

The Reader's Guide is an introductory section of the Executive Budget that contains general information to help readers understand and use the contents of Governor Kasich's budget proposal for fiscal years 2012 and 2013. It contains the following informational sections:

- Demographic information about Ohio;
- State of Ohio organization chart;
- Glossary of key terms;
- Summary of the state's financial accounting method;
- Description of the process used to develop the state budget, including a budget calendar;
- Description and listing of state funds;
- Frequently asked questions about the budget; and
- Guide to reading and understanding the budget tables that are included in the summaries for each agency.

Background

The state's first Constitution was adopted in 1802, and Ohio entered the union in 1803. Ohio's present Constitution was modified by a state Constitutional Convention in 1851 and has since been amended on numerous occasions. The Constitution establishes a state governmental structure similar to the federal model, with three separate branches of government—executive, legislative, and judicial.

The executive branch consists of the Governor and Lieutenant Governor, who are jointly elected, and four additional statewide elected officials—the Attorney General, the Auditor of State, the Secretary of State, and the Treasurer of State. All of these officials are elected to four-year terms. Over 100 departments, agencies, boards, and commissions are part of the executive branch of government and receive appropriations from the legislature, along with three judicial and five legislative agencies.

The state legislature in Ohio is referred to as the General Assembly and consists of two separate chambers—the Senate, a 33-member body, and the House of Representatives, a 99-member body. Each member of the General Assembly is elected to represent the residents of a geographical district for a specified term. Members of Ohio's General Assembly are subject to term limits: Senators are restricted to serving two four-year terms and Representatives are restricted to serving four two-year terms. Each chamber has a presiding officer to call the chamber to order and direct the calendar of events. The presiding officer in the Senate is the President of the Senate, and the presiding officer in the House of Representatives is the Speaker of the House. A new General Assembly is convened in January of each odd-numbered year. The legislature that convened in January 2011 is the state's 129th General Assembly.

Along with the establishment of the state governmental structure, the State Constitution requires Ohio to have a balanced budget. Ohio's budget is prepared for a period of two years—a biennium—which begins on July 1 of odd-numbered years and ends 24 months later on June 30. Within a biennium are two separate fiscal years, each beginning on July 1 and ending on June 30. The budget proposed by Governor Kasich in this document is for the two-year period beginning July 1, 2011 and ending June 30, 2013.

Overview

The Executive Budget for fiscal years 2012 and 2013, as submitted to the General Assembly by Governor Kasich, consists of five separate documents. Book One, prepared by the Office of Budget and Management, contains detailed spending and revenue information, required by law, and summary information to help readers understand the policy and financial context of the Governor's proposals. Book Two, a report on the state's tax expenditures, is prepared by the Department of Taxation. The third document is entitled The Budget Summary. It contains an overview of the Executive Budget, including projected state revenues, recommended agency allocations, and the General Revenue Fund balance calculation for fiscal years 2012 and 2013. The fourth component is The Savings Book, which provides

Introduction to the Executive Budget

capsule summaries of selected program savings achieved by Cabinet agencies in the Governor's Executive Budget. The fifth document is the Reforms Book, which contains expanded analyses of five major reforms contained in the Governor's Executive Budget. This section focuses on the organization of Book One, The Budget Book.

Governor's Message

The first item in the Executive Budget is a letter from Governor Kasich to the people of Ohio and the General Assembly. Governor Kasich's letter provides an overview of his spending recommendations and outlines his goals and priorities for the fiscal years 2012-2013 biennium.

Section A—Reader's Guide

The Reader's Guide section is intended to help the reader understand the Executive Budget document. The Guide provides demographic information about the state, a State of Ohio organization chart, a glossary of key terms, a summary of the state's financial accounting method, a description of the budget process, a listing and description of state funds, answers to frequently asked questions about the budget, and a guide to reading the tables.

Section B—Economic Forecast and Revenue Estimates

This section contains information on the forecasts for the national and state economies for fiscal years 2012 and 2013. It describes the methods used to estimate future revenues and also contains a summary table of historical and estimated revenues and ending balances.

Section C—Budget Overview

This section summarizes revenue estimates and spending recommendations for fiscal years 2012 and 2013. It contains information describing historical and estimated General Revenue Fund (GRF) balances, information describing the relationship between debt service spending and GRF revenues, and ending fund balances by budget fund group for each year of the biennium. It also contains information on the state's capital budget.

Section D—Agency Budget Recommendations

This section contains historical and recommended spending information as well as narrative descriptions for all state agencies. The agencies appear in alphabetical order by the first key word in an agency's name. The narrative provides an overview of the particular agency's role, followed by the Governor's funding recommendations for each agency program series for fiscal years 2012 and 2013.

Narratives for certain agencies may also include an Appropriation Line Item Analysis, which could include one or more of the following additional analyses:

- Line Item Restructuring Analysis is provided for agencies that have changed line item structures to accommodate a more accurate presentation of funding. With a new line item structure, it is difficult for the reader to understand how funding levels have changed over time. In order to illustrate changes in funding for new line items, estimated fiscal year 2011 amounts are converted from the current line item structure into the proposed line item structure. This is then compared to recommended funding levels for fiscal years 2012 and 2013.
- Line Item Note offers additional information regarding a recommendation for an appropriation line item. The line item name and number are given.

Each agency also has four main budget tables that provide historical and recommended spending information. The budget tables are described in more detail in the Guide to Reading the Budget Tables, which begins on page A-24.

Figure A-1: State of Ohio Demographic Information

TOTAL POPULATION 11,542,645			
		Female	51.2%
		Male	48.8%
Percent of State Population by Race and Hispanic Origin		Other Demographic Facts	
White	84.7%	Population under 5 years	6.4%
African-American	12.1%	Population under 18 years	23.5%
Asian	1.6%	Population over 65 years	13.9%
Native American	0.3%	Median age (years)	37.9
Pacific Islander	>0.1%	Homeownership rate	69.1%
Two or More Races	1.4%	Foreign born residents	3.0%
Hispanic (may be of any race)	2.8%	High school graduates	83.0%
Total Minority*	17.8%	Bachelor's degree or higher	21.1%
* "Total Minority" is the total population minus white non-Hispanic			
Source: U.S. Census Bureau: State and County QuickFacts as of November 4, 2010			

Demographics

Ohio's population of approximately 11.5 million is the seventh largest in the nation and accounts for 3.8 percent of the total U.S. population. During the 1950's, Ohio gained 1.8 million residents, growing 22 percent compared to 19 percent for the nation. However our rate of growth has slowed and from April 1, 2000 to July 1, 2009 Ohio's population grew by 1.7 percent, while the nation's population grew by 9.1 percent. Ohio ranked seventh in total population, 31st in numeric growth, and 46th in percentage change. However, one Ohio county ranked among the fastest 100 growing counties in the nation. Delaware County ranks 20th with a 53.4 percent increase in population from 2000 to 2009.

The geographic location of the majority of the population has been fairly consistent over the last several decades with four out of five Ohioans living in a metropolitan area. Just under half of all Ohioans live in the three largest metro areas of Cincinnati, Cleveland, and Columbus. Approximately one-third of Ohioans live in the four Northeast Ohio metro areas of Akron, Canton, Cleveland, and Youngstown, while approximately one in five live in the southwestern metro areas of Cincinnati and Dayton.

Personal income decreased at a rate of 1.3 percent in 2009. Ohio's per capita income is \$35,590 and median household income is \$48,011 compared to the national average of \$52,029. The average civilian labor force unemployment rate for 2009 was 10.2 percent in Ohio compared to 9.3 percent for the nation. This represented a 3.6 percent increase in unemployment from 2008 for Ohio while the national average increased by 3.5 percent. As of January 2011, Ohio has the 18th highest unemployment rate in the nation at 9.4 percent. Total employment in Ohio is expected to increase 5.0 percent over the ten-year period from 2006-2016, which is a projected gain of 290,700 jobs.

History

Of Ohio's first inhabitants during the prehistoric era, the Adena (800 B.C. – 100 A.D.) were the first to farm Ohio, and the Hopewell (100 B.C. – 400 A.D.) built Ohio's mounds that can still be seen today. Marietta, established in 1788 by New England Revolutionary War veterans, was the first permanent white settlement in the state. Ohio was admitted to the union as the 17th state in 1803, and was the first state created from the Northwest Territory. Chillicothe was designated as the first capital of the new state until 1810, when the capital was moved to Zanesville. The capital was temporarily moved back to Chillicothe in 1812, and Columbus became the state's permanent capital in 1816.

Ohioans have played important roles in our nation's history. There have been eight presidents from Ohio, earning Ohio the nickname "the Mother of Presidents." Ohio is also the birthplace of world famous inventors, actors, athletes, authors, and astronauts. March 1, 2003, marked the 200th anniversary of statehood for Ohio, a state with many accomplishments, a rich history and culture, and a strong future.

