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Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JANUARY 2010

STATUS OF THE GRF

HIGHLIGHTS

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

Halfway through FY 2010, GRF tax revenues are remarkably close to (0.1% above) the estimate issued by the Office of Budget and Management (OBM) in August 2009. December's receipts were slightly weak, though, coming in $37 million below estimate, due primarily to the first negative variance in income tax receipts ($44 million) experienced so far this fiscal year. The December shortfall may be a cautionary sign, but at this point no trend in revenue variances is discernable.

The Ohio economy shows possible signs of having reached bottom. Payroll employment increased in both October and November, and both personal income and wage and salary disbursements increased in the third quarter.

Through December 2009, GRF sources totaled $12.18 billion:

- Receipts from the personal income tax were $41.8 million (1.2%) above estimate;
- Sales and use tax receipts were $11.9 million (0.3%) above estimate.

Through December 2009, GRF uses totaled $14.46 billion:

- Spending on Public Assistance and Medicaid was below estimate by $214.7 million (3.7%);
- Spending on Tax Relief and Other was $231.4 million (35.3%) above estimate due primarily to a timing issue.

VOLUME 33, NUMBER 5

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 December 2009
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 8, 2010)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$58,574	$55,806	$2,769	5.0%
Nonauto Sales and Use	$628,537	$619,248	$9,289	1.5%
Total Sales and Use Taxes	$687,112	$675,054	$12,058	1.8%
Personal Income	$666,966	$711,100	-$44,134	-6.2%
Corporate Franchise	-$4,869	-$2,000	-$2,869	-143.5%
Public Utility	$121	$768	-$648	-84.3%
Kilowatt Hour Excise	$11,346	$13,329	-$1,983	-14.9%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$92	-$686	$778	113.5%
Domestic Insurance	$104	$0	$104	---
Business and Property	$58	$75	-$17	-23.2%
Cigarette	$74,646	$75,942	-$1,295	-1.7%
Alcoholic Beverage	$4,654	$4,403	$251	5.7%
Liquor Gallonage	$2,876	$2,897	-$21	-0.7%
Estate	$5,670	$5,229	$441	8.4%
Total Tax Revenue	**$1,448,776**	**$1,486,111**	**-$37,335**	**-2.5%**
NONTAX REVENUE				
Earnings on Investments	$6	$0	$6	---
Licenses and Fees	$599	$750	-$151	-20.1%
Other Revenue	$127,908	$129,300	-$1,392	-1.1%
Total Nontax Revenue	**$128,513**	**$130,050**	**-$1,537**	**-1.2%**
TRANSFERS				
Liquor Transfers	$28,000	$12,000	$16,000	133.3%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$1,000	$11,500	-$10,500	-91.3%
Total Transfers In	**$29,000**	**$23,500**	**$5,500**	**23.4%**
TOTAL STATE SOURCES	**$1,606,289**	**$1,639,661**	**-$33,372**	**-2.0%**
Federal Grants	$625,923	$740,113	-$114,190	-15.4%
TOTAL GRF SOURCES	**$2,232,212**	**$2,379,774**	**-$147,562**	**-6.2%**

* Tax estimates of the Office of Budget and Management released August 2009.
**Commercial activity tax receipts in FY 2010 are non-GRF.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2010 as of December 31, 2009
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 8, 2010)

	Actual	Estimate*	Variance	Percent	FY 2009	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$437,338	$413,592	$23,746	5.7%	$445,608	-1.9%
Nonauto Sales and Use	$3,125,899	$3,137,763	-$11,863	-0.4%	$3,297,257	-5.2%
Total Sales and Use Taxes	$3,563,237	$3,551,355	$11,883	0.3%	$3,742,865	-4.8%
Personal Income	$3,430,399	$3,388,599	$41,800	1.2%	$3,922,136	-12.5%
Corporate Franchise	-$59,026	-$20,039	-$38,987	-194.6%	-$1,525	-3769.3%
Public Utility	$56,906	$74,298	-$17,392	-23.4%	$76,123	-25.2%
Kilowatt Hour Excise	$77,528	$87,091	-$9,563	-11.0%	$68,043	13.9%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$132,796	$137,012	-$4,216	-3.1%	$136,554	-2.8%
Domestic Insurance	$1,236	-$820	$2,056	250.8%	-$772	260.2%
Business and Property	$181	$457	-$276	-60.5%	$401	-54.9%
Cigarette	$404,755	$377,153	$27,602	7.3%	$423,871	-4.5%
Alcoholic Beverage	$28,597	$29,445	-$849	-2.9%	$29,000	-1.4%
Liquor Gallonage	$18,172	$18,027	$144	0.8%	$17,862	1.7%
Estate	$25,909	$29,255	-$3,346	-11.4%	$30,716	-15.7%
Total Tax Revenue	**$7,680,688**	**$7,671,833**	**$8,855**	**0.1%**	**$8,445,274**	**-9.1%**
NONTAX REVENUE						
Earnings on Investments	$11,617	$18,500	-$6,883	-37.2%	$51,463	-77.4%
Licenses and Fees	$20,503	$21,221	-$718	-3.4%	$19,561	4.8%
Other Revenue	$154,880	$157,853	-$2,973	-1.9%	$35,777	332.9%
Total Nontax Revenue	**$187,000**	**$197,574**	**-$10,574**	**-5.4%**	**$106,801**	**75.1%**
TRANSFERS						
Liquor Transfers	$85,000	$74,000	$11,000	14.9%	$87,000	-2.3%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$342,700	375,264	-$32,564	-8.7%	$331,391	3.4%
Total Transfers In	**$427,700**	**$449,264**	**-$21,564**	**-4.8%**	**$418,391**	**2.2%**
TOTAL STATE SOURCES	**$8,295,388**	**$8,318,671**	**-$23,283**	**-0.3%**	**$8,970,466**	**-7.5%**
Federal Grants	$3,888,631	$4,091,697	-$203,065	-5.0%	$3,169,523	22.7%
TOTAL GRF SOURCES	**$12,184,019**	**$12,410,368**	**-$226,349**	**-1.8%**	**$12,139,989**	**0.4%**

* Tax estimates of the Office of Budget and Management released August 2009.

**Commercial activity tax receipts in FY 2010 are non-GRF.

Detail may not sum to total due to rounding.

REVENUES

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

Overview

December GRF sources were $147.6 million below estimate.

For the month of December 2009, total GRF sources of $2.23 billion were $147.6 million below estimate due primarily to a shortfall of $114.2 million in federal grants. Additionally, GRF tax revenues fell $37.3 million below estimate, reducing the positive variance for tax revenue for FY 2010 through December to $8.9 million, down from $46.2 million at the end of November. Tables 1 and 2 show GRF sources for the month of December and for FY 2010 through December, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for human service programs that receive federal funding.[1]

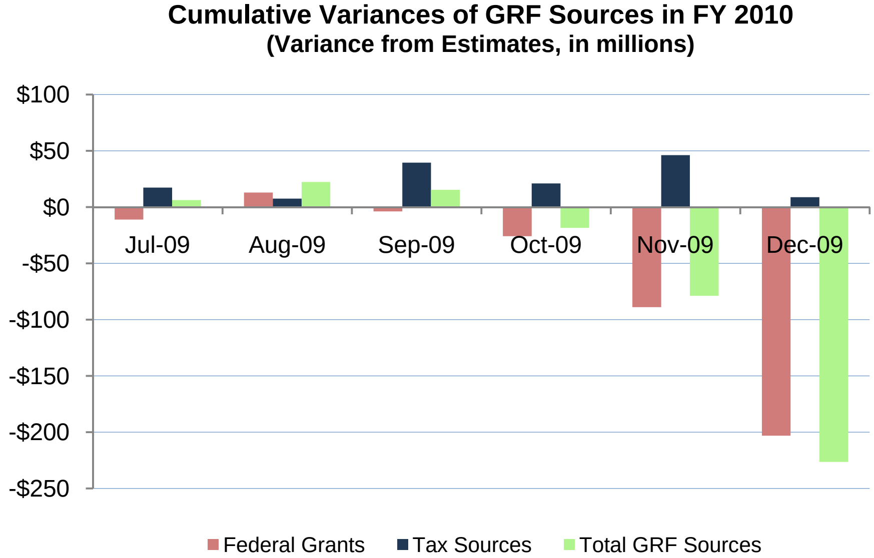
GRF tax sources of $1.45 billion in December were affected by a poor performance from the personal income tax, which was $44.1 million below expectation. The corporate franchise tax and the kilowatt hour tax were below estimate, respectively, by $2.9 million and $2.0 million. The cigarette tax was also below estimate by $1.3 million. The shortfalls in those tax sources were partially offset by a gain of $12.1 million in the sales and use tax. Variances for the remaining taxes were small. Liquor transfers were up by $16.0 million due to receipts scheduled for November having been booked on December 1, 2009.

Year-to-date GRF tax revenues were $8.9 million above estimate and $764.6 million below FY 2009 receipts.

