Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION SEPTEMBER 2010

STATUS OF THE GRF

HIGHLIGHTS

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

Most recent indicators suggest the nation's economic recovery is continuing, though at a slow pace and fitfully. Ohio's economy is also growing, as indicated by rising employment. Ohio's average unemployment rate in the latest month, at 10.3% in July, is down from its peak of 11% in March 2010. The Federal Reserve Bank of Cleveland reported in its most recent edition of the Beige Book a slight expansion of economic activity in the Fourth District (which includes Ohio) in the past six weeks, including an increase in retail sales.

The improved economic conditions are reflected in growing tax revenues this fiscal year. GRF tax receipts in the first two months of FY 2011 increased $170 million compared to receipts in the corresponding period in FY 2010, with most of the growth in revenue from two of the three major tax sources, the sales tax ($121 million) and the personal income tax ($45 million).

Through August 2010, FY 2011 GRF sources totaled $4.21 billion, up $547.5 million compared to revenues in the corresponding period in FY 2010. Year-to-date through August, FY 2011 GRF uses totaled $5.91 billion, up $412.3 million compared to expenditures in the corresponding period in FY 2010.

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STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Actual Revenue, by Month and Year-to-Date
FY 2011 as of August 31, 2010
($ in thousands)
(Based on report run in OAKS Actuals Ledger on September 8, 2010)

	Month		Year-to-Date			
	July	**August**	**FY 2011**	**FY 2010**	***Variance***	***Change***
STATE SOURCES						
TAX REVENUE						
Auto Sales	$84,220	$93,470	$177,690	$169,973	*$7,717*	*4.5%*
Nonauto Sales and Use	$591,975	$536,445	$1,128,419	$1,015,386	*$113,034*	*11.1%*
Total Sales and Use Taxes	$676,194	$629,915	$1,306,110	$1,185,359	*$120,751*	*10.2%*
Personal Income	$488,651	$540,730	$1,029,381	$984,568	*$44,813*	*4.6%*
Corporate Franchise	-$5,564	$134	-$5,430	-$13,778	*$8,348*	*60.6%*
Public Utility	$20	$30,458	$30,478	$34,114	*-$3,637*	*-10.7%*
Kilowatt Hour Excise	$12,562	$19,133	$31,695	$25,560	*$6,135*	*24.0%*
Commercial Activity Tax*	$0	$0	$0	$0	*$0*	---
Foreign Insurance	$50	-$229	-$179	-$285	*$105*	*37.0%*
Domestic Insurance	$134	$0	$134	$53	*$81*	*152.8%*
Business and Property	$126	$3	$129	$97	*$31*	*32.1%*
Cigarette	$22,756	$71,466	$94,223	$99,953	*-$5,730*	*-5.7%*
Alcoholic Beverage	$2,913	$7,585	$10,497	$10,981	*-$484*	*-4.4%*
Liquor Gallonage	$3,082	$3,343	$6,425	$6,277	*$148*	*2.4%*
Estate	$0	$0	$0	$238	*-$238*	*-100.0%*
Total Tax Revenue	**$1,200,923**	**$1,302,540**	**$2,503,463**	**$2,333,138**	***$170,324***	***7.3%***
NONTAX REVENUE						
Earnings on Investments	$3	$3	$6	$15	*-$9*	*-62.6%*
Licenses and Fees	$961	$6,673	$7,634	$12,760	*-$5,126*	*-40.2%*
Other Revenue	$537	$583	$1,120	$6,439	*-$5,319*	*-82.6%*
Total Nontax Revenue	**$1,500**	**$7,259**	**$8,760**	**$19,215**	***-$10,455***	***-54.4%***
TRANSFERS						
Liquor Transfers	$13,000	$13,000	$26,000	$27,000	*-$1,000*	*-3.7%*
Budget Stabilization	$0	$0	$0	$0	*$0*	---
Other Transfers In	$6,106	-$7,464	-$1,357	$978	*-$2,335*	*-238.8%*
Total Transfers In	**$19,106**	**$5,536**	**$24,643**	**$27,978**	***-$3,335***	***-11.9%***
TOTAL STATE SOURCES	**$1,221,530**	**$1,315,335**	**$2,536,865**	**$2,380,331**	*$156,534*	**6.6%**
Federal Grants	$828,784	$848,859	$1,677,643	$1,286,652	*$390,992*	*30.4%*
TOTAL GRF SOURCES	**$2,050,314**	**$2,164,194**	**$4,214,508**	**$3,666,982**	***$547,526***	***14.9%***

*Commercial activity tax receipts in FY 2011 are non-GRF.
Detail may not sum to total due to rounding.

REVENUES

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

Overview

After two consecutive years of declines (12.0% in FY 2009 and 5.0% in FY 2010), GRF tax receipts are off to a promising start in the first two months of FY 2011. Compared to FY 2010, they were up $170.3 million (7.3%). Overall, FY 2011 total GRF sources of $4.21 billion were $547.5 million (14.9%) above FY 2010 GRF sources through August 2009, buoyed by an increase of $391.0 million in federal grants. Table 1 shows GRF sources for the months of July and August 2010, and compares FY 2011 year-to-date receipts to FY 2010 receipts. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, 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.

FY 2011 GRF tax receipts through August were $170.3 million above FY 2010 receipts.

Through August, FY 2011 GRF receipts from the sales and use tax and the personal income tax were above the previous year's level, respectively, by $120.8 million and $44.8 million. Other taxes with notable year-to-year revenue variances included increases of $6.1 million in kilowatt hour tax receipts, and decreases of $5.7 million in cigarette tax receipts and $3.6 million in public utility excise tax receipts. Also, net corporate franchise tax refunds to taxpayers were $8.3 million lower than in FY 2010 through August, yielding a positive variance for that tax of the same amount.

Through August, FY 2011 GRF income tax receipts were $44.8 million above FY 2010's level.

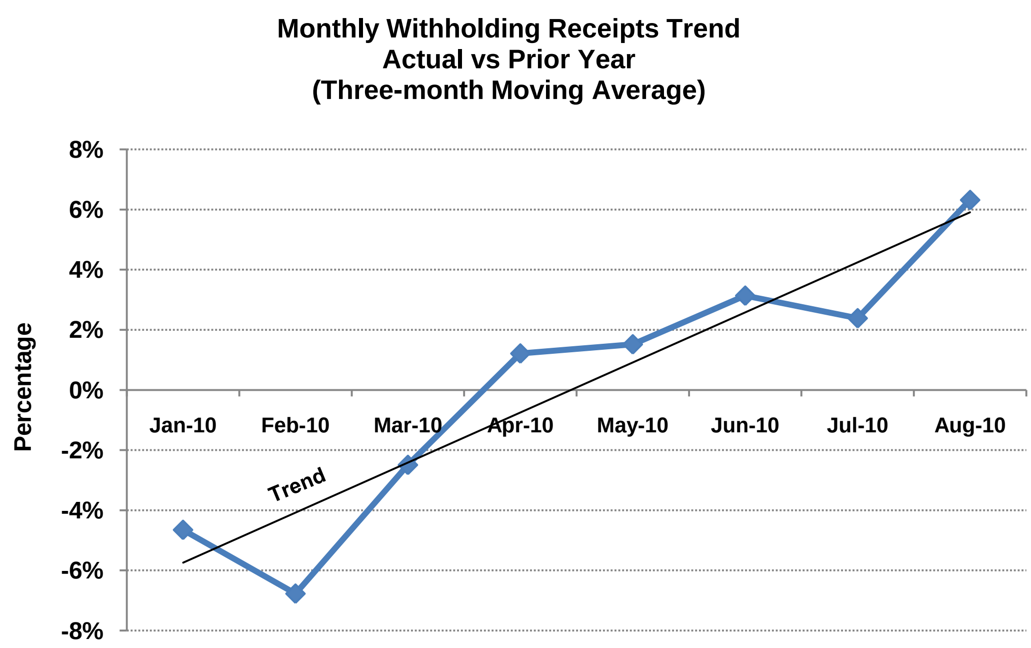
Personal Income Tax

Through August, the GRF received $1.03 billion from the personal income tax in FY 2011. This amount was 4.6% above receipts during 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,[1] trust payments, payments associated with annual returns, and miscellaneous payments. The table below summarizes FY 2011 income tax revenue annual changes by component.