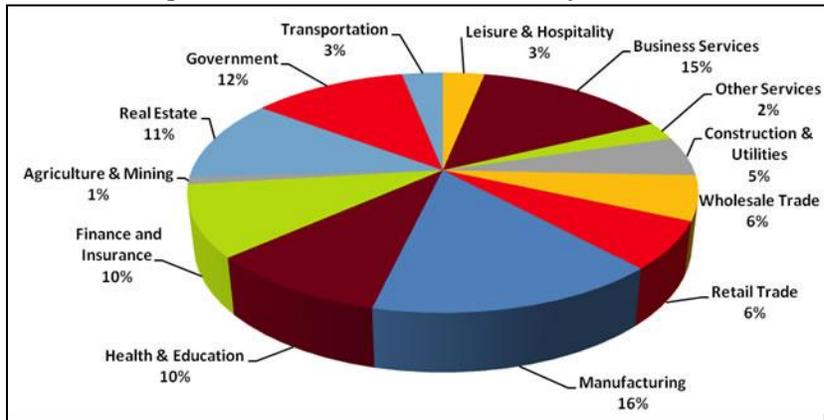
Economy

Ohio's gross state product (GSP) was \$471 billion in 2009, making Ohio the eighth largest state economy. Ohio ranks third among the 50 states in manufacturing gross state product. Because of its diverse population and its

location, Ohio has become home to a variety of businesses and industries, including the service industry, manufacturing, agriculture, and tourism. Manufacturing is the largest of Ohio's major sectors, based on gross state product. The state's factories lead the nation in the production of plastics, rubber, fabricated metals, and electrical equipment and appliances. The state's largest manufacturing industries are transportation equipment and fabricated metals.

These two industries are closely identified with a number of nationally recognized firms with a major presence in Ohio, including General Electric, General Motors, Ford, Chrysler, Honda, AK Steel, ArcelorMittal, Timken, and Severstal North America. Other notable firms include Proctor & Gamble, Macy's, The Limited Brands, Sherwin-Williams, and financial institutions such as J.P. Morgan Chase, KeyCorp, Huntington Bancshares, and Fifth Third Bancorp.

Figure A-2: Gross State Product by Sector

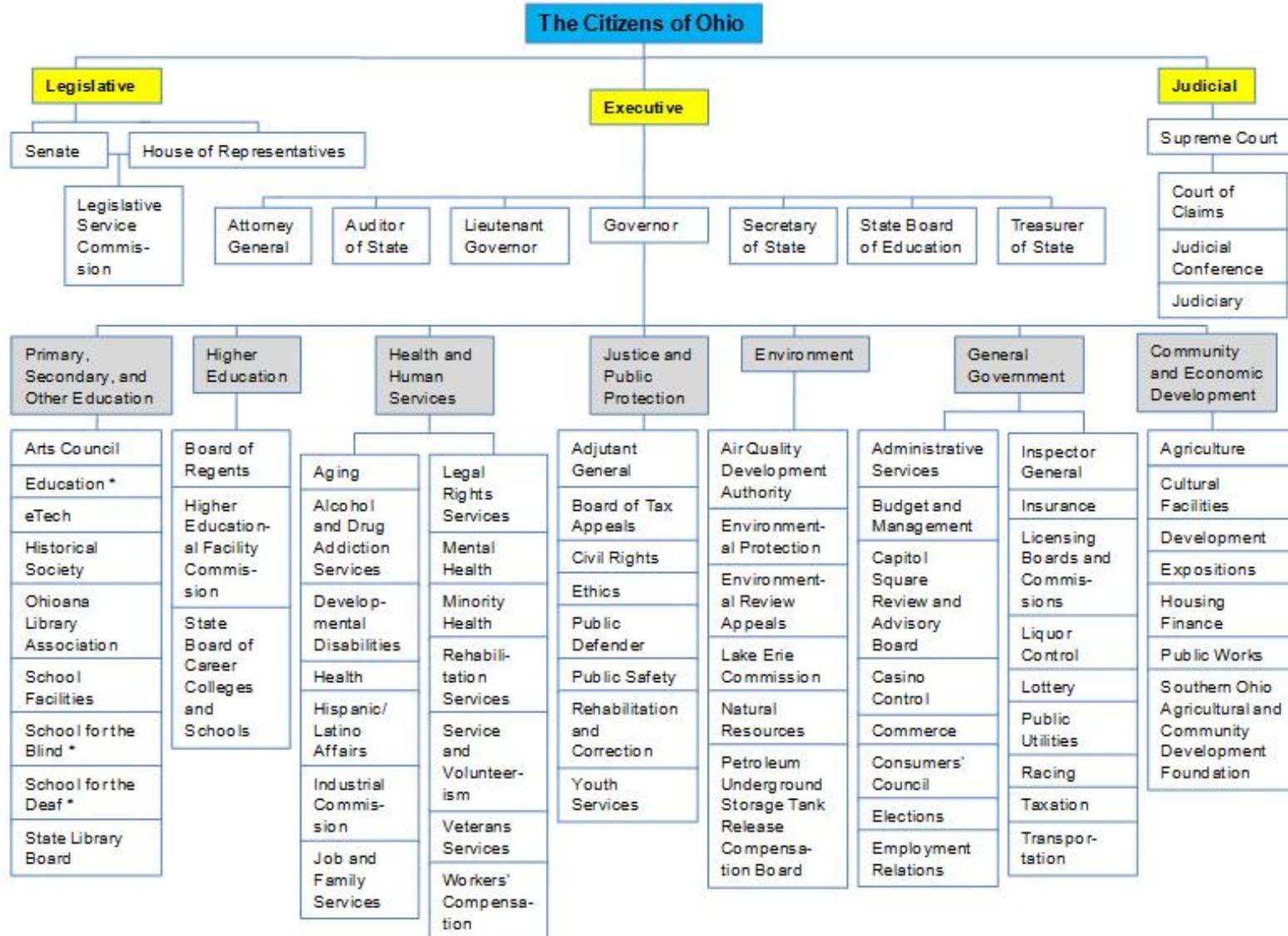


Ohio is the headquarters for 61 members of the Fortune 1000 including Procter & Gamble, Kroger, Cardinal Health, Federated Department Stores (Macy's), Nationwide Insurance, Progressive, Goodyear Tire and Rubber, FirstEnergy, American Electric Power, Sherwin-Williams, The Limited Brands, Fifth Third, KeyCorp, Western & Southern Financial, Abercrombie & Fitch, Cincinnati Financial, and Cintas. Cincinnati, Cleveland, and Columbus are among the 20 U.S. cities with the most Fortune 1000 company headquarters. Ohio is home to the Cleveland Clinic, Ohio State University, Case Western Reserve University, Wright-Patterson Air Force Base, Battelle Memorial Institute, NASA's Lewis Research Center, leading hospitals, and a major operations center for J.P. Morgan Chase. Ohio's service-producing sectors generate 78 percent of the GSP. The state's two leading export commodities are machinery and motor vehicles. Ohio firms ship products to 213 countries and the state accounts for about 3.2 percent of the U.S. export total. Ohio's merchandise exports were \$34.1 billion in 2009.

Ohio's companies are also technology intensive. Battelle has used federal government standards to identify over 28,000 establishments employing 820,000 people as Ohio's technology engine. Overall, Ohio has a 14 percent higher concentration of technology operations than the nation. In research, Ohio's educational institutions and private research facilities have core strengths in advanced manufacturing, biosciences, instruments and controls, power and propulsion, and information technology. The National Science Foundation identifies \$8.2 billion in R&D contracts in Ohio, ranking the state 13th nationally. Individuals in Ohio received over 2,250 patents ranking the state 12th nationally. Ohio State University, Case Western Reserve University, and the University of Cincinnati are major research institutions that receive over \$150 million annually in federal research grants. Combined with NASA Glenn, Battelle Institute, and Wright-Patterson Air Force Base, Ohio is a major center of emerging technologies.

State of Ohio Organization Table

Figure A-3: State of Ohio Organization Table



Organization Table as proposed in fiscal years 2012-2013 Executive Budget

* Reports to the State Board of Education

Agency Fund Group (AGY): This fund group consists of funds used to account for cash receipts held by the state as custodian or agent. Ultimately, cash is distributed from these funds to individuals, corporations, private organizations, other state funds, or local governmental units.

Agency Priority: A broad goal toward which a state agency strives. Agency priorities tie to the Governor's overall agenda. They also guide the objectives to be accomplished by the executive funding recommendations, as stated for each agency.

Appropriation: An authorization granted by the Ohio General Assembly to make expenditures and incur obligations for specific purposes. An appropriation limits the amount that may be spent for a given purpose in a given period of time. No appropriation may be made for a period longer than two years.

Appropriation Line Item (ALI), or Line Item: An ALI is a six-digit numeric code (in the format xxxyyy) used to identify and account for amounts appropriated for the activities of an agency. The first three digits identify the administering agency, division, or activity responsible for the specific purpose. The last three digits indicate the specific purpose.

Balanced Budget: A budget where expenditures do not exceed the amount of cash and revenue available within each fiscal year.

Biennium: A two-year period that begins July 1 and ends 24 months later on June 30.

Budget: A plan for the expenditure of funds to support an agency, program, or project.

Budget Fund Group, or Fund Group: The categories used to group similar funds for Ohio's budgetary reporting purposes. Ohio's funds are categorized according to their revenue sources and the purposes for which they are used.

Budget Summary Book: The Budget Summary Book (formerly known as the "Budget in Brief") is a document that often accompanies the Executive Budget. It highlights the spending priorities presented in the Governor's budget recommendations to the General Assembly. The document also summarizes expenditures and proposed funding for all agencies.

