Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — OCTOBER 2009

STATUS OF THE GRF

HIGHLIGHTS

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

Economic recovery may have begun nationally, according to many forecasters, but the U.S. unemployment rate is approaching 10% and Ohio's remains near 11%. These rates are the highest they have been in 26 years.

Given the state of the economy, state tax collections have been predictably weak. GRF personal income tax collections through the first quarter of FY 2010 were 14% below the comparable FY 2009 figure, while GRF sales and use tax collections were 9% lower. GRF tax revenues as a whole were $516 million below their level at a comparable stage of FY 2009. This weakness was anticipated when revenue forecasts were generated, though, so comparisons to estimate are mildly encouraging.

Through September 2009, GRF sources totaled $5.83 billion:

- Revenue from the personal income tax was $44.5 million above estimate;
- Sales and use tax collections were $1.9 million below estimate.

Through September 2009, GRF uses totaled $7.30 billion:

- Total uses were $191.7 million below estimate, with spending on Public Assistance and Medicaid accounting for nearly three-quarters of the variance;
- Spending on Primary, Secondary, and Other Education was $40.8 million below estimate.

VOLUME 33, NUMBER 2

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Legislative Service Commission
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Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of September 2009
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 8, 2009)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$92,622	$81,923	$10,699	13.1%
Nonauto Sales and Use	$464,902	$462,978	$1,924	0.4%
Total Sales and Use Taxes	$557,524	$544,901	$12,623	2.3%
Personal Income	$739,052	$730,400	$8,652	1.2%
Corporate Franchise	$10,139	$461	$9,678	2100.4%
Public Utility	$11	$98	-$87	-88.9%
Kilowatt Hour Excise	$16,280	$17,591	-$1,311	-7.5%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$4,397	$4,413	-$16	-0.4%
Domestic Insurance	$108	-$234	$343	-146.2%
Business and Property	$4	$0	$4	---
Cigarette	$80,679	$75,926	$4,753	6.3%
Alcoholic Beverage	$3,942	$4,479	-$537	-12.0%
Liquor Gallonage	$2,972	$3,106	-$134	-4.3%
Estate	$1,421	$3,446	-$2,025	-58.8%
Total Tax Revenue	**$1,416,529**	**$1,384,585**	**$31,943**	**2.3%**
NONTAX REVENUE				
Earnings on Investments	$7	$0	$7	---
Licenses and Fees	$1,296	$1,851	-$555	-30.0%
Other Revenue	$3,103	$7,800	-$4,697	-60.2%
Total Nontax Revenue	**$4,406**	**$9,651**	**-$5,245**	**-54.3%**
TRANSFERS				
Liquor Transfers	$15,000	$12,000	$3,000	25.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$17,594	$37,500	-$19,906	-53.1%
Total Transfers In	**$32,594**	**$49,500**	**-$16,906**	**-34.2%**
TOTAL STATE SOURCES	**$1,453,529**	**$1,443,736**	**$9,793**	**0.7%**
Federal Grants	$709,711	$726,525	-$16,814	-2.3%
TOTAL GRF SOURCES	**$2,163,240**	**$2,170,261**	**-$7,021**	**-0.3%**

* 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 September 30, 2009
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 8, 2009)

	Actual	Estimate*	Variance	Percent	FY 2009	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$262,595	$242,361	$20,234	8.3%	$260,224	0.9%
Nonauto Sales and Use	$1,480,288	$1,502,423	-$22,136	-1.5%	$1,658,203	-10.7%
Total Sales and Use Taxes	$1,742,883	$1,744,785	-$1,902	-0.1%	$1,918,427	-9.2%
Personal Income	$1,723,620	$1,679,100	$44,520	2.7%	$2,007,508	-14.1%
Corporate Franchise	-$3,639	-$9,039	$5,400	-59.7%	$32,133	-111.3%
Public Utility	$34,125	$46,322	-$12,196	-26.3%	$47,477	-28.1%
Kilowatt Hour Excise	$41,839	$47,680	-$5,840	-12.2%	$37,550	11.4%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$4,112	$4,312	-$200	-4.6%	$4,295	-4.3%
Domestic Insurance	$161	-$820	$981	-119.7%	-$772	-120.9%
Business and Property	$101	$286	-$185	-64.6%	$246	-58.8%
Cigarette	$180,632	$168,764	$11,868	7.0%	$189,678	-4.8%
Alcoholic Beverage	$14,923	$15,168	-$245	-1.6%	$14,955	-0.2%
Liquor Gallonage	$9,249	$9,218	$31	0.3%	$9,166	0.9%
Estate	$1,659	$4,403	-$2,744	-62.3%	$4,668	-64.5%
Total Tax Revenue	**$3,749,667**	**$3,710,179**	**$39,488**	**1.1%**	**$4,265,333**	**-12.1%**
NONTAX REVENUE						
Earnings on Investments	$22	$0	$22	---	$228	-90.3%
Licenses and Fees	$14,056	$14,611	-$555	-3.8%	$13,866	1.4%
Other Revenue	$9,543	$14,253	-$4,710	-33.0%	$17,242	-44.7%
Total Nontax Revenue	**$23,621**	**$28,864**	**-$5,243**	**-18.2%**	**$31,336**	**-24.6%**
TRANSFERS						
Liquor Transfers	$42,000	$38,000	$4,000	10.5%	$15,000	180.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$18,572	37,664	-$19,092	-50.7%	$34,681	-46.4%
Total Transfers In	**$60,572**	**$75,664**	**-$15,092**	**-19.9%**	**$49,681**	**21.9%**
TOTAL STATE SOURCES	**$3,833,860**	**$3,814,707**	**$19,153**	**0.5%**	**$4,346,350**	**-11.8%**
Federal Grants	$1,996,362	$2,000,165	-$3,803	-0.2%	$1,633,045	22.2%
TOTAL GRF SOURCES	**$5,830,222**	**$5,814,872**	**$15,349**	**0.3%**	**$5,979,395**	**-2.5%**

* 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

September GRF sources were $7.0 million below estimate.

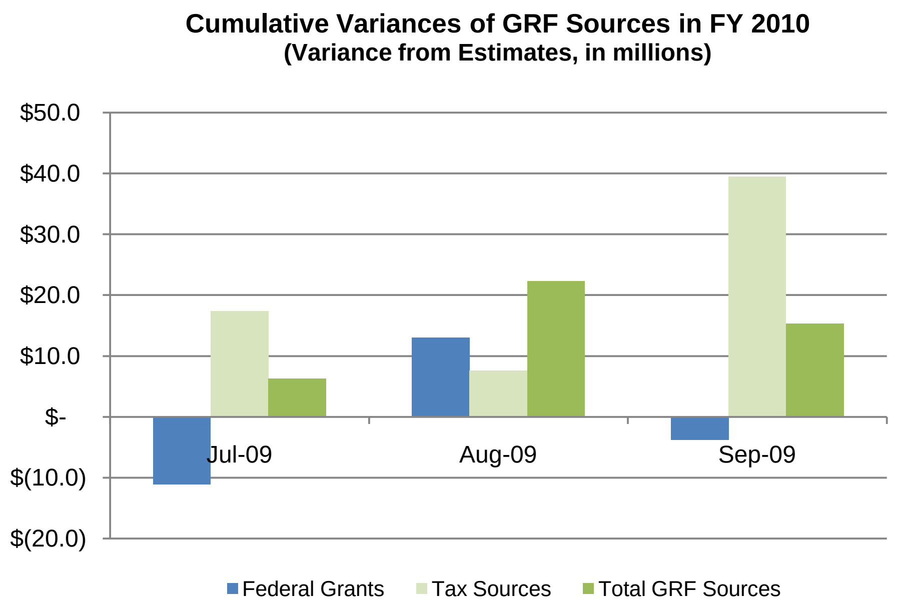
Overview

Three months into the fiscal year, FY 2010 total GRF sources were $15.3 million above the estimate made by the Office of Budget and Management. September GRF sources of $2.16 billion were $7.0 million below expectation from a shortfall of $16.8 million in federal grants. Tables 1 and 2 show GRF sources for the month of September and for the first quarter of FY 2010, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for human service programs such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding.

Tax sources were $31.9 million above estimate in September 2009, with positive contributions from all three major tax sources. The gains from tax sources were partially offset by a shortfall in nontax revenues and transfers. The personal income tax was $8.7 million above estimate. Unlike the previous two months, receipts from the sales and use tax were above estimate, up $12.6 million, powered by increased auto sales tax receipts. The corporate franchise tax and the cigarette tax were above estimate by $9.7 million and $4.8 million, respectively. The estate tax and the kilowatt hour tax were below estimate by $2.0 million and $1.3 million, respectively.

Year-to-date GRF tax revenues were $39.5 million above estimate and $515.7 million below FY 2009 receipts.

Through September, FY 2010 total GRF sources of $5.83 billion were $15.3 million above estimate. The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources in the first quarter of FY 2010. State-source receipts of $3.83 billion were above estimate by $19.2 million, and federal grants of $2.00 billion were below estimate by $3.8 million. Total tax revenues of $3.75 billion were $39.5 million above estimate. The personal income tax and the cigarette tax were above estimate by $44.5 million and $11.9 million, respectively. The corporate franchise tax was above estimate by $5.4 million. The sales and use tax lagged estimates by $1.9 million, pulled down by weak nonauto sales tax receipts. Negative variances also continued this month for the public utility excise tax ($12.2 million) and the kilowatt hour tax ($5.8 million). For the remaining taxes, receipts varied from estimates by small amounts.



