Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission

October 2008

Status of the GRF

Highlights

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

September GRF tax revenues came within 0.1% of the estimates issued by the Office of Budget and Management in July, prior to the revisions released the week of October 6. This was surprising since revenues for July and August fell well short of those estimates – 6.0% short year-to-date as of August 31. Moreover, recent news about the national economy has been very negative.

The relatively healthy revenue for the month brought first quarter state-source revenues up to 1.9% below the first quarter of FY 2008. At the end of August year-to-date revenues were 5.1% below the corresponding FY 2008 period. Personal income tax receipts were particularly strong in September, coming in 9.3% above September 2007. Future editions of *Budget Footnotes* will make comparisons to the revised estimates released this week.

Through September 2008, total GRF sources were $5,979.4 million:

- Tax revenues were $25.3 million (0.6%) below FY 2008 receipts as of September 30, 2007.
  - Revenue from the personal income tax was below last year's figure by $22.2 million (1.1%).
  - Revenue from the sales and use tax was above last year by $12.7 million (0.7%).
- State-source receipts, 98% of which were made up by tax revenues, were below last year by $83.3 million (1.9%).

Through September 2008, GRF uses totaled $8,088.6 million:

- GRF program expenditures amounted to $7,698.7 million, $796.3 million (11.5%) above FY 2008, largely due to the delay of the final FY 2008 Medicaid payment ($434 million) to July 1, 2008.

Volume 32, Number 2

STATUS OF THE GRF

Highlights....1
Revenues....4
Expenditures....10

ISSUE UPDATES

Senior Community Services....13
Workforce Investment Act Rescission....13
Video Service Franchises....14
Highway Patrol Funding....15
CSU Speed to Scale....15
Public Television Grants....16
Guaranteed Savings Plan....17

TRACKING THE ECONOMY

National Economy....19
Ohio Economy....25

Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215
Telephone: (614)466-3615

Table 1: General Revenue Fund Sources
Preliminary Actual vs. Year Earlier
Month of September 2008
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 6, 2008)

	Actual	FY 2008*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$85,132	$72,474	$12,659	17.5%
Nonauto Sales and Use	$509,368	$504,279	$5,090	1.0%
Total Sales and Use Taxes	$594,500	$576,753	$17,747	3.1%
Personal Income	$920,481	$842,333	$78,149	9.3%
Corporate Franchise	$2,380	-$2,731	$5,112	-187.2%
Public Utility	$90	$4	$86	2096.8%
Kilowatt Hour Excise	$14,908	$32,942	-$18,034	-54.7%
Commercial Activity Tax*	$0	$0	$0	---
Foreign Insurance	$4,392	$5,344	-$952	---
Domestic Insurance	-$214	$153	-$367	-239.3%
Business and Property	$0	-$66	$66	-100.1%
Cigarette	$85,317	$81,692	$3,625	4.4%
Alcoholic Beverage	$4,434	$5,043	-$608	-12.1%
Liquor Gallonage	$3,097	$3,018	$79	2.6%
Estate	$3,586	$3,291	$295	9.0%
Total Tax Revenue	$1,632,973	$1,547,776	$85,197	5.5%
NONTAX REVENUE				
Earnings on Investments	$107	$45,106	-$44,999	-99.8%
Licenses and Fees	$1,415	$978	$437	44.7%
Other Revenue	$6,897	$4,078	$2,818	69.1%
Total Nontax Revenue	$8,418	$50,162	-$41,744	-83.2%
TRANSFERS				
Liquor Transfers	$0	$13,000	-$13,000	-100.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$29,616	$284	$29,332	10318.0%
Total Transfers In	$29,616	$13,284	$16,332	122.9%
TOTAL STATE SOURCES	$1,671,007	$1,611,222	$59,784	3.7%
Federal Grants	$258,646	$473,425	-$214,780	-45.4%
TOTAL GRF SOURCES	$1,929,653	$2,084,648	-$154,994	-7.4%

* September 2007.

**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. Year Earlier
FY 2009 as of September 30, 2008
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 6, 2008)

	Actual	FY 2008*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$260,224	$248,459	$11,766	4.7%
Nonauto Sales and Use	$1,658,203	$1,657,232	$972	0.1%
Total Sales and Use Taxes	$1,918,427	$1,905,691	$12,736	0.7%
Personal Income	$2,007,508	$2,029,677	-$22,169	-1.1%
Corporate Franchise	$32,133	-$9,380	$41,513	-442.7%
Public Utility	$47,477	$41,646	$5,831	14.0%
Kilowatt Hour Excise	$37,550	$94,386	-$56,836	-60.2%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$4,295	$5,360	-$1,066	---
Domestic Insurance	-$772	$194	-$966	-497.1%
Business and Property	$246	$216	$31	14.2%
Cigarette	$189,678	$194,823	-$5,144	-2.6%
Alcoholic Beverage	$14,955	$15,630	-$675	-4.3%
Liquor Gallonage	$9,166	$8,957	$210	2.3%
Estate	$4,668	$3,451	$1,217	35.3%
Total Tax Revenue	$4,265,333	$4,290,650	-$25,317	-0.6%
NONTAX REVENUE				
Earnings on Investments	$228	$45,217	-$44,989	-99.5%
Licenses and Fees	$13,866	$14,154	-$287	-2.0%
Other Revenue	$17,242	$11,949	$5,293	44.3%
Total Nontax Revenue	$31,336	$71,319	-$39,983	-56.1%
TRANSFERS				
Liquor Transfers	$15,000	$52,000	-$37,000	-71.2%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$34,681	$15,670	$19,011	121.3%
Total Transfers In	$49,681	$67,670	-$17,989	-26.6%
TOTAL STATE SOURCES	$4,346,350	$4,429,639	-$83,289	-1.9%
Federal Grants	$1,633,045	$1,549,144	$83,900	5.4%
TOTAL GRF SOURCES	$5,979,395	$5,978,783	$612	0.0%

* July through September 2007.

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

September total tax revenues up 5.5% compared to September 2007 tax revenues.

FY 2009 first-quarter state-source receipts down 1.9% compared to FY 2008

September personal income tax revenue up 9.3%, but first-quarter receipts below receipts in FY 2008.

Revenues

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

Overview

For the month of September 2008, total GRF sources were $1,929.7 million (Table 1). State-source receipts were $1,671.0 million, while federal grants[1] were $258.6 million. Total GRF sources were $155.0 million (7.4%) below the level of September 2007, primarily due to a decline of $214.8 million (45.4%) in federal grants. State-source receipts were up $59.8 million (3.7%) due to higher tax revenues ($85.2 million, 5.5%) in September 2008 than in September 2007.

First-quarter GRF sources were $5,979.4 million, about the same amount as first-quarter GRF sources in FY 2008 (Table 2). State-source receipts totaled $4,346.4 million and federal grants totaled $1,633.0 million. Compared to FY 2008, year-to-date state-source receipts were down by $83.3 million (1.9%), mostly from declines in nontax revenues and transfers. Federal grants were up by $83.9 million (5.4%), from higher spending in the state's Public Assistance and Medicaid programs.

Total tax revenues in the first quarter of FY 2009 were $4,265.3 million, down by $25.3 million (0.6%) when compared to FY 2008 tax revenues. Nontax revenues and transfers in of $81.0 million were $58.0 million (41.7%) below revenues in those categories in FY 2008. Nontax revenues of $31.3 million decreased $40.0 million (56.1%) due to a change in the timing of the recording of earnings on investments by the Office of Budget and Management.[2] Transfers in declined $18.0 million (26.6%). The Office of Budget and Management reduced estimated FY 2009 tax revenues by $540.7 million on September 10, 2008. The new estimates will be reflected in future editions of *Budget Footnotes*.

