# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION NOVEMBER 2010

# STATUS OF THE GRF

## HIGHLIGHTS

—*Ross A. Miller, Chief Economist, 614-644-7768*

Various indicators point to an Ohio economy that, while weak, is slowly improving. Ohio's unemployment rate fell to 10.0% in September, from a high of 11.0% in March. Ohio's unemployment rate had been 1.3 percentage points higher than the national rate in March; in September it was less than half a percentage point higher. Payroll amounts withheld under the state income tax imply that Ohio wages and salaries are as much as 3.7% higher than a year ago.

All major GRF tax sources are above estimate for FY 2011 through October. The one tax underperforming notably is the public utility excise tax, $14.7 million below estimate, due mostly to lower than expected natural gas prices. Total GRF tax receipts are $149.1 million above estimate for the year to date.

**Through October 2010, GRF sources totaled $8.62 billion:**

- Revenue from the personal income tax was $35.0 million above estimate;
- Sales and use tax receipts were $84.6 million above estimate.

**Through October 2010, GRF uses totaled $10.96 billion:**

- Program expenditures were $29.4 million above estimate, due primarily to Public Assistance and Medicaid ($42.0 million) and Justice and Public Protection ($29.4 million).

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STATUS OF THE GRF



ISSUE UPDATES



TRACKING THE ECONOMY



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**Table 1: General Revenue Fund Sources**
**Preliminary Actual vs. Estimate**
**Month of October 2010**
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on November 5, 2010)

| | Actual | Estimate* | Variance | Percent |
|---|---|---|---|---|
| **STATE SOURCES** | | | | |
| ***TAX REVENUE*** | | | | |
| Auto Sales | $75,759 | $70,600 | $5,159 | 7.3% |
| Nonauto Sales and Use | $534,824 | $510,200 | $24,624 | 4.8% |
| Total Sales and Use Taxes | $610,583 | $580,800 | $29,783 | 5.1% |
| Personal Income | $544,132 | $547,400 | -$3,268 | -0.6% |
| Corporate Franchise | -$2,262 | -$10,000 | $7,738 | 77.4% |
| Public Utility | $1,967 | $2,500 | -$533 | -21.3% |
| Kilowatt Hour Excise | $14,415 | $13,600 | $815 | 6.0% |
| Commercial Activity Tax** | $0 | $0 | $0 | --- |
| Foreign Insurance | $126,433 | $128,300 | -$1,867 | -1.5% |
| Domestic Insurance | -$726 | $0 | -$726 | --- |
| Business and Property | -$260 | $0 | -$260 | --- |
| Cigarette | $73,883 | $69,000 | $4,883 | 7.1% |
| Alcoholic Beverage | $4,815 | $4,800 | $15 | 0.3% |
| Liquor Gallonage | $3,010 | $2,900 | $110 | 3.8% |
| Estate | $14,092 | $8,600 | $5,492 | 63.9% |
| **Total Tax Revenue** | **$1,390,082** | **$1,347,900** | **$42,183** | **3.1%** |
| ***NONTAX REVENUE*** | | | | |
| Earnings on Investments | $3,144 | $20,500 | -$17,356 | -84.7% |
| Licenses and Fees | $604 | $5,210 | -$4,606 | -88.4% |
| Other Revenue | $6,930 | $4,940 | $1,990 | 40.3% |
| **Total Nontax Revenue** | **$10,677** | **$30,650** | **-$19,973** | **-65.2%** |
| ***TRANSFERS*** | | | | |
| Liquor Transfers*** | $11,000 | $11,000 | $0 | 0.0% |
| Budget Stabilization | $0 | $0 | $0 | --- |
| Other Transfers In | $0 | $0 | $0 | --- |
| **Total Transfers In** | **$11,000** | **$11,000** | **$0** | **0.0%** |
| **TOTAL STATE SOURCES** | **$1,411,760** | **$1,389,550** | **$22,210** | **1.6%** |
| Federal Grants | $630,357 | $653,952 | -$23,595 | -3.6% |
| **TOTAL GRF SOURCES** | **$2,042,117** | **$2,043,501** | **-$1,385** | **-0.1%** |

* 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 November 2, 2010.
*Detail may not sum to total due to rounding.*

**Table 2: General Revenue Fund Sources**
**Preliminary Actual vs. Estimate**
**FY 2011 as of October 31, 2010**
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on November 5, 2010)

| | Actual | Estimate* | Variance | Percent | FY 2010 | Percent Change |
|---|---|---|---|---|---|---|
| **STATE SOURCES** | | | | | | |
| ***TAX REVENUE*** | | | | | | |
| Auto Sales | $336,087 | $328,000 | $8,087 | 2.5% | $324,870 | 3.5% |
| Nonauto Sales and Use | $2,173,751 | $2,097,200 | $76,551 | 3.7% | $1,963,677 | 10.7% |
| Total Sales and Use Taxes | $2,509,838 | $2,425,200 | $84,638 | 3.5% | $2,288,547 | 9.7% |
| Personal Income | $2,354,621 | $2,319,599 | $35,022 | 1.5% | $2,269,844 | 3.7% |
| Corporate Franchise | -$1,828 | -$18,000 | $16,172 | 89.8% | -$8,639 | 78.8% |
| Public Utility | $32,476 | $47,200 | -$14,723 | -31.2% | $36,048 | -9.9% |
| Kilowatt Hour Excise | $66,800 | $60,201 | $6,599 | 11.0% | $54,765 | 22.0% |
| Commercial Activity Tax** | $0 | $0 | $0 | --- | $0 | --- |
| Foreign Insurance | $132,125 | $132,750 | -$625 | -0.5% | $132,816 | -0.5% |
| Domestic Insurance | -$1,038 | $134 | -$1,172 | -874.3% | $1,402 | -174.0% |
| Business and Property | -$201 | $126 | -$327 | -259.6% | $106 | -290.0% |
| Cigarette | $244,266 | $229,800 | $14,465 | 6.3% | $260,939 | -6.4% |
| Alcoholic Beverage | $20,184 | $19,700 | $484 | 2.5% | $19,612 | 2.9% |
| Liquor Gallonage | $12,465 | $12,000 | $465 | 3.9% | $12,177 | 2.4% |
| Estate | $18,281 | $10,200 | $8,081 | 79.2% | $9,465 | 93.1% |
| **Total Tax Revenue** | **$5,387,990** | **$5,238,910** | **$149,080** | **2.8%** | **$5,077,082** | **6.1%** |
| ***NONTAX REVENUE*** | | | | | | |
| Earnings on Investments | $3,152 | $20,500 | -$17,348 | -84.6% | $11,602 | -72.8% |
| Licenses and Fees | $10,237 | $21,361 | -$11,125 | -52.1% | $19,509 | -47.5% |
| Other Revenue | $11,647 | $16,590 | -$4,943 | -29.8% | $24,341 | -52.2% |
| **Total Nontax Revenue** | **$25,036** | **$58,451** | **-$33,415** | **-57.2%** | **$55,452** | **-54.9%** |
| ***TRANSFERS*** | | | | | | |
| Liquor Transfers*** | $51,144 | $48,000 | $3,144 | 6.6% | $57,000 | -10.3% |
| Budget Stabilization | $0 | $0 | $0 | --- | $0 | --- |
| Other Transfers In | $12,329 | 6,106 | $6,223 | 101.9% | $19,946 | -38.2% |
| **Total Transfers In** | **$63,473** | **$54,106** | **$9,367** | **17.3%** | **$76,946** | **-17.5%** |
| **TOTAL STATE SOURCES** | **$5,476,498** | **$5,351,467** | **$125,031** | **2.3%** | **$5,209,480** | **5.1%** |
| Federal Grants | $3,145,347 | $3,257,044 | -$111,697 | -3.4% | $2,725,125 | 15.4% |
| **TOTAL GRF SOURCES** | **$8,621,845** | **$8,608,511** | **$13,333** | **0.2%** | **$7,934,605** | **8.7%** |

* 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 November 2, 2010.
*Detail may not sum to total due to rounding.*

October tax receipts were $42.2 million above estimate.

FY 2011 GRF tax receipts through October were $149.1 million above estimate.

# Revenues

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

## Overview

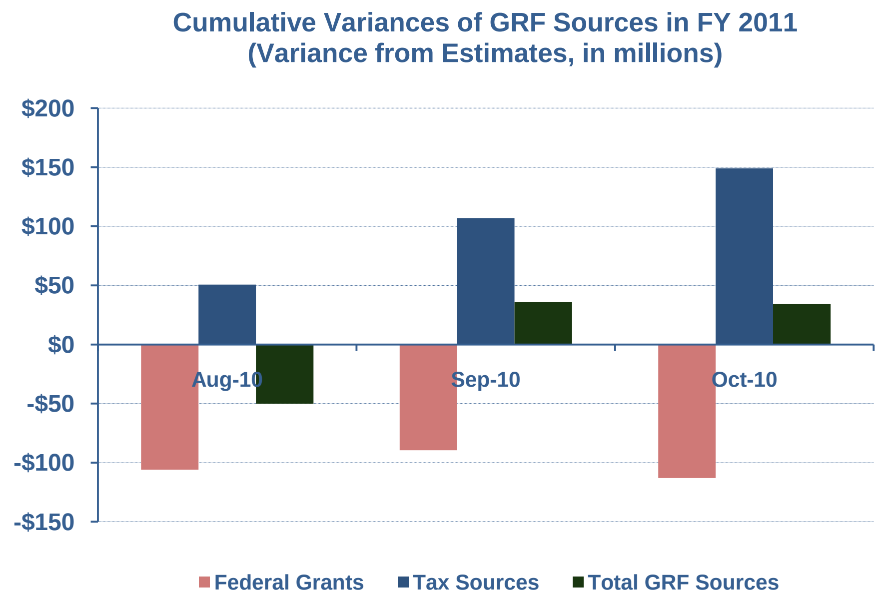
GRF tax receipts started the second fiscal quarter with a positive variance of $42.2 million, following better than expected results in the first quarter, buttressing suggestions that the economic recovery could be sustained. However, October GRF sources of $2.04 billion were $1.4 million below projections, from a shortfall of $23.6 million in federal grants which more than offset a positive variance of $22.2 million in state-source receipts. Tables 1 and 2 show GRF sources for the month of October 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.

