OBM

Ted Strickland
Governor

J. Pari Sabety
Director

October 10, 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 September 30, 2008 as well as highlights of regional and national economic indicators.

As you are aware, the U.S. financial market is navigating a period of instability. The consensus forecast offered by the Council of Economic Advisors in late September detailed a period of continued struggle for both Ohio's economy and the nation as a whole. Since the Advisors met, daily credit market fluctuation is resulting in liquidity concerns for most economic sectors.

The State of Ohio continues to meet its financial obligations through careful planning and cash management. Although it is increasingly difficult to obtain a favorable interest rate on investments, Ohio was successful in its endeavor to take $240 million in infrastructure bonds to market this week. These bonds are a part of the $1.57 billion job stimulus package that was supported by both the legislative and executive branches earlier this year.

This report includes revised estimates that incorporate the September 10, 2008 revision downward in revenue projections of $540 million. September's General Revenue Fund tax receipts were 2.2% above estimate this month demonstrating that the state took appropriate action to implement further budget reductions last month. Specific information by tax source begins on page 9 of this report.

This month's special feature provides an overview of Ohio's approach to state borrowing and debt management.

Ohio Office of Budget and Management ● 30 East Broad Street, 34th Floor ● Columbus, OH 43215-3457
Phone: 614-466-4034 ● www.obm.ohio.gov

MONTHLY FINANCIAL REPORT CONTENTS

ECONOMIC SUMMARY

Industrial and construction activity deteriorated in Ohio and across the country over the course of the summer. Real consumer income and spending probably declined during the third quarter and are expected to decline further during the fourth quarter. Leading economic indicators are consistent with declines in real GDP through the winter quarter.

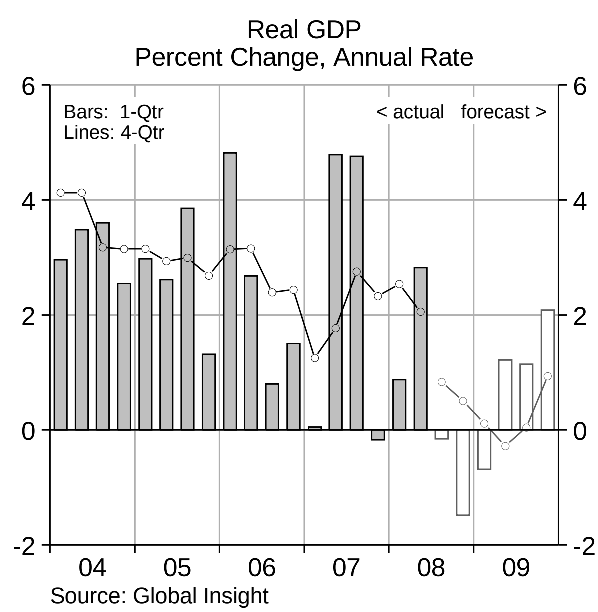
Highlights of Economic Performance

- Many forecasters expect the economic downturn to intensify in the near term regardless of the effectiveness of rescue measures.
- Labor markets weakened notably further through September, as U.S. employment posted its largest monthly loss since 2003 (159,000 jobs.) Ohio employment is down by 11,900 jobs since December and by 19,300 jobs since August 2007.
- Real personal consumption expenditures were flat in August and up just 0.1% from a year earlier.
- Manufacturing production decreased 1.0%, pulled down by an 11.9% drop in motor vehicles.

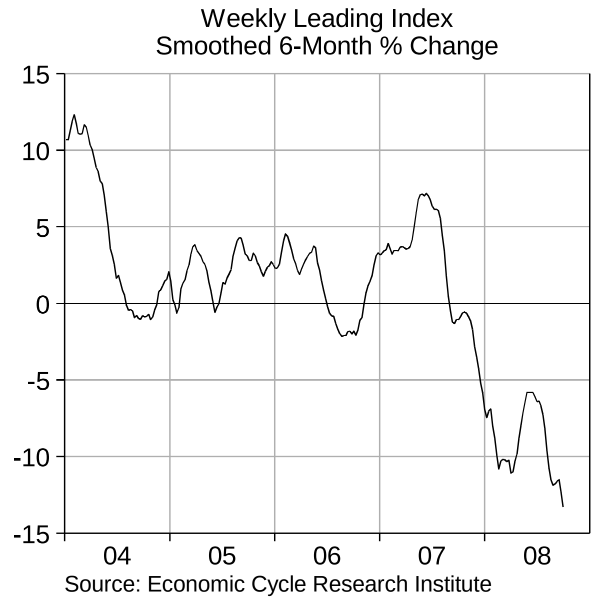
Economic Growth

Panic engulfed financial markets in late September and early October, as several large business failures and the prospect of more sparked a run on money market mutual funds and selected banks and appeared to threaten the global banking system. Congress enacted and the President signed into law on October 3 emergency measures intended to stop the crisis, support housing prices and recapitalize the financial sector. The Federal Reserve offered to purchase commercial paper directly from corporate issuers and joined a coordinated interest rate reduction by major central banks around the world during the week of October 6, lowering its target rate by one half percentage point to 1.50%.

Many forecasters expect the economic downturn to intensify in the near term regardless of the effectiveness of rescue measures. **Real GDP** expanded 2.8% in the second quarter, but Global Insight estimates that the economy contracted in the third quarter. The forecasting firm projects that real GDP will contract in the fourth quarter and the first quarter of 2009 before beginning a modest recovery through year end 2009.



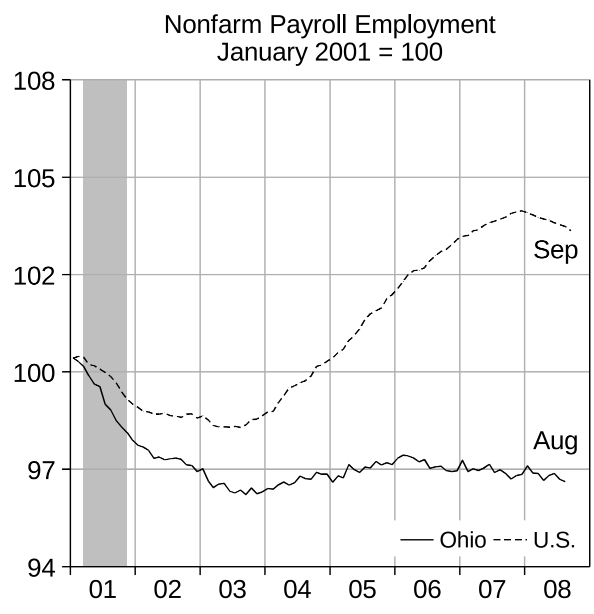
Looking ahead, the **Weekly Leading Index** from the Economic Cycle Research Institute (ECRI) decreased to the fastest rate of decline since 1975. The maximum rate of decline in the index has corresponded to the severity of the associated economic downturn over a number of past cycles. Similarly, the rate of change of the composite **Leading Economic Index** compiled by the Conference Board fell back to its low of -2.9% for this cycle.



The **Index of Small Business Optimism**, compiled by the National Federation of Independent Business, increased in August but remained in recession territory. **Consumer sentiment** improved significantly from June to September, according to both the Conference Board and Reuters/University of Michigan surveys. The gains were due largely to very sharp improvements in expectations, while assessments of current conditions remained near historically low levels.

Employment

Labor markets deteriorated notably in September, leaving no doubt about the seriousness of the ongoing economic downturn. **Total employment** decreased for the ninth straight month in September by 159,000 jobs – the largest monthly drop of the decline that began in January. Revisions to previous months left the total little changed, but lowered the private sector job count by 43,000 and raised government employment by 47,000 jobs. Neither the strike at Boeing nor Hurricane Ike affected the job count, but an increase in the number of workers reported unable to work due to weather suggests that Hurricane Gustav was a factor.



The **unemployment rate** remained at 6.1%, following a 0.4 percentage point increase in August. The rate is up by 1.7 percentage points from the cycle low that was reached in

March 2007. The number of unemployed workers was 2.2 million higher than a year earlier. The broadest measure of unemployment, which includes so-called discouraged workers, increased to 11.0% from 10.7% in August and 8.4% in September 2007.