Through December, FY 2010 total GRF sources of $12.18 billion were $226.3 million below estimate. As with receipts for the previous two months, the shortfall was driven by federal grants which were below estimate by $203.1 million. State-source receipts of $8.30 billion were below estimate by $23.3 million due to $32.1 million in lower than expected revenues from nontax sources and transfers. The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources. Total tax revenues of $7.68 billion were $8.9 million above estimate in the first half of FY 2010 and all three primary tax sources performed generally as expected. The following tax sources were above estimate through December: the personal income tax ($41.8 million), the cigarette tax ($27.6 million), the sales and use tax ($11.9 million), and the domestic insurance tax ($2.1 million). Most other tax sources were below estimate, including the corporate franchise tax

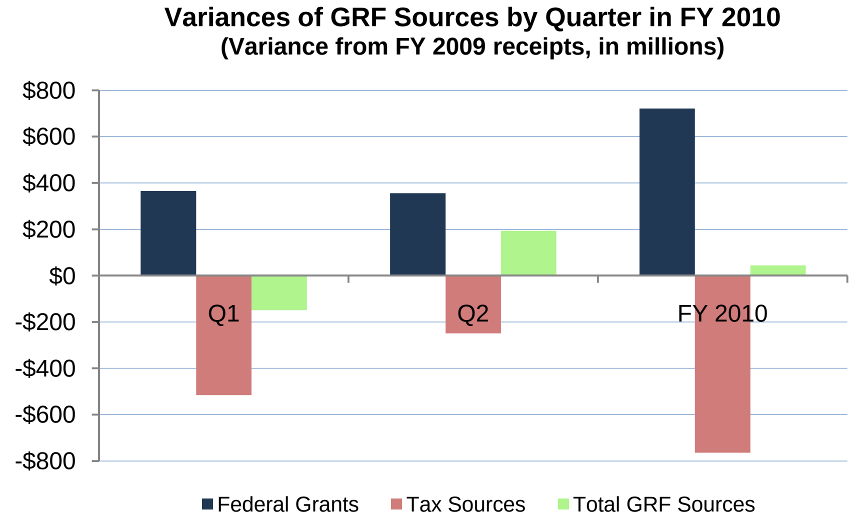
[1] The primary such programs are Medicaid and Temporary Assistance for Needy Families (TANF).

($39.0 million), the public utility excise tax ($17.4 million), the kilowatt hour tax ($9.6 million), the foreign insurance tax ($4.2 million), and the estate tax ($3.3 million).



Compared to FY 2009, FY 2010 year-to-date GRF sources grew $44.0 million from an increase of $719.1 million in federal grants due to higher receipts this year from the American Recovery and Reinvestment Act of 2009 (ARRA) (the federal stimulus bill of February 2009). The increase in federal grants was partially offset by a reduction of $764.6 million in tax receipts.

The graph below shows the quarterly variances against FY 2009 for federal grants, tax sources, and total GRF sources. FY 2010 second-quarter GRF sources reversed a shortfall of $149.2 million through the first quarter. Federal grants and transfers of $125.0 million in December 2009 of unclaimed funds in the Department of Commerce offset recession-shrunken tax receipts this year.



Receipts from the personal income tax and the sales and use tax were below the levels of 2009, respectively, by $491.7 million and $179.6 million. Other taxes with notable year-to-year revenue variances included decreases of $57.5 million in corporate franchise tax receipts, $19.2 million in public utility excise tax receipts, $19.1 million in cigarette tax receipts, $4.8 million in estate tax receipts, and $3.8 million in foreign insurance tax receipts, and increases of $9.5 million in kilowatt hour tax receipts and $2.0 million in domestic insurance tax receipts. The decline in receipts from the personal income tax and the corporate franchise tax were both due in significant part to tax changes made by H.B. 66 of the 126th General Assembly.

December income tax receipts were $44.1 million below estimate and $104.4 million below last year's levels.

Personal Income Tax

December GRF receipts from the personal income tax of $667.0 million were $44.1 million (6.2%) below estimate and $104.4 million (13.5%) below receipts in December 2008. Employer withholding and estimated tax payments were below estimate, and refunds were higher than expected in December 2009. The personal income tax exceeded revenue estimates in each of the first five months of the year. However, the shortfall in December reduced to $41.8 million the positive cumulative variance of $85.9 million through November 2009.[2] The GRF received $3.43 billion from the personal income tax in the first half of FY 2010. This amount was $491.7 million (12.5%) below receipts during the corresponding months of FY 2009. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government funds. Gross collections are

[2] FY 2010 second-quarter withholdings were $8.3 million above estimate. In the first quarter, withholdings were $40.3 million above estimate.

the sum of withholding, quarterly estimated payments,[3] trust payments, payments associated with annual returns, and miscellaneous payments.

FY 2010 Year-to-date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-date Variance from Estimate		Year-to-date Changes from FY 2009	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$48.6	1.5%	-$363.5	-9.7%
Quarterly Estimated Payments	-$7.6	-2.1%	-$142.4	-28.7%
Trust Payments	-$2.5	-18.0%	-$3.3	-22.9%
Annual Return Payments	$7.4	6.3%	-$23.4	-15.8%
Miscellaneous Payments	$8.7	25.7%	$8.7	25.8%
Gross Collections	$54.7	1.5%	-$523.9	-11.8%
Less Refunds	$7.9	4.1%	$12.0	6.4%
Less Local Government Fund Distribution	$4.9	1.7%	-$44.2	-12.7%
Income Tax Revenue	$41.8	1.2%	-$491.7	-12.5%

The table above summarizes FY 2010 income tax revenue variances from estimate and annual changes by component. Employer withholding (which accounted for about 75% of gross collections in FY 2009) was $48.6 million (1.5%) above estimate through December in FY 2010, down from $72.2 million in the previous month. Year-to-date withholdings were $363.5 million (9.7%) below FY 2009 receipts through December from both increasing unemployment, and the final 4.2% reduction in tax rates enacted by H.B. 66 of the 126th General Assembly. Ohio employment did grow in October and November, but is still well below levels of a year ago. In the second quarter of FY 2010, combined withholdings showed a marginal improvement over the first quarter. Receipts from withholding in the October-December period this fiscal year were 9.3% below receipts in the same period last year. In comparison, first-quarter withholdings in FY 2010 were down 10.1% relative to receipts in the July-September period in FY 2009.

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

H.B. 318, signed into law in December 2009, will increase estimated FY 2010 revenue from the income tax. H.B. 318 delayed the last of the income tax rate reductions enacted in H.B. 66 of the 126th General Assembly, and held tax rates unchanged in tax year (TY) 2009 and TY 2010 at the TY 2008 levels. This delay is expected to increase GRF personal income tax receipts by between $405 million and $416 million in FY 2010. OBM officials report that they are updating revenue forecasts to reflect passage of H.B. 318, and that they expect to have updated forecasts by early February.

Sales and Use Tax

December 2009 GRF sales and use tax receipts of $687.1 million were $12.1 million (1.8%) above estimate and $36.4 million (5.6%) above receipts in December 2008. Through December, FY 2010 GRF receipts of $3.56 billion were $11.9 million (0.3%) above estimate and $179.6 million (4.8%) below FY 2009 receipts in the same period.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

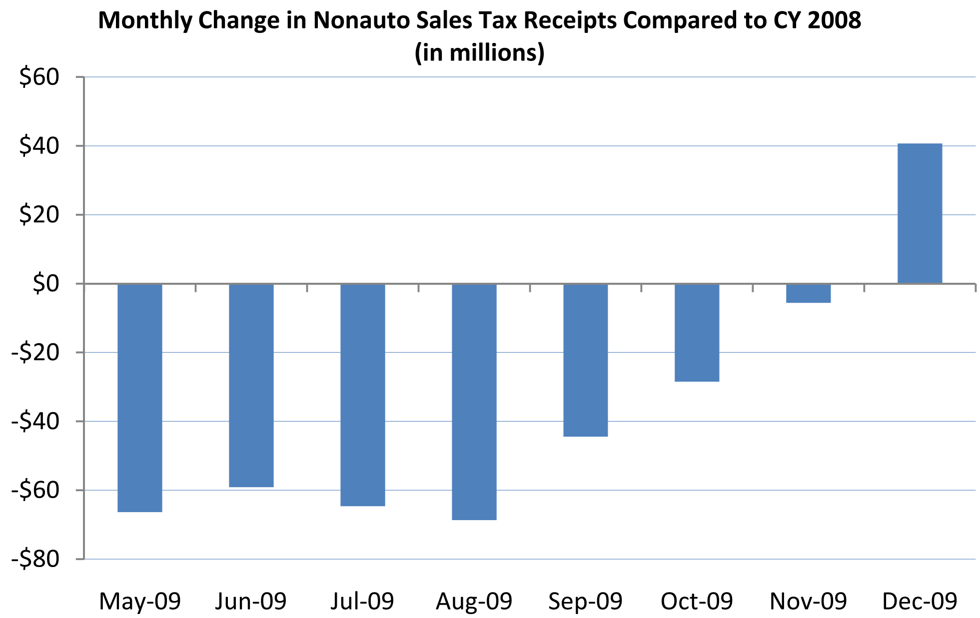
Year-to-date nonauto sales tax receipts were $11.9 million above estimate.

Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were $628.5 million in December 2009, $9.3 million (1.5%) above estimate and $40.7 million (6.9%) above December 2008 receipts. For the fiscal year, year-to-date nonauto sales and use tax receipts of $3.13 billion were $11.9 million (0.4%) below estimate and $171.4 million (5.2%) below receipts through December in FY 2009. The graph below shows the variance in monthly receipts against prior-year receipts in the same month in calendar year (CY) 2008. In the second quarter of FY 2010, the comparison to year-ago receipts improved gradually from 5.6% lower than the prior year in October and 1.1% in November, before finally turning positive in December by 6.9%. The growth relative to year-ago receipts reflects an awful performance in December 2008 and the expansion of the tax base this year, yielding added receipts from the new tax on health care

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

services provided by Medicaid health insuring corporations.[5] Excluding the revenue effects of that expansion, the non auto sales tax is still very weak.



An index of chain-store retailers (for sales at stores open at least one year) grew 2.8% in December from their level a year earlier, according to a survey by the International Council of Shopping Centers. For the overall holiday season, which combines November and December sales, the index was up 1.8%. That figure compares with a 5.8% drop a year ago, the weakest holiday season in at least four decades. The December reading was the most robust in more than a year and a half. However, there is still no strong evidence of a turn in underlying consumer behavior, despite signs of a stabilizing economy. Growth in sales for several retailers was primarily due to higher gasoline prices this year, and food and other necessities remained an important contributor to growth. Gasoline and food are not part of the Ohio sales tax base, so growth in expenditures for gasoline or for food are not helpful to sales tax receipts.