Receipts from two of the three major tax sources were ahead of estimates in October 2010. The sales and use tax and the cigarette tax were above estimate, respectively, by $29.8 million and $4.9 million. The estate tax was above expectation by $5.5 million. Corporate franchise tax net refunds were $7.7 million below the level of refunds anticipated for the month, which created a positive variance.[1] The personal income tax and the foreign insurance tax were below estimate, respectively, by $3.3 million and $1.9 million. Nontax revenues were $20.0 million below estimate, mostly due to earnings on investments lagging projections by $17.4 million.

Through October, FY 2011 total GRF sources of $8.62 billion were $13.3 million above estimate. State-source receipts of $5.48 billion were above estimate by $125.0 million. This positive variance was partially offset by a shortfall of $111.7 million in federal grants. Total tax revenues of $5.39 billion were $149.1 million above estimate, with the major tax sources ahead of projections. The sales and use tax was above estimate by $84.6 million, the personal income tax by $35.0 million, and the cigarette tax by $14.5 million. The kilowatt hour tax and the estate tax were also above estimate, respectively, by $6.6 million, and $8.1 million. Corporate franchise tax net refunds were $1.8 million through October,

[1] Corporate franchise tax major payments are due in the second half of the fiscal year. Through December, receipts are from late payments or payments due to audit findings. But those payments are generally less than refunds from tax overpayment or other tax reconciliations.

better than anticipated refunds of $18.0 million. The public utility excise tax fell short of estimate by $14.7 million, and the negative variance for the domestic insurance tax was $1.2 million. Receipts for the remaining taxes varied from estimates by small amounts. The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources. (Revenue estimates for GRF sources were not available for the month of July 2010.)




Through October, FY 2011 GRF income tax receipts were $35.0 million above estimate.

FY 2011 year-to-date GRF sources increased $687.2 million compared to receipts in the corresponding period in FY 2010, from both higher federal grants ($420.2 million) and tax receipts ($310.9 million). Those gains were reduced by $43.9 million due to lower receipts from nontax sources and transfers. Receipts from the sales and use tax and the personal income tax were above the levels of FY 2010 by $221.3 million and $84.8 million, respectively. Other taxes with notable year-to-year revenue increases included the kilowatt hour tax ($12.0 million) and the estate tax ($8.8 million). Net refunds to taxpayers under the corporate franchise tax were $6.8 million lower this fiscal year. Also, compared to FY 2010, year-to-date receipts in FY 2011 declined noticeably for the cigarette tax ($16.7 million), the public utility tax ($3.6 million), and the domestic insurance tax ($2.4 million).

## Personal Income Tax

October GRF receipts from the personal income tax of $544.1 million were $3.3 million (0.6%) below estimate and $2.1 million (0.4%) below receipts in October 2009. Through October, the GRF received $2.35 billion from the personal income tax in FY 2011. This amount was $35.0 million (1.5%) above estimate and $84.8 million (3.7%)

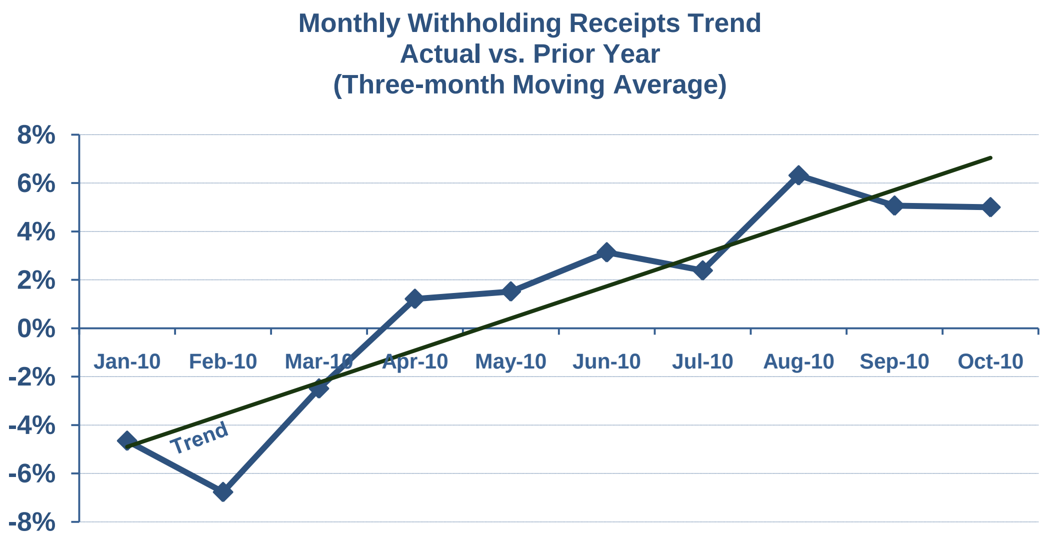
above receipts in the corresponding period in FY 2010. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund. Gross collections are the sum of withholding, quarterly estimated payments,[2] trust payments, payments associated with annual returns, and miscellaneous payments.

**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 | $38.8 | 1.7% | $83.0 | 3.7% |
| Quarterly Estimated Payments | $1.6 | 0.6% | $9.3 | 3.6% |
| Trust Payments | -$3.1 | -33.8% | -$2.6 | -30.0% |
| Annual Return Payments | -$6.0 | -6.1% | -$5.7 | -5.8% |
| Miscellaneous Payments | $4.7 | 18.6% | $5.4 | 21.7% |
| **Gross Collections** | $36.0 | 1.5% | $89.4 | 3.4% |
| Less Refunds | -$4.9 | -3.7% | -$10.1 | -7.5% |
| Less Local Government Fund Distribution | $5.9 | 2.7% | $14.7 | 7.2% |
| **Income Tax Revenue** | $35.0 | 1.5% | $84.8 | 3.7% |

The table above summarizes FY 2011 income tax revenue variances from estimates and annual changes by components. All components, except receipts from trusts and annual returns contributed to higher gross income tax collections this year. The growth in FY 2011 in income tax collections is tied mostly to modest improvement in employment and average hourly earnings, though quarterly estimated payments are no longer a drag on receipts. Year to date, employer withholding, the most important component of the tax, was $83.0 million (3.7%) above withholding receipts through the first four months in FY 2010. The improvement in employer withholding that started earlier in 2010 has continued in FY 2011, as shown in the graph below, although the growth rate has fallen from its recent peak.

[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 sales and use tax receipts were $84.6 million above estimate.

## Sales and Use Tax

The sales and use tax resurgence continued in October 2010. Sales and use tax GRF receipts of $610.6 million were $29.8 million (5.1%) above estimate and $64.9 million (11.9%) above receipts in October 2009. Through October, FY 2011 GRF receipts of $2.51 billion were $84.6 million (3.5%) above estimate and $221.3 million (9.7%) 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 collections[3] 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.

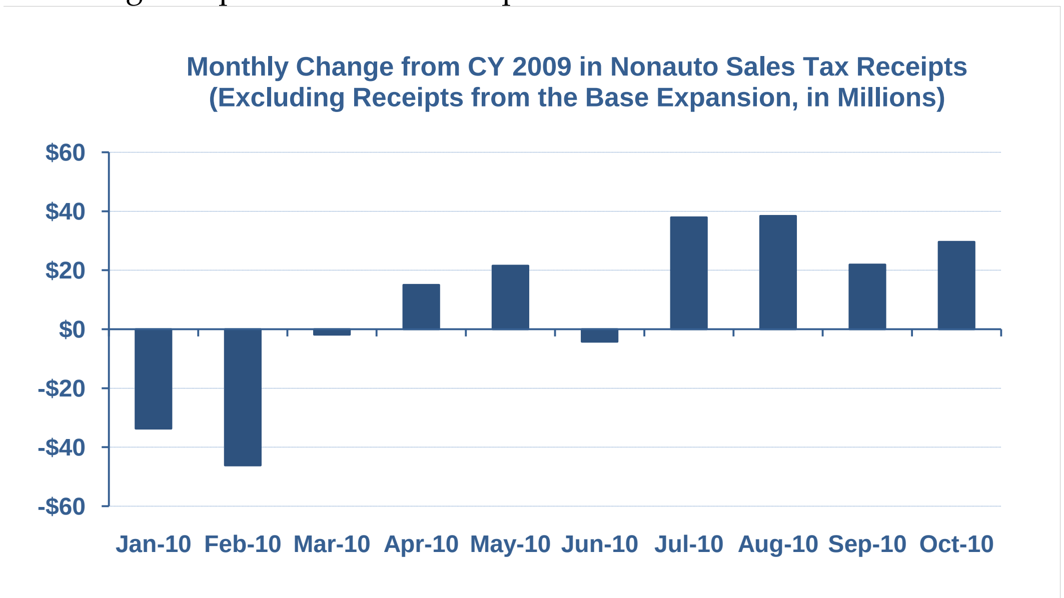
### Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were $534.8 million in October, $24.6 million (4.8%) above estimate and $51.4 million (10.6%) above October 2009 receipts. For the fiscal year, year-to-date GRF nonauto sales and use tax receipts of $2.17 billion were $76.6 million (3.7%) above estimate and $210.1 million (10.7%) above receipts through October in FY 2010. This positive variance reflects an expansion of the tax base, i.e., it

[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.

