Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION OCTOBER 2010

STATUS OF THE GRF

HIGHLIGHTS

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

The recession that began in December 2007 ended in June 2009, according to the National Bureau of Economic Research, the group that determines official business cycle peaks and troughs. More than a year later, Ohio's labor market is still struggling, with hiring sluggish and the unemployment rate high at 10.1%, but off its cyclical peak of 11.0% in March 2010. However, Ohio's economy is showing signs of a recovery, as evidenced by the growth in GRF tax receipts in FY 2011 through September, compared to the corresponding period in FY 2010. Also, FY 2011 first-quarter total tax receipts were $107 million above estimate, with all major tax sources performing relatively well.

Through September 2010, GRF sources totaled $6.58 billion:

- Revenue from the personal income tax was $38.3 million above estimate;
- Revenue from the sales and use tax was $54.9 million above estimate.

Through September 2010, GRF uses totaled $8.09 billion:

- Total uses were $33.8 million below estimate, though first-quarter spending on Welfare and Human Service programs was $43.0 million above estimate and 18% above the FY 2010 level;
- Spending on Tax Relief and Other was $72.4 million below estimate, due to timing issues.

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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 September 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 6, 2010)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$82,637	$85,100	-$2,463	-2.9%
Nonauto Sales and Use	$510,508	$491,600	$18,908	3.8%
Total Sales and Use Taxes	$593,146	$576,700	$16,446	2.9%
Personal Income	$781,108	$758,900	$22,208	2.9%
Corporate Franchise	$5,863	$0	$5,863	---
Public Utility	$32	$0	$32	---
Kilowatt Hour Excise	$20,690	$17,200	$3,489	20.3%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$5,871	$4,400	$1,471	33.4%
Domestic Insurance	-$445	$0	-$445	---
Business and Property	-$70	$0	-$70	---
Cigarette	$76,160	$72,200	$3,960	5.5%
Alcoholic Beverage	$4,871	$4,300	$571	13.3%
Liquor Gallonage	$3,031	$2,900	$131	4.5%
Estate	$4,189	$1,600	$2,589	161.8%
Total Tax Revenue	**$1,494,445**	**$1,438,201**	**$56,244**	**3.9%**
NONTAX REVENUE				
Earnings on Investments	$2	$0	$2	---
Licenses and Fees	$1,999	$1,851	$148	8.0%
Other Revenue	$3,597	$6,675	-$3,078	-46.1%
Total Nontax Revenue	**$5,599**	**$8,526**	**-$2,927**	**-34.3%**
TRANSFERS				
Liquor Transfers***	$15,000	$12,000	$3,000	25.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$12,830	$0	$12,830	---
Total Transfers In	**$27,830**	**$12,000**	**$15,830**	**131.9%**
TOTAL STATE SOURCES	**$1,527,873**	**$1,458,727**	**$69,147**	**4.7%**
Federal Grants	$837,347	$820,803	$16,544	2.0%
TOTAL GRF SOURCES	**$2,365,220**	**$2,279,529**	**$85,691**	**3.8%**

* 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 Oct 4, 2010

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2011 as of September 30, 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 6, 2010)

	Actual	Estimate*	Variance	Percent	FY 2010	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$260,328	$257,400	$2,928	1.1%	$262,595	-0.9%
Nonauto Sales and Use	$1,638,928	$1,587,000	$51,928	3.3%	$1,480,288	10.7%
Total Sales and Use Taxes	$1,899,255	$1,844,400	$54,855	3.0%	$1,742,883	9.0%
Personal Income	$1,810,489	$1,772,200	$38,290	2.2%	$1,723,620	5.0%
Corporate Franchise	$433	-$8,000	$8,433	105.4%	-$3,639	111.9%
Public Utility	$30,509	$44,700	-$14,191	-31.7%	$34,125	-10.6%
Kilowatt Hour Excise	$52,385	$46,601	$5,784	12.4%	$41,839	25.2%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$5,692	$4,450	$1,242	27.9%	$4,112	38.4%
Domestic Insurance	-$311	$134	-$445	-332.4%	$161	-293.0%
Business and Property	$59	$126	-$67	-53.1%	$101	-41.8%
Cigarette	$170,382	$160,800	$9,582	6.0%	$180,632	-5.7%
Alcoholic Beverage	$15,369	$14,900	$469	3.1%	$14,923	3.0%
Liquor Gallonage	$9,456	$9,100	$356	3.9%	$9,249	2.2%
Estate	$4,189	$1,600	$2,589	161.8%	$1,659	152.5%
Total Tax Revenue	**$3,997,907**	**$3,891,010**	**$106,897**	**2.7%**	**$3,749,667**	**6.6%**
NONTAX REVENUE						
Earnings on Investments	$8	$0	$8	---	$22	-63.8%
Licenses and Fees	$9,633	$16,151	-$6,518	-40.4%	$14,056	-31.5%
Other Revenue	$4,717	$11,650	-$6,933	-59.5%	$9,543	-50.6%
Total Nontax Revenue	**$14,358**	**$27,801**	**-$13,443**	**-48.4%**	**$23,621**	**-39.2%**
TRANSFERS						
Liquor Transfers***	$40,144	$37,000	$3,144	8.5%	$42,000	-4.4%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$12,329	6,106	$6,223	101.9%	$18,572	-33.6%
Total Transfers In	**$52,473**	**$43,106**	**$9,367**	**21.7%**	**$60,572**	**-13.4%**
TOTAL STATE SOURCES	**$4,064,739**	**$3,961,918**	**$102,821**	**2.6%**	**$3,833,860**	**6.0%**
Federal Grants	$2,514,990	$2,603,092	-$88,102	-3.4%	$1,996,362	26.0%
TOTAL GRF SOURCES	**$6,579,729**	**$6,565,010**	**$14,718**	**0.2%**	**$5,830,222**	**12.9%**

* 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 Oct 4, 2010

Detail may not sum to total due to rounding.

REVENUES

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

Overview

FY 2011 GRF sources through September were $14.7 million above estimate.

Three months into the fiscal year, FY 2011 total GRF sources of $6.58 billion were $14.7 million above the estimates released by the Office of Budget and Management last month. September GRF sources of $2.37 billion were $85.7 million above projections from positive variances in tax receipts ($56.2 million) and federal grants ($16.5 million). Tables 1 and 2 show GRF sources for the month of September 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 federal reimbursements for human service programs such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding.

Following August 2010, in which tax sources were $50.7 million above expectations, most tax sources again made good contributions to GRF receipts in September 2010. The personal income tax, the sales and use tax, and the cigarette tax, the three primary tax sources, were above estimate, respectively, by $22.2 million, $16.4 million, and $4.0 million. Other tax sources above estimate included the corporate franchise tax ($5.9 million), the kilowatt hour tax ($3.5 million), the estate tax ($2.6 million), and the foreign insurance tax ($1.5 million). Total GRF tax receipts were $56.2 million above estimate for the month. Nontax revenues and transfers in were above estimate by a total of $12.9 million.

FY 2011 GRF tax receipts through September were $106.9 million above estimate.

Through September, FY 2011 state-source receipts of $4.06 billion were above estimate by $102.8 million. This gain was partially offset by a shortfall of $88.1 million in federal grants. Total tax revenues of $4.0 billion were $106.9 million above estimate, with the major tax sources ahead of projections. The sales and use tax was above estimate by $54.9 million, the personal income tax by $38.3 million, and the cigarette tax by $9.6 million. In addition, the corporate franchise tax, the kilowatt hour tax, the estate tax, and the foreign insurance tax, were above estimate, respectively, by $8.4 million, $5.8 million, $2.6 million, and $1.2 million. Negative variances continued for the public utility excise tax ($14.2 million). Receipts for the remaining taxes varied from estimates by small amounts.

FY 2011 year-to-date GRF sources increased $749.5 million compared to receipts in the corresponding period in FY 2010, from both higher federal grants ($518.6 million) and tax receipts ($248.2 million). Receipts from the sales and use tax and the personal income tax were above the levels of FY 2010 by $156.4 million and $86.9 million, respectively. Other taxes with notable year-to-year revenue increases included the kilowatt hour tax ($10.5 million) and the estate tax ($2.5 million). Through September, FY 2011 corporate franchise tax payments were $0.4 million, whereas in FY 2010, net refunds to taxpayers in the corresponding period were $3.6 million. Also, compared to FY 2010, first-quarter receipts in FY 2011 declined noticeably for the cigarette tax ($10.3 million) and the public utility tax ($3.6 million).

Personal Income Tax

September GRF receipts from the personal income tax of $781.1 million were $22.2 million (2.9%) above estimate and $42.1 million (5.7%) above receipts in September 2009. Through September, the GRF received $1.81 billion from the personal income tax in FY 2011. This amount was $38.3 million (2.2%) above estimate and $86.9 million (5.0%) above receipts in the corresponding period in FY 2010. Personal income tax revenue to the GRF 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,[1] trust payments, payments associated with annual returns, and miscellaneous payments.