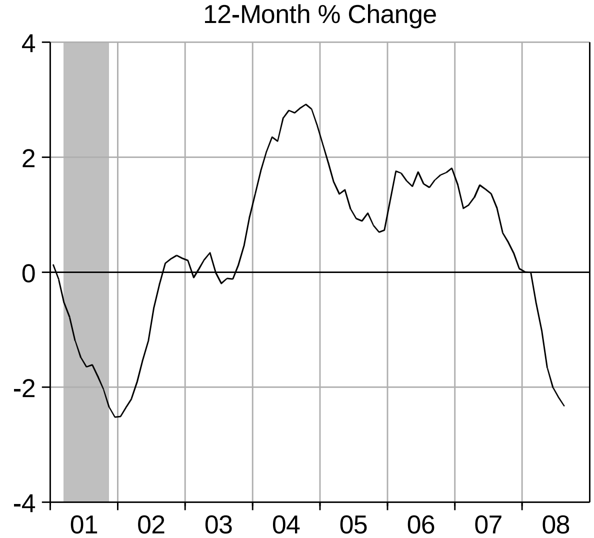
The decrease in employment was widespread. Manufacturing employment decreased by 51,000 jobs, led by the motor vehicle and parts industry. Construction employment decreased by 35,000 jobs, with both residential and non-residential trades contributing to the decline. Retail employment was down by 40,000 jobs, financial services lost 17,000 jobs, and leisure and hospitality lost 17,000 jobs. The only major private sector to add jobs was education and health services, but the gain was only one half of the average during the previous year. Employment in temporary help services decreased for the twenty-first consecutive month. Temporary help employment has led other measures of economic activity in the past, because of the ease which with temporary staff can be added or reduced.

The **length of the workweek** for all production and nonsupervisory workers fell to match its all-time low of 33.6 hours. The manufacturing workweek fell to 40.7 hours – the lowest in three years – and manufacturing overtime fell to a weekly average of 3.6 hours – the lowest since May 1991. The index of aggregate weekly hours decreased for the sixth straight month. The July-September average is below the second quarter average by 1.9% at an annualized rate, indicating that real GDP almost certainly declined during the summer quarter.

Ohio employment decreased by 3,700 jobs in August, following a loss of 9,400 jobs in July. Ohio employment is down by 11,900 jobs since December and by 19,300 jobs since August 2007. The Ohio unemployment rate increased to 7.4% in August, up from 5.5% at the start of the year to the highest level since 1992.

Labor market weakness was widespread across major sectors during August. Manufacturing employment led the decline with a loss of 6,200 jobs, followed by small declines in financial activities (-600), construction (-400), information (-200) and professional and business services (-200). Educational and health services added 2,300 jobs.

Ohio Coincident Economic Index
12-Month % Change



Source: Philadelphia Federal Reserve

The **Ohio coincident index** compiled by the Philadelphia Federal Reserve fell for the seventh straight month and the thirteenth in the last fourteen months in August. The year-over-year rate of change fell to -2.3% – the weakest since just after the 2001 recession.

Among the eleven **Ohio Metropolitan Statistical Areas**, Columbus (+6,000) and Youngstown-Warren-Boardman (+1,300) added the most jobs during the twelve months ended in August. Canton and Lima added 600 jobs each. Employment fell in Cleveland (-5,500), Toledo (-5,800), and Dayton (-3,900).

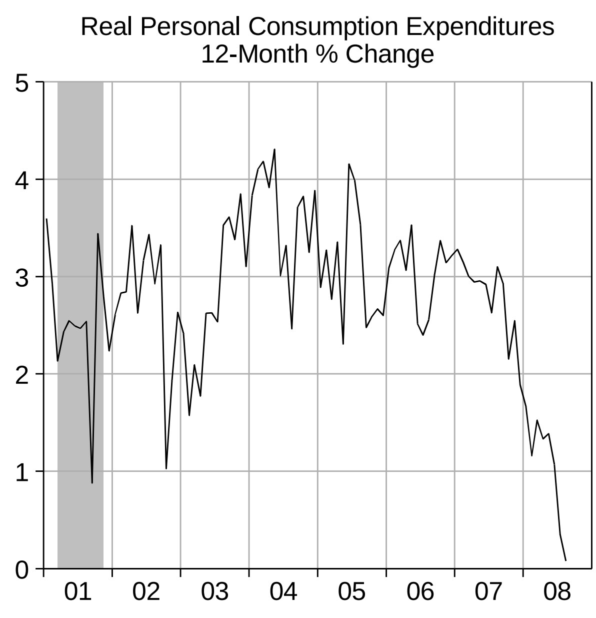
Kentucky and West Virginia led the way in employment growth among **contiguous states** during the twelve months ending in August with gains of 0.6% and 0.5%, respectively. Employment in Michigan decreased 1.6% from a year ago. Employment fell by 1.1% in Indiana and 0.4% in Ohio and was little changed in Pennsylvania. In comparison, U.S. employment was unchanged during the twelve months ending in August and decreased 0.4% during the twelve months ending in September.

Consumer Income and Consumption

Monthly data indicate that real personal consumption expenditures decreased during the third quarter and point toward a larger decline in the fourth quarter. **Personal income** increased 0.5% in August, with wage and salary disbursements rising 0.4%. Strong increases in interest and dividends and government unemployment insurance payments accounted for the difference between growth in wages and salaries and total income.

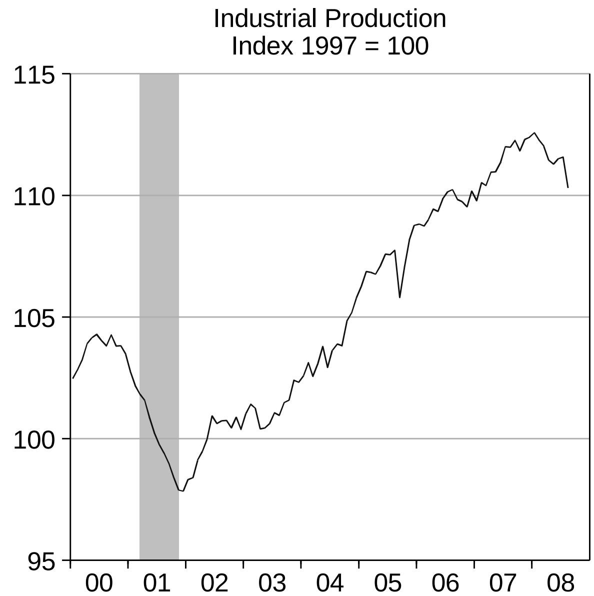
Disposable personal income decreased 0.9% in August, which was the third consecutive monthly decline. A key factor was the return to normal in taxes, as tax rebates ended. After adjustment for inflation, disposable income fell to 0.3% above the year earlier level, indicating that consumer purchasing power has eroded significantly in the past year. In contrast, the year-over-year rate of change was 3.4% in August 2007.

Real **personal consumption expenditures** were flat in August and up just 0.1% from a year earlier. The rate of change in real consumer spending was revised lower for each of the preceding three months, pointing to a more than 2% decline in real consumption during the third quarter. In September, unit sales of light motor vehicles decreased to 12.5 million units at an annual rate, down from 13.7 million in August. In contrast, sales totaled 16.1 million units in 2007. **Midwest retail sales**, which increased 0.1% in June and decreased 0.7% in July and 0.5% in August, suggest similar weakness in consumer spending in Ohio.



Based on the continued deterioration in labor markets, tight credit that contributed to a rare decline in consumer installment debt outstanding in August, and the recent monthly patterns in income and spending, real consumer spending is likely to contract again in the fourth quarter.