Auto Sales and Use Tax

Auto sales and use tax receipts of $58.6 million in December 2009 were $2.8 million (5.0%) above estimate and $4.3 million (6.9%) below receipts in December 2008. Through December, FY 2010 auto sales and use tax receipts of $437.3 million were $23.7 million (5.7%) above estimate,

[5] New taxes were imposed on health care services provided by Medicaid health insuring corporations starting on October 1, 2009 (H.B. 1, the operating budget act for the current biennium). Those services are taxed under the sales and use tax and the insurance taxes.

but they were $8.3 million (1.9%) below receipts through December in FY 2009.

The year 2009 ended on a hopeful note for the motor vehicle industry. Vehicle sales had slowly increased in recent months and rose for the third consecutive month in December. Nationwide sales of light vehicles (autos and light trucks), at an annualized rate of 11.2 million units, were up from 10.9 million units in November and 10.4 million units in October. For all of 2009, light vehicle sales totaled 10.4 million units, the lowest number since 1982 and were 21% below their 2008 total. The long decline in new auto sales appears to have bottomed out. But sales will not begin to turn up in a convincing way until the labor and credit markets improve.

Cigarette and Other Tobacco Products Tax

Cigarette tax receipts were above estimate by $27.6 million in the first half of FY 2010.

Receipts from the tax on cigarettes and other tobacco products were $74.7 million, $1.3 million (1.7%) below estimate and $10.7 million (12.5%) below December 2008 receipts. Through December, FY 2010 receipts of $404.8 million were $27.6 million (7.3%) above estimate and $19.1 million (4.5%) below FY 2009 receipts through December 2008. Receipts from cigarette sales were $380.1 million. Sales of products other than cigarettes provided $24.7 million. Compared to FY 2009, receipts from the sale of cigarettes declined $23.9 million (5.9%) and those from the sale of other tobacco products increased $4.7 million (23.7%). FY 2010 first-half receipts were particularly robust, and this tax source is likely to finish the year ahead of estimate, based on year-to-date revenues through December. Nine months after the increase in federal taxes on all tobacco products of April 1, 2009, the decline in consumption of taxed cigarettes appears to be smaller than anticipated. Although little data exist yet for Ohio, smokers' response to higher prices from the tax increases included substituting lower priced for higher priced brands, which does not affect revenues from the excise tax on cigarettes. Also, the tax yield from the sale of other tobacco products has increased dramatically, as the Ohio taxable base (Ohio wholesale value) includes federal taxes. Receipts from the cigarette and other tobacco products tax are the third-largest tax revenue source in FY 2010, after the personal income tax and the sales and use tax.

Corporate Franchise Tax

CFT receipts were below estimate by $39.0 million in the first half of FY 2010.

As part of the five-year phase-out of the corporate franchise tax (CFT) that was enacted by H.B. 66 of the 126th General Assembly, the CFT for nonfinancial corporations has been eliminated, and the tax has become a tax on the net worth of financial institutions. The CFT report for 2009 was the last one for nonfinancial corporations, with a final due date of October 15, 2009 for nonfinancial corporations that were offered an extension to file.

In December 2009, CFT net refunds of $4.9 million exceeded estimated refunds by $2.9 million. Through December, FY 2010 CFT actual refunds were $59.0 million, $39.0 million higher than estimated refunds. Alternatively, CFT receipts were below estimate by the same amount. Corporate profits for both nonfinancial and financial firms declined in CY 2007 and CY 2008, which likely resulted in refunds higher than anticipated in the July through December period this fiscal year. Year-to-date results through December 2009 portend a poor performance of the CFT this fiscal year. Corporate profits grew in CY 2009, but the need of financial firms to restore their balance sheets introduced substantial uncertainty to receipts estimates in FY 2010.[6] Comparisons with monthly receipts in the previous fiscal year are not meaningful.[7] Major tax payments by financial corporations are due January 31, March 31, and May 31.

Through December, FY 2010 public utility excise tax receipts were $17.4 million below estimate.

Public Utility Excise Tax

Through the first six months of FY 2010, GRF revenues from the public utility excise tax of $56.9 million were $17.4 million (23.4%) below estimate and $19.2 million (25.2%) below receipts a year earlier. Prices paid to natural gas companies by their customers were down sharply in 2009. Natural gas consumption was depressed by the recession, particularly at industrial companies. In addition, more residential and business consumers of gas are participating in the natural gas Choice program. Nonutility companies that sell gas do not pay the public utility excise tax, but are responsible for collecting sales tax on those sales. Lower prices and increased sales tax payments suggest that the public utility excise tax is likely to underperform this fiscal year.

Through December, FY 2010 kilowatt hour tax receipts were $9.6 million below estimate.

Kilowatt Hour Tax

December GRF receipts from the kilowatt hour tax were $11.3 million, $2.0 million (14.9%) below estimate. First-half GRF receipts from the tax totaled $77.5 million. This amount was $9.6 million (11.0%) below estimate and $9.5 million (13.9%) below FY 2009 receipts through

[6] Corporate earnings improved in CY 2009, but financial firms had to decide either to build loan reserves or to write down bad loans (which increased due to the recent financial crisis). Writing down bad loans decreases net worth (tax base) of firms.

[7] A large portion of the CFT tax base has been eliminated by the phase-out. In tax year 2008, the tax liability of financial institutions was less that 10% of total CFT tax liability (before credits and reduction factors from H.B. 66).

Year-to-date CAT receipts were about $40.9 million below estimate.

December. Tax receipts decreased due to milder than expected temperatures and lower demand for electricity by all electric users, including a recession-induced sharp decline in electricity demand from industrial users.[8] Based on year-to-date receipts and near-term economic forecasts, this tax source is likely to fall short of anticipated tax receipts for the fiscal year.

Commercial Activity Tax

As part of the five-year phase in of the commercial activity tax (CAT) that was enacted by H.B. 66 of the 126th General Assembly, FY 2010 is the first year in which CAT taxpayers pay 100% of their tax liability. According to OBM, December receipts were $5.6 million, $5.9 million (51.4%) below estimate and $4.1 million (42.3%) above receipts in December 2008. FY 2010 second-quarter receipts for this tax were $43.5 million (11.5%) below estimate, which increased the year-to-date negative variance for the tax to $47.5 million (6.7%). Although FY 2010 CAT receipts of $663.8 million through December were $17.5 million (2.7%) above receipts through December 2008 in FY 2009, growth in the tax base stalled in 2008, and reversed throughout 2009. Consequently, this tax source may underperform this fiscal year.

Through FY 2011, revenues from the tax are not deposited into the GRF as they are earmarked for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property (TPP). CAT receipts are distributed to the School District Tangible Property Tax Replacement Fund (70%) and to the Local Government Tangible Property Tax Replacement Fund (30%). If CAT receipts are insufficient for the reimbursements, current law requires a GRF subsidy to the two funds.

[8] According to the U.S. Energy Information Administration, nationwide electricity demand fell for all users in CY 2009 (through September), including about 1% for residential customers, 2% for commercial users, and 12% for industrial users.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of December 2009
($ in thousands)
(Actual based on OAKS reports run January 5, 2010)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$287,108	$512,731	-$225,623	-44.0%
Higher Education	$198,490	$188,599	$9,891	5.2%
Total Education	$485,598	$701,330	-$215,732	-30.8%
Public Assistance and Medicaid	$964,104	$914,686	$49,418	5.4%
Health and Human Services	$52,208	$60,166	-$7,958	-13.2%
Total Welfare and Human Services	$1,016,312	$974,852	$41,461	4.3%
Justice and Public Protection	$128,976	$180,931	-$51,955	-28.7%
Environment and Natural Resources	$5,173	$6,471	-$1,298	-20.1%
Transportation	$1,172	$789	$383	48.5%
General Government	$18,840	$26,638	-$7,799	-29.3%
Community and Economic Development	$9,800	$7,418	$2,381	32.1%
Capital	$0	$0	$0	---
Total Government Operations	$163,960	$222,247	-$58,288	-26.2%
Tax Relief and Other	$7,574	$13,000	-$5,426	-41.7%
Debt Service	$17,894	$20,263	-$2,368	-11.7%
Total Other Expenditures	$25,468	$33,263	-$7,794	-23.4%
Total Program Expenditures	**$1,691,338**	**$1,931,692**	**-$240,354**	**-12.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	$0	$0	$0	---
TOTAL GRF USES	**$1,691,338**	**$1,931,692**	**-$240,354**	**-12.4%**

* September 2009 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2010 as of December 31, 2009
($ in thousands)
(Actual based on OAKS reports run January 5, 2010)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2009**	**Percent Change**
Primary, Secondary, and Other Education	$3,611,773	$3,636,101	-$24,328	-0.7%	$3,583,689	0.8%
Higher Education	$1,249,969	$1,262,939	-$12,971	-1.0%	$1,359,420	-8.1%
Total Education	$4,861,741	$4,899,040	-$37,299	-0.8%	$4,943,109	-1.6%
Public Assistance and Medicaid	$5,632,277	$5,847,016	-$214,740	-3.7%	$6,088,851	-7.5%
Health and Human Services	$539,956	$556,784	-$16,828	-3.0%	$650,119	-16.9%
Total Welfare and Human Services	$6,172,233	$6,403,801	-$231,568	-3.6%	$6,738,971	-8.4%
Justice and Public Protection	$1,027,913	$1,054,352	-$26,439	-2.5%	$1,134,968	-9.4%
Environment and Natural Resources	$52,924	$51,319	$1,605	3.1%	$62,771	-15.7%
Transportation	$9,643	$9,869	-$226	-2.3%	$13,374	-27.9%
General Government	$159,293	$167,434	-$8,142	-4.9%	$212,279	-25.0%
Community and Economic Developmen	$58,451	$55,278	$3,173	5.7%	$82,089	-28.8%
Capital	$255	$0	$255	---	$187	36.4%
Total Government Operations	$1,308,478	$1,338,251	-$29,773	-2.2%	$1,505,668	-13.1%
Tax Relief and Other	$886,302	$654,864	$231,438	35.3%	$790,706	12.1%
Debt Service	$206,520	$214,171	-$7,651	-3.6%	$323,334	-36.1%
Total Other Expenditures	$1,092,822	$869,035	$223,787	25.8%	$1,114,040	-1.9%
Total Program Expenditures	**$13,435,274**	**$13,510,127**	**-$74,853**	**-0.6%**	**$14,301,787**	**-6.1%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$1,021,326	$967,366	$53,960	5.6%	$844,504	20.9%
Total Transfers Out	$1,021,326	$967,366	$53,960	5.6%	$844,504	20.9%
TOTAL GRF USES	**$14,456,600**	**$14,477,493**	**-$20,893**	**-0.1%**	**$15,146,291**	**-4.6%**