[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 (TY) and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

FY 2011 Year-to-Date Changes by Component from FY 2010		
Category	Amount ($ in millions)	Percentage (%)
Withholding	$49.3	4.5%
Quarterly Estimated Payments	$4.1	19.7%
Trust Payments	-$0.2	-14.4%
Annual Return Payments	-$1.4	-8.5%
Miscellaneous Payments	-$0.1	-0.9%
Gross Collections	$51.7	4.5%
Less Refunds	$0.0	0.0%
Less Local Government Fund Distribution	$6.9	6.8%
Income Tax Revenue	$44.8	4.6%

Most noticeably, revenues from employer withholding and distributions to the Local Government Fund were, respectively, $49.3 million and $6.9 million, above receipts in those categories in the first two months of FY 2010. The gradual improvement in employment withholding that started in the fourth quarter of FY 2010 has continued into FY 2011, as shown in the graph below.



Sales and Use Tax

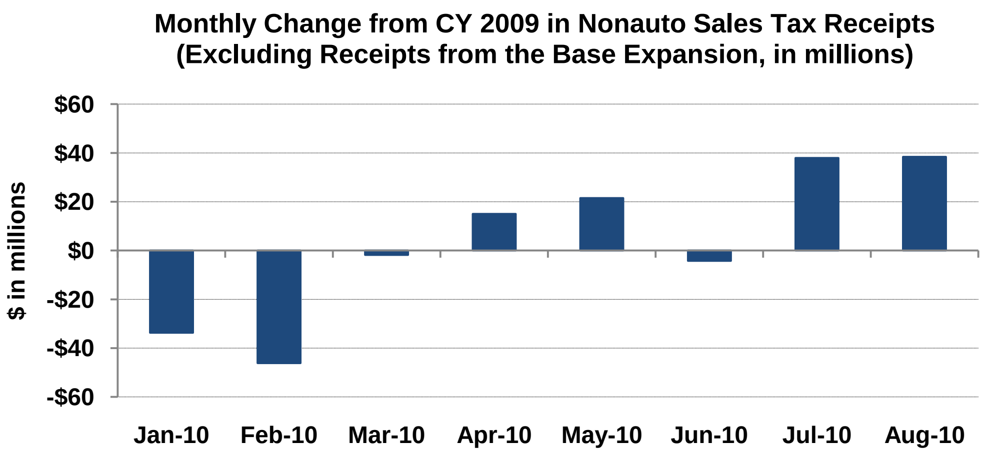
Through August, FY 2011 GRF sales and use tax receipts totaled $1.31 billion, 10.2% above FY 2010 receipts in the same period. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales.[2] Both components of the sales tax had strong performances at the start of FY 2011.

FY 2011 year-to-date sales tax receipts were $120.8 million above FY 2010 receipts.

Nonauto Sales and Use Tax

Nonauto sales and use tax receipts to the GRF were $1.13 billion, $113.0 million (11.1%) above receipts in FY 2010 through August 2009. 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.

The nonauto sales and use tax base appears to be growing again in FY 2011.



[2] 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. 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.

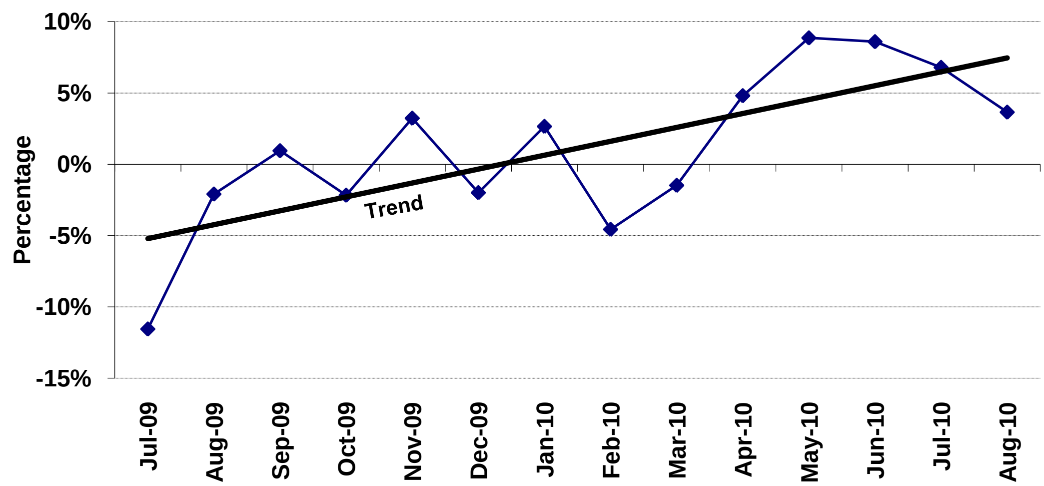
[3] New taxes were imposed on health care services provided by Medicaid health insuring corporations starting on October 1, 2009 (H.B. 1, the operating budget act for the current biennium). Those services are newly taxed under the sales and use tax and the insurance taxes.

FY 2011 year-to-date auto sales and use tax receipts were $7.7 million above FY 2010 receipts.

Auto Sales and Use Tax

FY 2011 year-to-date auto sales and use tax receipts to the GRF totaled $177.7 million, $7.7 million (4.5%) above receipts in FY 2010 through August 2009. This gain compared to year-ago receipts is remarkable because auto sales and use tax receipts jumped last summer as a result of the "cash for clunkers" federal program.[4] The graph below, which compares monthly auto sales and use tax receipts with year-ago receipts in the same period shows a sustained upward trend, though the growth of tax receipts has eased somewhat in the last few months.

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



Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products in FY 2011 were $94.2 million, $5.7 million (5.7%) below FY 2010 receipts through August 2009. Receipts from cigarette sales were $85.9 million. Sales of products other than cigarettes provided $8.3 million. Compared to FY 2010, receipts from the sale of cigarettes declined $6.1 million and those from the sale of other tobacco products increased $0.4 million. Receipts from the cigarette and other tobacco products tax are the third-

[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 turn in older, less fuel-efficient vehicles. The incentive raised the nationwide annual sales rate from 9.7 million units in June 2009 to 11.2 million in July 2009 and 14.0 million in August 2009.

largest GRF tax revenue source in FY 2011, after the personal income tax and the sales and use tax.

Commercial Activity Tax

The first commercial activity tax (CAT) payment for FY 2011 was due August 10, 2010. According to OAKS, August CAT receipts totaled $309.9 million, $15.9 million above receipts in August 2009. Through August, FY 2011 CAT receipts of $351.9 million were $39.3 million (12.9%) above receipts in the same period 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.

FY 2011 CAT receipts were $39.3 million above FY 2010 receipts through August.

EXPENDITURES

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

Total GRF uses for the first two months of FY 2011 were $5.91 billion.

As seen from Table 2 below, total GRF uses for the first two months of FY 2011 were $5.91 billion. Program expenditures, which totaled $5.34 billion, comprised slightly more than 90% of the total GRF uses. LSC did not receive the monthly GRF use estimates for FY 2011 in time for publishing this issue of *Budget Footnotes*. Therefore, this brief expenditure report does not compare actual GRF uses in July and August with the estimated uses for these two months.