FY 2011 year-to-date nonauto sales and use tax receipts were $76.6 million above estimate.

includes payments for health care services provided by Medicaid health insuring corporations.[4] The graph below shows the variance in monthly receipts against prior-year receipts in the same month in CY 2009, excluding receipts from the base expansion.




The sales and use tax base is growing again, as consumers are getting more confident of the economic recovery and gradually loosening the purse strings. Excluding receipts from the base expansion, through October 2010, year-to-date nonauto sales and use tax receipts grew about 6%. After two consecutive years of nonauto sales and use tax revenue declines, the long period of retrenchment by Ohio consumers and businesses might be coming to an end this fiscal year. Sales tax collections from Medicaid health insuring corporations started in November 2009. Thus, starting in November 2010, the distortion created by the base expansion in analyzing the growth in receipts will slowly ease in the next months.

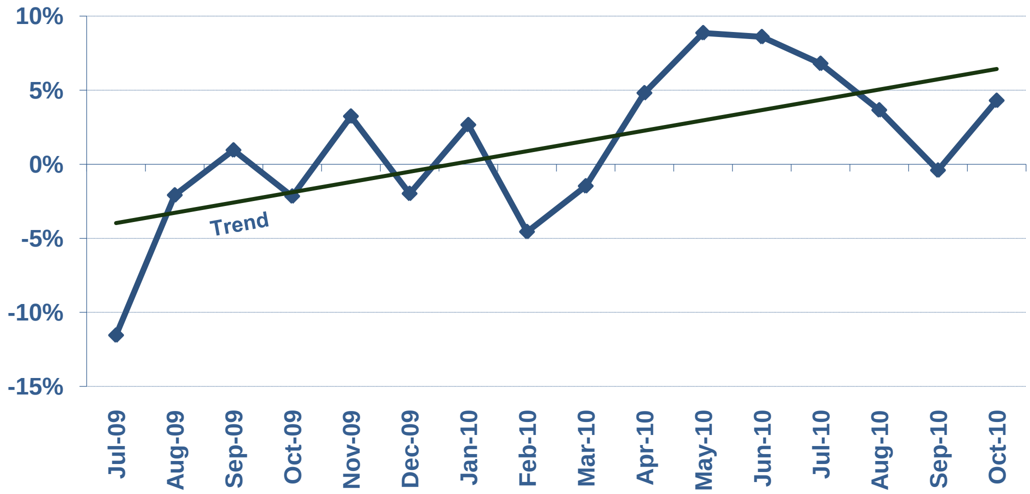
FY 2011 year-to-date auto sales tax receipts were $8.1 million above estimate.

### Auto Sales and Use Tax

Auto sales and use tax receipts of $75.8 million in October were $5.2 million (7.3%) above estimate and $13.5 million (21.7%) above receipts in October 2009. Comparison of this month's receipts to October 2009 was favorable due to reduced auto sales last year as demand for vehicles fell after the "Cash for Clunkers" federal incentive in the summer of 2009.

[4] 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.

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




FY 2011 year-to-date cigarette tax receipts were $14.5 million above estimate.

Year to date, FY 2011 receipts from the auto sales tax of $336.1 million were $8.1 million (2.5%) above estimate and $11.2 million (3.5%) above receipts in FY 2010 through October 2009. The graph above compares monthly receipts with year-ago receipts in the corresponding month. Auto and light truck sales have been improving gradually in 2010. October nationwide sales, at an annualized rate of 12.2 million units, were nearly one million units higher than the average sales rate in the first three quarters of 2010. October sales also were the strongest since September 2008 (excluding July and August 2009).

## Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $73.9 million in October 2010, $4.9 million (7.1%) above estimate and $6.4 million (8.0%) below October 2009 receipts. Through October, FY 2011 receipts of $244.3 million were $14.5 million (6.3%) above estimate and $16.7 million (6.4%) below FY 2010 receipts through October 2009. Receipts from cigarette sales were $226.5 million. Sales of products other than cigarettes provided $17.8 million. Compared to FY 2010 through October, receipts from the sale of cigarettes declined $17.2 million and those from the sale of other tobacco products increased about $0.5 million. 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.

FY 2011 year-to-date CAT receipts were $13.6 million above estimate.

## Commercial Activity Tax

In October 2010, commercial activity tax (CAT) receipts were $43.5 million, $7.2 million (14.2%) below estimate, and $4.9 million (10.1%) below receipts in October 2009. Through October, FY 2011 receipts of $397.4 million were $13.6 million (3.5%) above estimate and $25.3 million (6.8%) above receipts through October in FY 2010. Similarly to the sales and use tax, taxable gross receipts appear to be growing again in FY 2011, after declining 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). 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.

**Table 3: General Revenue Fund Uses**
**Preliminary Actual vs. Estimate**
**Month of October 2010**
($ in thousands)
(Actual based on OAKS reports run November 8, 2010)

| ***PROGRAM*** | **Actual** | **Estimate*** | **Variance** | **Percent** |
|---|---|---|---|---|
| Primary, Secondary, and Other Education | $568,613 | $571,080 | -$2,467 | -0.4% |
| Higher Education | $195,798 | $179,450 | $16,348 | 9.1% |
| **Total Education** | $764,412 | $750,531 | $13,881 | 1.8% |
| Public Assistance and Medicaid | $920,675 | $932,996 | -$12,321 | -1.3% |
| Health and Human Services | $145,606 | $149,942 | -$4,336 | -2.9% |
| **Total Welfare and Human Services** | $1,066,281 | $1,082,938 | -$16,657 | -1.5% |
| Justice and Public Protection | $225,666 | $193,886 | $31,781 | 16.4% |
| Environment and Natural Resources | $7,300 | $5,113 | $2,188 | 42.8% |
| Transportation | $632 | $387 | $246 | 63.5% |
| General Government | $19,503 | $19,031 | $471 | 2.5% |
| Community and Economic Development | $5,705 | $7,491 | -$1,786 | -23.8% |
| Capital | $0 | $43 | -$43 | -100.0% |
| **Total Government Operations** | $258,807 | $225,950 | $32,857 | 14.5% |
| Tax Relief and Other | $323,803 | $275,981 | $47,822 | 17.3% |
| Debt Service | $40,648 | $42,698 | -$2,049 | -4.8% |
| **Total Other Expenditures** | $364,451 | $318,679 | $45,772 | 14.4% |
| **Total Program Expenditures** | **$2,453,951** | **$2,378,097** | **$75,853** | **3.2%** |
| ***TRANSFERS*** | | | | |
| Budget Stabilization | $0 | $0 | $0 | --- |
| Other Transfers Out | $415,639 | $346,052 | $69,587 | 20.1% |
| **Total Transfers Out** | $415,639 | $346,052 | $69,587 | 20.1% |
| **TOTAL GRF USES** | **$2,869,590** | **$2,724,150** | **$145,440** | **5.3%** |

* 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 October 31, 2010**
($ in thousands)
(Actual based on OAKS reports run November 8, 2010)

| ***PROGRAM*** | **Actual** | **Estimate*** | **Variance** | **Percent** | **FY 2010** | **Percent Change** |
|---|---|---|---|---|---|---|
| Primary, Secondary, and Other Education | $2,549,148 | $2,555,631 | -$6,483 | -0.3% | $2,730,256 | -6.6% |
| Higher Education | $802,701 | $786,899 | $15,802 | 2.0% | $770,386 | 4.2% |
| **Total Education** | $3,351,849 | $3,342,530 | $9,319 | 0.3% | $3,500,641 | -4.3% |
| Public Assistance and Medicaid | $4,324,044 | $4,282,046 | $41,999 | 1.0% | $3,835,868 | 12.7% |
| Health and Human Services | $444,478 | $460,174 | -$15,696 | -3.4% | $415,874 | 6.9% |
| **Total Welfare and Human Services** | $4,768,522 | $4,742,220 | $26,302 | 0.6% | $4,251,742 | 12.2% |
| Justice and Public Protection | $756,127 | $726,708 | $29,419 | 4.0% | $733,672 | 3.1% |
| Environment and Natural Resources | $26,532 | $23,196 | $3,336 | 14.4% | $28,415 | -6.6% |
| Transportation | $7,822 | $7,595 | $228 | 3.0% | $6,344 | 23.3% |
| General Government | $118,165 | $124,415 | -$6,250 | -5.0% | $117,432 | 0.6% |
| Community and Economic Development | $42,406 | $47,512 | -$5,106 | -10.7% | $40,411 | 4.9% |
| Capital | $24 | $85 | -$61 | -71.9% | $255 | -90.6% |
| **Total Government Operations** | $951,076 | $929,511 | $21,565 | 2.3% | $926,529 | 2.6% |
| Tax Relief and Other | $639,713 | $664,329 | -$24,616 | -3.7% | $650,735 | -1.7% |
| Debt Service | $267,518 | $270,649 | -$3,131 | -1.2% | $188,625 | 41.8% |
| **Total Other Expenditures** | $907,231 | $934,978 | -$27,747 | -3.0% | $839,360 | 8.1% |
| **Total Program Expenditures** | **$9,978,678** | **$9,949,239** | **$29,440** | **0.3%** | **$9,518,272** | **4.8%** |
| ***TRANSFERS*** | | | | | | |
| Budget Stabilization | $0 | $0 | $0 | --- | $0 | --- |
| Other Transfers Out | $985,513 | $903,300 | $82,212 | 9.1% | $1,021,208 | -3.5% |
| **Total Transfers Out** | $985,513 | $903,300 | $82,212 | 9.1% | $1,021,208 | -3.5% |
| **TOTAL GRF USES** | **$10,964,191** | **$10,852,539** | **$111,652** | **1.0%** | **$10,539,481** | **4.0%** |

