

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JUNE 2011

STATUS OF THE GRF

HIGHLIGHTS

—*Jean J. Botomogno, Senior Economist, 614-644-7758*

Through May, total GRF tax receipts were \$837.2 million ahead of projections. This positive variance was partially offset by the negative variances in various nontax receipts. GRF sources as a whole were \$398.7 million above estimate. Also through May, total GRF uses were \$26.8 million below estimate. State finances will finish FY 2011 healthier than in the most recent fiscal years.

The national economy hit a soft patch in recent weeks. Employers added only 54,000 new jobs in May and the national unemployment rate increased to 9.1%, from 9.0% in the previous month and 8.8% in March. Ohio's nonfarm payroll grew 8,600 in April. Ohio's unemployment rate, which has trended downward, fell to 8.6%, down from 8.9% in March. A year ago in April, Ohio's unemployment rate was 10.4%.

Through May 2011, GRF sources totaled \$25.16 billion:

- Personal income tax receipts were \$555.9 million above estimate;
- Sales and use tax receipts were \$273.9 million above estimate.

Through May 2011, GRF uses totaled \$25.96 billion:

- Public Assistance and Medicaid spending was \$292.8 million below estimate;
- Tax Relief and Other spending was \$140.6 million above estimate.

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STATUS OF THE GRF

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Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: (614)466-3615

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$83,534	\$82,400	\$1,134	1.4%
Nonauto Sales and Use	\$513,015	\$530,800	-\$17,785	-3.4%
Total Sales and Use Taxes	\$596,548	\$613,200	-\$16,652	-2.7%
Personal Income	\$559,962	\$465,600	\$94,363	20.3%
Corporate Franchise	\$53,755	\$30,000	\$23,755	79.2%
Public Utility	\$42,177	\$61,700	-\$19,523	-31.6%
Kilowatt Hour Excise	\$2,677	\$8,700	-\$6,022	-69.2%
Commercial Activity Tax**	\$0	\$0	\$0	---
Foreign Insurance	-\$11,996	-\$10,550	-\$1,446	-13.7%
Domestic Insurance	\$94,427	\$181,000	-\$86,573	-47.8%
Business and Property	\$5,075	\$21,474	-\$16,399	-76.4%
Cigarette	\$130,048	\$117,700	\$12,348	10.5%
Alcoholic Beverage	\$4,406	\$4,300	\$106	2.5%
Liquor Gallonage	\$3,139	\$3,000	\$139	4.6%
Estate	\$22,543	\$10,400	\$12,143	116.8%
Total Tax Revenue	\$1,502,761	\$1,506,523	-\$3,763	-0.2%
NONTAX REVENUE				
Earnings on Investments	\$2	\$0	\$2	---
Licenses and Fees	\$553	\$1,600	-\$1,047	-65.5%
Other Revenue	\$2,573	\$8,520	-\$5,947	-69.8%
Total Nontax Revenue	\$3,128	\$10,120	-\$6,992	-69.1%
TRANSFERS				
Liquor Transfers***	\$12,000	\$10,000	\$2,000	20.0%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$177,500	-\$177,500	-100.0%
Total Transfers In	\$12,000	\$187,500	-\$175,500	-93.6%
TOTAL STATE SOURCES	\$1,517,888	\$1,704,143	-\$186,255	-10.9%
Federal Grants	\$798,810	\$644,025	\$154,785	24.0%
TOTAL GRF SOURCES	\$2,316,698	\$2,348,168	-\$31,470	-1.3%
* Tax estimates of the Office of Budget and Management received September 2010.				
**Commercial activity tax receipts in FY 2011 are non-GRF.				
***Liquor Transfers based on a report run in OAKS as of June 1, 2011				
<i>Detail may not sum to total due to rounding.</i>				

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2011 as of May 31, 2011
(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on June 6, 2011)

	Actual	Estimate*	Variance	Percent	FY 2010	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$882,310	\$811,000	\$71,310	8.8%	\$801,134	10.1%
Nonauto Sales and Use	\$6,048,514	\$5,845,900	\$202,614	3.5%	\$5,670,626	6.7%
Total Sales and Use Taxes	\$6,930,824	\$6,656,900	\$273,924	4.1%	\$6,471,760	7.1%
Personal Income	\$7,344,475	\$6,788,600	\$555,876	8.2%	\$6,503,136	12.9%
Corporate Franchise	\$231,584	\$122,400	\$109,184	89.2%	\$123,165	88.0%
Public Utility	\$124,343	\$179,000	-\$54,657	-30.5%	\$136,028	-8.6%
Kilowatt Hour Excise	\$144,813	\$157,300	-\$12,487	-7.9%	\$146,936	-1.4%
Commercial Activity Tax**	\$0	\$0	\$0	---	\$0	---
Foreign Insurance	\$256,654	\$252,100	\$4,554	1.8%	\$252,914	1.5%
Domestic Insurance	\$97,735	\$181,134	-\$83,399	-46.0%	\$99,732	-2.0%
Business and Property	\$4,082	\$21,600	-\$17,518	-81.1%	\$18,501	-77.9%
Cigarette	\$779,031	\$727,600	\$51,431	7.1%	\$797,075	-2.3%
Alcoholic Beverage	\$50,530	\$52,200	-\$1,670	-3.2%	\$50,504	0.1%
Liquor Gallonage	\$34,383	\$32,900	\$1,483	4.5%	\$33,419	2.9%
Estate	\$70,374	\$59,900	\$10,474	17.5%	\$54,450	29.2%
Total Tax Revenue	\$16,068,829	\$15,231,634	\$837,195	5.5%	\$14,687,620	9.4%
NONTAX REVENUE						
Earnings on Investments	\$5,329	\$63,500	-\$58,171	-91.6%	\$25,889	-79.4%
Licenses and Fees	\$58,566	\$60,831	-\$2,265	-3.7%	\$65,358	-10.4%
Other Revenue	\$168,821	\$199,870	-\$31,049	-15.5%	\$169,311	-0.3%
Total Nontax Revenue	\$232,716	\$324,201	-\$91,486	-28.2%	\$260,557	-10.7%
TRANSFERS						
Liquor Transfers***	\$139,462	\$126,300	\$13,162	10.4%	\$151,274	-7.8%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$770,604	\$939,906	-\$169,302	-18.0%	\$699,737	10.1%
Total Transfers In	\$910,066	\$1,066,206	-\$156,140	-14.6%	\$851,011	6.9%
TOTAL STATE SOURCES	\$17,211,611	\$16,622,041	\$589,570	3.5%	\$15,799,188	8.9%
Federal Grants	\$7,943,826	\$8,134,667	-\$190,842	-2.3%	\$6,685,451	18.8%
TOTAL GRF SOURCES	\$25,155,437	\$24,756,709	\$398,727	1.6%	\$22,484,638	11.9%

* Tax estimates of the Office of Budget and Management received September 2010.

**Commercial activity tax receipts in FY 2011 are non-GRF.

***Liquor Transfers based on a report run in OAKS as of June 1, 2011

Detail may not sum to total due to rounding.

REVENUES

—Jean J. Botomogno, Senior Economist, 614-644-7758

Overview

Total GRF sources of \$2.32 billion in May 2011 were \$31.5 million below projections released in September 2010 by the Office of Budget and Management. The shortfall was due to timing-related negative variances of \$177.5 million in other transfers into the GRF and \$86.6 million in the domestic insurance tax. Both negative variances are expected to reverse in June.¹ State-source receipts were \$186.3 million below estimate, but that deficit was partially offset by a positive variance of \$154.8 million in federal grants. Tables 1 and 2 show GRF sources for the month of May and FY 2011, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are primarily federal reimbursements for human service programs such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding.

May 2011 tax receipts of \$1.50 billion were \$3.8 million below estimate, thus reducing the year-to-date positive variance to \$837.2 million, down from \$841.0 million at the end of April. The personal income tax and the cigarette tax were above estimate, respectively, by \$94.4 million and \$12.3 million. The last corporate franchise tax payment for FY 2011, due May 31, provided \$53.8 million, \$23.8 million above estimate. The estate tax was \$12.1 million above anticipated receipts. The sales and use tax, the public utility, and the kilowatt hour tax were below estimate by, respectively, \$16.7 million, \$19.5 million, and \$6.0 million. The business and property tax was below estimate by \$16.4 million; however, receipts of \$17.1 million were booked under this tax in early June. The foreign insurance tax was \$1.4 million below estimate. Nontax revenues were \$7.0 million below estimate and liquor transfers were \$2.0 million above estimate.

Through May, FY 2011 total GRF sources of \$25.16 billion were \$398.7 million above estimate. State-source receipts of \$17.21 billion were above estimate by \$589.6 million, but federal grants were short of projections by \$190.8 million. The positive variance in tax receipts of \$837.2 million was partially offset by negative variances of \$91.5 million and \$156.1 million, respectively, in nontax revenues and transfers into the GRF. The personal income tax was above estimate by \$555.9 million,

¹ In early June, the GRF received \$240.6 million in transfers in and \$83.7 million in domestic insurance tax receipts.

May tax receipts

were

\$3.8 million

below

estimate.

