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Ted Strickland
Governor

J. Pari Sabety
Director

August 11, 2008

MEMORANDUM TO: The Honorable Ted Strickland, Governor
The Honorable Lee Fisher, Lt. Governor

FROM: J. Pari Sabety, Director

SUBJECT: Monthly Financial Report

This report contains information regarding Ohio's financial position through July 31, 2008 as well as highlights of regional and national economic indicators.

The most significant item of note regarding July's performance is that GRF tax revenues were below estimate by $139.8 million, or 9.8%. The largest variances were in the Personal Income Tax ($81.4 million) and the Non-Auto Sales Tax ($39.9 million). For the first time in many months, in July every GRF tax source performed below estimate. The patterns underlying the data are currently being analyzed to determine whether this performance is due to factors that will be reversed in subsequent months, or whether they represent serious signals of the downturn being experienced across the United States.

As pointed out in the economic section of this report, the federal measure of Gross Domestic Product growth was revised down to 00.2% in the fourth quarter of 2007 from 0.6% - the first quarterly decline in real GDP since the 2001 recession. The revenue section of this report contains detailed information regarding the performance of individual tax sources. The disbursements section of this report contains July's actual GRF expenditures but category-specific estimates are not yet completed for FY 2009. The estimates will be included in a future report.

Several format changes have been made to the report this month to improve its readability and clarity. The table of contents on the next page guides the reader through the revised report.

This month's special feature outlines the impact of population challenges at the Department of Rehabilitation and Corrections.

MONTHLY FINANCIAL REPORT CONTENTS

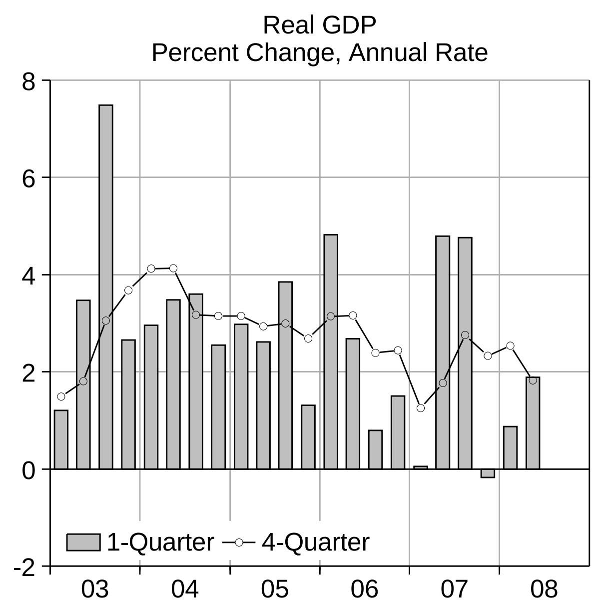
ECONOMIC SUMMARY

The special tax rebate payments supported consumer spending through the spring, yet the economy continues to struggle. Total employment decreased for the seventh consecutive month in July and Ohio employment remained stagnant. Real GDP increased in the second quarter at the fastest pace since the previous summer, but was still below 2.0%. The consensus of forecasters is for weak growth with a risk that the economy contracts in the second half.

Highlights of Economic Performance

- The consensus among forecasters is that economic growth will remain at the recent weak pace for several more quarters.
- Total U.S. employment decreased for the seventh straight month in July by 51,000 jobs. Ohio employment increased for the second month in a row in June – the first back-to-back monthly gains since January.
- Personal consumption expenditures increased 0.6% in June. Inflation-adjusted consumption increased a modest 0.2%.
- Exports are propping up the U.S. economy. Real GDP excluding net exports has fallen in two of the last three quarters.

Economic Growth



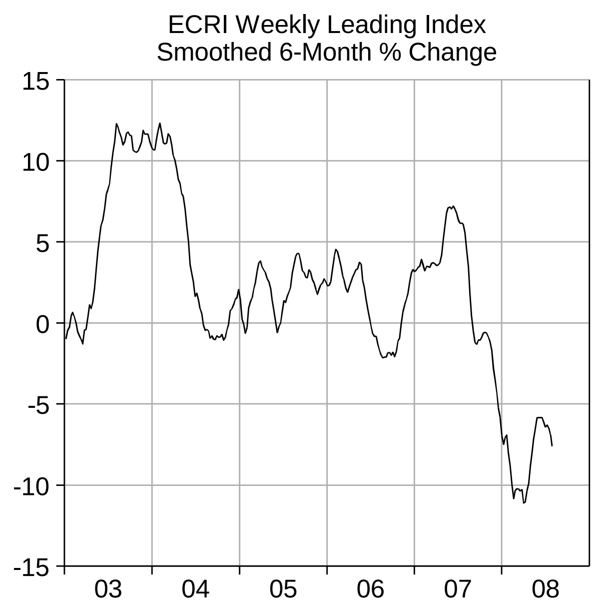
Economic output accelerated in the second quarter, but remained weak despite the issuance of approximately $78 billion in special tax rebates aimed at boosting consumer spending. Growth in real GDP increased to 1.9% from 0.9% in the first quarter. Growth was revised down to -0.2% in the fourth quarter of 2007 from 0.6% – the first quarterly decline in real GDP since the 2001 recession. Revisions have lowered annual growth rates for each the last three years.

The major drivers of second quarter growth were net exports, personal consumption expenditures, government spending, and investment in nonresidential structures. Factors subtracting from growth included the change in business inventories, investment in residential structures and investment in equipment and software.

Net exports contributed 2.4 percentage points to overall growth, as exports grew by 9.2% and imports declined by 6.6%. The drop in imports was the fourth in the last five quarters. Personal consumption accounted for 1.1 percentage points of real GDP growth. Government spending contributed 0.7 percentage points.

The third quarterly drawdown in business inventories in a row was the largest since 2001 and subtracted 1.9 percentage points from real GDP growth in the second quarter. Investment in residential structures decreased 15.8% – the slowest pace of decline since the first quarter of 2006 – and subtracted 0.6 percentage points from GDP growth. Investment in equipment and software fell for the second straight quarter, subtracting 0.3 percentage points from overall growth.

Real GDP was 1.8% higher than in the same quarter last year. Reflecting a softening in gross domestic purchases, real GDP excluding net exports fell 0.5% in the second quarter, after little change in the first and a decline of 1.0% in the fourth quarter last year. Compared with a year earlier, gross domestic purchases were up by 0.3% – the weakest since 1991.

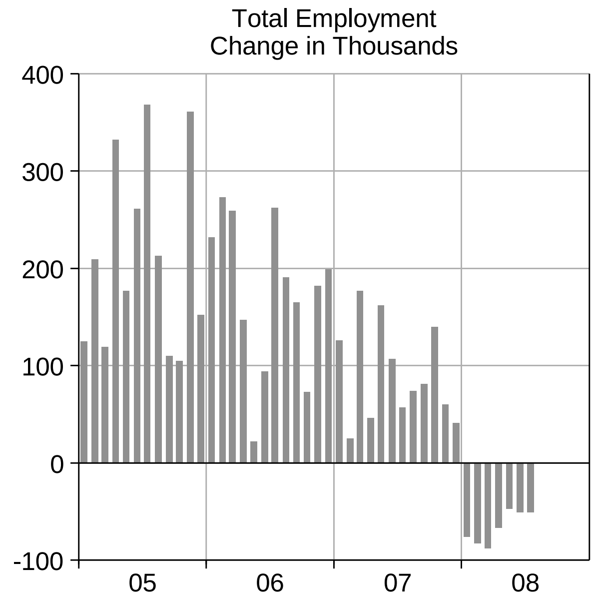


Looking ahead, the **Weekly Leading Index** from the Economic Cycle Research Institute (ECRI) sank to nearly a 3-month low at the end of July. After falling in late March at the fastest pace since 2001 – and before that, 1980 – the index improved moderately until mid-June. The composite **Leading Economic Index** compiled by the Conference Board fell by 2.0% from a year earlier in June. Both business cycle gauges indicate that the economy is not likely to rebound in coming months.

The consensus among forecasters is that economic growth will remain at the recent weak pace for several more quarters. Judging by several surveys, consumers and owners of small businesses have far more negative expectations. Consumer expectations for the economy improved very modestly in July, according to the Conference Board and Reuters/University of Michigan surveys, but remained near historic lows. The Index of Small Business Optimism, compiled by the National Federation of Independent Business, remained in recession territory again in June, dragged down primarily by expectations. Hiring plans are a bit better than in 1991 and much better than in 1980 or 1975. Capital spending plans are about the same as in 1991 but also much better than in 1980 or 1975. Expectations for business conditions, however, are much worse than in 1991.

