

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JUNE 2009

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax receipts in May were not as bad as in April, but were still \$164.7 million (10.7%) below the Office of Budget and Management's (OBM's) December estimate. The shortfall was slightly larger for the sales and use tax (\$86.6 million) than it was for the personal income tax (\$64.7 million). The year-to-date tax revenue shortfall totaled \$706.3 million. In testimony on June 11, the Director of OBM reported that GRF revenues are now expected to finish FY 2009 \$912 million lower than the December estimate.

Through May 2009, GRF sources totaled \$23.09 billion:

- GRF sources were below estimate by \$795.5 million.
 - Personal income tax revenues were below estimate by \$461.6 million.
 - Revenues from the sales and use tax were below estimate by \$271.9 million.

Through May 2009, GRF uses totaled \$26.09 billion:

Total GRF uses were \$128.7 million above the February OBM estimate. The largest positive variance was \$214.7 million in tax relief; the largest negative variance was \$80.6 million in public assistance and Medicaid, of which \$58.9 million was attributable to Medicaid. Primary, secondary, and other education spending was \$72.6 million below estimate.

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STATUS OF THE GRF

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Table 1: General Revenue Fund Sources				
Preliminary Actual vs. Estimate				
Month of May 2009				
(\$ in thousands)				
(Actual based on report run in OAKS Actuals Ledger on June 5, 2009)				
	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$69,827	\$82,539	-\$12,711	-15.4%
Nonauto Sales and Use	\$481,626	\$555,558	-\$73,932	-13.3%
Total Sales and Use Taxes	\$551,453	\$638,097	-\$86,643	-13.6%
Personal Income	\$409,865	\$474,606	-\$64,741	-13.6%
Corporate Franchise	\$54,512	\$36,786	\$17,726	48.2%
Public Utility	\$54,193	\$65,808	-\$11,615	-17.6%
Kilowatt Hour Excise	\$3,716	\$4,958	-\$1,242	-25.1%
Commercial Activity Tax**	\$0	\$0	\$0	---
Foreign Insurance	-\$11,157	-\$13,000	\$1,843	-14.2%
Domestic Insurance	\$146,489	\$160,300	-\$13,811	-8.6%
Business and Property	\$22,838	\$18,400	\$4,438	24.1%
Cigarette	\$124,246	\$141,668	-\$17,422	-12.3%
Alcoholic Beverage	\$5,518	\$4,717	\$801	17.0%
Liquor Gallonage	\$2,880	\$2,907	-\$27	-0.9%
Estate	\$15,946	\$10,000	\$5,946	59.5%
Total Tax Revenue	\$1,380,499	\$1,545,246	-\$164,747	-10.7%
NONTAX REVENUE				
Earnings on Investments	\$10	\$0	\$10	---
Licenses and Fees	\$532	\$4,800	-\$4,268	-88.9%
Other Revenue	\$9,258	\$7,850	\$1,408	17.9%
Total Nontax Revenue	\$9,799	\$12,650	-\$2,851	-22.5%
TRANSFERS				
Liquor Transfers	\$13,000	\$12,000	\$1,000	8.3%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$45,860	-\$45,860	-100.0%
Total Transfers In	\$13,000	\$57,860	-\$44,860	-77.5%
TOTAL STATE SOURCES	\$1,403,298	\$1,615,756	-\$212,458	-13.1%
Federal Grants***	\$489,433	\$504,565	-\$15,132	-3.0%
TOTAL GRF SOURCES	\$1,892,732	\$2,120,321	-\$227,590	-10.7%
* Revised estimates of the Office of Budget and Management released January 7, 2009.				
**Commercial activity tax receipts in FY 2009 are non-GRF.				
*** Federal Grants based on information from OBM				
<i>Detail may not sum to total due to rounding.</i>				

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2009 as of May 31, 2009
(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on June 5, 2009)

	Actual	Estimate*	Variance	Percent	FY 2008	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$793,089	\$797,413	-\$4,324	-0.5%	\$854,964	-7.2%
Nonauto Sales and Use	\$5,734,758	\$6,002,372	-\$267,614	-4.5%	\$6,104,675	-6.1%
Total Sales and Use Taxes	\$6,527,847	\$6,799,785	-\$271,938	-4.0%	\$6,959,639	-6.2%
Personal Income	\$6,946,310	\$7,407,953	-\$461,643	-6.2%	\$8,241,636	-15.7%
Corporate Franchise	\$463,144	\$418,269	\$44,875	10.7%	\$653,507	-29.1%
Public Utility	\$183,949	\$176,518	\$7,431	4.2%	\$156,973	17.2%
Kilowatt Hour Excise	\$131,154	\$128,517	\$2,637	2.1%	\$226,517	-42.1%
Commercial Activity Tax**	\$0	\$0	\$0	---	\$0	---
Foreign Insurance	\$250,222	\$264,800	-\$14,578	-5.5%	\$272,440	-8.2%
Domestic Insurance	\$145,624	\$159,600	-\$13,976	-8.8%	\$435	33387.9%
Business and Property	\$22,492	\$19,046	\$3,446	18.1%	\$542	4048.0%
Cigarette	\$841,643	\$843,693	-\$2,050	-0.2%	\$874,959	-3.8%
Alcoholic Beverage	\$52,108	\$52,227	-\$119	-0.2%	\$50,794	2.6%
Liquor Gallonage	\$32,664	\$33,405	-\$740	-2.2%	\$31,780	2.8%
Estate	\$62,311	\$62,000	\$311	0.5%	\$59,434	4.8%
Total Tax Revenue	\$15,659,469	\$16,365,813	-\$706,345	-4.3%	\$17,528,657	-10.7%
NONTAX REVENUE						
Earnings on Investments	\$121,674	\$111,600	\$10,074	9.0%	\$84,007	44.8%
Licenses and Fees	\$65,171	\$77,199	-\$12,028	-15.6%	\$66,943	-2.6%
Other Revenue	\$66,864	\$65,705	\$1,159	1.8%	\$92,086	-27.4%
Total Nontax Revenue	\$253,709	\$254,504	-\$795	-0.3%	\$243,036	4.4%
TRANSFERS						
Liquor Transfers	\$150,000	\$132,000	\$18,000	13.6%	\$135,268	10.9%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$705,305	\$677,345	\$27,960	4.1%	\$549,610	28.3%
Total Transfers In	\$855,305	\$809,345	\$45,960	5.7%	\$684,878	24.9%
TOTAL STATE SOURCES	\$16,768,483	\$17,429,662	-\$661,179	-3.8%	\$18,456,571	-9.1%
Federal Grants***	\$6,320,232	\$6,136,368	\$183,864	3.0%	\$4,971,945	27.1%
TOTAL GRF SOURCES	\$23,088,715	\$23,566,030	-\$477,316	-2.0%	\$23,428,516	-1.5%

* Revised estimates of the Office of Budget and Management released January 7, 2009.

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

*** Federal Grants based on information from OBM

Detail may not sum to total due to rounding.

REVENUES

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

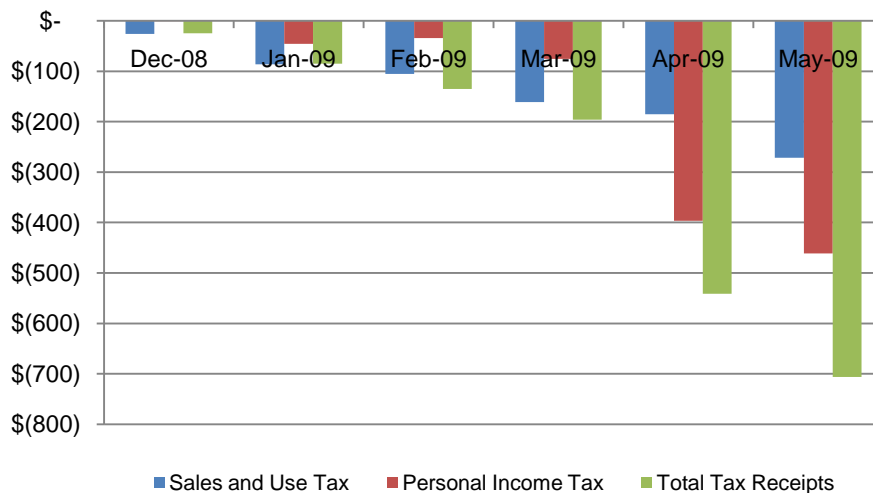
Overview

In May 2009, the Office of Budget and Management (OBM) revised GRF revenue estimates downward by \$912.1 million for FY 2009 in response to the April revenue experience. This edition of *Budget Footnotes*, however, compares actual GRF sources to December 2008 estimates.¹ GRF tax revenues were again dreadful in May. Tax receipts of \$1.38 billion were \$164.7 million (10.7%) below the estimate, which augmented the year-to-date negative variance in tax revenues to \$706.3 million. The graph below shows the cumulative shortfall in total tax revenues, and in sales and personal income taxes since December 2008.

May tax revenues were \$164.7 million below estimate.

Year-to-date GRF revenues were \$795.5 million below estimate.