Through

May,

FY 2011

year-to-date

tax receipts

were

\$837.2 million

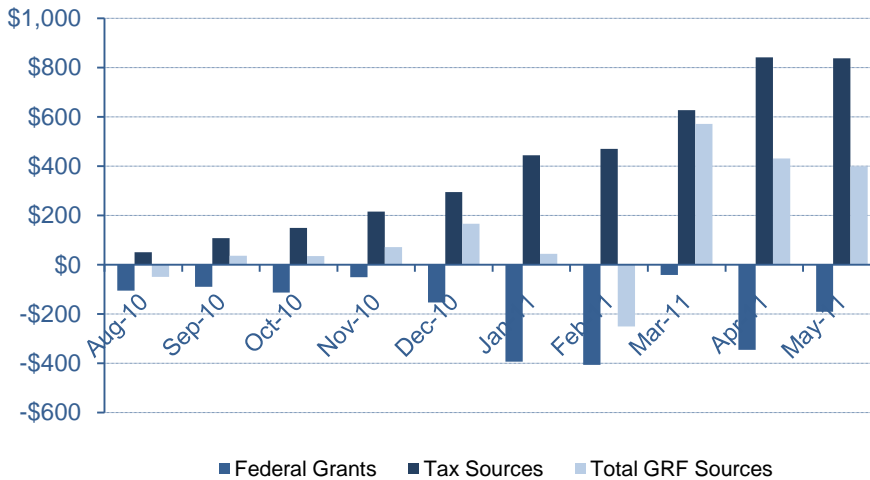
above

estimate.

the sales and use tax by \$273.9 million, and the cigarette tax by \$51.4 million. Through May, FY 2011 corporate franchise tax receipts of \$231.6 million were \$109.2 million above estimate, and they have exceeded by \$89.9 million total FY 2010 receipts. The estate tax was above estimate by \$10.5 million. The foreign insurance tax posted a positive variance of \$4.6 million, and the liquor gallonage tax exceeded anticipated receipts by \$1.5 million. The remaining tax sources were below estimates. As in previous months, the public utility excise tax was below estimate, and through May, by a total of \$54.7 million. The business and property tax was below estimate by \$17.5 million. The kilowatt hour tax was below projection by \$12.5 million and the alcoholic beverage tax shortfall was \$1.7 million. The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources. (Estimates were not available for the month of July.)

Year-to-date through May, federal grants were \$190.8 million below estimate.

Cumulative Variances of GRF Sources in FY 2011
(Variance from Estimates, in millions)



FY 2011 GRF sources through May were \$398.7 million above estimate.

FY 2011 year-to-date GRF sources increased \$2.67 billion compared to receipts in the corresponding period in FY 2010, from higher tax receipts (\$1.38 billion), federal grants (\$1.26 billion), and total transfers in (\$59.1 million). Those gains were reduced by a shortfall of \$27.8 million in nontax sources. Receipts from the personal income tax and the sales and use tax were above the levels of FY 2010 by \$841.3 million and \$459.1 million, respectively. Corporate franchise tax receipts were \$108.4 million higher than receipts through May in FY 2010. Other taxes with notable year-to-year revenue increases included the foreign insurance tax (\$3.7 million) and the estate tax (\$15.9 million). Year-to-date receipts in FY 2011 decreased noticeably for the cigarette tax (\$18.0 million), the business and property tax (\$14.4 million), the public

utility tax (\$11.7 million), the kilowatt hour tax (\$2.1 million), and the domestic insurance tax (\$2.0 million).

Personal Income Tax

May GRF receipts from the personal income tax of \$560.0 million were \$94.4 million (20.3%) above estimate and \$131.8 million (30.8%) above receipts in May 2010. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund. Gross collections are the sum of withholding, quarterly estimated payments,² trust payments, payments associated with annual returns, and miscellaneous payments.

May GRF receipts from the personal income tax were \$94.4 million above estimate.

Most of the personal income tax components were above estimate in May. Receipts from employer withholding were above estimate by \$56.7 million. Payments associated with annual returns, and trust payments were above projections by, respectively, \$17.1 million and \$14.8 million. Through May, the GRF has received \$7.34 billion from the personal income tax in FY 2011. This amount was \$555.9 million (8.2%) above estimate and \$841.3 million (12.9%) above receipts in the corresponding period in FY 2010.

The table below summarizes FY 2011 income tax revenue variances from estimates and annual changes by components. All components contributed to the positive variance against estimates and to higher income tax collections this year. Also, through May, refunds were lower than corresponding amounts in FY 2010, and higher tax receipts lead to increased distributions to the Local Government Fund.

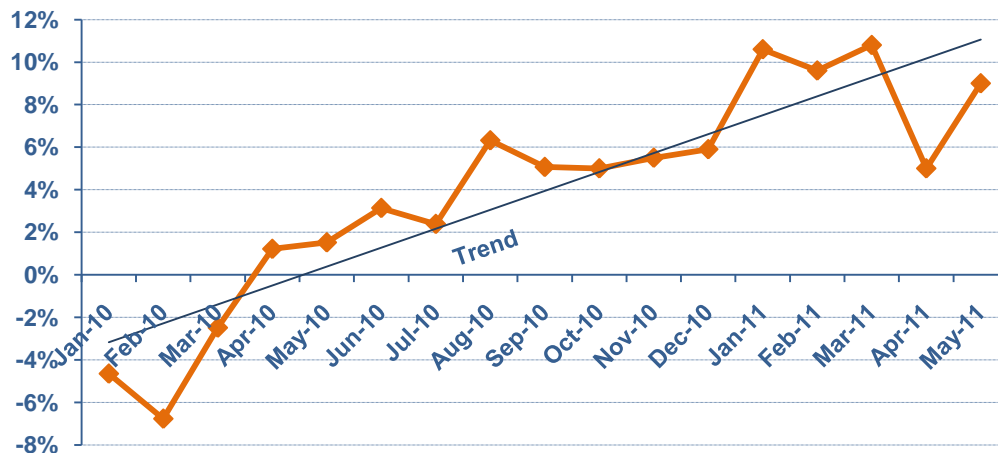
² Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than \$500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year.

FY 2011 Year-to-Date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2010	
	Amount (\$ in millions)	Percentage (%)	Amount (\$ in millions)	Percentage (%)
Withholding	\$231.9	3.5%	\$457.7	7.2%
Quarterly Estimated Payments	\$112.8	13.8%	\$137.0	17.3%
Trust Payments	\$10.7	28.0%	\$11.9	32.3%
Annual Return Payments	\$185.6	18.6%	\$257.8	27.9%
Miscellaneous Payments	\$21.6	21.5%	\$22.3	22.3%
Gross Collections	\$562.7	7.1%	\$886.7	10.8%
Less Refunds	-\$27.2	-2.4%	-\$8.9	-0.8%
Less Local Government Fund Distribution	\$34.0	5.6%	\$54.3	9.3%
Income Tax Revenue	\$555.9	8.2%	\$841.3	12.9%

Year to date through May, employer withholding, the most important component of the tax, was \$457.7 million (7.2%) above withholding receipts in the corresponding period in FY 2010. The graph below shows the trend in withholding receipts since January 2010. Quarterly estimated payments and payments due with annual returns were higher, respectively, by \$137.0 million (17.3%) and \$257.8 million (27.9%). Overall, gross collections were up \$886.7 million (10.8%) compared to the corresponding period in FY 2010.

Through May, FY 2011 revenue from withholding was \$231.9 million above estimate.

**Monthly Withholding Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)**



Through May, FY 2011 sales and use tax receipts were \$273.9 million above estimate.

Sales and Use Tax

GRF sales and use tax receipts of \$596.5 million in May were \$16.6 million (2.7%) below estimate, and \$14.9 million (2.6%) above receipts in May 2010. Through May, FY 2011 GRF sales and use tax receipts of \$6.93 billion were \$273.9 million (4.1%) above estimate and \$459.1 million (7.1%) above receipts in the corresponding period in FY 2010.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections³ generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax. Year to date, both components of the sales tax are performing above expectations.

Nonauto Sales and Use Tax

GRF nonauto sales and use tax receipts were \$513.0 million in May 2011, \$17.8 million (3.4%) below estimate and \$9.3 million (1.8%) above May 2010 receipts. The negative variance was due to the advanced payment in April of sales taxes by Medicaid health insuring corporations that was previously scheduled to occur in May.⁴

For the fiscal year, year-to-date GRF nonauto sales and use tax receipts of \$6.05 billion were \$202.6 million (3.5%) above estimate and \$377.9 million (6.7%) above receipts through May in FY 2010. The year-over-year variance reflects an expansion of the tax base, i.e., it includes payments for health care services provided by Medicaid health insuring corporations.⁵ Through May, GRF sales tax receipts paid by those

³ The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

⁴ The Ohio Department of Job and Family Services pushed some Medicaid payments from April to March to realize additional federal reimbursements. This resulted in additional sales tax collections from Medicaid health insuring corporations in April. Sales taxes for health care services provided during the month are paid the following month.

⁵ New taxes were imposed on health care services provided by Medicaid health insuring corporations starting on October 1, 2009 (H.B. 1, the operating budget act for the current biennium). Those services are newly taxed under the sales and use tax and the insurance taxes.

corporations totaled \$256.9 million in FY 2011, \$106.5 million more than in the corresponding period in FY 2010.