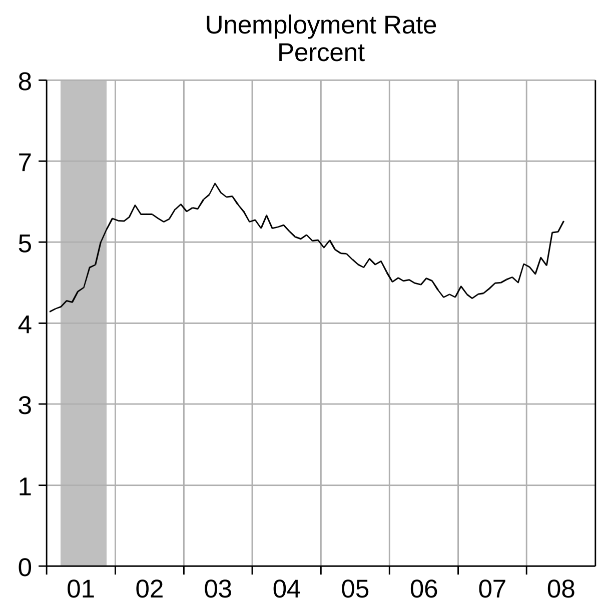
Employment

Total employment decreased for the seventh straight month in July by 51,000 jobs. Private payrolls decreased for the eighth straight month in July by 76,000 jobs. Dating back to the 1940s, private payrolls have decreased for eight straight months in the past only when the economy has been in recession. From its peak in December, total employment has decreased by 463,000 jobs. Private sector employment has decreased by 665,000 jobs from its peak in November 2007.



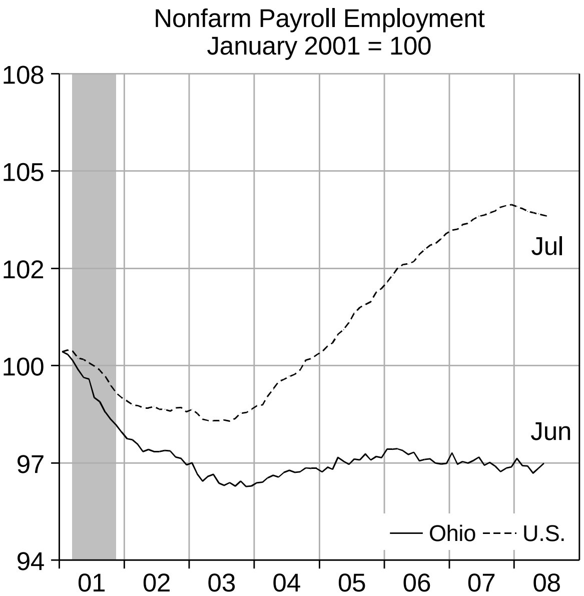
Construction employment decreased by 22,000 jobs, with declines spread across both residential and nonresidential job classifications. Job losses totaling 35,000 in manufacturing were broad-based. Other industries posting employment declines included trade, transportation and utilities (-39,000), information (-13,000), and professional and business services (-24,000). In the private sector, only education and health services posted a significant increase (+39,000). Government employment increased by 25,000.

Temporary help employment has led other measures of economic activity in the past, because of the ease with which temporary staff can be added or reduced. Employment in temporary help services decreased for the ninth consecutive month, has decreased for eighteen out of the last nineteen months, and is down 10.1% from its peak in December 2006. At the start of the last recession in March 2001, temporary help employment had decreased by 7.2% from its previous peak and fell a total of approximately 20% by the end of the recession.



The **unemployment rate** increased by 0.2 percentage points to 5.7% in July, up from 5.0% in April and from the low for the cycle of 4.4% in March 2007. The rate is 1.0 percentage points above the low during the preceding twelve months, a development that has previously occurred only during periods of recession.

The **length of the workweek** for all production and nonsupervisory workers slipped to 33.6 hours, matching the lowest level on record. The manufacturing workweek held steady at 41.0 hours, but overtime fell to a weekly average of 3.8 hours. The index of aggregate weekly hours decreased at an annual pace of 0.9% in the second quarter, following a 1.0% rate of decline in the first quarter. The back-to-back quarters of falling labor input were the first since the ten consecutive quarterly declines that began at the start of the 2001 recession.



Ohio employment increased for the second month in a row in June – the first back-to-back monthly gains since January. Employment increased by 7,900 jobs, following an increase of 8,100 jobs in May. On the year, Ohio employment is higher by 6,000 jobs, but remains 9,900 jobs below the year earlier level. Ohio employment is unchanged since April 2007.

Leisure and hospitality and government led industries that added to employment with increases of 2,900 jobs each in June. Manufacturing added 1,600 jobs – its third straight monthly increase. Trade, transportation and utilities added 1,400 jobs, and other services added 1,200 jobs. Employment levels in other industries were little changed on the month.

The **Ohio leading economic index** was unchanged in June after falling modestly in six of the eight previous months. The index is designed to predict conditions in Ohio labor markets. Despite the gains in Ohio during the spring, the leading index indicates that Ohio employment is likely to remain sluggish in the near-term.

The only **Ohio Metropolitan Statistical Areas** that made positive contributions to statewide employment growth during the past year are Columbus (+6,100) and Akron (+800). Employment declined in all other metro areas, led by Cleveland (-6,700), Toledo (-4,700), and Dayton (-3,000).

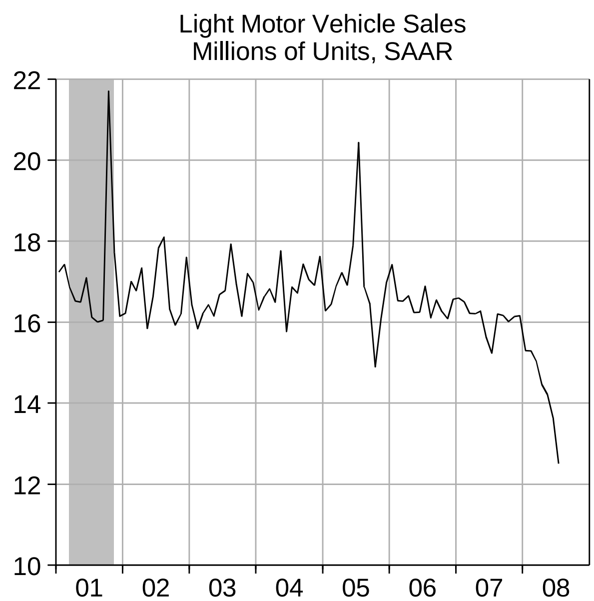
West Virginia and Kentucky led the way in employment growth among **contiguous states** during the twelve months ending in June with gains of 0.5% and 0.2%, respectively. Employment in Michigan decreased 1.1% from a year ago. Employment fell by 0.2% in Ohio and Indiana and was unchanged in Pennsylvania. In comparison, U.S. employment was unchanged during the twelve months ending in June and was down slightly during the twelve months ending in July.

<u>Consumer Income and Consumption</u>

Changes in personal income were driven by the tax rebate checks again in June. **Disposable personal income** decreased 1.9% after a 5.7% rise in May. In real terms, income decreased 2.6% after a 5.2% rise the month before. Excluding the rebates, disposable personal income increased 0.4% in May and 0.3% in June. Wage and salary disbursements, which were unaffected by rebates, increased by 0.2% in June – about the same average pace as in March and April. Compared with a year earlier, wage and salary disbursements were up by 4.5%, while the price index for personal consumption expenditures increased 4.1%.

Personal consumption expenditures increased 0.6% in June. Inflation-adjusted consumption increased a modest 0.2%. Compared with a year earlier, consumption increased 5.3% and was up 1.9% after adjustment for inflation.

The saving rate retreated to 2.5% after leaping to a revised 4.9% in May, compared with a range of about 0% to 1% for much of the past four years. Two University of Michigan economists, Joel Slemrod and Matthew Shapiro, have argued recently that data on the personal saving rate shows that most of the stimulus payments have gone into increased savings rather than increased consumption.



In a sign that high gasoline prices and other worries are outweighing tax rebate checks, sales of **light motor vehicles** fell sharply to 12.5 million units at a seasonally adjusted pace in July – the lowest pace since April 1992. Sales totaled 16.1 million units during 2007. In a sign that consumers are responding to gasoline prices, the light truck share of total light vehicle sales averaged only 45% during the three months ending in July, down from about 51% as recently as the first quarter.