* September 2009 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: Medicaid Spending in FY 2010
($ in thousands)

Medicaid (600525) Payments by Service Category	December Actual	December Estimate	December Variance	December Percent Variance	Year to Date Actual thru Dec	Year to Date Estimate thru Dec	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$224,425	$226,284	-$1,859	-0.8%	$1,342,528	$1,370,472	-$27,944	-2.0%
ICFs/MR	$44,548	$44,789	-$241	-0.5%	$270,450	$272,351	-$1,901	-0.7%
Inpatient Hospitals	$91,490	$78,738	$12,752	16.2%	$537,527	$575,322	-$37,795	-6.6%
Outpatient Hospitals	$37,890	$30,166	$7,724	25.6%	$206,023	$215,989	-$9,966	-4.6%
Physicians	$29,473	$25,576	$3,897	15.2%	$165,553	$184,468	-$18,915	-10.3%
Prescription Drugs	$40,464	$38,921	$1,543	4.0%	$240,780	$278,466	-$37,686	-13.5%
ODJFS Waivers	$30,122	$26,740	$3,382	12.6%	$166,936	$182,623	-$15,687	-8.6%
MCP	$496,420	$512,914	-$16,494	-3.2%	$2,740,728	$2,761,239	-$20,511	-0.7%
All Other	$120,858	$109,683	$11,175	10.2%	$700,296	$725,258	-$24,962	-3.4%
DA Medical	$37	$568	-$531	-93.5%	$3,410	$4,119	-$709	-17.2%
Total Payments	$1,115,727	$1,094,379	$21,348	2.0%	$6,374,231	$6,570,307	-$196,076	-3.0%
Non-GRF Offsets	-$294,885	-$295,277	$392	-0.1%	-$1,328,649	-$1,331,265	$2,616	-0.2%
Total 600525 (net of offsets)	$820,842	$799,102	$21,740	2.7%	$5,045,582	$5,239,042	-$193,460	-3.7%
Medicare Part D (600526)	$21,590	$21,762	-$172	-0.8%	$130,921	$132,880	-$1,959	-1.5%
Total GRF	**$842,432**	**$820,864**	$21,568	**2.6%**	**$5,176,503**	**$5,371,922**	-$195,419	**-3.6%**
Total All Funds	**$1,137,317**	**$1,116,141**	$21,176	**1.9%**	**$6,505,152**	**$6,703,187**	-$198,035	**-3.0%**

Sources: Actuals from the Ohio Administrative Knowledge System
Estimates from the Ohio Department of Job and Family Services

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded
ODJFS - Ohio Department of Job and Family Services
MCP - Managed Care Plan
DA Medical - Disability Medical Assistance

EXPENDITURES

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

For the first half of FY 2010, total GRF program expenditures were below estimate by $74.9 million.

Overview

For the first half of FY 2010, GRF program expenditures totaled $13.44 billion, $74.9 million below the estimate released by the Office of Budget and Management (OBM) in September 2009. Year-to-date GRF transfers out amounted to $1.02 billion, $54.0 million above estimate. GRF uses as a whole were $14.46 billion, $20.9 million below estimate. Tables 3 and 4 show GRF uses for the month of December and for FY 2010 through December, respectively.

Year-to-date variances differ substantially from one program category to another. Public Assistance and Medicaid expenditures were below estimate by $214.7 million whereas the Tax Relief and Other program category had a positive variance of $231.4 million. Four other program categories with relatively large variances were Justice and Public Protection (-$26.4 million), Primary, Secondary, and Other Education (-$24.3 million), Health and Human Services (-$16.8 million) and Higher Education (-$13.0 million). The variances in these six program categories are briefly discussed below.

Public Assistance and Medicaid

Although the Public Assistance and Medicaid program category posted a positive variance of $49.4 million (5.4%) in the month of December, its fiscal year-to-date expenditures of $5.63 billion were $214.7 million (3.7%) below estimate. Of this amount, $195.4 million occurred in Medicaid, which accounts for about 95% of overall spending in the Public Assistance and Medicaid program category. Table 5 details Medicaid payments by service category.

Year-to-date GRF expenditures for Medicaid were below estimate by $195.4 million.

GRF Medicaid expenditures for the first half of the fiscal year were $5.18 billion, $195.4 million (3.6%) below estimate. For December, GRF Medicaid expenditures totaled $842.4 million, which was $21.6 million (2.6%) above estimate. This positive variance was mainly due to $69.9 million in Medicaid payments that were budgeted for November but disbursed in December. For the year-to-date, expenditures for all Medicaid service categories were below estimate. Currently, Medicaid provides health insurance coverage to over two million low-income Ohioans. The overall costs per covered individual has been lower than estimated. Categories with significant negative variances included Inpatient Hospitals ($37.8 million), Prescription Drugs ($37.7 million), Nursing Facilities ($27.9 million), All Other ($25.0 million), and Managed

Care Plans ($20.5 million). The All Other category includes payments for some smaller service categories (including Hospice, Home Health Services, and Durable Medical Equipment) and the Medicare Buy-in Program.

Justice and Public Protection

Year-to-date expenditures for the Justice and Public Protection program category totaled $1.03 billion, $26.4 million (2.5%) below estimate. The Department of Rehabilitation and Corrections (DRC) and the Department of Youth Services (DYS), the two largest agencies within this program category, had year-to-date negative variances of $21.7 million and $5.6 million, respectively. As discussed in the previous issue of *Budget Footnotes*, one of the bi-weekly payroll obligations that OBM anticipated as a December expense was ultimately posted in November. As a result, DRC registered a negative variance of $40.9 million in December. DRC's Institutional Operations line items (items 501321 and 501602) contributed $8.2 million of the $21.7 million year-to-date negative variance. Line item Mental Health Services (item 502321) contributed another $8.2 million. In FY 2010, DRC's operating expenses are mainly supported by a combination of the state GRF (item 501321) and federal stimulus funding deposited into the GRF (item 501602). The Mental Health Services line item provides funding for the provision of mental health services to offenders housed in the state's prison system. RECLAIM Ohio (item 470401), the largest line item within the DYS budget, accounted for $3.9 million of DYS's $5.6 million year-to-date negative variance. RECLAIM Ohio provides funding for institutional placement and community program services to youth who have been convicted of a felony offense and to any other delinquent child.

Primary, Secondary, and Other Education

The Primary, Secondary, and Other Education program category's year-to-date negative variance of $24.3 million (0.7%) was attributable to a negative variance of $225.6 million (44.0%) in December. Foundation payments for schools accounted for $204.8 million of the December negative variance. Schools receive two foundation payments per month for a total of 24 payments per year. The first January 2010 payment, which was made on January 8, is recognized as January expenditures for the Department of Education. However, the OBM estimate anticipated this payment to be counted as part of December expenditures. Since certain accounting procedures need to be followed before actual payments can be disbursed, it is not unusual for a foundation payment that is made at the end or at the beginning of a month to be recognized as the following or prior month's expenditures. For the first six months of FY 2010, 12 foundation payments have been disbursed, which includes two months where only one payment was recognized (August and December) and two months where three payments were recognized (July and October).

Health and Human Services

Year-to-date expenditures for the Health and Human Services program category were below estimate by $16.8 million (3.0%), including $8.0 million (13.2%) in December. Of the $16.8 million in year-to-date negative variance, $7.1 million was attributable to the Department of Developmental Disabilities (DODD) and $6.8 million was attributable to the Department of Health (DOH).

Expenditures related to the Martin Settlement accounted for $3.8 million of the $7.1 million negative variance in DODD. The settlement, which was accepted by the court in March 2007, ended a federal class action lawsuit filed by the Ohio Legal Rights Service in 1989 that sought to allow individuals with developmental disabilities to receive community- or home-based rather than institutional-based services. As a result of the settlement, the state has created 1,500 additional Individual Option (IO) waiver slots to enable certain individuals to receive services in their homes or community-based settings. H.B. 1 provided a 66% funding increase in FY 2010 over the FY 2009 level for the settlement. Expenditures were lower than expected as providers may bill up to one year after service is rendered. Small variances in various other line items accounted for the remaining negative variance in DODD. DOH's year-to-date negative variance was a result of the build-up of relatively small variances in various line items over the first six months of the fiscal year.

Higher Education

December expenditures for the Higher Education program category were $9.9 million (5.2%) above estimate, which narrowed the category's year-to-date negative variance to $13.0 million (1.0%). As reported in prior issues of *Budget Footnotes*, this negative variance was attributable to the Ohio College Opportunity Grant (OCOG), a need-based student financial aid program. OCOG expenditures remained $14.0 million below their year-to-date estimate for FY 2010, but were $11.2 million higher than the OBM estimate for the month of December. H.B. 1 altered OCOG's allocation criteria, which delayed payments for the 2009-2010 academic year. The payments are expected to return to estimated levels by February.