Through September, FY 2011 GRF income tax receipts were $38.3 million above estimate.

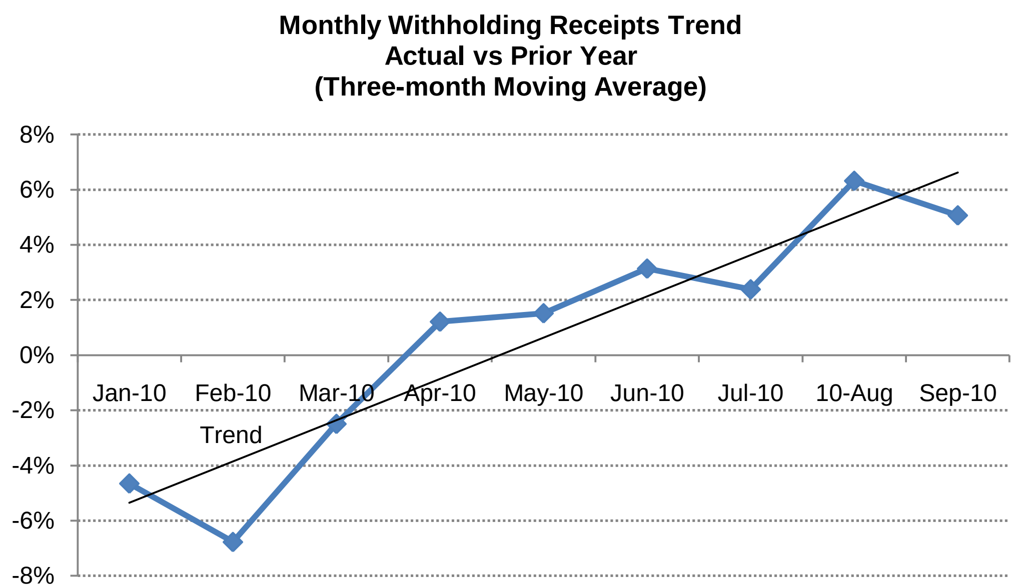
FY 2011 Year-to-Date
Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2010	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$39.4	2.3%	$83.0	5.0%
Quarterly Estimated Payments	$3.4	1.3%	$11.1	4.6%
Trust Payments	$0.2	4.4%	$0.6	11.6%
Annual Return Payments	-$1.8	-4.6%	-$1.4	-3.8%
Miscellaneous Payments	$0.7	3.5%	$1.3	6.6%
Gross Collections	$42.0	2.3%	$94.5	4.8%
Less Refunds	$0.6	0.8%	-$2.5	-2.9%
Less Local Government Fund Distribution	$3.0	1.9%	$10.2	6.8%
Income Tax Revenue	$38.3	2.2%	$86.9	5.0%

[1] 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.

Through September, FY 2011 withholding receipts were $83.0 million above FY 2010 withholding receipts.

The table above summarizes FY 2011 income tax revenue variances from estimates and annual changes by components. All components, except for distributions to the Local Government Fund and annual returns payments, contributed to higher GRF income tax receipts this year. Most notably, FY 2011 year-to-date, employer withholding was $83.0 million (5.0%) above withholding receipts in the first quarter of FY 2010. The improvement in employment withholding that started earlier in 2010 has continued in FY 2011, as shown in the graph below, although growth has slowed of late. Though employment is still lackluster, both the workweek and aggregate hours for nonfarm employees are higher than a year earlier.



FY 2011 first-quarter sales and use tax receipts were $54.9 million above estimate.

Also, quarterly estimated payments, the second most important component of the personal income tax, grew $11.1 million (4.6%) in FY 2011 through September. In the previous fiscal years, quarterly estimated payments fell $381.9 million in FY 2009 and $228.2 million in FY 2010. First-quarter revenue from quarterly estimated payments suggests some stability may have returned to this important component of the personal income tax.

Sales and Use Tax

September 2010 sales and use tax receipts of $593.1 million were $16.4 million (2.9%) above estimate and $35.6 million (6.4%) above receipts in September 2009. Through September, FY 2011 GRF receipts of $1.90 billion were $54.9 million (3.0%) above estimate and $156.4 million (9.0%) 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[2] 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. Both components of the sales tax had relatively good performances in the first quarter of the fiscal year.

FY 2011 first-quarter nonauto sales and use tax receipts were $51.9 million above estimate.

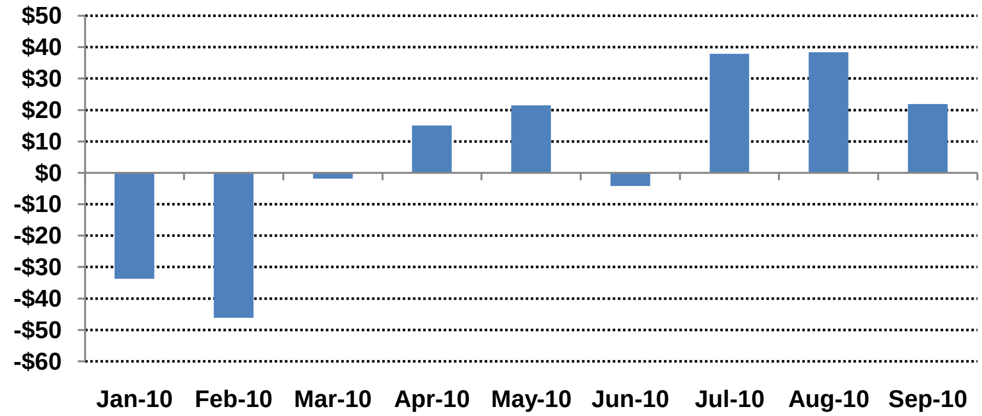
Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were $510.5 million in September 2010, $18.9 million (3.8%) above estimate and $45.6 million (9.8%) above September 2009 receipts. For the fiscal year, year-to-date nonauto sales and use tax receipts of $1.64 billion were $51.9 million (3.3%) above estimate and $158.6 million (10.7%) above receipts through September in FY 2010. While this positive variance reflects an expansion of the tax base, i.e., it includes payments for health care services provided by Medicaid health insuring corporations,[3] the sales and use tax base appears to be growing again. The decline in monthly taxable sales, which started during the economic recession, finally reversed in the last quarter of FY 2010. 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.

[2] 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.

[3] 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.

Monthly Change from CY 2009 in Nonauto Sales Tax Receipts (Excluding Receipts from the Base Expansion, in millions)



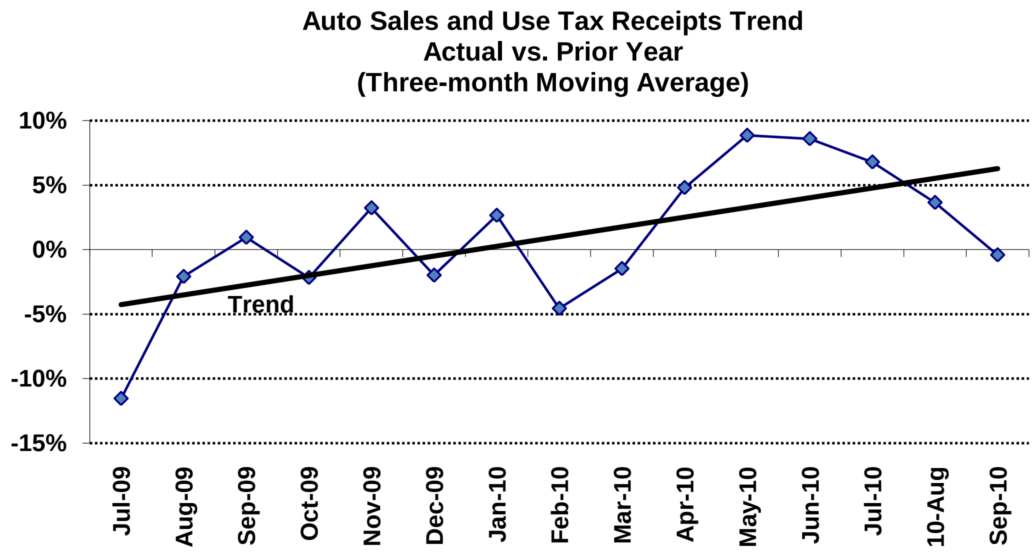
Excluding receipts from the base expansion, nonauto sales and use tax receipts grew about 5% in the first quarter of FY 2011. After two consecutive years of revenue declines, the long period of retrenchment by Ohio consumers and businesses might be coming to an end, and first-quarter results suggest the nonauto sales and use tax base may finally grow in FY 2011.

FY 2011 year-to-date auto sales tax receipts were $2.3 million below estimate.