Budget Request Limitation: The Budget Request Limitation concept replaced the "core budget level" and "budget request cap" concepts from prior biennia. The Budget Request Limitation is imposed by fund and limits the amount of funding that an agency can request. For the fiscal years 2012-2013 budget process, the limitation for General Revenue Fund (GRF) requests was 100 percent of fiscal year 2011 adjusted appropriations, while non-GRF requests were unlimited.

Budget Stabilization Fund: A reserve balance account that receives transfers from the GRF. The balance in this fund is intended to stabilize budgets against cyclical changes in revenues and expenditures. This fund can carry a balance of up to five percent of prior-year GRF revenues.

Capital Budget: The budget for the acquisition or construction of major capital items—including land, buildings, structures, and equipment—completed in two-year periods beginning in odd-numbered fiscal years. Moneys for these projects are typically appropriated from funds whose revenue comes from bond sales.

Capital Expenditure: Funds spent by state agencies from capital budget appropriations for the acquisition of a long-term asset.

Cash: Actual balance of moneys available to support disbursements and appropriations. All state special revenue funds (revenue generated by the agency), federal special revenue funds, and bond funds must

have an available cash balance to support disbursements. Agencies that receive a GRF appropriation are not required to monitor cash balances for disbursements.

Custodial Accounts: Some accounts are created “in the custody of the State Treasurer” but are not a part of the state treasury. These accounts are referred to as custodial accounts. A custodial account must have specific language that establishes it in the custody of the State Treasurer.

Debt Service: The payment of principal, interest, and associated costs on the state's bonded indebtedness. Debt service appropriations are usually made to the agency on whose behalf the bonds were issued.

Encumbrance: Reservation of appropriation authority typically representing purchase orders and contracts entered into by state agencies.

Equipment: Expenditures for durable goods such as computers, desks, chairs, or cars.

Executive Budget: Also known as the “Blue Book,” the Executive Budget provides the legislature and the public with the Governor’s funding recommendations for the next operating budget biennium. Proposed funding levels, historical spending patterns, and descriptive narratives are presented for each agency. It also includes information about the budget process, revenue sources and estimates, economic forecasts, capital improvements, state funds, and special program areas. The document is the executive’s financial plan for state government and is made available via the Office of Budget and Management (OBM) Website.

Expenditures: Payments against appropriations that reduce the cash balance after legal requirements have been met. A fiscal year’s expenditures are payments actually made in that fiscal year, regardless of the state fiscal year in which the appropriations were reserved or encumbered for such payments.

Expense Account Category: A three digit code used to categorize expenses as follows:

- Personal Services (500): Payroll, including fringe benefits;
- Purchased Personal Services (510): Purchased or contracted services (e.g. consultants);
- Supplies & Maintenance (520): Expendable goods and supplies such as utilities, gasoline, postage, paper, pens, repairs, and travel;
- Equipment (530): Durable goods such as computers, furniture, or vehicles;
- Subsidies & Shared Revenue (550): Distributions made to individuals, organizations, school districts, higher education facilities, or other local government units;
- Goods & Services for Resale (560): Goods or services purchased by one state agency to be sold or resold to another state agency or to the public;
- Capital Items (570): Significant fixed assets such as land and buildings;
- Judgments, Settlements, & Bonds (590): Payments on negotiated settlements, judgments rendered, and reparations awarded against the State of Ohio to individuals and companies;
- Debt Service (591): The payment of principal, interest, and associated costs on the state’s bonded indebtedness; and
- Transfers & Non-Expense (595): Cash disbursements and other transactions that reduce cash resources but are not an operating expense, such as transfers between funds and tax refunds.

Federal Special Revenue Fund Group (FED): A group of funds whose revenues are federal grants or entitlements. Expenditures for these funds are made in accordance with state and federal law.

Fiscal Year (FY): A 12-month period used for fiscal planning purposes. The state fiscal year (SFY) begins July 1 and ends the following June 30. The federal fiscal year (FFY) begins October 1 and ends the following September 30.

Full-Time Equivalent (FTE): For budget development purposes, OBM uses this method of calculating personnel levels where one FTE works 2,080 hours per year. Part-time employees have an FTE value that is proportionally less than one.

Fund: A fund is a separate fiscal and accounting entity with a self-balancing set of accounts. A fund created in the state treasury usually has one or more appropriation items from which expenditures are made. If the fund has only one appropriation line item, the line item name often is the same as the fund name.

Fund Balance: The unencumbered cash remaining in a fund at the end of a specified time period, usually the end of the fiscal year.

General Revenue Fund (GRF): The GRF is the primary operating fund of the state. This fund receives the unrestricted revenues of the state, primarily from such revenue sources as the personal income tax, the sales and use tax, the corporate franchise tax, and the public utilities excise tax. The fund also receives significant federal revenues that primarily support human services programs.

General Services Fund Group (GSF): This fund group consists of funds not easily classified into or appropriately accounted for in another fund group. Many of the funds in this group receive payments from other funds for services provided, or they receive interagency grants.

Goal: An achievement or result toward which a state agency program is directed. A statement of direction, purpose, or intent based on identified public needs. A goal is a broad statement of what a state agency expects to accomplish. It is more broadly defined than an objective, which aims toward achieving a goal. The Executive Budget highlights an agency's goals in the Agency Priorities section at the beginning of each agency's narrative.

Lapse: Appropriations not encumbered or expended prior to their expiration.

Line-Item Veto: A provision that allows a governor to veto components of the state budget approved by the legislature on a line-by-line basis.

Maintenance: Expenditures for expendable goods and supplies such as utilities, gasoline, postage, paper, pens, repairs, telephone service, and travel.

Non-Recurring/One-Time Appropriation: An appropriation made for a one-time item or project. Examples include capital or major equipment purchases, special studies, and information technology upgrades.

Objective: An aim toward which a state agency directs its effort to accomplish a stated agency priority. Something to be accomplished in specific, often measurable terms and that is achievable within a specific time frame. Objectives are more specific than goals and aim to achieve an agency's goals. The Executive Budget highlights an agency's objectives in the Executive Recommendation section in each agency's narrative.

Ohio Administrative Knowledge System (OAKS): An Enterprise Resource Planning system that integrates the functions of financial accounting, fixed assets, human resources, and budgeting. OAKS has replaced the Central Accounting System, Fixed Assets Management System, the human resources system, and the budgeting system known as BUGS-E.

Operating Budget: The budget established for the operation of a state agency or program, typically based on legislative appropriation, and completed in two-year periods beginning with even-numbered fiscal years.

Performance Measures: Performance measures are used by a state agency to evaluate the effectiveness of its programs. They may indicate a level of agency activity or output or a level of outcomes experienced by an agency's customers. Each agency director is responsible for achieving the goals of the Governor's agenda through department performance, which is tracked through the development of key measures and targets and reporting on those results.

Personal Services: Expenditures for payroll, including fringe benefits.

Program: A program is a discrete activity within an agency's organization that is intended to provide a specific good or service in response to an identified social or individual need or problem. A number of programs can be grouped under each program series. An example of a program is the Public Defender Commission's Pro Bono Training Program that provides continuing legal education training programs to public defenders and private counsel who represent indigent persons in criminal and juvenile matters.

Program Series: A program series groups closely related programs into an overarching category that captures the state's efforts to provide for a public need. A program series corresponds with a major area of focus or goal for a state agency and in most cases is composed of two or more programs. Most agencies are characterized by more than one program series. An example of a program series is the Department of Insurance's Investigation and Licensing Program Series that includes market conduct, licensing, and fraud and enforcement programs. The Executive Budget presents agency spending by program series.

Purchased Personal Services: Services for which state agencies contract, such as consultants, physicians, and temporary services.

Reappropriation: Legislative action that provides for the renewal of a previous capital appropriation. Sometimes agencies are not able to spend what is in the current capital bill or the current capital reappropriations bill by the end of the biennium. However, the agencies will continue to need the appropriation or a portion of it for projects designated in those bills that are not yet completed.

State Appropriation Limitation (SAL): An act passed in Senate Bill 321 of the 126th General Assembly that limits, with certain exceptions, GRF appropriation increases to 3.5 percent of prior fiscal year spending and allows for adjustments based on the consumer price index (CPI) and population growth.

State Special Revenue Fund Group (SSR): This fund group consists of funds that receive special revenues for specified activities that are required by law.

Subsidy Account: An appropriation line item used to legally restrict appropriations and account for distributions for designated purposes. Such distributions are made to individuals, organizations on behalf of individuals, school districts, higher education facilities, local governmental units, or other recipients.

Tax Expenditure: Any tax provision that exempts in whole or in part certain persons, income, goods, services, or property from taxation. Tax expenditures represent a loss of tax revenue to state government for the purpose of encouraging certain activities or providing relief to taxpayers in designated circumstances in order to accomplish public policy goals. The Ohio Revised Code (ORC) requires the Department of Taxation to prepare a tax expenditure report as a supplement to the Governor's Executive Budget proposal.

Zero-Based Budgeting: A budgeting approach that requires agencies to justify all requested expenditures, instead of only expenditures above the funding level provided in the previous period. Senate Bill 321 of the 126th General Assembly included a provision requiring the use of zero-based budgeting principles in the budget preparation process.

