# OBM

Ted Strickland
Governor

J. Pari Sabety
Director

March 10, 2009

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 February 28, 2009 as well as highlights of regional and national economic indicators that are important to understanding the current state and direction of Ohio's economy.

The economic recession has intensified in the early months of 2009 both across the U.S. and in Ohio. Reflecting these challenging economic conditions, Ohio's tax receipts for February totaled $937.3 million and were $50.5 million below the December revised estimates primarily as a result of timing issues in the corporate franchise and foreign insurance taxes due to payment dates falling on Saturdays. Taking these timing differences into account, the remaining negative variance from the December revised estimates was $8 million. Following two months of significant underperformance of tax receipts stemming from the record poor economic performance of the holiday season, revenues appear to be trending closer to estimate. Upon completion of the upcoming income tax filing season in April and May, the majority of Ohio's tax receipts will have been received, and the full revenue impact of the national downturn will be apparent.

On January 29, 2009, the Office of Budget and Management released Budget Directive 11, which fully implemented the budget adjustments announced in December 2008, including further reductions of $180.5 million to FY 2009 agency spending levels. Revenue forecasts have been revised to reflect these December adjustments and, beginning with the January Financial Report, actual revenue has been analyzed against the December revised forecasts. OBM has now completed the work of re-forecasting monthly agency spending for FY 2009 based on Budget Directive 11. Beginning with this March Financial Report, actual General Revenue Fund disbursements are compared against those revised FY 2009 disbursement estimates (see Table 3).

Overall, General Revenue Fund spending patterns are under control, showing a 0.3% variance above estimate, or $53.4 million. Public Assistance and Medicaid expenditures are managing within budgeted spending levels, despite significant increases in caseloads.

The Office of Budget and Management continues to monitor the overall economic situation and will recommend action as appropriate.

This month's featured analysis focuses on four major Ohio programs in which spending is directly tied to trends in the performance of Ohio's economy.

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# *ECONOMIC SUMMARY*

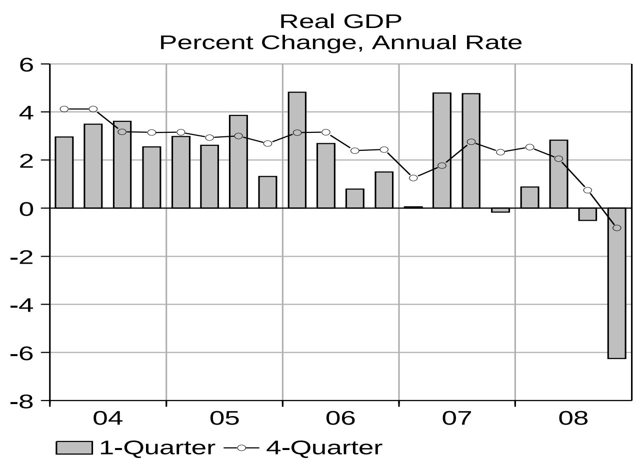
The economic recession intensified in the early months of 2009 both across the U.S. and in Ohio. Production, employment and consumer spending have declined at the fastest pace in decades with little prospect of a near term upturn. Housing prices, construction and sales remain depressed, and weakness has spread to the nonresidential construction sector.

**Overview of Economic Performance**

- The U.S. economy contracted at a significantly faster pace in the fourth quarter of 2008 than earlier reported. The fourth quarter decline in real GDP, revised to 6.2% from 3.8%, is the largest quarterly contraction since 1982.
- Unemployment continues to trend higher, with the U.S. unemployment rate increasing by 0.5% in February to 8.1%. Ohio's unemployment rate increased by 1.0% reaching 8.8% in January.
- Personal income and consumption expenditures rose slightly in January, but fundamentals continue to deteriorate.

## Economic Growth

The economy contracted at a faster pace in the fourth quarter of 2008 than initially expected and originally reported at the end of January. The rate of decrease in real GDP was revised from the advance estimate of 3.8% down to 6.2%. Patterns in construction spending and factory shipments point toward another downward revision.




The fourth quarter decline was the largest since the first quarter of 1982 and before that the second quarter of 1980. The latter ushered in a ten-quarter period during which real GDP decreased in six quarters and the economy managed virtually no net growth. The economy was officially in recession during January 1980 to July 1980 and January 1981 to November 1982. The current recession began in December 2007 and will become the longest in the post-war period if it lasts into May 2009.

Compared with the fourth quarter of 2007, real GDP was lower by 0.8% in the fourth quarter of 2008. This was the first decrease over a four-quarter span since the third quarter of 1991, when output fell 0.1%, and the first for a calendar year since the fourth quarter of 1982, when output fell 1.4%.

Most major sectors contributed to the decline during the fourth quarter. Exports, personal consumption expenditures, investment in equipment and software, and investment in residential structures subtracted 3.4 percentage points, 3.0 percentage points, 2.2 percentage points, and 0.8 percentage points, respectively.

Federal government spending made a positive contribution of 0.5 percentage points, which was partly offset by a negative contribution of 0.2 percentage points from state and local government spending. Imports decreased for the fifth consecutive quarter, adding 3.0 percentage points to growth, as much of the decline in domestic spending came at the expense of goods and services produced overseas.

The trade deficit widened from its long-time low in the third quarter, as exports fell by more than imports, but was the second narrowest gap since the first quarter of 2000. The trade deficit typically widens when the U.S. economy is expanding and narrows when the U.S. economy slows significantly or contracts. The last trade surplus occurred late in the 1981-82 recession. Trade was close to balance following the 1990-91 recession and again in the mid-1990s slowdown. At 3.2% as a percent of GDP, the trade deficit remains well below the peak of 5.9% reached in the heart of the most recent economic expansion, but is still far from balance.

Exports have been a key source of strength for the Ohio economy in the past. Growth in Ohio exports slowed in the third quarter of 2008 and decreased 3.4% in the fourth quarter as the economic slowdown gripped world markets. The sharp decline in commodity prices and weak markets for transportation goods undermined foreign demand for U.S.-made goods.

The main sources of the large revision to the change in fourth quarter GDP were the change in business inventories, exports, and personal consumption expenditures for nondurable goods. The revision to the change in inventories accounted for one-half, or 1.2 percentage points, of the downward revision to GDP.

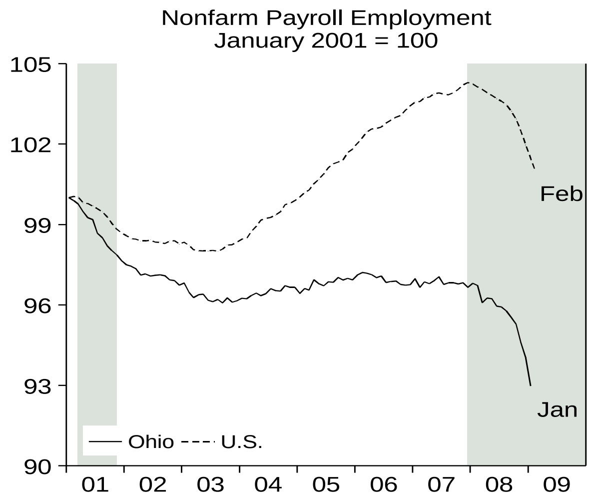
Much larger inventory reductions are likely in the quarters immediately ahead, in light of the substantial drop-off in demand and the relatively small inventory reductions so far in this cycle compared with previous recessions. As a percent of GDP, the decline in inventories has been only half as large in any quarter in this cycle as the maximum declines in the 1980, 1981-82 and 2001 recessions.

Forecasters expect another steep drop in real GDP in the first quarter, followed by a smaller decline in the second quarter and at least a modest increase in the second half of 2009. The possibility of a sharp rebound in the second half fits the historical pattern in which the strength of recoveries often has mirrored the severity of contractions. The chances that the pattern will hold in this cycle appear small, at least in 2009, considering the degree and reach of financial sector weakness and the absence of signs of a pending rebound.

Global Insight predicted a 6.0% decline in real GDP in the first quarter before the fourth quarter revision, followed by a 3.4% decline in the second quarter, no change in the third quarter and an increase of 1.7% in the fourth quarter. Leading indicators are generally consistent with that outlook. The Weekly Leading Index from the Economic Cycle Research Institute was little changed on balance in late February from its November level, but has been slipping in recent weeks. The Conference Board's leading economic index increased in January for the second straight month, lifting its smoothed 6-month rate of change – while still negative – to the highest level since last July.

## Employment

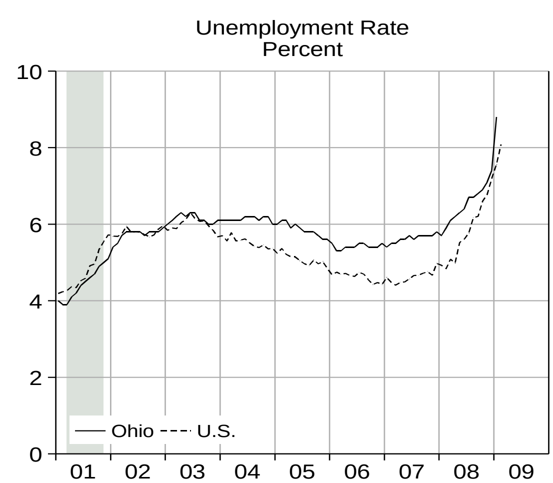
Labor markets deteriorated again in February, and did so at a faster pace than originally reported in previous months. The unemployment rate increased to 8.1%. Average hourly earnings increased 0.2% to 3.6% above the year earlier level. Total hours worked during the month decreased 0.7% to a level that if maintained would result in a 7.3% annualized rate of decline in labor input during the first quarter.




Total employment decreased by 651,000 jobs in February after falling by a revised 655,000 jobs in January and 681,000 jobs in December. Employment has declined by 2.6 million jobs in the past four months – a drop surpassed only once before in September 1945 when military personnel were discharged in large numbers during a short period. Other than in 1945, the 4-month decrease in jobs, as a percent of total employment, has been surpassed only twice before – in the 1957-58 and 1973-75 recessions.

Large employment declines occurred in nearly all major industry sectors. Manufacturing shed 168,000 jobs in February, and the January decline was revised down from 207,000 to 257,000. Construction lost 104,000 jobs. In total, employment in service-producing sectors fell by 279,000 jobs, as only education and health services added to employment (+26,000), and even here, the January gain was trimmed from 54,000 to 43,000. Payrolls at professional and business services firms fell 180,000. Retail services payrolls fell by 45,000. Employment in trade, transportation and utilities decreased by 124,000 jobs.

