Leveraging Existing Resources

The fiscal year 2010-2011 Executive Budget includes three measures to leverage existing resources, in a period of constrained revenues, to help provide for needed state services and investments. The first measure seeks to contain or reduce state employee payroll and related costs. This measure took care to have the minimum possible impact on all state employees and mitigate the number of layoffs that will occur. The second measure restructures certain debt service payments from the upcoming fiscal year 2010-2011 biennium to later biennia. The restructuring plan is carefully sized and crafted to achieve near-term savings in a fiscally responsible manner. A third measure proposes the responsible, but increased use of unclaimed funds. This third measure occurs after sensible analysis to ensure future claims on dormant accounts will be met and recognizes that outreach to return those accounts to the rightful owners will continue uninterrupted. As further presented below, each measure is distinct, but all were carefully developed with the same purpose – to provide much needed resources for critical state services.

Human Resources Cost Savings Strategies

This Executive Budget is historic for many reasons, not the least of which is the inclusion of various measures to contain or reduce state employee payroll and related costs. These measures were developed to achieve the minimum possible impact on all state employees and to mitigate the number of layoffs that will occur. In the past, state employees have been required to forego pay raises and step increases during difficult economic times. As private sector unemployment is on the rise and layoffs are occurring across the state, this Executive Budget will require sacrifices from state employees. The Governor is cognizant of the serious impact of these measures and the sacrifices state employees and their families have made to date to cope with the current financial crisis and its effect on state services. As such, the personnel-related proposals found in the Executive Budget truly represent shared sacrifice, and the implementation of these measures will undoubtedly require a strong partnership with state employees and the state collective bargaining unions to work together to reduce payroll costs, while attempting to preserve as many state jobs as possible in these very challenging economic times. After cautious consideration of all available proposals, the strategies included in this Executive Budget are necessary in order to maintain critical state services to the most vulnerable of Ohio's citizens while protecting our investment in Ohio's future.

The Role of the Governor and the Office of Budget and Management

The Ohio Constitution requires that the Governor control the expenditures of state agencies in order to maintain a balanced budget. It does so by limiting the state's ability to contract for casual deficits or failure in revenue or to create debt, except within constitutionally specified areas. Section 126.05 of the Revised Code requires the Office of Budget and Management (OBM) Director to submit monthly reports to the Governor showing the status of appropriations to enable the Governor to exercise and maintain effective supervision and control over the expenditures of the state. The Governor has the power to manage, supervise, and control the state budget and this statute particularly gives the Governor the authority to issue executive orders necessary to carry out this power.

The Governor exercised this authority on January 31, 2008, requiring OBM to issue directives to the state agencies to implement expenditure reductions and control spending in order to maintain a balanced budget. Three times during the fiscal year 2008-2009 biennium, as the economy soured, revenue estimates were revised downward and agency expenditures were reduced. Each time available expenditures were reduced, state agencies and employees were forced to react quickly, in some cases reducing their workforce. However, with the enactment of the proposed payroll reduction strategies found in this Executive Budget, far fewer workforce reductions will be required, and the citizens of the state can be assured that the state's budget remains in balance.

Payroll Reduction Strategies

The Executive Budget proposes various payroll reduction strategies. For fiscal years 2010 and 2011, $170 million to $200 million in payroll-related savings has been budgeted. It also recognizes that these strategies are the subject of collective bargaining with the state unions, but provides that the equivalent of $170 million to $200 million in total savings for each fiscal year must be reached in negotiations order to achieve and maintain a balanced budget. Some or all of these options may be pursued in varying degrees in order to achieve the necessary savings. Therefore, should other cost containment strategies be successfully negotiated and should those strategies achieve the necessary savings for each fiscal year, those strategies may be implemented in lieu of the measures discussed below.

- ***Reductions in Pay:*** In order to maintain as many state jobs as possible throughout the next biennium, this Executive Budget proposes a graduated scale of pay reductions for employees exempt from collective bargaining. Exempt state employee pay will be reduced using a "multi-tiered" approach. Using the state's E-1 pay table, proposed pay reductions include the following:
  - Exempt employees in pay ranges 1 through 3 will receive no reduction in pay;
  - Exempt employees in pay ranges 4 through 7 will receive a 4% reduction in pay effective July 1, 2009;
  - Exempt employees in pay ranges 8 through 11 will receive a 4.5% reduction in pay effective July 1, 2009; and
  - Exempt employees in pay ranges 12 through 18 will receive a 5% reduction in pay effective July 1, 2009.