Introduction

The legislatively-enacted budget plays a central role in the state's financial management system. The budget is a plan of financial operations that embodies an estimate of proposed expenditures for each fiscal year of the biennium.

The objective of budgetary control is to manage the state's finances within limitations set forth in its approved budget. Budgetary control allows the state to keep its expenditures within limitations of available appropriations and available revenues.

The state has designed its Ohio Administrative Knowledge System (OAKS) to ensure and demonstrate compliance with the budget. The appropriated budget is "integrated" into the accounting system. This means that the accounting system is specifically designed to provide ongoing and timely information on what is still available to be spent within established budget limitations.

The following discussion addresses specifics about the state's budgetary process and related policies, including the level of budgetary control, the basis of budgetary accounting, and the use of encumbrance accounting.

Budgetary Process

As required by the Ohio Revised Code, the Governor submits the biennial operating and capital budgets to the General Assembly. The particular budget, which includes those funds of the state subject to appropriation pursuant to Ohio law, is comprised of all proposed expenditures for the state and of estimated revenues and borrowings for a biennium.

The General Assembly enacts the budget through passage of specific departmental line item appropriations. Line item appropriations are typically established one to a fund except for the General Revenue Fund, for which agencies will often have multiple line item appropriations associated with different agency initiatives. The Governor may veto any item in an appropriation bill. Such vetoes are subject to legislative override.

The state's Controlling Board, comprised of six members of the General Assembly, and the Director of the Office of Budget and Management (OBM) or a designee, can transfer or increase a line item appropriation within the limitations set under Chapter 127 of the Ohio Revised Code. The Board has delegated the authority to the director of OBM to transfer appropriations between existing operating expenditure/expense line item appropriations within a state agency in amounts not to exceed a total of \$50,000 from each line item appropriation within a fiscal year.

Budgetary Control

The state maintains its legal level of budgetary control at the departmental line item appropriation level. OAKS controls expenditures at this level. Therefore, at no time can expenditures exceed appropriations, and financial-related legal compliance is thus assured.

Basis of Accounting

Ohio prepares its budget using the modified cash basis of accounting. Under this basis of accounting, the state recognizes revenues when cash is received and expenditures when paid. Furthermore, at the close of a fiscal year the state reserves cash sufficient to cover the payment of outstanding encumbrances and other obligations. For external financial reporting purposes, the state issues the Comprehensive Annual Financial Report (CAFR). This report is prepared in conformity with generally accepted accounting principles (GAAP). Because the state budgets on a modified cash basis of accounting, which differs from GAAP, the required reconciliation of the differences between the state's budgetary financial statements and its GAAP-basis financial statements is presented in the CAFR. This reconciliation identifies the basis differences in the recognition of accruals, deferred revenues, inter-fund transactions, and loan

transactions, as well as the timing differences in the budgetary basis of accounting for encumbrances. On the budgetary financial statements, the state recognizes encumbrances as expenditures in the year encumbered, while on the GAAP-basis financial statements, the state recognizes expenditures when goods or services are received regardless of the year encumbered.

Encumbrance Accounting

Encumbrance accounting – under which purchase orders, contracts, and other commitments for expenditures are recorded as a reserve of the applicable appropriations – is employed as an extension of formal budgetary integration in the state's accounting system. Outstanding encumbrances at the end of the fiscal year are recorded as reservations of fund balance for expenditure in subsequent years. Operating encumbrances are generally cancelled five months after the end of the fiscal year while capital encumbrances are generally cancelled two years after the biennial period for which they are appropriated. Unencumbered operating appropriations lapse at the end of each fiscal year.

For external reporting in its non-GAAP budgetary financial statements, the state also reports encumbrances as expenditures in the year when related purchase commitments are made.

From preparation of the Executive Budget through enactment of the appropriation bills, the following calendar is in place:

July 2010	The Office of Budget and Management (OBM) distributes guidelines to state agencies for preparation of the Executive Budget for fiscal years 2012 and 2013.
November 2010	All agencies' budget requests, prepared in the program series and program format, are due to OBM.
November 2010	John R. Kasich is elected Governor of Ohio.
November – December 2010	The OBM completes its review and analysis of agency requests. Agencies may be asked to provide additional information to assist in the development of recommendations.
November 2010 – January 2011	The OBM prepares revenue estimates internally for the upcoming biennium.
January – March 2011	The OBM evaluates agencies' budgets and makes recommendations on funding priorities to the Governor within established revenue projections.
February 2011	The first of the budget bills for the Department of Transportation, the Department of Public Safety, the Bureau of Workers' Compensation, and the Industrial Commission is introduced in the House of Representatives.
March 2011	Governor makes final decisions for the Executive Budget. The Executive Budget is published and presented to the General Assembly. The OBM and the Legislative Service Commission prepare the main operating appropriations bill based on the Executive Budget document.
March 2011	The main operating budget bill is introduced in the House of Representatives.
March – June 2011	The House and Senate hold hearings and vote on the budget bills.
June 2011	The Conference Committee works out differences between the versions of the budget bill passed by the House and Senate. The House and Senate vote on the Conference Committee report. The Governor signs the appropriations bill, which takes effect July 1, 2011. If the budget bill is not signed by June 30, 2011, an interim budget must be enacted.

Introduction

Every two years, the Governor is required by state law to propose a new budget for state activities. The operating budget proposal must be submitted to the General Assembly not later than four weeks after its organization and is usually submitted to the legislature in early February of each odd-numbered year. In years when a new Governor is inaugurated, however, state law permits the budget proposal to be submitted to the legislature by March 15. More than a statutory requirement, however, the budget represents a statement of priorities. It sets a strategic policy direction for the activities of state government. Therefore, a detailed budget preparation process is necessary to generate information that will help the Governor and the General Assembly reach consensus regarding the priorities of the state and the most effective use of state resources. The process can be divided into the following steps:

- Development of the Governor's Executive Budget;
- Enactment by the legislature; and
- Gubernatorial approval and vetoes.

Development of the Governor's Executive Budget

The Office of Budget and Management (OBM) is the executive agency charged with preparing the Governor's budget recommendations. In July 2010, OBM issued to all agencies the Operating Budget Guidance for fiscal years 2012 and 2013 that specified the format, content, and due dates for agency budget requests to OBM.

Agency budget submissions were subject to established limitations and due on November 1. Once budget requests were received, OBM worked closely with agency representatives to gain a full understanding of the budget submission, agency circumstances, and needs.

In addition to reviewing the spending requests, OBM assessed and estimated the availability of revenue to support the proposed state expenditures. In February 2011, a meeting of the Governor's Council of Economic Advisors was held to construct a consensus forecast of key economic indicators for the United States and Ohio. The OBM and the Department of Taxation worked together to produce revenue estimates. As revenue projections were finalized, the director of OBM worked closely with the Governor and his key advisors to ensure that this spending plan reflected the Governor's priorities.

Enactment by the Legislature

Although the Governor is required to make budget recommendations, the authority to appropriate money rests with the legislature. The Governor's spending plan, along with any statutory and temporary law necessary to make it operational, is drafted into a bill. Separate budget bills are prepared for the Bureau of Workers' Compensation, the Industrial Commission, and the non-GRF portions of the budgets for the Departments of Transportation and Public Safety.

Traditionally, budget bills are introduced in the House of Representatives under the sponsorship of the chair of the House Finance and Appropriations Committee. Once introduced, the bill is referred to the House Finance and Appropriations Committee. The committee and its various subcommittees conduct extensive hearings, reviewing all aspects of agency budgets and law changes. The full committee concludes its work when it reports, after modifying the Governor's plan through substitutions and amendments, a bill with a favorable vote by a majority of the committee members. The bill is then considered before the full House of Representatives, where further amending may take place, until the bill is passed by a majority of the members.

Once passed by the House, the bill is sent to the Senate for consideration. It is referred to the Senate Finance Committee where, again, extensive hearings are held. The committee reports a modified bill, which then goes to the full Senate for further amending and passage.

Typically, differences exist between the House and Senate versions of the budget bill, thus requiring the appointment of a Conference Committee. The Conference Committee is comprised of three members of each chamber and is responsible for resolving the differences between the House and Senate versions of the bill. Once all differences are resolved, the committee prepares a report that it recommends to both chambers for final approval. Majority affirmative votes in each house are required to accept the report of the Conference Committee and enact the budget bill.

Gubernatorial Approval and Vetoes

A bill usually becomes law upon signature of the Governor. In Ohio, the Governor is empowered to veto all or any item of an appropriations bill. Upon receipt of the bill passed by the legislature, the Governor conducts a thorough review of its contents and determines whether any items should be disapproved. Disapproved items are noted in the bill signed by the Governor, and the bill, along with the written objections, is returned to the legislature. The bill must be signed by July 1, the first day of the new fiscal year. The legislature is empowered by a three-fifths majority vote of each house to override any vetoed item.

Capital Budgeting Process

Apart from the operating budget process, Ohio also must budget for capital expenditures, such as the construction or rehabilitation of structures and the purchase of permanently affixed equipment. The capital bill is generally submitted every even-numbered year, while the operating bill is submitted in each odd-numbered year.