Table 2: General Revenue Fund Uses
Months of July and August 2010
($ in thousands)
(Actual based on OAKS reports run on September 8, 2010)

PROGRAM	July Actual	August Actual	Year-to-Date Actual
Primary, Secondary, and Other Education	$865,279	$578,926	$1,444,205
Higher Education	$225,459	$192,394	$417,853
Total Education	$1,090,738	$771,320	$1,862,058
Public Assistance and Medicaid	$1,191,530	$1,232,874	$2,424,405
Health and Human Services	$165,613	$81,008	$246,621
Total Welfare and Human Services	$1,357,144	$1,313,882	$2,671,026
Justice and Public Protection	$260,326	$133,351	$393,677
Environment and Natural Resources	$9,150	$5,440	$14,590
Transportation	$729	$5,716	$6,445
General Government	$41,805	$23,357	$65,162
Community and Economic Development	$7,690	$6,959	$14,649
Capital	$0	$24	$24
Total Government Operations	$319,699	$174,847	$494,546
Tax Relief and Other	$1,883	$103,760	$105,643
Debt Service	$116,028	$93,918	$209,946
Total Other Expenditures	$117,911	$197,678	$315,589
Total Program Expenditures	**$2,885,493**	**$2,457,726**	**$5,343,219**
TRANSFERS			
Budget Stabilization	$0	$0	$0
Other Transfers Out	$1,565	$567,536	$569,101
Total Transfers Out	$1,565	$567,536	$569,101
TOTAL GRF USES	**$2,887,058**	**$3,025,262**	**$5,912,320**

Most of the program expenditures ($4.68 billion or 87.6%) in the first two months of the year were concentrated in the following four program categories: Public Assistance and Medicaid ($2.42 billion); Primary, Secondary, and Other Education ($1.44 billion); Higher Education ($417.9 million); and Justice and Public Protection

($393.7 million). The other component of GRF uses, transfers out, expended $569.1 million through the first two months of FY 2011 although the vast majority of this occurred in August. A large portion of the transfers out may be temporary in nature because they were transferred from the GRF to the two property tax replacement funds to meet their cash flow needs. These two funds, which are supported by commercial activity tax (CAT) revenue, are used to reimburse school districts and local governments for their tangible personal property (TPP) tax revenue losses resulting from the TPP tax phase-out. If CAT generates sufficient revenue, the GRF will be reimbursed for the total amount of transfers to the two property tax replacement funds.

GRF Medicaid spending totaled $2.30 billion for the first two months of FY 2011.

GRF expenditures for Medicaid totaled $2.30 billion in July and August, accounting for almost 95% of the total year-to-date GRF expenditures for Public Assistance and Medicaid. Table 3 below shows FY 2011 actual GRF Medicaid expenditures by service category. On an all-fund basis, Medicaid expenditures totaled $2.43 billion for the first two months of FY 2011.

Table 3: FY 2011 Medicaid Expenditures
($ in thousands)
(Actual based on OAKS reports run on September 8, 2010)

Medicaid (600525) Payments by Service Category	July Actual	August Actual	Year-to-Date Actual
Nursing Facilities	$220,876	$230,755	$451,630
ICFs/MR	$45,139	$46,560	$91,699
Inpatient Hospitals	$85,191	$208,232	$293,424
Outpatient Hospitals	$34,847	$39,796	$74,643
Physicians	$28,747	$31,859	$60,606
Prescription Drugs	$145,326	$150,950	$296,275
ODJFS Waivers	$29,745	$30,378	$60,123
MCP	$407,734	$411,672	$819,406
All Other	$129,449	$138,211	$267,660
DA Medical	$1	$1	$2
Total Payments	$1,127,056	$1,288,413	$2,415,469
Non-GRF Offsets	$0	-$130,104	-$130,104
Total 600525 (net of offsets)	$1,127,056	$1,158,309	$2,285,365
Medicare Part D (600526)	$0	$11,823	$11,823
Total GRF	**$1,127,056**	**$1,170,132**	**$2,297,188**
Total All Funds	**$1,127,056**	**$1,300,236**	**$2,427,292**

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded
ODJFS - Ohio Department of Job and Family Services
MCP - Managed Care Plan
DA Medical - Disability Medical Assistance

ISSUE UPDATES

Enhanced Federal Medicaid Match Has Been Extended

—Ivy Chen, Principal Economist, 614-644-7764

New federal law (P.L. 111-226) provides a two-quarter extension of the enhanced federal matching rates included in the American Recovery and Reinvestment Act of 2009 (ARRA). It is estimated that Ohio will receive a $513 million increase in federal reimbursement under the new law, including $486.6 million for the Medicaid Program, $22.6 million for Medicare Part D clawback savings,[5] and $3.4 million for the Title IV-E foster care and adoption assistance program. The enhanced federal Medicaid match rates under ARRA were set to expire on December 31, 2010, which is midway through state fiscal year 2011. The new law extends the enhanced matching rate to June 30, 2011, which is the end of FY 2011.

ARRA increased the share of Medicaid programs paid by the federal government for 27 months. It provided a 6.2 percentage-point across-the-board increase and a bonus adjustment related to the change in a state's unemployment rate. The new law reduces the across-the-board increase from 6.2 to 3.2 percentage points for the third quarter of FY 2011 and 1.2 percentage points for the fourth quarter of FY 2011. In addition, the new law maintains the formula for the calculation of the bonus adjustments but makes certain rule modifications. The new law also requires governors to apply for the extension and certify that states will use the additional funds. Applications must be received by the Centers for Medicare and Medicaid Services by September 24, 2010 (45 days after the bill was signed into law).

Ohio Awarded $4.9 million for Low Payment Error Rate for Food Assistance

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

In June 2010, Ohio was awarded $4.9 million for achieving a low payment error rate in the Food Assistance Program[6] for federal fiscal year (FFY) 2009. That year, Ohio's error rate was 2.30%, which was below the national average of 4.36%. Payment errors occur when benefit payments are either over or under the amount a household is

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[5] The federal government requires states to share the cost of Medicare prescription drug coverage for individuals eligible for both Medicare and Medicaid (dual eligible). The states' share of the costs that must be paid back to the federal government is known as "clawback."

[6] This program was formerly called the Food Stamp Program and at the federal level is now called the Supplemental Nutrition Assistance Program, or SNAP.

eligible to receive. These errors are mainly due to changes in household status (income, resources, household size) that are not immediately taken into account when a benefit amount is authorized. While payment errors can be reconciled in subsequent months, they are still counted towards a state's error rate.

Ohio was previously awarded $5.1 million from the federal government for having one of the most improved error rates, from 9.17% in FFY 2007 to 4.29% in FFY 2008, a decrease of 4.88 percentage points. The table below shows Ohio's Food Assistance Program error rate over the past three federal fiscal years compared to the national average.