* 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 November 8, 2010)

| | October | | | | Year to Date | | | |
|---|---|---|---|---|---|---|---|---|
| **Medicaid (600525) Payments by Service Category** | **Actual** | **Estimate** | **Variance** | **Percent Variance** | **Actual thru Oct** | **Estimate thru Oct** | **Variance** | **Percent Variance** |
| Managed Care Plans | $416,495 | $404,659 | $11,836 | 2.9% | $1,659,549 | $1,613,678 | $45,871 | 2.8% |
| Nursing Facilities | $224,069 | $225,567 | -$1,498 | -0.7% | $902,093 | $914,614 | -$12,521 | -1.4% |
| Prescription Drugs | $126,706 | $146,297 | -$19,591 | -13.4% | $544,326 | $592,208 | -$47,882 | -8.1% |
| Hospitals | $109,375 | $125,781 | -$16,406 | -13.0% | $486,309 | $512,944 | -$26,635 | -5.2% |
| ICFs/MR | $45,204 | $44,723 | $481 | 1.1% | $186,460 | $182,053 | $4,407 | 2.4% |
| ODJFS Waivers | $24,719 | $29,234 | -$4,515 | -15.4% | $109,212 | $124,483 | -$15,271 | -12.3% |
| Physicians | $24,760 | $26,842 | -$2,082 | -7.8% | $107,652 | $113,422 | -$5,770 | -5.1% |
| All Other | $122,207 | $135,831 | -$13,624 | -10.0% | $500,443 | $516,757 | -$16,314 | -3.2% |
| Total Payments | $1,093,535 | $1,138,934 | -$45,399 | -4.0% | $4,496,044 | $4,570,159 | -$74,115 | -1.6% |
| Total Offsets (non-GRF) | -$278,808 | -$327,793 | $48,985 | -14.9% | -$465,029 | -$602,693 | $137,664 | -22.8% |
| Total 600525 (net of offsets) | $814,727 | $811,141 | $3,586 | 0.4% | $4,031,015 | $3,967,466 | $63,549 | 1.6% |
| Medicare Part D (600526) | $16,535 | $20,186 | -$3,651 | -18.1% | $44,805 | $40,350 | $4,455 | 11.0% |
| **Total GRF** | **$831,262** | **$831,327** | **-$65** | **0.0%** | **$4,075,820** | **$4,007,816** | **$68,004** | **1.7%** |
| **Total All Funds** | **$1,110,070** | **$1,159,120** | **-$49,050** | **-4.2%** | **$4,540,849** | **$4,610,509** | **-$69,660** | **-1.5%** |

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

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

Through October, FY 2011 GRF uses of $10.96 billion were $111.7 million (1.0%) above estimate, due largely to timing issues.

# EXPENDITURES

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

## Overview

Tables 3 and 4 show GRF uses for the month of October and for FY 2011 through October, respectively. For October, GRF uses of $2.87 billion were $145.4 million (5.3%) above the estimate published by the Office of Budget and Management (OBM) in September 2010. Through October, FY 2011 GRF uses of $10.96 billion were $111.7 million (1.0%) above estimate.

GRF uses primarily consist of program expenditures but also include transfers out. For the first four months of FY 2011, GRF program expenditures amounted to $9.98 billion (91.0% of total GRF uses), whereas transfers out totaled $985.5 million (9.0%). Despite the relatively small amount of transfers out, most of the $111.7 million year-to-date positive variance in GRF uses can be explained by a positive variance in year-to-date transfers out, which were $82.2 million (9.1%) above estimate. Year-to-date GRF program expenditures were $29.4 million (0.3%) above estimate. Positive program expenditure variances, including in Public Assistance and Medicaid ($42.0 million) and Justice and Public Protection ($29.4 million), were partially offset by negative variances, including in Tax Relief and Other ($24.6 million) and Health and Human Services ($15.7 million). These variances are briefly discussed below.

## Transfers out

The positive variance in transfers out is largely related to temporary GRF cash transfers made in October in order to make reimbursement payments to school districts and local governments for tangible personal property (TPP) tax losses. Reimbursement payments are funded by commercial activity tax (CAT) receipts, which are deposited into non-GRF funds. However, TPP reimbursement payments are made on a monthly basis, whereas the majority of CAT receipts are collected on a quarterly basis. This timing mismatch necessitates temporary cash transfers from the GRF, which are to be reimbursed by CAT receipts.[5]

[5] However, if the CAT does not generate sufficient receipts to fully fund the required reimbursement amount, the GRF may not be fully reimbursed. Current law requires the GRF to be used to make up any CAT shortfalls.

## Public Assistance and Medicaid

For the Public Assistance and Medicaid program category, year-to-date GRF expenditures totaled $4.32 billion, $42.0 million (1.0%) above estimate. Medicaid, including both state and federal shares, accounts for about 94% of this program category's year-to-date expenditures. Through October, FY 2011 GRF Medicaid expenditures totaled $4.08 billion, $68.0 million (1.7%) above estimate. This positive variance was partially offset by negative variances in other public assistance programs.

As shown in Table 5, which lists Medicaid expenditures by service category, the main contributing factor to Medicaid's positive variance was lower than estimated non-GRF Medicaid expenditures (shown as offsets in the table). Non-GRF Medicaid offsets were $137.7 million (22.8%) below estimate for the year to date. Of this amount, $134.4 million (97.6%) was attributable to litigation that has resulted in the unavailability of funds from the tobacco settlement that were authorized for Medicaid expenditures in H.B. 1. These funds include $35.4 million in tobacco funds and $99.0 million in related federal Medicaid reimbursement. Medicaid estimates assumed that the state would expend tobacco funds each month in FY 2011 starting in August.

In addition to the non-GRF offsets, Managed Care Plan expenditures were above estimate by $45.9 million (2.8%), mainly due to managed care caseloads being above estimate for the Covered Families and Children (CFC) population. On the other hand, Prescription Drug's year-to-date expenditures were below estimate by $47.9 million (8.1%), due to lower than estimated drug costs, and expenditures for the Hospitals category were also below estimate by $26.6 million.

Although year-to-date GRF Medicaid expenditures were above estimate by $68.0 million, year-to-date all-fund Medicaid expenditures were $69.7 million (1.5%) below estimate.

Year-to-date GRF Medicaid spending was $68.0 million above estimate; year-to-date all-fund Medicaid expenditures were $69.7 million below estimate.

## Justice and Public Protection

GRF expenditures in the Justice and Public Protection program category were $29.4 million (4.0%) above the year-to-date estimate, due to a $31.8 million positive variance in the month of October. The Institutional Operations appropriation item, which is the largest line item in the Department of Rehabilitation and Correction's (DRC) budget, registered a $27.1 million positive variance in October, resulting in a positive year-to-date variance of almost $28.0 million for the item. In addition to funding DRC's payroll and other operating expenses, the Institutional Operations line item also provided funding in October for the $24.7 million second quarterly transfer payment to DRC's Service and

Agriculture line item. These transfers are used to support service industries and agriculture production within DRC. Often timing-related variances occur because the actual timeline differs from the assumed timeline for the state accounting system to recognize payroll expenses made in the first few days of the month (e.g., the one made on November 5, 2010) and transfers. However, such timing-related variances are generally temporary in nature and will narrow throughout the year.

### Tax Relief and Other

October expenditures in the Tax Relief and Other program category totaled $323.8 million, $47.8 million (17.3%) above estimate. This positive variance narrowed the year-to-date negative variance in this program category to $24.6 million (3.7%), from a negative variance of $72.4 million through September. As noted in the previous issue of *Budget Footnotes*, as the Department of Education and the Department of Taxation continue to make semiannual property tax relief payments to school districts and local governments, the variance in this program category should continue to be reduced. All of the reimbursement payments for the August real property tax settlements are expected to be complete before the end of this calendar year.