<u>Manufacturing</u>

Industrial production broke a two-month losing streak in June, rising 0.5%. Production was boosted by utility output, which increased 2.1% in response to higher than normal temperatures across much of the country, and a 5.4% jump in motor vehicle and parts production, which was a rebound from the strike-depressed levels in April and May. Manufacturing output increased 0.2% from May.

Overall **capacity utilization** increased slightly to 79.9%. Capacity utilization in manufacturing was essentially unchanged at 77.6%. Both measures are notably below their peaks for the current economic cycle and at levels consistent with weaker than normal capital spending.

Compared with a year earlier, production levels were little changed. Overall production was up 0.3% from June 2007. Manufacturing production was down 0.6% from a year earlier. Total industrial production was down 0.8% from its recent high in January, while manufacturing production was down 1.4% from its peak in July 2007.

Across sectors, production of high-technology goods increased 1.8% and primary metals output increased 2.9%. Fabricated metals and machinery fell 1.6% and 1.0%, respectively. The primary and fabricated metals and machinery industries are important employers in Ohio. Outside of high-technology and motor vehicles and parts, manufacturing production decreased by 0.2%.

New orders from factories increased 1.7% in June and shipments increased 1.6%. Both measures were boosted by the effect of sharply higher energy prices on the value of goods ordered and shipped. Excluding petroleum and coal, new orders and shipments increased 1.0% and 0.9%, respectively. After adjusting for higher energy prices, orders and shipments paint the same picture as industrial production of a manufacturing sector that is modestly contracting.

Light **motor vehicle assemblies** increased to 9.1 million units at a seasonally adjusted annual rate in June, up from the 8.4 million in May and back to the pre-strike pace in March. Production lost during April and May is not expected to be made up, however, as a weakening in sales has kept inventories in line.

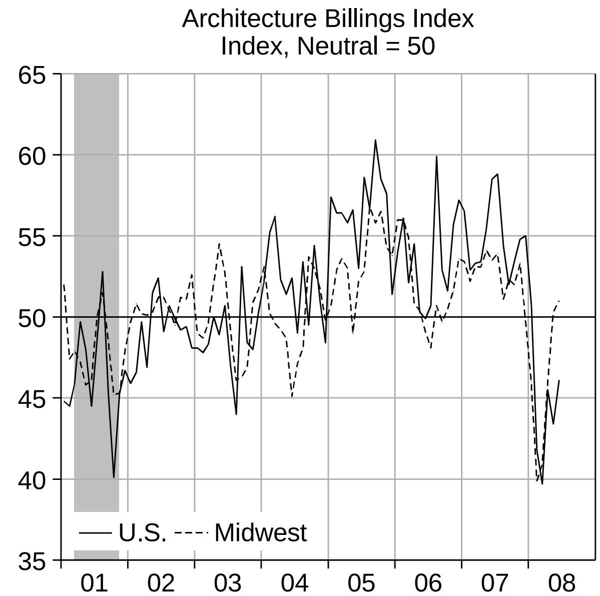
Midwest industrial production jumped by 1.1% in June, reflecting a 7.8% surge in auto regional output, according to the Federal Reserve Bank of Chicago. Production decreased in all three other sectors. Compared with a year earlier, Midwest manufacturing production was down 1.9% in June. Production at factories in and around Ohio was stable from June through mid-July, according to the Federal Reserve Bank of Cleveland. Auto production weakened in the area, which led to reports of softening steel output. Many area businesses expect to cut back on capital projects in upcoming months.

Reports from **purchasing managers** in manufacturing across the country were stable again in July. The purchasing managers index remained near neutral for a third straight month, indicating neither growth nor decline in manufacturing activity. The index for production increased for the fourth consecutive month to 52.9 – the highest mark since January. But the index for new orders fell abruptly to 45.0 – the lowest level since 2002. Moreover, the drop in the new orders index extends a trend of deterioration that dates back to 2004. The backlog of orders also fell sharply in July. Exports weakened, but remained above neutral, while imports remained in negative territory for the sixth straight month.

Construction

Construction put-in-place fell 0.4% in June to 5.9% below the year earlier level, but estimates for previous months were revised higher. Residential construction fell 1.7% to 26.4% lower than a year ago. Single-family home construction decreased 3.7% in June –the twenty-eighth straight monthly decline. Nonresidential construction edged higher by 0.4% to 10.8% above the year ago mark. Although residential construction is still contracting rapidly, the year-over-year rate of change appears to have stabilized in recent months.

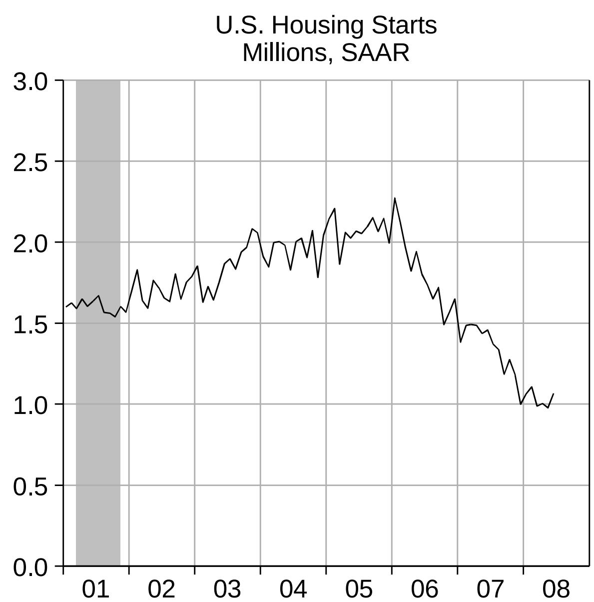
The **Architecture Billings Index** (ABI) remained below the neutral level of 50 for the fifth straight month in June. Derived from a monthly survey of members of the American Institute of Architects, the ABI leads nonresidential construction activity by nine to twelve months. Billing activity in the Midwest has been stronger than in other regions recently, with roughly the same number of firms reporting higher billings as those reporting lower billings.



Judging by the pace of **home sales**, housing activity made modest progress again in June. Sales of existing homes fell 2.6%, as single-family home sales decreased by 3.2% and condominium sales increased by 1.7%. The inventory of existing homes for sale was little changed at 4.49 million units, which translates into 11.1 months at the June pace of sales. The supply of unsold homes has been near the June mark for the past year.

The market for newly constructed homes showed some improvement in June. Sales edged down by 0.6%, but sales during March through May were revised higher by an average of 17,000 units per month. Sales in the Midwest increased by 5.6% on a 3-month moving average basis – the third consecutive monthly gain. More importantly, the supply of newly built unsold homes decreased for the fourteenth straight month by the largest amount in any one of those months. The inventory of unsold new homes represented a 10-month supply at the June pace of sales, down from a peak for this cycle of 11.2 months in March.

Housing starts jumped 9.1% in June to 1.1 million units at a seasonally adjusted annual rate and permits rose 11.6%. A change in the building code in New York City appears to have accounted for both of the increases by boosting construction of multi-family units. Outside of the Northeast region, total starts fell 4.0% and permits increased just 0.7%. The best gauge of activity during the month is that single-family starts fell 5.3% nationwide and permits dropped 3.5%.



GENERAL REVENUE FUND RECEIPTS

Across all sources, total year-to-date GRF receipts are $2,151.4 million, which is below estimate by $137.1 million. The table below illustrates the variances by category of revenue source.

Category	Includes:	YTD Variance	% Variance
Tax receipts	Sales & use, personal income, corporate franchise, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, soft drink, alcoholic beverage, liquor gallonage & estate	($139.8 million)	(9.8%)
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	$2.2 million	0.3%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$565,000	2.9%
TOTAL REVENUE VARIANCE:		($137.1 million)	(6.0%)

Driving the negative performance of tax receipts for the month of July were shortfalls across the board for every GRF tax source, with the most pronounced variances occurring with the personal income tax and non-auto sales tax, which together accounted for 86 percent of the shortfall ($120.2 million below estimates.)

While a pattern has not appeared as yet, the performance of tax revenues when compared to July 2007 is of concern. Specifically, not only did July tax revenues perform below estimate, but they also experienced a decrease when compared to the first month of FY 2008 as total tax revenues for July were $64.8 million (4.8%) below those of the same month a year ago. While some of this year-over-year decline can be attributed to the continued implementation of tax reform, the scope of the reductions were greater than anticipated.