Food Assistance Program Payment Error Rates			
	FFY 2007	FFY 2008	FFY 2009
Ohio	9.17%	4.29%	2.30%
National Average	5.64%	5.01%	4.36%

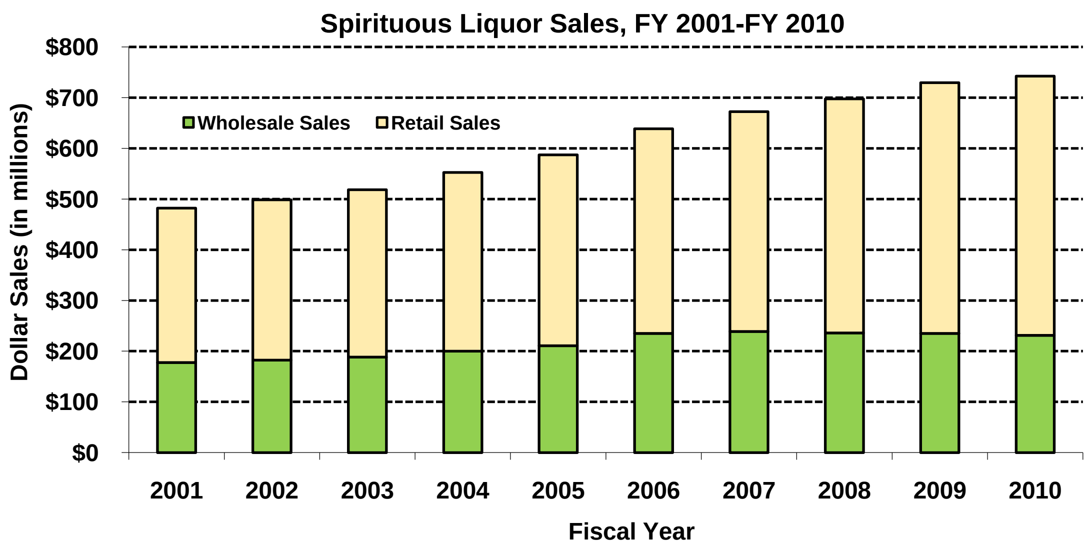
In FFY 2009, an average of 1.36 million individuals per month received food assistance benefits in Ohio. Benefits issued in that year totaled $2.17 billion, with an average benefit of $133 per person per month. The federal government fully funds benefits and reimburses states 50% of the costs to administer the program. Awards for low error rates are generally used as state match to draw down federal reimbursement for administration thereby reducing the amount of GRF dollars used for that purpose.

Overall Liquor Sales Continue to Increase but Growth Rate Slows

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

Total spirituous liquor sales reached another record in FY 2010, amounting to $742.7 million. This level marks an increase of 1.7% ($12.8 million) over FY 2009 sales of $729.9 million, the slowest growth rate in the past ten fiscal years. The previous low was a 3.4% increase from FY 2001 to FY 2002. As the chart below shows, increases in liquor sales over the past decade have been due primarily to growth in retail sales (sales made by contract liquor agencies directly to consumers). FY 2010 retail sales increased to $511.2 million, which is $16.6 million (3.4%) more than FY 2009. In contrast, wholesale sales (sales made by contract liquor stores to retailers, such as restaurants and bars) decreased by $3.8 million (1.6%) to $231.4 million in FY 2010, marking the third consecutive year of decline. Wholesale sales peaked in FY 2007 at $239.1 million.

The proceeds of liquor sales are used to pay for the operating expenses of the Department of Commerce's Division of Liquor Control, retire certain economic development and Clean Ohio revitalization bonds, and fund state liquor law enforcement and alcoholism treatment. Profits remaining after these expenses have been paid are transferred to the GRF. In FY 2010, transfers to the GRF from the Liquor Control Fund (Fund 7043) amounted to $167.7 million.



Office of the Attorney General Begins New Program to Assist Dislocated Peace Officers

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

In June, the Office of the Attorney General announced a program to offer assistance to peace officers who have been laid off due to the recent economic downturn. The Dislocated Peace Officer Assistance Program provides eligible participants scholarships for training through the Ohio Peace Officer Training Academy (OPOTA). Scholarships will enable participants to attend, free of charge, many courses offered by OPOTA, including 64 classroom courses, 34 online courses, and all OPOTA regional update training sessions. Scholarships may also be used for dining hall meals and dormitory stays (if space is available) at the London OPOTA facility. In August, the Controlling Board approved $100,000 in non-GRF funding for the program. The program will end December 31, 2010 or when the program funds are exhausted. The Office of the Attorney General estimates that approximately 1,000 peace officers have been laid off in the past two years.

In addition to the training program, the Office of the Attorney General has also developed an online resource guide, Dislocated Peace Officer Resource Handbook, to assist dislocated peace officers in searching new employment opportunities and obtaining unemployment benefits. This handbook and additional information for the training program, including the approved OPOTA course list, are available on the Office of the Attorney General's web site.[7]

[7] www.OhioAttorneyGeneral.gov/DislocatedOfficerAssistance.

Department of Education Identifies 41 Recipients of School Improvement Grants

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

In June 2010, the Ohio Department of Education (ODE) awarded a total of $95 million in federal School Improvement Grant (SIG) funds to 41 Ohio schools. These funds are part of $132 million in SIG funds awarded to ODE by the U.S. Department of Education in March 2010 under ARRA. Funding for the competitive grants will be distributed to schools over three years, beginning in FY 2011, in amounts ranging from $62,500 to $2,000,000 annually. In accordance with federal guidelines, ODE has reserved more than $30 million for a second round of SIG funding to be completed in spring 2011.

SIG funds are aimed at helping the state's consistently lowest achieving Title I schools in implementing a school improvement plan. Title I is a federally funded program that targets disadvantaged students. Under federal regulations, schools eligible for the grants include: (1) the persistently lowest-achieving Title I schools in improvement, corrective action, or restructuring status (Tier I schools), (2) the persistently lowest-achieving secondary schools that are eligible for, but do not receive, Title I, Part A funds (Tier II schools), and (3) all Title I schools in school improvement status that are not in Tier I (Tier III schools). A total of 737 schools meeting these requirements were identified by ODE as eligible to apply for the grants. As part of their application, Tier I and Tier II schools were required to indicate one of four intervention models that they would implement: Turnaround Model, Restart Model, School Closure Model, or Transformation Model. Tier III schools were not required to select an intervention model, but were required to identify improvement strategies that will enable the schools to exit school improvement status.[8]

Lottery Profits Transfers to Education Totaled Almost $729 Million in FY 2010

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

The Ohio Lottery transferred $728.6 million in profits from operations to the Lottery Profits Education Fund (Fund 7017) in FY 2010. This is the second largest transfer in Ohio Lottery's history, approximately $20 million below the largest transfer of $748.5 million in FY 1997. Once transferred, lottery profits are used to help pay for state foundation payments for schools. The $728.6 million profits transfer represents 29.3% of $2.49 billion in lottery sales in FY 2010. The table below shows lottery ticket

[8] Complete lists of eligible schools and funded schools are available on ODE's web site: www.ode.state.oh.us; search for "school improvement funds."

sales by game in FY 2010 and FY 2009. As seen from the table, total ticket sales grew $70.6 million (2.9%) in FY 2010. In April 2010, the Ohio Lottery joined 41 other states to offer Powerball, hoping to garner sales of at least $30 million per year from this multi-state game.

Ohio Lottery Ticket Sales by Game, FY 2009 and FY 2010
($ in millions)

Game	FY 2009	FY 2010	$ Change	% Change
Pick 3	$382.50	$366.80	-$15.80	-4.10%
Pick 4	$205.90	$201.30	-$4.60	-2.20%
Rolling Cash 5	$67.20	$67.10	-$0.10	-0.20%
Kicker	$21.40	$24.10	$2.70	12.50%
Classic Lotto	$43.90	$42.80	-$1.10	-2.40%
Multi-state Games	$193.00	$239.30	$46.30	24.00%
Keno	$99.80	$120.60	$20.80	20.90%
Other*	$54.50	$49.20	-$5.30	-9.80%
Instants	$1,347.90	$1,375.60	$27.70	2.10%
TOTAL	**$2,416.20**	**$2,486.80**	**$70.60**	**2.90%**

* "Other" games include Raffle, EZ-Play, and Ten-OH

Chancellor Maintains FY 2010 Nurse Education Assistance Loan Program Award Allocation in FY 2011

—Mary Morris , Budget Analyst, 614-466-2927

The Board of Regents announced recently that the allocation of awards in the Nurse Education Assistance Loan Program (NEALP) in FY 2011 will be the same as it was in FY 2010. Current law mandates that 50% of the awards be given to registered nurses (RNs) who are studying to become nursing instructors and 25% of the awards be given to students studying to become RNs. Before FY 2010, the law required that the remaining 25% of awards be given to students studying to become licensed practical nurses (LPNs). In FY 2010 and FY 2011, however, H.B. 1 permits the Chancellor of the Board of Regents to determine the type of nursing students eligible for the remaining 25%. For FY 2010 and now also for FY 2011, the Chancellor has determined that the remaining 25% be given to students studying to become RNs.