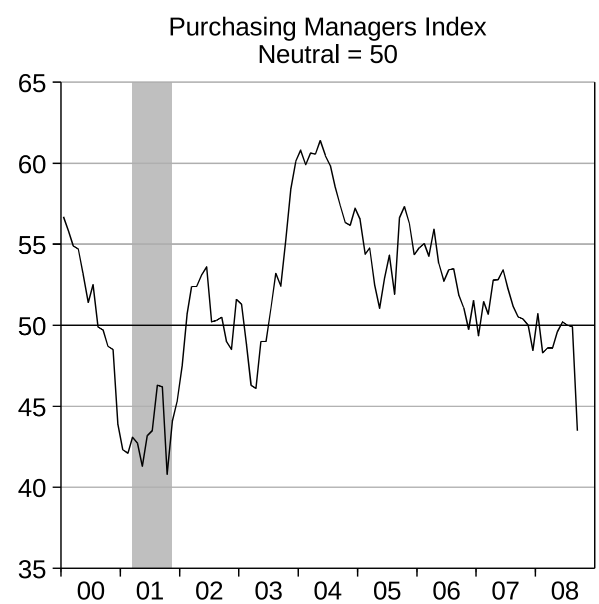
Manufacturing



Industrial activity turned decidedly negative over the summer. **Industrial production** decreased 1.1% in August, as output declined in the manufacturing, mining and utility sectors. The July change was revised to a decrease of 0.1% from an increase of 0.4%. Early indications are that conditions weakened further in September, when Hurricane Ike and the Boeing strike subtracted from production. **Capacity utilization** fell by a full point to 78.7% – the lowest level since 2004.

Manufacturing production decreased 1.0%, pulled down by an 11.9% drop in motor vehicles. Light vehicle assemblies fell to an annual rate of 7.96 million units in August from 9.56 million units in July. Production had rebounded in June and July due to the end of the strike at GM supplier American Axle. Hurricane Gustav subtracted from oil and natural gas production during August, and mild weather led to lower utility output.

New factory orders decreased 4.0% in August, in part reflecting lower oil prices, which reduced the value of petroleum orders. **Manufacturing shipments** fell 3.5%, with nonpetroleum deliveries down 2.7%. The change in orders for nondefense capital goods excluding aircraft was revised to a decrease of 2.4% from a decrease of 2.0%. The change in shipments was also revised lower by 0.4 percentage points.



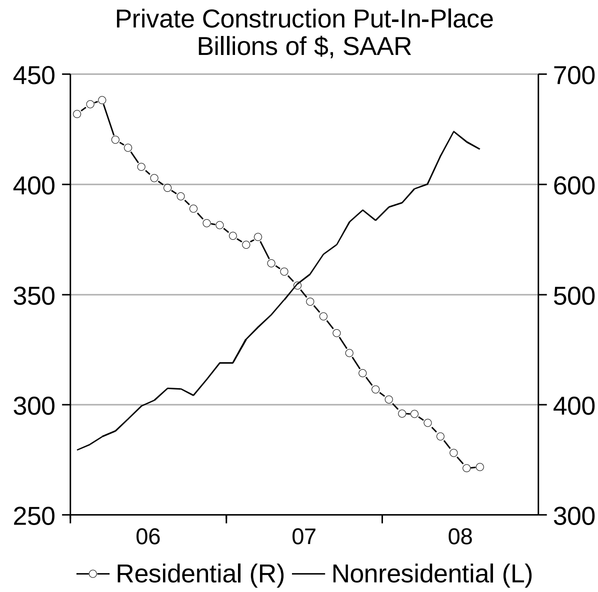
Conditions in manufacturing deteriorated sharply in September, according to purchasing managers. The **Purchasing Managers Index** decreased from 49.9 to 43.5, production fell from 52.1 to 40.8, and new orders fell from 48.3 to 38.8 – all among the largest one-month declines on record. Readings near 50 are considered neutral. Quarterly averages of the Purchasing Managers Index below 43 have been associated with declines in real GDP historically.

Midwest industrial production decreased 2.6% in August and the July decrease was revised to 0.2% from 0.4%

in July, according to the Federal Reserve Bank of Chicago. Regional production declined in the auto, resource, and machinery sectors and increased in the steel sector. Regional production declined 4.9% compared with a year earlier, led by an 18.1% decrease in auto sector output.

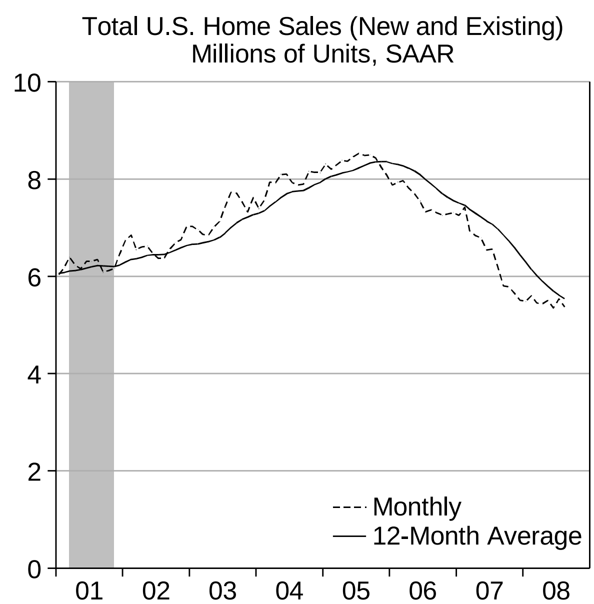
Construction

Construction put-in-place was flat in August, but down 5.9% from a year earlier. The July decrease was revised lower to -1.4% from -0.6% and the June increase of 0.2% was revised lower to -0.2%. Excluding improvements to residential structures, which can be volatile and misleading from month to month, construction spending decreased by 1.1% in August. Single-family and multi-family home construction each fell by 4.2%, with single-family construction down for the 29th consecutive month.



Private nonresidential construction was down for the second straight month in August. The **Architecture Billings Index** (ABI) moved higher for the third month in a row in August, but the level of billings remains weak. Compared with a year earlier, private nonresidential construction was up 13.0% in August, down significantly from the year-over-year growth peak of 25.8% reached in October 2007.

Housing remained weak in August, as **housing starts** and new and existing **home sales** all fell during the month and on a 3-month moving average basis. **Home prices** decreased 16.3% from a year earlier in July, according the to S&P/Case-Shiller 20-City Composite Index. The ongoing adjustments in housing are beginning to show some progress. The number of new homes for sale declined for the 16th straight month in August, and the pace of decline in prices slowed from 6.5% during February-April 2008 to 2.2% during May-July.



GENERAL REVENUE FUND RECEIPTS

During the month of September**, total GRF receipts totaled $1,929.7 million** which was $6.1 million (0.3%) below the revised estimates issued by OBM in September**.** Unlike recent months, this negative variance was driven not by the performance of GRF tax receipts which totaled $1,633.0 million and were $34.8 million, or 2.2% above estimates, but instead by non-tax receipts tied to timing in the receipt of federal grants.

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, alcoholic beverage, liquor gallonage & estate	$34.8 million	2.2%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($46.3 million)	(14.8%)
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$5.4 million	22.4%
TOTAL REVENUE VARIANCE:		($6.1 million)	(0.3%)

As mentioned above, tax receipts for the month of September not only met the revised estimates but actually exceeded them by $34.8 million, with most of this positive variance attributable to better than expected performance of auto sales, personal income, and corporate franchise taxes, which were over estimate by $12.9 million, $27.8 million, and $6.5 million respectively, and more than offset a $9.6 million negative variance in non-auto sales and use tax receipts. In addition to the auto sales, personal income, and corporate franchise taxes, minor variances in the remaining tax sources netted out to be $2.8 million below estimate, with positive variances in public utility, cigarette, and estate taxes, and minor negative variances in the kilowatt hour, foreign and domestic insurance, alcoholic beverage, and liquor gallonage taxes.

While the slightly positive monthly performance is encouraging, OBM is hesitant to read too much into a single month using the revised revenue estimates. When examining year-over-year performance, despite the positive variance for September, the year-to-date total take in tax receipts is actually $25.3 million (0.6%) below the same point 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 is still greater than anticipated.