Compared to the corresponding period in FY 2009, FY 2010 year-to-date GRF sources declined $149.2 million from a reduction of $515.7 million in tax receipts. The reduction in tax receipts was partially balanced by an increase of $363.3 million in federal grants due to higher receipts this year from the American Recovery and Reinvestment Act of 2009 (the federal stimulus bill of February 2009). Receipts from the personal income tax and the sales and use tax were below the levels of FY 2009 by large amounts. Other taxes with notable year-to-year revenue variances included an increase of $4.3 million in kilowatt hour tax receipts, and decreases of $35.8 million in corporate franchise tax receipts, $13.4 million in public utility excise tax receipts, $9.0 million in cigarette tax receipts, and $3.0 million in estate tax receipts.

Personal Income Tax

September GRF receipts from the personal income tax of $739.1 million were $8.7 million (1.2%) above estimate and $181.4 million (19.7%) below receipts in September 2008. Through September, the GRF received $1.72 billion from the personal income tax in FY 2010. This amount was $44.5 million (2.7%) above estimate and $283.9 million (14.1%) below receipts in FY 2009. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government funds. Gross collections are the sum of withholding,

September income tax receipts were $8.7 million above estimate and $181.4 million below last year's quarterly estimated payments,[1] 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	$40.2	2.5%	-$185.1	-10.1%
Quarterly Estimated Payments	$7.2	3.1%	-$116.9	-32.6%
Trust Payments	-$4.0	-43.1%	-$4.9	-48.3%
Annual Return Payments	-$3.7	-9.0%	-$11.4	-23.3%
Miscellaneous Payments	$5.7	40.5%	$5.7	40.3%
Gross Collections	$45.5	2.6%	-$312.6	-14.3%
Less Refunds	$0.3	0.3%	$0.3	0.3%
Less Local Government Fund Distribution	$0.7	0.5%	-$29.0	-16.3%
Income Tax Revenue	$44.5	2.7%	-$283.9	-14.1%

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 $40.2 million (2.5%) above estimate in the first quarter of FY 2010. The year-to-date decrease of $185.1 million (10.1%) from FY 2009 resulted from both increasing unemployment, as well as the final 4.2% reduction in tax rates enacted by H.B. 66 of the 126th General Assembly. Excluding the effect of the rate reduction, FY 2010 first-quarter payroll declined by about 5% compared to payroll in the same period in FY 2009. Ohio unemployment continues to rise and is projected to reach, on average, 11.5% in FY 2010 and 11.9% in FY 2011, according to the most recent forecast of the Ohio Governor's Council of Economic Advisors published in September 2009. Quarterly estimated payments, the other large component of the income tax, were down $116.9 million (32.6%) from FY 2009's level from reduced gains on assets,

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

and lower income and net worth this year. Thus, the shrinkage of income tax receipts is expected to continue throughout the fiscal year.

Sales and Use Tax

September 2009 sales and use tax receipts of $557.5 million were $12.6 million (2.3%) above estimate and $37.0 million (6.2%) below receipts in September 2008. Through September, FY 2010 GRF receipts of $1.74 billion were $1.9 million (0.1%) below estimate and $175.5 million (9.2%) below FY 2009 receipts in the same period. Most economic indicators have recently been signaling a potential trough in the business cycle and a nascent recovery. However, as Ohio unemployment rises in the next few months, and consumers worry about reduced work hours and limited access to credit, their ability to purchase taxable items will continue to be constrained. The decline in wage income might be partially offset by increases in spending from other sources of funds such as credit lines, home equity withdrawals, or government transfer payments. However, according to the Federal Reserve, consumers reduced their borrowing for the seventh straight month in August as households improved their balance sheets and banks reduced credit limits. Therefore, the weakness of this tax source is likely to continue for several months.

FY 2010 first-quarter sales tax receipts were $1.9 million below estimate and $175.5 million below FY 2009 level.

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

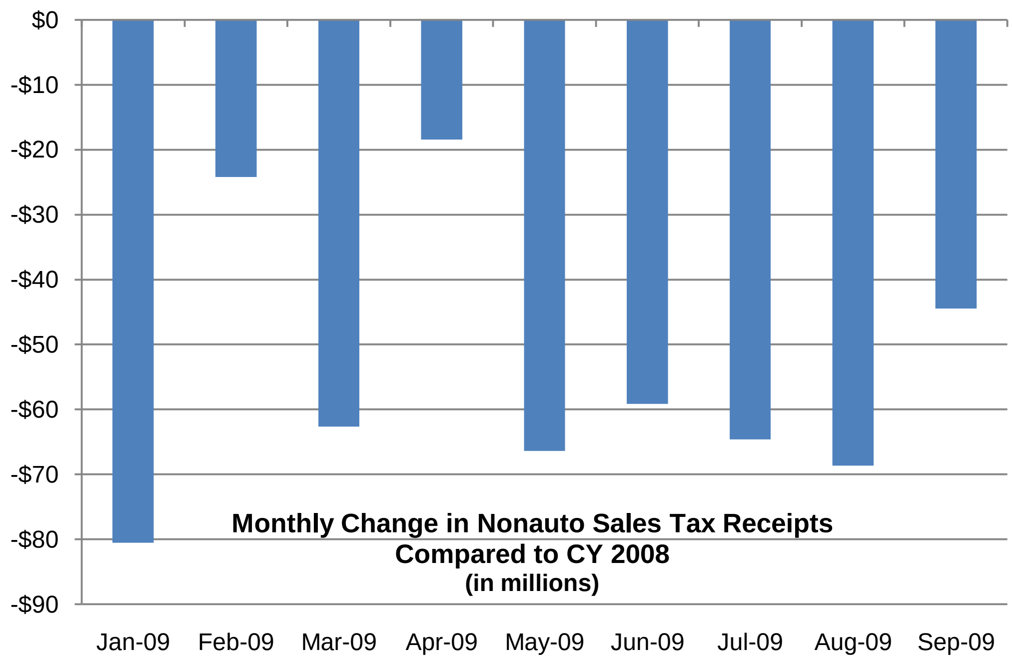
Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were $464.9 million in September 2009, $1.9 million (0.4%) above estimate and $44.5 million (8.7%) below September 2008 receipts. For the first time this fiscal year, receipts from this tax source were above estimate. In July and August 2009, nonauto sales and use tax receipts were $5.5 million and $18.5 million, respectively, below estimate. For the fiscal year, year-to-date nonauto sales and use tax receipts of $1.48 billion were $22.1 million

Year-to-date nonauto sales tax receipts were $22.1 million below estimate.

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

(1.5%) below estimate and $177.9 million (10.7%) below receipts through September in FY 2009. The nonauto sales and use tax base has been decreasing for several months. The graph below shows the monthly variance against prior-year receipts in CY 2009. Double-digit negative growth rates were recorded in six of the first nine months of CY 2009, as Ohio consumers have been tightfisted, except for purchases of nontaxed essentials such as food, health, and gasoline.



FY 2010 first-quarter auto sales tax receipts were $20.2 million above estimate.

Auto Sales and Use Tax

Auto sales and use tax receipts of $92.6 million in September 2009 were $10.7 million (13.1%) above estimate and $7.5 million (8.8%) above receipts in September 2008. The "cash for clunkers" federal program[3] again boosted receipts this month. Although the program ended August 24th, a portion of taxes due on those sales was remitted in early September. The sharp pull back in light vehicle sales in September (9.2 million annual sales rate, down from 14.1 million in August) did not noticeably affect auto sales tax receipts. However, the effect of the federal incentive may still reduce future tax receipts, starting in October 2009. Through September, FY 2010 auto sales and use tax receipts of

[3] The federal incentive program provided buyers a credit of up to $4,500 toward the purchase of a new vehicle as an incentive to turn in older, less fuel-efficient vehicles. The program boosted taxes on auto sales by between 15% and 30% in August and September, according to states that broke out the effects of the "cash for clunkers" program.

$262.6 million were $20.2 million (8.3%) above estimate and $2.4 million (0.9%) above receipts in FY 2009. Without the "cash for clunkers" program, FY 2010 auto sales tax receipts would probably have been below estimate and below FY 2009 receipts.

First-quarter cigarette tax receipts were above estimate by $11.9 million.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $80.7 million in September, $4.7 million (6.3%) above estimate and $4.6 million (5.4%) below September 2008 receipts. Through September, FY 2010 receipts of $180.6 million were $11.9 million (7.0%) above estimate and $9.0 million (4.8%) below FY 2009 receipts through September 2008. Receipts from cigarette sales were $168.6 million. Sales of products other than cigarettes provided $12.0 million. Compared to FY 2009 through September, receipts from the sale of cigarettes declined $10.3 million and those from the sale of other tobacco products increased about $1.3 million. Receipts from this tax source have been surprisingly robust in the first quarter of FY 2010. The increase in the federal cigarette tax rate (62 cents) and the doubling of the cigarette tax rate in Kentucky (from $0.30 to $0.60 on April 1, 2009) may have reduced sales lost to states with lower tax rates than Ohio. 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

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. Except for filing amended returns and other reconciliations of tax accounts in FY 2010, the CFT report for 2009 was generally the last one for nonfinancial corporations. In September 2009, CFT receipts were $10.1 million, $9.7 million above estimate. Through September, FY 2010 CFT refunds were less than estimated refunds by $5.4 million. Comparisons with monthly receipts in the previous fiscal year are not meaningful because of the phase-out.[4]

First-quarter CAT receipts in FY 2010 were $17.9 million below FY 2009 receipts.

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,

[4] 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 than 10% of total CFT tax liability.

FY 2010 is the first year in which CAT taxpayers pay 100% of their tax liability, up from 80% in FY 2009. In September 2009, receipts were $9.4 million, $3.6 million (27.7%) below receipts in September 2008. Through September, FY 2010 CAT receipts were $308.7 million, $17.9 million (5.5%) below receipts in the first quarter of FY 2009, despite this year's rate increase.