NEALP offers loan repayment grants to nursing students upon completion of their nursing program. The program is intended to encourage students to become nurses and awards are made on the basis of need. Award amounts have decreased in recent years. In previous biennia, NEALP recipients at Ohio's public institutions of higher education could be awarded loan repayments equal to 100% of tuition. However, in FY 2009, NEALP awards were reduced to a maximum of $1,500 for undergraduate nursing students and $5,000 for RNs studying to be nursing instructors. In FY 2010, approximately 230 students received awards totaling approximately $400,000. NEALP is funded through surcharges on nursing license fees and has an appropriation of $893,000 in FY 2011.

SFC Offers Facility Funding with Reduced Local Share to Three Rivers Local School District

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

In July, the School Facilities Commission (SFC) recommended state funding for a pre-kindergarten through 12th grade school to be built in Three Rivers Local School District in Hamilton County. The Controlling Board subsequently approved the SFC funding offer in August. The funds will support the state share of Three Rivers' participation in SFC's Extreme Environmental Contamination Program (EECP). The program allows a school district experiencing environmental contamination to participate in the Exceptional Needs Program, which is designed to assist districts in addressing the health and safety needs associated with a specific building. H.B. 1 limited the district share of qualifying EECP school districts to 50% of the total project cost. With this change, Three Rivers' share of its $53.6 million project decreased from 95%, or $50.9 million, to 50%, or $26.8 million. State funds will support the remaining 50%. The district secured its share of the project in May and will proceed with construction of the school.

Department of Development Awarded More Third Frontier R&D Grants in Smaller Amounts in FY 2010

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

The Ohio Department of Development and the Third Frontier Commission increased the number of research and development (R&D) grants awarded in FY 2010 by almost 39%, but in smaller amounts due to a decrease in total appropriation. In FY 2009, 31 Third Frontier R&D grants were awarded for a total of $71.1 million. In FY 2010, there were 43 such awards totaling $40.6 million. The average award decreased from approximately $2.3 million in FY 2009 to just under $944,000 in FY 2010. Funds were also more evenly distributed in FY 2010. While FY 2009 awards range from a high of $6.7 million to a low of about $102,000, FY 2010 awards range from a high of $4.0 million to a low of around $195,000. In FY 2009, there were two grants of $1.0 million each and 13 awards of over $3 million, including five of $5.0 million or greater. In contrast, FY 2010 awards included 18 grants of exactly $1.0 million each and only three awards that were greater.

The Third Frontier R&D grants support companies in conducting research, development, and commercialization of advanced technologies in certain targeted industries such as solar photovoltaic panels, fuel cells, sensors, advanced materials, and advanced energy. Funding for the program is derived from the sale of bonds, the proceeds of which are deposited into the Third Frontier Research and Development Fund (Fund 7011). In FY 2011, which is the last fiscal year under the program's original $500 million in spending authority, H.B. 1 appropriated $55.0 million for grants. In May 2010, Ohio voters approved Issue 1, which authorized the sale of an additional $700 million in Third Frontier research and development bonds beginning in FY 2012.

Ohio Environmental Protection Agency Recently Awarded $1.4 Million in Grants to Address Grand Lake St. Marys Blue-Green Algae Blooms

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

The Ohio Environmental Protection Agency (Ohio EPA) recently awarded five grants totaling $1.4 million to address the water quality conditions at Grand Lake St. Marys, Ohio's largest inland lake that straddles the Mercer-Auglaize county line. These grants, summarized in the table below, are part of an ongoing effort to improve the water quality of the lake as well as address the recent blue-green algae (cyanobacteria) blooms in the lake. While the $60,000 award for the Mercer County Commissioners was supported by moneys from the state Surface Water Improvement Fund, the other four awards were supported by the federal Clean Water Act Section 319 grants received by Ohio EPA. These five grant awards have brought the total state, local, and federal funding to improve the Grand Lake St. Marys watershed and the lake to over $6.8 million in 2009 and 2010.

In addition to these five newly funded projects, the Grand Lake St. Marys watershed is currently conducting two other projects to improve the water quality conditions of the lake. The first project, which is funded by a $25,000 grant from the Ohio Department of Agriculture, implements a pilot project to add sand to a study area to allow nontoxic algae to thrive and out-compete harmful bacteria in the lake. The second project is funded by a $191,650 grant provided under the federal Clean Water Act Section 319. These funds were awarded to the Mercer County Soil and Water Conservation District to implement best management practices and home sewage treatment system improvements in the watershed.

Recent Ohio EPA Grant Awards Targeted to Grand Lake St. Marys		
Recipient	**Amount**	**Project Description**
Ohio Department of Natural Resources	$250,000	Application of aluminum sulfate to selected areas of the lake
Mercer County Commissioners	$484,000	Development of wetlands and a treatment train approach to reduce nutrients entering the lake
U.S. Department of Agriculture Natural Resource Conservation Service	$495,000	Provide targeted conservation planning for farm-scale conservation
St. Marys Township	$90,540	Installation of bed load sediment collector
Mercer County Commissioners	$60,000	Installation and evaluation of a water aeration and circulation device

Cash Transfers Pursuant to Section 512.60 of H.B. 1 Total $76.2 Million in FY 2010

—Wendy Zhan, Deputy Director, 614-728-4814

Pursuant to Section 512.60 of H.B. 1, a total of $76.2 million cash was transferred from various non-GRF funds (commonly called rotary funds) into the GRF to help balance the state's operating budget for FY 2010. Section 512.60 authorizes the Director of Budget and Management to make such transfers from rotary funds that are not constitutionally restricted. The table below lists the transfers by fund based on data provided by the Office of Budget and Management.

Cash Transfers to the General Revenue Fund, FY 2010

Fund No.	Fund Name	Fund User	Transferred Amount
4A90	Unemployment Compensation Administration Fund	Job and Family Services	$12,000,000
4E90	Securities Lending Fund	Treasurer of State	$10,000,000
5500	Securities Fund	Commerce	$10,000,000
5BG0	Managed Care Assessment Fund	Job and Family Services	$8,444,295
5540	Insurance Operating Fund	Insurance	$7,000,000
5AD0	Economic Development Contingency Fund	Development	$5,672,184
R012	Refunds and Audit Settlements	Job and Family Services	$5,000,000
4350	Local Sales Tax Administration Fund	Taxation	$3,000,000
S087	Education Technology Trust Fund	eTech Ohio	$2,547,126
5460	State Fire Marshal Fund	Commerce	$2,500,000
4380	School District Income Tax Administration Fund	Taxation	$2,000,000
5M50	Advanced Energy Fund	Development	$1,937,290
5BQ0	Commercial Activity Tax Administration Fund	Taxation	$1,846,252
2280	Tax Reform Implementation Fund	Taxation	$1,500,000
4510	Economic Development Financing Operating Fund	Development	$500,003
4Z60	Rural Industrial Park Loan Fund	Development	$500,000
M087	Biomedical Research and Technology Transfer Fund	Development	$478,866
5CG0	Alternative Fuel Transportation Fund	Development	$399,451
4P40	Physician Loan Repayment Program Fund	Health	$300,000
5DU0	Energy Projects Fund	Development	$292,858
4440	Water and Sewer Commission Loans Fund	Development	$173,127
4F20	State Special Projects Fund	Development	$50,000
6850	Direct Cost Recovery Expenditure Fund	Development	$38,000
4U40	Community MR/DD Trust Fund	Developmental Disabilities	$15,381
4W10	Minority Business Enterprise Loan Fund	Development	$10,171
R013	Forgery Collections Fund	Job and Family Services	$10,000
5X10	Exempt Facility Expansion Fund	Development	$8,000
5W60	International Trade Cooperative Projects Fund	Development	$1
		Total	**$76,223,005**

TRACKING THE ECONOMY

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

Overview

Economic recovery is continuing, but at a slower pace than earlier.