Cumulative Shortfall of Tax Revenues in FY 2009
(Variance from December estimates, in millions)



Tables 1 and 2 show GRF sources for the month of May and for FY 2009 through May, 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.

¹ The most recent revision is the third this fiscal year. The Office of Budget and Management twice revised down GRF revenue estimates previously, \$540.7 million in October 2008, and \$640.4 million in December 2008.

Total GRF sources of \$1.89 billion for May 2009 were \$227.6 million (10.7%) below estimate. State-source receipts of \$1.40 billion were \$212.5 million (13.1%) below estimate and federal grants of \$489.4 million were \$15.1 million (3.0%) below estimate. Negative variances in tax sources included the sales and use tax (\$86.6 million), the personal income tax (\$64.7 million), the cigarette tax (\$17.4 million), the domestic insurance tax (\$13.8 million), the public utility tax (\$11.6 million), and the kilowatt hour excise tax (\$1.2 million). The shortfalls were partially offset by positive variances in the corporate franchise tax (\$17.7 million), the estate tax (\$5.9 million), the business and property tax (\$4.4 million), and the foreign insurance tax (\$1.8 million). No transfers in, other than those from liquor sales, were made in May, resulting in an additional shortfall of \$45.9 million.

Through May, FY 2009 total GRF sources of \$23.09 billion were below estimate by \$795.5 million (3.3%). State-source receipts and federal grants were \$661.2 million (3.8%) and \$134.3 million (2.1%), respectively, below expectations. Total tax revenues of \$15.66 billion were \$706.3 million (4.3%) below estimate. The personal income tax and the sales and use tax were \$461.6 million and \$271.9 million, respectively, below estimates. The cigarette tax year-to-date revenue fell below estimate by \$2.1 million. Tax revenues that were above estimate included the corporate franchise tax (\$44.9 million), the public utility tax (\$7.4 million), the business and property tax (\$3.4 million), and the kilowatt hour tax (\$2.6 million). All other taxes, except the estate tax, were below expectations.

Compared to FY 2008, FY 2009 year-to-date GRF sources through May were \$791.4 million (3.3%) lower. State-source receipts declined \$1.69 billion, more than offsetting higher federal grants. Tax revenues were \$1.87 billion below FY 2008 receipts through May. Year-to-date receipts from all three primary GRF tax sources were below the levels of May 2008, including decreases of \$1.30 billion in personal income tax receipts, \$431.8 million in sales and use tax receipts, and \$33.3 million in cigarette tax receipts. Other taxes with notable year-to-year revenue variances included a decrease of \$95.4 million in kilowatt hour tax receipts due to an increase this year in the share of receipts distributed to local government funds, a decrease of \$190.4 million in corporate franchise tax receipts from a reduced tax rate this year, and an increase of \$27.0 million in public utility excise tax receipts.

Year-to-date
tax
revenues in
May were
\$1.87 billion
below the
FY 2008
level
through
May.

Personal Income Tax

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. Personal income tax receipts of \$409.9 million in May were \$64.7 million (13.6%) below estimate and \$119.3 million (22.5%) below May 2008 receipts. The decline in May receipts compared to the year-earlier level was primarily due to decreases of \$83.1 million in withholding revenue, and an increase of \$25.2 million in distributions to the Local Government Fund. Through May, FY 2009 personal income tax receipts of \$6.95 billion were \$461.5 million below estimate and \$1.30 billion below receipts in the corresponding period in FY 2008.

May income tax receipts were \$64.7 million below estimate and \$119.3 million below last year's levels.

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 (%)
<i>Withholding</i>	-\$141.0	-2.0%	-\$425.5	-5.9%
<i>Quarterly Estimated Payments</i>	-\$108.2	-9.5%	-\$267.2	-20.6%
<i>Trust Payments</i>	-\$36.4	-44.6%	-\$52.7	-53.8%
<i>Annual Return Payments</i>	-\$186.5	-15.8%	-\$464.8	-31.8%
<i>Miscellaneous Payments</i>	-\$8.2	-10.8%	-\$11.1	-14.0%
Gross Collections	-\$480.3	-5.1%	-\$1,221.3	-12.0%
Less Refunds	-\$7.2	-0.5%	\$111.7	9.2%
Less Local Government Fund Distribution	-\$11.6	-1.8%	-\$34.1	-5.1%
Income Tax Revenue	-\$461.6	-6.2%	-\$1,299.0	-15.8%

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.

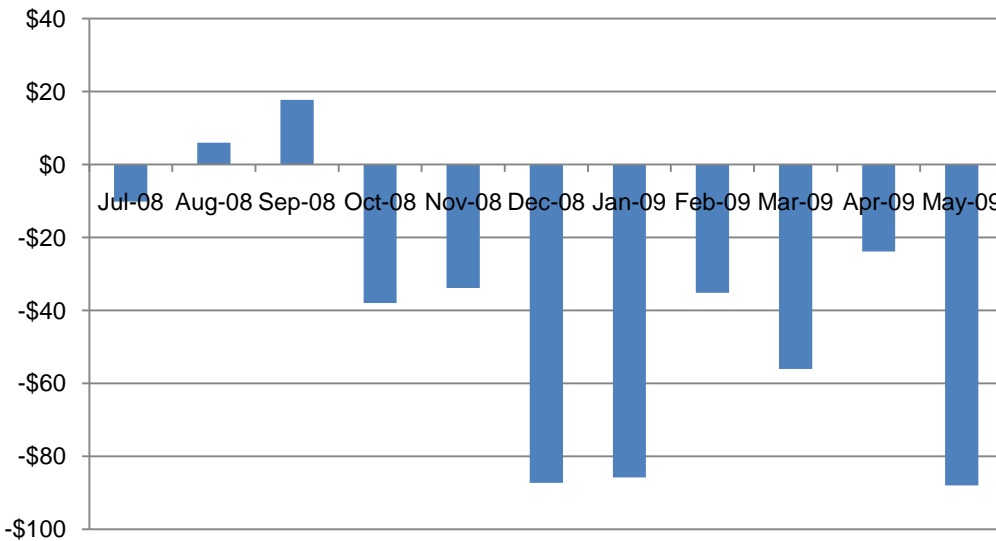
The table above summarizes FY 2009 year-to-date income tax revenue variances from estimate and annual changes by components. Employer withholding (which accounted for about 70% of gross collections in FY 2008) shows both shrinking payrolls from the recession, as well as the final reduction in tax rates enacted by H.B. 66 of the 126th General Assembly. The table also shows that all components of the personal income tax have contributed to the shrinkage of gross collections from the tax this fiscal year compared to FY 2008.

Sales and Use Tax

The performance of the sales and use tax worsened in May. May receipts of \$551.5 million were \$86.6 million (13.6%) below estimate and \$87.9 million (13.7%) below receipts in May 2008. The graph below shows the monthly variance in FY 2009 receipts compared to receipts in the same month in FY 2008. The most recent trend had been one of modest declines on a year-ago basis, but May receipts reversed that improvement and returned the tax to larger year-over-year declines similar to those in December 2008 and January 2009.

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

Monthly Change in Sales Tax Receipts Compared to FY 2008 (in millions)



Through May, FY 2009 receipts of \$6.53 billion were \$271.9 million (4.0%) below estimate and \$431.8 million (6.2%) below FY 2008 receipts through May 2008.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections³ 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

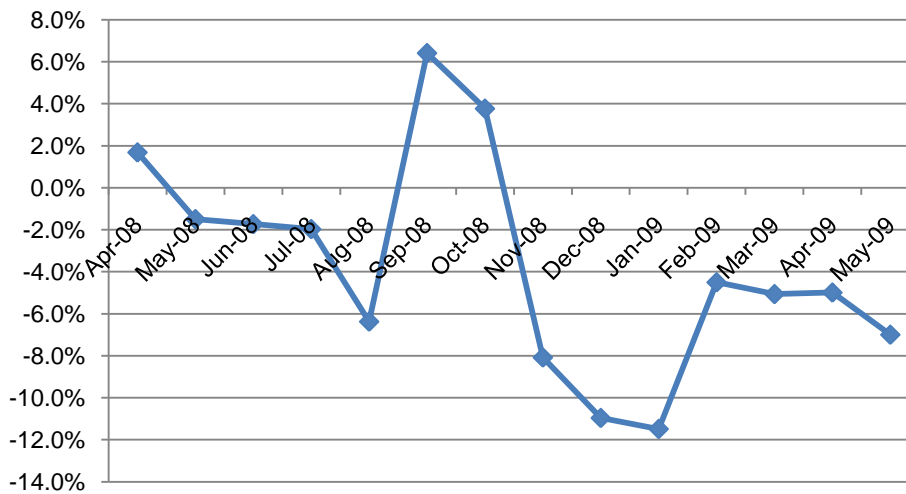
May nonauto sales and use tax receipts of \$481.6 million were \$73.9 million below estimate and \$64.3 million below receipts in May 2008. Through May, FY 2009 year-to-date nonauto sales and use tax receipts of \$5.73 billion were \$267.6 million below estimate and \$369.9 million below receipts during the comparable period in FY 2008. Severe headwinds from reduced employment, income, and wealth continue to pressure nonauto sales and use tax receipts. These restraints on taxable spending are expected to continue throughout FY 2010.