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.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$536,589	$545,534	-$8,946	-1.6%
Higher Education	$185,323	$190,759	-$5,436	-2.8%
Total Education	$721,912	$736,293	-$14,382	-2.0%
Public Assistance and Medicaid	$529,410	$646,243	-$116,833	-18.1%
Health and Human Services	$49,434	$53,002	-$3,569	-6.7%
Total Welfare and Human Services	$578,843	$699,246	-$120,402	-17.2%
Justice and Public Protection	$158,261	$165,258	-$6,997	-4.2%
Environment and Natural Resources	$5,379	$5,128	$251	4.9%
Transportation	$504	$634	-$130	-20.5%
General Government	$40,595	$41,334	-$739	-1.8%
Community and Economic Development	$19,998	$20,510	-$511	-2.5%
Capital	$155	$0	$155	---
Total Government Operations	$224,893	$232,864	-$7,971	-3.4%
Tax Relief and Other	$245,329	$239,291	$6,038	2.5%
Debt Service	$15,862	$15,862	$0	0.0%
Total Other Expenditures	$261,190	$255,153	$6,038	2.4%
Total Program Expenditures	**$1,786,838**	**$1,923,556**	**-$136,717**	**-7.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$11,235	$4,764	$6,471	135.8%
Total Transfers Out	$11,235	$4,764	$6,471	135.8%
TOTAL GRF USES	**$1,798,074**	**$1,928,320**	**-$130,246**	**-6.8%**

* 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 September 30, 2009
($ in thousands)
(Actual based on OAKS reports run October 5, 2009)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2009**	**Percent Change**
Primary, Secondary, and Other Education	$1,732,548	$1,773,344	-$40,796	-2.3%	$1,835,540	-5.6%
Higher Education	$590,883	$595,638	-$4,755	-0.8%	$617,291	-4.3%
Total Education	$2,323,431	$2,368,982	-$45,551	-1.9%	$2,452,831	-5.3%
Public Assistance and Medicaid	$2,863,758	$3,006,278	-$142,521	-4.7%	$14,015,261	-79.6%
Health and Human Services	$274,449	$287,004	-$12,555	-4.4%	$352,773	-22.2%
Total Welfare and Human Services	$3,138,207	$3,293,282	-$155,075	-4.7%	$14,368,034	-78.2%
Justice and Public Protection	$547,564	$549,584	-$2,020	-0.4%	$654,710	-16.4%
Environment and Natural Resources	$22,161	$22,173	-$12	-0.1%	$28,046	-21.0%
Transportation	$2,482	$2,618	-$135	-5.2%	$3,418	-27.4%
General Government	$99,496	$102,311	-$2,814	-2.8%	$145,308	-31.5%
Community and Economic Developmen	$34,613	$34,824	-$210	-0.6%	$52,051	-33.5%
Capital	$255	$0	$255	---	$12	2048.3%
Total Government Operations	$706,572	$711,509	-$4,937	-0.7%	$883,544	-20.0%
Tax Relief and Other	$373,778	$380,920	-$7,143	-1.9%	$401,792	-7.0%
Debt Service	$165,465	$166,756	-$1,291	-0.8%	$256,052	-35.4%
Total Other Expenditures	$539,242	$547,677	-$8,434	-1.5%	$657,844	-18.0%
Total Program Expenditures	**$6,707,452**	**$6,921,450**	**-$213,998**	**-3.1%**	**$18,362,254**	**-63.5%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$590,592	$568,300	$22,292	3.9%	$389,914	51.5%
Total Transfers Out	$590,592	$568,300	$22,292	3.9%	$389,914	51.5%
TOTAL GRF USES	**$7,298,044**	**$7,489,750**	**-$191,705**	**-2.6%**	**$18,752,168**	**-61.1%**

* 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 2009
($ in thousands)

Medicaid (600-525) Payments by Service Category	September Actual	September Estimate	September Variance	September Percent Variance	Year to Date Actual thru Sept	Year to Date Estimate thru Sept	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$204,466	$235,439	-$30,973	-13.2%	$637,854	$681,795	-$43,941	-6.4%
ICFs/MR	$46,668	$46,910	-$242	-0.5%	$134,858	$136,403	-$1,545	-1.1%
Inpatient Hospitals	$81,922	$94,972	-$13,050	-13.7%	$284,461	$309,403	-$24,942	-8.1%
Outpatient Hospitals	$31,213	$34,515	-$3,302	-9.6%	$107,876	$115,609	-$7,733	-6.7%
Physicians	$22,869	$30,690	-$7,821	-25.5%	$84,371	$99,106	-$14,735	-14.9%
Prescription Drugs	$32,954	$42,515	-$9,561	-22.5%	$132,283	$150,532	-$18,249	-12.1%
ODJFS Waivers	$20,669	$29,034	-$8,365	-28.8%	$86,349	$94,929	-$8,580	-9.0%
MCP - CFC	$313,954	$314,455	-$501	-0.2%	$907,783	$904,725	$3,058	0.3%
MCP - ABD	$147,201	$149,494	-$2,293	-1.5%	$406,949	$410,557	-$3,608	-0.9%
Medicare Buy-In	$0	$27,206	-$27,206	-100.0%	$80,407	$80,976	-$569	-0.7%
All Other	$70,383	$87,731	-$17,348	-19.8%	$270,378	$295,939	-$25,561	-8.6%
DA Medical	$556	$626	-$70	-11.2%	$2,139	$2,197	-$58	-2.6%
Total Payments	$972,855	$1,093,587	-$120,732	-11.0%	$3,135,708	$3,282,171	-$146,463	-4.5%
Offsets								
Drug Rebates	-$11,200	-$11,233	$33	-0.3%	-$11,528	-$11,539	$11	-0.1%
Revenue and Collections	-$17,925	-$17,900	-$25	0.1%	-$17,964	-$18,388	$424	-2.3%
ICF/MR Franchise Fees	-$3,001	-$3,001	$0	0.0%	-$3,001	-$3,001	$0	0.0%
NF Franchise Fees	-$65,000	-$65,000	$0	0.0%	-$65,000	-$65,000	$0	0.0%
IMD/DSH Payments	$0	$0	$0	0.0%	$0	$0	$0	0.0%
MCP Assessments	-$49,155	-$49,155	$0	0.0%	-$49,155	-$49,155	$0	0.0%
Health Care Federal	-$381,721	-$382,055	$334	-0.1%	-$381,721	-$382,596	$875	-0.2%
Total Offsets	-$528,002	-$528,344	$342	-0.1%	-$528,369	-$529,679	$1,310	-0.2%
Total 600-525 (net of offsets)	$444,853	$565,243	-$120,390	-21.3%	$2,607,339	$2,752,492	-$145,153	-5.3%
Medicare Part D (600-526)	$21,529	$22,569	-$1,040	-4.6%	$65,401	$66,938	-$1,537	-2.3%
Total GRF	**$466,382**	**$587,812**	-$121,430	**-20.7%**	**$2,672,740**	**$2,819,430**	-$146,690	**-5.2%**
Total All Funds	**$994,384**	**$1,116,156**	-$121,772	**-10.9%**	**$3,201,109**	**$3,349,109**	-$148,000	**-4.4%**

Source: Ohio Department of Job & Family Services.

ICFs/MR - Intermediate Care Facilities for individuals with developmental disabilities
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

GRF program expenditures for FY 2010 were $214.0 million below estimate at the close of September.

The timing of certain payments accounted for the majority of the negative variances in Medicaid.

EXPENDITURES

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

Overview

Tables 3 and 4 show GRF uses for the month of September and for FY 2010 through September, respectively. For September, GRF uses of $1.80 billion were $130.2 million below the estimate published by the Office of Budget and Management (OBM) in September 2009. Through September, FY 2010 GRF uses of $7.30 billion were $191.7 million below estimate.

GRF uses primarily consist of program expenditures but also include transfers out. For the first three months of FY 2010, GRF program expenditures amounted to $6.71 billion (91.9% of total GRF uses), whereas transfers out totaled $590.6 million (8.1%). The year-to-date GRF program expenditures were $214.0 million below estimate, of which $203.0 million (94.8%) occurred in the following four program categories: $142.5 million (66.6%) in Public Assistance and Medicaid, $40.8 million (19.1%) in Primary, Secondary, and Other Education, $12.6 million (5.9%) in Health and Human Services, and $7.1 million (3.3%) in Tax Relief and Other. The variances in these four areas are discussed briefly below.

The negative year-to-date variance of $142.5 million (4.7%) in the Public Assistance and Medicaid category comes primarily from a negative variance in September of $116.8 million (18.1%). The main cause of these variances was the timing of certain Medicaid payments. Medicaid accounts for over 93% of year-to-date GRF expenditures for Public Assistance and Medicaid. Table 5 details Medicaid expenditures by service category.

For September, GRF Medicaid expenditures totaled $466.4 million, $121.4 million (20.7%) below estimate. For the first quarter of FY 2010, Medicaid expenditures were $2.67 billion, $146.7 million (5.2%) below estimate. Expenditures for the Nursing Facilities category were below estimate by $31.0 million (13.2%) in September and by $43.9 million (6.4%) through September. The main contributing factor was the later than expected implementation of the per diem reimbursement rate increases for nursing facilities. H.B. 1 increased the per diem reimbursement rates for nursing facilities. However, the rate changes are subject to approval of the federal government. Once approved, the variances related to the rate increases should be reduced. The Medicare Buy-in had the second largest negative variances at $27.2 million (100%) in September. The planned September payments for this category actually occurred in August. Medicare Buy-in pays Medicare premiums, deductibles, and co-insurance for certain low-income individuals who are eligible for both Medicaid and Medicare. Other categories that had significant negative year-to-date variances included All Other ($25.6 million), Inpatient Hospitals ($24.9 million), Prescription Drugs ($18.2 million), and Physicians ($14.7 million). The All Other category includes payments for many small service categories.