Tobacco Settlement Budgeting Process

The securitization in October 2007 of the state's tobacco settlement receipts to be paid pursuant to the 1997 Tobacco Master Settlement Agreement produced approximately \$5.05 billion in net proceeds that the state allocated for the construction of K-12 school buildings and higher education facilities. As a result, the state will no longer enact a tobacco budget bill, which had formerly been introduced every even-numbered year. The last enacted tobacco bill, S.B. 321, appropriated funds for fiscal years 2007 and 2008.

The state's funds are organized into budget fund groups, which are categories used to group similar funds for budgetary reporting purposes. The funds are categorized according to their revenue sources and the purposes for which they are used. The budget fund group (BFG) concept is used in the Executive Budget to summarize history and recommendations for fiscal years 2008 to 2013 for each agency. The list below contains descriptions of all existing budget fund groups.

Figure A-4: The State's Budget Fund Groups

<u>Budget Fund Group</u>	<u>Abbreviation</u>	<u>Budget Fund Group</u>	<u>Abbreviation</u>
Accrued Leave Liability	ALF	Job-Ready Site Development	7012
Administrative Building	7026	Juvenile Correctional Building	7028
Adult Correctional Building	7027	Liquor Control	LCF
Advanced Energy	AEN	Local Infrastructure Improvement	LIF
Agency	AGY	Local Transportation Improvement	7052
Budget Stabilization	7013	Lottery Profit Education	LPE
Clean Ohio Conservation Pgm.	CLF	Mental Health Fac. Improvement	7033
Coal Research & Development	7046	Office of Auditor of State	AUS
Cultural & Sports Fac. Bldg.	7030	Ohio Parks & Natural Resources	7031
Debt Service	DSF	Parks & Recreation Improvement	7035
Education Improvement	7006	Revenue Distribution	RDF
Facilities Establishment	7037	School Building Assistance	SBA
Federal Special Revenue	FED	State Lottery	SLF
General Revenue	GRF	State Special Revenue	SSR
General Services	GSF	Third Frontier Research & Dev.	7011
Higher Education Improvement	7034	Tobacco Settlement	TSF
Highway Capital Improvement	7042	Transportation Building	7029
Highway Operating	HOF	Underground Parking	UPG
Highway Safety	HSF	Volunteer Firefighter Dependents	7085
Highway Safety Building	7025	Waterways Safety	WSF
Holding Account Redistribution	7090	Wildlife	WLF
Infrastructure Bank Obligations	7045	Workers Compensation	WCF

The budget fund groups are described below.

Accrued Leave Liability (ALF): The Accrued Leave Liability Budget Fund Group consists of funds that receive direct payroll charges and interest. Major expenditures consist of payments to state employees for accrued vacation, sick, and personal leave time as well as disability benefits.

Administrative Building (7026): The Administrative Building Budget Fund Group consists of the Administrative Building Fund that receives proceeds from special obligation debt issuances. Expenditures are for capital improvements to state office buildings and structures.

Adult Correctional Building (7027): The Adult Correctional Building Budget Fund Group consists of the Adult Correctional Building Fund that receives proceeds from special obligation debt issuances. Expenditures are for capital improvements for the Department of Rehabilitation and Correction.

Advanced Energy (AEN): The Advanced Energy Budget Fund Group consists of advanced energy research and development tax-exempt and taxable bond funds that receive proceeds from the sale of revenue bonds. Expenditures are used to provide grants and loans for the research, development, and commercialization of advanced and renewable energy resources.

Agency (AGY): The Agency Budget Fund Group consists of funds used to account for cash receipts held by the state as custodian or agent. Ultimately, cash is distributed from these funds to individuals, corporations, private organizations, other state funds, or local governmental units.

Budget Stabilization (7013): The Budget Stabilization Budget Fund Group consists of the Budget Stabilization Fund that receives transfers from the General Revenue Fund. The purpose of the Budget Stabilization Fund is to help reduce the impact of an economic downturn that may result in the reduction of revenues to the General Revenue Fund.

Clean Ohio Conservation Program (CLF): The Clean Ohio Conservation Program Budget Fund Group consists of funds that receive proceeds from general obligation debt issuances and the sale of revenue bonds. Expenditures from these funds are used for conservation projects across the state.

Coal Research and Development (7046): The Coal Research and Development Budget Fund Group consists of the Coal Research & Development Fund that receives proceeds from general obligation debt issuances. Expenditures from this fund are for grants to industries and universities for coal research and development projects.

Cultural and Sports Facilities Building (7030): The Cultural and Sports Facilities Building Budget Fund Group consists of the Cultural and Sports Facilities Building Fund that receives proceeds from special obligation debt issuances. Expenditures are for the conservation of, and improvements to, various arts, sciences, and sports facilities in Ohio.

Debt Service (DSF): The Debt Service Budget Fund Group consists of several debt service funds that receive taxes, interest revenue, and transfers from the General Revenue Fund. Expenditures from these funds provide for payment of general long-term debt principal, interest, and associated costs.

Education Improvement (7006): The Education Improvement Budget Fund Group consists of the Education Improvement Fund that receives transfers from the General Revenue Fund. Expenditures from this fund are for education improvement programs in elementary and secondary schools.

Facilities Establishment (7037): The Facilities Establishment Budget Fund Group consists of funds that receive proceeds from the sale of revenue bonds that are used for loans and loan guarantees to assist businesses in building or expanding Ohio-based facilities. The fund also receives repayments of those loans.

Federal Special Revenue (FED): The Federal Special Revenue Budget Fund Group consists of funds that receive federal grants or entitlements. Expenditures from these funds are made in accordance with state and federal laws.

General Revenue (GRF): The General Revenue Budget Fund Group consists of the General Revenue Fund that accounts for all financial resources except those required to be accounted for in another fund. Primary sources of revenue include sales, income, and corporate franchise taxes. General Revenue Fund expenditures support education, human services, general government, and property tax relief.

General Services (GSF): The General Services Budget Fund Group consists of funds not easily classified into or appropriately accounted for in one of the other budget fund groups. Many of the funds in this group receive payments from other funds for services provided. Also included in this group are funds that receive interagency grants. The Income Tax Reduction Fund is one of the many funds in this group.

Higher Education Improvement (7034): The Higher Education Improvement Budget Fund Group consists of the Higher Education Improvement Fund that receives proceeds from general obligation debt issuances. Expenditures are made for improvements to state-assisted higher education facilities.

Highway Capital Improvement (7042): The Highway Capital Improvement Budget Fund Group consists of the Highway Capital Improvement Fund that receives proceeds from general obligation debt issuances. Expenditures are for capital improvements to highways.

Highway Operating (HOF): The Highway Operating Budget Fund Group consists of transportation-related funds that receive motor fuel taxes and highway use taxes. Expenditures are made primarily for the maintenance and expansion of the highway system.

Highway Safety (HSF): The Highway Safety Budget Fund Group consists of several highway safety-related funds that receive transfers from the Highway Operating Fund, federal grants, fees, fines, and taxes on motor vehicles. Expenditures are restricted to support motor vehicle safety and law enforcement programs.

Highway Safety Building (7025): The Highway Safety Building Budget Fund Group consists of the Highway Safety Building Fund that receives proceeds from special obligation debt issuances. Expenditures are for capital improvements for the Department of Public Safety.

Holding Account Redistribution (7090): The Holding Account Redistribution Budget Fund Group consists of several funds used to account for moneys collected but for which the correct fund for deposit is unknown or the money is not yet determined to be earned by the state. In instances when moneys on deposit in these funds are determined not to be earned by the state, a refund disbursement is recorded.

Infrastructure Bank Obligations (7045): The Infrastructure Bank Obligations Budget Fund Group consists of the Infrastructure Bank Obligations Fund that receives proceeds from revenue debt issuances. Expenditures are made to provide financial assistance to public and private entities for transportation projects.

Job-Ready Site Development (7012): The Job-Ready Site Development Budget Fund Group consists of the Job Ready Site Development Fund that receives proceeds from general obligation debt issuances. Expenditures are for infrastructure capital improvements.

Juvenile Correctional Building (7028): The Juvenile Correctional Building Budget Fund Group consists of the Juvenile Correctional Building Fund that receives proceeds from special obligation debt issuances. Expenditures are for capital improvements for the Department of Youth Services.

Liquor Control (LCF): The Liquor Control Budget Fund Group consists of funds used to operate the Division of Liquor Control in the Department of Commerce, the Investigative Unit in the Department of Public Safety, and the Liquor Control Commission. Primary sources of revenue include retail and wholesale liquor sales. Major expenditures consist of liquor purchases, operating costs, and debt service on economic development bonds and revitalization bonds issued under the Clean Ohio Program. Additionally, a portion of the liquor profits is transferred monthly to the General Revenue Fund.

Local Infrastructure Improvement (LIF): The Local Infrastructure Improvement Budget Fund Group consists of funds created to assist local subdivisions in financing public infrastructure capital improvements. Proceeds from general obligation debt issuances are credited to these funds.

Local Transportation Improvement (7052): The Local Transportation Improvement Budget Fund Group consists of the Local Transportation Improvement Program Fund that receives transfers from the State and Local Government Highway Distribution Fund within the Revenue Distribution Budget Fund Group. Expenditures are for grants to local subdivisions for projects approved by the Ohio Public Works Commission.

Lottery Profit Education (LPE): The Lottery Profit Education Budget Fund Group consists of funds that receive lottery profits for the support of elementary, secondary, vocational, and special education programs.