In addition to these reductions, employees earning $125,000 or greater will receive a 6% reduction in pay effective July 1, 2009. The budget assumes that similar reductions in pay, or concessions equivalent to the amount of savings achieved through reductions in pay, will be negotiated with employees represented by the state's multiple bargaining units or will be achieved for executive branch employees who are paid from either the E-2 pay table or whose compensation is determined by their appointing authority.

- ***Increased Employee Share for Dental, Vision, and Life Insurance:*** Currently, the State pays 100% of the premiums for dental, vision and basic life insurance for exempt state employees. For bargaining unit employees, the state transmits seventy dollars ($70) per month to the Union Benefits Trust in order to pay for the employee's share of the premiums for dental, vision, and basic life insurance. This proposal would reduce the amount of premium costs that the State pays on behalf of employees. The State would require all exempt employees to pay a portion or all of the premium costs for dental, vision and basic life insurance equal to 10% of the premiums. For bargaining unit employees, the State would reduce its seventy dollar ($70) contribution to the Union Benefits Trust by 10%. Although no statutory change is required, the Department of Administrative Services (DAS) would need to establish notice to employees and hold an open enrollment period, and negotiations with the state's multiple bargaining unit representatives would need to occur.

- ***Furlough Power:*** Employee furlough programs generally consist of placing an employee in an inactive pay status or on leave without pay, usually because of funding concerns or in an effort to temporarily reduce payroll costs. These programs can be voluntary or mandatory, and allow employees to reduce their work schedule without reducing certain benefits or requiring employees to exhaust paid leave. While section 124.392 of the Revised Code, and the collective bargaining agreements with the state bargaining representatives, allow the state to implement voluntary furloughs in the form of "voluntary cost savings programs," currently the Governor lacks the explicit authority to mandate that employees be placed on furlough.

  Layoffs of state employees are not a preferred method to maintain a balanced budget. Throughout the last biennium, state agencies took multiple steps to reduce expenditures to achieve budgetary and cash savings, but those steps were still not enough to prevent the layoff of state employees. Other measures, such as mandatory furloughs, would preserve state jobs while reducing spending and ensuring that essential state services for its citizens are preserved. The power to furlough is essential to assuring the State's ability to maintain a balanced budget throughout the fiscal year 2010-2011 biennium. It gives the Governor the ability to manage unforeseen deficits by immediately reducing payroll costs while preserving as many state jobs as possible.

  Through statutory revisions, OBM and the Department of Administrative Services, under the Governor's authority and at the direction of the Governor, will have the authority to develop furlough plans for state agencies in order to close general government operations for a set period of time. State employees paid by warrant of the OBM Director, regardless of funding source, may be placed on leave without pay or in an inactive pay status. This Executive Budget assumes that at least two unpaid days off, either on holidays or on "furlough" days, will need to be implemented in order to achieve the necessary savings.

- ***Mandatory Early Retirement Incentive Trigger:*** As an additional cost containment measure, this Executive Budget proposes increasing the statutory trigger for the establishment of a mandatory retirement incentive plan.

Currently, section 145.298 of the Revised Code provides that a state institution or state employing unit is required to establish a retirement incentive plan if the institution or employing unit proposes to layoff, within a six-month period, the lesser of 50 or ten percent of its employees. Revisions to this section would increase the trigger to the lesser of 200 or 30 percent of an institution or employing unit's employees.

Calculating and Implementing Cost Containment Measures

Depending on the outcome of union negotiations that are currently underway, various combinations of measures may be used in order to achieve the cost avoidance detailed in this analysis. When final decisions are made, OBM will have to implement actions that enable the cost avoidance to affect the GRF balance. For each agency, fund, and line item, OBM determined the projected savings at a fund and line item level, taking into account prior payroll data and agencies' proposed staffing plans and funding levels for fiscal years 2010 and 2011. OBM then determined which funds were not appropriate candidates to transfer equivalent cost avoidance amounts to the General Revenue Fund (GRF) to reach the cost savings, including federal funds and certain funds that are constitutionally or statutorily protected. In order to implement these cost containment strategies, OBM will work with the Governor to develop fund-specific transfer estimates for each agency, with input from the agency on payroll information, available cash balances, and historical fund data. Transfers to the GRF will be made within the first month of each fiscal quarter. OBM recognizes that transfer amounts could vary from the estimates based upon significant changes to an agency's payroll. OBM will include these transfers as part of the Monthly Financial Report to the Governor in the second month of each fiscal quarter.