Auto Sales and Use Tax

May auto sales and use tax receipts of \$69.8 million were \$12.7 million below estimate and \$23.6 million below receipts in May 2008. May receipts reversed the positive year-to-date variance of \$8.4 million through April. Through May, FY 2009 year-to-date auto sales and use tax receipts of \$793.1 million were \$4.3 million below estimate and \$61.9 million below receipts through May in FY 2008. Auto sales and use tax receipts have consistently been below prior-year receipts since the first quarter of FY 2009. The graph below, which compares monthly receipts with prior-year receipts in the same period, indicates a persistent downward trend in auto sales and use tax receipts. (The graph shows a three-month moving average which smoothes the monthly variation and provides a better indication of trends.) The rates of decline in auto sales and use tax receipts compared to year-ago receipts appeared to have slowed of late, but May receipts seem to begin a new phase in the decline of receipts on a year-ago basis.

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 Receipts Trends
Actual vs. Prior Year
(Three-month Moving Average)**



May
cigarette tax
receipts
were
\$17.4 million
below
estimate.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were poor in May, reversing two months of above-estimate results. GRF receipts from the tax were \$124.2 million in May, \$17.4 million below estimate and \$23.9 million below May 2008 receipts. Through May, FY 2009 year-to-date receipts from the tax were \$841.6 million, \$2.1 million below estimate. Those receipts were \$33.3 million below FY 2008 receipts in the corresponding period, including a decline of \$36.6 million in receipts from the sale of cigarettes. 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.

The May
corporate
franchise tax
payment
was
\$17.7 million
above
estimate.

Corporate Franchise Tax

The last major corporate franchise tax (CFT) payment in FY 2009, due May 31, provided receipts of \$54.5 million in the month of May. Those receipts were \$17.7 million above estimate, and \$29.4 million below revenues in the same period in FY 2008. Through May, FY 2009 receipts of \$463.1 million were \$44.9 million above estimate but \$190.4 million below FY 2008 receipts. Except for filing amended returns and other reconciliations of tax accounts, the CFT report for May 2009 was generally the last one for nonfinancial corporations. As part of the five-year phase-out of the corporate franchise tax that was enacted by H.B. 66 of the 126th General Assembly, the CFT for nonfinancial corporations will be eliminated in FY 2010 and the tax will become essentially a tax on financial institutions. In FY 2009, tax payments for nonfinancial

corporations were based on 20% of the calculated liability, down from 40% in FY 2008.

Commercial Activity Tax

The full phase-in of the commercial activity tax (CAT) started this quarter, for taxes due for taxable gross receipts booked in the first quarter of 2009. In May 2009, receipts from the tax were \$201.0 million, \$34.8 million (14.8%) below estimate. Monthly CAT receipts have been below estimate for the last eight months. Through May, FY 2009 CAT receipts totaled \$1.17 billion, \$92.4 million (7.3%) below estimate, but \$215.1 million (22.6%) above receipts in FY 2008, primarily due to a higher tax rate this fiscal year. The table below shows the quarterly variance against estimate of receipts through May and the increasingly negative impact of the ongoing recession on CAT receipts in FY 2009.

Year-to-date
CAT
receipts
were
\$92.4 million
below
estimate.

FY 2009 Year-to-Date CAT Variance through May 2009				
	Estimate	Actual	Variance	Percent
FY 2009 Q1	\$318.1	\$326.6	\$8.4	2.7%
FY 2009 Q2	\$329.9	\$316.0	(\$13.9)	-4.2%
FY 2009 Q3	\$344.0	\$310.8	(\$33.1)	-9.6%
FY 2009 Q4	\$269.0	\$215.2	(\$53.8)	-20.0%
FY 2009	\$1,261.0	\$1,168.6	(\$92.4)	-7.3%

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.⁴

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

Table 3: General Revenue Fund Uses				
Preliminary Actual vs. Estimate				
Month of May 2009				
(\$ in thousands)				
(Actual based on OAKS reports run June 8, 2009)				
PROGRAM	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	\$711,793	\$678,463	\$33,330	4.9%
Higher Education	\$275,151	\$250,900	\$24,251	9.7%
Total Education	\$986,943	\$929,363	\$57,581	6.2%
Public Assistance and Medicaid	\$778,136	\$786,721	-\$8,585	-1.1%
Health and Human Services	\$76,940	\$78,846	-\$1,906	-2.4%
Total Welfare and Human Services	\$855,077	\$865,567	-\$10,490	-1.2%
Justice and Public Protection	\$171,624	\$165,503	\$6,121	3.7%
Environment and Natural Resources	\$5,660	\$6,262	-\$602	-9.6%
Transportation	\$1,725	\$923	\$801	86.7%
General Government	\$20,777	\$18,427	\$2,350	12.8%
Community and Economic Development	\$12,402	\$7,983	\$4,419	55.4%
Capital	\$0	\$0	\$0	---
Total Government Operations	\$212,188	\$199,098	\$13,090	6.6%
Tax Relief and Other	\$215,192	\$183,219	\$31,973	17.5%
Debt Service	\$0	\$0	\$0	---
Total Other Expenditures	\$215,192	\$183,219	\$31,973	17.5%
Total Program Expenditures	\$2,269,400	\$2,177,247	\$92,152	4.2%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$231	\$0	\$231	---
Total Transfers Out	\$231	\$0	\$231	---
TOTAL GRF USES	\$2,269,631	\$2,177,247	\$92,384	4.2%
* February 2009 estimates of the Office of Budget and Management.				
<i>Detail may not sum to total due to rounding.</i>				

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2009 as of May 31, 2009
(\$ in thousands)
(Actual based on OAKS reports run June 8, 2009)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2008	Percent Change
Primary, Secondary, and Other Education	\$6,649,462	\$6,722,103	-\$72,641	-1.1%	\$6,339,175	4.9%
Higher Education	\$2,459,621	\$2,406,700	\$52,921	2.2%	\$1,876,630	31.1%
Total Education	\$9,109,083	\$9,128,803	-\$19,720	-0.2%	\$8,215,804	10.9%
Public Assistance and Medicaid	\$10,372,098	\$10,452,732	-\$80,634	-0.8%	\$8,161,633	27.1%
Health and Human Services	\$1,153,686	\$1,146,135	\$7,551	0.7%	\$875,482	31.8%
Total Welfare and Human Services	\$11,525,784	\$11,598,867	-\$73,083	-0.6%	\$9,037,115	27.5%
Justice and Public Protection	\$1,988,371	\$1,972,021	\$16,349	0.8%	\$1,206,610	64.8%
Environment and Natural Resources	\$88,871	\$86,674	\$2,197	2.5%	\$38,524	130.7%
Transportation	\$19,758	\$21,179	-\$1,420	-6.7%	\$19,898	-0.7%
General Government	\$346,363	\$349,236	-\$2,873	-0.8%	\$253,631	36.6%
Community and Economic Development	\$141,290	\$132,955	\$8,335	6.3%	\$91,827	53.9%
Capital	\$288	\$42	\$246	584.6%	\$134	114.3%
Total Government Operations	\$2,584,941	\$2,562,107	\$22,834	0.9%	\$1,610,624	60.5%
Tax Relief and Other	\$1,432,075	\$1,217,335	\$214,741	17.6%	\$1,340,149	6.9%
Debt Service	\$588,275	\$600,130	-\$11,855	-2.0%	\$575,423	2.2%
Total Other Expenditures	\$2,020,350	\$1,817,464	\$202,886	11.2%	\$1,915,571	5.5%
Total Program Expenditures	\$25,240,158	\$25,107,241	\$132,917	0.5%	\$20,779,115	21.5%
TRANSFERS						
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$848,172	\$852,439	-\$4,267	-0.5%	\$618,791	37.1%
Total Transfers Out	\$848,172	\$852,439	-\$4,267	-0.5%	\$618,791	37.1%
TOTAL GRF USES	\$26,088,330	\$25,959,680	\$128,650	0.5%	\$21,397,906	21.9%

* February 2009 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 May and for FY 2009 through May, respectively. GRF uses consist primarily of program expenditures but also include transfers out. For May, GRF uses of \$2.27 billion were \$92.4 million (4.2%) above the estimate revised by the Office of Budget and Management (OBM) in February 2009. Through May, FY 2009 GRF uses of \$26.09 billion were \$128.7 million (0.5%) above estimate. Year-to-date GRF program expenditures totaled \$25.24 billion, which was \$132.9 million (0.5%) above estimate. This positive variance was partially offset by a negative variance of \$4.3 million (0.5%) in transfers out, which totaled \$848.2 million for the first eleven months of FY 2009.

The overall positive variance in year-to-date GRF uses was primarily due to the Tax Relief and Other program category. This category's year-to-date expenditures were \$214.7 million (17.6%) above estimate, reflecting the fact that the estimate did not account for the \$257.0 million appropriation for the expanded Homestead exemption instituted in H.B. 119 of the 127th General Assembly. Payments to local governments and school districts in 78 of Ohio's 88 counties were complete, and the remaining ten counties will be paid in June. Two other program categories with significant positive year-to-date variances were Higher Education (\$52.9 million or 2.2%) and Justice and Public Protection (\$16.3 million or 0.8%). The positive variance in Higher Education was largely due to higher than expected need-based student financial aid payments.

