Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION MARCH 2009

STATUS OF THE GRF

HIGHLIGHTS

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

Sustained job losses and reduced consumer spending are continuing to take their toll on Ohio's GRF revenues. February revenue from the two primary GRF tax sources, the personal income tax and the sales and use tax, were both below the October estimate for the fifth consecutive month. With four months left in FY 2009, overall tax receipts will end the fiscal year well below FY 2008 levels.

Through February 2009, GRF sources totaled $16,269.2 million:

- State-source receipts were $696.8 million (5.6%) below estimate.
  - Tax revenues were below estimate by $466.5 million (4.0%).
    - Sales and use tax revenues were below estimate by $280.3 million (5.4%).
    - Revenues from the personal income tax were below estimate by $192.4 million (3.7%).

Through February 2009, GRF uses totaled $19,512.1 million:

Total GRF uses were below estimate by $27.6 million (0.1%). Most program expenditures remained below estimated amounts. Among those above estimates, property tax relief, up $176.7 million (28.5%), was the only program category with a large variance.

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Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: (614) 466-3615

Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of February 2009
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 2, 2009)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$52,057	$52,932	-$875	-1.7%
Nonauto Sales and Use	$439,889	$473,986	-$34,097	-7.2%
Total Sales and Use Taxes	$491,946	$526,918	-$34,972	-6.6%
Personal Income	$207,466	$215,638	-$8,172	-3.8%
Corporate Franchise	$92,990	$106,346	-$13,356	-12.6%
Public Utility	$36,618	$33,451	$3,167	9.5%
Kilowatt Hour Excise	$11,814	$10,456	$1,358	13.0%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$29,010	$60,000	-$30,990	-51.7%
Domestic Insurance	-$100	$0	-$100	---
Business and Property	$0	$0	$0	---
Cigarette	$60,465	$63,787	-$3,322	-5.2%
Alcoholic Beverage	$4,400	$4,123	$277	6.7%
Liquor Gallonage	$2,673	$2,782	-$109	-3.9%
Estate	$0	$0	$0	---
Total Tax Revenue	**$937,282**	**$1,023,501**	**-$86,219**	**-8.4%**
NONTAX REVENUE				
Earnings on Investments	$14	$0	$14	---
Licenses and Fees	$12,491	$13,413	-$922	-6.9%
Other Revenue	$2,592	$5,650	-$3,058	-54.1%
Total Nontax Revenue	**$15,097**	**$19,063**	**-$3,966**	**-20.8%**
TRANSFERS				
Liquor Transfers***	$12,000	$12,000	$0	0.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$300,360	-$300,360	-100.0%
Total Transfers In	**$12,000**	**$312,360**	**-$300,360**	**-96.2%**
TOTAL STATE SOURCES	**$964,379**	**$1,354,924**	**-$390,545**	**-28.8%**
Federal Grants	$504,231	$512,303	-$8,072	-1.6%
TOTAL GRF SOURCES	**$1,468,610**	**$1,867,227**	**-$398,617**	**-21.3%**

* Revised estimates of the Office of Budget and Management released October 6, 2008.
**Commercial activity tax receipts in FY 2009 are non-GRF.
*** Liquor transfers based on information from OBM
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2009 as of February 28, 2009
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 2, 2009)

	Actual	Estimate*	Variance	Percent	FY 2008	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$563,054	$555,371	$7,683	1.4%	$600,905	-6.3%
Nonauto Sales and Use	$4,322,899	$4,610,929	-$288,030	-6.2%	$4,553,237	-5.1%
Total Sales and Use Taxes	$4,885,953	$5,166,300	-$280,347	-5.4%	$5,154,141	-5.2%
Personal Income	$5,047,819	$5,240,181	-$192,362	-3.7%	$5,498,373	-8.2%
Corporate Franchise	$223,895	$201,794	$22,101	11.0%	$278,744	-19.7%
Public Utility	$121,422	$110,259	$11,163	10.1%	$93,278	30.2%
Kilowatt Hour Excise	$92,018	$91,804	$214	0.2%	$194,267	-52.6%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$165,660	$193,802	-$28,142	-14.5%	$185,118	-10.5%
Domestic Insurance	-$872	-$158	-$714	451.6%	$433	-301.2%
Business and Property	$372	$425	-$53	-12.5%	$393	-5.5%
Cigarette	$561,914	$557,870	$4,044	0.7%	$577,201	-2.6%
Alcoholic Beverage	$37,664	$38,440	-$776	-2.0%	$37,318	0.9%
Liquor Gallonage	$24,361	$24,749	-$388	-1.6%	$23,638	3.1%
Estate	$30,837	$32,082	-$1,245	-3.9%	$31,025	-0.6%
Total Tax Revenue	**$11,191,043**	**$11,657,548**	**-$466,505**	**-4.0%**	**$12,073,929**	**-7.3%**
NONTAX REVENUE						
Earnings on Investments	$97,761	$78,100	$19,661	25.2%	$83,768	16.7%
Licenses and Fees	$50,034	$50,344	-$310	-0.6%	$51,268	-2.4%
Other Revenue	$46,000	$47,455	-$1,455	-3.1%	$73,182	-37.1%
Total Nontax Revenue	**$193,795**	**$175,899**	**$17,896**	**10.2%**	**$208,217**	**-6.9%**
TRANSFERS						
Liquor Transfers***	$109,000	$96,000	$13,000	13.5%	$116,000	-6.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$361,391	$622,560	-$261,169	-42.0%	$523,610	-31.0%
Total Transfers In	**$470,391**	**$718,560**	**-$248,169**	**-34.5%**	**$639,610**	**-26.5%**
TOTAL STATE SOURCES	**$11,855,229**	**$12,552,007**	**-$696,778**	**-5.6%**	**$12,921,756**	**-8.3%**
Federal Grants	$4,413,938	$4,466,182	-$52,244	-1.2%	$4,041,410	9.2%
TOTAL GRF SOURCES	**$16,269,167**	**$17,018,189**	**-$749,023**	**-4.4%**	**$16,963,166**	**-4.1%**

* Revised estimates of the Office of Budget and Management released October 6, 2008.
**Commercial activity tax receipts in FY 2009 are non-GRF.
*** Liquor transfers based on information from OBM
Detail may not sum to total due to rounding.

Revenues

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

Overview

February tax revenues were below estimate by $86.2 million. Year-to-date tax revenues were below estimate by $466.5 million and below FY 2008 receipts by $882.9 million.

GRF sources of $1,468.6 million for February 2009 were $398.6 million below estimate. The major source of variance was a shortfall of $300 million in temporary transfers in. Another contributing factor was that $31.0 million in revenue from the foreign insurance tax was not posted before the end of the month. Both issues are likely to be reversed in March. Excluding transfers in and foreign insurance tax, total GRF sources in February would have been $67.3 million (4.5%) below estimate and $13.9 million (1.0%) below revenues in February 2008. February GRF receipts from federal grants were $8.1 million (1.6%) below estimate.

The Office of Budget and Management (OBM), on December 19, 2008, reduced estimated GRF tax revenues for FY 2009 by an additional $640.4 million.[1] The estimates used in this publication were released by OBM on October 6, 2008, and do not take into account the December revenue revision. Tables 1 and 2 show GRF sources for the month of February and for FY 2009 through February, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, transfers in, and federal grants, which are federal reimbursements for human service programs such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding.

February 2009 was another bad month for state tax revenues. Tax revenues of $937.3 million were $86.2 million (8.4%) below estimate, from the $31.0 million negative variance in foreign insurance tax revenues mentioned above and shortfalls of $35.0 million (6.6%) in the sales and use tax, $8.2 million (3.8%) in the personal income tax, $3.3 million (5.2%) in the cigarette tax, and $13.4 million (12.6%) in the corporate franchise tax.

February tax receipts were $50.5 million (5.1%) below OBM revised estimates of December 2008, which added to the January negative variance of $60.5 million (3.2%). Thus, tax revenues were $110.0 million (3.9%) below revised estimates in the first two months of CY 2009. Receipts from the personal income tax and the sales and use

[1] This reduction is in addition to a $540.7 million reduction announced in October.

tax for these two months were 2.9% and 6.5%, respectively, below revised estimates.

Through February, FY 2009 total GRF sources of $16,269.2 million were below estimate by $749.0 million (4.4%). State-source receipts totaled $11,855.2 million, $696.8 million (5.6%) below estimate. Federal grants were $4,413.9 million, $52.2 million (1.2%) below estimate. Total tax revenues of $11,191.0 million were $466.5 million (4.0%) below estimate. The personal income tax and the sales and use tax were $192.4 million (3.7%) and $280.3 million (5.4%), respectively, below estimates. Revenue from the cigarette tax was $4.0 million (0.7%) above estimate. Receipts from the corporate franchise tax and the public utility tax were $22.1 million (11.0%) and $11.1 million (10.1%), respectively, above estimates. All the remaining taxes, except the kilowatt hour tax, were below expectations, while nontax revenues were above estimate.