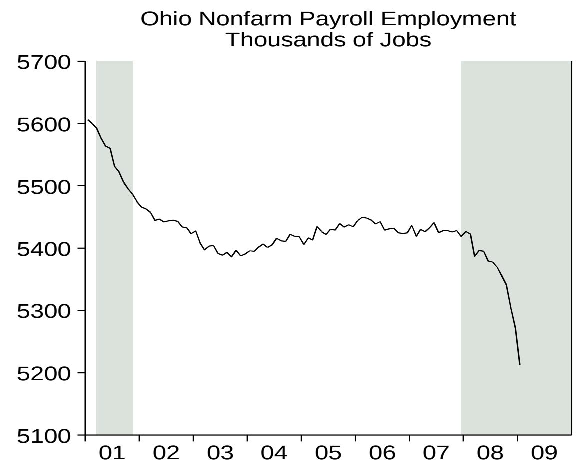
Approximately four-fifths of the 274 industries tracked by the Bureau of Labor Statistics reported lower payrolls over one, three, six and twelve month periods. Payroll decreases were even more prevalent in manufacturing, where more than nine out of ten industries reported lower employment than three, six and twelve months earlier.




The **unemployment rate** increased by 0.5 points in February to 8.1%. Up by 3.7 points from the cycle low that was reached in March 2007, the rate was the highest since December 1983. The rate was boosted somewhat by the net entry of 498,000 job seekers into the labor force. The number of unemployed workers increased 851,000 from January and was 5 million higher than a year earlier. The broadest measure of unemployment, which includes so-called discouraged workers, increased to 14.8% in February from 13.9% in January and 9.0% in February 2008.

The **length of the workweek** for all production and nonsupervisory workers remained at the all-time low of 33.3 hours first reached in December. The manufacturing workweek fell to 39.6 hours. Manufacturing overtime fell to 2.6 hours – down sharply from 4.6 hours as recently as April 2006 and the lowest level since April 1983. The continuing decline in the length of the workweek indicates that labor market recovery is not imminent.


**Ohio employment** decreased for the ninth straight month and the tenth out of the last twelve months in January. Nonfarm payrolls decreased by 59,700 jobs during the month, and the previously reported December 2008 level was revised lower by 57,800 jobs. Ohio's unemployment rate jumped to 8.8% in January, an increase of 1.0% over December.




Weakness was widespread, with all major sectors posting declines. Compared with January 2008, Ohio employment was down by 214,600 jobs, led by declines in manufacturing (-60,600), trade, transportation and utilities (-39,800), professional and business services (-39,800) and construction (-32,000).

None of the eleven **Ohio Metropolitan Statistical Areas** added jobs during the twelve months ended in January. Employment fell by the largest amounts in Cleveland (-44,100), Cincinnati (-24,400), Toledo (-14,900) and Dayton (-14,300).

## Consumer Income and Consumption

**Personal income and consumption** increased in January, but fundamentals continued to deteriorate. Personal income increased 0.4% to 1.9% above the year earlier level. Consumption expenditures rose 0.6%, breaking the string of six monthly declines, but remained 1.0% lower than a year earlier. Extending the recent trend, the percent of disposable income saved by households increased to 5.0% – the highest since March 1995. The rise in the saving rate reflects economic concerns that pushed the Conference Board's measure of consumer confidence to an all-time low in February.

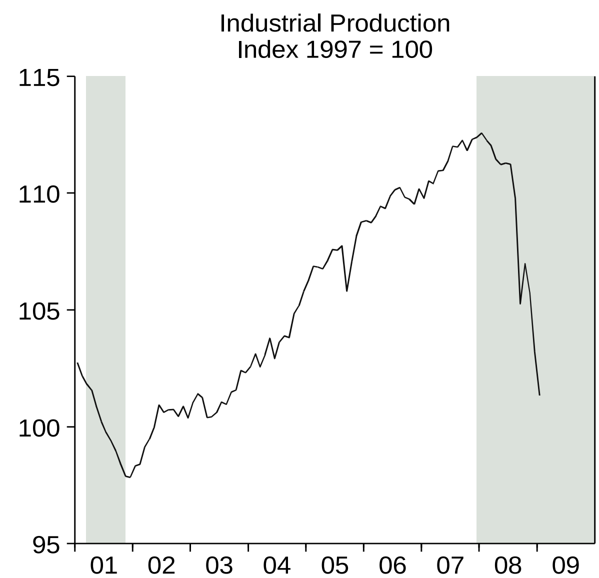
Incomes were lifted by special one-time factors, including cost-of-living adjustments for federal workers and transfer payments. Personal income increased 0.2%, excluding the one-time factors. Wage and salary disbursements fell 0.2% in January for the third consecutive decline, reflecting deterioration in labor markets. Proprietors' income declined in response to weakening demand.

The rise in consumption expenditures was narrowly based, resulting from increased outlays for food, which erased the previous month's decline, and energy, reflecting lower than normal temperatures. A pronounced area of weakness, which carried over into February, was auto sales. Light motor vehicle sales fell to 9.1 million units at a seasonally adjusted annual rate in February – the lowest monthly sales pace since December 1981. Even the average for the three months ending in February was the lowest since the 1981-82 recession. The sales pace was 15.3 million units in February 2008 and 16.5 million units in February 2007.

The decline in **chain store sales** has moderated in recent weeks. Compared with a year earlier, same-store sales were lower by 0.1% in February, up from -2.7% year-over-year last November. In typical fashion, consumers focused spending on essential goods and services and shied away from nonessentials. Spending at discount outlets increased 3.1% from a year earlier, whereas spending at department stores was lower by 9.8%. According to the Federal Reserve Bank of Cleveland, retailers in and around Ohio expect that sales will be flat or decline in coming months.

## Manufacturing

**Industrial production** decreased 1.8% in January despite a 2.7% increase in output at utilities. Capacity utilization fell to the lowest level on record dating back to 1948. Once again, declines were broad-based across industries. **Purchasing managers** at manufacturing firms reported that conditions were little changed in February.




Manufacturing production fell 2.5% following a 2.9% decrease in December. Production of durable goods decreased 4.8%, as the output of motor vehicles and parts decreased 23.4% to 43.7% below the year earlier level. Extended plant shutdowns trimmed vehicle assemblies to 3.9 million units at a seasonally adjusted annual pace – the lowest level on record dating back to 1967.

Production of primary metals, fabricated metals and machinery – all key employers in Ohio – fell 2.1%, 4.1% and 4.2%, respectively. Production of high-tech goods decreased 3.2%, and the declines in November and December were revised to larger declines. According to the Federal Reserve Bank of Cleveland, manufacturers in and around Ohio expect demand to remain very soft during the next few months, especially in the steel and automotive-related areas.

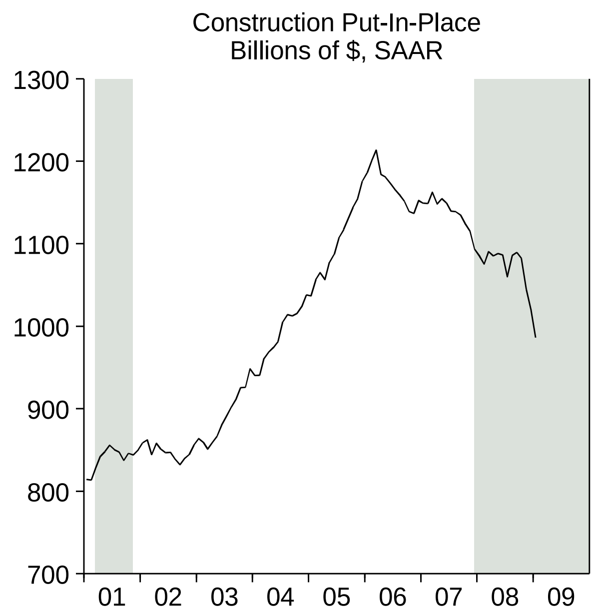
Among manufacturing segments, production increased only in food, beverage and tobacco (+0.6%) and miscellaneous manufactures industries (+0.3%). Changes everywhere else were in the red.

**Factory shipments and orders** portend further substantial weakness in manufacturing in the months ahead. Both shipments (-1.7%) and new orders (-1.9%) fell by more than inventories

(-0.8%) in January, indicating that additional cutbacks in production will be necessary to bring inventories in line with sales. During the six months ending in January, shipments fell 20.1% compared with only a 3.8% decline in inventories, forcing the inventories-to-shipments ratio sharply higher.

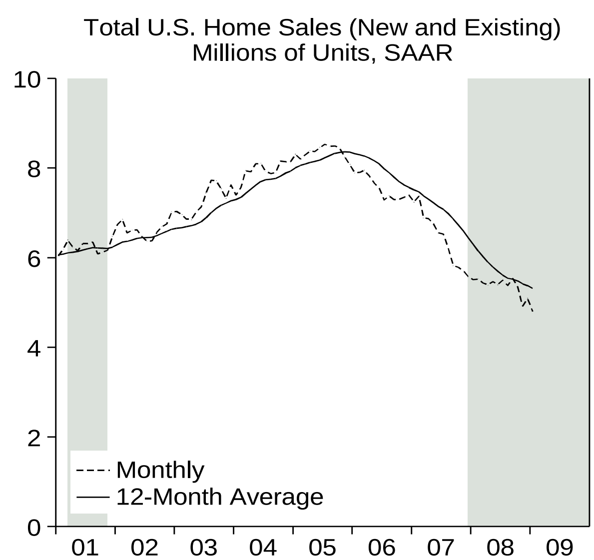
## Construction

**Construction put-in-place** fell 3.3% in January as the slide in residential construction continued and the more recent downturn in nonresidential construction accelerated. Residential construction put-in-place fell 2.8% in January – the 34th consecutive monthly decline but the smallest since October. Nonresidential construction fell 3.5% in the third consecutive monthly decline. Construction declined in all major nonresidential categories, led by power (-12.0%), lodging (-4.8%) and health care (-5.2%). Office and commercial construction also declined but by less than the average.




The **Architecture Billings Index** (ABI) fell in January to the lowest level on record since the inception of the survey in 1995. The index is based on a monthly survey of architects and has predicted shifts in nonresidential construction activity with a lead time of nine to twelve months in the past. The index has declined by about one-third in the past year, suggesting that recent weakness in nonresidential construction is the beginning of a cyclical downturn.