### Health and Human Services

Year-to-date expenditures for the Health and Human Services program category totaled $444.5 million, $15.7 million below estimate. The Department of Health (DOH) accounted for $12.8 million of the total negative variance in this program category. The OBM estimate anticipated October expenditures of almost $8.8 million in DOH's GRF appropriation item 440459, Help Me Grow, with almost $8.6 million being distributed to counties. However, the planned payments to counties did not occur until early November. The Help Me Grow Program seeks to ensure that infants and toddlers with developmental delays and disabilities are indentified early and assisted with services and supports. The remainder of the negative variance within DOH occurred across several appropriation items.

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

# ISSUE UPDATES

## Ohio Receives $55.1 million in Federal Funding to Spur Small Business Lending

*—Brian Hoffmeister, Budget Analyst, 614-644-0089*

On October 8, 2010, the U.S. Department of the Treasury announced the allocation of just over $55.1 million for Ohio under the State Small Business Credit Initiative (SSBCI), which was recently established by the federal Small Business Jobs Act. The Ohio Department of Development (ODOD) will administer these funds. While ODOD has not yet determined how to allocate the additional federal funding, under the SSBCI the state may use the award to establish new or supplement existing state small business lending programs. Specifically, the federal act authorizes the use of funds to (1) provide collateral support for manufacturers, (2) support loan guarantee programs, and (3) supplement capital access programs. Currently, ODOD oversees only one of the three types of qualifying small business lending initiatives, the Ohio Capital Access Program. The program provides financial institutions with state funding that can be put toward their loss reserves for loans made to small businesses. Under SSBCI guidelines, each dollar of federal funding must be matched by at least $10 in private lending. For Ohio, this means that the state's allocation must leverage at least $551 million in private financing for small businesses.

## Lake Local School District Receives State Grants in Wake of Tornado

*—Andrew Plagenz, Budget Analyst, 614-728-4815*

The state has awarded Lake Local School District in Wood County two grants to assist the district with expenses incurred as a result of a tornado that struck the district on June 5. On October 25, 2010, the Controlling Board approved a request from the School Facilities Commission (SFC) to release more than $4.8 million from the School Building Emergency Assistance (SBEA) program for the district. These funds are to be used to help pay for the reconstruction of Lake High School which sustained severe damage from the tornado. R.C. 3318.351 authorizes the SFC to distribute state assistance to any school district for reconstruction or renovation of classroom facilities damaged as a result of an "Act of God" and requires that program funds be used only for the portion of an emergency project not covered by insurance or other public or private assistance.[6]

In addition, on September 13, 2010, the Ohio Department of Education (ODE) received Controlling Board approval of a request for a grant of up to $2.5 million from appropriation item 200687, School District Solvency Assistance, to help Lake Local remain fiscally solvent in FY 2011 after the disruptions caused by the tornado. Funds for the grant come from the catastrophic expenditures account of the solvency assistance fund and will be distributed periodically through the remainder of FY 2011. Per R.C. 3316.20, the district will not be required to repay the grant unless it receives other state or private funds for revenue lost or expenses incurred as a result of the tornado.

## Department of Education Designates 161 Schools as *Schools of Promise*

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

The Ohio Department of Education (ODE) designated 161 schools[7] as *Schools of Promise* for the 2009-2010 school year. The *Schools of Promise* program acknowledges high achievement in reading and mathematics in schools in which 40% or more of the students are considered economically disadvantaged. The *Schools of Promise* program aims to help close the achievement gap by highlighting schools that are successful.

In 2003, ODE staff members visited several *Schools of Promise* to determine what practices contributed to their success. Funding for these studies, totaling approximately $0.4 million, was provided through GRF appropriation items 200424, Policy Analysis, and 200439, Accountability/Report Cards, as well as Federal Fund 3M20, appropriation item 200680, Individuals with Disabilities Education Act. The studies identified five best practices evident in *Schools of Promise*: rigorous standards and instruction, strong instructional leadership, instruction designed for all students' success, parent and community involvement, and a positive school culture. Based on these best practices, ODE developed the Ohio School Improvement Diagnostic Review Process, which is used in the development and implementation of continuous improvement plans for school districts in academic watch or emergency. H.B. 1 provides $7.1 million for FY 2011 in GRF appropriation item 200431, School Improvement Initiatives, to support districts in the development and implementation of their continuous improvement plans.

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[6] This is only the second grant since the inception of the SBEA program in 2000. The first was for about $324,000 for Findlay City Schools to help repair flood damage incurred in August 2007.

[7] For a complete list of the schools designated as *Schools of Promise*, go to http://education.ohio.gov and search keywords: Schools of Promise.

## University System of Ohio Launches Digital Textbook Program

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

In September 2010, the Chancellor of the Board of Regents announced the launch of a new digital textbook pilot program called the Ohio Digital Bookshelf. The program will provide the opportunity to purchase reduced-price electronic books to Introduction to Psychology students at 23 University System of Ohio (USO) schools. USO estimates that approximately 49,000 college students could realize savings of as much as 70% compared to the cost of a new hardcover textbook. The Ohio Digital Bookshelf is operated with the help of the Ohio Library and Information Network (OhioLINK). USO will work with publishers, including Cengage, McGraw-Hill, Pearson, John Wiley & Sons, Worth, and digital publishers Flatworld Knowledge. The Digital Bookshelf web site operates on advertisement-supported software that does not require any state funding to use or maintain. USO hopes to expand the Digital Bookshelf and launch more academic programs and user platforms after the successful completion of the pilot program.

## Report Shows Actuarial Deficit for Guaranteed Savings Plan at End of FY 2010

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

The Ohio Tuition Trust Authority (OTTA) recently approved a report showing an actuarial deficit of $70.8 million as of June 30, 2010 for the assets of its Guaranteed Savings Plan (GSP). OTTA operates College Advantage, Ohio's 529 tax advantaged college savings program, which includes GSP and VSP (the Variable Savings Plan). GSP's actuarial deficit is the difference between the estimated value of its future obligations and the estimated value of its assets when they will be needed to pay those obligations. If conditions remain as they currently are and all assumptions are met, the actuarial deficit may turn into an actual deficit.

New enrollments in GSP were suspended in FY 2002 and contributions to existing GSP accounts were suspended in FY 2004. College Advantage continues to accept contributions to VSP, which offers more traditional investment options for which the investor bears the market risk. In FY 2002, OTTA established a policy allowing fee revenue from VSP to be used to redeem GSP credits in the event the assets are exhausted sometime in the future. Redemption values of GSP credits are backed by the full faith and credit of the state of Ohio, so the state would be liable for any shortfall if OTTA were not able to meet the plan's obligations. However, OTTA indicates that with access to VSP revenues, such recourse to state funds is unlikely.

## Youth Services Expends $1.25 million on Contract to Operate First Community-Based Treatment Center

*—Maggie Wolniewicz, Budget Analyst, 614-995-9992*

From June 4, 2009 to October 1, 2010, the Department of Youth Services expended approximately $1.25 million on a contract with Starr Commonwealth to develop and implement the Department's first community-based treatment center (CBTC). Located in Franklin County, the CBTC is a residential treatment facility for moderate-risk youth who have been committed to the Department. It serves as an alternative to incarceration in a state juvenile correctional facility. The center admitted its first youth in October 2009. Of the 193 youth committed to the Department from Franklin and Licking counties since June 2009, 95 were referred by the courts for possible admission to the CBTC. Twenty-two of those referred youth were ultimately admitted. Youth not admitted were placed in one of the state juvenile correctional facilities.

The cost per bed for the 120-day CBTC residential program was $305 per day whereas the comparable bed cost for a state juvenile correctional facility was $335 per day, making the annual cost of a CBTC bed almost $11,000 cheaper. In addition to the cost savings, the CBTC is a part of a larger departmental effort to reduce the size of its institutional population and to increase treatment alternatives available to county juvenile justice systems. Youth placed in the CBTC receive intensive treatment and utilize services within their own community. The Department is currently exploring options for a second CBTC to be located in Cuyahoga County.

## HIV Drug Assistance Program to Receive $12.8 million in Enhanced Federal Medicaid Reimbursement

*—Wendy Risner, Senior Budget Analyst, 614-607-6639*

On September 2, 2010, the Governor announced that the Ryan White Part B Program/Ohio HIV Drug Assistance Program (OHDAP) will receive $12.8 million in additional funding from the six-month extension of enhanced federal Medicaid reimbursement (eFMAP). OHDAP, which is administered by the Ohio Department of Health (ODH), provides assistance to individuals with HIV/AIDS, such as medications, case management services, and payment of insurance premiums and co-pays.

In FY 2010, $39.9 million in state GRF and federal Ryan White Part B funds were expended on the program. According to ODH, $26.6 million was allotted for the program for FY 2011 before the additional eFMAP funds became available. On July 1, 2010, ODH implemented cost containment measures to address an anticipated shortfall in funding for OHDAP of approximately $17.9 million in FY 2011. This shortfall was caused by increased enrollment and increased costs of medications and insurance premiums, as well as the reduction in funding from FY 2010 to FY 2011. The cost containment measures include a decrease in financial eligibility from 500% of the federal poverty level (FPL) to 300% FPL. In addition, a waiting list was established and some drugs were removed from the OHDAP drug formulary.

According to ODH, receipt of the eFMAP reimbursement will prevent any additional cuts to current clients during FY 2011. However, the current cost containment measures will remain in effect and the program will likely continue to operate with a waiting list. As of October 22, 2010, there were 291 individuals on the waiting list.