Personal Income Tax

The GRF received $920.5 million from the personal income tax in September 2008. This amount was $78.1 million (9.3%) above September 2007 receipts. After dismal performances in both July and August, September revenue reduced to $22.2 million the year-to-date negative variance of FY 2009 over FY 2008 in personal income tax revenue, which stood at $101.6 million at the end of August 2008. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government funds. Gross collections are the sum of withholding, quarterly estimated payments,[3] trust payments, payments associated with annual returns, and

---

[1] Federal grants are federal reimbursements for programs such as Medicaid and Temporary Assistance for Needy Families (TANF). The amount received depends on expenditures for human services programs that require federal participation. Any changes in state spending in these areas will change receipts from federal grants.

[2] Earnings on investments will be distributed quarterly the month after a quarter closes, except in the last quarter of the fiscal year. In FY 2009, earnings will be in October 2008, January 2009, April 2009, and June 2009. Previously, earnings on investments were distributed every month.

[3] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the

miscellaneous payments. The table below summarizes FY 2009 year-to-date income tax revenue variances and annual changes by components. Employer withholding was down 3.7% in the first quarter when compared to FY 2008. After taking into account the reduction in tax rates from H.B. 66, employer withholding growth, at 2.6% for June through September,[4] compared with the corresponding four months of 2007, has been tepid.

FY 2009 Year-to-Date Income Tax Revenue Variances and Changes by Component		
Category	Changes from FY 2008	
	Amount ($ in millions)	Percentage (%)
Withholding	-$70.9	-3.7%
Quarterly Estimated Payments	-$2.7	-0.7%
Trust Payments	$0.4	0.4%
Annual Return Payments	$12.4	33.7%
Miscellaneous Payments	-$3.1	-18.1%
Gross Collections	**-$64.2**	**-2.7%**
Less Refunds	$18.4	17.6%
Less Local Government Fund	$23.8	11.8%
Income Tax Revenue	**-$22.1**	**-1.1%**

Sales and Use Tax

First-quarter sales and use tax receipts indicate little growth over the same point a year ago.

Poor general economic conditions restrained spending on taxable items in the first quarter of FY 2009. September receipts, however, were an improvement over receipts in the previous two months. Through August, FY 2009 GRF receipts were $5.0 million (0.4%) below FY 2008 receipts. September receipts of $594.5 million were $17.7 million (3.1%) above September 2007 receipts, reversing the negative variance accumulated through August. Through September, FY 2009 total GRF sales and use tax revenues of $1,918.4 million were $12.7 million (0.7%) above FY 2008 receipts for the corresponding period.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[5] arise from the sale of motor vehicles. Nonauto sales and use tax collections arise from other sales. Taxes arising from auto

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.

[4] A Department of Taxation official reports that certain adjustment issues mean that comparisons from June to July can be misleading. The official suggests including June in year-over-year comparisons involving the month of July.

[5] 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.

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 has been mediocre in the first quarter of FY 2009. September 2008 GRF receipts of $509.4 million were $5.1 million (1.0%) above September 2007 receipts, reversing the negative year-to-date variance, which was $4.1 million at the end of August.

FY 2009 first-quarter GRF receipts of $1,658.2 million were a paltry $1.0 million (0.1%) above receipts in FY 2008, suggesting little growth in the taxable base. Consumers spent a higher share of their income on food, gasoline, and healthcare that are not taxable under the sales tax. Spending supported by the housing industry and mortgage equity withdrawals has essentially vanished. Spending on taxable consumer durables, "big ticket" items such as appliances and furniture, has slowed considerably. Declines in equity withdrawals curtailed spending on housing-related remodeling and expenditures. Consumer fundamentals (primarily employment, unemployment, wage growth, and income gains),[6] which determine nonauto sales and use tax receipts, have deteriorated. Growth in real consumer spending in the July-September quarter is expected to be negative for the first time in several years.[7] Any meaningful support to nonauto sales tax receipts from the tax rebates of the spring and summer months probably has ended. Retailers' reliance on credit card promotions, deferred payment plans, and other financing strategies is being severely tested by the credit crunch. Increasing job losses and the financial crisis in recent weeks most likely will amplify the weakness in consumer spending, which may lead to lackluster nonauto sales and use tax receipts in the coming months.

Auto Sales and Use Tax

September 2008 GRF receipts of $85.1 million were $12.7 million (17.5%) above receipts in September 2007. Through September, FY 2009 first-quarter receipts of $260.2 million were $11.8 million (4.7%) above receipts in FY 2008. The surprisingly strong performance of the tax in the first quarter was due, in part, to relatively poor sales in the first quarter of FY 2008 and the virtual disappearance of auto leases. Financial subsidiaries of automakers and lending institutions have suspended or severely reduced vehicle leasing in the last two months. The auto sales tax, which does not receive revenues from leases, may have benefited from the reduced share of auto leasing in total vehicle sales.

Although not fully reflected in auto sales and use tax receipts in Ohio in September, after a faltering economy and high gas prices slowed sales early this year, the virtual lockdown of credit sank nationwide auto sales to an annual rate of 12.5 million units, the lowest pace since January 1992. Although gasoline prices have receded of late,

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

[7] The *Wall Street Journal*, on October 9, 2008, reported that an analysis of credit card transactions by MasterCard Advisors indicated that shoppers spent less in each spending category in September than they did a year earlier (page A2).

they are still weighing on light truck sales. Nationwide, sales of light vehicles (autos and light trucks) through September of FY 2009 were 18.2% below unit sales during the corresponding months of FY 2008. Sales of autos and light trucks declined about 9% and 26%, respectively. Therefore, the drag on the auto tax base from high gasoline prices and current economic conditions may continue in the next few months, if the consumer retrenchment persists.

Corporate Franchise Tax

GRF receipts from the corporate franchise tax were $2.4 million in September 2008. Last year in the same month, net refunds to taxpayers were $2.7 million. FY 2009 first-quarter receipts from this tax source were $32.1 million. In FY 2008, net refunds to taxpayers were $9.4 million in the first quarter. The Office of Budget and Management reports that this year-over-year growth is almost entirely due to a large settlement payment in July. Activities under this tax through December 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 Am. Sub. H.B. 66, the corporate franchise tax for nonfinancial corporations will be eliminated in FY 2010.

Cigarette and Other Tobacco Products Tax

September GRF receipts from the cigarette and other tobacco products tax of $85.3 million were $3.6 million (4.4%) above September 2007 receipts. Through September, FY 2009 receipts from the tax were $189.7 million, down $5.1 million (2.6%) from FY 2008 receipts in the same period. Revenues from taxed cigarettes were $178.9 million, down $5.5 million (3.1%). Revenues from the tax on other tobacco products were $10.7 million, up $0.4 million (3.6%). 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. Over the past several decades, cigarette consumption has been declining at an annual rate of about 2.0% to 2.5%. There has been some evidence recently, however, that possibly due to the smoking ban and the recent rate and price increases, the decline in the consumption of taxed cigarettes may have accelerated in the last few years.

Commercial Activity Tax

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.[8] Taxpayers pay 80% of their CAT liability in FY 2009, and the tax will be fully phased in by FY 2010. In September 2008, CAT receipts were $12.9 million.

[8] 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%).