Auto Sales and Use Tax

Auto sales and use tax receipts of $82.6 million in September 2010 were $2.5 million (2.9%) below estimate and $10.0 million (10.8%) below receipts in September 2009. Year-to-date, FY 2011 receipts from the auto sales and use tax of $260.3 million were $2.9 million (1.1%) above estimate and $2.3 million (0.9%) below receipts in FY 2010 through September 2009. This negative year-over-year variance was due to the "Cash for Clunkers" federal incentive program of the summer of 2009.[4] Its impact is apparent in the graph below which compares monthly receipts with year-ago receipts in the corresponding month. The graph shows the upward trend in receipts that occurred in the spring of 2010 has been erased in the first quarter of FY 2011. However, nationwide auto sales have been improving gradually in 2010, and most forecasters expect the growth in auto sales to continue in 2011.

[4] The federal incentive program provided buyers a credit of up to $4,500 towards the purchase of a new vehicle as an incentive to trade-in older, less fuel-efficient vehicles. The incentive raised the nationwide annual sales rate from 9.7 million in June 2009 to 11.2 million in July 2009 and 14.0 million in August 2009. Tax receipts from some of the August 2009 sales were booked in September 2009.



FY 2011 first-quarter cigarette tax receipts were $9.6 million above estimate.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $76.2 million in September 2010, $4.0 million (5.5%) above estimate and $4.5 million (5.6%) below September 2009 receipts. Through September, FY 2011 receipts of $170.4 million were $9.6 million (6.0%) above estimate and $10.3 million (5.7%) below FY 2010 receipts through September 2009. Receipts from cigarette sales were $157.0 million. Sales of products other than cigarettes provided $13.4 million. Compared to FY 2010 through September, receipts from the sale of cigarettes declined $11.7 million and those from the sale of other tobacco products increased about $1.4 million. The cigarette and other tobacco products tax is the third-largest tax revenue source in FY 2011, after the personal income tax and the sales and use tax.

FY 2011 first-quarter CAT receipts were $35.3 million above FY 2010 receipts through September 2009.

Commercial Activity Tax

In September 2010, commercial activity tax (CAT) receipts were $7.1 million, $4.0 million (36.0%) below receipts in September 2009 according to OAKS. First-quarter receipts of $356.9 million in FY 2011 were $23.8 million (7.1%) above estimate and $35.3 million (10.9%) above receipts through September 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. 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.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of September 2010
($ in thousands)
(Actual based on OAKS reports run October 4, 2010)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$536,330	$545,436	-$9,106	-1.7%
Higher Education	$189,049	$186,983	$2,066	1.1%
Total Education	$725,379	$732,420	-$7,040	-1.0%
Public Assistance and Medicaid	$978,965	$987,213	-$8,248	-0.8%
Health and Human Services	$52,251	$58,741	-$6,490	-11.0%
Total Welfare and Human Services	$1,031,216	$1,045,954	-$14,738	-1.4%
Justice and Public Protection	$136,784	$147,364	-$10,581	-7.2%
Environment and Natural Resources	$4,642	$4,232	$411	9.7%
Transportation	$745	$733	$12	1.7%
General Government	$33,500	$37,694	-$4,194	-11.1%
Community and Economic Development	$22,052	$24,356	-$2,304	-9.5%
Capital	$0	$43	-$43	-100.0%
Total Government Operations	$197,723	$214,421	-$16,698	-7.8%
Tax Relief and Other	$210,267	$276,557	-$66,290	-24.0%
Debt Service	$16,923	$82,852	-$65,928	-79.6%
Total Other Expenditures	$227,191	$359,409	-$132,218	-36.8%
Total Program Expenditures	**$2,181,509**	**$2,352,204**	**-$170,695**	**-7.3%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$772	$3,230	-$2,458	-76.1%
Total Transfers Out	$772	$3,230	-$2,458	-76.1%
TOTAL GRF USES	**$2,182,281**	**$2,355,434**	**-$173,152**	**-7.4%**

* 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 September 30, 2010
($ in thousands)
(Actual based on OAKS reports run October 4, 2010)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2010**	**Percent Change**
Primary, Secondary, and Other Education	$1,980,535	$1,984,551	-$4,016	-0.2%	$1,732,548	14.3%
Higher Education	$606,903	$607,449	-$546	-0.1%	$590,883	2.7%
Total Education	$2,587,437	$2,591,999	-$4,562	-0.2%	$2,323,431	11.4%
Public Assistance and Medicaid	$3,403,369	$3,349,050	$54,319	1.6%	$2,863,758	18.8%
Health and Human Services	$298,872	$310,233	-$11,360	-3.7%	$274,449	8.9%
Total Welfare and Human Services	$3,702,242	$3,659,282	$42,959	1.2%	$3,138,207	18.0%
Justice and Public Protection	$530,460	$532,822	-$2,362	-0.4%	$547,564	-3.1%
Environment and Natural Resources	$19,232	$18,083	$1,149	6.4%	$22,161	-13.2%
Transportation	$7,190	$7,208	-$18	-0.3%	$2,482	189.6%
General Government	$98,662	$105,384	-$6,722	-6.4%	$99,496	-0.8%
Community and Economic Development	$36,701	$40,021	-$3,320	-8.3%	$34,613	6.0%
Capital	$24	$43	-$19	-43.9%	$255	-90.6%
Total Government Operations	$692,269	$703,561	-$11,291	-1.6%	$706,572	-2.0%
Tax Relief and Other	$315,910	$388,348	-$72,438	-18.7%	$373,778	-15.5%
Debt Service	$226,869	$227,951	-$1,082	-0.5%	$165,465	37.1%
Total Other Expenditures	$542,779	$616,299	-$73,519	-11.9%	$539,242	0.7%
Total Program Expenditures	**$7,524,728**	**$7,571,141**	**-$46,413**	**-0.6%**	**$6,707,452**	**12.2%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$569,874	$557,248	$12,626	2.3%	$590,592	-3.5%
Total Transfers Out	$569,874	$557,248	$12,626	2.3%	$590,592	-3.5%
TOTAL GRF USES	**$8,094,601**	**$8,128,389**	**-$33,788**	**-0.4%**	**$7,298,044**	**10.9%**

* 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)

Medicaid (600525) Payments by Service Category	September Actual	September Estimate	September Variance	September Percent Variance	Year to Date Actual thru Sept	Year to Date Estimate thru Sept	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$423,647	$403,761	$19,886	4.9%	$1,243,054	$1,209,019	$34,035	2.8%
Nursing Facilities	$226,490	$233,245	-$6,755	-2.9%	$678,024	$689,047	-$11,023	-1.6%
Prescription Drugs	$121,344	$141,709	-$20,365	-14.4%	$417,620	$445,911	-$28,291	-6.3%
Hospitals	$106,547	$125,785	-$19,238	-15.3%	$376,934	$387,164	-$10,230	-2.6%
ICFs/MR	$49,440	$46,295	$3,145	6.8%	$141,256	$137,330	$3,926	2.9%
ODJFS Waivers	$23,810	$29,729	-$5,919	-19.9%	$84,493	$95,249	-$10,756	-11.3%
Physicians	$22,107	$26,766	-$4,659	-17.4%	$82,892	$86,580	-$3,688	-4.3%
All Other	$116,462	$123,665	-$7,203	-5.8%	$378,237	$380,926	-$2,689	-0.7%
Total Payments	$1,089,847	$1,130,955	-$41,108	-3.6%	$3,402,510	$3,431,226	-$28,716	-0.8%
Total Offsets (non-GRF)	-$158,675	-$202,403	$43,728	-21.6%	-$186,220	-$274,901	$88,681	-32.3%
Total 600525 (net of offsets)	$931,172	$928,552	$2,620	0.3%	$3,216,290	$3,156,325	$59,965	1.9%
Medicare Part D (600526)	$16,447	$20,164	-$3,717	-18.4%	$28,270	$20,164	$8,106	40.2%
Total GRF	**$947,619**	**$948,716**	**-$1,097**	**-0.1%**	**$3,244,560**	**$3,176,489**	**$68,071**	**2.1%**
Total All Funds	**$1,106,294**	**$1,151,119**	**-$44,825**	**-3.9%**	**$3,430,780**	**$3,451,390**	**-$20,610**	**-0.6%**

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

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

GRF program expenditures for FY 2011 were $46.4 million below estimate at the close of September.

EXPENDITURES

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

Overview

Tables 3 and 4 show GRF uses for the month of September and for FY 2011 through September, respectively. For September, GRF uses of $2.18 billion were $173.2 million (7.4%) below the estimate published by the Office of Budget and Management (OBM) in September 2010. Through September, FY 2011 GRF uses of $8.09 billion were $33.8 million (0.4%) below estimate.

GRF uses primarily consist of program expenditures but also include transfers out. For the first three months of FY 2011, GRF program expenditures amounted to $7.52 billion (93.0% of total GRF uses), whereas transfers out totaled $569.9 million (7.0%). The year-to-date GRF program expenditures were $46.4 million below estimate. This negative variance was largely attributable to a negative variance of $72.4 million in the Tax Relief and Other category which was partially offset by a positive variance of $54.3 million in the Public Assistance and Medicaid category. The remainder of this expenditures report briefly discusses the variances in these two areas.