Individual Sources Above Estimate ($ in millions)		Individual Sources Below Estimate ($ in millions)	
Auto Sales and Use	$12.9	Non-Auto Sales Tax	($9.6)
Personal Income Tax	$27.8	Kilowatt Hour	($1.2)
Corporate Franchise Tax	$6.5	Foreign Insurance	($1.6)
Transfers	$5.4	Federal Grants	($47.0)
Other Sources Above Estimate	$2.3	Investment Earnings	($42.4)
		Other Sources Below Estimate	($1.6)
Total above	**$54.9**	**Total below**	**($103.4)**

Non-Auto Sales and Use Tax

As previously mentioned, dampening the performance of total monthly tax receipts relative to the revised estimates was the continued weak performance of the non-auto sales tax, which, with $509.4 million in receipts, experienced a negative variance of $9.6 million (1.8%) during the month of September. The performance of this tax source has been and remains an ongoing concern, not so much due to its failure to meet a single month's revised revenue estimate, but more due to its performance on a year-over-year basis which indicates essentially no growth over the same point a year ago.

Auto Sales Tax

While the non-auto sales tax continues to struggle, the performance of the auto sales tax, which totaled $85.1 million during the month of September, was a pleasant surprise as it not only exceeded revised estimates by $12.9 million (17.8%), but also would have exceeded the original estimates for the month by approximately $8 million. On a year-over-year basis, auto sales tax receipts through the first quarter of FY 2009 are $14.2 million (20.0%) above the same point a year ago. A portion of this growth and an accompanying decline in non-auto sales tax receipts might be attributable to the elimination of leasing options by certain automobile manufacturers which in turn may be pushing more car shoppers to purchasing instead of leasing a new or used vehicle, the scope of the increase given the environment created by the continued tightening, a struggling labor market, and sliding consumer confidence is perplexing. That said, OBM will continue to monitor this tax closely in an attempt to identify the factors that are driving its unexpectedly positive performance.

Personal Income Tax

As with auto sales tax, the personal income tax contributed significantly to the positive variance in tax receipts for the month of September, with total receipts of $920.5 million that were not only $27.8 million (3.1%) above the revised estimate, but also approximately $8.0 million above the original estimate. Driving this performance was better than expected receipts from withholding, trust payments, and annual returns, which taken together were $35.9 million above estimates and more than offset weaker than expected receipts from other sources and higher than expected local government fund distributions.

On a year-over-year basis, total personal income tax receipts for the month of September increased by $78.1 million over September 2007, in part as a result of there being two additional collection days compared to the same month last year. A more accurate year-over-year picture may be available by comparing the performance through the first quarter of FY 2009 to that of FY 2008 as total receipts actually decreased by $22.2 million (1.1%). As we move later into FY 2009, OBM will continue to monitor the performance of this source closely, especially given recent upward trends in jobless claims.

FY 2009 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)			
	ESTIMATE SEPT	**ACTUAL SEPT**	**$ VAR SEPT**
Withholding	$610.1	$630.3	$20.2
Quarterly Est.	$323.3	$327.6	$4.3
Trust Payments	$5.8	$8.9	$3.1
Annual Returns & 40 P	$17.1	$25.4	$8.3
Other	$9.1	$1.1	-$8.0
Less: Refunds	-$20.3	-$19.5	$0.8
Local Distr.	-$52.5	-$53.3	-$0.8
Net to GRF	**$892.6**	**$920.5**	$27.9

Corporate Franchise Tax

The corporate franchise tax exceeded revised estimates during the month of September by $6.5 million as it recorded net positive receipts of $2.4 million instead of anticipated net refunds of $4.1 million. On a year-over-year basis, the performance of the tax through September is even more positive as it is $41.5 million ahead of the same point a year ago. The year-over-year growth is almost entirely due to one large litigation settlement payment in July.

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 September, CAT receipts totaled $13.0 million and were $4.8 million above estimates (58.8%). This continues a surprising performance for the CAT as it has posted a positive variance each month and is now $27.8 million above estimate for the year.

Cigarette Tax

While the cigarette tax totaled $85.3 million and experienced a slightly positive variance of $540,000 during the month of September, it appears to still be following the downward trend it experienced in FY 2008. While the performance of the tax during the month of September was better than that of September a year ago, the year-over-year performance through the first quarter of the fiscal year is $5.1 million (2.6%) below FY 2008.

GRF non-tax receipts totaled $267.1 million in September and were $46.3 million (14.8%) below estimate. This variance is related in large part to **federal grants**. Revenues from federal grants were under estimate by $47 million for the month and year-to-date. This variance can be attributed to the following:

- Adjustments include a reduction of $26.4 million due to overpayments for long term care services from FY 2006. Once a direct billing process was implemented for nursing facilities in 2005, the facilities were paid on more of a real time basis, which occasionally leads to some timing issues – e.g., in cases where Medicaid eligibility is determined after a person has completed their short term rehabilitative stay – and thus the eligibility span in the system appears to be incomplete. These "false positives" may trigger a federal adjustment that may be re-adjusted once documentation is provided to verify that the eligibility span was appropriate. The department is working on developing a prospective plan with the County Department of Job and Family Services that will reduce the amount of overpayments resulting from incomplete spans of eligibility.

- In addition, a reduction of $10.4 million which represents the federal share of drug rebates for the SCHIP program was also made.

While these adjustments were not anticipated at the time revenue estimates were developed, ODJFS has revised its Combined Proposed Adjudication Order process and is expected to expedite the recovery of these overpayments. This will help to offset the adjustments listed above.

The category titled **earnings on investments** is another portion of non-tax receipts. On September 30th OBM issued a memorandum to agency fiscal officers regarding a process to finalize quarterly earnings on investments within the OAKS system. Effective with the first quarter's distribution in FY 2009, each quarter's interest will be calculated independently of other quarters. Each quarter will now be calculated based solely on the average daily balance of the current quarter and on the investment earnings deposited during the current quarter. Distributions will be made each quarter after the month is closed. For example, the interest earnings for the first quarter of FY 2009 were distributed in early October and will be published in next month's financial report.

Table 1

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

REVENUE SOURCE	Month ACTUAL SEPTEMBER	Month REVISED SEPTEMBER	Month $ VAR	Month % VAR	Year-to-Date ACTUAL Y-T-D	Year-to-Date REVISED Y-T-D	Year-to-Date $ VAR	Year-to-Date % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	509,368	518,946	(9,579)	-1.8%	1,658,203	1,667,782	(9,579)	-0.6%
Auto Sales & Use	85,132	72,263	12,869	17.8%	260,224	247,354	12,869	5.2%
Subtotal Sales & Use	594,500	591,210	3,291	0.6%	1,918,427	1,915,136	3,291	0.2%
Personal Income	920,481	892,641	27,840	3.1%	2,007,508	1,979,668	27,840	1.4%
Corporate Franchise	2,380	(4,094)	6,474	-158.1%	32,133	25,659	6,474	25.2%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	90	4	86	1936.4%	47,477	47,392	86	0.2%
Kilowatt Hour	14,908	16,085	(1,177)	-7.3%	37,550	38,727	(1,177)	-3.0%
Foreign Insurance	4,392	6,000	(1,608)	-26.8%	4,295	5,902	(1,608)	-27.2%
Domestic Insurance	(214)	200	(414)	-206.8%	(772)	(358)	(414)	115.6%
Other Business & Property Tax	0	0	0	N/A	246	246	0	0.0%
Cigarette	85,317	84,777	540	0.6%	189,678	189,138	540	0.3%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,434	5,191	(757)	-14.6%	14,955	15,712	(757)	-4.8%
Liquor Gallonage	3,097	3,168	(71)	-2.2%	9,166	9,237	(71)	-0.8%
Estate	3,586	3,000	586	19.5%	4,668	4,082	586	14.4%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,632,973	1,598,182	34,790	2.2%	4,265,333	4,230,542	34,790	0.8%
NON-TAX RECEIPTS								
Federal Grants	258,646	305,641	(46,995)	-15.4%	1,633,045	1,680,040	(46,995)	-2.8%
Earnings on Investments	0	0	0	N/A	0	0	0	N/A
License & Fees	1,415	1,801	(386)	-21.4%	13,866	14,253	(386)	-2.7%
Other Income	3,198	2,594	604	23.3%	13,598	12,994	604	4.6%
ISTV'S	3,805	3,344	461	13.8%	3,871	3,410	461	13.5%
Total Non-Tax Receipts	267,064	313,380	(46,316)	-14.8%	1,664,381	1,710,697	(46,316)	-2.7%
TOTAL REVENUES	1,900,037	1,911,563	(11,526)	-0.6%	5,929,714	5,941,240	(11,526)	-0.2%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	29,000	21,000	8,000	38.1%	44,000	36,000	8,000	22.2%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	616	3,195	(2,579)	-80.7%	5,681	8,260	(2,579)	-31.2%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	29,616	24,195	5,421	22.4%	49,681	44,260	5,421	12.2%
TOTAL SOURCES	1,929,653	1,935,758	(6,104)	-0.3%	5,979,395	5,985,499	(6,104)	-0.1%