Public Assistance and Medicaid and Primary, Secondary, and Other Education, on the other hand, posted significant year-to-date negative variances. GRF expenditures for Public Assistance and Medicaid were \$8.6 million (1.1%) below estimate in May, which brought this program category's year-to-date expenditures to \$80.6 million (0.8%) below estimate. More detailed information on this category's variances is provided below. Despite a positive variance of \$33.3 million (4.9%) in May, Primary, Secondary, and Other Education's year-to-date expenditures were \$72.6 million (1.1%) below estimate. This negative variance was primarily due to lower than expected student enrollments as reported in previous issues of this report.

For the first eleven months of FY 2009, GRF uses were \$128.7 million above estimate.

Medicaid

Medicaid accounts for approximately 92% of GRF expenditures in the Public Assistance and Medicaid program category. Table 5 details Medicaid expenditures by service category. GRF expenditures for Medicaid totaled \$713.1 million in May, which were \$16.6 million (2.3%) below estimate. Through May, year-to-date expenditures totaled \$9.54 billion, \$58.9 million (0.6%) below estimate. These variances were based on the March 2009 OBM estimate, which accounted for changes to the Medicaid caseload forecast, the enhanced federal Medicaid reimbursement, and an anticipated increase in the use of non-GRF funding sources.

The
Controlling
Board
approved
appropriation
increases
totaling
\$332.4 million
to support
non-GRF
Medicaid
spending.

At its June 1 meeting, the Controlling Board approved two requests from the Department of Job and Family Services (ODJFS) for additional spending authority for Medicaid in non-GRF line items 600692, Health Care Services (\$17.9 million), and 600623, Health Care Federal (\$314.5 million). The additional \$17.9 million of General Service Fund revenue from prescription drug rebates is the source for the appropriation increase to the 600692 line item. The sources of the additional \$314.5 million in additional spending authority for the 600623 appropriation item are federal matching funds for expenditures made from the 600692 line item (\$37.9 million) and an enhanced federal match from other non-GRF Medicaid expenditures (\$276.7 million). The American Recovery and Reinvestment Act of 2009 increases federal Medicaid match rates for states from October 1, 2008 to December 31, 2010. For FY 2009, Ohio's enhanced rates are 70.25% from October 2008 through March 2009 and 71.29% from April through June 2009.

The Inpatient Hospitals service category had the largest monthly and year-to-date negative variances of \$13.3 million (13.5%) and \$41.7 million (4.2%), respectively. These variances were mainly due to lower than expected utilization of hospital services and costs per claim by the Aged, Blind, and Disabled (ABD) populations in the Northeast and Northwest regions.

The Managed Care Plan for the Covered Families and Children (CFC) service category, on the other hand, registered the largest monthly and year-to-date positive variances of \$15.0 million (5.3%) and \$17.7 million (0.6%), respectively. These variances were mainly due to CFC caseload increases in recent months. More Ohioans become eligible for Medicaid as the economy continues to deteriorate.

Other categories with notable year-to-date negative variances included All Other (\$12.6 million or 1.3%), Managed Care Plan for ABDs (\$11.1 million or 0.9%), and ODJFS Waivers (\$10.1 million or 3.4%).

** 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	May				Year to Date			
	Actual	Estimate	Variance	Percent Variance	Actual thru May	Estimate thru May	Variance	Percent Variance
Nursing Facilities	\$208,253	\$211,514	-\$3,261	-1.5%	\$2,350,274	\$2,354,367	-\$4,093	-0.2%
ICFs/MR	\$43,324	\$45,253	-\$1,929	-4.3%	\$490,841	\$495,040	-\$4,199	-0.8%
Inpatient Hospitals	\$85,059	\$98,314	-\$13,255	-13.5%	\$956,938	\$998,603	-\$41,665	-4.2%
Outpatient Hospitals	\$34,049	\$32,588	\$1,461	4.5%	\$367,065	\$359,932	\$7,133	2.0%
Physicians	\$28,676	\$28,019	\$657	2.3%	\$324,027	\$318,926	\$5,101	1.6%
Prescription Drugs	\$44,354	\$47,409	-\$3,055	-6.4%	\$496,365	\$501,775	-\$5,410	-1.1%
ODJFS Waivers	\$25,186	\$27,915	-\$2,729	-9.8%	\$287,939	\$297,991	-\$10,052	-3.4%
MCP - CFC	\$299,888	\$284,894	\$14,994	5.3%	\$3,188,145	\$3,170,465	\$17,680	0.6%
MCP - ABD	\$105,360	\$109,175	-\$3,815	-3.5%	\$1,269,167	\$1,280,231	-\$11,064	-0.9%
Medicare Buy-In	\$26,338	\$27,028	-\$690	-2.6%	\$284,207	\$286,534	-\$2,327	-0.8%
All Other	\$85,883	\$94,699	-\$8,816	-9.3%	\$936,349	\$948,987	-\$12,638	-1.3%
DA Medical	\$679	\$835	-\$156	-18.7%	\$9,642	\$10,000	-\$358	-3.6%
Total Payments	\$987,049	\$1,007,643	-\$20,594	-2.0%	\$10,960,959	\$11,022,851	-\$61,892	-0.6%
Offsets								
Drug Rebates	-\$15,738	-\$17,122	\$1,384	-8.1%	-\$80,939	-\$82,372	\$1,433	-1.7%
Revenue and Collections	-\$7,423	-\$7,595	\$172	-2.3%	-\$67,222	-\$67,735	\$513	-0.8%
ICF/MR Franchise Fees	-\$1,250	-\$1,250	\$0	0.0%	-\$10,000	-\$10,000	\$0	0.0%
NF Franchise Fees	-\$19,444	-\$19,444	\$0	0.0%	-\$155,556	-\$155,556	\$0	0.0%
IMD/DSH Payments	-\$8,750	-\$8,750	\$0	0.0%	-\$52,500	-\$52,500	\$0	0.0%
MCP Assessments	-\$32,332	-\$32,332	\$0	0.0%	-\$183,369	-\$184,552	\$1,183	-0.6%
Health Care Federal	-\$210,800	-\$214,175	\$3,375	-1.6%	-\$1,104,985	-\$1,107,982	\$2,997	-0.3%
Total Offsets	-\$295,737	-\$300,668	\$4,931	-1.6%	-\$1,654,571	-\$1,660,697	\$6,126	-0.4%
Total 600-525 (net of offsets)	\$691,312	\$706,975	-\$15,663	-2.2%	\$9,306,388	\$9,362,154	-\$55,766	-0.6%
Medicare Part D (600-526)	\$21,803	\$22,740	-\$937	-4.1%	\$229,248	\$232,405	-\$3,157	-1.4%
Total GRF	\$713,115	\$729,715	-\$16,600	-2.3%	\$9,535,636	\$9,594,559	-\$58,923	-0.6%
Total All Funds	\$1,008,852	\$1,030,383	-\$21,531	-2.1%	\$11,190,207	\$11,255,256	-\$65,049	-0.6%

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

ARRA Increases Average Monthly Food Assistance Benefit by About 15%

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

In April 2009, the average monthly Food Assistance (formerly "Food Stamps") benefit went from \$124 to \$142 per individual per month, an increase of about 15%. This increase was a result of the enactment of the American Recovery and Reinvestment Act of 2009 (ARRA). The federal government funds 100% of Food Assistance benefits, which totaled \$1.42 billion for Ohioans in FY 2008, and disburses the benefits directly to recipients. It also reimburses states and counties 50% of administrative expenses, which totaled \$220.4 million for Ohio in federal fiscal year 2008.

Generally, to qualify for Food Assistance benefits, families or individuals must have incomes less than 130% of the federal poverty guideline (FPG) and meet certain net income and asset limits. For federal fiscal year 2009, a family of three with an annual income less than \$23,800 meets the income threshold for Food Assistance benefits. Elderly and disabled individuals must have incomes less than 200% of the FPG. Food Assistance benefits are delivered through an electronic benefits transfer. Recipients are issued magnetic strip cards (similar to debit cards) to purchase food items at stores, and the amount spent is automatically debited from their accounts. The federal government credits the accounts on a monthly basis.

Food Assistance caseloads have increased steadily over the past five years from an average of 822,000 individuals in FY 2003 to 1,127,000 in FY 2008, an increase of 37%. Caseloads are expected to continue to increase through FY 2011. In FY 2008, about 36% of Food Assistance recipients were also receiving other public assistance benefits such as cash assistance or Social Security income.