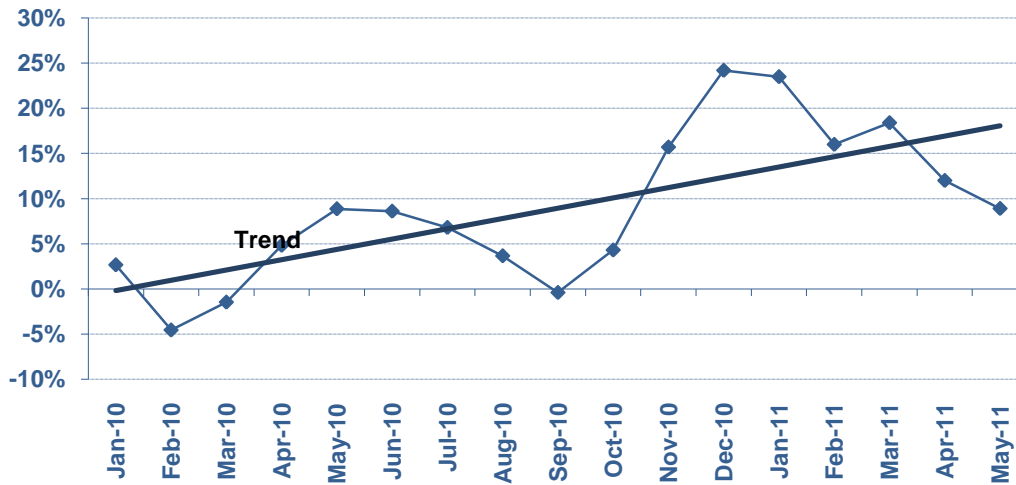
So far, the momentum of the ongoing, though fitful, economic recovery is somewhat offsetting the negative impact of higher food and energy prices on nonauto sales and use tax receipts. These additional headwinds and the slow-healing job market may contribute to an erosion of the growth in taxable sales in coming months.

Auto Sales and Use Tax

Auto sales and use tax receipts of \$83.5 million in May were \$1.1 million (1.4%) above estimate and \$5.6 million (7.3%) above receipts in May 2010. Year to date, FY 2011 GRF receipts from the auto sales and use tax of \$882.3 million were \$71.3 million (8.8%) above estimate and \$81.2 million (10.1%) above receipts in FY 2010 through May. The graph below compares monthly receipts with year-ago receipts in the

FY 2011 year-to-date nonauto sales and use tax receipts were \$202.6 million above estimate.

**Auto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)**



FY 2011 year-to-date auto sales and use tax receipts were \$71.3 million above estimate.

corresponding month. It shows the auto sales and use tax base is still growing, but at a more moderate pace. New vehicle sales suffered a setback in May. They were 11.8 million units on a seasonally adjusted annual basis. In the previous three months, they averaged 13.0 million units. Most major manufacturers posted sales declines, hurt by the impact of high gas prices, tight inventories due to supply chain disruptions, fewer incentives, and consumers' jitters about the economy. However, most analysts expect the setback to be temporary and vehicle sales to continue growing the rest of the year.

Cigarette and Other Tobacco Products Tax

FY 2011
year-to-date
cigarette tax
receipts were
\$51.4 million
above
estimate.

Receipts from the tax on cigarettes and other tobacco products were \$130.0 million in May 2011, \$12.3 million (10.5%) above estimate and \$14.2 million (12.3%) above May 2010 receipts. Through May, FY 2011 receipts of \$779.0 million were \$51.4 million (7.1%) above estimate and \$18.0 million (2.3%) below FY 2010 receipts through May. Receipts from cigarette sales were \$731.8 million. Sales of products other than cigarettes provided \$47.2 million. Compared to FY 2010 through May, receipts from the sale of cigarettes declined \$22.0 million (2.9%) and those from the sale of other tobacco products increased about \$4.0 million (9.2%). Receipts from the cigarette and other tobacco products tax are the third-largest tax revenue source in FY 2011, after the personal income tax and the sales and use tax.

Commercial Activity Tax

FY 2011 year-
to-date CAT
receipts were
\$42.1 million
above
estimate.

The last payment for quarterly calendar taxpayers, due in May, yielded \$298.0 million. Those receipts were \$6.8 million (2.3%) above estimate and \$10.8 million (3.8%) above receipts in May 2010. Through May, FY 2011 receipts of \$1.42 billion were \$42.1 million (3.1%) above estimate and \$85.2 million (6.4%) above receipts through May in FY 2010. Through FY 2011, revenues from the tax are not deposited into the GRF as they are earmarked for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property (TPP). Commercial activity tax (CAT) receipts are distributed to the School District Tangible Property Tax Replacement Fund (70%) and to the Local Government Tangible Property Tax Replacement Fund (30%). If CAT receipts are insufficient for the reimbursements, current law requires a GRF subsidy to the two funds. In FY 2010, the subsidy totaled \$281.9 million. Though receipts are higher than FY 2011 receipts, they are unlikely to be sufficient for FY 2011 required payments estimated at \$1.65 billion. Thus, another GRF subsidy will be necessary in FY 2011.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of May 2011
(\$ in thousands)
(Actual based on OAKS reports run June 7, 2011)

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	\$517,365	\$551,618	-\$34,252	-6.2%
Higher Education	\$190,570	\$202,928	-\$12,358	-6.1%
Total Education	\$707,935	\$754,545	-\$46,610	-6.2%
Public Assistance and Medicaid	\$974,859	\$1,010,913	-\$36,054	-3.6%
Health and Human Services	\$91,527	\$71,542	\$19,985	27.9%
Total Welfare and Human Services	\$1,066,385	\$1,082,455	-\$16,069	-1.5%
Justice and Public Protection	\$166,403	\$166,720	-\$318	-0.2%
Environment and Natural Resources	\$10,261	\$9,043	\$1,218	13.5%
Transportation	\$727	\$1,105	-\$379	-34.3%
General Government	\$18,732	\$21,387	-\$2,655	-12.4%
Community and Economic Development	\$7,660	\$6,993	\$667	9.5%
Capital	\$0	\$43	-\$43	-100.0%
Total Government Operations	\$203,783	\$205,291	-\$1,509	-0.7%
Tax Relief and Other	\$375,899	\$221,238	\$154,661	69.9%
Debt Service	\$0	\$0	\$0	---
Total Other Expenditures	\$375,899	\$221,238	\$154,661	69.9%
Total Program Expenditures	\$2,354,002	\$2,263,530	\$90,472	4.0%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$161,125	\$0	\$161,125	---
Total Transfers Out	\$161,125	\$0	\$161,125	---
TOTAL GRF USES	\$2,515,127	\$2,263,530	\$251,598	11.1%

* September 2010 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2011 as of May 31, 2011
(\$ in thousands)
(Actual based on OAKS reports run June 7, 2011)

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent	FY 2010	Percent Change
Primary, Secondary, and Other Education	\$6,466,866	\$6,518,425	-\$51,559	-0.8%	\$6,526,818	-0.9%
Higher Education	\$2,230,797	\$2,224,317	\$6,480	0.3%	\$2,244,845	-0.6%
Total Education	\$8,697,663	\$8,742,742	-\$45,079	-0.5%	\$8,771,664	-0.8%
Public Assistance and Medicaid	\$10,748,006	\$11,040,819	-\$292,813	-2.7%	\$9,229,385	16.5%
Health and Human Services	\$1,052,427	\$1,063,160	-\$10,733	-1.0%	\$987,376	6.6%
Total Welfare and Human Services	\$11,800,433	\$12,103,979	-\$303,547	-2.5%	\$10,216,761	15.5%
Justice and Public Protection	\$1,807,186	\$1,854,253	-\$47,067	-2.5%	\$1,834,355	-1.5%
Environment and Natural Resources	\$69,981	\$70,159	-\$178	-0.3%	\$79,301	-11.8%
Transportation	\$12,744	\$12,600	\$144	1.1%	\$16,633	-23.4%
General Government	\$258,234	\$280,088	-\$21,854	-7.8%	\$274,472	-5.9%
Community and Economic Development	\$96,333	\$108,716	-\$12,382	-11.4%	\$104,732	-8.0%
Capital	\$24	\$383	-\$359	-93.8%	\$380	-93.7%
Total Government Operations	\$2,244,502	\$2,326,198	-\$81,696	-3.5%	\$2,309,872	-2.8%
Tax Relief and Other	\$1,591,105	\$1,450,515	\$140,590	9.7%	\$1,572,993	1.2%
Debt Service	\$450,367	\$461,838	-\$11,471	-2.5%	\$368,438	22.2%
Total Other Expenditures	\$2,041,472	\$1,912,353	\$129,119	6.8%	\$1,941,430	5.2%
Total Program Expenditures	\$24,784,069	\$25,085,273	-\$301,203	-1.2%	\$23,239,728	6.6%
TRANSFERS						
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$1,178,011	\$903,600	\$274,410	30.4%	\$1,027,721	14.6%
Total Transfers Out	\$1,178,011	\$903,600	\$274,410	30.4%	\$1,027,721	14.6%
TOTAL GRF USES	\$25,962,080	\$25,988,873	-\$26,793	-0.1%	\$24,267,449	7.0%