44% of year-to-date GRF program expenditures was for Public Assistance and Medicaid; 24% for Primary, Secondary, and Other Education.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Prior Year
Month of September 2008
($ in thousands)
(Actual based on OAKS reports run October 6, 2008)

PROGRAM	Actual	FY 2008*	Variance	Percent
Primary, Secondary, and Other Education	$548,205	$256,668	$291,537	113.6%
Higher Education	$190,720	$171,736	$18,983	11.1%
Total Education	$738,925	$428,404	$310,521	72.5%
Public Assistance and Medicaid	$984,795	$859,157	$125,638	14.6%
Health and Human Services	$72,736	$73,710	-$974	-1.3%
Total Welfare and Human Services	$1,057,531	$932,867	$124,664	13.4%
Justice and Public Protection	$229,998	$225,567	$4,431	2.0%
Environment and Natural Resources	$8,494	$8,420	$74	0.9%
Transportation	$1,283	$1,014	$269	26.5%
General Government	$84,835	$86,523	-$1,688	-2.0%
Community and Economic Development	$30,268	$35,140	-$4,872	-13.9%
Capital	$12	$6	$6	107.4%
Total Government Operations	$354,890	$356,671	-$1,781	-0.5%
Tax Relief and Other	$251,706	$254,644	-$2,938	-1.2%
Debt Service	$97,201	$94,449	$2,752	2.9%
Total Other Expenditures	$348,907	$349,093	-$186	-0.1%
Total Program Expenditures	$2,500,253	$2,067,035	$433,218	21.0%
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$955	$9,516	-$8,561	-90.0%
Total Transfers Out	$955	$9,516	-$8,561	-90.0%
TOTAL GRF USES	$2,501,208	$2,076,551	$424,657	20.5%

*September 2007.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Prior Year
FY 2009 as of September 30, 2008
($ in thousands)
(Actual based on OAKS reports run October 6, 2008)

PROGRAM	Actual	FY 2008*	Variance	Percent
Primary, Secondary, and Other Education	$1,836,042	$1,704,658	$131,384	7.7%
Higher Education	$614,022	$596,650	$17,372	2.9%
Total Education	$2,450,065	$2,301,309	$148,756	6.5%
Public Assistance and Medicaid	$3,383,688	$2,824,105	$559,583	19.8%
Health and Human Services	$339,537	$337,269	$2,268	0.7%
Total Welfare and Human Services	$3,723,225	$3,161,374	$561,851	17.8%
Justice and Public Protection	$642,851	$628,495	$14,355	2.3%
Environment and Natural Resources	$27,595	$29,017	-$1,422	-4.9%
Transportation	$3,418	$4,280	-$862	-20.1%
General Government	$146,760	$145,685	$1,074	0.7%
Community and Economic Development	$46,903	$48,630	-$1,727	-3.6%
Capital	$12	$6	$6	107.4%
Total Government Operations	$867,538	$856,113	$11,425	1.3%
Tax Relief and Other	$401,792	$347,104	$54,689	15.8%
Debt Service	$256,052	$236,437	$19,615	8.3%
Total Other Expenditures	$657,844	$583,540	$74,304	12.7%
Total Program Expenditures	$7,698,672	$6,902,337	$796,336	11.5%
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$389,914	$297,461	$92,453	31.1%
Total Transfers Out	$389,914	$297,461	$92,453	31.1%
TOTAL GRF USES	$8,088,586	$7,199,797	$888,789	12.3%

*July through September 2007.
Detail may not sum to total due to rounding.

Expenditures

*— Philip A. Cummins, Economist, 614-387-1687**

Overview

Tables 3 and 4 show GRF uses for September and for FY 2009 through September, respectively. GRF uses consist primarily of program expenditures but also include transfers out. In September, GRF program expenditures totaled $2,500.3 million, $433.2 million (21.0%) more than in September a year earlier. For the first three months of FY 2009, GRF program expenditures totaled $7,698.7 million, $796.3 million (11.5%) above total GRF program spending in the comparable period a year earlier. Much of the year-to-date increase in GRF program expenditures is attributable to increased outlays for Medicaid due to a timing issue. Spending in the Public Assistance and Medicaid program category in the first three months of FY 2009 was $559.6 million (19.8%) higher than a year earlier, primarily because of the delay of the final FY 2008 Medicaid payment of $434 million into July 1, 2008, the first day of FY 2009.

Among other program categories, year-to-date expenditures for Primary, Secondary, and Other Education were $131.4 million (7.7%) higher than a year earlier. Increased foundation formula funding accounts for $96.6 million of this rise; $21.5 million is higher outlays for student assessments, largely contracted services paid when invoices are received. Spending for Tax Relief and Other in the first three months of the fiscal year was $54.7 million (15.8%) higher than a year earlier. This rise likely reflects in part increased reimbursements from the state to school districts and other local governments for the homestead exemption expansion under H.B. 119 beginning in tax year 2007 and payable in 2008. Higher Education spending was $17.4 million (2.9%) higher in July through September than a year earlier, reflecting a $41.0 million rise in state share of instruction partly offset by a $16.7 million decline in need-based financial aid, which is likely due to differences in the timing of these financial aid payments. Expenditures for Justice and Public Protection were $14.4 million (2.3%) higher, resulting from a $16.3 million increase in operating spending for prisons partly offset by decreases in other spending areas. Year-to-year variances were smaller in other program categories.

The Office of Budget and Management, on September 30, issued a directive with detailed FY 2009 expenditure reductions by agency and appropriation line item. This followed Governor Strickland's September 10 announcement of $540 million in budget adjustments. The adjustment includes spending reductions of 4.75% for many state agency line items, with some programs and agencies exempted or subject to lesser cutbacks. The spending reductions total $198.3 million, with the rest of the budget adjustment to be realized by cash management actions.

Based on these budget adjustments, OBM in early October released monthly estimates of anticipated GRF uses of funds in FY 2009. These estimates will be compared with actual expenditures in future editions of *Budget Footnotes*.

Medicaid expenditures are under estimate by $20 million (0.6%) year to date.

Medicaid

Table 5, which follows, details Medicaid spending for the month of September and FY 2009 year-to-date. GRF expenditures in the Medicaid category in September were $917.0 million, $7.5 million (0.8%) under the estimate provided by the Ohio Department of Job and Family Services (ODJFS). For the fiscal year-to-date, outlays of $3,190.4 million in this category were $20.0 million (0.6%) under estimate. Medicaid spending accounts for about 95% of outlays in the Public Assistance and Medicaid program category shown in tables 3 and 4.

For the month of September, expenditures for managed care plans were below estimate by $10.7 million, including covered families and children (CFC) managed care plans, which were below by $6.5 million (2.5%), and aged, blind and disabled (ABD) managed care plans, which were below by $4.2 million (4.1%). Also under estimate by $3.1 million (9.2%) were expenditures for ODJFS Waiver programs. However, expenditures for inpatient hospitals and physicians exceeded estimates for the month by $8.6 million (9.2%) and $2.0 million (6.7%), respectively.

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

Medicaid (600-525) Payments by Service Category	September				Year to Date			
	Actual	Estimate	Variance	Percent Variance	Actual thru Sept	Estimate thru Sept	Variance	Percent Variance
Nursing Facilities	$221,358	$218,425	$2,933	1.3%	$650,102	$646,725	$3,377	0.5%
ICFs/MR	$45,367	$47,321	-$1,954	-4.1%	$133,486	$137,075	-$3,589	-2.6%
Inpatient Hospitals	$102,391	$93,794	$8,597	9.2%	$275,511	$275,120	$391	0.1%
Outpatient Hospitals	$35,775	$36,118	-$343	-0.9%	$96,305	$95,012	$1,293	1.4%
Physicians	$31,526	$29,540	$1,986	6.7%	$85,051	$81,818	$3,233	4.0%
Prescription Drugs	$47,612	$48,066	-$454	-0.9%	$123,435	$125,247	-$1,812	-1.4%
ODJFS Waivers	$30,880	$33,997	-$3,117	-9.2%	$84,208	$89,099	-$4,891	-5.5%
MCP - CFC	$254,062	$260,517	-$6,455	-2.5%	$990,179	$1,000,999	-$10,820	-1.1%
MCP - ABD	$97,568	$101,720	-$4,152	-4.1%	$442,381	$447,421	-$5,040	-1.1%
Medicare Buy-In	$25,368	$26,752	-$1,384	-5.2%	$75,546	$77,733	-$2,187	-2.8%
All Other	$93,635	$98,277	-$4,642	-4.7%	$259,554	$261,632	-$2,078	-0.8%
DA Medical	$1,070	$1,254	-$184	-14.7%	$3,096	$3,344	-$248	-7.4%
Total Payments	$986,612	$995,781	-$9,169	-0.9%	$3,218,854	$3,241,225	-$22,371	-0.7%
Offsets								
Drug Rebates	-$7,928	-$8,294	$366	-4.4%	-$8,162	-$8,609	$447	-5.2%
Revenue and Collections	-$7,697	-$7,771	$74	-1.0%	-$7,699	-$7,945	$246	-3.1%
ICF/MR Franchise Fees	$0	$0	$0	N/A	$0	$0	$0	N/A
NF Franchise Fees	$0	$0	$0	N/A	$0	$0	$0	N/A
IMD/DSH Payments	$0	$0	$0	N/A	$0	$0	$0	N/A
MCP Assessments	-$20,000	-$20,000	$0	0.0%	-$20,000	-$20,000	$0	0.0%
Health Care Federal	-$54,801	-$55,605	$804	-1.4%	-$54,801	-$56,007	$1,206	-2.2%
Total Offsets	-$90,426	-$91,670	$1,244	-1.4%	-$90,662	-$92,561	$1,899	-2.1%
Total 600-525 (net of offsets)	$896,186	$904,111	-$7,925	-0.9%	$3,128,192	$3,148,664	-$20,472	-0.7%
Medicare Part D (600-526)	$20,781	$20,341	$440	2.2%	$62,242	$61,812	$430	0.7%
Total GRF	$916,967	$924,452	-$7,485	-0.8%	$3,190,434	$3,210,476	-$20,042	-0.6%
Total All Funds	$1,007,393	$1,016,122	-$8,729	-0.9%	$3,281,096	$3,303,037	-$21,941	-0.7%