Individual Sources Above Estimate		**Individual Sources Below Estimate**	
Other Income	$2.3	Non-Auto Sales Tax	($39.9)
Liquor Transfers	$3.0	Auto Sales Tax	($5.2)
		Personal Income Tax	($81.4)
		Corporate Franchise Tax	($3.3)
		Kilowatt Hour	($2.2)
		Cigarette Tax	($6.0)
		Other Sources Below Estimate	($4.4)
Total above	**$5.3**	**Total below**	**($142.4)**

Non-Auto Sales and Use Tax

As previously mentioned, contributing significantly to the overall shortfall of monthly tax revenue was the performance of non-auto sales tax as it experienced a negative variance of $39.9 million (6.2%) during the month of July. This particular tax source has failed to meet estimates in five of the previous six months, and has now declined from the prior year for four of the last six months with a year-over-year decrease of $11.9 million (1.9%) in July. The July figures may be simply reflecting ongoing problems with this source driven by the impact of the struggling economy and higher gas prices on Ohio consumer spending. It also may support the theory that the Federal stimulus checks have been directed at savings, rather than spurring consumption.

Auto Sales Tax

Also contributing to the July tax receipt shortfall was the auto sales tax, which fell short of estimates by $5.2 million (5.6%). While this negative performance is only about half as bad as it was in June, it marks the fourth time in the last five months that this tax source has failed to meet estimates. This performance is likely driven by declining auto and light truck sales brought about by a tightening of credit, high oil prices and gasoline prices, an uncertain labor market with rising unemployment claims, and sliding consumer confidence, as mentioned in the economic section of this report.

Personal Income Tax

As with the non-auto sales tax, the personal income tax was considerably below estimate for the month of July with total receipts of $543.2 million that were $81.4 million (13.0%) below estimate. While income tax receipts failed to meet estimates several times during FY 2008, those variances were more the result of greater than anticipated refunds due to efficiencies in tax processing. Such is not the case in July, where the primary factor in the negative variance is weakness in withholding. Specifically, withholding was below estimate by $62.6 million, and also down by $27.4 million, or 4.2%, from last July. Even adjusting for the withholding rate cuts, that means that the withholding tax base barely grew from last July. This tax source will be monitored closely in August.

Refunds again exceeded estimates, this time by $17.4 million. On a year-over-year basis, total personal income tax receipts decreased by $64.3 million, an amount very close to the total year-over-year reduction in tax receipts of $64.8 million. The decrease is unexpected and primarily the result of a decrease in withholding ($27.4 million), an increase in refunds ($9.4 million), and an increase in the LGF and PLF distributions ($17.2 million.)

FY 2009 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	ESTIMATE JULY	**ACTUAL JULY**	**$ VAR JULY**	**ESTIMATE Y-T-D**	**ACTUAL Y-T-D**	**$ VAR Y-T-D**
Withholding	$686.7	$624.1	($62.6)	$686.7	$624.1	($62.6)
Quarterly Est.	$18.7	$17.7	($1.0)	$18.7	$17.7	($1.0)
Trust Payments	$3.6	$0.9	($2.7)	$3.6	$0.9	($2.7)
Annual Returns & 40 P	$9.5	$11.0	$1.5	$9.5	$11.0	$1.5
Other	$5.0	$6.0	$1.0	$5.0	$6.0	$1.0
Less: Refunds	($26.3)	($43.7)	($17.4)	($26.3)	($43.7)	($17.4)
Local Distr.	($72.6)	($72.8)	($0.2)	($72.6)	($72.8)	($0.2)
Net to GRF	$624.6	$543.2	($81.4)	$624.6	$543.2	($81.4)

Corporate Franchise Tax

While closer to the mark than the personal income tax, the corporate franchise tax still fell short of estimates in July by $3.3 million (11.1%) as refunds were slightly higher than anticipated. On a year-over-year basis, the performance of the tax in July is actually positive by $38.1 million and is the result of a large one-time settlement payment against prior years' liability that was received during the month.

Commercial Activity Tax

In FY 2009, receipts from the commercial activity tax (CAT) are distributed to non-GRF funds to reimburse school districts and local governments as the tangible personal property tax is phased out. During the month of July, CAT receipts totaled $32.6 million and were $6.3 million above estimates (23.9%). This positive variance was unexpected given the weaker than expected performance of the CAT during FY 2008. This tax source will be monitored closely as payments come due during the month of August.

Cigarette Tax

Continuing a trend from FY 2008, the cigarette tax experienced another shortfall in July as it posted receipts of $18.0 million or $6.0 million (24.9%) below estimates. While this shortfall is not completely surprising given the performance of this tax over its recent history, the size of the negative variance is unexpected and may be due in part to the timing of payments and the possibility that some may have not been recorded until the first day of August. Performance of this tax will be monitored closely in August to determine if in fact the sizable July shortfall is in part the result of timing or an indication that the tax could be experiencing a more significant downward trend.

GRF non-tax receipts totaled $838.7 million in July and were $2.2 million (0.3%) above estimate. The slight variance that existed for the month was primarily due to receiving slightly more in "other income" than estimated. On a year over year basis, non-tax receipts for this July were $501.6 million (148.8%) higher than in July 2007 primarily as a result of receiving $499.4 million more in federal grants. The receipt of these federal grants are driven primarily by Medicaid reimbursement and the year over year variance is attributable to the timing of the receipt of reimbursements early in July for payments that were made late in FY 2008.

Table 1*

GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2009 VS ESTIMATE FY 2009
($ in thousands)

REVENUE SOURCE	Month ACTUAL JULY	Month ESTIMATE JULY	Month $ VAR	Month % VAR	Year-to-Date ACTUAL Y-T-D	Year-to-Date ESTIMATE Y-T-D	Year-to-Date $ VAR	Year-to-Date % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	603,247	643,155	(39,908)	-6.2%	603,247	643,155	(39,908)	-6.2%
Auto Sales & Use	87,913	93,085	(5,172)	-5.6%	87,913	93,085	(5,172)	-5.6%
Subtotal Sales & Use	691,160	736,241	(45,080)	-6.1%	691,160	736,241	(45,080)	-6.1%
Personal Income	543,164	624,556	(81,393)	-13.0%	543,164	624,556	(81,393)	-13.0%
Corporate Franchise	26,670	30,000	(3,330)	-11.1%	26,670	30,000	(3,330)	-11.1%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	0	0	(0)	-100.0%	0	0	(0)	-100.0%
Kilowatt Hour	6,108	8,260	(2,152)	-26.1%	6,108	8,260	(2,152)	-26.1%
Foreign Insurance	(59)	0	(59)	N/A	(59)	0	(59)	N/A
Domestic Insurance	(611)	0	(611)	N/A	(611)	0	(611)	N/A
Other Business & Property Tax	(47)	32	(79)	-243.7%	(47)	32	(79)	-243.7%
Cigarette	18,043	24,030	(5,987)	-24.9%	18,043	24,030	(5,987)	-24.9%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	5,305	5,915	(610)	-10.3%	5,305	5,915	(610)	-10.3%
Liquor Gallonage	2,885	3,141	(256)	-8.2%	2,885	3,141	(256)	-8.2%
Estate	42	300	(258)	-86.0%	42	300	(258)	-86.0%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,292,661	1,432,476	(139,815)	-9.8%	1,292,661	1,432,476	(139,815)	-9.8%
NON-TAX RECEIPTS								
Federal Grants	826,678	826,678	0	0.0%	826,678	826,678	0	0.0%
Earnings on Investments	0	0	0	N/A	0	0	0	N/A
License & Fees	5,973	6,103	(130)	-2.1%	5,973	6,103	(130)	-2.1%
Other Income	5,999	3,694	2,305	62.4%	5,999	3,694	2,305	62.4%
ISTV'S	30	10	20	198.1%	30	10	20	198.1%
Total Non-Tax Receipts	838,680	836,485	2,195	0.3%	838,680	836,485	2,195	0.3%
TOTAL REVENUES	2,131,341	2,268,961	(137,619)	-6.1%	2,131,341	2,268,961	(137,619)	-6.1%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	15,000	12,000	3,000	25.0%	15,000	12,000	3,000	25.0%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	5,065	7,500	(2,435)	-32.5%	5,065	7,500	(2,435)	-32.5%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	20,065	19,500	565	2.9%	20,065	19,500	565	2.9%
TOTAL SOURCES	2,151,406	2,288,461	(137,055)	-6.0%	2,151,406	2,288,461	(137,055)	-6.0%

Table 2*
GENERAL REVENUE FUND RECEIPTS
ACTUAL - FY 2009 VERSUS FY 2008
($ in thousands)