Federal Stimulus Money Helps Fund Clean Diesel School Bus Grants

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

In April 2009, the Ohio Environmental Protection Agency (EPA) approved 15 applications totaling \$1.3 million for clean diesel school bus grants (see table below). Of this amount, \$760,000 is funded with federal stimulus money provided under the American Recovery and Reinvestment Act of 2009 (ARRA). The remaining \$510,000 is funded with state funds appropriated for this purpose in H.B. 119. The ARRA funding for clean diesel emission grants totals \$1.7 million for Ohio. The remaining ARRA funding of nearly \$1.0 million will be used to help fund the October 2009 round of clean diesel school bus grant awards. EPA releases the grant awards in April and October each year, to allow school districts to install the equipment during the summer or winter breaks while the buses are largely out of service. School districts use these grants to purchase and install pollution control equipment on school buses in order to reduce students' exposure to the harmful pollutants in diesel exhaust.

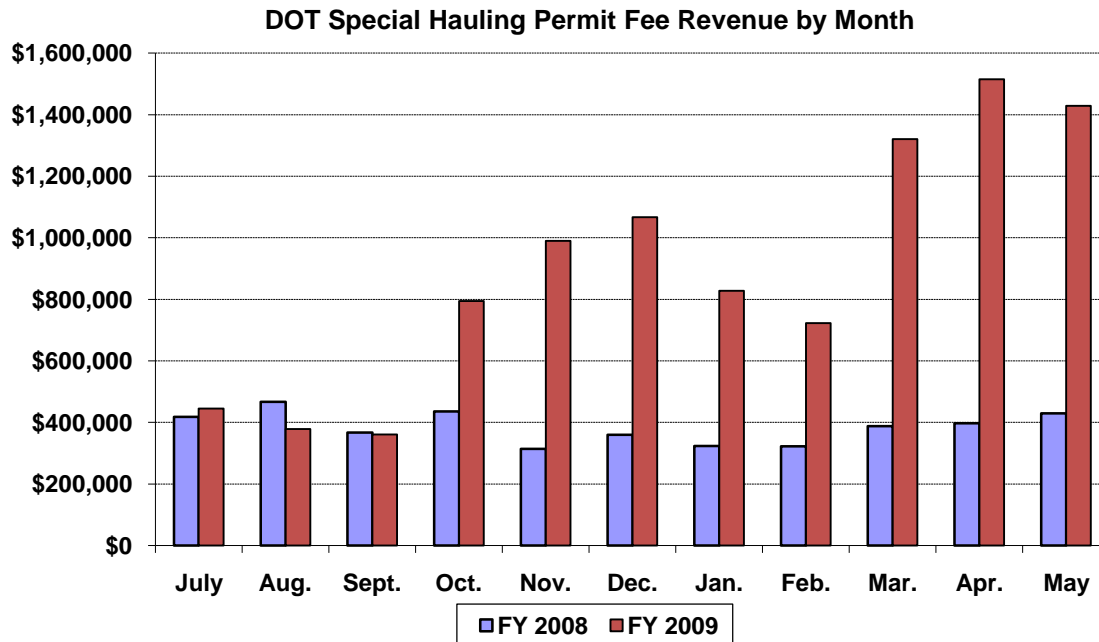
EPA Clean Diesel School Bus Grants – April 2009		
School District	Award	School Buses Serviced
Bellevue City	\$104,612	19
Berea City	\$48,089	18
Bloom-Carroll	\$17,059	14
Cleveland Metropolitan	\$114,855	19
Columbus City	\$98,752	71
Delaware City	\$259,330	20
Keystone Local	\$35,574	15
Kirkland Local	\$95,230	20
Licking Valley	\$28,002	21
Marlington Local	\$96,450	32
Marysville Village	\$26,365	29
Mentor Village	\$138,876	56
Norton City	\$33,075	15
South Euclid-Lyndhurst	\$40,898	8
Westlake City	\$134,500	20
Total	\$1,271,667	377

Special Hauling Permit Fee Revenue Increases as Permit Fees Rise

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

Through May, FY 2009 year-to-date special hauling permit fee revenue totaled approximately \$9.9 million, 133.3% higher than the \$4.2 million received through the same period in FY 2008. This increase is largely a result of the first two of the three-stage fee increases instituted by the Department of Transportation (DOT) in October 2008. The fee increases, effective on October 16, 2008, March 1, 2009, and July 1, 2009, are intended, in part, to take into account the damage inflicted on Ohio's highways by oversized and overweight vehicles, which are required to obtain special hauling permits in order to travel on highways. According to DOT, the revised fee structure is the first to "[include] compensation for wear and tear of the highway system." The full fee schedule is available for on-line viewing at DOT's web site (www.dot.state.oh.us) in the Special Hauling Permits Section.

The chart below compares FY 2009 year-to-date monthly fee revenue to FY 2008. It shows that large spikes in FY 2009 revenue have occurred commensurate with the implementation of the first two permit fee increases in October 2008 and March 2009. For the July 1, 2009 fee increases, permit fees will generally rise by another 35% to 40%, depending on the permit type. Special hauling permit fees are deposited into the Highway Operating Fund (Fund 7002), DOT's main operating fund.



Six School Districts Opting to Segment Their Facilities Projects Obtain the Required Local Share

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

Through mid-May 2009, six school districts opting to segment their state-assisted facilities projects have obtained their local shares (see table below). These six districts will now be able to proceed with their facilities projects in segments. H.B. 562 of the 127th General Assembly allows districts to divide their projects into segments when they become eligible for the Classroom Facilities Assistance Program (CFAP), the School Facilities Commission's (SFC) main program.⁵ Generally, segmenting provides SFC and school districts greater flexibility in project management. It allows school districts to obtain local share for a smaller portion of the project rather than have to obtain all of the funding required for the district-wide project at once.

In addition to these six districts, another eight districts that have been approved for CFAP funding since the enactment of H.B. 562 have also opted to segment their projects. However, these eight districts have not yet secured their local shares. School districts generally have one year from obtaining state approval to secure the required local share. Of these eight districts, Weathersfield, which was approved for CFAP funding in November 2008, will have at least one more opportunity to secure the local share under the one year limit. The other seven districts obtained their approvals in July 2008 and would normally have their funding offers lapse this July. However, a provision in H.B. 1, currently pending in the Senate, would extend the one year limit for these districts to the end of December 2009. If this provision is enacted, these districts would have at least one more opportunity to secure their funding shares.

List of School Districts Opting to Segment Their Facilities Projects	
Districts That Have Secured Local Share	
Edgewood (Butler)	Ross (Butler)
Pickerington (Fairfield)	Jonathan Alder (Madison)
Switzerland of Ohio (Monroe)	Tuslaw (Stark)
Districts that Have Not Yet Secured Local Share	
Carey (Wyandot)	Crestwood (Portage)
Eastwood (Wood)	Fostoria (Seneca)
Hillsdale (Ashland)	Tuscarawas Valley (Tuscarawas)
Twin Valley (Preble)	Weathersfield (Trumbull)

⁵ Prior to H.B. 562, only the six urban school districts (Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo) participating in the Accelerated Urban Initiative were allowed to segment their state-assisted school facilities projects.

Two Additional Community Schools Declared Unauditable for FY 2007

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

Since the last update on the list of unauditable community schools in the November 2008 issue of *Budget Footnotes*, the Auditor of State has found two additional community schools unauditable for FY 2007, bringing the total, as of May 14, 2009, to nine. The additional two schools are the Phoenix Village Academy Secondary 1 and the Phoenix Village Academy Primary 2. Both schools are sponsored by Ashe Culture Center, Inc.

Seven community schools remain on the unauditable list for FY 2007 (as reported in the May 2008 issue of *Budget Footnotes*, the Auditor completed an audit of one of the nine schools and a second closed). These seven schools and their sponsors are listed below.

- Ashe Culture Center, Inc. (sponsor)
 - Arts Academy (Lorain County)
 - Arts Academy West (Cuyahoga County) – also declared unauditable for FY 2008
 - Greater Achievement Community School (Cuyahoga County) – has suspended operations
 - Phoenix Village Academy Primary 1 (Summit County) – has suspended operations
 - Phoenix Village Academy Primary 2 (Cuyahoga County)
 - Phoenix Village Academy Secondary 1 (Cuyahoga County)
- Toledo Charter School Council (sponsor)
 - Eagle Heights Academy (Mahoning County)

H.B. 119 requires the Department of Education to suspend payments to any community school that is reported by the Auditor of State as having failed to make reasonable efforts and continuing progress to bring its records into an auditable condition within 90 days of being declared unauditable. According to the Department, none of the community schools declared unauditable for FY 2007 has been reported by the Auditor of State as having failed to make reasonable efforts and continuing progress.

Children's Trust Fund Allocates \$4.4 Million for Child Abuse and Neglect Prevention

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

For FY 2009, the Ohio Children's Trust Fund (OCTF) has allocated \$4.4 million for prevention of child abuse and neglect (see table below). Of this amount, \$3.96 million (89.4%) is used to fund various activities at the local level, including a \$3.77 million allocation to county departments of job and family services for direct service activities that include parenting classes, child abuse prevention programs for schools, and shaken baby prevention programs for hospitals, and a \$2,000 allocation for each of the 88 county public children services agencies to support activities for Child Abuse Prevention Month (April). The approximate \$467,000 (10.6%) statewide activity allocation funds contracts with the Department of Health, the Ohio Network of Children's Advocacy Centers, and Mental Health America. These contracts support a home visitation program designed specifically to reach at-risk populations, trainings for employees of children's advocacy centers, and a newsletter geared toward Spanish-speaking first-time parents and at-risk families.