Compared to FY 2008, FY 2009 year-to-date GRF sources through February were $694.0 million (4.1%) lower. State-source receipts declined $1,066.5 million (8.3%), due mainly to a decrease in tax revenues of $882.9 million (7.3%). Year-to-date receipts from all three primary GRF tax sources were below the levels of February 2008, including decreases of $450.6 million (8.2%) in personal income tax receipts, $268.2 million (5.2%) in sales and use tax receipts, and $15.3 million (2.6%) in cigarette tax receipts. Other taxes with notable year-to-year revenue variances included a decrease of $102.2 million (52.6%) in kilowatt hour tax receipts due to an increase this year in the share of receipts distributed to local government funds, a decrease of $54.8 million (19.7%) in corporate franchise tax receipts from a reduced tax rate this year, and an increase of $28.1 million (30.2%) in public utility excise tax receipts. FY 2009 year-to-date nontax revenues were $14.4 million (6.9%) below the FY 2008 level in the corresponding period, from a decline of $27.2 million (37.1%) in various miscellaneous state revenues. FY 2009 year-to-date transfers in were $169.2 million (26.5%) below the FY 2008 level in the corresponding period.

February income tax receipts were $57.3 million below last year's levels.

Personal Income Tax

After a miserable January when receipts fell 12.8% below estimate and 19.4% below receipts in January 2008, the performance of the personal income tax was no better in February 2009. Receipts of $207.5 million were $8.2 million (3.8%) below estimate and $57.3 million (21.6%) below February 2008 receipts. The decline in February receipts compared to the year-earlier level was due to a decrease of $44.1 million (7.2%) in withholding revenue and an increase of $21.7 million (7.0%) in refunds to taxpayers, reflecting shrinking payrolls, reduced taxable income, and also lower tax rates this year.

Through February, FY 2009 personal income tax receipts of $5,047.8 million were $192.4 million (3.7%) below estimate and $450.6 million (8.2%) below receipts in the corresponding period in FY 2008. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government funds. Gross collections are the sum of withholding, quarterly estimated payments,[2] trust payments, payments associated with annual returns, and miscellaneous payments.

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

Category	Year-to-date Variance from Estimate		Year-to-date Changes from FY 2008	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$87.2	-1.7%	-$251.6	-4.8%
Quarterly Estimated Payments	-$118.1	-12.0%	-$182.3	-17.4%
Trust Payments	-$7.7	-22.3%	-$10.8	-28.8%
Annual Return Payments	$16.1	9.2%	$19.0	11.1%
Miscellaneous Payments	-$12.5	-23.3%	-$8.6	-17.6%
Gross Collections	-$209.5	-3.3%	-$434.2	-7.1%
Less Refunds	-$6.5	-1.0%	$9.1	1.5%
Less Local Government Fund Distribution	-$10.6	-2.2%	$7.6	1.6%
Income Tax Revenue	-$192.4	-3.7%	-$450.9	-8.2%

The table above summarizes FY 2009 year-to-date income tax revenue variances from estimate and annual changes by components. Employer withholding (which accounted for about 70% of gross collections in FY 2008) reflects real-time labor conditions and the dismal performance of that component of the tax reflects deepening job losses in the current economic downturn, as well as the final reduction in tax rates enacted by H.B. 66 of the 126th General Assembly. Recent forecasts of

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

Ohio personal income and wage growth suggest a continuation of poor performances for this tax in the months ahead.

Sales and Use Tax

The performance of the sales and use tax in February was not surprising. Since October, monthly receipts have been below receipts a year ago and the pace of the decline appears to have intensified in the last three months. February receipts of $491.9 million were $35.0 million (6.6%) below estimate and $35.4 million (6.7%) below receipts in February 2008. Through February, FY 2009 receipts of $4,886.0 million were $280.3 million (5.4%) below estimate and also $268.2 million (5.2%) below FY 2008 receipts through February 2008.

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

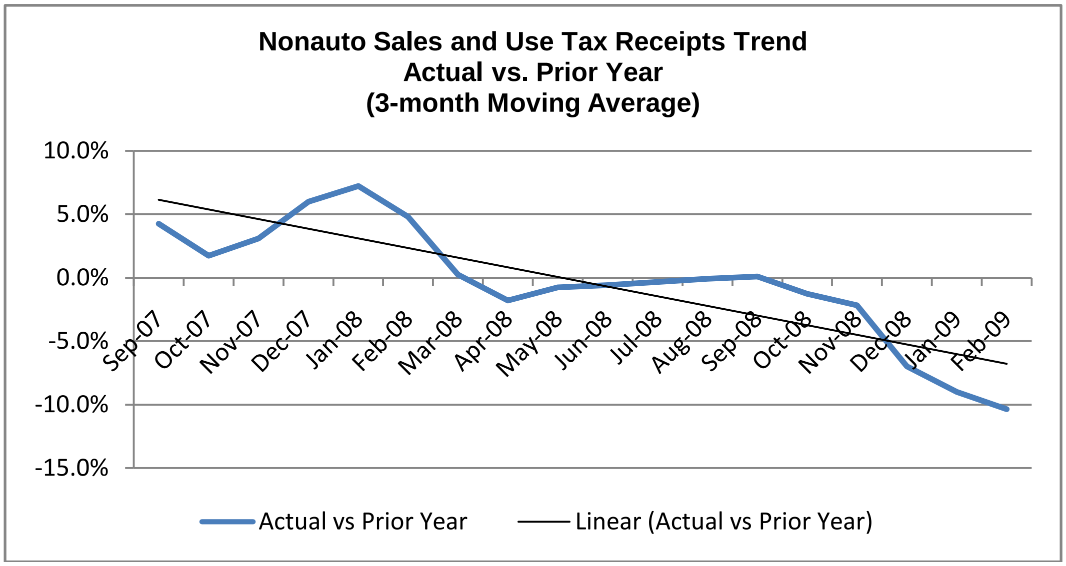
For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[3] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

Nonauto Sales and Use Tax

The performance of the nonauto sales and use tax, which had been poor in the first half of FY 2009, deteriorated further in the first two months of CY 2009. February receipts of $439.9 million were $34.1 million (7.2%) below estimate and $24.4 million (5.3%) below receipts in February 2008. Through February, FY 2009 year-to-date nonauto sales and use tax receipts of $4,322.9 million were $288.0 million (6.2%) below estimate and $230.3 million (5.1%) below receipts during the comparable period in FY 2008. The retrenchment in consumer spending continued in February. Layoffs, slumping home prices, declining consumer confidence, job losses, and poor credit conditions are keeping shoppers tightfisted. Receipts have generally been below estimate since the spring of 2008 and prior-year receipts since October 2008.

The graph below, which compares monthly receipts with prior-year receipts in the same period, indicates a persistent downward trend in nonauto sales and use tax receipts which has intensified in the last three months.

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



Auto Sales and Use Tax

February auto sales and use tax receipts of $52.1 million were $0.9 million (1.7%) below estimate and $11.0 million (17.4%) below receipts in February 2008. Through February, FY 2009 year-to-date auto sales and use tax receipts of $563.1 million were $7.7 million (1.4%) above estimate; however, they were $37.9 million (6.3%) below receipts through February in FY 2008.

Nationwide vehicle sales crashed again in February, as most manufacturers suffered significant setbacks. Nationwide light vehicle (autos and light trucks) sales in February fell about 41%, when compared to year-ago sales. For the month, on an annualized basis, 4.6 million autos and 4.5 million light trucks were sold. Sales of light vehicles through February in FY 2009 were 29.0% below unit sales in the corresponding period in FY 2008. Sales of autos and light trucks declined about 23.8% and 33.7%, respectively.

The impact of new vehicle sales on the auto sales and use tax receipts has lessened in the last few years as their relative share of the auto taxable base has steadily decreased and that of used vehicle sales has increased. However, due to the economic downturn which affects both used and new vehicle sales, auto sales and use tax receipts will very likely remain weak in the next several months.

Cigarette and Other Tobacco Products Tax

February GRF receipts from the cigarette and other tobacco products tax were $60.5 million, $3.3 million (5.2%) below estimate and $5.7 million (8.6%) below February 2008 receipts. Through February, FY 2009 year-to-date receipts from the tax were $561.9 million, $4.0 million (0.7%) above estimate. Those receipts were $15.3 million (2.6%) below FY 2008 receipts in the corresponding period. Revenues from taxed cigarettes were $535.7 million, down $16.8 million (3.0%) from last year's level. Revenues from the tax on other tobacco products were $26.2 million, up $1.5 million (6.1%). Receipts from the cigarette and other tobacco products tax are the third-largest tax source in FY 2009, after the personal income tax and the sales and use tax.