REVENUE SOURCE	Month				Year-to-Date			
	ACTUAL 2009	ACTUAL 2008	$ VAR	% VAR	ACTUAL 2009	ACTUAL 2008	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	603,247	615,187	(11,939)	-1.9%	603,247	615,187	(11,939)	-1.9%
Auto Sales & Use	87,913	86,136	1,776	2.1%	87,913	86,136	1,776	2.1%
Subtotal Sales & Use	691,160	701,323	(10,163)	-1.4%	691,160	701,323	(10,163)	-1.4%
Personal Income	543,164	607,500	(64,336)	-10.6%	543,164	607,500	(64,336)	-10.6%
Corporate Franchise	26,670	(11,409)	38,080	-333.8%	26,670	(11,409)	38,080	-333.8%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	0	0	(0)	-100.0%	0	0	(0)	-100.0%
Kilowatt Hour	6,108	30,009	(23,901)	-79.6%	6,108	30,009	(23,901)	-79.6%
Foreign Insurance	(59)	15	(74)	-483.4%	(59)	15	(74)	-483.4%
Domestic Insurance	(611)	1	(612)	N/A	(611)	1	(612)	N/A
Other Business & Property Tax	(47)	36	(83)	-229.2%	(47)	36	(83)	-229.2%
Cigarette	18,043	21,237	(3,194)	-15.0%	18,043	21,237	(3,194)	-15.0%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	5,305	5,746	(441)	-7.7%	5,305	5,746	(441)	-7.7%
Liquor Gallonage	2,885	2,992	(107)	-3.6%	2,885	2,992	(107)	-3.6%
Estate	42	30	12	40.6%	42	30	12	40.6%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,292,661	1,357,480	(64,819)	-4.8%	1,292,661	1,357,480	(64,819)	-4.8%
NON-TAX RECEIPTS								
Federal Grants	826,678	327,246	499,431	152.6%	826,678	327,246	499,431	152.6%
Earnings on Investments	0	0	0	N/A	0	0	0	N/A
License & Fee	5,973	6,080	(106)	-1.7%	5,973	6,080	(106)	-1.7%
Other Income	5,999	3,760	2,240	59.6%	5,999	3,760	2,240	59.6%
ISTV'S	30	10	20	198.4%	30	10	20	198.4%
Total Non-Tax Receipts	838,680	337,096	501,584	148.8%	838,680	337,096	501,584	148.8%
TOTAL REVENUES	2,131,341	1,694,576	436,765	25.8%	2,131,341	1,694,576	436,765	25.8%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	15,000	25,000	(10,000)	-40.0%	15,000	25,000	(10,000)	-40.0%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	5,065	9,984	(4,920)	-49.3%	5,065	9,984	(4,920)	-49.3%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	20,065	34,984	(14,920)	-42.6%	20,065	34,984	(14,920)	-42.6%
TOTAL SOURCES	2,151,406	1,729,560	421,846	24.4%	2,151,406	1,729,560	421,846	24.4%

GENERAL REVENUE FUND DISBURSEMENTS

Across all fund uses, total year-to-date GRF disbursements are $3,245.4 million.

Fund Use	Includes:	YTD Disbursements
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	$3,028.3 million
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$217.1 million
TOTAL GRF DISBURSEMENTS:		$3,245.4 million

GRF disbursements are reported according to functional reporting categories, and this section contains information regarding each category. Typically the section contains an explanation of significant variances to the month's estimates; however, because GRF disbursement estimates are not yet finalized for FY 2009, this month's references to any relevant variances will relate to last year's expenditures for the month of July.

Primary, Secondary, and Other Education

This category includes expenditures made by the School for the Blind, the School for the Deaf, E-Tech and the Department of Education. July expenditures in this category were $652.2 million.

- When compared to last July, expenditures in this category are higher in FY 2009 by $41.2 million or 6.8%. Last July's spending, however, was 4.7% below the estimate at the time, and was followed by increased spending in August.

- Disbursements in July for the Department of Education, totaled $642.3 million.

Higher Education

July disbursements for Higher Education were $175.9 million. When compared to spending last July, these expenditures represent a negative variance of $57.9 million (24.7%). Of this variance, $32.5 million is due to underspending in the Ohio Instructional Grant line item relative to prior-year levels. The Ohio Instructional Grant program is being phased out in fiscal year 2010 and monthly disbursements from this program will remain consistently below prior-year levels throughout the current fiscal year.

Public Assistance and Medicaid

July expenditures in this category, which includes all GRF expenditures by the Department of Job & Family Services, were $1,439.5 million.

Public Assistance and Non-Medicaid

This sub-category includes, but is not limited to, the following types of expenditures: social services such as adoption assistance and disability financial assistance; state match for federal child care and TANF grants; administrative support expenses including payroll and equipment; and county administration for public assistance programs.

- For the year to date, ODJFS non-Medicaid General Revenue Fund disbursements total \$79.6 million.
- When compared to July disbursements from FY 2008, in aggregate, disbursements from July FY 2009 are approximately \$17.4 million (28%) higher. This is primarily attributable to the following:
  - Entitlement Administration disbursements are \$4.4 million (39.9%) higher than this time last year. This is attributable to the payment for the first week of August posting on July 31 instead of August 1 for FY 2009, whereas in FY 2008, this event did not occur. Excluding this payment, July advances to counties varied less than 1% from last year.
  - Disability Financial Assistance payments are \$1.8 million higher than July FY 2008. Higher spending is directly attributable to increased caseloads.
  - Adoption assistance payments are \$5.9 million (97.5%) higher than this time last year. Both the June 2008 and July 2008 payments posted in July, resulting in the higher spending.

Medicaid

This category includes expenditures by the Department of Job & Family Services for Medicaid services. Please note that administrative costs related to the ODJFS Medicaid program are included in the previous sub-category.

Expenditures

GRF expenditures in this sub-category were \$1,359.9 million in July. Although there is typically a sizable non-GRF payment made for ODJFS Medicaid services, the July payments were virtually 100% GRF.

In July 2008 expenditures were \$416 million more than in July 2007. As it appears that spending in this program has increased dramatically, it is important to remember that at the end of FY 2008 we moved the final budgeted Medicaid payments for fiscal year 2008 into fiscal year 2009 and encumbered the remaining GRF appropriation of \$304 million to manage within H.B. 119 appropriations. This resulted in the June managed care payment in the amount of \$360 million (which is usually disbursed around the fourth Monday of every month) and several miscellaneous payments totaling \$74 million to be disbursed from the fiscal year 2009 appropriation; resulting in two managed care payments being disbursed in July.

Caseloads

Medicaid caseloads continuously exceeded H.B. 119 projections throughout FY 2008. At the end of FY 2008 Medicaid had an average of 24,000 additional enrollees on the program. Medicaid caseloads can be broken down into two main enrollment categories: Covered Children and Families (CFC) represent 75% of the total caseload, and Aged Blind and Disabled (ABD), represent 25% of the caseload.

At the end of FY 2008 there was an average of 21,000 more recipients in the Covered Children and Families (CFC) category than expected. CFC caseloads peaked in August 2006 and then declined steadily through June 2007. This decline has been attributed to increased citizenship requirements under the federal Deficit Reduction Act (DRA) of 2005. The forecast for FY 2008 and FY 2009 assumed that caseloads would increase; however, the increase has been steeper than anticipated. Enrollment in the Healthy Families Expansion category for FY 2008, which includes children and their parents with incomes up to 90% of the federal poverty level, was over the projection by an average of more than 17,800 or 12%. Enrollment increases in this category may be due to economic factors that the state and nation are currently experiencing.

Aged, Blind, and Disabled (ABD) caseloads also continued to exceed the estimate in FY 2008. At the end of FY 2008, caseloads are over by 1.3% or 5,700 recipients. It is important to note that while this increase is small, this is the most expensive population group in the Medicaid program and is driving spending above the estimate in many categories of service (For FY 2009, ABD per member per month costs average $1,350 and CFC per member per month costs average $225).

Health and Human Services

This category includes GRF expenditures for the following state agencies: Aging, Mental Health, MR/DD, ODADAS and Health. Examples of expenditures in this category include: administration of the state's psychiatric hospitals; operating subsidies to county boards of MR/DD; various immunization programs; and Ohio's long term care ombudsman program. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in this category instead of the previous category.

July expenditures in this category were $173.5 million. Significant notes include:

- The Department of Health disbursed $10.0 million in GRF in the month of July, which was $4.3 million, or 75.9% above FY08 July. A majority of the overage is due to Child and Family Health Services ($2.6 million), and Medically Handicapped Children ($1.1 million). In both cases the Department used more GRF than Federal funds; this case will the reverse in August, and the quarter will be on plan. An additional $1.1 million is attributable to funds the Department paid for prior year commitments across several line items, including $0.4 million in Help Me Grow.