The U.S. economic recovery is continuing, but at a slower pace than earlier. Ohio's economy is growing, as indicated by rising employment. Unemployment is down from its peak, but Ohio's average unemployment rate in the latest month, at 10.3% for July, remained higher than the average rate for the nation. Growth of inflation-adjusted gross domestic product (real GDP) slowed in this year's second quarter to the lowest rate since last year's third quarter. The downturn in real GDP during the recession was somewhat more severe and longer lasting, based on revised data, than earlier information had indicated. Growth of business activity has continued in the current quarter. Consumer spending is recovering slowly, supported by slow growth of private-sector employment and increases in average weekly hours of persons employed. Construction and home sales remain very weak, but the downturn in home prices shows signs of having ended. Interest rates on new mortgage loans are extremely low. Economy-wide inflation remains low, but concerns about deflation appear to have receded.

In August, following a meeting of its policy setting Open Market Committee, the Federal Reserve announced that it would reinvest principal payments from its holdings of federal agency debt and agency mortgage-backed securities in U.S. Treasury securities, rather than allowing the amount of its securities holdings to shrink. This policy shift keeps more dollars in private hands and may lower interest rates on Treasury securities somewhat, though they are already very low. The Fed observed that the pace of economic recovery had slowed, and was likely to continue slower near term than expected earlier. It held the target range for the federal funds rate at zero to 0.25% and reiterated its statement that exceptionally low levels for the federal funds rate are likely to be warranted "for an extended period." As has been the case for a number of months, Committee members disagreed regarding the appropriate degree of monetary ease. In a subsequent speech, Federal Reserve Chairman Bernanke said the Fed would strongly resist deflation, would take actions needed to support continued economic recovery, and has policy tools available to it to accomplish these objectives.

The Congressional Budget Office (CBO) recently updated estimates of the economic impact of last year's federal stimulus program, the American Recovery and Reinvestment Act (ARRA). CBO's estimates imply a shorter and less severe recession than without ARRA. The CBO report says that ARRA increased budget deficits by $814 billion, with 70% of this increase by September 30, the end of the current federal fiscal year. CBO's estimates of the effects are stated as ranges.[9] The maximum boost to output, in CBO's view, was in the second quarter of this year, when real GDP was 1.7% to 4.5% higher than it would otherwise have been. The maximum effect on labor markets is in the current quarter, in CBO's estimation, when employment is 1.4 million to 3.6 million higher than without ARRA, and the unemployment rate is 0.8 to 2.0 percentage points lower than it would have been.

State tax collections have been recovering this year, according to a recent Rockefeller Institute report. Revenues to states in the second quarter of calendar year 2010 were 2.2% higher than a year earlier, following a 2.5% increase in the first quarter. Revenues declined, year over year, in the previous five quarters.

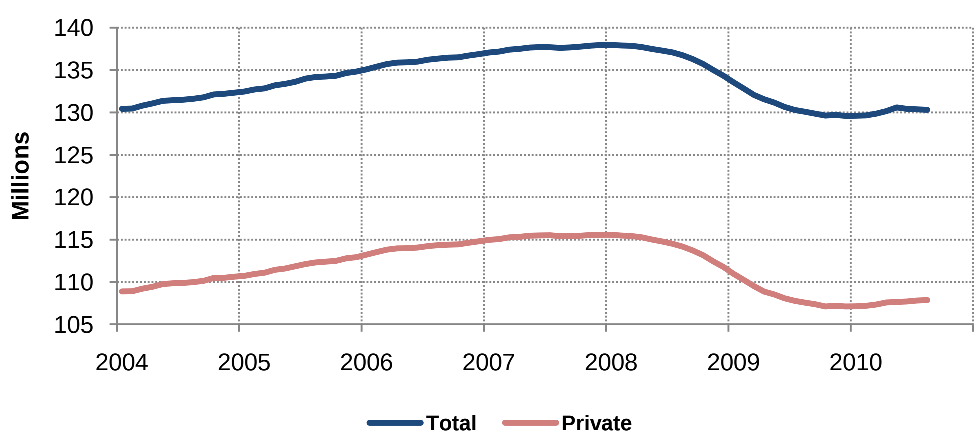
The National Economy

Employment and Unemployment

Total nonfarm payroll employment in August fell by 54,000 and unemployment rose to 9.6% of the labor force from 9.5% in July. Private-sector payroll employment rose 67,000 in August while government employment fell as the number of temporary decennial census workers declined 114,000. Employment rose this spring as decennial census workers were temporarily added to federal payrolls. The 0.7 million net

Private-sector payroll employment rose 67,000 in August while government employment of temporary decennial census workers declined.

Chart 1: U.S. Nonfarm Payroll Employment



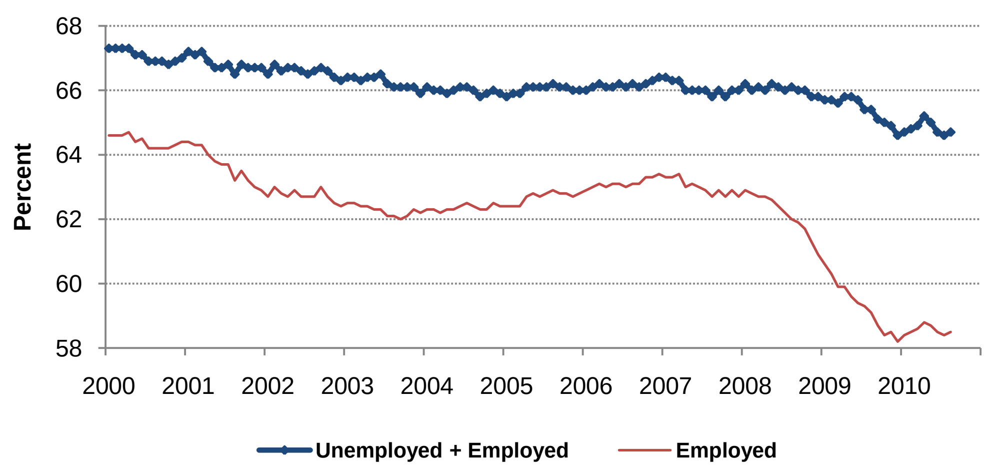
[9] To quantify the effects of spending increases and tax reductions, funded by borrowing, on the nation's output, employment, and unemployment, CBO used a budget multiplier approach.

In August, U.S. unemployment rose to 9.6% of the labor force from 9.5% in July.

rise in total employment since December 2009, and the net decline of 7.6 million workers from the peak in December 2007 to August 2010, are shown in Chart 1. Since the low point in December, about 95,000 employees, net, have been added to private payrolls each month, on average. Gains were more rapid in the spring. Average weekly hours have risen more rapidly than employment, adding 1.2% to total private-sector employee hours since December while private-sector payroll employment rose 0.7%.

Unemployment as a share of the labor force (those employed or actively seeking work) peaked at 10.1% last October. Chart 2 shows a different perspective, employment and the labor force as shares of the population ages 16 and older, sometimes referred to as the working age population. The gap between the two lines, unemployment as a share of that segment of the population, in October 2009 was at its highest level since 1982-1983. Unemployment would be substantially higher if the share of the population counted as part of the labor force had not declined during the past decade, i.e. if more of the population that is not employed was counted as actively seeking work. Both the labor force and employment shares of the working age population were at all-time highs in 2000, on statistics starting in 1948. The share of the working age population that is employed has recently been at its lowest levels since 1983.