Corporate Franchise Tax

The first major corporate franchise tax (CFT) payment in FY 2009, due January 31, provided receipts of $132.4 million in that month and $93.0 million in February. Those combined receipts were $19.9 million (9.7%) above estimates and $102.8 million (31.3%) below revenues in the same period in FY 2008 due to the reduction in the tax rate for nonfinancial corporations. FY 2009 tax payments are based on 20% of the calculated liability, down from 40% in FY 2008, due to the phase-out of the tax on nonfinancial corporations that was enacted by H.B. 66 of the 126th General Assembly. Through February, FY 2009 receipts were $223.9 million, $22.1 million (11.0%) above estimate. Excluding the one-time large settlement received in the first quarter which accounts for revenues being in excess of estimate, total CFT receipts would have been about 8% below year-to-date estimate. Thus, although year-to-date results portend a good performance of the tax this year, the decline in corporate profits in the second half of CY 2008 is expected to reduce the current positive variance over the next few months. The next two major tax payments are due March 31 and May 31. As part of the five-year phase-out of the corporate franchise tax enacted in H.B. 66, the corporate franchise tax for nonfinancial corporations will be eliminated in FY 2010, and the tax will become essentially a tax on financial institutions.

First corporate franchise tax payment was $19.9 million above estimate.

Commercial Activity Tax

In February 2009, commercial activity tax (CAT) receipts were $258.2 million, $89.6 million (25.8%) below estimate and $27.6 million (12.0%) above receipts in February 2008. About 26% of receipts for a fiscal year is tallied in February, one of the four months when large taxpayers report their quarterly CAT payments. Receipts growth for the CAT had already declined in the second quarter of FY 2009. However, February receipts, which were based on taxable receipts in the last quarter of CY 2008, were the first true indication of the impact of the deepening recession on CAT receipts. Also, taxpayers may have applied recently

CAT receipts growth declines due to the recession and possibly tax credits.

available tax credits against the CAT according to the Department of Taxation.[4]

Through February, FY 2009 total CAT receipts were $945.6 million, $60.3 million (6.0%) below estimate, and $221.6 million (30.6%) above receipts in FY 2008, primarily due to a higher tax rate this fiscal year. Taxpayers pay 80% of their liability in FY 2009 and in FY 2010, the tax will be fully phased in. The next payment for quarterly taxpayers is due on May 9, 2009, for taxable gross receipts booked in the first quarter of CY 2009. 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.[5]

[4] The job creation, job retention, and research and development tax credits are expected to be applied against the CAT for the first time in the second half of FY 2009. The net operating loss credit will reduce CAT receipts starting in FY 2010.

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

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of February 2009
($ in thousands)
(Actual based on OAKS reports run March 9, 2009)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	$615,704	$598,084	$17,621	2.9%
Higher Education	$266,734	$255,492	$11,242	4.4%
Total Education	$882,438	$853,576	$28,863	3.4%
Public Assistance and Medicaid	$889,371	$895,197	-$5,827	-0.7%
Health and Human Services	$63,614	$78,937	-$15,322	-19.4%
Total Welfare and Human Services	$952,985	$974,134	-$21,149	-2.2%
Justice and Public Protection	$123,592	$135,915	-$12,323	-9.1%
Environment and Natural Resources	$4,123	$5,212	-$1,089	-20.9%
Transportation	$717	$2,048	-$1,330	-65.0%
General Government	$15,369	$20,238	-$4,869	-24.1%
Community and Economic Development	$9,324	$8,455	$870	10.3%
Capital	$0	$0	$0	---
Total Government Operations	$153,125	$171,867	-$18,742	-10.9%
Tax Relief and Other	$211	$51,829	-$51,618	-99.6%
Debt Service	$38,204	$33,865	$4,339	12.8%
Total Other Expenditures	$38,415	$85,694	-$47,279	-55.2%
Total Program Expenditures	**$2,026,964**	**$2,085,271**	**-$58,308**	**-2.8%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$103	$0	$103	---
Total Transfers Out	$103	$0	$103	---
TOTAL GRF USES	**$2,027,067**	**$2,085,271**	**-$58,205**	**-2.8%**

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

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2009 as of February 28, 2009
($ in thousands)
(Actual based on OAKS reports run March 9, 2009)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2008**	**Percent Change**
Primary, Secondary, and Other Education	$5,010,266	$5,066,975	-$56,708	-1.1%	$4,594,686	9.0%
Higher Education	$1,808,487	$1,807,102	$1,385	0.1%	$1,743,717	3.7%
Total Education	$6,818,753	$6,874,076	-$55,323	-0.8%	$6,338,403	7.6%
Public Assistance and Medicaid	$7,847,944	$7,949,794	-$101,850	-1.3%	$7,429,484	5.6%
Health and Human Services	$870,323	$897,277	-$26,954	-3.0%	$883,715	-1.5%
Total Welfare and Human Services	$8,718,267	$8,847,071	-$128,804	-1.5%	$8,313,199	4.9%
Justice and Public Protection	$1,461,358	$1,460,373	$985	0.1%	$1,456,886	0.3%
Environment and Natural Resources	$74,244	$71,662	$2,583	3.6%	$78,939	-5.9%
Transportation	$15,086	$18,258	-$3,172	-17.4%	$18,496	-18.4%
General Government	$248,111	$259,462	-$11,352	-4.4%	$249,273	-0.5%
Community and Economic Development	$99,123	$99,046	$77	0.1%	$93,001	6.6%
Capital	$187	$67	$120	179.1%	$66	184.9%
Total Government Operations	$1,898,109	$1,908,868	-$10,759	-0.6%	$1,896,660	0.1%
Tax Relief and Other	$797,667	$620,984	$176,683	28.5%	$654,211	21.9%
Debt Service	$434,729	$436,275	-$1,546	-0.4%	$419,560	3.6%
Total Other Expenditures	$1,232,396	$1,057,260	$175,136	16.6%	$1,073,771	14.8%
Total Program Expenditures	**$18,667,525**	**$18,687,275**	**-$19,750**	**-0.1%**	**$17,622,033**	**5.9%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$844,607	$852,439	-$7,832	-0.9%	$618,683	36.5%
Total Transfers Out	$844,607	$852,439	-$7,832	-0.9%	$618,683	36.5%
TOTAL GRF USES	**$19,512,132**	**$19,539,714**	**-$27,582**	**-0.1%**	**$18,240,716**	**7.0%**

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

EXPENDITURES

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

Overview

Tables 3 and 4 show GRF uses for the month of February and for FY 2009 through February, respectively. For February, GRF uses of $2,027.1 million were $58.2 million (2.8%) below the estimate released by the Office of Budget and Management (OBM) in October 2008. For the first eight months of FY 2009, GRF uses of $19,512.1 million were $27.6 million (0.1%) below estimate. GRF uses consist primarily of program expenditures and also include transfers out. Through February, GRF program expenditures totaled $18,667.5 million, which was $19.8 million (0.1%) below estimate, and transfers out totaled $844.7 million, which was $7.8 million (0.9%) below estimate.

The October OBM estimate takes into account the budget reductions ordered in February and September, but excludes the $180.5 million reductions ordered in December. As a result, for the purposes of this publication, GRF program expenditures as a whole will likely finish the year below estimate.

While the overall fiscal year-to-date variance in GRF program expenditures was relatively small, individual program category expenditure patterns differed. The three program categories with the largest year-to-date negative variances were: Public Assistance and Medicaid ($101.9 million, 1.3%), Primary and Secondary Education ($56.7 million, 1.1%), and Health and Human Services ($27.0 million, 3.0%). These variances were almost completely offset by a $176.7 million (28.5%) positive year-to-date variance in the Tax Relief and Other category.[6]

The overall fiscal year-to-date variance in GRF program spending was relatively small, at $19.8 million (0.1%) below estimate.

Public Assistance and Medicaid

GRF expenditures for Public Assistance and Medicaid totaled $889.4 million in February, $5.8 million (0.7%) below estimate. Through February, this program category's expenditures were $7,847.9 million, $101.9 million (1.3%) below estimate. Medicaid accounts for about 92% of GRF expenditures in the Public Assistance and Medicaid program category. For the month of February, GRF Medicaid expenditures were

[6] As discussed in the November issue of this report, the positive variance in this program category will likely continue in future months because the OBM estimate did not account for increased expenditures attributable to the Homestead exemption enacted in H.B. 119 of the 127th General Assembly.

Fiscal year-to-date GRF spending for Medicaid was $98.7 million (1.3%) below estimate.

$819.6 million, $4.3 million (0.5%) below estimate. Through February 2009, GRF Medicaid expenditures totaled $7,217.6 million, $98.7 million (1.3%) below estimate. Table 5 details Medicaid expenditures by service category.

The most notable variance for the month occurred in the Physicians service category with expenditures above estimate by $5.8 million (21.2%) in that month and by $11.8 million (5.5%) for the year to date. These positive variances were due to the timing of payments to physicians rather than an increase in physician services or reimbursements. This timing of payments also affected February expenditures in the All Other service category, which were above estimate by $6.5 million (8.1%). According to ODJFS, the All Other service category was mainly affected by payments for supplies and medical equipment. Year-to-date expenditures for this service category, however, were below estimate by $24.6 million (3.6%). This negative variance was mainly attributable to higher than expected recovery of third party liability (TPL) payments.[7] TPL payments were higher than expected for the past few months, but are now closer to estimate.