## Ohio Arts Council Plans to Relocate and Reduce Facility Costs

*—Edward Millane, Budget Analyst, 614-995-9991*

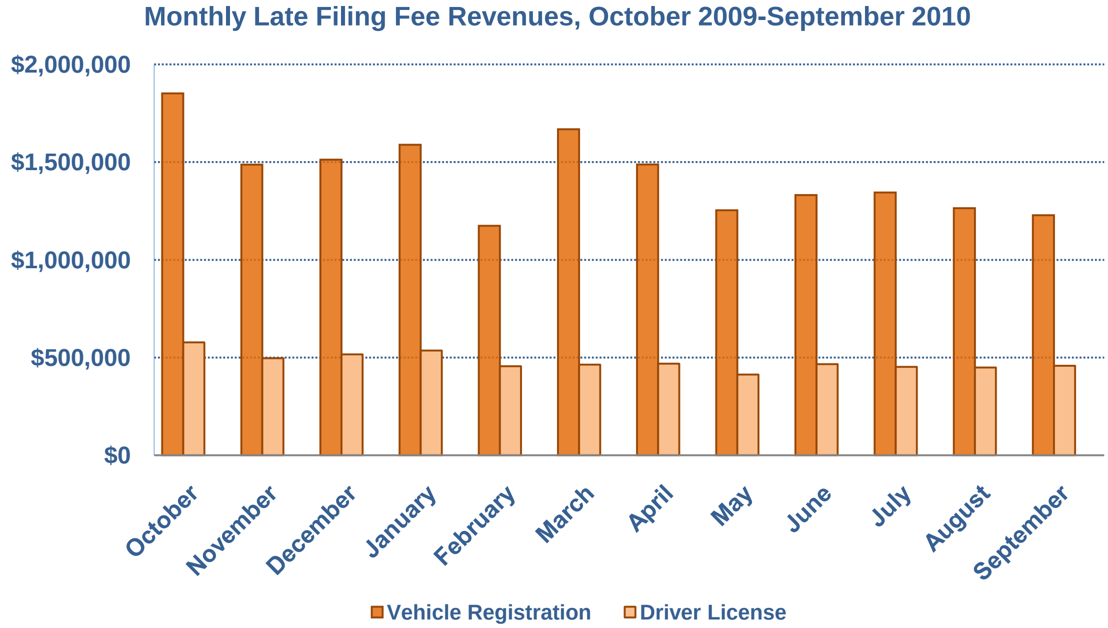
In November, the Ohio Arts Council (OAC) is moving to the 33rd floor of the Rhodes Tower, which is expected to save the agency over $100,000 in annual rent expenses. According to an OAC spokesperson, the agency had paid up to $142,000 per year for its previous 11,092 square foot facility located at 727 East Main Street. OAC anticipates annual costs for the new, 7,000 square foot space will total approximately $10,000.

## Driver License and Vehicle Registration Late Fees Generate Nearly $23 million in First Year

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

In its first year, the $20 fee for late driver license and motor vehicle registration renewals generated approximately $23 million for the State Highway Safety Fund (Fund 7036). H.B. 2 of the 128th General Assembly, the transportation appropriations act, created this late fee to assist in funding the Ohio State Highway Patrol's operating expenses. Effective on October 1, 2009, the late fee is assessed on all driver license and vehicle registration renewal transactions if renewed more than seven days past the expiration date. The deputy registrar who collects the late fee retains $0.50 and transmits $19.50 to the Registrar of Motor Vehicles for deposit into Fund 7036.

The chart below provides a breakdown of the monthly revenues collected from driver license renewal late fees and vehicle registration late fees. Between October 2009 and September 2010, the average monthly collection of the late fees totaled approximately $1.9 million. The late fees generated from driver license renewals (renewals occur every four years) comprised about 25% ($5.8 million) of the total late fee revenues collected over the past year. The other 75% ($17.2 million) came from late vehicle registrations (vehicles are registered every year).




## State Board of Cosmetology's License Amnesty Program Nets over $78,000 for the GRF

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

The State Board of Cosmetology has collected just over $78,000 in fees from 361 licensees as the result of a license amnesty program authorized by H.B. 1. The program allows cosmetologists, estheticians, manicurists, hair designers, and natural hair designers who have allowed their licenses to lapse to regain their licenses by fulfilling certain continuing education requirements instead of retaking the licensing exam. Under the program, participants are required to pay the current license fee, the license fees for each biennial renewal period during which the license was lapsed, and a $45 late fee. Thus, the minimum charge for license reinstatement is $135 (a $45 renewal fee, a $45 missed license fee, and $45 late fee). Unlike other cosmetology licensing fees that are deposited into the Occupational Licensing and Regulatory Fund (Fund 4K90) to fund the Board's operations, the revenue generated by the license amnesty program is deposited into the GRF.

## Ohio Borrowed $1.45 billion in FY 2010 to Fund Unemployment Benefits

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

In FY 2010, Ohio borrowed $1.45 billion from the federal government to fund regular unemployment benefits. This amount is in addition to the $862.5 million borrowed in FY 2009, for a total amount borrowed of $2.31 billion.[8] Regular unemployment benefits are weekly payments made from the state's Unemployment Compensation Trust Fund to individuals who lose their jobs through no fault of their own, for up to 26 weeks. Extended benefits (beyond 26 weeks) are fully paid by the federal government and do not affect the state's trust fund balance.

Ohio began borrowing in January 2009 when the state's trust fund was depleted. The balance of the fund peaked in August 2000, at $2.42 billion, and gradually declined due to unemployment benefits exceeding revenues in eight of the past ten years. In addition to Ohio, thirty other states have borrowed from the federal government to pay regular unemployment benefits. States must pay back borrowed amounts out of their trust funds once balances have been restored. The federal government has waived interest on borrowings through December 31, 2010. After that, interest will begin to accrue and the first interest payment will be due on September 30, 2011. Interest must be paid from state funds.

[8] As of October 25, 2010, Ohio has not yet borrowed from the federal government to pay benefits in FY 2011.

# TRACKING THE ECONOMY

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

## Overview

The national economy continues its gradual recovery from the 2007-2009 recession.

The national economy continues its gradual recovery from the 2007-2009 recession. Private-sector employment in October registered its largest gain since April. The nationwide unemployment rate in October was unchanged at 9.6%. In Ohio, nonfarm payroll employment contracted in September, while the statewide average unemployment rate declined to 10.0% in September, the sixth consecutive monthly decline.

U.S. inflation-adjusted gross domestic product (real GDP) rose at a 2.0% annual rate in the third quarter. Though industrial production contracted in September, manufacturers' shipments, new and unfilled orders, and inventories all rose during the month. A survey of purchasing managers with manufacturing firms suggests that this sector expanded in October, and a comparable survey covering nonmanufacturing organizations also showed growing activity. Consumer spending edged up in September. Partial reports for October indicate strength in motor vehicle sales but only a small gain, on average, in sales of large retailers that report their results monthly. Home sales rose, though they remained at depressed levels. Construction spending rose in September after trending lower for more than four years.

Finished goods and services price inflation remains low. Increases in average hourly wages and salaries also are low. Upward pressures continue on commodity prices. Companies can be expected to try to pass along these higher costs by raising prices on the goods and services that they sell, in markets where demand is strong enough to support the higher prices.

As had been widely expected, the Federal Reserve's Open Market Committee announced a decision in early November to add to its holdings of longer-term U.S. Treasury securities, by purchasing $600 billion of these debt instruments by mid-2011 (about $75 billion per month). These purchases may exert downward pressure on yields on these securities, though yields are already very low, and the effects of this anticipated policy change may already be reflected in these yields. The post-meeting announcement said the policy of reinvesting principal repayments from its portfolio would be continued, that the target for the federal funds rate would remain 0% to 0.25%, and that an exceptionally low federal funds rate would likely be warranted for an extended period. As has been the case for months, not all Committee members agreed on the appropriateness of the current policy.

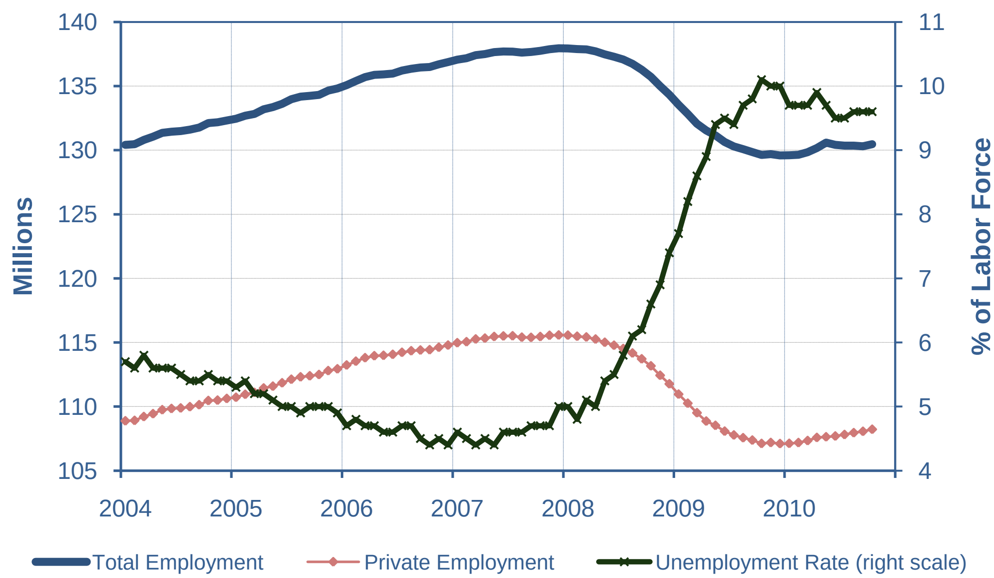
## The National Economy

### Employment and Unemployment

Total nonfarm payroll employment nationwide rose 151,000 in October, and the number of private-sector jobs increased by 159,000. The U.S. unemployment rate was unchanged at 9.6%. These trends are shown in Chart 1.