Mental Health Facilities Improvement (7033): The Mental Health Facilities Improvement Budget Fund Group consists of the Mental Health Facilities Improvement Fund that receives proceeds from special obligation debt issuances. Expenditures are for improvements to state and community mental health and developmental disability facilities.

Office of Auditor of State (AUS): The Office of Auditor of State Budget Fund Group consists of funds used to operate the Office of Auditor of State. Primary sources of revenue include the sale of audit services to local governments and other state agencies. Expenditures cover the cost of providing audit services.

Ohio Parks & Natural Resources (7031): The Ohio Parks & Natural Resources Budget Fund Group consists of the Ohio Parks & Natural Resources Fund that receives proceeds from general obligation debt issuances. Expenditures from this fund are for projects related to parks and natural resources.

Parks and Recreation Improvement (7035): The Parks and Recreation Improvement Budget Fund Group consists of the Parks & Recreation Improvement Fund that receives proceeds from special obligation debt issuances. Expenditures are for improvements to parks and recreation facilities.

Revenue Distribution (RDF): The Revenue Distribution Budget Fund Group consists of funds that receive tax and license fees for distribution to other state funds or local governmental units.

School Building Assistance (SBA): The School Building Assistance Budget Fund Group consists of funds that receive general obligation debt issuances and loan repayments from local school districts. Expenditures are for loans to local school districts for the costs of capital improvements.

State Lottery (SLF): The State Lottery Budget Fund Group consists of the funds used to operate the Ohio Lottery Commission. Primary sources of revenue are lottery ticket sales and license fees. Major expenditures consist of operating costs, commissions to agents, and lottery prizes. The state uses the net proceeds after expenditures for the support of elementary, secondary, vocational, and special education programs.

State Special Revenue (SSR): The State Special Revenue Budget Fund Group consists of funds that receive specific revenues for specified activities that are required by law.

Third Frontier Research and Development (7011): The Third Frontier Research and Development Budget Fund Group consists of Third Frontier research and development tax-exempt and taxable bond funds that receive proceeds from general obligation debt issuances. Expenditures are for research, development, and commercialization projects.

Tobacco Settlement (TSF): The Tobacco Settlement Budget Fund Group consists of funds that account for various health, education, economic, and law enforcement-related programs. The primary source of revenue is money received under the Master Settlement Agreement with the nation's largest tobacco companies.

Transportation Building (7029): The Transportation Building Budget Fund Group consists of the Transportation Building Fund that receives proceeds from special obligation debt issuances. Expenditures are for the construction, reconstruction, or rehabilitation of various capital facilities for the Department of Transportation.

Underground Parking (UPG): The Underground Parking Budget Fund Group consists of the Underground Parking Garage Operating Fund used to operate the underground parking garage below the Statehouse. The primary source of revenue is parking fees. Expenditures are for the administration and operation of the garage.

Volunteer Firefighter Dependents (7085): The Volunteer Firefighter Dependents Budget Fund Group consists of the Volunteer Fire Fighters Dependents Fund. The primary purpose of this budget fund group is to account for fire district and political subdivision premiums for distribution in support of compensation to disabled fire fighters and to surviving spouses and families in the case of death.

Waterways Safety (WSF): The Waterways Safety Budget Fund Group consists of funds that receive watercraft license fees and fines. Expenditures are restricted to supporting watercraft operations and watercraft law enforcement and education programs.

Wildlife (WLF): The Wildlife Budget Fund Group consists of funds that receive wildlife license fees and fines. Expenditures are restricted to supporting wildlife preservation and wildlife law enforcement programs.

Workers Compensation (WCF): The Workers' Compensation Budget Fund Group consists of funds that receive assessments on the State Insurance Fund (non-appropriated). Expenditures support the Bureau of Workers' Compensation and the Industrial Commission's administrative, adjudicatory, and programmatic responsibilities.

What is the state budget?

The state budget is an agreement between the legislative and executive branches of government on a spending plan for state government. It represents a statement of priorities for a two-year period. The state budget generally refers to the operating budget, not the capital budget. The capital budget directs the expenditure of funds for infrastructure and maintenance needs, such as buildings, parks, and historical sites.

What is a biennial budget?

Ohio prepares a biennial budget, which is a spending plan for a two-year period. Appropriations are made separately for the two fiscal years in a biennium. The state's fiscal year begins on July 1 and ends the following June 30. The Executive Budget shows recommended spending levels for fiscal year 2012 (July 1, 2011, to June 30, 2012) and fiscal year 2013 (July 1, 2012, to June 30, 2013).

Where does the money for the budget come from?

Revenue to support governmental operations comes from a variety of sources. The largest portion of this revenue is derived from the general unrestricted taxes imposed by the state. Ohio also receives money through special fees, the sale of goods and services, and from the federal government. More information as well as graphical depictions of the major sources of state revenues can be found in Section C under "Revenue Summaries."

How does the state know how much money it will have to spend?

The Office of Budget and Management, working with the Department of Taxation, prepares projections for state revenues. Projections are usually prepared in November preceding the issuance of the Executive Budget, and revenues are forecast for more than a 30-month period. Revenue estimates are updated throughout the process of enacting the budget as the state has more experience with actual receipts from different revenue sources. The Legislative Service Commission also prepares independent revenue estimates, which are compared to the administration's forecast. Consensus between the legislature and the executive must be built around the revenue assumptions that support the final version of the budget. Ultimately, no method of forecasting is 100 percent accurate so forecasts will always deviate from the actual performance of state revenue sources. Hopefully, however, this deviation ends up being small and manageable.

What is the GRF?

The GRF is the General Revenue Fund. It is the largest fund of the state and receives the majority of the state's tax receipts. Since there are few restrictions on how GRF dollars can be used, much of the focus of the budget process is on development of a spending plan for GRF resources. Federal dollars that reimburse the state for certain human services-related expenditures are also deposited into the GRF.

How big is the budget?

Many people think of the "size" of the budget in terms of the level of recommended spending from the GRF. Recommended spending from the GRF is \$26.9 billion in fiscal year 2012 and \$28.6 billion in fiscal year 2013. However, the true size of the budget is the amount appropriated from all funds. Appropriations from all operating funds total \$59.4 billion in fiscal year 2012 and \$60.2 billion in fiscal year 2013.

How much is the budget growing?

When compared to fiscal year 2011 estimated expenditures, GRF spending increases by 5.1 percent in fiscal year 2012 and then by 6.3 percent in fiscal year 2013, and the total budget for all funds decreases by 5.3 percent in fiscal year 2012 and grows by 1.3 percent in fiscal year 2013.

Which agencies have the largest budgets?

The agency with the largest budget in fiscal years 2012 and 2013 is the Department of Job and Family Services. Total recommended appropriations in fiscal year 2012 are \$22.2 billion, and total recommended

appropriations in fiscal year 2013 are \$23.4 billion. Not only does the department have the largest total budget each year, it also has the largest GRF budget (\$12.9 billion in fiscal year 2012 and \$14.3 billion in fiscal year 2013) and the single largest line item in the GRF – line item 600525, Health Care/Medicaid (\$11.8 billion in fiscal year 2012 and \$13.2 billion in fiscal year 2013).

Based on total funding, the agencies with the next largest budgets are as follows:

- Department of Education, with total appropriations of \$10.2 billion in fiscal year 2012 and \$9.7 billion in fiscal year 2013. GRF appropriations total \$6.3 billion in fiscal year 2012 and \$6.4 billion in fiscal year 2013.
- Department of Transportation, which is primarily funded with state and federal motor fuel tax revenues and has total appropriations of \$2.7 billion in fiscal year 2012 and \$2.9 billion in fiscal year 2013.
- Board of Regents, primarily funded from GRF, with total appropriations of \$2.3 billion in fiscal year 2012 and \$2.4 billion in fiscal year 2013.
- Department of Developmental Disabilities, with total appropriations of \$1.8 billion in fiscal year 2012 and \$2.0 billion in fiscal year 2013. The GRF provides \$304.0 million in fiscal year 2012 and \$305.7 million in fiscal year 2013.
- Department of Rehabilitation and Correction, with total funding of \$1.6 billion in fiscal year 2012 and \$1.6 billion in fiscal year 2013. Of this amount, \$1.5 billion in fiscal year 2012 and \$1.5 billion in fiscal year 2013 are from the GRF.
- Department of Mental Health, with total appropriations of \$1.1 billion in fiscal year 2012 and \$544.6 million in fiscal year 2013. Of this amount, \$482.1 million in fiscal year 2012 and \$296.3 million in fiscal year 2013 come from the GRF.

How big is the budget deficit?

Ohio has no budget deficit. This question is usually asked by those who confuse the state budget with the federal budget. The Ohio Constitution prohibits the state from borrowing money to fund operating expenses. Therefore, the budget must be balanced.

How big is the budget surplus?

The concept of a “surplus” is not one that is specifically defined. It is generally understood, however, to be funds that remain above and beyond any planned uses (including planned reserves and planned carryover balances). Typically a surplus is an unexpected result of higher-than-anticipated revenues or lower-than-anticipated spending. Amounts typically excluded from consideration as part of the surplus include one-half of one percent of GRF revenues (considered to be a necessary amount for a beginning carryover fund balance), amounts in the Budget Stabilization Fund up to five percent of GRF revenues, and funds needed to support appropriations made by the General Assembly. Based on statute, state budget surpluses cannot accumulate because the law requires that any “surplus” at the end of each fiscal year be deposited into the Income Tax Reduction Fund and returned to Ohio taxpayers.