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

REVENUE SOURCE	Month ACTUAL 2009	Month ACTUAL 2008	Month $ VAR	Month % VAR	Year-to-Date ACTUAL 2009	Year-to-Date ACTUAL 2008	Year-to-Date $ VAR	Year-to-Date % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	509,368	505,813	3,555	0.7%	1,658,203	1,658,766	(563)	0.0%
Auto Sales & Use	85,132	70,940	14,192	20.0%	260,224	246,925	13,299	5.4%
Subtotal Sales & Use	594,500	576,753	17,747	3.1%	1,918,427	1,905,691	12,736	0.7%
Personal Income	920,481	842,333	78,149	9.3%	2,007,508	2,029,677	(22,169)	-1.1%
Corporate Franchise	2,380	(2,731)	5,112	-187.1%	32,133	(9,380)	41,513	-442.6%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	90	4	86	2096.8%	47,477	41,646	5,831	14.0%
Kilowatt Hour	14,908	32,942	(18,034)	-54.7%	37,550	94,386	(56,836)	-60.2%
Foreign Insurance	4,392	5,344	(952)	-17.8%	4,295	5,360	(1,066)	-19.9%
Domestic Insurance	(214)	153	(367)	-239.3%	(772)	194	(966)	-497.1%
Other Business & Property Tax	0	(66)	66	-100.1%	246	216	31	14.2%
Cigarette	85,317	81,692	3,625	4.4%	189,678	194,823	(5,144)	-2.6%
Soft Drink	0	0	0	N/A	0	0	0	N/A
Alcoholic Beverage	4,434	5,043	(608)	-12.1%	14,955	15,630	(675)	-4.3%
Liquor Gallonage	3,097	3,018	79	2.6%	9,166	8,957	210	2.3%
Estate	3,586	3,291	295	N/A	4,668	3,451	1,217	35.3%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,632,973	1,547,776	85,197	5.5%	4,265,333	4,290,650	(25,317)	-0.6%
NON-TAX RECEIPTS								
Federal Grants	258,646	473,425	(214,779)	-45.4%	1,633,045	1,549,144	83,901	5.4%
Earnings on Investments	0	44,990	(44,990)	N/A	0	44,990	(44,990)	N/A
License & Fee	1,415	978	437	44.7%	13,866	14,154	(287)	-2.0%
Other Income	3,198	3,392	(194)	-5.7%	13,598	11,334	2,264	20.0%
ISTV'S	3,805	802	3,003	374.5%	3,871	841	3,030	360.3%
Total Non-Tax Receipts	267,064	523,587	(256,523)	-49.0%	1,664,381	1,620,463	43,919	2.7%
TOTAL REVENUES	1,900,037	2,071,363	(171,326)	-8.3%	5,929,714	5,911,113	18,601	0.3%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	29,000	13,000	16,000	123.1%	44,000	52,000	(8,000)	-15.4%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	616	284	332	116.8%	5,681	15,670	(9,989)	-63.7%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	29,616	13,284	16,332	122.9%	49,681	67,670	(17,989)	-26.6%
TOTAL SOURCES	1,929,653	2,084,648	(154,994)	-7.4%	5,979,395	5,978,783	612	0.0%

GENERAL REVENUE FUND DISBURSEMENTS

Across all fund uses, total year-to-date GRF disbursements are $8,088.6 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)	$7,698.7 million
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$389.9 million
TOTAL GRF DISBURSEMENTS:		$5,587.4 million

Year-to-date expenditures and interagency transfers are 0.3% less than the estimates. See table 3 for additional information.

Please note that the disbursement estimates reflected in this report have been revised from the September report in order to take into account the agency budget reductions that were announced on September 10th and implemented in late September.

GRF disbursements are reported according to functional reporting categories, and this section contains information regarding each category. Variance information is included on an agency-specific basis as a component of the category summaries. In the event that an agency spent its GRF appropriation according to plan during the month, a variance would not exist to be explained.

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. September expenditures in this category were $548.2 million.

- September disbursements by the Department of Education totaled $541 million. Compared with the estimate for September, expenditures were below estimate by $12.5 million (2.3%). Spending for Foundation Funding was $5.4 million (10.7%) lower than projected. For the year to date, the Department has spent $6.7 million (0.4%) less then projected.

Higher Education

September disbursements for Higher Education were $190.7 million, representing a variance of $36.2 million (16.0%) below the estimate for the month. Year-to-date disbursements were $614.0 million, representing a variance totaling $36.2 million (5.6%) below the estimate. Funds for the Ohio College Research Scholars program, estimated at

$26.0 million for the month, were not disbursed pending release by the Controlling Board. Disbursements for the program will begin in October.

Public Assistance and Medicaid

September expenditures in this category, which includes all GRF expenditures by the Department of Job & Family Services, were $984.8 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 $195.2 million.

- When compared to September FY 2009 disbursement estimates, in aggregate, actual disbursements for the month were $7.0 million (9.3%) below estimate. This is primarily attributable to the following:
    - Approximately $2.2 million in under-spending was in the support services line item. Lower than anticipated disbursements are attributable to billings for central administration, maintenance, and personal service contracts not arriving in September as anticipated.
    - Approximately $2.2 million in under spending was in the county child support administration line item. The under spending occurred due to lower than anticipated requests for funding advances.
    - Approximately $3.1 million in under spending occurred in the entitlement administration line item. The under-spending occurred due to the timing of requests for funding advances.

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
Year-to-date Medicaid GRF disbursements by ODJFS total $3,188.5 million, which is $20.1 million (0.7%) below estimate. Disbursements for the month of September totaled $916.9 million, which was $8.0 million (0.9%) below projected expenditures.

Total ODJFS Medicaid service expenditures (GRF and non-GRF) were $1,007 million in September, which was $8.8 million (0.9%) below the projection. Year-to-date disbursements in this category are $3, 281.0 million, which is $22.0 million (0.7%) below projected expenditures. Notable monthly variances across all funding sources include:

- September disbursements to Inpatient Hospitals totaled $102.4 million all funds, which is $8.6 million (9.2%) over projected expenditures. This is primarily due to the timing of settlements paid to hospitals as part of the normal payment structure. This cost was included in the fiscal year projection, and therefore the September variance will not impact the full year estimate.

- Managed Care disbursements were: $254.1 million for the CFC population, which was $6.5 million (2.5%) below estimate; and $97.6 million for the ABD population, which was $4.2 million (4.1%) below estimate. This is primarily due to lower than projected caseload in the Managed Care category. Enrollment in Managed Care occurs approximately 45 to 60 days after the consumer meets eligibility requirements, during which time it is determined if the client is eligible for managed care services, and the person selects which plan to work with, if applicable. Until those determinations are made, consumers are covered under Medicaid Fee For Service. As such, disbursements in this category will trail increases in total enrollment by that timeframe.

Caseload

The most recent caseload information available is from August. Total Medicaid caseload for August remained consistent with the estimate, showing a variance of 319 persons (0.0%) over projected enrollment. Caseloads increased by 6,432 consumers since the month of July, which is consistent with the trend of average monthly enrollment over the past 12 months.

- Of the total increase, the Covered Families & Children population accounted for 5,317 consumers, with the sub-category called Healthy Families, which serves families with incomes up to 90% of the Federal Poverty Level, accounting for 2,611 persons enrolling in the program. As noted above, this will likely lead to an increase in Managed Care caseload in the next 45 to 60 days.