The negative year-to-date variance of $72.4 million (18.7%) in the Tax Relief and Other category comes primarily from a negative variance in September of $66.3 million (24.0%). The main cause of the September variance was the timing of reimbursement payments for the 10% rollback, the 2.5% rollback, and the Homestead exemption. All of the reimbursements for the August real property tax settlements are generally complete before the end of the calendar year. Consequently, the year-to-date variance for the Tax Relief and Other category should narrow by the end of December.

The positive year-to-date variance of $54.3 million (1.6%) in the Public Assistance and Medicaid category comes from a positive variance of $68.1 million in GRF expenditures for Medicaid that is only partially offset by a negative variance in Public Assistance expenditures. Medicaid, including both state and federal shares, accounts for about 95% of year-to-date GRF expenditures in this program category.

As can be seen from Table 3,[5] which lists Medicaid expenditures by service category, the main contributing factor to the GRF year-to-date positive variance in Medicaid was lower than estimated expenditures of non-GRF funds for Medicaid (shown as offsets in the table). These non-GRF expenditures were $88.7 million (32.3%) below estimate for the year to date. Among the individual service categories, Managed Care Plan expenditures were above estimate by $34.0 million (2.8%). This positive variance is due to managed care caseloads being above estimate for the Covered Families and Children (CFC) population. Medicare Part D expenditures were also above estimate by $8.1 million (40.2%). Offsetting these positive variances in the individual service categories, Prescription Drug expenditures were below estimate by $28.3 million (6.3%), due to lower than estimated drug costs. Other categories below estimate for the year to date include Nursing Facilities ($11.0 million), ODJFS Waivers ($10.8 million), and Hospitals ($10.2 million), which include both inpatient and outpatient services.

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

[5] In the table, the All Other category includes payments for Disability Medical Assistance, which in previous years was listed as a separate service category. This program ended in FY 2010, though small residual payments are still being made.

ISSUE UPDATES

Veterans Bonus Program Begins Accepting Applications

—Jamie L. Doskocil, Senior Budget Analyst, 614-387-0477

On August 24, 2010, the Department of Veterans Services began accepting applications from eligible Ohio veterans for bonuses under Ohio's Veterans Bonus Program. The program is a result of voter approval in November 2009 of a ballot initiative that authorized the issuance of $200 million in bonds in order to provide monetary bonuses to eligible Ohio veterans. Eligible veterans served during the time periods of the Persian Gulf War (August 2, 1990-March 31, 1991) and the conflicts in Afghanistan and Iraq (since October 7, 2001 until both are declared at an end). For each month of active duty service in the theater of the conflict, the veteran may receive $100, up to a total of $1,000. In addition, for each month of active duty service in a location outside of the theater of the conflict (other than time spent training), the veteran may receive $50 up to $500 total. It is estimated that approximately 200,000 Ohio veterans are currently eligible for the bonuses, with additional veterans likely to become eligible as a result of ongoing U.S. involvement in Afghanistan and Iraq.

An initial $50 million in cash was generated by a bond sale in August and deposited in the Persian Gulf, Afghanistan, and Iraq Conflicts Compensation Fund (Fund 7041). This initial amount is expected to finance bonus payments for 12 to 15 months. The cash will also be used for the administrative costs incurred by the Department of Veterans Services. The Department has drafted rules and hired and trained additional staff to process the applications. Approximately 21 additional staff will be dedicated to supporting the program; three will work full-time hours, while the hours of the remainder will vary, depending upon the program's workload. In addition, existing office space at the Department's Sandusky office has been renovated and equipped for the program.

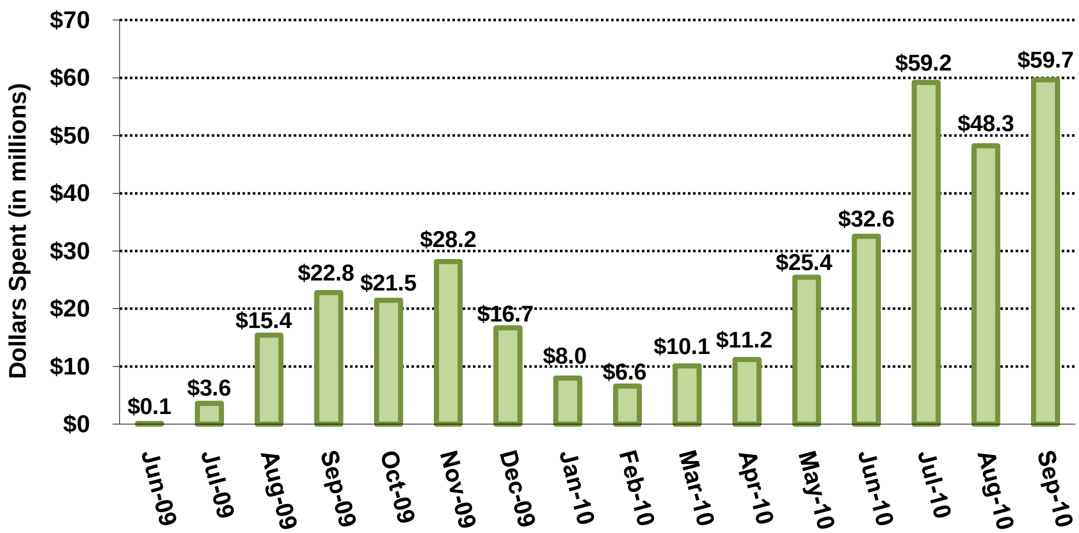
Highway Infrastructure Spending Supported by ARRA Funds Increases Significantly in Recent Months

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

Over the past three months, highway construction spending in Ohio funded by the American Recovery and Reinvestment Act of 2009 (ARRA) has increased considerably, far outpacing the spending at the same time last year as the program was getting underway. Indeed, the $167.1 million spent during July, August, and September 2010, the first three months of FY 2011, represents nearly 83% of the

$202.0 million spent in all of FY 2010. This spike in spending can be seen in the following chart, which shows spending per month since the beginning of the program. Total spending at the end of September 2010 was $369.2 million, about 40% of the $919.9 million obligated for Ohio projects. Under ARRA, states had until September 30, 2010 to obligate highway infrastructure funds apportioned to them. States have until September 30, 2015 to expend their obligated ARRA balances. According to the Federal Highway Administration, 146 of the state's 425 stimulus highway projects have been completed while work is in progress on 240 projects.

ARRA Highway Construction Spending in Ohio



Over $2 Million in Interest Subsidy Payments from the Build America Bond Program Have Been Credited to the GRF

—Ruhaiza Ridzwan, Economist, 614-387-0476

Through September 2010, over $2.1 million in interest subsidy payments from the U.S. Treasury Department, resulting from various bonds issued by the state under the Build America Bond (BAB) program, have been credited to the GRF. Approximately $0.8 million of this amount was credited to the GRF in FY 2010 while the remaining $1.3 million was credited in the first few months of FY 2011. The state GRF is expected eventually to receive a total of $92.9 million in interest subsidy payments over the lifetime of approximately $410.1 million in taxable bonds that have been sold by the state under the BAB program through September.[6]

[6] According to information from staff members for the Commissioners of the Sinking Fund and the Ohio Building Authority (OBA).

Interest from BABs is subject to federal and state income taxes. In contrast, conventional bonds issued by the state pay interest that is not taxable. Because the interest is not taxable on conventional bonds, many potential buyers are willing to accept a lower interest rate, which lowers the state's borrowing costs. Under the BAB program, the state pays a higher interest rate than for conventional bonds, since the interest is taxable, but the federal government provides the state a subsidy equal to 35% of the interest.[7] Thus the program gives the state an alternative method of reducing borrowing costs.

The BAB program was created by the American Recovery and Reinvestment Act and is scheduled to expire at the end of this calendar year. The program is intended to stimulate spending on a variety of public projects. Also, since the tax exemption for conventional bonds is of no use to potential buyers, such as pension funds, that do not pay taxes, the program is intended to attract a wider pool of buyers. According to U.S. Treasury Department data, in addition to the $410.1 million payable from the GRF, over $4.0 billion in BABs have been issued by various state and local government entities in Ohio from the program's inception through September 2, 2010.

Indigent Defense Support Fund Revenues Increase by More than $20 Million in FY 2010

—Joseph Rogers, Senior Budget Analyst, 614-644-9099

Revenues deposited into the Indigent Defense Support Fund (Fund 5DY0) increased from $4.7 million in FY 2009 to $26.4 million in FY 2010, a gain of 461.7%, or $21.7 million. This increased revenue was a result of three new revenue sources enacted by H.B. 1: a bail surcharge, an increase in court costs for criminal offenses, and an increase in driver's license reinstatement fees. The purpose of these additional revenue sources was to aid in the process of transitioning the Ohio Public Defender Commission to a fully non-GRF funded state agency, as well as to increase the rate at which the state reimburses counties for the provision of indigent defense services. The state reimbursement rate increased from 26.2% in FY 2009 to 35.0% in FY 2010.