Debt Restructuring

Debt service appropriations in the fiscal year 2010-2011 Executive Budget reflect the restructuring into later biennia of certain debt service payments currently scheduled to be paid from the general revenue fund (GRF). This restructuring frees up approximately $400 million of GRF resources in the fiscal year 2010-2011 biennium to help provide for core state services and investments in a time of constrained resources. As is typical, the restructuring will be accomplished through the issuance of new refunding bonds, the proceeds of which will be used in place of GRF to defray current debt service expenses, with a maturity schedule that layers the new debt service into later biennia.

Ohio's Debt Restructuring Plan

Ohio's debt restructuring plan lowers net debt service payable from the GRF in the fiscal year 2010-2011 biennium by approximately $400 million and timely repays that debt service on a proportional basis in fiscal years 2012 through 2021. The overall size of the restructuring is small, comprising less than 5% of the state's current outstanding GRF-backed debt. To achieve these near-term savings in a fiscally responsible manner, the debt restructuring plan is carefully sized and crafted to reflect the following guiding principles:

- Minimize the overall fiscal cost;
- Ensure the final term of the new debt does not exceed the final term of the existing debt;
- Maintain adherence to the fundamental financing principle that the term of the financing be equal to or less than the useful life of the financed assets;
- Maintain rapid amortization of total GRF-backed debt; and
- Preserve existing 'callable' bonds that are eligible to be refunded for savings.

To adhere to these guiding principles, the restructuring targets non-callable general obligation (G.O.) bonds issued for three purposes – i.) common schools, ii.) higher education, and iii.) local infrastructure -- and timely repays the restructured debt service in fiscal years 2012 through 2021. Utilizing G.O. bonds for the restructuring ensures that the new refunding bonds can be sold at the lowest possible interest cost based on the state's full-faith-and-credit pledge. Focusing the restructuring on educational and local infrastructure purposes ensures that the useful life of the financed assets (K-12 and higher education school facilities and roads, bridges, and water/wastewater systems) still significantly exceeds the term of the restructured debt. Finally, focusing on debt issued for just these three purposes, which constitute about 90% of the state's G.O. GRF-backed debt, improves the efficiency and lowers the cost of implementing the restructuring.