- The Department of Aging disbursed $15.0 million in GRF in the month of July, which was $8.6 million, or 36.5% below FY08 July. The under run is due to PASSPORT ($8.5 million), and PACE ($1.3 million). These programs were less than FY08 due to amounts being paid last year in July instead of June. (Both programs met the planned amounts for FY09 July.)

- The Department of Mental Health disbursed $71.7 million in the month of July, which was $32.4 million, or 82%, greater than funds disbursed in July FY08. This fiscal year, large disbursements made in August of FY08 were planned and ready for disbursement in July. These disbursements include:

    - $9.9 million for the Community Medication Subsidy;

    - $9.0 million for Local Mental Health Systems of Care; and

    - $12.1 million for Community and Hospital Mental Health Services.

- The Department of Mental Retardation and Developmental Disabilities disbursed $51.1 million in the month of July, which was $150,000 greater than spending in July FY08.

Justice and Public Protection

This category includes GRF expenditures by the following state agencies: Department of Rehabilitation & Corrections, the Department of Youth Services and the Department of Public Safety. In the aggregate, July expenditures in this category were $266.2 million.

- The Department of Rehabilitation and Correction disbursed $200.4 million in the month of July, which was $19.5 million (10.8%) more than the $180.9 million that was disbursed in July of fiscal year 2008. This variance occurred due to DRC paying obligations incurred in the prior fiscal year.

- The Department of Youth Services disbursed $43.4 million in the month of July, which was $13.9 million (24.3%) less than the $57.3 million disbursed in July of fiscal year 2008. This variance is due to transactions from July not yet being posted to the general ledger.

Environmental Protection & Natural Resources

July expenditures in this category were $11.2 million.

- In July, the Department of Natural Resources expended a total of $11.1 million. This amount includes $1.7 million in additional funding being disbursed by the Division of Parks to accommodate for the high levels of seasonal staff utilized during summer months.

Transportation

July expenditures in this category were $1.2 million.

General Government

July expenditures in this category were $42.8 million.

Community & Economic Development

July expenditures in this category were $8.4 million.

- For the month of July the Department of Development GRF disbursed $6.2 million, which is $4.5 million higher than the July 2007. This variance was due to the contractual schedule for grant subsidy payments. There were more scheduled grant payments to be disbursed in FY09 compared to FY08. The primary lines accounting for the variance were reimbursing grantees primarily from the Thomas Edison Program, Third Frontier Action Fund and Discover Ohio.

Tax Relief & Other

July expenditures in this category were $13.1 million. Of this amount, $8.1 million was tax relief for local governments and $5 million was pension system payments may by the Treasurer of State.

- The $8.1 million in disbursements for local government tax relief during the month of July was $7.1 million above disbursements in July 2007. This year-over-year increase is due to a greater number of payments related to the 10 percent and 2.5 percent rollback on non-homestead eligible properties and an increase over last year attributable to the expansion of the homestead exemption in HB 119. As was the case in FY 2008, the additional tax relief appropriations attributable to the expansion of the homestead exemption will not be included in the OBM estimates for FY 2009, as HB 119 sets forth a Controlling Board process for increasing appropriations and funding the increase through lapses in debt service and the transfer of excess interest earnings on tobacco securitization proceeds.

Debt Service

July expenditures in this category were $120.2 million.

Table 3*
GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2009 VS ESTIMATE FY 2009
($ in thousands)

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	ACTUAL JULY	ESTIMATED JULY	$ VAR	% VAR	YTD ACTUAL	YTD ESTIMATE	$ VAR	% VAR
Primary, Secondary and Other Education	652,179	0	652,179	N/A	652,179	0	652,179	N/A
Higher Education	179,946	0	179,946	N/A	179,946	0	179,946	N/A
Public Assistance and Medicaid	1,439,484	0	1,439,484	N/A	1,439,484	0	1,439,484	N/A
Health and Human Services	173,499	0	173,499	N/A	173,499	0	173,499	N/A
Justice and Public Protection	266,198	0	266,198	N/A	266,198	0	266,198	N/A
Environmental Protection and Natural Resources	11,223	0	11,223	N/A	11,223	0	11,223	N/A
Transportation	1,194	0	1,194	N/A	1,194	0	1,194	N/A
General Government	42,758	0	42,758	N/A	42,758	0	42,758	N/A
Community and Economic Development	8,408	0	8,408	N/A	8,408	0	8,408	N/A
Tax Relief and Other	13,122	0	13,122	N/A	13,122	0	13,122	N/A
Capital Outlay	120,158	0	120,158	N/A	0	0	0	N/A
Debt Service	120,158	0	120,158	N/A	120,158	0	120,158	N/A
Pending Payroll	0	0	0	N/A	0	0	0	N/A
Total Expenditures & ISTV's	**3,028,327**	**0**	**3,028,327**	**N/A**	**2,908,169**	**0**	**2,908,169**	**N/A**
Transfers Out:								
OPER TRF OUT-OTH	217,093	0	217,093	N/A	217,093	0	217,093	N/A
OPER TRF OUT-TEMPORARY	0	0	0	N/A	0	0	0	N/A
Total Transfers (Out)	**217,093**	**0**	**217,093**	**N/A**	**217,093**	**0**	**217,093**	**N/A**
Total Fund Uses	**3,245,420**	**0**	**3,245,420**	**N/A**	**3,125,262**	**0**	**3,125,262**	**N/A**

Table 4*
GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2009 VS ACTUAL FY 2008
($ in thousands)

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	**ACTUAL 2009**	**ACTUAL 2008**	**$ VAR**	**% VAR**	**ACTUAL 2009**	**ACTUAL 2008**	**$ VAR**	**% VAR**
Primary, Secondary and Other Education	652,179	605,519	46,660	7.7%	652,179	605,519	46,660	7.7%
Higher Education	179,946	247,222	(67,276)	-27.2%	179,946	247,222	(67,276)	-27.2%
Public Assistance and Medicaid	1,439,484	1,006,315	433,169	43.0%	1,439,484	1,006,315	433,169	43.0%
Health and Human Services	173,499	139,218	34,281	24.6%	173,499	139,218	34,281	24.6%
Justice and Public Protection	266,198	260,500	5,698	2.2%	266,198	260,500	5,698	2.2%
Environmental Protection and Natural Resources	11,223	14,949	(3,727)	-24.9%	11,223	14,949	(3,727)	-24.9%
Transportation	1,194	675	519	76.8%	1,194	675	519	76.8%
General Government	42,758	30,705	12,053	39.3%	42,758	30,705	12,053	39.3%
Community and Economic Development	8,408	4,004	4,404	110.0%	8,408	4,004	4,404	110.0%
Tax Relief and Other	13,122	1,043	12,078	1157.6%	13,122	1,043	12,078	1157.6%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	120,158	113,162	6,996	6.2%	120,158	113,162	6,996	6.2%
Pending Payroll	0	0	0	N/A	0	0	0	N/A
Total Expenditures & ISTV's	**2,908,169**	**2,423,312**	**484,857**	**20.0%**	**2,908,169**	**2,423,312**	**484,857**	**20.0%**
Transfers Out:								
OPER TRF OUT-BUD STABILIZATION	0	0	0	N/A	0	0	0	N/A
OPER TRF OUT-OTH	217,093	21,062	196,031	930.7%	217,093	21,062	196,031	930.7%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	0	0	0	N/A
Total Transfers (Out)	**217,093**	**21,062**	**196,031**	**930.7%**	**217,093**	**21,062**	**196,031**	**930.7%**
Total Fund Uses	**3,125,262**	**2,444,374**	**680,888**	**27.9%**	**3,125,262**	**2,444,374**	**680,888**	**27.9%**

FEATURED ANALYSIS

Population Challenges at Ohio Prisons and Impact on the General Revenue Fund

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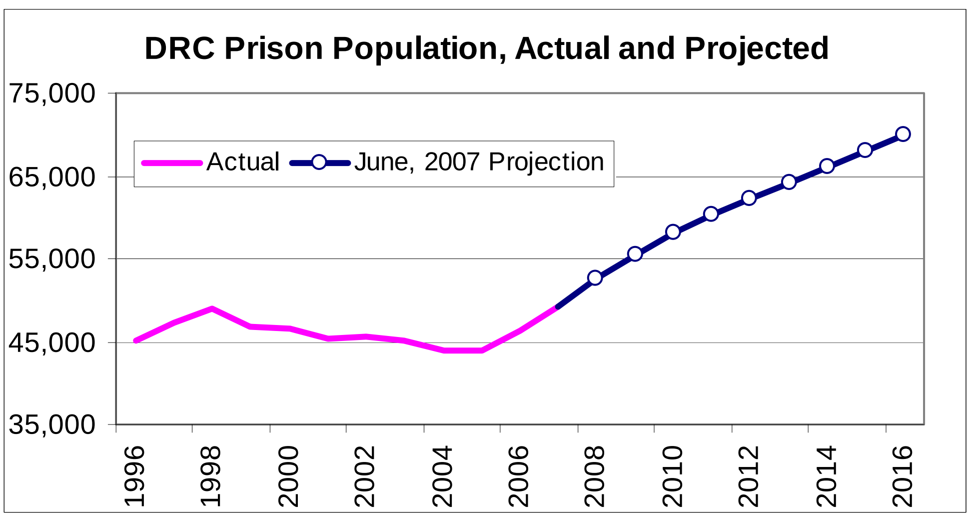
The institutional population of the Department of Rehabilitation & Correction (DRC) is at an all-time high. Census varies due to a number of factors: some factors, such as crime rates, are outside the control of policy-makers; others, such as the use of non-residential sanctions like probation and sentencing guidelines, are determined through political processes and the judiciary. This analysis examines some of the more significant cost drivers related to Ohio's current prison population census.