Beginning in FY 2010, the Commission is permitted to use up to 10% of the cash in Fund 5DY0 to support the operations of the Office of the Ohio Public Defender. This amounted to $2.4 million in FY 2010. The remaining 90% of the cash was available to reimburse counties for the costs of public defender systems. The available county share in FY 2010 was $24.0 million.

[7] Issuers may also elect a tax credit option. Under this option, the bondholder receives a tax credit equal to 35% of the stated interest rate on the bond that can be applied against their federal income tax liability.

As mentioned, this shift in funding from the GRF to Fund 5DY0 is part of a larger trend begun in H.B. 1 of transitioning the Commission completely off of GRF funding. As this transition process has unfolded, the Commission's GRF expenditures decreased by $13.2 million, from $33.6 million in FY 2009 to $20.4 million in FY 2010.

Enrollment in Kinship Permanency Incentive Program Decreased 38% in FY 2010

—Jim Ramey, Budget Analyst, 614-644-5231

Enrollment in the Kinship Permanency Incentive (KPI) Program declined from 3,349 in FY 2009 to 2,075 in FY 2010, a decrease of 38%. The decline in enrollment began in June 2009 when local public children services agencies suspended acceptance of applications for two months in anticipation of a significant reduction in funding for the program in FY 2010. Ultimately, funding was reduced from $10 million in FY 2009 to $5 million in FY 2010 and the source of funding was changed from federal Temporary Assistance for Needy Families to the GRF. This reduction in funding prompted the Department of Job and Family Services to reduce benefit payments to families participating in the KPI Program. Beginning in November 2009, initial benefit payments at the time of placement were reduced from $1,000 to $525. Subsequent benefit payments, which are provided every six months, were reduced from $500 to $300. The maximum that may be received over 36 months was also reduced from $3,500 to $2,025.[8]

The KPI Program provides financial assistance to family members or friends who are caring for children who cannot live with their parents. To be eligible, the caregiver's household income may not exceed 300% of the federal poverty guidelines ($54,930 annually for a family of three). In FY 2011, the program is flat funded at the FY 2010 level of $5 million.

Ohio Received $17.5 Million in Disability Financial Assistance Refunds in FY 2010

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

In FY 2010, Ohio received $17.5 million in refunds for state-funded Disability Financial Assistance (DFA) payments from the Social Security Administration (SSA). Of that amount, $13.1 million (75%) was sent to the Ohio Department of Job and Family

[8] Caregivers enrolled in the program prior to the change in benefit amount receive the reduced subsequent payments, even if they will exceed the reduced maximum amount of the benefit.

Services (ODJFS) and deposited into the GRF. The remaining $4.4 million (25%) was retained by county departments of job and family services (CDJFS) for administering collection of the refunds.

The DFA Program provides cash payments to eligible individuals who are unemployable due to physical or mental impairment and ineligible for other public assistance programs that are supported in whole or in part by federal funds (for example, Ohio Works First cash assistance). Individuals applying for DFA must also apply for federal Social Security Disability Insurance (SSDI) and may receive DFA payments while waiting to see if they are eligible for SSDI. If an application for SSDI is approved, the SSA sends a payment to the CDJFS where the DFA recipient resides. This initial payment is retroactive from the time of application. The CDJFS deducts from the payment the value of DFA payments an individual received while waiting for SSDI approval and sends the remainder to the individual. The individual is then disenrolled from DFA and receives subsequent SSDI payments directly from the SSA.

The maximum DFA cash benefit is $115 per month for one person and $159 per month for an assistance group of two people. In FY 2010, 14,060 individuals on average received DFA benefits each month, at a total cost of $24.0 million for the year. The DFA Program is administered by ODJFS and supported entirely with GRF dollars.

Wine Tax Deposits into the Ohio Grape Industries Fund Increased for the Fourth Consecutive Fiscal Year in FY 2010

—Terry Steele, Budget Analyst, 614-387-3319

Proceeds from the five cents per gallon of wine tax deposited into the Ohio Grape Industries Fund (Fund 4960) amounted to $1.0 million in FY 2010, an increase of 8.1% over the FY 2009 amount of $935,243. As the table below shows, this marks the fourth consecutive fiscal year in which wine tax deposits into Fund 4960 have increased.[9] The increases are entirely due to increases in the number of gallons sold as the five cent per gallon rate has not changed since 1995. In fact, the total number of gallons of wine sold since FY 2006 has increased 10.7% and the number of gallons of Ohio wine sold since FY 2006 has nearly doubled, from 695,905 gallons in FY 2006 to 1.1 million gallons in FY 2010.

Fund 4960 is used by the Ohio Grape Industries Committee (OGIC) to support research projects and marketing initiatives designed to boost Ohio's wineries and related businesses. In FY 2010, OGIC spent $808,247 to fund 15 research projects related to viticulture, enology, plant pathology, entomology, and weed science, and a series of

[9] Due to the timing of deposits, the amount of revenue deposited into Fund 4960 in a fiscal year may be slightly different than the total tax revenue generated in a fiscal year.

marketing programs such as the Ohio Wine Guide and the Council's interactive web site. A small portion of this expenditure was used to administer these programs.

Wine Sales and Portion of Wine Sales Tax Deposited into the Grape Industries Fund, FY 2006-FY 2010			
Fiscal Year	Amount Deposited	Total Wine Sales (in gallons)	Ohio Wine Sales (in gallons)
2006	$867,315	17,834,081	695,904
2007	$806,626	17,269,619	754, 846
2008	$913,700	18,061,000	763, 095
2009	$935,243	18,335,523	1,012, 756
2010	$1,010,847	19,739,579	1,129, 575

Changes in BWC Drug Free Grants Program Result in Lower Safety Grant Spending in FY 2010

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

Spending on the Bureau of Workers' Compensation (BWC) Safety Grants initiative amounted to $2.8 million in FY 2010, a 28.2% decline compared to FY 2009 spending of $3.9 million. As shown in the following table, this initiative includes three types of grants: Safety Intervention, Drug Free Workplace, and Drug Free EZ. The reduction in spending occurred almost entirely in the two drug free grant programs, both of which provide funds for employee and supervisor training on drug abuse prevention. Combined, the number of drug free program grants fell from 1,547 in FY 2009 to 589 in FY 2010, and the sums awarded dropped from $1.4 million in FY 2009 to $334,430 in FY 2010. These reductions are largely related to new limits on the amounts of the grants that were imposed in FY 2010. Prior to FY 2010, the drug free programs provided matching grants, with BWC paying two-thirds of employee training costs. Beginning in FY 2010, grant amounts are limited to $150 per hour of training, with caps per awardee of four hours for Drug Free Workplace grants and three hours for Drug Free EZ grants.

As can be seen in the table, the third type of grant, Safety Intervention Grants, which offer employers 2 to 1 matching grants of up to $40,000 to buy safety equipment or replace equipment that is likely to injure workers, remained relatively steady from FY 2009 to FY 2010.

BWC Safety Grants Approved and Awarded, FY 2009-FY 2010				
Grant Type	FY 2009		FY 2010	
	Grants Approved	Amount Awarded	Grants Approved	Amount Awarded
Safety Intervention	94	$2,528,095	110	$2,495,145
Drug Free Workplace	977	$1,121,638	370	$255,506
Drug Free EZ	570	$281,476	219	$78,924
Totals	**1,641**	**$3,931,210**	**699**	**$2,829,575**

Ohio Arts Council Announces FY 2011 Grant Awards

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

The Ohio Arts Council (OAC) recently announced over $4.3 million in grants awarded for FY 2011 to approximately 550 individual artists, arts organizations, and education programs throughout the state. The grants range in amounts from $500 to about $196,000. Generally, OAC awards grants through six different programs each fiscal year. For FY 2011, the 550 grants that have been awarded were distributed as follows:

- Sustainability Program: This program provides two-year grants to organizations for annual arts programming or a recurring project or activity. OAC awarded a total of $2.3 million in grants for 42 of Ohio's major arts institutions with budgets of more than $1.5 million and another $1.4 million for 245 grants that support organizations with budgets of less than $1.5 million.
- Arts Partnerships: This program provides one and two-year grants to support activities that enhance the quality of, and access to, learning in the arts for people of all ages, backgrounds, experience levels, and abilities. OAC awarded 41 of these grants totaling about $267,000.
- Arts Access: This program provides funds for first-time applicants to the OAC, start-up organizations, community-driven one-time projects, and organizations with budgets below $25,000. OAC awarded 122 of these grants totaling about $151,000.
- Project Support: This program helps organizations respond to unforeseen opportunities, one-time special events or initiatives, and changing community conditions. OAC awarded 55 of these grants totaling about $92,000.
- Artist in Residence: This program provides funds to place accomplished, professional artists in a variety of educational and community settings. OAC awarded 34 grants totaling about $74,000 to support this program.