Total nonfarm payroll employment nationwide rose 151,000 in October.

Chart 1: U.S. Nonfarm Payroll Employment and Unemployment




Most of the increase in private-sector employment in October was in the service sector. Job gains were reported in temporary help services, retailing, health care, food services and drinking places, and computer systems design and related services. Since the low point in December 2009, U.S. employment in the private sector has risen by more than 1.1 million (1.0%), while government employment is down by 241,000 (1.1%). Cutbacks in local government employment more than account for the reduction in total government employment since the end of 2009. State governments have also reduced employment, but by less, while federal employment has grown. In October, most of the few remaining temporary federal census workers were let go.

The number of people in the nation counted as unemployed in October, at 14.8 million, was little changed from August and September, and the average unemployment rate was unchanged at 9.6%. The unemployment rate reached a peak in October 2009 at 10.1%, as shown in

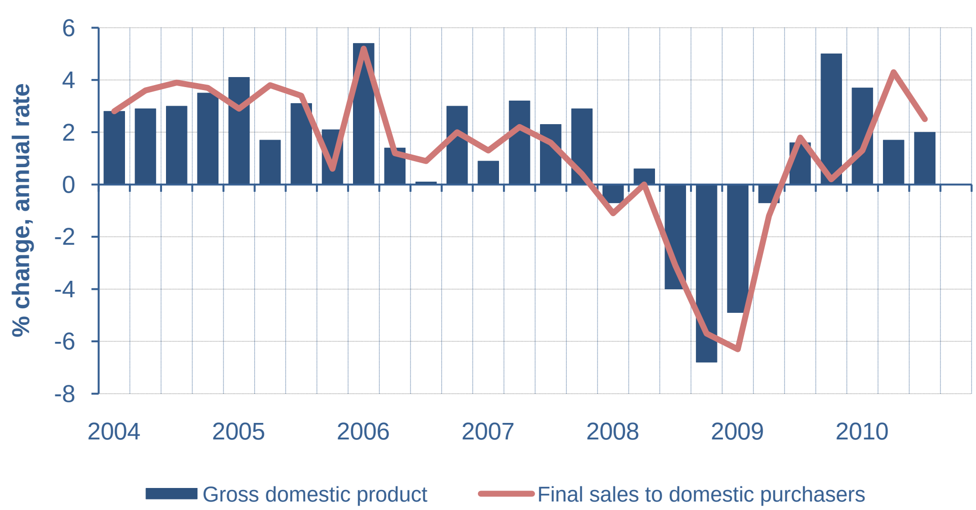
Real GDP grew at a 2.0% annual rate in the third quarter, the fifth consecutive quarterly increase.

Chart 1. Persons unemployed in October 2010 included 6.2 million who had been out of work more than six months. Persons at work included 9.2 million employed part-time for economic reasons such as slack work, unfavorable business conditions, inability to find full-time work, or seasonal declines in demand.[9]

### Production, Shipments, and Inventories

Real GDP grew at a 2.0% annual rate in the third quarter, the fifth consecutive quarterly increase. These increases follow the end of the recession in June 2009. Consumer spending, business fixed investment, and government spending rose in the 2010 third quarter, partly offset by less investment in housing. Exports increased, though less rapidly than in the previous four quarters. Inventory investment rose. Part of the growth in demand was met by a further rapid increase in imports. Real GDP has recovered by 3.5% since the recession low point in the 2009 second quarter, but remains 0.8% below the all-time peak in the fourth quarter of 2007. Recent changes in real GDP and in real final sales to domestic purchasers are shown in Chart 2.[10] Inflation as measured by the GDP price index ticked up slightly to a 2.3% annual rate in the third quarter, the most rapid rise since the third quarter of 2008 and up from 1.9% in the second quarter.

**Chart 2: Real Gross Domestic Product & Final Sales to Domestic Purchasers**




[9] An additional estimated 18.2 million persons chose part-time work, for various reasons including childcare or other family obligations, schooling, or semi-retirement.

[10] Final sales to domestic purchasers consists of consumer spending plus residential and nonresidential fixed investment plus government spending.

Industrial production declined 0.2% in September, after increasing in 13 of the previous 14 months from a recession low in June 2009. Manufacturing output also fell 0.2% in September, with declines in most major durable goods categories and in some types of nondurables. For the third quarter, business equipment output expanded at about a 10% annual rate, down from nearly 18% in the second quarter, while consumer goods production rose in the third quarter at a 5% rate.

A separate report on the dollar value of manufacturers' transactions in September, in contrast, showed expansion in September in shipments, new and unfilled orders, and inventories. Shipments rose 0.4% from August to September, to 12.9% higher than at the recession low point last year. New orders rose 2.1%, reaching a rate 19.0% higher than at last year's recession low. Unfilled orders rose 1.0% and were 2.5% higher than at last year's low. Inventories rose 0.7% to 5.0% higher than at the 2009 low point.

Industrial activity expanded in October, as indicated by the Institute for Supply Management's survey of purchasing managers at manufacturers. Indexes of production and new orders rose to their highest levels since May. Inventories also rose, but order backlogs declined. An overall index, based on five of the other indexes, rose to its highest level since May. The index for prices paid to suppliers also rose to its highest level since May. A parallel survey of purchasing executives with nonmanufacturing organizations also showed more widespread increases in various indicators of activity and in prices paid.

Consumer spending, adjusted for inflation, rose 0.1% in September, continuing a gradual uptrend underway since April 2009.

### Consumer Spending

Personal income fell 0.1% in September, reflecting in part reduced emergency unemployment insurance benefits. Personal interest income fell, as did wage and salary income of government workers. Private-sector wages and salaries increased, and have risen in six of the last seven months. Proprietors' incomes also rose. Consumer spending, adjusted for inflation, rose 0.1% in September, continuing a gradual uptrend underway since April 2009. In the year to September, inflation-adjusted consumer spending rose 2.3%, with increases in spending on durable goods, on nondurable goods, and on services.

Retail and food service sales rose 0.6% from August to September, and were 7.3% higher than in September 2009. Month-to-month and year-over-year increases in the dollar value of sales were widespread among kinds of retailers. Motor vehicle and parts dealers' sales were 17.9% higher than a year earlier, and sales of nonstore retailers (catalog and Internet sales) were 14.4% higher. Sales of various other kinds of stores

Housing starts nationwide remained at a low level in September, little changed from August, and less than one-third of the rate in peak year 2005.

also were higher. Department store sales, however, were 0.8% lower than a year earlier.

Sales of cars and light trucks in October rose 4% to a 12.2 million unit annual rate, seasonally adjusted. Apart from August 2009, when the federal "Cash for Clunkers" program boosted deliveries, October's results were the highest sales pace in more than two years. The sales rate remains well below deliveries in calendar years 1996-2007, when deliveries of light vehicles consistently topped 15 million.

Sales at 30 large multi-store retailers that release results monthly were 1.3% higher in October than a year earlier, on a same-store basis, the smallest rise since April, and before that, since November 2009. Same-store sales comparisons include only store locations open in both the current and year-earlier month. Bank of Tokyo-Mitsubishi UFJ, which compiles and publishes these reports, noted that unseasonably warm weather in parts of the country restrained buying of seasonal outerwear. Luxury retailers outperformed discounters.

### Construction and Real Estate

Housing starts nationwide remained at a low level in September, little changed from August, and less than one-third of the rate in peak year 2005. Year-to-date housing starts were 9% higher than the even weaker pace a year earlier. Few new units are being built. At the end of September, the number of housing units under construction was 24% lower than a year earlier, and the lowest on records begun in 1969.

New home sales rose 7% in September but were at a very slow pace, less than one-fourth of the average rate of sales in peak year 2005. These statistics represent contracts entered into for the purchase of newly constructed housing units, and last April rose to their highest level since 2008. To qualify for federal tax incentives for housing purchases, buyers had to be in contract for the purchases by April 30. Sales dropped sharply thereafter. In September, the number of completed homes for sale was at an historically low level. The median priced new home cost $223,800 in September, 3% higher than a year earlier. However, the average price, $257,500, was 11% lower than a year earlier.

Home sales reported by the National Association of Realtors (NAR), generally previously occupied homes, rose 10% from August to September, seasonally adjusted, after rising 7% the month before, recovering from very weak sales following the tax benefits for home purchases that had been scheduled to expire at the end of June.[11] Even with the latest increases, home sales remained weak, 19% below a year earlier and below the sales pace in earlier years. Realtors' listings, the inventory of homes for sale as of the end of September, were about 12% lower than at their peak in 2008, but 9% higher than in September 2009. Average home prices in September were about 2% lower than in September 2009.