Tax Relief and Other

GRF expenditures for the Tax Relief and Other program category totaled $886.3 million for the first half of FY 2010, which was $231.4 million (35.3%) above estimate. As indicated in prior issues of *Budget Footnotes*, the positive variance in Tax Relief and Other was due to counties submitting reimbursement requests sooner than was anticipated by OBM and is expected to narrow in future months.

Year-to-date expenditures for Tax Relief and Other were above estimate by $231.4 million due largely to timing.

In Ohio, property taxes are settled twice a year, in February and August. Based on these two settlements, the state reimburses school districts and local governments for the 10% and 2.5% property tax rollback as well as the Homestead Exemption. As of the end of December, reimbursements for the August 2009 property tax settlement were completed.

Although Tax Relief and Other had a relatively large year-to-date positive variance, the expenditures over the first six months of FY 2010 represent 53.6% of the total estimated reimbursement for FY 2010. The OBM estimate anticipated that only 31% of FY 2010 payments would be made in the first half of the fiscal year.

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

ISSUE UPDATES

Ohio Has Restructured Its Bonds to Reduce GRF Debt Service Payments over the FY 2010-FY 2011 Biennium

—Ruhaiza Ridzwan, Economist, 614-387-0476

Through December 2009, the state has realized GRF debt service payment reductions totaling $335 million for FY 2010 from issuances of refunding bonds. The Ohio Public Facilities Commission (OPFC) completed an issuance in May 2009. The Ohio Building Authority (OBA) completed one in September 2009. Issuing refunding bonds is one of several measures that the state used to balance its operating budget for the FY 2010-FY 2011 biennium. Proceeds from the refunding bonds are used in place of GRF funding to defray current costs of debt service, thereby reducing GRF expenditures in this biennium. Such a debt restructuring plan essentially delays the payments for certain outstanding bonds and increases the overall costs of those bonds.

The state's debt restructuring plan is intended to reduce GRF debt service payments during this biennium by a total of $736.8 million. Of this amount, $480.8 million is to come from refunding bonds issued by OPFC, and the remaining $256 million is to come from refunding bonds issued by OBA. While H.B. 1 GRF debt service appropriations reflect the effect of the refunding bonds issued by OPFC, they do not take into account the refunding bonds issued by OBA. Therefore, H.B. 1 GRF debt service appropriations are expected to lapse by $256 million over the biennium, including $116.1 million in item 100447, OBA-Building Rental Payments, $115.2 million in item 501406, Lease Rental Payments, and $24.8 million in item 470412, Lease Rental Payments. According to an official from the Office of Budget and Management (OBM), OPFC and OBA will issue additional refunding bonds around January 2010 and August 2010, respectively, in order to achieve the overall goal of the debt restructuring plan.

As seen in Table 1, the refunding bonds issued by OPFC in May 2009 also reduced GRF debt service payments for FY 2009 by $52.8 million. Including this amount, the OPFC refunding bonds are estimated to reduce GRF debt service payments by a total of $535.1 million from FY 2009 to FY 2011. To achieve this goal, the state will pay $128.6 million more in interest payments over 14 years due to the delay in repaying existing debt. OBM estimates that the $128.6 million in extra interest paid in the future is equivalent to $8.6 million in present value terms. Similarly, as seen in Table 2, the state will pay approximately $103.7 million more in interest payments over 16 years for delaying the OBA-issued debt into future years. The estimated present value of the $103.7 million in future interest payments is $2.4 million.[9]

[9] Table 2 shows that refunding bonds issued by OBA would reduce GRF debt service payments by $271.8 million over the biennium. According to OBM, the $256 million target for OBA-issued bonds

Table 1: Annual Impact of the Debt Restructuring Proposed for OPFC-Issued Bonds				
Fiscal Year	**Debt Service (Prior to the Restructuring Plan)**	**Debt Service (After the Restructuring Plan)**	**Estimated Effect on the GRF**	**Present Value of the Effect on the GRF**
FY 2009	$52,829,729	$0	($52,829,729)	($52,762,278)
FY 2010	$289,576,111	$7,844,250	($281,731,861)	($278,600,814)
FY 2011	$224,940,703	$24,295,117	($200,645,586)	($194,901,111)
FY 2012	$0	$23,171,681	$23,171,681	$21,738,229
FY 2013	$0	$40,307,531	$40,307,531	$36,702,562
FY 2014	$0	$69,996,713	$69,996,713	$62,101,281
FY 2015	$0	$59,998,544	$59,998,544	$51,637,125
FY 2016	$0	$84,258,044	$84,258,044	$70,522,223
FY 2017	$0	$76,286,531	$76,286,531	$61,961,231
FY 2018	$0	$55,391,587	$55,391,587	$43,649,699
FY 2019	$0	$67,202,281	$67,202,281	$51,408,299
FY 2020	$0	$66,368,841	$66,368,841	$49,275,295
FY 2021	$0	$74,882,550	$74,882,550	$53,929,027
FY 2022	$0	$45,941,413	$45,941,413	$31,983,446
TOTAL	**$567,346,543**	**$695,945,083**	**$128,598,540**	**$8,644,215**

Source: Office of Budget and Management

Table 2: Annual Impact of the Debt Restructuring Proposed for OBA-Issued Bonds				
Fiscal Year	**Debt Service (Prior to the Restructuring Plan)**	**Debt Service (After the Restructuring Plan)**	**Estimated Effect on the GRF**	**Present Value of the Effect on the GRF**
FY 2010	$138,345,823	$3,240,113	($135,105,709)	($134,262,652)
FY 2011	$146,374,856	$9,664,953	($136,709,903)	($135,814,175)
FY 2012	$0	$12,128,181	$12,128,181	$11,342,991
FY 2013	$0	$12,128,181	$12,128,181	$10,925,430
FY 2014	$0	$19,842,231	$19,842,231	$17,209,355
FY 2015	$0	$30,031,431	$30,031,431	$25,263,722
FY 2016	$0	$30,037,606	$30,037,606	$24,340,783
FY 2017	$0	$30,044,606	$30,044,606	$23,452,424
FY 2018	$0	$30,475,488	$30,475,488	$22,916,493
FY 2019	$0	$30,379,944	$30,379,944	$22,007,944
FY 2020	$0	$30,263,094	$30,263,094	$21,121,291
FY 2021	$0	$30,045,681	$30,045,681	$20,202,148
FY 2022	$0	$30,037,959	$30,037,959	$19,458,695
FY 2023	$0	$30,040,000	$30,040,000	$18,749,160
FY 2024	$0	$30,044,075	$30,044,075	$18,067,225
FY 2025	$0	$30,049,700	$30,049,700	$17,411,322
TOTAL	**$284,720,679**	**$388,453,245**	**$103,732,566**	**$2,392,154**

Source: Ohio Building Authority

remains unchanged. The $271.8 million estimate is based on current market conditions and is subject to change.

Year-To-Date ARRA Revenues and Expenditures Exceeded $1.69 Billion in FY 2010

—Wendy Zhan, Deputy Director, 614-728-4814

During the first half of FY 2010, federal ARRA revenues and expenditures totaled $1.74 billion and $1.61 billion, respectively.[10] The table below shows year-to-date ARRA revenues and expenditures for each of the 18 state agencies receiving such funding. As seen from the table, the Department of Job and Family Services had the largest share of Ohio's ARRA revenues and expenditures at approximately 59%, followed by the Department of Education, the Board of Regents, and the Department of Transportation. Together, these four agencies represented over 92% of the total ARRA revenues and expenditures.

FY 2010 YTD ARRA All-Fund Revenues and Expenditures by Agency		
Agency Name	**Revenues**	**Expenditures**
Job and Family Services	$1,019,709,671	$1,004,849,835
Education	$335,571,985	$335,568,245
Regents	$140,851,060	$140,851,060
Transportation	$107,304,581	$109,668,455
Rehabilitation and Correction	$51,366,720	$51,366,720
Development	$39,217,209	$39,218,782
Public Safety	$38,255,746	$1,338,929
Aging	$2,537,968	$2,577,721
Attorney General	$2,511,428	$2,336,651
Health	$2,421,011	$2,669,051
Rehabilitation Services	$1,390,914	$2,002,234
Adjutant General	$416,129	$687,752
Natural Resources	$356,709	$1,098,582
Arts Council	$229,000	$228,750
Environmental Protection	$185,077	$369,307
Agricultural	$63,202	$63,606
eTech	$20,300	$16,505
Commerce	$6,549	$0
Total	**$1,742,415,258**	**$1,694,912,183**

Of the $1.74 billion in FY 2010 year-to-date ARRA revenues, $877.5 million (50.4%) was credited to the GRF for five purposes: Medicaid ($479.4 million), foundation funding for schools ($203.9 million), operating subsidies for state-assisted colleges and universities ($140.9 million), operational expenses of the state prison system ($51.4 million), and Title IV-E adoption services ($2.0 million). The remaining

[10] The differences between revenues and expenditures are largely due to different accounting rules for when to recognize revenues (when they are received) and expenditures (when they are incurred). For FY 2009, ARRA revenues and expenditures totaled $808.8 million and $795.6 million, respectively.

revenues were credited to various other funds used by the listed agencies. On an all-funds basis, year-to-date ARRA funding for Medicaid totaled $783.5 million. ARRA provides states with additional federal reimbursement for Medicaid through an enhanced Federal Medical Assistance Percentage (eFMAP). The eFMAP will be in effect for the period of October 1, 2008 through December 31, 2010.