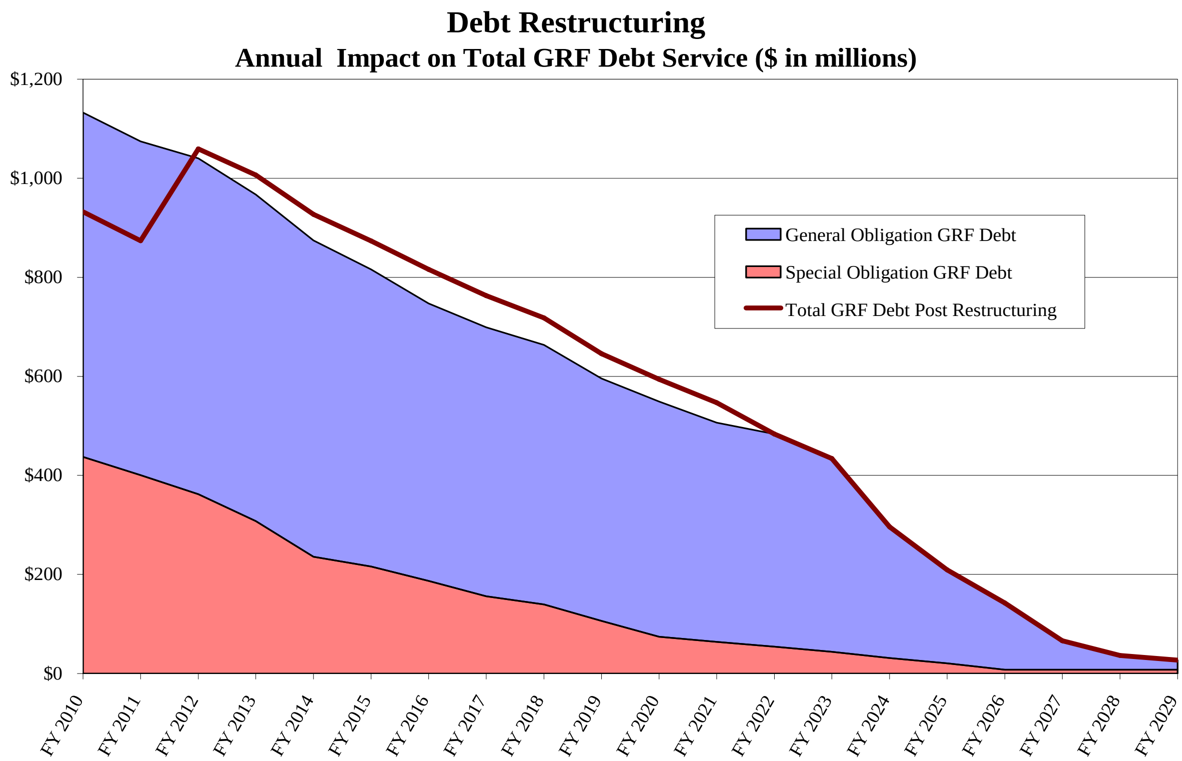
Figure D-24: Annual Cash-Flow Impact of the Debt Restructuring

Fiscal Year	Prior Debt Service	Restructured Debt Service	Cash-Flow Impact	Present Value Cash-Flow Impact*
FY 2009	$898,573	$0	$898,573	$896,210
FY 2010	207,684,018	7,678,958	200,005,059	195,666,342
FY 2011	216,036,247	15,764,250	200,271,997	189,511,075
FY 2012		19,039,000	(19,039,000)	(17,550,456)
FY 2013		39,514,000	(39,514,000)	(35,449,768)
FY 2014		47,239,000	(47,239,000)	(41,095,569)
FY 2015		57,037,375	(57,307,375)	(48,341,932)
FY 2016		68,630,125	(68,630,125)	(56,132,422)
FY 2017		64,167,000	(64,167,000)	(50,865,108)
FY 2018		59,366,000	(59,366,000)	(45,610,243)
FY 2019		50,173,375	(50,173,375)	(37,358,576)
FY 2020		45,195,125	(45,195,125)	(32,616,929)
FY 2021		40,508,000	(40,508,000)	(28,336,568)
TOTAL	$424,618,837	$514,582,208	($89,963,371)	($7,283,944)

** Cash-Flow Impact discounted by the All-In Cost of Borrowing (approximately 3.2%) to April 1, 2009.*

As shown in Figure D-24, while the total “gross” cash-flow impact of the restructuring is estimated to be approximately $90 million, the present value of those future payments (their cost in today’s dollars) is estimated to be just $7.3 million. The following chart shows the projected impact of the debt restructuring on total GRF debt payments for all future fiscal years.

Figure D-25: Debt Restructuring, Annual Impact on Total GRF Debt Service



Minimal Impact on GRF Debt Amortization

Ohio has a long history of rapid amortization of its outstanding debt obligations and the restructuring maintains this approach. The credit rating agencies have long highlighted Ohio's rapid debt amortization as a credit positive. Moreover, the three issuers of debt backed by state revenue (the Ohio Public Facilities Commission, the Treasurer of State, and the Ohio Building Authority) committed in their comprehensive Debt and Interest Rate Risk Management Policy (adopted December 2006) to amortizing, in the aggregate, at least 50% of GRF-backed debt outstanding at any one time within 10 years or less. Due to the restructuring's relatively small size and short repayment period, its impact on the rate of amortization of the state's GRF-backed debt is small in the short-term and negligible over the medium-to-long term. Figure D-26 shows the percent of GRF-backed debt amortized within 10, 15, and 20 years and illustrates the minimal impact the restructuring will have on this key measure.