Chart 2: Unemployment and Employment Shares of Population Ages 16 & Over



In July, 4.2 million persons were hired and 4.4 million persons separated from their jobs. The federal government accounted for most of the excess of separations over hires. This more detailed information on employment change lags the numbers on net employment change reported above by about a month. At the end of July, the number of job openings totaled about 3.0 million, implying nearly five unemployed persons for each job opening. While this is an improvement from the second half of last year, when more than six people were out of work and actively seeking employment for each open position, job opportunities are far fewer than in late 2006-early 2007 when unemployed persons outnumbered job openings by only about three to two.

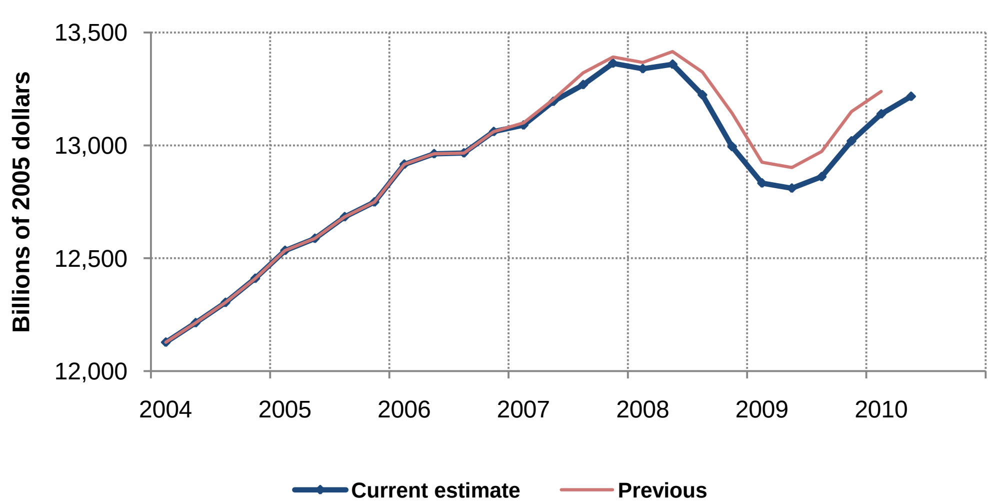
U.S. economic growth, measured by real GDP, slowed in the second quarter to a 1.6% annual rate.

Production, Shipments, and Inventories

U.S. economic growth, measured by real GDP, slowed in the second quarter to a downward-revised 1.6% annual rate from 3.7% in the first quarter and 5.0% in last year's fourth quarter. Although real final sales to domestic purchasers picked up to a relatively brisk 4.3% annual rate, the shift from inventory liquidation to rebuilding slowed, export growth also slowed though to a still fairly robust 9.1% annual rate, and imports accelerated. An upturn in the second quarter in residential fixed investment, propelled by expiring federal tax breaks for home buyers, will likely prove temporary, as monthly indicators of housing investment have dropped off since then. Consumer spending growth remained modest at a 2.0% inflation-adjusted annual rate, while business investment in equipment and software surged at a 25% annual rate. Government spending grew at a 4.3% annual rate, following two quarters of declines, but most of the second quarter rise was in federal outlays, not state and local government spending.

With release of its estimates for the second quarter, the U.S. Bureau of Economic Analysis revised the GDP figures, in its regular annual adjustment to incorporate source data not available when the estimates were initially published. Most revisions were to estimates for 2007 forward (a few series were revised for earlier periods). The new numbers

Chart 3: Gross Domestic Product Revision



Industrial production rose 1.0% in July, continuing the expansion that began a year earlier.

adjust GDP downward, and shift the peak in economic activity from the second quarter of 2008 to the fourth quarter of 2007. In the recession, real GDP fell to a low point in the second quarter of 2009. The peak-to-trough decline in real GDP now lasts six quarters, rather than four as earlier estimated, and totals 4.1% rather than 3.8% reported previously. These changes are shown in Chart 3.

Industrial production rose 1.0% in July, and manufacturing output increased 1.1%, continuing the expansion that began a year earlier. Compared with its year-earlier level, the industrial production index was up 7.7%. Output rose in July in most market groups, including automotive products; home electronics; appliances, furniture, and carpeting; business equipment; construction supplies; and materials for further processing. An index of total output of nondurable consumer goods was unchanged. Production of defense and space equipment rose in July following the end of a labor strike in June.

The strong uptrend in factory shipments through the first quarter has flattened in recent months. The dollar value of manufacturers' shipments rose 1.1% in July, after falling in the previous two months. New orders rose 0.1% following two consecutive monthly declines. The backlog of unfilled order declined 0.1% from June to July, and was 1.9% lower in July than a year earlier. Inventories rose 1.0% in July and have increased in six of the last seven months.

Manufacturing activity in the U.S. grew in August, as indicated by a survey of purchasing managers conducted by the Institute for Supply Management (ISM). More respondents to the survey reported increases in production, new orders, inventories, and order backlogs than noted decreases. Increases in prices paid were also reported by more survey respondents than decreases. A comparable ISM report for nonmanufacturing industries also indicated continued growth in activity in August.

Consumer Spending

Consumer spending, adjusted for inflation, rose 0.2% in July, continuing the uptrend underway since the recession low point in last year's second quarter. Employee compensation, also adjusted for changes in average prices, increased since February after falling from a peak in December 2007. Proprietors' income rose this year through July, but personal income receipts on assets – interest income plus dividends – fell. Transfer receipts of persons from government programs such as unemployment insurance, which propped up personal income during the recession, have continued to grow in 2010.

The dollar value of retail sales, including food service sales, rose 0.4% in July after falling 0.3% in June. The sales total in the latest month was boosted by gains at motor vehicle and parts dealers, up 1.6% in July after falling 1.3% in June. Sales at other durable goods retailers fell in the latest month, while sales of nondurable goods retailers were mixed. Year-to-date retail sales, for seven months, were 6.4% higher than a year earlier.

Year-to-date housing starts, for seven months, were 10% higher than in the year-earlier period, but 71% below peak year 2005.

In August, sales of cars and light trucks eased slightly to an 11.4 million unit seasonally adjusted annual rate from 11.5 million in July. The sales rate is ahead of last year's pace. In calendar year 2009, about 10.4 million light vehicles were sold. But sales remain well short of levels in earlier years. In 2007, 16.1 million cars and light trucks were sold.

Sales of large retail chains that report results monthly were 2.9% higher in August than a year earlier, in a tally by Bank of Tokyo-Mitsubishi UFJ. These figures are on a same-store basis, including only locations open both in August 2009 and this August. Sales growth was about in line with the pace earlier in 2010. Since January, year-over-year same-store sales growth has averaged 3.0%.

The amount of consumer credit outstanding continued to shrink through July.[10] Consumers repaid or lenders wrote off $30.5 billion of consumer credit in the first seven months of this year, 1.2% of outstanding debt at the end of 2009. Revolving credit, chiefly credit cards, was reduced $38 billion (4.4%) during this period. Nonrevolving credit, including automobile and other loans, grew by $7.5 billion (0.5%) from January through July. In all of 2009, consumer credit was reduced $111.7 billion (4.4%).

Construction and Real Estate

Housing starts rose 2% in July after dropping off precipitously in May and June. Building activity remains near lows reached last year in the depths of the recession. The temporary boost from federal tax credits in the spring has run its course, and no substantial upturn in private sector demand appears imminent. Permits for new housing construction fell 3% in July to the lowest level since May 2009. Year-to-date housing starts, for seven months, were 10% higher than in the year-earlier period, but 71% below peak year 2005. In the Midwest, conditions were similar, with year-to-date housing starts 6% higher than last year but 72% below 2005.