The main contributors to the negative year-to-date variance of $40.8 million (2.3%) in the Primary, Secondary, and Other Education program category included funding for school foundation payments ($16.8 million), student assessments ($9.7 million), and the Ohio Educational Computer Network ($7.5 million). H.B. 1 adopted a new evidence-based model for school funding in Ohio. The Ohio Department of Education is still in the process of making necessary changes to its payment system in order to implement the new model. Schools are expected to be funded according to the new model before the end of October. The implementation of the new model should help reduce some of the variances related to school foundation payments. Any funding shortfalls or excess payments made in the first three months of the year will be reconciled throughout the year. Expenditures for student assessments and the Ohio Educational Computer Network were slowed because of changes to billing schedules, but these timing issues will be reconciled in the coming months.

Various line items contributed to the negative variances within the Health and Human Services ($12.6 million or 4.4%) and Tax Relief and Other ($7.1 million or 1.9%) program categories. As noted in prior issues of *Budget Footnotes*, parts of the FY 2009 tax relief payments to school districts and local governments within Hamilton and Licking counties were delayed because the respective county auditors and treasurers did not submit their reimbursement certifications in time for payment processing. In order to compensate for the added FY 2010 expenditures, the General Assembly appropriated additional funds for the two GRF Tax Relief line items during the H.B. 1 Conference Committee. The delayed FY 2009 payments were paid in July.

GRF program expenditures are expected to total $24.52 billion. Year-end encumbrances and lapses are estimated at $293.5 million and $164.9 million, respectively.

Summary of OBM Estimate for GRF Uses for FY 2010

The table below shows the estimates made by OBM in September 2009 for GRF expenditures, year-end encumbrances, and year-end lapses for FY 2010. As seen from the table, GRF program expenditures are expected to total $24.52 billion, representing almost 96% of the estimated total GRF uses of $25.59 billion for FY 2010. Almost 67%

of the total GRF program expenditures will go to the Public Assistance and Medicaid and Primary, Secondary, and Other Education program categories. GRF transfers out are expected to total $1.07 billion in FY 2010. Of this amount, $938.9 million will be temporary in nature, meaning the same amount will be transferred back to the GRF during the same fiscal year. The temporary transfers out and transfers in address the timing issues related to the Commercial Activity Tax receipts and state payments for school districts and other local governments for the phase-out of the tangible personal property tax.

OBM Estimate for GRF Uses for FY 2010 by Program Area (dollars in thousands)

Program Categories	Expenditures	As a % of Total Expenditures	Encumbrances	Lapses	Total
Public Assistance and Medicaid	$9,877,804	40.3%	$86,321	$3,281	$9,967,406
Primary, Secondary, and Other Education	$6,504,660	26.5%	$88,906	$25,819	$6,619,385
Higher Education	$2,431,346	9.9%	$13,300	$25	$2,444,670
Justice and Public Protection	$2,001,234	8.2%	$21,082	$72,731	$2,095,047
Tax Relief and Other	$1,706,065	7.0%	$0	$0	$1,706,065
Health and Human Services	$1,040,261	4.2%	$7,320	$413	$1,047,994
Debt Service	$460,183	1.9%	$0	$622	$460,805
General Government	$300,118	1.2%	$6,727	$61,898	$368,743
Community and Economic Development	$96,814	0.4%	$62,498	$125	$159,437
Environment and Natural Resources	$82,536	0.3%	$0	$15	$82,551
Transportation	$16,630	0.1%	$7,301	$7	$23,937
Capital	$0	0.0%	$0	$0	$0
Total Program Expenditures	**$24,517,649**	**100.0%**	**$293,454**	**$164,935**	**$24,976,039**
Transfers Out	$1,074,343		$0	$0	$1,074,343
Total GRF Uses	**$25,591,992**		**$293,454**	**$164,935**	**$26,050,382**

The majority of the estimated year-end lapsed funds are related to debt service payments, reflecting the planned restructuring of some of the state's outstanding bonds.

OBM also estimates that, as of June 30, 2010, agencies will encumber a total of $293.5 million in FY 2010 GRF appropriations for spending in FY 2011. Of this amount, $237.7 million (81%) will occur in the Primary, Secondary, and Other Education ($88.9 million), Public Assistance and Medicaid ($86.3 million), and Community and Economic Development ($62.5 million) program categories.

Furthermore, OBM estimates that a total of $164.9 million in FY 2010 GRF appropriations will not be spent and will become part of the GRF ending balance for FY 2010. The Justice and Public Protection program category is expected to have the largest amount of lapsed GRF appropriations at $72.7 million, followed by General Government ($61.9 million), and Primary, Secondary, and Other Education ($25.8 million). Together, these three program categories account for $160.4 million (97%) of the total estimated lapsed funds. The vast majority of the estimated lapsed funds in the Justice and Public Protection and General Government program categories are related to debt service payments, reflecting the planned restructuring of some of the state's outstanding bonds, which will result in lower payments in FY 2010.

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

ISSUE UPDATES

Cost Savings Day Program Instituted to Reduce State Agency Payroll

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

The Cost Savings Day (CSD) Program, which is the key strategy for reducing state agency payroll costs during the FY 2010-FY 2011 biennium, is expected to save the state an estimated $143.7 million per year. This savings is achieved through a mechanism that will allow agencies to lapse funds from their payroll appropriations. While agencies are appropriated funds for the normal 2,080 hours of pay for each full-time employee for FY 2010 and FY 2011, the CSD Program requires most full-time employees, regardless of funding source, to forego 80 hours (ten days) of pay per year with a per paycheck reduction in an amount equal to 3.076 hours (80 hours / 26 pay periods) of pay. As a result, agencies will only need to pay each full-time employee for 2,000 hours instead of 2,080 hours. The lapsed payroll funds from unrestricted non-GRF, nonfederal funds may then be transferred into the GRF as necessary, along with the lapsed GRF payroll funds, to help balance the GRF budget. The GRF will not benefit from savings derived from employees who are paid with federal funds as the state is not allowed to transfer federal funds into the GRF.

The Cost Savings Fund (Fund 8140) was established for the purpose of implementing the CSD Program. Through this mechanism, full-time employees are essentially required to "use" their own funds to "pay" 80 hours of their own salaries. Therefore, agencies will be able to lapse payroll funds equal to 80 hours of pay. To provide an employee a consistent paycheck throughout the year, an amount equal to 3.076 hours of pay is "deducted" from each paycheck and credited to Fund 8140. When the employee uses a cost savings day, payroll expenditures for that day are charged against the fund. While the deductions are 3.076 hours for each pay period, employees are required to use cost savings days in increments of one full work day. Furthermore, employees are generally required to use the CSD leave time prior to using any other leave time. As a result of these requirements, expenditures charged against the fund may temporarily be greater than revenues credited to the fund. As of September 26, 2009, Fund 8140 was charged with expenditures of $35.9 million and credited with revenues of $19.8 million. However, for the fiscal year as a whole, expenditures charged against the fund will equal revenues credited to the fund; they both will equal 80 hours of pay per employee.

State payroll expenditures, including wages and benefits, totaled $4.49 billion for FY 2009, representing 8% of total operating expenditures of $56.09 billion. Of the $4.49 billion in payroll expenditures, $2.01 billion (44.7%) was paid with GRF money, $1.93 billion (43%) was paid with non-GRF state funds, and the remaining $0.55 billion (12.3%) was paid with federal funds.

Commercial Activity Tax Survives Grocers' Court Challenge

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

On September 17, 2009, the Ohio Supreme Court reversed the ruling of the 10th District Court of Appeals and held that collecting the commercial activity tax (CAT) on the grocers' gross receipts is not an unconstitutional tax "upon the sale or purchase of food." Rather, the CAT is a tax on the privilege of doing business measured by gross receipts that include proceeds from the sale of food, which does not affect its constitutionality. This ruling prevents a revenue loss of about $188 million per year, and estimated refunds of $355 million for taxes paid by grocers in previous years, according to the Department of Taxation. In FY 2010 and FY 2011, CAT revenues 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. However, if the CAT does not generate enough revenues to fully reimburse school districts and other local governments, the state is required to use the GRF to make up the difference. In other words, if the Supreme Court had ruled in favor of the grocers, the GRF would likely have had to incur additional expenditures of about $188 million per year.

Enacted by H.B. 66 of the 126th General Assembly, the CAT has been phased in over a five-year period. FY 2010 is the first year in which CAT taxpayers pay 100% of their tax liability. Businesses pay a flat $150 tax on annual gross receipts between $150,000 and $1 million. The rate for annual receipts in excess of $1 million is 0.26%. Businesses with annual gross receipts below $150,000 are exempted from the CAT.

The Ohio Grocers Association challenged the CAT as unconstitutional, filing suit on February 17, 2006 in the Franklin County Court of Common Pleas. The lawsuit asserted that the CAT cannot be imposed on gross receipts derived from the wholesale sale of food and from the retail sale of food for human consumption off the premises where sold under sections 13 and 3, respectively, of Article 12 of the Ohio Constitution. The state obtained a favorable ruling on August 24, 2007 from the trial court, but that ruling was reversed by the 10th District Court of Appeals on September 2, 2008.