In keeping with the trend of previous months, expenditures for the ODJFS Waivers category were below estimate in both February and for the year to date by $2.1 million (8.0%) and $16.8 million (7.5%), respectively, because enrollment remained below OBM projections. Also trending below estimate were the expenditures for managed care plans for the aged, blind, and disabled (ABD). Expenditures for this service category were below estimate in February by $9.2 million (8.0%) and below estimate by $35.5 million (3.6%) year to date. As explained in the January and February issues of this report, the negative variances in this service category were primarily due to lower than expected enrollments in managed care by ABD populations in the Northeast and Northwest regions.

Primary, Secondary, and Other Education

GRF expenditures for the Primary, Secondary, and Other Education program category were $615.7 million in February, $17.6 million (2.9%) above estimate. However, this program category's year-to-date expenditures of $5,010.3 million were $56.7 million (1.1%) below estimate. The Department of Education's (ODE) school

[7] Private insurance companies and Medicare both remit TPL payments to Medicaid for those medical claims for which the respective provider bears financial responsibility.

foundation payments account for about 90% of the total expenditures for the Primary, Secondary, and Other Education program category. Year-to-date spending for the school foundation payments is below estimate by $52.0 million. As noted in the January and February issues of this report, the negative variance in school foundation funding is mainly due to the fact that actual student enrollments used for making school foundation payments for FY 2009 are lower than the projected enrollments used for appropriations. As a result of the lower than expected student enrollments, expenditures for the Primary, Secondary, and Other program category are expected to be below estimate for the year. When OBM implemented the December budget reductions, it identified another $13.5 million in foundation appropriation as an anticipated lapse.

School foundation payments for FY 2009 are expected to be below estimate due to lower than expected student enrollments.

The school foundation payments consist of a blend of the GRF and lottery profits. Lottery profits are transferred to the Lottery Profits Education Fund (LPEF) on a monthly basis. Through February, year-to-date transfers were $32.6 million (6.7%) below OBM estimate, but remained $5.1 million (1.1%) above FY 2008 levels. H.B. 119 appropriated $667.9 million in lottery profits for the school foundation payments for FY 2009. An additional $73 million in profits were anticipated when Keno was introduced in August 2008. However, as reported in the January issue of *Budget Footnotes*, Keno profits for FY 2009 are likely to be below $45 million. Any shortfalls in lottery profits will be made up by the GRF when necessary.

Health and Human Services

GRF expenditures for the Health and Human Services program category totaled $63.6 million in February, $15.3 million (19.4%) below estimate. Through February, fiscal year-to-date GRF expenditures for the Health and Human Services program category totaled $870.3 million, which was $27.0 million (3.0%) below estimate. Much of these negative variances were likely related to the December budget reductions, which were not included in the OBM estimate used in this analysis. The December budget reduction lowered FY 2009 GRF appropriations for the Department of Mental Health, the Department of Mental Retardation and Developmental Disabilities, the Department of Aging, and the Department of Health by a total of $64.8 million.

Tax Relief and Other

The Tax Relief and Other program category expenditures for February were $51.6 million below estimate; however, fiscal year-to-date expenditures for this program category were $176.7 million (28.5%) above estimate as a result of the expanded Homestead exemption instituted in

FY 2009 appropriations for the expanded Homestead exemption totaled $257.0 million.

H.B. 119. H.B. 119 authorized the securitization of Ohio's future tobacco settlement payments and used the securitization proceeds instead of bond proceeds to finance the facility needs of primary and secondary and higher education during FYs 2008, 2009, and 2010. Savings in GRF debt service payments and investment earnings on tobacco securitization proceeds are used to pay for the expanded Homestead exemption. In January, the Controlling Board approved $126.1 million in appropriation adjustments to the relevant debt service and property tax relief line items and authorized up to $130.9 million in investment earning cash transfers for a total of $257.0 million appropriation for the expanded Homestead exemption payments for FY 2009. In its first full calendar year (2008), the expanded Homestead exemption cost $245.4 million, which was slightly less than the amount estimated during H.B. 119 deliberations. According to the Department of Taxation, nearly 97% of the estimated eligible Ohioans utilized the exemption for the tax year 2007 assessments.

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

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

Medicaid (600-525) Payments by Service Category	February Actual	February Estimate	February Variance	February Percent Variance	Year to Date Actual thru Feb	Year to Date Estimate thru Feb	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$215,238	$218,389	-$3,151	-1.4%	$1,725,749	$1,718,918	$6,831	0.4%
ICFs/MR	$45,699	$46,725	-$1,026	-2.2%	$360,858	$367,549	-$6,691	-1.8%
Inpatient Hospitals	$85,616	$84,551	$1,065	1.3%	$681,389	$700,891	-$19,502	-2.8%
Outpatient Hospitals	$32,504	$29,573	$2,931	9.9%	$255,697	$248,013	$7,684	3.1%
Physicians	$33,022	$27,253	$5,769	21.2%	$226,478	$214,650	$11,828	5.5%
Prescription Drugs	$45,097	$43,736	$1,361	3.1%	$348,560	$352,012	-$3,452	-1.0%
ODJFS Waivers	$24,189	$26,281	-$2,092	-8.0%	$208,904	$225,740	-$16,836	-7.5%
MCP - CFC	$271,619	$275,863	-$4,244	-1.5%	$2,322,933	$2,342,174	-$19,241	-0.8%
MCP - ABD	$105,058	$114,254	-$9,196	-8.0%	$953,484	$989,008	-$35,524	-3.6%
Medicare Buy-In	$23,756	$26,503	-$2,747	-10.4%	$205,681	$209,147	-$3,466	-1.7%
All Other	$87,033	$80,525	$6,508	8.1%	$657,693	$682,330	-$24,637	-3.6%
DA Medical	$790	$781	$9	1.2%	$7,249	$7,722	-$473	-6.1%
Total Payments	$969,621	$974,434	-$4,813	-0.5%	$7,954,675	$8,058,154	-$103,479	-1.3%
Offsets								
Drug Rebates	-$8,026	-$8,155	$129	-1.6%	-$48,941	-$49,382	$441	-0.9%
Revenue and Collections	-$7,431	-$7,595	$164	-2.2%	-$44,951	-$45,918	$967	-2.1%
ICF/MR Franchise Fees	-$1,250	-$1,250	$0	0.0%	-$6,250	-$6,250	$0	0.0%
NF Franchise Fees	-$19,444	-$19,444	$0	0.0%	-$97,222	-$97,222	$0	0.0%
IMD/DSH Payments	-$8,750	-$8,750	$0	0.0%	-$26,250	-$26,250	$0	0.0%
MCP Assessments	-$20,000	-$20,000	$0	0.0%	-$120,000	-$120,000	$0	0.0%
Health Care Federal	-$106,343	-$106,745	$402	-0.4%	-$557,794	-$561,011	$3,217	-0.6%
Total Offsets	-$171,244	-$171,939	$695	-0.4%	-$901,408	-$906,033	$4,625	-0.5%
Total 600-525 (net of offsets)	$798,377	$802,495	-$4,118	-0.5%	$7,053,267	$7,152,121	-$98,854	-1.4%
Medicare Part D (600-526)	$21,188	$21,386	-$198	-0.9%	$164,364	$164,167	$197	0.1%
Total GRF	**$819,565**	**$823,881**	-$4,316	**-0.5%**	**$7,217,631**	**$7,316,288**	-$98,657	**-1.3%**
Total All Funds	**$990,809**	**$995,820**	-$5,011	**-0.5%**	**$8,119,039**	**$8,222,321**	-$103,282	**-1.3%**

Source: Ohio Department of Job & Family Services.

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

ISSUE UPDATES

Almost $95 Million Disbursed for TANF Initiatives in FY 2008

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

In FY 2008, the Ohio Department of Job and Family Services (ODJFS) disbursed $94.9 million (79%) of the $120.6 million earmarked for the 31 TANF initiatives funded in H.B. 119. H.B. 119 provided that funds for 19 of the 31 initiatives (see Table 1) were available in FY 2008 only. Of the $110.4 million earmarked for these 19 initiatives, $89.9 million was disbursed and the remaining $20.4 million went unspent. ODJFS expected a certain level of underspending due to program ramp-up. Recipients of FY 2008 funds had until December 2008 to seek reimbursement. For the other 12 initiatives (see Table 2), any funds not disbursed in FY 2008 could be carried forward. Of the $10.3 million earmarked for these 12 initiatives, $5.0 million was disbursed and the remaining $5.3 million has been carried over for the same initiatives in FY 2009.