Web Site Launched to Meet Government Accountability and Transparency Requirements

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

As required by H.B. 420 of the 127th General Assembly, the Department of Administrative Services (DAS) has launched Ohio's Government Accountability and Transparency web site (www.transparency.ohio.gov). The following information is available on the web site:

- Grants – grants awarded by various state agencies;
- State Procurement – bid opportunities and contract award information for supplies and services of state government;
- State Properties – an electronic inventory of about 50,000 parcels of state-owned land listed in the State Properties Program database maintained by the Treasurer of State;
- Think Ohio First – a quarterly report that tallies state agencies' purchasing of supplies and services from Ohio companies;
- State Employees – a listing of state employee salaries, overtime pay, and the number of employees by agency;
- State Budget – link to state budget information maintained by the Office of Budget and Management; and
- Ohio Recovery: Federal Stimulus – Ohio's ARRA awards and funding opportunities.

H.B. 420 also required the Office of the Attorney General to monitor entities receiving state economic development assistance for their compliance with the terms of those agreements. This system debuted in October 2009 and is referred to as the Economic Development Accountability Program. Recipients can fill out the required reporting form on-line and submit the form electronically at www.ohioattorneygeneral.gov/dap.

Motor Vehicle Late Filing Fees Generate Nearly $3 Million in First Month

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

As seen in the table below, in its first month, the newly enacted $20 fee for late driver license and motor vehicle registration renewals generated $2.9 million for the State Highway Safety Fund (Fund 7036). H.B. 2 of the 128th General Assembly – the transportation budget bill – created this late fee. Effective on October 1, 2009, the fee is assessed on all driver license and vehicle registration renewal transactions if renewed more than seven days beyond the expiration date. The deputy registrar who collects the late fee retains $0.50 and transmits $19.50 to the Registrar of Motor Vehicles for deposit into Fund 7036. These moneys are to be used to enforce and pay the expenses of administering the law governing motor vehicle registration and operation on the public roads, including operations of the Ohio State Highway Patrol.

At the time of the transportation budget bill's enactment, the annual revenue gain from these new late filing fees was estimated at approximately $34.5 million. The actual revenue gain from October 1, 2009 through November 6, 2009 would seem to suggest that, in the first year at least, the State Highway Safety Fund is on target to gain the estimated $30-plus million in new revenues.

Late Filing Fee Revenues, October 1, 2009 through November 6, 2009	
Transaction Type	**Amount Deposited into Fund 7036**
Driver License Late Renewal Fee	$667,914
Commercial Driver License Late Renewal Fee	$19,013
Motor Vehicle Late Registration Renewal Fee	$2,127,099
Commercial Vehicle Late Registration Renewal Fee	$110,370
Church Bus Late Registration Renewal Fee	$234
Total	$2,924,630

Elimination of Assigned Posts Estimated to Save Prison System $9.9 Million in FY 2010 and $19.7 Million in FY 2011

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

The Department of Rehabilitation and Correction (DRC) has eliminated 175 assigned posts in various correctional institutions that were required to be staffed by correction officers. This action is expected to reduce DRC's overtime expenditures by approximately $9.9 million in FY 2010 and $19.7 million in FY 2011. These posts were eliminated as a result of a reevaluation of all such posts statewide. Through the reevaluation, DRC determined that many of these posts were not critical to institutional safety and security. Due to personnel shortages, many of the posts are staffed with correction officers on overtime. Overtime is a multi-million dollar annual expense for DRC. According to the Department of Administrative Services' Overtime Dashboard (www.transparency.ohio.gov→State Employees→Overtime Reports), for the first three quarters of calendar year 2009, DRC incurred $44.5 million in overtime pay. The correction officers who were staffing the eliminated posts were reassigned to other duties.

One example of eliminated posts occurred at the Southern Ohio Correctional Facility (SOCF) in Lucasville, Ohio in December. DRC eliminated 12 assigned weekly posts, including positions within some of the guard towers. With various technological improvements, DRC determined that these posts were no longer necessary to the ongoing security requirements of that correctional institution. The correction officers who normally staffed these eliminated posts each week are now reassigned to other duties within the institution. These reassignments are expected to reduce SOCF's overtime expenditures by approximately $670,000 in FY 2010 and $1.35 million in FY 2011.

Department of Agriculture Selects 37 Farms for the Clean Ohio Agricultural Easement Purchase Program

—Terry Steele, Budget Analyst, 614-387-3319

On November 13, 2009, the Ohio Department of Agriculture selected 37 farms with a total of 6,279 acres to be preserved under the Clean Ohio Agricultural Easement Purchase Program (AEPP).[11] The total cost of the easements is estimated to be $6.25 million. The AEPP is one of four components of the state's Clean Ohio Fund, a bond-funded initiative. The program was originally approved by voters in 2000 and reauthorized in 2008. A total of $800 million of general obligation bonds have been approved for the initiative, including $50 million for AEPP.

An easement acquired by the state allows the farmland to remain under private ownership, but prohibits the owner from pursuing any future nonagricultural development of the acreage. The political subdivision in which the land is located must apply on behalf of the landowner. Eligible parcels must be at least 40 acres, unless adjacent to another parcel already enrolled in the program, in which case the minimum is 25 acres. The Department of Agriculture calculates the value of the easement based on the county auditor's valuation and consideration of the farm's specific farmland preservation attributes. This determines the maximum purchase value of the easement; however, the value is capped at $2,000 per acre, with a maximum grant value of $500,000 per farm. From 2002 to 2008, the state secured easements on 135 farms covering 26,814 acres of farmland at a total cost of $25 million.

[11] The full list can be viewed at: www.agri.ohio.gov/divs/farmland/farmland.aspx.

Superintendent of Public Instruction Issues Ten-Year Strategic Plan

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

On December 1, 2009, the Superintendent of Public Instruction issued the Ohio Department of Education's (ODE) ten-year strategic plan. The plan, entitled *Ohio's Promise: Enhance Achievement, Focus on Excellence and Provide Opportunities*, was submitted to meet a requirement for a strategic plan established in H.B. 1. In the plan, the Superintendent has defined ODE's vision as follows:

> Ohio will implement a world-class education system in which all students will graduate with a sense of purpose and be well prepared for college, work and life.

The Superintendent has further developed a three-fold mission for ODE:

- Collaborate with the education community to effectively serve all students;
- Ensure that Ohio's education system is focused on excellence; and
- Provide differentiated support that addresses unique needs within Ohio's schools.

Finally, the Superintendent has outlined six strategic goals focusing on 21st century skills, funding and accountability, graduation, leadership, early childhood, and partnerships. The full report can be accessed on ODE's web site (www.ode.state.oh.us) by searching for "Ohio's Promise."

Trimble Local School District in Athens County Awarded First SFC Corrective Action Grant

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

The School Facilities Commission (SFC) has awarded its first corrective action grant to Trimble Local School District, in Athens County, in the amount of $663,509 for work deemed by SFC as "omitted" from the district's SFC-assisted facilities project. H.B. 266 of the 127th General Assembly appropriated $25 million in the FY 2009-FY 2010 capital biennium from the School Building Assistance Fund (Fund 7032) to be used by SFC to award the grants. The grants are to be used to correct defective or omitted work in SFC projects. Schools are required to notify SFC of any potential omitted or defective work within five years of project close-out to be eligible for the grants. Funds received from the grants are in addition to those funds received by the school districts from the state for its SFC project.

The funds awarded to Trimble Local will support roof repair and ceiling tile replacement, as well as sidewalk and curb removal and replacement at its elementary/middle and high schools. According to SFC, these items were originally constructed or renovated through an Ohio Department of Education facilities program that existed prior to the creation of SFC in 1997. SFC deemed these items to be in good condition at the time of its assessment for Trimble Local's 1999 SFC project. As a result, the items were omitted from the district's master facilities plan and not replaced during the project.

New Eastern Gateway Community College Offers Courses in the Mahoning Valley

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

The new Eastern Gateway Community College (EGCC) offered its first full schedule of courses this fall to students in Jefferson, Mahoning, Columbiana, and Trumbull counties. H.B. 1 created EGCC to replace Jefferson State Community College, which only served Jefferson County. EGCC is using classrooms on the campus of the former Jefferson State Community College in Jefferson County and in five other sites in the region: the Valley Center, on the border of Trumbull and Mahoning counties, Columbiana County Career and Technical Center, Mahoning County Career and Technical Center, Trumbull County Career and Technical Center, and Chafin Career Center of Youngstown City School District. The new college continues to offer over 50 degree and certificate programs at its Jefferson County campus and now offers ten associate degree and six college certificate programs in the three additional counties. Courses are provided on-line, through video conferencing, and in traditional classroom settings. In addition to the collaborations with the career centers listed above, EGCC is partnering with Youngstown State University, Kent State University, and Lorain County Community College. These partnerships have allowed the college to make its programs available to residents of the region without the delay involved in building new facilities and obtaining new program accreditations.

Fall FY 2010 enrollment for EGCC was approximately 1,300 students and enrollment is expected to increase as the school's programs and outreach continue to expand. At approximately $1,350 per term, tuition for EGCC is among the lowest of Ohio's public institutions. In FY 2010, EGCC is expected to receive the same amount of State Share of Instruction state subsidy funding that Jefferson State Community College would have received had the transition not taken place.

Ohio Receives $58.4 Million from the Federal TANF Emergency Fund

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

Ohio has received $58.4 million for federal fiscal year 2009 from the federal Temporary Assistance for Needy Families (TANF) Emergency Fund provided under the American Recovery and Reinvestment Act of 2009 (ARRA). These funds are appropriated in line item 600689, TANF Block Grant, and are being used to supplement expenditures for the Ohio Works First Program, which provides time-limited cash assistance for needy families with children.

ARRA provides up to $5 billion to supplement states' expenditures for certain TANF programs. States may request emergency funds based on increases in expenditures for basic assistance, nonrecurrent short-term benefits, and subsidized employment. States are eligible to receive up to a maximum of 50% of their annual federal TANF Block Grant ($364.0 million for Ohio). Funds are available for federal fiscal years 2009 and 2010 (October 2008–September 2010). Ohio, like other states, started receiving these funds last spring when ARRA was first implemented and will likely continue to receive funds through September 2010, as Ohio Works First caseloads and expenditures are forecasted to increase.