Ohio's General Obligation Bond Ratings Recently Downgraded

—Ruhaiza Ridzwan, Economist, 614-387-0476

Currently, the state's general obligation (GO) bonds are rated "AA+" (negative outlook) by Standard & Poor's (S&P), its second highest rating, "AA" (stable outlook) by Fitch, its third highest rating, and "Aa2" (negative outlook) by Moody's, also its third highest rating. These ratings reflect revisions done by the three major credit rating agencies from June through September 2009. S&P affirmed its rating of "AA+" (stable outlook) for Ohio's GO bonds in June while Fitch and Moody's downgraded their Ohio ratings by a level, from "AA+" to "AA" (stable outlook) and from "Aa1" to "Aa2" (stable outlook), respectively. Moody's and S&P further revised their rating outlooks from "stable" to "negative" in August and September, respectively. Fitch has maintained its stable outlook since June 2009. An "outlook" is a potential rating revision by a rating agency in the near future.

The ratings downgrades by Fitch and Moody's are likely to affect the state's borrowing costs. In general, a bond issuer with a lower bond rating will pay higher interest rates than an issuer with a higher bond rating, assuming they issue bonds with similar characteristics. To illustrate, the "spread" between the yields on a 20-year bond rated AAA and one rated a level lower was recently about 50 basis points (0.5%) according to published data.[5] The estimated additional cost of interest payments, attributable to that spread, for a $10 million GO bond issuance would be approximately $50,000 per year. Assuming the state issues approximately $1 billion in GO bonds in each fiscal year, such a one-level downgrade would cost an additional $5 million per year in debt service payments over the lifetime of the bonds issued in a year. If the lower rating remained in place for a second year, the borrowing costs would be $10 million higher per year at the end of that second year, due to the second year's bond issuance of lower rated bonds. It is important to note that, while the state's borrowing costs are likely to be higher due to the downgrades, the increase in costs could be much smaller than the changes in borrowing costs that arise due to typical market fluctuations in interest rates.

A bond rating is generally assigned by a credit rating agency based on many quantitative and qualitative factors, such as a state's economy, management, financial performance, and debt burden.[6] As of September 17, 2009, the state's total outstanding GO bonds were about $6.2 billion. In general, debt service payments for a GO bond are backed by the full faith, credit, and taxing power of the state. In Ohio, GO bonds are primarily issued for coal research and development projects, natural resources capital

[5] A basis point is one-hundredth of a percent. Data on interest rates were taken from fmsbonds.com on September 25, 2009.

[6] Rating definitions, criteria, and methodologies used by each credit rating agency are available on their web sites.

facilities, common school capital facilities, higher education capital facilities, public infrastructure capital improvements, conservation projects, Third Frontier research and development projects, and Third Frontier Job Ready Site development projects.

Job and Family Services Received $750 Million in ARRA Enhanced Federal Medicaid Reimbursement in FY 2009

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

The Ohio Department of Job and Family Services (ODJFS) received $749.7 million in American Recovery and Reinvestment Act of 2009 (ARRA) Medicaid funds in FY 2009. ARRA provides states with additional federal reimbursement for Medicaid through an enhanced Federal Medical Assistance Percentage (FMAP). The enhanced FMAP will be in effect for the period of October 1, 2008 through December 31, 2010. During this period, the enhanced FMAP may vary quarterly based on a state's unemployment rate. The regular FMAP for Ohio is 62.14% for federal fiscal year (FFY) 2009, 63.42% for FFY 2010, and an estimated 64.02% for FFY 2011. It is projected that the enhanced FMAP in Ohio will be 8.11 to 10.20 percentage points above the regular FMAP for this period.

The table below shows the enhanced federal Medicaid reimbursement received in FY 2009 by fund. As seen from the table, the majority of the enhanced reimbursement was deposited into the GRF. The remainder was deposited into the Hospital Care Assurance Match Fund (Fund 3F00), which is used by ODJFS to help pay for Medicaid expenditures, and the Interagency Reimbursement Fund (Fund 3G50), which is used by ODJFS to reimburse the other agencies that operate Medicaid programs. For the first quarter of FY 2010, the enhanced federal Medicaid reimbursement totaled $335.8 million.

Enhanced FMAP for FY 2009	
Fund	**Amount**
General Revenue Fund (GRF)	$576,486,648
Hospital Care Assurance Match (Fund 3F00)	$97,527,075
Interagency Reimbursement (Fund 3G50)	$75,685,931
Total	**$749,699,654**

Job and Family Services Increases the Military Injury Relief Grant to $1,000

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

The Ohio Department of Job and Family Services (ODJFS) increased the military injury relief grant amount from $750 to $1,000 effective July 1, 2009. In the first quarter of FY 2010, ODJFS awarded 460 grants totaling $460,000. In FY 2009, ODJFS awarded 643 grants totaling $482,250. ODJFS awards military injury relief grants to eligible individuals who were injured while serving on active duty during Operation Enduring Freedom or Operation Iraqi Freedom or have been diagnosed with post traumatic stress disorder after having served in either operation. The injury must have occurred while the individual was receiving hazardous duty, combat, or hostile fire pay. Applicants are eligible for one grant per fiscal year. Grants are funded by donations made through the state income tax refund contributions system. In FY 2009, the Military Injury Relief Grant Fund received about $591,000 in revenue. The balance in the fund at the beginning of FY 2010 was about $1.6 million.

Board of Regents and Rehabilitation Services Commission Establish Appropriation Transfer

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

In September, the Director of Budget and Management made the first transfer of appropriation from Board of Regents (BOR) appropriation item 235502, Student Support Services, to Rehabilitation Services Commission (RSC) appropriation item 415506, Services for People with Disabilities. H.B. 1 authorizes these transfers for FY 2010 and FY 2011 but, according to BOR, the Office of Budget and Management (OBM) used strategic budget cuts to accomplish the same purpose as the transfer of appropriation in FY 2009. OBM chose to forego RSC budget cuts of approximately $0.7 million and, instead, completely eliminated the appropriation for BOR's Student Support Services line item.

Student Support Services funds are provided to state-assisted institutions enrolling disabled students in order to offset the additional cost of educating students with special needs. By having the funds expended through RSC, the state is able to leverage federal matching funds authorized in the federal Rehabilitation Act of 1973 for vocational rehabilitation. For example, according to RSC, the $0.7 million expended in FY 2009 drew down an additional $2.6 million in federal funds. These federal funds were used to provide various resources for vocational rehabilitation, including tuition, books, accommodations, and interpreting, for approximately 670 students with disabilities.

48 Schools Awarded 21st Century Learning Environments Technology Grants

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

In August 2009, eTech Ohio and the Department of Education (ODE) awarded 48 schools[7] $11.8 million in competitive grants through the 21st Century Learning Environments Technology Grant Program. This program was established by H.B. 2 of the 128th General Assembly, the transportation budget bill. H.B. 1 appropriates just under $12.0 million in each of FYs 2010 and 2011 for the program from federal revenue received under the American Recovery and Reinvestment Act of 2009 (ARRA).

Each of the 48 schools was awarded grants of $246,793. The grants will be distributed to the schools in two phases over a period of two years. The first phase provides intensive state-sponsored professional development to a team from each school. Each team consists of four teachers, a technology integration coach, and a building administrator. At the conclusion of phase one, the teams develop action plans and identify appropriate technology tools for their schools. The second phase, which is expected to last through the 2010-2011 school year, involves additional professional development and implementation of new technology-enabled strategies at the school with guidance from the integration coach and the building administrator.

Central State Speed to Scale Task Force Issues Second Annual Report

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

Central State University's Speed to Scale Task Force recently released its second annual report on the progress of the Speed to Scale Plan.[8] H.B. 119 of the 127th General Assembly initiated the program, which is primarily an effort to increase enrollment at Central State University (CSU) to 6,000 students by 2017. As a means of reaching this goal, the Speed to Scale Plan includes several annual benchmarks on a variety of measures, including enrollment, the number of Ohio resident students, the rate of student retention from first to second years of study, and the graduation rate. H.B. 1 provides $1.8 million in operating funds in FY 2010 to help CSU implement the Speed to Scale Plan.

According to the Task Force's report and information from CSU, the program's second year has had mixed results. Although fall enrollment increased by 7.4% (150

[7] A list of grant recipients is available on eTech's web site: www.etech.ohio.gov; search for "ARRA."

[8] The full report is available at http://www.centralstate.edu/academics/news/speed2scale/pdf/S2S_annual_report2009.pdf.

students) from FY 2008 to FY 2009, this increase is approximately 50 students short of the program's goal of 10% annual growth. In addition, the percentage of students enrolled at CSU who come from Ohio decreased from 63% in FY 2008 to approximately 58% in FY 2009, moving the school further away from the goal of having 80% of its students coming from Ohio. On the positive side, however, the first to second year retention increased 7.1 percentage points from 50.1% in FY 2008 to 57.2% in FY 2009, well above the 2 percentage point annual goal. CSU also exceeded its annual benchmark of approximately 3 percentage points for graduation rate increases. The five-year graduation rate increased by 7 percentage points, from 21% of the 2001-2002 academic year cohort graduated by spring 2007, to 28% of the 2002-2003 academic year cohort graduated by spring 2008.

Commission on Dispute Resolution Forms Task Force to Study Funding Options for FY 2011 and Beyond

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

The Commission on Dispute Resolution and Conflict Management has formed a 15-member task force of interested parties to examine funding options for FY 2011 and beyond. The task force held its first meeting in September and is currently in the process of formulating recommendations for action. The Commission charges the task force to answer two key questions. First, how can the Commission best leverage its moneys to become less reliant on the GRF? Second, what services would interested parties be willing to pay for? H.B. 1 reduces the Commission's GRF funding by roughly half in FY 2010 and appropriates no funding for the Commission in FY 2011. From FY 2006 to FY 2009, on average the GRF accounted for 91% of the Commission's annual budget.