Table 1. FY 2008 TANF Earmarks

Initiative	Funds Available	Funds Disbursed
Home Energy Assistance Program	$45,000,000	$45,000,000
Governor's Office of Faith Based & Community Initiatives	$13,000,000	$6,005,917
Closing the Achievement Gap	$10,000,000	$7,140,134
Kinship Permanency Incentive Program	$10,000,000	$7,177,384
Summer and After-School Programs	$10,000,000	$9,585,157
School Readiness Enrichment	$6,500,000	$3,000,000
Adoption Promotion	$5,000,000	$3,784,074
Independent Living Initiatives	$2,500,000	$2,500,000
Ohio Alliance of Boys and Girls Clubs	$2,000,000	$1,985,143
TANF Educational Awards Program	$2,000,000	$0
Food Banks	$1,500,000	$1,500,000
Children's Hunger Alliance	$1,000,000	$996,956
Economic and Community Development Institute	$650,000	$372,024
Home Weatherization	$500,000	$327,015
Parent Mentors (Department of Education)	$250,000	$223,187
A Cultural Exchange	$200,000	$113,847
Butler County Success Plan	$100,000	$100,000
Providence House	$100,000	$ 85,500
Early Childhood Education Pilot	$50,000	$ 36,941
TOTAL	**$110,350,000**	**$89,933,279**

Table 2. FY 2008 TANF Earmarks (may be carried over into FY 2009)		
Initiative	**Funds Available**	**Funds Disbursed**
American Red Cross – Cleveland & the Berea Children's Home	$2,063,000	$1,152,452
Accountability & Credibility Together	$2,000,000	$999,406
WECO Home Program	$2,000,000	$266,495
Big Brothers Big Sisters	$1,000,000	$844,180
Ohio Council of Urban Leagues	$1,000,000	$994,724
Freestore Foodbank – BARIS Program	$800,000	$396,313
Center for Families and Children RapArt Youth Fellowship	$492,256	$136,566
Chabad House	$250,000	$19,433
American Academy of Pediatrics	$200,000	$63,413
Court Clinic Forensic Services	$200,000	$58,469
Talbert House	$200,000	$46,693
Family Services of the Cincinnati Area	$50,000	$9,193
TOTAL	**$10,255,256**	**$4,987,337**

ODJFS reimburses recipients of the earmarked TANF funds for allowable expenditures according to federal law. For expenditures to be considered allowable, they must meet one of the four purposes of TANF. The four purposes are:

1. Assisting needy families so that children can be cared for in their own homes;
2. Reducing the dependency of needy parents by promoting job preparation, work, and marriage;
3. Preventing out-of-wedlock pregnancies; and
4. Encouraging the formation and maintenance of two-parent families.

Ohio Works First Cash Benefits Increase 5.8% in 2009

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

Ohio Works First (OWF) cash benefits increased by 5.8% in January 2009, due to the statutory cost-of-living adjustment (COLA). H.B. 119 requires ODJFS, beginning in 2009, to increase cash assistance payments in January of each year based on a COLA as determined by the federal Social Security Administration. The annual COLA rate is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers. The Social Security Administration estimates this index to increase 2.5% in January 2010, and 2.8% in January 2011.

In FY 2008, Ohio expended $317.3 million in OWF cash benefits to an average of 79,400 assistance groups each month with an average payment per assistance group of $333 per month. In January 2009, this increased to $358 per month as a result of the COLA adjustment. The average monthly payment per assistance group is projected to increase to $367 in January 2010, and $377 in January 2011. LSC estimates that the COLA increases will cost the state $10.3 million in the second half of FY 2009, $27.3 million in FY 2010, and $37.8 million in FY 2011. These estimates are based on assumptions in COLA growth as well as on forecasted caseload growth. Spending for OWF cash assistance consists of a blend of state GRF money and federal TANF dollars.

Higher Education Need-Based Financial Aid Obligations Exceed Appropriations

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

In FY 2008, need-based financial aid obligations exceeded original H.B. 119 appropriations by approximately $38.4 million (21%). In FY 2009, obligations are expected to be $55.5 million (32%) higher than the original appropriations. Ohio's need-based financial aid for higher education students is provided primarily through Ohio College Opportunity Grants (OCOG) and Ohio Instructional Grants (OIG). OCOG and OIG are awarded based on each student's Expected Family Contribution (EFC), which is the estimated amount of a student’s tuition, fees, and other expenses that can be paid by the student and the student’s family, given their financial resources.

Due to rising enrollment and falling EFCs, OCOG and OIG obligations have increased significantly and the Ohio Board of Regents (BOR) has had to take extra steps to meet those obligations. When need-based financial aid obligations are higher than estimated, the Chancellor has several means of increasing the appropriations available. If any unencumbered and unexpended GRF appropriations lapse at the end of a fiscal year, BOR can request that the Director of Budget and Management reallocate those funds to OCOG. The Director can also authorize an additional $5.0 million in expenditures for OCOG. If obligations are still higher than available appropriations, the Chancellor can also adjust the EFC levels eligible for awards to eliminate the highest EFCs from eligibility.

To meet obligations in FY 2008, BOR reallocated lapsed appropriations and requested that the Director of Budget and Management authorize an additional $1.6 million in expenditures. BOR indicates that for FY 2009 they have already requested that the Director transfer $30.0 million from the Choose Ohio First Program, requested authorization for the $5.0 million of additional expenditures permitted under statute, and identified several programs which will have appropriations lapsing at the end of the fiscal year. If these sources cannot meet obligations, BOR hopes to use

FY 2010 appropriations to meet financial aid obligations, rather than change eligibility levels for the grants.

Board of Regents Enters Virtualization Agreement

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

In January, BOR entered into an agreement with VMware, Inc., for a three-year initiative to establish information technology virtualization at Ohio's public institutions of higher education. Virtualization, in this instance, is the process of using a central computing data center to operate state-of-the-art technology and software through a "virtual desktop" on other computers, regardless of location. The agreement allows public institutions and some private institutions to purchase the virtualization technology and software at lower prices. The agreement saves institutions approximately 70% on software and approximately 50% on software maintenance. The savings, if all institutions participate, is estimated at $130 million compared with the cost of each institution purchasing the technology and software separately.

BOR estimates that the technology could virtualize as many as 3,500 servers and 75,000 desktop computers at public institutions. The Ohio Academic Resources Network (OARnet) indicates that four public institutions, two private colleges, two school districts, and the Ohio Library Information Network (OhioLINK) have already contracted to use the virtualization system and many more have expressed interest. According to BOR, virtualization may reduce the number of computer and software purchases made by state institutions and decrease energy costs by as much as $10 million. Out-of-pocket expenses for students may also be reduced, especially through increased distance learning capabilities on students' own personal computers. Depending on the amount of appropriate hardware already owned, institutions may have to invest in additional hardware to connect to the virtualization system.

Ten School Districts Receive $3.1 Million in School Entrance Improvements

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

Through January 2009, the School Facilities Commission (SFC) and the Department of Transportation (DOT) had jointly awarded $3.1 million in grants to ten school districts eligible for improvements to their school entrances (see table below). H.B. 119 appropriated $4.0 million in the DOT budget for making grants available for state highway improvements at public school entrances in districts receiving facilities assistance from SFC. The grant funds are limited to $500,000 per school district and are contingent on local government officials, or the school district, or both, matching at least 25% of the total project cost. The projects focus on building safe access routes to schools and alleviating unsafe and congested traffic flow along state highways where school entrances are located. Improvements may include the addition of a turning lane into the school or a median that guides traffic through the intersection.

Estimated State, Local, and Total Costs for School Entrance Improvement Projects				
School District	**County**	**Total Project Cost**	**State Grant**	**Local Match**
Eastern	Brown	$500,000	$375,000	$125,000
Fairfield Union	Fairfield	$1,200,000	$500,000	$700,000
Grand Valley	Ashtabula	$93,793	$70,345	$23,448
Hillsboro	Highland	$400,000	$300,000	$100,000
Logan Hocking	Hocking	$750,000	$500,000	$250,000
Miami Trace	Fayette	$301,361	$226,021	$75,340
Millcreek	Williams	$400,000	$300,000	$100,000
North Central	Wayne	$500,000	$375,000	$125,000
Sandy Valley	Stark	$393,500	$295,125	$98,375
South Range	Mahoning	$250,000	$187,500	$62,500
	Total	**$4,788,654**	**$3,128,991**	**$1,659,663**

17 Districts' Local Share of School Funding Includes Certain Tax-Exempt Property in FY 2009

—Emily W.H. Gephart, Budget Analyst, 614-644-7762

In FY 2009, 17 school districts' valuations used in calculating the local share of school foundation funding include the value of certain tax-exempt property for which the district receives payment in lieu of taxes as required by a policy change made in H.B. 66 of the 126th General Assembly. Approximately $30.4 million was added to the districts' valuations in FY 2009, increasing the local share by almost $700,000 for the districts combined. However, of the 17 districts, 11 receive transitional aid which guarantees the district the same amount of aid for FY 2009 as for FY 2008. Therefore, their state education aid does not decrease due to the increase in their valuation with the addition of the value of the tax-exempt property. The total combined increase in the local share for the six districts not receiving transitional aid was about $140,000 – ranging from $504 in Paulding Exempted Village in Paulding County to $40,245 in Ravenna City in Portage County.

The districts affected, the amounts added to their valuations, and the subsequent increases in their local shares due to the policy adopted in H.B. 66 are listed in the following table.