**Housing starts** decreased 16.8% in January to an all-time low of 466 thousand units at a seasonally adjusted annual rate. Even the 3-month moving average, which smoothes out the often-sizable month-to-month swings, hit a new all-time low 42.6% below the year earlier level. Housing permits also fell to a new all-time low, both on a monthly and a 3-month moving average basis, pointing to further declines in starts in the months ahead.




Total housing starts in the Midwest fell sharply, but remained just above the record low. Starts of single-family units did set a new low on a monthly and 3-month moving average basis, as did the 3-month moving average of single-family permits. According to the Federal Reserve Bank of Cleveland, contractors in and around Ohio do not expect the industry to turn around in 2009.

**Home sales** fell sharply in January, as sales of newly built homes decreased 10.2% to a record monthly low and sales of existing homes fell 5.3% to a record monthly low. Compared with the pace of sales, the number of new homes on the market increased to a new all-time high. In contrast, the number of existing homes on the market relative to sales posted the best two-month level in December and January since the summer of 2007. The short sales and sales of homes in foreclosure reportedly account for the difference, suggesting that housing demand remains weak.

**Housing prices** remained under downward pressure through the end of 2008, as demand continued to fall faster than construction was scaled back. The S&P/Case-Shiller index of prices in twenty major metropolitan areas fell 6.0% from the third quarter to the fourth quarter and 18.3% from the fourth quarter of 2007 to the fourth quarter of 2008. The index is down 26.7% from its peak in the second quarter of 2006.

## *GENERAL REVENUE FUND RECEIPTS*

During the month of February**, GRF revenue totaled $1,468.6 million** and was $362.9 million below the revised estimates released in December. The largest driver of this negative performance was an estimated $300.0 million in temporary transfers in (to reimburse the GRF for cash advances to local governments and school districts associated with the phase out of the tangible personal property tax) which, as a result of the timing of processing, ended the month $300.0 million below estimates. Also contributing to the negative monthly variance was worse than estimated performance in the non-auto and auto sales, corporate franchise, foreign insurance, and cigarette taxes, which together combined to offset a better than estimated performance in the personal income tax and in several smaller taxes.

The following table includes these February variances and updates the year-to-date revenue variances against December's revised estimates:

| **Category** | **Description** | **YTD $ Variance** | **YTD % 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 & horse racing | ($135.5) | (1.2%) |
| Non-tax receipts | Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers | ($34.3) | (0.7%) |
| Transfers | Budget stabilization, liquor transfers, capital reserve, other | ($248.2) | (34.5%) |
| TOTAL GRF REVENUE VARIANCE: | | ($418.0) | (2.5%) |

Focusing on February tax receipts, the negative performance of the non-auto and auto sales, corporate franchise, foreign insurance, and cigarette taxes more than offset the positive performance among the other GRF tax sources as **GRF tax receipts totaled $937.3 million,** but were $50.5 million (5.1%) below December's revised estimates. Specifically, the non-auto sales tax and foreign insurance taxes finished the month $16.0 million and $29.0 million below estimate, respectively. The auto sales, corporate franchise, and cigarette taxes also finished the month in negative territory, offsetting the positive performance in the personal income tax of $10.9 million.

The following table identifies those individual tax sources that came in above and below the February monthly estimate and the size of that variance.

| Individual Sources Above Estimate | | Individual Sources Below Estimate | |
|---|---|---|---|
| Personal Income Tax | $10.9 | Non-Auto Sales Tax | ($16.0) |
| Public Utility Tax | $3.2 | Auto Sales Tax | ($2.9) |
| Other Sources Above Estimate | $0.3 | Corporate Franchise Tax | ($13.4) |
| | | Foreign Insurance Tax | ($29.0) |
| | | Cigarette Tax | ($3.4) |
| | | Federal Grants | ($8.1) |
| | | Temporary Transfers In | ($300.0) |
| | | Other Sources Below Estimate | ($4.4) |
| **Total above:** | **$14.4** | **Total below:** | **($377.2)** |

### Non-Auto Sales and Use Tax

While the performance of the non-auto sales tax during the month of February improved relative to December and January, it still struggled, falling short of the $455.9 million estimate by $16.0 million (3.5%). As with its performance versus the revised estimates, the year-over-year performance of the tax also saw a relative improvement over December and January as receipts were $13.8 million (3.0%) below February 2008. While this is an improvement from the double-digit declines of the holiday season, it is still troubling that the tax continues to decrease on a year-over-year basis. Through three months under the December revised estimates, the tax is now $106.8 million (2.4%) below estimates.

### Auto Sales Tax

Slightly reversing what had been a relative bright spot in recent months was the performance of the auto sales tax during the month of February. Collections were $52.1 million, falling short of the revised estimate by $2.9 million (5.3%). That said, through the first three months under the December revised estimates (which it must be noted were increased for this tax source) the tax is still $1.5 million (0.3%) above estimates – a number that is especially surprising when considering the performance of the non-auto sales tax as well as the litany of negative news surrounding the auto industry and the economy in general. Year-over-year, the auto sales tax receipts continue to fall well short (7.0%) of FY 2008 levels, but not by nearly as much as the unit auto sales numbers would imply.

### Personal Income Tax

In a reversal from December and January, personal income tax receipts for the month of February totaled $207.5 million and were $10.9 million (5.5%) above the estimate. While the overall performance of the tax was positive, it masked a further weakening of Ohio's employment numbers and its impact on withholding, which fell $7.6 million (1.3%) short of the February estimate. Even after adjusting for the withholding rate cut and one fewer payment day than the same month last year, withholding in February declined from a year ago. In addition to the effects of employment on withholding, it appears that the continued fall in equity markets had a negative effect on estimated payments as they fell $2.4 million (19.0%) short of the monthly estimate. Thus, the overall positive variance in the personal income tax was due largely to lower than expected refunds ($14.9 million or 4.3% below the estimate).

On a year-over-year basis, total personal income tax receipts for the month of February 2009 were $57.3 million (21.6%) below February 2008 levels. For the year-to-date, FY 2009 personal income tax collections were $450.6 million or 8.2% below FY 2008 levels. It is important to note that direct comparisons between total FY 2009 and FY 2008 personal income tax receipts are complicated by the last installment of the 21% reduction in income tax rates being phased in as part of the State's multi-year income tax reform (H.B. 66, 126th General Assembly). Beginning in tax year 2004, tax rates were cut 4.2% per year over five years. The rate cut for tax year 2009, relative to tax year 2008, is actually 5.05%.

| FY 2009 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions) | | | | | | |
|---|---|---|---|---|---|---|
| | **EST. FEB** | **ACTUAL FEB** | **$ VAR FEB** | **EST. Y-T-D** | **ACTUAL Y-T-D** | **$ VAR Y-T-D** |
| Withholding | $575.5 | $567.9 | ($7.6) | $5,073.6 | $5,040.8 | ($32.8) |
| Quarterly Est. | $12.7 | $10.3 | ($2.4) | $899.1 | $864.3 | ($34.8) |
| Trust Payments | $1.5 | $1.1 | ($0.4) | $32.8 | $26.6 | ($6.2) |
| Annual Returns & 40 P | $18.7 | $23.9 | $5.1 | $181.8 | $190.9 | $9.1 |
| Other | $6.1 | $6.3 | $0.2 | $47.3 | $41.2 | ($6.1) |
| Less: Refunds | ($345.9) | ($331.0) | $14.9 | ($676.0) | ($637.7) | $38.4 |
| Local Dist. | ($72.1) | ($71.1) | $1.0 | ($476.3) | ($478.4) | ($2.1) |
| **Net to GRF** | **$196.6** | **$207.5** | **$10.9** | **$5,082.3** | **$5,047.8** | **($34.5)** |

### Corporate Franchise Tax

Corporate franchise tax receipts in February totaled $93.0 million which was short of the monthly estimate of $106.4 million by $13.4 million (12.6%). However, the February shortfall was really a timing issue. The estimated payment was due on Saturday, January 31. More revenue came in for January than expected – January collections were $33.3 million over the estimate. January and February revenues were a combined $19.9 million over the estimate. More than $12 million of this $19.9 million is due to a settlement payment received during February.

### 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. February is one of the major payment periods for the CAT and during the month receipts totaled $256.7 million and were $91.1 million below the estimate of $347.8 million. This negative performance versus estimates wiped out what had been a year-to-date surplus of $25.8 million and transformed it into a deficit of $65.4 million. OBM believes that the performance of this tax in February relative to the estimates is the result of two issues. First, based on prior year performance, the structure of the estimates assumed that substantially larger payments would be received in the second half of the fiscal year than in the first half. Second, it appears that the very weak general performance of the economy over the last several months, as reflected in Ohio's other major tax sources, finally caught up with the performance of the CAT.

Clearly, given the magnitude of the February shortfall, OBM will continue to closely monitor the performance of the CAT as we head into the final four months of the fiscal year.

### Public Utility Tax

During the month of February, public utility tax receipts totaled $36.6 million and were $3.2 million above estimates for the month. This variance is somewhat surprising as OBM had expected a partial correction to January's positive variance of $8.6 million that was attributed to an early payment by a gas company that had been expected to arrive in February. As a result of the positive variances in the last two months, the public utility tax is $11.8 million (10.7%) above estimates for the year-to-date.

### Foreign Insurance Tax

During the month of February, foreign insurance tax receipts totaled $29.0 million and were $29.0 (50%) short of the $58.0 million estimate. This monthly variance is largely attributable to the timing of the end of February, which fell on a Saturday. As a result, fewer receipts than expected were received in February, but were instead booked in early March. The year-to-date variance should return to estimate in next months report.

### Cigarette Tax

The cigarette tax experienced a negative variance during month of February as receipts fell short of revised estimates by $3.4 million (5.4%). For the year-to-date, receipts for this tax now total $561.9 million and are still $4.0 million (0.7%) above estimates. On a year-over-year basis, tax receipts through February indicate that the trend of recent years of tax receipts contracting is continuing as receipts have decreased by $15.3 million (2.6%).

### GRF Non-Tax Receipts

GRF non-tax receipts totaled $519.3 million in February and were $12.0 million (2.3%) below estimates. This monthly variance is due primarily to lower than estimated federal grants ($8.1 million) received for reimbursement of Medicaid expenditures.

### GRF Transfers

GRF transfers totaled $12.0 million in February and were $300.4 million below estimates. This variance is primarily attributable to a delay in the processing of temporary transfers in scheduled for late February but that did not occur until early March. These temporary transfers are intended to reimburse the GRF for advances made earlier in the year to support the cash flow needs of the two funds receiving Commercial Activities Tax receipts. These funds provide reimbursements to school districts and units of local government for revenue lost as a result of the phase out of the tax on tangible personal property. Because of the schedule for making these payments and the timing of the receipt of CAT revenues, legislation authorizes temporary transfers from the GRF to support the payments and also to then reimburse the GRF for those payments later in the year. As a result of the delay in temporary transfers and the fact that temporary transfers out earlier in the year were lower than estimated, temporary transfers in during the month of March should come in about $133 million above estimates.