* September 2010 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: FY 2011 Medicaid Expenditures
(\$ in thousands)
(Actuals based on OAKS report run on June 8, 2011)

Medicaid (600525) Payments by Service Category	May				Year to Date			
	Actual	Estimate	Variance	Percent Variance	Actual thru May	Estimate thru May	Variance	Percent Variance
Managed Care Plans	\$435,406	\$433,088	\$2,318	0.5%	\$4,672,841	\$4,577,943	\$94,898	2.1%
Nursing Facilities	\$215,204	\$222,045	-\$6,841	-3.1%	\$2,450,131	\$2,497,286	-\$47,155	-1.9%
Prescription Drugs	\$137,852	\$196,519	-\$58,667	-29.9%	\$1,548,051	\$1,809,885	-\$261,834	-14.5%
Hospitals	\$117,090	\$154,466	-\$37,376	-24.2%	\$1,355,122	\$1,450,177	-\$95,055	-6.6%
ICFs/MR	\$44,712	\$44,667	\$45	0.1%	\$504,748	\$498,025	\$6,723	1.3%
ODJFS Waivers	\$25,736	\$37,728	-\$11,992	-31.8%	\$298,240	\$352,401	-\$54,161	-15.4%
Physicians	\$26,569	\$36,876	-\$10,307	-28.0%	\$305,960	\$333,765	-\$27,805	-8.3%
All Other	\$131,304	\$147,419	-\$16,115	-10.9%	\$1,413,287	\$1,449,218	-\$35,931	-2.5%
Total Payments	\$1,133,873	\$1,272,808	-\$138,935	-10.9%	\$12,548,380	\$12,968,700	-\$420,320	-3.2%
Total Offsets (non-GRF)	-\$244,819	-\$327,703	\$82,884	-25.3%	-\$2,720,069	-\$2,913,836	\$193,767	-6.6%
Total 600525 (net of offsets)	\$889,054	\$945,105	-\$56,051	-5.9%	\$9,828,311	\$10,054,864	-\$226,553	-2.3%
Medicare Part D (600526)	\$19,545	\$21,302	-\$1,757	-8.2%	\$168,134	\$183,251	-\$15,117	-8.2%
Total GRF	\$908,599	\$966,407	-\$57,808	-6.0%	\$9,996,445	\$10,238,115	-\$241,670	-2.4%
Total All Funds	\$1,153,418	\$1,294,110	-\$140,692	-10.9%	\$12,716,514	\$13,151,951	-\$435,437	-3.3%

Estimates from the Ohio Department of Job and Family Services (ODJFS)

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

EXPENDITURES

—Russ Keller, *Economist*, 614-644-1751*

Overview

Through May, FY 2011 GRF uses of \$25.96 billion were \$26.8 million below the estimate released by the Office of Budget and Management (OBM) in September 2010. GRF uses consist primarily of program expenditures but also include transfers out. Year-to-date GRF program expenditures totaled \$24.78 billion, which was \$301.2 million below estimate. This negative variance was partially offset by a positive variance of \$274.4 million in transfers out, which totaled \$1.18 billion for FY 2011 through May. For the month of May, GRF uses of \$2.52 billion were \$251.6 million above estimate due primarily to timing issues. Tables 3 and 4 show GRF uses for the month of May and for FY 2011 through May, respectively.

While the overall year-to-date variance in GRF uses is relatively small, individual categories' year-to-date variances differ significantly. The remainder of this report will briefly discuss the variances in the five categories with significant negative or positive year-to-date variances. These five categories are Public Assistance and Medicaid; Primary, Secondary, and Other Education; Justice and Public Protection; Transfers Out; and Tax Relief and Other.

Negative Variances

Public Assistance and Medicaid had the largest year-to-date negative variance at \$292.8 million (2.7%). Of this variance, \$241.7 million occurred in Medicaid. Including state and federal shares, Medicaid accounts for about 93% of expenditures in the Public Assistance and Medicaid category. Table 5 details Medicaid GRF expenditures by service category.

GRF Medicaid expenditures totaled \$908.6 million in May, \$57.8 million below estimate. The majority of this variance was due to certain provider payments made on May 31 that were booked into the state's accounting system on June 1. Through May, FY 2011 GRF Medicaid expenditures totaled just under \$10 billion, which was \$241.7 million (2.4%) below estimate. Categories with significant year-to-date negative variances include Prescription Drugs (\$261.8 million, 14.5%), Hospitals (\$95.1 million, 6.6%), and ODJFS Waivers (\$54.2 million, 15.4%). According to the Ohio Department of Job and Family Services (ODJFS), the negative variances for Prescription Drugs and ODJFS Waivers were mainly the result of lower than

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estimated costs for drugs and waiver services. The negative variance for Hospitals was due to lower than estimated fee-for-service caseloads, which also accounted for the negative year-to-date variances in certain other categories such as All Other (\$35.9 million, 2.5%) and Physicians (\$27.8 million, 8.3%). Somewhat offsetting these negative variances, year-to-date expenditures for Managed Care Plans were \$94.9 million (2.1%) above estimate, which reflected higher than estimated caseloads in managed care.

Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds. In addition to detailing GRF Medicaid expenditures by category, Table 5 also summarizes Medicaid expenditures across all funds. As seen from the table, year-to-date non-GRF Medicaid expenditures were \$2.72 billion, \$193.8 million (6.6%) below estimate. Across all funds, year-to-date Medicaid expenditures totaled \$12.72 billion, \$435.4 million (3.3%) below estimate.

Primary, Secondary, and Other Education had the second largest year-to-date negative variance at \$51.6 million (0.8%). School foundation funding accounted for \$30.3 million of the total. In FY 2011, school foundation funding is supported by three GRF appropriation items: 200550, Foundation Funding; 200551, Foundation Funding – Federal Stimulus; and 200502, Pupil Transportation. Foundation funding for an individual school district largely depends on the district's average daily membership and its property wealth. This funding may fluctuate from month to month due to changes in certain data used in the calculations. The month of May accounted for \$34.3 million of the total year-to-date negative variance in this category. Final adjustments to school foundation funding for FY 2011 will occur in the first half of FY 2012.

Justice and Public Protection registered \$47.1 million in year-to-date negative variance. Of this variance, \$33.6 million was attributable to the Department of Rehabilitation and Correction (DRC). DRC's operating expenditures were \$18.5 million below their year-to-date estimate. In FY 2011, DRC's operations are mainly supported by two GRF appropriation items: 501321, Institutional Operations and 501620, Institutional Operations – Federal Stimulus. Two other GRF appropriation items within the DRC budget that had significant year-to-date negative variances are 505321, Institutional Medical Services and 502321, Mental Health Services. These two items' combined expenditures were \$15.1 million below their year-to-date estimates. As reported in prior issues of *Budget Footnotes*, these two items had negative variances for most of the fiscal year due to a lower than expected incidence of inmate

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illness and a higher utilization of DRC personnel for services as opposed to the use of private contractors.

Positive Variances

A GRF subsidy is expected in FY 2011 for payments for tangible personal property tax revenue losses for schools and local governments.

Year-to-date GRF transfers out were \$274.4 million above estimate, including a positive variance of \$161.1 million in the month of May. These transfers are mainly related to reimbursement payments to school districts and local governments for tangible personal property tax revenue losses. Reimbursement payments are supported by commercial activity tax (CAT) receipts, which are deposited into two non-GRF accounts. Transfers from the GRF are meant to address cash flow issues only. The GRF is to be reimbursed by CAT receipts. However, current law requires the GRF to make up any shortfalls in CAT receipts. In FY 2009 and FY 2010, reimbursement payments were subsidized by the GRF. Another GRF subsidy is expected in FY 2011 based on the CAT's year-to-date performance.

Year-to-date expenditures for Tax Relief and Other were \$140.6 million above estimate, which was entirely due to a positive variance of \$154.7 million in the month of May. May's positive variance was partly timing related. As reported in the April issue of *Budget Footnotes*, actual reimbursements for the August 2010 property tax settlement were \$45.2 million above estimate. The FY 2011 appropriations for GRF appropriation items Property Tax Allocation – Education (200901) and Property Tax Allocation – Taxation (110901) were increased by \$27.5 million and \$47.0 million, respectively. H.B. 1 of the 128th General Assembly appropriates any additional amount needed to fully fund property tax relief payments.

* Todd A. Celmar, *Economist*, 614-466-7358, contributed to this report.

ISSUE UPDATES

Department of Taxation's Discovery Project Generated Net Revenues of About \$25 Million

—*Phil Cummins, Senior Economist, 614-387-1687*

Through the first quarter of calendar year 2011, the Department of Taxation's Discovery Project netted the state approximately \$25.4 million in revenues. The project was established in H.B. 562 of the 127th General Assembly, effective July 1, 2008, to assist in discovering noncompliant taxpayers and collecting the taxes they owe. Teradata Corporation won a competitively bid contract to provide the hardware, software, support, and services to manage the tax discovery data system. Through March 2011, the project generated revenues of approximately \$38.6 million. To date, payments to Teradata totaled about \$9.0 million. An additional \$1.0 million was owed to this vendor for services under the contract and is expected to be paid before FY 2011 ends. The Department makes quarterly payments to the vendor, in amounts tied to the revenues generated by the project and with approval of the Controlling Board. In addition, payroll and other Department of Taxation operating expenses identified with the Discovery Project amounted to \$3.3 million through March 2011. As of March 18, 2011, 31 employees of the Department worked on the project.