Department of Developmental Disabilities Receives $500,000 Grant for Employment Opportunity Improvement

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

For the second consecutive year, the Department of Developmental Disabilities has been allocated a $500,000 federal Medicaid Infrastructure Grant, a component of the Ticket to Work and Work Incentive Improvement Act of 1999.[12] The purpose of the grant is to help individuals with disabilities' overcome barriers to work. The Department expects to receive its FY 2010 allocation in January. These moneys will largely be used to continue or expand the activities that started in FY 2009.

In FY 2009, the Department: (a) implemented School to Work, a pilot project in Huber Heights City Schools and Claymont Local Schools that assists students with developmental disabilities transition from school to work, (b) funded 17 small grants for research and demonstration projects designed to improve employment outcomes, (c) conducted ten training sessions for 300 employment service providers on how to work effectively with employers, and (d) developed various strategies for increasing the income and resources of individuals with developmental disabilities.

In FY 2010, School to Work will be expanded to include Toledo Public Schools. Additional training will be provided for employment services providers with a focus on providing supported employment services to individuals with developmental disabilities. Newly funded activities include an initiative to form local business advisory councils that bring together area employers to encourage the hiring of individuals with developmental disabilities.

[12] Prior to FY 2009, Ohio received this grant through the Department of Job and Family Services or Mental Health.

TRACKING THE ECONOMY

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

Overview

The national economy expanded in the second half of 2009, and statistical indicators hint at a possible upturn in Ohio as well. The nation's gross domestic product, adjusted for inflation (real GDP), rose in the third quarter. Manufacturing production, shipments, new orders, and inventories were higher in the fourth quarter through November than in the third quarter. Reports from purchasing managers indicate further growth in manufacturing activity in December. Consumer spending rose through November, and motor vehicle and large retail chain store sales expanded in December. Home sales were buoyed by a federal tax credit program. Employment nationwide fell in December, though the decline was small compared with most months over the previous nearly two years. Employment in Ohio rose in the latest two months, through November. Personal income in Ohio rose in the third quarter. Inflation, overall, remains subdued, though energy prices have risen.

The national economy expanded in the second half of 2009.

Three of four monthly indicators of the timing of the recession trough now point to June as the likely low point. These four indicators are used by the National Bureau of Economic Research, along with other statistics, in evaluating the timing of business cycle peaks and troughs. The latest updates show industrial production and business sales, in dollars of constant purchasing power, remaining above their June recession lows through November and October, respectively. With upward revisions to personal income for recent months, the apparent low point for personal income excluding transfer payments, in constant dollars, is now June, rather than October as shown by previously available data. Only total nonfarm payroll employment continued to decline on balance through the latest month.

Interest rates remain very low, though longer term yields have climbed since late November, and monetary policy remains highly supportive of economic expansion. The U.S. central bank's Federal Open Market Committee, at its December meeting, agreed to keep its target for the overnight federal funds rate, the interest rate charged on loans between banks, at zero to 0.25%. In addition, the central bank is continuing with programs involving large-scale purchases of securities to support housing and other markets, while considering the timing and manner of withdrawal of this exceptional support for the economy.

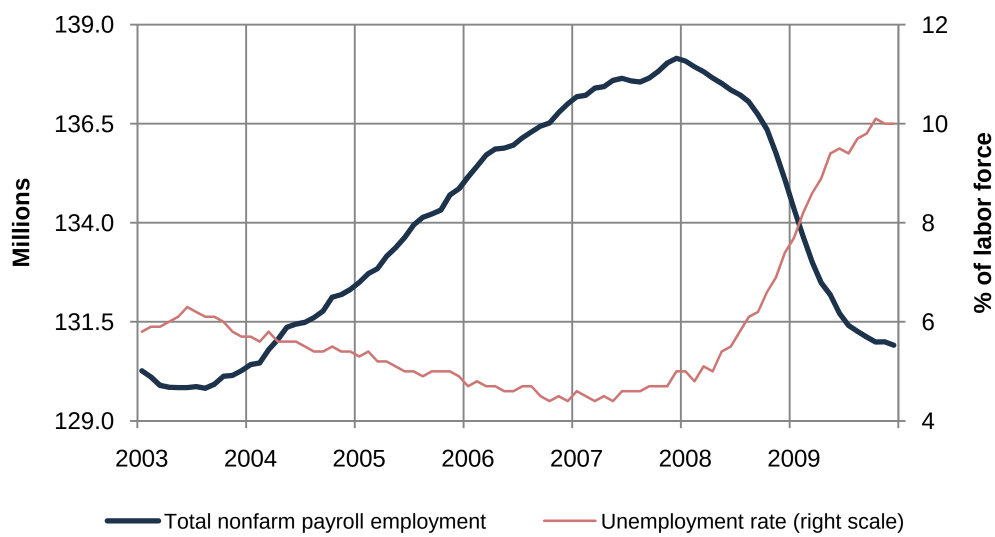
Total nonfarm payroll employment fell by 85,000 in December.

The National Economy

Employment and Unemployment

Total nonfarm payroll employment fell by 85,000 in December, seasonally adjusted, following a (statistically insignificant) 4,000 increase in November as revised, the first monthly increase since December 2007. The December employment decline was the smallest net job loss in any month in which total employment declined since January 2008. Employment fell in December in construction, manufacturing, and wholesale trade. Employment continued to rise in temporary help services and health care. The nationwide unemployment rate was 10.0% in December, unchanged from November. About 15.3 million persons were counted as unemployed in December, including 6.1 million unemployed for six months or more.

Chart 1: National Employment and Unemployment



Production, Shipments, and Inventories

The nation's real GDP rose 2.2% in the third quarter, a slower rate of expansion than reported earlier.[13] The third quarter upturn follows declines during each of the previous four quarters. The total slowing of economic activity, a four-quarter decline of 3.8%, is the largest of any recession in the post-World War II era. However, declines during the 1930s were much steeper. In this year's third quarter, expansion was reported for consumer spending, business investment in equipment, exports, and federal outlays. Sectors with declining expenditures

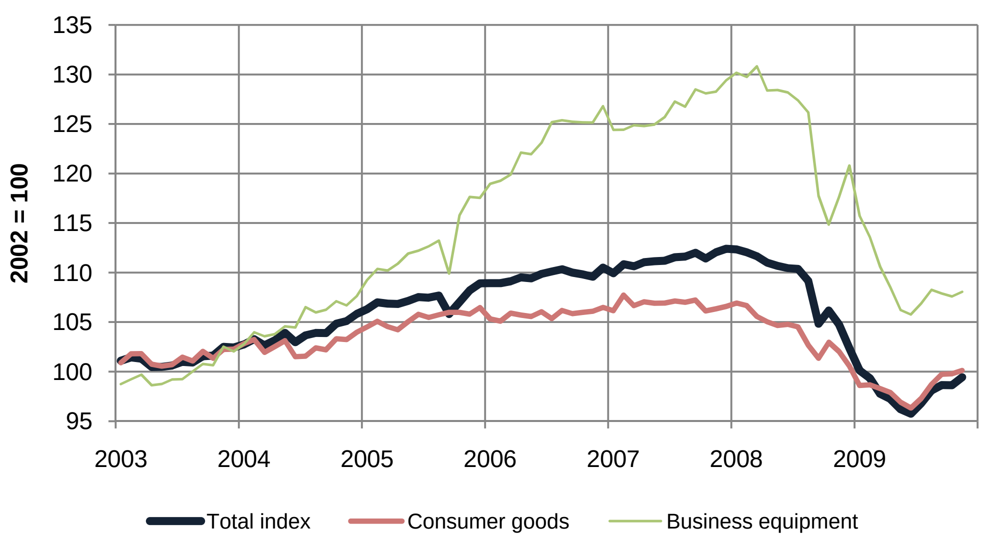
[13] Previous releases from the U.S. Bureau of Economic Analysis showed real GDP growth in the third quarter at a 3.5% annual rate, in the initial estimate, and at a 2.8% annual rate, in the second estimate.

included business investment in structures and state and local government. Private inventories continued to shrink, but not as rapidly as in the first quarter. Imports of goods and services rose after falling for seven consecutive quarters. Corporate profits rose for the third consecutive quarter, after falling since 2006.

Industrial production in the U.S. rose 0.8% in November and has increased 3.8% since June. Manufacturing output gained 1.1% in November and has grown in four of the last five months. Broad-based gains in November were reported for factory production of both durables and nondurables. Mining output also rose in November while utility output contracted, a reflection of mild weather. The upturn during the second half of 2009, and the steep decline earlier, in total industrial production and in output of consumer goods and business equipment are shown in Chart 2.

Industrial production in the U.S. rose 0.8% in November and has increased 3.8% since June.

Chart 2: Industrial Production



The dollar value of manufacturers' shipments increased 1.0% in November, and has risen in five of the last six months. Factory new orders rose 1.1% in November, and have risen in seven of the latest eight months. Inventories of manufacturers rose for the second consecutive month, after falling for 13 straight months. However, unfilled orders fell for the fourteenth consecutive month. Aircraft and parts for aircraft account for 44% of the dollar value of unfilled orders.

Expansion at manufacturing firms was more widespread in December, according to purchasing managers responding to the Institute for Supply Management's monthly survey. Production and new orders increased, and employment rose. Increases in new orders were the most widespread in five years, seasonally adjusted. Order backlogs were unchanged, after increasing for four consecutive months. Prices paid rose for the sixth consecutive month. A comparable survey of purchasing managers in the nonmanufacturing sector showed growth of business activity and new orders but shrinking employment and order backlogs.