## Table 1
### GENERAL REVENUE FUND RECEIPTS
### ACTUAL FY 2009 VS ESTIMATE FY 2009
### ($ in thousands)

| REVENUE SOURCE | Month: ACTUAL FEBRUARY | Month: ESTIMATE FEBRUARY | 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 | 439,889 | 473,986 | (34,098) | -7.2% | 4,322,899 | 4,610,930 | (288,032) | -6.2% |
| Auto Sales & Use | 52,057 | 52,932 | (874) | -1.7% | 563,054 | 555,370 | 7,684 | 1.4% |
| Subtotal Sales & Use | 491,946 | 526,918 | (34,972) | -6.6% | 4,885,953 | 5,166,301 | (280,348) | -5.4% |
| Personal Income | 207,466 | 215,638 | (8,172) | -3.8% | 5,047,819 | 5,240,182 | (192,363) | -3.7% |
| Corporate Franchise | 92,990 | 106,346 | (13,357) | -12.6% | 223,895 | 201,794 | 22,101 | 11.0% |
| Commercial Activity Tax | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Public Utility | 36,618 | 33,451 | 3,167 | 9.5% | 121,422 | 110,260 | 11,162 | 10.1% |
| Kilowatt Hour | 11,814 | 10,456 | 1,358 | 13.0% | 92,018 | 91,803 | 215 | 0.2% |
| Foreign Insurance | 29,010 | 60,000 | (30,990) | -51.7% | 165,660 | 193,802 | (28,142) | -14.5% |
| Domestic Insurance | (100) | 0 | (100) | N/A | (872) | (158) | (714) | 451.8% |
| Other Business & Property Tax | 0 | 0 | 0 | N/A | 372 | 426 | (54) | -12.7% |
| Cigarette | 60,465 | 63,787 | (3,321) | -5.2% | 561,914 | 557,869 | 4,045 | 0.7% |
| Soft Drink | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Alcoholic Beverage | 4,400 | 4,123 | 277 | 6.7% | 37,664 | 38,440 | (776) | -2.0% |
| Liquor Gallonage | 2,673 | 2,782 | (108) | -3.9% | 24,361 | 24,749 | (388) | -1.6% |
| Estate | 0 | 0 | 0 | N/A | 30,837 | 32,082 | (1,245) | -3.9% |
| Horse Racing | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Total Tax Receipts | 937,282 | 1,023,501 | (86,219) | -8.4% | 11,191,043 | 11,657,550 | (466,507) | -4.0% |
| NON-TAX RECEIPTS | | | | | | | | |
| Federal Grants | 504,231 | 512,303 | (8,072) | -1.6% | 4,413,938 | 4,466,183 | (52,245) | -1.2% |
| Earnings on Investments | 0 | 0 | 0 | N/A | 97,412 | 78,100 | 19,312 | 24.7% |
| License & Fees | 12,491 | 13,413 | (922) | -6.9% | 50,034 | 50,344 | (309) | -0.6% |
| Other Income | 2,600 | 3,650 | (1,050) | -28.8% | 31,424 | 35,344 | (3,920) | -11.1% |
| ISTV'S | 6 | 2,000 | (1,994) | -99.7% | 14,925 | 12,110 | 2,815 | 23.2% |
| Total Non-Tax Receipts | 519,329 | 531,366 | (12,037) | -2.3% | 4,607,733 | 4,642,081 | (34,348) | -0.7% |
| TOTAL REVENUES | 1,456,610 | 1,554,867 | (98,256) | -6.3% | 15,798,776 | 16,299,631 | (500,855) | -3.1% |
| TRANSFERS | | | | | | | | |
| Budget Stabilization | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Liquor Transfers | 12,000 | 12,000 | 0 | 0.0% | 109,000 | 96,000 | 13,000 | 13.5% |
| Transfers In - Capital Reserve | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Transfers In - Other | 0 | 360 | (360) | N/A | 48,891 | 10,060 | 38,832 | 386.0% |
| Temporary Transfers In | 0 | 300,000 | (300,000) | N/A | 312,500 | 612,500 | (300,000) | -49.0% |
| Total Transfers | 12,000 | 312,360 | (300,360) | -96.2% | 470,391 | 718,560 | (248,168) | -34.5% |
| TOTAL SOURCES | 1,468,610 | 1,867,227 | (398,616) | -21.3% | 16,269,167 | 17,018,191 | (749,023) | -4.4% |

## Table 1A

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

| | Month | | | | Year-to-Date | | | |
|---|---|---|---|---|---|---|---|---|
| REVENUE SOURCE | ACTUAL FEBRUARY | REVISED FEBRUARY | $ VAR | % VAR | ACTUAL Y-T-D | REVISED Y-T-D | $ VAR | % VAR |
| TAX RECEIPTS | | | | | | | | |
| Non-Auto Sales & Use | 439,889 | 455,847 | (15,958) | -3.5% | 4,322,899 | 4,429,732 | (106,833) | -2.4% |
| Auto Sales & Use | 52,057 | 54,942 | (2,885) | -5.3% | 563,054 | 561,609 | 1,445 | 0.3% |
| Subtotal Sales & Use | 491,946 | 510,789 | (18,843) | -3.7% | 4,885,953 | 4,991,341 | (105,389) | -2.1% |
| Personal Income | 207,466 | 196,569 | 10,897 | 5.5% | 5,047,819 | 5,082,394 | (34,575) | -0.7% |
| Corporate Franchise | 92,990 | 106,346 | (13,357) | -12.6% | 223,895 | 203,704 | 20,191 | 9.9% |
| Commercial Activity Tax | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Public Utility | 36,618 | 33,448 | 3,171 | 9.5% | 121,422 | 109,648 | 11,774 | 10.7% |
| Kilowatt Hour | 11,814 | 11,810 | 4 | 0.0% | 92,018 | 92,351 | (334) | -0.4% |
| Foreign Insurance | 29,010 | 58,000 | (28,990) | -50.0% | 165,660 | 195,238 | (29,578) | -15.1% |
| Domestic Insurance | (100) | 0 | (100) | N/A | (872) | (772) | (100) | 13.0% |
| Other Business & Property Tax | 0 | 0 | 0 | N/A | 372 | 372 | 0 | 0.1% |
| Cigarette | 60,465 | 63,887 | (3,421) | -5.4% | 561,914 | 557,915 | 4,000 | 0.7% |
| Soft Drink | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Alcoholic Beverage | 4,400 | 4,123 | 277 | 6.7% | 37,664 | 37,829 | (164) | -0.4% |
| Liquor Gallonage | 2,673 | 2,782 | (108) | -3.9% | 24,361 | 24,728 | (368) | -1.5% |
| Estate | 0 | 0 | 0 | N/A | 30,837 | 31,753 | (916) | -2.9% |
| Horse Racing | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Total Tax Receipts | 937,282 | 987,753 | (50,471) | -5.1% | 11,191,043 | 11,326,502 | (135,459) | -1.2% |
| NON-TAX RECEIPTS | | | | | | | | |
| Federal Grants | 504,231 | 512,303 | (8,072) | -1.6% | 4,413,938 | 4,466,183 | (52,245) | -1.2% |
| Earnings on Investments | 0 | 0 | 0 | N/A | 97,412 | 78,100 | 19,312 | 24.7% |
| License & Fees | 12,491 | 13,413 | (922) | -6.9% | 50,034 | 50,344 | (309) | -0.6% |
| Other Income | 2,600 | 3,650 | (1,050) | -28.8% | 31,424 | 35,344 | (3,920) | -11.1% |
| ISTV'S | 6 | 2,000 | (1,994) | -99.7% | 14,925 | 12,110 | 2,815 | 23.2% |
| Total Non-Tax Receipts | 519,329 | 531,366 | (12,037) | -2.3% | 4,607,733 | 4,642,081 | (34,348) | -0.7% |
| TOTAL REVENUES | 1,456,610 | 1,519,119 | (62,508) | -4.1% | 15,798,776 | 15,968,583 | (169,807) | -1.1% |
| TRANSFERS | | | | | | | | |
| Budget Stabilization | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Liquor Transfers | 12,000 | 12,000 | 0 | 0.0% | 109,000 | 96,000 | 13,000 | 13.5% |
| Transfers In - Capital Reserve | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Transfers In - Other | 0 | 360 | (360) | N/A | 48,891 | 10,060 | 38,832 | 386.0% |
| Temporary Transfers In | 0 | 300,000 | (300,000) | N/A | 312,500 | 612,500 | (300,000) | -49.0% |
| Total Transfers | 12,000 | 312,360 | (300,360) | -96.2% | 470,391 | 718,560 | (248,168) | -34.5% |
| TOTAL SOURCES | 1,468,610 | 1,831,479 | (362,868) | -19.8% | 16,269,167 | 16,687,142 | (417,975) | -2.5% |