BWC Expands SafetyGRANT\$ Program for Wholesale and Retail Delivery Businesses

—*Nick Thomas, Budget Analyst, 614-466-6285*

In April, the Bureau of Workers' Compensation (BWC) announced an expansion of the SafetyGRANT\$ Program for employers in the wholesale and retail delivery business. Under this initiative, BWC will allow employers that deliver large retail items, such as appliances or furniture, to use SafetyGRANT\$ funds to purchase stair-climbing hand trucks or gate lifts, devices which were previously ineligible for funding. To qualify, employers will be required to participate in a two-year study sponsored by BWC and the National Institute for Occupational Safety and Health (NIOSH). The purpose of the study is to evaluate the effectiveness of lifting and hauling equipment in reducing musculoskeletal and slip/trip injuries. Overall, BWC indicates that nearly 60% of indemnity claims are related to these two types of injuries. In calendar year 2009, there were approximately 25,000 such claims from wholesale employers, with total estimated costs, including reserves for future claim payments, of roughly \$100 million.

Under the SafetyGRANT\$ Program, BWC provides matching funding, at a 2-to-1 ratio, up to a maximum BWC award of \$40,000, to employers for the purchase of eligible safety equipment. BWC estimates that approximately 80 employers will participate in the expanded program and NIOSH study. Funding for the SafetyGRANT\$ Program is provided through appropriation item 855610, Gear Program. Total program spending in FY 2010 was approximately \$2.8 million. The FY 2011 appropriation for the program is \$4 million.

ODOT Issues Report on the Viability of the State Assuming Primary Responsibility for Municipal Route Maintenance

—Jason Phillips, Senior Budget Analyst, 614-466-9753

In March 2011, the Ohio Department of Transportation (ODOT) released a report on the financial and policy implications if the state were to assume primary responsibility for all state routes in Ohio, regardless of local government jurisdiction. The report was required by Section 755.50 of H.B. 2 of the 128th General Assembly, the transportation budget act for the FY 2010-FY 2011 biennium. The report estimates that the annual expense for ODOT to assume these new responsibilities would be approximately \$422 million. This includes the cost of (1) pavement preservation on U.S. and state routes within cities,⁶ (2) traffic signals, pavement markings, traffic signs, and lighting, (3) storm sewer upgrades, (4) routine and contracted maintenance, (5) snow and ice removal, and (6) additional ODOT payroll for planning, engineering, and maintenance staff. There would also be initial start-up costs of an estimated \$58.6 million to purchase additional snow plow trucks, salt storage units, and specialized equipment.

Currently, ODOT is primarily responsible for maintaining 39,735 of the state's 49,078 lane miles of Interstate, U.S., and state routes. Municipalities are primarily responsible for the remaining 9,343 lane miles. However, ODOT also provides snow and ice removal and minor maintenance for many villages through various agreements. Thus, the additional lane miles that ODOT would take responsibility for will vary depending on the applicable responsibility. The report concluded that, without additional funding through a shift in state motor fuel tax revenues from municipalities to the state or an increase in the motor fuel tax, shifting responsibility for maintenance and repair of municipal routes to ODOT is not feasible. The full report is available

⁶ The cost associated with pavement preservation (\$50.6 million) includes \$35 million per year that ODOT already spends as part of its Urban Paving Program, which assists cities in rehabilitating the pavement surface of roads on the Urban System (U.S. and state routes inside municipalities with populations greater than 5,000).

online at the Department's Policy and Legislative Services web site (<http://www.dot.state.oh.us/Divisions/Legislative/Pages/default.aspx>).

State Continues to Collect Abstract Fee Increase While Defending Legal Challenge

—Sara D. Anderson, Senior Budget Analyst, 614-728-4812

The state continues to collect a \$3 increase in driver, motor vehicle, and certificate of title abstract fees while it appeals a court ruling which declared that the purposes for which this increase are being used is unconstitutional, because they are not related to operating or licensing vehicles on public highways. The fee increase generates an additional \$9 million to \$10 million annually for the state treasury. The Franklin County Court of Common Pleas ruled in favor of the plaintiffs' constitutional argument in June 2010 and ordered the state to stop collecting the fee increase. The court stayed the enforcement of its order pending appellate review. The state's appeal is currently pending before the state's Tenth District Court of Appeals.

The abstract fee increase, from \$2 to \$5, was included in the FY 2010-FY 2011 transportation and public safety budget enacted in H.B. 2 of the 128th General Assembly. The increase eliminated the Department of Public Safety's need for GRF funding to support certain operations and provided supplement funding for certain other operations. The statutory language directs the resulting revenue be split in varying amounts essentially to pay for operating expenses incurred by five Public Safety divisions: Emergency Management Agency, Emergency Medical Services, Ohio Homeland Security, Ohio Investigative Unit, and Office of Criminal Justice Services. The table below details how the \$3 increase is distributed, as well as the collections for calendar year 2010.

Revenue Collected from \$3 Abstract Fee Increase, CY 2010			
Division	Fund	Amount Distributed	CY 2010 Revenue Collected*
Emergency Management Agency	Service and Reimbursement (Fund 4V30)	\$1.25	\$4.0 million
Emergency Medical Services	Trauma and EMS (Fund 83M0)	\$0.60	\$1.9 million
Homeland Security	Homeland Security (Fund 5DS0)	\$0.60	\$1.9 million
Investigative Unit	Investigations (Fund 5FL0)	\$0.30	\$1.0 million
Criminal Justice Services	Justice Program Services (Fund 4P60)	\$0.25	\$0.8 million
Total		\$3.00	\$9.7 million

* Total does not add due to rounding.

Lake Erie Commission Awards Grants Backed by Special License Plate Sales

—Matthew L. Stiffler, Budget Analyst, 614-466-5654

The Lake Erie Commission recently awarded six Lake Erie Protection Fund grants totaling \$87,913. Four of these grants will be used for projects that benefit Lake Erie, or its tributary watersheds, in Ohio and foster better environmental protection and economic development. The other two are part of the Commission's Balanced Growth Program, a voluntary, incentive-based effort to protect Lake Erie and Ohio's watersheds to provide for long-term economic competitiveness, ecological health, and quality of life. The table below summarizes the grants by the recipient's county of location, the recipient, the grant amount, and the grant's purpose.

These grants are supported by money generated from the sale of Marblehead Lighthouse and Toledo Harbor Lighthouse license plates. The Commission currently collects a required annual contribution of \$15 to issue a new or renew an existing license plate; it is authorized to collect a contribution of up to \$40. In FY 2010, the Commission collected a total of \$263,430 from 17,358 new/renewed Marblehead Lighthouse license plates and 204 new/renewed Toledo Harbor Lighthouse license plates.

Lake Erie Protection Fund Grants			
County	Recipient	Grant Amount	Project Purpose
Crawford	Crawford Soil and Water Conservation District	\$15,000	To complete a project to reduce sediment and phosphorus from farm fields.
Cuyahoga*	The Friends of Big Creek	\$15,000	To conduct field studies to prioritize storm water retrofit sites in the Big Creek Watershed.
Franklin	The Ohio State University	\$14,973	To investigate infectious enteric viruses at Lake Erie beaches.
Geauga*	Russell Township	\$15,000	To develop a watershed model and restoration plan for Griswold Creek.
Lucas	Olander Park System	\$15,000	To restore 18 acres in Sylvan Prairie Park.
Lucas	University of Toledo	\$12,940	To examine whether blue-green algae in the Maumee River is a source population to Lake Erie.

* Balanced Growth Program grants.

eTech Ohio Awards \$1.1 Million in Teacher Planning Grants

—Emily W.H. Gephart, Budget Analyst, 614-644-7762

eTech Ohio recently awarded \$1.1 million in Teacher Planning Grants to 11 Ohio colleges and universities, partnering with 36 school districts (see table below). Each partnership will receive \$100,000 to help prepare future teachers for the role of technology in the 21st century classroom and to strengthen cooperation between teacher

preparation programs and school districts. The projects will be implemented during the 2011-2012 school year.