- Traditional Arts Apprenticeships: This program provides support for a master artist and one or more apprentices to work together in an intensive individual study program that preserves traditional art forms of Ohio residents. OAC awarded seven of these grants totaling $18,000.

Ohio Awarded $361 Million Share of Federal Education Jobs Fund

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

On September 9, 2010, Ohio was awarded $361 million through the Education Jobs Fund (Ed Jobs) Program. The program was established by the U.S. Department of Education (USDOE) to assist local school districts in saving or creating education jobs. The Ohio Department of Education (ODE) will distribute these federal funds to local educational agencies (LEAs), including school districts, community schools, and STEM schools, using a calculation based on the state's primary funding formula. LEAs may then use program funds to pay for salaries, benefits, and other expenses necessary to retain or hire employees that provide school-level educational and related services such as teachers, principals, librarians, and counselors.

ODE will initially make only 75% of projected allocations available to districts with the remaining funds made available in November following a final adjustment based on updated school funding data.[10] Program guidelines permit LEAs to use their allocated funds in FY 2011 or to rollover any or all funds to FY 2012. The USDOE estimates that these funds will help Ohio schools hire or retain as many as 5,500 teachers with the actual number dependent on decisions made by LEAs.

Ohio's School District Report Card Ratings Show Improvement in FY 2010

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

Ohio's most recent school district report cards, released by the Ohio Department of Education (ODE) on August 27, 2010, continue to show an increase in the number of school districts receiving the state's highest ratings.[11] Of the 610 Ohio school districts receiving report cards, 536 (87.9%) were rated effective or higher in FY 2010, compared to 521 (85.4%) in FY 2009. A district's report card rating depends on four basic

[10] A complete list of ODE's estimated allocations is available on ODE's web site: www.ode.state.oh.us; search for "education jobs fund."

[11] Individual district and school report cards can be found on ODE's web site at http://education.ohio.gov/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=115&ContentID=50598&Content=89808.

measurements: (1) the number of state academic standards met, (2) the performance index score, (3) whether adequate yearly progress (AYP) has been met, and (4) the value-added designation. A summary of report card ratings from FY 2006 through FY 2010 is included in the table below.

Number of Districts by Report Card Rating					
Rating	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**
Excellent with Distinction	-	-	74	116	81
Excellent	192	139	152	154	215
Effective	299	347	292	251	240
Continuous Improvement	112	113	83	79	64
Academic Watch	7	11	9	9	9
Academic Emergency	0	0	0	1	1

Source: Local Report Card Data, Ohio Department of Education

In FY 2010, the state as a whole met 18 out of a possible 26 academic standards (69.2%), which includes minimum proficiency rates on all 24 achievement assessments as well as minimum graduation and attendance rates. This is up from 19 out 30 possible standards (63.3%) in FY 2009. The performance index, ranging from 0 to 120, is a composite measure of achievement of all students on all achievement assessments. The index for the state as a whole improved from 92.9 to 93.3 from FY 2009 to FY 2010.

AYP, a rating established by the federal No Child Left Behind Act, requires districts to meet annual performance goals for student subgroups. In FY 2010, 283 school districts (46.3%) met AYP, compared to 293 (48.0%) in FY 2009. The value-added measure rates districts on how their students' academic growth compares to the expected growth standard set by the state. In 2010, 202 districts (33.1%) were above, 179 districts (29.4%) had met, and 229 districts (37.5%) were below the expected growth standard.

Local Shares of School Funding Include Certain Tax-Exempt Property in FY 2010

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

In FY 2010, 26 school districts' valuations used in calculating the local share of school foundation funding included the value of certain tax-exempt property for which the district received payment in lieu of taxes. Inclusion of this value is a result of a policy change made by Am. Sub. H.B. 66 of the 126th General Assembly. The change began in FY 2008, affecting one school district in that year and growing to affect 17 districts in FY 2009. For the 26 districts affected in FY 2010, approximately $129.7 million was added to valuations, increasing the local share by approximately $2.9 million for the districts combined. However, 20 of these districts received transitional aid which guaranteed that for FY 2010 the districts were allocated at least 99% of aid allocated in FY 2009 and lessened the impact of the reductions in local shares on actual state aid allocations.

TRACKING THE ECONOMY

—Phil Cummins, Economist, 614-387-1687

Overview

Economic reports suggest slow growth, overall, in the economy, with mixed performance among sectors. Employment in September on nonfarm payrolls nationwide fell 95,000, reflecting the phase-out of jobs for most remaining temporary workers on the decennial census, and fewer state and local government jobs, seasonally adjusted, partly offset by a small increase in the number of private-sector jobs. U.S. unemployment last month was little changed at 9.6% of the labor force. In Ohio, employment fell in August, the most recent month reported, and declined on balance from May to August but remained above the cyclical low point in February. Inflation-adjusted U.S. gross domestic product (real GDP) grew at a 1.7% annual rate in the second quarter, the slowest rate of expansion since last year's third quarter. Personal incomes have flattened after slow growth earlier, apart from benefits paid by government transfer programs. Consumer spending is growing slowly. Business investment in equipment continues to expand, while investment in structures remains weak. Rebuilding of inventories is continuing but the sharp swing from inventory liquidation in the recession to accumulation since then appears to have run its course. Export growth remains rapid though less so than earlier. Inflation at the finished goods level is very low, but prices of numerous commodities are well above last year's levels.

The recession that began in December 2007 ended in June 2009, according to the Business Cycle Dating Committee of the National Bureau of Economic Research.

The recession that began in December 2007 ended in June 2009, according to the Business Cycle Dating Committee of the National Bureau of Economic Research, whose designations of business cycle peaks and troughs are widely accepted. In announcing that a business cycle trough occurred in June 2009, the Committee emphasized that this did not mean the members thought economic conditions had been favorable since that time, but only that the recession ended and recovery began then. At 18 months, the 2007-2009 recession was the longest of the post-World War II period. The recessions of 1973-1975 and 1981-1982, previously the longest post-WWII recessions, each lasted 16 months.

Following its September meeting, the Federal Reserve's Open Market Committee (FOMC) reiterated its intent to keep its target interest rate, the federal funds rate, in a 0% to 0.25% range. The FOMC said again that it expected an exceptionally low federal funds rate to be appropriate "for an extended period." It said it would continue to reinvest principal payments from its securities portfolio, a policy started in August, rather than allow its balance sheet to shrink. In addition, the post-meeting statement characterized underlying inflation measures as below levels most consistent with the Fed's mandate, promoting maximum employment and price stability. The statement said the FOMC "is prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate."

The National Economy

Employment and Unemployment

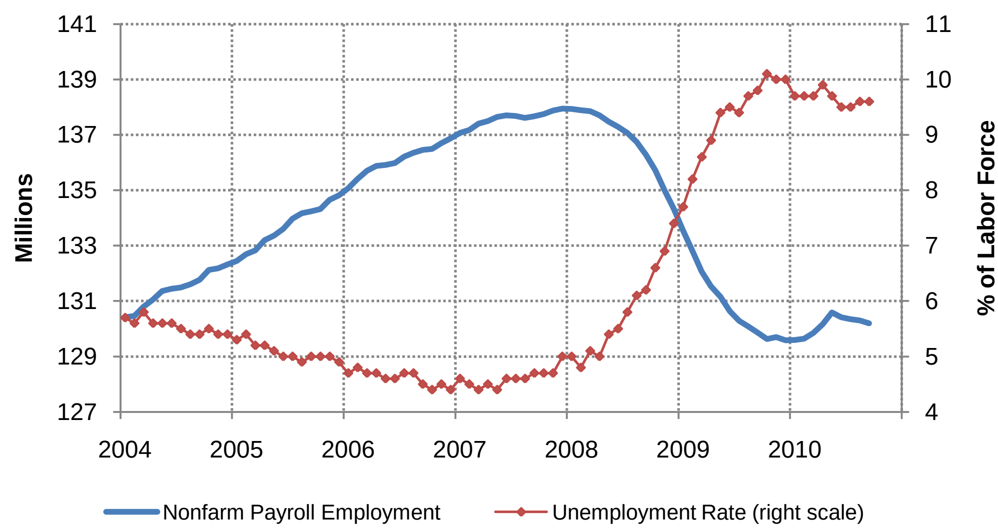
Total nonfarm payroll employment nationwide declined for the fourth consecutive month in September, falling by 95,000, seasonally adjusted. The number of persons counted as unemployed was little changed at 14.8 million, 9.6% of the labor force. Trends in employment and unemployment are shown in Chart 1. Involuntary part-time employment—persons working 34 or fewer hours per week because of economic conditions such as slack work or unfavorable business conditions, inability to find full-time work, or seasonal declines in demand—rose to 9.5 million, the highest number on records kept since 1955. Lower employment in September reflected 77,000 fewer temporary and intermittent decennial census workers on federal payrolls. This census-related employment peaked in May at 564,000, and has been reduced each month since then. Private-sector employment rose 64,000 in September, and was 863,000 (0.8%) higher than the cyclical low point in December 2009. Health care, temporary help services, and food service employment rose in September. State and local government employment declined by 83,000 in September, seasonally adjusted, of which local governments accounted for 76,000, mainly reflected fewer hires in education than usual in the month. Since the beginning of this calendar year, local government employment has been reduced by 231,000 (1.6%), and state government employment has fallen 38,000 (0.7%), following smaller reductions in state and local government employment in 2009.