Established in 1984, OCTF is the state's primary funding agent for child abuse and neglect prevention. It receives nominal surcharges for birth and death certificates and fee revenue collected on divorce and dissolution filings. These funds are distributed based on the number of children living in each county. In addition, OCTF receives funding from a federal Community-Based Child Abuse Prevention grant. OCTF is governed by a 15-member board consisting of state agency administrators, gubernatorial appointees, and legislators. The daily operations are supported by the Bureau of Prevention staff of the Department of Job and Family Services.

Children's Trust Fund Allocations for FY 2009	
County Allocations	\$3,774,395
Public Children Service Agency Allocations	\$176,000
Child Advocacy Centers	\$6,209
<i>Center for Child and Family Advocacy (Henry County)</i>	<i>\$5,000</i>
<i>Child Advocacy Center of Fairfield County</i>	<i>\$1,209</i>
Statewide Contracts	\$467,490
<i>Department of Health</i>	<i>\$271,440</i>
<i>Ohio Network of Children's Advocacy Centers</i>	<i>\$125,030</i>
<i>Mental Health America</i>	<i>\$71,020</i>
Total	\$4,424,094

Family Violence Prevention Grants Total \$1.55 Million in FY 2009

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

The Department of Public Safety's Office of Criminal Justice Services has made available \$1.55 million in family violence prevention grants to 68 eligible local domestic violence shelters in FY 2009. Each shelter is to receive \$22,794 in grant funding. These grants are funded by part of the fees for obtaining certificates of birth and death and for filing of divorce decrees and dissolutions. These fees are deposited into the Family Violence Prevention Fund (5BK0). H.B. 67, the transportation budget bill of the 127th General Assembly, appropriates \$750,000 for family violence prevention grants in FY 2009 and allows the Office of Criminal Justice Services to seek the Controlling Board's approval to increase the funding amount if fee revenue is available for additional grant funding. On November 17, 2008, the Controlling Board increased the FY 2009 appropriation for family violence prevention grants to \$1.55 million.

Each year, the Office of the Attorney General provides the Office of Criminal Justice Services with a list of eligible local domestic violence shelters. To be eligible, among other things, each shelter is required to show that at least 25% of its funding comes from other sources. The purpose of the family violence prevention grants is to provide shelter and related assistance to address victims of domestic violence and their dependents' immediate needs and to help the victims achieve self-sufficiency. In FY 2008, the 68 eligible shelters served about 35,000 individuals.

Twenty Courts Are Fully Connected to Ohio Courts Network

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

Through May, the Supreme Court of Ohio spent \$2.4 million⁶ in GRF funding for FY 2009 to continue the statewide rollout of the Ohio Courts Network (OCN), a project first reported in the April 2008 issue of *Budget Footnotes*. As of May 2009, 20 courts in 14 counties are fully connected and sending daily record updates to OCN (see table below). Supreme Court personnel estimate that, by the end of calendar year 2009, that number will be between 60 and 100 courts.

The purpose of OCN is to implement a secure electronic network through which courts, law enforcement, and other partners in the justice system can access and share information. When fully implemented, OCN will include civil, criminal, and traffic case information from courts of appeals, courts of common pleas, and municipal and county

⁶ The original H.B. 119 appropriation for the Ohio Courts Network totals \$6.5 million in FY 2009. The Supreme Court voluntarily reduced the project funding by \$1.65 million in response to executive-ordered GRF appropriation reductions. As of May 22, 2009, almost \$2.5 million of the \$4.85 million project funding remained unspent.

courts, as well as information provided by the Department of Rehabilitation and Correction, the Bureau of Motor Vehicles, and the Bureau of Criminal Identification and Investigation.

Number of Courts that Are Fully Connected to Ohio Courts Network by County, May 2009			
County	Number of Courts	County	Number of Courts
Butler	4	Montgomery	1
Crawford	1	Morgan	1
Cuyahoga	2	Seneca	1
Franklin	3	Shelby	1
Hamilton	1	Trumbull	1
Hocking	1	Union	1
Knox	1	Wyandot	1

TRACKING THE ECONOMY

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

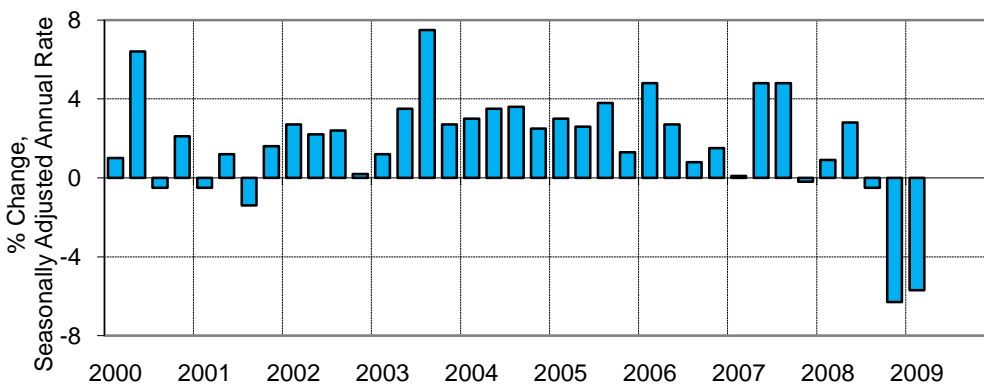
The material that follows is excerpted from the Economic Conditions and Outlook section of the Legislative Service Commission's June 11 testimony before the Ohio General Assembly's Conference Committee for H.B. 1, the pending biennial budget of the 128th General Assembly.

State of the Economy

The national economy has been in recession since December 2007. This recession appears to have continued through May, based on the information available at this time, making it the longest recession of the post-World War II period. Despite steep declines in inflation-adjusted gross domestic product (real GDP) in last year's fourth quarter and this year's first quarter, the decline in economic activity is not yet, by this broad measure of economic activity, the deepest recession since the Great Depression of the 1930s. However, when statistics on real GDP are available for the current quarter, this recession will likely reach this dubious distinction, with a larger peak-to-trough decline than the 3.7% drop in 1957-1958.

The current recession is the longest and probably will be the deepest recession since the Great Depression of the 1930s.

Chart 1: United States Real Gross Domestic Product

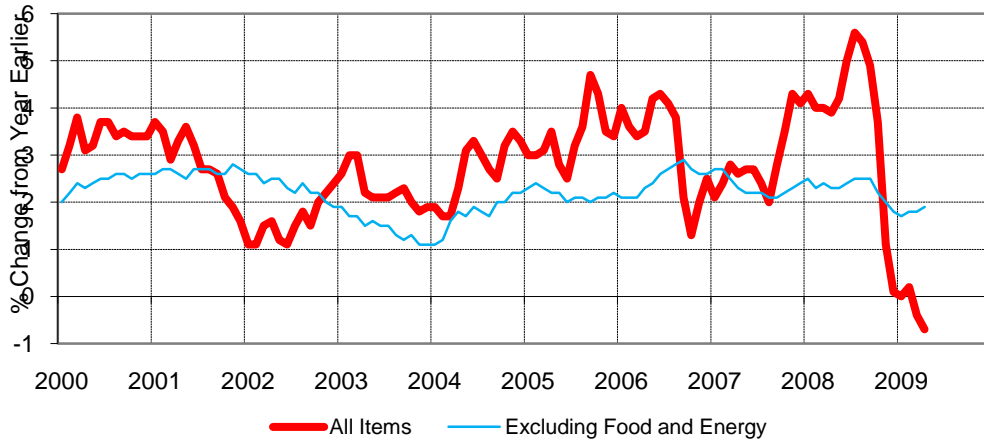


Though credit market strains were evident in 2007, the U.S. economic downturn steepened abruptly following the collapse of Lehman Brothers in September 2008. Uncertainty regarding the value of housing-related assets on the balance sheets of financial institutions, as home prices fell from unsustainably high levels, brought the credit markets to a virtual standstill. The slowdown spread around the globe. Prices for

Ohio real GDP reached a peak in 2005, and declined in 2006 and 2008.

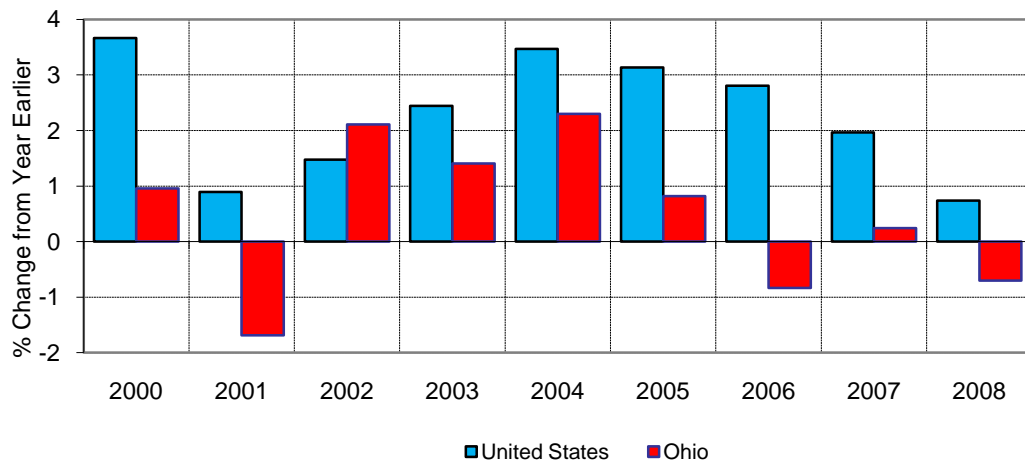
energy and other commodities, which were pushed upward by world demand earlier in 2008, fell abruptly in the latter part of the year and into early 2009. U.S. consumer prices fell, as shown in Chart 2.