eTech Ohio Teacher Planning Grant Recipients	
College/University (County)	School District (County)
Baldwin Wallace College (Cuyahoga)	Bedford City (Cuyahoga)
	Euclid City (Cuyahoga)
	Lakewood City (Cuyahoga)
Bowling Green State University (Wood)	Miller City-New Cleveland Local (Putnam)
	Perrysburg Exempted Village (Wood)
	Rossford Exempted Village (Wood)
Hiram College (Portage)	Crestwood Local (Portage)
	James A. Garfield Local (Portage)
	Woodridge Local (Summit)
Kent State University (Portage)	Akron City (Summit)
	Kent City (Portage)
	Ravenna City (Portage)
	Stow-Munroe Falls City (Summit)
Ohio Northern University (Hardin)	Bath Local (Allen)
	Kalida Local (Putnam)
	Lima City (Allen)
	Ottawa-Glandorf Local (Putnam)
	Pandora-Gilboa Local (Putnam)
The Ohio State University (Franklin)	Columbus City (Franklin)
	Lima City (Allen)
	Reynoldsburg City (Franklin)
University of Akron (Summit)	Coventry Local (Summit)
	Green Local (Summit)
	Tallmadge City (Summit)
University of Mount Union (Stark)	Alliance City (Stark)
	Louisville City (Stark)
	West Branch Local (Mahoning)
University of Rio Grande (Gallia)	Eastern Local (Meigs)
	Meigs Local (Meigs)
	Southern Local (Meigs)
Walsh University (Stark)	Canton City (Stark)
	North Canton City (Stark)
	West Branch Local (Mahoning)
Wilmington College (Clinton)	Clinton-Massie Local (Clinton)
	Hillsboro City (Highland)
	Wilmington City (Clinton)

Board of Regents Releases Fourth Report on the Condition of Higher Education

—Mary Turocy, *Budget Analyst*, 614-466-2927

In April, the members of the Ohio Board of Regents released their fourth annual Report on the Condition of Higher Education in Ohio. This year's report focuses on Ohioans who are underrepresented in earning higher education degrees. The report states that although Ohio does well in the number of degrees awarded to women, the state needs to improve in the number of degrees awarded to blacks, Hispanics, and residents of rural Appalachian counties. Barriers to degree attainment for these groups include poor academic preparation, economic issues, lack of knowledge and support systems, low cultural preparation, and higher education structure, course, and program delivery. The report finds that higher education institutions in Ohio offer numerous programs to help underrepresented groups, making a strong contribution toward their success.

In addition to this focus on underrepresented Ohioans, the report discusses Ohio's ties between the workforce and higher education, showing past progress and the promise of future progress in this area. Nationally, Ohio has been recognized for improvements in research and development and attracting talent from around the country for work in the "knowledge industry," including high-skill and technology fields. The report highlights ten programs, including institutional Centers of Excellence and the Ohio Skills Bank that are successfully connecting Ohio's college students to jobs and connecting college coursework to needed research and development. The report also indicates that the Third Frontier Program has had a substantial impact on research investments, including the creation of 41,000 jobs, 500 new companies, and an increase of more than \$200 million in venture capital investments. The report identifies a need to continue to improve data collection across the education and workforce spectrum to identify how students can be even more successful in meeting Ohio's business needs.

Enrollment for BCMH Treatment Services Increases in FY 2011

—Wendy Risner, *Senior Budget Analyst*, 614-644-9098

As of May 1, 2011, enrollment in the Treatment Services Program of the Bureau for Children with Medical Handicaps (BCMh) totaled over 27,000, which is an increase of over 1,000 enrollees since May 1, 2010. On May 9, 2011, the Controlling Board approved the Department of Health's request to increase appropriation to non-GRF line item 440607, Medically Handicapped Children – County Assessment, by \$3.5 million in FY 2011 to pay for treatment costs associated with the growth in enrollment. The appropriation increase is supported by funds generated from county property tax

assessments. State law requires counties to provide up to one-tenth of one mill of the county's property tax revenue to the Department to pay for BCMH treatment services.

BCMh is a health care program that links families of children with special health care needs to a network of providers and helps families pay for necessary services. BCMH treatment services are mainly paid for with the GRF, county tax assessments, and federal grants. To be eligible, an individual must be under the age of 21, be under the care of an approved physician, and have an eligible condition. In addition, the family's income may not exceed 185% of the federal poverty guidelines (\$41,348 annually for a family of four). However, for eligibility purposes, a family's income may be reduced by the amount of out-of-pocket medical expenses incurred by the family. Other factors such as child care, insurance premium payments, and the severity of the child's condition are also considered.

Ohio Fails to Meet Work Participation Rate

—Todd A. Celmar, *Economist*, 614-466-7358

In April 2011, the federal Administration for Children and Families released federal fiscal year (FFY) 2009 work participation rates for families that receive cash assistance under Temporary Assistance for Needy Families (TANF). The data show that Ohio failed to meet the "all families" work requirement. As a result, the federal government has assessed Ohio with a penalty of \$58.5 million.

This is the third consecutive year Ohio has failed to meet the all families work requirement. In FFY 2007, Ohio failed to meet both the all families and the "two-parent" families work requirements and was assessed a penalty of \$32.8 million. In FFY 2008, Ohio failed to meet the all families requirement and was assessed \$45.1 million. Ohio's target and actual work participation rates for FFY 2007 to FFY 2009 are shown below.

TANF Work Participation Rates						
FFY	All Families Rates			Two-Parent Rates		
	Target	Actual	Met Target	Target	Actual	Met Target
2007	46.2%	23.7%	No	86.2%	29.3%	No
2008	42.0%	24.5%	No	10.1%	27.9%	Yes
2009	42.0%	23.3%	No	10.1%	23.1%	Yes

Penalties are increased each subsequent year for failure to meet the work requirements. They will be applied through a reduction in a state's TANF block grant in future years. For example, Ohio's penalty for FFY 2007 will be assessed in FFY 2013 and so on. The penalties may be waived if Ohio is granted exemptions due to the economic conditions during the years for which Ohio was penalized. If the exemptions

are not granted, the state will have to replace the federal dollars lost through penalties with state money.

Generally, the TANF Program requires that 50% of all families and 90% of two-parent families that receive cash assistance participate in federally approved work activities. However, these required work participation rates are reduced if there is a decline in the state's cash assistance caseload compared to the base year, FFY 2005. The American Recovery and Reinvestment Act held states harmless from caseload increases in FFY 2009 through FFY 2011. Therefore, states could continue to receive caseload reduction credit for low caseloads prior to the economic downturn.

TRACKING THE ECONOMY

—Phil Cummins, *Economist*, 614-387-1687

State of the Economy

Recovery in the U.S. economy has slowed but is continuing and further expansion appears likely. Ohio's economy also continues to expand. Economic recovery has been underway since the recession trough in the 2009 second quarter. Growth has been slow compared with most past recoveries, in part because the housing sector remains distressed. Hiring in the U.S. and in Ohio has left employment well below pre-recession peaks. Unemployment has stayed high, though it has trended downward gradually. Inflation has increased this year, mainly reflecting increases in energy prices, and to a lesser extent in food prices. Market interest rates have remained low, but may rise if the Federal Reserve, as expected, begins to withdraw its exceptional support for the U.S. Treasury market.

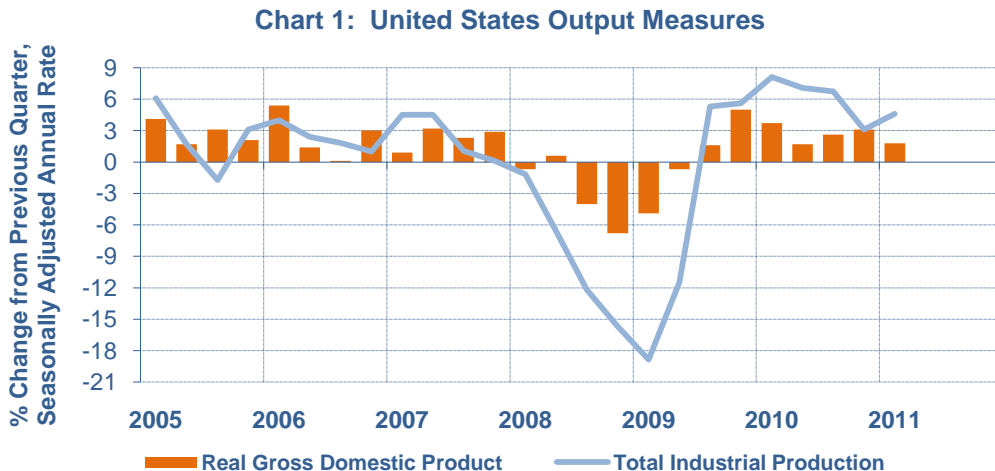
National

The nation's economy has been recovering since mid-year 2009. Inflation-adjusted gross domestic product (real GDP) has risen back above its previous peak at the end of 2007. Growth slowed at the beginning of this year, and this slowdown has continued in the second quarter. The areas of economic growth have shifted from inventory rebuilding toward increases in final demand, including rising consumer spending, business investment in equipment, and exports. However, demand has remained anemic from some sectors including residential building, private nonresidential construction, and government, particularly state and local government. Chart 1 shows growth in real GDP and in industrial production.

Growth slowed at the beginning of this year, and this slowdown has continued in the second quarter.

Employment nationwide remains nearly 7.0 million (5.0%) below the peak.

Business investment in equipment and software has continued to grow



Consumer spending has grown since the end of the recession. The willingness of consumers to spend has been restrained by weak employment growth and high unemployment, by illiquid investments in housing that have fallen in value, by tight credit availability, and by efforts of households to pay down past borrowings. Employment nationwide has risen 1.8 million (1.4%) since the low point in February 2010, but remains nearly 7.0 million (5.0%) below the peak in January 2008. Incomes of consumers have been supported by increases in average hours worked as well as by modestly higher hourly pay. Replacement needs are also contributing to increased spending on motor vehicles and other durable goods. But higher gasoline prices, driven by Mideast turmoil on top of strong world demand for petroleum, has eroded household discretionary incomes that would otherwise be available for spending on other goods and services.