The U.S. Bureau of Labor Statistics (BLS) released its preliminary estimate of the benchmark revision to payroll employment that will be published in February 2011. BLS expects to revise total nonfarm payroll employment for March 2010 downward by 366,000 (0.3%). Current data show nonfarm payroll job losses totaling 8.4 million (6.1%) from the peak in December 2007 to the low point in December 2009.

Total nonfarm payroll employment nationwide declined for the fourth consecutive month in September. Private-sector employment rose 64,000.

The number of job openings nationwide in August totaled 3.2 million, little changed from the previous month, but 0.9 million (37%) higher than at the cyclical low point for this statistic in July 2009. Job openings remain well below the number at the business cycle peak in December 2007, 4.4 million. For each job opening in August, between four and five persons were counted as unemployed and actively searching for employment, down from more than six people unemployed per job opening in the second half of last year. In the previous business expansion, fewer than two people were counted as unemployed per job opening throughout 2006 and 2007.

Chart 1: U.S. Employment and Unemployment



Estimated growth of real GDP in this year's second quarter was at a 1.7% annual rate.

Production, Shipments, and Inventories

Estimated growth of real GDP in this year's second quarter was at a 1.7% annual rate, revised upward slightly from 1.6% based on more data. Growth was slower than in the first quarter, when economic activity expanded at a 3.7% rate, and in last year's fourth quarter, when growth was at a 5.0% rate. The slowdown reflects slower growth of inventory investment and exports. Imports, subtracted in calculating GDP, increased more rapidly during this period. Final sales to domestic purchasers grew at a 4.3% annual rate in the second quarter, the most rapid rise in 17 quarters, with strong growth in investment spending on equipment and software and a temporary upsurge in residential fixed investment.

The industrial production index rose 0.2% in August, continuing the uptrend underway since June 2009. Total output of the nation's factories, mines, wells, and utilities was up 9% from that low point, but remained 7% below the peak in September 2007. Manufacturing output also grew in August. Growth has been substantially stronger over the past year in output of business equipment than of consumer goods.

The dollar value of manufacturers' shipments fell 0.6% in August, and were 1.7% lower than the peak rate for shipments this year in April. Factory new orders decreased 0.5% in August, to 2.4% lower than their peak rate in April. Shipments and new orders were up substantially from recession lows in the first half of 2009. Unfilled orders fell slightly, less than 0.1%, in August from the peak for this year in July. Manufacturers' inventories rose 0.1% in August and have increased in most months since a recession low in September 2009.

Manufacturing activity continued to grow in September, based on purchasing managers' responses to the monthly Institute for Supply Management (ISM) survey. However, the new orders and production indexes fell to their lowest levels since June 2009. These indexes still indicated growth, but the index for order backlogs showed a decline for the first time since June 2009. Inventory accumulation in September was unusually widespread, though a majority of those surveyed said inventories were the same as the month before. Prices paid continued to rise.

An ISM report on nonmanufacturing sectors of the economy in September was somewhat more positive, indicating more widespread growth of new orders than in August. However, growth of business activity was slower, and order backlogs contracted after increasing in the previous four months. Nonmanufacturing organizations reduced inventories in September, after adding to inventories for five months.

Real consumer spending rose 0.2% during August continuing an uptrend.

Consumer Spending

Personal income rose 0.5% in August and consumption expenditures rose 0.4%. Net of price increases, real consumer spending rose 0.2% during the month, continuing an uptrend at less than a 2% annual rate underway since the 2009 second quarter. Increases in total personal consumption expenditures and in spending on durable goods, adjusted for inflation, are shown in Chart 2. Wage and salary disbursements rose in July and August, recovering slowly from lows last year. The biggest contributor to August's rise in personal income was higher government unemployment insurance benefits and other personal receipts from government transfer programs.

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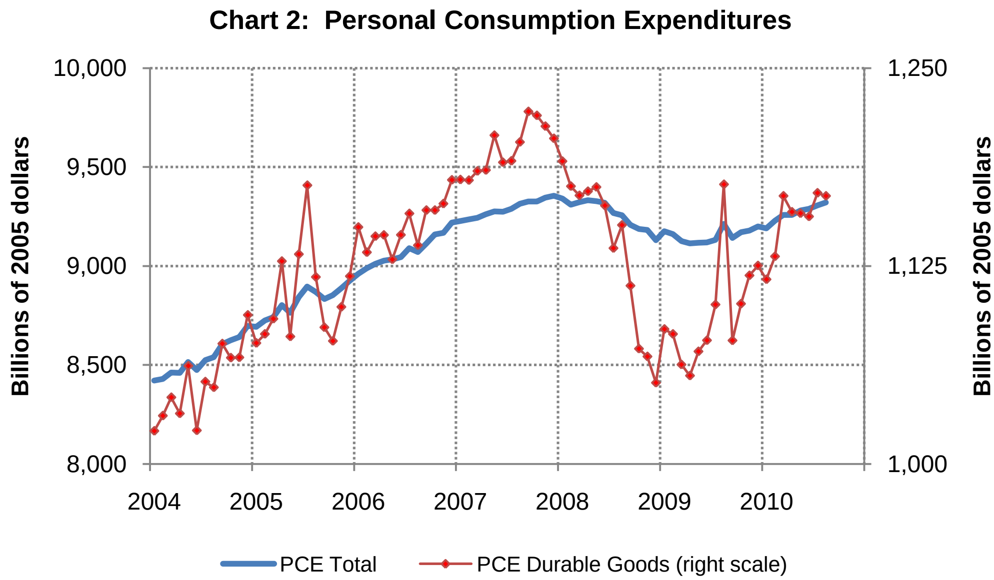


Total retail and food service sales in August rose 0.4% from July, and were 3.6% higher than a year earlier. The largest increases in the past year were at nonstore (catalog and Internet) retailers, up 10.5%, and gasoline stations, 9.6% higher. Sales at motor vehicle and parts dealers were 1.5% lower than a year earlier, reflecting elevated sales in August 2009 in response to the federal "Cash for Clunkers" program. Sales of other kinds of businesses were higher than a year earlier, except department stores, with sales 1.2% lower.

In September, car and light truck sales rose to an 11.7 million unit annual rate from 11.4 million units in August. September's sales pace was the highest rate of monthly sales in two years, apart from August 2009, but remained below sales of more than 13 million light vehicles in 2008 and more than 16 million units each year from 1999 through 2007.

Also in September, sales of 30 large retail organizations that report results monthly were 2.1% higher than a year earlier, on a same-store basis, in a compilation by Bank of Tokyo-Mitsubishi. Same-store sales comparisons include only store locations open in both the month specified and the year-earlier month. Since these year-over-year comparisons began showing growth rather than contraction in September 2009, monthly gains have averaged 2.4%. The largest retailer, WalMart, no longer releases results monthly so is not included in these figures.

The amount of consumer credit outstanding continued to contract through August. Revolving credit, mostly credit cards, fell at an 8% annual rate in the first eight months of 2010, after declining 10% in 2009. Nonrevolving credit, which includes auto and other loans, edged up at a

1% rate from January through August, after falling 1% in 2009. These statistics exclude loans secured by real estate.

Construction and Real Estate

Housing starts rose 11% in August, after dropping in June and remaining low in July as a federal program supporting the housing sector wound down. At a seasonally adjusted annual rate of 598,000 units, starts on residential construction remained low, far less than the 2,068,300 units started in 2005, the recent peak year. Year-to-date housing starts through eight months were 9% higher than a year earlier.

Residential construction and sales remain low.

New homes sold in August were at a 288,000 annual rate, 2% above the record low in May for this series that begins in 1963. New home sales statistics are for contract signings, not closings. The sales rate is far below new home sales in peak year 2005, 1,283,000. Builders have cut their inventories of finished units and homes under construction in half over the past two years. But inventories are still high relative to the slow pace of sales. Finished homes typically take more than ten months to sell, twice as long as usual in past years.[12] The median price of new homes sold nationwide in August was $204,700, 1% lower than a year earlier; the average price was $248,800, 3% lower.