What is the Blue Book?

Years ago, the Executive Budget document was printed with a blue cover and, as a result, people began to call the document the “Blue Book.” Over the years, each Executive Budget has been presented with a blue cover, and it is now considered a tradition. Beginning with the Executive Budget for fiscal years 2004 and 2005, the Executive Budget was no longer published in hard copy. The Executive Budget was made available on the OBM Website and on CD-ROM. Beginning with the Executive Budget for fiscal years 2006 and 2007 the Executive Budget is only available on the OBM Website: <http://www.obm.ohio.gov/>.

What is a program series and program?

A program series groups closely related programs into an overarching category that captures the state's efforts to provide for a public need. A program series corresponds with a major area of focus or goal for a state agency and in most cases is composed of two or more programs. Most agencies are characterized by more than one program series. An example of a program series is the Department of Insurance's Investigation and Licensing Program Series that includes market conduct, licensing, and fraud and enforcement programs. The Executive Budget presents agency spending by program series.

A program is a discrete activity within an agency's organization that is intended to provide a specific good or service in response to an identified social or individual need or problem. A varying number of programs can be grouped under each program series. An example of a program is the Public Defender Commission's Pro Bono Training Program that provides continuing legal education training programs to public defenders and private counsel who provide representation to indigent persons in criminal and juvenile matters.

Guide to Reading the Budget Tables

The purpose of this section is to help the reader understand the tables included in the Executive Budget for each agency. Each agency has budget tables that contain the Governor's detailed spending plan for the fiscal years 2012-2013 biennium.

What are Budget Tables?

Agencies have three types of budget tables: summaries of budget history and recommendations by budget fund group and expense account category, line item summaries for each program series, and a line item summary by budget fund group for the entire agency. The summary of budget history and recommendations table and the agency line item summary table by budget fund group all show spending history for fiscal years 2008, 2009, and 2010; estimated spending for fiscal year 2011 (since this fiscal year will not end until June 30, 2011); and the Governor's recommended spending for fiscal years 2012 and 2013. The line item summary tables for each program series show estimated spending for fiscal year 2011 and the Governor's recommended spending for fiscal years 2012 and 2013.

Where are the Tables?

In Section D, the Executive Budget contains Governor Kasich's funding recommendations for each agency. The agencies appear in alphabetical order and each agency has its own section that begins with an overview narrative followed by the agency's summary of budget history and recommendations tables. Following the summary tables are narratives for each agency program series with the line item summary table for each. Finally, the agency line item summary table by budget fund group is at the end of each agency section.

Summary of Budget History and Recommendations Tables

The two summaries of budget history and recommendations tables can be found following an agency's executive recommendation bullets. These summaries show actual agency spending in fiscal years 2008, 2009, and 2010; estimated spending in fiscal year 2011; and the Governor's recommended appropriations for fiscal years 2012 and 2013—first by budget fund group and then by expense account category. A diagram of these two tables appears on pages A-25 and A-26.

Line Item Summary Tables

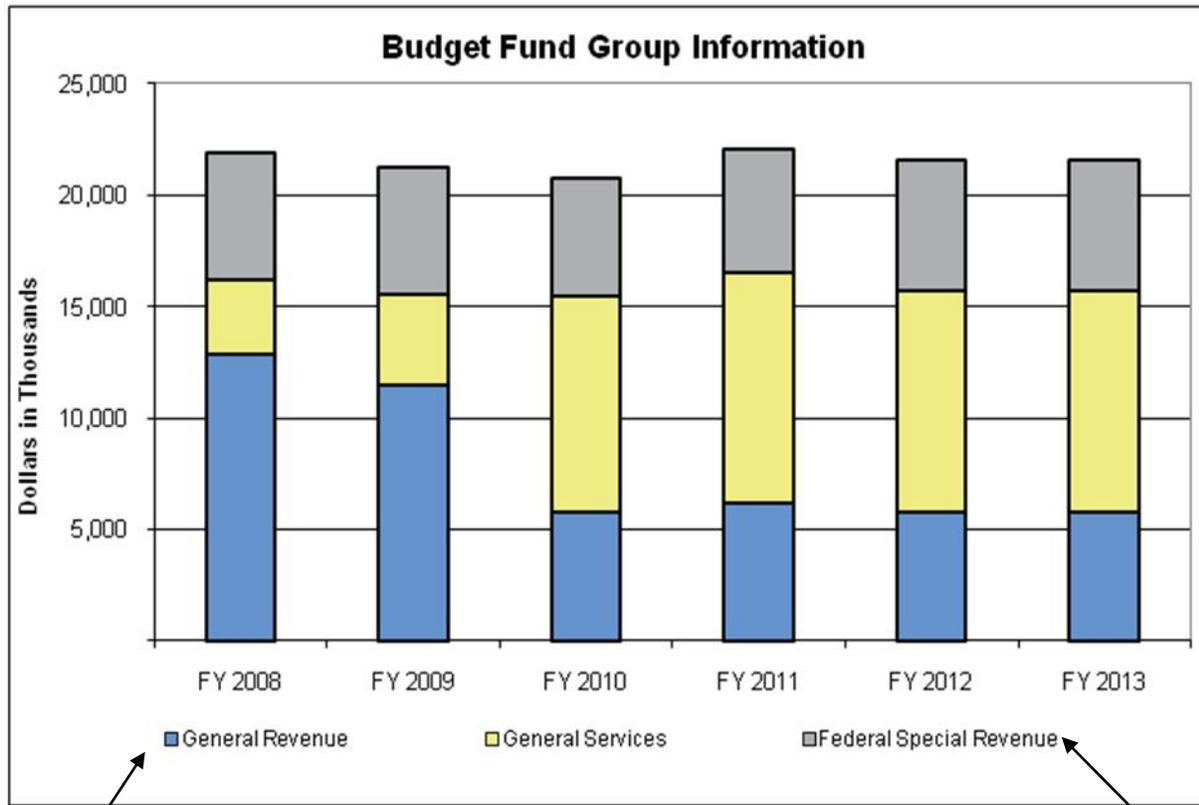
Agencies also have two types of line item summary tables—one for each program series with each program series narrative and the other for the entire agency by budget fund group at the end of the agency section. The program series type shows, by line item, estimated spending in fiscal year 2011 and the Governor's recommended appropriations for fiscal years 2012 and 2013. The budget fund group type shows, by line item, actual spending for fiscal years 2008, 2009, and 2010; estimated spending in fiscal year 2011; and the Governor's recommended appropriations for fiscal years 2012 and 2013. The line items listed on the agency-wide table are grouped and subtotaled by budget fund group. Totals for the program series and the agency tables appear at the bottom of each. Diagrams of these two tables appear on pages A-27 and A-29.

Line Item Restructuring Analysis

Some agencies budget for significant changes in how ongoing programs will continue to be funded in the next biennium, which can cause multiple appropriation line items to have large spending changes compared to the current year. In these cases, agencies will have the line item restructuring analysis table that follows the program series descriptions. For only the funds and appropriation line items affected, this table shows current-year estimated costs as if the changes budgeted for the upcoming biennium were already in place. This gives a clearer picture of the continuity of program funding aside from the shifting amongst line items. A diagram of this table appears on page A-28.

Guide to Reading the Budget Tables

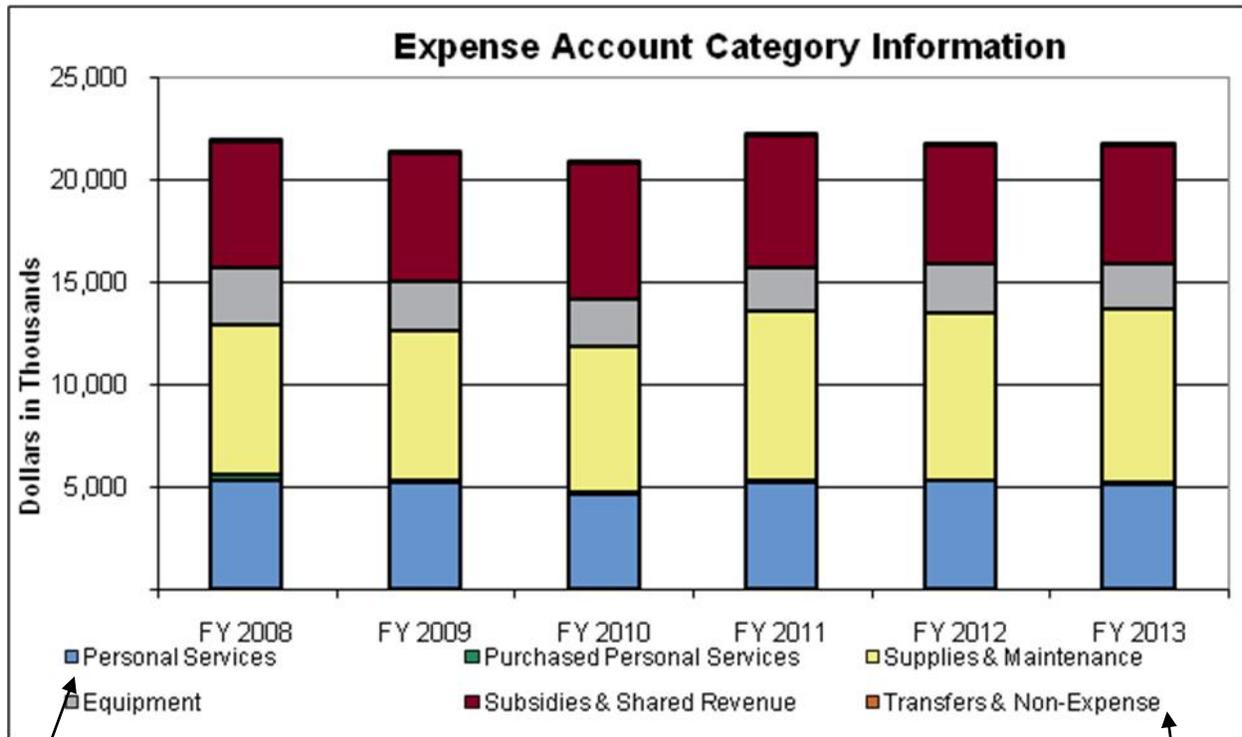
The two **summaries of budget history and recommendations** tables immediately follow each agency's executive recommendation bullets. These tables show summary budget information for the agency by budget fund group and expense account category. The diagrams below use the State Library Board's summary of budget history and recommendations tables as an example.