The task force consists of interested parties that have historically utilized the Commission's services, including private attorneys who work in mediation, K-12 administrators, and higher education administrators. After the enactment of H.B. 1, the Commission identified and asked the parties to voluntarily serve on the task force. For the remainder of calendar year 2009, the task force will convene once a month to discuss and finalize its recommendations.

The Commission, which was established in 1989, delivers dispute resolution and conflict management training, facilitation and mediation services, consultation, and technical program assistance to schools, communities, courts, and state and local government agencies. It is governed by 12 volunteer commissioners and assisted by the equivalent of around four full-time staff.

Over $100,000 in Transferred GRF Appropriations Used to Help Fund Pay Supplements for County Sheriffs and Prosecutors in FY 2009

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

As authorized by H.B. 119 of the 127th General Assembly, approximately $103,000 in GRF appropriations were transferred from the Attorney General's Operating Expenses line item to its County Sheriffs' Pay Supplement ($54,813) and County Prosecutors' Pay Supplement ($48,589) line items to help fund pay supplements for county sheriffs and prosecutors. The Revised Code provides for pay supplements for all 88 county sheriffs in an amount equal to one-eighth of their base annual compensation. The Revised Code also provides for pay supplements for prosecuting attorneys in counties with populations of less than 70,000 who elect to serve full-time with no private practice. The supplement for these attorneys is equal to 40% of the difference between the salaries of a full-time prosecuting attorney and a part-time prosecuting attorney (one who also has a private practice) based on the salary schedule used in each county. If funds appropriated are not sufficient to fully pay the supplements, the Attorney General is given the authority to request the Director of Budget and Management make GRF appropriation transfers from its Operating Expenses line item to help fund the supplements.

For FY 2009, H.B. 119 originally appropriated GRF funding of $842,134 and $923,888, respectively, for the County Sheriffs' Pay Supplement and County Prosecutors' Pay Supplement line items. Through the executive-ordered budget reductions, appropriations for these two items were reduced by $86,124 and $94,485, respectively, triggering the use of transferred GRF appropriations. Pay supplements totaled $1.7 million in FY 2009, including $810,823 to 88 county sheriffs and $877,992 to 41 eligible county prosecutors. Pay supplements ranged from $7,120 to $13,641 for sheriffs and from $11,062 to $35,289 for eligible prosecutors.

Ohio Department of Transportation Netted $2.9 Million in FY 2009 Under Revamped Highway Business Logo Sign Program

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

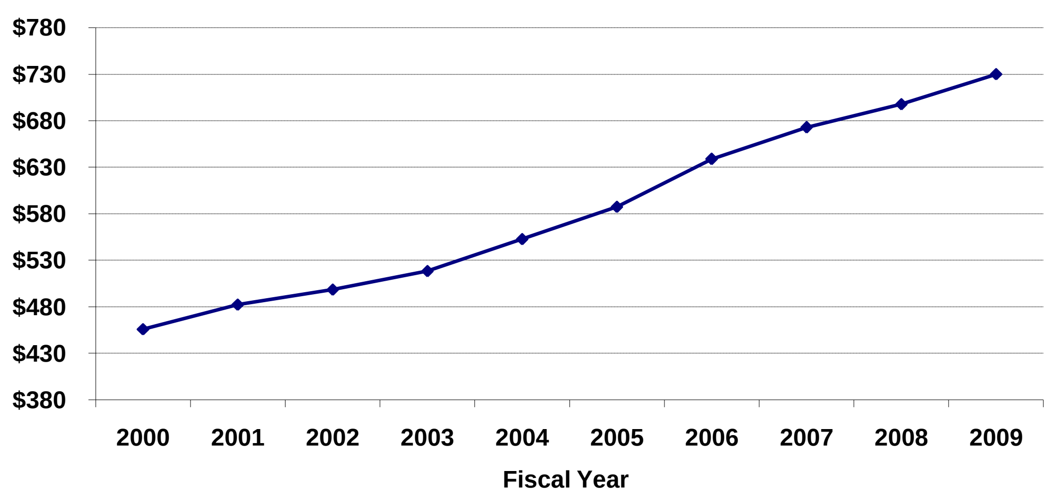
Changes made to the state's highway business logo sign program by H.B. 562 of the 127th General Assembly, the FY 2009-FY 2010 capital bill, resulted in $2.8 million in new revenue for transportation-related projects in FY 2009. These proceeds were deposited into the Highway Operating Fund (Fund 7002) in two installments, one in December 2008 and the other in June 2009. Under the program, the Ohio Department of Transportation (ODOT) contracts with a vendor for the placement and maintenance of signs along freeways displaying nearby gas, food, lodging, and camping facilities. Annual participation fees for the program are currently $800 per direction for one logo each on freeway and ramp signs, and $120 for smaller "trailblazer" signs, which are typically placed at the foot of exit ramps and point in the direction of the desired service. Formerly, the contractor kept the profits generated by fees paid by participating businesses. H.B. 562 changed this by requiring that any excess remaining after program expenses are paid and the vendor is assured a reasonable profit be remitted to ODOT. The program is expected to generate $3 million annually during the FY 2010-FY 2011 biennium.

Liquor Sales Totaled Almost $730 million in FY 2009

—Jason Phillips, Budget Analyst, 614-466-975

Liquor sales amounted to $729.9 million in FY 2009, an increase of 4.6% over FY 2008. As the chart below illustrates, total liquor sales grew consistently over the past decade. The average annual growth from FY 2000 to FY 2009 was 5.6%. The entire sales growth in FY 2009 was due to retail sales (those sales made by state liquor stores directly to consumers), which increased by 7.1% in FY 2009 and accounted for about two-thirds of total liquor sales. Wholesale sales (those sales made by contract liquor agencies to retailers, such as restaurants and bars) actually declined slightly (0.3%) in FY 2009. Growth rates in this type of sales started faltering in FY 2004 and were negative in each of the past two fiscal years.

Total Liquor Sales (in millions), FY 2000-FY 2009



The net proceeds of liquor sales are used to pay for specified expenses, including state liquor control operations, state liquor law enforcement, and the retirement of certain economic development and Clean Ohio revitalization bonds. After the specified expenses have been paid, the remaining profits are transferred to the GRF. The table below summarizes how FY 2009 liquor sales net proceeds were distributed. As seen from the table, a total of $163 million in excess profits was transferred into the GRF in FY 2009.

Distribution of Liquor Sales Net Proceeds, FY 2009 (in millions)	
Program/Fund	**Amount**
Excess Profits to the GRF	$163.0
Retirement of Economic Development and Clean Ohio Bonds	$45.3
Liquor Gallonage Tax to the GRF	$35.9
State Sales Tax to the GRF	$33.9
Department of Public Safety Liquor Enforcement Division	$10.1
Gallonage Tax to Cuyahoga County for Gateway Stadium Project	$5.1
Department of Alcohol & Drug Addiction Services Alcohol Treatment Program	$4.2
Department of Health Alcohol and Drug Testing Program	$1.2
Liquor Control Commission	$0.7
Total	**$299.4**

TRACKING THE ECONOMY

—Phil Cummins, Economist, 614-387-1687

Overview

Economic recovery in the U.S. has begun, in the view of forecasters Global Insight and Economy.com, and more tentatively, according to the summary of central bank policy deliberations released September 23. National economic indicators are mixed, with some continuing to deteriorate while others have turned higher. Inflation-adjusted gross domestic product (real GDP) fell again in the second quarter, but by less than earlier in the recession. Employment continued to shrink through September in the nation and through August in Ohio, and unemployment rose. Personal incomes, from sources other than receipts from government transfer programs, fell through August after adjustment for inflation.

Consumer spending and factory output have picked up.

Consumer spending, housing sector activity, and factory output have picked up. Consumer outlays rose in July and August, supported by the federal "cash for clunkers" stimulus to motor vehicle purchases, but car and light truck sales fell back in September after the program ended. Housing starts, sales, and construction activity have strengthened, partly in response to the federal tax credits for home buyers who have not owned a home in the last three years, but may slow as the program's stimulus winds down ahead of its expiration at the end of November. Industrial production rose in July and August, and purchasing managers indicate that activity expanded again in September. Factory shipments and new orders have turned higher, and the rates of contraction of factory inventories and order backlogs have slowed.

Inflation remains under control, giving monetary policy makers leeway to keep interest rates low and to continue aggressive support programs for credit markets. However, the huge injections of central bank liquidity following last year's financial sector implosion have stoked concerns about potential future inflation.

The recession in the national economy that began following the December 2007 business cycle peak may be at or near an end. The Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) is widely regarded as the official arbiter in determining the timing of business cycle peaks and troughs. In making this determination, the NBER committee looks at real GDP and also at real gross domestic income, both quarterly statistics. The group assigns a month to each cyclical peak and trough, and considers monthly series including national employment, industrial production, personal income adjusted to exclude transfer payments, and business sales. Employment estimates based on both the payroll and household surveys[9] are examined, though the group deems the payroll data more reliable. Both the personal income and business sales data are adjusted for inflation. These series are shown in Charts 1 and 2 below. Business sales include manufacturers' shipments and sales of retailers and wholesalers. The NBER committee typically waits 6 to 18 months after a business cycle turning point before publicly announcing a peak or trough, to reduce the likelihood of having to change a date previously announced.

Following its meeting on September 22 and 23, the Federal Open Market Committee (FOMC), the central bank's monetary policy setting group, said that recent information "suggests that economic activity has picked up." The post-meeting press release cited improved financial market conditions and increased housing market activity. It characterized household spending as stabilizing, but said businesses continued to cut capital outlays and staff. The FOMC reiterated that it expected to keep the federal funds rate, its short-term interest rate target, exceptionally low for an extended period. This target has been a range from zero to 0.25% since December 2008. In addition, the FOMC plans to continue programs to buy federal agency debt, agency mortgage-backed securities, and U.S. Treasury securities, though the press release noted that the pace of purchases of agency obligations would be gradually slowed "in order to promote a smooth transition in markets."