Home sales reported by the National Association of Realtors (NAR), generally previously owned homes, rose 8% in August after dropping 27% in July, seasonally adjusted. These statistics represent closings on transactions. Sales through June were boosted by the federal tax credit program. The sales pace in August remained low, 19% below that of a year earlier. Home prices edged higher. The median price of home sales closed in August nationwide was $178,600, 1% above a year earlier; the average price was $228,700, 3% higher.

NAR's pending home sales index, a measure of new contract signings rather than closings, rose 4% in August after increasing 5% in July. The index was 20% lower than in August 2009.

Home prices nationwide, measured by the monthly housing price index published by the Federal Housing Finance Agency, fell 0.5% in July after declining 1.2% in June. These declines in the index more than offset increases in the previous three months. Home prices are at about the same level, on average, as in September 2004, according to the agency, and are 13.8% below the peak in April 2007. The index is based on the

[12] The median number of months for sale since completion peaked at 14.4 in March of this year.

The consumer price index (CPI) rose 0.3% in August, and was 1.1% higher than a year earlier. Excluding energy and food, the CPI was 0.9% above a year earlier.

purchase prices of houses that back mortgage loans sold to or guaranteed by Fannie Mae or Freddie Mac, which the agency oversees.

Construction spending in August rose 0.4%, reflecting an increase in public construction activity and declines in private residential and nonresidential construction (seasonally adjusted). The total value of construction put in place in August was 33% below its peak in March 2006. Spending on public construction has trended higher since February. Private residential building hit bottom in July 2009, down nearly two-thirds from its peak in March 2006, and has remained at a low level since then. Private nonresidential construction activity in August was 37% below the peak rate in January 2008.

Inflation

The consumer price index (CPI) rose 0.3% in August, and was 1.1% higher than a year earlier. Higher energy prices, particularly for gasoline, were the main source of the latest month-to-month increase in the total index. Excluding energy and also food, which registered a small increase in the latest month, the CPI was unchanged from July to August, and was 0.9% above a year earlier.

The producer price index (PPI) for finished goods rose 0.4% in August, reaching a level 3.1% above a year earlier. Gasoline prices rose 7.5% in August. The index for all food prices fell from July to August, the fourth month in the last five of falling food prices. Excluding food and energy, the PPI rose 0.1% in August, to 1.3% higher than a year earlier. At earlier stages in the production process, the PPI for intermediate goods was 5.0% higher in August than a year earlier. The PPI for crude materials was 18.3% higher.

The Ohio Economy

Total nonfarm payroll employment in Ohio fell 15,400 in August, with job losses in both the goods-producing and service sectors. After reaching a low point in February, total nonfarm payrolls rose 53,800 by May but have since fallen 19,200. Net employment gains since February were largest in manufacturing, 16,200 (2.7%); construction, 9,500 (5.8%); trade, transportation, and utilities, 8,900 (0.9%); and leisure and hospitality, 5,400 (1.1%). Net job losses since then were largest in government, 3,600 (0.5%); information, 1,700 (2.2%); and financial activities, 1,600 (0.6%). Average weekly hours of employed Ohioans have been higher this year than in 2009, after shrinking last year and in part of 2008. Total Ohio employment in August remained more than 400,000 below the previous cyclical peak in 2006, and more than 600,000 lower than the all-time peak in 2000.

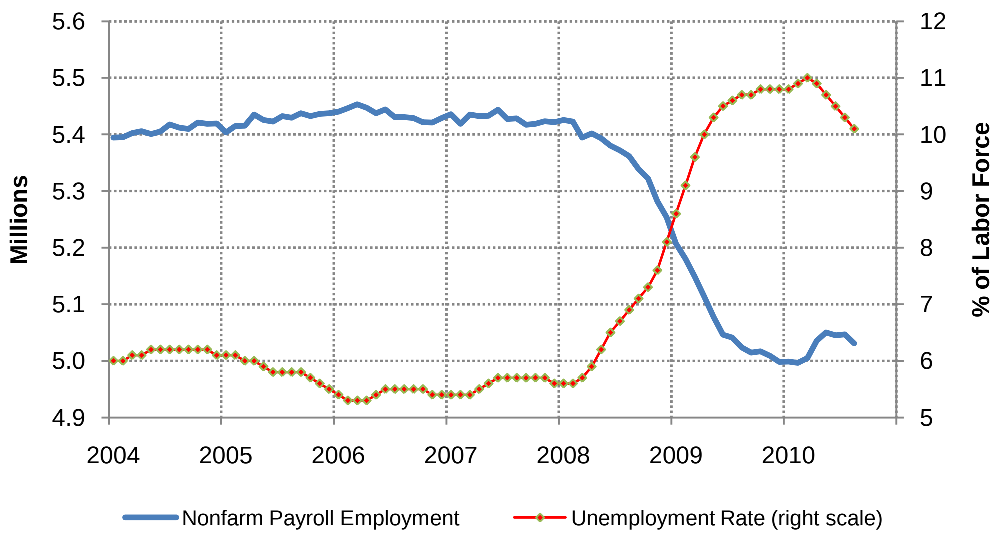
Unemployment in Ohio remained high in August at 601,000 persons, or 10.1% of the labor force. This count of the unemployed includes only persons who were out of work and actively seeking jobs. The unemployment rate fell for the fifth consecutive month, from the cyclical peak of 11% in March. August's unemployment rate was the lowest since April 2009.

These trends in Ohio employment and unemployment are shown in Chart 3.

The unemployment rate in August was highest, among Ohio metropolitan areas, in Steubenville-Weirton at 13.0%, followed by Youngstown-Warren-Boardman at 11.1%, Mansfield at 10.7%, Canton-Massillon at 10.6%, and Toledo at 10.5%. The Ohio metropolitan area with the lowest unemployment rate was Columbus at 8.3%. These metropolitan area figures are not seasonally adjusted.

Total nonfarm payroll employment in Ohio fell 15,400 in August, with job losses in both the goods-producing and service sectors. Employment remained above the cyclical low in February.

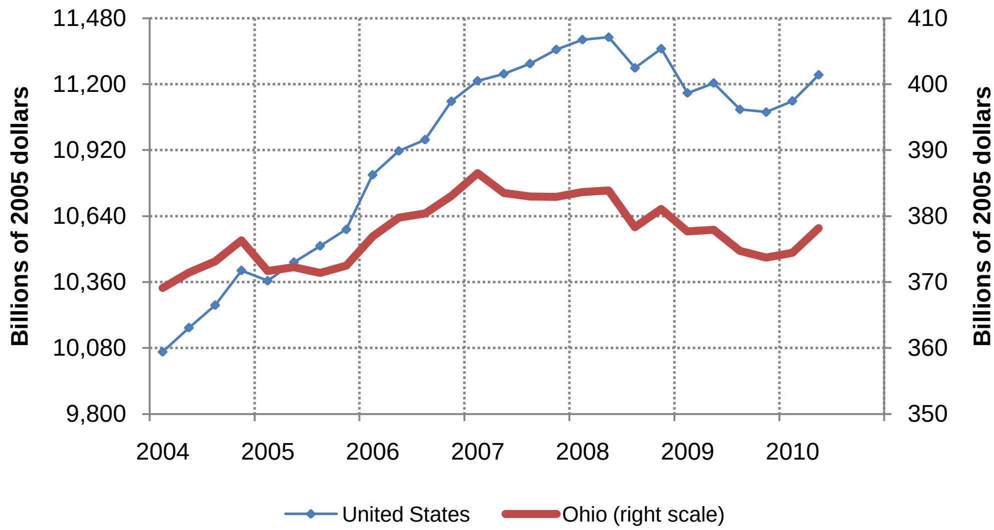
Chart 3: Ohio Employment and Unemployment



Personal income in Ohio rose at a 4.0% annual rate in the second quarter, compared with the first quarter, matching the rate of increase nationwide. Increases in wage and salary disbursements accounted for about 40% of the increase in personal income nationwide and 46% of the increase in Ohio. Increases in receipts from transfer programs such as social security accounted for more than one-third, both in the nation and Ohio. Over a longer time period, income gains in Ohio have trailed those nationwide, as illustrated in Chart 4. In the chart, personal income is adjusted for inflation using the national personal consumption expenditures deflator, for Ohio as well as the United States. During the past five years, inflation-adjusted personal income in Ohio rose by 1.6%, while inflation-adjusted personal income in the nation grew 7.6%.

Unemployment in Ohio remained high in August at 10.1% of the labor force. The cyclical peak was 11%, in March.

Chart 4: Personal Income



The Ohio Association of Realtors reported that the number of homes sold in the state in August was 17% lower than in August 2009. For the first eight months of 2010, however, unit sales were 5% higher than a year earlier. The organization cited the federal home buyer tax credit as a factor in the strength of sales earlier this year. The average sales price of homes sold in the first eight months of 2010 in Ohio was about $134,800, 5% higher than a year earlier.