## Table 2

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

| | Month | | | | Year-to-Date | | | |
|---|---|---|---|---|---|---|---|---|
| REVENUE SOURCE | ACTUAL 2009 | ACTUAL 2008 | $ VAR | % VAR | ACTUAL 2009 | ACTUAL 2008 | $ VAR | % VAR |
| TAX RECEIPTS | | | | | | | | |
| Non-Auto Sales & Use | 439,889 | 453,708 | (13,819) | -3.0% | 4,322,899 | 4,553,502 | (230,604) | -5.1% |
| Auto Sales & Use | 52,057 | 73,641 | (21,584) | -29.3% | 563,054 | 605,270 | (42,216) | -7.0% |
| Subtotal Sales & Use | 491,946 | 527,349 | (35,404) | -6.7% | 4,885,953 | 5,158,772 | (272,819) | -5.3% |
| Personal Income | 207,466 | 264,734 | (57,268) | -21.6% | 5,047,819 | 5,498,373 | (450,554) | -8.2% |
| Corporate Franchise | 92,990 | 91,257 | 1,733 | 1.9% | 223,895 | 278,744 | (54,849) | -19.7% |
| Commercial Activity Tax | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Public Utility | 36,618 | 31,008 | 5,610 | 18.1% | 121,422 | 93,278 | 28,144 | 30.2% |
| Kilowatt Hour | 11,814 | 8,650 | 3,164 | 36.6% | 92,018 | 194,267 | (102,249) | -52.6% |
| Foreign Insurance | 29,010 | 61,707 | (32,698) | -53.0% | 165,660 | 194,489 | (28,829) | -14.8% |
| Domestic Insurance | (100) | 0 | (100) | N/A | (872) | 433 | (1,305) | -301.2% |
| Other Business & Property Tax | 0 | (2) | 2 | N/A | 372 | 393 | (22) | -5.5% |
| Cigarette | 60,465 | 66,148 | (5,682) | -8.6% | 561,914 | 577,201 | (15,286) | -2.6% |
| Soft Drink | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Alcoholic Beverage | 4,400 | 3,713 | 687 | 18.5% | 37,664 | 37,318 | 347 | 0.9% |
| Liquor Gallonage | 2,673 | 2,554 | 119 | 4.6% | 24,361 | 23,638 | 723 | 3.1% |
| Estate | 0 | 0 | 0 | N/A | 30,837 | 31,025 | (188) | -0.6% |
| Horse Racing | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Total Tax Receipts | 937,282 | 1,057,119 | (119,837) | -11.3% | 11,191,043 | 12,087,931 | (896,888) | -7.4% |
| NON-TAX RECEIPTS | | | | | | | | |
| Federal Grants | 504,231 | 430,486 | 73,745 | 17.1% | 4,413,938 | 4,041,410 | 372,527 | 9.2% |
| Earnings on Investments | 0 | 0 | 0 | N/A | 97,412 | 83,073 | 14,338 | 17.3% |
| License & Fee | 12,491 | 9,200 | 3,291 | 35.8% | 50,034 | 51,301 | (1,267) | -2.5% |
| Other Income | 2,600 | 3,430 | (831) | -24.2% | 31,424 | 62,840 | (31,415) | -50.0% |
| ISTV'S | 6 | 3,090 | (3,084) | -99.8% | 14,925 | 8,942 | 5,984 | 66.9% |
| Total Non-Tax Receipts | 519,329 | 446,207 | 73,121 | 16.4% | 4,607,733 | 4,247,566 | 360,167 | 8.5% |
| TOTAL REVENUES | 1,456,610 | 1,503,326 | (46,716) | -3.1% | 15,798,776 | 16,335,497 | (536,721) | -3.3% |
| TRANSFERS | | | | | | | | |
| Budget Stabilization | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Liquor Transfers | 12,000 | 11,000 | 1,000 | 9.1% | 109,000 | 116,000 | (7,000) | -6.0% |
| Transfers In - Capital Reserve | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Transfers In - Other | 0 | 18 | (18) | N/A | 48,891 | 56,810 | (7,919) | -13.9% |
| Temporary Transfers In | 0 | 219,800 | (219,800) | -100.0% | 312,500 | 466,800 | (154,300) | -33.1% |
| Total Transfers | 12,000 | 230,818 | (218,818) | -94.8% | 470,391 | 639,610 | (169,219) | -26.5% |
| TOTAL SOURCES | 1,468,610 | 1,734,144 | (265,534) | -15.3% | 16,269,167 | 16,975,107 | (705,940) | -4.2% |

## *GENERAL REVENUE FUND DISBURSEMENTS*

Across all fund uses, total year-to-date GRF disbursements are $19,512.1 million.

| Fund Use | Description | YTD Disbursements |
|---|---|---|
| Expenditures and transfers between agencies (ISTVs) | State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable) | $18,667.5 million |
| Transfers | Temporary or permanent transfers out of the GRF that are not agency expenditures | $844.6 million |
| TOTAL GRF DISBURSEMENTS: | | $19,512.1 million |

Year-to-date expenditures and interagency transfers are 0.3% above estimate. See Table 3 for additional information.

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.

The disbursement estimates reflected in this report take into account the agency budget reductions that were announced in December 2008 and implemented on January 1, 2009.

**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. Total February expenditures in this category were $615.7 million, representing a variance of $18.6 million (3.1%) above the estimate.

February disbursements by the Department of Education totaled $612.8 million and were $17.7 million (3%) above estimate. Variances for the month can be attributed to timing of expenditures in several programs such Auxiliary Services, which is $56 million above estimate in February, making up for no expenditures in December or January. Public Preschool, Special Education and School Improvement Initiatives were $1.1 million, $2.0 million and $1.4 million above estimate, respectively, for the month. The variance in the foundation program, which is $33 million below estimate for the month, is due to adjustments reflected in the February payments to school districts.

**Higher Education**

February disbursements for Higher Education were $266.7 million, representing a variance of $39.4 million (17.3%) above the estimate for the month. Year-to-date disbursements were $1,808.5 million, representing a variance totaling $39.6 million (2.2%) above the estimate. Disbursements for the Ohio College Opportunity Grant (OCOG), Ohio Instructional Grant (OIG) and Student Choice Grant programs were $34.9 million more for the month than estimated. This variance is due to requests for payment being submitted to the Board of Regents earlier than anticipated.

**Public Assistance and Medicaid**

February expenditures in this category, which includes all GRF expenditures by the Department of Job & Family Services, were $889.4 million or 0.3% above estimate.

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 $634.1 million.

February 2009 disbursements for JFS non-Medicaid totaled $69.8 million. When compared to February FY 2009 disbursement estimates, in aggregate, actual disbursements were $2.5 million (3.7%) under estimate. This is primarily attributable to the following:

- Approximately $2.1 million in over-spending was in the TANF/Maintenance of Effort line item (600-410). This is primarily due to changes imposed by the County Financial Information System (CFIS). Prior to CFIS, funding streams for county requests were determined at the State level (e.g. Child Care Development Block Grant vs. TANF vs. GRF MOE). As spending is allocated quarterly in CFIS, disbursements will vary from month-to-month, but, in the aggregate, will be in-line.

- Approximately $2.5 million in over-spending was in the Child Care/Maintenance of Effort line item (600-413). This is primarily due to changes imposed by the County Financial Information System (CFIS). Prior to CFIS, funding streams for county requests were determined at the State level (e.g. Child Care Development Block Grant vs. TANF vs. GRF MOE). As spending is allocated quarterly in CFIS, disbursements will vary from month-to-month, but, in the aggregate, will be in-line.

- Approximately $4.8 million in under-spending occurred in the Entitlement Administration line item (600-521). This is primarily due to the timing of requests for payments from counties.

- Approximately $1.7 million in over-spending occurred in the Children and Families subsidy line item (600-523). This is primarily due to the timing of requests for payments from counties.

Medicaid

This sub-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 GRF disbursements for Medicaid through the month of February total $7.218 billion, which was $52,000 (0.0%) above the estimate. GRF disbursements in February were $819.6 million, which was also $52,000 above the estimate.

Year-to-date disbursements from all funding sources through the month of February total $8.119 billion, which was $4.6 million (0.0%) under projections. All funds disbursements for the month of February totaled $990.8 million, which was $653 thousand (0.0%) below estimate.

Notable variances across all funding sources include:

- *Medicaid Managed Care.* Medicaid managed care disbursements for the month of February were $9.2 million (8.05%) under projections in the Aged, Blind, and Disabled (ABD) portion of the program, and $4.2 million (1.54%) below estimate in the Covered Families and Children (CFC) part of the program. The ABD variance is caused primarily due to a lower than projected increase in the actuarially determined rate by approximately 1%. In addition, the projection assumed more people from the now voluntary Northeast and Northwest regions would reenroll in a managed care program than actual experience has shown.
- *Medicare Premium Assistance Program ('Buy-in').* The Buy-in program was $2.7 million (10.4%) under estimate primarily due to a one time credit from CMS due to a miscalculation in the state share of the Medicare Part A rates for approximately 400 enrollees. The error has been corrected and the program may continue to trend slightly under estimate for the remainder of the fiscal year due to the lower cost for these enrollees going forward.

*Caseload*

Total Medicaid caseload for the month of January (the most recent data available) was 1.87 million covered persons, which was an increase of 4,536 people from the previous month, and 25,459 over projected enrollment.

Covered Families and Children accounted for the majority of the enrollment increase, rising by 4,220 persons. The total enrollment in this category of 1,402,317 is 1.76% over projection. Enrollment in the fee-for-service portion of the category declined by 9,838, offset by an increase in managed care enrollment of 14,058 persons. CFC also showed shifting within the program categories, with the Healthy Families category, which is the core eligibility group, increasing by 8,719 persons, offset by decreases in various expansion categories.
Aged, Blind, and Disabled caseload remained stable in January, increasing by 480 persons. January enrollment was 0.19% over projected enrollment. The Specified Low-Income Medicare Beneficiary program (SLMB) increased by 327 persons.

**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.

February expenditures in this category were $63.6 million, which was $10.5 million (14.2%) below estimate. Significant notes include:

- The Department of Health disbursed $5.0 million in GRF in the month of February, which was $1.5 million or 44% above estimated spending. Help Me Grow, line item 440-459, was over plan by $2.5 million due to subsidy payments being paid in February which did not process in previous months. There were no other significant line item variances in the month.
- Year-to-date, Department of Health spending is under budget by $3.5 million (6%), having disbursed $54.0 million against a planned $57.5 million. The largest variances are Immunizations, line 440-418 ($1.2 million under plan) and Lab and Public Health, line 440-451 ($1.1 million under plan), due to vaccines and other purchases being delayed or reduced. Medically Handicapped Children, line 440-505 is under by $1.0 million due to the program utilizing more GRF funds than non-GRF funds in February than in previous months. Child and Family Health, line 440-416, is under plan by $0.6 million due to grant payments being behind schedule. Help Me Grow is over plan by $0.7 million.
- The Department of Aging disbursed $15.8 million in GRF in the month of February, which was $0.3 million or 2% above the disbursement estimate of $15.5 million. There were no significant line item variances for the month.
- For the year-to-date, the Department of Aging has disbursed $124.7 million in GRF against a planned $126.5 million for a total variance of $1.8 million or 1.0% under plan. Approximately $2.0 million of the variance emanates from the Senior Community Services (490-411) having access to more federal funds than projected; therefore, state funds are being used more evenly throughout the year. Assisted Living, line 490-422, is under by $0.5 million due to lower-than-anticipated caseloads. The PASSPORT program, line 490-403, is over plan by $0.85 million.
- The Department of Mental Health (DMH) disbursed $20.1 million in the month of February, which is $11.1 million under the estimate. Historically, DMH disbursed subsidy to county boards once the funding was requested, thus making cash flow unpredictable. Beginning in the third quarter of FY 09, county boards will receive 334-408 subsidy allocations on a quarterly basis. Because the third quarter of estimated subsidy expenditures in line 344-408 were disbursed in January, it was expected that DMH would disburse less funding than estimated in February and March.
- The Department of Mental Retardation and Developmental Disabilities disbursed $18.3 million in the month of January, which is less than $1 million under the estimate.