- The remaining 1,115 new Medicaid consumers enrolled in the Medicaid Aged, Blind & Disabled (ABD) program. Nearly 50% of the ABD increase can be attributed to the Qualified Medical Benefit (QMB) program, which saw an additional 529 consumers enroll in the program in August. The QMB program pays monthly Medicare Part B premiums and certain out-of-pocket medical expenses for eligible seniors.

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.

September expenditures in this category were $72.7 million. Significant notes include:

- The Department of Health's September GRF disbursements were $5.9 million, which was $659,000 (12.6%) above estimate. The largest variance ($290,000) was in Health Care Facility Protection, and was over plan due to payments being made in September which had been planned in July.

  Year to date, the Department of Health disbursed $20.9 million, which was $3.3 million (19%) above estimate. Primary reasons for this variance above estimate include: Medically Handicapped Children ($2.9 million), and Child and Family Health Services ($0.9 million). These line items were above estimate due to split coding and the GRF portion was paid out first. The spending is expected to even out over the course of the year. One line item was significantly below estimate – AIDS Prevention, at $1.0 million. This was due to funds being obligated for contractual agreements but not yet disbursed.

- The Department of Aging's September GRF disbursements were $16.4 million, which was $950,000 (5.5%) below estimate. The variance included underspending in the following line items: Senior Community Services ($0.6 million) and Residential State Supplement ($0.7 million). RSS was below estimate because August disbursements were above estimate, and thus the line item is on track year to date. One significant area of overspending was PASSPORT ($0.6 million), which was due to an early payment originally scheduled for October.

  Year to date, the Department of Aging has disbursed $31.8 million, which is $0.8 million (2.0%) below estimate. The variance was primarily due to Assisted Living, which was $0.5 million below plan. This was due to Area Agency on Aging funding requests being lower than anticipated given the revised estimates; this should correct itself in the remaining quarters.

- The Department of Mental Health disbursed $27.6 million in the month of September, which was $4.6 million (14.3%) below estimate. The variance occurred within the Department's subsidy lines (specifically Community and Hospital Mental Health Services and Local Mental Health Systems of Care) and is attributable to the timing of drawdowns requested by County Boards. The Department's year to date GRF spending totaled $141 million, which is $400,000, (0.3%) below estimate.

- The Department of MR/DD disbursed $18.4 million in the month of September, which was $6.8 million (26.9%) below estimate. The primary reason for the variance was under spending in the Medicaid Waiver - State Match line item by $5.5 million. Funds in this line item are disbursed to the County Boards of MR/DD to pay waiver service costs. Variances between actual expenditures and estimated disbursements occur because providers have 365 days to submit bills for services they have provided. To illustrate the issue of timing, the September underspending in this line item offset the $5.5 million overspending relative to estimate in August.

The Department's year to date GRF spending totaled $93.9 million, which is $2.5 million (2.6%) below estimate. Variances of less than $1 million across six line items account for the difference between estimated and actual expenditures.

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, September expenditures in this category were $230.0 million.

- The Department of Rehabilitation and Correction disbursed $180.3 million in the month of September, which was $2.1 million (1.2%) more than the $178.2 million estimate for the month.

- The Department of Youth Services disbursed $27.4 million in the month of September, which was $0.8 million (2.9%) less than the $28.2 million estimate for the month.

Environmental Protection & Natural Resources

September expenditures in this category were $8.5 million, which was $3.6 million (72.2%) above estimate.

- A portion of this variance occurred within the Department of Natural Resources. A move from quarterly to monthly disbursements of subsidies to soil and water conservation districts. This resulted in $1.9 million in additional disbursements than the original September disbursement estimate.

Transportation

September expenditures in this category were $1.3 million, which was $173,000 above estimate for the month.

General Government

September expenditures in this category were $84.8 million, which was $8.0 million (8.6%) below estimate for the month.

Community & Economic Development

September expenditures in this category were $30.3 million, which was $122,000 (0.4%) above estimate for the month.

Tax Relief & Other

September expenditures in this category were $251.7 million, which was $56.8 million (29.1%) above estimate for the month. The entire variance is related to local government tax relief.

Local government tax relief during the month of September was $56.8 million above estimates for month and is also above the $111.9 million disbursed during the same month a year ago. Both the monthly and year over year variances are due to requests for payments related to the 10 percent and 2.5 percent rollback on non-homestead eligible properties being received earlier than anticipated. As of the end of September, all but a handful of counties had submitted their request for the August settlement and as a result, the pace of disbursements should be reduced in the near the future. As was the situation in FY 2008, the additional tax relief appropriations attributable to the expansion of the homestead exemption authorized in HB 119 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

September expenditures in this category were $97.2 million, which was $722,000 (0.7%) above estimate for the month.

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

Functional Reporting Categories Description	MONTH ACTUAL SEPTEMBER	MONTH ESTIMATED SEPTEMBER	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE YTD ACTUAL	YEAR-TO-DATE YTD ESTIMATE	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
Primary, Secondary and Other Education	548,205	560,094	(11,888)	-2.1%	1,836,042	1,847,931	(11,888)	-0.6%
Higher Education	190,720	226,921	(36,201)	-16.0%	614,022	650,223	(36,201)	-5.6%
Public Assistance and Medicaid	984,795	999,505	(14,711)	-1.5%	3,383,688	3,398,399	(14,711)	-0.4%
Health and Human Services	72,736	84,925	(12,189)	-14.4%	339,537	351,726	(12,189)	-3.5%
Justice and Public Protection	229,998	228,311	1,687	0.7%	642,851	641,164	1,687	0.3%
Environmental Protection and Natural Resources	8,494	4,932	3,562	72.2%	27,595	24,033	3,562	14.8%
Transportation	1,283	1,110	173	15.6%	3,418	3,245	173	5.3%
General Government	84,835	92,851	(8,016)	-8.6%	146,760	154,775	(8,016)	-5.2%
Community and Economic Development	30,268	30,146	122	0.4%	46,903	46,781	122	0.3%
Tax Relief and Other	251,706	194,904	56,802	29.1%	401,792	344,990	56,802	16.5%
Capital Outlay	12	0	12	N/A	12	0	12	N/A
Debt Service	97,201	96,480	722	0.7%	256,052	255,330	722	0.3%
Pending Payroll	0	0	0	N/A	0	0	0	N/A
Total Expenditures & ISTV's	**2,500,253**	**2,520,178**	**(19,925)**	**-0.8%**	**7,698,672**	**7,718,597**	**(19,925)**	**-0.3%**
Transfers Out:								
OPER TRF OUT-OTH	955	6,337	(5,382)	-84.9%	230,755	236,136	(5,382)	-2.3%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	159,159	159,159	0	0.0%
Total Transfers (Out)	**955**	**6,337**	**(5,382)**	**-84.9%**	**389,914**	**395,295**	**(5,382)**	**-1.4%**
Total Fund Uses	**2,501,208**	**2,526,515**	**(25,307)**	**-1.0%**	**8,088,586**	**8,113,893**	**(25,307)**	**-0.3%**