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

Year-to-date Medicaid expenditures are slightly below estimate mainly due to variances in some of the same spending categories. Expenditures for managed care plans were below estimate by $15.8 million with CFC managed care plans under by $10.8 million (1.1%) and ABD managed care plans under by $5.0 million (1.1%). Also, year-to-date expenditures for ODJFS Waiver programs were under estimate by $4.9 million (5.5%).

*Todd A. Celmar, Economist, 614-466-7358, contributed to the Medicaid section of this report.

Issue Updates

Senior Community Services Funds Disbursed to Area Agencies on Aging

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

The Ohio Department of Aging (ODA) disbursed $9.4 million in FY 2008 from GRF line item 490411, Senior Community Services, to the 12 Ohio Area Agencies on Aging. H.B. 119 earmarked $10.3 million from the line item for this purpose. ODA has encumbered the difference ($900,000) and plans to disburse these funds in FY 2009. The table below shows the Senior Community Service dollars disbursed to each Area Agency during FY 2008. About one-third of the funds were used for transportation services; the majority of the remaining dollars funded home-delivered meals, personal care services, care coordination, and agency administration. The 12 Area Agencies in Ohio serve all 88 counties and administer most state and federal aging programs in the state.

Senior Community Services Funding, FY 2008	
Area Agency on Aging	**Funds Disbursed**
1 - Cincinnati Area	$1,055,694
2 - Dayton Area	$767,222
3 - Lima Area	$379,719
4 - Toledo Area	$867,139
5 - Mansfield Area	$617,402
6 - Columbus Area	$863,979
7 - Rio Grande Area	$551,702
8 - Marietta Area	$425,736
9 - Cambridge Area	$595,613
10A - Cleveland Area	$1,504,409
10B - Akron Area	$986,755
11 - Youngstown Area	$766,167
Total	**$9,381,537**

Job and Family Services and Local Boards Reprioritize Activities Due to Federal Workforce Investment Act Fund Rescissions in FY 2008

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

In March 2008, the U.S. Department of Labor began rescinding $22 million of Ohio's Workforce Investment Act (WIA) funds causing the Ohio Department of Job and Family Services (ODJFS) and many of the local workforce investment boards to reprioritize activities and reduce services. The total amount of the rescission nationwide is $250 million. Ohio's portion represents 9.7% of the state's available WIA funds in FY 2008. Of the total rescission, $12.6 million was deducted from state level funding and $9.4 million from allocations made to the local boards.

The table below details each local workforce investment area's share of the $9.4 million rescission amount. ODJFS determined the rescission amounts in accordance with specific instructions issued by the U.S. Department of Labor that were designed to ensure uniformity in the calculation. WIA dollars provide locally based employment and training services for adults, dislocated workers, and youth. The state is divided into 20 workforce investment areas that are each governed by a local board. These local boards have flexibility in designing plans and using WIA dollars in ways that best serve their local areas. The rescission reduces the amount of WIA funds that the state and local boards will be able to carry forward for use in subsequent program years. Thus far, half of the local boards have reported limiting or reducing program enrollment due to the rescission. Additionally, the rescission may limit ODJFS's ability to respond to potential, future large-scale job displacements in Ohio.

FY 2008 Local WIA Fund Rescissions by Area

Area	Counties in Local WIA Area	Amount	Area	Counties in Local WIA Area	Amount
1	Scioto, Adams, Brown, Pike	$97,144	11	Franklin	$1,320,037
2	Summit, Medina	$200,547	12	Butler, Clermont, Warren	$356,915
3	Cuyahoga	$1,253,269	13	Hamilton	$548,165
4	Lorain	$457,944	14	Hocking, Athens, Meigs, Perry, Vinton	$303,871
5	Lake	$438,595	15	Washington, Monroe, Morgan, Noble	$198,291
6	Stark, Tuscarawas	$253,311	16	Belmont, Carroll, Harrison, Jefferson	$134,313
7*	Allen, Clark, Hancock, Knox	$2,344,288	17	Columbiana, Mahoning	$264,037
8	Mercer, Auglaize, Hardin, Van Wert	$73,351	18	Trumbull	$394,922
9	Lucas	$245,089	19	Ashtabula, Geauga, Portage	$194,137
10	Richland, Crawford	$123,832	20	Fairfield, Pickaway, Ross	$230,642

*Area 7 also includes one-stops in Lawrence, Licking, Montgomery, Sandusky, Shelby, Wayne, and Williams counties and satellite offices in Ashland, Champaign, Clinton, Coshocton, Darke, Defiance, Delaware, Erie, Fayette, Fulton, Gallia, Greene, Guernsey, Henry, Highland, Holmes, Huron, Jackson, Logan, Madison, Marion, Miami, Morrow, Muskingum, Ottowa, Paulding, Preble, Putnam, Seneca, Union, Wood, and Wyandot counties.

Commerce Authorizes 34 Video Service Franchises Under New State Authorization Program

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

The Ohio Department of Commerce has authorized 34 video service franchises under a new state authorization system created by S.B. 117 of the 127th General Assembly, which became effective in late September 2007. This new system, which permits video service areas to span multiple counties, municipalities, or townships, is being phased in to replace a licensing process under which cable television providers negotiated franchise agreements and fees with individual local governments. As existing franchise agreements expire or are cancelled, they are being replaced with state-issued video service authorizations, which are each valid for ten years. To compensate local governments for the fee revenue generated under the old agreements, S.B. 117 created a video service provider fee that is paid to each municipality and township in which a provider offers video service.

In addition to paying service provider fees directly to municipalities and townships, applicants pay the Department of Commerce a $2,000 fee to apply for and a $100 fee to amend each authorization. These fees are deposited in the Video Service Authorization Fund (Fund 5X60). Through the end of September 2008, this fund had received approximately $71,400 in fee revenue. This revenue will be used to supplement cash from the Department's Division of Administration Fund (Fund 1630) to pay for the program's operating expenses. On September 22, the Controlling Board approved FY 2009 administrative funding of $336,800 for the authorization program, including payroll and office expenses for three employees.

State Highway Patrol Task Force Issues Recommendations for Future Patrol Funding Sources

— Sara D. Anderson, Senior Budget Analyst, 614-728-4812

On June 30, 2008, the State Highway Patrol Funding Task Force issued recommendations for future funding sources for the Ohio State Highway Patrol.[1] The Task Force was created by H.B. 67 of the 127th General Assembly, the transportation budget bill, to recommend a "dedicated and stable long-term funding source" for the Patrol to take the place of the motor vehicle fuel tax. This tax had been the primary source of funding for the Patrol prior to FY 2004. Beginning in FY 2004, however, the Patrol's reliance on this tax began to be phased out over a four-year period.