Consumer Spending

Total personal consumption expenditures rose in October and November.

Total personal consumption expenditures rose 0.4% in October and 0.2% in November, adjusted for inflation and seasonality, after falling 0.7% in September following the end of the federal stimulus program for motor vehicle sales. Motor vehicle dealer sales picked up in October and November. Retail sales remain soft at other durable goods retailers, but turned higher at general merchandise stores and at nonstore (catalog and Internet) retailers through November. Consumers' incomes have been growing in recent months, albeit slowly, helping to support modest growth in consumer outlays.

In December, light motor vehicle unit sales rose 3% from November to an 11.2 million unit seasonally adjusted annual rate. Apart from July and August, when the federal "Cash for Clunkers" program boosted sales, December's sales pace was the strongest since September 2008.

Sales in December at large retailers that report results monthly were 2.4% higher than a year earlier, the largest increase since June 2008.[14] These reports are on a same-store basis, including only store locations open in both the current and year-earlier month. Higher fuel prices accounted for part of the gain; excluding the effect of fuel price increases, same-store sales rose 1.9%.

Consumer credit outstanding continued to shrink through November. Reductions have been mostly in balances on credit cards and other revolving credit, lower by $83 billion or 9% since the end of 2008. Auto loans and other nonrevolving credit outstanding are also lower, by $11 billion or 0.7% since 2008.

Construction and Real Estate

Housing sales rose ahead of the scheduled expiration, at the end of November, of the "first-time" home buyer federal income tax credit of up to $8,000. On November 6, however, a new program was signed into law. The programs apply to purchases of primary residences by buyers

[14] Figures cited here are from a compilation by Bank of Tokyo-Mitsubishi UFJ Ltd. of results at about 32 retail chains. Wal-Mart, the largest retailer, does not report its sales monthly and is excluded from these figures.

who had not owned a residence during the three years prior to the purchase. To be eligible for the new program, a buyer must enter into a purchase contract by April 30, 2010, and close on the transaction by June 30. In addition, a $6,500 federal income tax credit was created for purchases of primary residences by homeowners who have owned their homes for five years.

The number of homes sold reported by the National Association of Realtors (NAR) rose 7% in November, seasonally adjusted, to 44% higher than a year earlier, and the highest sales pace since February 2007. This report from the NAR, generally covering sales of previously owned homes, includes only transactions that have been closed. Buyers seeking to qualify for the first-time home buyer tax credit were trying to complete their purchases ahead of the previous November 30 deadline. The NAR indicated that these first-time buyers accounted for more than half of the November transactions. Distressed property sales — foreclosures and short sales — accounted for about one-third of transactions in November. Separately, an NAR statistical series on the number of new contracts entered into for home purchases fell 16% in November, after rising for nine consecutive months, seasonally adjusted.

The number of new homes sold fell 11% in November, seasonally adjusted. The new home sales statistics are for purchase contracts, not closings, and prospective buyers who wanted to qualify for federal tax credits to "first-time" home buyers needed to enter into contracts soon enough to be able to close these purchases ahead of the previous deadline at the end of November. The November new home sales pace was the weakest since April, and only 8% above the low in January 2009. Year-to-date sales were 24% below a year earlier, and new home sales in all of 2008 were 62% below sales in peak year 2005. Although builders' inventories of homes have been cut substantially, sales of finished units typically have been taking more than a year following completion.

Housing starts rose 9% in November, seasonally adjusted, as the number of apartments on which construction was started increased sharply. The rate of starts on new housing construction in November was 20% higher than at the recession low for this statistic last April. But the pace of starts has slowed compared with that during June through September. The level of building activity remains anemic. Year-to-date housing starts through 11 months of 2009 were 40% below a year earlier, and starts in all of 2008 were 56% lower than in 2005, the recent peak year for housing starts.

Year-to-date housing starts through 11 months of 2009 were 40% below a year earlier.

Compared with a year earlier, the consumer price index was 1.8% higher, the first increase from the year-earlier month since February 2009.

Total construction spending in the U.S. fell 0.6% in November, seasonally adjusted, continuing a downward trend underway since 2006.[15] Through the first 11 months of 2009, total construction spending was 13% lower than a year earlier. For all of 2008, total construction spending was 8% lower than in peak year 2006. Private residential construction spending fell 2% in November after increasing in three of the previous four months from a low point in June. Private nonresidential construction spending was about unchanged in November, 22% below the peak in October 2008. Public construction spending fell 0.4% in November, and was 2% below the peak rate in July 2009.

Inflation

The consumer price index rose 0.4% in November, seasonally adjusted, as gasoline prices rose 6.4% and prices for other energy commodities and services also rose. An index of prices for foods rose slightly. Prices for all items less food and energy were unchanged. Compared with a year earlier, the consumer price index was 1.8% higher, the first increase from the year-earlier month since February 2009.

Prices nationwide for regular gasoline, in the U.S. Energy Information Administration's weekly survey, averaged $2.67 per gallon on Monday, January 4, toward the upper end of the range in which prices have fluctuated since June. In Ohio, regular gasoline prices on that date averaged $2.65 per gallon. Crude oil prices, the main determinant of gasoline prices, rose in the new year. Prices for the benchmark grade of U.S. crude oil, West Texas Intermediate, rose above $80 per barrel in early January to their highest levels since October 2008.

The producer price index for finished goods rose 1.8% in November, mainly reflecting higher prices for gasoline and other energy goods. Compared with the year-earlier month, the producer price index for finished goods was 2.4% higher, the first year-over-year increase since November 2008. The index for prices of intermediate materials, supplies, and components rose 1.4% in November, with most of the rise attributable to higher prices for energy goods. In comparison with a year earlier, intermediate goods prices were 1.6% lower, the twelfth consecutive year-to-year decline. Crude materials prices rose 5.7% in November, and have increased in six of the last eight months, following earlier sharp declines. Compared with a year earlier, crude materials prices were 4.7% higher, the first such increase since October 2008.

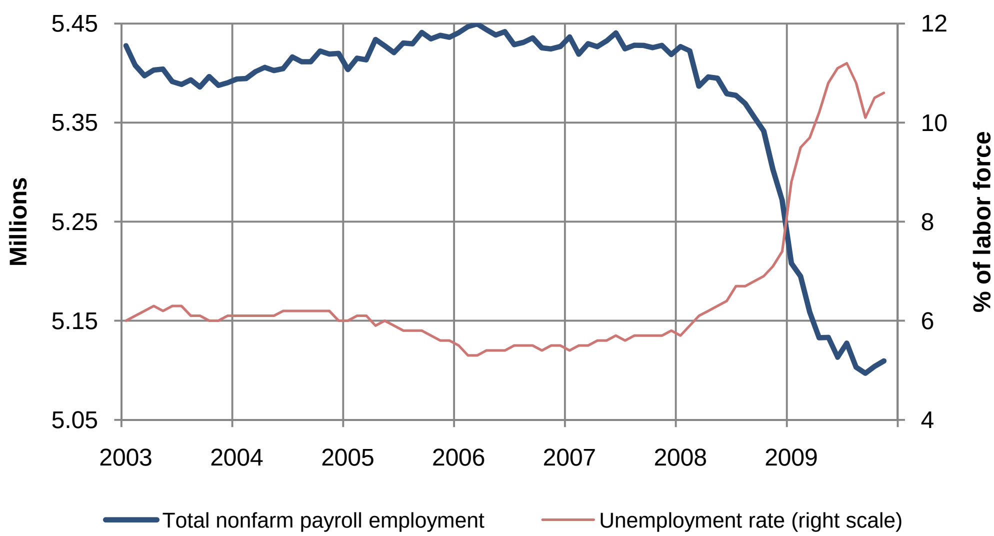
[15] Figures shown are in current dollars, not adjusted for price changes.

The Ohio Economy

Total nonfarm payroll employment in Ohio rose by 5,400 (0.1%) from October to November, following a 7,000 (0.1%) increase from September to October. The number of persons unemployed statewide in November was estimated at 623,000, 10.6% of the labor force, up from less than 6% in early 2008. These trends are shown in Chart 3. The number of persons employed on Ohio nonfarm payrolls in November, about 5.1 million, was 194,000 fewer than a year earlier and 340,000 less than the recent peak in early 2006. The decline in employment over the past year was widespread among goods producing and service providing industries but particularly large at durable goods manufacturers. Employment in educational and health services rose in the latest year. The increase in total employment in the latest two months occurred mainly in professional and business services.

Total nonfarm payroll employment in Ohio rose by 5,400 (0.1%) from October to November, following a 7,000 (0.1%) increase from September to October.

Chart 3: Ohio Employment and Unemployment



Personal income in Ohio rose 0.5% from the second quarter to the third quarter, a larger gain than the 0.3% increase reported nationwide.[16] Personal income also rose from the first quarter to the second quarter, in the U.S. and Ohio, following earlier declines. Transfer payments in Ohio rose 0.7% in the latest quarter, reflecting higher state unemployment insurance payments, while net earnings by place of work rose 0.4%. By far the largest increase in earnings by place of work in Ohio in the third quarter was in the health care and social assistance industry group, followed by finance and insurance.

[16] Changes reported for state personal income are from the previous quarter, seasonally adjusted, in dollars not adjusted for inflation.

Ohio remained the seventh most populous state in 2009 with 11.5 million residents.

Ohio remained the seventh most populous state, in the U.S. Bureau of the Census annual estimates of state population. As of July 1, Ohio is estimated to have had about 11.5 million residents. The state's estimated population rose only 0.1% in the latest year, ranking 46th among the 50 states. Vermont's population also rose 0.1%, and population declined in three states: Michigan, Maine, and Rhode Island. Ohio's small population increase reflects net migration out of the state. Only Michigan lost more residents in the latest year as a result of net migration, in the Census Bureau's estimate. Official 2010 Census population counts for the states are expected to be released next December.