Measures of average housing prices nationwide have shown a degree of stability lately after precipitous declines in 2007 and 2008. House prices rose 0.4% from July to August, as indicated by the index published by the Federal Housing Finance Agency (FHFA), or fell 0.2% as indicated by the Case-Shiller 20-city composite index. The FHFA index was 2.4% lower than a year earlier and 13.6% lower than at its April 2007 peak. The Case-Shiller 20-city index was 1.7% higher than a year earlier and 28.1% below its peak in June/July 2006.

Construction spending rose 0.5% in September, after trending lower since early 2006. Private residential construction rose in September, as did public construction. Private nonresidential construction continued to trend lower. Calendar year to date construction was 11% lower than in the same period last year, mainly as a result of reduced private nonresidential building activity.

### Inflation

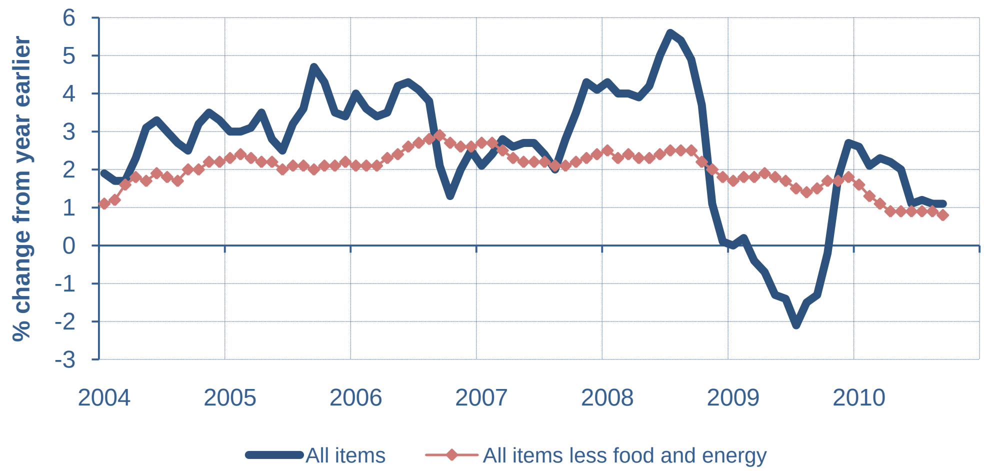
The consumer price index (CPI) for all items rose 0.1% in September. Excluding food and energy prices, the CPI was unchanged in September for the second consecutive month. Compared with its level a year earlier, the CPI for all items was 1.1% higher. The index excluding food and energy was 0.8% higher, its smallest year-over-year change since 1961. Inflation in recent years as indicated by these indexes is shown in Chart 3.

The consumer price index was 1.1% higher in September than a year earlier.

[11] The last date for closing a home purchase and claiming the credit was extended through the end of September, for buyers in contract by the end of April, because of the difficulty in accommodating the surge of buyers and sellers seeking to close their transactions by the previous deadline at the end of June.

Total nonfarm payroll employment in Ohio fell 17,300 (0.3%) from August to September.

**Chart 3: Consumer Price Index**




The producer price index (PPI) for finished goods rose 0.4% in September, mainly reflecting food and energy price increases. Compared with a year earlier, the PPI for finished goods was 4.0% higher; excluding food and energy, the index was 1.6% higher. At earlier stages in the production process, the PPI for intermediate goods in September was 5.6% higher than a year earlier. The PPI for crude materials was about 20% higher than a year earlier, with prices 25% higher for crude nonfood materials less energy.

Wage and salary gains remain small while benefit increases have picked up modestly. Average hourly wage and salary rates of private industry workers rose 0.4% from June to September, to 1.6% higher than a year earlier, as measured by the Employment Cost Index (ECI) of the U.S. Bureau of Labor Statistics. Growth of private-sector wage and salary rates, from a year earlier, is up slightly from a low of 1.4% in the second half of 2009. The hourly cost of employer-paid benefits of private-sector workers was 2.8% higher in September than a year earlier, on average. Benefit costs rose only 1.0% in the year to December 2009, but rose 1.4% from December 2009 to March 2010. For state and local government workers, the ECI for wages and salaries rose 1.1% between September 2009 and September 2010, the lowest increase in this series which begins in 2001. Benefits of state and local government workers, on average, rose 2.7% in the latest year, up slightly from 2.6% in the year to June 2010, the smallest increase in the history of this series.

## The Ohio Economy

Total nonfarm payroll employment in Ohio fell 17,300 (0.3%) from August to September. Employment fell in manufacturing, construction, several industry groups in the service sector, and at local governments.

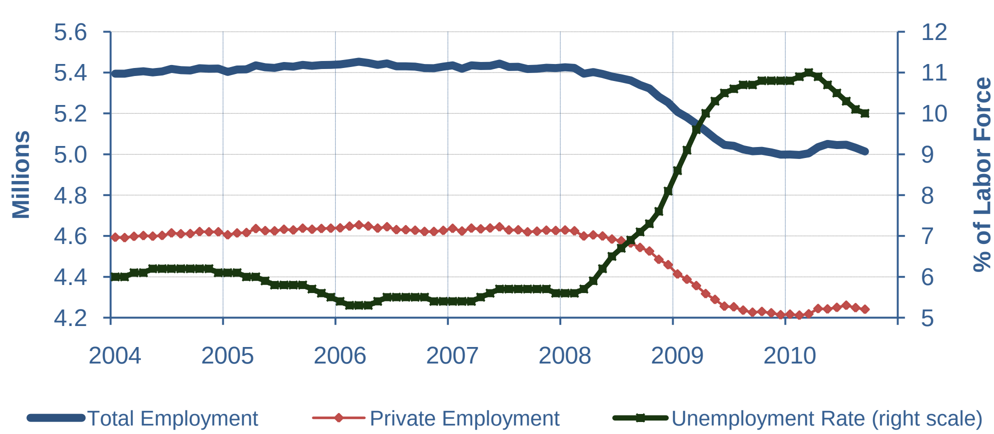
The number of local government jobs in Ohio, seasonally adjusted, reached its lowest level since 2000, and was down 5.1% from a peak in 2003. Federal employment fell in September, likely reflecting cuts in temporary jobs conducting the decennial census. The cyclical low point in total nonfarm payroll employment in Ohio was in February (based on the current data). Total employment rose 53,800 (1.1%) from February to May, but has since fallen 36,200 (0.7%). Private sector employment also reached a cyclical low point in February, then rose 48,600 (1.2%) from February to July, but has since fallen 19,700 (0.5%).

Although employment in the state has grown only sluggishly, on balance, average pay for those with jobs has grown more.[12] In the year to September, average weekly hours of those at work in the private sector have risen 1.2%, to 33.4 hours. Average hourly earnings rose 2.2% in the latest year, to $20.39. While employment on private payrolls in September was only 0.2% higher than a year earlier, aggregate weekly earnings were 3.6% higher, reflecting the growth in hourly earnings and weekly hours. Aggregate earnings remained more than 10% below pre-recession levels.

Statewide average unemployment declined in September to 10.0% of the labor force, the sixth consecutive decline in the unemployment rate, from a peak of 11.0% in March. Since June, declines in the number of people counted as unemployed have roughly corresponded to declines in Ohio's labor force, while employment has remained sluggish. Recent trends in the unemployment rate and in total and private-sector employment are shown in Chart 4.

Statewide average unemployment declined in September to 10.0% of the labor force, the sixth consecutive decline in the unemployment rate, from a peak of 11.0% in March.

**Chart 4: Ohio Nonfarm Payroll Employment and Unemployment**




[12] This may reflect in part increases in the number of higher-paying jobs relative to the number of lower-paying jobs, as well as increased pay for some individuals.

Through August, Ohio's exports in 2010 were 27% higher than in the year-earlier period.

Unemployment rates in September in Ohio metropolitan areas ranged from a high of 12.6% in Steubenville-Weirton to a low of 8.2% in Columbus. These figures are not seasonally adjusted.

The Federal Reserve Bank of Cleveland's section of the central bank's Beige Book, a summary of comments from business and other outside contacts, indicates that economic activity in the region held steady, on balance, during the latest six weeks.[13] Manufacturers reported modest increases in new orders and production. Freight transport companies saw steady to declining volumes. New home sales have slowed in the past six weeks. Nonresidential construction activity was said to be little changed. Retail sales were also characterized as little changed, with consumers said to be price sensitive, and buying necessities. Hiring, overall, was slower than earlier this year.

The Ohio Association of Realtors reported that members sold 20% fewer homes in September than a year earlier. Through the first nine months of 2010, unit home sales were about 1% higher than in the year-earlier period. The average selling price during January-September was about $134,000, 4% higher than in 2009.

Through August, Ohio's exports in 2010 were 27% higher than in the year-earlier period. In all of 2009, Ohio's exports, more than $34 billion, fell 25% from the previous year. Exports from the state in 2008 were nearly 10% of Ohio's gross state product.[14]

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[13] The region covered by the Federal Reserve Bank of Cleveland's report includes Ohio and parts of Kentucky, Pennsylvania, and West Virginia. Information for the latest Beige Book was collected on or before October 8.

[14] The initial estimate of Ohio gross state product in 2009 is scheduled for release on November 18 by the source agency, the U.S. Bureau of Economic Analysis.