### 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, February expenditures in this category were $123.6 million, which was $11.0 million (8.2%) below estimate for the month.

- The Department of Rehabilitation and Correction (DRC) disbursed $90.1 million in the month of February, which was $12.1 million (11.8 percent) less than the $102.2 million estimate for the month.
- The Department of Youth Services (DYS) disbursed $14.3 million in the month of February, which was $1.7 million (13.9 percent) more than the $12.6 million estimate for the month.
- These variances occurred due to the timing of bill payments not fully matching estimates.

**Environmental Protection & Natural Resources**

February expenditures in this category were $4.1 million, which was $1.0 million (20.2%) below estimate.

- In February, the Department of Natural Resources expended a total of $4.1 million, generating a variance of $1.0 million (20.2%) below the anticipated February expenditure of $5.2 million. While under spending in a number of line items contributed to the variance, the primary factor was $600,000 in under spending by the Wildlife GRF Central Support line item. The under spending in this line item is the result of funds being disbursed in January that were originally anticipated for February disbursement.

**Transportation**

February disbursements were $717,000, producing a variance of $207,000 (22.4%) below the estimate.

**General Government**

February expenditures in this category were $15.4 million, which was $3.9 million (20.4%) below estimate for the month.

- In February, the Department of Administrative Services disbursed $1.7 million, or $2.6 million (60.6%) less than estimated for the month. As noted last month, bills for building tenancy in DAS-managed buildings and for OAKS lease-rental payments posted in January rather than in February as originally estimated. As a result, February GRF disbursements from these line items were less than originally estimated for the month. Thus, February's under-spending largely offset January's overspending compared to estimates.

**Community & Economic Development**

February expenditures in this category were $9.3 million, which was $1.3 million (16.3%) above estimate for the month. The largest portion of this variance is attributable to the Department of Development.

- For the month of February, the Department of Development disbursed $8.3 million in GRF, which is $1.3 million above the estimate. This variance was due to the unpredictable grant subsidy payments from prior years along with an increase in grant reimbursements due to the decline in the economy or increased payments due to prior month under spending. The primary lines accounting for the variance were the Thomas

Edison (195-401), Regional Office & Economic Development (195-415), Third Frontier Action Fund (195422), and Shovel Ready Sites (195-516) appropriation line items.

- International Trade (195-432) over spent the estimate by $137,000 because foreign offices have been transitioned from state employees to contracted services. This will produce an overall savings by the end of the fiscal year.

### Tax Relief & Other

February tax relief disbursements totaled $0.2 million, which was $51.6 million below the monthly estimate of $51.8 million. Combined with under spending in November through January, February's disbursements further reduced the year-to-date variance to $119.9 million above estimates. As mentioned in previous monthly reports, the significant variance in year-to-date payments is attributable to both the timing of requests for payments of the 10 percent and 2.5 percent rollback on non-homestead eligible properties and the fact that the additional tax relief appropriations attributable to the expansion of the homestead exemption authorized in HB 119 are not included in the OBM estimates for FY 2009. As was the situation with FY 2008, HB 119 has set 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

February expenditures in this category were right on the estimate of $38.2 million. Year-to-date, debt service expenditures are $5.0 million (1.1%) below estimate.

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

| Functional Reporting Categories Description | MONTH ACTUAL FEBRUARY | MONTH ESTIMATED FEBRUARY | 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 | 615,704 | 597,143 | 18,561 | 3.1% | 5,010,266 | 5,053,171 | (42,905) | -0.8% |
| Higher Education | 266,734 | 227,329 | 39,404 | 17.3% | 1,808,487 | 1,768,877 | 39,610 | 2.2% |
| Public Assistance and Medicaid | 889,371 | 886,802 | 2,568 | 0.3% | 7,847,944 | 7,863,840 | (15,896) | -0.2% |
| Health and Human Services | 63,614 | 74,111 | (10,497) | -14.2% | 870,323 | 897,483 | (27,160) | -3.0% |
| Justice and Public Protection | 123,592 | 134,600 | (11,007) | -8.2% | 1,461,358 | 1,458,412 | 2,946 | 0.2% |
| Environmental Protection and Natural Resources | 4,123 | 5,167 | (1,044) | -20.2% | 74,244 | 71,617 | 2,628 | 3.7% |
| Transportation | 717 | 924 | (207) | -22.4% | 15,086 | 17,134 | (2,048) | -12.0% |
| General Government | 15,369 | 19,302 | (3,933) | -20.4% | 248,111 | 255,533 | (7,422) | -2.9% |
| Community and Economic Development | 9,324 | 8,015 | 1,310 | 16.3% | 99,123 | 98,253 | 870 | 0.9% |
| Tax Relief and Other | 211 | 51,830 | (51,619) | -99.6% | 797,667 | 677,788 | 119,878 | 17.7% |
| Capital Outlay | 0 | 0 | 0 | N/A | 187 | 25 | 162 | 648.0% |
| Debt Service | 38,204 | 38,246 | (42) | -0.1% | 434,729 | 439,738 | (5,009) | -1.1% |
| Pending Payroll | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| **Total Expenditures & ISTV's** | **2,026,964** | **2,043,470** | **(16,506)** | **-0.8%** | **18,667,525** | **18,601,870** | **65,655** | **0.4%** |
| **Transfers Out:** | | | | | | | | |
| OPER TRF OUT-OTH | 103 | 0 | 103 | N/A | 240,137 | 236,136 | 4,001 | 1.7% |
| OPER TRF OUT-TEMPORARY | 0 | 0 | 0 | N/A | 604,470 | 620,705 | (16,235) | -2.6% |
| **Total Transfers (Out)** | **103** | **0** | **103** | **N/A** | **844,607** | **856,841** | **(12,234)** | **-1.4%** |
| **Total Fund Uses** | **2,027,067** | **2,043,470** | **(16,403)** | **-0.8%** | **19,512,132** | **19,458,711** | **53,421** | **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 | 615,704 | 549,631 | 66,073 | 12.0% | 5,010,266 | 4,594,686 | 415,580 | 9.0% |
| Higher Education | 266,734 | 232,434 | 34,300 | 14.8% | 1,808,487 | 1,743,717 | 64,769 | 3.7% |
| Public Assistance and Medicaid | 889,371 | 781,896 | 107,475 | 13.7% | 7,847,944 | 7,429,484 | 418,460 | 5.6% |
| Health and Human Services | 63,614 | 84,254 | (20,640) | -24.5% | 870,323 | 883,715 | (13,392) | -1.5% |
| Justice and Public Protection | 123,592 | 134,501 | (10,909) | -8.1% | 1,461,358 | 1,456,886 | 4,472 | 0.3% |
| Environmental Protection and Natural Resources | 4,123 | 6,489 | (2,366) | -36.5% | 74,244 | 78,939 | (4,694) | -5.9% |
| Transportation | 717 | 1,267 | (550) | -43.4% | 15,086 | 18,496 | (3,410) | -18.4% |
| General Government | 15,369 | 17,804 | (2,435) | -13.7% | 248,111 | 249,273 | (1,162) | -0.5% |
| Community and Economic Development | 9,324 | 10,777 | (1,452) | -13.5% | 99,123 | 93,001 | 6,122 | 6.6% |
| Tax Relief and Other | 211 | 81 | 130 | 160.1% | 797,667 | 654,211 | 143,456 | 21.9% |
| Capital Outlay | 0 | 10 | (10) | N/A | 187 | 66 | 121 | 184.9% |
| Debt Service | 38,204 | 34,203 | 4,001 | 11.7% | 434,729 | 419,560 | 15,169 | 3.6% |
| Pending Payroll | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| **Total Expenditures & ISTV's** | **2,026,964** | **1,853,347** | **173,617** | **9.4%** | **18,667,525** | **17,622,033** | **1,045,492** | **5.9%** |
| **Transfers Out:** | | | | | | | | |
| OPER TRF OUT-BUD STABILIZATION | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| OPER TRF OUT-OTH | 103 | 0 | 103 | N/A | 240,137 | 268,579 | (28,442) | -10.6% |
| OPER TRF OUT-TEMPORARY | 0 | 0 | 0 | N/A | 604,470 | 350,104 | 254,366 | 72.7% |
| **Total Transfers (Out)** | **103** | **0** | **103** | **N/A** | **844,607** | **618,683** | **225,924** | **36.5%** |
| **Total Fund Uses** | **2,027,067** | **1,853,347** | **173,720** | **9.4%** | **19,512,132** | **18,240,716** | **1,271,416** | **7.0%** |

## ***FUND BALANCE***

Table 5 describes the General Revenue Fund (GRF) ending fund balance for FY 2009. These estimates reflect actions included in the budget reduction plan that was announced in December 2008 and implemented January 1, 2009.

The estimated ending fund balance of $387.2 million includes the one half of one percent required ending fund balance of $134.8 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 | 18,383,829 |
| Plus FY 2009 Estimated Federal Revenues | 7,011,179 |
| Plus FY 2009 Estimated Transfers to GRF | 1,561,105 |
| **Total Sources Available for Expenditure & Transfer** | **28,638,115** |
| Less FY 2009 Estimated Disbursements | 26,876,810 |
| Less FY 2009 Estimated Total Encumbrances as of June 30, 2009 | 521,669 |
| Less FY 2009 Estimated Transfers Out | 852,439 |
| **Total Estimated Uses** | **28,250,917** |
| **FY 2009 ENDING FUND BALANCE** | **387,198** |
| One half of one percent target ending fund balance | 134,781 |
| Excess / (Shortfall) | 252,417 |

# FEATURED ANALYSIS

## Selected Program Spending Driven by a Challenging Economy

This analysis will examine four state programs for which demand has skyrocketed as a result of Ohio's challenging economy: Ohio College Opportunity Grant (OCOG), Unemployment Insurance, Home Energy Assistance Program (HEAP), and Medicaid. OCOG, Unemployment Insurance, and Medicaid.

The condition of Ohio's current economy has strong implications on the types of state programs and services needed. With increasing unemployment rates and sharp shifts within the labor market, more citizens are requesting assistance from government agencies. One apparent increase rests with unemployment claims. According to the U.S. Department of Labor, 73,360 Ohioans claimed unemployment benefits for the first time in January 2006. In January 2009, this amount was 135,983; an 85% increase over the three year span.