The first summary of budget history and recommendations table summarizes information by budget fund group.

The "Recommended" columns show the Governor's recommendation for fiscal years 2012 and 2013.

(in Thousands)	Actual			Est.	% Change	Recommended			
	FY 2008	FY 2009	FY 2010			FY 2011	FY 2012	% Change	FY 2013
Budget Fund Group									
General Revenue	12,860	11,461	5,782	6,188	7.0%	5,764	-6.9%	5,764	0.0%
General Services	3,325	4,106	9,715	10,344	6.5%	9,965	-3.7%	9,959	-0.1%
Federal Special Revenue	5,692	5,724	5,300	5,544	4.6%	5,879	6.1%	5,879	0.0%
Totals	21,877	21,291	20,796	22,076	6.2%	21,609	-2.1%	21,603	0.0%



The second summary of budget history and recommendations table summarizes information by expense account category.

The "Recommended" columns show the Governor's recommendation for fiscal years 2012 and 2013.

(in Thousands) Expense Account Category	Actual			Est.	% Change	Recommended			
	FY 2008	FY 2009	FY 2010	FY 2011	FY10-11	FY 2012	% Change	FY 2013	% Change
Personal Services	5,280	5,246	4,610	5,177	12.3%	5,251	1.4%	5,146	-2.0%
Purchased Personal Services	270	96	115	91	-20.6%	75	-17.7%	75	0.0%
Supplies & Maintenance	7,345	7,254	7,154	8,286	15.8%	8,176	-1.3%	8,440	3.2%
Equipment	2,824	2,453	2,216	2,113	-4.6%	2,365	11.9%	2,187	-7.5%
Subsidies & Shared Revenue	6,153	6,243	6,701	6,408	-4.4%	5,740	-10.4%	5,754	0.2%
Transfers & Non-Expense	5	1	0	1	385.0%	1	0.0%	1	0.0%
Totals	21,877	21,291	20,796	22,076	6.2%	21,609	-2.1%	21,603	0.0%

Reader's Guide
Guide to Reading the Budget Tables

Following each program series narrative is a **line item summary for the program series**. Within each agency, funding is designated to programs within a program series. A **program series** groups closely related programs into an overarching category that captures the state's efforts to provide for a public need. A program series corresponds with a major area of focus or goal for a state agency and in most cases is composed of two or more programs. A **program** is a discrete activity within an agency's organization that is intended to provide a specific good or service in response to an identified social or individual need or problem. The diagram below uses two of the State Library Board's program series line item summary tables as an example.

Program series name

Program Series 1: Library Services to Ohio Government (7800A)

Fund	ALI	ALI Name	Estimated		Recommended		
			FY 2011	FY 2012	% Change	FY 2013	% Change
GRF	350321	Operating Expenses	3,385,851	3,311,018	-2.2%	3,275,162	-1.1%
1390	350602	Intra-Agency Service Charges	9,000	9,000	0.0%	9,000	0.0%
4590	350603	Library Service Charges	0	33,743	-	32,789	-2.8%
Total for Library Services To Ohio Government			3,394,851	3,353,761	-1.2%	3,316,951	-1.1%

One line item can fund multiple program series. Recommendations within program series add up to the **line item summary table by budget fund group** at the end of each agency section.

Total recommended funding for Program Series 1: Library Services to Ohio Government (7800A).

Program series name

Program Series 2: Services to Ohio Library Communities (7810A)

Fund	ALI	ALI Name	Estimated		Recommended		
			FY 2011	FY 2012	% Change	FY 2013	% Change
GRF	350321	Operating Expenses	2,091,518	1,746,294	-16.5%	1,782,202	2.1%
GRF	350401	Ohioana Rental Payments	128,560	124,437	-3.2%	124,437	0.0%
3130	350601	LSTA Federal	1,649,620	2,076,649	25.9%	2,062,914	-0.7%
4590	350603	Library Service Charges	2,707,092	2,952,681	9.1%	2,953,391	0.0%
4S40	350604	Ohio Public Library Information Network	5,702,150	5,689,401	-0.2%	5,689,788	0.0%
Total for Services to Ohio Library Communities			12,278,940	12,589,462	2.5%	12,612,732	0.2%

Total recommended funding for Program Series 2: Services to Ohio Library Communities (7810A).

Guide to Reading the Budget Tables

Agencies with significant changes in how ongoing programs will continue to be funded amongst line items have the **line item restructuring analysis** table. This table shows current-year estimated costs by fund and appropriation line item as if the budgeted changes were already in place. The diagram below uses the Department of Administrative Services' line item restructuring analysis table as an example.

Line Item Restructuring Analysis

			Estimated		Recommended		
Fund	ALI	ALI Name	FY 2011	FY 2012	% Change	FY 2013	% Change
GRF	100449	DAS-Building Operating Payments	7,560,511	7,551,245	-0.1%	7,551,571	0.0%

Estimated spending for fiscal year 2011 is shown as if the restructuring already existed. This allows a direct, meaningful comparison with fiscal years 2012 and 2013.

Recommended funding for fiscal years 2012 and 2013 is when the restructuring will actually occur.

Reader's Guide
Guide to Reading the Budget Tables

Each agency section ends with a **line item summary by budget fund group** that summarizes historical spending and recommended spending information for the entire agency by appropriation line item. The spending and recommendations are presented by fund and subtotaled by budget fund group. The diagram below uses the State Library Board's line item summary table by budget fund group as an example.

The two "% Change" columns show the percent change between (1) the FY 2011 estimate and FY 2012 recommended columns and (2) the FY 2012 and FY 2013 recommended columns.

Line Item Summary By Budget Fund Group

Fund	ALI	ALI Name	Actual			Estimated	Recommended			
			FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	% Change	FY 2013	% Change
GRF	350321	Operating Expenses	6,101,583	5,420,411	5,059,844	5,477,369	5,057,312	-7.7%	5,057,364	0.0%
GRF	350400	Ohio Public Library Information Network	4,398,198	3,693,559	15,128	0	0	-	0	-
GRF	350401	Ohioana Rental Payments	124,816	124,816	124,437	128,560	124,437	-3.2%	124,437	0.0%
GRF	350501	Library For Blind-Cincinnati	535,615	535,615	0	0	0	-	0	-
GRF	350502	Regional Library Systems	894,240	880,638	582,469	582,469	582,469	0.0%	582,469	0.0%
GRF	350503	Library For Blind-Cleveland	805,642	805,642	0	0	0	-	0	-
Total for General Revenue			12,860,094	11,460,681	5,781,878	6,188,398	5,764,218	-6.9%	5,764,270	0.0%
1390	350602	Intra-Agency Service Charges	9,311	11,486	14,182	9,000	9,000	0.0%	9,000	0.0%
4590	350603	Library Service Charges	2,244,874	2,404,818	2,073,468	2,708,092	2,986,424	10.3%	2,986,180	0.0%
4S40	350604	Ohio Public Library Information Network	1,071,162	1,690,007	5,244,515	5,702,150	5,689,401	-0.2%	5,689,788	0.0%
5GB0	350605	Library for the Blind	0	0	1,274,194	1,274,194	1,274,194	0.0%	1,274,194	0.0%
5GG0	350606	Gates Foundation Grants	0	0	1,108,378	650,910	6,000	-99.1%	0	-100.0%
Total for General Services			3,325,347	4,106,311	9,714,737	10,344,346	9,965,019	-3.7%	9,959,162	-0.1%
3130	350601	USTA Federal	5,691,546	5,724,126	5,299,780	5,543,747	5,879,314	6.1%	5,879,314	0.0%
Total for Federal Special Revenue			5,691,546	5,724,126	5,299,780	5,543,747	5,879,314	6.1%	5,879,314	0.0%
TOTAL State Library Board			21,876,987	21,291,118	20,796,395	22,076,491	21,608,551	-2.1%	21,602,746	0.0%

Subtotals are shown for each budget fund group.

Reductions appear as negative entries.