[10] These statistics, from the Federal Reserve, exclude loans secured by real estate.

Housing prices nationwide, on average, have trended higher since February. Mortgage interest rates are extremely low.

New homes sold in July fell 12% from June's sales rate, to their lowest level on records kept since 1963. Builders' inventories of houses for sale have fallen to the lowest levels since 1968, but completed homes typically are taking 11 months to sell, down from more than 14 months this spring, but well above the historical norm of four to six months when homes were selling well. The median sales price in July, nationwide, was $204,000, down 5% from a year earlier and 17% lower than three years earlier.

Home sales reported by the National Association of Realtors (NAR), generally previously occupied homes, fell 27% in July. Sales of single family homes were lowest since 1995. Sales in July including townhouses, condominiums, and cooperative housing as well as single family homes were lowest on records kept since 1999. Listings with realtors of homes for sale, though down 13% from the peak two years ago, were equivalent to more than a year's worth of sales at the current selling rate.

Pending home sales, a separate NAR series that counts sales contracts entered into rather than closings on transactions, were 5% higher in July than a month earlier, seasonally adjusted, but 19% lower than in July 2009. The index was elevated earlier in the year and in late 2009 by the federal tax credit program for qualified home buyers.

Housing prices nationwide, on average, have trended higher since February, as indicated by the Federal Housing Finance Agency's monthly index. The index is based on information on prices at which homes were sold, for mortgage loans acquired by Fannie Mae and Freddie Mac. The housing price index fell 0.3% in June, but nevertheless was 1.2% higher than at the low point in February. Average home prices by this measure remained about 13% below the peak in April 2007.

Mortgage interest rates are at extremely low levels. The contract interest rate on 30-year fixed-rate conventional home mortgage commitments, in Freddie Mac's weekly survey compiled since 1971, fell to 4.32% for the week ended September 2, a record low for this series. Mortgage interest rates this low, though not unprecedented, appear highly unusual even in a long-term historical context.[11]

[11] A table of annual average real estate mortgage interest rates in Sidney Homer, A History of Interest Rates, Rutgers University Press, 1977, page 399, shows no interest rates below 4.4% from 1900 to 1975. Rates during the year and in local markets undoubtedly ranged lower as well as higher than the averages. Rates on FHA and VA loans in the late 1940s and early 1950s lower than 4.32% are reported in Jack M. Guttentag, "The Behavior of Residential Mortgage Yields

The dollar value of construction spending fell 1% in July to its lowest level in ten years. Total construction spending and private residential construction spending peaked in early 2006. Total construction spending has fallen 34% since then. Private residential construction spending was 64% lower in July than at its 2006 peak, but reached a low point in July 2009 and was 5% higher this July. Private nonresidential construction spending peaked in early 2008 and was 36% lower in July. Public construction was 8% lower in July than at its peak a year earlier.

The consumer price index rose 0.3% in July, and was 1.2% higher than a year earlier.

Inflation

The consumer price index (CPI) rose 0.3% in July, its largest monthly increase in nearly a year, as gasoline and household energy prices rose after earlier declines. The CPI was 1.2% higher in July than a year earlier. Excluding food and energy, the CPI was 0.9% higher than a year earlier, for the fourth consecutive month. These averages reflect a diverse mix of price increases and decreases. Energy prices paid by consumers, on average, were 5.2% higher than a year earlier. Used car and truck prices were 17% higher, airline fares were 10.2% higher, and an index of the cost of education to consumers was 4.8% higher. Apparel prices, on the other hand, were 0.3% lower in July than a year earlier, though they rose in the latest three months. An index of prices for household furnishings and operations was 3.1% lower than in July 2009, and an index for recreation was 0.8% lower.

At the producer or wholesale level, the producer price index (PPI) for finished goods rose 0.2% in July, as indexes for energy prices fell for the fourth consecutive month but those for food and other prices rose. The PPI for finished goods was 4.2% higher in July than a year earlier. At earlier stages in the production process, price increases have been larger. Intermediate goods prices in July were 6.4% higher than a year earlier. Crude materials prices were 20.5% higher than in July 2009.

The Ohio Economy

Nonfarm payroll employment in Ohio rose 1,800 in July, seasonally adjusted, and has increased 50,200 (1.0%) since its low point in February. Unemployment statewide fell to 10.3% of the labor force in July from a peak of 11% in March. These trends are shown in Chart 4. As elsewhere in the nation, employment was raised temporarily in Ohio during the spring by workers helping to gather decennial census information.

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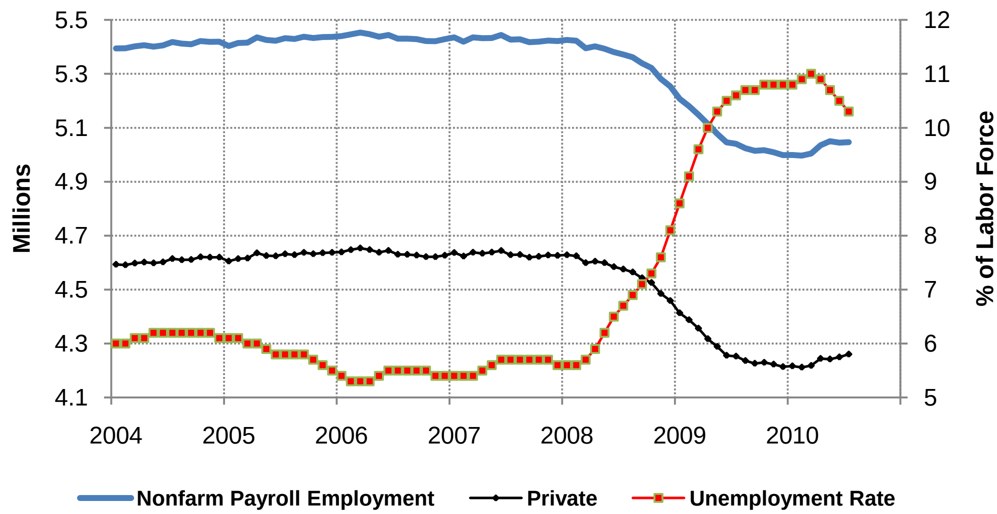
since 1951," in Essays on Interest Rates: Volume I, National Bureau of Economic Research, 1969, page 70.

Nonfarm payroll employment in Ohio has increased 50,200 (1.0%) since its low point in February. Unemployment statewide fell to 10.3% of the labor force in July.

Private sector employment rose 10,500 in July, and has risen 48,500 (1.2%) from its low point in February.

Chart 4: Ohio Employment and Unemployment



Economic activity showed slight improvement in the latest Beige Book report on the region served by the Federal Reserve Bank of Cleveland.[12] Manufacturing activity was stable or lower in the latest six weeks, reflecting in part retooling for model changeovers in the auto industry. New home and nonresidential construction improved recently, though home building remains sluggish. New nonresidential projects are generally for industrial and education uses. New hiring has slowed, with job openings in healthcare and skilled trades.

Residential home sales activity slackened after being stimulated earlier by the federal tax credit program, according to the Ohio Association of Realtors. Unit sales in the first seven months of 2010 were 8% higher than a year earlier, but sales in the month of July fell 26% lower than in July 2009. The average sales price statewide in January through July averaged about $134,000, 6% above a year earlier.

[12] The Beige Book, compiled by Federal Reserve banks, summarizes comments on economic conditions from business and other contacts outside the Federal Reserve. The latest report was based on information received on or prior to August 30. The section written by the Federal Reserve Bank of Cleveland covers Ohio and parts of Kentucky, Pennsylvania, and West Virginia.