The performance of the economy also influences the life decisions and behaviors of Ohioans. This may take the form of lowered cigarette consumption, increased car-pooling, decreased discretionary spending, as well as limited mobilization within the housing market. According to the Ohio's Association of Realtors, January 2006 boasted 7,406 new and existing homes sold state-wide. In January 2009, this statistic fell to 3,527; a 52% decrease[1]. Clearly, the spending, movement and consumption patterns of Ohioans as we weather the current national downturn will continue to change, and this will continue to have an impact on services provided by many Ohio government programs.

### Ohio College Opportunity Grant – Board of Regents

The Board of Regents (BOR) is a state agency that provides higher education opportunities to a steadily growing portion of Ohio's citizens. Within the past four years, Ohio has experienced an increase in preliminary college enrollment with main, community, and regional campus institutions[2].

In Fall 2008, 27 public colleges and university campuses (out of 62 total) experienced annual enrollment increases of 5% or higher. Regional campuses experienced the highest percentage increase among the 3 main categories with the addition of 1,977 students in 2008. This was an annual increase of 4.6%.

Reasons for this surge, especially among regional and technical colleges, include: market-driven need for highly skilled employees, convenience toward non-traditional (working) students, and close school proximities to home and work environments. The following figure (Figure 1) demonstrates annual percentage (and enrollee) increases between 2004 and 2008 academic years.

[1] The January 2009 figure does not include 15 north/northeast Ohio counties. This is due to the newly formed Northeast Ohio Real Estate Exchange (NEOREX) which now serves these markets. Housing information from these 15 counties was not readily available.

[2] Preliminary Enrollment refers to total enrollees in degree-credit course of instructions. Count is figured by end of business on the 15th calendar day of the autumn academic term.

**Figure 1: Fall 2004 – 2008 Preliminary Enrollment College Growth**

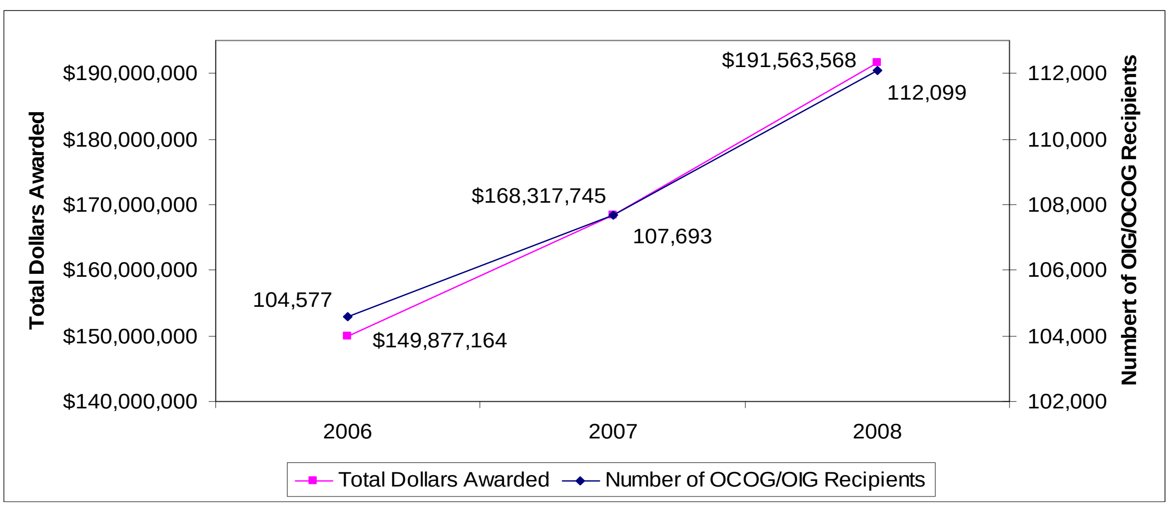
| University Type | Fall 2004 | Fall 2005 | Fall 2006 | Fall 2007 | Fall 2008 |
|---|---|---|---|---|---|
| Main Campus Universities | 251,367 | 249,181 | 251,167 | 254,829 | 260,365 |
| *% Change from Previous Year* | | *-0.9%* | *0.8%* | *1.5%* | *2.2%* |
| Regional Campus Universities | 42,877 | 42,258 | 41,792 | 42,600 | 44,577 |
| *% Change from Previous Year* | | *-1.4%* | *-1.1%* | *1.9%* | *4.6%* |
| Community and Technical Colleges | 163,089 | 164,347 | 164,363 | 168,427 | 173,434 |
| *% Change from Previous Year* | | *0.8%* | *0.0%* | *2.5%* | *3.0%* |
| Total | 457,333 | 455,786 | 457,322 | 465,856 | 478,376 |
| *Total % Change* | | *-0.3%* | *0.3%* | *1.9%* | *2.7%* |

Source: Ohio Board of Regents Preliminary Headcount Enrollments (Fall 2004 – Fall 2008)

With these increased trends in college enrollment, more students are applying for (and receiving) assistance to aid in tuition costs. The Ohio College Opportunity Grant (OCOG) and Ohio Instruction Grant (OIG) programs continue to offer support to students with household incomes at, or below, $75,000 and $35,000, respectively. Beginning in fiscal year 2010 OCOG will completely replace OIG after a four-year transition period that began in fiscal year 2006.

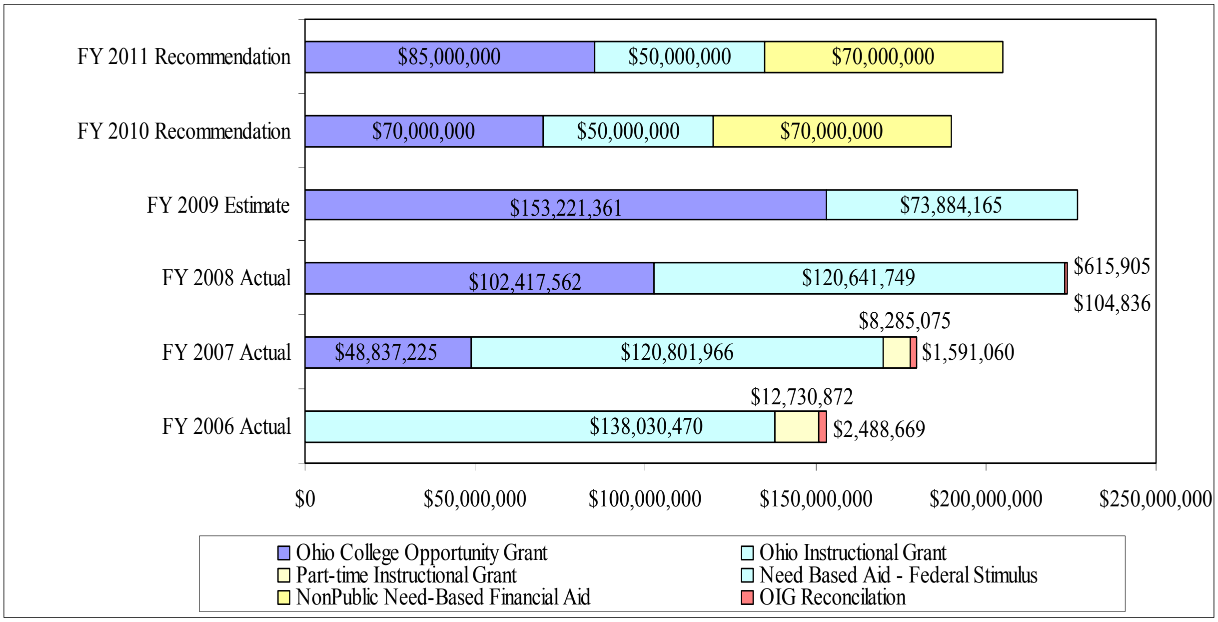
These changes are increasing general demand for the program. In 2006, 104,000 students received OCOG/OIG funds which totaled $149.8 million dollars. In 2008, over 112,000 students utilized the public grant which amounted to $191.6 million. This is a two year financial increase of 27.8%. The following figure (Figure 2) displays these trends.

**Figure 2: OCOG/OIG Recipient and Funding Growth: 2006 - 2008 Academic Terms**




Both the Ohio College Opportunity Grant and Ohio Instruction Grant are entirely funded by the GRF. Consequently, increased demand for public financial aid requires more dollars from this revenue source. The 2006 expenditures for OCOG and OIG were $153.25 million with 2009 estimates totaling $227.11 million. This is a 48.2% increase across three years. The following figure (Figure 3) shows increased demand for GRF resources. The decline in FY 10/11 recommendations is attributed to the "Pell-first" strategy proposed in the executive budget to apply federal Pell grant resources to student tuition bills before Ohio tuition assistance in order to maximize the federal share.

**Figure 3: 2006 – 2011 GRF Funding History**




Source: FY 2010, 2011 Executive Budget Blue Book and Ohio Board of Regents

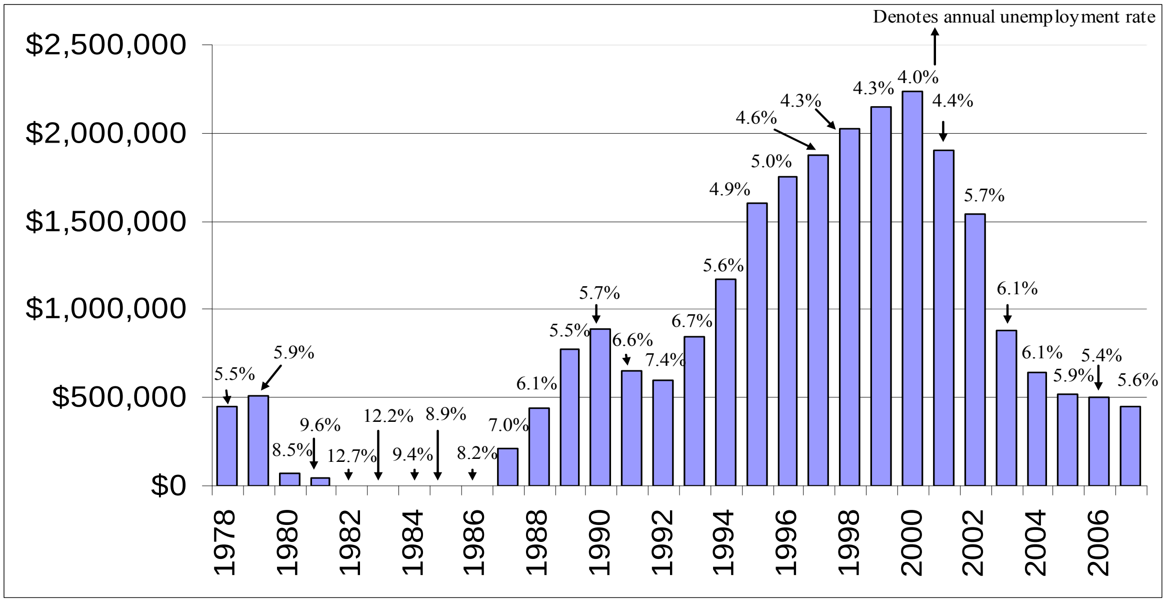
## Unemployment Insurance – Job and Family Services

The Unemployment Insurance (UI) provides temporary cash benefits to jobless citizens. Primary functions of the program include the payment of benefits to claimants and the collection of taxes. These benefits support the economy by providing income for unemployed workers. In calendar year 2007, 643,355 Ohio citizens received unemployment compensation benefits which equaled approximately $1.104 billion.