Based on current revenue and spending trends, the Department of Public Safety has projected an annual cash shortfall for the Patrol of $143 million by the end of FY 2011. The Department plans to reduce that shortfall through approximately $40 million in annual spending reductions. The Task Force concentrated its recommendations on meeting the remaining shortfall through increases in various fines and fees. These increases are estimated to raise $106.3 million per year as summarized in the table below.

Task Force Funding Recommendations		
Revenue Source	**Increase**	**Estimated Annual Revenue**
Vehicle registration fees (excluding commercial trucks)	$5.75	$61.8 million
New fine for late renewal of drivers licenses and vehicle registrations	$10.00	$21.0 million
Vehicle registration fees for commercial trucks	$19.00	$10.5 million
Temporary tag fee	$5.00	$9.5 million
Vision screening fee	$1.00	$1.8 million
International Registration Plan fees (from other states)	2.5%	$1.7 million
Estimated Total Annual Revenue Generated		**$106.3 million**

Central State's Speed to Scale Task Force Issues First Annual Report

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

Central State University's Speed to Scale Task Force recently released its first annual report on the progress of the Speed to Scale Program. H.B. 119 initiated the program, which is an effort to increase enrollment at Central State University (CSU) to 6,000 students by 2017. In the fall of 2006 CSU's enrollment was 1,766, the lowest of any public university in Ohio. This small enrollment has lead to relatively high per pupil costs for CSU. For several years, the state has been paying a supplement to CSU partly to cover these high costs. Most recently, H.B. 119 appropriates $23.9 million over the biennium for this supplement.

H.B. 119 provides $8.2 million in operating funds over the biennium to help CSU implement the Speed to Scale Program. In FY 2008, this appropriation helped fund additional need-based financial

[1] The full report is available at: www.publicsafety.ohio.gov/FundingTaskForce/FinalReport.pdf.

aid, new marketing materials, the equipping of a new student computer lab, and the hiring of several new staff members. In addition, H.B. 562, the capital appropriations bill, provides $14.0 million to assist the university in constructing a new student activity center to help attract and retain students.

To achieve the 2017 enrollment target, the Speed to Scale Task Force has set two annual goals for the program. The first is to increase enrollment by at least 10% each year. The second is to increase the rate of retention of students from their first to second years of college by two percentage points each year. According to the Task Force's report, both goals were met in FY 2008, the program's first year. Fall enrollment increased by 256 students (14%) from a year earlier to 2,022 students enrolled during the fall of 2007. First to second year retention rates increased by five percentage points, from 49% of fall 2005 students returning in fall 2006, to 54% retained from fall 2006 to fall 2007.

eTech Ohio Announces Projects Funded with FY 2008 Public Television Multimedia Production Grants

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

In September, eTech announced the projects funded with the multimedia production grants provided to Ohio's 12 public television stations in FY 2008. Funding of $1.2 million is earmarked for the grants each fiscal year of the current biennium from GRF appropriation item 935406, Technical and Instructional Professional Development. H.B. 119 specifies that the grant funds be allocated evenly among the 12 stations, although some stations pool their funds and work collaboratively on projects. The FY 2008 grants supported a variety of projects that resulted in multimedia educational resources for use by public school teachers throughout Ohio. The projects are described briefly in the table below. According to eTech, projects funded with FY 2009 grants will focus on STEM (Science, Technology, Engineering, and Mathematics) disciplines.

Projects Funded With FY 2008 Multimedia Program Grants		
TV Station	**Viewing Area**	**Project Description**
WCET	Cincinnati	Navigating the Community Water Cycle – a project to help students understand how communities manage water resources
WBGU	Bowling Green	Project MORE – a reading program that helps raise expectations and performance of at-risk children and children with disabilities
WGTE	Toledo	Professional Development – a series of five, 8-10 minute video modules to enhance professional development sessions for teachers
WVIZ	Cleveland	Physical Science Project – a collection of 10 multimedia resources, distributed through DVD and the web; focused on science
WPTD WPTO	Dayton Oxford	Our Ohio: Exploring Our Heritage – a curriculum kit with multimedia resources on the subject of Ohio and American history for grades 4-8
WNEO WEAO	Youngstown Akron	Teacher Guide, Web Activities, Streaming Video Kit – a compilation of online teaching guides, available to all school districts
WOSU WPBO	Columbus Portsmouth	Economics Video Game – a video game to help second grade students learn basic economic concepts and applications
WOUB WOUC	Athens Cambridge	Standards Based Multimedia Resource: Ohio History – an online project focused on Ohio history for 4th and 5th graders

Report Shows $40.2 Million Actuarial Deficit for Guaranteed Savings Plan at End of FY 2008

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

The actuarial valuation report for the Ohio Tuition Trust Authority (OTTA) Guaranteed Savings Fund shows an actuarial deficit for the fund of $40.2 million as of June 30, 2008. The Guaranteed Savings Fund holds the assets of OTTA's Guaranteed Savings Plan (GSP). GSP is part of Ohio's 529 tax advantaged college savings program, College Advantage, which allows families to save for college without being taxed on their investment returns. Under GSP, families bought tuition credits.[2] The value of these credits is based on the weighted average tuition at Ohio's public universities. The value of the credits increases, therefore, as tuitions at Ohio's public universities increase.

Early in the current decade, as tuitions rose rapidly, the Guaranteed Savings Fund's actuarial balance declined. The fund posted its first actuarial deficit in FY 2002. At that time, new enrollments in GSP were suspended. In FY 2004, OTTA also suspended contributions to existing GSP accounts. These suspensions remain in place. In FY 2007, modest tuition increases coupled with increases in the value of the fund's assets resulted in an actuarial surplus of $28.5 million. However, a decline in the market value of the fund's assets resulted in the FY 2008 deficit.

College Advantage continues to accept contributions to the Variable Savings Plan (VSP). VSP offers more traditional investment options for which the investor bears the market risk. In FY 2002, OTTA established a policy allowing fee revenue from VSP to be used to redeem GSP credits in the event the assets in the fund are indeed exhausted some time in the future. According to the actuarial report, the estimated present value of this fee revenue as of June 30, 2008, is $58.5 million, enough to offset the actuarial deficit. Redemption values of GSP credits are backed by the full faith and credit of the state of Ohio, so the state would be liable for any shortfall if OTTA's Guaranteed Savings Fund were exhausted. However, based on the FY 2008 actuarial report, no such recourse to state funds appears likely to be necessary.

[2] In this article the term tuition "credits" also refers to tuition "units" although the two investments are valued somewhat differently.

Tracking the Economy

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

Overview

Second-quarter growth in U.S. real GDP revised downward to 2.8%.

News regarding financial markets and institutions overshadowed all other economic news this month as the uncertainty and turmoil in financial markets turned into apparent panic and near chaos. On September 29 the Dow Jones Industrial Average fell by over 777 points (7%) in a single day; the absolute decline was the largest single-day decline on record. After a week of uncertainty, the market declined significantly again on October 6, with the Dow closing below 10,000 for the first time in four years. Lehman Brothers, a venerable Wall Street investment bank, declared bankruptcy after federal officials decided against assisting it. Merrill Lynch was bought by Bank of America. Goldman Sachs and Morgan Stanley, the two[1] remaining large investment banks, converted to bank holding companies to enhance their access to funding. And American International Group, one of the largest insurers in the world, was rescued by an $85 billion loan from the Federal Reserve. The list could go on.

U.S. Treasury officials, working with the Federal Reserve, put together a plan designed to restore confidence in financial markets. The plan is to spend up to $700 billion to purchase from financial institutions the securities that are causing the most damage to the institutions' balance sheets. The $700 billion number appears to have been chosen to reassure participants in financial markets that financial institutions and borrowers from financial institutions are safe from sudden failure. Details of the plan were negotiated between Congressional leaders, Treasury Secretary Paulson, and Federal Reserve Chairman Bernanke. Although the plan initially was voted down in the U.S. House of Representatives (on the same day the Dow lost 777 points), a modified version was subsequently passed by the U.S. Senate, and then by the House.