Housing markets generally remain very weak, with new home sales and construction far below peak levels in past years. Nationwide indexes of housing prices have turned down more sharply this year and are around levels of 2002-2003.⁷ Conditions vary widely among local markets. Residential markets remain burdened by foreclosures and other distressed sales, and buying is constrained by much tougher underwriting standards than during the housing boom in the last decade.

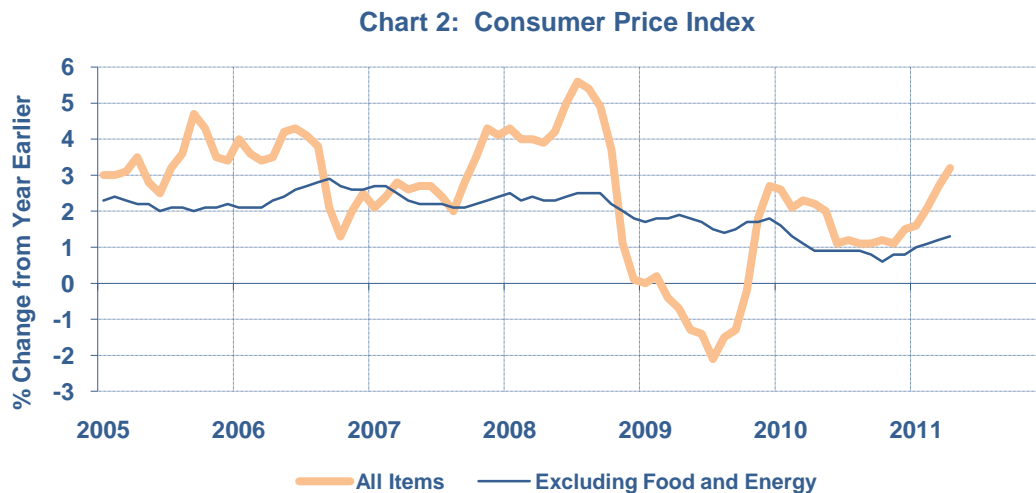
Business investment in equipment and software has continued to grow vigorously. In contrast, business investment in structures has remained weak, with declining investment in most areas except for the

⁷ Nationwide measures of home prices include indexes from the Federal Housing Finance Agency and from Standard & Poor's (the Case-Shiller Home Price Indices).

mining industry, which includes oil and gas exploration and development. Inventory rebuilding accounted for well over half of the economy's growth during the first year of recovery but now appears to have largely run its course. Inventories were cut sharply during the recession.

Export growth has also contributed importantly to demand for U.S. goods and services in the economic recovery. Growing American exports reflect the recoveries in most foreign developed economies and expansion in many less developed economies. As the U.S. economy has recovered following the recession, demand in this country for imports from abroad has been rising again.

Though inflation has turned higher this year, with substantial productive resources still idle, including unemployed labor resources as well as plant and equipment, finished goods and services inflation is expected to slow. Wage inflation remains low. Commodity price inflation rose late last year and earlier this year, reflecting growing demand around the world and, in the case of petroleum, concerns about supply disruptions resulting from Middle East instability. Consumer prices for gasoline and other energy products have consequently been pushed higher. Commodity price pressures have eased in recent weeks. Recent trends in consumer prices for all items, and excluding food and energy which tend to be more volatile, are shown in Chart 2.



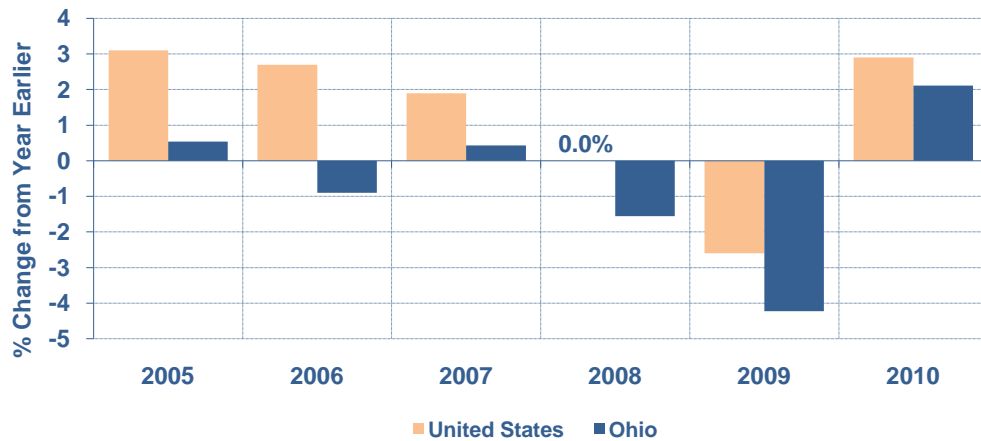
U.S. monetary policy has held short-term interest rates at very low levels, keeping the target short-term interest rate, the federal funds rate, in a range of 0% to 0.25%. In addition, the Federal Reserve System has been buying U.S. Treasury notes and bonds to keep longer-term interest rates low. This policy initiative, begun last fall, is expected to be completed this month.

Ohio

Annual changes in Ohio real GDP compared with those for the U.S. are shown in Chart 3. Real GDP has risen more slowly in Ohio than nationwide, or declined more sharply, every year since 1998, with the exception of 2002. Although real GDP nationwide has recovered to its previous peak, real GDP in Ohio has not. State gross domestic product historical figures are published by the source agency, the U.S. Bureau of Economic Analysis (BEA), only annually. Quarterly estimates up to the present and forecasts are provided by Global Insight.

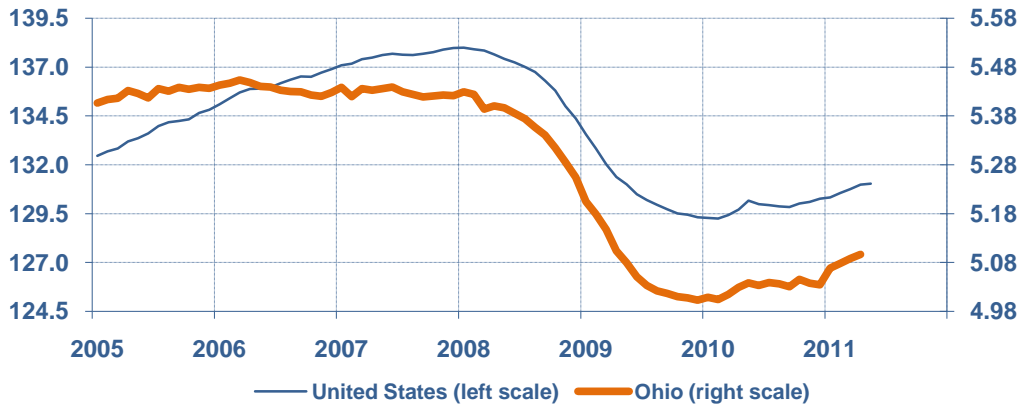
Real GDP has risen more slowly in Ohio than nationwide, or declined more sharply, every year since 1998, with the exception of 2002.

Chart 3: Real Gross Domestic Product



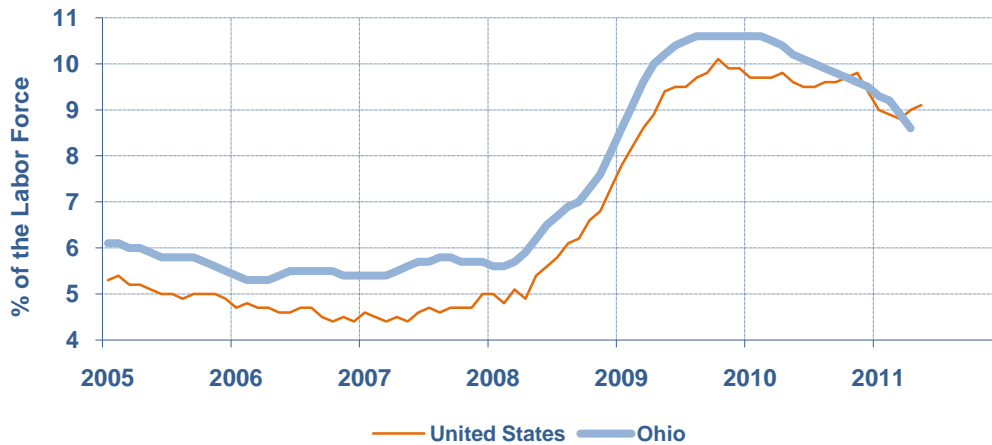
Nonfarm payroll employment in Ohio, compared with the U.S., is shown in Chart 4. Ohio nonfarm payroll employment in April was 93,300 (1.9%) higher than at the business cycle low point in December 2009, but remained about 325,000 (6.0%) below its level in December 2007, at the business cycle peak, and 541,000 (9.6%) lower than its all-time peak in 2000. U.S. payroll employment in May, as noted above, was 1.8 million (1.4%) higher than at its cyclical low point in February 2010, but it edged up only slightly (by 54,000, less than 0.1%) from April to May. Ohio employment growth may also slow.

