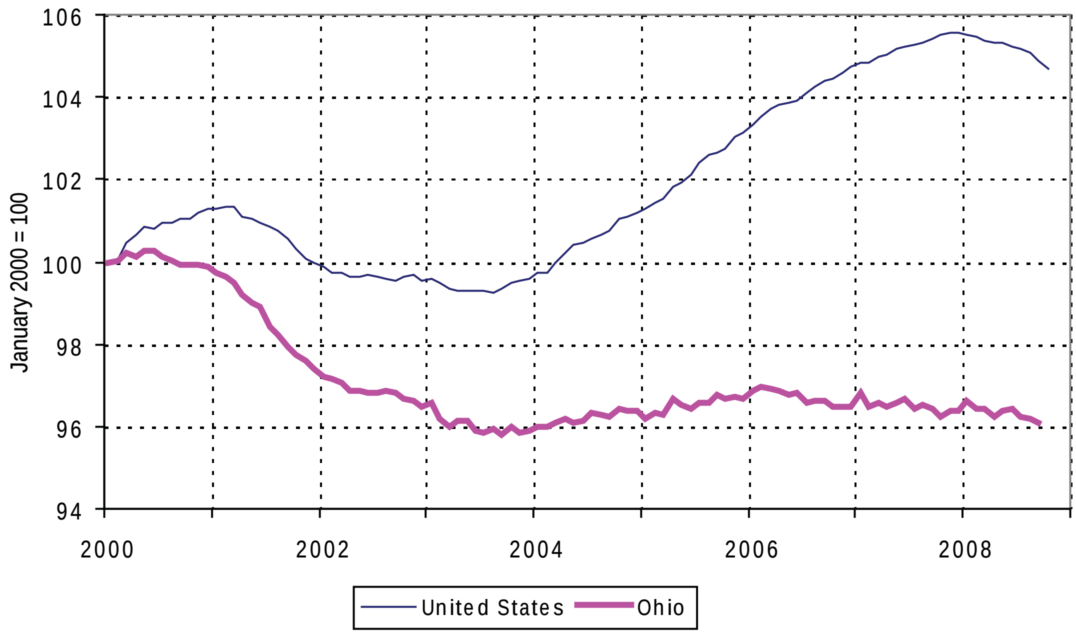
The producer price index for finished goods fell 0.4% in September to 8.7% above a year earlier. This measure of prices fell in August also; declines in the latest two months mainly reflect lower energy prices. Intermediate materials, supplies, and components prices rose more slowly, on average, in the third quarter, also chiefly reflecting a drop in energy prices. At the crude materials level, prices fell not only for energy but also for food and feed and for other crude materials.

Ohio employment fell in September and unemployment remained elevated.

The Ohio Economy

Employment on nonfarm payrolls in Ohio, totaling about 5.4 million, fell 3,400 in September, seasonally adjusted. Index numbers shown in Chart 3 are based on nonfarm payroll employment for Ohio through September, and for the United States through October. Ohio nonagricultural payroll employment in September was 17,500 lower than a year earlier, and had declined 47,200 or 0.9% from the recent peak in February 2006. Employment reductions in the latest year were concentrated in goods-producing industries, predominantly in manufacturing and also in construction. Job cuts in the past year were made in parts of the service sector including trade, transportation, and utilities; government; and finance. Employment rose in the latest year in education and health services and in leisure and hospitality industries. Unemployment in September statewide totaled 434,000, or 7.2% of the labor force, and was 93,000 higher than a year earlier.

Chart 3: Nonfarm Payroll Employment
Seasonally Adjusted



Economic activity weakened in Ohio and parts of nearby states, according to the Cleveland Federal Reserve Bank's contribution to the latest Beige Book, a compilation of reports from business and other contacts. The most recent report is based on information gathered on or prior to October 6; Cleveland's section covers all of Ohio and adjacent portions of Kentucky, Pennsylvania, and West Virginia. Weakening in economic activity also was noted in the Cleveland Federal Reserve Bank's previous report in early September. Factory output in this area was stable to lower in recent weeks. Demand for freight services declined. Retail sales were flat to declining, with auto sales down sharply. Residential construction was very slow, and builders do not expect improvement through 2009. Commercial builders said business has been stable, with relatively strong backlogs, and with financing more restrictive but available. Employment declined slightly. Auto dealers cut sales and support staffs. Job openings through staffing firms increased mainly for health care and professional business services.

The number of homes sold in Ohio in September was 3.5% higher than a year earlier, the first year-to-year monthly increase since early 2007, the Ohio Association of Realtors reported. However, year-to-date unit sales through September were still 14% lower than the year-earlier level, and selling prices averaged 7% lower. The number of units sold and average prices fell in Ohio in 2007 and 2006, after rising to all-time highs in 2005.

Economic Forecast Update

Deterioration in the economic outlook is evident in the attached table. The data show a less favorable outlook for both the nation and the state for FY 2009 than at the time the budget for this year was being enacted. Projections shown are those of forecasting firm Global Insight, which in the November forecast shown for the nation expects declining total economic activity through the second quarter of calendar year 2009, followed by an upturn. The Ohio forecast is based on Global Insight's October national outlook which showed a shorter and shallow recession than is now anticipated.

Revisions to Global Insight Economic Forecast (selected variables, state fiscal year basis)		
	FY 2009	
Variable Name (national)	Forecast for Budget	November 2008 Forecast
U.S. real GDP growth	3.2%	-0.4%
U.S. personal income growth	5.6%	3.1%
U.S. CPI inflation	1.9%	1.6%
U.S. unemployment rate	4.8%	6.8%
Variable Name (OH)	Forecast for Budget	October 2008 Forecast
Ohio real GDP growth	2.5%	0.0%
Ohio personal income growth	4.6%	3.2%
Ohio wage disbursements growth	3.8%	2.5%
Ohio unemployment rate	5.4%	7.7%