FY 2009 Districts with Tax-Exempt Property in Local Share Calculation				
County	District	Value of Tax-Exempt Property	Increase in Local Share	Transitional Aid
Ashtabula	Buckeye Local SD	$442,600	$10,180	YES
Brown	Western Brown Local SD	$1,527,400	$35,130	NO
Butler	Fairfield City SD	$1,682,269	$38,692	NO
Defiance	Northeastern Local SD	$269,876	$6,207	YES
Franklin	Westerville City SD	$3,559,049	$81,858	YES
Hamilton	Cincinnati City SD	$8,337,968	$191,773	YES
Hamilton	Deer Park Community City SD	$2,145,800	$49,353	YES
Hamilton	Sycamore Community City SD	$2,320,500	$53,372	YES
Lorain	Midview Local SD	$549,000	$12,627	YES
Miami	Troy City SD	$1,000,900	$23,021	NO
Montgomery	Kettering City SD	$4,090,300	$94,077	YES
Muskingum	Zanesville City SD	$109,420	$2,517	NO
Paulding	Paulding Ex Vill SD	$21,900	$504	NO
Portage	Aurora City SD	$388,756	$8,941	YES
Portage	Ravenna City SD	$1,749,800	$40,245	NO
Stark	Jackson Local SD	$1,277,100	$29,373	YES
Summit	Green Local SD	$935,700	$21,521	YES
	Total	**$30,408,338**	**$699,392**	

Twenty-two Districts Receiving Gap Aid Phase-out

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

In FY 2009, 22 school districts are receiving supplemental funding through the gap aid phase-out policy instituted by H.B. 66 of the 126th General Assembly. Gap aid provides supplemental state funding to make up any difference (gap) between a district's actual local operating revenue and the required local contribution assumed by the school funding formula. Voter approval of a school tax levy (i.e., an increase in actual total operating revenue), however, may reduce or eliminate a district's gap aid.

Under the phase-out policy, districts that cease to qualify for gap aid because of voter approval of a school tax levy continue to be eligible for gap aid at a reduced rate for three years if the levy exceeds the millage equivalent of the prior year's gap aid amount by at least one mill.[8] In each of the three phase-out years, the aid is equal to 75%, 50%, and 25%, respectively, of the amount of gap aid received before the levy. In FY 2009, seven districts are in the first year, seven districts are in the second year, and eight districts are in the third and final year of their gap aid phase-out payments. The total amount of gap aid phase-out payments allocated to these 22 districts for FY 2009 is $5.3 million.

[8] When talking about property tax levies, one mill is $1.00 in taxes for every $1,000 of assessed value.

GRADS Program Serves More than 5,400 Students

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

In FY 2008, approximately 5,440 7th-12th grade students participated in the Graduation, Reality, and Dual-Role Skills (GRADS) program. This program, which originated in Ohio in 1980, is an in-school instructional and intervention program for pregnant and parenting students. The program aims to keep pregnant and parenting teens in school while promoting the importance of healthy pregnancies, positive parenting practices, vocational and career goals, and the balancing of work and family.

Funding is provided from GRF line item 200550, Foundation Funding, as a grant to school districts and joint vocational school districts (JVSDs) that offer the program and have been awarded units by the Department of Education (ODE). For FY 2008 and FY 2009, each district's grant is equal to the result of multiplying the number of full-time equivalent units authorized by ODE by an allowance of $47,555 and by the district's state share percentage of base cost funding. In FY 2008, 84 GRADS units were funded, 70 at JVSDs and 14 at regular school districts, at a cost of $2.6 million. According to ODE estimates, 84 units will again be funded in FY 2009.

Crime Victims Fund Balance Declined Almost 70% in Six Years

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

The cash balance of the state's Victims of Crime Fund (Fund 4020) declined from $38.7 million at the beginning of FY 2004 to $11.9 million as of March 2, 2009, a decrease of 69.3% (see table below). The Office of the Attorney General estimates that the fund's cash balance will decline to $9.7 million at the end of FY 2009. It also forecasts that if the current trends in revenues and expenditures continue, the fund's cash balance is likely to be depleted by the end of FY 2011.

Victims of Crime Fund (Fund 4020) Cash Flow Summary, FY 2004-FY 2009				
Fiscal Year	**Beginning Cash Balance**	**Revenue**	**Expenditures (Including Transfers-out)**	**Ending Cash Balance**
2004	$38,678,734	$27,501,128	$25,527,046	$40,652,816
2005	$40,652,816	$28,314,745	$26,620,278	$42,347,283
2006	$42,347,283	$27,528,874	$35,228,784	$34,647,373
2007	$34,647,373	$25,611,318	$37,049,119	$23,209,572
2008	$23,209572	$24,613,930	$31,606,023	$16,217,479
2009*	$16,217,479	$16,778,553	$21,128,005	$11,868,027

*As of March 2, 2009.

Fund 4020 receives revenues from various sources, including court costs imposed on certain offenders and a portion of the driver's license reinstatement fee for certain individuals. Originally, the fund was mainly used for the Crime Victims Reparations Program administered by the Office of the Attorney General, including both the reparation awards and administrative costs. Over the years, use of the fund has been expanded while the fund's revenues have declined, causing decreases in the fund's cash balance. Some of the major expanded uses of the fund include:

- H.B. 95 of the 125th General Assembly, the main appropriations act of the FY 2004-FY 2005 biennium, allowed the fund to be used for payment of the actual costs associated with initiatives by the Office of the Attorney General for the apprehension, prosecution, and accountability of offenders and the enhancing of services to crime victims.
- H.B. 525 of the 126th General Assembly, effective May 2005, allowed the fund to be used for administering DNA testing, including collecting and analyzing DNA specimens and entering the results into the DNA database.

Department of Development Instituting New Electricity Bill Assistance Program Rules

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

Due in part to increases in utility costs, the Department of Development is implementing administrative rule changes for the Percentage of Income Payment Program (PIPP), a low-income utility payment assistance program. PIPP, which is funded by a universal service rider on consumers' electric bills, allows households with incomes at or below 150% of the federal poverty level to pay a percentage of their income toward their electric bills with the state reimbursing utility providers for the difference, including delinquencies. During the October 2007-September 2008 period, PIPP incurred costs of $199.5 million and served an average of 234,000 households per month. The FY 2009 appropriation for PIPP is $245 million.

The PIPP rule changes are to take effect on November 1, 2009, in time for the 2009-2010 winter heating season. The most significant rule changes modify two aspects of PIPP. First, the base percentage of income that most eligible households are required to pay to electric utility companies would be increased from 5% to 6%. Households that heat with electricity would pay 10%, a decrease from 15% currently. Second, the risk of customer nonpayment would be shifted from the state to electric utility companies by requiring PIPP customers and utilities to settle delinquencies.

TRACKING THE ECONOMY

—Phil Cummins, Economist, 614-387-1687

The economy continued in recession through February, and was weaker in last year's fourth quarter than previously estimated.

Overview

The recession continued through February, its fourteenth month. Nonfarm payroll employment nationwide fell 651,000 in February, and was 4.4 million (3.2%) lower than at the peak in December 2007. Unemployment rose to 12.5 million people, which is 8.1% of the labor force, the highest unemployment rate since 1983. The 2008 fourth-quarter drop in inflation-adjusted gross domestic product (real GDP) was revised sharply lower; industrial production and manufacturers' shipments and orders sank further in January, and purchasing managers reports and total hours worked by production workers on private payrolls suggest that the downward trajectory of production continued in February. Consumer sector indicators are mixed, as total spending ticked higher in January, but light vehicle sales fell further in February. Monthly same-store sales reports, for large retail chains, showed little change in sales in February from a year earlier, following four months of declines. Housing starts and sales fell again in January, but perhaps new federal programs, as well as more affordable prices and mortgage interest rates, may soon begin to bring an end to the decline in this sector. Indicators of economic activity in Ohio continue to show widespread weakness. Inflation remains well contained, though price indexes rose in January reflecting higher prices for gasoline and other energy commodities.

The new administration's fiscal stimulus plan, the American Recovery and Reinvestment Act of 2009, was enacted on February 17. The Congressional Budget Office (CBO) published estimates of the effects of the numerous provisions of the law, using a range of assumptions. CBO expects the federal budget deficit to increase, as a result of this Act, by $185 billion in federal fiscal year (FFY) 2009, by $399 billion in FFY 2010, by $134 billion in FFY 2011, and by a total of $787 billion over 11 years through FFY 2019. CBO projects that real GDP will increase, relative to its baseline projection, by between 1.4% and 3.8% by the fourth quarter of 2009, by 1.1% to 3.4% by the fourth quarter of 2010, and by 0.4% to 1.2% by the fourth quarter of 2011, with diminishing effects thereafter. Employment, in the CBO projections, rises by between 0.9 million and 2.3 million, relative to the baseline, by fourth quarter 2009, by 1.2 million to 3.6 million by fourth quarter 2010, and by 0.6 million to 1.8 million by fourth quarter 2011.