**Chart 4: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted**



Ohio's statewide unemployment rate, the number of people not employed and actively seeking work as a percent of the labor force, declined to 8.6% in April, its lowest level since January 2009, as shown in Chart 5. The U.S. unemployment rate declined to 8.8% in March, lowest since March 2009, but rose to 9.0% in April and 9.1% in May as additional people sought work. Ohio's unemployment rate in April was lower than the average nationwide. As the chart shows, in most months in recent years, the unemployment rate in Ohio was above the national average.

Chart 5: Unemployment Rate



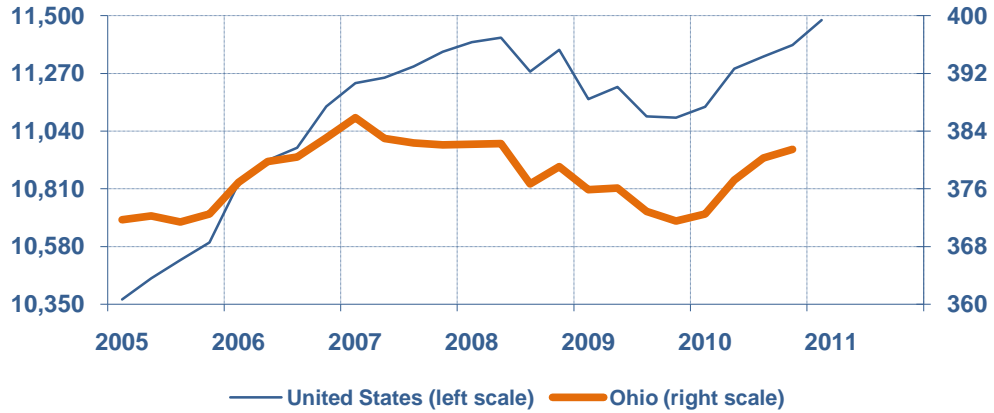
Personal income has been growing in the nation and Ohio since the end of 2009, as shown in Chart 6. Both series in the chart are deflated using the national personal consumption expenditures deflator. State personal income is published with a lag by the source agency, BEA, and is shown in the chart through the 2010 fourth quarter. Ohio personal income rose 3.9% from the low point in the fourth quarter of 2009 to the latest quarter, measured in dollars, and by 2.7% after adjustment for

Ohio's statewide unemployment rate declined to 8.6% in April, its lowest level since January 2009.

inflation. U.S. real personal income rose at about the same rate during this period, and increased further in the first quarter of 2011, as the chart indicates.

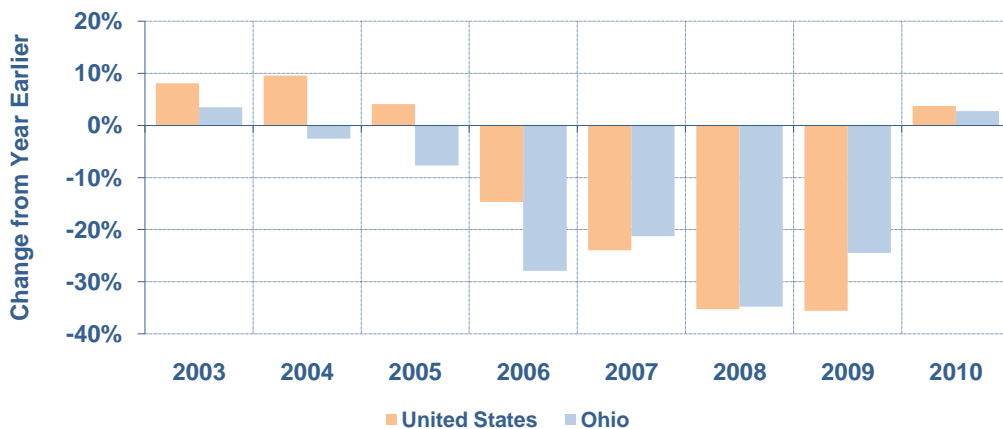
Residential building activity fell in Ohio for six years through 2009 before edging up last year.

Chart 6: Personal Income
Billions of 2005 Dollars



Residential building activity fell in Ohio for six years through 2009 before edging up last year, as indicated by construction permits for new privately owned units, shown in Chart 7. In the U.S., housing construction activity fell for four years through 2009, then also rose last year. Residential building activity remains at low levels in Ohio and around the country. Housing prices in Ohio, as reported by the Federal Housing Finance Agency, peaked in 2006, fell through 2008, flattened in 2009, and then resumed declining in 2010 and 2011. On average, home prices in Ohio were about 15% lower in the first quarter than at the peak, and were continuing to decline.

Chart 7: New Privately Owned Housing Units Authorized by Building Permits



Economic Forecasts

The predictions for the economic outlook in the tables that follow are from Global Insight's baseline forecasts released in May 2011. Economic forecasting is inherently uncertain, and projections may turn out to be too optimistic or too pessimistic. LSC's forecasts for state tax revenues, based in part on some of the variables provided by Global Insight, could in consequence also be either too high or too low.

Years shown in the tables are calendar years. Quarterly changes, the first line in each table, are from the preceding quarter. Changes shown in the second line compare average values for the four quarters ending in the second calendar quarter, coinciding with Ohio's fiscal year, with average values for the four quarters one year earlier. The unemployment rate tables show average unemployment rates for the quarters indicated (first line) and for the four quarters ending in the second quarter (second line).

U.S. Gross Domestic Product

Real GDP nationwide is projected to grow in the FY 2012-FY 2013 biennium at about a 2.9% annual rate on average. In the seven quarters of the economic recovery to date, through the first quarter of this year, U.S. real GDP growth averaged 2.8% at an annual rate.

U.S. Real GDP Growth												
Forecast	2011				2012				2013			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent change at annual rate-----											
Global Insight	1.8	3.3	3.2	3.8	2.6	2.3	2.7	3.0	2.0	3.3	3.2	3.0
Global Insight	2.7				3.0				2.7			

Ohio Gross Domestic Product

Economic growth in Ohio is expected to continue through 2013 but at a somewhat slower rate than nationwide. Predicted growth of real GDP in Ohio averages 2.5% at an annual rate during the eight quarters of the next biennium, somewhat less than growth for the nation.

Ohio Real GDP Growth												
Forecast	2011				2012				2013			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent change at annual rate-----											
Global Insight	3.4	3.0	3.0	3.2	2.5	1.9	2.2	2.5	1.9	2.9	2.5	2.5
Global Insight	2.7				2.9				2.3			

U.S. Inflation

In Global Insight's May baseline forecast, the recent upturn in inflation proves short-lived, and the rate of increase in consumer prices falls back under 2% per year.

U.S. Consumer Price Index Inflation												
Forecast	2011				2012				2013			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent change at annual rate-----											
Global Insight	5.2	4.3	2.0	0.8	1.7	1.3	2.4	2.0	2.0	1.9	1.9	2.1
Global Insight		2.0				2.6				1.9		

U.S. Personal Income

Nationwide personal income growth averages 4.1% at an annual rate during the FY 2012-FY 2013 biennium. These growth rates are based on the dollar amounts of income, not adjusted for inflation. Weakness in the first quarter of 2012 and strong growth in this year's first quarter reflect a one-year, two percentage point reduction in the individual portion of Social Security taxes, which is subtracted in calculating personal income in the national income and product accounts.

U.S. Personal Income Growth												
Forecast	2011				2012				2013			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent change at annual rate-----											
Global Insight	8.3	4.9	4.5	4.6	1.0	4.4	4.6	4.8	3.9	5.0	4.8	4.9
Global Insight		4.4				4.6				4.1		

Ohio Personal Income

Income to persons who reside in Ohio also grows through 2013, but trails growth of personal income nationwide. Projected modest income growth reflects further increases in employment and average pay.

Ohio Personal Income Growth												
Forecast	2011				2012				2013			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent change at annual rate-----											
Global Insight	8.8	4.7	3.6	3.7	0.1	3.9	3.9	4.1	3.4	4.3	3.8	3.9
Global Insight		4.4				4.0				3.4		

U.S. Unemployment Rate

The forecast continues to show unemployment nationwide declining gradually during the forecast period. As noted above, the national unemployment rate fell to 8.8% in March, lowest since March 2009, but then rose to 9.0% in April and 9.1% in May. The decline in unemployment resumes in the second half of 2011 when Global Insight is forecasting stronger growth than in the first half.

U.S. Unemployment Rate												
Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent of the labor force-----											
Global Insight	8.9	8.9	8.7	8.5	8.4	8.3	8.2	8.1	8.0	7.9	7.7	7.6
Global Insight		9.2				8.5				8.1		

Ohio Unemployment Rate

The unemployment rate in Ohio fell to 8.6% in April, below the U.S. rate. In the forecast, a lower unemployment rate in Ohio than nationwide is seen as an anomaly. The unemployment in Ohio is projected to exceed the national rate in future quarters, and to fall slowly through the end of 2013.

Ohio Unemployment Rate												
Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent of the labor force-----											
Global Insight	9.2	9.0	8.9	8.8	8.7	8.6	8.5	8.4	8.4	8.3	8.1	8.0
Global Insight		9.4				8.7				8.4		