Financial market turmoil leads to support package from U.S. Treasury and Federal Reserve rate cut.

The issues that concerned both Wall Street and Congress included the stock market drop and the failure of financial institutions, of course, but they ran even deeper. The heart of the problem for the broader economy is credit markets and short-term lending. Many businesses large and small need access to short-term credit for working capital to meet payroll, purchase inventory, and pay utilities and other suppliers. For some businesses that means they need a bank willing to lend. Others, generally larger companies, need to be able to issue commercial paper (debt securities with short maturities – typically 30 days or less). Access to these sources of credit has been cut back and, for those who are able to obtain credit, has generally become more expensive as firms seek to hoard cash. Without access to working capital many businesses may need to curtail operations or shut down, with obvious consequences for their owners, for workers, and for customers.[2]

[1] Wall Street started the year with five major investment banks. The fifth, Bear Stearns, was taken over by J.P. Morgan Chase earlier in the year. See the April 2008 edition of *Budget Footnotes* for more details.

[2] For details on the turmoil, and on selected companies that have been affected by it, see an article entitled "U.S., Britain Up Ante in Fight to Stop Slide" in the October 8th edition of the *Wall Street Journal*. The September 26th and October 3rd editions also included informative articles on the turmoil in credit markets. Lehman Brothers, the investment bank to which the

Subsequent to Congress' passage of the U.S. Treasury's plan, the Federal Reserve continued to announce initiatives intended to support markets. On October 7, the Fed announced the creation of the Commercial Paper Funding Facility, through which it would provide loans to nonfinancial businesses directly, the first time the Fed has done this since the Great Depression. The next day the Fed announced it was reducing the target federal funds rate from 2.0% to 1.5%, and indicated that inflationary pressures were diminishing due to falling energy prices and the increased likelihood that financial turmoil would have negative effects on real economic growth.

The big question is whether the $700 billion bailout package and the Fed's efforts will do what officials hope they will and allow credit to flow more freely again. That remains to be seen, as does the amount of the ultimate cost of the Treasury plan. This cost is likely to be well below the headline number of $700 billion. In general terms, that money is to be made available to purchase securities, which do have some value (in spite of the label "toxic" so commonly being stuck on them). Even if the government expends the full $700 billion in purchasing securities, it will recover some, perhaps even all, of that money when it sells the securities in the future. The most challenging part of the plan may be the way the federal government will determine the prices that it pays for the securities, as a huge part of the current problem is that market participants are unsure what the values of those securities should be.

Although developments in the financial markets have overshadowed other economic developments, some of these other developments were nevertheless very negative, and reason for great concern. The financial turmoil, coming on top of the summer's high gasoline and diesel fuel prices, has hit the automotive industry hard. Recent news reports describe situations where potential car buyers, who would have been able to qualify for a loan a few weeks ago, were unable to obtain financing. There was a very sharp drop in auto sales in September: sales of cars and light trucks for the month were 27% below the figure for September 2007. The decline affected all the major manufacturers: Ford's sales were down by 34%, Chrysler's were down by 33%, Toyota's by 32%, and Honda's by 24%. General Motors had the best month of the major automakers with sales down by "only" 16%.

Other developments included a fall in U.S. payroll employment of 159,000 in September, the largest drop in five years. But the U.S. unemployment rate held steady at 6.1%. In Ohio the unemployment rate rose to 7.4% in August, the highest unemployment rate we have experienced since 1992, and a full percentage point higher than in May.

The National Economy

Production and Income

The U.S. Bureau of Economic Analysis (BEA) revised downward the estimate of U.S. real[3] gross domestic product (GDP) growth for the second quarter of 2008 from (an annualized) 3.3% to 2.8%. BEA reported that the downward revision resulted from slower growth than previously estimated in personal consumption expenditures, exports,

---

federal government did not extend aid, played a significant role in helping companies issue commercial paper.

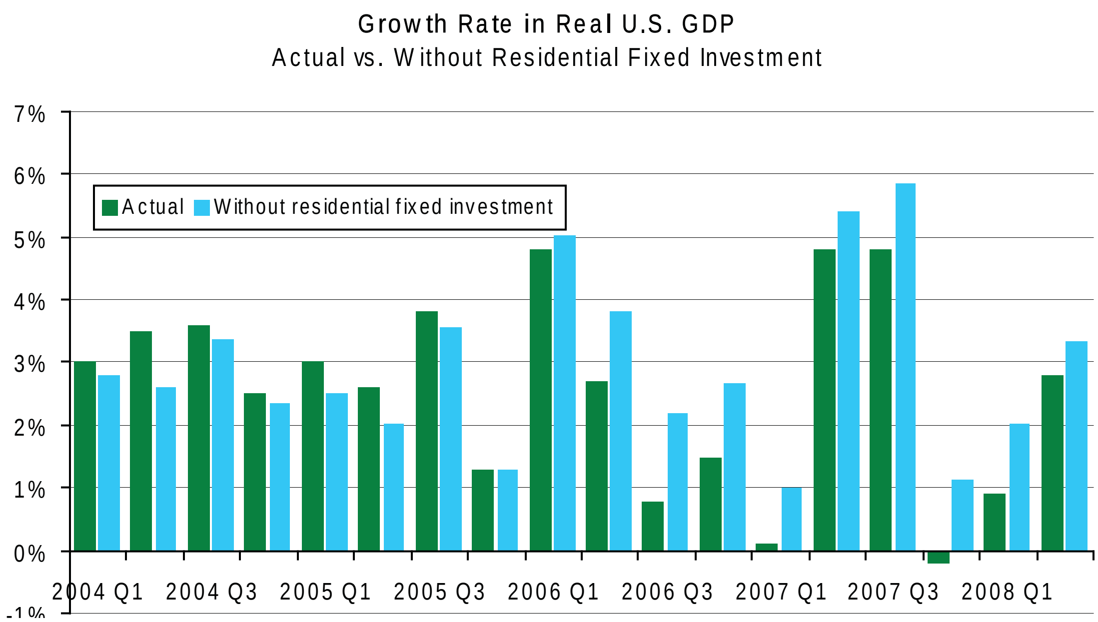
[3] Economists use the term "real" to indicate that a variable, in this case gross domestic product, has been adjusted for inflation.

and equipment and software; these downward revisions were partially offset by an upward revision to nonresidential construction. Second quarter growth was significantly stronger than during the preceding two quarters: growth in the first quarter was 0.9%, and growth in the fourth quarter of 2007 was 0.6%.

Net exports, which are made up of exports minus imports, contributed 2.93 percentage points to second quarter growth. Last month's edition of *Budget Footnotes* reported that net exports accounted for nearly all of the overall growth in GDP, based on the "preliminary estimate" issued by BEA; the (so-called) "final estimate" shows net exports accounting for all of the growth. The value of exports grew by an annualized 12.3%, while the value of imports decreased by 7.3%. Both exports and imports, then, contributed positively to real GDP growth. Most analysts attribute these positive contributions to the weak U.S. dollar, which makes American goods more affordable for foreign consumers. Continued growth in the U.S. economy is therefore partially dependent on the economic health of our trading partners, growth in whose economies has reportedly slowed recently.

Gross private domestic investment continued to act as a drag on the U.S. economy, subtracting 1.74 percentage points from growth in the second quarter. Positive contributions to growth came from consumer spending, which contributed 0.87 percentage point to growth, and government spending (0.78 percentage point). Consumer spending likely received a boost from federal stimulus payments to taxpayers. The drag created by investment is due to both residential fixed investment, which subtracted 0.52 percentage point from growth as the housing slump continued, and the change in private inventories, which subtracted 1.50 percentage points from growth. In contrast, nonresidential fixed investment contributed positively, if weakly, to growth.

The drag on growth from residential fixed investment began in the first quarter of 2006. The value of such investment has been falling at double-digit (seasonally adjusted annualized) rates since the second quarter of 2006. The following chart shows real GDP growth and the role that residential construction has played in that growth. As shown here, residential construction aided economic growth during 2004 and 2005, but has served as a drag on growth since 2006.