Figure D-26: Impact of Debt Restructuring on GRF Debt Amortization Rates

Amortization Period	Pre-Restructuring	Post-Restructuring
10-Years	71.7%	70.6%
15-Years	94.7%	94.7%
20-Years	100%	100%

Unclaimed Funds

The Executive Budget proposes the measured, increased use of unclaimed funds to help provide for needed state services and investments in a time of constrained resources. The responsible use of unclaimed funds proposed is based upon a thorough analysis of unclaimed funds management, accounting, historical and current use, and practices of other states. The analysis was undertaken to ensure future claims will be met as the Ohio Department of Commerce, through its Division of Unclaimed Funds, continues its outreach to return lost funds to the rightful owner.

Unclaimed Funds and Its Management

Common sources of unclaimed funds range from dormant savings and checking accounts and forgotten safe deposit boxes to unpaid insurance policies and undelivered stock dividends. Sources of unclaimed funds also include unreturned rent and utility deposits and unclaimed wages and commissions. Each year, due to death, inadvertence, or forgetfulness, more than 200,000 individuals and organizations lose track of such moneys and intangible property in Ohio. Dating back to 1968, enacted unclaimed funds laws have protected those who lost track of their money and return those funds to the rightful owners. State statute prescribes when funds become unclaimed, based on value and on a period of inactivity that is typically three to five years. Once an account is considered unclaimed, it becomes the responsibility of the state; specifically, the Division of Unclaimed Funds within the Ohio Department of Commerce.

The Division of Unclaimed Funds (the division) is statutorily charged to serve as the custodian for Ohio citizens of inactive accounts at financial institutions and similar entities. The division is responsible for the safekeeping and return of moneys designated as unclaimed and meets its charge by: i.) ensuring compliance and reporting by holders of dormant accounts; ii.) advertising unclaimed accounts to the public; and iii.) returning the moneys once a claim is submitted and verified.

Unclaimed funds are reported and/or remitted to the division by various entities referred to as holders. Examples of holders include banks, insurance and investment companies, corporations, estates, trusts, charitable organizations, and similar entities. As a custodian, the division invests a portion of unclaimed funds through the Ohio Treasurer of State (TOS), while the remainder is retained and invested by certain banks and other financial institutions. All unclaimed funds are credited to the Unclaimed Funds Trust Fund, a rotary fund of the state.

The Unclaimed Funds Trust Fund is estimated to close fiscal year 2009 with a balance of at least $605 million, up from $597.5 million at the close of fiscal 2008. As of December 31, 2008, the balance was $687.4 million, of which nearly $481 million was invested by TOS in STAR Ohio, the State Treasury Asset Reserve, and approximately $203 million resided with financial institutions that report to the division. Most of the remaining amount resides in an operational account for cash-flow purposes. The two primary sources of ongoing revenue are newly reported unclaimed funds and investment earnings. The trust fund also receives loan repayments from state programs, as further described below. Trust fund disbursements primarily reflect claims paid to rightful owners, but also legislative transfers and division operating expenses.