Economies of other countries are expanding.

In a number of foreign economies, recovery from the recession or slowdown appears to be well underway, and global trade is picking up. The October edition of the World Economic Outlook from the International Monetary Fund (IMF) indicates that economic activity globally rose in the second quarter of 2009 after contracting in the first quarter, and appears to be expanding further in the year's second half. Asian economies are leading the expansion, with stabilization or modest recovery elsewhere. The IMF expects the recovery to be slow, following the financial crisis, insufficient for some time to reduce unemployment.

[9] The payroll employment estimates are based on a survey of employers. The survey of households is the basis for estimates of employment, unemployment, the labor force, and related measures.

The National Economy

Employment and Unemployment

U.S. payroll employment declined by 263,000 in September.

Employment nationwide declined again in September and the national average unemployment rate continued to climb. Total nonfarm payroll employment fell by 263,000 last month with large job losses in the construction industry, at manufacturers, in retailing, and in government, particularly local government. Job losses were widespread among industries, though less widespread than earlier this year through July and in late 2008. September's decline in total employment was larger than the loss of 201,000 jobs in August, but smaller than in any previous month since August 2008. From last year's fourth quarter through this year's first half, more than half a million jobs were lost each month, on average.

The number of persons unemployed in the U.S. and actively seeking jobs rose in September to 15.1 million, about twice as many as at the start of the recession. The national unemployment rate, shown in Chart 3, rose to 9.8%, highest since 1983. More than two-thirds of these people, 10.4 million, had either lost jobs or finished temporary jobs, the highest share in the history of this series begun in 1967. The percent of the market accounted for by job leavers was lowest on record, and that due to re-entrants and new entrants was low. Over one-third, 5.4 million, had been out of work for six months or more. Among persons working part-time, an estimated 9.2 million would have preferred full-time jobs, nearly double the number at the start of the recession. Some people who would prefer to work have given up trying to find jobs, and the share of the nation's population 16 years of age and older that is either employed or actively looking for work fell in September to 65.2%, lowest since 1986.

The U.S. Bureau of Labor Statistics (BLS) announced that it expects to revise its estimates of nonfarm payroll employment downward when it issues its annual benchmark revision in early February of next year. The preliminary indication is that the estimate for March 2009 of total nonfarm payroll employment will be revised downward by 824,000 (0.6%), a relatively large adjustment that appears to be partly a result of increased business closings.

With a lag, BLS reports on monthly hires, layoffs, quits, and other separations. The report shows labor market turnover unusually low. In August, about 4.3 million total separations nationwide exceeded the 4.0 million hires. Total separations have exceeded hires since February 2008. The hires rate in August was low, down by 1.6 million from the recent peak in 2006. Total separations were the lowest in the brief history of this series, which began in December 2000. The rate of layoffs, 2.3 million, was elevated but was below the rate from last December through April, when layoffs averaged 2.5 million per month. The quits rate, characterized by BLS as an indicator of the ability and willingness of workers to change jobs, was 1.7 million in July, lowest on record. Other separations, which includes retirements, were also relatively low in July at 0.2 million. The job openings rate, equal to the number of job openings at month end divided by employment plus job openings, was 1.8% in August, lowest in the history of this survey.

U.S. industrial production rose in both July and August.

Production, Shipments, and Inventories

Real GDP decreased at a 0.7% annual rate in the second quarter, in the U.S. Bureau of Economic Analysis' latest estimate. This follows much sharper declines in the previous three quarters. Since its peak in the second quarter of 2008, real GDP has declined by 3.8%. Although the estimate of second quarter real GDP was revised to show a smaller decline than previously reported, the fall in activity in this recession nevertheless remains the largest among post-World War II recessions.[10]

Industrial production rose 0.8% in August, following a 1% increase in July. Manufacturing output increased 0.6% in August and 1.4% in July. The back-to-back increases in output in July and August were the first increases in two consecutive months since the recession began. Declines in factory output in each month of the second quarter were smaller than previously reported. Production of motor vehicles increased in August, as did output of aircraft, various types of consumer nondurables, business supplies, and materials.

Purchasing managers with manufacturers, in the Institute for Supply Management's monthly survey, indicated that the manufacturing sector grew in September, for the second consecutive month. More survey respondents reported increases in production than reported decreases, for the fourth consecutive month. New orders and backlogs of orders increased. Export orders rose. Increases in prices paid by the purchasing managers were reported more often than decreases, for the third straight month. A comparable index for the nonmanufacturing sector showed growth in activity in September, after 11 months of contraction. In contrast with the manufacturing report, declines in prices

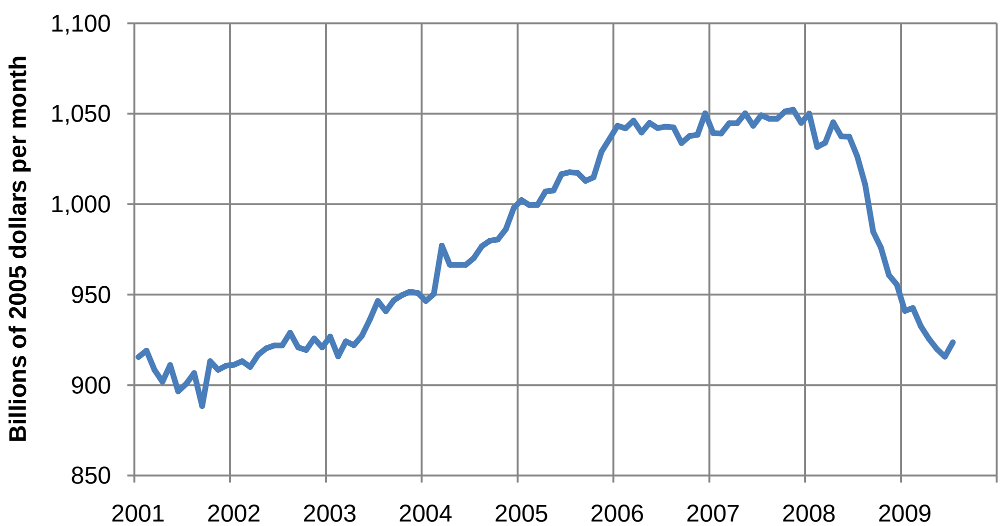
[10] This statement is based on quarterly real GDP data starting in 1947. Annual data show a much larger decline in 1945 through 1947, by 13%, following an NBER peak in February 1945, prior to the end of the war. The largest decline in the official GDP record was from 1929 to 1933, during the Great Depression, when real GDP fell 27%.

paid were reported more frequently by respondents to this survey than increases.

Manufacturers' shipments and new orders declined in August after rising in July. The dollar value of total factory shipments in August was 1.9% higher than the recent low point in May. Since the recent low for new orders in March, total factory new orders have risen 3.2%. Unfilled orders, 45% of which are for aircraft and parts, are at the lowest level since August 2007, but the pace of contraction has slowed. Inventories are lowest since June 2006, but the rate of liquidation also has slowed.

Sales of manufacturers, wholesalers, and retailers, adjusted for inflation – one of the series considered by the NBER in deciding whether a cyclical peak or trough has been reached – rose in July as shown in Chart 1. This measure of sales had generally trended downward since late 2007. In August, the dollar value of manufacturers' shipments fell while retail sales increased sharply and wholesalers' sales also increased. Total manufacturing and trade sales in dollars of current purchasing power rose 1.2% in August, reflecting at least in part higher energy

Chart 1: Manufacturing and Trade Sales



Consumer spending increased 1.3% in August.

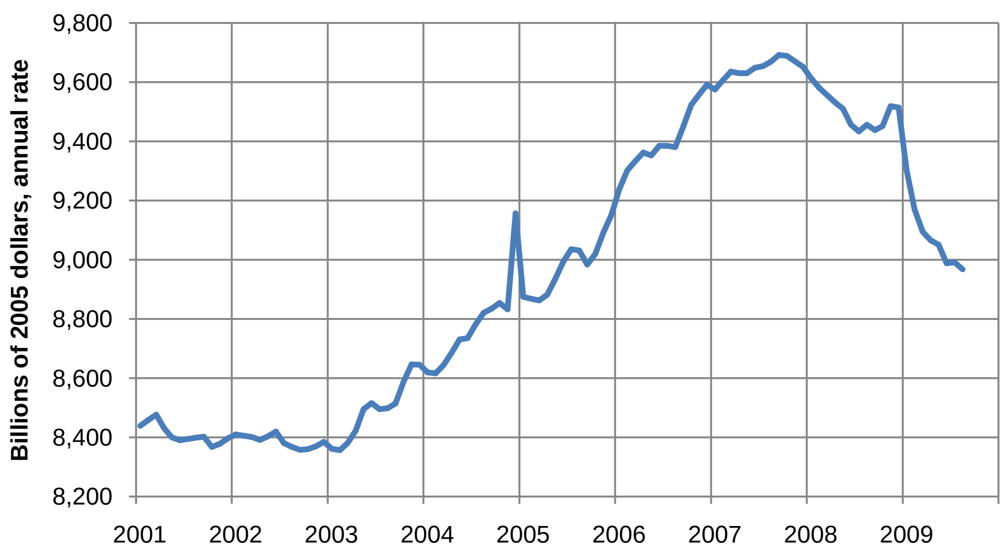
prices. The corresponding total adjusted for inflation has not yet been reported.