Population Growth

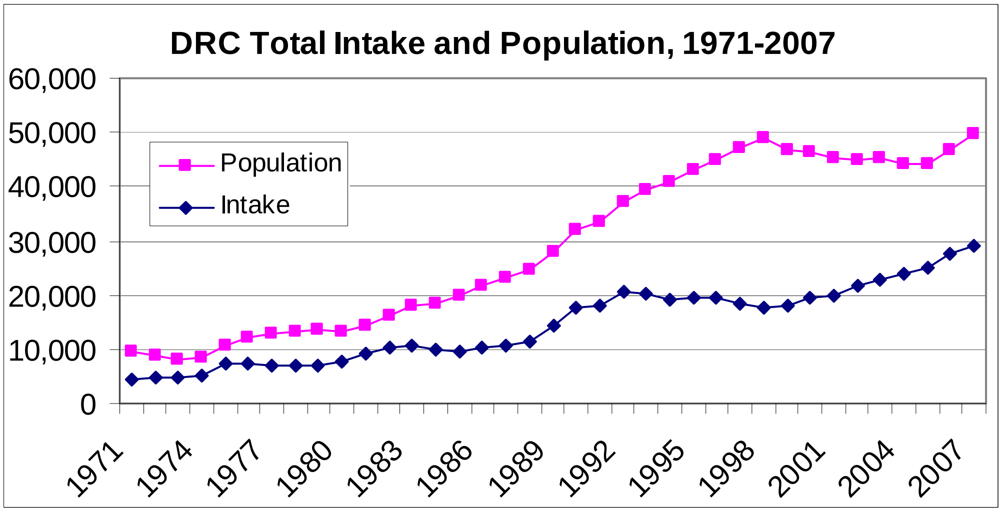
In 1971, the institutional population was 9,129, with only 282 female inmates. Ohio's population in 1971 was 10,735,000, meaning that 85 of every 100,000 residents was in a state prison. In 2007, DRC's prison population averaged 49,691, with 3,840 female inmates. The 2007 estimated Ohio population was 11,466,917, meaning that 433 of every 100,000 residents was in a state prison, approximately a five-fold increase.

During most of the ten-year period from 1997-2007, prison populations have been decreasing. Only in 2006 and 2007 were there sustained increases, taking the population from 44,270 in 2005 to 49,691 in 2007. DRC has predicted continued, substantial increases in the prison population over the next ten years, reaching 70,058 in 2016.



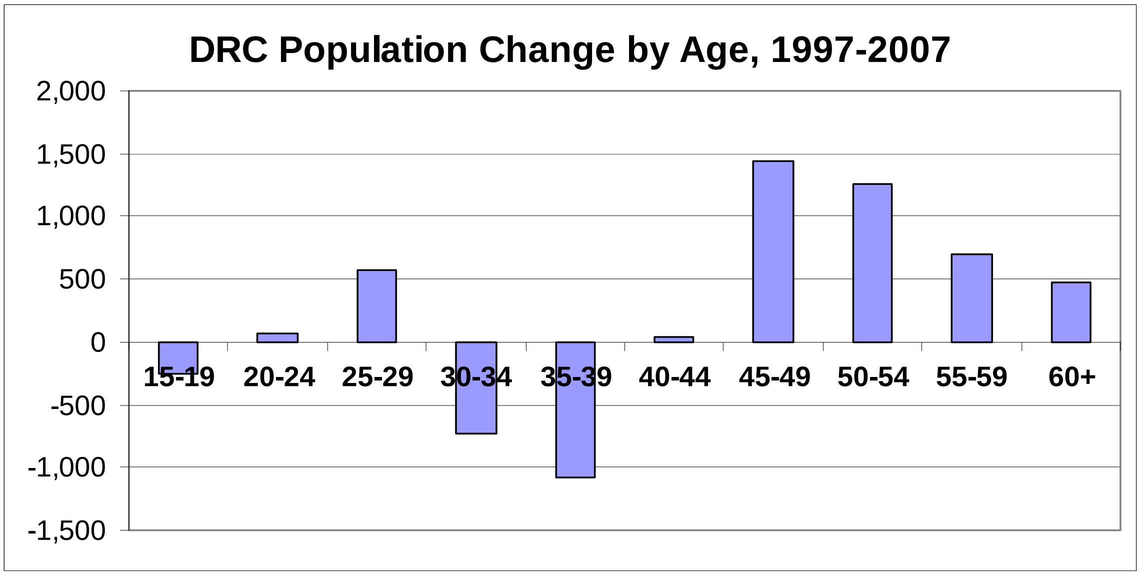
Average Length of Stay

While the prison population has been growing, average length of stay for non-judicial releases peaked at 3.01 years in 1999 and has been decreasing erratically since. The average length of stay was 2.2 years in calendar year 2006. This change is not without cost implications. There are fixed costs associated with intake of every prisoner. DRC must pay for medical testing, risk evaluation and classification, uniforms and toiletries, and other processing for each prisoner. The decrease in length of sentences would reduce the overall population if intakes were not offsetting the marginal reduction in average length of stay. As shown in the chart below, intakes are increasing substantially, driving the prison population up.



An Aging Population

While DRC's population has grown, it has also aged. This has notable cost impacts, especially for provision of medical care, which is a major concern. The chart below shows population change by age group from 1997-2007.



Effects of Sentencing Reforms

The prison population has grown substantially from 1997-2007, despite significant reductions in crimes reported. The Federal Bureau of Investigation's Uniform Crime Reports (UCR) showed a

17.4% reduction in violent crimes and a 7.5% reduction in property crimes from 1997-2006.[1] During that same period, clearances[2] for violent crimes in the five-state group of which Ohio is a part decreased from 42.3% to 38.4% and for property crimes from 16.2% to 15.2%.[3] The dual decreases in clearances and crimes are not reflected DRC's prison population, largely as a result of a change in the types of crimes for which offenders are imprisoned.

Federal statistics on drug crimes are kept separate from violent and property crimes in the UCR. After adjustments for data coverage, there were 47,451 arrests for drug offenses in 1997 compared to 57,671 in 2006 among offenders at least 18 years old. This represents a 21.3% increase. As will be seen later, drug offenses are one of the main areas that have increased DRC's population.

As noted earlier, violent and property crime declined in Ohio over the period of 1997-2006. During the same period, drug offenses increased, as did several other areas. The reductions in violent and property crimes were more than offset by increases in other areas, as shown below.

Offenses Experiencing Decreases				
Offense	**1997**	**2007**	**Change**	**% Change**
Crimes Against Persons (Excluding Sex)	22,190	20,077	-2,113	-9.52%
Burglary	6,630	4,890	-1,740	-26.24%
Miscellaneous Property	3,792	3,050	-742	-19.57%
Total	**32,612**	**28,017**	**-4,595**	**-14.09%**
Offenses Experiencing Increases				
Offense	**1997**	**2007**	**Change**	**% Change**
Drug	6,288	8,723	2,435	38.72%
Justice/Public Administration	521	2,854	2,333	447.79%
Sex	6,414	7,320	906	14.13%
Firearm	870	1,624	754	86.67%
Motor Vehicle	16	561	545	3406.25%
Fraud	441	536	95	21.54%
Other Felony	4	22	18	450.00%
Total	**14,554**	**21,640**	**7,086**	**48.69%**
Total Population	**47,166**	**49,657**	**2,491**	**0**

The drug offender prison population increased by 2,435 from 1997 to 2007, but most of the increase was for drug possession, not sale. In 2007 there were 4,411 more offenders in prison for drug abuse than in 1996 (135% increase)[4] and 143 fewer offenders in prison for manufacturing,

[1] Every effort has been made to use the period of 1997-2007 throughout this paper to allow for direct comparisons. However, in some cases information is not yet available for 2007, so 2006 figures have been used. Such cases are noted.