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	548,205	256,668	291,537	113.6%	1,836,042	1,704,658	131,384	7.7%
Higher Education	190,720	171,736	18,983	11.1%	614,022	596,650	17,372	2.9%
Public Assistance and Medicaid	984,795	859,157	125,638	14.6%	3,383,688	2,824,105	559,583	19.8%
Health and Human Services	72,736	73,710	(974)	-1.3%	339,537	337,269	2,268	0.7%
Justice and Public Protection	229,998	225,567	4,431	2.0%	642,851	628,495	14,355	2.3%
Environmental Protection and Natural Resources	8,494	8,420	74	0.9%	27,595	29,017	(1,422)	-4.9%
Transportation	1,283	1,014	269	26.5%	3,418	4,280	(862)	-20.1%
General Government	84,835	86,523	(1,688)	-2.0%	146,760	145,685	1,074	0.7%
Community and Economic Development	30,268	35,140	(4,872)	-13.9%	46,903	48,630	(1,727)	-3.6%
Tax Relief and Other	251,706	254,644	(2,938)	-1.2%	401,792	347,104	54,689	15.8%
Capital Outlay	12	6	6	107.4%	12	6	6	107.4%
Debt Service	97,201	94,449	2,752	2.9%	256,052	236,437	19,615	8.3%
Pending Payroll	0	0	0	N/A	0	0	0	N/A
Total Expenditures & ISTV's	**2,500,253**	**2,067,035**	**433,218**	**21.0%**	**7,698,672**	**6,902,337**	**796,336**	**11.5%**
Transfers Out:								
OPER TRF OUT-BUD STABILIZATION	0	0	0	N/A	0	0	0	N/A
OPER TRF OUT-OTH	955	1	954	N/A	230,755	287,945	(57,191)	-19.9%
OPER TRF OUT-TEMPORARY	0	9,515	(9,515)	N/A	159,159	9,515	149,644	1572.7%
Total Transfers (Out)	**955**	**9,516**	**(8,561)**	**-90.0%**	**389,914**	**297,461**	**92,453**	**31.1%**
Total Fund Uses	**2,501,208**	**2,076,551**	**424,657**	**20.5%**	**8,088,586**	**7,199,797**	**888,789**	**12.3%**

FUND BALANCE

Table 5 describes the General Revenue Fund (GRF) ending fund balance for FY 2009. These updated estimates reflect actions included in the budget reduction plan that was announced in September 2008.

The estimated ending fund balance of $137.1 million includes the one half of one percent required ending fund balance of $136.1 million. This GRF ending fund balance is an estimate and should not be considered as a balance available for expenditure in FY 2009 nor should it be considered as equivalent to the final FY 2009 surplus calculation as defined in Section 131.44 of the Ohio Revised Code.

It is important to note that the GRF ending fund balance will be impacted by any GRF expenditures or transfers that may be authorized by the General Assembly or by the Controlling Board during the course of the fiscal year.

FUND BALANCE
GENERAL REVENUE FUND
FY 2009
($ in thousands)

July 1, 2008 Beginning Cash Balance	**$ 1,682,002**
Plus FY 2009 Estimated Revenues	19,024,199
Plus FY 2009 Estimated Federal Revenues	6,632,767
Plus FY 2009 Estimated Transfers to GRF	1,561,105
Total Sources Available for Expenditure & Transfer	**28,900,073**
Less FY 2009 Estimated Disbursements	27,478,990
Less FY 2009 Estimated Total Encumbrances as of June 30, 2009	431,512
Less FY 2009 Estimated Transfers Out	852,439
Total Estimated Uses	**28,762,941**
FY 2009 ENDING FUND BALANCE	**137,132**
One half of one percent target ending fund balance	136,090
Excess / (Shortfall)	$ 1,042

FEATURED ANALYSIS

Overview of State Borrowing

With limited exceptions, the Ohio Constitution prohibits the incurrence or assumption of debt by the State without a popular vote. The State may incur debt to cover casual deficits or failures in revenues, or to meet expenses not otherwise provided for, but this power is limited in amount to $750,000. The Constitution expressly precludes the State from assuming the debts of any county, city, town or township, or of any corporation (though an exception in both cases is for debts incurred to repel invasion, suppress insurrection, or defend the State in war). As further described below, Ohioans have by 18 constitutional amendments approved by a popular vote from 1921 to present, authorized the incurrence of both State special and general obligation debt payable from or supported by a pledge of State general revenues. Issuance of direct debt paid from the State's general revenue fund is also subject to the Constitutional 5% limitation on debt service. The State also issues revenue bonds payable from other revenue sources that are not subject to these limitations or the below authorizations.

General Obligation Debt

State general obligation debt carries the full-faith and credit of the state and is supported by a pledge of State taxes and excises. Exceptions are for highway user receipts which may only be used to pay debt service on bonds issued for highway projects and net state lottery proceeds which may only be used for debt service for public primary and secondary education facilities. The Ohio Public Facilities Commission and the Treasurer of State are the only currently authorized issuers of the State's general obligation debt.

Ohio Public Facilities Commission. As described further below, The Ohio Public Facilities Commission (OPFC) issues tax-supported general obligation debt for the following purposes: primary and secondary education, higher education, natural resources and conservation, coal research and development, infrastructure improvements, third frontier research and development, and site development.

- *Primary and Secondary Education.* A 1999 constitutional amendment authorizes the issuance of general obligation debt, in amounts authorized by the General Assembly, for the purpose of paying costs of capital facilities for a system of common (public) schools throughout the State. The amount of authorized debt is determined by the General Assembly in each State capital bill, with no prescribed constitutional limitations on the amount that may be issued annually or outstanding.
- *Higher Education*. That same 1999 constitutional amendment also authorizes the issuance of general obligation debt, in amounts authorized by the General Assembly, for the purpose of paying the cost of capital facilities for State supported and assisted institutions of higher education. The amount of authorized debt is determined by the General Assembly in each State capital bill, with no

prescribed constitutional limitations on the amount that can be issued annually or outstanding.

- *Natural Resources*. A 1993 constitutional amendment authorizes the issuance of general obligation debt to finance capital facilities for parks and natural resources improvements. Not more than $50 million may be issued in any fiscal year, and no more than $200 million may be outstanding at any time.
- *Conservation*. A 2000 constitutional amendment authorizes the issuance of general obligation debt to finance preservation of green space, development of recreational trails and protection of farmland, which may be through partnerships with local governments. Not more than $50 million may be issued in any fiscal year, and no more than $200 million may be outstanding at any time.
- *Coal Research and Development*. A 1985 constitutional amendment authorizes the issuance of general obligation debt to finance grants or make or guarantee loans for research and development of coal technology that will encourage the use of Ohio coal. Those grants or loans may be made to individuals, associations, or corporations doing business in the State, or to any educational or scientific institution located in the State. Not more than $100 million may be outstanding at any time.
- *Infrastructure Improvements*. A 2005 constitutional amendment provided a ten-year extension of previous programs by authorizing an additional $1.35 billion of general obligation debt to assist in the financing of public infrastructure capital improvements of municipal corporations, counties, townships, and other government entities designated by law, with no more than $120 million authorized to be issued in the first five fiscal years of the extension and no more than $150 million issuable in each of the five fiscal years thereafter.
- *Third Frontier Research and Development*. A 2005 constitutional amendment authorizes the issuance of $500 million of general obligation debt in support of Ohio industry, commerce and business. Not more than $100 million may be issued in each of the first three fiscal years and not more than $50 million in any other fiscal year.
- *Development of Sites*. A 2005 constitutional amendment authorizes the issuance of $150 million of general obligation debt for the development of sites for industry, commerce, distribution, and research and development. Not more than $30 million may be issued in each of the first three fiscal years and not more than $15 million in any other fiscal year.

Treasurer of State. The Treasurer of State issues tax-supported general obligation debt for highway construction. The currently authorized program is described below.

- *Highway (Capital Improvements)*. A 1995 constitutional amendment authorizes the issuance of general obligation debt for highway construction. No more than $220 million may be issued in any fiscal year, and not more than $1.2 billion may be outstanding at any time. Although secured by the State's general obligation pledge, highway capital improvement debt is also secured by a pledge of and has always been paid from highway user receipts (including the motor vehicle fuel tax) that are constitutionally restricted in use to highway related purposes.

Special Obligation Lease-Rental Debt

State special obligation debt, the owners or holders of which are not given the right to have excises or taxes pledged to the payment of debt service, is authorized for specified purposes by Section 2i of Article VIII of the Ohio Constitution. Debt service payments are subject to biennial appropriations made in the State's operating budget under leases or agreements entered into by the State. The Ohio Building Authority and the Treasurer of State are the current issuers of the State's special obligation lease-rental bonds.

Ohio Building Authority. The Ohio Building Authority (OBA) issues special obligations for facilities to house branches and agencies of State government and their functions, including: State office buildings and facilities for the Department of Administrative Services (DAS) and others (including school district technology and security facilities); the Department of Transportation (ODOT) and the Department of Public Safety (DPS); juvenile detention facilities for the Department of Youth Services (DYS) and other governmental entities; Department of Rehabilitation and Correction (DRC) prisons and correctional facilities including certain local and community-based facilities; and office buildings for the Bureau of Workers' Compensation (BWC) and Department of Natural Resources (DNR).