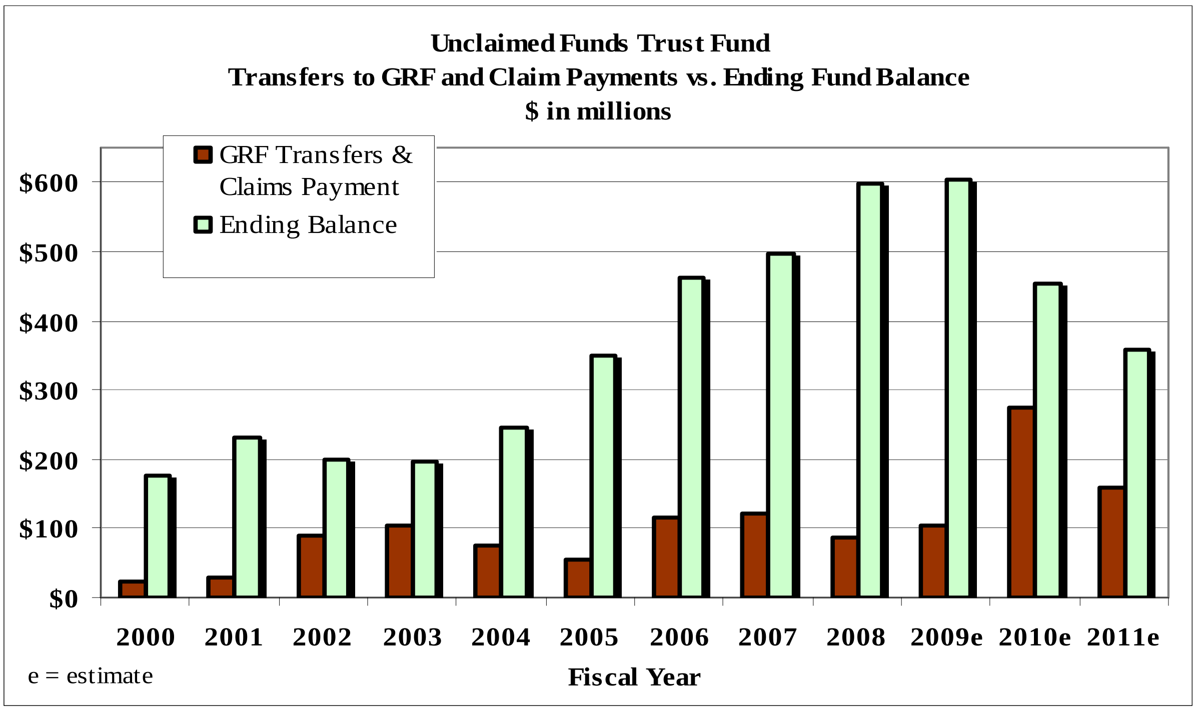
Historical and Current Unclaimed Funds Use

The primary responsibility of the division is to return unclaimed moneys to the rightful owners and since the program's beginning in 1968 through December 2008, approximately $1.97 billion in unclaimed funds has been reported to the division, with nearly $661 million returned. In fiscal 2008, just over 44,400 claims were paid, representing almost $58 million being returned to current or former Ohio residents. Recognizing that a portion of unclaimed funds may never be claimed, regardless of the division's diligence, the state through legislative direction has applied unclaimed funds numerous times to a variety of public purposes, including transfers to the state's general revenue fund (GRF) and to agencies of the state for job development initiatives. Most recently, up to $60 million is scheduled to be transferred to the GRF during current fiscal 2008-2009 biennium. Unclaimed funds have also long supported two successful programs, the Housing Loan Development Program and the Minority Business Bonding Program, overseen by the Ohio Housing Finance Agency (OHFA) and the Ohio Department of Development, respectively.

The Housing Loan Development Program offers loans to housing developers to support development of low- to moderate-income housing projects. As of December 2008, nearly $234 million in OHFA administered loans, for more than 350 housing-related projects, remains outstanding. Additionally, up to $136 million has been reserved with OHFA for loans pending the approval process. Separately, $2.7 million in unclaimed funds underpin the Minority Business Bonding Program. This program is designed to provide bonding assistance to minority businesses who otherwise cannot obtain needed capital for business investment.

The Executive Budget proposes the measured use of unclaimed funds to help provide for critical state services and investments over the course of fiscal years 2010 and 2011. Specifically, the proposal authorizes transfers of up to $200 million and $80 million to the state's GRF in fiscal years 2010 and 2011, respectively, and responsibly balances these transfers against anticipated claims and the continued support for the long-standing programs. As shown in the chart below, the historical and estimated amounts transferred to the state's general revenue fund and used to pay claims on previously lost accounts have had a negligible effect on the trust fund's ending fiscal year balance.

Figure D-27: Unclaimed Funds Trust Fund Transfers and Ending Fund Balance History



Unclaimed Funds and Other States

The governance and use of unclaimed funds is as varied as the number of states. Oversight is entrusted to state treasurers, auditors, and departments of revenue and deposits are made to state special and general revenue funds. Multiple states safeguard several billion in unclaimed funds, yet are able to only return a fraction of the accounts. As such, states commonly apply unclaimed funds to state initiatives, whether through direct program funding or indirectly through the general fund. Once a responsible calculation has been done to ensure claims on dormant accounts can be met, states have used unclaimed funds on programs that range from constructing school buildings to supporting pension systems. Ohioans can reasonably assume that some portion, likely sizable, will not be claimed and can be used to finance an otherwise unmet public need.