The administration also announced a new housing affordability plan, aimed at helping seven million to nine million homeowners. One part of the plan will let homeowners refinance mortgage loans owned by Fannie Mae or Freddie Mac on homes that have lost so much value that the loans exceed the prior loan-to-value maximums for refinancing. The program also includes a set of guidelines for loan modifications to reduce monthly payments to 31% or less of gross monthly income.

The Federal Reserve kept its short-term interest rate target at 0% to 0.25%. With this interest rate about as low as it can go, the central bankers agreed to continue injecting liquidity by buying assets. Such asset purchase programs include U.S. agency debt and mortgage-backed securities, and may include purchase of longer term U.S. Treasury securities. The Federal Reserve and the U.S. Treasury launched the Term Asset-backed Securities Loan Facility (TALF), aimed at reinvigorating, through Federal Reserve support, credit flows to auto loans, credit card loans, student loans, and SBA-guaranteed small business loans.

Declines in economic activity or slower growth are widespread in other countries, limiting prospective demand for U.S. exports. The latest poll of forecasters published by *The Economist* newspaper shows real GDP contracting in the average forecast for 2009 in 13 developed economies plus the Euro area.

The National Economy

Employment and Unemployment

Employment nationwide fell 651,000 in February. The unemployment rate rose to 8.1%.

Total nonagricultural payroll employment declined 651,000 in February to 133.8 million persons, 4.4 million fewer than at the peak in December 2007 when the recession began. More than half of the decline in employment during the past 14 months has occurred in the most recent four months. Unemployment rose in February to 12.5 million people or 8.1% of the labor force, the country's highest unemployment rate since 1983. Declines in employment in February were widespread among goods-producing and service-providing industries. Since the recession began, manufacturing employment has fallen by 1.3 million workers and construction employment has declined 0.9 million. In the service sector, the number of positions at temporary help agencies has dropped 0.7 million since December 2007. Among the unemployed in February, 2.9 million had been out of work for more than six months, more than double the number of long-term unemployed persons at the end of 2007. The employed included 8.6 million persons working part-time who would prefer full-time jobs, four million higher than when the recession began. Persons not in the labor force (neither working nor looking for work) in February included 0.7 million who wanted work and had looked for employment in the past 12 months but had stopped looking because they thought no jobs were available for them, nearly double the number in this category a year earlier.[9]

Real GDP dropped precipitously in the 2008 fourth quarter, revised figures show.

Production

The nation's gross domestic product fell in the fourth quarter of 2008 at a downward revised 6.2% annual rate, adjusted for inflation, according to the U.S. Bureau of Economic Analysis (BEA), the source agency for these figures. The 6.2% annual rate of decline is the most rapid drop of any quarter since 1982, and follows a decline at a 0.5% annual rate in the third quarter and increases in the first half of 2008. BEA's initial estimate of fourth-quarter real GDP showed a 3.8% annual rate of decline; the sharper fall now estimated for the fourth quarter is based on more complete data. Declines were particularly sharp in exports, business investment in equipment, residential fixed investment, and consumer spending for durable goods. Consumer spending on nondurable goods also fell, and private investment in nonresidential structures turned down after increasing for three years. Federal government spending grew but state and local government outlays fell. Inventories were reduced, in contrast with the initial report on fourth-quarter GDP that showed inventory accumulation, adjusted for inflation. Nevertheless, inventories still appear excessive relative to sales, notably in durable goods manufacturing, particularly in transportation equipment and supplier industries, and in motor vehicles and building materials at wholesalers and retailers.

Industrial production fell 1.8% in January and manufacturing output declined 2.5%. Declines were broad-based among manufacturing industries, but a plunge in motor vehicle and parts production as a result of extended plant shutdowns accounted for more than 1.0 percentage point of the total manufacturing decline. Output of most other durable goods industries and of most nondurable goods industries also fell. The industrial production indexes for all manufacturing, motor vehicles and parts, and primary metals are shown in Chart 1. Output of electric and gas utilities rose 2.7% in January, seasonally adjusted, as temperatures fell below average for the month.

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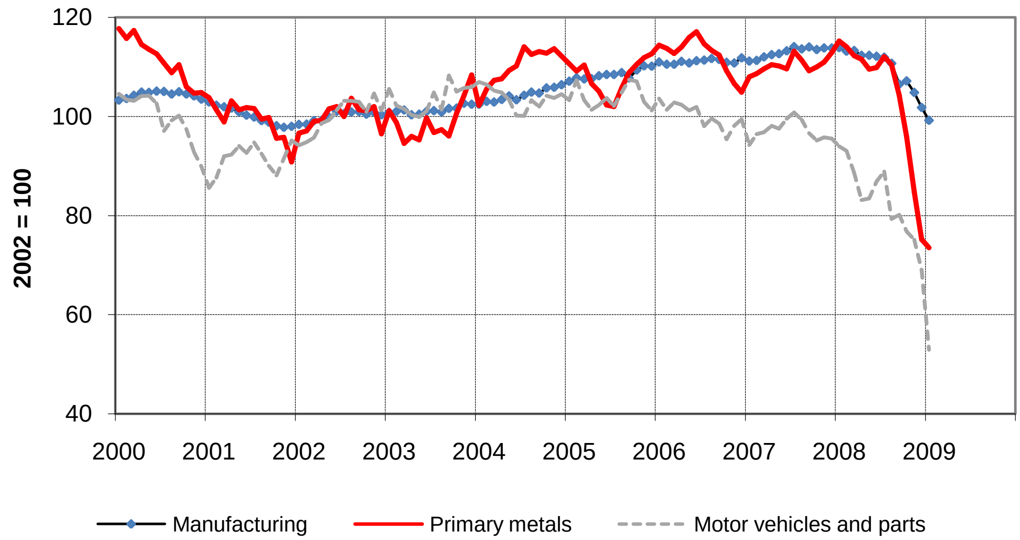
[9] These comments are based in part on testimony of Keith Hall, Commissioner, Bureau of Labor Statistics, before the Joint Economic Committee, U.S. Congress, March 6, 2009.

Chart 1: Industrial Production



Manufacturers' shipments in January decreased 1.7%, the sixth consecutive monthly decline, reaching a rate 17% below that of a year earlier. Factory new orders in January, also down for the sixth straight month, were 1.9% lower than in December and 21% lower than in January 2008. Unfilled orders of manufacturers fell for the fourth consecutive month, by 1.7%. Factory inventories decreased 0.8%, the fifth consecutive monthly decline. Reductions in inventories have not kept pace with falling sales, resulting in rising inventory-shipments ratios.

The downturn in manufacturing continued in February, according to purchasing executives responding to the monthly survey by the Institute for Supply Management (ISM). Factory new orders, production, order backlogs, and other indicators of current conditions continued to contract in all 18 industry groups surveyed. However, reports of declines in production and orders were less widespread among survey respondents in February and January than in December, the recent low. A comparable ISM survey of purchasing executives with nonmanufacturing organizations showed continued contraction in business activity and new orders, though with fewer reports of lower activity and orders than in November and December.

The downturn continued in February, according to purchasing managers.

Consumer Spending

Consumer spending rose in January by 0.4% adjusted for inflation and by 0.6% in current dollars after monthly declines throughout last year's second half. The increase may have been supported by one-time factors, including cost-of-living adjustments and federal pay raises.

Housing starts and home sales fell in January.

Retail sales, in current dollars, also rose in January, by 1.0% after a 3.0% decline in December. Motor vehicle and parts dealer sales were reported higher by 1.6%, in sharp contrast with data on unit car and light truck sales which show a 7% decline in January. Sales increased at electronics and appliance stores, clothing stores, general merchandise stores, grocery stores, and restaurants, following declines in December that in some cases were quite large. The surprising strength in these numbers, after exceptional weakness in December, may be in part a problem with seasonal adjustment of data subject to large seasonal fluctuations. Any expectation that the increases will continue appears premature.

Consumer installment credit outstanding rose in January after shrinking in October through December, seasonally adjusted. Use of credit helps consumers afford purchases, particularly of big-ticket items such as cars.

Sales of cars and light trucks sank further in February, falling to a seasonally adjusted 9.1 million unit annual rate, lowest since recession year 1981. Car sales rose slightly but light truck sales deteriorated to the slowest pace since 1992. Light vehicle sales last month were 41% lower than a year earlier.

At large retail stores that release results monthly, the dollar value of sales in February was little changed from a year earlier, in two reports summarizing these figures, following four months of declines. Sales were 0.1% below a year earlier, in the International Council of Shopping Centers (ICSC) compilation of these reports. The figures are on a same-store basis, including only store locations open in both months being compared, for example, February of 2008 and 2009. Sales on this basis last increased in September, but the decline in February was the smallest of the declines in the past five months. Bank of Tokyo-Mitsubishi's summary showed same-store sales 0.2% higher in February than a year earlier.