Profits from current production decreased by $60.2 billion (3.8%) in the second quarter.[4] By comparison, profits fell by $17.6 billion in the first quarter. Domestic profits decreased during the second quarter by $31.0 billion for financial corporations and decreased by $4.2 billion for nonfinancial corporations. Profits derived from the rest of the world decreased by $25.0 billion.[5]

Employment and Unemployment

U.S. nonfarm payroll employment decreased by 159,000 from August to September, after seasonal adjustment. This was the ninth straight monthly decline, and the largest decline since early 2003. The number of jobs lost since December 2007 increased to 760,000, an average of nearly 85,000 jobs lost per month. Employment in goods-producing industries decreased by 77,000 in September, including a decrease of 51,000 in manufacturing. Employment in service-providing industries decreased by 82,000. Gains of 25,000 in the number of jobs in education and health services and 9,000 in government were more than offset by declines in employment in other services, including a decrease of 27,000 jobs in professional and business services.

U.S. unemployment rate remained 6.1% in September.

The seasonally adjusted unemployment rate remained unchanged in September from August's level of 6.1%. Readers may recall that the unemployment rate rose from 5.5% in June to 5.7% in July, and then jumped to 6.1% in August. As noted in last month's issue of *Budget Footnotes*, 6.1% is very near the highest unemployment rate associated with the last recession, which was 6.3%. The number of U.S. workers unemployed increased to nearly 9.5 million in September, compared with slightly over 7.2 million unemployed workers in September 2007. The number of workers unemployed for longer than 27 weeks rose to over 2.0 million in September.[6]

Ohio's unemployment rate rose to 7.4% in August.

Retail Sales

U.S. retail and food services sales[7] decreased by 0.3% in August, to a level 1.6% higher than August 2007. Motor vehicle and parts dealers experienced a 1.9% increase in sales for the month; excluding them, retail and food services sales decreased by 0.7%. Despite the uptick in August sales, though, motor vehicle and parts dealers have experienced a very difficult year—sales fell by 13.5% since August 2007. Among the retail sectors with significant falls in sales for the month were gasoline stations, whose sales fell by 2.5%, nonstore retailers (2.3%), building material and garden equipment and supplies dealers (2.2%), department stores (1.5%), and electronics and appliance stores (1.3%). The fall in sales for gasoline stations was presumably due largely to gasoline price decreases. No retail sector, other than motor vehicle and parts dealers, experienced growth exceeding 1% for the month.

[4] These figures are seasonally adjusted and annualized.

[5] Please note that these figures are not affected by the bonus depreciation provisions of the federal Economic Stimulus Act of 2008, since they are not based on depreciation accounting methods used for federal income tax returns.

[6] About 31% of the unemployed in September had been unemployed for fewer than five weeks. This ratio is typically at least one-third, marking a shift toward longer-term unemployment in recent months.

[7] Data on retail sales are adjusted for seasonal and trading day differences, but not for inflation.

Taking a somewhat longer-term view of sales growth, total retail and food services sales for the three months ending in August 2008 were 2.3% greater than during the corresponding three months of 2007. Sales by motor vehicle and parts dealers fell by 11.7%; excluding them, retail sales increased 5.8%. The sharp drop in motor vehicle sales reflects reduced unit sales and lower prices of vehicles sold as consumers shift their purchases toward smaller, more fuel-efficient vehicles. As noted previously, financing increasingly has become an obstacle to sales. Apart from gasoline stations, whose sales are driven primarily by prices of gasoline and diesel fuel, the retail sectors with the highest sales growth on this basis were nonstore (*i.e.*, catalog and Internet) retailers, whose sales grew by 6.8%, food and beverage stores (6.1%), general merchandise stores (5.0%), and food services and drinking places (4.1%). Retail sectors with declines in sales from a year earlier included furniture and home furnishings stores (6.7%), department stores (2.7%), and building material and garden equipment and supplies dealers (1.4%).

Housing Markets and Construction Spending

U.S. housing starts decreased by 6.2% from July to August; the August figure of 895,000[8] was 33.1% below its level in August 2007. The comparable numbers for the Midwest were somewhat worse, as housing starts decreased by 13.6% for the month, and by 44.6% from the preceding August.

Data on building permits exhibited a similar pattern. The number of building permits issued nationally decreased by 8.9% from July to August, and also fell below the 900,000-unit level (annualized). Compared with the preceding August, building permits were 36.4% lower. For the Midwest the number of permits issued increased by 0.7% for the month, but decreased compared with the year before by 24.9%.

Construction spending in August was essentially unchanged from July—it increased at a seasonally adjusted rate of less than 0.1%, but was well below the preceding August's level. Overall construction spending was 5.9% lower in August than it had been the year before, having been dragged down by private residential construction, which was 28.4% below its level of the preceding year. Private residential construction accounted for roughly one-third of total construction spending. Public construction spending, just over 29% of total construction spending, provided some support for total construction spending; public sector outlays increased by 0.8% from July to August, to 7.7% higher than a year earlier.

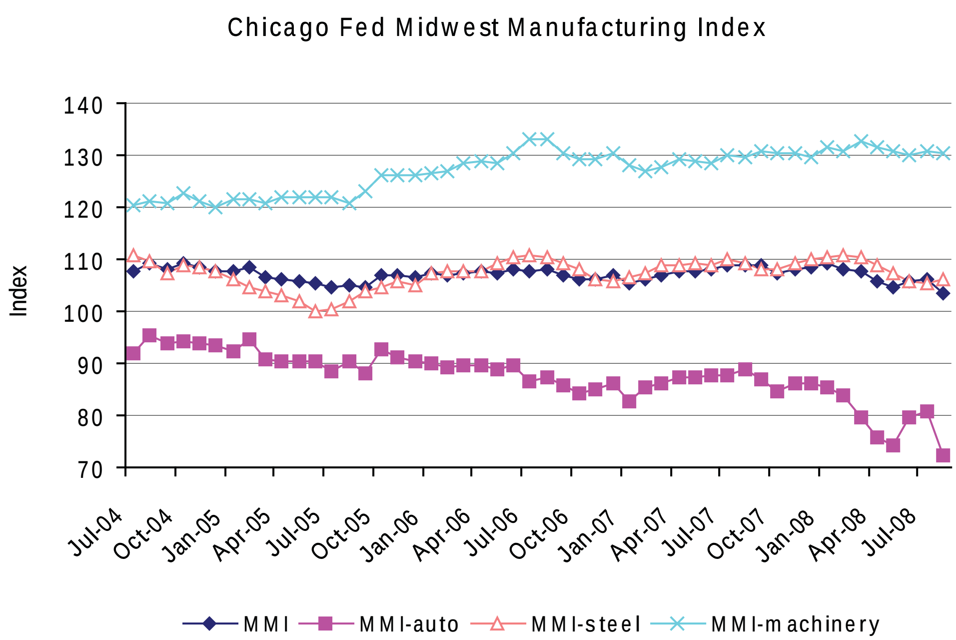
Manufacturing

Shipments of manufactured goods decreased by 3.5% to $446.0 billion in August, after seasonal adjustment. This was the largest percentage decrease in two years, but was the first decrease in the last six months. Durable goods shipments decreased 3.8% in August, to $209.2 billion. Shipments of transportation equipment were down by 8.0%, but even excluding transportation equipment overall shipments fell by 2.9% for the month. Every durable goods manufacturing sector experienced a decline in shipments. The declines were also substantial for computers and electronic products (5.1%) and electrical equipment, appliances, and components (4.6%). The declines were more moderate for primary metals (2.0%) and fabricated metal products (1.8%).

[8] This number is seasonally adjusted and annualized.