Treasurer of State. The Treasurer (replacing for these purposes the OPFC in 2000 and the OBA in 2005) issues obligations for mental health, parks and recreation, and cultural and sports facilities purposes.

Debt service on special obligations is generally paid from the GRF, with the exception of debt issued for ODOT and DPS facilities which is paid the State Highway Operating Fund and the Highway Safety Fund, respectively, and for BWC facilities which is paid from the BWC Administrative Cost Fund.

Other Obligations (Payable from State Special Revenue Sources)

- *Economic Development*. These bonds are issued by the Treasurer of State for various economic development assistance programs administered by the State's Department of Development. These bonds provide funds for direct loans and loan guarantees for projects within the State. The bonds are secured by and payable from State profits derived from the sale of spirituous liquor.
- *Clean Ohio Revitalization Program*. These bonds are issued by the Treasurer of State to fund projects approved by the Clean Ohio Council, which consists of the directors of the Department of Development, Environmental Protection Agency, Public Works Commission, four members of the Ohio General Assembly, and seven citizens appointed by the Governor. The bonds provide financing for grants and loans to projects that provide for the environmentally safe and productive development and use or reuse of publicly and privately-owned lands within the

State. These bonds are also payable from State profits derived from the sale of spirituous liquor.

- *Highway Infrastructure Bank*. The Treasurer of State issues Grant Anticipation Revenue Vehicles (or GARVEE) bonds for the Ohio Department of Transportation for selected highway construction projects that have been approved by the U.S. Department of Transportation. The debt service charges are secured by and paid from federal transportation funds allocated to the State.

Certificates of Participation

State agencies have also entered into lease-purchase agreements with terms ranging from 7 to 20 years in order to participate in buildings and equipment, information systems and non-highway transportation projects that have local as well as State use and benefit. Certificates of Participation (COPs) have been issued that represent fractionalized interests in or are payable from State payments made under those agreements. Payments by the State are subject to biennial appropriations by the General Assembly, and the holders or owners of the COPs have no right to have excises or taxes levied to make those payments. The OBM Director's approval of such agreements is required if COPs are to be publicly-offered in connection with those agreements.

Revenue Bonds

Revenue bonds are used by the State to finance a specific project or category of projects. Debt service is secured by and paid from revenues or fees that are charged for the use of facilities. Various State authorities and commissions have been created by the General Assembly to issue revenue bonds. These include the Ohio Turnpike Commission, the Ohio Housing Finance Agency, the Ohio Water Development Authority, and the Petroleum Underground Storage Tank Release Compensation Board. The funds borrowed by these authorities and the funds for the debt service payments on their obligations are outside the State treasury and are not appropriated by the legislature.

The Department of Development, the Ohio Water Development Authority, the Ohio Air Quality Development Authority, the Ohio Housing Finance Agency and the Ohio Higher Education Facilities Commission also issue so-called "conduit" bonds for economic development, pollution control and solid waste, housing and private higher education projects, the debt service on which is paid solely by the benefited business or entity.

5% Debt Service Limitation

Section 17 of Article VIII of the Ohio Constitution, approved by Ohio voters in November 1999, establishes an annual debt service "cap" applicable to future issuances of State “direct obligations”, being those general obligations (except those for highway improvements payable from highway user receipts) and special lease rental obligations payable from the GRF or net State lottery proceeds. Generally, new obligations may not be issued if debt service for any future Fiscal Year on those new and the then outstanding bonds of those categories would exceed 5% of the total of estimated GRF revenues plus net State lottery proceeds for the Fiscal Year of issuance.

Those direct obligations of the State include general obligation and special obligation bonds that are paid from the State's GRF, but exclude (i) general obligation debt for both third frontier research and development and the development of sites for industry commerce, distribution and research and development, and (ii) general obligation debt payable from non-GRF funds (such as highway bonds that are paid from highway user receipts). Pursuant to the implementing legislation, the Governor has designated the OBM Director as the State official responsible for making the 5% determinations and certifications. Application of the 5% cap may be waived in a particular instance by a three-fifths vote of each house of the Ohio General Assembly, and that cap does not apply to bonds issued to retire bond anticipation notes for which the requirements were met as to the bonds anticipated at the time of note issuance, or to debt issued to defend the State in time of war.

OBM's Debt Management Function

Section 126.11 of the Ohio Revised Code sets forth OBM's role and responsibilities with respect to managing existing State debt and proposed issuances of new State debt. For proposed sales of new State debt, OBM must review and approve each sale including the amount, security, source of payment, structure and maturity schedule. OBM is also charged with reviewing and commenting on the resolution or order authorizing the sale and the preliminary and final official statements. Following each sale, issuers are to provide OBM with a final transcript of documents relating to the sale including the final debt service schedules, prices and yields, tax compliance certificate and identification of the original purchasers of the obligations.

OBM is also charged with developing and distributing a coordinated bond sale schedule for certain State bond issuing authorities. The coordinated bond sale calendar is published monthly and includes projected sales over the next six months for the following issuers: i) Ohio Public Facilities Commission; ii) Treasurer of State; iii) Ohio Building Authority; iv) Ohio Housing Finance Agency; v) Ohio Water Development Authority; vi) Ohio Turnpike Authority, and vii) Petroleum Underground Storage Tanks Release Compensation Board.

OBM also serves as the provider of official disclosure information relating to state debt, state budgeting and finances, certain economic and demographic information, and other information required under federal continuing disclosure regulations. This is accomplished through submission of an annual information report (including accompanying annual financial reports) and the submission of timely reports of the occurrence of any specified material events. Copies of the State's annual disclosures and material event notices are available through any of the Nationally Recognized Municipal Securities Information Repositories or the State Information Depository.

With respect to the State's biennial operating budget, OBM establishes and monitors debt service appropriation line items within various agency budgets to ensure that all necessary debt service payment authorizations and associated administrative expenses are included in each budget bill. OBM also models and projects the affordable size of future capital bills within the constraint of the Constitutional 5% limitation on debt service and reviews and approves each requested release of funds from State capital appropriations.

Debt and Interest Rate Risk Management Policy

A State of Ohio Debt and Interest Rate Risk Management Policy has been adopted by the Office of Budget and Management and the three issuers of debt backed by State revenue - the Ohio Building Authority, the Ohio Public Facilities Commission and the Treasurer of State. The Policy ensures coordination and consistency in the issuance and management of State debt and related derivative products. This policy may be found at: http://www.obm.ohio.gov/debt/dmriskpolicy.pdf .

State Debt Burden

The following tables provide certain historical information and comparisons regarding debt outstanding and debt service. These tables reflect only then outstanding general and special obligation debt payable from the State's GRF.

Year	Principal Amount Outstanding (as of July 1)	Outstanding Debt Per Capita	As % of Annual Personal Income
1980	$1,991,915,000	$184	1.83%
1990	3,707,054,994	341	1.82
2000	6,308,680,025	555	1.97
2005	8,476,432,135	740	2.32
2006	8,909,382,567	777	2.34
2007	9,211,911,840	803	2.33
2008	8,631,565,254	753(a)	2.18(b)

Fiscal Year	Debt Service Payable	Total GRF Revenue and Net State Lottery Proceeds	Debt Service as % of GRF Revenue and Lottery Proceeds	Debt Service as % of Annual Personal Income
1980	$187,478,382	$ 4,835,670,223	3.88%	0.17%
1990	488,676,826	12,230,681,298	4.00	0.24
2000	871,313,814	20,711,678,217	4.21	0.27
2005	1,097,842,137	26,195,614,000	4.19	0.30
2006	1,128,591,711	26,492,277,500	4.26	0.30
2007	1,216,382,190	26,447,718,900	4.60	0.31
2008	1,231,640,023	27,331,442,423	4.51(a)	0.31(b)

(a) Based on July 2007 population estimate.
(b) Based on preliminary 2007 personal income data.