[2] UCR defines "clearances" as the arrest and presentation of the suspect to a criminal court or death of the suspect. There is not a one-to-one ratio of clearances to arrests, because the arrest of one suspect may clear several cases.

[3] UCR includes Ohio with Indiana, Michigan, Minnesota, Wisconsin, and Illinois in the East North Central group.

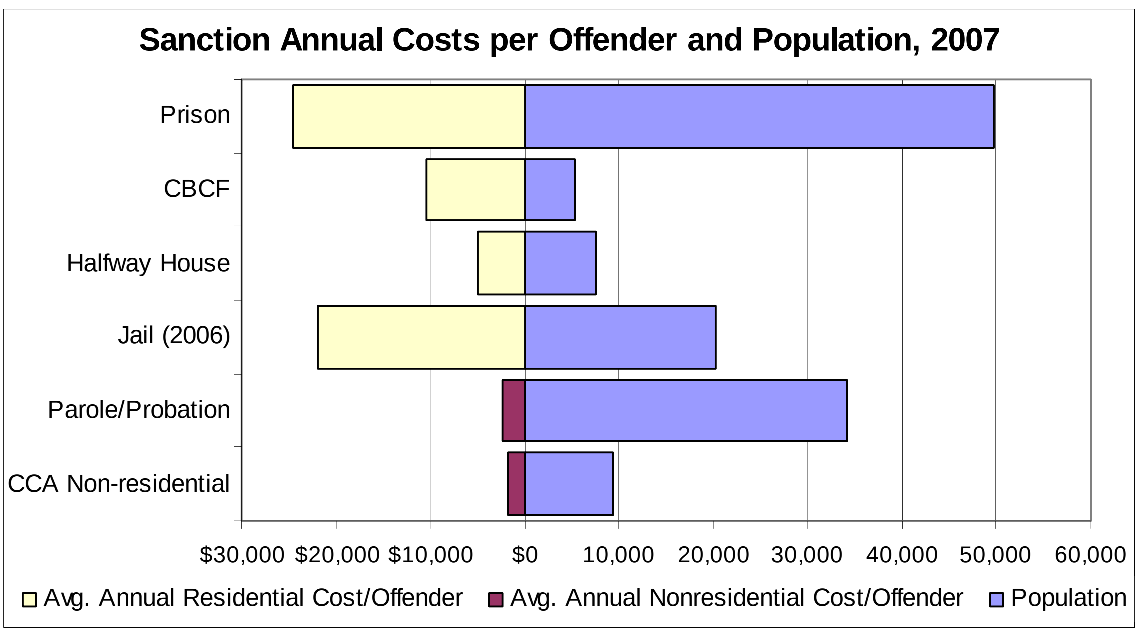
[4] "Drug abuse" includes: Abusing Harmful Intoxicants and Drug Possession/Drug Abuse.

processing, funding, and trafficking of drugs (3% decrease).[5] Another area of growth in the prison population was for offenses against justice/public administration. Offenses in this category include resisting arrest, tampering with evidence, escaping/aiding escape from a correctional facility, for example.

Policy Options: Alternative Sanctions & Costs

In addition to imprisonment, there are alternative sanctions that attempt to recoup financial losses to victims, rehabilitate the offender, keep the offender in contact with his family and friends, and reduce costs. The least restrictive measures are non-residential, community sanctions, such as restitution/other financial sanctions, probations, day reporting, and intensive supervision. These measures are also the least expensive. On the other end of the spectrum are residential programs, such as halfway houses, work release, jails, community-based correctional facilities (CBCF), and prison.

Most sanctions are not directly operated by DRC. Jails are operated by local governments or consortia of local governments. Non-residential diversion programs are partially-funded by DRC, but local Community Correction Planning Boards actually operate the programs. Halfway houses are independently-operated according to contracts issued by DRC. CBCFs are also independently-operated, but are funded by DRC grants. Only the Adult Parole Authority and prisons are directly operated by DRC. Below is a chart showing the average annual cost per offender and number of offenders placed in different sanctions in FY07.



Costs escalate substantially if the sanction involves incarceration. It cost an average of $22,006 to place an offender in a local jail in 2006, compared to $24,517 in a prison in 2007. Less

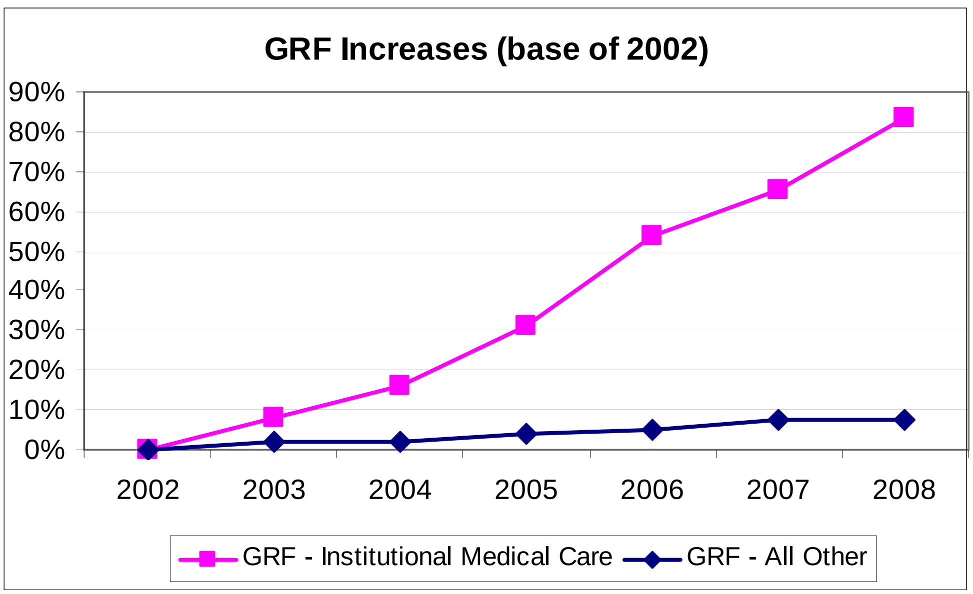
[5] "Drug manufacturing, processing, funding, and trafficking" include: Funding of Drug or Marijuana Trafficking, Illegal Processing of Drug Documents, Illegal Manufacturing of Drugs, Preparation of Drugs for Sale, Sale of Counterfeit Drugs, Trafficking in Drugs, and Trafficking in Harmful Intoxicants.

expensive residential options are CBCFs ($10,442 per offender) and halfway houses ($5,078 per offender), although these options are only recommended for low-level offenders, first time offenders, or offenders approaching release, because security is less than at prisons.

GRF Budget Implications

Despite population growth, DRC has kept General Revenue Fund (GRF) cost increases to a minimum since 2002. The majority of DRC spending is within GRF due to low federal funding and their limited ability to collect fees.[6] In Fiscal Year 2007, approximately 89.9% of spending was from GRF. Overall GRF increases have been 12.2% from 2002-2007, or a compound rate of 2.9% per year. The prison population increased by 10.6% over the same period, so there was a slight increase in spending per inmate.

The most significant cost-driver for DRC is medical care (not including mental health). Since 2002, GRF expenditures on medical care have increased by 83.4%.[7] During the same period, all other GRF expenditures increased by 7.6%.[8]



Between 2002 and 2007, GRF medical expenditures per inmate increased by 53.4%, to $3,653. Part of this is the result of the broadly-observed increase in medical costs, but DRC is also forced to increase spending as a result of the *Fussell Stipulation*, which requires oversight by an independent board. Cost-savings measures for medical care are being considered by DRC and OBM, along with other institutional agencies.

Budget Challenge

Ohio must continue to ensure the health and safety of a growing inmate population while also managing the use of scarce General Revenue Funds during these challenging economic times.

[6] One significant exception to this is the Office of Penal Industries, which produces a wide range of products that are used by DRC, as well as being purchased by other state agencies.
[7] This is through the end of FY09.
[8] This is through the end of FY09.

Hundreds of non-front line positions were abolished at the department during the FY 2008 budget recalibration, which have streamlined operations, but will also inhibit the ability of the system to absorb additional projected population increases. To make substantial changes to the trajectory of the key drivers of expense in the system – health care and demographics – systemic policy changes will need to be pursued through collaboration between the judiciary, the legislature and the executive branch.