Chart 2: Consumer Price Index



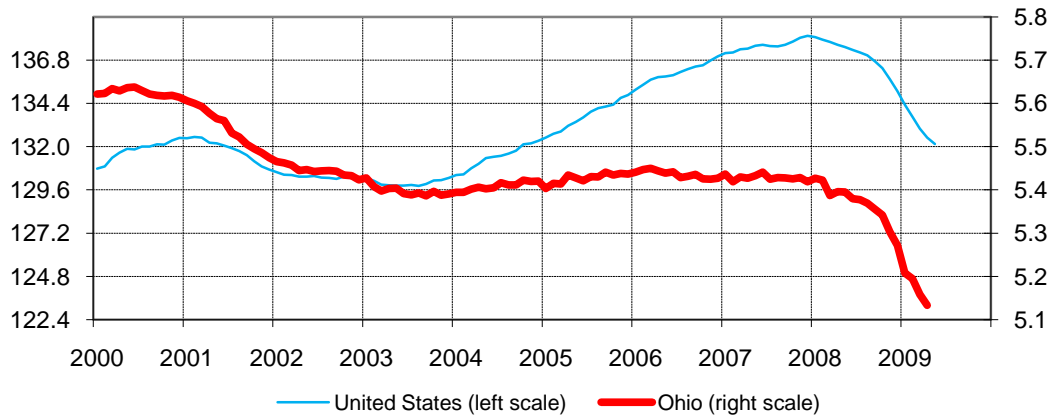
In Ohio, economic weakness has been evident for a longer period of time. Recently released estimates of Ohio's real GDP for 2008, and revised figures for earlier years, show that Ohio real GDP reached a peak in 2005. Chart 3 shows year-to-year changes in Ohio real GDP, which declined in 2006 and 2008, following increases in 2002 through 2005.

Chart 3: Real Gross Domestic Product



The recession pushed nationwide employment down in 2008 from an all-time peak in December 2007. The peak for Ohio nonfarm payroll employment was much earlier, in 2000. Job losses nationwide and in Ohio accelerated in late 2008 and early 2009, as shown in Chart 4. Cutbacks were widespread across industries and areas of the country.

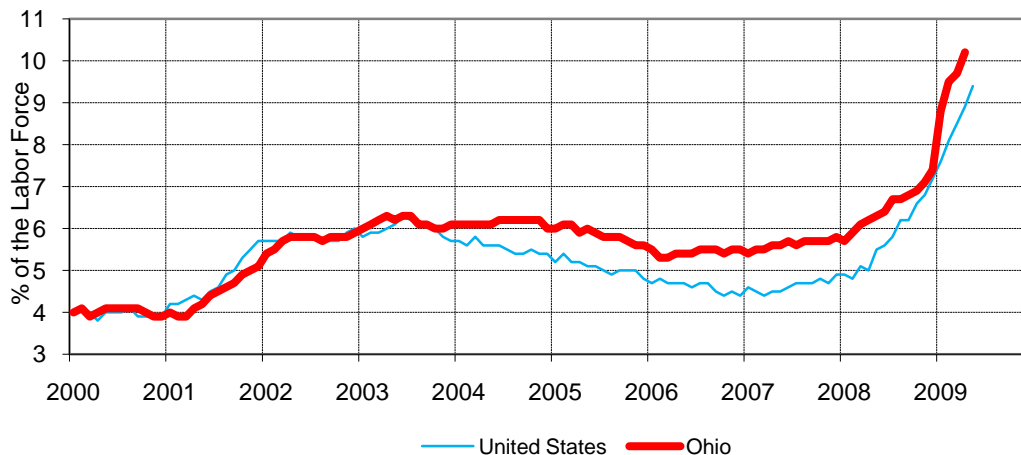
**Chart 4: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted**



Unemployment rates rose to 9.4% nationwide in May and 10.2% in Ohio in April.

Consequently, unemployment shot upward, as indicated in Chart 5. The nationwide unemployment rate was 9.4% in May. Ohio's statewide unemployment rate was 10.2% in April.

Chart 5: Unemployment Rate

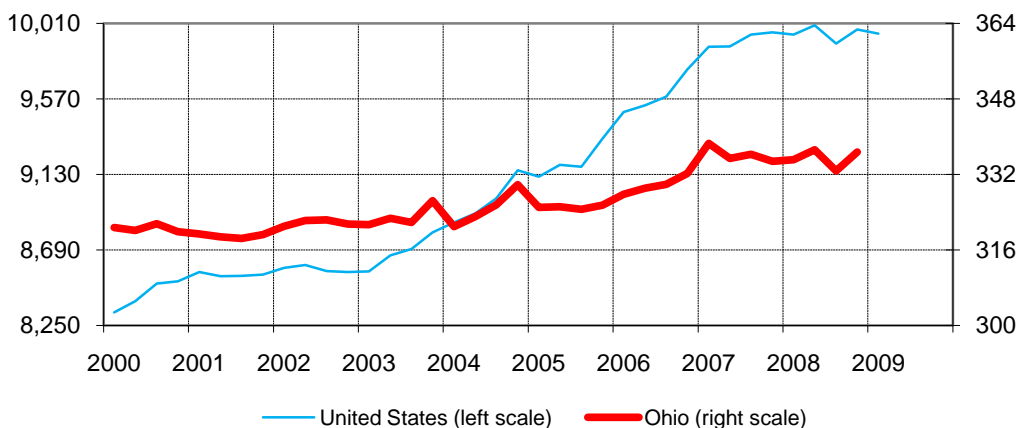


Personal income, adjusted for inflation, has declined from recent peaks. Higher transfer payments under stimulus programs and lower prices have helped to support the purchasing power of consumers' incomes. As is evident in Chart 6, personal income of Ohio residents has

grown much more slowly in the current decade than has that in other parts of the country.

The national economy still appears to be contracting but not as sharply as earlier.

**Chart 6: Personal Income
Billions of 2000 Dollars**



Recent Developments

In response to the exceptional financial market difficulties and the economic downturn, the federal government under the current and the previous administrations undertook very large-scale fiscal stimulus programs. The Federal Reserve Bank adopted a highly expansionary monetary policy, cutting short-term interest rates virtually to zero and taking additional steps to support financial institutions and markets. Governments and central banks of other countries, to varying extents, initiated similar stimulus programs.

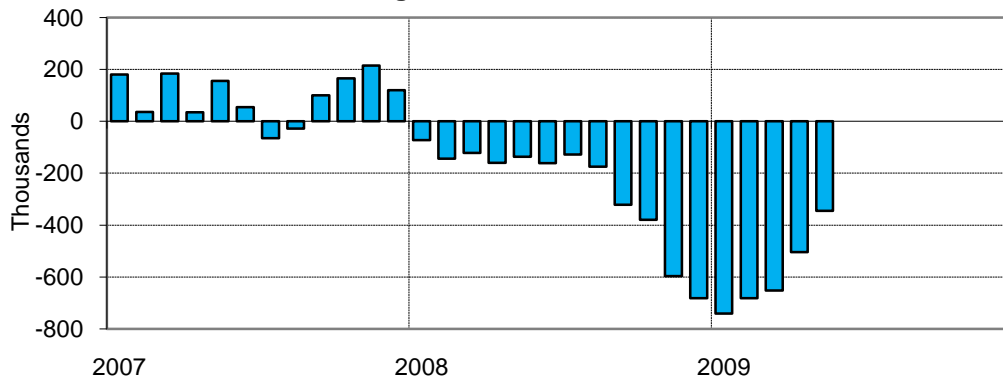
These initiatives appear in recent months to be bearing fruit. The national economy still appears to be contracting but not as sharply as earlier. Credit market functioning has improved, though in part because of the continued support from the government programs. Fear in financial markets has been reduced and the willingness of participants to take on risk has increased. Consumer spending rose in the first quarter, though it appears to be slipping again in the second quarter. Housing markets are showing signs of bottoming, in part because of elevated sales of homes in foreclosure and other distressed sales. The sharp production cuts in the first quarter reduced, but did not eliminate, the overhang of excess inventories. However, with substantial excess capacity, business investment in plant and equipment has fallen sharply and will likely remain weak for some time. Slowdowns abroad are constraining demand for U.S. exports.