During the same time period, employer contributions to unemployment insurance totaled $1.049 billion ($55 million less than compensation pay-outs). In order to remain solvent, revenues must be sufficient with benefit costs. Compensation pay-outs are paid through Ohio's Unemployment Compensation Trust Fund.

Ohio's Trust Fund is approximately $2.0 billion below the statutory minimum safe level (MSL). The 2001 recession depleted most of the fund; taking it from a high point of $2.4 billion (2001) to borrowing in the amount of $328.7 million. Although the unemployment rate gradually decreased from 6.2% (2003) to 5.4% (2006) the Trust Fund did not recover. This is attributable to: temporary extended unemployment compensation (increased benefit spending, federal initiative), higher benefit payments (state initiative), longer average duration of benefits received, and a higher unemployment rate. With the current Ohio unemployment rate at 8.8% (January 2009), the demand for the Ohio Trust Fund steadily grows. The following chart (Figure 4) summarizes Trust Fund activity from 1978-2007.

**Figure 4: Ohio Historic Trust Fund 2000 Peak with Downward Spiral**




Source: Ohio Office of Budget and Management

With Trust Fund balances nearing record lows, Ohio must request funding (loans) from the Federal Unemployment Account to cover increasing claims. In February 2009, Ohio accrued $326 billion of outstanding debt to the federal account. These loan payments are made with GRF funding. Therefore, with decreasing Trust Fund balances the GRF is strained to repay loans made to cover current (and future) Ohio Trust Fund deficits. Since unemployment is an entitlement program, federal law places strict guidelines toward state repayment schedules.

Federal law stipulates that if states have outstanding loan balances on January 1 for two consecutive years, the full amount of the loan must be repaid before November 10 of the second year. If this full payment is not made, the federal tax on employers will be increased until the loan is repaid. In order to ease state pressures to repay their trust fund loans, the American Recovery and Reinvestment Act (ARRA) extended loan payments deadlines until 2011. This legislation decreased demand for GRF, but only for the short-term. To date, Ohio's estimated loan interest payment will be $490,940 in 2011.

## Home Energy Assistance Program – Department of Development

The Home Energy Assistance Program (HEAP) is a federally funded program which provides assistance to low-income families toward home heating and/or summer cooling costs. Individuals receive aid in order to cover both regulated and unregulated utility expenses. Unregulated sources take the form of home heating oil and propane usage. Residential propane costs increased from $1.72 cents per gallon (January 2005) to $2.31 cents per gallon (January 2009)[3]. Also, residential heating oil increased from $1.97 cents per gallon (January 2005) to $2.40 cents per gallon (January 2009)[4]. With steady increases in propane and heating oil during this timeframe, 33% and 21% respectively, more individuals are requesting governmental assistance to heat their homes.

[3] Energy Information Administration – Official Energy Statistics from the U.S. Government
[4] Energy Information Administration – Official Energy Statistics from the U.S. Government

Through a HEAP companion program, the Percentage of Income Payment Plan (PIPP) Program provides utility assistance to low-income households at, or below, 150% of federal poverty. The program requires regulated gas and electric companies to accept payments based on a percentage of the household income. The following figure (Figure 5) shows the growing amount of households and program expenditures within four years.

**Figure 5: HEAP and PIPP Enrollment and Expenditure Increases (2004 – 2008)**

| HEAP Total Participant and Expenditures | | |
|---|---|---|
| | Households Served | Total HEAP Expenditures |
| 2004 | 430,850 | $77,021,565 |
| 2005 | 435,943 | $87,143,291 |
| 2006 | 573,172 | $149,079,023 |
| 2007 | 521,784 | $146,276,128 |
| 2008 | 602,966 | $140,335,417 |
| TOTALS | 2,564,715 | $599,855,424 |

| PIPP Total Participant and Expenditures | | |
|---|---|---|
| | Households Served | Total PIPP Expenditures |
| 2004 | 164,530 | $66,789,349 |
| 2005 | 174,730 | $76,156,420 |
| 2006 | 199,173 | $86,350,679 |
| 2007 | 218,458 | $101,690,827 |
| 2008 | 240,960 | $120,312,861 |
| TOTALS | 997,851 | $451,300,135 |

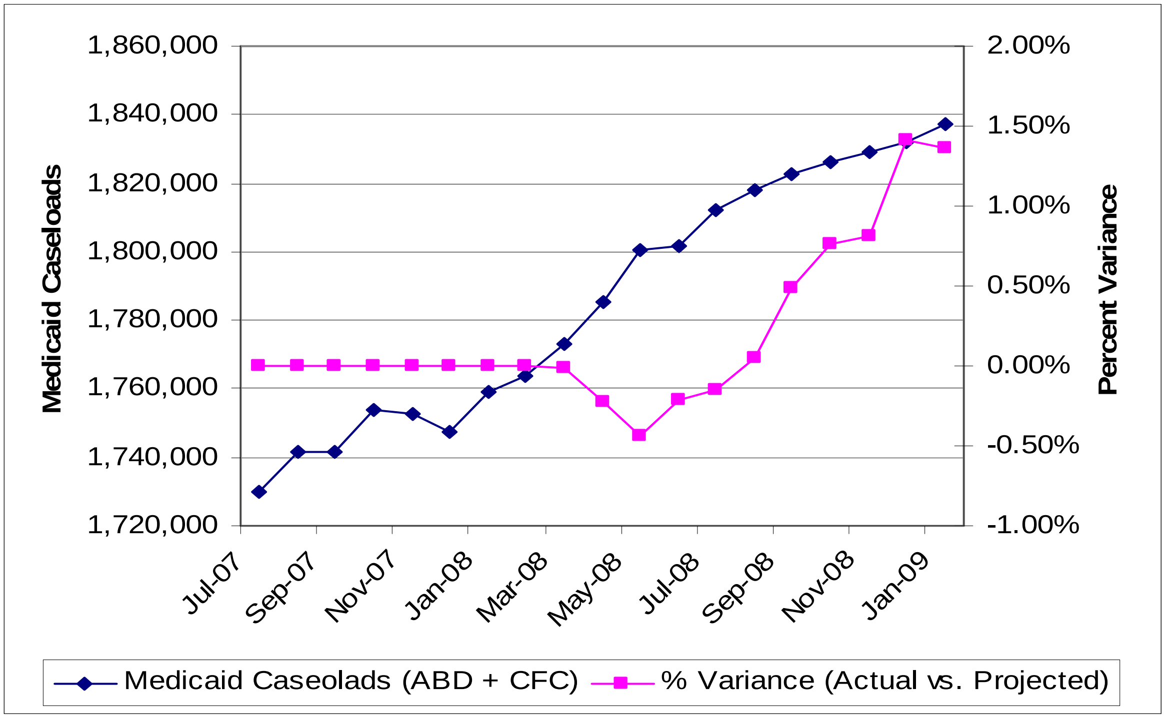
Both HEAP and PIPP require no GRF dollars to operate. However, with program households nearly doubling from 2004 to 2008 it is a strong indicator of a financially 'sensitive' economy; a population that traditionally require additional services more directly tied to GRF (i.e. Medicaid, Unemployment Insurance).

**Medicaid – Job and Family Services**

Ohio Medicaid provides health care and related services for two main eligibility groups: low income children and parents, and elders and people with disabilities. In 2004, 63% of Ohioans (7.2 million) relied on health care coverage through their employer. As the economy declines and unemployment rises, the population eligible for Medicaid increases. Preliminary estimates from the Ohio Department of Job and Family Services (ODJFS) indicate that 1.86 million Ohioans were covered by Medicaid in January 2009.

This preliminary data also shows that caseloads in these two main eligibility categories: Aged Blind and Disabled (ABD) and Covered Families and Children (CFC) have continuously increased from 1.73 million (July 2007) to 1.86 million (January 2009). This is an overall increase of 7.5% over 19 months. ODJFS originally forecasted a 6.4% increase during this time frame, moving from 1.73 million (July 2007) to 1.84 million (January 2009) in Medicaid caseloads. In January 2009 alone, Ohio Medicaid experienced an unexpected increase of over 25,000 Medicaid caseloads. The figure below (Figure 6) shows that not only does Medicaid caseloads increase but the variance between preliminary actual versus projected estimates are increasing – the program continues to grow above department forecasts.

**Figure 6: ABD and CFC Caseloads and Percent Variance (July 2007 – Jan. 2009)**




Source: Department of Job and Family Services *–Based on DSS Data. October 2008 through January 2009 is Preliminary data*

Most of the substantial increases to caseloads occurred within the Covered Families and Children program. The July 2007 preliminary caseload data totaled 1.3 million and 1.4 million in January 2009, resulting in a 7.7% increase. Original estimates predicted a 6.2% increase, 1.3 million (January 2009) and 1.38 million (January 2009). These current increases demonstrate Ohio's growing health care need within low income populations.

With increasing caseloads due to the challenging financial economy, Medicaid spending has increased as well. In June 2008, the Ohio legislature passed House Bill 562, in part, to increase Medicaid expenditures. The original state operating bill (HB 119) appropriated $9.34 billion to Medicaid while the revised bill increased program spending to $9.59 billion. Furthermore, the two bills included additional resources for Medicaid appropriation if needed. H.B. 119 provided a Medicaid Reserve Fund which allowed access to an additional $525 million in FY 08/09 and their associated federal share while H.B. 562 allowed access to $63.3 million within the Budget Stabilization Fund. These actions were done to respond to Ohio's increasing demand for adequate healthcare services for Ohio's most vulnerable population.