Consumer Spending

Personal income rose 0.2% in August but consumer spending jumped 1.3% – equivalent to 0.9% adjusted for inflation – mainly reflecting strong durable goods sales. The rise in sales of durable goods resulted mostly from increased purchases of motor vehicles and parts in response to the federal "cash for clunkers" program, which also boosted July sales, and which expired August 24. Consumer spending in the third quarter through August is running ahead of the pace in the second quarter.

As noted above, personal income excluding transfer payments, and adjusted for inflation, is one of the monthly series that the NBER considers in evaluating the timing of business cycle peaks and troughs. Rising personal receipts of transfer payments from governments have helped to support consumer outlays. Excluding these transfers, and net of inflation, personal income has trended down this year through August, continuing the general pattern evident since late 2007, as shown in Chart 2.[11]

Chart 2: Personal Income Excluding Transfer Payments



Car and light truck sales slowed in September.

Retail and food service sales rose 2.7% in August, in part a result of the boost to motor vehicle sales from the federal government's "cash for clunkers" program. However, even excluding motor vehicles and parts, total sales rose 1.1% in August, as sales increased at electronics and appliance stores and at retailers offering predominantly nondurable goods. Sales fell, however, for furniture and home furnishings stores and for building material and garden equipment and supplies dealers. The August increase followed a 0.2% decline in total retail sales in July. Even with the latest upturn, total retail sales in August remained 5.3% below the year-earlier sales rate.

[11] Data shown in Chart 2 are those published by the U.S. Bureau of Economic Analysis.

With expiration of the "cash for clunkers" stimulus plan the previous month, motor vehicle sales fell sharply in September. At a seasonally adjusted annual rate, car and light truck sales dropped to 9.2 million units last month from 14.1 million units in August. The September pace was just above the low for this cycle in February, when unit sales fell to a 9.1 million unit annual rate.

On a more positive note, sales of large retail chains were 0.4% higher in September than a year earlier, the first increase since August 2008, in the Bank of Tokyo-Mitsubishi's compilation of these reports. These figures are reported on a same-store basis, including only sales at stores open in both months being compared. However, the figures do not include Wal-Mart, the largest retailer, which stopped releasing sales results monthly.

Consumer credit outstanding continued to shrink rapidly through August. These reductions are likely in part voluntary, as households seek to pay down debt and rebuild savings, and in part involuntary, as banks and other creditors reduce or cancel credit lines and write down or write off delinquent accounts. Higher interest rates and other more onerous terms on credit card accounts probably encouraged cutbacks on use of credit. Since the peak in September 2008, credit card and other revolving debt outstanding has fallen by $76 billion or about 8%. Including auto and other nonrevolving consumer debt, other than loans secured by real estate, total consumer credit has declined $119 billion or 5% since July 2008. These declines are unprecedented in the post-World War II era.

Housing sector activity picking up from very low base.

Construction and Real Estate

Housing starts nationwide rose 2% from July to August, seasonally adjusted, and have increased 25% from the record low in April for this series begun in 1959. Even with this upturn, starts on new housing construction remain at a low level. Year-to-date starts, through August, were 44% below the year-earlier number, and barely one-fourth of the peak four years earlier. In the Midwest, housing starts have also turned up sharply from very low levels earlier this year, but remain far below the pace of construction earlier in the decade.

New home sales in the nation rose 1% in August, reaching a seasonally adjusted rate 30% higher than the trough in January, the lowest level on record for this series begun in 1963. The sales pace remains weak compared with sales in the peak year, 2005. Selling prices, on average, continue a downtrend begun in 2007. Builders' inventories of finished homes have been reduced 43% from their peak level but remain excessive compared with still anemic sales.

Home sales reported by the National Association of Realtors (NAR), generally previously occupied homes, fell 3% nationwide in August, seasonally adjusted, but were 14% higher than the low point for sales in January. In the Midwest, sales also fell from July to August but remained about 14% higher than at the trough for this series in April. Average prices on homes sold nationwide were 9% lower in August than a year earlier. The number of homes listed for sale with realtors was 16% fewer than in August 2008. First-time buyers accounted for 30% of home purchases in August, according to the NAR, the same as in July, and 31% of transactions were distressed sales, such as homes in foreclosure or sales at prices too low to repay outstanding loans secured by the properties.

Another NAR report, on pending home sales (contracts signed to buy homes), rose in August for the seventh consecutive month. The pending sales report tends to lead the NAR's home sales report discussed above, which is based on transactions that have closed.

Housing price indexes rose.

The period of declines in national average housing prices appears to have come to an end. One indicator of this is the Federal Housing Finance Agency's monthly index of housing prices, which is based on purchase prices of homes that serve as security for mortgages sold to or guaranteed by Fannie Mae or Freddie Mac. This index rose in May, June, and July, by a total of 1.1%. Home prices in July remained 10.5% below the peak in April 2007. Another housing price indicator, the Case-Shiller 20-city index, was 3.6% higher in July than at the April low point, but was 30% below the peak for that index in July 2006.

Construction spending turned higher in August as the value of private residential construction put in place during the month increased 5%, following a 1% rise in July, reflecting the upturn in housing starts since April. Private nonresidential construction edged lower, continuing the downtrend underway since late 2008. Public construction also declined in August as well as in July, at variance with the uptrend in public construction activity supported this year by federal infrastructure spending under the American Recovery and Reinvestment Act of 2009.

Inflation

Inflation, measured by the consumer price index (CPI), remains well contained. During the past 12 months, the CPI for all items declined 1.5%, reflecting in part a 30% fall in the price of gasoline. Excluding prices of energy and food, the CPI rose only 1.4% in the latest 12-month period. Food prices, on average, were little changed in the past year. In August, the CPI rose 0.4%, as gasoline prices increased 9%. The price of

Ohio payroll employment decreased by 30,100 in August.

gasoline has since fallen back. Excluding food and energy prices, the CPI edged up 0.1% in August.

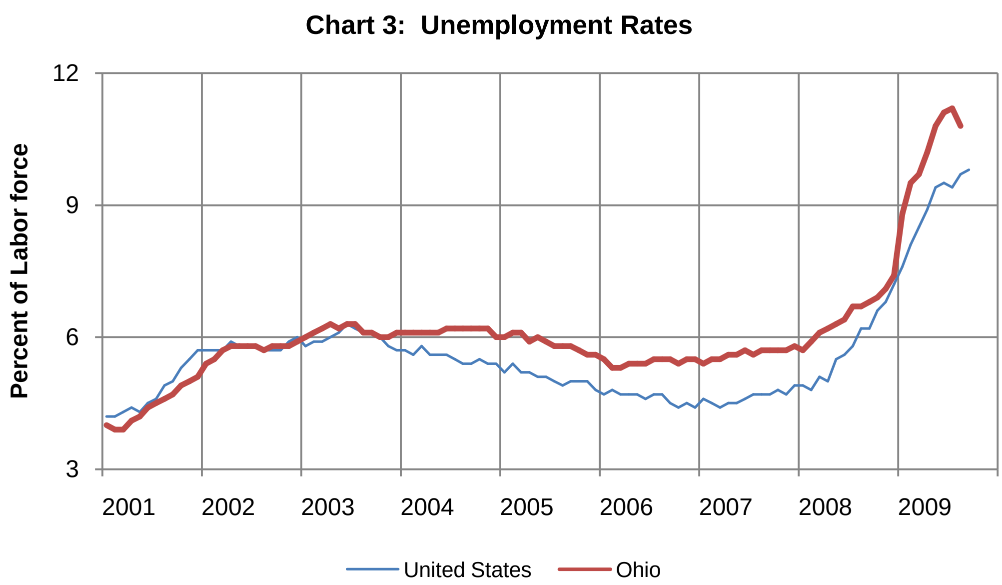
At the wholesale and producer level, price indexes also turned higher in August, mainly reflecting a rise in energy prices. The producer price index for finished goods rose 1.7% during the month as prices for gasoline and other energy products jumped 8%. Excluding food and energy, producer prices for finished goods rose a much smaller 0.2% during the month, and the index was 4.3% lower than its year-earlier level. Intermediate and crude materials prices also rose from July to August, pushed up by higher prices for energy and some other commodities. Crude oil prices fell back in September. These price indexes remained well below year-earlier levels, as a result of sharp price declines in late 2008 and early this year.

The Ohio Economy

Ohio unemployment rate decreased to 10.8%.

Employment on nonfarm payrolls in Ohio fell by 30,100, or 0.6%, in August. The number of jobs in goods-producing industries declined by 3,700, and the number in service-providing industries by 26,400. During the year ending in August, nonfarm payroll employment fell by 272,000, including 119,800 fewer jobs in Ohio's factories, 35,700 fewer jobs in construction, and 116,300 fewer jobs in the service sector. Cutbacks were widespread among industries, with the notable exceptions of health care, educational services, and leisure and hospitality industries.

Statewide, an estimated 641,000 Ohioans in August were unemployed and actively seeking work. This was 10.8% of the labor force, down from an unemployment rate of 11.2% in July, highest since 1983, as the number of persons employed fell from July to August but fewer of the people who were not employed were estimated to be actively looking for jobs. (Three million Ohioans ages 16 and over are neither employed nor actively looking for work.) Ohio's unemployment rate is shown in Chart 3, in comparison with the national unemployment rate, also at its highest level since 1983.



The number of homes sold in this state, reported by the Ohio Association of Realtors, was 14% lower in the first eight months of 2009 than a year earlier, and 9% lower in August. Unit sales improved in some communities in August but declined in the two largest markets, in northeast Ohio and the Columbus area. Realtors reported increased interest from prospective buyers, evidenced by numbers of telephone inquiries and visits to properties for sale. Selling prices averaged 9% lower in the January-August period than a year earlier, and 3% lower in the latest month, but with higher average selling prices in several areas.