New orders for manufactured goods decreased by 4.0% in August, and orders for durable goods decreased by 4.8%. As with shipments, the overall decrease was the first in the last six months. The decrease for durable goods was the first in the last four months. New orders for transportation equipment decreased by 9.1%, but that was attributable to a sharp drop in orders for aircraft. Excluding transportation equipment, orders decreased by 3.3%. New orders grew by 2.0% for computers and electronic products, but fell for all other durable goods sectors. Aside from the transportation sector the largest decreases in percentage terms were for primary metals (9.6%), machinery (6.6%), and electrical equipment, appliances, and components (3.0%).[9]

The Chicago Fed produces a Midwest Manufacturing Index (MMI) specific to its Federal Reserve district, which includes Michigan, northern Indiana, northern Illinois, southern Wisconsin, and Iowa. While Ohio is not in the Chicago district, Ohio's economy is more similar to that of the states that are in the district than it is to the national economy as a whole. So the MMI may provide a better idea of manufacturing conditions in Ohio than do the national data. The path of the MMI, and of its auto, steel, and machinery subcomponents, from July 2004 through August 2008 is shown in the accompanying chart.



The overall index shows little change during the period as a whole. None of the months shown experienced industrial production as much as 10% higher than it was in 2002, the base year for the index, but it did reach 9.2% higher in a couple of months since then, most recently in January of this year.

The index fell by 4.4% during the first eight months of 2008. The index showed district manufacturers recovering some lost ground during June and July, but output dropped by 2.5% in August alone. The magnitude of the decline in production varied significantly across manufacturing sectors. The auto sector index fell by 15.7% during the year through August, while the steel index fell by 3.5%; in contrast the machinery

[9] Decreases in new orders for the remaining durable goods sectors were less than 1%.

index rose by 0.5%. The sharp drop in August was due primarily to the auto industry, the index for which dropped by 10.3%; the index for machinery fell by 0.2% during the month, while the index for steel rose by 0.8%.

Inflation and Prices

The consumer price index for all urban consumers (CPI-U) decreased by 0.1% from July to August, after seasonal adjustment. The decrease followed sharp increases in June (1.1%) and July (0.8%), and was due to decreases in energy prices. The energy price subcomponent of the index fell by 3.1% for the month; core inflation, as measured by the CPI-U excluding food and energy, was 0.2% for the month. For the first eight months of 2008 the CPI-U increased at a seasonally adjusted, annualized rate (SAAR) of 5.1%, driven primarily by energy prices, which rose 22.4% (SAAR) during the eight months despite the fall in August. Excluding food and energy prices, the index has risen 2.5% (SAAR) during 2008 through August.

The deceleration in inflation in August helped to reduce the annualized inflation rate over the most recent three months to 7.2%. According to this measure, inflation had been accelerating from May through July.[10] Movements in energy prices were the driving force for the acceleration as well as August's deceleration. Annualized core inflation, *i.e.*, excluding food and energy prices, over the three months ending in August was 3.4%. While this is still higher than the Federal Reserve likes to see, its concern has clearly shifted in the last month, due to turmoil in financial markets, from viewing the risks of rising inflation and rising unemployment being fairly balanced to viewing the risk of rising unemployment being much greater.

Prices measured by the producer price index for finished goods exhibited an even sharper drop in August. The index decreased by 0.9% for the month, after seasonal adjustment. As with the CPI-U, this followed sharp increases in July (1.2%) and June (1.8%). And, as with CPI-U, the recent pattern has been driven by energy prices. Excluding food and energy the index increased by 0.2% from July to August, and by 3.6% over the last year.

Since mid-July gasoline and diesel fuel prices have been dropping on average across the nation, according to data from the U.S. Energy Information Administration, although the trend was interrupted by a spike in gasoline prices the week of September 15.[11] The average price for all grades of gasoline was about $4.10 per gallon nationally the week of July 14; since then the price declined to about $3.54 per gallon (as of October 6). Similarly, the average price of diesel fuel (all types) hit a peak of $4.76 per gallon on July 14, and fell to about $3.88 per gallon on October 6. The average price of gasoline in Ohio has followed a very similar path, with the average price peaking at $4.10 per gallon on July 14 before falling to $3.37 per gallon around the beginning of October.

---

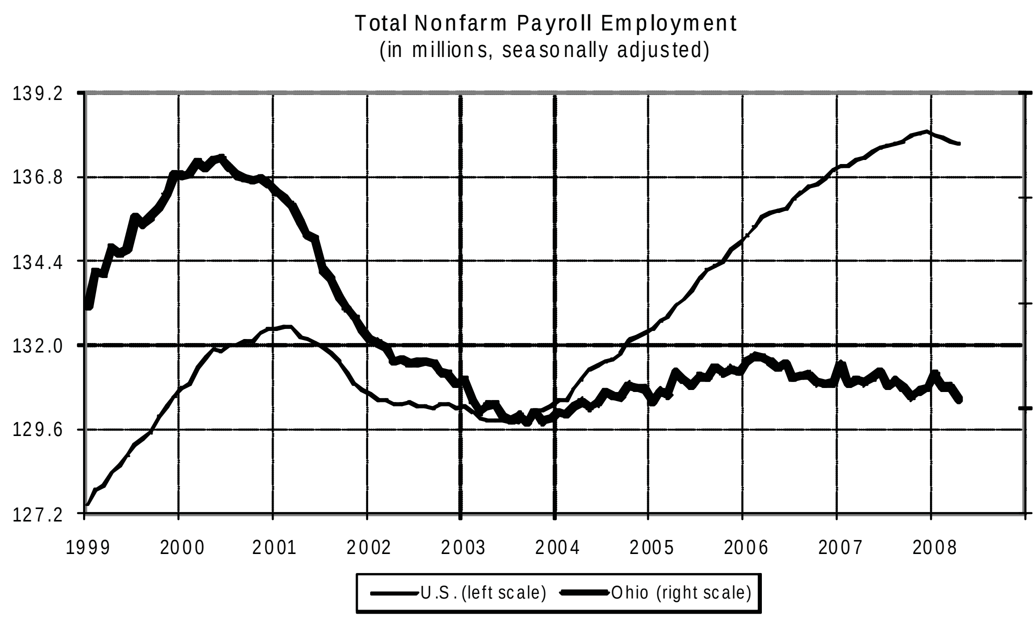
[10] The annualized inflation rate over the three months ending in July was 10.6%. The corresponding figure for May was 4.9%.

[11] The spike was associated with Hurricanes Gustav and (especially) Ike, which shut down some refineries near the Gulf of Mexico and interrupted pipeline deliveries of gasoline, especially to the southeast states.

The Ohio Economy

Ohio's nonfarm payroll employment decreased by 3,700, or about 0.1%, in August, after seasonal adjustment. The decrease lowered Ohio's employment to slightly under 5.41 million. Goods-producing industries lost 6,500 jobs, including 6,200 in manufacturing. Employment in service-providing industries rose by 2,800 during the month. Consistent with the decrease in payroll employment, Ohio's unemployment rate rose from 7.2% in July to 7.4% in August, the highest reading since 1992. The number of unemployed Ohio workers increased to 445,000 in August; the number has increased by 106,000 during the past year.

During the year ending in August, Ohio payroll employment fell by 19,300. This was the net result of a decrease of 20,500 jobs in goods-producing industries and an increase of 1,200 in services. Within the goods-producing sector, manufacturing lost 15,000 jobs over the year, and construction lost 5,900. Among services, employment in educational and health services increased by 10,700 during the year, and in leisure and hospitality by 2,100. Employment fell in trade, transportation, and utilities by 3,200. Other service sectors that experienced employment declines included government (2,600), information (2,000), financial activities (1,900), and other services (1,900). The chart below shows Ohio payroll employment as compared with national employment since 1999.



The Ohio Association of Realtors (OAR) reports that 77,978 homes were sold in Ohio during the first eight months of 2008, a decrease of 15.7% compared with the corresponding months of 2007. There is little indication of conditions beginning to improve: sales during the months of June, July, and August were 16.0% below the corresponding months of 2007. The OAR reported that sales have returned to a level that would have been considered typical prior to 2003 (*i.e.*, pre-boom in real estate). The average sales price during 2008 through August was $141,437, which was 7.4% below the corresponding level in 2007.