With overall business activity still slowing but not as sharply as earlier, the pace of layoffs appears to have eased somewhat. This trend is

evident in Chart 7, which shows smaller month-to-month reductions of nonfarm payroll employment in recent months. Nevertheless, the number of employees on nonfarm payrolls fell 345,000 in May nationwide, historically a large month-to-month decline, and the unemployment rate rose in May to 9.4%, highest since 1983.

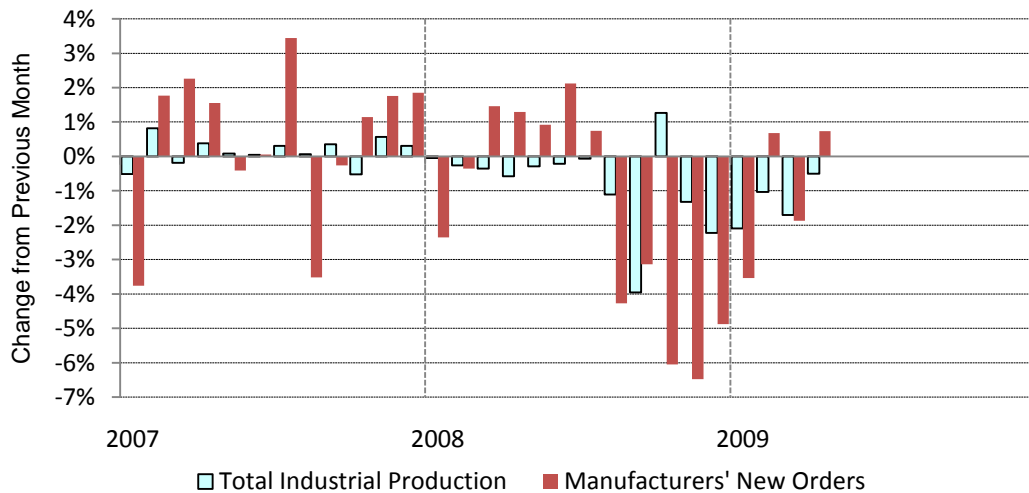
Factory orders, volatile from month to month, show indications of bottoming out in recent months.

Chart 7: United States Nonfarm Payroll Employment Change from Previous Month



Industrial production has continued to decline but not as sharply as earlier.⁷ Factory orders, volatile from month to month, show indications of bottoming out in recent months. Month-to-month changes in industrial production and manufacturers' new orders are shown in Chart 8.

Chart 8: Industrial Production and Manufacturers' Orders



⁷ The steep drop in industrial production in September 2008 and the rise in October resulted in part from the effects on production of two hurricanes and a strike.

Upheavals in the American auto industry particularly affect Ohio, because of the large role of that industry and its suppliers in this state's economy.

Even if the national economic downturn is less precipitous than earlier, the outlook for Ohio depends also on the state's mix of industries and on prospects for those industries with sizable shares of the state's economy. Upheavals in the American auto industry particularly affect Ohio, because of the large role of that industry and its suppliers in this state's economy. The General Motors and Chrysler bankruptcies, plant closings, and franchised dealer eliminations can be expected to have substantial effects on this state. More broadly, Ohio's greater reliance than many other states on manufacturing, particularly of durable goods, increases this state's exposure to sharp swings in economic activity. Durable goods production historically has been subject to larger fluctuations in output, employment, and incomes than much of the service sector.

Economic Forecasts

Predictions for the national and Ohio economies from forecasting firm Global Insight are shown in the following tables. These forecasts were released in May. The tables below show both Global Insight's baseline forecast and that organization's pessimistic forecast. The baseline for the national economy has the current recession ending in the third quarter of the current calendar year, as indicated by an upturn in real GDP. Ohio's economy lags behind, but the state's real GDP stops falling and begins to grow again in the first quarter of CY 2010. The pessimistic forecast delays the upturn until the second quarter of CY 2010 for both the U.S. and Ohio.

Quarterly changes (the first line of each section of the tables) shown below are from the preceding quarter of the calendar year indicated. Annual changes (the second line of each section) are based on the annual average for the fiscal year ending in the second quarter of each calendar year indicated, from the preceding fiscal year's annual average. Annual unemployment rates are for the fiscal year. Where actual data released subsequent to the forecasts differ from predictions, the actual data were substituted in the tables.

U.S. Gross Domestic Product

Global Insight's baseline recession scenario shows the national economy reaching a low point in the second half of the current calendar year and beginning to grow. The pace of recovery in economic activity is projected to be slow compared with past post-World War II economic recoveries. In the pessimistic scenario, protracted credit market difficulties continue to constrain consumer and business spending, causing the economy to contract until the first half of calendar year 2010.

U.S. Real GDP Growth												
Global Insight Forecast	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Baseline	-5.7	-2.5	0.2	0.7	1.3	2.9	2.7	3.9	2.8	3.9	3.8	3.7
		-1.7				-1.2				2.8		
Pessimistic	-5.7	-4.0	-2.6	-2.7	-1.4	0.2	1.1	3.6	2.6	3.5	3.5	3.0
		-1.8				-3.3				1.2		

Ohio Gross Domestic Product

Real GDP in Ohio is projected to fall through the end of calendar year 2009 in Global Insight's baseline forecast before beginning a recovery in 2010. In the pessimistic scenario, the state's recovery begins later in 2010 and is slower than in the baseline forecast.

Ohio Real GDP Growth												
Global Insight Forecast	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Baseline	-8.3	-1.6	-0.4	-0.2	0.7	2.4	2.4	3.2	2.2	3.3	3.0	3.2
		-2.5				-1.7				2.2		
Pessimistic	-8.3	-3.1	-2.8	-2.9	-1.4	0.4	1.2	2.9	1.8	2.9	2.6	2.6
		-2.6				-3.5				0.9		

U.S. Inflation

Global Insight's baseline forecast for inflation shows the fall in the general price level, as measured by the consumer price index, coming to an end this year. Inflation remains restrained by substantial excess capacity in the U.S. and abroad. In the pessimistic scenario, deflation (a fall in the general price level) continues into this year's second half, but inflation begins to pick up once the economy starts to recover.

U.S. Consumer Price Index Inflation												
Global Insight Forecast	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Baseline	-2.4	-0.4	0.2	1.4	1.8	2.3	2.0	2.1	2.1	2.6	2.6	2.4
		1.3				-0.3				2.1		
Pessimistic	-2.4	-1.5	-1.9	1.3	0.8	2.4	2.3	2.9	3.6	4.0	4.3	4.4
		1.2				-1.1				2.5		

U.S. Personal Income

Nationwide personal income in the baseline scenario begins a sustained upturn later this year. In the pessimistic scenario, however, the resumption of growth in personal income is delayed until 2010.

U.S. Personal Income Growth												
Global Insight Forecast	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Baseline	-1.9	1.7	-2.5	1.3	2.5	2.7	3.3	3.5	4.1	4.1	4.8	4.6
		1.6				0.1				3.2		
Pessimistic	-1.9	0.9	-3.6	-0.9	-0.1	-0.1	0.8	1.9	3.2	3.9	5.1	4.8
		1.6				-1.3				1.1		

Ohio Personal Income

Income to persons who reside in Ohio, in the baseline scenario, begins sustained growth later this year. In the pessimistic scenario, the recovery in Ohio personal income is delayed until next year. Growth of incomes in Ohio, in both forecasts, is slower than in the nation as a whole.

Ohio Personal Income Growth												
Global Insight Forecast	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Baseline	-3.7	1.3	-3.1	0.8	1.4	2.0	2.5	2.3	2.9	3.1	4.2	4.1
		1.4				-0.6				2.2		
Pessimistic	-3.7	0.5	-4.2	-0.9	-0.8	-0.3	0.2	0.7	1.9	2.8	4.4	4.3
		1.3				-1.7				0.4		

U.S. Unemployment Rate

Nationwide unemployment peaks next year at more than 10% of the labor force, in Global Insight's baseline forecast. In the pessimistic scenario, the U.S. unemployment rate rises to more than 11% in 2010 and 2011 before beginning to decline.

U.S. Unemployment Rate												
Global Insight Forecast	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent of the labor force-----											
Baseline	8.1	9.2	9.6	9.9	10.1	10.2	10.2	10.0	9.9	9.7	9.4	9.2
		7.5				9.9				9.9		
Pessimistic	8.1	9.2	9.8	10.4	10.9	11.2	11.4	11.4	11.3	11.1	10.9	10.7
		7.6				10.6				11.3		

Ohio Unemployment Rate

The unemployment rate in Ohio, already over 10%, rises above 11% next year in Global Insight's baseline scenario before starting to fall. In the pessimistic forecast, Ohio's unemployment rate peaks above 12% next year and is still more than 11% at the end of 2011.

Ohio Unemployment Rate												
Global Insight Forecast	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent of the labor force-----											
Baseline	9.3	10.5	10.9	11.2	11.6	11.4	11.2	10.9	10.5	10.3	10.0	9.8
		8.4				11.3				10.7		
Pessimistic	9.3	10.6	11.2	11.8	12.4	12.6	12.6	12.4	12.1	11.9	11.6	11.4
		8.5				12.0				12.3		