Construction

The number of housing units started in January fell again, seasonally adjusted, to the lowest on records kept since 1959. Starts in the Northeast, Midwest, and South were also lowest ever during this period, and starts in the West were near the low for this period. Starts nationwide in January were 56% lower than a year earlier.

New home sales in January also fell to the lowest on record, in this case since 1963. The January sales pace, seasonally adjusted, was 48% lower than a year earlier. Inventories of unsold new homes have been reduced, but not as rapidly as sales, and the backlog of unsold new units has grown to more than a year's supply at recent sales rates. The median new home price has fallen 23% from its peak nearly two years ago, and the ratio of this price to average disposable personal income per capita, an indicator of housing affordability available monthly, fell to its lowest level on record.

Sales of homes in January reported by the National Association of Realtors (NAR), mostly previously occupied units, were 5% lower than a month earlier and 9% below a year earlier. Sales were 17% lower than a year earlier in the Midwest, and were also lower in the Northeast and South, but were 29% higher in the West. NAR estimates that sales of foreclosed properties and of properties at prices less than remaining loan obligations plus other costs to close the sale accounted for 45% of all sales in January. The organization expects favorable buying conditions and the $8,000 first-time home buyer tax credit included in the federal fiscal stimulus package will soon boost sales. Housing is the most affordable it has ever been since 1970, as indicated by an NAR index that relates home prices, family incomes, and mortgage interest rates and that has been calculated since that year.

Construction spending in January, adjusted for seasonality but not for price change, was 3.3% lower than in December, continuing a downtrend underway for nearly three years, but which accelerated in the latest three months. The total value of construction outlays in January was 19% lower than at its peak in March 2006. Most of the decline in the total is a result of reduced private residential construction, down 57% from the peak, also in March 2006. Private nonresidential construction spending in January was 8% lower than its peak in September of last year, reflecting slowdowns in construction of commercial buildings, down 21% from a peak in November 2007; of office buildings, 12% lower than the peak in September 2008; and of other types of projects. Public construction was 4% lower than its peak last August, a trend that is likely to reverse as fiscal stimulus dollars flow into "shovel ready" public works.

Inflation

The consumer price index (CPI) increased 0.3% in January after decreasing 0.8% in December, 1.7% in November, and 0.8% in October. The increase in January and declines in the previous three months reflect changes in energy prices, particularly gasoline. The price of gasoline rose 6% in January but remained 40% below the price a year earlier. Compared with a year earlier, the CPI in January was unchanged, as a 20% decline in energy prices offset a 5.3% increase in food prices and a 1.7% increase in the cost of all items other than food and energy.

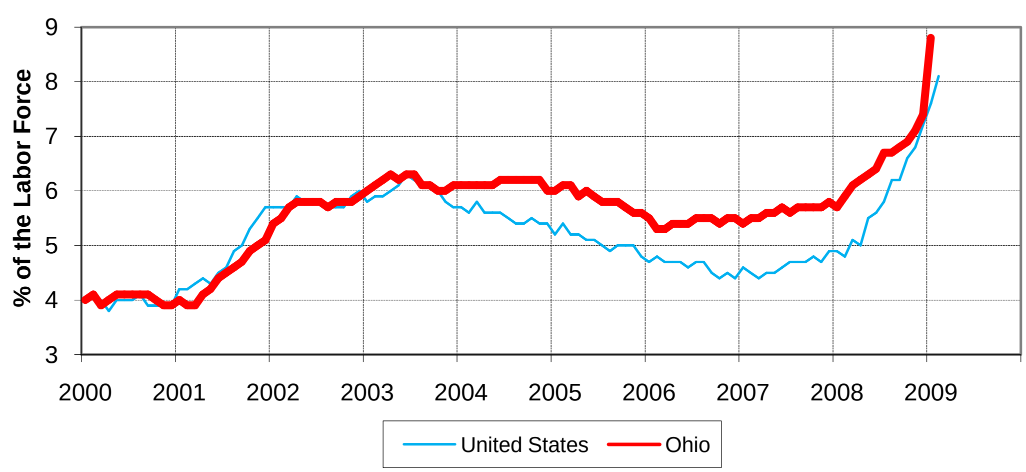
Statewide employment fell in Ohio in January and the unemployment rate rose sharply.

Producer prices for finished goods rose 0.8% in January following declines in the previous five months. The index in January was 1% below a year earlier. Energy prices also rose in January and fell in August through December. At earlier stages in the production process, prices continued to fall in January for the sixth consecutive month. The intermediate goods price index in January was 3.5% lower than a year earlier. The crude materials price index was 29% below its year-earlier level.

The Ohio Economy

Employment fell again in Ohio in January and statewide unemployment rose by 79,000 persons (18%). The state's unemployment rate, the number unemployed as a percent of the labor force, shot up to 8.8% from 7.4% in December, as shown in Chart 2, which also shows the national unemployment rate. January's unemployment rate was the highest seasonally adjusted monthly rate for the state since 1985. The peak unemployment rate in recent decades was 13.8% in 1982 and 1983. Nonagricultural wage and salary employment in Ohio fell 59,700 (1.1%) to 5.2 million in January, 214,600 (4.0%) lower than a year earlier. Employment cutbacks in the latest month and year were widespread among both goods-producing and service-providing industries. Manufacturing employment in January was 90,600 (11.9%) lower than in January 2008, and construction employment was 32,000 (14.5%) lower. In the service sector, the number of jobs in administrative, support, and waste services in January was 32,600 (10.2%) lower than a year earlier; employment in retail trade was 16,500 (2.8%) lower; and employment in finance, insurance, and real estate was 12,000 (4.1%) lower. State and local government employment in the state was 10,900 (1.5%) lower in

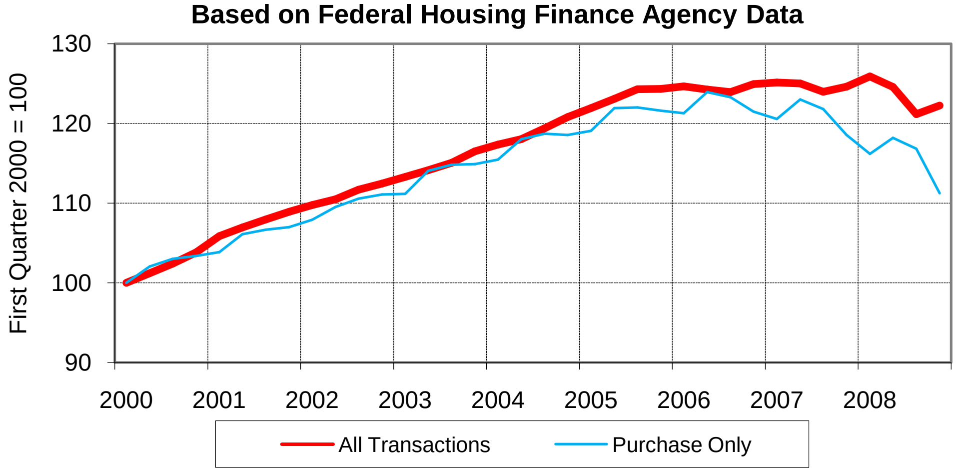
Chart 2: Unemployment Rate



January than a year earlier. In health care and social assistance, however, employment in January was 14,700 (2.1%) higher than in January 2008.

The Beige Book, a summary by the Federal Reserve of reports on business from sources outside that organization, indicated continued deterioration in economic conditions through late February, in the nation and in the Cleveland Federal Reserve District (Ohio and parts of three other states). Factory output in this region continued to trend lower. Vehicle production was reduced by an extended year-end shutdown of a small-car assembly plant and permanent closing of a light truck plant. Residential construction remained very weak, though two builders noted increased indications of potential interest (on the Internet and in person). Commercial construction slowed. Retailers reported slight improvement in sales, but new vehicle sales remained very weak. The volume of freight transported also remained low. Employment fell, except in health care and energy. Capital spending has been reduced

Chart 3: House Price Indexes for Ohio
Based on Federal Housing Finance Agency Data



Prices for home purchases in Ohio fell, on average, by 5% in the 2008 fourth quarter, measured by an index published by the Federal Housing Finance Agency (FHFA) and based on Fannie Mae and Freddie Mac transactions. Ohio home purchase prices were 10% lower than at the peak in the second quarter of 2006. The FHFA index tracks repeat transactions for the same property, and uses million of these pairs of repeat transactions nationwide to create the index. The national home purchase price index fell 4% in the fourth quarter, reaching a level 11%

below its peak in the second quarter of 2007.[10] FHFA also publishes all transactions indexes, which include not only purchases but also refinancings in Fannie Mae and Freddie Mac's databases. The all transactions index for Ohio rose 1% in the fourth quarter, and was only 3% below the peak in the first quarter of 2008. The divergence between the purchase only and all transactions indexes may reflect a greater share of distress sales, at sharply lower prices, in the purchase only index than in the all transactions index. These price indexes are shown in Chart 3.

[10] Price changes differ widely around the country, with prices higher at the end of 2008 than a year earlier in six states, and lower by more than 20% in four states: Arizona, California, Florida, and Nevada.